Public Document Pack

OVERVIEW & SCRUTINY BOARD
AGENDA

7.30 pm	Thursday 13 October 2022	Havering Town Hall, Main Road, Romford

Members 12: Quorum 5

COUNCILLORS:

Conservative Group
(3)

Timothy Ryan
Christine Smith
Damian White
TBC
TBC

Havering Residents' Group
(4)

Laurance Garrard
Gerry O'Sullivan (Chairman)
Philip Ruck (Vice-Chair)
Natasha Summers

Labour Group
(2)

Mandy Anderson
Katharine Tumilty

East Havering Residents
(1)

Martin Goode

For information about the meeting please contact:
Anthony Clements 01708 433065
anthony.clements@oneSource.co.uk

Under the Committee Procedure Rules within the Council's Constitution the Chairman of the meeting may exercise the powers conferred upon the Mayor in relation to the conduct of full Council meetings. As such, should any member of the public interrupt proceedings, the Chairman will warn the person concerned. If they continue to interrupt, the Chairman will order their removal from the meeting room and may adjourn the meeting while this takes place.

Excessive noise and talking should also be kept to a minimum whilst the meeting is in progress in order that the scheduled business may proceed as planned.

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

OVERVIEW AND SCRUTINY BOARD

Under the Localism Act 2011 (s. 9F) each local authority is required by law to establish an overview and scrutiny function to support and scrutinise the Council's executive arrangements.
The Overview and Scrutiny Board acts as a vehicle by which the effectiveness of scrutiny is monitored and where work undertaken by themed sub-committees can be coordinated to avoid duplication and to ensure that areas of priority are being reviewed. The Board also scrutinises general management matters relating to the Council and further details are given in the terms of reference below. The Overview and Scrutiny Board has oversight of performance information submitted to the Council's executive and also leads on scrutiny of the Council budget and associated information. All requisitions or 'call-ins' of executive decisions are dealt with by the Board.
The Board is politically balanced and includes among its membership the Chairmen of the six themed Overview and Scrutiny Sub-Committees.

Terms of Reference:
The areas scrutinised by the Board are:

- Strategy and commissioning
- Partnerships with Business
- Customer access
- E-government and ICT
- Finance (although each committee is responsible for budget processes that affect its area of oversight)
- Human resources
- Asset Management
- Property resources
- Facilities Management
- Communications
- Democratic Services
- Social inclusion
- Councillor Call for Action
-

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF

What matters are being discussed?

DPI

Does the business relate to or is it likely to affect a disclosable pecuniary interest. These will include the interests of a spouse or civil partner (and co-habitees):
- any employment, office, trade, profession or vocation that they carry on for profit or gain;
- any sponsorship that they receive including contributions to their expenses as a councillor; or the councillor's election expenses from a Trade Union;
- any land licence or tenancy they have in Havering
- any current contracts leases or tenancies between the Council and them;
- any current contracts leases or tenancies between the Council and any organisation with land in Havering in they are a partner, a paid Director, or have a relevant interest in its shares and securities;
- any organisation which has land or a place of business in Havering and in which they have a relevant interest in its shares or its securities.

YES → Declare Interest and Leave

NO ↓

PERSONAL INTEREST

Might a decision in relation to that business be reasonably be regarded as affecting (to a greater extent than the majority of other Council Tax payers, ratepayers or inhabitants of ward affected by the decision)
- Your well-being or financial position; or
- The well-being or financial position of:

o A member of your family or any person with whom you have a close association; or
- Any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors;
- Any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000;

o Any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your Authority; or

o Any body exercising functions of a public nature, directed to charitable purposes or whose principal includes the influence of public opinion or policy (including any political party or trade union) of which you are a member or in a position of general control or management?

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES ↓

PECUNIARY INTEREST

You must disclose the existence and nature of your personal interests

↓

Would a member of the public, with knowledge of the relevant facts, reasonably regard your personal interest to be so significant that it is likely to prejudice your

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES ↓

- Does the matter affect your financial position or the financial position of any person or body through whom you have a personal interest?
- Does the matter relate to an approval, consent, licence, permission or registration that affects you or any person or body with which you have a personal interest?
- Does the matter not fall within one of the exempt categories of decisions?

NO → You can participate in the meeting and vote (or remain in the room if not a member of the meeting)

YES ↓

Speak to Monitoring Officer in advance of the meeting to avoid allegations of corruption or bias

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive.

3 DISCLOSURE OF INTERESTS

Members are invited to disclose any interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any interest in an item at any time prior to the consideration of the matter.

4 MINUTES (Pages 1 - 44)

To approve as a correct record the minutes of the meeting of the Board held on 5 July 2022 (attached) and to authorise the Chairman to sign them.

5 FINANCE UPDATE (Pages 45 - 88)

Report attached.

6 CORPORATE RISK REGISTER (Pages 89 - 102)

Report attached.

7 RESILIENCE OF CARE HOME MARKET (Pages 103 - 108)

Report attached.

8 INCOME AND BUDGET PERFORMANCE FOR HAVERING'S JOINT VENTURES AND MERCURY LAND HOLDINGS (Pages 109 - 124)

Report attached (exempt appendix not available to press or public).

Zena Smith
Democratic and Election Services Manager

This page is intentionally left blank

OVERVIEW AND SCRUTINY

Subject Heading:	**Finance Update**
Cabinet Member:	**Councillor Chris Wilkins (Cabinet Member for Finance and transformation)**
SLT Lead:	**Dave McNamara** Section 151 Officer
Report Author and contact details:	Richard Tyler Head of Financial Strategy and Business Intelligence 01708 433 957 Richard.Tyler@oneSource.co.uk
Policy context:	This report to Overview and Scrutiny Panel presents the Finance Update to September Cabinet and allows scrutiny of the Council's financial position
Financial summary:	The Council is in the process of preparing the 2023/24 budget and 2023-2027 Medium Term Financial Strategy. This report allows Overview and Scrutiny Committee to review the current position in order to inform that process.

Is this a Key Decision? No – Information report for scrutiny

REPORT DETAIL

1 On 28th September Cabinet received a report which set out the following information
   - Confirmation of the Councils Outturn position for 2021/22

- Revenue and Capital Monitoring Position Period 3 2022/23
- Update on the Medium Term Financial Strategy 2023-2027

At the last Overview and Scrutiny meeting an update on the Council's financial position was requested. The September budget update cabinet report provides that information and is attached for scrutiny.

RECOMMENDATION

That the Board considers the Cabinet report and appendices and determines whether there are comments or, if appropriate, alternative recommendations they wish to be passed to the appropriate Cabinet Member.

APPENDIX A

CABINET, 28 SEPTEMBER 2022	
Subject Heading:	**Update report on the Council's financial position and Medium Term Financial Strategy**
Cabinet Member:	**Councillor Chris Wilkins (Cabinet Member for Finance and transformation)**
SLT Lead:	**Dave McNamara** Section 151 Officer
Report Author and contact details:	Richard Tyler Head of Financial Strategy and Business Intelligence 01708 433 957 Richard.Tyler@oneSource.co.uk
Policy context:	The report provides an update on the Financial position of the Council including the Period 3 revenue monitoring position, the latest medium term financial strategy and proposals for consultation on the 23/24 budget
Financial summary:	This report includes: • the current national funding outlook • a summary of the Council's current financial situation • the approach to setting the Council's 23/24 budget and MTFS for the following years • proposed arrangements for budget consultation
Is this a Key Decision?	Yes – Significant effect on more than two wards

EXECUTIVE SUMMARY

1.1 This report provides an update on the financial position of the Council. The report contains the following sections

- Revenue and Capital Monitoring Position Period 3 2022/23
- Update on the Medium Term Financial Strategy 2023-2027
- Proposals for Public Consultation on the 2023/24 Council Budget

1.2 The financial positon of the Council is acute.

In summary:

- The 2021-22 outturn was a service overspend of £20m. This was partially mitigated by one-off Government COVID support of £8.1m
- The revenue monitor for 2022/23 at period 3 shows a forecast service overspend of £19m
- The General Fund non earmarked balances as at 31st March 2022 are £11m
- The current Medium Term Financial Strategy (MTFS) shows an imbalance between expected funding and forecast funding levels of £70m over a 5 year period.

1.3 Havering remains a low-cost council providing good services with high value for money. The Council is funded through Council Tax; a proportion of Business Rates (NNDR) it collects; locally raised income and Government Grant. The impact of the pandemic, and reduction in Government grant has created a situation whereby increasing spending pressures are not being matched by increases in resources.

1.4 This situation is compounded by the cost of living crisis where high rates of inflation are placing pressure on staffing costs and contracts, particularly those that rely upon high levels of staff such as social care. The Council has added £9.7m of growth into its plans for inflation in 2023/24 but there is a risk that even this high figure will not be enough if rates continue to rise. Rising interest rates will also increase the revenue cost of borrowing for the capital programme.

1.5 It should be noted that 70% of the Councils net revenue budget of £173m is spent on Adult and Children Services. The Council is required to provide these services by law and as a result the increased demand in these services significantly restricts the choice the Council has in service provision in other areas.

1.6 This is the most uncertain time for financial planning within Local Government, and at the moment Government advice would appear to be outdated. There have been no official announcements on future funding to supplement the data provided in the 2021 Spending Review. It is widely expected that more funding will be provided for Social Care but until the Government makes its intentions clear the planning process needs to identify alternatives should this funding not be forthcoming.

1.7 Although acute, the position is manageable but will necessitate significant reduction in the cost of services which are currently being delivered as well as requiring other efficiency and service changes.

1.8 It should be noted that the Council is highly dependent on Council Tax to fund its services. The Government uses Core Spending Power as a measure to show the increase the Council has to fund its net revenue budget. 71% of Havering's Core Spending power is financed by Council Tax. The Government's funding models assume Council Tax as a funding mechanism which means authorities with a high dependency on Council Tax are forced to increase Council Tax as the only mechanism to fund increasing social care demand. To be clear the Government's funding model assumes this. The table below shows Havering's Core Spending Power for 2022/23

Havering Core Spending Power	**2022-23**
	(M)
Council Tax	139.6
Retained Business Rates	36.0
Underindexation Grant	2.8
New Homes Bonus	0.3
Social Care Funding	16.0
22-23 Services Grant	2.4
Lower Tier Services Grant	0.3
Core Spending Power	**197.4**

1.9 Havering residents have also been directly penalised through the Government's decision to part fund social care by a precept on Council Tax. The level of grant provided for Adult Social Care to each authority is determined partly by that authority's ability to raise revenue through council tax.

To exemplify this a band D resident in Havering will pay an extra £16 per year for a 1% precept whereas a residents in other boroughs will pay as low as £5 through their historical lower Council Tax level. The Government then equalises this loss of income by giving those boroughs additional grant compared to Havering. The net result of this is that Havering residents have to fund a much higher proportion of the cost of Adult Social Care through Council Tax than their equivalents in boroughs with historically lower Council

Tax levels. This is profoundly unfair and Havering has lobbied hard to the Government to change this part of the formula.

1.10 Havering like many other boroughs are faced with a tough financial position which will require difficult decisions in order to balance the budget. Some other authorities have taken significant risk in their borrowing strategy with the aim of generating income to resolve their financial issues. Whilst seeking to generate additional income taking this type of risk will not be part of the Council's borrowing strategy. Havering will not take such risks with public financing and will only take decisions on capital investment where the viability of projects has been thoroughly evaluated.

1.11 This report firstly gives some background on the current financial position then sets out the current revenue monitoring position as at Period 3 and the Medium Term Financial strategy for 2023/27. The report also shows the areas that the Council plans to consult on in order to balance the 2023/24 budget

Recommendations

2.1 Cabinet are asked to note the revenue and Capital financial positions at Period 3 and the action plans being taken by services to reduce the overspend (section 4)

2.2 Cabinet are asked to note the Medium Term Financial Strategy and agree the budget timetable set out in section 5

2.3 Cabinet are asked to agree the Public Consultation process set out in section 6

BACKGROUND

3.1 The combined effects of the recovery from the COVID pandemic and the current economic crisis has placed significant pressure on the Council's finances. In March 2022 the Council set a balanced budget for 2022/23 but since then the combined effect of increased demand in Social Care, rising costs and inflation have caused the Council to project a significant overspend in the current year.

In setting the 2022/23 budget the Council projected future demand in both Childrens and Adult Social Care and added over £15m of additional funding in these areas. Demand and the complexity of case particularly in childrens services however has continued to rise throughout 2022 outstripping the budget provision and resulting in the projected pressures set out in Section 4 of this report.

The global economic crisis has caused increased costs across virtually all Council services. The Council continues to work hard to minimise the cost of services it procures but inevitably rising inflation has put pressure on the Council's budget and resulted in overspends. Departments are currently reviewing all budgets to ensure both that spend is minimised where possible and efficiencies are developed to contain and reduce costs.

3.2 As part of the budget setting process in March 2022 the Council was presented with a medium term financial strategy setting out the potential pressures the Council is likely to face over the next four years and the likely financial gap which will need to be closed either by savings or tax increases.

The Medium Term Financial Strategy is a live document and is updated through the year as parameters such as demographic and inflationary pressures change. The Council has a robust planning process and senior officers and cabinet members have been presented with the changes to the plan through the summer in order to develop plans to balance the budget in future years.

The process to set a balanced budget for 23/24 is probably the most difficult challenge Havering and indeed many other authorities have ever faced. Section 5 of this report sets out the process undertaken to balance the budget and sets out the challenges ahead including a timetable up to the full Council

3.3 **Challenges to setting the 23/24 budget**

a. Backdrop of a significant service overspend in 2021/22
b. Historic Underfunding from Central Government
c. Uncertainty in future central funding
d. The Global crisis - Spiralling Inflation and Energy costs
e. Increased demand and complexity for Childrens Social Care
f. Adult Social Care Demographics
g. Potential additional costs of Fair cost of care above currently planned Government Funding

3.3.1 The 2021-22 Revenue Outturn Position

During 2021/22 Havering started to experience the significant increase in demand for its services which is now shown in both the revenue monitoring position and the medium term financial gap. The year also had continued costs from the COVID pandemic which were largely covered by one off Government Grant.

The table below sets out the reported position at year end

Financial Position	£m
COVID Expenditure for the year	1.597

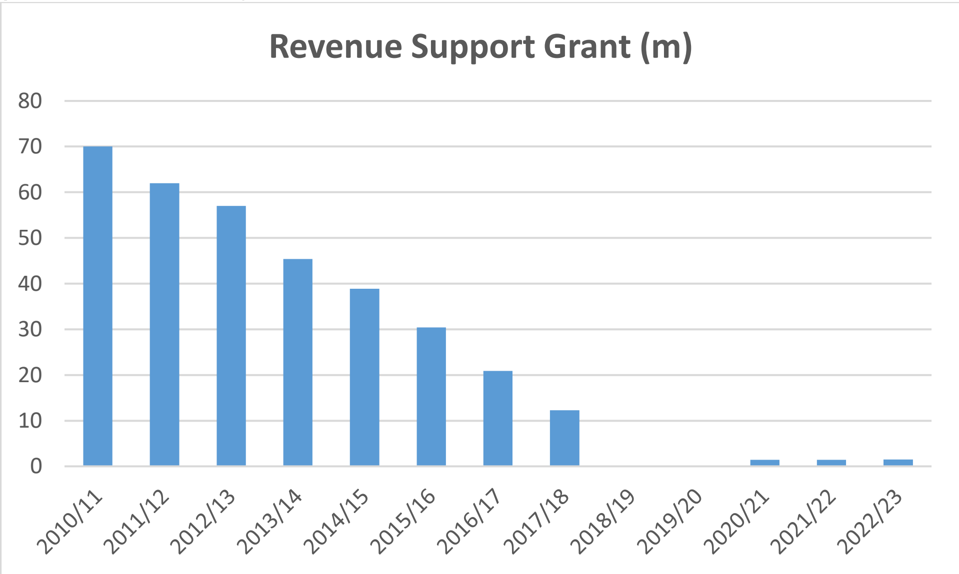
Financial Position	£m
Income loss for the year	6.919
Gap in 2021/22 MTFS savings delivery	5.278
Business As Usual Net Position	5.908
Total Pressures	**19.702**
Government Support (COVID)	(8.239)
Corporate	(3.469)
Overspend	**7.994**

It should be noted that the Outturn included £8m of planned contributions to general balances so the level of general reserves remained at £11m. The Council recognised the service pressures shown above in its medium term financial strategy last winter and added significant growth into both the Children's and Adults budget. This however has proved to be insufficient to meet the combined effect of demographics and sharply increasing inflation as is explained later in this report

3.3.2 Historical underfunding from Central Government

Local Government received reductions in funding over a decade of austerity from 2010. During this time Havering's central grant (Revenue Support Grant) was cut from over £70m in 2010 to just £1.5m today. Havering worked tremendously hard to make savings and efficiencies to offset this reduction but the latest increases in demographic pressures have placed frontline services at risk.

The graph below shows how Revenue Support grant has reduced through the period of austerity after 2010



During the same period the dependency on Council Tax to fund the net revenue budget has increased from 47% in 2010/11 to 71% in 2022/23. This is a reflection of the both the reduction in the grant and the Government's policy to fund Adult Social Care from Council Tax through a precept each year

Havering also suffered significantly through the Government's decision to freeze the distribution formula between authorities since 2013/14. Havering has experienced disproportionate growth in demand in Social Care since 2013 and as a result the failure to amend the apportionment formula has cost Havering grant in every year since.

The Government have recently produced updated apportionment data for Adult Social Care as part of a consultation paper on the distribution of fair cost of care funding. This formula if implemented would give Havering £2.8m more funding through the Adult Social Care Grant alone over the last four years as shown in the table below.

Adult Social Care Grant	Haverings Actual Social Care Grant	Haverings grant if the RNF Element had used the new formula	Extra Grant if the RNF Element had used the new formula
	(M)	(M)	(M)
2019/20	1.7	1.9	0.2
2020/21	5.5	6.2	0.7
2021/22	6	6.8	0.8
2022/23	8.5	9.6	1.1
			2.8

Clearly having produced this updated data there is a very strong argument that the Government should use the formula at least in the allocation of the Adult Social Care Grant for future years. Havering has and continues to lobby the Government to use updated data in the next funding settlement.

The Census shows further increases to Havering's population. Havering is lobbying hard for this new data to be included in future settlements but there is a significant risk that the census data will not be used for at least 2-3 years as was the case with the last census

As stated Havering's central grant has been cut significantly since 2010. The result of this is an increased dependency on Council Tax to fund services as Government grant reduces. In the same period there has been exponential growth in demand for both Childrens and Adult Services. This has squeezed the funding available for other services.

3.3.3 Uncertainty of Future Central Funding

In 2021 the Government announced a three year spending review which provided Government Departments financial control totals over those three years. In normal circumstances this announcement would have provided some stability and a strong indication of future funding over that three year period. The destabilisation of the economy following the war in Ukraine has resulted in the cost of living and inflation spiralling to levels far higher than the assumptions in the Spending Review.

The Government have yet to provide assurance that additional funding will be made available leaving authorities no alternative but to prepare for the reality of high inflation in their plans. This report sets out the significant impact on Havering’s finances but also shows the robust action the Council has taken in exceptionally difficult circumstances.

The 2022/23 settlement also included £822m of funding for local authorities through a services grant which the then secretary of state made clear would be a one off distribution and potentially be allocated in other ways in 2023/24. This funding will remain in local government but the Government as yet have provided no indication of how they intend to distribute it.

The Government are also still committed to a number of reviews in the future including:

1. The Fair Funding Review
2. Business Rate Reform
3. Fair Cost of Care

It is expected that the first two reviews will be again delayed as there has been no consultation on any proposals. The fair cost of care proposals however are a key Government policy and local authorities continue to prepare for implementation. Extensive modelling of the potential impact has been undertaken and the widely accepted view is the funding currently set aside by the Government is significantly understating the full costs.

Havering expects the scheme to cost £8m over and above the current anticipated grant by 2027. This has been built into the medium term financial strategy but is one of the reasons for an increase in funding gap since the plan was last presented in February. This is a national problem that needs to be fully addressed if the Government are to implement their proposals

In our current modelling we have assumed 346 self funders receiving homecare and have assumed 348 privately funded beds in the borough based on care home survey results. We expect approximately 1000 unpaid carers to come forward for an assessment and we estimate 80% of eligible self funders will come forward for an assessment.

3.3.4 The Global crisis - Spiralling Inflation and Energy costs

The last nine months have seen record increases in energy costs together with large rises in the cost of living. These additional costs are placing huge pressures not only on the Council budget but on its providers aswell.

The Government is expected to provide support through the winter to help mitigate these pressures but until this is properly worked through Council's have no alternative but to identify alternative ways to balance the cost of inflation.

Costs are rising rapidly not only in energy but on all commissioning areas. This impacts particularly on social care and leisure facilities where high usage of energy is unavoidable. The medium term financial strategy set out in section 5 of this report assumes inflation stabilises after a spike in 2023 in line with current economic forecasts.

3.3.5 Increased Complexity and Demand for Childrens Social Care

Demand and Complexity for Children services has risen sharply over the last two years. This will be due to many factors including the aftermath of the COVID pandemic and the current economic crisis but the result is a large increase in cost through increased demand for the service.

Growth had been expected as these numbers started to come through a year ago and the Council prudently added £5m of growth to the Children's budget for 2022/23 to mitigate this. The reality however is that the increase in demand and costs has out stripped this growth causing a pressure both in 2022/23 and ongoing into the 2023-27 medium term financial strategy.

This increase in demand is partially explained by the following facts:

- In recent years the 0-4 age group in Havering has seen the second highest growth rate of all authorities in the country
- There are now more under 19's in the borough than Over 60's
- Rates of contact at the front door has increased from 8,000 referrals in 2018 to over 14,000 in 2022
- The number of care leavers in the borough has risen from 189 in 2018 to over 300 presently. This includes 50 unaccompanied Asylum Seekers
- The number of Education and Health Care Plans issued has increased by 40% over the last 4 years

The Complexity of cases has also risen in the same period increasing unit costs of provision

- Requests of behavioural support services are up 52%
- Contacts concerning mental health are up 50%

- Contacts concerning domestic abuse are up 20%
- Contacts concerning neglect are up 15%

3.3.6 Adult Social Care increased Demographics and costs

Demographic pressures in Adult Social Care continue to rise causing a pressure on the Council's budget despite significant funding being added to the Adult budget in 2022/23.

The ongoing pressures are caused by;

- High cost transition places as children reach adulthood. The department is working hard to develop longer term solutions for these clients but the initial unit cost as they reach adulthood is high
- Increased numbers of people with mental health needs
- Increased cost of providers through the inflationary impact of the current economic crisis
- High demand at the front door with over 1,500 calls a month an increase from about 1,200 in 2020
- Numbers of people requiring home care continues to rise

3.3.7 Public Health funding

The amount of funding the Council receives for Public Health priorities has increased with inflation in recent years. Whilst any increase is welcome these increases are inadequate to fully fund the public health objectives and aims of the Council. This shortfall in funding will become more acute in 22/23 and future years due to sharply rising inflation and costs

REVENUE MONITORING POSITION – PERIOD 3

4.1 This section sets out the monitoring position for the Council for 2022/23 based on figures to period three (30th June). All departments are working hard to reduce the current overspend through a series of actions which are set out in paragraph 5.2.1

4.2 The table below shows the net service budgets, forecast outturn and variances.

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A3000B-Public Health Total	(1.650)	(1.650)	(1.650)	0.000
A4000B-Childrens Total	46.496	47.004	53.811	6.807
A4600B-Adults Total	72.523	71.978	76.333	4.355
A5000B-Neighbourhoods Total	11.514	11.514	14.455	2.941
A5500B-Regeneration Programme Delivery Total	1.262	1.262	1.117	(0.145)

A5700B-Housing Total	3.883	3.883	4.124	0.241
A7000B-oneSource Shared Total	1.895	2.306	4.751	2.445
A8000B-oneSource Non-Shared LBH Total	0.361	0.140	1.306	1.166
A9000B-Chief Operating Officer Total	4.891	4.978	5.320	0.342
Service Total	141.175	141.414	159.565	18.151
Corporate Total	31.735	31.496	32.496	1.000
Overall Total	172.910	172.910	192.061	19.151

This section also reviews the Corporate budget position, including Treasury and the Collection Fund.

4.3 Revenue Monitoring Background

The 2022/23 budget was a difficult budget round and in order to set a balanced budget the Council had to include over £15m of savings proposals. The budget did however allow for significant demand led growth in the Social Care budgets with the aim that these funds would enable services to manage demand and stay within budget.

The period three position identifies significant areas of risk to the budget and services are forming action plans in order to contain overspends. The pressures however are largely caused by external factors such as additional demographics, rising inflation and fuel costs which the Council has no real control over.

The extent of the potential service pressures in this report is significant and early decisive management action is being taken to curtail costs. The Council currently has £11m in general balances and failure to contain these overspends will have a significant effect on that figure. It is hoped that the service led action plans to contain spend will stabilise the budget position but this will be kept under close review and the S151 officer and Chief Executive will take any steps needed if necessary to secure and safeguard the Council's finances

The savings proposals built into the budget are challenging but staff are working hard to deliver them. This will be closely reviewed in future monitoring reports.

4.4 Current Variances by Department

This section sets out the service reported position at the end of June and the directorates view on the potential outturn position from all known information. The paragraphs below set out departmental commentary on the current variances.

4.4.1 Public Health Directorate

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A3100C-Public Health	(1.650)	(1.650)	(1.650)	0.000
A3105C-Public Health - Non Grant Expenditure	0.000	0.000	0.000	0.000
A3000B-Public Health Total	**(1.650)**	**(1.650)**	**(1.650)**	**0.000**

The position for the Public Health Directorate is reporting a balanced position. Public Health spending is based on an annual grant from the Government which is allocated to meet various strategic health aims and targets each year. The Council also has a Public Health Reserve which will be utilised if there are any minor overspends in this area.

4.4.2 Children's Directorate

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A4100C-Learning & Achievement	11.030	11.029	16.777	5.748
A4200C-Childrens Services *	33.856	34.356	35.147	0.791
A4250C-Safeguarding - Quality and Assurance	1.610	1.620	1.887	0.267
A4000B-Childrens Total	**46.496**	**47.004**	**53.811**	**6.807**

Children's services is forecasting an overspend of £6.8m. These figures include £5m growth allocated as part of the 2022/23 budget round.

*The variance shown on the Children's Services row in the table above does not reflect the true extent of pressures in this division because the full growth budget (£5m) is currently sitting in this area and needs to be spread over the other two rows. The true pressure areas are shown below.

The areas of pressures are:

LAC Placements	£4.281m
CWD Placements & Short Breaks	£2.521m
SEN Transport	£2.735m
UASC 18+	£0.525m
Children's Centres	£0.570m
Staffing	£2.103m
Sub-total	**£12.735m**
Growth to be apportioned	(£5.000m)
Savings already identified	(£0.928m)
P3 pressure	**£6.807m**

Learning and Achievement

- Looked after Children (LAC) placements have already increased in numbers above projections in the first two months of the year. It was originally hoped that the increased trend was a temporary peak but the latest data indicates it is not. The forecast assumes an overall increase in expenditure of 25% over 2021/22 levels based on current client data and projections.

- The data on SEN transport and CWD indicate increased client numbers and more needs that are complex. The forecast assumes an overall increase in expenditure of 15% for transport and 25% for CWD over 2021/22 levels based on client data and projections.

Children's Services

- Dependency on agency is rising in Social Care despite significant efforts to recruit and retain permanent staff

- Unaccompanied Asylum Seeker Children (UASC) 18+ cases are increasing and the costs of these clients exceed the Governments weekly allowance.

The Directorate has undertaken a Zero Based Budget exercise, which has informed the above forecast. As part of this review, the service has looked closely at activities that can be controlled further to avoid cost or reduced in order to alleviate the financial pressure. This exercise has resulted in a reduction in the predicted overspend of £0.928m through the service realigning budget to the overspending areas and through the release of some one-off grant funding. These savings are already incorporated into the overspend figures reported above.

The Directorate is proactively implementing a workforce strategy in an effort to recruit and retain higher levels of permanent staff to reduce caseloads and expensive agency costs.

4.4.3 Adults Directorate

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A4600C-Adult Services Total	6.970	7.627	8.094	0.467
A4610C-ASC Business Management Total	12.479	2.666	3.143	0.477
A4620C-ASC Integrated Services Total	53.075	61.685	65.096	3.411
A4600B-Adults Total	**72.523**	**71.978**	**76.333**	**4.355**

ASC Integrated Services (£3.411m projected overspend)

The biggest contributors to the period three pressure are demographic pressures totalling £2.741m broken down into Physical Support Client Budget £1.941m. Support with Memory & Cognition £0.516m and Support for Social Isolation £0.360m. Learning Disabilities budget is projecting an overspend of £0.654m in addition mainly due to Direct Payments to Clients, Residential and Supported Leaving.

The remainder of this service are projecting an underspend of c£0.060m, bringing the forecast to year end of £3.411m. It should be noted this includes £1m of contingency held to cover social care potential pressure for the reminder of the year. The service continues to work hard to contain this overspend.

The forecast position would have improved by £2.1m if the promised health funding would have materialised as intended. It should be noted that the forecast does however include the delivery of £3.366m of budget savings.

<u>Adult Services (£0.467m projected overspend)</u>

The budget pressure in this area relates to:

Adult Safeguarding £0.194m, mostly due to staffing budget pressures, reflecting the demand for the service.

Mental Health budget £0.165m, due to social care needs such as Supported Accommodation, Nursing and Residential.

Other variances relating to additional equipment costs in Physical Disabilities and loss of income across the various client areas resulting in a £0.109m pressure

<u>ASC Business Management (£0.477m projected overspend)</u>

The main pressure in this area is the staffing budget, which reflects the pressure to provide front line services to the client cohort.

The latest activity data has showed that since start of the financial year we have provided services to 3,013 service users of which 2,745 are still receiving services. Since start of the year, 216 service users have started getting social care services on long-term basis and 181 are not getting services any longer, living a net 35 increase in client numbers. The net cost due to starters and leavers was £0.703m but was offset by other favourable client care package movements (£0.265m), leaving a net increase of £0.438k.

We are still seeing a high demand at the front door, which has increased from same period last year. We are receiving just over 1,500 calls a month. This will be looked at in more detail in future months in terms of what we are diverting and signposting elsewhere.

• Homecare – The main headline is that new starters are costing more than leavers, due to case complexity. There is still a significant demand from hospital, including 32 out of 77 new cases, 17 of which relate to hospital or packages following reablement. Community cases reflect people getting frailer and carers unable to cope.

The increases in numbers to homecare continues to drive the budget. People are experiencing issues with post hospital transfers, which is a real driver for the increase in packages.

• Nursing – In nursing in the first quarter there are more leavers than starters. There has been a reduction in costs by £72k by ceasing two 1:1 support packages. The 1:1 packages will all be reviewed in the coming weeks.

• Residential: Period 3 saw additional placements being made, but also 16 leavers. A new emerging theme is we are getting requests from families paying 3rd party top ups stating they can no longer pay given the current climate. These are being addressed on an individual basis, but it is a clear emerging pressure.

It should be noted that the full year savings targets are assumed to be achieved by year-end at this point - this will be tracked through the year.

4.4.4 Neighbourhoods

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A2300C-Public Realm Total	8.254	8.254	11.093	2.839
A2310C-Civil Protection Total	3.338	3.338	3.428	0.090
A2350C-Bereavement and Registration Services Total	(2.631)	(2.631)	(2.712)	(0.081)
A2860C-Planning Total	1.196	1.196	1.455	0.259
A2900C-Business Support - Neighbourhoods Total	1.359	1.359	1.189	(0.170)
A5000B-Neighbourhoods Total	**11.514**	**11.514**	**14.455**	**2.941**

At period three Neighbourhoods has identified potential pressures of £2.941m across its services. The service is developing action plans to try and contain these pressures. It should be noted that some of the pressures still relate to the legacy of the lockdowns as services build back to previous levels

The main pressure areas are:
Public Realm

In year costs of £0.9m relating to the deferral of the integrated Public Realm Contract work to 22/23, which was paused when the nation went into lock down in 2020.

Parking is currently projecting a pressure of £0.7m. Parking Services are in the process of delivering the prior year and in year MTFS savings relating to the expansion of the CCTV network, of course as is always the case with parking or moving traffic enforcement the intention of the scheme is to generate compliance but for budgeting purposes.

Highways currently anticipate a £1.3m pressure due to reduced external works for TFL funded projects as a result of reduced anticipated income, Management have started implementing plans to mitigate these pressures, including reducing spend on: minor operational adjustments, structures and schemes budgets.

Planning

There is a potential budget pressure of £0.3m in planning for unbudgeted legal costs in relation to an upcoming Public Inquiry.

Civil Protection

There are also potential budget pressures of £0.1m across Civil Protection through agency costs and the delayed implementation of the Street trading policy. The service are reviewing all areas and hope to mitigate the pressure using alternative ways to transport staff around the borough, progress with the Street trading policy implementation and deleting vacant posts.

The forecast position includes Directorate underspends of £0.5m. It should be noted that it also includes the delivery of £0.547m of budget savings

4.4.5 Regeneration Programme Delivery

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A2850C-Regeneration Total	1.262	1.262	1.117	(0.145)
A5500B-Regeneration Programme Delivery Total	**1.262**	**1.262**	**1.117**	**(0.145)**

Regeneration

Regeneration are reporting an underspend position of (£0.145m) on revenue at Period 3. This is mainly due to reduction in project management and business development costs.

4.4.6 Housing General Fund

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A4300C-Housing Services (GF) Total	3.883	3.883	4.124	0.241
A5700B-Housing Total	**3.883**	**3.883**	**4.124**	**0.241**

Housing General Fund

The Housing Services (GF) is projecting a £241k overspend. This is due to the Private Housing Investment for settled homes (PHISH) (£100k) saving and Price Per Property (£102k) saving, which are not deliverable. Mercury Land Holdings (MLH) have pulled out of the PHISH project to deliver extra units of accommodation and the reducing PSL stock levels and lack of interest from Landlords has made the Price per property saving unachievable. There is a £129k overspend due to homeless demand pressures and the cost of living crisis, in addition to a £170k pressure resulting from the Ukrainian Refugee households being ineligible for full Universal Credit, due to being benefit capped. Some of the overspend is currently being absorbed by the Homeless Prevention Grant.

There are also work underway to avoid the use of Bed and Breakfast accommodation by using the allocations scheme, as there is a strong risk that hotel costs could spiral.

4.4.7 OneSource Shared

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A7100C-oS Finance Total	(0.063)	(0.027)	0.122	0.149
A7131C-Procurement Total	0.006	0.004	0.143	0.139
A7200C-oS Business Services Total	(0.035)	0.109	0.347	0.238
A7300C-oS Exchequer & Transactional Services Total	1.970	2.000	2.844	0.844
A7500C-oS Legal & Governance Total	0.026	0.189	0.264	0.075
A7600C-oS ICT Services Total	(0.073)	(0.050)	0.852	0.902
A7700C-oS Asset Management Services Total	0.044	0.067	0.163	0.096
A7800C-oS Strategic & Operational HR Total	0.020	0.014	0.016	0.002
A7000B-oneSource Shared Total	**1.895**	**2.306**	**4.751**	**2.445**

Finance

The projected finance overspend is due additional fusion projects required in 2022/23 (£0.3m)

ICT Services

ICT Services is forecasting an overspend of £0.9m. This is due to the increased cost of Microsoft Enterprise Licences since 2018/19 of £0.4m plus slippage on savings of £0.5m (£0.2m for 22/23 and £0.3m prior year).

This service is undertaking a full review and when savings initiatives are developed and implemented this forecasted overspend will reduce accordingly, however, it is not clear at this stage in the financial year how much benefit, if any, will be seen in 22/23.

Exchequer and Transactional Services

The Exchequer and Transactional Service is forecasting an overspend of £0.8m which relates to an anticipated £1m income shortfall relating to Enforcement Services, offset in part by £0.2m of vacancy management savings. The pressure within the Enforcement Service reflects the income target having recently been increased by over £0.8m (£0.3m in 21/22 and £0.5m in 22/23) whilst the level of income has not increased at the same rate. A contract delivered on behalf of another London Borough has recently ended resulting in a reduction in income. The service continually aims to increase income and as and when new contracts are secured, or caseloads increase, the income forecast will be updated accordingly.

Procurement

Procurement is forecasting an overspend of £0.1m relating to interim posts that are being retained in order to support the delivery of the council's main procurement projects. This work is anticipated to deliver savings in contractual costs.

4.4.8 OneSource Non-Shared

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A5200C-Exchequer Services Total	(1.396)	(1.606)	(1.580)	0.026
A5350C-Business Services Total	0.002	0.002	0.000	(0.002)
A5750C-oS non Shared Finance Total	0.933	1.083	1.100	0.017
A5800C-Asset Management Total	(1.264)	(1.450)	(0.363)	1.087
A5850C-Strategic HR & OD Total	0.012	0.091	0.163	0.072
A5900C-Legal & Democratic Svs Total	2.096	2.041	1.958	(0.083)
A5950C-ICT Services Total	(0.022)	(0.022)	0.028	0.050
A8000B-oneSource Non-Shared LBH Total	**0.361**	**0.140**	**1.306**	**1.166**

The forecasted overspend for oneSource non-shared is £1.166m, which largely relates to pressures that have emerged within Asset Management.

Asset Management

There is a combination of pressure points within the Service which have contributed to the £1.2m forecasted overspend:

- The budget contains a savings target originally included in the 2021/22 budget in relation to the decant of Mercury House office accommodation as a result of increased working from home since the pandemic. However, despite work being underway to vacate Mercury House, the full £0.6m saving will not be achieved in 22/23 whilst some residual occupation continues. The forecasted partial in-year delivery of £0.2m relates to some reduced running costs, NNDR exemptions and rental income (relating to River Chambers).

- Passenger Transport Service (PTS) have lost a number of external income generating routes, therefore an income shortfall is being reported of £0.1m. They continue to bid for new business, and as and when successful, the forecast will be updated accordingly.

- Commercial property is forecasting an income shortfall of £0.3m, due to commercial rents and Romford Market. The income target for the commercial rent roll was increased during budget setting of £0.2m, but the corresponding income is yet to be delivered.

- Corporate Landlord is projecting an overspend on building repairs and maintenance costs of £0.3m; the service will continue to review the prioritisation of works, the ability to capitalise spend and the costs paid for repairs and maintenance contracts with a view to improving the forecasted overspend.

- There were other minor variances across a number of other areas totalling £0.1m

Facilities Management budgets are at risk of reporting pressures relating to rising energy costs, The Council has a corporate contingent budget which will be allocated if necessary to mitigate this cost.

4.4.9 Chief Operating Officer

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A2100C-Customer and Communications Total	1.214	1.255	1.404	0.149
A2600C-Policy, Performance and Community Total	3.119	3.164	3.164	0.000
A3150C-Joint Commissioning Unit Total	0.040	0.040	0.040	(0.000)
A5300C-Transformation Agenda Total	0.519	0.519	0.712	0.193
A9000B-Chief Operating Officer Total	**4.891**	**4.978**	**5.320**	**0.342**

The Chief Operating Officer directorate is forecasting an overspend of £0.3m, Customer and Communications

There are continuing income shortfalls in relation to the Council's leisure contract with SLM. The Council is monitoring the position closely through regular recovery meetings with SLM, but it is widely recognised that the pandemic has had a significant impact on the leisure industry. The rising cost of energy is also a concern, but again, is being closely monitored.

Havering Music School is experiencing a £0.2m shortfall of income largely due to a decline in pupil numbers and reduced school uptake. The Music School is seeing the impact on families who are weighing up the cost of living versus continuing with music lessons. The service are working hard to attract new pupils and increase school uptake by prioritising Marketing with the Council's internal communication team and Traded Services unit. Additionally, further costs may be incurred such as hall hire due to rising inflation however at present, this is contained within existing budgets.

There are underspends of £0.1m in other areas within Customer and Communication Service.

Transformation Agenda

Transformation Service is forecasting unachieved prior year savings of £0.2m in relation to Digital Platform for delivery of the CRM and D365 project.

4.5 ACHIEVEMENT OF SAVINGS

In setting the 2022/23 budget the Council identified £15.028m of savings proposals which would need to be delivered in order to balance the budget. These proposals were partially offset by a £3.0m budget provision recognising that potentially some proposals might not be fully realised. Delivery of these savings is absolutely key to achieving a balanced position for 2022/23 and Departments are working collectively to achieve that aim wherever possible. Below is a list of the departmental savings currently reported as unachievable.

Unachieved Savings

Directorate	2022/23 MTFS Description	2022/23 MTFS Ref	2022/23 MTFS Variance	2022/23 Theme	2022/23 RAG Rating
A5700B : Housing	PSL MLH Leasing Scheme	Ref.063	50,000	Communities	red
A5700B : Housing	Introduce price per property repairs service for PSLs.	Ref.061	102,000	Communities	red
A7000B : oneSource Shared	ICT Restructure	Ref.081	150,000	Opportunities	red

A7000B : oneSource Shared	Increased income through providing enforcement services to other boroughs	Ref.082	450,000	Opportunities	red
			752,000		

Staffing Savings

The Council is fundamentally reviewing its staff base and structures to modernise services and improve efficiency. Significant savings are on track to be achieved in 2022/23 although further work is needed to establish whether the full target of £7m will be reached.

The main initiatives to identify post savings are:

- A voluntary release scheme. This will allow the Council to release a number of individuals and make staffing savings through restructure and reorganisation of services. The process is well underway and the posts that will be able to be released will be confirmed in the next few weeks. It is anticipated this will deliver a significant saving in 2022/23 with a full year effect in 2023/24

- The Council is reviewing all agency placements with the aim of significantly reducing the need for these more expensive costs. The review will identify where recruitment to permanent posts can take place and if the agency placement is project based look at other means to deliver that project to minimise the level of agency cover required. It is accepted that in some difficult to recruit areas such as social care there will always be an element of agency costs but those services are doing everything they can to promote and encourage permanent recruitment.

- The Council is looking at its Target operating model (TOM) and staffing structures to flatten management structures and reduce management costs where possible and also to restructure service provision to deliver more efficient outcomes

- The Council is also reviewing all current vacant posts to establish if those roles are required or if the services can reconfigure to continue to deliver outcomes without the need for recruitment

4.6 CORPORATE BUDGETS AND CONTINGENCY

The Council holds a central contingency of £1m each year. This is held for unforeseen events and the Council would only use this as a last resort if no other funding is available.
The provision set aside for unachieved savings has also been added to this table.

The Council also holds a number of budgets centrally mostly pending allocation to departments. These budgets are reviewed, on a monthly basis, by the Section 151 Officer, as part of the monitoring cycle.

Corporate Budgets

Corporate Funding 2022/23			
	Revised Budget	Estimated Spend	Forecast (Under)/ Over spend
Base Budgets	**£m**	**£m**	**£m**
Corporate Budget (overspend relates to balance of corporate savings yet to be achieved)	**15.370**	**19.370**	**4.000**
Corporate Contingency	1.000	1.000	0
Provision for energy increases (to be allocated)	1.500	0	(1.500)
Treasury Management/Corporate adjustments	**0.000**	**(1.500)**	**(1.500)**
Corporate Budget Fund	**17.870**	**18.870**	**1.000**

(Note the contingency is currently being held to mitigate unforeseen future pressures but if unutilised will be released later in the year to improve the bottom line)

The Collection Fund

The Council continues to collect both Council Tax and Business Rates income where chargeable. Council Tax collection over the current year is strong despite the effects of the pandemic and at this stage is on target for the collection rates set in the budget.

Treasury Management Forecast

The Council sets its treasury budgets based on the assumed Capital programme and forecasted level of cash balances each year. There are fluctuations on these budgets due to slippage and changes to the Capital programme, prevailing interest rates and borrowing decisions and the level of cash balances held by the Council.

Slippage in the Capital programme and current cash balances of over £100m has meant that there has been no General Fund external borrowing to date in 2022/23. It should be noted that the Council is reliant on internal borrowing to fund its CFR as further borrowing is likely to be necessary in 2022/23 and interests are rising. The Council remains in regular contact with its treasury advisors to determine the most appropriate time to undertake any external borrowing.

The Council has also benefitted from increased interest receivable from its deposits. At the time the budget was set interest rates were extremely low and therefore the budget was set to reflect this. Rates have now risen which has increased the yield on cash deposits.

These factors have resulted in a forecasted underspend on the treasury budget of £1.5m. This underspend could potentially increase depending on prevailing interest rates and the speed of the Capital programme

4.7 EARMARKED AND GENERAL RESERVES

The Council holds general balances to mitigate against unforeseen risks. At the end of 2021/22 General Fund Balances stood at £10.942m. The Council has planned contributions to general balances in 2022/23 of £2m. There is however a current year overspend and Council will do everything it can to identify efficiencies in order to reduce this to minimise the impact on general balances.

In 2019 as part of the budget process the Council identified and agreed that balances should be increased to £20m over the next few years to properly reflect both the size of the authority and also the current risks it faces. This remains a priority for the authority and the Council still has this target as a strategic aim despite the current year overspend. The budget for 2023/24 contains further planned contributions so even if the current year overspend results in a lower than planned level of balances it is expected that this position will be recovered in future years.

The Council holds General Fund Earmarked Reserves which totalled £59.633m at the end of 2021/22. These reserves have varying levels of flexibility in terms of what they can be used for.

Earmarked reserves are one-off funding which are held for specific purposes such as insurance, redundancy costs, business rates, health and safety and planned revenue contributions to capital. The Council reviews the need for these reserves on a regular basis and where possible funds can be released for general purposes. These funds however can only be used once and so will not close the medium term financial gap shown in section 5 of this report.

4.8 CAPITAL MONITORING 1ST QUARTER

The Capital programme for 2022/23 through to 2026/27 was agreed at Council in February 2022. Since then slippage from 2021/22 has been added as per the capital outturn report and there have been some additions to the programme resulting in a summary programme as set out in the table below.

Summary of Existing Approved Capital Programme	**Previous Years Budget £m**	**2022/23 Budget £m**	**2023/24 Budget £m**	**2024/25 to 2026/27 £m**	**Total Budget £m**
Adults Services	4.790	5.743	1.618	0.000	12.150
Adults Services	**4.790**	**5.743**	**1.618**	**0.000**	**12.150**
Customer & Communications	28.191	7.583	3.959	0.603	40.336

Summary of Existing Approved Capital Programme	Previous Years Budget £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 to 2026/27 £m	Total Budget £m
Transformation	3.182	10.816	6.462	6.440	26.900
Chief Operating Officer	**31.373**	**18.399**	**10.421**	**7.043**	**67.236**
Children's Services	0.254	2.373	0.891	0.000	3.518
Learning & Achievement Service	0.512	1.072	1.229	0.000	2.813
Children's Services	**0.766**	**3.446**	**2.120**	**0.000**	**6.331**
Housing Services	211.995	298.820	180.971	552.404	1,244.19
Housing Services	**211.995**	**298.820**	**180.971**	**552.404**	**1,244.191**
Bereavement Services	6.138	1.572	0.000	0.000	7.710
Environment	36.530	28.358	3.470	0.750	69.108
Civil Protection	0.151	3.599	0.000	0.000	3.750
Neighbourhoods	**42.818**	**33.530**	**3.470**	**0.750**	**80.568**
Asset Management	33.219	24.964	13.534	21.730	93.448
ICT Services	4.231	8.898	3.980	5.020	22.130
Finance	0.000	7.291	0.000	0.000	7.291
OneSource	**37.451**	**41.153**	**17.514**	**26.750**	**122.868**
Regeneration	29.308	195.642	198.106	42.024	465.079
Regeneration	**29.308**	**195.642**	**198.106**	**42.024**	**465.079**
Grand Total	**358.500**	**596.732**	**414.221**	**628.970**	**1,998.423**

Financing of the Capital Programme

The Council finances its capital expenditure through a combination of resources both internal and externally generated. Each funding stream is considered in terms of risk and affordability in the short and long term. The current and future climates have a significant influence on capital funding decisions. As a result planned disposals and borrowing costs are kept under regular review to ensure timing maximises any potential receipts or reduces borrowing costs.

Excluding previous years spend (totalling £358.500m shown for information above) the total programme for 2022/23 and beyond is £1,639.922m and for information purposes is funded as set out in the following table.

Financing	2022/23 Financing Budgets £m	2023/24 Financing Budgets £m	2024/25 to 2026/27 Financing Budgets £m	Total Financing Budgets £m
Capital Receipts	129.388	108.021	0	237.408

HRA Specific Capital Receipts	72.457	98.111	286.042	456.610
Revenue & Reserves	6.138	0.300	0.967	7.405
Grants and Other Contributions	35.225	17.140	22.584	74.948
Borrowing	353.524	190.649	319.377	863.550
Total Financing	**596.732**	**414.221**	**628.970**	**1,639.922**

Capital Achievements as at 30th June 2022

Capital expenditure as at the 30th June is £25.280m to date. Notable achievements so far for 2022/23 are as follows:

- £11.48m on the 12 estates project to improve housing across the borough
- £4.46m spent on enhancing and increasing our existing housing stock
- £1.578m on improving the quality of our roads and infrastructure
- £1.210m on improving and refurbishing the Town Hall

The table below sets out the latest forecast spend for the Capital programme in 2022/23. Further detail on the variances shown in this table can be found at **Appendix A**

Directorate	**Budget 2022/23** **£m**	**2022/23 Forecast Period 3** **£m**	**2022/23 Variance** **£m**
Adults Services	5.743	2.311	**(3.431)**
OneSource	41.153	19.561	**(21.593)**
Neighbourhoods	33.530	33.326	**(0.204)**
Regeneration Programme	195.642	53.335	**(142.307)**
Childrens Services	3.446	2.063	**(1.383)**
Chief Operating Officer	18.399	10.370	**(8.028)**
Housing Services	298.820	182.511	**(116.310)**
Total	**596.732**	**303.477**	**(293.255)**

5 MEDIUM TERM FINANCIAL STRATEGY (MTFS) UPDATE

5.1 MTFS Update

The 2022/23 Council Tax setting report in March also contained the latest Medium Term Financial Strategy setting out the pressures the Council is likely to face over the next four years. This is a live document which is updated throughout the year to take account of changes to funding, new and emerging pressures and any other assumptions which could affect the budget for 2023/24 and beyond.

There are a number of factors including the current economic crisis which has created significant pressure on the Councils budget which in turn has made it increasingly difficult to set a robust and balanced budget.

These factors include:

- The continued impact of a decade of grant cuts since 2010
- Grant lost through the Government's decision to not update the funding formula since 2013/14
- Significant increases in demand and complexity across Social Care Groups
- The impact of spiralling inflation and energy costs

In March 2022 the Council set a balanced budget for 2022/23 which included a medium term financial strategy setting out a gap before savings of £35m over the next three years. It became apparent at a very early stage that whilst the medium term financial strategy had allowed for significant demographics and inflationary growth, this was insufficient to cover the rapidly changing pressures the Council is facing.

The revenue monitoring position set out in section 4 of this report shows how significantly pressures have increased since the budget was set 6 months ago. In recognition of the ongoing nature of the current gap in 2022/23 the Council has taken the prudent decision to include additional funding for demographics and inflation in the 2023/24 budget. This has increased the level of savings required but is a necessary and prudent step to reflect the current financial position. Services continue to work hard to identify efficiencies to mitigate the current position and this will be updated again before budget setting in February

Officers have acted quickly and robustly to develop an action plan to both mitigate the in-year overspend and to develop a set of options to balance the 2023/24 budget. The options set out in this report include some difficult choices but unless the Government is forthcoming with desperately needed additional funding the Council will have no alternative but to agree the majority of the proposals.

There will be a public consultation exercise on the budget to allow all views to be taken on board in setting the budget. Further details of this are set out in section 6 of this report

The Medium Term Financial Strategy presented to Council in March 2022 has been updated to take account of the following changes:

- The Ongoing impact of the 2022/23 revenue monitoring position
- Updated demographic pressures taking account of the latest projections of future demand

- Updated provisions for pay and price inflation
- Updates to assumptions to the level of Central Government Funding
- Update to treasury management assumptions financing the capital programme
- Updates to Corporate pressures such as levies
- Inclusion of potential pressures relating to the shortfall in government funding for market cost of care
- Updates to savings proposals

These updates are included in the table below which sets out the financial gap before new savings proposals are applied.

Financial Gap	2023/24	2024/25	2025/26	2026/27	4 Year Plan
	£m	£m	£m	£m	£m
Corporate Pressures	7.0	7.7	5.4	2.9	23.1
Demographic Pressures	10.0	4.7	4.7	4.7	24.1
Inflationary Pressures	9.7	5.3	4.8	4.8	24.7
Changes to External Funding	-1.9	0.2	6.3	0.0	4.6
Previously agreed savings	-2.0	-1.8	-1.6	-1.6	-6.9
LATEST GAP	**23.0**	**16.1**	**19.6**	**10.8**	**69.5**

The extent of the financial gap has been apparent since early summer and the Council has taken swift and robust action to produce a plan to close this gap.

5.2 Actions taken to close the budget gap

5.2.1 Action to mitigate the 2022/23 in year position

The initial focus has been on the 2022/23 overspend identifying both one-off reductions in costs and developing longer term actions in order to mitigate the causes of the spend. This process is expected to reduce the 2022/23 overspend considerably but it is inevitable for the reasons set out earlier in this report that there are underlying ongoing pressures and these have now been built into the figures in the table above.

- All overspends were reviewed and challenged to identify any non-recurrent spend which could be funded from reserves
- All use of consultancy was reviewed by senior management
- All new one-off projects were put on hold
- Major contracts approaching expiry were reviewed
- Managers reviewed all vacancies to explore the possibility of different working opportunities
- One Source to produce a new service model in partnership with Newham
- All non essential spend to be curtailed

- Review of the revenue implications of the Capital programme to take account of the latest forecast spend and use of internal borrowing
- Review of all packages in Social Care to ensure the packages best meet both client needs whilst reducing cost where possible

5.2.2 Lobbying Government over Funding

The Council will continue to lobby central government at every opportunity about the inadequacy of central funding for Havering and also more generally the need to fully fund the impact of the current increases in inflation and cost of living generally.

Havering has had its revenue support grant cut from over £70m in 2010 to just £1.5m currently due to a combination of austerity and failure of the Government to update their distribution formula. The Government has recently published options on updated formulae for Adult Social Care and this alone has exemplified that Havering has been underfunded by an increasing amount running into millions since 2013.

There is national concern that the Government set the funding level for local government for 2023/24 as part of the last spending review crucially before the current economic crisis. The funding for local government was therefore based on low inflation and low interest rates which provide amounts which are now totally inadequate to meet the inflationary demands authorities are facing. Havering like other Councils are professional organisations that have to plan for the reality of the current and potential future levels of inflation. There is no such certainty from central government at present and until further funding is forthcoming options such as the savings listed in this report will need to considered as the only means to balance the budget

5.2.3 Development of Savings Options to close the budget

It was clear from an early stage that all Departments would need to find ways of reducing their budget for future years. Departments were asked to present options including but not limited to:

- Actions to limit the future need for demographic growth
- Reviews of all services to identify efficiencies and new ways of working
- Review of all income streams to confirm appropriate rates are charged
- Review of all contracts
- Identification of savings proposals either by stopping non statutory services or reducing staff through restructures
- Review of all Capital programme items

The Council also is looking at wider pieces of work including the development of a new target operating model to better reflect service provision following austerity and the COVID pandemic.

Each department presented their conclusions to portfolio cabinet members in a series of strategic meetings in August. The outcome of these meetings is a set of proposals which are shown in the table below. These proposals will form the basis of the budget consultation paper.

Category	Proposals	Total benefit over 4 years
Improving our Business Efficency	**Review of services including:**	**£5.9m**
	Reducing Agency Costs through Permanent Recruitment	
	Restructure of services to drive out efficiencies	
	Review and deletion of vacant Posts	
	Reduction in running costs	
	Re-application of existing grants	
	Rationalisation of management structures	
Changing how we fund and Provide Services	**Changing the way we provide services including:**	**£21.1m**
	Review of service provision in Children services including increasing the number of internal fosterers and reviewing passenger transport to reduce reliance on expensive taxis.	
	Strategic review of commissioning across all areas increasing the number of Housing placements available to reduce reliance on external support	
	Review of options for service provision across Neighbourhoods including waste collection and parking services	
	Continuation of Better Living improving outcomes for Adults	
	Targetted reviews of placements to ensure that all placements fully align with client needs	
Increasing our Income	**Review of income streams to the Council including:**	**£2.0m**
	Review of fees and charges across Neighbourhood services to ensure fees and charges are fair competitive and reasonable but also reflect current market conditions	
	Review of parking charges across the borough to ensure charges are fair competitive and reasonable but also reflect current market conditions	
Reducing or Stopping Services	**Reduction in the level of Service provision in the following areas:**	**£2.4m**
	Early Help and Youth Services	
	Reduction in support to the voluntary sector and employment and skills funding	
	Reprovide the provision of toilets for the public across the Council	
	Reduction in the number of school crossing patrols and floral displays across the borough	

These proposals present the changes that could be needed if the budget position does not improve and the Government is not forthcoming with additional new funding. The situation remains fluid and if social care demand were to plateau or the Government were to provide much needed additional support to combat inflation and the cost of living then the Council would be able to choose which of these proposals were adopted.

These proposals are expected to significantly close the gap both for 2023/24 and across the four year financial strategy.

The Council also has other options which it will consider to close the remaining gap including:

- Identification of one off spend currently in the budget which could be funded by re-directing earmarked reserves
- Further reviews of the Capital Programme to determine if any schemes can be stopped or delayed to reduce financing costs
- Increase Council Tax: The Council only ever increases Council Tax as a last resort to balance the budget but it should be noted that the Governments funding models all assume that local taxation is increased.
- Adult Social Care precept: It is likely that the Government will continue to use local taxation as a method to fund demand in Social Care. If this is the case this will be announced in December as part of the provisional local government settlement

5.2.4 Budget Timetable

The proposed timetable for setting the budget is shown in the table below

Action	Timeline
Cabinet report updating the budget position	Sep-22
Budget Consultation	Oct22 - Dec 22
Development of Business cases for savings proposals	Oct22 - Dec 22
Local Government Finance Settlement	Dec-22
Overview and Scrutiny to review budget and savings proposals	Jan-23
Budget and MTFS Presented to Cabinet	Feb-23
Full Council to set Council Tax for 2023/24	Feb-23

6.0 BUDGET CONSULTATION

The Council places great importance on the budget consultation process as a key opportunity to present to the public and key stakeholders the budget position and key choices the Council faces in the coming months.

It is proposed that the consultation on next year's budget is opened in early October and runs for 12 weeks. All the views received during this period will be put together and presented to cabinet members to inform their decision making. There will be an Overview and Scrutiny meeting specifically on the budget in the early part of 2023 which will include the outcomes from the consultation

The Council will aim to reach as many people as possible through the consultation process in order to receive views from all sectors of the community. This will include engagement with business rate payers

The Consultation Paper will firstly explain the Council's current financial position including the key cost drivers that are driving the budget. The paper will then present a series of savings and efficiency options based on the table above for consideration and comment.

7.0 CONCLUSION

This report sets out the extremely difficult financial position Havering is facing. Many other authorities are in a similar position and the Government will need to act decisively to stop authorities being forced to issue S114 notices. It is hoped the Government recognises the impact of the current economic crisis and spiralling inflation in the forthcoming financial settlement in December

With no certainty in additional funding from central Government Havering has acted robustly to develop a set of proposals which are expected to significantly close the financial gap for 2023/24. These proposals will be consulted on through the autumn and the outcome of this process will enable decision making to set the budget in February 2023. Some of the decisions will be difficult but the current financial position dictates no alternatives unless further funding is forthcoming from central government.

The Council is totally committed to balancing the 2023/24 budget and will do this in a fully professional way. This process will not place the Councils finances at risk and all decisions will be taken with the long term stability of the Council in mind.

This report recommends that the Council notes the current revenue monitoring position and approves the proposed Consultation process set out in section 6

8.0 REASONS AND OPTIONS

Reasons for the decision:

The Council has an obligation to consult on its budget proposals by law. This report sets out the proposed method to be used for the 2023/24 budget and MTFS. The Council strongly values the opinion of its residents and key stakeholders and welcomes their input into the budget process.

Other options considered:

N/A

9.0 IMPLICATIONS AND RISKS

9.1 Financial Implications and Risks

The financial implications of the Council's MTFS and revenue monitoring position are the subject of this report and are therefore set out in the body of this report. The consultation process set out in this report will be used to inform decision making on the budget.

9.2 Legal Implications and Risks

The Council is required by section S151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs.

Under S28 of the Local Government Act 2003, a local authority must review its budget calculations from time to time during the financial year and take appropriate action if there is any deterioration in its financial position. The proposals set out in this report aim to address the Council's current position.

In accordance with section 3 of the Local Government Act 1999, a local authority has a duty . "to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness." (This is "the best value duty".) The monitoring of the financial position assists the Council in meeting that duty. As part of that process it must consult tax payers, those who use or are likely to use services and others who may have an interest in an area where the Council carries out its functions.

The budget consultation and approval process is separate from individual decisions which may need to be taken for example in relation to service delivery; these may require a separate consultation process and equality impact assessment before a final decision is taken.

Where consultation is undertaken it must comply with the 'Gunning' principles; namely it must be undertaken at a formative stage, sufficient information should be provided to enable feedback, adequate time should be given for consideration of responses and the feedback should be taken into account in any decision taken. It is intended that the budget consultation will comply with these obligations.

9.3 Human Resource Implications and Risks

The Council continues to work closely with its staff and with Trades Unions to ensure that the effects on staff of the savings required have been managed in an efficient and compassionate manner. All savings proposals or changes to the funding regime that impact on staff numbers, will be managed in accordance with both statutory requirements and the Council's Managing Organisational Change & Redundancy policy and associated guidance.

9.4 Equalities and Social Inclusion Implications and Risks

Havering has a diverse community made up of many different groups and individuals. The Council values diversity and believes it essential to understand and include the different contributions, perspectives and experience that people from different backgrounds bring.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
(ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, gender, race and disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council demonstrates its commitment to the Equality Act in its decision-making processes, the provision, procurement and commissioning of its services, and employment practices concerning its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing of all Havering residents in respect of socio-economics and health determinants.

All front line proposals relating to the Medium Term Financial Strategy for the period 2023/24 to 2026/27 will be subject to an Equality and Health Impact Analysis or assessment, which will be developed following the consultation process for inclusion in the further reports to Cabinet before the budget is finalised in February 2023. This will further highlight where the MTFS has the potential to positively impact on health and wellbeing of residents through targeted provision of services, and where any identified negative impacts may be mitigated.

10.0 BACKGROUND PAPERS

None

APPENDIX A: 2022/23 Capital Programme Variances

This Appendix sets out the Period 3 position for the Council's capital programme for the 2022/23 financial year. The table below firstly shows the projected position at Period 3

Directorate	Budget 2022/23 £m	2022/23 Forecast Period 3 £m	2022/23 Variance £m
Adults Services	5.743	2.311	**(3.431)**
OneSource	41.153	19.561	**(21.593)**
Neighbourhoods	33.530	33.326	**(0.204)**
Regeneration Programme	195.642	53.335	**(142.307)**
Childrens Services	3.446	2.063	**(1.383)**
Chief Operating Officer	18.399	10.370	**(8.028)**
Housing Services	298.820	182.511	**(116.310)**
Total	**596.732**	**303.477**	**(293.255)**

The forecast expenditure for 2022/23 is £303.477m with actual expenditure at the end of Period 3 of £25.280m. Whilst most project budgets are on track to be spent over the full MTFS period there are a number of projects where expenditure has slipped back into future years, the explanations for the main programmes that contribute towards the slippage provided below:

Adult Services

Programme Area /Service/ Directorate	Budget 2022/23 £m	2022/23 Forecast Period 3 £m	2022/23 Variance £m
Adults - DFG	4.631	1.200	(3.431)
Adults - Other	1.111	1.111	0.000
Adults Services	5.743	2.311	(3.431)
Adults Services	**5.743**	**2.311**	**(3.431)**

Adults - DFG – Slippage of £3.431m

The Dedicated Facilities Grant slippage is due to the lack of activity in applications and adaptations, however demand is slowly increasing after the disruptions of the pandemic. Recent recruitment has added to the DFG team which will help to maximise spend in this area.

OneSource

Programme Area /Service/ Directorate	Budget 2022/23 £m	2022/23 Forecast Period 3 £m	2022/23 Variance £m
Asset Management - Other	4.411	1.333	**(3.078)**
Corporate Buildings	3.535	2.912	**(0.623)**
Health & Safety	0.302	0.237	**(0.065)**
Pre Sale Expenses	0.133	0.119	**(0.014)**
Schools Building Maintenance	6.315	3.227	**(3.088)**
Schools Expansions	8.116	2.681	**(5.434)**
Vehicle Replacement	2.153	0.153	**(2.000)**
Asset Management	**24.964**	**10.662**	**(14.302)**
ICT Infrastructure	8.898	8.898	**0.000**
ICT Services	**8.898**	**8.898**	**0.000**
Contingency	0.691	0.000	**(0.691)**
Internal Leasing	6.600	0.000	**(6.600)**
Finance	**7.291**	**0.000**	**(7.291)**
OneSource	**41.153**	**19.561**	**(21.593)**

Asset Management - Other – Slippage of £3.078m
Most of the slippage £2.946m relates to the planned acquisition of Hornchurch Police Station. This project is currently on hold awaiting a decision by the Met Police.

Corporate Buildings – Slippage of £0.623m
£0.527m of the slippage relates to the Central Expansion Depot scheme. This project is currently on hold.

School Buildings Maintenance – Slippage of £3.088m
This slippage is made up of a number of schemes that have been delayed, these works are now planned to commence later in the year.

School Expansions – Slippage of £5.434m
The Schools expansions slippage comprises of a number of schemes, which have been deferred and awaiting decisions. Any underspends within School Expansions Programme will be moved back to the unallocated expansions pot and subsequently used to fund additional projects.

Vehicle Replacement – Slippage of £2.000m
The slippage of £2.000m relates to the procurement 29 vehicles for Passenger Services scheme. The tender exercise has just commenced to replace these vehicles with the aim to award at end of September 2022. The expenditure will not be incurred in the current financial year. It is expected that the vehicles will be delivered in July 2023 due to the long lead times.

Finance

The Contingency budget is used for projects that are allocated as and when required. The budget is allocated to services by the Section 151 Officer. The Internal Leasing budget is used to purchase vehicles that would otherwise have been leased by a service. The service repays the purchase cost over the life of the asset thus replenishing the budget for future purchases.
Expenditure is not shown against these programme areas as the budget is allocated to existing or new schemes across all directorates.

Neighbourhoods

Programme Area /Service/ Directorate	**Budget 2022/23 £m**	**2022/23 Forecast Period 3 £m**	**2022/23 Variance £m**
Public Protection	3.599	3.599	**0.000**
Civil Protection	**3.599**	**3.599**	**0.000**
Cemeteries and Crematorium	1.572	1.572	**0.000**
Bereavement Services - Cemeteries and Crematorium	**1.572**	**1.572**	**0.000**
Environment - Other	8.220	8.220	**0.000**
Environment - TFL	0.002	0.002	**0.000**
Grounds Maintenance	0.250	0.100	**(0.150)**
Environment - Highways	16.934	16.884	**(0.050)**
Environment - Parking	0.405	0.405	**0.000**
Environment - Parks	2.548	2.544	**(0.004)**
Environment	**28.358**	**28.154**	**(0.204)**
Neighbourhoods	**33.530**	**33.326**	**(0.204)**

There were no significant slippage variances from programmes within Neighbourhoods that required explanation.

Regeneration

Programme Area /Service/ Directorate	**Budget 2022/23 £m**	**2022/23 Forecast Period 3 £m**	**2022/23 Variance £m**
Mercury Land Holdings	93.657	30.514	**(63.143)**
Rainham & Beam Park	25.419	19.046	**(6.373)**
Regeneration - Other	73.277	3.375	**(69.902)**
Regeneration - TFL	3.288	0.400	**(2.888)**
Regeneration	**195.642**	**53.335**	**(142.307)**
Regeneration	**195.642**	**53.335**	**(142.307)**

Mercury Land Holdings – Slippage of £63.143m
The main elements of the slippage are discussed below –

£35.525m of the slippage relates to the Waterloo scheme. The capital forecast was adjusted at Period 3 in accordance with current programme. Negotiations are taking place between MLH and the Havering Wates Regeneration JV to agree a PRS allocation for the Waterloo scheme between phases 2-5. Forecast has been moved back to reflect possible spend in later phases of work.

£19.500m of the slippage relates to the MLH Rainham Joint Venture. This project is not proceeding due to viability challenges. The budget will be reallocated in the Mercury Land Holdings Business Plan update.

£7.993m of the slippage relates to the Roneo Corner project. This has been slightly delayed by the developer. MLH are currently negotiating the particulars of the scheme, anticipated to start in 2022/23.

Rainham & Beam Park – Slippage of £6.373m
The Rainham & Beam Park CPO budget is in place to evidence adequate financial support being in place for scheme delivery at a CPO. Assessment is currently being carried out on planning, programme and financial impact of the delay to the GLA delivering Beam Park Station.

Regeneration - Other – Slippage of £69.902
The slippage of £69.902m relates to the Provision for Future Regeneration Opportunities project. Future Regeneration Opportunities budget could be drawn down in accordance with an approved business case, no planned expenditure at present in 2022/23.

Regeneration – TfL – Slippage of £2.888m
The slippage of £2.888m relates to the Beam Parkway Major Scheme, which is part funded by TfL. The estimated spend for 2022/23 is for consultancy costs for the scheme. No further funding has been confirmed by TfL, scope and other funding options are being explored, before the scheme can progress further.

Children's Services

Programme Area /Service/ Directorate	Budget 2022/23 £m	2022/23 Forecast Period 3 £m	2022/23 Variance £m
Learning & Achievement - Other	0.022	0.000	**(0.022)**
Schools - leasing	1.051	1.051	**0.000**
Learning & Achievement Service	**1.072**	**1.051**	**(0.022)**
Childrens Services - Other	2.373	1.013	**(1.361)**
Childrens Services	**2.373**	**1.013**	**(1.361)**
Childrens Services	**3.446**	**2.063**	**(1.383)**

Children Services - Other – Slippage of £1.361m
The majority of the slippage relates to the build of Children's Residential provisions in the Borough. There continues to be a delay to the overall build programme.

Chief Operating Officer

Programme Area /Service/ Directorate	Budget 2022/23 £m	2022/23 Forecast Period 3 £m	2022/23 Variance £m
Leisure Other	6.830	4.950	**(1.880)**
Leisure SLM	0.415	0.415	**0.000**
Libraries	0.337	0.272	**(0.066)**
Customer, Communication & Culture	**7.583**	**5.638**	**(1.945)**
Transformation	10.816	4.733	**(6.083)**
Transformation	**10.816**	**4.733**	**(6.083)**
Chief Operating Officer	**18.399**	**10.370**	**(8.028)**

Leisure Other – Slippage of £1.880m
The slippage of £1.880m relates to the new leisure centre in Rainham. The start of construction was delayed due to addressing planning considerations. The change of forecast is due to a later start on site and a re-profiling of spend for the duration of the project.

Transformation – Slippage of £6.083m
The main elements of the slippage are discussed below –
£1.821m of the slippage relates to the Organisational Data Capability. The digital portfolio has recently been reshaped and all activities are now under review, with new resource being on boarded to scope out deliverables and associated plans and costs. The 2022/23 programme provisionally includes a BI and Reporting Project and the creation of a new Data Strategy, which will provide a road map of subsequent projects.

£1.241m of the slippage relates to Platforms & Integration programme. The digital portfolio has recently been reshaped and all activities are now under review, with new resource being on boarded to scope out deliverables and associated plans and costs. This programme provisionally includes the Alloy Implementation, Civica APP Replacement, a Cyber Security/Business Continuity project and Application Risk Management Review and a new Digital Strategy.

£1.112m of the slippage relates to the CRM budget. The CRM System 2022/23 forecast based on Project Manager's indicative plan and estimate. The remainder of budget will be rolled over to 2023/24.

£0.793m of the slippage relate to the Smart Working Plus budget. The programme was placed on hold early in 2022 with various initiatives being split and funded across other services. (For example to Asset Management within OneSource directorate). The programme is now being restarted with a new project team. High level estimates have been created, but still require detailed scope, planning, costs etc. The position will be clearer in Period 6 when work has been completed.

Housing Services

Programme Area /Service/ Directorate	Budget 2022/23 £m	2022/23 Forecast Period 3 £m	2022/23 Variance £m
Bridge Close Acquisitions	36.103	34.576	**(1.527)**
Bridge Close Regeneration	8.342	1.003	**(7.338)**
HRA	46.061	45.871	**(0.190)**
HRA Regeneration	137.527	76.984	**(60.543)**
HRA Stock Adjustments	70.789	24.077	**(46.712)**
Housing Services	**298.820**	**182.511**	**(116.310)**
Housing Services	**298.820**	**182.511**	**(116.310)**

Bridge Close Acquisitions – Slippage of £1.527m
£1.527m of the slippage relates to the Acquisitions budget. The forecast reflects planned commercial acquisitions under private treaty in 2022/23 plus £10.000m allowance for further acquisitions coming forward, £60,000 per month for drawdowns for average creditors fees plus £350,000 redesign fees forthcoming due to changes in design to reflect fire regulations update.

Bridge Close Regeneration – Slippage of £7.338m
£7.338m of the slippage relates to the Forward Funding Bridge Close budget. The budget reflects Council direct costs for the Bridge Close scheme; forecast includes allowance for staff capitalisation costs for regeneration, provision for insurances and council legal advice plus a contingency of £0.500m in year for unforeseen costs, which will reduce down at each period it is not utilised.

HRA Regeneration – Slippage of £60.543m
The main elements of the slippage are discussed below
£19.815m of the slippage relates to the 12 Estates - Partner Loan budget. Projections have been adjusted in line with JV partner cash flow forecast, with £0.750m contingency allowed for the year.

£15.050m of the slippage relates to the Vacant Possession budget. This budget funds the remainder of the work required to achieve vacant possession on the 12 Estates sites.

£12.117m of the slippage relates to the 12 Estates Affordable Housing Programme. Projections have been revised in line with JV partner cash flows for active schemes, NNP and SSS. Waterloo construction will not begin until 2023/24 and intermediate costs will be picked up through demolition contract and PCSA budget.

£11.848m of the slippage relates to 12 Estates Phase 1 Forward Funding. Projections have been revised in line with JV partner cash flows for active schemes, NNP and SSS. Allowance made in 2023/24 forecast for £6.000m for completion of SSS and £15.000m for activity on Waterloo phase 1 construction.
£5.482m of the slippage relates to The Bund - Affordable Housing scheme. This project is not currently proceeding due to viability challenges.

£4.721m of the slippage relates to 12 Estates - Tenant Compensation. The reduction in the number to regeneration decant moves has contributed to the low forecast. This is not expected to change over the coming years.

HRA Stock Adjustments – Slippage of £46.712m
The main elements of the slippage are discussed below
£20.955m of the slippage relates to the HRA Acquisition Fund - Affordable Housing. The scheme has not progressed as quickly as expected due to lack of resources and external market forces.

£14.752m of the slippage relates to the Affordable Housing budget. The slippage is due to delays with negotiations, however projects are now moving forward with progress on St Georges scheme and Quarles scheme.

£11.005m of the slippage relates to the Hostel re-provision - Building of a new hostel budget. Allowance have been made in the 2022/23 forecast for progression to RIBA Stage 4, ready for detailed design with a new partner/contractor plus usual council fees for EA fees, Planning & capitalisation of project management costs.

STAFF CONTACTS

Andrew Blake-Herbert **Chief Executive**	01708 432201
Barbara Nicholls **Director Adult Services**	01708 433069
Patrick Odling-Smee **Director of Housing**	01708 434728
Barry Francis **Director of Neighbourhoods**	01708 433779
Robert South **Acting Director Children's Services** **(including Learning & Achievement)**	01708 434412
David McNamara **Interim Section 151 Officer**	01708 433754

OVERVIEW AND SCRUTINY

Subject Heading:	**Finance Update**
Cabinet Member:	**Councillor Chris Wilkins (Cabinet Member for Finance and transformation)**
SLT Lead:	**Dave McNamara** Section 151 Officer
Report Author and contact details:	Richard Tyler Head of Financial Strategy and Business Intelligence 01708 433 957 Richard.Tyler@oneSource.co.uk
Policy context:	This report to Overview and Scrutiny Panel presents the Finance Update to September Cabinet and allows scrutiny of the Council's financial position
Financial summary:	The Council is in the process of preparing the 2023/24 budget and 2023-2027 Medium Term Financial Strategy. This report allows Overview and Scrutiny Committee to review the current position in order to inform that process.

Is this a Key Decision? No – Information report for scrutiny

REPORT DETAIL

1 On 28th September Cabinet received a report which set out the following information
   - Confirmation of the Councils Outturn position for 2021/22

- Revenue and Capital Monitoring Position Period 3 2022/23
- Update on the Medium Term Financial Strategy 2023-2027

At the last Overview and Scrutiny meeting an update on the Council's financial position was requested. The September budget update cabinet report provides that information and is attached for scrutiny.

RECOMMENDATION

That the Board considers the Cabinet report and appendices and determines whether there are comments or, if appropriate, alternative recommendations they wish to be passed to the appropriate Cabinet Member.

APPENDIX A

CABINET, 28 SEPTEMBER 2022	
Subject Heading:	**Update report on the Council's financial position and Medium Term Financial Strategy**
Cabinet Member:	**Councillor Chris Wilkins (Cabinet Member for Finance and transformation)**
SLT Lead:	**Dave McNamara** Section 151 Officer
Report Author and contact details:	Richard Tyler Head of Financial Strategy and Business Intelligence 01708 433 957 Richard.Tyler@oneSource.co.uk
Policy context:	The report provides an update on the Financial position of the Council including the Period 3 revenue monitoring position, the latest medium term financial strategy and proposals for consultation on the 23/24 budget
Financial summary:	This report includes: • the current national funding outlook • a summary of the Council's current financial situation • the approach to setting the Council's 23/24 budget and MTFS for the following years • proposed arrangements for budget consultation
Is this a Key Decision?	Yes – Significant effect on more than two wards

EXECUTIVE SUMMARY

1.1 This report provides an update on the financial position of the Council. The report contains the following sections

- Revenue and Capital Monitoring Position Period 3 2022/23
- Update on the Medium Term Financial Strategy 2023-2027
- Proposals for Public Consultation on the 2023/24 Council Budget

1.2 The financial positon of the Council is acute.

In summary:

- The 2021-22 outturn was a service overspend of £20m. This was partially mitigated by one-off Government COVID support of £8.1m
- The revenue monitor for 2022/23 at period 3 shows a forecast service overspend of £19m
- The General Fund non earmarked balances as at 31st March 2022 are £11m
- The current Medium Term Financial Strategy (MTFS) shows an imbalance between expected funding and forecast funding levels of £70m over a 5 year period.

1.3 Havering remains a low-cost council providing good services with high value for money. The Council is funded through Council Tax; a proportion of Business Rates (NNDR) it collects; locally raised income and Government Grant. The impact of the pandemic, and reduction in Government grant has created a situation whereby increasing spending pressures are not being matched by increases in resources.

1.4 This situation is compounded by the cost of living crisis where high rates of inflation are placing pressure on staffing costs and contracts, particularly those that rely upon high levels of staff such as social care. The Council has added £9.7m of growth into its plans for inflation in 2023/24 but there is a risk that even this high figure will not be enough if rates continue to rise. Rising interest rates will also increase the revenue cost of borrowing for the capital programme.

1.5 It should be noted that 70% of the Councils net revenue budget of £173m is spent on Adult and Children Services. The Council is required to provide these services by law and as a result the increased demand in these services significantly restricts the choice the Council has in service provision in other areas.

1.6 This is the most uncertain time for financial planning within Local Government, and at the moment Government advice would appear to be outdated. There have been no official announcements on future funding to supplement the data provided in the 2021 Spending Review. It is widely expected that more funding will be provided for Social Care but until the Government makes its intentions clear the planning process needs to identify alternatives should this funding not be forthcoming.

1.7 Although acute, the position is manageable but will necessitate significant reduction in the cost of services which are currently being delivered as well as requiring other efficiency and service changes.

1.8 It should be noted that the Council is highly dependent on Council Tax to fund its services. The Government uses Core Spending Power as a measure to show the increase the Council has to fund its net revenue budget. 71% of Havering's Core Spending power is financed by Council Tax. The Government's funding models assume Council Tax as a funding mechanism which means authorities with a high dependency on Council Tax are forced to increase Council Tax as the only mechanism to fund increasing social care demand. To be clear the Government's funding model assumes this. The table below shows Havering's Core Spending Power for 2022/23

Havering Core Spending Power	**2022-23**
	(M)
Council Tax	139.6
Retained Business Rates	36.0
Underindexation Grant	2.8
New Homes Bonus	0.3
Social Care Funding	16.0
22-23 Services Grant	2.4
Lower Tier Services Grant	0.3
Core Spending Power	**197.4**

1.9 Havering residents have also been directly penalised through the Government's decision to part fund social care by a precept on Council Tax. The level of grant provided for Adult Social Care to each authority is determined partly by that authority's ability to raise revenue through council tax.

To exemplify this a band D resident in Havering will pay an extra £16 per year for a 1% precept whereas a residents in other boroughs will pay as low as £5 through their historical lower Council Tax level. The Government then equalises this loss of income by giving those boroughs additional grant compared to Havering. The net result of this is that Havering residents have to fund a much higher proportion of the cost of Adult Social Care through Council Tax than their equivalents in boroughs with historically lower Council

Tax levels. This is profoundly unfair and Havering has lobbied hard to the Government to change this part of the formula.

1.10 Havering like many other boroughs are faced with a tough financial position which will require difficult decisions in order to balance the budget. Some other authorities have taken significant risk in their borrowing strategy with the aim of generating income to resolve their financial issues. Whilst seeking to generate additional income taking this type of risk will not be part of the Council's borrowing strategy. Havering will not take such risks with public financing and will only take decisions on capital investment where the viability of projects has been thoroughly evaluated.

1.11 This report firstly gives some background on the current financial position then sets out the current revenue monitoring position as at Period 3 and the Medium Term Financial strategy for 2023/27. The report also shows the areas that the Council plans to consult on in order to balance the 2023/24 budget

Recommendations

2.1 Cabinet are asked to note the revenue and Capital financial positions at Period 3 and the action plans being taken by services to reduce the overspend (section 4)

2.2 Cabinet are asked to note the Medium Term Financial Strategy and agree the budget timetable set out in section 5

2.3 Cabinet are asked to agree the Public Consultation process set out in section 6

BACKGROUND

3.1 The combined effects of the recovery from the COVID pandemic and the current economic crisis has placed significant pressure on the Council's finances. In March 2022 the Council set a balanced budget for 2022/23 but since then the combined effect of increased demand in Social Care, rising costs and inflation have caused the Council to project a significant overspend in the current year.

In setting the 2022/23 budget the Council projected future demand in both Childrens and Adult Social Care and added over £15m of additional funding in these areas. Demand and the complexity of case particularly in childrens services however has continued to rise throughout 2022 outstripping the budget provision and resulting in the projected pressures set out in Section 4 of this report.

The global economic crisis has caused increased costs across virtually all Council services. The Council continues to work hard to minimise the cost of services it procures but inevitably rising inflation has put pressure on the Council's budget and resulted in overspends. Departments are currently reviewing all budgets to ensure both that spend is minimised where possible and efficiencies are developed to contain and reduce costs.

3.2 As part of the budget setting process in March 2022 the Council was presented with a medium term financial strategy setting out the potential pressures the Council is likely to face over the next four years and the likely financial gap which will need to be closed either by savings or tax increases.

The Medium Term Financial Strategy is a live document and is updated through the year as parameters such as demographic and inflationary pressures change. The Council has a robust planning process and senior officers and cabinet members have been presented with the changes to the plan through the summer in order to develop plans to balance the budget in future years.

The process to set a balanced budget for 23/24 is probably the most difficult challenge Havering and indeed many other authorities have ever faced. Section 5 of this report sets out the process undertaken to balance the budget and sets out the challenges ahead including a timetable up to the full Council

3.3 **Challenges to setting the 23/24 budget**

a. Backdrop of a significant service overspend in 2021/22
b. Historic Underfunding from Central Government
c. Uncertainty in future central funding
d. The Global crisis - Spiralling Inflation and Energy costs
e. Increased demand and complexity for Childrens Social Care
f. Adult Social Care Demographics
g. Potential additional costs of Fair cost of care above currently planned Government Funding

3.3.1 The 2021-22 Revenue Outturn Position

During 2021/22 Havering started to experience the significant increase in demand for its services which is now shown in both the revenue monitoring position and the medium term financial gap. The year also had continued costs from the COVID pandemic which were largely covered by one off Government Grant.

The table below sets out the reported position at year end

Financial Position	£m
COVID Expenditure for the year	1.597

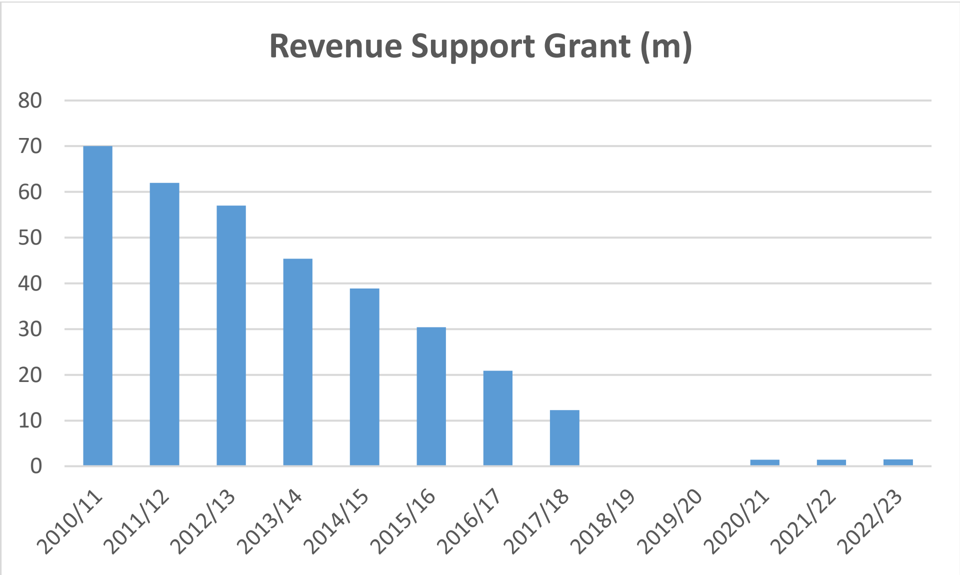
Financial Position	£m
Income loss for the year	6.919
Gap in 2021/22 MTFS savings delivery	5.278
Business As Usual Net Position	5.908
Total Pressures	**19.702**
Government Support (COVID)	(8.239)
Corporate	(3.469)
Overspend	**7.994**

It should be noted that the Outturn included £8m of planned contributions to general balances so the level of general reserves remained at £11m. The Council recognised the service pressures shown above in its medium term financial strategy last winter and added significant growth into both the Children's and Adults budget. This however has proved to be insufficient to meet the combined effect of demographics and sharply increasing inflation as is explained later in this report

3.3.2 Historical underfunding from Central Government

Local Government received reductions in funding over a decade of austerity from 2010. During this time Havering's central grant (Revenue Support Grant) was cut from over £70m in 2010 to just £1.5m today. Havering worked tremendously hard to make savings and efficiencies to offset this reduction but the latest increases in demographic pressures have placed frontline services at risk.

The graph below shows how Revenue Support grant has reduced through the period of austerity after 2010



During the same period the dependency on Council Tax to fund the net revenue budget has increased from 47% in 2010/11 to 71% in 2022/23. This is a reflection of the both the reduction in the grant and the Government's policy to fund Adult Social Care from Council Tax through a precept each year

Havering also suffered significantly through the Government's decision to freeze the distribution formula between authorities since 2013/14. Havering has experienced disproportionate growth in demand in Social Care since 2013 and as a result the failure to amend the apportionment formula has cost Havering grant in every year since.

The Government have recently produced updated apportionment data for Adult Social Care as part of a consultation paper on the distribution of fair cost of care funding. This formula if implemented would give Havering £2.8m more funding through the Adult Social Care Grant alone over the last four years as shown in the table below.

Adult Social Care Grant	Haverings Actual Social Care Grant	Haverings grant if the RNF Element had used the new formula	Extra Grant if the RNF Element had used the new formula
	(M)	(M)	(M)
2019/20	1.7	1.9	0.2
2020/21	5.5	6.2	0.7
2021/22	6	6.8	0.8
2022/23	8.5	9.6	1.1
			2.8

Clearly having produced this updated data there is a very strong argument that the Government should use the formula at least in the allocation of the Adult Social Care Grant for future years. Havering has and continues to lobby the Government to use updated data in the next funding settlement.

The Census shows further increases to Havering's population. Havering is lobbying hard for this new data to be included in future settlements but there is a significant risk that the census data will not be used for at least 2-3 years as was the case with the last census

As stated Havering's central grant has been cut significantly since 2010. The result of this is an increased dependency on Council Tax to fund services as Government grant reduces. In the same period there has been exponential growth in demand for both Childrens and Adult Services. This has squeezed the funding available for other services.

3.3.3 Uncertainty of Future Central Funding

In 2021 the Government announced a three year spending review which provided Government Departments financial control totals over those three years. In normal circumstances this announcement would have provided some stability and a strong indication of future funding over that three year period. The destabilisation of the economy following the war in Ukraine has resulted in the cost of living and inflation spiralling to levels far higher than the assumptions in the Spending Review.

The Government have yet to provide assurance that additional funding will be made available leaving authorities no alternative but to prepare for the reality of high inflation in their plans. This report sets out the significant impact on Havering's finances but also shows the robust action the Council has taken in exceptionally difficult circumstances.

The 2022/23 settlement also included £822m of funding for local authorities through a services grant which the then secretary of state made clear would be a one off distribution and potentially be allocated in other ways in 2023/24. This funding will remain in local government but the Government as yet have provided no indication of how they intend to distribute it.

The Government are also still committed to a number of reviews in the future including:

1. The Fair Funding Review
2. Business Rate Reform
3. Fair Cost of Care

It is expected that the first two reviews will be again delayed as there has been no consultation on any proposals. The fair cost of care proposals however are a key Government policy and local authorities continue to prepare for implementation. Extensive modelling of the potential impact has been undertaken and the widely accepted view is the funding currently set aside by the Government is significantly understating the full costs.

Havering expects the scheme to cost £8m over and above the current anticipated grant by 2027. This has been built into the medium term financial strategy but is one of the reasons for an increase in funding gap since the plan was last presented in February. This is a national problem that needs to be fully addressed if the Government are to implement their proposals

In our current modelling we have assumed 346 self funders receiving homecare and have assumed 348 privately funded beds in the borough based on care home survey results. We expect approximately 1000 unpaid carers to come forward for an assessment and we estimate 80% of eligible self funders will come forward for an assessment.

3.3.4 The Global crisis - Spiralling Inflation and Energy costs

The last nine months have seen record increases in energy costs together with large rises in the cost of living. These additional costs are placing huge pressures not only on the Council budget but on its providers aswell.

The Government is expected to provide support through the winter to help mitigate these pressures but until this is properly worked through Council's have no alternative but to identify alternative ways to balance the cost of inflation.

Costs are rising rapidly not only in energy but on all commissioning areas. This impacts particularly on social care and leisure facilities where high usage of energy is unavoidable. The medium term financial strategy set out in section 5 of this report assumes inflation stabilises after a spike in 2023 in line with current economic forecasts.

3.3.5 Increased Complexity and Demand for Childrens Social Care

Demand and Complexity for Children services has risen sharply over the last two years. This will be due to many factors including the aftermath of the COVID pandemic and the current economic crisis but the result is a large increase in cost through increased demand for the service.

Growth had been expected as these numbers started to come through a year ago and the Council prudently added £5m of growth to the Children's budget for 2022/23 to mitigate this. The reality however is that the increase in demand and costs has out stripped this growth causing a pressure both in 2022/23 and ongoing into the 2023-27 medium term financial strategy.

This increase in demand is partially explained by the following facts:

- In recent years the 0-4 age group in Havering has seen the second highest growth rate of all authorities in the country
- There are now more under 19's in the borough than Over 60's
- Rates of contact at the front door has increased from 8,000 referrals in 2018 to over 14,000 in 2022
- The number of care leavers in the borough has risen from 189 in 2018 to over 300 presently. This includes 50 unaccompanied Asylum Seekers
- The number of Education and Health Care Plans issued has increased by 40% over the last 4 years

The Complexity of cases has also risen in the same period increasing unit costs of provision

- Requests of behavioural support services are up 52%
- Contacts concerning mental health are up 50%

- Contacts concerning domestic abuse are up 20%
- Contacts concerning neglect are up 15%

3.3.6 Adult Social Care increased Demographics and costs

Demographic pressures in Adult Social Care continue to rise causing a pressure on the Council's budget despite significant funding being added to the Adult budget in 2022/23.

The ongoing pressures are caused by;

- High cost transition places as children reach adulthood. The department is working hard to develop longer term solutions for these clients but the initial unit cost as they reach adulthood is high
- Increased numbers of people with mental health needs
- Increased cost of providers through the inflationary impact of the current economic crisis
- High demand at the front door with over 1,500 calls a month an increase from about 1,200 in 2020
- Numbers of people requiring home care continues to rise

3.3.7 Public Health funding

The amount of funding the Council receives for Public Health priorities has increased with inflation in recent years. Whilst any increase is welcome these increases are inadequate to fully fund the public health objectives and aims of the Council. This shortfall in funding will become more acute in 22/23 and future years due to sharply rising inflation and costs

REVENUE MONITORING POSITION – PERIOD 3

4.1 This section sets out the monitoring position for the Council for 2022/23 based on figures to period three (30th June). All departments are working hard to reduce the current overspend through a series of actions which are set out in paragraph 5.2.1

4.2 The table below shows the net service budgets, forecast outturn and variances.

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A3000B-Public Health Total	(1.650)	(1.650)	(1.650)	0.000
A4000B-Childrens Total	46.496	47.004	53.811	6.807
A4600B-Adults Total	72.523	71.978	76.333	4.355
A5000B-Neighbourhoods Total	11.514	11.514	14.455	2.941
A5500B-Regeneration Programme Delivery Total	1.262	1.262	1.117	(0.145)

A5700B-Housing Total	3.883	3.883	4.124	0.241
A7000B-oneSource Shared Total	1.895	2.306	4.751	2.445
A8000B-oneSource Non-Shared LBH Total	0.361	0.140	1.306	1.166
A9000B-Chief Operating Officer Total	4.891	4.978	5.320	0.342
Service Total	**141.175**	**141.414**	**159.565**	**18.151**
Corporate Total	31.735	31.496	32.496	1.000
Overall Total	**172.910**	**172.910**	**192.061**	**19.151**

This section also reviews the Corporate budget position, including Treasury and the Collection Fund.

4.3 Revenue Monitoring Background

The 2022/23 budget was a difficult budget round and in order to set a balanced budget the Council had to include over £15m of savings proposals. The budget did however allow for significant demand led growth in the Social Care budgets with the aim that these funds would enable services to manage demand and stay within budget.

The period three position identifies significant areas of risk to the budget and services are forming action plans in order to contain overspends. The pressures however are largely caused by external factors such as additional demographics, rising inflation and fuel costs which the Council has no real control over.

The extent of the potential service pressures in this report is significant and early decisive management action is being taken to curtail costs. The Council currently has £11m in general balances and failure to contain these overspends will have a significant effect on that figure. It is hoped that the service led action plans to contain spend will stabilise the budget position but this will be kept under close review and the S151 officer and Chief Executive will take any steps needed if necessary to secure and safeguard the Council's finances

The savings proposals built into the budget are challenging but staff are working hard to deliver them. This will be closely reviewed in future monitoring reports.

4.4 Current Variances by Department

This section sets out the service reported position at the end of June and the directorates view on the potential outturn position from all known information. The paragraphs below set out departmental commentary on the current variances.

4.4.1 Public Health Directorate

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A3100C-Public Health	(1.650)	(1.650)	(1.650)	0.000
A3105C-Public Health - Non Grant Expenditure	0.000	0.000	0.000	0.000
A3000B-Public Health Total	**(1.650)**	**(1.650)**	**(1.650)**	**0.000**

The position for the Public Health Directorate is reporting a balanced position. Public Health spending is based on an annual grant from the Government which is allocated to meet various strategic health aims and targets each year. The Council also has a Public Health Reserve which will be utilised if there are any minor overspends in this area.

4.4.2 Children's Directorate

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A4100C-Learning & Achievement	11.030	11.029	16.777	5.748
A4200C-Childrens Services *	33.856	34.356	35.147	0.791
A4250C-Safeguarding - Quality and Assurance	1.610	1.620	1.887	0.267
A4000B-Childrens Total	**46.496**	**47.004**	**53.811**	**6.807**

Children's services is forecasting an overspend of £6.8m. These figures include £5m growth allocated as part of the 2022/23 budget round.

*The variance shown on the Children's Services row in the table above does not reflect the true extent of pressures in this division because the full growth budget (£5m) is currently sitting in this area and needs to be spread over the other two rows. The true pressure areas are shown below.

The areas of pressures are:

LAC Placements	£4.281m
CWD Placements & Short Breaks	£2.521m
SEN Transport	£2.735m
UASC 18+	£0.525m
Children's Centres	£0.570m
Staffing	£2.103m
Sub-total	**£12.735m**
Growth to be apportioned	(£5.000m)
Savings already identified	(£0.928m)
P3 pressure	**£6.807m**

Learning and Achievement

- Looked after Children (LAC) placements have already increased in numbers above projections in the first two months of the year. It was originally hoped that the increased trend was a temporary peak but the latest data indicates it is not. The forecast assumes an overall increase in expenditure of 25% over 2021/22 levels based on current client data and projections.

- The data on SEN transport and CWD indicate increased client numbers and more needs that are complex. The forecast assumes an overall increase in expenditure of 15% for transport and 25% for CWD over 2021/22 levels based on client data and projections.

Children's Services

- Dependency on agency is rising in Social Care despite significant efforts to recruit and retain permanent staff

- Unaccompanied Asylum Seeker Children (UASC) 18+ cases are increasing and the costs of these clients exceed the Governments weekly allowance.

The Directorate has undertaken a Zero Based Budget exercise, which has informed the above forecast. As part of this review, the service has looked closely at activities that can be controlled further to avoid cost or reduced in order to alleviate the financial pressure. This exercise has resulted in a reduction in the predicted overspend of £0.928m through the service realigning budget to the overspending areas and through the release of some one-off grant funding. These savings are already incorporated into the overspend figures reported above.

The Directorate is proactively implementing a workforce strategy in an effort to recruit and retain higher levels of permanent staff to reduce caseloads and expensive agency costs.

4.4.3 Adults Directorate

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A4600C-Adult Services Total	6.970	7.627	8.094	0.467
A4610C-ASC Business Management Total	12.479	2.666	3.143	0.477
A4620C-ASC Integrated Services Total	53.075	61.685	65.096	3.411
A4600B-Adults Total	**72.523**	**71.978**	**76.333**	**4.355**

ASC Integrated Services (£3.411m projected overspend)

The biggest contributors to the period three pressure are demographic pressures totalling £2.741m broken down into Physical Support Client Budget £1.941m. Support with Memory & Cognition £0.516m and Support for Social Isolation £0.360m. Learning Disabilities budget is projecting an overspend of £0.654m in addition mainly due to Direct Payments to Clients, Residential and Supported Leaving.

The remainder of this service are projecting an underspend of c£0.060m, bringing the forecast to year end of £3.411m. It should be noted this includes £1m of contingency held to cover social care potential pressure for the reminder of the year. The service continues to work hard to contain this overspend.

The forecast position would have improved by £2.1m if the promised health funding would have materialised as intended. It should be noted that the forecast does however include the delivery of £3.366m of budget savings.

<u>Adult Services (£0.467m projected overspend)</u>

The budget pressure in this area relates to:

Adult Safeguarding £0.194m, mostly due to staffing budget pressures, reflecting the demand for the service.

Mental Health budget £0.165m, due to social care needs such as Supported Accommodation, Nursing and Residential.

Other variances relating to additional equipment costs in Physical Disabilities and loss of income across the various client areas resulting in a £0.109m pressure

<u>ASC Business Management (£0.477m projected overspend)</u>

The main pressure in this area is the staffing budget, which reflects the pressure to provide front line services to the client cohort.

The latest activity data has showed that since start of the financial year we have provided services to 3,013 service users of which 2,745 are still receiving services. Since start of the year, 216 service users have started getting social care services on long-term basis and 181 are not getting services any longer, living a net 35 increase in client numbers. The net cost due to starters and leavers was £0.703m but was offset by other favourable client care package movements (£0.265m), leaving a net increase of £0.438k.

We are still seeing a high demand at the front door, which has increased from same period last year. We are receiving just over 1,500 calls a month. This will be looked at in more detail in future months in terms of what we are diverting and signposting elsewhere.

• Homecare – The main headline is that new starters are costing more than leavers, due to case complexity. There is still a significant demand from hospital, including 32 out of 77 new cases, 17 of which relate to hospital or packages following reablement. Community cases reflect people getting frailer and carers unable to cope.

The increases in numbers to homecare continues to drive the budget. People are experiencing issues with post hospital transfers, which is a real driver for the increase in packages.

• Nursing – In nursing in the first quarter there are more leavers than starters. There has been a reduction in costs by £72k by ceasing two 1:1 support packages. The 1:1 packages will all be reviewed in the coming weeks.

• Residential: Period 3 saw additional placements being made, but also 16 leavers. A new emerging theme is we are getting requests from families paying 3rd party top ups stating they can no longer pay given the current climate. These are being addressed on an individual basis, but it is a clear emerging pressure.

It should be noted that the full year savings targets are assumed to be achieved by year-end at this point - this will be tracked through the year.

4.4.4 Neighbourhoods

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A2300C-Public Realm Total	8.254	8.254	11.093	2.839
A2310C-Civil Protection Total	3.338	3.338	3.428	0.090
A2350C-Bereavement and Registration Services Total	(2.631)	(2.631)	(2.712)	(0.081)
A2860C-Planning Total	1.196	1.196	1.455	0.259
A2900C-Business Support - Neighbourhoods Total	1.359	1.359	1.189	(0.170)
A5000B-Neighbourhoods Total	**11.514**	**11.514**	**14.455**	**2.941**

At period three Neighbourhoods has identified potential pressures of £2.941m across its services. The service is developing action plans to try and contain these pressures. It should be noted that some of the pressures still relate to the legacy of the lockdowns as services build back to previous levels

The main pressure areas are:
Public Realm

In year costs of £0.9m relating to the deferral of the integrated Public Realm Contract work to 22/23, which was paused when the nation went into lock down in 2020.

Parking is currently projecting a pressure of £0.7m. Parking Services are in the process of delivering the prior year and in year MTFS savings relating to the expansion of the CCTV network, of course as is always the case with parking or moving traffic enforcement the intention of the scheme is to generate compliance but for budgeting purposes.

Highways currently anticipate a £1.3m pressure due to reduced external works for TFL funded projects as a result of reduced anticipated income, Management have started implementing plans to mitigate these pressures, including reducing spend on: minor operational adjustments, structures and schemes budgets.

Planning

There is a potential budget pressure of £0.3m in planning for unbudgeted legal costs in relation to an upcoming Public Inquiry.

Civil Protection

There are also potential budget pressures of £0.1m across Civil Protection through agency costs and the delayed implementation of the Street trading policy. The service are reviewing all areas and hope to mitigate the pressure using alternative ways to transport staff around the borough, progress with the Street trading policy implementation and deleting vacant posts.

The forecast position includes Directorate underspends of £0.5m. It should be noted that it also includes the delivery of £0.547m of budget savings

4.4.5 Regeneration Programme Delivery

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A2850C-Regeneration Total	1.262	1.262	1.117	(0.145)
A5500B-Regeneration Programme Delivery Total	**1.262**	**1.262**	**1.117**	**(0.145)**

Regeneration

Regeneration are reporting an underspend position of (£0.145m) on revenue at Period 3. This is mainly due to reduction in project management and business development costs.

4.4.6 Housing General Fund

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A4300C-Housing Services (GF) Total	3.883	3.883	4.124	0.241
A5700B-Housing Total	**3.883**	**3.883**	**4.124**	**0.241**

Housing General Fund

The Housing Services (GF) is projecting a £241k overspend. This is due to the Private Housing Investment for settled homes (PHISH) (£100k) saving and Price Per Property (£102k) saving, which are not deliverable. Mercury Land Holdings (MLH) have pulled out of the PHISH project to deliver extra units of accommodation and the reducing PSL stock levels and lack of interest from Landlords has made the Price per property saving unachievable. There is a £129k overspend due to homeless demand pressures and the cost of living crisis, in addition to a £170k pressure resulting from the Ukrainian Refugee households being ineligible for full Universal Credit, due to being benefit capped. Some of the overspend is currently being absorbed by the Homeless Prevention Grant.

There are also work underway to avoid the use of Bed and Breakfast accommodation by using the allocations scheme, as there is a strong risk that hotel costs could spiral.

4.4.7 OneSource Shared

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A7100C-oS Finance Total	(0.063)	(0.027)	0.122	0.149
A7131C-Procurement Total	0.006	0.004	0.143	0.139
A7200C-oS Business Services Total	(0.035)	0.109	0.347	0.238
A7300C-oS Exchequer & Transactional Services Total	1.970	2.000	2.844	0.844
A7500C-oS Legal & Governance Total	0.026	0.189	0.264	0.075
A7600C-oS ICT Services Total	(0.073)	(0.050)	0.852	0.902
A7700C-oS Asset Management Services Total	0.044	0.067	0.163	0.096
A7800C-oS Strategic & Operational HR Total	0.020	0.014	0.016	0.002
A7000B-oneSource Shared Total	**1.895**	**2.306**	**4.751**	**2.445**

Finance

The projected finance overspend is due additional fusion projects required in 2022/23 (£0.3m)

ICT Services

ICT Services is forecasting an overspend of £0.9m. This is due to the increased cost of Microsoft Enterprise Licences since 2018/19 of £0.4m plus slippage on savings of £0.5m (£0.2m for 22/23 and £0.3m prior year).

This service is undertaking a full review and when savings initiatives are developed and implemented this forecasted overspend will reduce accordingly, however, it is not clear at this stage in the financial year how much benefit, if any, will be seen in 22/23.

Exchequer and Transactional Services

The Exchequer and Transactional Service is forecasting an overspend of £0.8m which relates to an anticipated £1m income shortfall relating to Enforcement Services, offset in part by £0.2m of vacancy management savings. The pressure within the Enforcement Service reflects the income target having recently been increased by over £0.8m (£0.3m in 21/22 and £0.5m in 22/23) whilst the level of income has not increased at the same rate. A contract delivered on behalf of another London Borough has recently ended resulting in a reduction in income. The service continually aims to increase income and as and when new contracts are secured, or caseloads increase, the income forecast will be updated accordingly.

Procurement

Procurement is forecasting an overspend of £0.1m relating to interim posts that are being retained in order to support the delivery of the council's main procurement projects. This work is anticipated to deliver savings in contractual costs.

4.4.8 OneSource Non-Shared

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A5200C-Exchequer Services Total	(1.396)	(1.606)	(1.580)	0.026
A5350C-Business Services Total	0.002	0.002	0.000	(0.002)
A5750C-oS non Shared Finance Total	0.933	1.083	1.100	0.017
A5800C-Asset Management Total	(1.264)	(1.450)	(0.363)	1.087
A5850C-Strategic HR & OD Total	0.012	0.091	0.163	0.072
A5900C-Legal & Democratic Svs Total	2.096	2.041	1.958	(0.083)
A5950C-ICT Services Total	(0.022)	(0.022)	0.028	0.050
A8000B-oneSource Non-Shared LBH Total	**0.361**	**0.140**	**1.306**	**1.166**

The forecasted overspend for oneSource non-shared is £1.166m, which largely relates to pressures that have emerged within Asset Management.

Asset Management

There is a combination of pressure points within the Service which have contributed to the £1.2m forecasted overspend:

- The budget contains a savings target originally included in the 2021/22 budget in relation to the decant of Mercury House office accommodation as a result of increased working from home since the pandemic. However, despite work being underway to vacate Mercury House, the full £0.6m saving will not be achieved in 22/23 whilst some residual occupation continues. The forecasted partial in-year delivery of £0.2m relates to some reduced running costs, NNDR exemptions and rental income (relating to River Chambers).

- Passenger Transport Service (PTS) have lost a number of external income generating routes, therefore an income shortfall is being reported of £0.1m. They continue to bid for new business, and as and when successful, the forecast will be updated accordingly.

- Commercial property is forecasting an income shortfall of £0.3m, due to commercial rents and Romford Market. The income target for the commercial rent roll was increased during budget setting of £0.2m, but the corresponding income is yet to be delivered.

- Corporate Landlord is projecting an overspend on building repairs and maintenance costs of £0.3m; the service will continue to review the prioritisation of works, the ability to capitalise spend and the costs paid for repairs and maintenance contracts with a view to improving the forecasted overspend.

- There were other minor variances across a number of other areas totalling £0.1m

Facilities Management budgets are at risk of reporting pressures relating to rising energy costs, The Council has a corporate contingent budget which will be allocated if necessary to mitigate this cost.

4.4.9 Chief Operating Officer

Service	Original Budget £'m	Revised Budget £'m	Forecast £'m	Forecast Variance to Budget £'m
A2100C-Customer and Communications Total	1.214	1.255	1.404	0.149
A2600C-Policy, Performance and Community Total	3.119	3.164	3.164	0.000
A3150C-Joint Commissioning Unit Total	0.040	0.040	0.040	(0.000)
A5300C-Transformation Agenda Total	0.519	0.519	0.712	0.193
A9000B-Chief Operating Officer Total	**4.891**	**4.978**	**5.320**	**0.342**

The Chief Operating Officer directorate is forecasting an overspend of £0.3m, Customer and Communications

There are continuing income shortfalls in relation to the Council's leisure contract with SLM. The Council is monitoring the position closely through regular recovery meetings with SLM, but it is widely recognised that the pandemic has had a significant impact on the leisure industry. The rising cost of energy is also a concern, but again, is being closely monitored.

Havering Music School is experiencing a £0.2m shortfall of income largely due to a decline in pupil numbers and reduced school uptake. The Music School is seeing the impact on families who are weighing up the cost of living versus continuing with music lessons. The service are working hard to attract new pupils and increase school uptake by prioritising Marketing with the Council's internal communication team and Traded Services unit. Additionally, further costs may be incurred such as hall hire due to rising inflation however at present, this is contained within existing budgets.

There are underspends of £0.1m in other areas within Customer and Communication Service.

Transformation Agenda

Transformation Service is forecasting unachieved prior year savings of £0.2m in relation to Digital Platform for delivery of the CRM and D365 project.

4.5 ACHIEVEMENT OF SAVINGS

In setting the 2022/23 budget the Council identified £15.028m of savings proposals which would need to be delivered in order to balance the budget. These proposals were partially offset by a £3.0m budget provision recognising that potentially some proposals might not be fully realised. Delivery of these savings is absolutely key to achieving a balanced position for 2022/23 and Departments are working collectively to achieve that aim wherever possible. Below is a list of the departmental savings currently reported as unachievable.

Unachieved Savings

Directorate	2022/23 MTFS Description	2022/23 MTFS Ref	2022/23 MTFS Variance	2022/23 Theme	2022/23 RAG Rating
A5700B : Housing	PSL MLH Leasing Scheme	Ref.063	50,000	Communities	red
A5700B : Housing	Introduce price per property repairs service for PSLs.	Ref.061	102,000	Communities	red
A7000B : oneSource Shared	ICT Restructure	Ref.081	150,000	Opportunities	red

A7000B : oneSource Shared	Increased income through providing enforcement services to other boroughs	Ref.082	450,000	Opportunities	red
			752,000		

Staffing Savings

The Council is fundamentally reviewing its staff base and structures to modernise services and improve efficiency. Significant savings are on track to be achieved in 2022/23 although further work is needed to establish whether the full target of £7m will be reached.

The main initiatives to identify post savings are:

- A voluntary release scheme. This will allow the Council to release a number of individuals and make staffing savings through restructure and reorganisation of services. The process is well underway and the posts that will be able to be released will be confirmed in the next few weeks. It is anticipated this will deliver a significant saving in 2022/23 with a full year effect in 2023/24

- The Council is reviewing all agency placements with the aim of significantly reducing the need for these more expensive costs. The review will identify where recruitment to permanent posts can take place and if the agency placement is project based look at other means to deliver that project to minimise the level of agency cover required. It is accepted that in some difficult to recruit areas such as social care there will always be an element of agency costs but those services are doing everything they can to promote and encourage permanent recruitment.

- The Council is looking at its Target operating model (TOM) and staffing structures to flatten management structures and reduce management costs where possible and also to restructure service provision to deliver more efficient outcomes

- The Council is also reviewing all current vacant posts to establish if those roles are required or if the services can reconfigure to continue to deliver outcomes without the need for recruitment

4.6 CORPORATE BUDGETS AND CONTINGENCY

The Council holds a central contingency of £1m each year. This is held for unforeseen events and the Council would only use this as a last resort if no other funding is available.
The provision set aside for unachieved savings has also been added to this table.

The Council also holds a number of budgets centrally mostly pending allocation to departments. These budgets are reviewed, on a monthly basis, by the Section 151 Officer, as part of the monitoring cycle.

Corporate Budgets

Corporate Funding 2022/23			
	Revised Budget	Estimated Spend	Forecast (Under)/ Over spend
Base Budgets	£m	£m	£m
Corporate Budget (overspend relates to balance of corporate savings yet to be achieved)	**15.370**	**19.370**	**4.000**
Corporate Contingency	1.000	1.000	0
Provision for energy increases (to be allocated)	1.500	0	(1.500)
Treasury Management/Corporate adjustments	**0.000**	**(1.500)**	**(1.500)**
Corporate Budget Fund	**17.870**	**18.870**	**1.000**

(Note the contingency is currently being held to mitigate unforeseen future pressures but if unutilised will be released later in the year to improve the bottom line)

The Collection Fund

The Council continues to collect both Council Tax and Business Rates income where chargeable. Council Tax collection over the current year is strong despite the effects of the pandemic and at this stage is on target for the collection rates set in the budget.

Treasury Management Forecast

The Council sets its treasury budgets based on the assumed Capital programme and forecasted level of cash balances each year. There are fluctuations on these budgets due to slippage and changes to the Capital programme, prevailing interest rates and borrowing decisions and the level of cash balances held by the Council.

Slippage in the Capital programme and current cash balances of over £100m has meant that there has been no General Fund external borrowing to date in 2022/23. It should be noted that the Council is reliant on internal borrowing to fund its CFR as further borrowing is likely to be necessary in 2022/23 and interests are rising. The Council remains in regular contact with its treasury advisors to determine the most appropriate time to undertake any external borrowing.

The Council has also benefitted from increased interest receivable from its deposits. At the time the budget was set interest rates were extremely low and therefore the budget was set to reflect this. Rates have now risen which has increased the yield on cash deposits.

These factors have resulted in a forecasted underspend on the treasury budget of £1.5m. This underspend could potentially increase depending on prevailing interest rates and the speed of the Capital programme

4.7 EARMARKED AND GENERAL RESERVES

The Council holds general balances to mitigate against unforeseen risks. At the end of 2021/22 General Fund Balances stood at £10.942m. The Council has planned contributions to general balances in 2022/23 of £2m. There is however a current year overspend and Council will do everything it can to identify efficiencies in order to reduce this to minimise the impact on general balances.

In 2019 as part of the budget process the Council identified and agreed that balances should be increased to £20m over the next few years to properly reflect both the size of the authority and also the current risks it faces. This remains a priority for the authority and the Council still has this target as a strategic aim despite the current year overspend. The budget for 2023/24 contains further planned contributions so even if the current year overspend results in a lower than planned level of balances it is expected that this position will be recovered in future years.

The Council holds General Fund Earmarked Reserves which totalled £59.633m at the end of 2021/22. These reserves have varying levels of flexibility in terms of what they can be used for.

Earmarked reserves are one-off funding which are held for specific purposes such as insurance, redundancy costs, business rates, health and safety and planned revenue contributions to capital. The Council reviews the need for these reserves on a regular basis and where possible funds can be released for general purposes. These funds however can only be used once and so will not close the medium term financial gap shown in section 5 of this report.

4.8 CAPITAL MONITORING 1ST QUARTER

The Capital programme for 2022/23 through to 2026/27 was agreed at Council in February 2022. Since then slippage from 2021/22 has been added as per the capital outturn report and there have been some additions to the programme resulting in a summary programme as set out in the table below.

Summary of Existing Approved Capital Programme	Previous Years Budget £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 to 2026/27 £m	Total Budget £m
Adults Services	4.790	5.743	1.618	0.000	12.150
Adults Services	**4.790**	**5.743**	**1.618**	**0.000**	**12.150**
Customer & Communications	28.191	7.583	3.959	0.603	40.336

Summary of Existing Approved Capital Programme	Previous Years Budget £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 to 2026/27 £m	Total Budget £m
Transformation	3.182	10.816	6.462	6.440	26.900
Chief Operating Officer	**31.373**	**18.399**	**10.421**	**7.043**	**67.236**
Children's Services	0.254	2.373	0.891	0.000	3.518
Learning & Achievement Service	0.512	1.072	1.229	0.000	2.813
Children's Services	**0.766**	**3.446**	**2.120**	**0.000**	**6.331**
Housing Services	211.995	298.820	180.971	552.404	1,244.19
Housing Services	**211.995**	**298.820**	**180.971**	**552.404**	**1,244.191**
Bereavement Services	6.138	1.572	0.000	0.000	7.710
Environment	36.530	28.358	3.470	0.750	69.108
Civil Protection	0.151	3.599	0.000	0.000	3.750
Neighbourhoods	**42.818**	**33.530**	**3.470**	**0.750**	**80.568**
Asset Management	33.219	24.964	13.534	21.730	93.448
ICT Services	4.231	8.898	3.980	5.020	22.130
Finance	0.000	7.291	0.000	0.000	7.291
OneSource	**37.451**	**41.153**	**17.514**	**26.750**	**122.868**
Regeneration	29.308	195.642	198.106	42.024	465.079
Regeneration	**29.308**	**195.642**	**198.106**	**42.024**	**465.079**
Grand Total	**358.500**	**596.732**	**414.221**	**628.970**	**1,998.423**

Financing of the Capital Programme

The Council finances its capital expenditure through a combination of resources both internal and externally generated. Each funding stream is considered in terms of risk and affordability in the short and long term. The current and future climates have a significant influence on capital funding decisions. As a result planned disposals and borrowing costs are kept under regular review to ensure timing maximises any potential receipts or reduces borrowing costs.

Excluding previous years spend (totalling £358.500m shown for information above) the total programme for 2022/23 and beyond is £1,639.922m and for information purposes is funded as set out in the following table.

Financing	2022/23 Financing Budgets £m	2023/24 Financing Budgets £m	2024/25 to 2026/27 Financing Budgets £m	Total Financing Budgets £m
Capital Receipts	129.388	108.021	0	237.408

HRA Specific Capital Receipts	72.457	98.111	286.042	456.610
Revenue & Reserves	6.138	0.300	0.967	7.405
Grants and Other Contributions	35.225	17.140	22.584	74.948
Borrowing	353.524	190.649	319.377	863.550
Total Financing	**596.732**	**414.221**	**628.970**	**1,639.922**

Capital Achievements as at 30th June 2022

Capital expenditure as at the 30th June is £25.280m to date. Notable achievements so far for 2022/23 are as follows:

- £11.48m on the 12 estates project to improve housing across the borough
- £4.46m spent on enhancing and increasing our existing housing stock
- £1.578m on improving the quality of our roads and infrastructure
- £1.210m on improving and refurbishing the Town Hall

The table below sets out the latest forecast spend for the Capital programme in 2022/23. Further detail on the variances shown in this table can be found at **Appendix A**

Directorate	**Budget 2022/23** **£m**	**2022/23 Forecast Period 3** **£m**	**2022/23 Variance** **£m**
Adults Services	5.743	2.311	**(3.431)**
OneSource	41.153	19.561	**(21.593)**
Neighbourhoods	33.530	33.326	**(0.204)**
Regeneration Programme	195.642	53.335	**(142.307)**
Childrens Services	3.446	2.063	**(1.383)**
Chief Operating Officer	18.399	10.370	**(8.028)**
Housing Services	298.820	182.511	**(116.310)**
Total	**596.732**	**303.477**	**(293.255)**

5 MEDIUM TERM FINANCIAL STRATEGY (MTFS) UPDATE

5.1 MTFS Update

The 2022/23 Council Tax setting report in March also contained the latest Medium Term Financial Strategy setting out the pressures the Council is likely to face over the next four years. This is a live document which is updated throughout the year to take account of changes to funding, new and emerging pressures and any other assumptions which could affect the budget for 2023/24 and beyond.

There are a number of factors including the current economic crisis which has created significant pressure on the Councils budget which in turn has made it increasingly difficult to set a robust and balanced budget.

These factors include:

- The continued impact of a decade of grant cuts since 2010
- Grant lost through the Government's decision to not update the funding formula since 2013/14
- Significant increases in demand and complexity across Social Care Groups
- The impact of spiralling inflation and energy costs

In March 2022 the Council set a balanced budget for 2022/23 which included a medium term financial strategy setting out a gap before savings of £35m over the next three years. It became apparent at a very early stage that whilst the medium term financial strategy had allowed for significant demographics and inflationary growth, this was insufficient to cover the rapidly changing pressures the Council is facing.

The revenue monitoring position set out in section 4 of this report shows how significantly pressures have increased since the budget was set 6 months ago. In recognition of the ongoing nature of the current gap in 2022/23 the Council has taken the prudent decision to include additional funding for demographics and inflation in the 2023/24 budget. This has increased the level of savings required but is a necessary and prudent step to reflect the current financial position. Services continue to work hard to identify efficiencies to mitigate the current position and this will be updated again before budget setting in February

Officers have acted quickly and robustly to develop an action plan to both mitigate the in-year overspend and to develop a set of options to balance the 2023/24 budget. The options set out in this report include some difficult choices but unless the Government is forthcoming with desperately needed additional funding the Council will have no alternative but to agree the majority of the proposals.

There will be a public consultation exercise on the budget to allow all views to be taken on board in setting the budget. Further details of this are set out in section 6 of this report

The Medium Term Financial Strategy presented to Council in March 2022 has been updated to take account of the following changes:

- The Ongoing impact of the 2022/23 revenue monitoring position
- Updated demographic pressures taking account of the latest projections of future demand

- Updated provisions for pay and price inflation
- Updates to assumptions to the level of Central Government Funding
- Update to treasury management assumptions financing the capital programme
- Updates to Corporate pressures such as levies
- Inclusion of potential pressures relating to the shortfall in government funding for market cost of care
- Updates to savings proposals

These updates are included in the table below which sets out the financial gap before new savings proposals are applied.

Financial Gap	2023/24	2024/25	2025/26	2026/27	4 Year Plan
	£m	£m	£m	£m	£m
Corporate Pressures	7.0	7.7	5.4	2.9	23.1
Demographic Pressures	10.0	4.7	4.7	4.7	24.1
Inflationary Pressures	9.7	5.3	4.8	4.8	24.7
Changes to External Funding	-1.9	0.2	6.3	0.0	4.6
Previously agreed savings	-2.0	-1.8	-1.6	-1.6	-6.9
LATEST GAP	**23.0**	**16.1**	**19.6**	**10.8**	**69.5**

The extent of the financial gap has been apparent since early summer and the Council has taken swift and robust action to produce a plan to close this gap.

5.2 Actions taken to close the budget gap

5.2.1 Action to mitigate the 2022/23 in year position

The initial focus has been on the 2022/23 overspend identifying both one-off reductions in costs and developing longer term actions in order to mitigate the causes of the spend. This process is expected to reduce the 2022/23 overspend considerably but it is inevitable for the reasons set out earlier in this report that there are underlying ongoing pressures and these have now been built into the figures in the table above.

- All overspends were reviewed and challenged to identify any non-recurrent spend which could be funded from reserves
- All use of consultancy was reviewed by senior management
- All new one-off projects were put on hold
- Major contracts approaching expiry were reviewed
- Managers reviewed all vacancies to explore the possibility of different working opportunities
- One Source to produce a new service model in partnership with Newham
- All non essential spend to be curtailed

- Review of the revenue implications of the Capital programme to take account of the latest forecast spend and use of internal borrowing
- Review of all packages in Social Care to ensure the packages best meet both client needs whilst reducing cost where possible

5.2.2 Lobbying Government over Funding

The Council will continue to lobby central government at every opportunity about the inadequacy of central funding for Havering and also more generally the need to fully fund the impact of the current increases in inflation and cost of living generally.

Havering has had its revenue support grant cut from over £70m in 2010 to just £1.5m currently due to a combination of austerity and failure of the Government to update their distribution formula. The Government has recently published options on updated formulae for Adult Social Care and this alone has exemplified that Havering has been underfunded by an increasing amount running into millions since 2013.

There is national concern that the Government set the funding level for local government for 2023/24 as part of the last spending review crucially before the current economic crisis. The funding for local government was therefore based on low inflation and low interest rates which provide amounts which are now totally inadequate to meet the inflationary demands authorities are facing. Havering like other Councils are professional organisations that have to plan for the reality of the current and potential future levels of inflation. There is no such certainty from central government at present and until further funding is forthcoming options such as the savings listed in this report will need to considered as the only means to balance the budget

5.2.3 Development of Savings Options to close the budget

It was clear from an early stage that all Departments would need to find ways of reducing their budget for future years. Departments were asked to present options including but not limited to:

- Actions to limit the future need for demographic growth
- Reviews of all services to identify efficiencies and new ways of working
- Review of all income streams to confirm appropriate rates are charged
- Review of all contracts
- Identification of savings proposals either by stopping non statutory services or reducing staff through restructures
- Review of all Capital programme items

The Council also is looking at wider pieces of work including the development of a new target operating model to better reflect service provision following austerity and the COVID pandemic.

Each department presented their conclusions to portfolio cabinet members in a series of strategic meetings in August. The outcome of these meetings is a set of proposals which are shown in the table below. These proposals will form the basis of the budget consultation paper.

Category	Proposals	Total benefit over 4 years
Improving our Business Efficency	**Review of services including:** Reducing Agency Costs through Permanent Recruitment Restructure of services to drive out efficiencies Review and deletion of vacant Posts Reduction in running costs Re-application of existing grants Rationalisation of management structures	**£5.9m**
Changing how we fund and Provide Services	**Changing the way we provide services including:** Review of service provision in Children services including increasing the number of internal fosterers and reviewing passenger transport to reduce reliance on expensive taxis. Strategic review of commissioning across all areas increasing the number of Housing placements available to reduce reliance on external support Review of options for service provision across Neighbourhoods including waste collection and parking services Continuation of Better Living improving outcomes for Adults Targetted reviews of placements to ensure that all placements fully align with client needs	**£21.1m**
Increasing our Income	**Review of income streams to the Council including:** Review of fees and charges across Neighbourhood services to ensure fees and charges are fair competitive and reasonable but also reflect current market conditions Review of parking charges across the borough to ensure charges are fair competitive and reasonable but also reflect current market conditions	**£2.0m**
Reducing or Stopping Services	**Reduction in the level of Service provision in the following areas:** Early Help and Youth Services Reduction in support to the voluntary sector and employment and skills funding Reprovide the provision of toilets for the public across the Council Reduction in the number of school crossing patrols and floral displays across the borough	**£2.4m**

These proposals present the changes that could be needed if the budget position does not improve and the Government is not forthcoming with additional new funding. The situation remains fluid and if social care demand were to plateau or the Government were to provide much needed additional support to combat inflation and the cost of living then the Council would be able to choose which of these proposals were adopted.

These proposals are expected to significantly close the gap both for 2023/24 and across the four year financial strategy.

The Council also has other options which it will consider to close the remaining gap including:

- Identification of one off spend currently in the budget which could be funded by re-directing earmarked reserves
- Further reviews of the Capital Programme to determine if any schemes can be stopped or delayed to reduce financing costs
- Increase Council Tax: The Council only ever increases Council Tax as a last resort to balance the budget but it should be noted that the Governments funding models all assume that local taxation is increased.
- Adult Social Care precept: It is likely that the Government will continue to use local taxation as a method to fund demand in Social Care. If this is the case this will be announced in December as part of the provisional local government settlement

5.2.4 Budget Timetable

The proposed timetable for setting the budget is shown in the table below

Action	Timeline
Cabinet report updating the budget position	Sep-22
Budget Consultation	Oct22 - Dec 22
Development of Business cases for savings proposals	Oct22 - Dec 22
Local Government Finance Settlement	Dec-22
Overview and Scrutiny to review budget and savings proposals	Jan-23
Budget and MTFS Presented to Cabinet	Feb-23
Full Council to set Council Tax for 2023/24	Feb-23

6.0 BUDGET CONSULTATION

The Council places great importance on the budget consultation process as a key opportunity to present to the public and key stakeholders the budget position and key choices the Council faces in the coming months.

It is proposed that the consultation on next year's budget is opened in early October and runs for 12 weeks. All the views received during this period will be put together and presented to cabinet members to inform their decision making. There will be an Overview and Scrutiny meeting specifically on the budget in the early part of 2023 which will include the outcomes from the consultation

The Council will aim to reach as many people as possible through the consultation process in order to receive views from all sectors of the community. This will include engagement with business rate payers

The Consultation Paper will firstly explain the Council's current financial position including the key cost drivers that are driving the budget. The paper will then present a series of savings and efficiency options based on the table above for consideration and comment.

7.0 CONCLUSION

This report sets out the extremely difficult financial position Havering is facing. Many other authorities are in a similar position and the Government will need to act decisively to stop authorities being forced to issue S114 notices. It is hoped the Government recognises the impact of the current economic crisis and spiralling inflation in the forthcoming financial settlement in December

With no certainty in additional funding from central Government Havering has acted robustly to develop a set of proposals which are expected to significantly close the financial gap for 2023/24. These proposals will be consulted on through the autumn and the outcome of this process will enable decision making to set the budget in February 2023. Some of the decisions will be difficult but the current financial position dictates no alternatives unless further funding is forthcoming from central government.

The Council is totally committed to balancing the 2023/24 budget and will do this in a fully professional way. This process will not place the Councils finances at risk and all decisions will be taken with the long term stability of the Council in mind.

This report recommends that the Council notes the current revenue monitoring position and approves the proposed Consultation process set out in section 6

8.0 REASONS AND OPTIONS

Reasons for the decision:

The Council has an obligation to consult on its budget proposals by law. This report sets out the proposed method to be used for the 2023/24 budget and MTFS. The Council strongly values the opinion of its residents and key stakeholders and welcomes their input into the budget process.

Other options considered:

N/A

9.0 IMPLICATIONS AND RISKS

9.1 Financial Implications and Risks

The financial implications of the Council's MTFS and revenue monitoring position are the subject of this report and are therefore set out in the body of this report. The consultation process set out in this report will be used to inform decision making on the budget.

9.2 Legal Implications and Risks

The Council is required by section S151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs.

Under S28 of the Local Government Act 2003, a local authority must review its budget calculations from time to time during the financial year and take appropriate action if there is any deterioration in its financial position. The proposals set out in this report aim to address the Council's current position.

In accordance with section 3 of the Local Government Act 1999, a local authority has a duty . "to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness." (This is "the best value duty".) The monitoring of the financial position assists the Council in meeting that duty. As part of that process it must consult tax payers, those who use or are likely to use services and others who may have an interest in an area where the Council carries out its functions.

The budget consultation and approval process is separate from individual decisions which may need to be taken for example in relation to service delivery; these may require a separate consultation process and equality impact assessment before a final decision is taken.

Where consultation is undertaken it must comply with the 'Gunning' principles; namely it must be undertaken at a formative stage, sufficient information should be provided to enable feedback, adequate time should be given for consideration of responses and the feedback should be taken into account in any decision taken. It is intended that the budget consultation will comply with these obligations.

9.3 Human Resource Implications and Risks

The Council continues to work closely with its staff and with Trades Unions to ensure that the effects on staff of the savings required have been managed in an efficient and compassionate manner. All savings proposals or changes to the funding regime that impact on staff numbers, will be managed in accordance with both statutory requirements and the Council's Managing Organisational Change & Redundancy policy and associated guidance.

9.4 Equalities and Social Inclusion Implications and Risks

Havering has a diverse community made up of many different groups and individuals. The Council values diversity and believes it essential to understand and include the different contributions, perspectives and experience that people from different backgrounds bring.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
(ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, gender, race and disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council demonstrates its commitment to the Equality Act in its decision-making processes, the provision, procurement and commissioning of its services, and employment practices concerning its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing of all Havering residents in respect of socio-economics and health determinants.

All front line proposals relating to the Medium Term Financial Strategy for the period 2023/24 to 2026/27 will be subject to an Equality and Health Impact Analysis or assessment, which will be developed following the consultation process for inclusion in the further reports to Cabinet before the budget is finalised in February 2023. This will further highlight where the MTFS has the potential to positively impact on health and wellbeing of residents through targeted provision of services, and where any identified negative impacts may be mitigated.

10.0 BACKGROUND PAPERS

None

APPENDIX A: 2022/23 Capital Programme Variances

This Appendix sets out the Period 3 position for the Council's capital programme for the 2022/23 financial year. The table below firstly shows the projected position at Period 3

Directorate	Budget 2022/23 £m	2022/23 Forecast Period 3 £m	2022/23 Variance £m
Adults Services	5.743	2.311	**(3.431)**
OneSource	41.153	19.561	**(21.593)**
Neighbourhoods	33.530	33.326	**(0.204)**
Regeneration Programme	195.642	53.335	**(142.307)**
Childrens Services	3.446	2.063	**(1.383)**
Chief Operating Officer	18.399	10.370	**(8.028)**
Housing Services	298.820	182.511	**(116.310)**
Total	**596.732**	**303.477**	**(293.255)**

The forecast expenditure for 2022/23 is £303.477m with actual expenditure at the end of Period 3 of £25.280m. Whilst most project budgets are on track to be spent over the full MTFS period there are a number of projects where expenditure has slipped back into future years, the explanations for the main programmes that contribute towards the slippage provided below:

Adult Services

Programme Area /Service/ Directorate	Budget 2022/23 £m	2022/23 Forecast Period 3 £m	2022/23 Variance £m
Adults - DFG	4.631	1.200	(3.431)
Adults - Other	1.111	1.111	0.000
Adults Services	5.743	2.311	(3.431)
Adults Services	**5.743**	**2.311**	**(3.431)**

Adults - DFG – Slippage of £3.431m

The Dedicated Facilities Grant slippage is due to the lack of activity in applications and adaptations, however demand is slowly increasing after the disruptions of the pandemic. Recent recruitment has added to the DFG team which will help to maximise spend in this area.

OneSource

Programme Area /Service/ Directorate	Budget 2022/23 £m	2022/23 Forecast Period 3 £m	2022/23 Variance £m
Asset Management - Other	4.411	1.333	**(3.078)**
Corporate Buildings	3.535	2.912	**(0.623)**
Health & Safety	0.302	0.237	**(0.065)**
Pre Sale Expenses	0.133	0.119	**(0.014)**
Schools Building Maintenance	6.315	3.227	**(3.088)**
Schools Expansions	8.116	2.681	**(5.434)**
Vehicle Replacement	2.153	0.153	**(2.000)**
Asset Management	**24.964**	**10.662**	**(14.302)**
ICT Infrastructure	8.898	8.898	**0.000**
ICT Services	**8.898**	**8.898**	**0.000**
Contingency	0.691	0.000	**(0.691)**
Internal Leasing	6.600	0.000	**(6.600)**
Finance	**7.291**	**0.000**	**(7.291)**
OneSource	**41.153**	**19.561**	**(21.593)**

Asset Management - Other – Slippage of £3.078m
Most of the slippage £2.946m relates to the planned acquisition of Hornchurch Police Station. This project is currently on hold awaiting a decision by the Met Police.

Corporate Buildings – Slippage of £0.623m
£0.527m of the slippage relates to the Central Expansion Depot scheme. This project is currently on hold.

School Buildings Maintenance – Slippage of £3.088m
This slippage is made up of a number of schemes that have been delayed, these works are now planned to commence later in the year.

School Expansions – Slippage of £5.434m
The Schools expansions slippage comprises of a number of schemes, which have been deferred and awaiting decisions. Any underspends within School Expansions Programme will be moved back to the unallocated expansions pot and subsequently used to fund additional projects.

Vehicle Replacement – Slippage of £2.000m
The slippage of £2.000m relates to the procurement 29 vehicles for Passenger Services scheme. The tender exercise has just commenced to replace these vehicles with the aim to award at end of September 2022. The expenditure will not be incurred in the current financial year. It is expected that the vehicles will be delivered in July 2023 due to the long lead times.

Finance

The Contingency budget is used for projects that are allocated as and when required. The budget is allocated to services by the Section 151 Officer. The Internal Leasing budget is used to purchase vehicles that would otherwise have been leased by a service. The service repays the purchase cost over the life of the asset thus replenishing the budget for future purchases.
Expenditure is not shown against these programme areas as the budget is allocated to existing or new schemes across all directorates.

Neighbourhoods

Programme Area /Service/ Directorate	**Budget 2022/23** **£m**	**2022/23 Forecast Period 3** **£m**	**2022/23 Variance** **£m**
Public Protection	3.599	3.599	**0.000**
Civil Protection	**3.599**	**3.599**	**0.000**
Cemeteries and Crematorium	1.572	1.572	**0.000**
Bereavement Services - Cemeteries and Crematorium	**1.572**	**1.572**	**0.000**
Environment - Other	8.220	8.220	**0.000**
Environment - TFL	0.002	0.002	**0.000**
Grounds Maintenance	0.250	0.100	**(0.150)**
Environment - Highways	16.934	16.884	**(0.050)**
Environment - Parking	0.405	0.405	**0.000**
Environment - Parks	2.548	2.544	**(0.004)**
Environment	**28.358**	**28.154**	**(0.204)**
Neighbourhoods	**33.530**	**33.326**	**(0.204)**

There were no significant slippage variances from programmes within Neighbourhoods that required explanation.

Regeneration

Programme Area /Service/ Directorate	**Budget 2022/23** **£m**	**2022/23 Forecast Period 3** **£m**	**2022/23 Variance** **£m**
Mercury Land Holdings	93.657	30.514	**(63.143)**
Rainham & Beam Park	25.419	19.046	**(6.373)**
Regeneration - Other	73.277	3.375	**(69.902)**
Regeneration - TFL	3.288	0.400	**(2.888)**
Regeneration	**195.642**	**53.335**	**(142.307)**
Regeneration	**195.642**	**53.335**	**(142.307)**

Mercury Land Holdings – Slippage of £63.143m
The main elements of the slippage are discussed below –

£35.525m of the slippage relates to the Waterloo scheme. The capital forecast was adjusted at Period 3 in accordance with current programme. Negotiations are taking place between MLH and the Havering Wates Regeneration JV to agree a PRS allocation for the Waterloo scheme between phases 2-5. Forecast has been moved back to reflect possible spend in later phases of work.

£19.500m of the slippage relates to the MLH Rainham Joint Venture. This project is not proceeding due to viability challenges. The budget will be reallocated in the Mercury Land Holdings Business Plan update.

£7.993m of the slippage relates to the Roneo Corner project. This has been slightly delayed by the developer. MLH are currently negotiating the particulars of the scheme, anticipated to start in 2022/23.

Rainham & Beam Park – Slippage of £6.373m
The Rainham & Beam Park CPO budget is in place to evidence adequate financial support being in place for scheme delivery at a CPO. Assessment is currently being carried out on planning, programme and financial impact of the delay to the GLA delivering Beam Park Station.

Regeneration - Other – Slippage of £69.902
The slippage of £69.902m relates to the Provision for Future Regeneration Opportunities project. Future Regeneration Opportunities budget could be drawn down in accordance with an approved business case, no planned expenditure at present in 2022/23.

Regeneration – TfL – Slippage of £2.888m
The slippage of £2.888m relates to the Beam Parkway Major Scheme, which is part funded by TfL. The estimated spend for 2022/23 is for consultancy costs for the scheme. No further funding has been confirmed by TfL, scope and other funding options are being explored, before the scheme can progress further.

<u>Children's Services</u>

Programme Area /Service/ Directorate	**Budget 2022/23 £m**	**2022/23 Forecast Period 3 £m**	**2022/23 Variance £m**
Learning & Achievement - Other	0.022	0.000	**(0.022)**
Schools - leasing	1.051	1.051	**0.000**
Learning & Achievement Service	**1.072**	**1.051**	**(0.022)**
Childrens Services - Other	2.373	1.013	**(1.361)**
Childrens Services	**2.373**	**1.013**	**(1.361)**
Childrens Services	**3.446**	**2.063**	**(1.383)**

Children Services - Other – Slippage of £1.361m
The majority of the slippage relates to the build of Children's Residential provisions in the Borough. There continues to be a delay to the overall build programme.

Chief Operating Officer

Programme Area /Service/ Directorate	Budget 2022/23 £m	2022/23 Forecast Period 3 £m	2022/23 Variance £m
Leisure Other	6.830	4.950	**(1.880)**
Leisure SLM	0.415	0.415	**0.000**
Libraries	0.337	0.272	**(0.066)**
Customer, Communication & Culture	**7.583**	**5.638**	**(1.945)**
Transformation	10.816	4.733	**(6.083)**
Transformation	**10.816**	**4.733**	**(6.083)**
Chief Operating Officer	**18.399**	**10.370**	**(8.028)**

Leisure Other – Slippage of £1.880m
The slippage of £1.880m relates to the new leisure centre in Rainham. The start of construction was delayed due to addressing planning considerations. The change of forecast is due to a later start on site and a re-profiling of spend for the duration of the project.

Transformation – Slippage of £6.083m
The main elements of the slippage are discussed below –
£1.821m of the slippage relates to the Organisational Data Capability. The digital portfolio has recently been reshaped and all activities are now under review, with new resource being on boarded to scope out deliverables and associated plans and costs. The 2022/23 programme provisionally includes a BI and Reporting Project and the creation of a new Data Strategy, which will provide a road map of subsequent projects.

£1.241m of the slippage relates to Platforms & Integration programme. The digital portfolio has recently been reshaped and all activities are now under review, with new resource being on boarded to scope out deliverables and associated plans and costs. This programme provisionally includes the Alloy Implementation, Civica APP Replacement, a Cyber Security/Business Continuity project and Application Risk Management Review and a new Digital Strategy.

£1.112m of the slippage relates to the CRM budget. The CRM System 2022/23 forecast based on Project Manager's indicative plan and estimate. The remainder of budget will be rolled over to 2023/24.

£0.793m of the slippage relate to the Smart Working Plus budget. The programme was placed on hold early in 2022 with various initiatives being split and funded across other services. (For example to Asset Management within OneSource directorate). The programme is now being restarted with a new project team. High level estimates have been created, but still require detailed scope, planning, costs etc. The position will be clearer in Period 6 when work has been completed.

Housing Services

Programme Area /Service/ Directorate	**Budget 2022/23** **£m**	**2022/23 Forecast Period 3** **£m**	**2022/23 Variance** **£m**
Bridge Close Acquisitions	36.103	34.576	**(1.527)**
Bridge Close Regeneration	8.342	1.003	**(7.338)**
HRA	46.061	45.871	**(0.190)**
HRA Regeneration	137.527	76.984	**(60.543)**
HRA Stock Adjustments	70.789	24.077	**(46.712)**
Housing Services	**298.820**	**182.511**	**(116.310)**
Housing Services	**298.820**	**182.511**	**(116.310)**

Bridge Close Acquisitions – Slippage of £1.527m
£1.527m of the slippage relates to the Acquisitions budget. The forecast reflects planned commercial acquisitions under private treaty in 2022/23 plus £10.000m allowance for further acquisitions coming forward, £60,000 per month for drawdowns for average creditors fees plus £350,000 redesign fees forthcoming due to changes in design to reflect fire regulations update.

Bridge Close Regeneration – Slippage of £7.338m
£7.338m of the slippage relates to the Forward Funding Bridge Close budget. The budget reflects Council direct costs for the Bridge Close scheme; forecast includes allowance for staff capitalisation costs for regeneration, provision for insurances and council legal advice plus a contingency of £0.500m in year for unforeseen costs, which will reduce down at each period it is not utilised.

HRA Regeneration – Slippage of £60.543m
The main elements of the slippage are discussed below
£19.815m of the slippage relates to the 12 Estates - Partner Loan budget. Projections have been adjusted in line with JV partner cash flow forecast, with £0.750m contingency allowed for the year.

£15.050m of the slippage relates to the Vacant Possession budget. This budget funds the remainder of the work required to achieve vacant possession on the 12 Estates sites.

£12.117m of the slippage relates to the 12 Estates Affordable Housing Programme. Projections have been revised in line with JV partner cash flows for active schemes, NNP and SSS. Waterloo construction will not begin until 2023/24 and intermediate costs will be picked up through demolition contract and PCSA budget.

£11.848m of the slippage relates to 12 Estates Phase 1 Forward Funding. Projections have been revised in line with JV partner cash flows for active schemes, NNP and SSS. Allowance made in 2023/24 forecast for £6.000m for completion of SSS and £15.000m for activity on Waterloo phase 1 construction.
£5.482m of the slippage relates to The Bund - Affordable Housing scheme. This project is not currently proceeding due to viability challenges.

£4.721m of the slippage relates to 12 Estates - Tenant Compensation. The reduction in the number to regeneration decant moves has contributed to the low forecast. This is not expected to change over the coming years.

HRA Stock Adjustments – Slippage of £46.712m
The main elements of the slippage are discussed below
£20.955m of the slippage relates to the HRA Acquisition Fund - Affordable Housing. The scheme has not progressed as quickly as expected due to lack of resources and external market forces.

£14.752m of the slippage relates to the Affordable Housing budget. The slippage is due to delays with negotiations, however projects are now moving forward with progress on St Georges scheme and Quarles scheme.

£11.005m of the slippage relates to the Hostel re-provision - Building of a new hostel budget. Allowance have been made in the 2022/23 forecast for progression to RIBA Stage 4, ready for detailed design with a new partner/contractor plus usual council fees for EA fees, Planning & capitalisation of project management costs.

STAFF CONTACTS

Andrew Blake-Herbert **Chief Executive**	01708 432201
Barbara Nicholls **Director Adult Services**	01708 433069
Patrick Odling-Smee **Director of Housing**	01708 434728
Barry Francis **Director of Neighbourhoods**	01708 433779
Robert South **Acting Director Children’s Services** **(including Learning & Achievement)**	01708 434412
David McNamara **Interim Section 151 Officer**	01708 433754

Havering
LONDON BOROUGH

Overview & Scrutiny Board

REPORT

13 October 2022

Subject Heading:	Corporate Risk Register
SLT Lead:	Sandy Hamberger, Assistant Director of Policy, Performance and Community
Report Author and contact details:	Anthony Clements Principal Democratic Services Officer anthony.clements@onesource.co.uk
Policy context:	The report deals with a statutory process.
Financial summary:	There is no significant financial impact from the statutory processes as these requirements are being met by existing budgets.

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[]
Places making Havering	[X]
Opportunities making Havering	[]
Connections making Havering	[X]

SUMMARY

The Council's Corporate Risk Register is attached for review by the Overview and Scrutiny Board.

RECOMMENDATION

The Council's Corporate Risk Register is attached for review by the Overview and Scrutiny Board. The Board is invited to consider, with the assistance of Officers, the current level of risk to which the Council is exposed.

REPORT DETAIL

1.1 The Corporate Risk Register is subject to regular review (at least quarterly) and risks are discussed at monthly Governance and Assurance Board meetings, chaired by the Section 151 officer. Audit Committee receive an updated Corporate Risk Register every six months.

1.2 As part of this ongoing review, new risks may be added and existing risks amended or removed.

1.3 A summary version of the current Corporate Risk Register is provided in Appendix 1. This includes current likelihood and impact scoring of the risks based on assessment by the risk owner (using the risk matrix from the Council's Risk Management Strategy and Toolkit).

1.4 The Risk Management Strategy and Toolkit provides a comprehensive framework and process designed to support managers in ensuring that the Council is able to discharge its risk management responsibilities fully. The strategy outlines the objectives and benefits of managing risk, describes the responsibilities for risk management, and provides an overview of the process that we have in place to manage risk successfully.

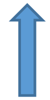
1.5 Havering uses a 5 x 5 scoring matrix to assess the Likelihood of a risk event occurring and the potential impact on the Council if it were to happen (below). The green shaded area on the matrix shows the risks where there is good control and the Council is comfortable with the level of risk. Risks in the amber and red zones are those over which closer control and further management action may be required.

Impact	Very Low (1)	Low (2)	Medium (3)	High (4)	Very High (5)
Very High (5)	5	10	15	20	25
High (4)	4	8	12	16	20
Moderate (3)	3	6	9	12	15
Low (2)	2	4	6	8	10
Very Low (1)	1	2	3	4	5
	Likelihood				

1.6 Work continues by the Internal Audit & Risk Team to further embed the risk management strategy at a Directorate level, including risk workshops and further training where required. This phase of work will ensure Directorate level risks are aligned to the strategic risks to ensure mitigating actions are managed consistently.

1.7 The next stage of our risk management work is the wider implementation of JCAD, a bespoke Risk Management system to make the process more efficient and effective; providing links to strategic objectives; easier monitoring and reporting, and demonstration of compliance with good risk management practices. This is expected to be in place by December 2022.

This page is intentionally left blank

Risk Ref.	Risk Title and Description	Last updated	Impact	Likelihood	Current Status (R/A/G)	Direction of Travel
HAV001	**Financial Resilience** – Inability to deliver a balanced budget as a result of: • Inadequate Government Funding • Rising Demographic pressures and increased complexity of Social Care • Rapidly increasing inflation • Cost of Living Crisis • Delay or non-achievement of planned MTFS savings • Inability to forecast due to uncertainty over 2023/24 Government Funding • Uncertainty regarding timing of future Government funding reforms including fair cost of care • Difficulty in identification of further efficiencies and savings following a decade of Austerity and increased demand following the COVID pandemic	September 2022	4	4	16	

Mitigation Action Plan

- Early diagnosis of the financial gap to allow time for actions to be put in place including new savings proposals.
- Lobby the Government at every available opportunity to put the case for both lack of Funding for local government generally and more specifically how Havering is disadvantaged from the current distribution formula.
- Work with national lobbying groups such as the LGA and London Councils to put the case for more funding to the Government.
- The Council has developed over £30m of savings proposals (over 4 years) which are being consulted on to reduce the financial gap.
- The Council continues to review its structure to develop a new target operating model which both aligns with current service priorities but also delivers savings and efficiencies.
- The Council is in the process of reviewing the Capital Programme to ensure that all schemes continue to be viable (see regeneration section of this risk register for further details).
- The Council has developed action plans to mitigate and reduce the in-year overspend including:
    - All overspends reviewed and challenged to identify any non-recurrent spend which could be funded from reserves
    - All use of consultancy reviewed by senior management

Overview and Scrutiny Committee 13 October 2022
Appendix 1 - Corporate Risk Register – Quarter Two 2022/23

Risk Ref.	Risk Title and Description	Last updated	Impact	Likelihood	Current Status (R/A/G)	Direction of Travel
HAV0002	**Cyber, Information Governance and Technology** Risk • Risk that appropriate technical controls are not in place to prevent a cyber-attack as a result of lack of investment in appropriate technologies, reliance on in-house expertise and self-assessments. • Lack of an appropriate Information Security Management System reduces ability to effectively manage information security risks. • Reduced chances of preventing/responding to incidents due to a lack of forward planning or investment or ineffective Business Continuity Planning.	September 2022	4	3	12	↔

Mitigation Action Plan

Cyber Security – Technical Controls & Platforms
- Cyber Security Programme underway to put in place new technology and security controls to mitigate known issues. Delivery is monitored by the Senior Information Risk Owner (SIRO) and reported to the Information Governance (IG) Board.
- Network Refresh Programme is underway to put into place new technology and security controls to mitigate known issues with the network technology and configuration. Delivery is monitored by the SIRO.
- Security Operations Centre service provision in place, enabling significant uplift in our ability to detect malicious attacks and mitigating vulnerabilities.

Information Security Policies and Risk Management
- Information Governance Board continues to provide oversight of Information Assurance and act as an escalation point to the SIRO.
- A review/update of all policies, including developing any that are missing has commenced through external contracted resource.
- Continue to deliver effective ongoing training and awareness to staff. A revised training system with improved ability to track compliance is in procurement.

Business Continuity and Council's Service Resilience in the event of an IT outage
- A project to assess Business Continuity Planning (BCP) arrangements in the event of an outage have commenced via Havering Transformation Team.
- The Applications Audit is providing some high-level output to identify system owners and risks. Data to be verified and further information sought where risks are perceived.
- Disaster Recovery (DR) capabilities for systems not hosted on IT-managed infrastructure to be verified by the System Owners and via vendors.

ICT Resilience
- A replacement IT backup solution for system managed via the oneSource IT service has been procured and is currently being implemented/configured/tested.

Overview and Scrutiny Committee 13 October 2022
Appendix 1 - Corporate Risk Register – Quarter Two 2022/23

Risk Ref.	Risk Title and Description	Last updated	Impact	Likelihood	Current Status (R/A/G)	Direction of Travel
HAV003	<u>**Potential harm to people we owe a duty of care**</u> • Social care fails in its duty of care, particularly to the vulnerable in society (as a result of reduced staffing, increased hospital discharges etc.) and a service user is harmed as a result of provider failure. • Safeguarding issues occur due to multiple issues with DOLS, BIA and easement of Care Act. • Adult social care and Council fails in its duty of care, particularly to the vulnerable in society, and a service user is harmed or dies as a result of those failures. This includes illegal deprivation of liberty of users of services, where the appropriate Deprivation of Liberty Safeguard is not in place. • Children's Social Care fails in its duty of care to children and a child is harmed or dies as a result of those failures.	September 2022	4	3	12	↔

Mitigation Action Plan

- The service operates Quality Team processes to review standards of care including contract monitoring carried out against framework providers and residential providers in the borough.
- A Quality Assurance Framework provides a risk based approach to the market of care service.
- Transparent and robust Guidance for Suspension of Placements
- Strong links with CQC with early notification of problems with providers.
- Service attendance at the Quality and Safeguarding Board with the CQC and HealthWatch.
- Safeguarding Adults Team reviews investigations following patterns emerging from a provider that suggests concerns.
- Robust 'Establishment Concerns & Failure' Procedure & Guidance
- Sharing of information and intelligence with other Local Authorities at the Local Quality and Surveillance Group.
- Appropriate and effective safeguarding processes and arrangements in place.
- Training in Multi-Agency Safeguarding Hub to ensure appropriately triage safeguarding enquiries against the criteria.
- Monthly Safeguarding and Oversight meeting chaired by Safeguarding Service Manager.
- Monthly Service Manager audits to ensure regular spot checking of s.42 and practice feedback.
- Safeguarding Policies and Guidance are reviewed and updated.
- Staff are appropriately supervised to be able to carry out their roles to a high standard.

Mitigation Action Plan (continued)
- Safeguarding Adults Board (SAB) in place with opportunities for Chair to escalate any areas of concern. - Robust and well communicated process in place to forward specific cases to the Community and Domestic Violence Multi Agency Risk Assessment Conferences (MARAC) to ensure partnership approach where required. - Safeguarding Team attend Team Meetings to provide relevant updates around key topics such as Mental Capacity Act (MCA) or Domestic Violence (DV). - Training for residential and nursing homes and develop the safeguarding support provided to them to ensure they fully understand their roles and responsibilities in relation to safeguarding. - Adults Social Care Resilience Business case to address staffing pressures. - Broad range of targeted training available to social care staff and managers to ensure all are properly equipped. - Regular Review of Safeguarding caseloads across teams. - Monitoring of demand via referrals to Multi-Agency Safeguarding Hub (MASH). - Recruitment process underway for Social Workers. - Monitoring and continuation of early help and intervention work where possible, in line with model of practice.

Overview and Scrutiny Committee 13 October 2022
Appendix 1 - Corporate Risk Register – Quarter Two 2022/23

Risk Ref.	Risk Title and Description	Last updated	Impact	Likelihood	Current Status (R/A/G)	Direction of Travel
HAV004	**Regeneration** • Shaping the future of the Borough – and possible impact of economic downturn. • Circumstances that have arisen at other Councils have highlighted the importance of monitoring the sustainability of significant regeneration programmes. • Quality of housing in Borough - ensuring it is fit for the future. • Inflationary rises mean that the cost of developments may not be sustainable / achievable.	September 2022	4	3	12	↔

Mitigation Action Plan

- Increased monitoring of economic conditions.
- Even greater focus on scheme viability at a project level.
- Ensure adequacy of scheme contingency allowances.
- Review for a possible need to adjust the tenure mix (a possible mitigation to viability challenges).
- Review of affordable housing products to maximise external grant/income opportunities.
- Adjust delivery programmes, where appropriate, to respond to the market cycle.
- Regeneration schemes and progress of joint ventures will be part of the capital programme reporting to Themed Board.
- The pipeline schemes for the Joint Venture’s and Mercury Land Holdings are reviewed at the Regeneration officer board every six weeks.
- The financial viability of the joint ventures is regularly reviewed and professional advice sought as part of each Annual Business Plan refresh, which are approved at Cabinet.
- Project progress and risks are reviewed regularly at the Prouder steering group, all Regeneration projects form part of the Prouder Verto dashboard, and highlight reports are produced monthly. The Regeneration management team are scheduling risk reviews at a more regular basis, and a directorate risk register has been created based on reported project risks.
- Financial Risks are included in each Regeneration Officer Board reports (this occurs on a 6 weekly basis).

Risk Ref.	Risk Title and Description	Last updated	Impact	Likelihood	Current Status (R/A/G)	Direction of Travel
HAV005	**<u>Workforce</u>** • There is a risk that the current work stream demands across the Council result in pressure being placed on resources. • Potential difficulties with recruitment and retention which could be due to prolonged pay negotiations and general upturn in recruitment market. • This could lead to the Council struggling to meet changes in demand for services. • There could be a loss of experienced staff due to sickness as well as staff leaving for other jobs (given the rising cost of living), with a subsequent impact on service delivery. • National Pay negotiations will have a financial impact. This will require a more general update once the Council's Vision, Target Operating Model (TOM) and People Strategy are agreed by Cabinet in November.	September 2022	3	4	12	↔

Mitigation Action Plan

- The new People Strategy and associated action plan is due to go to Cabinet in November 2022 for approval.
- Actions from this strategy are designed to ensure that the Council remains an attractive place to work and remains competitive.
- Outcomes and actions from the results of the staff engagement survey.
- Revised policies and procedures are being revised and rolled out. These are subject to regular review and update to reflect the latest position.
- Promotion and monitoring of staff wellbeing.
- Monitor staff turnover/reasons for leaving through exit interview analysis and respond as appropriate in line with policy (redesigning roles/recruitment/market supplements etc.).
- Work underway to review workforce trends and hotspots and implement solutions as appropriate.

Overview and Scrutiny Committee 13 October 2022
Appendix 1 - Corporate Risk Register – Quarter Two 2022/23

Risk Ref.	Risk Title and Description	Last updated	Impact	Likelihood	Current Status (R/A/G)	Direction of Travel
HAV006	**<u>Major system, supplier, external infrastructure failure or natural disaster</u>** • Lack of effective business continuity plans / emergency planning and poor defences in places (e.g. severe weather, flooding, pandemic etc.). • Business Continuity (BC) and Councils Service Resilience in the event of an IT Outage - If the council has a Business Continuity disruption and is unable to ensure the resilience of key Council operations and business activities, then the impact of the event maybe increased with a greater impact on people/services. • Unavailability of IT and/or Telecoms, including from cyber attack • Instability of the social care market due to problems with financial sustainability, workforce capacity and recruitment means that the Council are unable to commission care and support services for vulnerable residents. • Capacity issues within the provider market sector (linked to recruitment and retention) could lead to an inability to meet demand for services. • Cost of care in residential homes is incompatible with the Council's rate leading to an unstable market and residential care home refusing to take clients.	September 2022	3	3	9	↑

Mitigation Action Plan

- Due diligence in advance of contract awards.
- Major emergency plan in place within organisation to mitigate the initial impacts of these types of events.
- Corporate Business Continuity Plan and individual service area Business Continuity Plans held and updated by services.
- Corporate Business Continuity Plan outlines critical service for initial priorities with included service time scales.
- Individual incident plans for specific scenario for example, Multi-agency flood plan, Excess Deaths Plan, Severe Weather, etc.
- Regular updates of plans and testing and exercising associated risks.
- Corporate Risk Register linked to the London Risk register on relating risks, for example; societal associated risks.
- Work with Care Providers Voice, workforce professionals and other partners to develop and implement a workforce development plan and training offer to support retention and development of existing staff and attract new staff to the care sector.
- Regular review of market rates, in consultation with local providers and uplifts applied as appropriate to support the market and ensure suitable rates are offered and passed on to workforce.
- Monitoring of the reablement contract and development of agreement with CCG for long term joint funding arrangements and increasing capcity to ensure a sustainable service that will meet future need.

Overview and Scrutiny Committee 13 October 2022
Appendix 1 - Corporate Risk Register – Quarter Two 2022/23

Risk Ref.	Risk Title and Description	Last updated	Impact	Likelihood	Current Status (R/A/G)	Direction of Travel
HAV007	**<u>Significant Governance or Control Failure</u>** Further work needs to be undertaken to develop a comprehensive, auditable and objective assurance process to give reassurance that the Governance framework is understood and embedded within the organisation. Particular emphasis should be given to ensuring that any change in the governance framework is known and addressed and that new personnel are equipped with the correct knowledge and understanding. • Cultural failings, poor leadership and ineffective policies and procedures. • Increasing financial pressures, reduced staffing capacity and loss of skills, knowledge and experience • Increase in commercial activity in local government, accompanied by greater complexity in local delivery and funding arrangements.	September 2022	3	4	12	

Mitigation Action Plan

- Governance and Assurance Board continues to operate with regular review of Significant Governance Issues (SGIs) as reported in the Annual Governance Statement. Regular monthly meetings, good attendance by appropriate officers or delegates.
- Review of Directorate Assurance Statements to inform assurance opinion, Internal Audit Plan, Significant Governance Issues and the Corporate Risk Register.
- Annual Governance Statement is reviewed following the Delivering Good Governance in Local Government CIPFA/SOLACE Framework.
- Whistle-blowing procedures have improved and subject to regular review.
- Internal Audit regime was revised to reflect the new circumstances of working virtually and flexibly to meet the emerging risks. Audit Plan is regularly reviewed and adapted to address arising issues/risks.
- Internal challenge continues through audit process including; follow up process for all Limited Assurance reports, monitoring and follow up of all High and Medium Risk recommendations and escalation of Limited assurance reports through Governance and Assurance Board, Themed Board and Audit Committee, flexible plan to adjust priorities for emerging risks.

Overview and Scrutiny Committee 13 October 2022
Appendix 1 - Corporate Risk Register – Quarter Two 2022/23

Risk Ref.	Risk Title and Description	Last updated	Impact	Likelihood	Current Status (R/A/G)	Direction of Travel
HAV008	**<u>Failure to deliver strategic corporate priorities</u>** The post pandemic and austerity legacy combined with unprecedented levels of demand (e.g. for children's and adults services), may have an impact on the ability to deliver corporate priorities in line with residents demand and perception.	September 2022	3	4	12	↔

Mitigation Action Plan

- Programmes such as local area coordination and community hubs are designed specifically to build stronger relationships with residents. Council-run campaigns - run either solely and directly or in partnership (such as the #BeNiceToYourNoggin campaign) raise awareness about community issues and communicates what the Council is doing to support residents.
- Corporate plan with established priorities supports delivery of key programmes.
- The Council will ensure regular engagement, consultation and increased participation in the planning of services and provision of insight into residents' lived experience.

Risk Ref.	Risk Title and Description	Last updated	Impact	Likelihood	Current Status (R/A/G)	Direction of Travel
HAV009	**<u>Council fails to adapt to changing context</u>** New and ongoing work towards meeting the climate change agenda could have a wider impact on the Council's ability to adapt to a changing environment.	September 2022	4	2	8	↔

Mitigation Action Plan

- Climate Change Agenda work is taking place with various individual action plans for different aspects of climate change have been shared at Theme Board and further work to continue.

This page is intentionally left blank

Havering
LONDON BOROUGH

OVERVIEW AND SCRUTINY COMMITTEE

Subject Heading:	Care provider market resilience
SLT Lead:	Barbara Nicholls, Director of Adult Services
Report Author and contact details:	Ben Campbell, ben.campbell@havering.gov.uk
Policy context:	Under the Care Act 2014 the Council has a duty to support a sustainable care market

SUMMARY

Overview and Scrutiny Committee have requested an item on the position in the event of a major supplier failure or the collapse of the local social care provider market. This report provides a summary of the intelligence we have about the market, available capacity and mitigations to reduce the impact of provider failure.

RECOMMENDATIONS

There are no immediate actions arising from this report, Members are asked to note the contents of the report.

REPORT DETAIL

Intelligence

There are a range of sources of intelligence about provider sustainability. The Care Quality Commission (CQC) have a statutory duty to provide a Market Oversight role. This means having oversight of providers that have a large local or regional presence where, if they were to fail, could disrupt continuity of care in a local authority area.

This means CQC assess the financial sustainability of adult social care providers that could be difficult to replace if they were to fail. CQC will give advance notice to local authorities so they can put plans in place to ensure that people who are affected continue to receive care.

The means by which providers are monitored by the Council is through the Quality Outcomes team, based within the Joint Commissioning Unit (JCU). This is a team of officers whose job is to liaise with and visit care providers on a regular basis to ensure the quality of services. Through the development of a trusted relationship with care providers and regular contact this team are often first to be notified if a provider is struggling or are in a difficult position. This means the Council can be proactive and step in to provide support where it is appropriate to do so to prevent a failure. In addition, it means the Council can start planning ahead and looking at business continuity options.

Information about providers in trouble in neighbouring authorities is often shared through the Association for Directors of Adult Social Services (ADASS) network. Care providers can work across borough boundaries or may have offices and teams in more than one location.

In regard to financial sustainability a recent government initiative, the *Fair Cost of Care* exercise, will enable more insight into local care markets for care homes supporting older people and homecare for adults. The Council are currently surveying a range of these providers to improve our understanding of the actual costs of delivering care. This will potentially alert the Council to any provider with financial issues. A second element of this is the development of a provisional market sustainability plan to assess and demonstrate how the Council will ensure the local care market is sustainable. The plan will assess the impact the Council's current fee rates are having on the market, potential future risks and mitigating actions.

Care providers have regular communication with the Council and they are feeding back on the financial pressures they are under and the struggle they experience with recruiting and retain staff. The cost of inflation in the care sector has been far higher than in previous years. This is as a result of a combination of factors, including: (i) 6.6% increase in the statutory National Living Wage, (ii) the introduction of a new Health and Social Care Levy (via national insurance for 2022-23), and (iii) high levels of inflation. Care workers are usually paid close to or just above the National Minimum Wage and National Living Wage, therefore these increases have a big impact on pay for front line care staff. Providers also have the added pressure of additional employer on-costs. The cost of food supplies, gas, electricity and fuel are of great concern for providers. Insurance costs have increased by over 30% for some. Care workers are struggling with the cost of living which in turn means they may look for alternative employment. The Council's input is only one part of this, self-funders contribute significantly. However, that part of the market might also be facing pressures so the Council need to continue monitoring and understand these pressures as they develop. The market in Havering has many providers and there has been no sign of collapse so far.

The Council hold regular provider forums with care providers. This allows providers to raise any issues or concerns and provides forewarning to the Council of any overarching problems impacting the market. For example, previously providers have raised issues in recruiting staff and attracting people to work in the care sector. In response Havering's Social Care Academy has developed a range of initiatives to develop the care provider workforce.

The Council has supported the development of Havering Care Association (HCA) a network that connects care providers in Havering and allows providers to be collaborative and have a strong voice. HCA will raise, with the Council, any concerns or issues providers are facing in the care market.

Capacity in the market

From July 2022 Government issued a mandate for all adult social care (ASC) providers to complete a 'capacity tracker' every month. This is an online portal for tracking the capacity of care services. As a minimum the following information is required:

For residential and nursing care homes as a minimum the following information is required:

- bed vacancies
- maximum occupation
- are they accepting admissions
- number of staff
- number of staff absent
- COVID-19 vaccination status of staff and residents
- information on flu vaccine take-up.

For homecare (also known as domiciliary care) as a minimum the following information is required:

- number of people using the service
- number of staff that have face-to-face contact with the people being supported
- number of staff delivering care that are absent
- COVID-19 vaccination status of staff
- information on flu vaccine take-up.

Other data items in capacity tracker which are key for operational support are PPE availability and the number of confirmed/suspected cases of COVID-19 amongst staff and residents.

In addition to capacity tracker the Council's Joint Commissioning Unit have developed an electronic system for placing new care packages, known as Atlas. Atlas provides intelligence on which care providers are accepting and not accepting care packages to give an understanding of capacity in the market.

These data sets mean, in the event of a provider failure, the Council will have an up to date picture of which care providers have capacity to pick up care packages or placements from a provider who can no longer continue doing so.

Mitigation

Havering has a large and diverse social care market. There are 56 residential and nursing care homes, over 70 supported living services and more than 35 homecare providers. Therefore, the risk of the collapse of the whole local social care provider market is low. The risk of a single care provider failure is greater but the Council has contingency plans and processes in place to reduce the impact on residents should this happen.

The pandemic provided an opportunity for providers to test their business continuity plans and for the Council to develop its response to providers in trouble. The Council and providers explored how mutual aid between providers could work and looked at what resources could be brought in to provide short term relief. For example personal assistants who provide care directly to a single employer could be deployed into a care home to cover large scale staff absence. Providers were able to get through the pandemic without the need for mutual aid. It served as a stress test for the market and indicated that there was resilience within the Havering care market.

If a large national provider was to fail, the Council would work together at a regional or national level to ensure the necessary actions are taken to ensure a safe transition for those receiving care into a new provision. For example, when Allied Healthcare, a large national homecare provider, left the market the Council worked through the London ADASS network to share the workload and approach. For example, one Council's Legal team looked at the contractual requirements whilst another could focus on the detail of staff and service users. Smaller providers are equally at risk of failure but the impact is less significant as should this occur there are fewer residents to find alternative provision for.

The Council has developed the Havering Provider Establishment Concerns and Failure Procedure and Guidance. This document sets out the process we follow when a provider leaves the market. Steps include bringing the required stakeholders together for regular meetings, reviewing the care needs of those receiving care and identifying alternative provision and a date of transfer. The Council has recently used this procedure to safely manage the transfer of residents from a closing care home.

HCA, mentioned earlier in the report, have developed to become Care Providers Voice representing providers across North East London. This provider peer support network can provide support to providers leaving the market and can also help identify providers who may be interested in taking over a failing business.

To summarise. There is a medium risk of provider failure in Havering, particularly linked to the cost of living and inflationary issues. We have methods to obtain an early indication that a provider is in trouble and should they leave we have a large market to offer alternative options and clear procedures for managing the transition.

IMPLICATIONS AND RISKS

Financial implications and risks:

Legal implications and risks:

Human Resources implications and risks:

Equalities implications and risks:

ENVIRONMENTAL AND CLIMATE CHANGE IMPLICATIONS AND RISKS

BACKGROUND PAPERS

None

This page is intentionally left blank

Havering
LONDON BOROUGH

Overview & Scrutiny Board

13 October 2022

REPORT

Subject Heading:	Income and Budget Performance for Havering's Joint Ventures and Mercury Land Holdings
SLT Lead:	Neil Stubbings – Director of Regeneration
Report Author and contact details:	Kirsty Moller – Head of Programme & Support (Regeneration) T: 01708 434707 E: Kirsty.Moller@havering.gov.uk
Policy context:	The Regeneration service delivers housing and infrastructure in line with housing and planning policies
Financial summary:	The report provides an update on financial performance against approved budgets, there are no new implications arising from the report

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[]
Places making Havering	[X]
Opportunities making Havering	[]
Connections making Havering	[]

SUMMARY

The report aims to answer the following questions set by the Overview & Scrutiny Board –

“What is the expected income and net profit from commercial and/or joint ventures organisations over the last 6 years for each year, together with the performance against budget.”

“Also, the predicted figures for the 2022/23 budget. The latter split between what we have received in the first 5 months of this year and the target for the remainder of the year.”

RECOMMENDATION

That the Board receives a financial update around income and budget performance of the joint ventures and Mercury Land Holdings, and makes any comments or recommendations in connection with this.

REPORT DETAIL

The Regeneration Directorate was established in 2018 to deliver Havering’s ambitions for creating new genuinely affordable homes for local people and shaping places and new communities. The Regeneration team oversees three Council joint ventures and the activity of Mercury Land Holdings (MLH), the Council’s private housing development company.

Regeneration creates opportunities to offset some general fund costs, such as homelessness pressures and social care placement costs, through the delivery of new affordable and supported housing. The Council tax base also increases through the provision of new homes.

Table 1 shows the overall delivery targets for each joint venture and MLH:

	Total Units	Affordable Rent	Shared Ownership	Overall Affordable %
12 Sites (Original)	3,419	1,416	418	54%
Rainham Beam Park	910	134	200	37%
Bridge Close	1,070	161	374	50%
JV's Delivery Total	**5,399**	**1,711**	**992**	**50%**
Mercury Land Holdings	568	85	81	29%

Budget Performance & Income

The Regeneration capital budget for MLH and the joint ventures for the current year, 2022/23 totals £301m, with a projected spend of £137m. The forecast is re-profiled in-year according to activity on each project, for example, negotiations with land owners dictate when land assembly funds will be spent, activity on site can be affected by timescales for relocating residents, etc.

The capital forecasts are updated each month which ensures the finance team have early sight of the anticipated year-end position to co-ordinate the Council's funding streams and overall budget position.

Please refer Table 2 within EXEMPT Appendix A for the latest capital budget position for Regeneration.

<u>Bridge Close Expenditure</u>

The Bridge Close scheme will deliver up to 1,070 homes, with up to 50% being affordable. The scheme also delivers a new school, medical centre and important environmental improvements to the River Rom.

The project is currently in the land assembly phase, with a planning application scheduled for submission later in 2022. Budget forecast is based on negotiations with land owners and likely acquisitions for completion in 2022/23.

<u>Bridge Close Income</u>

There is a services agreement in place which attracts £120,000 to the general fund each year to help offset Council costs.

Staff costs for the scheme are capitalised to the HRA capital budgets as appropriate at the end of each financial year.

Table 3 within EXEMPT Appendix A shows the capitalisation figures for 2021/22. A similar position is expected in 2022/23.

The Council uses any profits made on the sale of new homes to offset the cost of new affordable homes and reduce our overall borrowing, there is therefore a nil financial return on the project.

Sales will occur on either shared ownership (part rent/part buy) homes, or homes earmarked for market sale (full ownership), once properties are completed. This is expected to be from 2026.

Sales are expected according to the estimated profile shown in Table 4 within EXEMPT Appendix A.

12 Sites Expenditure

The 12 Sites programme will be delivered through a joint venture with Wates Residential. Wates deliver a strong social value offer for Havering and have 125 years' building and construction experience.

The 2022/23 profile is based on the completion of New Green (formerly Napier/New Plymouth) in December 2022, continued construction progress at Park Rise (formerly Solar, Serena, Sunrise) which completes in 2023/24 and pre-construction services delivered for Waterloo Estate, ready for construction of the first phase to begin in 2023/24.

12 Sites Income

Staff costs for the scheme are capitalised to the HRA capital budgets as appropriate at the end of each financial year.

Table 3 within EXEMPT Appendix A shows the capitalisation figures for 2021/22. A similar position is expected in 2022/23.

A joint venture may create income streams through profit, which are split 50/50 between partners, and sales of completed new homes. The Council uses its profit share of £47m to offset the cost of new affordable homes and reduce our overall borrowing.

Sales will occur on either shared ownership (part rent/part buy) homes, or homes earmarked for market sale (full ownership).

The first sales are due to start later in 2022 at New Green and will continue in line with programme completions. The estimated sales profile is shown in Table 5 within EXEMPT Appendix A

Harold Hill Town Centre

There are three phases for the Harold Hill Town Centre project, phase 1 being the delivery of a new Family Welcome Centre, which provides emergency accommodation for families and a new medical centre for Harold Hill. A resolution to grant planning permission has been secured, construction will begin in 2023/24.

Phases two and three consist of the regeneration of Chippenham Road and the Farnham/Hilldene shopping area. We continue to regularly engage residents in the design plans for the area and will be holding the borough's first Resident Estate Ballot in November 2022, a positive result has the potential to unlock millions in GLA funding.

As the scheme is in the early design phases, tenure mix and sales profiles are yet to be finalised, but the indicative sales profile is shown in Table 6 within EXEMPT Appendix A.

Rainham & Beam Park Expenditure

Activity has slowed due to the Department for Transport's decision to review the delivery of Beam Park station, a key piece of infrastructure for the area. Allowance has been made in the current year's budget forecast for opportunities for land acquisitions, however any acquisitions would be subject to further review and approval.

Rainham & Beam Park Income

There is a services agreement in place which attracts £120,000 to the general fund each year to help offset Council costs.

Staff costs for the scheme are capitalised to the scheme's capital budgets as appropriate at the end of each financial year.

Table 3 within EXEMPT Appendix A shows the capitalisation figures for 2021/22.

The last JV business plan earmarked 726 homes for sale, generating a profit of £22m at completion, to be split 50/50 by the two partners.

The estimated sales profile, according to the last business plan, is shown in Table 7 within EXEMPT Appendix A.

However, challenges around build costs, stagnated house prices in the area and the increased cost of land have eroded potential profits. The scheme is being revisited and a new business plan will be brought to Cabinet once a formal decision is reached on the delivery of Beam Park station.

GLA Grants

The Council has a strong track record for delivering affordable housing and is able to access affordable housing grants from the GLA to help reduce the Council cost of building new homes. This is an important external funding source for the delivery of affordable homes.

These grants will come with certain terms and conditions as well as setting high standards for design and resident engagement.

The income profile from GLA grants is shown in Table 8 within EXEMPT Appendix A.

Mercury Land Holdings Expenditure

There has been some slippage on schemes that would be impacted on proposed Government changes to MRP (minimum revenue provision), which makes viability more challenging due to the way capital schemes can be financed.

Mercury Land Holdings are currently reviewing a number of potential sites and will be bringing forward an updated business plan and revised budget profile to Cabinet within the current financial year.

Mercury Land Holdings Income

The Council generates income from MLH development schemes through onward-lending with interest via loan arrangements. The Council also has an equity stake in MLH of £12.3m.

The loan repayments are usually scheduled over 50 years and the interest generates an income to the general fund.

The company has a portfolio of private sector rented (PRS) homes that provide an income to cover debt and company running costs.

The Council will also receive dividends from MLH equity in future.

The income profile from LBH loans, according to the last business plan, is shown in Table 9 within EXEMPT Appendix A.

LEGAL IMPLICATIONS AND RISKS

Legal implications and risks are reported within individual decision reports and business plans.

There are no legal implications or risks arising from this Overview & Scrutiny update report.

FINANCIAL IMPLICATIONS AND RISKS

Financial implications and risks are reported within individual decision reports and business plans.

There are no financial implications or risks arising from this Overview & Scrutiny update report.

HUMAN RESOURCES IMPLICATIONS AND RISKS (AND ACCOMMODATION IMPLICATIONS WHERE RELEVANT)

HR implications and risks are reported within individual decision reports and business plans.

There are no HR implications or risks arising from this Overview & Scrutiny update report.

EQUALITIES AND SOCIAL INCLUSION IMPLICATIONS AND RISKS

Equalities and social inclusion implications and risks are reported within individual decision reports and business plans.

There are no equalities and social inclusion implications or risks arising from this Overview & Scrutiny update report.

ENVIRONMENTAL AND CLIMATE CHANGE IMPLICATIONS AND RISKS

Environmental and climate change implications and risks are reported within individual decision reports and business plans.

There are no environmental and climate change implications or risks arising from this Overview & Scrutiny update report.

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank