Appendix 8 Section 25 Statement

1 Executive Summary

1.1 This report provides detail of the Acting Director of Finance's report under section 25 of the Local Government Act 2003 and advises the Council of the Acting Director of Finance's recommendations including the risks when considering the 2023/24 budget. The Director of Finance is the Statutory Officer appointed under s151 of the Local Government Act 1972

1.2 This report is made under section 25 of the Local Government Act 2003, which Council is required to have regard to when making decisions in accordance with s.31A of the Local Government Finance Act 1992.

2 Summary and Recommendations

2.1 **The seriousness of the Council's financial position cannot be understated. It faces a financial deficit of £452m up to the end of the current financial year and a further estimated £180.2m for 2023/24. The current estimates for 2023/24 show that the budget requirement is 35 per cent greater than sources of funding available to the Council. It is only with confirmation of exceptional financial support for the Council from the Department for Levelling Up, Communities and Housing (DLUHC) that I can provide members with some assurance on the robustness of the budget estimates and the adequacy of reserves. It is clear the availability of exceptional financial support depends on the Council taking all available steps within its power to mitigate the financial deficit forecast in 2023/24. This will require difficult decisions on the proposed levels of Council Tax alongside the delivery of extensive savings.**

2.2 It must also be acknowledged and understood that the Council's position is precarious. Whilst I have been able to give some assurance on the financial position, this is based on the inclusion in the capitalisation directions of sums for general balances, some earmarked reserves, and contingencies. It is important to emphasise the systemic nature of the financial issue we face extends wider than those related to the investment issues that have been reported elsewhere. The delivery of the budget and its associated savings still requires both members and officers to maintain focus to ensure a budget can be set. This includes supporting an appropriate level of Council tax, the delivery of agreed savings and the identification and delivery of further savings throughout the year and in future years.

2.3 On the basis of the risks and issues raised in paragraphs 2.1 and 2.2 and the rest of this report, in my opinion as Acting Director of Finance and s151 Officer, Council is recommended to approve the budget on the basis that:

- The proposed level of Council reserves, in conjunction with the receipt of exceptional financial support from government, are adequate to support the budget for 2023/24 having regard to an assessment of current financial and other risks set out extensively in this report and assuming these risks do not increase beyond those that can be contained by the Council. It should also be noted that matters will continue to be identified and will change throughout the coming financial year and beyond

- The estimates are robust for the calculation of the budget within the confines of the many risks noted throughout this report. Particular attention is drawn to the following specific conditions and risks:

  (i) the recommended level of general balances, for 2023/24 is £11m, although this is the bare minimum as a percentage of Net Revenue Expenditure, and

  (ii) the budget which has levels of contingency and conditions built in to reflect the considerable risks the Council is facing and is predicated on continuing exceptional financial support from DLUHC.

  (iii) agreement of the Capitalisation Direction for 2023/24 and future years as proposed to DLUHC in December 2022 at estimated figures of £452m to 31/3/23 and £182.5m for 2023/24

  (iv) agreement by DLUHC that they will agree to further exceptional financial support to equal the actual figures for the outstanding, current, and forthcoming years as the accounts for the years are closed

  (v) agreement by DLUHC that they will agree to further exceptional financial support to equal the estimated figures for future years as the budgets are prepared for these future years

  (vi) agreement by DLUHC that they will agree to further exceptional support or agreed mechanisms to supplement the level of revenue budget savings that the Council can achieve as discussed and as will be reviewed. Further that they will agree to finance/support on a recurrent basis any recurrent gap that would arise if the £8m annual level of savings was not achieved in a sustainable manner

  (vii) the current level of Council general reserves outside of the support from DLUHC relating to specific risks and specific initiatives is currently £11m. In the current context the level of reserves needs to be further built up over time once a more stable finance base has been created.

  (viii) as at the end of December 2022, the Council has forecast a small number of earmarked reserves totalling £1.2m will be carried forward into 2023/24. The position across all reserves is set out below:

Reserve	Opening 2022/23	Use to Finance Base Budget	Used to Fund Specific Expenditure	Used to balance outturn position	Closing Balance
General Reserves					
BS300 - General Fund Balance	(11,000,000)	0	0	0	(11,000,000)
BS370 - Financial Resilience Reserve	(5,144,005)	3,144,005	0	2,000,000	0
BS369 - Transformation Reserve	(3,840,190)	155,995	0	3,684,196	0
BR013 - Treasury Equalisation Reserve	(1,906,804)	0	0	1,906,804	0
	(21,891,000)	**3,300,000**	**0**	**7,591,000**	**(11,000,000)**
Service Reserves	**(9,881,098)**	**1,015,691**	**851,472**	**7,513,728**	**(500,206)**

BS388 - Collection Fund	**(14,707,821)**	**0**	**14,707,821**	**0**	**0**
Ring Fenced or Third-party funds	**(10,898,862)**	**0**	**10,898,863**	**0**	**0**
Carried Forward Grants	**(5,843,102)**	0	**5,843,102**	0	0
Major Projects / Member initiative					
BS372 - Local Plan Reserve	(1,113,387)	0	1,113,387	0	0
BS366 - Lower Thames Crossing (GF)	(466,138)	0	466,138	0	0
BS371 - Additional police Officers	(406,363)	0	406,363	0	0
	(1,985,888)	**0**	**1,985,888**	**0**	**0**
Needed to support savings generation					
BR002 - ASC - Libraries and Communities	(120,000)	0	120,000	0	0
BR011 - Resource and Place Delivery	(358,935)	0	190,434	0	(168,501)
BS378 - Environment Reserve	(264,921)	0	100,000	0	(164,921)
BS337 - Commuted Sums (GF)	(390,976)	0	0	0	(390,976)
	(1,134,832)	**0**	**410,434**	**0**	**(724,398)**
Total	**(66,342,603)**	**4,315,691**	**34,697,579**	**15,104,728**	**(12,224,604)**

(ix) as the Council has unaudited accounts for the 2020/21 and 2021/22 financial years and will not have these complete up to 31/3/23 until well into the financial year 2023/24. Consequently, the financial position is subject to further potential change which may impact on the robustness of the budget

(x) As the Council embeds the good practice now being designed as part of the Intervention Programme various estimates will be subject to change as estimations are firmed up. The Council recognises that a well-managed Council retains Reserves that are relevant to the specific issues it faces but are also sufficient to mitigate uncertainty and unknown risks it will inevitably face.

(xi) In addition to this position it is clear that the Council needs to undertake a radical transformation programme which will require an investment in the programme to achieve sensible and sustainable outcomes. To that end the budget for 2023/24 includes a projected £10m contribution to reserves to support the delivery of the identified savings over the next 2 years and to further support the wider transformation that the Council.

(xii) the Council has a major dependency on investment and asset sales which will support recovery from 2023/24 and beyond and which will thus again affect the level of robustness of the budget

The budget presented does not take into account any potential income from any of the investments that are currently in Administration, nor does it account for any possible receipts from the sale of those investments. The Administration process will take time to reach any conclusions and there is no certainty that process will be concluded during the life of this process. In addition, whilst there may be value contained in these investments, there is not sufficient confidence to contain a figure for both income and receipts, and it would be imprudent and misleading to do so.

Reason

The recommendation enables the Acting Director of Finance (s151 officer) to meet his statutory responsibilities.

3 Introduction

3.1 In coming to a view on the robustness of the estimates there are a wide range of factors to consider, including:

- The local context
- Local risks impacting Thurrock's budget setting for 2022/23
- Risks affecting the sector
- Inherent risks
- The Council's financial management including the availability of support from DLUHC

4 Thurrock Council Context

4.1 In December 2022 the Council requested Exceptional Financial Support from DLUHC in respect of the financial year 2022/23 to help it balance its budget. The response from DLUHC remains outstanding to date and Commissioners have indicated this remains under consideration with a view expected to be provided to align with the completion of the Local Government Finance Settlement.

4.2 The Acting Director of Finance and s151 Officer issued a report under s114 of the Local Government Finance Act 1988 in December 2022, outlining a projected funding gap of £452m in 2022/23 and a further £184m in 2023/24. These figures remain under review and final figures will be agreed as part of the financial closure process in 2022/23 and the budget setting process for 2023/24 respectively.

4.3 The projected positions confirm that the Council will require exceptional financial support to balance the funding gaps identified. Further projections confirm that, based on the actions the Council can take to repay the estimated exceptional support required, the Council will not be able to mitigate the issue in full. Further work continues to explore wider actions the Council can take in conjunction with the delivery of the improvement and recovery plan in place. The medium-term financial strategy (MTFS) will be updated to reflect this action and will be reassessed in 2023/24. However, the Council will be left with a significant unfunded recurrent annual gap from 2028/29 that is then expected to further increase as capitalisation balances cannot be repaid.

4.4 On 2 September 2022, the Secretary of State for Levelling Up, Housing and Communities announced directions to implement an intervention package at the Council. The Secretary of State is exercising his powers under section 15(11) of the Local Government Act 1999 to give a Direction without complying with the requirement at section 15(9) to give Thurrock an opportunity to make representations about the Directions, as he considers the failures of the Council's compliance with its Best Value duty in respect of the functions specified in the Directions sufficiently urgent. This is because of the following:

- the scale of the financial and commercial risks potentially facing the Authority, which are compounded by the Authority's approach to financial management and the seriousness of the allegations that have been made by third parties about the processes that have been applied to the operation of the Authority's commercial strategy, and

- the failure of the Authority to provide assurance to Ministers and the Department on the adequacy of the actions that they are taking to address the issues, taking account of the scale and pace of the response required.

4.5 In the medium to longer-term the Council cannot become a financially self-sustaining council without considerable Government support. The availability of significant future support is a key assumption underpinning the 2023/24 budget and will continue to be required into future years until further mitigation can be identified.

4.6 The Council's financial position has been the subject of regular briefings to members and DLUHC throughout 2022/23. The seriousness of the financial situation and how the Council found itself in this position remain of significant concern. This has been acknowledged and the first iteration of an improvement and recovery plan has been agreed. Whilst the current request of Government is significant it is noted that there remains further consideration of several areas including:

- A further review of the current valuations of the 'tail' of investments
- Further assessment of the Housing Revenue Account
- Further assessment of the companies owned by the Council
- A detailed review of the Fees and Charges process
- A review of the Financial Management function

These reviews are planned for early in 2023/24 and may highlight further issues and opportunities once completed. Alongside this work the 2020/21 financial accounts audit remains on hold following the identification of the significant issues with investments. This is expected to create a significant further piece of work to consider the impacts of the issues identified on the financial accounts and, more broadly, will identify further issues to consider as part of the completion of this work. This will also impact on the timelines for the completion of the 2021/22 audit and the commencement of the 2022/23 audit. Discussions are in progress with external audit to plan this work.

The 2023/24 budget needs to be seen in this context and it is expected further iterations of the budget will be required during the financial year as further impacts are identified.

4.7 The Council's very serious financial position set out at quarter 2 highlights several issues which have contributed to the challenges. Examples to note include:

- Inherent costs pressures in the budget exceed the extra resources available to the Council
- Impairment in the valuation of the investment portfolio totalling £275m
- Significant additional minimum revenue provision required to write down the borrowing associated with capital investments. This has been applied retrospectively to ensure the ongoing exposure of the Council to falls in the valuation of investments is significantly reduced. The impact of this is that a total further provision of £129m has been required.
- Short-term funding streams such as reserves, and capital receipts have supported budget delivery but expose the Council to greater financial risk in subsequent years and don't address ongoing financial pressures. Consequently, these have been reversed in the 2023/24 budget and create additional pressure on budget delivery.
- A failure to deliver the full range of planned cost savings has been underpinned by inadequate monitoring of the delivery of those savings.

4.8 As a result at the time of the s114 notice the Council, assuming the receipt of exceptional financial support, has £11m in General Fund unallocated reserves and a small number and amount of wider earmarked reserves. These are considered minimal and reflect the position the Council finds itself in.

4.9 The intervention has confirmed that the Council has for several years suffered from a lack of:

- Effective project management to support the delivery of financial savings
- Effective leadership of the Council's finances and finance team
- Appropriate evidenced based decisions set within a context of value for money
- Understanding of and transparency of the true financial position given that the problems identified with investments
- Corporate and financial ownership of the problem
- An appropriate Capital and Treasury Management strategy that enabled the effective management of financial risk

4.10 All of which has led to:

- Inconsistent approaches to the delivery of savings
- A failure of financial management across the Council, beyond the finance department
- Financial Issues with investments not identified and reported to members and officers.
- Incorrect valuations of investment assets and subsequent impairments
- A Capital and Treasury Management strategy that has not supported the appropriate management of financial risk
- The implementation of an MRP policy which has not supported the write down of investment assets over their useful lives
- The need for significant exceptional financial support that is one of the largest ever reported in the sector

4.11 These problems are now being addressed but designing, implementing, and embedding an appropriate financial governance framework including updated strategies and processes together with further improvement to the organisational financial management culture and process will take several years to develop, implement, and embed. More detailed assessments of the improvement and recovery timeframe will only become possible as the situation evolves locally, and the further work required is completed. Consequently, the MTFS that now outlines the projected position over the next twenty years will need to reflect further significant actions to set the Council on a more sustainable financial footing

5. **Local Risks Impacting Budget Setting For 2023/24**

5.1 In addition to the general risks affecting the sector, which are set out in section 5 onwards, there are a number of specific local risks that need addressing in order to develop a sustainable financial strategy, as follows:

- commitment from the Department of Levelling Up, Housing and Communities to the approval the exceptional financial support request of £180.2m necessary for setting a legally balanced budget for 2023/24. The approval of future capitalisation directions is also fundamental to allow the Council to set legal budgets in 2024/25 and beyond. Without these directions the Council cannot set a budget

- The Identification and delivery of a projected initial £150m of asset disposals and recognition of capital receipts. This needs to be undertaken with the support of expert advice to obtain best value for the Council. Further assessment of the wider asset base is also required to understand the extent that further receipts are available.

- The creation and delivery of a planned divestment strategy for investments held by the Council. This will support the requirement for a strict reduction of debt required under the terms of the intervention. This is also projected to significantly reduce associated interest costs and reduce future funding gaps.

- The need to deliver significant further savings in 2023/24 and in future financial years. The risk attached to delivery increases in subsequent years and needs to be closely managed to ensure delivery.

- The availability of any flexibility in setting Council Tax levels that supports additional funding for the Council to reduce the budget deficit.

- The Council's Dedicated Schools Grant is in deficit of £1.5m. While this is relatively small in the context of the wider sector, action is required to reduce the deficit and plans are being developed in conjunction with the Department for Education to achieve this.

- The Council is the owner of Thurrock Regeneration Ltd and Thurrock Regeneration Homes Ltd. The companies have built and managed the St Chad's Housing development respectively. The business model is planned to be self-financing, but the economic climate will require a current assessment of their financial positions and consideration of whether the Council has exposure to any further financial risk. This is planned for early 2023/24.

- The Council's, 2020/21 and 2021/22 accounts remain open to audit and are not yet signed off. It is expected that the audit for 2020/21 will be completed by the third quarter of 2023. This will then enable the 2021/22 accounts to be finalised and submitted for audit which can then happen thereafter and provide greater certainty on which to base the future financial strategy. Equally, any issues arising from these audits will potentially impact the budget and MTFS

- The current finance team is relatively small, and the workload associated with the intervention is significant. Some additional support has been brought in to deliver the financial products required. However, a further strategic review is required to ensure the team has sufficient capacity and capability to meet the ongoing challenges arising from the intervention.

- the financial issues faced by the Council over the past 12 months have highlighted issues with the financial oversight of the organisation. Hence, a review of the Financial Management function will be undertaken early in 2023/24 to ensure arrangements are fit for purpose.

5.2 There are areas of risk that remain subject to volatility:

Capital Receipts

In certain areas, such as capital receipts the planned receipts estimated to the Council can be volatile depending on both the prevailing local economic conditions and timing and this has an adverse impact on the financing of the Capital Programme. However, the Council is procuring appropriate expertise to assist it generate the necessary receipts

Fees and charges

The Council is currently budgeting to collect approximately £7.461m (2023/24) in fees and charges. Examples include rents from commercial properties, fees in respect of contributions to adult care costs, payments for social care from the NHS, planning fees, car parking charges, building control, and planning fees. This is against a budget of £7.527m for the 2022/23 budget, and we are forecasting a recovery of £7.191m of this. These are closely monitored and are sensitive to local economic conditions. There is a wider review of fees and charges due in Q1 of 2023/24 which will consider current levels in the context of the section 114 notice in place.

Demand-Led Budgets

Adults and Children's Social Care budgets are demand led. The impact of high-profile national cases can lead to a significant increase in safeguarding concerns and the subsequent referrals and demand for placements within Children's Services. Demand for Adult Social Care is increasing with an ageing population living longer and with more complex needs. Whilst future years' estimates have been made based on cost and volume assessments there is a risk that these assessments may be exceeded particularly in respect of Children's Services. There is also the risk of provider failure as prevailing market conditions may deteriorate.

Council Tax Collection

There is a risk that current economic conditions impact on the current projected levels of council tax collection leading to a deficit on the Collection Fund. This will be further increased if the Council is granted further flexibility to increase the level beyond referendum levels. This risk has increased since 2013/14 with the localisation of council tax benefits and welfare reform. The Council has budgeted based on collecting 98% of 2023/24 Council Tax in line with historic levels of collection. The performance against these collection rates will be monitored on a monthly basis and the Council has historically very high collection rates.

6 Risks Affecting the Sector

6.1 The Government's one-year provisional local government financial settlement for 2023/24 and linked Policy Statement has given some certainty around the future of many general government grants for the next two financial years. However, there remains uncertainty around the future of general government grants from 2025/26 onwards. Additionally, there is no confirmation of how the Social Care grant, Services grant, and other grants announced in the provisional settlement, will be allocated from 2024/25 onwards. This presents risk to the financial stability of the Council, if these grants were to be discontinued, or if the Council's allocation were to reduce.

6.2 It is imperative the Council maintains focus on financial sustainability and continues the drive to deliver a balanced budget over the medium term, with a strong focus on transformation.

6.3 The introduction of the expected fair funding reforms, which will look at redistribution of government funding to areas of need, does not have a confirmed implementation date. This could result in the Council receiving a reduced level of funding from government in the medium to long term.
The impact of this will remain unknown until further information is provided.

6.4 The emergence of new unfunded burdens in social care and other areas of the organisation that are currently unknown could create financial pressures. The Council will need to remain vigilant in identifying these pressures and develop plans to mitigate or resolve these pressures as they emerge.

6.5 Pressures in the Adult Social Care market have increased steadily over the past 18 months and are now challenging the capacity of the market to meet demand, resulting in a destabilised market, with a heightened risk of provider failure. Whilst Thurrock has a good record of managing these increases in demand historically, we do need to be cognisant of the pressures building in the ASC system.

6.6 Similar pressures exist in the Children's Social Care market, as following the challenges posed by the Covid pandemic and resultant lockdown, the complexity of cases emerging through the systems is increasing.

6.7 In addition, the extent and management of social care demand remains a significant risk given that people are living longer and may have greater care needs.
However, these areas are monitored closely to allow action to be taken at the earliest opportunity to manage this risk position.

6.8 For 2023/24 and beyond, it is not possible to precisely forecast demand patterns as we continue to deal with the aftermath of the pandemic and enter what is forecast as a prolonged recession by the Bank of England. We are experiencing increased demand and price pressure, coupled with a sustained period of high inflation. We will continue to closely monitor the anticipated emergence of demand for services that has not been identified previously.

6.9 There is a growing risk that unemployment rates will rise in the current year, which may hit the local tax base and business rates. The rising cost of living and the projected rise in energy costs during 2023/24, despite existing and future government support, will likely put residents and local business under increased financial pressure.

6.10 To reflect these risks our MTFS does include a reduction in the Council Tax Collection rate to 97%. Thurrock has a historically high collection rate (99%), but it is considered prudent to recognise the risk that residents could prioritise paying essential bills over taxes, and that businesses will be unable to continue operating in existing premises when the bulk of NNDR reliefs end, which is expected to occur on the 1st April 2024.

7 INHERENT RISKS

As a Unitary authority the Council provides the broadest possible range of services and has an inherently higher level of risk than many other authorities simply due to the complexity and nature of the services it provides. Additionally, the Council has taken policy decisions to established alternative delivery models such as wholly owned companies which, whilst potentially having advantages, also have the potential to increase the Council's risk profile.

7.1 Other inherent risks include:

- Significant staffing shortages within corporate finance and potential difficulties in recruiting sufficient qualified staff given the Council's financial position and reputation.

- The risk of grant clawback including Government capital and revenue funding and housing benefit subsidy.

- The Council's risk as an employer which will require the Council to budget for the cost of severance packages incurred in the delivery of the required budget savings, service transformation and restructuring. The Government have indicated that they may introduce exit cap regulation which would make workforce restructuring more difficult. There are further risks from other employee related claims.

- The risk of the full impacts of any wider economic measures taken by Government with the potential for higher demands on services e.g., social care for both Children's Services and Adults Services and falling income levels.

- The risk of major litigation, both currently and in the future.

- The risk of claims arising from the Council's ownership of land and property and potentially historic service failings

- The need to retain a general contingency to provide for any unforeseen circumstances, which may arise

8 Thurrock Council's Financial Management

8.1 In response to the issues identified and the wider response to the intervention, the Council will complete a review of the Financial Management function. This will ensure there is a fit for purpose function including appropriate capability and capacity to deliver high quality financial reporting alongside an effective system of financial governance.

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8.2 The Council's HRA is undergoing a similar review process alongside a review of all the Council's companies.

8.3 The assumptions on which the budget is based are contained within the main budget report presented elsewhere on the agenda, however, key assumptions include:

- Agreement of the exceptional financial support for 2022/23 and future years as proposed to DLUHC in February 2022 at estimated figures of £452m to 31/3/23 and £180.2m for 2023/24.

- Agreement by DLUHC that they will agree to exceptional financial support to equal the actual figures for the outstanding, current, and forthcoming years as the accounts for the years are closed.

- Agreement by DLUHC that they will agree to exceptional financial support to equal the estimated figures for future years as the budgets are prepared for these future years.

- Agreement by DLUHC that they will agree to exceptional financial support or agreed mechanisms to supplement the level of revenue budget savings that the Council can achieve as discussed and as will be reviewed.

- Council Tax increase – at 9.99% per annum in line with the additional 5% flexibility offered by Central Government.

- Finance settlement – the proposed funding figures are as per the Governments Final Settlement announcement

- Pay assumptions – 4% pay award for 2023/24 (with an outstanding decision on 2022/23 included but also not yet agreed)

- Inflation – non pay budgets have been increased where necessary in order to maintain service levels by either CPI (assumed at b%) or as contractually specified – most notably energy price inflation is significantly above CPI

- Reserves and provisions – that the reserves and provisions identified as needed as the accounts are closed and budgets prepared will be added into future years capitalisation direction and supported by DLUHC

- Asset sales and capital receipts of up to £150m for proposed property sales and a wider divestment of investment assets across the next 5 years are planned and to finance the capitalisation direction and reduce borrowing.

- The Council has scaled back its Capital Programme to a minimum in the light of its financial situation. Over the next five years it will carry out projects totalling £276m (£139m General Fund and £137m Housing Revenue Account).

- The net cost of which (after the application of specific grants and contributions) will be funded from borrowing. The Council's external borrowing is projected to reduce over the period from asset sales. The associated capital financing costs together with the revenue implications of the specific schemes are provided for within the capitalisation directive and relevant revenue accounts.

- It should also be noted that to deliver the Council's policy priorities and a balanced budget in each year of its MTFS 2022/23 to 2028/29 very significant savings in the order of £8m will be required per annum in addition to further capitalisation directions. The £8m per annum savings will require cost cutting to a degree not seen previously in this Council. Further work to identify even greater savings will continue in 2023/24 and reported to Members.

- The continued need to deliver a high level of savings poses an inherent risk to the delivery of a balanced budget position as over time they become more complex and difficult to deliver. Consequently, it is important there is an absolute continued focus on savings delivery to ensure they are identified and delivered as planned.

- The longer-term position will need continual review given the magnitude of the position the Council finds itself in, the uncertainties associated with that and the inability at this stage to advise on the long-term going concern of the Council.

- All expenditure of whatever type and funded by whatever means will be subject to approval by an expenditure control panel.

- Any expenditure incurred outside of this process will be reported to Cabinet and Commissioners as part of the budget monitoring process

- A review will be undertaken of all estimates as part of the ongoing work of the finance department, along with the continued work on the accounts

- Continuous budget meetings will be held with Directors to review issues, savings, mitigations, and delivery of efficiencies.

- Thematic reviews of budgets covering types of expenditure, income, and contracts to assess the potential for savings.

9. Adequacy of Reserves and Balances

9.1 The prudent level of reserves a Council should maintain is a matter of judgement. The consequence of not having adequate reserves can be significant. In normal circumstances the Council would be setting its budget and identifying reserves and provisions in a systematic manner. However, in the current circumstance the setting of the level of general fund and earmarked reserves is much less secure due to the extreme circumstance in which the Council finds itself. As at 31 March 2023 the Council has £11m general fund balances to call upon to manage the risks highlighted above.

9.2 As the financial situation improves and the Council becomes more capable of managing its finances then the Council will look to create a range of general and specific earmarked reserves to manage future risks. These reserves will be determined having regard to a risk-based assessment. Within this assessment it is to be noted the risk to the Council's finances associated with funding reductions from Central Government and other external funding bodies is high, and this is compounded by the effects of major legislative changes as described earlier in this report.

9.3 In setting the budget for 2023/24, estimates were made at the time of the required level of reserves and provisions, and this was included in the submission to DLUHC as part of the request for exceptional financial support. Provisions relate to known events, which have occurred and that have given rise to a liability for the Council, where the exact amount or timing of the payment is not clear.

9.4 In addition to known liabilities, the budget also has regard to various risk issues where at the time of setting the budget there is no contractual liability but there is a possibility that payment may be required at some point in the future; in these cases, earmarked reserves are normally created. These reserves are established to cover specific risk issues as highlighted in the Council's risk registers. For 2023/24 the only earmarked reserves that have been set are those that support transformation with a small additional level of contingency to support service delivery. The wider financial gap will need to be funded from the anticipated on-going support from Government. As a benchmark the lower quartile for similar authorities would be an expectation of general fund balances and earmarked reserves to be at around 25 per cent of Net Revenue Expenditure.

9.5 In reviewing the adequacy of reserves, the Director of Finance recommends the level of the General Fund Balance to be £11m in 2023/24 having regard to the risks set out in this report and the request for financial support being discussed with Government. The Director of Finance is of the view that the level of reserves is adequate solely for 2022/23, having regard to the risks identified and the level of contingency in the budget and considering the planned level of transformation reserves as noted above. The revised MTFS will in the future identify in greater detail the plans for replenishing reserves.

9.6 CIPFA (Chartered Institute of Public and Finance and Accountancy) in its review of financial resilience within councils have stated that there should be no imposed limit on the level or nature of balances required be held by an individual Council. However, considering recent high-profile failures and funding concerns being raised by authorities they launched a financial resilience index which uses a basket of 15 indicators to measure individual authorities' financial resilience compared to their comparator group.

10 Conclusion

10.1 Thurrock's budget deficit remains at exceptional levels in both 2022/23 and projected for 2023/24 with no longer term solution yet clear. The position will continue to change throughout the next 12 months while the accounts up to 31/3/23 are prepared and audited and the budget for 2024/25 is set. The issue is of such a magnitude and is accompanied by a range of issues that are wide ranging and, for the most material items, unique to the Council. **Notwithstanding that point, there are significant underlying financial pressures that the Council must address as a matter of urgency. Failure to do so will mean that the Council is unable to operate as a functioning local authority.**

10.2 In these circumstances it is impossible to give an assurance that is normally required within a S25 report. The best that can be said is that:

The Council is now beginning to respond to the issues arising, develop a system of improved financial governance including effective financial reporting. This will take time to embed and operate fully across all areas and will need to be supplemented by further improved processes as part of the delivery of the wider Improvement and Recovery Plan. Since the intervention the Council has already taken steps to raise awareness of the importance of effective financial management and governance to support taking appropriate financial decisions.

10.3 The Council is working to improve the ability to meet its budgetary challenges focussing on actions to address the significant financial issues attaching to the investment strategy as well as taking wider action to mitigate the projected deficit in 2023/24.

10.4 The Council, in conjunction with Commissioners, has kept DLUHC fully involved in all aspects of its financial situation and will do so in the future.

10.5 In this context and with the contingency built into the budget estimates, the assumption that DLUHC will support the Council in full as it continues its work on the accounts, estimates and financial processes and that managers will manage within their allocated budgets the Council should be able to manage within these estimates for 2023/24.

10.6 In providing this statement, the Acting Director of Finance and s151 Officer will maintain an on-going review of all financial risks, including those associated with the delivery of budget savings, identification of further savings (and likely structural implications associated with such savings) and report throughout the financial year. This review will require significant action by the Council during 2023/24 and beyond

Jonathan Wilson
Acting Director of Finance and s151 Officer

Date 1 March 2023

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