Southend-on-Sea City Council

Report of the Deputy Chief Executive and Executive Director (Finance & Resources)
To
Cabinet
On
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Agenda Item No.

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Resourcing Better Outcomes – Finance and Corporate Performance Report 2022/23 – Period 6
Policy and Resources Scrutiny Committee
Cabinet Members: Councillor Stephen George and Councillor Paul Collins
Part 1 (Public Agenda Item)

1 Purpose of Report

The regular Resourcing Better Outcomes report is a key tool in scrutinising the Council's overall finance and corporate performance. It is designed to provide an overview of progress to all relevant stakeholders at regular stages throughout the financial year. It is essential that the Council monitors its budgets and assesses its performance regularly to ensure that it is meeting its strategic objectives and providing value for money. This approach highlights where corrective action is necessary and reasonable mitigation is required to try to deliver a balanced financial position by the end of the year.

The recent series of events in Downing Street, the volatility of the current operating environment, combined with the significant increases experienced in both local service demand and unavoidable inflationary cost pressures arising from the global cost of living crisis has exacerbated an already incredibly challenging situation. Delivering a balanced budget in 2022/23 has potentially now got even more difficult to achieve. This period 6 report provides an update on the current year's improved forecast outturn position and reinforces the need to continue to make some difficult choices and take decisive action.

2 Recommendations

That, in respect of the 2022/23 Revenue Budget Performance as set out in appendix 1 to this report, Cabinet:

2.1 **Note the forecast outturn for 2022/23 for the General Fund and the Housing Revenue Account as at 30 September 2022;**

2.2 **Note the management action taken and to be taken to reduce the forecast overspend of the Council's revenue budget for 2022/23;**

2.3 **Approve the planned budget transfers (virements) of £400,000 from earmarked reserves, as set out in section 4.44.**

That, in respect of the 2022/23 Capital Budget Performance as set out in appendix 2 of this report, Cabinet:

2.4 **Note the expenditure to date and the forecast outturn as at 30 September 2022 and its financing;**

2.5 **Approve the requested changes to the capital investment programme for 2022/23 and future years, as set out in section 4 of appendix 2.**

2.6 **Note the SCC Corporate Plan Performance Report as at 30 September 2022 set out in appendix 3.**

3 Unprecedented Levels of Uncertainty and Financial Challenge Continues

3.1 The finance and corporate performance report for period 4 highlighted the significant challenges facing the country, local government generally and within this context Southend-on-Sea City Council. Given the volatility and what have been described as once in a generation series of events including Brexit, the pandemic, the war in Ukraine, energy prices doubling and in some case tripling in cost, inflation at the highest level for decades. The recent developments in Downing Street have added further concern and uncertainty. Boris Johnson resigned on 7th July and Liz Truss was announced as the new Prime Minister on 6th September and on the same day installed Kwasi Kwarteng as the country's new Chancellor of the Exchequer.

3.2 The new Prime Minister initially and quite rightly paused all Government business as the country and indeed most of the world reflected on the sad passing of Her Majesty, Queen Elizabeth II at the age of 96, following over 70 years of dedicated service to public life. Government business resumed following the Queen's funeral and remembrance arrangements and on 23rd September, the new Chancellor delivered a "mini budget" which aimed to implement several measures announced by the new Prime Minister during her leadership campaign throughout July and August, as well as several further tax cutting policies in an attempt to stimulate and accelerate economic growth. The financial markets and key financial institutions were concerned about how these measures would be funded and this resulted in a lot of immediate market volatility, particularly in the UK government bond markets. This prompted a sell-off in gilts, mainly by pension funds, which resulted in the Bank of England's pledge to buy £65 Billion of Government bonds, to reduce the risk to the UK's financial stability.

3.3 What followed was an unprecedented set of changes to the political leadership of our country. The Chancellor was removed after only 38 days in the role. Jeremy Hunt was appointed as the new Chancellor of the Exchequer on 14th October and almost immediately reversed most of the tax cutting economic growth policies announced in the "mini budget". The new Prime Minister resigned on 20th October, serving for just 44 days. This triggered a new leadership election contest within the Conservative Party. Three candidates put their names forward for consideration, Boris Johnson, Penny Mordaunt and Rishi Sunak. On 23rd October, Boris Johnson withdrew and on 24th October, just before the 2pm deadline for confirmed nominations, Penny Mordaunt withdrew from the contest. This resulted in Rishi Sunak becoming the leader of the Conservative Party without the need for an MP's ballot or Conservative members' vote. On 25th October, Rishi Sunak was invited by the King to form a new government as the Country's new Prime Minister.

3.4 A comprehensive report on the Council's Treasury Management Strategy is presented elsewhere on this Cabinet agenda. This report provides reassurances around the Council's strong fiscal management of its investment and borrowing arrangements. Despite the recent economic conditions and market turmoil it is pleasing to confirm that there will be no immediate adverse impact on the Council's overall revenue budget. The Council took decisive action during 2021/22 to take advantage of historical low PWLB borrowing rates and took out £40 million of new loans at rates between 1.52% to 1.68% with equivalent PWLB rates now at 5% plus and moving constantly. The borrowing undertaken earlier in the year at exceptionally low rates has meant that our average borrowing rate for all our PWLB borrowing is now 3.46%.

3.5 The Council currently has no requirement to take out any new borrowing so is currently not exposed to the risk of increasing PWLB interest rates. They are now at their highest level for a decade. This is a major concern for many other local authorities right across the UK but our decisive action has mitigated this potential major risk for the Council.

3.6 As part of the period 4 financial monitoring report a reference was made to an announcement by the Local Government Association (LGA) who at that time raised concerns about the "disastrous" impact that rising inflation from the cost-of-living crisis could have on council services, which would then go on to directly affect local residents. On Friday 21st October the Chairman of the LGA and the leaders of all the political groups wrote to the new Chancellor welcoming him to his role but also made a series of important points about the financial position facing local government and in particular adult social care[1].

3.7 The period 4 report also shared a series of comments and announcements about the serious financial pressure and implications on their local areas that were being reported from several local authorities up and down the country. These concerns have continued to grow over the past 2 months and if anything, have increased in their severity. This contributed to Grant Thornton issuing a press release in September 2022, which suggested that 1 in 6 local authorities could effectively run out of cash in 2023/24[2].

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[1] https://www.local.gov.uk/letter-lga-chairman-and-political-group-leaders-chancellor-exchequer
[2] https://www.grantthornton.co.uk/news-centre/one-in-six-councils-at-risk-of-running-out-of-money-next-year/

3.8 Southend-on-Sea City Council, along with most Local Authorities across the country, continues to face arguably its greatest challenge yet in trying to provide essential services to meet the needs of local residents within the level of resources it has at its disposal. As reported throughout 2021/22 the direct operational service arrangements of the Council and its partners continued to be severely impacted by the COVID-19 pandemic. Despite these challenges the Council remained financially resilient and responded proactively to support local communities throughout 2021/22.

3.9 As detailed in the “Delivery of Southend 2050 Outcomes and Priorities: Annual Report and Provisional Resources Outturn 2021/22” report to Cabinet in June, excluding the requirements for grant reserves due to the impact of COVID-19, the Council finished the year with a higher level of reserves than it started with. This is a testament to both the financial resilience and strong effective financial management of the Council’s overall level of resources over the last decade, despite the lengthy period of austerity and the two years of the COVID-19 pandemic.

3.10 The recent events in Downing Street have been well documented on the back of what most have previously described as potentially some of the most volatile and unpredictable periods in recent history. Clearly Brexit considerations initially and then the response and impact of the pandemic have caused huge disruption and concern to everyday life. Public health worries and economic impacts, together with levels of Government borrowing never seen before in peace time years have all contributed to huge extra fiscal challenges for the country. This context has created additional pressure and uncertainty locally and made effective financial and service planning for Southend-on-Sea extremely challenging.

3.11 Although the direct operational impact of the pandemic on the Council began to reduce during the last quarter of 2021/22, most local authorities continue to struggle with the challenges of uncertainty, financial pressures, increasing service demands and concerns for their residents and local areas. Effectively coping with the aftermath of the pandemic has been exacerbated and made much more complex by the implications of the horrific events in Ukraine and an unprecedented rise in energy prices. This has contributed to monthly general inflationary increases at a level not seen since the 1970s. The 12-month Consumer Prices Index to September 2022 increased to 10.1% and most economic commentators remain uncertain about what the inflation rate will be over the coming months, or indeed across the medium term. The Council is now facing the perfect storm of huge increases in service demand post the pandemic combined with unavoidable rapid increases in operating costs across almost every aspect of its Organisation. This is having a huge financial impact on the Council’s financial plans for 2022/23 and the general economic climate is creating serious cost of living challenges for our local residents.

3.12 As previously reported the Council was already learning of major concerns from lots of residents about the impacts of cost of living rises on their day-to-day lives. Price increases for food and fuel, as well as in supply chains for other goods, are leading to many more local residents 'just about managing' or actually falling into poverty. This situation was getting worse locally even before the latest price increases started to take effect.

3.13 The challenge of delivering a balanced financial outturn for 2022/23 is significant. Nearly all the financial pressures that the Council is now experiencing have been down to outside factors where the Council has had no influence or control and have happened at great pace, since the Council's 2022/23 budget was approved in February 2022. This means that some very difficult choices and prioritisation of existing approved spending plans for both capital and revenue during 2022/23 continue to be considered and reductions urgently required.

3.14 Unfortunately, other major areas of concern that were highlighted in 2021/22 included the potential impact and increase on service demand 'post COVID-19' or 'living with COVID-19' in the future. This risk added to the precarious economic situation for many residents, due to the rapid increases in energy and inflationary pressures has translated into large increases in service demand for the Council. The other major area of concern that was highlighted was the impact locally of the Government withdrawing the temporary financial support that was provided during the pandemic, this has coincided with huge increases in unavoidable operating costs, creating the worst combination of factors that continues to threaten the future financial sustainability of the Council.

3.15 At this halfway stage of the year – further urgent action is needed to try to reduce all non-essential expenditure and/or generate extra income. This priority must be achieved whilst ensuring that our most vulnerable residents are looked after appropriately, and our statutory responsibilities are effectively discharged. Improving efficiency and productivity is essential but the scale of the unprecedented financial pressures will inevitably lead to a reduction in the range, quality, cost and responsiveness of other discretionary Council services.

3.16 This report will focus on providing some detail and commentary of the financial variances at a portfolio level that are currently forecast for 2022/23. It highlights the variations from the position reported for period 4. It should be noted that these estimates have been based on the best information we currently have available and will be continually kept under review.

Fiscal Policy Statement delayed to 17th November 2022

3.17 The new Chancellor of the Exchequer announced that he would make a key Statement to the House of Commons on 31st October 2022. Following the recent appointment of the new Prime Minister, it has now been confirmed that this Statement has been delayed until 17th November 2022. It is hoped that this will provide a clear indication of the Government's 'borrowing, tax and departmental spending' plans for at least 2023/24. It looks certain now that a 3-year Comprehensive Spending Review will **NOT** be announced for the Local Government Sector. Clearly this delay is concerning as it shortens the time available for financial and operational planning for the Council for 2023/24.

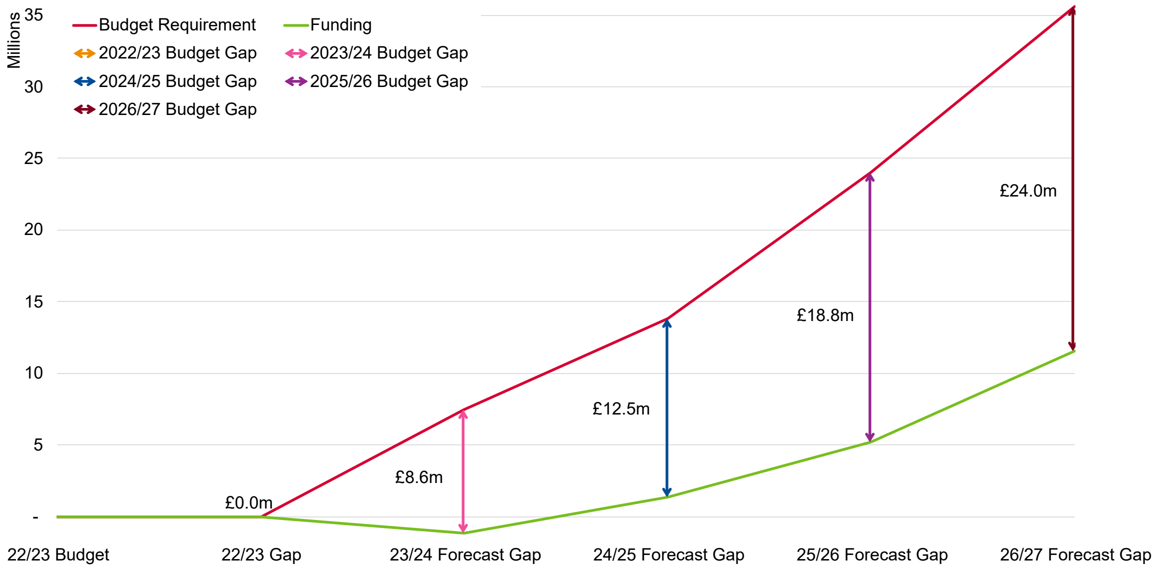
3.18 The Council ended 2021/22 in a relatively strong financial position but the size of the financial challenge for the future is arguably the biggest in the Council's history. Depending upon national funding and policy decisions taken by Central Government in November, the Council's position, and the pressure on the rest of the sector, could get even more challenging for 2023/24 onwards.

3.19 To help to begin to address and close the estimated budget gap over the next five years the Council will continue to aim to achieve financial sustainability by growing local income sources and relying less on grant support from Central Government in the future. The Council will continue to work collaboratively with its partners, increase its focus on the delivery or joint commissioning of services in a targeted way to ensure that those in most need and who will receive the greatest benefit are the recipients of services. It is vital that we learn from our COVID-19 experience and tailor our services and working practices accordingly.

4 Revenue – General fund

4.1 In February 2022, the Council approved a General Fund Revenue Budget requirement for 2022/23 of £140.741M. This report provides details of the current projected outturn position for 2022/23 based on information as at the end of September 2022 (Period 6). In headline terms Council Corporate Budgets and Service Portfolios are currently forecasting a gross overspend by the year-end of £12.104M for 2022/23. This is an **improvement** of around £2.3 Million on what was reported at period 4, but still represents a huge challenge and forecast overspend at the 6 months stage of the year. Action is and will continually be taken to further mitigate this potential overspend throughout the rest of the year. This reduced total projected overspend stands at around 3.7% of the Council's gross expenditure budget.

4.2 Alongside the budget the Council also approved the Medium Term Financial Strategy which included a medium term financial forecast with an expected budget gap of £24.0M in 2026/27. (2023/24 = £8.6m, 2024/25 = £3.9m, £2025/26 = £6.3m, 2026/27 = £5.2m). The Council's forecast profile of this budget gap for each of the next five years is detailed in the following chart which illustrated the estimated funding gap to 2026/27 as reported to Council in February 2022.



4.3 The potential future budget gap is now going to be significantly larger over the medium term as a direct result of the impact of inflation, service demand pressure and the current projected 2022/23 revenue base overspend. Work has continued to update the future financial forecast, but the content of the Fiscal Policy Statement (now scheduled for 17th November) will be critical to assess the Government's plans and how this will impact on the Council. The intention is to provide a revised illustration of the potential implications on the Council's budget over the medium term until 2027/28 in the period 8 financial performance update, which is scheduled to be reported to the Cabinet meeting in January 2023.

4.4 Our 'Getting to Know Your Business' programme for service managers continues in 2022/23 and will be essential in assessing the new operating environment, financial challenges and value for money (VFM) of services. The ambition is that all service managers in Southend-on-Sea City Council will have a continuing comprehensive understanding of their business areas in terms of their benchmarked operational and financial performance, key demand and cost drivers, income levels, commercial opportunities, value for money and customer insight. This programme is designed to support managers to improve productivity and efficiency in all our business areas ensuring that we secure best value but also to support a more targeted outcomes-based approach to investment. Independent advice and support for dealing with our financial challenges and consideration of a range of options is also being secured.

4.5 Alongside the "Getting to Know Your Business" programme, the Executive Director of Finance & Resources also put into place at the start of this financial year a set of 12 budget planning principles for the organisation that were presented to Cabinet in the period 4 report.

4.6 Services are considering the impact and risks of making reductions in their budgets and are continuing to develop recovery and mitigation plans to try to improve the current financial situation and to prepare for the significant future financial challenge. All services are being challenged to try to improve efficiency and productivity to ensure that the resourcing of better outcomes for our residents are achieved at the best value for the local taxpayer. Further details will be included as part of the period 8 monitoring report.

4.7 To continue to reduce the forecast overspend this year and to remain on a sound financial footing to deal with the budget gap in this and future years, several tactical mitigations have been put in place:

- Continued consideration to what non-essential spending can be stopped, delayed or deferred.
- Reviewing all third-party supplies and services contracts.
- Constructively challenging all recruitment and resourcing requests.
- Continued consideration to whether our organisation has the right structure which is of a proportionate size and cost.

4.8 Some of the actions already commenced by officers to support the 2022/23 budget position and 2023/24 budget planning are:

- The mothballing/storage use only of the top five floors of the Civic Centre to reduce expenditure on our utility costs.
- The review of our estate to ensure administrative buildings are only being used on an essential basis by staff and where possible to reduce usage accordingly to save on relevant premises and utility costs.
- A fundamental review of the capital investment programme to reduce the need to borrow in the future and therefore incur less financing costs for the revenue budget (more details of this review is contained in section 6).
- Directors are developing a series of ideas to try and reduce their 2022/23 cost base and for this to be assessed as part of 2023/24 budget planning in the face of these unprecedented inflationary and demand pressures.
- A review of third-party suppliers and service contracts is underway which will look at all priority contracts and will require engagement with the market – this is being worked through and more information will be included in the next budget monitoring report (period 8). Continued action will be undertaken by officers in the meantime.
- Independent advice is being sought on assessing the Council's cost base and how our services benchmark against other unitary authorities including staffing structures.
- A range of councillor and staff briefings will continue to help to explain the Council's financial position and the actions that are being taken/to be taken over the next month.
- A communications strategy is being developed for stakeholders, businesses and residents.

- A set of internal budget challenge sessions have been established to challenge the cost base of service budgets. These will initially be carried out by the Corporate Management Team with their department and separately challenge sessions with departments and cabinet members will be undertaken, to be overseen by the Cabinet Member for Asset Management and Inward Investment and the S151 Officer.
- The Workforce Transformation Panel has been set up which will review and act as a sign off for essential only recruitment (permanent and temporary) and it will also review the current range of interim staffing. It will also review any new restructures proposed and request areas of the organisation to be reviewed in the light of benchmarking and other associated intelligence around the cost base of services.

4.9 It will be essential that we continue to work within a set of priorities and where possible to protect resources - areas of higher priority will be:

- Vulnerable Adults and Children
- Isolated individuals
- Supporting families in the cost-of-living crisis
- Climate change
- Highways pavement works
- Tourism
- Maintaining prioritised subsidies to services as best we can
- Which of our discretionary services may be done by our third sector

Summary of the major factors that are directly contributing to the forecast overspend in 2022/23

4.10 The pay award pressure continues to be estimated based on the National Employers final one-year offer and is identified by portfolio in Appendix 1. The ongoing cost to the Council is estimated to be circa £4.0M a year. The estimated cost of the pay award at budget setting was £2.33M, the difference of £1.68M is an in-year budget pressure and creates a permanent pressure of equivalent value in the Council’s revenue base budget from 2023/24 onwards and will increase the current forecast financial gap by circa £1.7M per year.

The three National Joint Council unions have balloted their members; on 27th September Unison confirmed its members voted to accept the pay offer, the ballots for Unite and GMB closed on 14th October and 21st October, respectively, and the results have not been fully published yet but should be known when we next report in January 2023.

4.11 The announcement on the 23rd September by the then Chancellor that the 1.25% increase in Employers National Insurance Contribution will be reversed from 6th November will result in a financial benefit to the Council of circa £0.3M. This is offsetting a small amount of the in-year employee related pressure from the estimated pay award.

4.12 In September 2022 the rate of inflation, as measured by the Consumer Price Index (CPI), was 10.1%, equal to the record high in July 2022 when we last reported. According to the Office for National Statistics (ONS) the principal driver of inflation in September was rising food and non-alcoholic beverage prices, now estimated to be at the highest level since April 1980.[3]

The resulting pressure on budgets is reflected in the financial forecast performance of each Portfolio of services.

Corporate Matters and Performance Delivery

4.13 The overall financial performance of this portfolio of services has improved by £119,000, this is partly due to the recruitment freeze which is now in place for all non-critical posts. Additionally, the authority has received £95,000 new burdens grant to cover costs of administering the Council Tax Energy Rebate of £150. The cost of this work was already included in the Period 4 forecast.

4.14 The benefit of these changes is being partially offset by a one-off pressure in Human Resources caused by costs of delivering work where the associated income has been fully recognised in the previous financial year.

Environment, Culture & Tourism

4.15 The delivery of the Parks and Grounds Maintenance services is severely impacted by the high inflationary pressures on utility and fuel costs. There is a pressure of £230,000 for these elements as well as £50,000 from the pay award. Vehicle and machine hire, and leasing costs are creating a further pressure of £100,000 and income is expected to be £60,000 below target this year. Part of this pressure is being offset by holding staff vacancies and it is anticipated that this will save (£200,000) in 2022/23.

4.16 Several significant Development Control and Building Control applications have come into the Council this year which has seen a considerable amount of additional income received in the first 6 months of the year. Due to the complexity of these applications, it is expected that some additional resources will be required to support it. It is anticipated that the overall net impact on the income budget will be a surplus of approximately (£250,000) by the end of 2022/23. There are also forecast underspends within ICT systems and holding vacant posts within the team (£130,000).

4.17 Museums and Galleries, Theatres and Libraries forecast an overspend of £631,000. This forecast has several elements, the major contributor being £517,000 from increased energy costs, £82,000 is from the expected pay award and there are also forecast pressures related to repair and maintenance of aging buildings and assets such as the Cliff Lift.

[3] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/september2022

4.18 The Pier and Foreshore are forecasting an overspend of £210,000, consisting of a £142,000 pressure from energy bills, £12,000 pay award pressure, £35,000 additional cost for the seafront water fountains (which includes a back dated element) and a pressure of £21,000 for water treatment required along the seafront.

4.19 There is an in-year pressure of £154,000 on recovery of income from the leisure contract but this is temporary as Fusion Lifestyle have agreed that the income will be recovered in 2023/24.

Public Protection

4.20 As a result of changes in people movements and consumer habits (increased time spent or working at home, coupled with a significant increase in home deliveries) there is an increase in the volumes of waste generated from residential properties. Although some of this increase will be recyclable material, there is also an increase in residual waste, which continues to add significant cost pressures for the Council.

4.21 As the waste disposal authority this increased tonnage is resulting in an estimated extra disposal cost pressure of around £1,000,000. Any future increase in recycling performance will negate some of this additional cost.

4.22 The crematorium refurbishment programme is due to commence later in the year. As a result of the works a temporary cremator will be used and services will be reduced. This is expected to result in a substantial income shortfall for 2022/23. A significant amount of work has been undertaken to review the planned refurbishment programme to minimise disruption to our service offer and reduce our forecasted income loss. Inflationary cost pressures on gas and electricity consumption are estimated to be approximately £170,000 by the end of the financial year.

Adult Social Care & Health Integration

4.23 Adult Social Care are reporting a forecast overspend of circa £2.7m; which is predominantly due to the delivery of statutorily required care and support.

4.24 There is an expected pressure from the pay award which accounts for around £274,000.

4.25 The previously reported pressures, with increased levels of demand and complexity have continued from period 4. Combined with market pressures which continue to increase prices, these factors drive circa £1.5M of the overspend position on care packages.

4.26 Another driver of increased demand, and therefore cost, is the transition of clients into Adult Social Care from either Children's Services or an Educational placement. These are currently being forecast to cause a pressure of circa £600,000 for 2022/23. Work is ongoing with finance and operational colleagues to identify whether these costs can be reduced and to ensure the forecast financial position is robust.

4.27 Some savings proposals that were built into the 2022/23 budget are now not forecast to be delivered this financial year, which is resulting in an additional £250,000 budgetary pressure.

4.28 The outcome of the Department for Health and Social Care (DHSC) consultation on the distribution of funding for the adult social care charging reform in 2023/24 is still awaited. This reform will potentially increase the demand on Council services, both from a service provision perspective as clients fall below the new cap and from a financial assessment perspective as more individuals approach the council to be assessed. Further details may emerge within the Fiscal Policy Statement on 17th November.

Asset Management & Inward Investment

4.29 Since last reporting in period 4 the forecast underspend on staffing in the Asset Management team has increased by circa £150,000, because of the recruitment freeze placed on all non-critical positions. Forecast overspends in Corporate Procurement and Financial Services have reduced marginally due to the same tightening of recruitment.

4.30 Additional pressure is being reported against Property and Commercial due to recognition of more costs associated with holding several properties vacant. The asset management team continue to work to minimise the period that these properties are held vacant and expedite the process of preparing the sites for sale in order to maximise the capital receipt to the Council.

Children & Learning and Inclusion

4.31 As highlighted in the previous Period 4 – end of July 2022 report and what is now largely a national issue, Children Social Care continues in 2022/23 with a significant forecast overspend pressure of £6.490M excluding the one off £2.5M specific children earmarked reserve for 2022/23, and this is unfortunately mainly due to the now very high cost of residential care placements and in particular for children with complex needs. Market forces impacted by increased demand nationally outstripping supply haven driven up residential placement costs dramatically.

4.32 As reported in the final position report for 2021/22, it was highlighted that during the last quarter of 2021/22 children in care numbers had started to rise, and an increased opening spend pressure was expected due to this rise and the resultant increased requirement of external foster care placements, and as agreed through the 2022/23 budget a one off £2.5M specific ear marked reserve was created to support Children Social Care in the recognition of cost pressures continuing. However, in addition, what has also now materialized was the unanticipated and significant increased cost of residential care placements for new complex placements in 2022/23.

4.33 Work continues within Children Social Care to seek to reduce these costs where possible and safe for the child, including working with health where a child's needs can meet assessment for health contributions, but equally, it has to be noted any further required residential care placements will add further cost pressure to this current position.

4.34 Work continues on building and sustaining capacity within the Inhouse foster carer provision and engaging regionally with the risks of the costs of the care market to Councils. There is separate report elsewhere on this Cabinet agenda which considers and recommends a new improved approach for the Council.

4.35 Other financial pressures within Children Services remain from 2021/22, and this includes continued reliance on temporary agency staff to cover critical social work or operational posts. Again, Councils now having to rely on agency workers to cover vacant Social Work posts is a national problem. There are also further smaller but continuing pressures on Unaccompanied Asylum Seeking children placements where the young adults have now turned 18 and Home Office support funding reduces, the cost of placements supporting children with disabilities, and some now very high and complex placements within the care leaver provision where these now young adults have transitioned from previous residential care placements.

Economic Recovery, Regeneration & Housing

4.36 As part of the 2022/23 budget there was an agreed permanent investment of £200,000 to fund several staff in the Housing Register and Housing Solutions teams. Recruitment has been challenging for these posts but candidates have now been sourced for some of these roles. As a result of the posts being vacant for the early part of the year there is an expected underspend of (£100,000) for this year only.

4.37 During the budget setting process, it remained unknown if we would receive any additional grant to support Homelessness. It is now confirmed that we have been awarded funding through the Homelessness Prevention Grant which can be used to fund expenditure which was planned within the base revenue budget. This will now generate an underspend of (circa £300,000) without any reduction in service.

Highways, Transport and Parking

4.38 Before COVID-19 there was a slow decline in the use of cash, but the pandemic accelerated this decline as more and more people use digital forms of payment. As a result, 82% of parking payment transactions are now made by card or phone app and the impact of that is higher costs for card transactions and processing fees. The overspend for this is now expected to be in the region of £235,000 by the end of 2022/23. Cash collection costs have not reduced proportionately as there is still cash being collected. The Council is exploring options to see if any future mitigation can be achieved, including reviewing the existing contract.

4.39 Across our entire estate, street lighting energy costs are the highest cost area for electricity. Although the rate is fixed for 12 months until April 2023, the inflation on utility costs is resulting in an overspend of £350,000 in this area. This is after the significant LED conversion programme undertaken in recent years, without which the impact of increasing energy costs would have been even greater.

4.40 There are also a range of staffing pressures in the service and currently the most senior management role in the service is being temporarily filled by an interim member of staff whilst a permanent solution is sought.

4.41 The operation of the Travel Centre in Chichester Road continues to bring with it additional cost pressures due to increased security, cleaning and utility costs totalling approximately £120,000 and the pressure of the anticipated pay award in this portfolio is £91,000.

4.42 The Concessionary Travel Recovery Guidance recommends a sliding scale of a 5% reduction per month until financial support matches usage numbers and because the number of passengers are not returning to pre-covid levels promptly there is a projected underspend of (£150,000) for this year.

Non-Service Specific Grants

4.43 Additional net grant income for the refugee crises in Ukraine and Afghanistan totalling £900,000 has been confirmed since the Period 4 report was published. The costs associated with our local support are included across the range of Council services and were included in our previous forecast outturn position.

Budget Virements

4.44 All budget transfers (virements) over £250,000 between portfolios or between pay and non-pay budgets are considered and approved by Cabinet. These budget transfers have a net nil impact on the Council's overall budget. The budget transfers for Cabinet approval this period are:

£	
400,000	Planned transfer from the Health and Social Care Transformation Projects Reserve. Income of £400,000 was received at the end of the previous financial year and moved into an earmarked reserve to support expenditure in 2022/23. This virement is drawing on those funds.
400,000	**TOTAL**

5 Revenue – Housing Revenue Account

5.1 In February 2022, the Council approved a balanced 2022/23 Housing Revenue Account budget. This section of the report details the projected outturn position for this year based on actual activity and financial performance as at the end of September 2022 (Period 6).

5.2 The forecast for the Housing Revenue Account (HRA) at period 6 indicates that it will have a net deficit of £300,000 in 2022/23, a variance of around 1.1% of the gross operating expenditure.

5.3 The challenges highlighted in the Period 4 monitoring report due to the inflationary pressures experienced by key contractors and anticipated rent losses due to the number of void properties held, primarily as part of the Queensway regeneration project have continued and are forecast to remain broadly the same for the rest of the year. The forecast variance has only reduced due to the approval now given to increase the repairs and maintenance budget by £500,000 for 2022/23 as requested at the Cabinet meeting in September.

5.4 The reduced supply of building materials and a shortage of specialist skills are increasing the unit costs on the repairs and maintenance contract. Whilst we have a duty to meet our regulatory and statutory requirements, the repairs programme is currently being reviewed to reduce costs where possible, without compromising the safety of tenants.

5.5 South Essex Homes is also experiencing large increases in energy costs, effectively on behalf of our tenants. A report elsewhere on this Cabinet agenda will consider this issue and recommend an appropriate way forward that is fair and equitable in the circumstances.

6 Capital

6.1 Successful and timely delivery of the capital investment programme is a key part of achieving the Southend 2050 ambition and delivering priority outcomes. The investment contributes to the five main themes in the following way:

6.2 Pride and Joy – the key investment areas are: the ongoing refurbishment and enhancement of Southend's historic pleasure pier and the town's cultural and tourism offer, including parks, libraries and museums.

6.3 Safe and Well – the key investment areas are: the construction and acquisition of new council homes and the refurbishment of existing ones via the decent homes programme.

6.4 Active and Involved – the key investment area is the Cart and Wagon Shed for the coastal community team to use as part of their community interest company.

6.5 Opportunity and Prosperity – the key investment areas are: the Launchpad at the Airport Business Park to deliver benefits for both local businesses and local communities, creating thousands of job opportunities and attracting inward investment; the schools high needs and special provision programmes to enhance the facilities and number of places available for children with special educational needs and disabilities or requiring alternative provision; refurbishment works at the Victoria Centre to make a significant contribution to the attraction and amenity of the centre and improve and enhance that end of the City Centre; the Levelling Up Fund projects at Leigh Port, the Cliffs Pavilion and City Beach.

6.6 Connected and Smart – the key investment areas are: the investment in the borough's highways and transport network, including improvements funded via the Local Transport Plan and Local Growth Fund; investment in the Council's ICT infrastructure and networks to enable and transform outcome focussed service delivery.

6.7 In February 2022 the Council agreed a capital investment programme budget for 2022/23 of £99.1M. The outturn for 2021/22 showed a final spend of £69.0M against a revised budget of £78.6M, an underspend of £9.6M. The proposed budget carry-forwards, accelerated delivery requests and other budget re-profiles and amendments at June Cabinet resulted in a revised budget for 2022/23 of £115.5M. Budget re-profiles and other changes as a result of the early stages of the review of the capital investment programme were approved at September Cabinet and reduced the revised budget for 2022/23 to £93.7M. Of this amount £74.0M is deliverable directly by the Council and £19.7M is to be delivered by South Essex Homes Limited, Porters Place Southend-on-Sea LLP and Kent County Council.

6.8 This amount should be considered in the context that there is a further list of schemes that are not in the approved programme but are subject to viable business cases. This includes schemes where the costs have been estimated, totalling £97M and schemes that are yet to be costed. There may also be urgent health and safety works that might occur that are as yet unforeseen.

6.9 All Councils are being affected by inflationary pressures and supply chain issues which will affect deliverability and affordability. There are multiple causes for the inflationary pressures:
- wage inflation due to scarcity of labour.
- base material price inflation due to global demand exacerbated by supply impacts in key areas due to the pandemic and the war in Ukraine.
- energy cost inflation impacting on all areas from production to logistics to on site energy costs.
- contractor risk pricing.

6.10 The Consumer Prices Index (CPI) rose by 10.1% in the 12 months to September 2022. Forecasts suggest that Construction Price Inflation is currently in excess of CPI with major spikes for certain materials and products sometimes in excess of 20%. This not only has an impact on the current capital investment programme but also on future projects for which the Council may bid for funding.

6.11 Given the above and the Council’s finite capacity to deliver capital schemes, the Capital Programme Delivery Board has been considering four options for assessing the ongoing delivery of projects:

No.	Option Description	Considerations
1	Increase the available budget to support the project to take into account inflationary pressures	The negative impact on the affordability of the programme as a whole and the resulting budget pressure that would need to be met from savings or income generation
2	Do less – understand and accept how much less the Council can delivery with existing budgets	The negative impact on the delivery of the Southend 2050 and recovery priorities
3	Stop project delivery	Requires effective prioritisation
4	Defer or slow down delivery	This could put pressure on the programme in later years and impact on the delivery of key priorities

6.12 A generic approach to the programme as a whole would not be appropriate, as each project is different in the way the impact of the inflationary pressures and supply chain issues will be felt. It is also recognised that these options need to be considered alongside the MoSCoW review (categorising capital projects as ‘must have’, ‘should have’, ‘could have’ or ‘will not have’ (at this time)).

6.13 The way that projects are funded also needs to be considered as grant and third-party funding would have to be returned if not spent or if delayed beyond the agreed expenditure timeframe. The Capital Programme Delivery Board have also been considering the affordability of projects funded by borrowing and seeking to reduce or delay those where possible to reduce the impact on the revenue account budget of the associated financing costs. These considerations have been a fundamental element of the capital challenge sessions held so far this year and will continue to be in the forthcoming capital challenge sessions.

6.14 The capital investment programme should continue to be subject to continuous review and re-prioritisation to ensure resources are aligned to the Council’s Southend 2050, recovery priorities and joint administration priorities. This will inevitably lead to some difficult decisions having to be made regarding the programme with the delivery of some schemes being scaled back, delivered over a longer timescale, paused or removed.

6.15 Progress of schemes will be re-assessed and some schemes may be removed from the main programme entirely and others held as ‘subject to viable delivery plans’ until it can be demonstrated that there is the capacity and resources to deliver them in the timescales indicated. Schemes can then be brought back into the main programme as and when it is appropriate to do so. This approach follows the current approach introduced two years ago when schemes can enter the programme during the financial year and not just annually at budget setting.

6.16 As this review progresses via challenge meetings, the Capital Programme Delivery Board and the Investment Board, re-profiles and other adjustments to the programme for 2022/23 and future years will be put forward for approval.

6.17 Two rounds of capital challenge have been undertaken with the Cabinet Member for Asset Management and Inward Investment: In August sessions relating to the strategic schemes and in early October sessions relating to all schemes. The requested changes to the capital investment programme resulting from the August sessions were included in the Period 4 performance report to Cabinet in September. Further results of the review are included in this report, but the review is on-going and another round of capital challenge sessions are planned to take place with the Cabinet Member for Asset Management and Inward Investment in early December. The resulting requested changes to the capital investment programme from those sessions will be included in the Period 8 performance report to Cabinet in January.

6.18 Approximately 30% of the capital investment programme is financed by Government grants and external developer and other contributions and at the end of September 69% of that had been received. The rest of the programme is funded by capital receipts, the use of reserves or by borrowing. Funding schemes by borrowing has a revenue consequence of approximately £70k p.a. for every £1M borrowed.

6.19 This report details the projected outturn position for 2022/23 based on information as at the end of September (period 6). The report includes details of progress in delivering the 2022/23 capital investment programme and in receiving external funding relating to that year.

6.20 This report includes any virements between schemes, re-profiles across years, new external funding and any proposed scheme deletions.

6.21 The progress of schemes for 2022/23 is detailed in sections 1 to 3 of Appendix 2 with Section 4 setting out the resulting requests to:

For schemes to be delivered by the Council:

- Carry forward £16,792,000 of 2022/23 scheme budgets, £14,492,000 into 2023/24 and £2,300,000 into 2024/25.
- Add scheme budgets totalling £67,000 into 2022/23 where new external funding has been received.
- Remove £260,000 from 2022/23 for scheme budgets no longer required.
- Action virements of budget between approved schemes.

For schemes to be delivered by Subsidiary Companies, Partners and Joint Ventures:

- Carry forward £1,000,000 of 2022/23 scheme budgets into 2023/24.

6.22 As at the end of September the capital outturn for 2022/23 is currently estimated at £58,125,000 for schemes to be delivered by the Council and £18,749,000 for schemes to be delivered by subsidiary companies, joint ventures and partners. The amount to be delivered by the Council is expected to reduce following the on-going review of the capital investment programme as highlighted in 6.14 to 6.17. An updated assessment will be included in the Period 8 performance report and presented to Cabinet in January 2023.

6.23 The 2022/23 capital budget is part of the wider capital investment programme spanning several years. The table below shows the revised programme if all the above requests are approved:

Programme to be delivered by the Council (GF and HRA):

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
At September Cabinet	73,984	47,101	29,331	5,818	5,960	162,194
Amendments	(16,985)	14,492	2,300	0	0	(193)
Revised programme	56,999*	61,593	31,631	5,818	5,960	162,001

* The forecast outturn in paragraph 6.22 is higher than the revised budget for 2022/23 due to the forecast overspend relating to Brook Meadows House (see page 9 of Appendix 2).

Programme to be delivered by Subsidiary Companies and Joint Ventures:

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
At September Cabinet	19,749	22,162	9,598	3,250	1,000	55,759
Amendments	(1,000)	1,000	0	0	0	0
Revised programme	18,749	23,162	9,598	3,250	1,000	55,759

7 Corporate Performance

7.1 The SCC Corporate Plan Performance Report (appendix 3) provides a mechanism for reporting to CMT and Members on Key Performance Indicators (KPIs) and key programmes of work, highlighting the Councils overall performance against agreed corporate objectives. It is based on the council's newly established Corporate Plan (2022-2026) and how the council is performing against the agreed priorities detailed within the corporate plan.

7.2 The new performance content is based on the four priorities agreed by the council:

1. A city that is strong and prosperous
2. A city with a good quality of life
3. A city rising to the climate change challenge
4. A city delivering genuinely affordable housing

7.3 Each of the four priorities are further broken down into corporate objectives, with the most appropriate KPI and key programme linked to illustrate how well the objective is performing. The corporate objectives are:

A city that is strong and prosperous
<u>Objectives:</u>
- Support economic regeneration and business development
- Use our spending power
- Bid for funding opportunities and attract inward investment
- Sustain and grow digital investment and inclusion
- Deliver our city centre strategy and investment plan
- Enhance our tourism, cultural and leisure offer
- Support community recovery
- Improve community safety

A city with a good quality of life
<u>Objectives:</u>
- Achieve our vision of a city where all children achieve success
- Ensure children and young people, including those in care, feel and are safe at home, school and in their communities
- Enable and provide opportunities for the best start in life
- Enable people to age well, live well and care well
- Ensure that health and social care services meet the needs of all
- Ensure services are diverse, sustainable and high quality, including those who pay for their own care

A city rising to the climate change challenge
<u>Objectives:</u>
- Local Transport Plan 4
- Become a net Zero Carbon Southend by 2030
- Prevent waste, re-use and increase recycling
- Develop an active and sustainable travel network
- Enhance, promote and protect our natural environment
- Undertake flood and coastal erosion risk management

A city delivering genuinely affordable housing
<u>Objectives:</u>
- Address local housing need
- Prioritise the supply and quality of safe, genuinely affordable homes
- Make any instance of homelessness brief and non-recurrent, aiming for functional zero homelessness
- Maximise environmental sustainability of homes
- Ensure good quality housing design, management and maintenance
- Reduce the number of empty homes
- Deliver the Local Plan and manage Development Control

7.4 The purpose of the report is to update on current measures and to give sight of future measures that are intended to become live during the lifespan of the Corporate Plan (2022-2026).

7.5 The SCC Corporate Plan Performance Report (appendix 3) covers performance up until September 2022 to align with the reporting of Financial Performance for period 6. This follows on from the last corporate performance reporting based on July 2022 data and information.

7.6 There are some exceptions where data is unavailable at this time either due to the collection periods for those KPIs, or due to these KPIs being newly introduced for the new corporate priorities and objectives (noted in 7.2 and 7.3) and therefore having actual and target data currently in development. KPIs in this state of development are articulated within the report at appendix 3. Data has been RAG rated against targets where applicable and compares our current position to the previous collection interval (i.e. monthly, quarterly, annually) where data is available.

7.7 A comprehensive review of KPIs has taken place to link the most appropriate data with the corporate objectives, to ensure strategic alignment. This means that there are some KPIs that have carried over from previous reports and some that are new; new KPIs are noted on appendix 3 at each applicable KPI.

7.8 Some KPIs have also been reintroduced post COVID-19 pandemic, as they were not reported during this timescale and data was not collected.

7.9 Corporate risk is noted within the report at appendix 3 and annotated against relevant KPIs to highlight the linkages between risk and performance. Aligning our corporate risks and performance enables a holistic approach to understanding and presenting the impact the council's highest risks may have on performance, and to allow for risk mitigation and planning to be informed by performance data.

7.10 The following table sets out those risks that are affiliated to KPIs. The KPIs with associated risks can be read throughout the SCC Corporate Plan Performance Report (appendix 3), the remaining corporate risks are overarching and therefore not linked to KPIs (1 – Covid-19 pandemic, 4 – Public services landscape, 5 – Workforce, 6 – a) Cyber security b) Data protection, 11 - LGA peer review of SEND & CWD, 15 – Southend Travel Partnership); the full risk register reference key can be found on SCC Corporate Plan Performance Report (appendix 3).

Corporate Risks associated with KPIs	
2 – Financial sustainability	13 – Adult social care
3 – Inflation and cost of living pressures	14 – Social cohesion
7 - Capital investment programme delivery	16 – Waste Management
8 – Safeguarding responsibilities and child welfare	17 – House building programme
	18 – Regeneration and major projects
9 – Mitigating for and adapting to climate change	19 – Visitor destination
10 – Health inequalities	20 – Economic recovery and income inequalities
12 – Housing	21 - Local Plan

7.11 The indicators currently showing as red on their RAG status, indicate that they are at risk of missing target. These indicators are highlighted on the SCC Corporate Plan Performance Report (appendix 3) by exception.

7.12 There are a mixture of Output and Outcome based KPIs within the Corporate Plan Performance Report.

7.13 Output measures are deliverables (i.e. a strategy) and are based on delivering and being accepted within the timescales set. These measures will have a percentage of completion noted against them for future reports to demonstrate progress; for this version of the report they are standardised as **On Target** or **Off Target** depending on the baseline state of the measure.

7.14 Outcome measures are based on having baseline data and targets to see how the council is performing against our agreed goals.

7.15 It is intended that Output measures will inform future Outcome based KPIs, so that the impact of previous key pieces of work are measured, to therefore understand the benefits realised for the council and to contribute towards ongoing performance management.

7.16 There are a range of KPIs within the Corporate Plan Performance Report that will become live in future years of the Corporate Plan. These KPIs are highlighting the intended pathway to measure performance against relevant corporate objectives and may be subject to change depending on the council's view of these measures and/or external drivers (i.e. changes in Central Government policy).

8 Other Options

8.1 The Council could choose to monitor its budgetary performance against an alternative timeframe, but it is considered that the current reporting schedule provides the appropriate balance to allow strategic oversight of the budget by members and to also formally manage the Council's exposure to financial risk. More frequent monitoring is undertaken by officers and considered by individual service Directors and the Council's Corporate Management Team (CMT) including the implementation of any necessary remedial actions.

9 Reasons for Recommendations

9.1 The regular reporting of Revenue and Capital Budget Monitoring information provides detailed financial information to members, senior officers and other interested parties on the financial performance of the Council. It sets out the key variances being reported by budget holders and the associated management action being implemented to address any identified issues.

9.2 It also informs decision making to ensure that the Council's priorities are delivered within the approved budget provision.

9.3 It is important that any adverse variances are addressed in order for the Council to remain within the approved budget provision or where this cannot be achieved by individual service management action, alternative proposals are developed, and solutions proposed which will address the financial impact. Members will have a key role in approving any actions if the alternative proposals represent significant changes to the service delivery arrangements originally approved by them.

9.4 The challenge of delivering a balanced financial outturn for 2022/23 is significant. Some positive improvement has been achieved from Period 4 to Period 6, but further urgent action is needed to try to reduce all non-essential expenditure and/or generate extra income. This priority must be achieved whilst ensuring that our most vulnerable residents are looked after appropriately, and our statutory responsibilities are effectively discharged. Improving efficiency and productivity is essential but the scale of the unprecedented financial pressures will inevitably lead to a reduction in the range, quality, cost and responsiveness of other discretionary Council services.

10 Corporate Implications

10.1 Contribution to the Southend City Council Corporate Plan (2022-2026) and the Southend 2050 Road Map

The robustness of the Council's budget monitoring processes and the successful management of in-year spending pressures are key determinants in maintaining the Council's reputation for strong financial probity and effective stewardship. This approach also enables the Council to redirect and prioritise resources to ensure the delivery of agreed outcomes for the benefit of residents, local businesses and visitors to Southend-on-Sea.

10.2 Financial Implications

As set out in the body of the report and accompanying appendices.

10.3 Legal Implications

The report provides financial performance information. It is good governance and sensible management practice for the Council to consider monitoring information in relation to plans and budgets that it has adopted.
Section 3 of the Local Government Act 1999 requires the Council as a best value authority 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". Monitoring of financial and other performance information is an important way in which that obligation can be fulfilled.

The Council is required by section 151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs. The Council is also required by section 28 of the Local Government Act 2003 to monitor its budget and take corrective action, as necessary. The Council's chief finance officer has established financial procedures to ensure the Council's proper financial administration. These include procedures for effective budgetary control. To comply with these best practice arrangements, it is important that Cabinet receive information and comment accordingly on the performance of the revenue and capital budgets as set out in the report.

10.4 People Implications

As various mitigating actions are worked through for 2022/23 and also consideration of options for 2023/24 there is likely to be an impact on staffing. As and when these are assessed they will be taken through the necessary and appropriate Council procedures and governance routes.

10.5 Property Implications

There will be an impact on the Civic Centre with the closure of the top five floors and a potential impact on other administrative and operational businesses through the review of service offer, asset rationalisation considerations and the potential closure and/or realignment of opening and closing times.

10.6 Consultation

Engagement has already been made with staff, cabinet members and with all councillors and this will continue as options to mitigate the forecast overspending for 2022/23 are progressed as well as the development of options for delivering a robust balanced budget for 2023/24.

10.7 Equalities and Diversity Implications

Some of the actions may have equality and diversity implications and these will be considered as part of our normal equalities impact assessments.

10.8 Risk Assessment

Sound budget monitoring processes underpin the Council's ability to manage and mitigate the inherent financial risks associated with its budget, primarily caused by the volatility of service demand, market supply and price. The unprecedented levels of inflationary cost pressures and service demand experienced across almost every aspect of the Council's operations are adding significant risk to its future financial sustainability. This challenge is replicated across most upper tier local authorities right across the country.
The primary mitigation lies with the expectation on CMT and Directors to continue to take all appropriate action to keep costs down and to optimise income opportunities. All adverse variances have required the development of remedial in year savings plans and appropriate spending reductions wherever possible. The ultimate back-stop mitigation would be to draw on reserves to rebalance the budget, but this will only be done at year end and will only be considered should all other in year measures fail.

With the likely scale of funding pressures and future resource reductions continuing, it is important that the Council holds a robust position on reserves and maintains the ability to deal positively with any issues that arise during this and future financial years.

10.9 Value for Money

The approved budget reflects the Council's drive to improve value for money and to deliver significant efficiencies and improved productivity in the way it operates. Monitoring the delivery of services within the budget helps to highlight areas of concern and to assist in the achievement of improved value for money.

10.10 Community Safety Implications

There may be impacts arising from options developed and the full impact on Community Safety will be considered.

10.11 Environmental Impact

The various options may have an environmental impact but again these will be fully assessed before any specific action is taken and also the difficult financial position may make investment more difficult to support our climate change aspirations.

11 Background Papers

Approved 2022/23 Budget – Report to Council 24 February 2022

Medium Term Financial Strategy 2022/23 – 2026/27

Resourcing Better Outcomes – Finance and Corporate Performance Report – July 2022-23 – Period 4

12 Appendices

Appendix 1 Period 6 – September 2022 Revenue Budget Performance 2022/23

Appendix 2 Period 6 – September 2022 Capital Investment Programme Performance 2022/23

Appendix 3 SCC Corporate Plan Performance Report – Period 6: September 2022