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

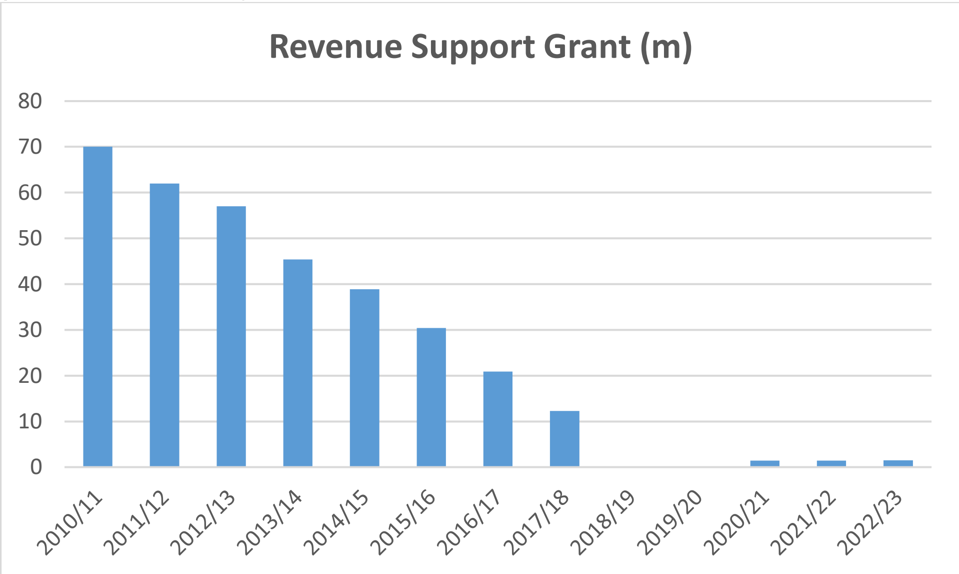
Financial Position	£m
Income loss for the year	6.919
Gap in 2021/22 MTFS savings delivery	5.278
Business As Usual Net Position	5.908
Total Pressures	**19.702**
Government Support (COVID)	(8.239)
Corporate	(3.469)
Overspend	**7.994**

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.

Adult Services (£0.467m projected overspend)

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

ASC Business Management (£0.477m projected overspend)

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:

<u>Adult Services</u>

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.

<u>OneSource</u>

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.

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