

CABINET  
9 JANUARY 2024

COUNCILLOR PAUL TAYLOR  
FINANCE PORTFOLIO HOLDER  
REPORT NO. FIN2401

KEY DECISION: NO

## REVENUE AND CAPITAL BUDGET MONITORING REPORT – Q2 2023/24

### SUMMARY:

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

## 1 INTRODUCTION

- 1.1 This report provides an update on the forecast outturn position against approved budget for the financial year 2023/24 based upon service manager information as at the end of Quarter 2 with additional finance due diligence. The report highlights financial pressures and trends and identifies where action needs to be taken. Heads of Service, Service Managers and the Finance Team work collaboratively to produce robust forecasts and validate forecast assumptions underpinning the Medium-Term Financial Strategy (MTFS) and inform the budget setting process for 2024/25.

## 2 Medium-Term Financial Strategy

- 2.1 The Council's current MTFS approved in February 2023 included several key assumptions factored into the 2023/24 budget and the Council's finances over the medium-term (next 3 years).
- 2.2 **Interest Rates:** The 2023/24 budget assumes interest on borrowing at a weighted average of 1.66% on £165 million debt providing a General Fund

interest payable budget of £2.73million. The debt profile and interest rate assumptions over the MTFS period are:

Capital Expenditure and Capital Financing	2023/24 £000	2024/25 £000	2025/26 £000
Estimated borrowing	165,000	170,000	175,000
MTFS interest budget	2,730	2,783	2,932
Average weighted interest	1.66%	1.70%	1.70%
Forecast borrowing	167,000	167,000	167,000
Forecast interest cost	6,448	8,516	9,352
Forecast ave' Interest rate	4.22%	5.14%	5.60%
<b>MTFS deficit before mitigation</b>	<b>3,718</b>	<b>5,733</b>	<b>6,420</b>

Since the drafting of the current MTFS the Bank of England has raised the Base Rate from 3% in November 2022 to currently 5.25% and there continues to be uncertainty of future changes and timing due to global economic factors. The increase in borrowing cost more than budget provision within the MTFS poses a significant financial challenge. Market analysis in the financial media indicate that the current interest rate is likely to be stable for several years (i.e., materially unchanged). Mitigation measures are currently being worked up and will be brought forward as soon as possible.

- 2.3 **Inflation:** The current MTFS includes a £2,186k inflation provision for contractual and utility increase. Forecast at Quarter 2 indicates that the inflation provision was adequate this financial year. CPI as of October 2023 is 4.6% (7.6% September) down from 11.1% in October 2022 at the time the current (February 2023) MTFS was being drafted.
- 2.4 **Pay increase:** the pay award, covering the period 1st April 2023 to 31st March 2024 has been agreed and has been contained within the 5% provided for in the budget.
- 2.5 **Outcome Based Budgeting savings:** the MTFS includes £2,309k of saving as part of delivering a balanced budget. Quarter 2 monitoring shows that these savings are materially on track to be achieved. Further detail has been reported separately to 15<sup>th</sup> November budget Strategy Working Group.
- 2.6 **Useable Reserves:** The current pressures identified on the MTFS will impact the available useable reserves, these impacts are currently being evaluated and a strategy identified to avoid the external impact of interest rate pressures

from depleting reserves. More detail will be brought forward in Quarter 3 reporting.

- 2.7 The above risks and pressures will be kept under review by the Executive Head of Finance and will report to Cabinet with updates on the current risks and pressures.

### **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. Forecast outturn as at Quarter 2 is presented in the table below.

<b>General Fund Budget Summary</b>	<b>2023-24 Original Budget £'000</b>	<b>2023-24 Approved Budget £'000</b>	<b>2023-24 Forecasted Outturn £'000</b>	<b>2023-24 Variance £'000</b>
Corporate Services	3,496	3,629	4,132	503
Customer Experience & Improvement	(20)	27	131	104
Democracy, Strategy & Partnerships	2,615	3,035	3,109	74
Major Projects & Property	(4,875)	(4,634)	(4,545)	89
Operational Services	10,574	10,675	10,324	(350)
Planning & Economy	2,100	2,198	2,248	50
<b>Subtotal</b>	<b>13,890</b>	<b>14,929</b>	<b>15,399</b>	<b>469</b>
Less: Reversal of depreciation	(2,901)	(2,901)	(2,901)	0
<b>Net Service Revenue Expenditure</b>	<b>10,989</b>	<b>12,028</b>	<b>12,498</b>	<b>469</b>
<u>Corporate Income &amp; Expenditure</u>				
Minimum Revenue Provision (MRP)	2,170	2,170	2,170	-
Interest Receivable from Treasury Investment	(2,122)	(2,127)	(2,655)	(528)
Interest payable on borrowing	2,130	2,130	5,935	3,805
Movement in Reserves	(775)	(1,809)	(1,809)	-
<b>Net General Fund Revenue Budget</b>	<b>12,393</b>	<b>12,393</b>	<b>16,139</b>	<b>3,747</b>
<b>Funded by:</b>				
Council Tax	(7,448)	(7,448)	(7,448)	-
Business Rates	(4,077)	(4,077)	(5,390)	(1,313)
New Homes Bonus	(658)	(658)	(658)	-
New Burdens Grant		-	(81)	(81)
Services Grant	(96)	(96)	(96)	-
Revenue Support Grant	(104)	(104)	(104)	-
Collection Fund Surplus / Deficit	(10)	(10)	(10)	-
<b>Total Funding</b>	<b>(12,393)</b>	<b>(12,393)</b>	<b>(13,787)</b>	<b>(1,395)</b>
<b>Net (Surplus)/Deficit</b>	<b>0</b>	<b>0</b>	<b>2,352</b>	<b>2,352</b>
Note - figures showing a minus sign indicate a favourable change from budget				

- 3.2 As at Quarter 2 the Net Service Revenue Expenditure is forecast to overspend by £469k. Detailed analysis of this forecast shows that there is a mixture of “one off” in year budget changes and some ongoing underlying budget pressures that will affect the MTFS.
- 3.3 The table below provides more detailed information of the forecast variances within the Net Service Revenue Expenditure, followed by analysis of each portfolio.

Forecast variance against approved budget	Staff £'000	Non Staff £'000	Income £'000	Total £'000
<b>Portfolio:</b>				
Corporate Services	281	126	96	503
Customer Experience & Improvement	2	115	(14)	104
Democracy, Strategy & Partnerships	74	78	(78)	74
Major Projects & Property	25	106	(44)	87
Operational Services	(105)	400	(645)	(349)
Planning & Economy	(25)	(53)	128	50
<b>Service Net Revenue Expenditure: Total</b>	<b>252</b>	<b>774</b>	<b>(557)</b>	<b>469</b>
Note - figures showing a minus sign indicate a favourable change from approved budget				

- 3.4 **Corporate services:** forecast overspend is £502k, within this there are ongoing cost pressures from the reduction in Housing Benefit Administration grant in recognition of the case load transfer to Universal Credit. Land Charges income reduction reflects the current housing market sales downturn, brokers fees are significant due to the replacement of short-term borrowing as loans mature, this cost will continue in the MTFS until the borrowing strategy is resolved.

Corporate Services: variances against Approved budget	Total £'000
Housing Benefit admin grant reduction	40
Payment Card Industry compliance software	50
Pension strain	71
Land charges income reduced demand	120
Brokers fees on borrowing	222
<b>Corporate Services: Total</b>	<b>503</b>

- 3.5 **Customer Experience and Improvement:** is forecast to overspend budget by £104k. These cost pressures will continue in the MTFS as they reflect contractual ongoing budget alignment.

Customer Experience & Improvement	Total £'000
Other budget underspends	(15)
Postage	43
Software application costs	76
<b>Customer Experience &amp; Improvement: Total</b>	<b>104</b>

- 3.6 **The Democracy, Strategy and Partnerships:** forecast £74k overspend is partly covered by a £41k New Burdens' Grant, received from the government in recognition of the additional cost of rolling out the Voter ID initiative. Resulting in a net £33k overspend.

- 3.7 **Major Projects & Property:** forecast analysis has identified some accounting treatment to follow up in the 3<sup>rd</sup> Quarter in respect of Union Yard and Rushmoor Homes Ltd, which will reduce pressure on the current forecast outturn. Building support and Estate management underspend is due to salary cost saving.

Major Projects & Property	Total £'000
Building support and estates management	(93)
Investment Property: net additional income	(89)
Civic Quarter grant to transfer to balance sheet	(85)
RHL Ltd consultant costs to charge to RHL	58
Southwood Café, generator costs	80
Union Yard, costs to be capitalised	87
RDP Cost, budget correction	129
<b>Major Projects &amp; Property: Total</b>	<b>87</b>

Investment property is showing a forecast net budget surplus of £89k. This figure masks several bigger budget movements that contribute to the overall risks that will be considered in the forthcoming MTFS review. Further detailed narrative on investment property performance will be included in the Quarter 3 review.

Forecast variance to budget actual figures			
Investment property:	Costs	Income	Total
13 Invincible Road	12,000	0	12,000
168 High Street Guildford	309	39,260	39,569
Ash Road	0	19,170	19,170
Ashbourne House	117,342	56,595	173,937
Bridge House	2,946	0	2,946
Frimley BP	(15,710)	(72,500)	(88,210)
Industrial Estates	(10,107)	(270,000)	(280,107)
Optrex Business Park	(54,970)	25,188	(29,782)
The Meads BC	(50,520)	(45,000)	(95,520)
The Meads Blocks 1&2	0	(958)	(958)
The Meads MS Carpark	27,360	0	27,360
The Meads SC	27,017	59,337	86,354
Town Centres	5,403	117,080	122,483
Victoria Road	(68,407)	0	(68,407)
Wellesley House	(1,652)	(7,332)	(8,984)
Windsor Way	(1,200)	0	(1,200)
<b>Total</b>	<b>(10,189)</b>	<b>(79,160)</b>	<b>(89,349)</b>

- 3.8 **Operational services:** are forecasting a net budget saving of £349k. Further detailed review is being done to identify and project significant variance into the MTFS position.

<b>Operational Services: forecast variances to budget</b>	<b>Total £'000</b>
Service staffing vacancy savings	(165)
Car Park net income	(133)
Princes Hall net income	(80)
Domestic Refuse, net result of changes to service	(50)
Parks S106 to be return to BS	(50)
Public Conveniences closure	(42)
Recycling	(25)
Housing Advice	13
Aldershot Indoor Pools usage below budget	37
Grounds Maint Contract variation	47
Aldershot Lido usage below budget	100
<b>Operational Services: Total</b>	<b>(349)</b>

- 3.9 **Planning and Economy:** is forecasting a £50k deficit with the key items set out in the table below. The economic development grant and changes in demand led income on planning and building control are ongoing MTFS issues.

<b>Planning &amp; Economy: forecast variances to budget</b>	<b>Total £'000</b>
Economic Development grant cancelled	(129)
Esso pipeline ground improvement income - to BS	(32)
Other service budget adjustments	(2)
Building control activity down on last year	49
Planning applications down on previous years	163
<b>Planning &amp; Economy: Total</b>	<b>50</b>

- 3.10 **Minimum Revenue Provision (MRP):** was estimated at £2,170k in the budget increasing beyond £3 million per year within the MTFS period. This is a significant cost to the revenue account. A full review of MRP is currently being completed by Arlingclose (the Council's Treasury Management advisers) with the objective of minimising the cost of MRP in the revenue account whilst complying with the statutory requirement to make prudent provision. It is expected to reduce the MRP in the current year and the forecast included within the MTFS. Results of this review will be reported in the Quarter 3 report and the MTFS revision.

- 3.11 **Interest Receivable from Treasury Investment:** the steep increase in Bank of England Base Rate over the last year has resulted in a significant increase in interest earned on treasury management surplus cashflow (timing differences of money received and paid out). Further detail on treasury performance is reported formally in a separate report to Corporate Governance and Standards Committee (CGAS). The timing differences have been invested in the following treasury instruments:

Interest Receivable from Treasury Investment: forecast variance to budget	Original Budget £'000	Revised Budget £'000	Forecasted Outturn £'000	Forecasted Variance £'000
Interest Receivable from Treasury Investment	(1,600)	(1,600)	(2,546)	(946)
Interest receivable from RHL	(522)	(522)	(109)	413
<b>Interest Receivable from Treasury Investment: Total</b>	<b>(2,122)</b>	<b>(2,122)</b>	<b>(2,655)</b>	<b>(533)</b>
<b>Treasury Investments:</b>				
Money Market Funds			(812)	
Pooled Funds			(1,247)	
Farnborough International Loan			(487)	
			<b>(2,546)</b>	

The interest receivable from RHL is based upon a significant reduction in the amount of borrowing to fund capital expenditure, due to planned development projects that did not proceed following viability challenges in the current development market.

- 3.12 **Interest payable on borrowing:** external borrowing requirement was forecast to be £165 million for 2023/24 at a weighted average of 1.66%. The borrowing is all relatively short term circa 1 to 2 year maturity, with an expectation that rates would reduce in the short term as per the financial press. All borrowing is from other Local Authorities which is cheaper than PWLB. The forecast borrowing is £167 million, however, due to the significant increase in the Base Rate the cost of borrowing has more than doubled.

Interest payable on borrowing: forecast variance to budget	Original Budget £'000	Revised Budget £'000	Forecasted Outturn £'000	Forecasted Variance £'000
Capitalisation of Interest: Union Yard	(600)	(600)	(600)	-
Interest payable on borrowing	2,730	2,730	6,535	3,805
<b>Interest payable on borrowing: Total</b>	<b>2,130</b>	<b>2,130</b>	<b>5,935</b>	<b>3,805</b>

The forecast capital financing requirement is in the table below.



<b>Capital Expenditure and Capital Financing</b>	<b>2016-2022 £000</b>	<b>2022/23 £000</b>	<b>2023/24 £000</b>
Opening Capital Financing Requirement	-	121,922	142,160
Capital Investment	162,272	22,628	45,668
<u>Sources of Finance</u>	-		
Capital receipts	(19,744)	-	-
Government grants and other contributions	(13,691)	(285)	(3,279)
Direct revenue contributions	(1,077)	-	-
Minimum Revenue Provision	(5,838)	(2,105)	(2,170)
<b>Closing Capital Financing Requirement</b>	<b>121,922</b>	<b>142,160</b>	<b>182,379</b>
<u>Funded by:</u>			
External Borrowing	100,000	120,000	167,000
Internal Borrowing	21,922	22,160	15,379
<b>Total Borrowing:</b>	<b>121,922</b>	<b>142,160</b>	<b>182,379</b>

The table below demonstrates the volume of debt that has matured and replaced in year, including the additional borrowing to fund this year's capital expenditure. Work is underway to identify a strategy to reduce the impact of borrowing costs on the revenue fund across the MTFS period.

<b>External Borrowing Summary</b>	<b>£000</b>
Borrowing at 1/4/2023	120,000
Repaid in year due to maturity	-144,000
New borrowing: rolled over and new capital expenditure	191,000
Total debt at 31/3/2024	167,000

- 3.13** Business rates: Rateable Values of all businesses were rebased by the Valuation Office and implemented this financial year. The impact of the uplift has had a significant uplifting effect on the retained business rates in the revenue account by £1,303k. Within this figure there is an element of risk of appeals that has been considered.

## **4 IMPLICATIONS**

- 4.1** The revenue budget forecast outturn demonstrates a degree of variability as has been demonstrated above. The budgets were rebased for this financial year through the Outcome Based Budgeting exercise, inevitably, there will be some settling down of budgets. In addition, there has been some headwind on activity-based income such as planning fees and local land charges due to

economic pressures. These pressures will be taken into account in the forthcoming MTFS. The most significant challenge emerging this financial year is the unprecedented increase in interest costs that will not be contained within the Council's available useable reserves without a comprehensive mitigation strategy. Work is currently underway to identify all possible options to mitigate this challenge.

## 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 revised position with slippage and additional items at the meeting on the 8<sup>th</sup> August – details shown in the tables below and approved a revised budget of £49.63m.

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

<b>Capital Scheme</b>	<b>Slippage from 2022/23</b>
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
<b>Total</b>	<b>£2,458,410</b>

**Table 4b: Capital Programme – Additional expenditure items**

<b>Capital Scheme</b>	<b>Additional Items</b>
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
<b>Total</b>	<b>£2,105,125</b>

- 5.3 At its meeting on 12<sup>th</sup> September 2023 Cabinet approved the revised Capital expenditure relating to the Refurbishment of the Crematorium which indicated that the majority of that expenditure would fall in 2024/25. As a result, the previously agreed programme for 2023/24 has been revised downwards by a sum of £61,350 resulting in a revised Capital Programme for 2023/24 of £49.568m.

**Table 4c – Capital Programme Forecast Out-Turn**

	2023/24 Approved Budget £'000	2023/24 Forecasted Outturn £'000	2023/24 Forecasted Variance £'000
<b>Portfolio / Scheme</b>			
The Meads	10,618	10,456	162
Frimley4 Unit 4.3	272	50	222
Ashbourne House	74	74	-
Council Offices	540	508	33
Civic Quarter Farnborough	1,550	1,550	-
Housing PRS Delivery	5,894	3,169	2,724
The Galleries Development	3,400	3,400	-
Union Yard Aldershot	20,566	20,566	-
Affordable Housing - LAHF	1,821	1,821	-
Crematorium	446	446	-
Redan Rd Chapel	289	289	-
Improvement Grants	2,104	1,868	236
CCTV - Camera & Network	400	300	100
Refuse/Recycling inc. Food Waste	127	127	-
Hawley Lane Enhancement	390	50	340
Southwood Sang Country Park	-	99	(99)
Section 106	721	642	78

IT Projects	356	252	104
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<b>Total Capital Programme</b>	<b>49,568</b>	<b>45,668</b>	<b>3,900</b>
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5.4 The main areas of forecast underspend relate to the following schemes:

**Items anticipated to slip into 2024/25**

Housing PRS – schemes supporting RHL site development - £2.724m

Frimley and Hawley site development schemes - £200k

Disabled Facilities Grant - £236k

Section 106 funded schemes - £112k

IT related Schemes - £77k

**True underspend items**

The Meads Acquisition - £162k

Frimley and Hawley site development schemes - £362k (in addition to the £200k above)

Telephony Replacement project - £27k

5.5 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

The report outlines a number of risks and uncertainties around the wider economic environment. The Quarter 2 position includes forecasts for income and expenditure, there are key aspects of service that are exposed to forecast variation as better information is obtained, such as income from Investment Properties, operational costs, and the continued delivery of planned savings, when the officer base is exceptionally busy and focused on delivery.

## **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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