

8 December 2022		ITEM: 6
Corporate Overview and Scrutiny Committee		
Financial Update – Quarter 2 2022/23		
Wards and communities affected: All	Key Decision: Key	
Report of: Jonathan Wilson – Interim Director of Finance		
Accountable Assistant Director: N/A		
Accountable Director: Jonathan Wilson, Interim Director of Finance		
This report is public		

Executive Summary

The report has been prepared and agreed with Commissioners and provides an update to the Committee on the latest known financial position for 2022/23 and medium-term outlook. The report includes the specific comments of Commissioners and it is noted that comments from the Committee will further inform reporting of the current year position and setting the budget for 2023/24.

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

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

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

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

The report sets out the position upon:

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

2022/23 General Fund Outturn at Quarter 2

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

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

The figures reflect the known positions to date and the Minimum Revenue Provision remains under assessment and subject to further change. The potential asset sales also remain subject to further assessment and will be confirmed in due course. The position now reflects the write down of four investment assets of (£275.373m), the impact of the provision for the write down of the remaining investments over their lives (£129.241m) and increased pressure on the treasury position (£33.268m – current year and £29.927m prior year) reflecting the impact of projected lost income from specific investments and increased borrowing costs. Further detail is set out in sections 3.12 to 3.16.

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

The total projected funding gap is so significant that the Council cannot deliver a balanced budget in 2022/23 within existing resources. Inevitably the Council will need to look to levers within Thurrock to raise further funding, capital receipts and drive further savings, but it will also need to urgently seek exceptional financial

support from government alongside taking action to reduce its expenditure. The requested support is expected to be in the form of a capitalisation direction which is sought to mitigate the short-term funding gap and provide sufficient time to develop solutions which ultimately fund the financial shortfall. This further enables the Council to continue to deliver services to residents and provides assurance to wider partners, suppliers, and staff.

The request for support is expected to be made to The Department for Levelling Up, Homes and Communities (DLUHC) in December 2022 and will be specific to the 2022/23 funding gap. Where further support is required in subsequent financial years then requests will be made in the relevant period following detailed assessment. It is important to note the cash flow consequences of the position set out above continue to be managed in conjunction with Commissioners and DLUHC. The Council will continue to deliver core services and meet its contractual financial obligations while working through options to resolve the financial position set out.

2023/24 Medium Term Financial Strategy (MTFS) update

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

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

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

This is a position based on the assumption that investments are retained along with the associated borrowing and the provisions to write down investments continue.

However, in accordance with directions there will be a necessary divestment of those commercial investments, with a consequent reduction of debt and treasury costs. That has not yet been considered in the MTFS. The impact of further mitigation to the capitalisation request, though capital receipts, has also not yet been included.

Consequently, there are significant further actions that can and will be taken to improve the position and to support the reduction of debt. To the extent a funding gap cannot be met then a further request for exceptional financial support will be required.

2022/23 Capital Programme Outturn at quarter 2

A comprehensive review of the programme, to identify reductions was undertaken in July 2022. This has been reflected in the budgets included in the Table below, with the remaining schemes forecasting slippage of £20.063m.

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

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

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

Statement by the Commissioner:

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

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

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

The position as outlined is an accurate reflection of the information as known as at 29th November 2022, which is subject to change as the financial review progresses. Notably further work is pending on investments, the HRA and wholly owned companies and the outcome of that will be reported in a further report to Cabinet.

Reserves:

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

In year to date there has been a reduction in overall reserve balances from £66.3m to £12.2m, with £19.1m used directly in year to both fund the opening structural deficit in the budget, with further drawdowns to offset the in year financial pressures. Coupled with withdrawals from the collection fund and for specific grants/purposes, the total residual reserves balance is now only £12.2m from an opening balance of £66.3m. As previously set out, the development of an appropriate reserves and provisions policy is critical to setting of the 2023/24 budget and this will impact on the overall MTFS, though it has not yet been quantified.

Investments:

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

MRP and Treasury:

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

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

HRA & subsidiary companies:

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

1. Recommendations:

- 1.1 That the Committee comment on the 2022/23 forecast funding gap of £469.581m including a request for exceptional financial support from central government**
- 1.2 That the Committee note the request for exceptional support will be delegated to the s151 officer**
- 1.3 That the Committee comment on the updated Medium Term Financial Strategy which has a projected deficit in 2023/24 of £184.381m and which is expected to require a further request for exceptional financial support from central government,**
- 1.4 That the Committee note that the position is subject to change, as further work is outstanding (as highlighted in the Commissioners commentary) which is likely to lead to changes.**
- 1.5 That the Committee note additional actions will be required to identify further savings to manage the reported General Fund budget pressures,**
- 1.6 That the Committee note the use of reserves as set out in appendix 5, subject to the finalisation of the audit process relating to financial years 2020/21 and 2021/22 and note balances are subject to change,**
- 1.7 That the Committee note the proposed use of further capital receipts projected to arise in 2022/23 as set out in Table 5 to mitigate the request for exceptional financial support from government,**
- 1.8 That the Committee note that further consultation with external audit will be required to finalise the technical accounting treatments relating to the investment valuations and the associated Minimum Revenue Provision transactions,**
- 1.9 That the Committee note the position set out in respect of the capital programme and the reported slippage as set out in para 5.4**
- 1.10 That the Committee that Thurrock's 2023/24 Schools funding formula be implemented as stated in Appendix 6. This being consistent with Cabinet's decision made between 2020/21 and 2022/23 schools funding formula as per the report in Appendix 6.**

2. Introduction and Background

- 2.1 In June 2022, the Council confirmed there was significant financial risk attaching to three specific investments within the wider investment portfolio. This identified potentially significant impairments and a workstream was developed to provide clarity on the financial position and identify the potential for mitigating actions including legal remedies.**

- 2.2 As reported at quarter 1 on 2 September 2022, the Department of Levelling Up, Housing and Communities announced directions to implement an intervention package at the Council.
- 2.3 The delivery of this package is being overseen by Essex County Council as the appointed Commissioners to the Council.
- 2.4 To date, this has included: a focus on the ongoing assessment of the three specific investments subject to impairment risk, an interim borrowing strategy and a review of the MRP policy to ensure debt is written down appropriately.
- 2.5 The financial impacts of the work are reflected in the report and are subject to ongoing assessment and discussion between the Commissioners and the Council. It confirms an initial assessment of the impact of the Council's exposure to the financial risk attached to the investment strategy.
- 2.6 The position will evolve, and further consideration of wider mitigations is required to consider the impact on the overall sustainability of the Council.

3. 2022/23 General Fund Forecast Outturn

Service position

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

Table 1 Service Pressures (net of earmarked reserves):

Directorate	2022/23 Budget £'000	Quarter 2 Forecast £'000	Forecast Variance £'000
Adults, Housing and Health	50,966	54,373	3,407
Children's Services	40,844	43,305	2,461
Housing General Fund	1,581	1,674	93
HR, OD, and Transformation	8,924	8,186	(738)
Public Realm	35,122	35,162	40
Resources & Place Delivery	13,967	15,212	1,246
Strategy, Engagement & Growth	3,450	3,319	(131)
Corporate Costs	1,819	1,033	(786)
Vacant post saving	(3,000)	0	3,000
Projected Intervention Costs	0	1,500	1,500

Service pressures quarter 2	153,672	163,764	10,092
<i>Mitigation:</i>			
Use of Earmarked reserves		(7,514)	(7,514)
Assumed 2% reduction in costs (Q4)		(806)	(806)
Remaining service pressure	153,672	155,444	1,772

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

Table 2 Key forecast variances at Quarter 2:

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

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

In-year Treasury position

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

Table 3 In-year Treasury position:

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

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

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

Use of reserves

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

Table 4 Use of Reserves

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

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

Provision for the Repayment of Debt funding the Investment Strategy

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

Asset Impairment

- 3.14 Thurrock holds investments with a book value of £1.024bn. The focus on the financial intervention to date has been on the high value and high-risk investments outlined below which represent 75% of the investment portfolio. Investments are subject to review each year, to confirm the carrying value of each investment is in line with the recoverable/realisable value at the maturity date.
- 3.15 The ongoing work by the Council's advisors has identified that the value of four of the Council's investments are subject to significant impairment. An

impairment is a permanent reduction in the value of an asset to less than its carrying value. Where an impairment arises on an investment asset it must be written down to the revenue account. This is either through an MRP charge in respect of a capital investment or, for a revenue investment, through a write down of the value under the accounting requirements of IFRS9.

- 3.16 The projected total write down of investments is £275.373m The positions remain under ongoing review and are subject to significant change. Further information on these investments will be provided to members in due course.

Use of Capital Receipts

- 3.17 Under the Flexible Use of Capital Receipts flexibility, the 2022/23 budget was set with the assumption that £3.190m of spend within core services (that relates to transformational activity and/or contributes towards ongoing financial savings) would be funded through capital receipts generated from the disposal of council assets. This is included at Appendix 7.
- 3.18 Reports presented to Cabinet in July 2021 and July 2022 identified a range of council owned properties that were considered surplus to requirement.
- 3.19 Between Apr-Sept 2022 £8.8m has been generated through asset disposals which exceeds the base budget assumption. Further flexibility will need to be agreed by DLUHC to allow balances over and above this amount to be applied to further offset in-year revenue pressures, below sets out indicative figures.

Table 5 Potential Asset Sales/Capital receipts:

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

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

Additional Risk & Uncertainty

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

Table 6 Additional risk areas:

Risk Area	Concern
Inflation	<ul style="list-style-type: none"> • Inflation has increased significantly in recent months and is impacting supply chain costs across many services • Energy costs continue to fluctuate impacting Corporate Landlord services • National pay agreement with Trade unions will impact local pay agreements and remains under assessment
Provider failure	<ul style="list-style-type: none"> • There are significant additional financial pressures on external providers to deliver core services commissioned by the Council.
Ongoing demand volatility	<ul style="list-style-type: none"> • As the pandemic recedes the level of demand for key services within the system and particularly within the Social Care services has risen.
Uncertainty of government funding	<ul style="list-style-type: none"> • Effectively a one-year settlement was announced in November 2021 and hence there remains uncertainty in planning for services in the medium term
Delivery risk	<ul style="list-style-type: none"> • Significant savings were applied to the 2022/23 budget allocation, and these remain subject to implementation in the agreed timescales
Advisory costs Potential further impairments	<ul style="list-style-type: none"> • There are ongoing costs relating to the assessment of the investments and the ongoing monitoring of these assets. This will include the assessment of the value of each investment and may result in adjustments to carrying values.
Interest rates	<ul style="list-style-type: none"> • Changes to the Bank of England interest rate may further impact the cost of borrowing
Intervention costs	<ul style="list-style-type: none"> • The core intervention costs relating to the commissioners are known. Wider costs will include additional capacity to support the response to the intervention – this will provide support to the corporate finance team, the property team and will support wider structural changes agreed with Commissioners. There will be further support required from a range of advisors to support specific aspects of the intervention.

4. Medium Term Financial Strategy Update

4.1 The information contained within Table 7 is the current projected budget deficit for 2023/24 and Appendix 2 includes the indicative position for 2024/25 and 2025/26. The detailed assumptions are shown in Appendix 3. Table 7 shows change in 2022/23 baseline figures rather than absolute figures.

- 4.2 The position below does not reflect any final decisions taken by members on Council Tax and further discussions will follow with DLUHC to consider further support measures required.

Table 7 Medium Term Financial Strategy 2023/24:

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

TRL	154	
MRP on Capital	178	67,008
Overall Budget Working Total		83,421
15. Prior years capitalisation		
MRP	22,619	
Interest	3,385	26,004
MRP on investments		74,956
Total Budget Variance		184,381

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

5. Capital Programme Update

- 5.1 Capital schemes and resources are identified in two specific categories:
- Mainstream schemes – capital expenditure funded through prudential (unsupported) borrowing, from capital receipts, from the capital contribution from revenue budget or from earmarked capital reserves; and

- Specific schemes – capital expenditure funded through external funding sources, for example, government grants and Section 106 monies which are ring fenced for specific projects.

General Fund Schemes

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

Table 8 Capital Programme – Projected Outturn as at Quarter 2

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

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

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

Slippage on Capital Programme

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

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

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

- 5.5 A schedule of major variances is included in Appendix 4.
- 5.6 Several capital schemes are expected to complete construction in future years with expenditure totalling £19.604m. Budgets for these schemes have already been profiled accordingly.
- 5.7 Schemes that are at a feasibility or at an earlier stage of development have been excluded from the reported position. The total projected budgets of £132.065m include school improvement works, the A13 East Facing slip road, Grays South development and the 21st Century Care Home.

- 5.8 A further detailed report on the Capital programme for the current and future year will be submitted as part of the intervention and recovery plan, in line with the deadlines set out.

Housing Revenue Account Capital Schemes

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

Table 9 HRA Capital Programme – Projected Outturn

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

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

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

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

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

HRA New Build Schemes

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

6. Reasons for Recommendations

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

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

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

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

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

9. Implications

9.1 Financial

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

The financial implications are set out in the report. The report confirms the need for exceptional financial support to address the funding gap arising from

the impacts from both the impairments of specific investment assets and the wider implications which include a reduction in investment income, increased borrowing costs and the need for a prudent write down of the capital financing requirement that relate to the remaining investment balance.

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

The position indicates that significant action is required from the Council to focus on the delivery of core statutory services, fund only essential spend and deliver a significant programme of savings. This enables management of the core operational deficit and alongside this an asset disposal programme will be required to address the ongoing impacts of requests for exceptional financial support.

9.2 Legal

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

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

9.3 Diversity and Equality

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

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

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

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

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

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

11. Appendices to the report

Appendix 1: Key general fund variances at quarter 1

Appendix 2: 3 Year MTFS

Appendix 3: MTFS assumptions

Appendix 4: Capital programme financial forecast quarter 1

Appendix 5: Reserves position

Appendix 6: Dedicated Schools Budget

Appendix 7: Flexible Use of Capital Receipts Strategy 2022/23

Report Author

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