12 December 2018	ITEM: 14 Decision: 110491
Cabinet	
Quarter 2 Financial Report	
Wards and communities affected: All	**Key Decision:** Key
Report of: Councillor Shane Hebb, Deputy Leader and Cabinet Member for Finance	
Accountable Assistant Director: Jonathan Wilson, AD Finance, Corporate Finance	
Accountable Director: Sean Clark, Director of Finance and IT	
This report is public	

Executive Summary

This report presents the forecast outturn position for revenue budgets, the updated medium term financial strategy and the quarter 2 positions for both treasury management and the capital programme.

Revenue Position – 2018/19 Quarter 2

Current projections indicate a General Fund service pressure of £0.500m that must be managed in order to outturn within budget by the 31 March 2019. Identified pressures include Children's Social Care and Environment, primarily due to increasing waste disposal costs. Whilst this forecast shows a projected deficit, officers are confident that continuing action will keep the budget within the agreed budget envelope and maintain the budgeted surplus of £2.488m for allocation to new and enhanced services that is also included within this report.

The DSG is forecasting pressures within the High Needs Block but steps are being taken to review the position within the DSG with the service and the Schools Forum in order to address these pressures. The HRA is forecasting a breakeven position.

Medium Term Financial Strategy – Update 2018/19 Quarter 2

The report sets out identified changes to the MTFS reflecting a range of factors including expected inflation costs, changes in service demand, savings targets and changes to the Council's funding.

Treasury Management – 2018/19 Quarter 2

In accordance with the Revised CIPFA Prudential Code, this report:

(a) reviews the borrowing and investment activity as at 30 September 2018; and

(b) reports on the forecast treasury outturn position for 2018/19.

The report also confirms that the council is within the prudential indicators as agreed by Council in February 2018 and continues to contribute, through both reduced costs and increased income, towards the council's objective of financial sustainability.

Capital Position – 2018/19 Quarter 2

The General Fund capital programme is projected to have available resources of £5.485m as at 31 March 2019 with this funding carried forward to 2019/20 to fund schemes currently in progress. In addition, there is a further £54.271m in the approved programme that is under development and/or dependent on third party actions.

The Housing Revenue Account capital programme is projected to come in within budget.

Recommendations:

1. **That Cabinet note the revenue forecast outturn position for 2018/19 and that further mitigation is required to outturn within the agreed budget envelope;**

2. **That Cabinet note the updates to the Medium Term Financial Strategy;**

3. **That Cabinet consider the additional funding bids;**

4. **Note the results of Treasury Management activities undertaken in the first half of 2018/19; and**

5. **That Cabinet note the capital forecast outturn position and the overall position on the approved programme.**

<u>Revenue Position</u>

1. Introduction and Background

1.1 In February 2018, the Council agreed the 2018/19 budget as part of a four year balanced MTFS. This follows a move towards commercialism, greater efficiencies and a wider investment approach. The budget includes savings of £2.594m which were identified as part of the Council Spending Review through the Strategic and Transformation Board process.

1.2 The report sets out the latest forecast outturn position for 2018/19 across the main revenue accounts - the General Fund, Housing Revenue Account, Dedicated Schools Grant and Public Health grant.

2. General Fund Position

Directorate	Full Year Budget £000	Forecast September £000	Variance From Budget £000
Adults, Housing & Health	38,705	38,689	(16)
Housing General Fund	733	1,103	370
Children's Services	36,088	36,535	447
Environment & Highways	26,049	26,447	398
Place	9,814	9,833	19
Finance, IT & Legal	10,901	10,858	(43)
HROD	4,297	4,196	(101)
Strategy, Comms & Customer Services	2,723	2,535	(188)
Commercial Services	683	671	(12)
Corporate Costs	(15,036)	(15,410)	(374)
Total	**114,957**	**115,457**	**500**

Adults, Housing & Health - £0.016m underspend

2.1 The Adult Social Care forecast position reflects the funding raised through the Adult Social Care Council Tax precept, the 2018/19 Adult Social Care support grant, and the allocation of Improved Better Care Fund (BCF) monies. The position should be viewed in the context of well publicised demand pressures across the Adult Social Care sector nationally, and the ongoing financial pressures within the Directorate. There is a degree of uncertainty around future funding and the delayed publication of the Government's Green Paper for Adult Social Care further compounds this.

2.2 One of the major contributing factors to the issues faced is the fragility of the domiciliary care market. Through the BCF extra resources have been allocated to this area to strengthen both the in-house provision and to support the external market. Thurrock is in the process of reallocating care hours to a number of providers following a large scale retendering process. One of the successful providers has already identified issues with recruitment and retention of staff and this is delaying the transfer of care hours. This has been reflected in the forecast position and will be monitored over the coming months.

2.3 Demand for residential and nursing home placements (especially for those with Learning Disabilities, autism and challenging behaviours) adds additional budget pressures. This is a very volatile area of the budget and deals with a cohort of people with varying levels of complex needs. The directorate follows a process in which early identification of transitional cases from Children's Social Care is vital in being able to effectively plan appropriate care packages and fully understand the budgetary effect.

2.4 Income towards all placements continues to be a potential budget risk due to the constant reassessment of clients' financial situations and their ability to contribute towards their care packages. This continues to be closely monitored.

2.5 Adult Social Care are able to mitigate these identified pressures in 2018/19 by utilising £0.408m of the Adult Social Care support grant and through close working with Health colleagues to allocate £0.974m of Improved Better Care Funding. Levels of demand and the complexity of cases remain the key issues. Previous trends indicate that there will be additional pressures during the winter period. Additional in year funding of £0.654m for winter pressures has recently been announced in the Budget and will go through the BCF to increase capacity and resilience within our own services and our commissioned providers.

2.6 There is currently a forecast underspend of £0.247m in the pooled 2018/19 BCF. It will be through a collaborative decision making process between Adult Social Care and Thurrock CCG to determine the allocation of these funds and to meet the key objective of Central Government to reduce delayed transfers of care from hospitals. Any underspend in the pooled budget at the end of the year will be placed into an earmarked reserve and carried forward to 2019/20 and allocated in the most effective way to reduce identified pressures across both Health and Social Care services.

Housing General Fund - £0.370m overspend

2.7 The service forecasts an overspend of £0.370m which is an adverse movement of £0.150m compared to the position reported at the end of Q1. The key cause of this is homelessness.

Homelessness

2.8 The implementation of the Homelessness Reduction Act in April 2018 has brought about significant changes to the delivery of homeless services by the Housing Solutions Team. The requirement to provide homelessness services to everyone who is 'eligible' and 'homeless', regardless of 'priority need' and 'intentional homelessness' has resulted in significantly more people being provided with assistance. The increase in demand, and the wider changes the implementation of the Act has brought about, necessitates a rethink of the previous service delivery model to ensure there are sufficient front line resources and housing options to support the prevention agenda and minimise the need to place customers into costly temporary accommodation. The current cost pressures and projected overspend is £0.300m for the year 2018/19.

2.9 From June to September the overall number of Households in Temporary Accommodation fell by 11 to 126 with no households in Bed and Breakfast.

2.10 There is continual work to reduce the use of nightly let private sector accommodation which is the most costly form of Temporary Accommodation. The service is seeking alternative cheaper accommodation to mitigate the forecast overspend position as well as working towards permanent recruitment of staff and team managers to stabilise the workforce and reduce spend on agency staff.

2.11 Approaches to Thurrock Housing Solutions service from those threatened with homelessness have increased since implementation of the Homeless Reduction Act. For the first 6 months of 2018/19 there were 796 approaches (compared with 669 in the previous year). If the trend continues we are likely to complete 2018/19 with 1,592 applications, a 14% increase from the previous year. In addition, as the new 'prevention' and 'relief' duties apply for 56 days, applicants are being assisted for a longer period and there is a requirement to regularly review each case.

2.12 With the significant increase in numbers of households to whom we have a duty the council is increasingly using the private rented sector for both temporary and permanent accommodation. The council works with private sector landlords to ensure that any accommodation they provide is safe, suitable and secure. This includes providing financial assistance that would have been offered to the homeless applicant direct to the landlord. This is usually in the form of rent deposit and rent guarantees. In addition the council encourages landlords to offer longer term tenancy agreements.

2.13 In anticipation for the increased pressures, there has been temporary recruitment of two additional officers during 2018/19 one of whom is tasked with conducting home visits as a means of preventing homelessness for applicants who present as a result of friends and family exclusion. This has also enabled further development of the service offer particularly in relation to early discussion on housing options and preventative activities with applicants prior to their exclusion.

Children's Services – £0.447m overspend

2.14 The service continues to operate in a complex environment, where there is an underlying growth in demand. Projections at the end of September indicate a net Directorate pressure of £0.447m after mitigating action. Further work is ongoing to identify possible ways of bringing the position in on budget by the end of the year. The most significant financial pressures are within social care and schools transport. There remains significant inherent risk in placement budgets, managing the cost of agency staff and achieving the proposed mitigation.

2.15 The summary position before mitigation is applied is as follows:

Service	**Variance**
	£'000
Children and Family Services	766
Learning & Universal Outcomes	(517)
Central Administration Support and Other	(13)
School Transport	410
Total	**646**

2.16 The most significant pressures within social care relate to agency staff, aftercare placements, adoption and fostering:

High Risk Area	**Variance**
	£'000
Employees	1,029
Aftercare	115
Therapeutic Foster Care	239

Adoption & Permanence	277
Disabled Children	203
Total	**1,863**

2.17 The most significant variance is in employee spend. The ongoing initiative to replace agency workers with permanent staff continues to progress and a new initiative to provide additional support for social workers in the first year of practice has been implemented. This will further improve the position in relation to agency social workers. The department has also been successful in recruiting permanent managers to frontline social work positions.

2.18 Spend on adoption and fostering payments and special guardianship orders continues to be above budget. A thorough review of payments in underway and this is expected to improve the forecast for the second half of the year.

2.19 Placement budgets continue to be closely monitored with particular scrutiny of high cost placements. This is a volatile area which can be impacted by a single very high cost complex need case. One such case came in September, however this has been managed within the existing forecast. Regular review of placements will continue to ensure better value and more appropriate placements for young people.

2.20 School transport forecasts are based on current awards across the academic year. Work continues to manage the award of transport such as adding additional authorisation and providing training for staff. The position will be reviewed in October following the start of the new academic year. It is anticipated that further savings will be realised through a re-procurement of existing transport routes.

2.21 The following mitigation has been identified to address the forecast overspend. This is primarily through the actions identified within the service review. None of the items are guaranteed and will require ongoing commitment to achieve. Even in delivering the items below, there still remains a net overspend of £0.447m that needs to be addressed.

Mitigating Action	**£'000**
Review SGO and Fostering Payments	(35)
Service Review – ASYE 2 for 1	(85)
Service Review – Head Start Housing	(19)
Service Review – Transport assessments	(60)
Total	**(199)**
Mitigation Required	**646**
Net Pressure	**447**

2.22 The position includes one-off income expected through the delivery of the Troubled Families recovery plan through successful attachment and payment-by-results outcomes. There continues to be risk in securing all required attachments and sufficiently evidencing outcomes and current performance is behind profile. The position continues to be closely monitored through the Brighter Futures Board. It should be noted that this is not an ongoing revenue stream.

2.23 Ongoing review of Aftercare placements continues to ensure placements are in cost effective accommodation and young people are transferred into appropriate accommodation when they reach 18 years of age. Ensuring that available grant and Housing Benefit claims are completed should improve the position.

2.24 The ongoing service review of children's social care and transport has identified options for in-year savings. This has been included in the mitigating action above. Business cases were agreed at Directors Board in September.

Environment & Highways - £0.398m overspend

2.25 The Directorate is currently forecasting an overspend position of £0.398m after mitigation. Budget challenge sessions have been held with all budget holders and will support mitigation in the second half of the year. Communications have been circulated instructing managers to reduce non-essential spend and identify further mitigation.

2.26 The main pressures and risks are outlined below. The most significant risk is the waste disposal position. In year increases in waste tonnages and quarterly changes to contract prices would impact the reported position.

2.27 There has been strong performance against the Directorates external income position with trade waste and enforcement ahead of profile. The most significant pressures being managed by the service are set out below.

Service Area	**Variance £'000**
Waste Disposal	268
Waste Collection	310
Depot Management	215
Trade Waste Income	(232)
Enforcement Income	(215)
Other Net Pressures	52
Total	**398**

2.28 Following the agreement of the waste disposal budgets for 2018/19, there were contract variations which meant that the forecast spend for recycling had increased substantially for quarter 1 resulting in a pressure of £0.268m. The fees in these contracts are determined relative to market values which are published independently. As rates are recalculated quarterly, this pressure could increase.

2.29 Waste Collection pressure of £0.310m relates to agency staff and fuel. Work is ongoing to address performance issues in the service and review conversion of agency staff to permanent. An additional unbudgeted round is currently operating and management are considering all options available to improve the service being provided within the budget allocation.

2.30 Depot Management pressure of £0.215m is forecast. This relates to cost pressures relating to the running of the Oliver Close depot.

2.31 There are further risks that need to be monitored over the course of the year which include the items below: Contract variations could mean a risk to other waste disposal budgets contracts – although these are expected to be much less volatile:

- The pressure on the winter maintenance budgets in 2018/19 will depend on the severity of the winter;

- The forecast for fly-tipping is difficult to predict – however trends for different types of fly tips (specialist, industrial, household and cars, caravans and trailers) will be captured using new project codes in this area which will separate out the costs of clearing different kinds of fly tips;

- There is a risk regarding capital recharging of staff time. This is based on the amount of time individual members of staff spend working on capital schemes. There is a risk that not enough time is able to be capitalised in order to meet the budgeted recharge levels; and

- Highways spend is also difficult to predict against the reactive budgets earlier in the year.

Place - £0.019m overspend

2.32 The Place directorate is forecasting a small overspend, however, there are some areas of risk as set out below.

2.33 The Corporate Landlord budgets are forecast to overspend by £0.243m by year end. This is currently being offset by an underspend in Assets & Facilities. However, it is expected that several vacancies in the Property & Development service will be recruited to this financial year and it is estimated that, if this were to happen, this would create a pressure of up to £0.150m. Additional work is ongoing to challenge the Corporate Landlord forecast to establish if any of this recruitment can be undertaken.

2.34 There is more clarity around the Planning Performance Agreement (PPA) with Highways England regarding the Lower Thames Crossing. However this has not yet been confirmed and the funding implications going forwards will be reviewed in due course.

2.35 Additional funding will be required in future years in respect of the Lower Thames Crossing. This is to resource the Council's role in engaging and influencing the Development Consent Order process. We are waiting for programme information from Highways England in order to be able to plan what that resource and potential cost may look like but this report seeks further allocations from projected budget surpluses.

Finance, IT & Legal - £0.043m underspend

2.36 The Directorate is forecasting a small underspend primarily due to employee savings across a number of services. Service Review savings have been implemented and consequently the ICT budget has been reduced by £0.526m in line with agreed target.

2.37 There is a pressure against insurance budgets due to the ongoing academisation of schools and hence fewer buying onto the service. The main risk to the Directorate position is achieving the Counter Fraud income target.

HROD – £0.101m underspend

2.38 The Directorate is currently forecasting a small underspend with no major variances to report.

Strategy, Communications & Customer Services – £0.188m underspend

2.39 The Directorate is forecasting an underspend in Customer Services mainly within employee budgets.

Commercial Services – £0.012m underspend

2.40 The Directorate is currently forecasting a small underspend with no major variances to report.

Corporate Costs - £0.374m underspend

2.41 This budget covers a number of corporate expenditure items including treasury management costs (interest paid on loans and received from investments), the annual contribution to the Essex Pension Fund to meet the current actuarial deficit and the allocation for the Minimum Revenue Provision. The underspend follows an improved Treasury forecast which also offsets pressures including that associated with no recourse to public funds.

2.42 Allocation of the £0.930m service review target continues as the ongoing service review's progress. The main reviews being undertaken this year are Children's Social Care, Transport, ICT, Business Resource and Planning. The majority of the target is to be achieved this year within ICT (£0.526m) and Planning (£0.077m), supported by in-year mitigation as reported within the Children's position.

2.43 Completion of the Children's and Transport reviews this year are expected to deliver savings against the 2019/20 service review target.

3 Housing Revenue Account

	Full Year Budget £'000	**Forecast £'000**	**Variance from Budget £'000**
Repairs and Maintenance	11,798	11,995	197
Housing Operations	11,605	11,619	14
Financing and Recharges	24,315	24,211	(104)
Rent and Income	(48,077)	(48,184)	(107)
Development	359	359	0
Total	**0**	**0**	**0**

3.1 The Housing Revenue Account (HRA) budget was set at a breakeven budget at the February 2018 Cabinet. The September 2018 monitor is forecasting a breakeven position overall with some small variances being reported within the different areas.

There are a number of risks that we are closely monitoring and factoring into spending plans.

3.2 In line with Government Policy the Council has applied a 1% rent decrease over the last 3 financial years with a further 1% reduction required in 2019/20. This has withdrawn resources available for capital investment.

3.3 The proposed Grounds Maintenance charge was not introduced in 2017/18 after initially being agreed by Cabinet which has also reduced the resources available in the HRA. Grounds Maintenance accounts for £1.3m of expenditure in the HRA annually with Leaseholders making a small contribution. By not charging tenants for all of the services provided to them, the rents of all tenants are subsidising the costs and the resources in the HRA for capital investment are not being maximised. Consideration needs to be given to introducing a grounds maintenance charge to reflect the actual costs of providing the service. This could be phased in over a short period of time.

4 Public Health

4.1 The 2018/19 allocation of the Public Health Grant was subject to a 2.5% reduction which equated to £0.291m. The 2018/19 grant has been allocated against ongoing contracts and existing staffing commitments. The Public Health Team have identified a number of new initiatives within the conditions of the grant with the intention to invest in GP practises to deliver improved services and better outcomes for the people of Thurrock. The progress of these pilots will be closely monitored throughout the year. Any underspend will be placed into an earmarked reserve and reallocated in 2019/20 to ease budget pressures that have been identified as a result of a further indicative reduction of 2.6% which equates to £0.292m.

Public Health	**£'000**
2018/19 grant allocation	(11,042)
2017/18 carry forward	(377)
Estimated 2018/19 spend	10,985
Funding committed to 2019/20 programme	**(434)**

5 Dedicated Schools Grant (DSG)

5.1 The revised allocation for 2018/19 remains at £49.773m. Current projections indicate pressures of £3.122m:

	Funding Settlement £'000	**Academy Recoupment £'000**	**Total £'000**	**Forecast £'000**	**Variance £'000**
Schools	115,973	(96,533)	19,440	19,590	150
Central Services	2,038	0	2,038	1,968	(70)
High Needs	22,141	(5,414)	16,727	19,801	3,074
Early Years	11,568	0	11,568	11,536	(32)
Total	**151,721**	**(101,947)**	**49,773**	**52,895**	**3,122**

5.2 At Period 6 the following pressures for 2018/19 are forecast:

Schools Block - £0.150m overspend

5.3 The budget available to support pupil growth in 2018/19 is £1.47m. Initial projections indicate a funding requirement of £1.62m and hence an overspend of £0.150m. This reflects the growth in pupil numbers being experienced within Thurrock schools. This will continue to be monitored and updated. DfE are to introduce a new formula for 2019/20, guidance was released in July 2018 but funding allocations for 2019/20 will not be known until December 2018. At this stage it is expected that this is a one off problem and will be addressed ongoing as part of the Schools Block funding allocation.

Central Services Block - £0.070m underspend

5.4 The projected underspend has arisen primarily on salaries. This will be utilised to support the High Need Block Pressure.

Early Years Block - £0.032m underspend

5.5 The budget available from the DfE is based on January 2018 census information. This will be updated in July 2019 when the outcome of the January 2019 census is available. The current underspend has arisen on salaries from the retained 5% budget. It is expected the underspend at outturn will increase once take up is confirmed at year end. This funding block underspend will be carried forward and utilised in 2019/20 to increase hourly rates paid to early years providers.

High Needs Block - £3.074m overspend

5.6 The outturn position for 2017/18 was an overspend of £3.2m. Initial projections indicate a pressure of £3.074m. This can be broken down into two key areas:

- Home to School Transport £1.244; and
- Education Health and Care Plans - Top Up Values paid to Schools and Academies £1.830m.

5.7 The projected outturn has been mitigated by decisions made by the Schools Forum:

- Transfer from Schools Block - £0.5m. The Secretary of State in February 2018, as part of the disapplication process approved the transfer of £1.8m from Schools Block to support the 2016/17 deficit of £1.3m and a further £0.5m to support 2018/19 high need pressures; and
- September 2018 – Reduction in hourly rate for EHCP from £11.85 to £10. A projected saving of £0.360m.

5.8 The review of the DSG High Needs budgets and expenditure is ongoing. The Schools Forum has provisionally agreed to the transfer of £1.8m from Schools Block again in 2019/20 to support high need pressures. Cabinet are also asked through this report (paragraph 11.7) to make a one off contribution of £0.5m towards the deficit.

5.9 The DSG has a carried forward deficit of £2.7m from 2017/18. This, along with the projected overspend in 2018/19, will need to be considered as part of the budget setting process for 2019/20. Home to School Transport costs is a key consideration for discussion.

6 Dedicated Schools Grant Review

6.1 As part of the review of the DSG, a number of initiatives have been actioned to improve compliance with regulations and develop mitigation to address pressures and enable a sustainable funding position going forwards. These include:

Schools Block

6.2 A consultation exercise is underway to consider changes to Thurrock Local Funding Formula to align more closely to the National Funding Formula. The Consultation ended on Wednesday 31st October 2018. The Schools Forum at its meeting on the 15th November will consider the outcome of the consultation and make a recommendation to Thurrock Council for approval to be implemented from 2019/20.

Central Schools Services Block.

6.3 A review has been undertaken of all expenditure ongoing to ensure compliance with regulations and to ensure value for money is achieved.

Early Years Block

6.4 An increase to the hourly rate to Providers was approved in April. This increased the hourly rate to £4.18 for 3 & 4 year olds and £5.07 for the 2 year old offer. A review of the formula will be undertaken in late 2018 for implementation from April 2019. A key consideration is to target funding using deprivation indicators. The Early Years SEN hourly top up rate have been increased to £10 from September 2018 to align with the rate paid to Schools and Academies.

High Needs Block

6.5 The previous approach considered by Schools in April around an in-year solution has been updated as follows:

- The Top Up Hourly Rate will decrease from £11.85 to £10.00 from April 2018;
- Further, individual discussions, will take place with Special Schools, Resources Provisions and Alternative Provisions around a full -1.5% Minimum Funding Guarantee reduction to be applied to 2018/19 funding allocations; and
- School Funding 2019/20 will allow the same level of top slice from the Schools Block subject to Schools' Forum approval.

6.6 There continues to be a review of all expenditure ongoing to ensure compliance with regulations and to ensure value for money is achieved. A key area that requires further investigation is Home to School Transport.

6.7 Officers are currently discussing Resources Provisions and Alternative Provisions with Special Schools, as well as the commissioning intentions of Thurrock for 2019/20 and the funding rated to be applied.

6.8 Work will continue to deliver affordable solutions within the funding available.

7 External Income

Fees & Charges	Budget £'000	Forecast £'000	Variance £'000
Adults	(1,521)	(1,489)	31
Children's	(1,168)	(1,035)	133
Environment & Highways	(2,311)	(2,627)	(316)
Housing GF	(413)	(413)	0
Finance, IT & Legal	(25)	(70)	(45)
Place	(2,845)	(2,968)	(123)
Total	**(8,282)**	**(8,602)**	**(320)**

Traded	Budget £'000	Forecast £'000	Variance £'000
Children's	(3,737)	(3,711)	26
Environment & Highways	(341)	(603)	(262)
Finance, IT & Legal	(1,336)	(1,166)	170
HROD	(284)	(362)	(78)
SCCS	(205)	(195)	10
Place	(34)	(4)	30
Total	**(5,937)**	**(6,041)**	**(104)**

7.1 As at the end of September 2018, the full year forecast for external income is a surplus of £0.424m across both fees and charges and traded income streams.

7.2 Children's – pressure of £0.133m within fees and charges due to lower income expectations within Grangewaters and Nurseries. Both services have breakeven budgets and are forecasting a corresponding reduction in spend to deliver within budget.

7.3 Environment & Highways – surplus of £0.316m within fees and charges primarily within Enforcement. The traded surplus of £0.262m is mainly due to strong performance within the trade waste service. Both surpluses are within the Directorate forecast and contributing to managing wider service pressures.

7.4 Finance, IT & Legal – pressure of £0.170m in traded income is partly due to the ongoing academisation of schools and hence fewer buying into the service, mainly within Insurance and financial services, and pressure on delivering the Counter Fraud income target.

7.5 Place – surplus of £0.123m due primarily to strong performance in the Theatre and Public Protection.

Medium Term Financial Strategy Update

8 Background

8.1 As part of the Council's statutory objectives, the attached Medium Term Financial Strategy (MTFS) sets out the draft financial position for the next 5 years.

8.2 The previous published MTFS was presented to Cabinet in February 2018, and this updated version incorporates the projected financial position for 2019/20 as well as additional information and projections. The full version is included at Appendix 3 and a summary of the changes is included in the table below.

8.3 As illustrated within this table the overall financial projection of surplus funding is more favourable than the previous draft in Feb 2018, for the financial period 2019/20 to 2021/22. This is largely due to an improved treasury position as a result of investment targets being surpassed and sustained lower rates of borrowing. The flexibility, liquidity and investment opportunities that have, and continue to be identified, have allowed the target to be increased.

8.4 Essential operational, economic and demographic pressures have been addressed as part of the revised strategy to ensure that the fundamental resources required to deliver core and statutory services have been included. The allocation of the 2018/19 surplus requires confirmation and consideration of proposals by both members and officers is required. Addressing some of these identified pressures will support a more robust budget setting process going forwards.

9 Key information

9.1 There are eight key headings within the MTFS which capture the elements required for the formulation of an accurate and sustainable budget. These are:

1. Local Funding (council tax and business rates);
2. Government resources (Non-service specific central government grants);
3. Inflation and other increases (pay and contract inflation);
4. Pressures in the 2018/19 which will continue into subsequent financial years;
5. Treasury investments and borrowing;
6. Demographic and Economic pressures;
7. Service design principals and savings agreed by strategic boards; and
8. Carry forward position from previous years.

These items have been considered and the updated position is shown in the table below:

MTFS Summary of Position and Changes

Narrative	2019/20 Feb-18	Nov-18	Change	2020/21 Feb-18	Nov-18	Change	2021/22 Feb-18	Nov-18	Change	2022/23 Feb-18	Nov-18	Change	2023/24 Feb-18	Nov-18	Change
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net Additional (Reduction) in resources	1,420	1,474	55	(1,737)	(1,848)	(111)	(1,329)	(1,730)	(400)	(2,184)	(2,178)	6	(1,987)	(1,992)	(5)
Inflation and other increases	2,623	3,895	1,272	2,587	2,958	371	2,600	3,081	481	2,600	3,210	610	3,337	3,345	8
Treasury and Capital Financing	(5,747)	(11,478)	(5,731)	(2,517)	(2,178)	339	126	(336)	(462)	1,025	(1,224)	(2,249)	8,000	365	(7,635)
Demographic and Economic Pressures	2,500	3,000	500	2,500	2,200	(300)	3,500	2,200	(1,300)	3,500	2,200	(1,300)	3,500	2,200	(1,300)
Services Design	(2,226)	(2,226)	0	(900)	(900)	0	(1,000)	(1,000)	0	(1,000)	(1,000)	0	0	0	0
Position before carry forward	(1,431)	(5,335)	(3,904)	(67)	232	299	3,897	2,215	(1,681)	3,941	1,008	(2,933)	12,849	3,918	(8,932)
C/f Position	(2,488)	(2,488)	0	(3,918)	(7,822)	(3,904)	(3,985)	(7,590)	(3,605)	(89)	(5,375)	(5,287)	0	(4,367)	(4,367)
Working Total	**(3,918)**	**(7,822)**	**(3,904)**	**(3,985)**	**(7,590)**	**(3,605)**	**(89)**	**(5,375)**	**(5,287)**	**3,852**	**(4,367)**	**(8,220)**	**12,849**	**(450)**	**(13,299)**

10 Key Assumptions

The key assumptions included in the formulation of the revised MTFS are:

10.1 Local Funding

The MTFS has been compiled on the previously agreed assumption that there will be a 2.99% increase in Council Tax in 2019/20. This generates income of £1.885m and, more importantly, increases the base as local authorities move towards 100% of funding needed to be raised locally.

Beyond 2019/20, the assumption is that there will be a 1.99% increase in line with current government direction.

Members should also note that government will assume increases in line with their expectation when carrying out the Comprehensive Spending Review in 2019 that will set local authority funding for an expected further period of four years.

10.2 Central Government funding

The forthcoming financial year 2019/20 is the last year of the four year Local Government financial settlement. As a result, we are able to project with some certainty the expected reductions in RSG and other central government grants.

10.3 Inflation and other increases

There are two significant changes from the previously published MTFS. They are:

- An additional £1m has been incorporated in the MTFS to fund the initial cost of the pay review; and
- Inflation in relation to waste contracts and utilities, fuel and oil has been increased from 5% to 7.5% to reflect current and future pressures identified in 2018/19.

10.4 Treasury Management

The projected position has improved by circa £2m compared to the MTFS published in February 2018.

10.5 Demographic and Economic pressures

This item is to ensure that growth is built into the budget to address inevitable pressures that will arise during the financial year. This includes items identified from the 2018/19 budget monitoring report to Cabinet and include pressures relating to:

- Housing General Fund;
- No Recourse to Public Funds (NRPF) – the council incurs a cost when a family has arrived in the UK with no legal right to access government support. The council retains a statutory duty to support children (and hence the family) where this situation arises.
- Environment & Highways – additional budget support for areas such as fly tipping and security at the Household Waste and Recycling Centre.

10.6 **Service Design Principals and Strategic Boards**

The Council has a number of boards in place to review opportunities to review and improve the efficiency of services.

10.7 **Carry forward position**

The carry forward for 2018/19 of £2.488m is as reported in the February 2018 MTFS. The projected carry forwards for the 2 subsequent years are £7.822m and £7.590m respectively.

The allocation of the carry forwards remains to be confirmed for the period and consideration needs to be given to the proposals as set out below:

10.7.1 Items Proposed at Full Council in February 2018:

	2018/19 £'000
Adult Social Care	100
CAB	50
Target Hardening	300
Local Plan	250
Fly Tipping	450

10.7.2 Further items proposed for consideration subsequently are:

	2018/19 £000s	**2019/20 £000s**	**2020/21 £000s**	**Ref**
Environmental Protection Measures	1,000			**A**
Outcomes – Mental Health/Debt Summits	500			**B**
ASB (inc additional Police Officers)	750			**C**
Schools DSG High Needs Pressure	500			**D**
Lower Thames Crossing	100	390		**E**
Local Plan		100		**F**
Corporate Landlord Responsibilities		250		**G**
High House Production Park - Funding to promote/champion the site.	25	100	75	**H**

Further details for the items above are:

A: Measures include addressing fly tipping, target hardening and wider environmental protection measures;

B: These include local initiatives arising from the recent summits;

C: Funding to tackle anti-social behaviour in the borough including the planned funding of additional Police Officers;

D: This is a Council contribution to assist in relieving the financial pressures arising from the funding of pupils with higher needs requirements;

E: Further funding expected to be required to support the council's response to the Lower Thames Crossing proposals;

F: The Local Plan is expected to require additional consultation;

G: Further funding request to ensure council property meets required standards; and

H: Funding to promote and champion the HHPP site.

Treasury Management – 2018/19 Quarter 2 Update

This section is prepared in accordance with the requirements of the CIPFA Prudential Code and presents details of treasury management activity for the 6 months to 30 September 2018.

11 Introduction and Background

11.1 **Borrowing**

The Council's borrowing position as at 30 September 2018 is summarised in the table below:-

Source of Loan	£m
Long Term Market Loans	30.4
Long Term Market Loans re Investments	50.0
Long Term PWLB	160.9
Temporary Market Loans Re Investments	585.0
Other Temporary Market Loans	214.0
Total Debt	**1,040.3**
Total Investments	(745.5)
Total Net Indebtedness	**294.8**

11.2 The net indebtedness (borrowing less investments) of the council is £294.8m, made up of £160.9m of PWLB long term debt relating to the HRA and £133.9m of long and short term debt relating to historic capital funding.

11.3 The Council continues to fund the £84.0m ex-PWLB debt on a temporary basis. Interest rates rose by 0.25% in August 2018 and current interest rate projections show a central projected case of 0.75% to March 2019, 1% to June 2019 then 1.25% through to December 2021. There is an upside risk of 0.25% throughout the forecast, but, a downside risk of 0.50% to June 2019 increasing to a 0.75% downside risk thereafter, mainly due to possible concerns surrounding Brexit .

11.4 This forecast would suggest that further interest savings should still be accrued for future years compared with the costs of borrowing longer term debt. However predictions for the bank base rate are open to change depending on government responses to market events and developments and continue to be closely monitored by officers with appropriate action taken as necessary. The bank base rate, whilst indicating a direction of travel, does not fully impact on the council's borrowing that is largely through other public sector bodies.

11.5 The council's PWLB debt portfolio currently consists solely of loans taken out with regards to the HRA settlement undertaken on 28 March 2012 and are now eligible for rescheduling. The loans were borrowed at one-off preferential rates made available specifically for the settlement. PWLB redemption rates have fallen and these loans would now incur a premium. The refinancing of these loans would now be at a lower level, the original loans were taken over an average of 47.5 years at an average rate of 3.49%, current rates in the 42.5 year period would equate to 2.57%. However, these savings are not significant enough to outweigh the significant cost of the redemption premiums of approximately £40m.

11.6 Officers have also assessed the council's LOBO loans for any early repayment opportunities but the premia involved of approximately £29m and the high refinancing costs again make it unfavourable to currently undertake any rescheduling. Officers will continue to monitor the council's debt portfolio for any rescheduling opportunities.

11.7 The council has also borrowed funds to facilitate the building works carried out by Thurrock Regeneration Ltd at the St Chads site in Tilbury. Officers are continuing to investigate opportunities to raise long term funds to finance these works but, as short term rates are currently low and predicted to remain there for the foreseeable future, the council will continue to borrow on a short term basis until such time as the long term funds become attractive in comparison. All interest costs are met by Thurrock Regeneration Ltd with the council benefiting from an interest rate premium.

Investments

11.8 The corresponding figures for investments are set out in the table below:-

Source of Investment	**Balance at 30/9/18 £m**
Overnight Cash Investments	10.0
Short Term Cash Investments (2 to 365 days)	100.5
Repayable Capital Investments	549.0
Repayable Non Capital Investments	10.0
Fund Manager Investments- Repayable on demand	76.0
Total Investments	**745.5**

11.9 A significant proportion of the internally managed investments are held for very short time periods in order to meet day to day cash requirements.

11.10 The Council has maintained its previously reported investments in the CCLA Property Fund and renewable energy sectors and, indeed, expanded on the latter whilst working with providers for both longer term relationships and to bring additional benefits to the Borough.

11.11 Target income for 2018/19 has been achieved with any investments going through appropriate due diligence by relevant industry experts.

11.12 Internally held balances currently stand at £100.4m with a view to falling to around £10m-£20m at the financial year-end. These investments are mainly held with Banks and Building Societies on a fixed term basis ranging from overnight to 3 months in duration.

11.13 All investments made have been with organisations included on the "List of Acceptable Counterparties and Credit Limits" within the 2018/19 Annual Treasury Management Strategy and the total sums invested with individual institutions have been contained within the limits specified therein.

CAPITAL MONITORING – 2018/19 Quarter 2

12 Introduction and Background

12.1 This report provides an update to Cabinet on the financial position of the capital programme and highlights significant variances. It is the second monitoring report for 2018/19 and is based on expenditure to the end of month 6 (the period 1 April 2018 to 30 September 2018) and projected expenditure for the remainder of the year.

12.2 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.

13 General Fund Schemes

13.1 The current position for General Fund schemes for 2018/19 is summarised below:

Table 1: Capital Programme – Projected Outturn as at Month 6

	Latest Agreed Budget	**Projected Outturn to 31/03/2019**	**Variance against budget**
	£'000's	**£'000's**	**£'000's**
Expenditure:			
Children's Service[1]	11,034	10,284	(750)
Adult, Housing & Health	2,818	2,438	(380)
Housing General Fund	1,551	1,446	(105)
Environment and Highways	13,691	13,348	(343)
Place	38,930	35,474	(3,456)
Finance and IT	2,552	2,552	0
HR, OD & Transformation	3,558	3,107	(451)
Customer Services	40	40	0
Total Expenditure	**74,174**	**68,689**	**(5,485)**
Resources:			
Prudential Borrowing	(28,824)	(25,220)	3,604
Capital Receipts	(290)	(290)	0
Reserves	(185)	(35)	150
Government Grants	(11,262)	(11,313)	(51)
Other Grants	(26,491)	(26,491)	0
Developers Contributions (S106)	(7,122)	(5,340)	1,782
Total Resources	**(74,174)**	**(68,689)**	5,485
Forecast Overspend in Resources	**0**	**0**	**0**

13.2 Table 1 illustrates a projected outturn at the end of the financial year of £68.689m, which is £5.485m less than the latest agreed budget for the year. This forecast variance is further analysed in Table 2 below.

Table 2: – Analysis of forecast variance

	Re-profiling of expenditure at Month 6	**Capital schemes requiring additional funding**	**Completed Projects**	**Forecast variance against budget at Month 6**
Expenditure:	**£'000**	**£'000**	**£'000**	**£'000**
Children's Service	(750)	0	0	**(750)**
Adult, Housing & Health	0	0	**(380)**	**(380)**
Housing General Fund	(105)	0	0	**(105)**
Environment & Highways	(343)	0	0	**(343)**

[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

	Re-profiling of expenditure at Month 6	Capital schemes requiring additional funding	Completed Projects	Forecast variance against budget at Month 6
Place	(3,443)	0	**(13)**	**(3,456)**
Finance and IT	0	0	0	**0**
HR, OD & Transformation	(451)	0	0	**(451)**
Customer Services	0	0	0	**0**
Total	**(5,092)**	**0**	**(393)**	**(5,485)**

13.3 Table 2 shows that the forecast underspend is principally due to slippage/budget re-profiling on current schemes (£5.092m). Consequently the funding remains allocated to specific current schemes.

13.4 In addition, works to rebuild East Tilbury Library following the fire in January 2017 are expected to complete £0.380m under the agreed budget.

13.5 A list of schemes where the variance is greater than £0.25m is shown in Appendix 2.

13.6 A number of capital schemes are also expected to complete construction in future years with expenditure totalling £63.703m. Budgets for these schemes have been profiled accordingly. The largest of the schemes relates to the A13 widening project with expected future years spend of £42.849m.

13.7 In addition, the following schemes and allocations have Council approval but are dependent on scheme development and/or third parties:

Table 3: Capital Programme – Schemes under development

	Projected Scheme Budget
	£'000's
Purfleet Regeneration	15,277
School Improvements	18,404
Grays South Development	8,700
21st Century Care Home	8,000
The Central Grays Civic Buildings Optimisation project	3,890
Total Schemes under development	**54,271**
Resources:	
Prudential Borrowing	(35,867)
Government and Other Grants	(18,404)
Total Resources	**(54,271)**
Forecast Overspend in Resources	**0**

14 Housing Revenue Account Schemes

14.1 The current position for Housing Revenue Account schemes for 2018/19 is summarised in Table 4.

Table 4: HRA Capital Programme – Projected Outturn

	Latest Agreed Budget	**Projected Outturn to 31/03/2019**
	£'000's	**£'000's**
Expenditure:		
Transforming Homes	12,162	11,710
Housing Development	13,870	7,440
Total Expenditure	**26,032**	**19,150**
Resources:		
Prudential Borrowing	(9,710)	(5,210)
Capital Receipts	(5,112)	(3,247)
Reserves	(542)	(25)
Government & Other Grants	0	0
Major Repairs Reserve	(10,668)	(10,668)
Total Resources	**(26,032)**	**(19,150)**
Forecast Overspend in Resources	**0**	**0**

14.2 The budget for Transforming Homes in 2018/19 is £12.162m. Spend as at 30 September 2018 was £3.233m. Works to the Telecare system have forecast additional spend of £0.065m (compared to £0.102m at Q1), which will be funded from the Housing usable capital receipts.

14.3 The revised budgets for 2018/19 for HRA New Build Schemes are set out below. The current forecast is £7.44m against a budget of £13.87m. These projects will utilise receipts held under Right to Buy sharing agreement between the Council and the MHCLG.

Table 5: HRA New Build Schemes

	Revised Budget	**Spend YTD**	**Forecast**	**Variance from Revised Budget**	
	£000	**£000**	**£000**	**£000**	**%**
Calcutta Rd	4,300	6	1,810	(2,490)	(58%)
Claudian Way	4,120	752	3,650	(470)	(11%)
Tops Club	5,450	152	1,980	(3,470)	(64%)
Total	**13,870**	**910**	**7,440**	**(6,430)**	**(46%)**

14.4 Progress on each scheme is set out below:

Calcutta Road

This project was the subject of a tendering exercise in 2017 through a framework that failed to produce a bid within budget. The project was retendered and following evaluation and clarification of tenders a single contractor has been selected as preferred contractor and final value engineering is taking place prior to contract award and there will be further consideration of the scheme in December 2018. The project is currently estimated at an 80 week construction period completing in 2020. The next steps post award involves the discharge of pre-commencement planning conditions and further detailed design development by the contractor.

Claudian Way

United Living has been appointed under Stage 1 of a two stage tendering process. The contractor has commenced detailed site investigation works, works to relocate services and final detailed design has been carried out under a pre-contract services agreement. The contract award technical report has been completed to enable contract award with preparatory works around utility diversions already commencing on site. This project has an estimated 69 week construction timeframe with completion in 2020.

Tops Club

All pre-commencement planning conditions have been discharged and the agreed tender price has been finalised. Contract award has been completed and the contract in the process of being signed. Demolition and utility diversion works for a power cable are complete and site hoarding together with Council signage is being erected. Estimated completion remains at Quarter 4 of 2019/20.

15 Thurrock Regeneration Ltd.

15.1 Thurrock Regeneration Ltd has agreement to proceed with its second scheme, an 80 unit development at Belmont Road. Borrowing of £25m has been approved and the project is expected to commence within this financial year. It is anticipated that costs circa £2.5m will be incurred during the current financial year with the scheme completing in Autumn 2020.

16 Reasons for Recommendation

16.1 The council has a statutory requirement to set a balanced budget annually. This report sets out the budget pressures in 2018/19 along with actions to mitigate these pressures and deliver a breakeven position.

16.2 There is a legal requirement for a Treasury Management Mid-Year Report to be submitted to Cabinet. This report has been written in line with best practice.

16.3 The recommendations are to ensure that Cabinet and Members are aware of the current status of the Capital Programme.

16.4 The report shows that budget surpluses have been achieved and allows the Cabinet to allocate the 2018/19 budget surplus to new and enhanced services for the borough.

17 Consultation (including Overview and Scrutiny, if applicable)

17.1 This report is based on consultation with the services, Directors' Board and portfolio holders.

17.2 The council's Treasury Advisors, Arlingclose, provide credit and accounting advice with long term investment due diligence provided by industry experts.

17.3 The school capital programme and other identified works have been subject to extensive consultation with key stakeholders. The principle has been agreed with schools and the detailed build content is being agreed with the relevant schools. Consultation will continue with each school and key stakeholders as each scheme and works develop within the programme.

17.4 The principle has been agreed with schools and any detailed build content will be agreed with the relevant schools. Consultation will continue with each school and key stakeholder, as each scheme and schedule of works evolves within the programme.

18 Impact on corporate policies, priorities, performance and community impact

18.1 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.

18.2 The council has developed a balanced MTFS over five years that enables a more strategic view of the longer term funding requirements of the council to be taken. This view is vital in an area with projections for significant increases in the population over the next 20 years with associated demand for homes, schools, healthcare and council services.

18.3 The budget provides the finance to support capital projects that meet the corporate priorities. Any changes to the budgets may impact, positively or negatively, on the delivery of these priorities and the Council's performance, with a corresponding impact on the community.

18.4 The improvement in the educational facilities in Thurrock schools is part of the council's delivery of its Education Capital Strategy and supports the council's prioritisation of educational standards and pupil progress by helping to create great places for learning in the borough.

19 Implications

19.1 Financial

Implications verified by: **Jonathan Wilson**

Assistant Director - Finance

The financial implications are set out in the body of this report.

Council officers have a legal responsibility to ensure that the Council can contain spend within its available resources. Regular budget monitoring reports continue to come to Cabinet and be considered by the Directors Board and management teams in order to maintain effective controls on expenditure during this period of enhanced risk. Measures in place are continually reinforced across the Council in order to reduce ancillary spend and to ensure that everyone is aware of the importance and value of every pound of the taxpayers money that is spent by the Council.

Investments have been undertaken within the financial year, in line with agreed targets and the strategy, which support a forecast favourable budget position. This has allowed the Council to finance some in year budget pressures that would otherwise have been financed from service reductions or reserves.

The forecast level of overall net income is dependent on the prevailing rate of borrowing remaining in line with the current projections. These remain subject to change depending on external economic factors. An element of contingency is built into the forecast to account for this and should additional income arise then this will form part of any surplus carry forward into reserves and available for future years.

The General Fund Capital Programme is projected to have available resources of £5.485m at the end of the current financial year and these will be carried forward to fund schemes either in development or currently in progress. In addition, the programme also includes £54.271m for schemes that are dependent on scheme development and/or third parties. Through the active management of the programme the Council continues to maximise the resources at its disposal.

19.2 **Legal**

Implications verified by: **David Lawson**

Deputy Head of Law & Governance

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.

This report provides an update and allows Members to review the adequacy of existing budgets.

In determining its affordable borrowing limits under section 3 of the Local Government Act 2003, the Council must have regard to the ''Prudential Code for Capital Finance in Local Authorities'' (revised Edition 2007) published by CIPFA. In carrying out its functions under Chapter 1, Part 1 of the Local Government Act 2003, the Council must have regard to the code of practice contained in the document ''Treasury Management in the Public Sector : Code of Practice and Cross-Sectoral Guidance Notes'' (Revised Edition 2009) published by CIPFA.

The Council has a duty under the Education Act 2006 to ensure the provision of “sufficient schools” for the provision of primary and secondary education in their area.

19.3 **Diversity and Equality**

Implications verified by: **Becky Price**

Community Development and Equalities

There are no specific diversity and equality implications arising from this report.

19.4 **Other implications**

(Where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

The Council has developed a balanced MTFS over four years that enables a more strategic view of the longer term funding requirements of the council to be taken. This view is vital in an area with projections for significant increases in the population over the next 20 years with associated demand for homes, schools, healthcare and council services.

The delivery of council priorities has also been enabled by the approach and examples to date include:

- Significant improvement in the cleanliness and appearance of the borough;
- Improved quality of local highways;
- Actions taken to tackle specific Anti-Social Behaviour issues;
- Funding to challenge Highways England on the Lower Thames Crossing;
- Allocated funding for additional Police resource in the borough; and
- Local funding allocated to supporting residents with mental health and debt problems.

20 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.

21 Appendices to the report

- Appendix 1 – Summary of General Fund Capital Programme
- Appendix 2 – Re-profiling of General Fund Schemes
- Appendix 3 – Medium Term Financial Strategy

Report Author:

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