15 January 2020	ITEM: 11
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, Governance and Property	
This report is public	

Executive Summary

This report presents the forecast outturn position for revenue and capital budgets, sets out the updated treasury management position and presents the updated Medium Term Financial Strategy.

Revenue Position – 2019/20 Quarter 2

Current projections indicate a number of General Fund service pressures. The position includes transformation investment in children's social care, funding to meet a significant increased demand for homelessness services and an expected delay to the achievement of a specific investment income target whilst alternative ideas are considered for the Belmont Road site. Officers continue to take action to deliver services within the agreed budget.

The Dedicated Schools Grant (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 2019/20 Quarter 2

The report sets out the updated Medium Term Financial Strategy which reflects expected inflation costs, changes in service demand, savings targets and proposed changes to the Council's funding. This will forms the basis of the budget to be considered by Corporate Overview and Scrutiny Committee.

Treasury Management – 2019/20 Quarter 2

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

(a) details the borrowing and investment activity as at 30 September 2019; and

(b) details the forecast treasury outturn position for 2019/20.

The report also confirms that the council is within the prudential indicators as agreed by Council in February 2019 and continues to contribute, through both reduced costs and increased income, towards the council's objective of financial sustainability.

Capital Position – 2019/20 Quarter 2

The General Fund capital programme is projected to have available resources of £4.964m as at 31 March 2020 with this funding carried forward to 2019/20 to fund schemes currently in progress. In addition, there is a further £66.734m in the approved programme that is under development and/or dependent on third party actions. The projected capital charge to revenue in 2019/20 is £7.7m which is in line with budget.

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

1. Recommendations:

1.1 That Cabinet note the revenue forecast outturn position for 2019/20 and that further mitigation is required to outturn within the agreed budget envelope;

1.2 That Cabinet note the proposed updates to the Medium Term Financial Strategy;

1.3 That Cabinet notes the updated Medium Term Financial Strategy forms the basis of the 2020/21 Budget and ask Corporate Overview and Scrutiny Committee to comment and make recommendations back to Cabinet in February ahead of Full Council;

1.4 Following Cabinet's decision in December 2018 to allocate funding for additional police officers that the Director of Environment and Highways, in consultation with the Corporate Director of Finance, Governance and Property and the Leader, be authorised to enter into a 4 year contract (with the right to renew for another 4 years);

1.5 Note the results of Treasury Management activities undertaken in the first half of 2019/20; and

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

Revenue Position

2 Introduction and Background

2.1 In February 2019 Council agreed the 2019/20 budget in line with the balanced MTFS. The Authority continues to pursue an investment approach and to further identify efficiencies across all service areas through the strategic boards. The budget includes savings of £0.900m identified as part of the Council Spending Review and a further £0.500m for workforce efficiencies.

2.2 The report sets out the latest forecast position for 2019/20 across the main revenue accounts – the General Fund, Housing Revenue Account, Dedicated Schools Grant and Public Health grant.

2.3 The summary forecast position for the General Fund is set out below:

Summary position

Directorate	Revised Budget	Forecast Outturn (Q2)	Variance to Budget
	£'000	£'000	£'000
Adults, Housing and Health	38,361	38,950	589
Children's Services	36,622	37,594	972
Commercial Services	757	757	0
Corporate Costs	2,755	2,755	0
Environment and Highways	28,273	28,273	0
Finance, Governance & Property	16,352	16,687	335
Housing General Fund	1,014	1,344	330
Place	4,789	4,789	0
Strategy, Communications & Customer Services	2,788	2,788	0
HR, OD and Transformation	4,769	4,769	0
Unallocated	5,803	2,290	(3,513)
Service Total	**142,283**	**140,896**	**(1,287)**
Central Financing	(117,491)	(117,491)	0
Treasury	(24,792)	(23,505)	1,287
Total	**0**	**0**	**0**

3 General Fund

Adult Social Care - £0.589m overspend

3.1 Adults Social Care operates within a demand led environment subject to financial risks arising from exposure to low volume high cost placements. These are predominately related to people with complex learning disabilities and/or mental health conditions where the availability of suitable placements is limited and can be very costly. The position reported reflects the anticipated financial position at year-end as the financial risk has crystallised in relation to specific cases. This relates to a combination of one specific new complex case and a small number of additional cost care packages within learning disability and complex care placements put in place since quarter 1. These have created a pressure of £0.471m.

3.2 The fragility of Domiciliary Care remains a concern despite receiving some additional funding through the Improved Better Care Fund. Although improving, there remains instability within the market with providers experiencing ongoing issues with recruitment and retention of staff. This is a situation which is being demonstrated nationally and it is recognised that the way in which homecare is delivered as a service needs to be transformed. Thurrock are trialling Wellbeing Teams in an attempt to redesign homecare and deliver sustainability on a longer term basis.

3.3 Through effective management of the waiting lists the Council currently has one of the best delayed discharge from hospital performances in the region. This also helps prevent care needs for individuals from deteriorating and enables people to live in their own homes. However reductions in the waiting list for the number of people currently requiring domiciliary care packages has added cost pressures in the first half of the year totalling £0.118m. A review of the waiting list arrangements continues at an operational level.

3.4 Providers within the Residential Care Home sector have identified concerns with the fees received for placements made under Thurrock Council contract rates. One care home has closed recently as the size of the home made it financially unviable. A wider piece of work is underway to review the uplifts that have been awarded and if they are sufficient. The Local Authority has a responsibility to support stability within the marketplace.

3.5 Income generated from client contributions towards care packages can fluctuate due to the ongoing financial assessments and reviews carried out by the team to determine eligibility and ability to contribute. There has been a reduction in the number of clients fully funding their own care needs.

3.6 The funding requirements for the forthcoming years have been identified and the ability to raise the adult social care precept is essential for the service to continue to meet both the current demands and future demographic pressures.

Children’s Services - £0.972m overspend

3.7 The service has committed investment of £0.600m to further enable that firstly case load ratios are appropriate and secondly the service has the capacity to deliver transformation initiatives to meet the requirements of Ofsted, and build further on the successes of 2019. For context, a ‘Good’ rating indicates the service is fit for purpose and delivering positive outcomes for residents. Furthermore the Cabinet are committed to constantly checking and adjusting investment into the service, to ensure that the service's new ambitions of achieving "Excellent" rating in future Ofsted assessments are achieved with unpinning financial sustainability.

3.8 The number of young people being accommodated under Section 20 of the Children's Act 1989 (where a child has come into care on a 'voluntary' basis and not as part of a court order) have been an historical pressure on the budget. Early intervention approaches delivered by the newly established Edge of Care Team should prevent children coming into care and support delivery of the financial position in the service in future years.

3.9 Support for Looked after Children and young people subject to Child Protection plans remains a risk due to the demand led nature and high potential costs for individualised support packages. Although numbers of looked after children are being managed to a more stable level, the costs remain high and there is a pressure across placements of £0.150m, fostering and unaccompanied asylum seekers. Placement budgets continue to be closely monitored with particular scrutiny of high cost placements made with external agencies.

3.10 Spend on adoption and special guardianship orders are also subject to detailed monitoring and regular payment reviews carried out to ensure financial pressures experienced in previous years are not repeated. The change in contract arrangements for the Adoption service will be monitored as part of the Service Review process to assess its viability on a long-term basis and budgetary impact.

3.11 The ongoing service review of children's social care and transport has identified options for improved service delivery with payback on investment over a 4 year period. Service improvements can be demonstrated linked to the investment made. There remains a pressure in schools transport of £0.222m as a result of continued increases to the number of pupils with Education, Health and Care plans.

Environment & Highways – projected breakeven

3.12 The directorate deliver a number of high profile services which are considered priorities for both Members and residents. The need to ensure the borough is well maintained is vital in helping to build pride in Thurrock's existing communities and in attracting new persons and businesses to the area. The service continues to experience financial risks related to seasonal weather fluctuations and behavioural-related environmental offences (and in particular resources required to address fly-tipping issues).

3.13 Waste disposal continues to be a financial risk for the Directorate due to the variable element contained within the contract. Cost per tonne to dispose of the borough's waste potentially fluctuates quarterly and has previously adversely affected the budget and this will be closely monitored.

3.14 The Directorate's reliance on agency staff to ensure consistent service delivery will again cause a budgetary impact but the ongoing work supported by HR to recruit an adequate number of Thurrock Council persons to positions will help mitigate impacts. The difficulty in securing agency HGV drivers to cover annual leave over the summer period is a trend seen nationally.

3.15 The severity of the winter will potentially impact the budget if there is an increased need for additional road gritting services across the borough in the last quarter of the year. The purchase of a weather station based in Thurrock aims to make the planning for gritting support more accurate.

Place – projected breakeven

3.16 Following a restructure within the Place directorate the Corporate Landlord and Assets functions have transferred to Finance, Governance & Property directorate.

3.17 There remain financial risks to the achievement of external income but it is the intention to manage the remaining budget pressures within the overall allocated resources and deliver a balanced position for year-end.

Finance, Governance & Property– £0.335 overspend

3.18 Following the restructure of the Place Directorate the quarter 2 forecast figure for Finance, Governance & Property now reflect the pressures being experienced within the Corporate Landlord and Assets functions.

3.19 The Corporate Landlord team have carried out condition surveys on the Authority's assets and a schedule of urgent repairs are required to the corporate property portfolio to ensure continued compliance with Health & Safety legislation. The planned programme will be targeted at risk areas to reduce the wider impact on the budgetary position but the current projected pressure is £0.335m.

HROD – projected breakeven

3.20 The Directorate is currently forecasting to come within the budgeted expenditure proposed.

Strategy, Communications & Customer Services – projected breakeven

3.21 The Directorate continues to manage the budgeted resources to provide the core services while also increasing data analysis support to Children's Services to enable Ofsted reporting requirements to be met.

Commercial Services – projected breakeven

3.22 The Directorate is forecasting to come within budget following a restructure of their staffing establishment and a review of funding arrangements.

Corporate Costs – projected breakeven

3.23 This budget covers a number of corporate expenditure items including housing benefit subsidy, council tax and business rate precepts, the annual contribution to the Essex Pension Fund to meet the current actuarial deficit and the allocation for the Minimum Revenue Provision. The budget is projected to meet budget at the end of quarter 2.

Housing General Fund – £0.330m overspend

3.24 There have been a number of developments in case law and legislation regarding the provision of Temporary Accommodation since the homelessness prevention strategy was last published, most notably the enactment of the Homelessness Reduction Act 2017. The primary function of the Act places greater emphasis on the prevention of homelessness, and has significantly adjusted the criteria of those approaching the Council who are eligible for assistance.

3.25 The Council's Housing Solutions service continue to receive increasing numbers of households presenting as homeless or at risk of homelessness. This is set out in the table below.

	2017/18	**2018/19**	**2019/20 (projected)**
Number of Households presenting to Council:	1,395	1,605	1,900

3.26 In addition the number of households housed in temporary accommodation has increased by 40% over the last 12 months. This has resulted in unprecedented pressure on the service in 2019/20, which is reflected in the service pressure, and actions are being taken to deliver a more financially sustainable solution.

3.27 In order to meet the increased demand the service have introduced a revised staffing structure. The service continue to consider alternative accommodation solutions to try limit the use of bed and breakfast facilities to both improve the quality of accommodation and reduce the cost.

Treasury & Financing – £1.287 overspend

3.28 The planned external investment targets included in the Medium Term Financial Strategy will be achieved in the current financial year. However the projected income from Thurrock Regeneration Ltd will need to be reprofiled into a future period following the pause to the Belmont Road project whilst further analysis is completed on whether other local infrastructure can support the development project in a different way before the project commences.

External Income

3.29 Commercial Board set a target for external income generation to the general fund of £14.0m in 2019/20. This is through a combination of fees and charges and traded services and detailed schedules have been submitted to earlier Cabinet meetings.

3.30 At the end of Quarter 2 the full year forecast for external income is an over recovery of £0.022m for fees and charges and £0.442m below target for traded services -this is a notably improved position of £0.249m from quarter one, following a review of the recovery plans between officers and the relevant Cabinet Members

3.31 The breakdown for external income monitored through Commercial Board is set out below:

Fees & Charges			
Directorate	**Commercial Board Target**	**Month 6 forecast**	**Variance to target**
	£000	£000	£000
Adults, Housing and Health	(369)	(296)	73
Children's Services	(1,088)	(1,029)	59
Corporate Strategy & Communications	(270)	(244)	27
Environment and Highways	(2,647)	(2,567)	80
Finance, Governance and Property	(234)	(173)	61
Housing General Fund	(415)	(550)	(135)
Place	(2,707)	(2,893)	(186)
Total	**(7,729)**	**(7,751)**	**(22)**

Traded Income			
Directorate	**Commercial Board Target**	**Month 6 forecast**	**Variance to target**
	£000	£000	£000
Children's Services	(3,811)	(4,088)	(277)
Corporate Strategy & Communications	(225)	(157)	68
Environment and Highways	(580)	(605)	(25)
Finance, Governance and Property	(1,286)	(742)	544
Housing General Fund	0	(10)	(10)
HR, OD and Transformation	(338)	(195)	142
Place	(34)	(35)	(1)
Total	**(6,274)**	**(5,832)**	**442**

3.32 Children's Services are projecting to recover more income for their catering service than originally planned. The corresponding costs to this have been reflected in the earlier directorate outturn position and consequently this does not cause a budget pressure or surplus.

3.33 Finance, Governance and Property have forecast pressures within their traded services; this predominately relates to a number of schools converting to academies and a revision to the Corporate Fraud teams expected income following a re-profiling of out-of-borough work assignments

3.34 HR, OD & Transformation are also under-recovering their income target with regards to traded services with schools. Commercial services have recruited a Business Development Officer dedicated to school activity with the intention to review all current arrangements and to assist in the implementation of recovery plans where possible.

3.35 All the above pressures have been reflected in the overall budgetary position and will be closely monitored by Corporate Finance, Cabinet Members, and the individual service areas.

4 Housing Revenue Account – breakeven projected

4.1 There are currently pressures identified within the directorate to the value of £0.165m which the service will mitigate to deliver a breakeven position.

4.2 Additional electrical testing works are required as part of essential health and safety maintenance in-year and this will result in expenditure above the allocated budget. These are due to an ageing housing stock and the need to undertake responsive repairs outside of the planned programme.

4.3 The introduction of Universal Credit has led to a small statistical increase in rent arrears. Measures are in place to mitigate the impact of this and approval has been sought from Digital Board to allow the implementation of a new software system. The cost of this will be contained within the HRA and a review of the bad debt provision will be carried out as a separate exercise. This is not currently shown as a pressure in the financial forecast as further analysis is being undertaken to quantify the full impact.

4.4 The financial pressures identified below will be managed overall within the existing budgets.

Service	Revised Budget	Month 6 Forecast	Variance to Budget
	£000	£000	£000
Development	178	228	50
Financing and Recharges	23,681	23,681	0
Rent and Income	(48,359)	(48,446)	(87)
Repairs and Maintenance	12,201	12,611	410
Supervision and Management	12,299	12,091	(208)
Grand Total	**0**	**165**	**165**

5 Dedicated Schools Grant (DSG) - £0.750m overspend

5.1 Thurrock continues to see a rise in the number of children and young people with Special Education Needs and Disabilities (SEND) and Education, Health & Care Plans (EHCP's). Additional provision is required to support these young people in an educational setting and this is funded through the High Needs Block (HNB) of the DSG.

5.2 This area remains a pressure for a significant number of Local Authorities due to a combination of factors, these include; population growth, advances in medicine (which means children born prematurely or with disabilities survive and live longer than before with more complex needs), increased diagnosis of some conditions (e.g. autism) and increased parental expectations about the support their child should receive. Current projections indicate pressures of £0.750m, this is an increase of £0.465m from that previously reported.

5.3 The table below reflects the updated 2019/20 DSG allocation:

2019/20	Funding Settlement	Academy Recoupment	DSG	Forecast Outturn	Variance
	£000	£000	**£000**	£000	£000
Schools	118,839	(108,169)	**10,670**	10,244	(426)
Central Services	2,073	0	**2,073**	2,045	(28)
High Needs	23,848	(5,226)	**18,622**	19,817	1,195
Early Years	12,332	0	**12,332**	12,166	(167)
	157,092	(113,395)	**43,697**	44,272	574
				Early Years Surplus to be Carried Forward	167
				Revised Outturn position	**741**

5.4 The DSG reserve has a carried forward deficit of £2.657m into 2019/20. The approved movement from the Schools Block to the High Needs Block of £1.248m will reduce the balance to £1.409m in 2019/20. However, the projected deficit is likely to realise an accumulated deficit of £2.150m as at 31 March 2020.

5.5 Information gathered by the Local Government Association found that 97% of Local Authorities expect there to be HNB deficit. The detailed 2020/21 DSG guidance and funding announcements have recently been released by ESFA. This information will need to be considered alongside the projected carried forward deficit, to consider options moving forward.

6 Public Health Grant – breakeven projected

6.1 The Public Health Grant was subject to a further reduction in 2019/20 and this equated to £0.292m. Over the last three years this grant has been reduced by £0.869m, as local authorities continue to embed services transitioned from other agencies into local government. The allocation for 2019/20 is £10.7m and this has been fully allocated.

6.2 The team have are managing staffing cost pressures within the in-year grant allocation but note there may be an impact on the level of public health initiatives elsewhere within their service.

Medium Term Financial Strategy Update

7. Background

7.1. 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.

7.2. The previous published MTFS was presented to Cabinet in February 2019, 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.

7.3. The MTFS continues to remain in surplus over the next 3 years. This is again through supporting the financial positon through the investment strategy, service review, and sustained lower rates of borrowing.

7.4. 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 2019/20 surplus requires confirmation and consideration of proposals by both members and officers is required, along with engagement with the inform Council Spending Review group. Addressing some of these identified pressures will support a more robust budget setting process going forwards.

8. Key information

8.1. 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:

Draft Budget and Future Forecasts

Narrative	2020/21			2021/22			2022/23			2023/24			2024/25		
	Feb-19	Jan-20	Change	Feb-19	Jan-20	Change	Feb-19	Jan-20	Change	Feb-19	Jan-20	Change	Feb-19	Jan-20	Change
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net (Additional) Reduction in resources	(1,790)	(6,283)	(4,493)	(1,668)	(1,789)	(121)	(2,114)	(2,336)	(222)	(1,927)	(2,604)	(677)	(2,054)	(2,918)	(864)
Inflation and other increases	2,958	3,702	744	3,081	3,472	391	3,210	3,615	405	3,345	3,765	420	3,487	3,862	375
Treasury and Capital Financing	(2,178)	(2,178)	0	(336)	(336)	(0)	(1,224)	(1,224)	0	365	365	0	0	0	0
Allocation of Social Care Funding	0	4,042	4,042	0	0	0	0	0	0	0	0	0	0	0	0
Corporate Growth	2,200	3,346	1,146	2,200	2,315	115	2,200	2,313	113	2,200	2,314	114	3,500	2,314	(1,186)
Services Design Principals and Strategic Boards	(900)	(900)	0	(1,000)	(1,000)	0	(1,000)	(1,000)	0	0	0	0	0	0	0
Position before carry forward	**290**	**1,729**	**1,439**	**2,277**	**2,662**	**385**	**1,072**	**1,368**	**296**	**3,983**	**3,840**	**(143)**	**4,933**	**3,258**	**(1,675)**
C/f Position	**(5,803)**	**(5,803)**	**(0)**	**(5,513)**	**(4,074)**	**1,439**	**(3,236)**	**(1,412)**	**1,824**	**(2,164)**	**(45)**	**2,119**	**0**	**0**	**0**
Working Total	**(5,513)**	**(4,074)**	**1,439**	**(3,236)**	**(1,412)**	**1,824**	**(2,164)**	**(45)**	**2,120**	**1,819**	**3,795**	**1,976**	**4,933**	**3,258**	**(1,675)**

9. Key Assumptions

The key assumptions included in the formulation of the revised MTFS are set out below. These assumptions will underpin the revised 2020/21 budget subject to further consideration by members.

9.1. **Local Funding**

The MTFS has been compiled based on a 1.49% increase in general Council Tax in 2020/21 supplemented by a 2% Adult Social Care precept specifically to address social care pressures. This generates income of £3.107m and, more importantly, increases the overall Council Tax base as local authorities move towards 100% of locally raised funding. The additional Council tax funding will be allocated to social care, environmental pressures and public protection in the borough.

Beyond 2020/21, 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 2020 that will set local authority funding for an expected further period of four years.

9.2. **Central Government funding**

The funding set out for 2020/21 is based on the indicative financial settlement. As a result there may be subsequent amendments to RSG and other central government grants.

9.3. **Inflation and other increases**

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

- The proposed inflation factors have increased for 2020/21 based on anticipated salary increases.
- Additional demographic pressures specifically in housing general fund

9.4. **Treasury Management**

The projected position remains unchanged compared to the MTFS published in February 2018.

9.5. **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 and specifically homelessness
- Social Care – there continue to be pressures arising in both Adults and Children's social care
- Investment income – following issues associated with the Belmont Rd project the proposed income from Thurrock Regeneration Ltd has been shown as an additional pressure.

9.6. **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. The allocated target for 2020/21 is £0.9m and this is part of the budgeted position for 2020/21.

9.7. **Carry forward position**

The carry forward for 2019/20 of £5.803m is as reported in the February 2019 MTFS. The projected carry forwards for the 2 subsequent years are £4.385m and £1.723m respectively.

The allocation of the carry forwards remains to be finalised for the period. However confirmation of the funding agreed in December 2018 for additional Police Officers is formally recommended and totals a further £0.670m in 2019/20.

Treasury Management – 2019/20 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 2019.

10. Introduction and Background

10.1. **Borrowing**

The Council's borrowing position as at 30 September 2019 is summarised in the table below:-

Source of Loan	£m
Long Term Market Loans	30.0
Long Term Market Loans re Investments	55.0
Long Term PWLB	160.9
Temporary Market Loans Re Investments	793.8
Other Temporary Market Loans	224.8
Total Debt	**1,264.5**
Total Investments	(961.2)
Total Net Indebtedness	**303.3**

10.2. The net indebtedness (borrowing less investments) of the council is £303.3m, made up of £160.9m of PWLB long term debt relating to the HRA and £142.4m of long and short term debt relating to historic capital funding.

10.3. The Council continues to fund the £84.0m ex-PWLB debt on a temporary basis. Interest rates have been maintained at 0.75% in the last year and forecasts predict that the rate will remain at this level for the time being. There is still a wide variance in which direction interest rates will go, mainly due to possible concerns surrounding Bruit. However, officers have been prudent in interest rate projections assuming 0.25% rises every six months starting in September 2020 up to a level of 3% in future years.

10.4. 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 directly impact on the council's borrowing that is largely through other public sector bodies.

10.5. 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 at an average of 3.49% over 47.5 years. However, the PWLB increased the margin on their borrowing rates by 1% in September 2019 that has now widened the gap in the premature redemption rates even further than before meaning that any rescheduling would now be even more unaffordable than previously.

10.6. Officers repeatedly assess 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.

10.7. 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

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

Source of Investment	Balance at 30/9/18 £m
Overnight Cash Investments	18.4
Short Term Cash Investments (2 to 365 days)	94.0
Repayable Capital Investments	722.3
Repayable Non Capital Investments	22.5
Fund Manager Investments- Repayable on demand	104.0
Total Investments	**961.2**

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

10.10. The Council has increased its previously reported investments in the CCLA Property Fund by £28m and, also expanded its investments in the renewable energy sector whilst working with providers for both longer term relationships and to bring additional benefits to the Borough.

10.11. Target income for 2019/20 has been achieved with any investments going through appropriate due diligence by relevant industry experts.

10.12. Internally held balances currently stand at £112.4m 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.

10.13. All investments made have been with organisations included on the "List of Acceptable Counterparties and Credit Limits" within the 2019/20 Annual

Treasury Management Strategy and the total sums invested with individual institutions have been contained within the limits specified therein.

CAPITAL MONITORING – 2019/20 Quarter 2

11. Introduction and Background

11.1. This report provides an update to Cabinet on the financial position of the capital programme and highlights significant variances. It is the first monitoring report for 2019/20 and is based on expenditure to the end of month 6 (the period 1 April 2019 to 30 September 2019) and projected expenditure for the remainder of the year.

11.2. 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.

12. General Fund Schemes

12.1. The current position for General Fund schemes for 2019/20 is summarised below:

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

	Latest Agreed Budget	Projected Outturn to 31/03/2020	Variance against budget
	£'000's	**£'000's**	**£'000's**
Expenditure:			
Children's Service[1]	18,694	15,644	(3,050)
Adult, Housing & Health	5,217	5,217	0
Environment and Highways	16,627	16,627	0
Place	57,498	55,584	(1,914)
Finance and IT	6,397	6,397	0
HR, OD & Transformation	11,924	11,924	0
Customer Services	336	336	0
Commercial Services	24	24	0
Total Expenditure	**116,717**	**111,753**	**(4,964)**
Resources:			
Prudential Borrowing	(52,543)	(52,313)	230
Capital Receipts	(147)	(147)	0
Reserves	(917)	(917)	150
Government Grants	(20,481)	(17,714)	2,767
Other Grants	(35,738)	(35,488)	250
Developers Contributions (S106)	(6,891)	(5,174)	1,717
Total Resources	**(116,717)**	**(111,753)**	4,964
Forecast Overspend in Resources	**0**	**0**	**0**

12.2. Table 1 illustrates a projected outturn at the end of the financial year of £111.753m, which is £4.964m 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	(3,050)	0	0	**(3,050)**
Adult, Housing & Health	0	0	0	**0**
Environment & Highways	0	0	0	**0**
Place	(1,914)	0	0	**(1,914)**

[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
Finance and IT	0	0	0	**0**
HR, OD & Transformation	0	0	0	**0**
Customer Services	0	0	0	**0**
Commercial Services	0	0	0	**0**
Total	**(4,964)**	**(0)**	**(0)**	**(4,964)**

12.3. Table 2 shows that the forecast underspend is principally due to slippage/budget re-profiling on current schemes (£4.964m). Consequently the funding remains allocated to specific current schemes.

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

12.5. The full capital programme at month 6 by directorate and service is included at Appendix 3. This also includes the projected spend in 2020/21 and 2021/22.

12.6. A number of capital schemes are expected to complete construction in future years with expenditure totalling £66.734m. 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 £33m subject to the completion of a full audit to confirm final costs and timescales. Other schemes include:

- Stanford le Hope interchange – subject to an ongoing reappraisal of delivery options, the scheme is expected to progress in 2020.
- Grays Underpass – the scheme is currently in the design phase with construction to follow in future years
- Improvements to Linford Civic Amenity Site – the scheme is projected to complete in 2020/21.

12.7. 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	12,300
School Improvements	12,299
Grays South Development	5,700
21st Century Care Home	8,395
A13 East Facing Slip Road at Lakeside	50,000
Total Schemes under development	**88,694**
Resources:	
Prudential Borrowing	(35,747)
Government and Other Grants	(52,947)
Total Resources	**(88,694)**
Forecast Overspend in Resources	**0**

13. Housing Revenue Account Schemes

13.1. The current position for Housing Revenue Account schemes for 2019/20 is summarised in Table 4.

Table 4: HRA Capital Programme – Projected Outturn

	Latest Agreed Budget	Projected Outturn to 31/03/2020
	£'000's	£'000's
Expenditure:		
Transforming Homes	17,687	17,138
Housing Development	14,042	14,364
Total Expenditure	**31,729**	**31,502**
Resources:		
Prudential Borrowing	(10,249)	(9,700)
Capital Receipts	(9,295)	(9,295)
Reserves	(1,545)	(1,867)
Government & Other Grants	0	0
Major Repairs Reserve	(10,640)	(10,640)
Total Resources	**(31,729)**	**(31,502)**
Forecast Overspend in Resources	**0**	**0**

13.2. The budget for Transforming Homes in 2019/20 is £14.042m, with forecast spend of £14.364m. Spend as at 30 September 2019 was £5.365m. The additional expenditure (£0.322m) will be met from within the existing HRA resources available.

13.3. The revised budgets for 2019/20 for HRA New Build Schemes are set out below. The current forecast is £17.138m against a budget of £17.687m. 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	1,797	37	1,797	(0)	(0%)
Claudian Way	6,140	1,578	5,847	(293)	(5%)
Tops Club	9,750	3,376	9,494	(256)	(3%)
Total	**17,687**	**4,991**	**17,138**	**(549)**	**(3%)**

14. Reasons for Recommendation

14.1. The council has a statutory requirement to set a balanced budget annually. This report sets out the budget pressures in 2019/20 along with actions to mitigate these pressures and deliver a breakeven position.

14.2. 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.

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

14.4. The report shows that a budget surplus is projected and allows the Cabinet to allocate the 2019/20 budget surplus to new and enhanced services for the borough.

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

15.1. This report is based on consultation with the services, Directors' Board and portfolio holders, and others, where direction is given to do so

15.2. The council's seeks appropriate credit and accounting advice with long term investment due diligence provided by industry experts.

15.3. 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.

15.4. 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.

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

16.1. The council's obligation to ensure that it adjusts to a reduction of the Revenue Support Grant (RSG) as part of the national objective to reduce the national deficit, has led to service reform, which has always aimed – and largely avoided – adverse impacts of the services the council provide. 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. The council continues to provide a high number of non-statutory services.

16.2. The council has developed a balanced MTFS over three 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.

16.3. 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.

16.4. 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.

17. Implications

17.1. **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 surplus 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 £4.964m 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 £66.734m 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.

17.2. **Legal**

Implications verified by: Tim Hallam

Acting Assistant Director Legal, Head of Law & Governance, and Monitoring Officer

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.

17.3. **Diversity and Equality**

Implications verified by: **Rebecca Lee**

Community Development Team Manager

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

17.4. **Other implications**

(Where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder, and Impact on Looked After Children)

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.

18. 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.

19. 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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