

CABINET

7 OCTOBER 2022

REPORT OF THE PORTFOLIO HOLDER FOR CORPORATE FINANCE AND GOVERNANCE

A.2 FINANCIAL PERFORMANCE REPORT – GENERAL UPDATE 2022/23 AND 2023/24

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To provide a general update and overview of the Council's financial position against the 2022/23 budget and looking ahead to 2023/24 and beyond.

EXECUTIVE SUMMARY

- This year has seen a number of emerging issues both nationally and globally that will have a significant impact on the Council's own financial position e.g. inflation, supply chain disruption, energy cost increases, commodity price increases along with associated secondary impacts. This is in addition to more local pressures on net costs such as the Crematorium remaining non-operational for the first half of 2022/23.
- Rather than present a detailed quarterly update as would ordinarily be the case at this time each year, this report instead sets out a high level review of the Council's financial position and challenges ahead along with a proposed short term response.
- Officers continue to work on updating the forecast and exploring options to support the Council in meeting the financial challenge in 2022/23 along with setting a balanced budget in 2023/24.
- Given the scale of the financial challenges that the Council faces, it is proposed to engage all members as early as possible in this process to add resilience to the Council's financial position heading into 2023. As has been said before, the financial stewardship of the Council is a responsibility borne by all members and it is more important than ever that we work together to ensure that we not only balance the books but we protect as many front line services as we possibly can going into 2023/24 and beyond.
- Given the speed with which national / global events have introduced significant financial pressures, and along with the scale of the impact, it is proposed to look to reserves, capital receipts and unspent balances to deliver a balanced budget and outturn position this year and next (2022/23 and 2023/24). This provides a platform to develop sustainable proposals to manage the financial position in the medium to longer term.
- Notwithstanding the comments above, a number of items are proposed to be funded in the immediate term given their relative urgency. These items are set out further on in this report and are reflected in the recommendations. The recommendations also include a delegation associated with the use of external funding made available by our health partners.

- The Corporate Investment Plan will continue to play a key role in supporting the Council's decision making processes going forward. However, given the scale of the financial challenges faced by the Council, this will now be reviewed alongside the development of the budget / forecast over the coming weeks and months.
- The recommendations below also reflect the proposals to remain within the Essex Business Rates Pool and continuing with the Council Tax Sharing Agreement in partnership with ECC, whilst it remains advantageous to do so.

RECOMMENDATION(S)

It is recommended that Cabinet:

- notes the contents of this report and requests Officers to explore opportunities to maximise Member engagement in the budget setting process as early as possible in the financial forecast 'cycle' for 2023/24;**
- subject to a) above, requests Officers to present an updated financial forecast and funding options to the November 2022 meeting of Cabinet;**
- approves the funding allocations set out within Table 2 within this report, with the associated total cost of £859,200 met from the Corporate Investment "Reserve".**
- subject to c) above, approves a delegation to Officers, in consultation with the relevant portfolio holders, to agree the necessary arrangements to implement / take forward the items set out within Table 2 of this report;**
- agrees to the acceptance of external funding made available by our Local Health Partners totalling £408,000, and a delegation to the relevant Portfolio Holder to approve the associated schemes / projects in consultation with the Alliance Board; and**
- the Council continues to be a member of the Essex Business Rates Pool and Council Tax Sharing Agreement with ECC in 2023/24 if it remains financially advantageous to do so.**

REASON(S) FOR THE RECOMMENDATION(S)

- In order to engage all Members as early as possible in this process to add resilience to the Council's financial position heading into 2023 and to ensure that TDC not only balances the books but protects as many front line services as it possibly can going into 2023/24 and beyond.
- To also enable a number of items to be funded in the immediate term given their relative urgency.

ALTERNATIVE OPTIONS CONSIDERED

- Not to approve some or all of the funding allocations in Table 2;
- Not to accept the external funding made available by local health partners; and
- Not to continue as a member of the Essex Business Rates Pool and Council Tax Sharing Agreement.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The forecasting and budget setting process will have direct implications for the Council's ability to deliver on its objectives and priorities. The current 10-year approach to the forecast seeks to establish a sound and sustainable budget year on year through maximising income whilst limiting reductions in services provided to residents, business and visitors. The review proposed within this report will continue to be set against this context.

OUTCOME OF CONSULTATION AND ENGAGEMENT

N/A

LEGAL REQUIREMENTS (including legislation & constitutional powers)

Is the recommendation a Key Decision (see the criteria stated here)	Yes	If Yes, indicate which by which criteria it is a Key Decision	<input type="checkbox"/> Significant effect on two or more wards <input checked="" type="checkbox"/> Involves £100,000 expenditure/income <input type="checkbox"/> Is otherwise significant for the service budget
		And when was the proposed decision published in the Notice of forthcoming decisions for the Council (must be 28 days at the latest prior to the meeting date)	This item has been included within the Forward Plan for a period in excess of 28 days via the inclusion of the regular Financial Performance Update Reports item.

The Monitoring Officer confirms they have been made aware of the above and any additional comments from them are below:

Although there are no additional comments above those set out in this report, it is important to highlight that following the delegations proposed within the recommendations above, further reports will be necessary to take the actions forward in accordance with the general decision making requirements set out within the Council's Constitution.

FINANCE AND OTHER RESOURCE IMPLICATIONS

The financial implications are set out in the body of the report.

Although the availability of financial resources is a key component in the delivery of services there will also need to be appropriate input of other resources such as staffing, assets and IT.

The Section 151 Officer confirms they have been made aware of the above and any additional comments from them are below:

The S151 Officer is the author of this report.

USE OF RESOURCES AND VALUE FOR MONEY

The following are submitted in respect of the indicated use of resources and value for money indicators:

A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;	This is addressed in the body of the report.
B) Governance: how the body ensures that it makes informed decisions and properly manages its risks, including; and	
C) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.	
MILESTONES AND DELIVERY	
This reports forms part of the Council's wider budget setting processes. Additional update reports will therefore be presented to Cabinet in November, December and January as part of developing the detailed estimates that will be presented to Full Council in February 2023.	
ASSOCIATED RISKS AND MITIGATION	
There are significant risks associated with forecasting such as cost pressures, inflation and changes to other assumptions that form part of the financial planning process. The Council's initial / short term response is set out in the body of this report and will continue to be addressed as part of the future financial updates reports highlighted earlier.	
EQUALITY IMPLICATIONS	
<p>There are no direct implications that significantly impact on the financial forecast at this stage. However, the ability of the Council to appropriately address such issues will be strongly linked to its ability to fund relevant schemes and projects and determination of the breadth and standard of service delivery to enable a balanced budget to be agreed.</p> <p>An impact assessment will be undertaken as part of any separate budget decisions such as those that will be required to deliver savings.</p>	
SOCIAL VALUE CONSIDERATIONS	
<p>There are no direct implications that significantly impact on the financial forecast at this stage.</p> <p>However, such issue will be considered as part of separate elements of developing the budget as necessary.</p>	
IMPLICATIONS FOR THE COUNCIL'S AIM TO BE NET ZERO BY 2030	
<p>There are no direct implications that significantly impact on the financial forecast at this stage.</p> <p>However, such issue will be considered as part of separate elements of developing the budget as necessary.</p>	
OTHER RELEVANT CONSIDERATIONS OR IMPLICATIONS	
Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.	
Crime and Disorder	Please see comments above
Health Inequalities	
Area or Ward affected	

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION

As part of the regular cycle of Financial Performance Reports, at this time each year a review of the Quarter 1 position is presented to Cabinet along with an updated financial forecast for the years ahead.

However, this year has seen a number of emerging issues both nationally and globally that will have a significant impact on the Council's own financial position e.g. inflation, supply chain disruption, energy cost increases, commodity price increases along with associated secondary impacts. This is in addition to more local pressures on net costs such the Crematorium remaining non-operational for the first half of 2022/23.

Although an initial financial forecast was prepared earlier in the year, it would have effectively been out of date if reported at the present time, given the scale and speed of the emerging financial position.

With the above in mind it is therefore not proposed to present a 'business as usual' detailed financial update, but instead present a summary of the emerging issues along with some high level proposals on how the Council can respond to these emerging challenges in both 2022/23 and 2023/24. This approach also enables Officers to continue the necessary work in terms of updating the forecast and to explore potential funding options, with the outcomes currently planned to be presented to Cabinet in November.

As set out within the Council's Constitution, the development of the budget involves all members, albeit at various stages of the process that culminates in detailed budget proposals being presented to Full Council in February each year. Given the scale of the financial challenges that the Council faces, it is proposed to engage all members as early as possible in this process to add resilience to the Council's financial position heading into 2023. It is more important than ever to ensure that we not only balance the books but we protect as many front line services as we possibly can going into 2023/24 and beyond.

In terms of the scale of the financial challenge faced, the following reflects early estimates of some unavoidable costs, some of which will have an impact in 2022/23 as well as 2023/24 and beyond:

Table 1

Item	Potential Impact in 2022/23	Potential Impact in 2023/24
Employee Costs – Pay Inflation	£750k to £900k	£1.7m to £2m
Contract Inflation	In excess of £300k	In excess of £800k
Homelessness Costs	In excess of £100k	In excess of £100k
Increases in Capital Projects	In excess of £1m	
Energy Costs	In excess of £250k	In excess of £250k
Reduction in Government Funding (assumes no Government funding in 2023/24 at this stage)	n/a	In excess of £1m

Although the above is expected to be partly mitigated by underlying increases in council tax and business rate income and via the identification of other income streams / savings (e.g.

investment income), it would not be unreasonable to assume at this stage that the scale of the financial 'gap' could be between £2m and £3m in both 2022/23 and 2023/24, which would therefore require £4m to £6m to be identified to fund these budget 'gaps' across these two years.

The Chief Executive continues to chair a regular Budget, Performance and Delivery meeting of Senior Managers where the above emerging issues are discussed. These valuable meetings will continue and will inform further iterations of the forecast going forwards in consultation with Cabinet. However, as highlighted earlier, it is important for all members to be invited to support the development of the budget alongside this Senior Officer group and Cabinet. A recommendation is included above to explore options to take this important element of the budget process forwards.

An integral part of the process set out above is the Corporate Investment Plan, which will continue to play an important role in supporting the response to the financial challenges ahead. As set out in a report to Cabinet in July, it was highlighted that further reporting of the Corporate Investment Plan would be delayed until such time as the Council had a clearer position on the potential financial impacts faced by the Council, in light of the outturn position and emerging financial pressures. It is worth highlighting that the Corporate Investment Plan approach includes the identification of issues emerging from departmental resource delivery plans along with supporting operational needs, which reflect a large number of the costs emerging to date.

The Corporate Investment Plan remains under review in parallel with the work highlighted above with the latest version of the 'pipeline' to be presented to Cabinet later in the year. However a number of urgent issues have emerged to date which are set out as follows:

Table 2

Item	Amount	Comments
Redevelopment of the Starlings Site	£600,000	Costs have increased primarily due to a higher level of land contamination than originally expected. Options are being explored in consultation with the relevant Portfolio Holders, which will include looking at potential external funding opportunities.
Recycling Boxes / Bins	£50,000	Up until now, residents have been able to pick up new / replacement boxes from various sites across the District. This cost was previously supported by an allocation from the New Homes Bonus as part of the roll out of the new service in 2019. This funding has now been fully used. Options are being explored in consultation with the relevant Portfolio Holder, but in the interim period the purchase of additional boxes is required.
Customer Support Assistants	£49,200	To respond to additional demand, a number of temporary posts were established over recent years. It is

		proposed to extend these until the end of March 2023 to continue to provide the necessary capacity to respond to the continued increase in demands on the Council.
Tending Community Fund – Extension of the scheme to respond to the current Cost of Living pressures faced by Residents	£100,000	Officers have been working on options to extend the current Tending Community Fund Scheme arrangements to enable financial support to be provided to relevant local organisations who in turn provide necessary support to our residents. This funding will therefore enable this approach to be taken forward as part of the existing Tending Community Fund arrangements.
Additional Resources within the Council’s In-house Property Team	£60,000	It is proposed to recruit additional resources to take forward the development / delivery of action plans in respect of the Council’s buildings / assets, which will also include carbon reduction initiatives.
Total	£859,200	

Given the relative urgency of the above, it is proposed to fund them in the immediate term via the use of the Corporate Investment Plan Reserve. After taking into account the above items which total £859,200, £1.433m would remain in this reserve. This funding option can be revisited over the second half of the year where it may be possible to use capital receipts to meet the cost of the capital items within the table above, as part of finalising the overall response to the financial pressures faced by the Council.

Similar to an item agreed as part of the Corporate Investment Plan in March 2022, a number of additional external income streams have been made available by our health partners. £408,000 has been made available to enable a number of projects to be implemented, via agreement with the Alliance Board, with a recommendation included above to delegate the use of the funding to the relevant Portfolio Holder.

As discussed within earlier financial performance reports, zero based budgeting was planned to be further developed during 2022/23. The key principles behind zero based budgeting will play a key role going forward and will form part of developing the forecast but it is recognised that the immediacy of the financial challenge the Council faces will influence the impact this approach will have in the short term.

It is also worth highlighting the Forecast Risk Fund, which was designed to support the Council’s budget over the medium to longer term. This Fund remains an essential element of the forecast, with over £3m estimated to be held in this reserve at the end of 2022/23. This provides some financial flexibility to the Council, especially in terms of providing time to consider the Council’s longer-term response.

The Council also planned to review the long-term financial plan in 2023, but given the issues highlighted above, this will now need to be considered against a very different financial background to that originally expected during the earlier years of the forecast.

It has also been identified that there are a number of further pressures on existing budgets over and above commodity price increases and supply chain issues, such as the development of flexible work spaces at Jaywick Sands. The cost of the project is likely to increase although at this stage they continue to be managed within the existing project contingency sum. Updates will be provided in future reports if this position changes.

Proposed Response to meet the Funding 'Gap'

In terms of options to respond to the potential total budget 'gap' of between £2m to £3m in both 2022/23 and 2023/24, revisiting existing reserves and budgets will undoubtedly form the foundation of the Council's response. From a pragmatic point of view, there is not enough time to identify and work through alternative ways to fund the budget 'gaps' before the budget starts to be finalised over the period from December 2022 to February 2023.

Although the Government may consider their position over the coming months, they have stated that they will not be providing additional funding to Local Authorities to help them through the current difficult financial period. Based on previous announcements, it is assumed that they expect Local Authorities to use their existing reserves to 'survive' the financial challenges ahead. Although their understanding of reserves does not reflect the local intent behind holding them, any use of existing budgets and reserves will result in an impact on the delivery of priorities in the years ahead if money has to be 'diverted' to respond to the short term financial issues.

In addition to the proposed response above, the various revenue carryforwards totalling £12.948m that were requested by Services and set out in the 2021/22 Outturn report considered by Cabinet in July, will also be revisited, with the aim of identifying any opportunities to 'release' funding to support the wider financial challenge faced by the Council.

In consultation with Cabinet, Officers are currently exploring the various reserves and budgets held by the Council to identify a funding solution for 2022/23 and 2023/24, with an update planned to be presented to Cabinet in November.

In terms of the longer term position, this will require Officers and Members working together to identify various options to meet the financial challenges that lie beyond 2023/24 set against the aim of protecting as many front line services as possible.

The Housing Revenue Account (HRA)

The Housing Revenue Account will also see some significant financial pressures, including the expected 'capping' of the rent increase for 2023/24 by the Government. Although it is recognised that this supports the Council's tenants, the 'telescopic effect' of this will have a significant impact on the 30 year business plan as the Government are not expected to support the Council in balancing the impact of price increases elsewhere within the HRA. The use of HRA balances are therefore potentially likely in the short term.

The wider financial review will also need to consider the use of capital receipts. This may be

even more important in terms of projects such as the redevelopment of Honeycroft. To date it has always been the expectation that this project would be funded from borrowing. However, given the recent increase in interest rates, any borrowing now would include a 'premium' over the 'usual' cost of borrowing for an extended period of time. This will be reviewed as part of the on-going delivery of the Honeycroft project, which remains subject to an associated tender process at the current time. Any use of capital receipts will have a knock on impact in terms of future opportunity costs but this can be revisited as part of the development of the forecast and the 30 year HRA Business Plan looking ahead.

In terms of the 'premium' on the cost of borrowing, this has already had an impact on 'replacement' borrowing within the HRA. As part of developing the HRA budget for 2022/23, it was planned to replace £800k of external borrowing during 2022/23 with an external repayment type loan. It is now proposed to replace this amount via 'internal' borrowing, which can be accommodated within the Council's 'core' cash balances. Although this remains in line with the original decision to borrow money, albeit now from internal resources, this will be reviewed as part of developing the 30 Year HRA business plan over the coming months.

It is also worth highlighting similar issues to the General Fund, and that is the increase in the cost of delivering capital projects. Although options will be explored within the overall HRA's financial position, a recent tender exercise for the refurbishment of Spendell's House is nearly double that of the existing budget of £600k.

Business Rates Pooling and Council Tax Sharing Agreement

The Council remains a member of the Essex Business Rate's Pool in 2022/23 along with benefiting from the Council Tax Sharing Agreement with Essex County Council. These two schemes have continued to provide a financial benefit to the Council over recent years and it is proposed to continue the same approach in 2023/24.

An associated recommendation is therefore set out above to support the Council's continued involvement in both schemes whilst it remains financially advantageous to do so.

PREVIOUS RELEVANT DECISIONS

Outturn Report 2021/22 – Item A.6 Cabinet 15 July 2022

Corporate Investment Plan Report – Item A.3 Cabinet 25 March 2022

BACKGROUND PAPERS AND PUBLISHED REFERENCE MATERIAL

None

APPENDICES

None

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