

**CABINET
08 AUGUST 2023**

**COUNCILLOR PAUL TAYLOR
FINANCE PORTFOLIO HOLDER
REPORT NO. FIN2313**

KEY DECISION: YES/NO

REVENUE AND CAPITAL BUDGET MONITORING REPORT – Q1 2023/24

SUMMARY:

This report sets out the anticipated financial position for 2023/24, based on initial budget monitoring carried out with Heads of Service and Service Managers during June 2023.

RECOMMENDATIONS:

CABINET is recommended to:

- i. Note the Revenue budget forecast and impact on reserve balances as set out in Section 3 of the report
- ii. Note the Capital Programme forecast as set out in Section 5 of the report and approve the additional items and slippage from 2022/23
- iii. Note the release of the income risk provision using business rates income that was built into the budget as part of the budget set in February 2023. Together with adjustments to the budget for the amounts approved as carry forward as part of the Outturn report considered by Cabinet at the meeting 4th July 2023.

1 INTRODUCTION

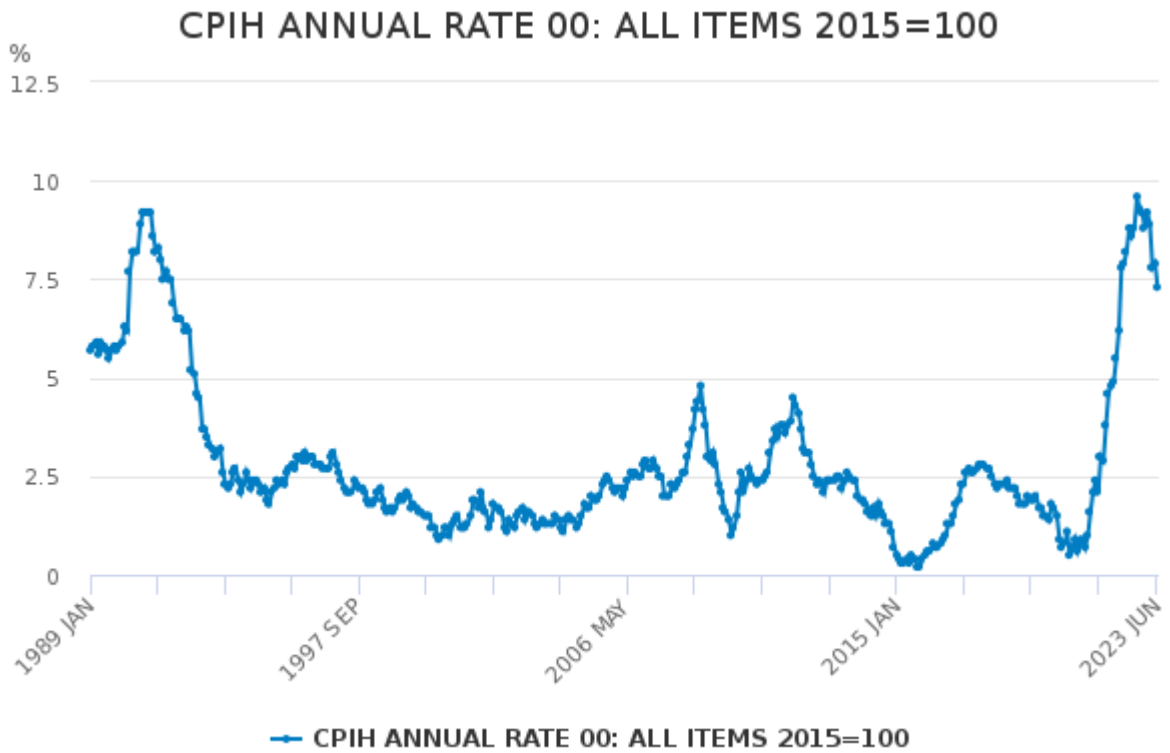
- 1.1 This report provides members with an update on the forecast outturn position and monitoring position statement for the financial year 2023/24. The purpose of this report is to notify members of any significant variations to budgets identified in the initial budget monitor exercise, highlight any key financial issues, and to inform members of options and further action to be taken.

- 1.2 The forecast focuses on the view of the Council's financial position until March 2024 and therefore has several assumptions for the next nine months, evidence suggests that forecast at the beginning of the year tend to be more pessimistic. As the year progresses these assumptions will require further validation using the evidence of actual trends to ensure a robust monitoring position is maintained. Heads of Service, Service Managers and the Finance Team will continue to work collaboratively to validate forecast assumptions and to enable managers to deliver the Council's services within the approved budget.
- 1.3 Robust forecasting will underpin the update to the Medium-Term Financial Strategy (MTFS) and inform the budget setting process for 2024/25.

2 EXTERNAL ECONOMIC ENVIRONMENT – BUDGET PRESSURES

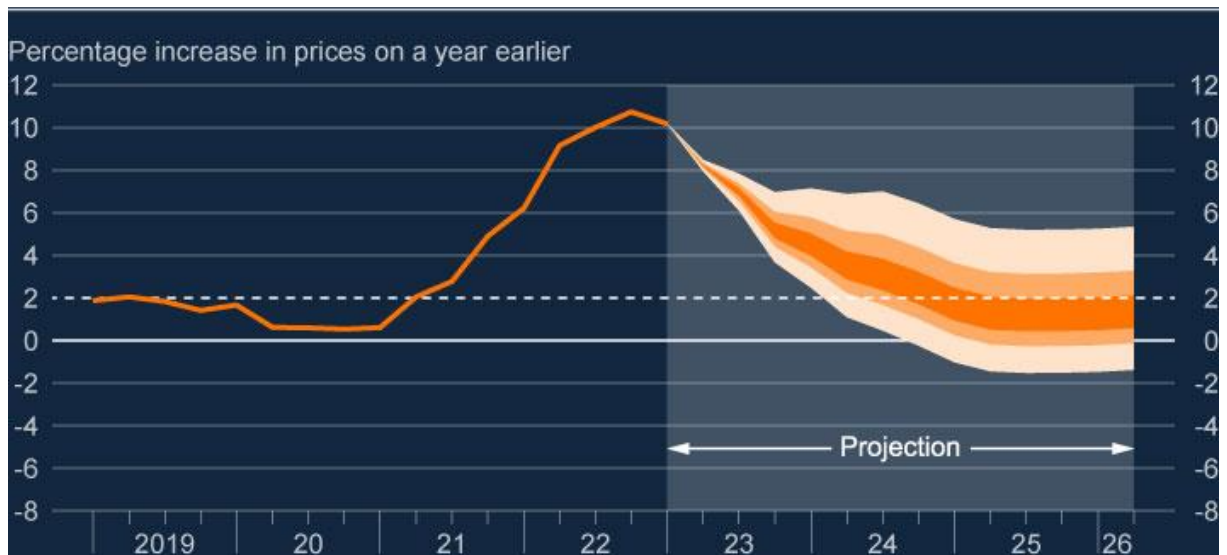
- 2.1 The Council faces several external budget pressures that will have an impact on the 2023/24 budget and the Council's finances over the medium-term.
- **Interest Rates:** The MPC raised Bank Rate by 50bps to 5.0% in June. Due to current inflation and wage data, the advice from Arlingclose is that there is likely to be rise to 5.25% in August and to 5.50% in September. The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until services inflation and wage growth ease. The stickiness of the data suggests that rate cuts will happen later than previously expected. It is foreseen that rate cuts from Q2 2024 to a low of around 3% by mid-2025. Arlingclose expects long-term gilt yields to eventually fall from current levels reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, partly due to quantitative tightening, with continued elevated volatility.
 - **Inflation:** The current level of inflation, as measured by the Consumer Prices Index (CPI), is 7.9% (down from 8.7% in May). The fall in CPI has been slower than originally predicted, although services are managing inflation within their budgets, close monitoring is required to ensure this position is maintained. Charts 2a and 2b below published by the Office for National Statistics and Bank of England shows how steeply prices have risen and how slowly the increases are reducing and the projection over the next three years.

Chart 2a – ONS Inflation Chart (June 2023)



Source:

Chart 2b – Bank of England Monetary Report (May 2023)



- 2.2 Although assumptions on high inflation and interest rates were built into the MTFS approved in February 2023, it is clear from the data and forecasts that external economic factors will have an impact on the Council's revenue and capital expenditure in 2023/24 and will place additional financial pressure over the Medium-Term Financial Strategy period.
- 2.3 Therefore, members should take into account the risk to the Council's budget as outlined above when appraising the forecast for Service Revenue Expenditure and Capital Expenditure budgets for 2023/24, and when appraising any further financial commitments in year or over the medium-term.
- 2.4 The above risks and pressures will be kept under review by Heads of Service and reported on throughout the year. Budget monitoring reports, as detailed in Section 3, will report quarterly to Cabinet with updates on the current risks and pressures as at the time of reporting.

3 REVENUE BUDGET FORECAST 2023-24

- 3.1 The original net General Fund Revenue budget for 2023/24 was approved by Council at their meeting in February 2023 of £12.393m.
- 3.2 Changes have been made to the original budget for a number of reasons:
- Allocation of a small number of approved carry forwards from 2022/23.
 - Allocation of expenditure budgets against 'allowable to spend' additional income received.
 - Accounting for additional higher interest rate costs for borrowing.
 - Drawdown of Reserves associated to extra income received.

This brings our latest approved budget to £13.706m. A reconciliation between the original budget and latest budget is shown in the table below.

Table 1: General Fund Revenue Budget reconciliation

General Fund Revenue Budget	2023/24 £'000
Original Budget	12,393
Add: Carry Forwards/Expenditure budgets allocated against additional income received	560
Add: Release of provision for additional Interest Payable costs	1,313
Subtract: Drawdown from Reserves/Additional Income	(559)
Latest Approved Budget	13,706

- 3.3 The initial forecast for the General Fund is a net adverse variation of £0.693m (5.00% of the Net Revenue budget) as shown in Table 2.
- 3.4 In terms of key variations, the initial position on Service Revenue Expenditure is an adverse variation of £0.308m (2.67%) with an adverse variation of £0.451m across non-service income and expenditure (i.e., Corporate Income and Expenditure).
- 3.5 The causes of the major variances on service expenditure are outlined in Appendix 1.

Table 2: General Fund Revenue Budget Forecast (Q1 2023/24)

	2023-24 Original Budget £'000	2023-24 Approved Budget £'000	2023-24 Forecasted Outturn £'000	2023-24 Variance £'000
Corporate Services	2,975	3,029	3,477	448
Customer Experience & Improvement	511	547	608	61
Democracy, Strategy & Partnerships	2,615	2,989	2,822	(167)
Major Projects & Property	(4,875)	(4,875)	(4,590)	285
Operational Services	10,567	10,574	10,385	(189)
Planning & Economy	2,100	2,188	2,058	(130)
Subtotal	13,893	14,453	14,761	308
Less: Reversal of Accounting Entries	(2,901)	(2,901)	(2,901)	
Net Service Revenue Expenditure	10,992	11,552	11,860	308
Corporate Income & Expenditure	2,178	3,491	3,942	451
Movement in Reserves	(778)	(1,337)	(1,337)	-
Net General Fund Revenue Budget	12,393	13,706	14,465	759
Funded by:				
Council Tax	(7,448)	(7,448)	(7,448)	-
Business Rates	(4,077)	(5,390)	(5,390)	-
New Homes Bonus	(658)	(658)	(658)	-
New Burdens Grant	-	-	(66)	(66)
Services Grant	(96)	(96)	(96)	-
Revenue Support Grant	(104)	(104)	(104)	-
Collection Fund Surplus / Deficit	(10)	(10)	(10)	-
Total Funding	(12,393)	(13,706)	(13,772)	(66)
Core (Surplus)/Deficit	-	-	693	693

- 3.6 As discussed in Section 2 of the report, interest rate increases contribute to the £0.451m adverse variation with the non-service element of the General Fund revenue budget. This after the release of the income risk provision using business rates income that was built into the budget as part of the budget set in February 2023.

- 3.7 When setting the budget an assumption that interest rates would peak at 5.00% by September and would fall gradually from the fourth quarter of 2023/24 now looks to be inadequate. The latest forecast is that interest rates will peak at 5.5% in August and not fall until the second quarter of 2024/25. Although this will seek to mitigate in 2023/24, this does mean that the MTFS will require revisited in the autumn at which point the emerging financial impact for future years will be quantified.
- 3.8 Arlingclose (the Council's Treasury Management advisers) have been commissioned to set out the examine the current position and future impacts in light of the Council's financial and capital strategies. This is due to be completed within the next few weeks and will help inform capital financing and borrowing decisions.
- 3.9 Members should consider the impact on the Council's financial sustainability of any additional capital expenditure plans. Although schemes may be supported by income streams and promote wider economic benefit to the borough, the increased cost of borrowing will have an impact on the financial viability and will require adequate financial risk mitigation measures.

Table 3: Corporate Income & Expenditure

Corporate Income & Expenditure	2023-24 Original Budget £'000	2023-24 Revised Budget £'000	2023-24 Forecasted Outturn £'000	2023-24 Forecasted Variance £'000
Minimum Revenue Provision (MRP)	2,170	2,170	2,170	-
Interest Receivable	(1,850)	(1,850)	(1,800)	50
Capitalisation of Interest	(600)	(600)	(600)	
Interest Payable	4,286	5,599	6,000	401
Additional Items/Growth	(1,828)	(1,828)	(1,828)	-
Total Corporate Income & Expenditure	2,178	3,491	3,942	451

4 IMPLICATIONS

- 4.1 At this early stage of the financial year, the projected variance of £0.693m on the revenue budget could pose a risk to the Council's financial sustainability. Because of the early identification mitigating action can be taken and should it be required the interest rate (Treasury) reserve can be drawn upon at year end.

5 CAPITAL PROGRAMME FORECAST 2023/24

- 5.1 The original Capital Programme estimate for 2023/24 was approved by Council at their meeting in February 2023 totalling £45.066m.
- 5.2 Cabinet considered the final outturn report for the 2022/23 financial year at the meeting on 4th July 2023. The capital programme for 2022/23 was significantly underspent at the end of the year and estimated slippage of £2.349m was included in the final outturn report. Slippage has finally been identified at £2.458m with the details of the slippage detailed in Table 4a below.

Table 4a: Capital Programme – Slippage from 2022/23

Capital Scheme	Slippage from 2022/23
The Meads - Pre-Acquisition Contract Costs	£66,000
Council Office Refurbishment	£40,000
Council Properties Energy Management	£500,000
Union Street East Aldershot Regeneration	£727,620
Crematorium Build Feasibility	£46,440
Disabled Facilities Grants	£925,350
Housing Renewal Grants	£18,000
Telephony Replacement	£135,000
Total	£2,458,410

Since the approval of the 2023/24 Programme there have been a number of proposed additions to the Capital Programme, all of which are fully funded from a combination of grants including Section 106 and the LAHF (Local Authority Housing Fund). These additions are as follows:

Table 4b: Capital Programme – Additional expenditure items

Capital Scheme	Additional Items
Purchase Of Affordable Housing - LAHF Funded	£1,820,990
<i>Additional Section 106 items</i>	
Cove Green Recreation Ground Playground	£150,000
Oak Farm Clubhouse Improvements	£25,047
Ivy Road Playing Fields Footpath	£14,000
Playing Fields Signage	£60,000
Farnborough Tennis Club Improvements	£35,088
Total	£2,105,125

- 5.3 The revised Capital Programme for 2023/24 with additional items and the proposed slippage from 2022/23 will amount to £49.63m. Cabinet is requested to approve the revised Programme.
- 5.4 The current expectation is that latest Capital Programme estimate of £49.63m will be fully expended in the current financial year with £14.5m having been spent or committed in the first quarter to the end of June 2023. Officers will closely monitor spend against approved Capital Budgets with regular updates being submitted to Cabinet in line with the agreed budget monitoring arrangements.

6 RISKS AND UNCERTAINTIES

- 6.1 The report outlines a number of risks and uncertainties around the wider economic environment. Some further risks are briefly outlined below.
- Assumptions made in the forecast are based on projections for inflation and interest rates. Uncertainty remains around Government policy, weakness of GBP (£) against US Dollar (\$), US interest rates which may lead to higher inflation and interest rates and UK Gilt prices (and hence PWLB rates).
 - This report includes initial forecasts for income from fees and charges and this remains a risk to the Council given the impact of higher prices and energy costs on the cost of living. This may lead to reduced demand for council services and hence lower income from fees and charges.
 - There is a risk that the Council is Council Tax and Business Rates collection figures.

7 CONCLUSIONS

- 7.1 This report highlights some of the financial risks that are expected to materialise in the coming months and Members will continue to be updated on these throughout the year.

BACKGROUND DOCUMENTS:

None

CONTACT DETAILS:

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APPENDIX 1

Major Revenue Variances within Services

<u>Category</u>	<u>Amount</u>	<u>Adverse/Favourable</u>	<u>Reason</u>
Temporary/Agency/Consultant Staff Costs	£531,000	Adverse	Use of specialist staff where no internal resource available and use of external staff where permanent personnel cannot be found.
Direct Salaries	£315,000	Favourable	Saving on budgets when external staff are used.
Rental Income	£71,000	Net adverse	Overall adverse position on rental income due to vacancies.
Counsels' Fees	£26,000	Adverse	Use of external solicitors and lawyers.
Gulf Stream Grant	£100,000	Favourable	Budget no longer required as settlement has now been achieved.
Princes' Hall	£37,000	Favourable	Net increased sales for shows vs additional payments to artistes.
Brokers Fees	£234,000	Adverse	Additional costs for brokers used to borrow in the money markets.
Other Income	£239,000	Favourable	Homes for Ukraine Funding
Elections	£55,000	Adverse	Additional costs mainly for Voter ID and extra printing.
IT Application Software	£38,000	Adverse	Budget reduced as part of OBB which cannot be delivered.
Postage	£35,000	Adverse	Additional postage costs in customer services.
Service Charges	£33,000	Adverse	Additional service charge costs for landlord due to vacancies
Recycling Income	£66,000	Net favourable	Net favourable position for MRF income and delayed EPR income to next financial year.
<u>NET TOTAL</u>	<u>£266,000</u>	<u>Adverse</u>	