

Thurrock - An ambitious and collaborative community which is proud of its heritage and excited by its diverse opportunities and future

Cabinet

The meeting will be held at **7.00 pm** on **14 December 2022**

Council Chamber, CO3, New Road, Grays, RM17 6SL

Membership:

Councillors Mark Coxshall (Leader), Deborah Arnold (Deputy Leader), Qaisar Abbas, Jack Duffin, Andrew Jefferies, Barry Johnson, Ben Maney, Graham Snell and Luke Spillman

Agenda

Open to Public and Press

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Queries regarding this Agenda or notification of apologies:

Please contact Lucy Tricker, Senior Democratic Services Officer by sending an email to Direct.Democracy@thurrock.gov.uk

Agenda published on: **6 December 2022**

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DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF

Breaching those parts identified as a pecuniary interest is potentially a criminal offence

Helpful Reminders for Members

- *Is your register of interests up to date?*
- *In particular have you declared to the Monitoring Officer all disclosable pecuniary interests?*
- *Have you checked the register to ensure that they have been recorded correctly?*

When should you declare an interest *at a meeting*?

- **What matters are being discussed at the meeting?** (including Council, Cabinet, Committees, Subs, Joint Committees and Joint Subs); or
- If you are a Cabinet Member making decisions other than in Cabinet **what matter is before you for single member decision?**



Does the business to be transacted at the meeting

- relate to; or
- likely to affect

any of your registered interests and in particular any of your Disclosable Pecuniary Interests?

Disclosable Pecuniary Interests shall include your interests or those of:

- your spouse or civil partner's
- a person you are living with as husband/ wife
- a person you are living with as if you were civil partners

where you are aware that this other person has the interest.

A detailed description of a disclosable pecuniary interest is included in the Members Code of Conduct at Chapter 7 of the Constitution. **Please seek advice from the Monitoring Officer about disclosable pecuniary interests.**

What is a Non-Pecuniary interest? – this is an interest which is not pecuniary (as defined) but is nonetheless so significant that a member of the public with knowledge of the relevant facts, would reasonably regard to be so significant that it would materially impact upon your judgement of the public interest.

Pecuniary

If the interest is not already in the register you must (unless the interest has been agreed by the Monitoring Officer to be sensitive) disclose the existence and nature of the interest to the meeting

If the Interest is not entered in the register and is not the subject of a pending notification you must within 28 days notify the Monitoring Officer of the interest for inclusion in the register

Unless you have received dispensation upon previous application from the Monitoring Officer, you must:

- Not participate or participate further in any discussion of the matter at a meeting;
- Not participate in any vote or further vote taken at the meeting; and
- leave the room while the item is being considered/voted upon

If you are a Cabinet Member you may make arrangements for the matter to be dealt with by a third person but take no further steps

Non- pecuniary

Declare the nature and extent of your interest including enough detail to allow a member of the public to understand its nature



You may participate and vote in the usual way but you should seek advice on Predetermination and Bias from the Monitoring Officer.

Our Vision and Priorities for Thurrock

An ambitious and collaborative community which is proud of its heritage and excited by its diverse opportunities and future.

1. **People** – a borough where people of all ages are proud to work and play, live and stay
 - High quality, consistent and accessible public services which are right first time
 - Build on our partnerships with statutory, community, voluntary and faith groups to work together to improve health and wellbeing
 - Communities are empowered to make choices and be safer and stronger together

2. **Place** – a heritage-rich borough which is ambitious for its future
 - Roads, houses and public spaces that connect people and places
 - Clean environments that everyone has reason to take pride in
 - Fewer public buildings with better services

3. **Prosperity** – a borough which enables everyone to achieve their aspirations
 - Attractive opportunities for businesses and investors to enhance the local economy
 - Vocational and academic education, skills and job opportunities for all
 - Commercial, entrepreneurial and connected public services

14 December 2022		ITEM: 9 Decision: 110632
Cabinet		
Financial Update – Quarter 2 2022/23		
Wards and communities affected: All	Key Decision: Key	
Report of: Councillor Graham Snell, Cabinet Member for Finance		
Accountable Assistant Director: N/A		
Accountable Director: Jonathan Wilson, Interim Director of Finance		
This report is public		

Executive Summary

The report has been prepared and agreed with Commissioners and updates Cabinet on the latest known financial position for 2022/23 and medium-term outlook.

The report represents a significant deterioration in the financial position previously reported on 12 October 2022 and following the intervention by the Secretary of State. Work has now been done to identify (i) the impairments on major investments due to material deterioration in value of those investments (ii) revenue impacts of compliance with the Prudential Code for Capital Finance on the treatment of assets, notably minimum revenue provision (iii) refinancing debt (iii) & other underlying pressures.

There is an in-year deficit projected at £469.581m and an estimated structural deficit in 2023/24 of £184.381m. This is a grave position and at this point the council cannot find a way to finance their expenditure in-year and is unlikely to achieve a balanced budget for 2023/24 without external support. A request to the Secretary of State (SoS) for exceptional financial support (EFS) for 2022/23 will need to be made. It is also necessary for the s151 to consider further actions within Thurrock to restrict expenditure, whilst ensuring statutory services and contractual commitments are met. Furthermore, an exercise has commenced to identify opportunities for capital receipts to be generated through the disposal of assets.

As a result of the recommendations outlined in the report, there will be a draw down from general reserves of £7.591m, leaving a general reserve balance of £11m.

A further report will be prepared as part of the 2023/24 and Medium-Term Financial Strategy (MTFS), setting out the opportunities in so far as they are known for recovery of the position and that will also inevitably necessitate a further ask of the SoS to enable Thurrock to set a balanced budget.

The report sets out the position upon:

- 2022/23 General Fund Forecast Outturn at Quarter 2 (including assumed use of reserves, treasury & cash flow)
- 2023/24 Medium Term Financial Strategy (MTFS) update
- 2022/23 Capital Programme Forecast Outturn at Quarter 2
- 2022/23 Dedicated Schools Budget Forecast Outturn at Quarter 2

2022/23 General Fund Outturn at Quarter 2

The summary forecast position is set out in the table below:

2022-23 Quarter 2 Summary Position	£'000
Service pressure, net of earmarked reserves (Table 1)	1,772
Prior year investment income losses	29,927
In-year treasury position (Table 3)	33,268
Investment asset impairments	275,373
Further MRP in respect of capital Investments	129,241
Funding gap before mitigation	469,581
<i>Mitigation:</i>	
Use of Reserves: Treasury Equalisation, Financial Resilience & Transformation (Table 4)	(7,591)
Potential asset sales/capital receipts (Table 5)	(9,610)
Remaining funding gap	452,380

The figures reflect the known positions to date and the Minimum Revenue Provision remains under assessment and subject to further change. The potential asset sales also are subject to further assessment and will be confirmed in due course.

The position now reflects the write down of four investment assets of (£275.373m), the impact of the provision for the write down of the remaining investments over their lives (£129.241m) and increased pressure on the treasury position (£33.268m – current year and £29.927m prior year) reflecting the impact of projected lost income from specific investments and increased borrowing costs. Further detail is set out in sections 3.12 to 3.16.

The table includes potential mitigation based on a combination of available reserves and the use of capital receipts from projected asset disposals. The former is provisional and subject to closure of prior year audits and the latter is assumed on the basis a capitalisation direction is received from government.

The total projected funding gap is so significant that the Council cannot deliver a balanced budget in 2022/23 within existing resources. Inevitably the Council will need to look to levers within Thurrock to raise further funding, capital receipts and drive further savings, but it will also need to urgently seek exceptional financial support from government alongside taking action to reduce its expenditure. The requested support is expected to be in the form of a capitalisation direction which is sought to mitigate the short-term funding gap and provide sufficient time to develop solutions which ultimately fund the financial shortfall. This further enables the Council to continue to deliver services to residents and provides assurance to wider partners, suppliers, and staff.

The request for support is expected to be made to The Department for Levelling Up, Homes and Communities (DLUHC) in December 2022 and will be specific to the 2022/23 funding gap. Where further support is required in subsequent financial years then requests will be made in the relevant period following detailed assessment.

It is important to note the cash flow consequences of the position set out above continue to be managed in conjunction with Commissioners and DLUHC. The Council will continue to deliver core services and meet its contractual financial obligations while working through options to resolve the financial position set out.

2023/24 Medium Term Financial Strategy (MTFS) update

The summary MTFS position for 2023/24 currently projects further significant funding gaps as set out below:

MTFS Summary position	£'000
Net (Additional) / Reduction in resources through central government grants and taxation	(7,836)
Total Inflation Costs & service pressures	26,411
Underlying Budget Deficit Position	18,575
Reversal of non-recurrent funding	8,782
Total Gross Budget Pressure	27,357
Total Saving Identified	(10,944)
Net position after provisional savings and before treasury	16,413
Investment & Interest adjustments	67,008
MRP to be applied on investments	74,956
write down of/interest on 22/23 exceptional support request	26,004
2023/24 Funding gap (Table 8)	184,381

For comparison purposes this is 120% of the 2022/23 net expenditure budget.

This is a position based on the assumption that investments are retained along with the associated borrowing and the provisions to write down investments continue. However, in accordance with directions there will be a necessary divestment of those commercial investments, with a consequent reduction of debt and treasury costs. That has not yet been worked through the MTFS. The impact of further mitigation to the capitalisation request, though capital receipts, are also not yet included. Consequently, there are significant further actions that can and will be taken to improve the position and support the reduction of debt. To the extent a funding gap cannot be met then a further request for exceptional financial support will be required.

2022/23 Capital Programme Outturn at quarter 2

A comprehensive review of the programme, to identify reductions was undertaken in July 2022. This has been reflected in the budgets included in the Table below, with the

remaining schemes forecasting slippage of £20.063m.

A further report will be provided to Cabinet on 8th Feb 2023 that sets out the multi-year view of the capital programme and is clear about the parameters for a review of the capital programme to look to opportunities to reduce costs.

A further detailed report on the Capital programme for the current and future year will be completed as part of the intervention and recovery plan.

	Latest Agreed Budget	Quarter 2 Forecast	Variance to budget
	£'000	£'000	£'000
Total Expenditure	89,650	69,587	(20,063)
Resources:			
Prudential Borrowing	(60,275)	(45,797)	14,478
Capital Receipts	(58)	(58)	0
Government Grants	(19,265)	(14,873)	4,392
Other Grants	(7,906)	(6,713)	1,193
Developers Contributions (S106)	(2,146)	(2,146)	0
Total Resources	(89,650)	(69,587)	20,063
Forecast Over/underspend in Resources	0	0	0

Statement by the Commissioner:

The financial position for 2022/23 is such that Thurrock is not able to fund its expenditure from within existing resources and needs to make a formal request for emergency financial support from the Secretary of State. This is a grave position and at this point the council cannot find a way to finance their expenditure in-year and is unable to achieve a balanced budget for 2023/24 without external support.

A request to the Secretary of State (SoS) for exceptional financial support (EFS) for 2022/23 and 2023/24 will be made. It is also necessary for the s151 to consider further actions within Thurrock to restrict expenditure, whilst ensuring statutory services and contractual commitments are met.

An exercise has commenced to identify opportunities for capital receipts to be generated through the disposal of assets; whilst not yet finalised, it will not be sufficient to meet the financial deficit.

The position as outlined is an accurate reflection of the information as known as at 29th November 2022, which is subject to change as the financial review progresses.

Notably further work is pending on investments, the HRA and wholly owned companies and the outcome of that will be reported in a further report to Cabinet. .

Reserves:

Appendix 5 sets out the position to date on reserves, which are significantly reduced and, at current balances, present a further risk to future sustainability.

In year to date there has been a reduction in overall reserve balances from £66.3m to £12.2m, with £19.1m used directly in year to both fund the opening structural deficit in the budget, with further drawdowns to offset the in year financial pressures. Coupled

with withdrawals from the collection fund and for specific grants/purposes, the total residual reserves balance is now only £12.2m from an opening balance of £66.3m. As previously set out, the development of an appropriate reserves and provisions policy is critical to setting of the 2023/24 budget and this will impact on the overall MTFS, though it has not yet been quantified.

Investments:

There is confidence over the valuations of the major investments, supported by extensive external advice, which make up 75% of the investment portfolio. As a result, the impairments can be accurately quantified and accounted for. However, a review of the 'tail' of investments, a portfolio representing £256m is yet to be completed and this could result in further impairments as yet unquantified, but significantly less in value and risk than those already reported upon. An update on the £256m investments will be prepared and reported at the next financial outturn to Cabinet.

MRP and Treasury:

A material failure that has led to the significant overspend, is the failure to comply with the Prudential Code and notably make appropriate revenue charges for Minimum Revenue Provision. At the point of writing, an MRP and Treasury policy is not finalised nor consulted upon with the auditors, but best endeavours have been made to forecast the likely impact. Any changes will be reported upon in period 7 and these policies will be part of the decision-making process for the 2023/24 budget.

The focus to date has been on the MRP policy on the major investments, but further substantive work is required to review MRP treatments on the remainder of the balance sheet assets and be assured of appropriate compliance with the Prudential Code.

HRA & subsidiary companies:

Work has not yet commenced but is required under the directions, to review accounting treatment within the HRA and a review of subsidiary companies and loans to those companies.

1. Recommendations:

- 1.1 That Cabinet comment on the 2022/23 forecast funding gap of £469.581m and approve a request for exceptional financial support from central government.**
- 1.2 That Cabinet delegate the request for exceptional support to the s151 officer.**
- 1.3 That Cabinet comment on the updated Medium Term Financial Strategy which has a projected deficit in 2023/24 of £184.381m and which is expected to require a further request for exceptional financial support from central government.**
- 1.4 That Cabinet note that the position is subject to change, as further work is outstanding (as highlighted in the Commissioners commentary) which is likely to lead to changes.**

- 1.5 That Cabinet note additional actions will be required to identify further savings to manage the reported General Fund budget pressures.**
- 1.6 That Cabinet agree the use of reserves as set out in appendix 5, subject to the finalisation of the audit process relating to financial years 2020/21 and 2021/22 and note balances are subject to change.**
- 1.7 That Cabinet note the proposed use of further capital receipts projected to arise in 2022/23 as set out in Table 5 to mitigate the request for exceptional financial support from government.**
- 1.8 That Cabinet note that further consultation with external audit will be required to finalise the technical accounting treatments relating to the investment valuations and the associated Minimum Revenue Provision transactions.**
- 1.9 That Cabinet note the position set out in respect of the capital programme and the reported slippage as set out in para 5.4.**
- 1.10 That Cabinet Agree that Thurrock's 2023/24 Schools funding formula be implemented as stated in Appendix 6. This being consistent with Cabinet's decision made between 2020/21 and 2022/23 schools funding formula as per the report in Appendix 6.**

2. Introduction and Background

- 2.1 In June 2022, the Council confirmed there was significant financial risk attaching to three specific investments within the wider investment portfolio. This identified potentially significant impairments and a workstream was developed to provide clarity on the financial position and identify the potential for mitigating actions including legal remedies.
- 2.2 As reported at quarter 1 on 2 September 2022, the Department of Levelling Up, Housing and Communities announced directions to implement an intervention package at the Council.
- 2.3 The delivery of this package is being overseen by Essex County Council as the appointed Commissioners to the Council.
- 2.4 To date, this has included: a focus on the ongoing assessment of the three specific investments subject to impairment risk, an interim borrowing strategy and a review of the MRP policy to ensure debt is written down appropriately.
- 2.5 The financial impacts of the work are reflected in the report and are subject to ongoing assessment and discussion between the Commissioners and the Council. It confirms an initial assessment of the impact of the Council's exposure to the financial risk attached to the investment strategy.
- 2.6 The position will evolve, and further consideration of wider mitigations is required to consider the impact on the overall sustainability of the Council.

3. 2022/23 General Fund Forecast Outturn

Service position

- 3.1 The forecast net outturn expenditure at quarter 2 is estimated to be £163.764m which results in an adverse service budget variance of £10.092, prior to support from additional resources. This is equivalent to a 7% variance to budget.
- 3.2 The use of earmarked reserves and an assumed reduction in cost for the last quarter by implementing tighter control over all non-essential spend could potentially reduce the projected in-year pressure to £1.772m:

Table 1 Service Pressures (net of earmarked reserves):

Directorate	2022/23 Budget £'000	Quarter 2 Forecast £'000	Forecast Variance £'000
Adults, Housing and Health	50,966	54,373	3,407
Children's Services	40,844	43,305	2,461
Housing General Fund	1,581	1,674	93
HR, OD, and Transformation	8,924	8,186	(738)
Public Realm	35,122	35,162	40
Resources & Place Delivery	13,967	15,212	1,246
Strategy, Engagement & Growth	3,450	3,319	(131)
Corporate Costs	1,819	1,033	(786)
Vacant post saving	(3,000)	0	3,000
Projected Intervention Costs	0	1,500	1,500
Service pressures quarter 2	153,672	163,764	10,092
<i>Mitigation:</i>			
Use of Earmarked reserves		(7,514)	(7,514)
Assumed 2% reduction in costs (Q4)		(806)	(806)
Remaining service pressure	153,672	155,444	1,772

- 3.3 The following key variances have been identified as part of the budget monitoring process. This is before any mitigating action is applied. Further explanation is included in Appendix 1.

Table 2 Key forecast variances at Quarter 2:

Variance category	Risk detail	2022/23 Budget £'000	Quarter 2 Forecast £'000	Forecast Variance £'000
Demographic growth	Adults External Placements	32,658	35,927	3,269
Vacant post saving	Employees Costs	90,314	91,676	1,362
Demand	School Transport	3,310	3,926	616
	Waste Disposal	8,343	7,739	(604)
Complexity of care	Children's external placements	12,282	14,023	1,741
	Children's Legal proceedings	272	725	453
Delay to savings	Capitalisation	(487)	0	487
	Grounds maintenance	(150)	(20)	130
	Waste Collection	5,136	5,772	636
	Asset Rationalisation	300	428	128
Inflation	Utilities	2,723	3,718	995
	Other income/expenditure	(573)	(74)	499
Income generation	Parking charges	(465)	(138)	327
	Counter Fraud	(582)	(1,705)	(1,123)
	Planning fees	(1,229)	(766)	463
Corporate Costs	Pension & Audit fees	1,819	1,033	(786)
	Intervention Costs	0	1,500	1,500
Service pressures at quarter 2		153,672	163,764	10,092

- 3.4 The assumption has been made that there will be no other significant variances within the central financing or other corporate cost allocations.

In-year Treasury position

- 3.5 Further work continues to be undertaken to assess the overall treasury position. The projection in the table below is a summary of the position using the information which is currently available:

Table 3 In-year Treasury position:

Treasury & Reserves	2022/23 Budget £'000	Quarter 2 Forecast £'000	Forecast Variance £'000
Interest payable on borrowing	22,089	27,810	5,721
Investment Income	(41,472)	(11,805)	29,667
MRP on existing capital programme	9,957	7,683	(2,274)
TRL	(1,174)	(1,020)	154
In-year pressure	(10,600)	22,668	33,268

The key variances are as a result of the following factors:

- Increases in interest rates relating to the cost of borrowing which far exceeds those projected when the base budget was set. This reflects rates moving from historic rates of less than 1% to between 4 and 5% over the last 2 months when the strategy to refinance existing short-term debt was implemented.
- Changes to the strategic approach to borrowing and the need to accelerate the switch of debt from inter authority lending to one-year PWLB, as agreed with Commissioners,
- Loss of investment income based on the latest assessment of investments
- Savings within MRP, notwithstanding changes to the policy and capitalisation directive, due to a reduction in the Council's planned capital programme.

Use of reserves

- 3.6 It should be noted that the 2022/23 budget was set with the inclusion of a £3m contribution from reserves to support the general fund budget. This is reflected in table 4 which shows the remaining financial resilience reserve balance.
- 3.7 Based on the current allocations, the reserves shown below are available to reduce the overall budget pressure and have been included in the summary position. It is noted that this requires approval from Cabinet to utilise these reserves and this is sought as part of the recommendations in the report.

Table 4 Use of Reserves

Use of Reserves in Quarter 2	£'000
Treasury Equalisation Reserve	(1,907)
Financial Resilience Reserve	(2,000)
Transformation Reserve	(3,684)
Total	(7,591)

- 3.8 Appendix 5 details the full reserves position and shows opening and closing balances.
- 3.9 Consideration to redirect other earmarked reserves not already being utilised is under consideration and may provide further mitigation. A reserves strategy will be developed as part of the 2023/24 budget and consulted upon with Members and Commissioners.
- 3.10 The Council's General Fund reserve balance, totalling £11m at the start of the year is held to mitigate against the financial risks inherent in delivering Council services; this represents around 1 month's operating expenditure for Thurrock.
- 3.11 It should be noted that whilst the external audit review remains outstanding and consequently the opening reserve position is subject to change. The proposed mitigation from reserves is based on the current unaudited balances.

Provision for the Repayment of Debt funding the Investment Strategy

- 3.12 Following the intervention, there are certain actions to be taken by the Council, including the need to review the minimum revenue provision (MRP) policy to ensure prudent provision is made in accordance with the Prudential Code and it is mandatory the Council complies with this. MRP is an annual amount required to be set aside from the General Fund to meet the capital cost of expenditure funded by borrowing or credit arrangements, that is, capital expenditure that has not been financed from grants, revenue contributions or capital receipts. MRP is sometimes referred to as the mechanism for setting aside monies to repay borrowing.
- 3.13 The Council is currently reviewing its MRP policy with a specific focus on investment capital funded from borrowing arrangements. Historically there has been no MRP charge for these assets which was in contravention of the CIPFA Prudential Code for Capital Finance in Local Authorities. A provisional figure of £74.956m represents an assessment of the value of a provision expecting that relevant assets are written down in full over the life they are held by the Council. This remains under discussion with Commissioners.

Asset Impairment

- 3.14 Thurrock holds investments with a book value of £1.024bn. The focus on the financial intervention to date has been on the high value and high-risk investments outlined below which represent 75% of the investment portfolio. Investments are subject to review each year, to confirm the carrying value of each investment is in line with the recoverable/realisable value at the maturity date.
- 3.15 The ongoing work by the Council's advisors has identified that the value of four of the Council's investments are subject to significant impairment. An impairment is a permanent reduction in the value of an asset to less than its carrying value. Where an impairment arises on an investment asset it must be written down to the revenue account. This is either through an MRP charge in respect of a capital investment or, for a revenue investment, through a write down of the value under the accounting requirements of IFRS9.
- 3.16 The projected total write down of investments is £275.373m. The positions remain under ongoing review and are subject to significant change. Further information on these investments will be provided to members in due course.

Use of Capital Receipts

- 3.17 Under the Flexible Use of Capital Receipts flexibility, the 2022/23 budget was set with the assumption that £3.190m of spend within core services (that relates to transformational activity and/or contributes towards ongoing financial savings) would be funded through capital receipts generated from the disposal of council assets. This is included at Appendix 7.
- 3.18 Reports presented to Cabinet in July 2021 and July 2022 identified a range of council owned properties that were considered surplus to requirement.

3.19 Between Apr-Sept 2022 £8.8m has been generated through asset disposals which exceeds the base budget assumption. Further flexibility will need to be agreed by DLUHC to allow balances over and above this amount to be applied to further offset in-year revenue pressures, below sets out indicative figures.

Table 5 Potential Asset Sales/Capital receipts:

Capital Receipts	£'000
Generated to date	(8,800)
Additional projected disposals within 2022/23	(4,000)
Potentially available to off-set in-year spend	(12,800)
Already assumed in base budget	3,190
Potential further use of capital receipts in 2022/23	(9,610)

This has been included as a potential mitigation to offset the wider budgetary gap in 2022/23. It is noted this remains subject to the agreement of a capitalisation direction from government.

Additional Risk & Uncertainty

3.20 The budget is set on assumptions and economic forecast but there is inherent risk and uncertainty throughout this report which should be taken into consideration:

Table 6 Additional risk areas:

Risk Area	Concern
Inflation	<ul style="list-style-type: none"> • Inflation has increased significantly in recent months and is impacting supply chain costs across many services • Energy costs continue to fluctuate impacting Corporate Landlord services • National pay agreement with Trade unions will impact local pay agreements and remains under assessment
Provider failure	<ul style="list-style-type: none"> • There are significant additional financial pressures on external providers to deliver core services commissioned by the Council.
Ongoing demand volatility	<ul style="list-style-type: none"> • As the pandemic recedes the level of demand for key services within the system and particularly within the Social Care services has risen.
Uncertainty of government funding	<ul style="list-style-type: none"> • Effectively a one-year settlement was announced in November 2021 and hence there remains uncertainty in planning for services in the medium term
Delivery risk	<ul style="list-style-type: none"> • Significant savings were applied to the 2022/23 budget allocation, and these remain subject to implementation in the agreed timescales

Advisory costs Potential further impairments	<ul style="list-style-type: none"> • There are ongoing costs relating to the assessment of the investments and the ongoing monitoring of these assets. This will include the assessment of the value of each investment and may result in adjustments to carrying values.
Interest rates	<ul style="list-style-type: none"> • Changes to the Bank of England interest rate may further impact the cost of borrowing
Intervention costs	<ul style="list-style-type: none"> • The core intervention costs relating to the commissioners are known. Wider costs will include additional capacity to support the response to the intervention – this will provide support to the corporate finance team, the property team and will support wider structural changes agreed with Commissioners. There will be further support required from a range of advisors to support specific aspects of the intervention.

4. Medium Term Financial Strategy Update

- 4.1 The information contained within Table 7 is the current projected budget deficit for 2023/24 and Appendix 2 includes the indicative position for 2024/25 and 2025/26. The detailed assumptions are shown in Appendix 3. Table 7 shows change in 2022/23 baseline figures rather than absolute figures.
- 4.2 The position below does not reflect any final decisions taken by members on Council Tax and further discussions will follow with DLUHC to consider further support measures required.

Table 7 Medium Term Financial Strategy 2023/24:

Narrative	2023/24
	£000's
Net Resources	
Council Tax LA Element 2.99% increase	(2,266)
Increase in the Council Tax Base @ 1.6%	(1,191)
Adult Social Care Precept 2%	(1,513)
Business Rates Position	(2,166)
Government Resources Position	(700)
Net Additional (Reduction) in resources	(7,836)
Inflation and other increases	
Pay award @ 4%,	7,292
Fuel inflation	350
Waste Inflation	1,164
Energy Inflation	2,252
	11,058
Social Care Growth	
Adults	4,013
Children's	1,250
	5,263
2022/23 Budget Monitoring Pressures	8,090
Intervention Costs	2,000
	18,575
Other funding (not affecting baseline)	
Utilisation of Capital Receipts	3,300
Pension Deficit Adjustment	1,000
Use of reserves 2021/22	4,482
	8,782
Total Gross Budget Pressure	27,357
Savings Departmental	
Total Departmental Savings	(8,315)
Savings to be agreed by Members	(1,403)
Savings for further consideration	(1,226)
Savings Subject to further agreement	
Core Budget Position (Surplus) / Deficit	16,413
Treasury	
Interest Costs	35,829
Investment Income	30,847
TRL	154
MRP on Capital	178
	67,008

Overall Budget Working Total	83,421
15. Prior years capitalisation	
MRP	22,619
Interest	3,385
	26,004
MRP on investments	74,956
Total Budget Variance	184,381

- 4.3 The position shows a total projected deficit for 2023/24 of £184.381m which represents circa 120% of the 2022/23 budget. The core budget deficit is £16.413m and the balance of the gap is a combination of three significant amounts – interest costs, MRP and the write down and interest relating to the capitalisation direction (which is materially driven by the permanent reduction in value or impairment of the investment portfolio). The position assumes the investment assets are held until maturity. It is also noted that no assumptions are included in respect any further actions taken by the Council which may mitigate against any projected losses.
- 4.4 Consequently the resolution of the treasury impacts and the funding of the capitalisation direction are crucial for the ongoing sustainability of the Council. Work is ongoing to consider the potential for mitigation and this is expected to be through a combination of capital and asset disposals. This work remains at an early stage and a proposed approach will be shared with the Committee in due course.
- 4.5 The core budget deficit is subject to further consideration of savings by directorates and the position will be updated as part of the 2023/24 budget setting process. The position will be further informed by the Local Government funding settlement which will confirm funding levels. The core funding position continues to be impacted by significant inflationary pressures, ongoing social care pressures and the budgetary pressures in the current year that are supported by one off funding streams that will no-longer be available in 2023/24.

5. Capital Programme Update

- 5.1 Capital schemes and resources are identified in two specific categories:
- Mainstream schemes – capital expenditure funded through prudential (unsupported) borrowing, from capital receipts, from the capital contribution from revenue budget or from earmarked capital reserves; and
 - Specific schemes – capital expenditure funded through external funding sources, for example, government grants and Section 106 monies which are ring fenced for specific projects.

General Fund Schemes

- 5.2 The current position for General Fund schemes for 2022/23 is summarised below:

Table 8 Capital Programme – Projected Outturn as at Quarter 2

	Latest Agreed Budget	Quarter 2 forecast	Forecast Variance
	£'000	£'000	£'000
Expenditure:			
Children's Service ¹	7,877	4,498	(3,379)
Adult, Housing & Health	5,527	2,519	(3,008)
Public Realm	27,981	27,694	(287)
Resources & Place Delivery	40,235	27,593	(12,642)
HR, OD & Transformation	7,735	6,988	(747)
Strategy; Engagement & Growth	279	279	0
Commercial Services	16	16	0
Total Expenditure	89,650	69,587	(20,063)
Resources:			
Prudential Borrowing	(60,275)	(45,797)	14,479
Capital Receipts	(58)	(58)	0
Government Grants	(19,265)	(14,873)	4,392
Other Grants	(7,906)	(6,713)	1,193
Developers Contributions (S106)	(2,146)	(2,146)	0
Total Resources	(89,650)	(69,587)	20,063
Forecast under/Overspend in Resources	0	0	0

- 5.3 This illustrates a projected outturn at the end of the financial year of £69.587m, which is £20.063m less than the latest agreed budget for the year.
- 5.4 The forecast underspend is principally due to slippage on current schemes (£20.063m). Consequently, the funding remains allocated to specific current schemes and will be re-profiled into subsequent years. The impact of the reprofiling will be an ongoing exposure to inflationary pressures on costs and hence capital budgets. This continues to be assessed on a project by project basis.

¹ The schools capital budget is designed around academic years and officers are confident that this will be defrayed in full within the current academic year

Slippage on Capital Programme

Description	For Carry Forward
	£'s
Capital Maintenance Schemes	110
Community Hubs	400
Environmental Enhancements at Play Sites	250
Grays Riverside Park - Replace Splash Pool & Water Features	25
Pupil Referral Unit Relocation	750
Purfleet Thurrock School Contribution	8,700
SEN Capital	3,269
Stanford Le Hope Interchange	3,192
Thurrock On-Line Phase 2	360
Corporate Payments	387
Ship Lane Day Room	1,408
ATF - Corringham Road/Billet Lane	8
ATF - Purfleet Road	4
Well Homes Offers	200
Disabled Facility Grant	1,000
All Directorates	20,064

The slippage on the capital programme schemes is shown in the table above

The financial impact resulting in the delay of the projects will be assessed and included within the 2023/24 programme. This will range across the schemes and will be subject to further viability assessment.

- 5.5 A schedule of major variances is included in Appendix 4.
- 5.6 Several capital schemes are expected to complete construction in future years with expenditure totalling £19.604m. Budgets for these schemes have already been profiled accordingly.
- 5.7 Schemes that are at a feasibility or at an earlier stage of development have been excluded from the reported position. The total projected budgets of £132.065m include school improvement works, the A13 East Facing slip road, Grays South development and the 21st Century Care Home.
- 5.8 A further detailed report on the Capital programme for the current and future year will be submitted as part of the intervention and recovery plan, in line with the deadlines set out.

Housing Revenue Account Capital Schemes

- 5.9 The current position for Housing Revenue Account schemes for 2022/23 is summarised below.

Table 9 HRA Capital Programme – Projected Outturn

	Latest Agreed Budget	Quarter 2 forecast	Forecast variance
	£'000	£'000	£'000
Expenditure:			
Transforming Homes	57,448	43,583	(13,865)
Housing Development	3,130	3,130	0
Total Expenditure	60,578	46,713	(13,865)
Resources:			
Prudential Borrowing	(47,979)	(34,865)	13,114
Capital Receipts	(2,045)	(2,045)	0
Major Repairs Reserve	(10,554)	(10,554)	0
Total Resources	(60,578)	(46,713)	13,865
Forecast Overspend in Resources	0	0	0

- 5.10 The budget for Transforming Homes in 2022/23 is £57.448m and the forecast spend is currently £43.583m. Much of the expected slippage relates to the Tower Block Refurbishment project (£9.900m) and Refurbishment of Non-Traditional properties project (£2.921m), where revised programmes have been developed. Spend incurred up to 30 September 2022 was £15.806m.

The slippage on the tower blocks relates to those within the Blackshots estate. Further options on the long-term solutions to the issues identified in these dwellings are currently under consideration, and therefore works have commenced on the blocks in Grays as the first phase of the programme. In addition, there was additional requirements relating to the design, and agreement of sign off on external wall installations and window installations, as per social regulator. This has added some delay to the project

The requirements needed for the non-traditional properties has changed from the original estimate and are subject to further surveys. The additional requirements, coupled with current workforce and supply chain limitations has resulted in slippage to the project.

The Capital programme is being updated as part of the 2023/24 budget setting process and will be reported in due course. Consideration will be given to the financial impacts of the slippage on a project by project basis.

HRA New Build Schemes

- 5.11 The revised budgets for 2022/23 for HRA New Build Schemes are set out in Appendix 4 and cover Calcutta Way, Vigerons Way and Loewen Road. The current forecast is set to be contained within the current allocation of £3.130m. These projects will utilise receipts held under Right to Buy sharing agreement between the Council and the DLUHC, and are forecast to be delivered with the

current timeframes and budgets allocations.

6. Reasons for Recommendations

- 6.1 The Council has a statutory requirement to set and deliver a balanced budget annually and this can include the use of reserves.
- 6.2 This report sets out the budget pressures in 2022/23 and notes that exceptional financial support is required in order to deliver a breakeven position.

7. Consultation (including Overview and Scrutiny, if applicable)

- 7.1 This report is based on consultation with the services, Directors' Board, and portfolio holders and Commissioners (Essex County Council).

8. Impact on corporate policies, priorities, performance, and community impact

- 8.1 The implementation of previous savings proposals has already reduced service delivery levels and the council's ability to meet statutory requirements, impacting on the community and staff. There is a risk that some agreed savings and mitigation may result in increased demand for more costly interventions if needs escalate particularly in social care. The potential impact on the council's ability to safeguard children and adults will be kept carefully under review and mitigating actions taken where required.
- 8.2 The budget gap identified in the report will also necessitate engagement with the Department for Levelling-up Housing and Communities (DLUHC) regarding exceptional financial support. The outcome of this engagement in terms of conditions applied to the support may require further savings within budgets to be made, further impacting on the ability to deliver services.

9. Implications

9.1 Financial

Implications verified by: **Jonathan Wilson**
Interim Director of Finance

The financial implications are set out in the report. The report confirms the need for exceptional financial support to address the funding gap arising from the impacts from both the impairments of specific investment assets and the wider implications which include a reduction in investment income, increased borrowing costs and the need for a prudent write down of the capital financing requirement that relate to the remaining investment balance.

The Medium-Term Financial Strategy confirms the need to take specific action to reduce borrowing and minimum revenue provision costs. This intrinsically relates to the need to divest of investments to address these pressures.

The position indicates that significant action is required from the Council to focus on the delivery of core statutory services, fund only essential spend and deliver a

significant programme of savings. This enables management of the core operational deficit and alongside this an asset disposal programme will be required to address the ongoing impacts of requests for exceptional financial support.

9.2 **Legal**

Implications verified by: **Mark Bowen**
Interim Head of Legal

There are no specific legal implications set out in the report. There are statutory requirements of the Council's Section 151 Officer in relation to setting a balanced budget. The Local Government Finance Act 1988 (Section 114) prescribes that the responsible financial officer "must make a report if he considers that a decision has been made or is about to be made involving expenditure which is unlawful or which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency to the authority". This includes an unbalanced budget.

9.3 **Diversity and Equality**

Implications verified by: **Natalie Smith**
Community Development & Equalities Manager

The Equality Act 2010 places a public duty on authorities to consider the impact of proposals on people with protected characteristics so that positive or negative impacts can be understood and enhanced or mitigated as appropriate. Services will be required to consider the impact on any proposals to reduce service levels through a community equality impact assessment which should seek to involve those directly affected

9.4 **Other implications** (where significant) – i.e., Staff, Health Inequalities, Sustainability, Crime and Disorder, and Impact on Looked After Children

There are no other implications arising directly from this update report.

10. **Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright)

There are various working papers retained within the finance and service sections.

11. **Appendices to the report**

Appendix 1: Key general fund variances at quarter 1
Appendix 2: 3 Year MTFS
Appendix 3: MTFS assumptions
Appendix 4: Capital programme financial forecast quarter 1

Appendix 5: Reserves position
Appendix 6: Dedicated Schools Budget
Appendix 7: Flexible Use of Capital Receipts Strategy 2022/23

Report Author

Jonathan Wilson

Interim Director of Finance

Appendix 1 Key General Fund variances

Variance category	Risk detail	Forecast Variance £'000																																												
Demographic growth	Adults External Placements	3,269																																												
<p>a) There has been a significant increase in demand for Homecare services</p> <p>b) The increased level of need for people being discharge from hospital requiring continuing social care support to live independently outside of residential care. This has also been exacerbated by the change in the hospital discharge criterion from 'medically fit' to 'medically optimised' meaning patients are discharged earlier and with a greater level of care acuity.</p> <p>c) Increased complexity and the associated requirement for additional care support to existing clients. This is particularly prevalent in the substantial increase in the number of homecare packages that the Local Authority is commissioning within the external care market</p> <p>d) Longer term ramifications following the covid pandemic including the pausing by the NHS of secondary prevention programmes to manage residents with long-term conditions that is now resulting in significantly increased presentation of very unwell patients presenting at A&E for emergency hospital and the subsequent demand on ASC through increased hospital backdoor pressures. Along with the "hidden" impacts of COVID amongst both working age adults and older people caused by the lockdown and removal of non-crisis intervention by health. This is particularly prevalent in Mental Health services.</p>																																														
Vacant post saving	Employees Costs	1,362																																												
<p>The position on vacant posts continues to be monitored against a corporate target of £3m. This target was held centrally and not allocated to specific directorates.</p> <p>Employee spend is estimated to be £1.638m less than budgeted before the allocation of the vacant post saving, as per the below table.</p> <p>This position needs to be considered within the context of the overall position. In some cases, reduced spend within the employee category will be offset by an under recovery of associated income or expenditure pressures elsewhere within the service area. The position will be monitored alongside the actions of the recruitment panel, the review of agency spend and wider restructures in the Council</p>																																														
<table border="1"> <thead> <tr> <th>Directorate</th> <th>2022/23 Budget £'000</th> <th>Quarter 2 Forecast £'000</th> <th>Forecast Variance £'000</th> </tr> </thead> <tbody> <tr> <td>Adults; Housing and Health</td> <td>20,427</td> <td>20,637</td> <td>210</td> </tr> <tr> <td>Children's Services</td> <td>29,488</td> <td>28,663</td> <td>(826)</td> </tr> <tr> <td>Housing General Fund</td> <td>2,067</td> <td>2,017</td> <td>(50)</td> </tr> <tr> <td>HR; OD and Transformation</td> <td>7,834</td> <td>7,272</td> <td>(562)</td> </tr> <tr> <td>Public Realm</td> <td>17,410</td> <td>17,523</td> <td>113</td> </tr> <tr> <td>Resources & Place Delivery</td> <td>11,307</td> <td>11,068</td> <td>(239)</td> </tr> <tr> <td>Strategy; Engagement & Growth</td> <td>4,781</td> <td>4,497</td> <td>(284)</td> </tr> <tr> <td></td> <td>93,314</td> <td>91,676</td> <td>(1,638)</td> </tr> <tr> <td>Vacant post saving</td> <td>(3,000)</td> <td>0</td> <td>3,000</td> </tr> <tr> <td></td> <td>90,314</td> <td>91,676</td> <td>1,362</td> </tr> </tbody> </table>			Directorate	2022/23 Budget £'000	Quarter 2 Forecast £'000	Forecast Variance £'000	Adults; Housing and Health	20,427	20,637	210	Children's Services	29,488	28,663	(826)	Housing General Fund	2,067	2,017	(50)	HR; OD and Transformation	7,834	7,272	(562)	Public Realm	17,410	17,523	113	Resources & Place Delivery	11,307	11,068	(239)	Strategy; Engagement & Growth	4,781	4,497	(284)		93,314	91,676	(1,638)	Vacant post saving	(3,000)	0	3,000		90,314	91,676	1,362
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Demand	School Transport	616																																												
<p>Increase in demand for Education Health and Care Plans and the phased expansion of specialist provision within Thurrock by 96 places has placed additional pressure on the service.</p>																																														

The reduction proposal at the St Clere's school has now been deemed to be an unsafe route therefore affecting the viability of the savings target.

The service commissioned an external consultant (funded from central transformation funding) to undertake a review of SEND transport to ensure discretionary transport policy is being applied correctly and to identify potential changes to process and practice which may reduce the current overspend on SEND transport. This review is currently ongoing, and updates will be presented in due course

Cost Centre Description	2022/23 Budget £'000	Quarter 2 Forecast £'000	Forecast Variance £'000
Alternative Provision	147	86	(61)
Denominational Transport	8	8	(1)
Home To School Transport - Primary	677	362	(315)
Home To School Transport - Secondary	251	377	126
Home To School Transport - Special	288	1,014	726
Independent School Fees (Transport)	1,361	1,328	(34)
Out of Borough - LAC	15	44	29
Out of Borough - Other LA's	36	22	(14)
Out of Borough - Post 16	411	298	(112)
Post 16 SEND	113	261	148
Resource Base - Primary	2	126	124
	3,310	3,926	616

Demand	Waste Disposal	(604)
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The waste disposal figures are reviewed on an ongoing basis by finance and the service as the financial year progresses. This is Public Realm's largest volatile budget and has the potential to have a big impact on the outturn position at year end. There is a variable element to the disposal contracts, impacted by recycling rates/contamination of recycling and can fluctuate throughout the year.

Complexity of care	Children's external placements	1,741
---------------------------	---------------------------------------	--------------

Significant cost pressures are generated by moves within care. Children with the most complex needs are experiencing a high level of placement instability driven by both providers giving notice on their placement and by intervention by the regulator. Thurrock is reliant on external providers for residential and complex care including SEN placements.

Placement Type	Budget Numbers 2022/23	Sep-22 Numbers
Cost		
Placed with Parent / Adoption	10	14
Internal Fostering	127	106
Supported Accommodation	26	33
External Fostering	103	101
External Residential	29	23
Unregulated	0	5
Remand	2	0
Total LAC	297	282

	Number of External Residential Placements (incl unregulated)			
	Budget	Jul-22	Aug-22	Sep-22
<£2,000	0	0	1	1
£2k-£3k	5	6	6	6
£3k-4k	6	6	4	3
£4k-£5k	8	4	2	3
£5k-£6k	4	5	5	4
£6k-£7k	2	1	1	2
£7k-£8k	1	1	1	1
£8k-£9k	2	0	0	0
£9k-£10k		3	3	3
£10k-£11k	1	1	2	4
£11k-£12k		0	0	0
£12k-£13k		0	0	0
£13k-£14k		0	0	1
Total	29	27	25	28

Unregulated placements are where the Local Authority are unable to secure a suitable placement with a provider to meet the needs of the young person. In these instances, the LA has to develop a package of support around the child and seek judicial approval until a regulated place can be provided. By nature, these placements are highly complex and costly. Thurrock currently have 5 such placements an increase of 1 at a cost implication of £2.305m. Ofsted registration is being progressed.

There are currently 10 high-cost placements with a total forecast of £4.574m

Complexity of care	Children's Legal proceedings	453
<p>The forecast is based on the current case level of 28 with 6 to issue, a total of 34 cases. Average case cost is £0.016m and a contingency for legal fees of £0.090m for ad-hoc other and new cases has been included. In addition, included for assessments is a contingency of £0.070m</p> <p>In 2021/22 Children Services incurred legal costs of £0.965m in fees and assessments based on 58 cases at its highest point. With the introduction of the new Think Family Team, it is anticipated that the costs of assessments will be lower in 2022/23 but will still exceed the budget allocated.</p>		
Delay to savings	Capitalisation of staff	487
<p>Due to delays in approving significant regeneration schemes such as Towns Fund and Thames Freeports we have not been able to allocate costs to those schemes to the levels envisioned at the time of budget setting.</p>		
Delay to savings	Ground maintenance saving	130
<p>£0.150m target was set for income generation in relation to the Commercial Grounds Maintenance service, work continues expanding the service offer to external businesses with the support of the Business Development & Innovation Team.</p>		
Delay to savings	Waste Collection	636
<p>The decision to delay the fortnightly waste collection plan has led to an in-year pressure. There have also been several staffing and operational issues which have required additional resource to manage and ensure continued service delivery.</p>		
Delay to savings	Asset Rationalisation	128
<p>Revenue savings of £0.850m were assumed in the 22/23 base budget in relation to the disposal of operational buildings and the corresponding reduction in running costs and/or increased income through rent review on commercial properties. Outstanding decisions on key buildings has delayed the deliverability of this saving.</p>		
Inflation	Utilities	995
<p>The global energy crisis has impacted the cost of gas and electricity; market prices for gas and electricity are extremely volatile with prices peaking at new highs in September 2022 before falling back. The current estimates are reflective of information from our suppliers regarding price per k/w and our local usage levels.</p>		

Subjective Description	2022/23 Budget £'000	Quarter 2 Forecast £'000	Forecast Variance £'000
Electricity	1,691	2,304	613
Fuel and Oil	909	1,110	201
Gas	123	304	181
	2,723	3,718	995

The main area of Thurrock's fuel spend is incurred within the Public Realm waste collection service and the indicative impact of transitioning from red to white diesel per litre is shown below:

Date	Average cost red diesel (pence per litre)	Average cost white diesel (pence per litre)	Increase (pence per litre)	Increase (%)
Oct-22	100.99	181.74	80.75	80%

Inflation	Other income/expenditure	499
Inflation is currently more than 10% which is impacting the general supply of goods and services across the Authority.		
Income generation	Parking charges	327
Changes to working practices and continued agile working have impacted parking income levels, particularly within the Grays Central location.		
Income generation	Counter Fraud	(1,123)
The Counter Fraud and NATIS operating model is set to deliver a surplus position in the current financial year.		
Income generation	Planning fees	463
Income is below expected levels for the year and the loss is assumed to be linked to the wider economic uncertainty affecting the number of requests for improvements to property.		
Corporate Costs	Pension costs & Audit fees	(786)
	Estimated cost of intervention & Best Value Inspection 2022/23	1,500
General Fund pressures before mitigation		10,092

Full current 2022/23 budget allocation is shown below for completeness:

Directorate	2022/23 Budget £'000
--------------------	---------------------------------

Adults; Housing and Health	50,966
Children's Services	40,844
Housing General Fund	1,581
Housing Revenue Account	0
HR; OD and Transformation	8,924
Public Realm	35,122
Resources & Place Delivery	13,967
Strategy; Engagement & Growth	3,450
Corporate Costs	1,819
Vacant post saving	(3,000)
Total Service Budgets	153,672
Treasury & Central Financing	(134,295)
Planned use of FR & Transf reserves	(3,300)
Application of c/f balances	(12,887)
Planned use of Capital Receipts	(3,190)
Grand Total	0

Appendix 2 Three-year MTFS

Narrative	2023/24	2024/25	2024/25
	£000's	£000's	£000's
Net Resources			
Council Tax LA Element 2.99% increase	(2,266)	(1,566)	(1,624)
Increase in the Council Tax Base @ 1.6% then 0.7%	(1,191)	(564)	(547)
Adult Social Care Precept 2% - not agreed beyond 2022/23 at this stage	(1,513)	(785)	(814)
Business Rates Position	(2,166)	(3,165)	(665)
Government Resources Position	(700)	(148)	(151)
Net Additional (Reduction) in resources	(7,836)	(6,227)	(3,802)
Inflation and other increases			
Pay award @ 4%	7,292	3,708	3,851
Fuel inflation	350	175	175
Waste Inflation	1,164	1,164	1,164
Energy Inflation	2,252	563	563
	11,058	5,610	5,753
Social Care Growth			
Adults	4,013	3,026	3,174
Children's	1,250	863	906
	5,263	3,889	4,080
2022/23 Budget Monitoring Pressures	8,090	0	0
Intervention Costs	2,000	0	0
	18,575	3,273	6,031
Other funding (not affecting baseline)			
Utilisation of Capital Receipts	3,300	0	0
Pension Deficit Adjustment	1,000	0	0
Use of reserves 2021/22	4,482	0	0
	8,782	0	0
Total Gross Budget Pressure	27,357	3,273	6,031
Savings Departmental			
Total Departmental Savings	(8,315)	2,578	(422)
Savings to be agreed by Members	(1,403)		
Savings for further consideration	(1,226)		
Core Budget Position (Surplus) / Deficit	16,413	5,851	5,609
Treasury			
Interest Costs	35,829	2,568	3,046

Investment Income	30,847	3,462	0
TRL	154	0	0
MRP on Capital	178	274	117
	67,008	6,303	3,163
Overall Budget Working Total	83,421	12,154	8,772
15. Prior years capitalisation			
MRP	22,619	9,219	1,224
Interest	3,385	5,111	1,002
	26,004	14,330	2,227
MRP on investments	74,956	(2,000)	(1,000)
Total Budget Variance	184,381	24,484	9,999

Appendix 3 MTFS assumptions

Summary	
Narrative	2023/24 £000's
	Current Approach
<u>Net Resources</u>	
CT increase	CT increase 2.99%
CT Base Increase	1.60% increase to CT Base
Adult Social Care Precept increase	ASC precept 2%
Business Rates Position	Additional income from growth £1.5m and £0.665m from increase in the multiplier
Government Resources Position	Core spending grants within LG finance settlement
<u>Inflation and other increases</u>	
Pay award	4% pay award and 1.8% adjustment for increments. Removed Health & Social Care NI Levy and employer NI at 13.8%
Fuel inflation	10% increase in prices compared to 22/23
Waste Inflation	10% inflation, increase for demographic growth (2.9% or 1.6% linked to CT base increase) and additional waste collection.
Energy Inflation	60% increase in prices compared to 22/23
<u>Social Care Growth</u>	
Social Care Growth - Adults	Uplift for care providers
	Application of estimated market sustainability funding
	Increasing demographic changes
	Transitional to adulthood for Children's social care service users
Social Care Growth - Children's	5% growth for Children social care placement prices and transport costs
2022/23 Budget Monitoring Pressures	22/23 budget pressures reported as per budget monitoring (see appendix 4)
<u>Other funding (not affecting baseline)</u>	
One off funding 22/23 - Capital Receipts	Removal of one-off funding in the base - use of capital receipts £3.3m
One off funding 22/23 - Reserves	Removal of one-off funding in the base - use of reserves £4.482m
<u>Savings</u>	
	Savings identified in 22/23 MTFS for 23/24

April 2022 Budget Review - Savings Agreed	2023/24 Identified operational savings £7.862m.
April 2022 Budget Review - To be considered by Members	2023/24 Savings subject to further review £1.843m excluding Business Rates Pooling of £2.5m
April 2022 Budget Review - Savings Agreed - digital and cross cutting	Savings identified in 22/23 MTFS for 23/24
<u>Treasury</u>	
Interest Costs	Loan refinancing at 4.75%
Investment Income	Loss of investment income – current known position
TRL	Net interest income based on loan for development costs for 2 schemes - Belmont Rd and Culver Centre
MRP	Provision applied to write down investment assets values over shortest period within relevant guidance.
Capitalisation Direction	Assumes full impact is spread over 20 years with interest costs on the borrowing arising (at 1% above PWLB base rate)

Appendix 4 Capital Programme

Summary of the 2022/23 General Fund Capital Programme		Approved Budget			Projected Outcome			CY Spend (Sep-22)	% Spend against CY Forecast
		2022/23	2023/24	2024/25	2022/23	2023/24	2024/25		
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Childrens Service		7,877	3,266	0	4,498	3,379	0	1,277	28.39
Adults; Housing and Health									
Community Development		1,245	500	0	845	900	0	0	0.00
Provider Services		215	0	0	215	0	0	0	0.00
Better Care		2,104	0	0	1,104	1,000	0	251	23.00
Housing General Fund		1,963	0	0	355	1,608	0	-4	-1.00
		5,527	500	0	2,519	3,508	0	247	9.81
Public Realm									
Highways Maintenance		21,269	3,668	170	21,257	3,680	170	3,644	17.14
Resident Services		1,498	825	0	1,498	825	0	187	12.00
Environment		5,137	62	62	4,862	337	62	2,586	53.00
Counter Fraud & Investigation		77	0	0	77	0	0	0	0.00
		27,981	4,555	232	27,694	4,842	232	6,417	23.17
Resources & Place Delivery									
Corporate Assets		4,453	0	0	3,703	750	0	462	12.48
Highways Major Projects		17,100	5,000	5,000	13,908	11,249	1,943	6,947	49.95
Regeneration Projects		18,697	287	444	9,997	8,987	444	1,187	11.87
		40,250	5,287	5,444	27,608	20,986	2,387	8,596	31.14
HR, OD and Transformation		7,735	160	160	6,988	840	93	1,805	25.83
Strategy; Engagement & Growth		279	0	0	279	0	0	107	38.35
Total Expenditure - General		89,649	13,768	5,836	69,586	33,555	2,712	18,449	26.51

Summary of the 2022/23 Housing Revenue Account Capital Programme		Approved Budget			Projected Outcome			CY Spend (Sep-22)	% Spend against CY Forecast
		2022/23	2023/24	2024/25	2022/23	2023/24	2024/25		
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Adults, Health and Housing									
Housing Development		3,130	22,476	132,925	3,130	22,476	132,925	69	
Transforming Homes		57,448	0	0	43,583	0	0	15,806	
Total Expenditure - HRA		60,578	22,476	132,925	46,713	22,476	132,925	15,875	33.98

Summary of the 2022/23 Housing Revenue Account Capital Programme, by scheme status	Project Status	Approved Budget			Projected Outcome			CY Spend (Sep-22)	% Spend against CY Forecast
		2022/23	2023/24	2024/25	2022/23	2023/24	2024/25		
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	
	<i>Work commenced</i>	54,364	720	0	40,499	720	0	11,638	
	<i>Scheme completed</i>	0	0	0	0	0	0	10	
	<i>Completed retention o/s</i>	178	0	0	178	0	0	-181	
	<i>Feasibility Stage</i>	1,872	21,756	132,925	1,872	21,756	132,925	244	
	<i>Demand led</i>	4,164	0	0	4,164	0	0	4,164	
Total Adults, Health and Housing - HRA		60,578	22,476	132,925	46,713	22,476	132,925	15,875	33.98

Appendix 5 Reserves

Reserve	Opening 2022/23	Use to Finance Base Budget	Used to Fund Specific Expenditure	Used to balance outturn position	Closing Balance
General Reserves					
BS300 - General Fund Balance	(11,000,000)	0	0	0	(11,000,000)
BS370 - Financial Resilience Reserve	(5,144,005)	3,144,005	0	2,000,000	0
BS369 - Transformation Reserve	(3,840,190)	155,995	0	3,684,196	0
BR013 - Treasury Equalisation Reserve	(1,906,804)	0	0	1,906,804	0
	(21,891,000)	3,300,000	0	7,591,000	(11,000,000)
Service Reserves	(9,881,098)	1,015,691	851,472	7,513,728	(500,206)
BS388 - Collection Fund	(14,707,821)	0	14,707,821	0	0
Ring Fenced or Third party funds	(10,898,862)	0	10,898,863	0	0
Major Projects / Member initiative					
BS372 - Local Plan Reserve	(1,113,387)	0	1,113,387	0	0
BS366 - Lower Thames Crossing (GF)	(466,138)	0	466,138	0	0
BS371 - Additional police Officers	(406,363)	0	406,363	0	0
	(1,985,888)	0	1,985,888	0	0
Needed to support savings generation					
BR002 - ASC - Libraries and Communities	(120,000)	0	120,000	0	0
BR011 - Resource and Place Delivery	(358,935)	0	190,434	0	(168,501)
BS378 - Environment Reserve	(264,921)	0	100,000	0	(164,921)
BS337 - Commuted Sums (GF)	(390,976)	0	0	0	(390,976)
	(1,134,832)	0	410,434	0	(724,398)
Total	(66,342,603)	4,315,691	34,697,579	15,104,728	(12,224,604)

Appendix 6 Dedicated Schools Budget

Dedicated Schools Grant

Appendix 6

1. Dedicated Schools Grant – Quarter 2 2022/23

1.1 The current projected outturn is a breakeven position as shown below:

DSG 2022/23	Funding Settlement	Academy Recoupment	Funding Block Transfer	Final DSG	Projected Outturn	Variance
	£m	£m	£m	£m	£m	£m
Schools	146.520	(140.961)	(0.700)	4.858	4.388	(0.470)
Central Services	1.688	0.000	0.000	1.688	1.646	(0.042)
High Needs	33.274	(6.500)	0.700	27.474	27.986	0.512
Early Years	12.880	0.000	0.000	12.880	12.880	0.000
Total	194.361	(147.461)	0.000	46.900	46.900	(0.000)

1.2 The outturn position reflects the following key areas:

- Schools Block – Pupil Growth, in line with projections, has an underspend of £0.470m.
- Central Services Block – Staffing underspends and maximisation of external funding.
- High Needs Block – An overspend of £0.512m. The overspend relates to post-16 funding and Out of Authority specialist placements.

1.3 The DSG has a carried forward deficit of £1.705m into 2022/23. No change to this is currently forecasted in 2022/23.

1.4 Thurrock with a DSG deficit of £1.705m, is part of the Delivering Better Value in SEND programme that aims to support LA's to improve delivery of SEND services for children and young people while ensuring services are sustainable. The programme will provide dedicated support and funding to 55 local authorities. It is expected that this will start in March 2023.

2. Dedicated Schools Grant 2023/24

2.1 In July, the Secretary of State for Education announced details of the provisional Dedicated Schools Grant (DSG) allocations for 2023/24.

The table below shows the provisional information received and includes the 2022/23 allocation for the Schools Block Growth fund and the Early Years Block. These amount along with the final DSG allocations, updated to reflect the Oct-22 School census, will be published in December 2022.

Dedicated Schools Grant	Funding	Provisional	Provisional
	Settlement	Settlement	Increase
	2022/23	2023/24	2023/24
	£m	£m	£m
Schools Block	146.520	154.321	7.801
Central School Services Block	1.688	1.617	(0.070)
High Needs Block	33.274	35.285	2.011
Early Years Block	12.880	12.880	0.000
Total	194.362	204.103	9.742

- 2.2 The key changes made by the ESFA to the National Funding Formula (NFF) in 2023/24 are:
- The schools supplementary grant 2022/23 has been rolled into 2023/24 funding formula baselines.
 - Increasing NFF factor values (on top of the amounts added for the schools supplementary grant) by:
 - 4.3% to FSM6 and income deprivation affecting children index (IDACI)
 - 2.4% to the basic entitlement, low prior attainment (LPA), FSM, English as an additional language (EAL), mobility, and sparsity factors, and the lump sum.
 - 0.5% to the floor and the minimum per pupil levels (MPPL). This will mean that, next year, every primary school will be allocated at least £4,405 per pupil, and every secondary school at least £5,715.
 - 0% on premises factors.
- 2.3 This means that the schools NFF is targeting a greater proportion of funding towards deprived pupils; 9.8% of the schools NFF will be allocated according to deprivation in 2023/24. In 2023/24, schools in the highest quartile of deprivation (measured by the percentage of pupils who have been eligible for free school meals over the past 6 years) will, on average, attract larger per-pupil funding increases than less deprived schools.
- 2.4 In 2023/24, each local authority will continue to set a local schools funding formula, in consultation with local schools. The ESFA have confirmed, 2023/24 will also be the first year of transition to the “direct” schools NFF. The NFF policy document published sets out the requirements on local authorities to move their formulae closer to the NFF:
- In 2023/24 LA’s will only be allowed to use NFF factors in their local formulae and must use all NFF factors.
 - LA’s will also be required to mover their local formula factors 10% closer to the NFF values, compared to where they were in 2022/23, unless local formula is classed as mirroring the NFF.
- Thurrock is within 2.5% of NFF values and deemed to be mirroring the NFF.
- 2.5 Thurrock’s funding formula will implement the following principles consistent with the decision made by Cabinet from 2020/21:

- National Funding Formula including Area Cost Adjustment values to be applied.
- Where this is unaffordable the Basic Entitlement value, to be included, will be reduced to contain within the funding available. The reduction to be applied will be weighted, consistent with the distribution of funding between Primary and Secondary.
- Growth fund to be retained to support sufficiency of school places.

These principles have been discussed with Schools on the 11 October and the Schools Forum on 17 November 2022.

3. Decision Required

- 3.1 Agree that Thurrock's 2023/24 Schools funding formula to be implemented as stated in 1.5 above. This being consistent with previous Cabinets decisions made since 2020/21.

Appendix 7 Flexible Use of Capital Receipts

Flexible Use of Capital Receipts Strategy

Executive Summary

In the 2022/23 Provisional Local Government Finance Settlement, Government announced:

“Extension of the flexibility to use capital receipts to fund transformation projects

We are announcing a 3-year extension from 2022-23 onwards of the existing flexibility for councils to use capital receipts to fund transformation projects that produce long-term savings or reduce the costs of service delivery”.

On 4 April 2022, the Department of Levelling Up, Housing, and Communities confirmed this extension and published Guidance and a Direction.

This strategy is intended to set out plans to apply the above flexibility in financial year 2022-23. This approach is considered in conjunction with the Medium-Term Financial Strategy and the draft Strategic Transformation Plan. A longer-term strategy will be developed following the outcome of the Best Value Inspection being led by Essex County Council.

The Council intends to use capital receipts to fund £3.190m of qualifying expenditure which supports planned transformation projects in 2022/23.

1. Background

The Direction issued by the Secretary of State under Sections 16(2)(b) of the Local Government Act specifies that Local Authorities can treat as capital expenditure, expenditure which:

“is incurred by the Authority that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners”.

“is properly incurred by the Authority for the financial years that begin on 1 April 2022 to 31 March 2023”

It is a condition of the Secretary of State’s direction that the flexible use of capital receipts in accordance with the direction only applies to capital receipts which have been received in the years to which the direction applies.

When applying the direction, Authorities are required to have regard to Guidance on Flexible Use of Capital Receipts issued by the Secretary of state under Section 15(1)(a) of the Act.

In using the flexibility, the Council will have due regard to the requirements of the Prudential Code and to the CIPFA Local Authority Accounting Code of Practice. The Council is also required to prepare a Flexible use of Capital Receipts Strategy before the start of the year to be approved by the Council.

The Council referred to a Use of Capital Receipts in its 2022/23 Budget Report, but has not, until now, prepared such a strategy.

In the future, a Flexible Use of Capital Receipts Strategy will be included within the budget report presented to Full Council in February each year.

2. Capital Receipts 2022/23

To date, the Council has £8.879m capital receipts in 2022/23 generated through a range of asset disposals and anticipates further substantial capital receipts in the remainder of the year.

3. Impact on Prudential Indicators

The guidance requires that the impact on the Council's Prudential Indicators should be considered when preparing a Flexible Use of Capital Receipts Strategy. As it is Council policy not to rely on capital receipts until they are realised, these capital receipts have not been factored into the Council's Capital Financing Requirement (CFR) by way of either reducing debt or financing capital expenditure. Consequently, the use of these receipts under this flexibility will have no effect on the Council's Prudential Indicators.

4. Transformation projects funded by capital receipts plan 2022/23

The General Fund Budget Proposals report presented to Full Council on 23 Feb 2022 includes the below plan under paragraph 6.33:

"As required under the terms of the flexibility offered the funding will be applied to transformational activity that generates ongoing savings to the Council. There is a planned use of £3m and this investment will be specifically allocated to support savings programmes that will address the funding gap in 2023/24."

Added to this is a further £0.190m as per appendix 2 Medium Term Financial Strategy included in the same report.

The below table sets out the 2022/23 savings targets for each directorate:

Directorate	Specific Directorate savings	Additional Cross-cutting savings	Total 2022/23 Directorate Savings
	£'000	£'000	£'000
Adults, Housing and Health	(2,264)	(117)	(2,381)
Children's Services	(2,859)	(140)	(2,999)
Housing General Fund	(1,495)	(24)	(1,520)
HR, OD and Transformation	(275)	(341)	(616)
Public Realm	(1,707)	(126)	(1,832)
Resources & Place Delivery	(1,963)	(945)	(2,908)
Strategy, Engagement & Growth	(355)	(94)	(449)
Wider Corporate Savings	(1,500)		(1,500)
Total	(12,418)	(1,787)	(14,206)

The Council intends to use capital receipts to fund works across the following key areas to implement and embed transformational changes required to achieve the £14.2m savings targets:

Work Stream	2022/23 Estimated Cost £'000
Asset Review	189
Digital	284
Access to Services	51

Strategic Planning	140
Direct Service transformation	2,526
	3,190

Costs have been identified in the form of staff time, additional external expertise, ICT development, one-off redundancy costs and other expenditure deemed appropriate to works required to achieve the ongoing savings proposals.

Asset Review

- *The Three R's* - Optimise the scale and use of Thurrock's real-estate through a **R**etain, **R**e-use or **R**elease strategy.

Digital

- *Digital Efficiency/Smarter Working* -To ensure that business functions are optimised digitally (using RPA where possible) and are efficient through challenging existing business processes and support activities relative to transactional activity.

Access to Services

- *Alternative Delivery Models* - To establish a mixed portfolio of provision, involving delivery models that operate across multiple services to deliver efficiencies, economies of scale whilst giving us the flexibility to innovate. This will include the Custer Services and Face to Face offer to residents.

Strategic Planning

- *Smarter Working* - To deliver our services more efficiently and in more innovative ways. This means considering the best place to work (the workspace), how we approach our work (the culture) and the equipment we use (the technology).
- *Culture Change Programme* - A programme of Organisational development that raises the awareness for the need to change and improve how we deliver our services to support our residents and businesses.

Direct Service Transformation

- A series of Service Improvement activities that are specifically local to a particular Directorate or business function:

Directorate	2022/23 Estimated cost £'000
Adults, Housing & Health	934
Children's Services	666
HROD	371
Public Realm	485
Resources & Place Delivery	70
	2,526

Key workstreams are set out below:

Adults, Housing & Health

- Better Care Together Thurrock: The Case for Further Change (Adult Integrated Care Strategy) - a collective plan for transforming, improving and integrating local services to improve the wellbeing of the borough's adults and older people.

Children's Services

- Review of Out of Hours Social Work service
- Review of Local Authority nursery provision
- Review of Social Care and Early Offer of Help
- Review of School Transport service

Human Resources, Organisational Development

- Centralisation of ICT services, roll out of MS365
- Staff reorganisation and streamlining of support services

Public Realm

- Waste strategy – route optimisation, vehicle capacity/efficiency, recalibration of waste collection service
- New income streams for commercial work to external customers
- CCTV/The Hub -

Resources & Place Delivery

- Business Development & Innovation team - SLA Online portal and services to schools and external clients
- Corporate finance – Beyond Forecasting Tool implementation and training for budget holders

5. Monitoring the Strategy

The Strategy will be monitored throughout the financial year as part of regular budget monitoring arrangements and be reported accordingly as part of the current quarterly budget monitoring reports to Directors.

The Strategy may be updated and replaced as proposals are developed and expenditure is incurred. The legitimacy of the use of the Strategy will be determined by the Council's s151 Officer in order to ensure that it meets the requirements set out by the Secretary of State.