15 March 2023	ITEM: 12 Decision: 110644

Cabinet
Financial Update – Quarter 3 2022/23

Wards and communities affected: All	**Key Decision:** Key
Report of: Councillor Graham Snell, Cabinet Member for Finance	
Accountable Assistant Director: N/A	
Accountable Director: Jonathan Wilson, Interim Director of Finance	
This report is public	

Executive Summary

The purpose of this report is to set out the current forecast financial position of the 2022/23 revenue and capital budgets as at quarter 3 (covering the period April-December 2022). The short to medium term outlook remains incredibly challenging and the council cannot fund it's in-year expenditure without exceptional financial support from Government.

There is an in-year general fund deficit projected at £469.553m before mitigation, reducing to £452.352m once applied as set out in the table below. As previously noted, this remains a grave position and at this point the council cannot find a way to finance their expenditure in-year. A request to the Secretary of State (SoS) for exceptional financial support (EFS) for 2022/23 has been made and a response was received on 1st March 2023. The s151 Officer has also implemented actions within Thurrock to restrict expenditure in line with the requirements of the Section 114 notice issued on 19 December 2022 whilst ensuring statutory services and contractual commitments are met. Furthermore, opportunities continue to be progressed to enable capital receipts to be generated through the disposal of assets.

The report has been prepared and agreed with Commissioners and sets out the position upon:

- 2022/23 General Fund Forecast Outturn at Quarter 3 (including assumed use of reserves, treasury & cash flow)
- 2022/23 Capital Programme Forecast Outturn at Quarter 3
- 2022/23 Dedicated Schools Budget Forecast Outturn at Quarter 3

The updated Medium-Term Financial Strategy has been presented to Cabinet as part of the 2023/24 budget proposals on 22 February 2023.

<u>2022/23 General Fund Outturn at Quarter 3</u>

The summary forecast position is set out in the table below including comparison to the quarter 2 position presented to Cabinet on 14 December 2022. In summary, there have been net adverse movements within service pressures of £2.330m, including the pay award to staff, which have been offset by a benefit to the Council of recent interest rate changes. The detail is set out in the report in section 3 and Appendix 1.

The cost of interest charges in 2022/23 is £26.869m (Budgeted £22.089m as per table 3), however, there remains an overspend of £4.780m which forms part of the overall general fund deficit position. Interest rates are subject to movement, and as a result impact the forecast borrowing costs significantly. Since Quarter 2, the forecast borrowing rate estimated for the replacements borrowing strategy has been favourable. Members should note that the improvement in the treasury position is outside of the control of the Council and hence the positive movement since quarter 2 reflects the ongoing financial risk (both positive and negative) the Council is exposed to.

2022-23 Summary Position	**Quarter 2 £'000**	**Quarter 3 £'000**	**Movement £'000**
Service pressure, net of earmarked reserves (Table 1)	1,772	4,102	2,330
Prior year investment income losses	29,927	29,927	0
In-year treasury position (Table 3)	33,268	30,910	(2,358)
Investment asset impairment	275,373	275,373	0
Further MRP in respect of capital investments	129,241	129,241	0
Funding gap before mitigation	**469,581**	**469,553**	(28)
Mitigation			0
Use of Reserves: Treasury Equalisation, Financial Resilience & Transformation (Table 4)	(7,591)	(7,591)	0
Potential asset sales/capital receipts (Table 5)	(9,610)	(8,410)	1,200
Potential movement in NNDR position (paragraph 3.4)	0	(1,200)	(1,200)
Remaining funding gap	**452,380**	**452,352**	**(28)**

The figures reflect the known positions to date and further work continues as part of the intervention which may identify further adjustments although these are not expected to be material. The potential asset sales also are subject to further assessment and will continue to be monitored through to the end of the financial year. This is the single most sensitive element of the 2022/23 budget as outlined above.

The position 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 (£30.910m – current year and £29.927m prior year) reflecting the impact of projected lost income from specific investments and increased borrowing costs. These positions are consistent with Q2 but remain under review.

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 the capitalisation direction has been received from government. Finalisation of the NNDR collection fund and section 31 grants position could provide further mitigation to the overall position.

The requested support is expected to be in the form of a capitalisation direction which has been requested 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 was made to The Department for Levelling Up, Homes and Communities (DLUHC) in December 2022 and a response was received on 1 March 2023. This is specific to the 2022/23 funding gap and the projected deficit for 2023/24. This is included at Appendix 6. 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.

<u>2022/23 Capital Programme Outturn at quarter 3</u>

A comprehensive review of the programme, to identify reductions was undertaken in July 2022. A further interim review has been conducted to support the setting of the 2023/24 budget (with a wider review to be undertaken in quarter 1 of 2023/24). This has further reduced the programme and there are a number of further projects that are held pending further assessment in the context of the requirements of the s114 notice.

This has been reflected in the budgets included in the Table below, with the remaining schemes forecasting slippage of £11.685m against the revised budget of £59.664m.

A further detailed review on the Capital programme will be completed as part of the intervention and recovery plan.

1. Recommendations:

1.1 That Cabinet note the 2022/23 forecast gross funding gap of £469.553, note the mitigation proposed locally and the wider need for exceptional financial support to mitigate the net funding gap.

1.2 That Cabinet note the position set out in respect of the capital programme in section 4 and that a further review of the programme will be undertaken in Q1 of 2023/24.

1.3 That Members note the fragility of the financial situation and in particular the reliance upon asset sales to deliver the above position.

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 On 19 December 2022 the Council's Acting Director of Finance and Section 151 Officer issued a report under Section 114 of the Local Government Finance Act 1998. This advises Councillors that the Council faces 'a financial situation of an extremely serious nature.'

2.5 As part of the intervention process the scale of the financial risk faced by the Council was provisionally quantified as part of the Quarter 2 financial report presented to Cabinet on 14 December 2022. This confirmed the need for exceptional financial support from government. This was because the actions the Council was able to take to mitigate the scale of financial losses reflected were not sufficient to address these losses. Consequently, there is currently no clear path to financial sustainability without exceptional support from government. Discussions continue with officials at DLUHC to consider this position.

2.6 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. This position remains unchanged at Quarter 3.

2.7 A response to the request for exceptional support is expected by the end of February 2023.

2.8 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 outturn compared to budget at quarter 3 is estimated to be £13.146m overspent, prior to support from additional resources. This is equivalent to a 9% variance to budget. This is over £3m worse than the quarter 2 service position and is predominately (£2.758m) due to the costs associated with the changes to the 2022/23 pay policy (formally agreed at the Full Council meeting on 25 January 2023).

3.2 The use of earmarked reserves and an assumed reduction in cost for the last quarter by continuing to ensure tight control over all non-essential spend could potentially reduce the projected in-year pressure to £4.102m. This is £2.33m worse than the quarter 2 forecast position:

Table 1 Service Pressures (net of earmarked reserves):

Directorate	2022/23 Budget £'000	Quarter 2 Forecast Variance £'000	Quarter 3 Forecast Variance £'000	Movement £'000	Direction of travel
Adults, Housing and Health	50,966	3,407	2,982	(425)	▲
Children's Services	40,826	2,461	2,033	(428)	▲
Housing General Fund	1,581	93	272	179	▼
HR, OD, and Transformation	8,924	(738)	(902)	(164)	▲
Public Realm	35,140	40	(192)	(232)	▲
Resources & Place Delivery	13,967	1,246	1,424	178	▼
Strategy, Engagement & Growth	3,450	(131)	(191)	(60)	▲
Corporate Costs	1,819	(786)	(695)	91	▼
Backdated 2022/23 Pay Award	0	0	2,758	2,758	▼
Unallocated Vacancy Factor	(3,000)	3,000	3,000	0	*No change*
Projected Intervention Costs	0	1,500	2,657	1,157	▼
Service pressures quarter 3	**153,672**	**10,092**	**13,146**	3,054	▼
Mitigation:			0	0	
Use of Earmarked reserves		(7,514)	(8,238)	(724)	▲
Cost control in quarter 4		(806)	(806)	0	*No change*
Remaining service pressure	**153,672**	**1,772**	**4,102**	**2,330**	▼

*The vacancy factor is held as a central target, the quarter 3 actual position on vacant posts is contained within the directorate outturns and is shown in table 2 below with further detail provided in Appendix 1.

3.3 Table 2 shows key variances that have been identified as part of the budget monitoring process with comparison to the quarter 2 position presented to Cabinet on 14 December 2022. This is **before** any mitigating action is applied. Further explanation is included in Appendix 1. The 2023/24 budget agreed by full council includes growth allocations to mitigate ongoing pressures within the categories listed.

Table 2 Key forecast variances at Quarter 3:

Variance category	Risk detail	2022/23 Budget £'000	Quarter 2 Forecast Variance £'000	Quarter 3 Forecast Variance £'000	Movement £'000	Direction of travel
Demographic growth	Adults External Placements	32,658	3,269	2,943	(326)	▲
Employees Costs	Vacant post saving	90,267	1,362	(50)	(1,412)	▲
	Backdated Pay Award	0	0	2,758	2,758	▼
Demand	Homelessness	(397)	0	419	419	▼
	School Transport	3,292	616	380	(236)	▲
	Waste Disposal	8,371	(604)	(845)	(241)	▲
Complexity of care	Children's external placements	12,282	1,741	2,148	408	▼
	Children's Legal proceedings	272	453	363	(90)	▲
Corporate Costs	Pension / Corporate Overheads	1,819	(786)	(695)	91	▼
	Cost of Intervention & additional resources	0	1,500	2,657	1,157	▼
Delay to savings	Asset Rationalisation	300	128	129	1	▼
	Capitalisation of staff	(1,378)	487	987	500	▼
	Ground maintenance saving	(150)	130	130	0	▼
	Waste Collection	5,136	636	557	(79)	▲
Income generation	Counter Fraud	(582)	(1,123)	(921)	201	▼
	Parking charges	(465)	327	431	104	▼
	Planning fees	(1,229)	463	169	(294)	▲
Inflation	Utilities	2,725	995	1,011	16	▼
	Other income/expenditure	751	499	576	77	▼
Total Service Pressure		**153,672**	**10,092**	**13,146**	**3,054**	▼

3.4 The assumption has been made that there will be no other significant variances within the central financing or other corporate cost allocations. These remain subject to finalisation of the NNDR collection fund and section 31 grants position, which could result in additional funding within the General Fund of £1.2m (referenced in Table 6).

<u>Expenditure Control Process</u>

3.5 Following the issue of the S114 notice, the Acting S151 Officer implemented a process by which all spend exceeding £500 is subject to additional scrutiny and the need to demonstrate that expenditure meets the requirements of the notice. spend can only be approved is it meets the following criteria:

- existing staff payroll and pension costs
- expenditure on goods and services that have already been received, and for which purchase orders had already been approved
- expenditure required to provide of statutory services at a minimum possible level
- urgent expenditure required to safeguard vulnerable citizens
- expenditure required through existing legal agreements and contracts
- expenditure funded through ring-fenced grants
- expenditure necessary to achieve value for money or mitigate additional in-year cost

3.6 The operation of the panels is further controlling spend through ensuring the requirements of the S114 notice are upheld. Where the requirements are not met, requests are rejected by the panels resulting in reduced spend which is contributing to the positive movements show in table 2a below. The wider impact that is evident from the improvement below, and which cannot be specifically captured, is that where potential requests to the panels are likely to fail officers are simply not requesting the expenditure and continuing to manage within existing resources. The wider management of the recruitment panel is also clearly positively impacting spend levels as the vacant post saving delivery is now on track as set out in Appendix 1.

3.7 The quarter 3 outturn position already shows an improved forecast outturn at a directorate level as services reduce their commitments against non-statutory services. It can be reasonably assumed that further improvements to the position will be seen in the final quarter of the year and further analysis will be carried out to ascertain the potential full year effect on spending levels in 2023-24.

Table 2a Movement in Operational Service positions (extract of Table 1)

Directorate	Quarter 2 Forecast Variance £'000	Quarter 3 Forecast Variance £'000	Movement £'000	Direction of travel
Adults; Housing and Health	3,407	2,982	(425)	▲
Children's Services	2,461	2,033	(428)	▲
Housing General Fund	93	272	179	▼
HR; OD and Transformation	(738)	(902)	(164)	▲
Public Realm	40	(192)	(232)	▲
Resources & Place Delivery	1,246	1,424	178	▼
Strategy; Engagement & Growth	(131)	(191)	(60)	▲
Total	**6,378**	**5,425**	**(953)**	▲

<u>In-year Savings progress</u>

3.8 Table 2b shows the progress against the 2022/23 savings target. Over 80% of the savings have been achieved or are on track to be realised by then end of the financial year. £2.142m has been identified as non-deliverable by 31st March against a target of £13.906, this is equivalent to 15.4%. One-off mitigation has been applied, either in the form of service underspends or the use of reserves, this is set out in Appendix 1.

Table 2b In-year savings progress:

As at 16/01/23	Savings Totals		Delivery RAG Assessment				
Directorate	Original (Baseline) £'000	Actual (excl. non deliverable) £'000	Amount of savings that are non-deliverable £'000	Amount of savings At High Risk of not being delivered by 31/3/23 £'000	Amount of savings At Risk of not being delivered by 31/3/23 £'000	Amount of savings on target for delivery by 31/3/23 £' 000	Amount of savings already delivered £'000
Adult Social Care	1,861	1,661	200	0	0	0	1,669
Housing General Fund	1,519	1,519	0	0	0	1,519	0
Public Health	200	200	0	0	0	0	200
Children's Services	3,000	3,000	0	0	0	448	2,552
Corporate	1,500	1,000	500	0	0	0	1,000
HR, OD & Transformation	616	616	0	0	0	0	616
Public Realm	1,853	1,431	422	272	26	959	174
Resource & Place delivery	2,908	1,888	1,020	128	0	1,635	125
Strategy, Engagement & Growth	449	449	0	0	0	0	449
Total Savings	13,906	11,764	2,142	400	26	4,561	6,785
% of Savings			15.4%	2.9%	0.2%	32.8%	48.8%

In-year Treasury position

3.9 The projection in the table below is a summary of the position using the information which is currently available. The position continues to be monitored in the context of interest rate movements specifically and the wider ongoing review of investments.

Table 3 In-year Treasury position:

Treasury Quarter 3	2022/23 Budget £'000	Quarter 3 Forecast £'000	Forecast Variance £'000
Interest payable on borrowing	22,089	26,869	4,780
Investment Income	(41,472)	(13,223)	28,250
MRP on existing capital programme	9,957	7,683	(2,274)
Thurrock Regeneration Limited	(1,174)	(1,021)	154
In-year pressure	**(10,601)**	**20,309**	**30,910**

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 the costs of refinancing inter-authority debt with historic rates of less than 1%, new one-year PWLB debt with interest rates to between 3.75% and 5.06% over the last 4 months when the strategy to refinance existing short-term debt was implemented. This was part of 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.

3.10 The below table shows the movement from the reported quarter 2 and current quarter 3 positions which remain subject to further interest rate fluctuations in the final quarter of the year:

Table 3a Changes to Treasury forecast:

Treasury	**Quarter 2 Forecast Variance £'000**	**Quarter 3 Forecast Variance £'000**	**Movement £'000**	**Direction of travel**
Interest payable on borrowing	5,721	4,780	(941)	▲
Investment Income	29,667	28,250	(1,417)	▲
MRP on existing capital programme	(2,274)	(2,274)	0	*No change*
Thurrock Regeneration Limited	154	154	0	*No change*
Total	**33,268**	**30,910**	(2,358)	▲

Use of reserves

3.11 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.

3.12 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. Approval from Cabinet to utilise these reserves was sought as part of the quarter 2 report.

Table 4 Use of Reserves

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

3.13 Appendix 5 details the full reserves position and shows opening and closing balances.

3.14 Consideration is being given to redirect other earmarked reserves not already being utilised and may provide further mitigation. A reserves strategy has been developed as part of the 2023/24 budget and consulted upon with Members and Commissioners. This was reported to Cabinet on 22 February 2023.

3.15 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 and is considered the minimum position for this Council.

3.16 It should be noted that whilst the external audit review for 2020/21 and 2021/22 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

3.17 The intervention, required 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 CIPFA 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.

3.18 The Council has now updated its MRP policy and reported the revised approach to Cabinet on 22 February 2023. This confirms 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 figure of £74.988m 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

3.19 Thurrock holds investments with a book value of £1.047bn. 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.

3.20 The work by the Council's advisors 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.

3.21 The projected total write-down of investments is £275.373m. The positions remain under ongoing review and are subject to significant change but remain consistent with the Quarter 2 position. Further information on these investments will be provided to members in due course.

Use of Capital Receipts

3.22 Under the Flexible Use of Capital Receipts Guidance, 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.

3.23 Reports presented to Cabinet in July 2021 and July 2022 identified a range of council owned properties that were considered surplus to requirement.

3.24 Between Apr-Dec 2022 £9.2m 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	(9,000)
Additional projected disposals within 2022/23	(2,600)
Potentially available to off-set in-year spend	**(11,600)**
Already assumed in base budget	3,190
Potential further use of capital receipts in 2022/23	**(8,410)**

3.25 This has been included as a potential mitigation to offset the wider budgetary gap in 2022/23. It is noted that there remains risk to the level of receipts still to be generated in-year due to the time required for the full completion of asset sales.

Additional Risk & Uncertainty

3.26 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:

3.27 In financial terms, risk is the probability that actual results will differ from expected results, this can be a positive or negative movement and key areas have been set out in the following table:

Risk Area	**Concern**
Inflation	• Inflation has increased significantly in recent months and is impacting supply chain costs across many services. Whilst there is some evidence that this has tailed off recently, it remains an area of focus for us • Energy costs continue to fluctuate impacting Corporate Landlord services

Provider failure	• There are significant additional financial pressures on external providers to deliver core services commissioned by the Council, in particular around energy costs, inflation and wage pressures.
Ongoing demand volatility	• 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	• There remains uncertainty in planning for services in the medium term
Delivery risk	• 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	• 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	• Changes to the Bank of England interest rate may further impact the cost of borrowing
Intervention costs	• The core intervention costs relating to the commissioners are known. Wider costs 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. Recruitment timescales potentially impact this position.
Slippage on the completion of Asset Sales	• The time taken to complete sales may lead to the disposal income being realised in the following financial year.
Reassessment of NNDR Section 31 Grants	• Further review of the NNDR collection fund has identified a reduction in the forecast to return Section 31 grant funding, due to the level of business rates reliefs applied, this would result in additional retained general fund grant funding above the current forecast.

4. Capital Programme Update

4.1 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

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

Table 7 Capital Programme – Projected Outturn as at Quarter 3

Summary of the 2022/23 General Fund Capital Programme - by Directorate	Quarter 2 Forecast	Latest Agreed Budget	Quarter 3 Forecast	Forecast Variance
Expenditure:	£'000	£'000	£'000	£'000
Children's Services	5,542	5,499	3,924	(1,575)
Chief Executive's Office	0	0	0	0
Commercial Services	16	0	0	0
Adults; Housing and Health	2,519	1,908	1,218	(690)
Public Realm	28,551	19,585	18,389	(1,196)
Resources & Place Delivery	52,047	23,911	19,537	(4,374)
HR; OD and Transformation	6,988	8,482	4,805	(3,677)
Strategy; Engagement & Growth	279	279	107	(172)
Total Expenditure	**95,942**	**59,664**	**47,980**	**(11,684)**
Resources:				
Prudential Borrowing	(71,110)	(44,642)	(35,277)	9,365
Capital Receipts	(58)	(58)	(58)	0
Reserves	0	0	0	0
Revenue Contribution to Capital	0	0	0	0
Government Grants	(15,915)	(13,714)	(11,404)	2,310
Other Grants	(6,713)	(538)	(538)	0
Developer Contributions (S106)	(2,146)	(712)	(703)	9
Total Resources	**(95,942)**	**(59,664)**	**(47,980)**	**11,684**
Forecast Deficit/(Surplus) in Resources	**0**	**0**	**0**	**0**

Summary of the 2022/23 General Fund Capital Programme - by Portfolio	Quarter 2 Forecast	Latest Agreed Budget	Quarter 3 Forecast	Forecast Variance
Expenditure:	£'000	£'000	£'000	£'000
Adults and Health	6,830	1,443	1,062	(381)
Culture and Communities	3,223	2,022	1,233	(789)
Children and Education	5,992	5,944	3,965	(1,979)
Central Services	34,798	11,451	7,126	(4,325)
Environment	4,781	3,992	3,870	(122)
Growth	4,598	7,595	4,160	(3,435)
Housing	88	88	88	0
Transport and Public Safety	35,632	27,129	26,475	(654)
Total Expenditure	**95,942**	**59,664**	**47,979**	**(11,685)**

4.3 The forecast position at quarter 2 has been restated to include projects which were shown separately as “under development” in previous reports.

4.4 The table above illustrates a movement of £36.3m between the previous forecast at quarter 2 and the latest agreed budget. Following the Government intervention, Director’s Board and Officers have been able to reduce the capital programme by £22.4m by removing projects from the Digital, Property and Service Review pots, for projects which had yet to commence. A further £10.6m of expenditure had been re-profiled into future years. In addition, several projects have been placed on hold, pending a review and therefore their associated budgets have been removed from the programme.

4.5 The table above also shows a projected outturn at the end of the financial year of £47.979m, which is £11.685m less than the latest agreed budget of £59.664m for the year.

4.6 The forecast underspend is principally due to slippage on current schemes (£10.851m). 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.

4.7 Following the quarter 3 review, several projects have either completed under budget or no longer proceeding (£0.834m) and their associated budgets will be removed from the programme.

Slippage on Capital Programme

4.8 The slippage on the capital programme schemes is shown in the table below

Table 8 – Capital Slippage by Project

Description	Carry Forward £'000
Grays Underpass Land Acquistions	2,500
Digital Pot	2,338
SEN Capital (B0800)	800
Secondary and Primary Schemes (to be Identified) (B09	552
IRL - Scheme Development - Staff Costs	500
Robotic Process Automation	487
Leisure Centre Works (L0410)	400
Purfleet Land Assembly Development Agreement (R0501	400
Service Review Board Pot	326
Disabled Facility Grant	300
Microsoft 365 Design, Build and Delivery (Phase 2)	250
Grays Town Fund (General)	250
Universal infant free school meals (B0738)	222
Demolition of Buildings	200
ICT Operating Software System Upgrades (T0506)	190
CO1 Infrastructure Decommissioning	183
Environmental Enhancements at Play Sites (N0277)	150
Education Health Care Plan (EHCP) Hub	129
TTF Heart - Civic Square	125
Purfleet SELEP Land Acquisition (R0502)	115
Well Homes Offers	66
Aveley Community Hub (R0740)	65
Deployment of overt 4G CCTV camera systems	56
Pupil Referral Unit Relocation (D0020)	50
TTF Hub - Station Gateway	45
Improvements to Village Halls (D0010)	33
Softphone capability	30
Core Licencing	28
LADO Recording Functionality within LCS	18
4Me Service Desk Self Service Enhancement	12
SEND Synergy Upgrade/Improvement	10
South Ockendon Community Hub Phase 2 (09/50035/TT	9
Applications Alignment to Office 2019	8
Bridge Repair and Strengthening (E2828)	2
Libraries Services Technology Modernisation	1
All Directorate	**10,850**

4.9 Land Acquisitions for the Grays Underpass scheme are anticipated to take place within the next couple of years. Although the overall project is under review, land will still be required for any future design. Early negotiations are being held with land owners and budget reprofiling is required to match expected spend.

4.10 Capital schemes within the Digital Pot are based on demand and include enhancements to Oracle, ICT upgrades, Synergy and Data Analytics improvements. The remaining budget is to be re-profiled into 2023/24, pending a further review of projects within the pot.

4.11 SEN Capital is likely to spend around £0.2m this financial year with the remainder to be profiled in future years. Children's services are looking to build a new Special Education Needs facility within the borough, possible locations for the new building are still be investigated.

4.12 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.

4.13 A schedule of General Fund projects is included in Appendix 3.

4.14 Several capital schemes are expected to complete construction in future years with expenditure totalling £65.717m. Budgets for these schemes have already been profiled accordingly.

4.15 Major projects are reported within the current annual budget envelopes as part of this report. The wider detailed updates on project progress will be shared with Cabinet by the lead officers as soon as practicable.

4.16 As part of a high-level review of capital activities, several projects have been put 'on hold' meaning that the budgets and financing for these have been temporarily removed from the programme pending a decision on whether they can be reinstated. This will be continued, in conjunction with a review of the remaining programme, in greater detail throughout the year as part of the wider review of the Council's finances and impact of proposed government support. A revised position will be reported to Members as early as is practical in the new financial year. It is noted that should projects be reinstated to the programme there will need to be further consideration of the impact on prudential borrowing and, where this relates to a general fund project, the associated interest, and Minimum Revenue Provision charges to revenue.

Housing Revenue Account Capital Schemes

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

Table 9 HRA Capital Programme – Projected Outturn

Summary of the 2022/23 HRA Capital Programme	Quarter 2 Forecast	Latest Agreed Budget	Quarter 3 Forecast	Forecast Variance
Expenditure:	£'000	£'000	£'000	£'000
Housing Development	3,130	1,885	1,885	0
Transforming Homes	43,583	46,878	44,363	(2,515)
Total Expenditure	**46,713**	**48,763**	**46,248**	**(2,515)**
Resources:				
Prudential Borrowing	(34,114)	(36,011)	(30,639)	5,372
Capital Receipts	(2,045)	(1,459)	(4,301)	(2,842)
Reserves	0	(739)	(754)	(15)
Government and Other Grants	0	0	0	0
S106	0	0	0	0
Major Repairs Reserve	(10,554)	(10,554)	(10,554)	0
Total Resources	**(46,713)**	**(48,763)**	**(46,248)**	**2,515**
Forecast under/overspend in Resources	**0**	**0**	**0**	**0**

4.18 The budget for Transforming Homes in 2022/23 is £46.878m and the forecast spend is currently £44.363m. Current slippage is expected to be £14.872m and further detail is shown below:

Slippage on Capital Progamme

Description	**Carry Forward**
	£'000
Tower Block Refurbishment	14,223
Non Traditional Properties	349
HRA Highways and Lighting	300
Transforming Homes	**14,872**

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

4.20 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.

4.21 In addition, funding of £8.5m has been added to the programme relating to HRA Phi property purchases. These purchases are funded from right to buy receipts and HRA prudential borrowing. This scheme is to enable to HRA to purchase open market properties and increase the overall level of Council owned dwellings. This is part of the corporate savings plan, as it provides a significant revenue saving, coupled with the ability to move people into long term accommodation solutions, and reduce the need for temporary accommodation.

4.22 Funding has also been added to the programme for the Carbon Reduction Programme (£2.815m) which was previously earmarked for use in 2023/24 and is funded from prudential borrowing. This funding forms part of the SHDF wave 1 project, for which the Council secured match funding. In conjunction with the department, a change request template was submitted on 16th January 2023 to inform that works will continue into 2023/24, and provide assurance that unspent budgets would be carried forward to the new year

4.23 The transforming homes programme is moving at an accelerated rate, and it is anticipated an additional £1m will be required during 2022/23. Funding is expected to be drawn down early from the Major Repairs Reserve.

4.24 Spend incurred up to 31 December 2022 was £31.272m.

4.25 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

4.26 The revised budgets for 2022/23 for HRA New Build Schemes are set out in Appendix 4 and covers Calcutta Way, Vigerons Way and Loewen Road. The current forecast is set to be contained within the current allocation of £1.885m. 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.

Impact on MRP for scheme slippage and projects removed from the programme.

4.27 Following the quarter 3 review of the capital programme, the table below shows the MRP savings for future years, for unsupported prudential borrowing.

MRP - Prudential Element

Year	Previous Forecast Charge	Revised Forecast Charge	Movement
	£'000	£'000	£'000
2022/23	5,149	5,149	0
2023/24	6,967	6,500	(467)
2024/25	8,022	7,766	(256)
2025/26	8,139	7,871	(268)
2026/27	8,187	7,907	(280)
2027/28	8,139	7,846	(293)
2028/29	8,007	7,749	(258)

5. Reasons for Recommendations

5.1 The Council has a statutory requirement to set and deliver a balanced budget annually and this can include the use of reserves.

5.2 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.

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

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

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

7.1 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.

7.2 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 my require further savings within budgets to be made, further impacting on the ability to deliver services.

8. Implications

8.1 **Financial**

Implications verified by: **Jonathan Wilson**

Interim Director of Finance

The financial implications are set out in the report. The report continues to confirm 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 reported to Cabinet on 22 February 2023 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.

8.2 **Legal**

Implications verified by: **Gina Clarke**

Deputy Monitoring Officer & Governance Lawyer

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.

Under section 28 of the Local Government Act 2003, the Council is under a statutory duty to periodically conduct a budget monitoring exercise of its expenditure and income against the budget calculations during the financial year. If the monitoring establishes that the budgetary situation has deteriorated, the Council must take such remedial action as it considers necessary to deal with any projected overspends. The Council is facing a challenging situation in relation to its budgetary position.

The issuing of a S114 Notice by the S151 Officer restricting Council spending to statutory services and contractual commitments and other proposed actions together with additional financial support from government will assist the Council to reduce the overspend.

8.3 **Diversity and Equality**

Implications verified by: **Roxanne Scanlon**

Community Engagement & Project Monitoring Officer

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

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

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

9. 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.

10. Appendices to the report

Appendix 1: Key general fund variances and savings mitigation quarter 3
Appendix 2: Dedicated Schools Budget
Appendix 3: Current Capital Programme
Appendix 4: Current HRA capital programme
Appendix 5: Reserves position
Appendix 6: Exceptional Financial Support letter to the Leader

Report Author

Jonathan Wilson

Interim Director of Finance