11 July 2023	ITEM: 6
Corporate Overview and Scrutiny Committee	
Provisional Financial Outturn 2022/23 Report	
Wards and communities affected: All	**Key Decision:** Key
Report of: Jonathan Wilson, Acting Director of Finance and S151 Officer	
Accountable Assistant Director: N/A	
Accountable Director: Jonathan Wilson, Acting Director of Finance and S151 Officer/Steve Mair – Interim Chief Financial Officer	
This report is Public – Appendix 7 is Exempt	

Executive Summary

The purpose of this report is to set out the provisional outturn position for the financial year 2022/23, prior to the formal closure of accounts.

The report also sets out the key movements between the quarter 3 forecast outturn position (presented to Cabinet on 15 March 2023) and the provisional full year position.

The report confirms the council could not fund it's 2022/23 expenditure without exceptional financial support from Government. A request to the Secretary of State (SoS) for exceptional financial support (EFS) for 2022/23 was made and a response was received on 1st March 2023. The support was provisionally agreed in the form of a capitalisation direction which enables the Council to capitalise the budget shortfall over a 20-year period. This provides further time to assess the financial sustainability of the Council and work is ongoing with Commissioners and the Department for Levelling Up, Housing and Communities (DLUHC).

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

- 2022/23 General Fund provisional Outturn (including assumed use of reserves, treasury & cash flow)
- 2022/23 Capital Programme provisional Outturn
- 2022/23 Dedicated Schools Budget provisional Outturn
- 2022/23 Public Health Outturn

<u>2022/23 Provisional General Fund Outturn</u>

There remains a budget gap of £434.595m as set out below and listed in full in Appendix 1:

Category	Revised Budget	Final Outturn	Final variance to budget
	£'000	£'000	£'000
Total Service budget	155,418	158,188	2,769
Other operating income/expenditure (incl. Treasury)	(18,830)	425,094	443,924
Central Financing (Gov grants, council Tax/NNDR)	(136,588)	(148,686)	(12,098)
Total	**0**	**434,595**	**434,595**

This confirms the grave financial position of the council and that without exceptional financial support from Government, the 2022/23 expenditure cannot be funded.

The summary provisional outturn position is set out in the table below including comparison to the quarter 3 position presented to Cabinet on 15 March 2023. There have been net favourable movements of £17.757m, the key changes are:

- Service position has improved by £1.333m, this includes £3.5m improvement against operational budgets and offset by further costs of intervention of £2.045m as set out in Table 1 below (and the impact of these changes on the 23/24 budget will be considered and reported in due course)
- Improvement to the in-year treasury position £3.844m considering up to date borrowing costs and interest rates
- Wider impacts from investments including impairment, write downs and MRP have improved by £17.749m
- Delays to the completion of asset sales, £2.422m less than expected at quarter 3
- Improvement in the Central Financing position (predominately NNDR) £2.253m

2022-23 Summary Position	Quarter 3 £'000	Provisional Outturn £'000	Movement £'000	
Service pressure, net of earmarked reserves (Table 1)	4,102	2,769	(1,333)	▲
Prior year investment income losses	29,927	23,195	(6,732)	▲
In-year treasury position (Table 3)	30,910	27,066	(3,844)	▲
Investment asset impairment/write down	275,373	277,789	2,416	▼
Further MRP in respect of capital investments	129,241	115,808	(13,433)	▲
Funding gap before mitigation	**469,553**	**446,627**	**(22,926)**	▲
Mitigation				
Use of Reserves: Treasury Equalisation, Financial Resilience & Transformation (Table 4)	(7,591)	(2,591)	5,000	▼
Asset sales/capital receipts (Table 5)	(8,410)	(5,988)	2,422	▼
Central Financing (Table 2)	(1,200)	(3,453)	(2,253)	▲
Remaining funding gap	**452,352**	**434,595**	**(17,757)**	▲

The position reflects current assessment of the impairment required to the investment assets of (£277.789m), the reassessment of the provision for the write down of the remaining investments over their lives (£115.808m) and increased pressure on the treasury position (£27.066m – current year and £23.195m prior year) reflecting the latest projection of lost income from specific investments and increased borrowing costs. There is an overall improvement in the position compared to Q3 as set out above. This remains a fluctuating position and will continue to be reviewed and assessed in 2023/24.

The table includes potential mitigation based on a combination of available reserves and the use of capital receipts from asset disposals. The former is provisional and subject to closure of prior year audits.

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 was specific to the 2022/23 funding gap and the projected deficit for 2023/24 and based on the Q3 position and the budget for 2023/24 respectively. This is updated by the position set out in the table above which reduces the projected need to £434.595m. The requested support is in the form of a capitalisation direction to mitigate the short-term funding gap and provide sufficient time to develop solutions which ultimately fund the financial shortfall. This enables the Council to continue to deliver services to residents and provides assurance to wider partners, suppliers, and staff.

It is important to note the cash flow consequences of the position set out above have continued to be managed in conjunction with Commissioners and DLUHC. The Council have continued 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</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 and a wider review is in progress and will be reported as part of the 2023/24 monitoring. The reviews to date have reduced the programme and there are further projects that are held pending assessment in the context of the requirements of the s114 notice.

This has been reflected in the budgets as set out in Section 4 below, with the remaining schemes forecasting slippage of £12.292m against the revised budget of £49.946m. The detail of the slippage is set out in para 4.4.

<u>Dedicated Schools Grant</u>

The DSG reserve outturn position is a deficit of £0.514m. This is an overall improvement of £1.191m achieved through an improved in year position. The detail is set out in section 5 of the report.

<u>Public Health Grant</u>

As set out in section 6 expenditure on public health service were contained within the 2022/23 grant allocation.

1. Recommendations:

Approval is sought for the following in relation to the provisional 2022/23 outturn position:

1.1 That the Committee comment on the 2022/23 forecast funding gap of £434.595m and note this is balanced by the exceptional financial support from central government.

1.2 That the Committee note that the position continues to be subject to change particularly due to the ongoing assessment of the investment portfolio and pending completion of the audit of the financial accounts from 2020/21 onwards, therefore remains provisional.

1.3 That the Committee note that the 2023/24 budget remains under review to consider the impact of the 2022/23 outturn position and note the potential for further budget virements. This will form part of the budget monitoring in 2023/24.

1.4 That the Committee approve the use of reserves as set out in Appendix 3, subject to the finalisation of the audit process relating to financial years 2020/21 and 2021/22 and note balances are subject to change.

1.5 That the Committee note the use of capital receipts in 2022/23 as set out in Table 5 to partly mitigate the request for exceptional financial support from government.

1.6 That the Committee endorse the appointment of the Neil Hartley and Rob Crusher as Non-Executive Directors as Pure World Energy Holdings Ltd following the recruitment process set out in section 3.24 to 3.31 of the report and that the Leader or his nominee meets with the successful candidates prior to them taking up their appointments.

1.7 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.

1.8 That the Committee note the position set out in respect of the capital programme and the reported reprofiling as set out in section 4 of the report.

1.9 That the Committee note the positions on the Dedicated Schools Grant and the Public Health Grant as set out in section 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 continues to be 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.

2.7 This year has also seen the impact of the cost-of-living crisis and inflation exceeding 10%, Significant additional cost has been incurred on energy and throughout the supply chain for goods and services. Gas and electricity costs exceeded budget by £0.570m (24%).

2.8 Following approval of the Pay Policy at Council in February 2022, the Council implemented a pay increase of 2.5% for Bands A & B and 2.25% for Bands C to I. This was significantly below the offer that was subsequently agreed nationally. The national pay award represented a pay increase of over 13% to the Council's lowest pay point and 2.75% to the highest pay point. The increase was unbudgeted and impacted the overall position by more than £2m.

3. 2022/23 General Fund Forecast Outturn

The position is set out in the table below:

Table 1 Service Pressures (net of earmarked reserves):

Directorate	2022/23 Budget £'000	Provisional Full Year Outturn £’000	Quarter 3 Forecast Variance £'000	Provisional Full Year Variance £'000	Movement £'000	
Adults; Housing and Health	50,966	52,043	2,982	1,077	(1,905)	▲
Children's Services	41,029	42,246	2,033	1,217	(815)	▲
Housing General Fund	1,581	1,601	272	20	(252)	▼
HR; OD and Transformation	8,941	8,755	(902)	(186)	716	▼
Public Realm	35,140	34,524	(192)	(616)	(424)	▲
Resources & Place Delivery	13,950	15,451	1,424	1,501	78	▼
Strategy; Engagement & Growth	3,450	3,198	(191)	(252)	(61)	▲
Corporate Costs	1,819	991	(695)	(828)	(133)	▲
Intervention and Commissioner’s Process	0	4,702	2,657	4,702	2,045	▼
Unallocated Vacancy Factor*	(3,000)	0	3,000	3,000	0	Reflected in directorate positions
Backdated pay award**	0	0	2,758	0	(2,758)	Reflected in directorate positions
Service Pressures	**153,875**	**163,511**	**13,146**	**9,636**	**(3,510)**	▲
Mitigation						
Further Use of Earmarked Reserves	0	0	(8,238)	(6,867)	1,371	▼
Cost Control	0	0	(806)	0	806	Reflected in directorate positions
Remaining Service Pressure	**0**	**0**	**4,102**	**2,769**	**(1,333)**	▲

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

**The estimated impact of the changes to the 22/23 pay policy at quarter 3 were subsequently contained within the directorate positions in the last quarter. Further detail is set out in Appendix 1 and 3.

Service position

3.1 The outturn compared to budget is a provisional **£9.636m** overspent against a budget of **£153.9m**, prior to support from additional resources. This is equivalent to a **6.3%** variance to budget. The detail of the position is included in Appendix 2 and the 2023/24 budget already includes an assessment of pressures and includes the anticipated funding to address these as required. This will continue to be assessed as part of the 2023/24 financial reporting.

3.2 The further use of earmarked reserves reduces the provisional in-year pressure to **£2.769m**.

3.3 Table 1 sets out the provisional position in comparison to the quarter 3 reported position, this shows an overall improvement of **£1.333m.**

The change in the service positions from Q3 to Q4 are explained below with further detail on the service variance to budget included in Appendix 2.

- **Adult Social Care £1.905m improvement -** Demand for ASC external placements were lower than expected in the last quarter and partly offset by the Discharge to Assess Grant
- **Children's Services £0.815m improvement -** Improved Children's services position due to the wider cost control measures in place and delays to recruitment (following a review of staffing structures in preparation for the 2023/24 reduction plans)
- **Housing General Fund £0.252m improvement -** reduction in cost because of lower level of demand for homelessness support in the last quarter than anticipated
- **HR, OD & Transformation £0.716m deterioration -** This reflects a re-categorisation of ICT costs from capital to revenue expenditure following a wider consideration of these costs in the sector by external audit.
- **Public Realm £0.424m – improvement –** This reflects increased income from the Counter Fraud service & lower than projected waste disposal costs.
- **Resources, Place & Delivery £0.078m – deterioration -** a shortfall in commercial rental income offset by wider service efficiencies
- **Strategy, Engagement & Growth £0.061m – improvement –** there has been a reduction in expenditure due to the cost control measures in place and management of staffing levels
- **Corporate Costs £0.133m – improvement –** there has been a reduction in costs due to the cost control measures in place
- **Intervention & Commissioner process £2.045m – deterioration –** the increase in costs following review of advisor costs linked to ongoing legal actions and support for recovery actions.

Central Financing

The table below sets out the Central Financing position:

Table 2 Central Financing

Category	2022/23 Budget £'000	Provisional Outturn £'000	Quarter 3 Forecast Variance £'000	Provisional Full Year Variance £'000	Movement £'000
Council Tax	(74,865)	(75,270)	0	(405)	(405)
Non-Domestic Rates	(29,725)	(32,799)	(1,200)	(3,074)	(1,874)
Revenue Support Grant	(7,056)	(7,056)	0	0	0
Non-specific Revenue Grants & Contributions	(3,819)	(3,859)	0	(40)	(40)
Housing Benefits	(448)	(637)	0	(189)	(189)
Levies	614	869	0	255	255
Total	**(115,299)**	**(118,752)**	**(1,200)**	**(3,453)**	**(2,253)**

Council Tax

3.4 The outturn position on the general fund element of the account resulted in an increase in the level of income recoverable from court proceeding relating to debt recovery

Non-Domestic Rates

3.5 The reconciliation of Section 31 grants, payable directly to the general fund has resulted in a net increase of £1.874m in revenue since Q3.

3.6 In the main, this is attributable to the application of the CARF (Covid-19 Additional Relief Fund) which was brought forward from the previous year and applied to the 2022/23 balance. The net usage element of the grant is higher than previously forecast.

<u>Treasury and Debt Management</u>

The provisional outturn position is shown in Table 3 below:

3.7 **Table 3 Provision Outturn Position:**

Treasury	2022/23 Budget £'000	Provisional Full Year Outturn £'000	Quarter 3 Forecast Variance £'000	Provisional Full Year Variance £'000	Movement £'000	Direction of travel
Interest payable on borrowing	22,089	23,569	4,780	1,481	(3,299)	▲
Investment Income	(41,472)	(18,292)	28,249	23,181	(5,069)	▲
MRP on existing capital programme	9,957	7,232	(2,274)	(2,725)	(451)	▲
Thurrock Regeneration Limited	(1,174)	(1,074)	153	100	(53)	▲
Other Debt Management Costs	**2,754**	**2,783**	29	29	0	
Contribution to Reserves	0	5,000	0	5,000	5,000	▲
Total	**(7,846)**	**19,218**	**30,937**	**27,066**	**(3,873)**	▲

In summary, the key variances arise due to the following factors:

3.8 The refinancing of debt from inter-authority to short-term PWLB has resulted in a £1.481m budget variance. Due to the timings of the debt refinancing and borrowing rates remaining on average below the 5% level that was previously forecast, there is a favourable change. In addition, the level of borrowing required to finance the capital programme in the current financial year further reduced as set out in section 4.

3.9 This overall position reflects the interim strategic approach to borrowing and the requirement to accelerate the switch of debt from inter authority lending to one-year PWLB, as agreed with Commissioners.

3.10 Loss of investment income is based on the latest assessment of investments, and the estimated yields This has improved through the further receipt of investment income which has followed ongoing action by the Council and its advisors to secure returns. This improvement enables a contribution to the treasury equalisation reserve which provides the ability to mitigate ongoing impacts arising from the management of the investment portfolio. This will remain under review as the ongoing divestment of investments progresses.

3.11 The MRP saving reflects a reduction in the Council's planned capital programme, and the associated reduction in the Prudential Borrowing required to finance expenditure.

Use of reserves

3.12 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.

3.13 The 2022/23 budget was set with the inclusion of a £3.3m contribution from reserves to support the general fund budget. Approval was sought at Q2 to utilise a further £7.591m of the general reserves.

A review has been carried out on the levels of all other reserves available to the council and the full listing is available in Appendix 3, a summary by category of reserve is shown below:

Reserve	**Opening Balance**	**Net Movement**	**Closing Balance 2022/23**
	£'000	**£'000**	**£'000**
Third Party Funding	(7,899)	**(221)**	(8,120)
Ring-Fenced Grant	(22,114)	**8,563**	(13,550)
Other	(69)	**0**	(69)
Service Specific Reserves	(9,250)	**6,181**	(3,069)
Specific Purpose	(3,754)	**2,271**	(1,482)
General Reserves	(15,890)	**1,572**	(14,319)
Grand Total	**(58,976)**	**18,367**	**(40,609)**

3.14 It should be noted that whilst the external audit review for 2020/21 and 2021/22 remains outstanding the opening reserve positions remain 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

3.15 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.

3.16 The Council 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. The revised approach is now included in the outturn position set out in table 1.

Asset Impairment

3.17 Thurrock holds investments with a book value of £1.05bn. The Investments are subject to ongoing review to assess the carrying value of each investment reflects the realisable value at the maturity date.

3.18 The work by the Council's advisors has been updated and the impairment of relevant investments has been made. An impairment reflects the assessment of the reduction in the value of an asset compared to the carrying value on the balance sheet. 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.

3.19 The current projected total write-down of investments is £277.789m. 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

3.20 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 (spend which relates to transformational activity and/or contributes towards ongoing financial savings) would be funded through capital receipts generated from the disposal of council assets.
Eligible in-year costs to the value of £2.355m have been identified and this reflects the impact of the intervention and the refocusing of activity to address the requirements of the intervention.

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

3.22 The quarter 3 position assumed additional asset sales to the value of £8.140m as set out in Table 5. Due to slippage in getting the properties to market, the assumed additional asset sales have reduced to £5.988m. The sales are projected to progress in 2023/24 and will then generate additional receipts.

Table 5 Asset Sales/Capital receipts:

Capital Receipts	Quarter 3 £'000	Outturn £'000	Movement £'000
Generated to date	(9,000)	(9,178)	(178)
Projected disposals	(2,600)		2,600
Already assumed in base budget	3,190	3,190	0
Further use of capital receipts in 2022/23	**(8,410)**	**(5,988)**	**2,422**

3.23 The £5.988m of capital receipts have been included in table 1 as mitigation to offset the wider budgetary gap in 2022/23.

Appointment of Non-Executive Directors to Pure World Energy Holdings Ltd

3.24 As part of the restructuring of the Pure World Energy ("PWE") group, the Council converted most of its debt to equity. Previously the largest creditor of the group, upon conversion of its debt, the Council holds over 90% equity stake in the business.

3.25 As the majority shareholder and at the point of conversion of the debt to equity, the Council proposed to add an additional layer of governance and oversight around its investment. This included the appointment of a credible independent non-executive director ("NED") to the board of PWE.

3.26 The Council has worked with advisors and PWE to develop the requirements of the role and an advertisement for a NED was then advertised. The advertisement resulted in over 200 applicants being received by PWE. PWE management and advisors to the Council then filtered the applicants to ultimately create a shortlist of 4 individuals to take to the interview stage.

3.27 Interviews have now been conducted and included Sean Fitzpatrick, CEO of PWE, alongside officers from the Council and supported by the Council's investment advisors.

3.28 The key aspects PWE and the Council are looking for from a NED is expertise in governance, an understanding of the business model of PWE and financial experience to assist with the stability and future growth of the company. The Council confirmed an expectation that a NED would be engaged on the business for approximately 2 days a month. It also confirmed that it would be open to appointing 2 NEDs, as this could add additional value if candidates demonstrated complimentary skillsets.

3.29 As noted, 4 NED candidates were taken to interview stage. The four candidates were:

- Katherine Ireland
- Neil Hartley
- Rob Crusher
- Seumas Kerr

3.30 Appendix 7 contains the summary meeting notes of the interview with each candidate.

3.31 Considering the needs of the company it is recommended that a candidate from each group is supported. It would allow the board of PWE to receive strategic, growth and funding advice from one NED, whilst the other NED would bring governance and oversight, which both bring benefits to the shareholders. Based on the recruitment process in place, it is recommended the Council endorse the recruitment of Neil Hartley and Rob Crusher who are well place provide the expertise required by the company.

4. Capital Programme Outturn

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 final out-turn position for General Fund schemes for 2022/23 is summarised below:

Table 7 Capital Programme – Final Outturn for 2022/23

Summary of the 2022/23 General Fund Capital Programme - by Directorate	Quarter 3 Forecast	Latest Agreed Budget	Final Out-turn	Out-turn Variance
Expenditure:	**£'000**	**£'000**	**£'000**	**£'000**
Children's Services	3,924	3,963	2,455	(1,508)
Chief Executive's Office	0	0	0	0
Commercial Services	0	0	0	0
Adults; Housing and Health	1,218	1,235	506	(729)
Public Realm	18,389	19,488	15,129	(4,359)
Resources & Place Delivery	19,537	19,975	15,543	(4,432)
HR; OD and Transformation	4,805	5,049	3,914	(1,135)
Strategy; Engagement & Growth	107	236	107	(129)
Total Expenditure	**47,980**	**49,946**	**37,654**	**(12,292)**
Resources:				
Prudential Borrowing	(35,277)	(37,147)	(28,851)	8,296
Capital Receipts	(58)	(58)	(40)	18
Reserves	0	(25)	(94)	(69)
Revenue Contribution to Capital	0	0	0	0
Government Grants	(11,404)	(11,458)	(8,070)	3,388
Other Grants	(538)	(555)	(135)	420
Developer Contributions (S106)	(703)	(703)	(464)	239
Total Resources	**(47,980)**	**(49,946)**	**(37,654)**	**12,292**
Forecast Deficit/(Surplus) in Resources	**0**	**0**	**0**	**0**

Summary of the 2022/23 General Fund Capital Programme - by Portfolio	Quarter 3 Forecast	Latest Agreed Budget	Final Out-turn	Out-turn Variance
Expenditure:	**£'000**	**£'000**	**£'000**	**£'000**
Adults and Health	1,062	1,062	552	(510)
Culture and Communities	1,233	1,250	1,211	(39)
Children and Education	3,965	4,133	2,508	(1,625)
Central Services	7,126	7,572	5,227	(2,345)
Environment	3,870	4,053	3,518	(535)
Growth	4,160	4,196	2,772	(1,424)
Housing	88	88	68	(20)
Transport and Public Safety	26,476	27,592	21,798	(5,794)
Total Expenditure	**47,980**	**49,946**	**37,654**	**(12,292)**

4.3 The table above also shows a final outturn at the end of the financial year of £37.654m, which is £12.292m less than the latest agreed budget of £49.946m for the year.

4.4 The in-year underspend is principally due to slippage on current schemes (£13m). 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.

Project Stage	Slippage Amount	Reason
	£'000	
Projects on hold	1,000	Projects on hold pending a Council wide review on viability to proceed.
Demand Led Projects	2,600	Funding for projects that is utilised as needed. For example, funding for corporate properties (£1m) that is used for improvement works as the need arises.
Early Design Stages	1,400	Projects at an early stage of design/feasibility where decisions to proceed will be taken in the next financial year.
Projects Commenced	5,500	Projects include works on the highways network, improvements to schools, IT infrastructure which are expected to complete in the next financial year.
Projects Completed	2,400	Projects include works on the highways network (e.g. A13) and improvements to schools where final payments are due to be made in the next financial year.

4.5 A few projects have either completed under budget or no longer proceeding (£0.072m) and their associated budgets will be removed from the programme.

4.6 During the financial year several projects have seen their budgets re-profiled into future years based on estimates at the time. Expenditure has been incurred on these projects which requires a budget of £0.780m being transferred back into the 2023/24 financial year, from subsequent years.

4.7 The slippage on the capital programme schemes over £0.250m is shown in the table below. A full schedule is shown in appendix 5 and the most significant projects are set out below:

Table 8 – Capital Slippage by Project

Description	Carry Forward
	£'000
A13 Widening (Works) (E2910)	1,601
Grays Underpass Land Acquistions	1,240
Vehicle & Plant Replacement Programme (N0256)	538

4.8 A13 Widening Works – The remaining funding needs to be carried forward to 2023/24 for payment of final contract invoices. A separate closedown report for the A13 is being prepared and will be reported to Cabinet as soon as practicable.

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 may still be required for any future design. Early negotiations are being held with landowners and budget reprofiling is required to match expected spend.

4.10 Vehicles and Plant Replacement Programme – funding required to be carried forward for future fleet and plant replacements. Expenditure will only be incurred when necessary.

4.11 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.

4.12 A schedule of General Fund projects is included in Appendix 4.

4.13 Several capital schemes are expected to complete construction in future years with expenditure totalling £98.168m. Budgets for these schemes have already been profiled accordingly.

4.14 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.

4.15 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 includes specific major projects undergoing review and specific reports for member consideration are planned for forthcoming Cabinet Meetings. These include Grays Underpass and the Stanford Le Hope Interchange projects. 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 2023/24 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

4.16 The outturn position for Housing Revenue Account schemes for 2022/23 is summarised below.

Table 9 HRA Capital Programme

Summary of the 2022/23 HRA Capital Programme	Quarter 3 Forecast	Latest Agreed Budget	Final Out-turn	Out-turn Variance
Expenditure:	**£'000**	**£'000**	**£'000**	**£'000**
Housing Development	1,885	2,045	1,500	(545)
Transforming Homes	44,363	47,983	43,352	(4,631)
Total Expenditure	**46,248**	**50,028**	**44,852**	**(5,176)**
Resources:				
Prudential Borrowing	(30,639)	(33,005)	(21,663)	11,342
Capital Receipts	(4,301)	(5,574)	(8,730)	(3,156)
Reserves	(754)	(895)	(676)	219
Government and Other Grants	0	0	(3,229)	(3,229)
S106	0	0	0	0
Major Repairs Reserve	(10,554)	(10,554)	(10,554)	0
Total Resources	**(46,248)**	**(50,028)**	**(44,852)**	**5,176**
Forecast under/overspend in Resources	**0**	**0**	**0**	**0**

Transforming Homes

4.17 The budget for Transforming Homes in 2022/23 is £47.983m and the out-turn spend is £43.852m. Current slippage is expected to be £4.631m and further detail for the three largest variances (£3.844m) is shown below:

4.18 Slippage on the tower blocks (£2.213m) 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.

4.19 Slippage has occurred on the HRA Fire Safety project (£1.058m) due a combination of delays in scoping other works into the plan and encountering issues with access to homes to undertake electrical testing.

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 (£0.573m).

4.21 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

4.22 The outturn position for 2022/23 for HRA New Build Schemes are set out in Appendix 6 and primarily covers Calcutta Way, Vigerons Way, Broxburn Drive and Loewen Road. 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.

4.23 Following the final out-turn position the 2022-2023 capital programme, the table below shows the expected MRP for future years, for supported and unsupported prudential borrowing. The revised forecast charge also includes projects agreed by Council in February 23, for inclusion in the 2023/24 capital programme.

MRP - Capital Financing Element			
Year	Previous Forecast Charge	Revised Forecast Charge	Movement
	£'000	£'000	£'000
2022/23	7,232	7,232	-
2023/24	8,646	8,824	178
2024/25	9,976	10,432	456
2025/26	10,148	10,642	494
2026/27	10,252	10,878	626
2027/28	10,261	10,916	655

5. Dedicated Schools Grant (DSG)

5.1 The DSG reserve outturn position is a deficit of £0.514m. This is an overall improvement of £1.191m achieved through an improved in year position as shown:

DSG 2022/23	Revised Budget	Academy Recoupment	Final DSG	Outturn	Variance
	£m	£m	£m	£m	£m
Schools	145.820	(140.961)	4.858	4.139	(0.720)
Central Services	1.688	0.000	1.688	1.619	(0.069)
High Needs	33.362	(6.500)	26.862	26.650	(0.212)
Early Years	13.235	0.000	13.235	13.043	(0.191)
Total	**194.104**	**(147.461)**	**46.643**	**45.451**	**(1.191)**

5.2 The outturn position reflects the following key areas:

- Schools Block – Pupil Growth is in line with projections and has an underspend of £0.720m. This reflects delayed growth expansion that is now scheduled for September 2023 which will impact on the 2023/24 outturn position.

- Central Services Block – Staffing underspends and maximisation of external funding have generated a small underspend of £0.069m

- High Needs Block – An underspend of £0.211m, a reduction of £0.150m from that previously reported.

  The change relates to Post 16 funding, with the place funding element not being paid by Thurrock. Officers will continue to monitor and consider the impact on the 2023/24 import export adjustment applied to the HNB funding allocation.

  The underspend reflects delays in the opening of the new Secondary Social, Emotional and Mental Health (SEMH) base, due to identification of appropriate premises. The SEMH base is now due to open in September 2023. This delay has created a one-off saving in 2022/23 of £0.224m.

  The significant areas of financial risk continue to be the continued increase in demand for Education Health and Care Plans; sufficiency of the local offer to prevent high-cost external placements; and costs incurred in providing education for pupils not in school.

- Early Year Block –. As part of finalising the accounts a decrease of £0.164m funding has been calculated based on January 2023 census data. The final value of funding to be received in respect of 2022/23 will not be confirmed by Education Skills Funding Authority (ESFA) until July 2023. It was always envisaged that a surplus would be possible to payback the 2021/22 overspend of £0.107m. This reflects 39 weeks paid to providers in 2021/22 and 37 weeks paid in 2022/23. ESFA payments are based on 38 weeks.

5.3 Individual School Budgets - Grays Convent High School has a surplus of £0.011m in 2022/23. This when added to the accumulated surplus, makes £0.160m available in 2023/24 to support the school's budget.

6. Public Health Grant

6.1 Expenditure on public health service were contained within the 2022/23 grant allocation

6.2 There is a carry forward amount of £0.447 which is planned to be used to fund specific health inequalities projects in 2023/24.

7. Reasons for Recommendations

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

7.2 This report sets out the budget pressures in 2022/23 and notes that exceptional financial support is required to deliver a breakeven position.

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

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

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

9.1 The budget gap identified in the report requires ongoing 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, potentially impacting on the ability to deliver services to the current levels.

10. Financial

10.1 Implications verified by: **Jonathan Wilson**

Acting Director of Finance and S151 Officer

The financial implications are set out in the report. The report confirms the need for exceptional financial support to address the funding gap and updates the projected requirement from quarter 3. As noted previously, this arises 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 confirmed 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 and this work is ongoing in 2023/24 and further updates will be brought to members to confirm progress. There remains volatility associated with holding and funding the investment portfolio and members will continue to be updated on impacts on the financial position as part of the financial monitoring in 2023/24.

The outturn position further confirms significant action continues to be 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. Processes were put in place following the issue of the Section 114 report on 19 December 2022 and will remain in place to at least the end of 2023/24.

10.2 **Legal**

Implications verified by: **Mark Bowen**

Deputy Monitoring Officer, Legal Services

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.

10.3 **Diversity and Equality**

Implications verified by: **Roxanne Scanlon**

Community Engagement and Project Office

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

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

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

11. 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.

12. Appendices to the report

Appendix 1: Provisional Revenue Outturn summary 2022/23
Appendix 2: Revenue Position Commentary
Appendix 3: Reserves position
Appendix 4: General Fund Capital Outturn
Appendix 5: General Fund capital slippage
Appendix 6: HRA Capital Outturn
Appendix 7: PWE NED Interview notes - EXEMPT

Report Author

Jonathan Wilson

Acting Director of Finance and Section 151 Officer