

COUNCIL BUDGET - 2022/23 REVENUE AND CAPITAL MONTH 2 BUDGET MONITORING

Cabinet Member	Councillor Martin Goddard
Cabinet Portfolio	Cabinet Member for Finance
Officer Contact	Andy Evans, Corporate Director of Finance
Papers with report	Appendices A & B

HEADLINES

Summary	<p>This report provides the Council's forecast financial position and performance against the 2022/23 revenue budget and Capital Programme.</p> <p>A net in-year underspend of £42k is reported against General Fund revenue budget normal activities as of May 2022 (Month 2). Unallocated reserves are projected to total £26,761k at 31 March 2023.</p> <p>COVID-19 pressures for the 2022/23 financial year are projected to total £14,485k at Month 2, £3,194k higher than budgeted in February 2022 and therefore being funded from Earmarked Reserves held for this purpose.</p> <p>Exceptional inflationary pressures are being managed from funds set aside to manage this area of risk.</p> <p>The latest positions on other funds and the Capital Programme are detailed within the body of this report.</p>
Putting our Residents First	<p>This report supports the following Council objective of: <i>Strong financial management.</i></p> <p>Achieving Value for Money is an important element of the Council's Medium Term Financial Plan.</p>
Financial Cost	N/A
Relevant Select Committee	Finance & Corporate Services
Relevant Ward(s)	All

RECOMMENDATIONS

That the Cabinet:

1. **Note the budget monitoring position and treasury management update as at May 2022 (Month 2) as outlined in Part A of this report.**
2. **Approve the financial recommendations set out in Part B of this report**

Reasons for recommendation

1. The reason for **Recommendation 1** is to ensure that the Council achieves its budgetary objectives, providing Cabinet with the update on performance at Month 2 against budgets approved by Council on 24 February 2022 contained within **Part A** of this report. An update on the Council's Treasury Management activities is included within this section of the report.
2. **Recommendation 2** seeks approval for the range of financial recommendations set out within **Part B** of this report, which may include approval of above establishment agency appointments, acceptance of grant funding, revisions to fees & charges and ratification of decisions taken under special urgency provisions.

Alternative options considered / risk management

3. There are no other options proposed for consideration.

Select Committee comments

4. None at this stage.

PART A: MONTHLY BUDGET MONITORING

SUMMARY

GENERAL FUND REVENUE

5. General Fund pressures totalling £14,485k are projected in relation to the impacts of the COVID-19 pandemic and the ongoing financial impacts facing the Council in 2022/23, with £9,784k added to Service Operating Budgets to cover ongoing financial pressures from the pandemic and a further £1,507k one-off items in respect of pandemic driven Collection Fund losses in the Council's budget approved by Council in February 2022, with the remaining £3,194k being driven by new and emerging pressures relating to the ongoing impact of the pandemic on demand for, and delivery of, local services.
6. With no further funding being available to ongoing COVID-19 pressures, the Council is carrying a remaining balance of Government funding of £4,302k, alongside local funds of £6,868k. Including the Service Operating Budgets for pandemic related pressures of £9,784k, this gives scope to fund reported pressures of £14,485k for the 2022/23 financial year although leaves limited headroom to manage ongoing impacts above those already factored into Service Operating Budgets.
7. As the country faces unprecedented inflationary pressures, the Council will need to deploy specific earmarked reserves to mitigate the in-year pressures that are anticipated to arise throughout the year, with actual inflation rates now expected to exceed the sums built into the MTF. The Council is working closely with suppliers to ensure that the costs incurred by the Council reflect current market prices and that suppliers are compensated for increased costs, whilst also ensuring value for money for every pound of public money spent and temporary increases are recognised. This remains an emerging risk area which will continue to be closely monitored and managed.
8. While many of the discussions with suppliers are in the early stages of negotiations, the Council is also expecting that the final pay award will be higher than anticipated with further pressures emerging from the month 2 monitoring process across energy, fuel and contracted services in Social Care.
9. After allowing for the ongoing impact of the pandemic and the significant inflationary pressures facing the country, an underspend of £42k is projected across General Fund budgets at Month 2, with this position being driven by a favourable variance from the Council's Treasury activities offsetting pressures within Children's & Young People's Services, increased expenditure within Housing, which is largely offset by grant funding and reported pressures within the Planning service area. This position will result in unallocated General Balances totalling £26,761k at 31 March 2022.
10. Within this position, £5,794k of the £13,346k savings planned for 2022/23 are banked or on track for delivery in full by 31 March 2022, with £6,556k tracked as being at an earlier stage of implementation and £986k at risk as a result of the COVID-19 pandemic. The at risk savings relate to leisure management fee income and reflects the ongoing acute impact of

the pandemic on this sector, particularly in respect of reduced footfall and energy cost inflation and are unlikely to be achieved in the foreseeable future. The Council is developing alternative measures with the service provider. Where slippage in savings delivery is expected this has been factored into the reported monitoring position.

11. Within the Collection Fund, a surplus of £7k is reported at Month 2 as a result of a favourable position within Business Rates from an increase in the Council's rating list above the budgeted position approved by Council in February 2022, offset by a slower than budgeted growth in Council Tax, believed to be linked to a slowing down in the construction industry due to the impacts of inflation on the viability of development. This position is compounded by an adverse position reported against Council Tax Support as demand falls at a slower rate than originally forecast with demand for this service likely to be further impacted by the cost-of-living crisis. Variances against the Collection Fund do not directly impact upon the 2022/23 monitoring position, but instead variances up to Month 9 will be factored into the Council's budget proposals for the forthcoming year, with any variances from Month 10 to outturn not impacting until 2024/25.

GENERAL FUND CAPITAL

12. As at Month 2 an under spend of £17,201k is reported on the 2022/23 General Fund Capital Programme of £105,413k, due mainly to re-phasing of project expenditure into future years. The forecast outturn variance over the life of the 2022/23 to 2026/27 programme is an under spend of £1,672k. General Fund Capital Receipts of £10,488k are forecast for 2022/23 to meet the income target of £76,225 for the five years to 2026/27. Overall, Prudential Borrowing required to support the 2022/23 to 2026/27 capital programmes is forecast to be below budget by £673k as a result of a more favourable than anticipated level of government funding for school condition works.

SCHOOLS BUDGET

13. The Dedicated Schools Grant (DSG) monitoring position is forecasting an underspend of £174k against budget, although there remain ongoing pressures in the cost of High Needs placements, where due to a lack of capacity in borough, the number of independent placements remains high. Taking account of the deficit brought forward from 2021/22, along with the second payment of Safety Valve funding and local authority contribution, the cumulative deficit carry forward to 2023/24 is projected at £20,485k.

HOUSING REVENUE ACCOUNT

14. The Housing Revenue Account (HRA) is currently forecasting a £3k underspend at Month 2. The 2022/23 closing HRA General Balance is forecast to be £15,020k. The HRA Capital Programme budget of £449,628k is forecast to have a nil variance over the life of the programme.

FURTHER INFORMATION

General Fund Revenue Budget

15. As noted above and presented in the table below, a £42k underspend is projected across the General Fund at Month 2, with the following section of this report providing further information on an exception basis. General Fund Balances are expected to total £26,761k at 31 March 2022 as a result of the forecast position detailed above. This position keeps balances within the recommended range 2022/23 of £20,000k to £39,000k as approved by Cabinet and Council in February 2022.

Table 1: General Fund Overview

Service	Month 2		Variance (As at Month 2) £'000	Variance (As at Month 1) £'000	Movement from Month 1 £'000
	Approved Budget	Forecast Outturn			
	£'000	£'000			
Service Operating Budgets	249,572	249,530	(42)	0	(42)
Corporate Operating Budgets	500	500	0	0	0
Unallocated Budget Items	975	975	0	0	0
Sub-total Expenditure	251,047	251,005	(42)	0	(42)
Corporate Funding	(251,047)	(251,047)	0	0	0
Total Net Expenditure	0	(42)	(42)	0	(42)
Balances b/fwd	(26,719)	(26,719)			
Balances c/fwd 31 March 2022	(26,719)	(26,761)			

Service Operating Budgets

16. Service Operating Budgets represent the majority of the Council's investment in day-to-day services for residents. With the cessation of Government funding towards the pandemic, the Council increased Service Operating Budgets by £9,784k to fund the ongoing impacts from COVID-19, these budgeted costs are therefore reported on an exception basis within these budgets by Cabinet Portfolio below. A further £1,507k was included within the Corporate Funding budget to meet one-off reductions in the Council's funding driven by impacts on Council Tax and Business Rates from the pandemic. Any new and emerging pressures are being reported on below under the COVID-19 section of the report. The position presented in Table 2 therefore represents the position reported against normal activities for the Service Operating Budgets. The salient risks and variances within this position are summarised in the following paragraphs.

Table 2: Service Operating Budgets

Cabinet Member Portfolio		Approved Budget	Forecast Outturn	Variance (As at Month 2)	Variance (As at Month 1)	Movement from Month 2
		£'000	£'000	£'000	£'000	£'000
Property, Highways & Transport	Expenditure	20,056	19,968	(88)	0	(88)
	Income	(9,085)	(9,144)	(59)	0	(59)
	Sub-Total	10,971	10,824	(147)	0	(147)
Finance	Expenditure	135,369	135,895	526	0	526
	Income	(111,221)	(111,889)	(668)	0	(668)
	Sub-Total	24,148	24,006	(142)	0	(142)
Corporate Services	Expenditure	27,683	27,647	(36)	0	(36)
	Income	(1,632)	(1,632)	0	0	0
	Sub-Total	26,051	26,015	(36)	0	(36)
Residents' Services	Expenditure	62,714	63,659	945	0	945
	Income	(35,101)	(35,802)	(701)	0	(701)
	Sub-Total	27,613	27,857	244	0	244
Children, Families & Education	Expenditure	74,948	75,466	518	0	518
	Income	(22,171)	(22,637)	(466)	0	(466)
	Sub-Total	52,777	52,829	52	0	52
Health & Social Care	Expenditure	134,912	135,647	735	0	735
	Income	(26,900)	(27,648)	(748)	0	(748)
	Sub-Total	108,012	107,999	(13)	0	(13)
Total Service Operating Budgets		249,572	249,530	(42)	0	(42)

17. Within the Council budget there is a Managed Vacancy Factor across the board of 3.5%, or £4,435k to reflect natural levels of turnover and resulting structural underspend in the workforce budgets. Current projections indicate that this will be delivered in full during 2022/23, with post-level establishment controls providing a key mechanism for managing workforce costs at the organisational level.
18. The Council budgeted for a pay award in 2022/23 of 2%, however, due to the exceptional inflationary environment, the Council is anticipating that the final settlement will exceed this sum with an allowance of £2,797k in place to meet an uplift in the Council's workforce expenditure. This increase will be funded by the Council's identified £5,997k to fund exceptional inflationary pressures above Council's approved budget.
19. As can be seen from the table above, the net £42k underspend across Service Operating Budgets represents the cumulative effect of a number of variances which are briefly outlined below by Cabinet Portfolio:
- Property, Highways & Transport** – A net underspend of £147k is forecast for the portfolio, with the variance being driven by staffing underspends from a number of

vacant posts across the Operational Assets and Planning & Regeneration services, with additional income being generated through increased rental income as part of the Civic Centre is leased out to run Adult Learning services.

- b. **Finance** – A net underspend of £142k is reported at Month 2, with the subjective variances being driven by additional costs incurred by the Finance service as they deliver Government directed programmes such as the Council Tax Energy Rebate, which are offset by Government funding. In addition, the Council’s Treasury activity is forecast to deliver a net underspend, predominantly driven by a favourable variance within the Capital Programme at outturn 2021/22.
- c. **Corporate Services** – a net underspend of £36k is reported, with the underspend being driven by a number of small variances within the staffing position due to vacancies.
- d. **Residents’ Services** – a net overspend of £244k is forecast, with the large subjective variances largely being driven by the Housing service where high levels of demand are being mitigated through a combination of increased rental income and Government support targeting homelessness and rough sleeping. The net overspend is being driven by two key drivers, with housing forecasting a minor overspend, alongside a reduction in parking income in the early part of the financial year.
- e. **Children, Families & Education** – an overspend of £52k is being reported within this portfolio. Additional income is being achieved from a number of sources including Government grant income for schools’ attendance and exclusions and FGM support. This is being offset by increased costs, predominantly driven by additional demand for Children’s Social Care, including support for Looked After Children and expenditure associated with the delivering functions funded by the additional grant income.
- f. **Health & Social Care** – an underspend of £13k is reported for this portfolio. The variance is largely being driven by increased demand for Adult Social Care services, with expenditure variances related to the additional cost of direct care provision with increased income associated with contributions from Health and the associated client contributions.

Transformation

- 20. The Council is permitted to finance the costs associated with service transformation from Capital Receipts, with both one-off implementation costs and the support for service transformation being funded from this resource. Current projections include an estimate of £2,842k for such costs, which will remain under review throughout the year and are subject to a specific funding strategy. It is anticipated that these pump priming costs will be financed from a combination of Capital Receipts and Earmarked Reserves.

Progress on Savings

21. The savings requirement for 2022/23 is £10,647k. In addition, there are savings of £2,699k brought forward from 2021/22, which gives an overall total of £13,346k reported below. The savings being reported as undelivered in 2021/22 (£2,699k) were directly attributable to the COVID-19 pandemic as the Council continued to need to redirect resources to manage the pandemic for a further year. This value has been added to the budgeted savings agreed as part of the 2022/23 budget.

Table 3: Savings Tracker

Cabinet Member Portfolio	Blue Banked £'000	Green Delivery in progress £'000	Amber I Early stages of delivery £'000	Amber II Potential problems in delivery £'000	Red Serious problems in delivery £'000	Total £'000
Cabinet Member for Property, Highways & Transport	0	(270)	(300)	0	0	(570)
Cabinet Member for Finance	0	(350)	(175)	0	0	(525)
Cabinet Member for Corporate Services	(300)	(114)	(1,528)	0	0	(1,942)
Cabinet Member for Residents' Services	0	(2,673)	(1,644)	0	(986)	(5,303)
Cabinet Member for Children, Families & Education	0	(1,213)	(723)	0	0	(1,936)
Cabinet Member for Health and Social Care	0	0	(1,696)	0	0	(1,696)
Cross-Cutting	(874)	0	(500)	0	0	(1,374)
Total 2022/23 Savings Programme	(1,174) 9%	(4,620) 35%	(6,566) 49%	0 0%	(986) 7%	(13,346) 100%
Month on Month Movement	0 0%	0 0%	0 0%	0 0%	0 0%	0 0%

22. As of Month 2, £1,174k of the savings programme has already been banked, with a further £11,186k (84%) being reported as either delivery in progress or in the early stages of delivery which are expected to progress throughout the year and ultimately be delivered in full. There are a number of savings being forecast at the early stages of delivery (Amber I) which is to be expected early in the financial year, as the year progresses, work on these programmes is anticipated to progress these savings through to delivery.
23. Currently there are £986k (9%) of savings which are reporting potential problems in delivery (Red), which relates exclusively to the leisure management fee and reflects the particular impact of the COVID-19 pandemic on this sector and the ongoing challenges facing this service.
24. Where savings are at risk of not being delivered in full during 2021/22, the associated pressures have been factored into the monitoring position discussed above and offset through compensatory underspends or where appropriate use of COVID-19 grant funding. At this time, it is expected that all £13,346k will ultimately be delivered in full and therefore

not adversely impact upon future iterations of the Council’s MTFF. Plans are being developed for in-year measures to augment savings with further modernisation initiatives and acceleration of existing programmes that will mitigate impacts of inflation, with any pump priming requirements being funded as part of the transformation strategy.

COVID-19 Pressures

Table 4: COVID-19 Pressure Breakdown

Service	Month 2		Variance (As at Month 2) £'000	Variance (As at Month 1) £'000	Movement from Month 1 £'000
	Approved Budget	Forecast Outturn			
	£'000	£'000			
One-Off Corporate Funding	1,507	1,507	0	0	0
Service Operating Budgets	9,784	9,784	0	0	0
New & Emerging Pressures	0	3,194	3,194	0	3,194
Total Exceptional Items	11,291	14,485	3,194	0	3,194

25. As at Month 2, the Council’s budgeted COVID-19 pressures are forecast in line with the set budget, with the above table reporting new and emerging pressures of £3,194k. The below section provides an update on these reported pressures.

- a. One-Off Corporate Funding - £1,507k is built into the Council’s approved budget to fund prior year losses in collection of both Business Rates and Council Tax as these funding streams have a long tail of recovery from the pandemic.
- b. Service Operating Budgets – The Council funded an additional £9,784k of pandemic related costs within Service Operating Budgets in 2022/23, with additional demand from the pandemic forecast to continue into 2022/23 for the following services:
 - i. £4,622k for Adult Social Care
 - ii. £2,165k for Children’s Social Care
 - iii. £771k for the Council Tax Reduction Scheme
 - iv. £600k for SEND Transport
- c. Furthermore, £1,626k was added to Fees & Charges budgets in recognition that demand for some services would recover to pre-pandemic levels at a slower rate or may recover to a lower baseline.
- d. New & Emerging Pressures – The largest element of the reported pressure is being driven by the Council’s leisure centres, with an additional pressure of £1,638k as a result of a slower than budgeted recovery in footfall and demand for these services. A further £977k is being reported against Parking income as demand continues to be reported below budgeted levels. Children’s Social Care are incurring additional costs of £420k as a result of additional demand and delays in court activity. The remaining £159k relates to smaller pressures reported across a number of service areas.
- e. Significant capacity is being committed to containing the risk of growing pressures in key demand-led budgets, including Adults and Children’s Social Care, which stem

from a combination of the direct impacts of COVID-19 on clients combined with knock-on effects from pandemic-driven pressures in other public services – notably the health service and courts which result in additional client needs being presented and delays in matching support to clients' changing requirements.

26. In addition to the £9,784k of Service Operating Budgets, the Council holds £4,302k of remaining Government funding and a further £6,868k of Local Funds, taking total pandemic related resources to £20,954k. With total pressures for the year forecast at £14,485k and £4,406k being released from the local reserves to fund the increase in service operating budgets, this leaves a balance of £2,063k of funds for new and emerging pressures in 2022/23 and beyond.

Collection Fund

27. A surplus of £7k is reported within the Collection Fund relating to an adverse position reported within Council Tax of £2,791k, offset by a favourable position within Business Rates of £2,798k. The pressure in Council Tax is predominantly driven by a reduction in the forecast growth of the taxbase as construction slows down, believed to be linked to inflationary pressures in the sector, compounded by an adverse position within Council Tax Support as the economy recovers from the pandemic at a slower rate than originally budgeted for in February 2021, with this position believed to be impacted by the cost-of-living crisis. The favourable position within Business Rates is being supported by work carried out by the Council to identify properties missing from the rating list, with a one-off increase in income reflecting backdating billing being sufficient to cover the Council Tax deficit in 2022/23.
28. Any deficits within the Collection Fund impact on the Council's future year budgets, with the position reported up to Month 9 impacting on the 2023/24 saving requirement and any further updates between Month 10 and outturn impacting on 2024/25. This position therefore will reduce the Council's gross saving requirement by £7k in the next update to the Council's Budget Strategy, which will be reported to December Cabinet.

General Fund Capital Programme

29. As at Month 2 an under spend of £17,201k is reported on the 2022/23 General Fund Capital Programme of £105,413k, due mainly to re-phasing of project expenditure into future years. The forecast outturn variance over the life of the 2022/23 to 2026/27 programme is an under spend of £1,672k. General Fund Capital Receipts of £10,488k are forecast for 2022/23 to meet the income target of £76,225 for the five years to 2026/27. Overall, Prudential Borrowing required to support the 2022/23 to 2026/27 capital programmes is forecast to be below budget by £673k as a result of a more favourable than anticipated level of government funding for school condition works.

Capital Programme Overview

30. Table 5 below sets out the latest forecast outturn on General Fund capital projects, with project level detail contained in annexes A - D to this report. Forecasts for future years include capital projects and programmes of work approved by Cabinet and Council in February 2022.

Table 5: General Fund Capital Programme Summary

	Approved Budget 2022/23	Forecast 2022/23	Cost Variance 2022/23	Project Re-phasing 2022/23	Total Project Budget 2022-2027	Total Project Forecast 2022-2027	Total Project Variance 2022-2027	Move-ment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cabinet Member Portfolio								
Finance	3,561	3,498	-	(63)	4,664	4,664	-	
Corporate Services & Transformation	2,355	2,355	-	-	9,500	9,500	-	
Environment, Housing & Regeneration	300	300	-	-	3,708	3,708	-	
Families, Education and Wellbeing	23,300	19,156	-	(4,144)	58,161	58,161	-	
Health and Social Care	2,359	2,359	-	-	11,795	11,795	-	
Property and Infrastructure	72,038	59,044	(1,672)	(11,322)	224,469	222,797	(1,672)	
General Contingency	1,500	1,500	-	-	7,500	7,500	-	
Total Capital Programme	105,413	88,212	(1,672)	(15,529)	319,797	318,125	(1,672)	-
Major Projects	74,961	59,689	69	(15,341)	193,183	193,252	69	
Programme of Works	28,952	27,023	(1,741)	(188)	119,114	117,373	(1,741)	
General Contingency	1,500	1,500	-	-	7,500	7,500	-	
Total Capital Programme	105,413	88,212	(1,672)	(15,529)	319,797	318,125	(1,672)	-
Movement								

31. **Finance:** Forecast expenditure of £3,498k in 2022/23 relates to the replacement of a number of fleet vehicles planned to be ordered for deliver this financial year.
32. **Residents:** The budget includes the Chrysalis Programme, playground refurbishments, and existing town centre initiatives, including the recently awarded grant of £77k from Network Rail for public realm improvements around the new Hayes & Harlington Crossrail Station. These budgets are forecast to be fully spent this year.
33. **Children, Families & Education:** The Schools SEND programme is gathering pace, with design work underway on a number of projects including the expansions of Meadow and

Harefield schools to provide additional special needs places. The Council has recently been successful in a bid to the Department for Education, to secure additional grant funding for projects linked to the DSG safety valve agreement.

34. **Health and Social Care:** The capitalisation of social care equipment budget of £2,359k is forecast to be fully spent. This budget is financed by disabled facilities grant.
35. **Property, Highways & Transport:** There is a forecast overspend of £69k on the Yiewsley/West Drayton community centre project based on the draft final account which remains under negotiation with the contractor, and requirement to replace defective lighting.
36. An under recovery of £1,741k is forecast on Transport for London (TFL) grant funding, as the 2022/23 LIP funding award for the year is significantly lower than bid for and original budget assumptions. TFL funding remains significantly affected by reduced travel with increased home working.
37. Construction works have commenced on the new West Drayton leisure centre and are currently forecast to be on budget. The works are expected to be completed in May 2024.
38. Following June Cabinet approval of the acquisition of land at Broadwater Lake for the new Hillingdon Water Sports and Activity Centre (HWSAC) site, the legal agreement with the vendor is in process and design work under way to enable the submission of a future planning application.
39. Works are in progress on the Leisure Centre refurbishment programme, forecast to be on budget.
40. Table 2 below outlines the latest financing projections for the capital programme.

Capital Financing - General Fund

Table 6: Capital Financing

	Approved Budget 2022/23 £'000	Forecast 2022/23 £'000	Cost Variance £'000	Phasing Variance £'000	Total Financing Budget 2022-2027 £'000	Total Financing Forecast 2022-2027 £'000	Total Variance £'000	Move-ment
Source of Finance								
Capital Receipts	13,258	10,488	-	(2,770)	76,225	76,225	-	
CIL	3,750	3,750		-	19,500	19,500	-	
Prudential Borrowing	42,478	42,274	(673)	469	91,057	90,384	(673)	
Total Council Resources	59,486	56,512	(673)	(2,301)	186,782	186,109	(673)	-
Grants & Contributions	45,927	31,700	(999)	(13,228)	133,015	132,016	(999)	
Capital Programme	105,413	88,212	(1,672)	(15,529)	319,797	318,125	(1,672)	-
Movement	-	-	-	-	-	-	-	

41. There are a number of identified site sales planned to be achieved in 2022/23 although the forecast re-phasing of £2,770k reflects an element of risk in delivery this financial year.
42. The Community Infrastructure Levy receipts budget is forecast to be achieved at this stage of the financial year. The longer-term forecast for this income stream will remain under review as current inflation levels may affect developer activity in the construction sector.
43. Forecast grants and contributions are £999k lower than the revised budget, due partly to the forecast under recovery of the 2022/23 TFL LIP grant compared to the original budget, which was based on pre-pandemic funding levels. There is sufficient Schools Conditions grant funding available to finance the SCBP programme, reducing prudential borrowing of £742k included within the original budget. This results in the favourable variance on borrowing, marginally offset by the forecast over spend of £69k on the Yiewsley/West Drayton community centre project.

Schools Budget

44. The Dedicated Schools Grant (DSG) monitoring position is forecasting an underspend of £174k against budget, although there remain ongoing pressures in the cost of High Needs placements, where due to a lack of capacity in borough, the number of independent placements remains high. Taking account of the deficit brought forward from 2021/22, along with the second payment of Safety Valve funding and local authority contribution, the cumulative deficit carry forward to 2023/24 is £20,485k.

Table 7: DSG Income and Expenditure 2022/23

Original Budget	Budget Changes	Funding Block	Month 2		
			Revised Budget	Forecast Outturn	Variance (As at Month 2)
£'000	£'000		£'000	£'000	£'000
(323,969)	0	Dedicated Schools Grant Income	(323,969)	(323,969)	0
250,638	0	Schools Block	250,638	250,485	(153)
23,118	0	Early Years Block	23,118	23,118	0
2,540	0	Central Schools Services Block	2,540	2,540	0
52,560	0	High Needs Block	52,560	52,539	(21)
	0	Total Funding Blocks	4,887	4,713	(174)
		Balance Brought Forward 1 April 2022	23,522	23,522	
		Safety Valve Funding	(3,750)	(3,750)	
		Local Authority	(4,000)	(4,000)	
		Balance Carried Forward 31 March 2023	20,659	20,485	

Dedicated Schools Grant Income (nil variance)

45. The Early Years block will be adjusted further to reflect actual numbers accessing the free entitlement in the Spring term. There will be further adjustment to the High Needs block allocation following confirmation of the import/export adjustment for 2022/23 which updates funding to reflect the local authority in which pupils with SEND are resident.

Schools Block (£153k underspend)

46. The Schools Block includes all funding paid directly to mainstream schools as part of their delegated budget share, including the funding recouped by the ESFA and paid to mainstream academies.
47. There is also a growth contingency fund which is funded from the Schools Block. Schools that are expanding, in agreement with the local authority, to meet basic need pupil population growth, receive additional funding to provide financial recompense throughout the relevant financial year to cover the cost of this agreed and planned growth.
48. Schools Forum took the decision to backdate growth contingency for one school in 2021/22 resulting in an overspend in that year. The overspend was ringfenced in the Schools Block with the expectation that it would be offset by an underspend in 2022/23 which is reflected in the forecast position.
49. The growth contingency policy was amended prior to 2020/21 in order address the growth in secondary pupils. Schools will be funded for any Year 7 pupils which are above the

Published Admission Number (PAN). £461k was set aside for this purpose, with the actual funding requirement not known until actual numbers on roll are confirmed.

Early Years Block (no variance)

50. Two-year-old funding will be adjusted in July to reflect the number of children accessing the entitlement based on the January 2021 census. The 3 and 4-year-old funding for both the universal and the additional free entitlement will also be adjusted in July following the January 2021 census. This is likely to result in an increase in the overall Early Years block funding allocation as the number of children accessing the additional free entitlement has increased significantly over the past year. The projections will be revised once the full impact of the funding adjustments is known.

Central School Services Block (no variance)

51. The published DSG budget allocations confirmed a 20% decrease in the Central School Services Block provided for historic commitments. This resulted in a £170k reduction in funding, though this was partly offset by £84k of additional funding for pupil growth. This reduction in funding resulted in a budget shortfall for the services funded by the Central School Services block adding to the pressure which has led to an overall deficit DSG being agreed for 2022/23.

High Needs Block (£21k underspend)

52. The local authority has made good progress on all conditions associated with the Safety Valve since the agreement was signed. Whilst there have been some small setbacks in delivery against some of the conditions, there has been positive, accelerated progress on others.
53. Whilst there is a good level of confidence that both the Safety Valve conditions and High Needs block savings for 2022/23 will be fully met, this is at an early stage of year 2 and there is limited scope to contain any increase in High Needs spend. This is a risk given the evidence of growing demand within the system and the inflationary pressures that have manifested since the Safety Valve agreement was put in place. Therefore, the position is being closely monitored in order that mitigating action can be planned and taken where needed.

Maintained School Balances & Budgets

54. Maintained schools ended the 2021/22 financial year with a cumulative closing surplus balance of £14.9m (£14.5m revenue and £0.4m capital). This was a £1.6m increase from the previous year total (adjusted for the two academy converters). Despite the relatively healthy total balance, there is a widespread variance across individual school balances, with 22 (44%) schools having an in-year deficit in 2021/22 and several schools ending the year with low balances that may result in financial challenges in 2022/23, particularly in those schools that have seen reductions in pupil numbers.
55. A review of the balances at the end of the 2021/22 financial year identified three schools which ended the year in deficit. These three schools all had applied for a licensed deficit at

the start of the year having carried forward cumulative deficits from 2020/21. However, two of these schools were able to reduce the cumulative deficit with an in-year surplus achieved in 2021/22.

56. The comparison between the budgeted balance at the start of the year and the final outturn position for each school indicates that the majority ended the year with a revenue balance greater than budgeted at the start of the year. There could be a few reasons for these movements, with the assumption that schools budget prudently at the start of the financial year. However, the variations do appear to be a common trend each year and there are some schools where the difference between the budgeted and outturn position significantly varies year on year. The local authority will therefore be looking closely at the 2022 budgets submitted by schools that have experienced large variations between budget and outturn in previous years and where appropriate challenge these submissions.
57. The table below summarises school revenue balances as a percentage of total revenue income plus balances brought forward from 2020/21. Analysis of the data in the table indicates that overall, the number of schools with balances over the recommended 8% (or 5% for secondary schools) is currently 31 schools (62% compared to 59% in 2020/21).

Sector	Number of Schools in Deficit	Number with Balances < 2%	Number with Balances > 2% and < 8%	Number with Balances > 8% and < 20%	Number with Balances > 20%
Nursery	0	0	0	1	0
Primary	2	2	14	23	4
Secondary	1	0	1	0	0
Special	0	0	0	1	1
Total	3	2	15	25	5

58. A full review of 2022/23 budgets for maintained schools is currently underway and schools will be RAG-rated based on the budgeted position. Schools that are either in deficit or have managed to set a balanced budget but with very low balances, meaning that any significant unplanned change in expenditure could result in the school being in a deficit position are rated red. These schools will be more closely monitored by Council officers to ensure that everything possible is being done to address the situation. For those schools setting a deficit budget, termly meetings will be arranged with the schools and will include relevant officers from the Education team. Where considered necessary, officers will also attend Governing Body finance committee meetings to give assurance that schools are working towards recovering the deficit position.

Housing Revenue Account

59. The Housing Revenue Account (HRA) is currently forecasting a favourable variance of £3k compared to the budget. The 2022/23 closing HRA General Balance is forecast to be £15,020k. The table below presents key variances by service area.

Table 8: Housing Revenue Account

Service	Month 2		Variance (+ adv / - fav)		
	Revised Budget	Forecast Outturn	Variance (As at Month 2)	Variance (As at Month 1)	Movement from Month 1
	£'000	£'000	£'000	£'000	£'000
Rent Income	(61,689)	(61,689)	0	0	0
Other Income	(6,151)	(6,151)	0	0	0
Net Income	(67,840)	(67,840)	0	0	0
Housing Management	16,679	16,676	(3)	0	(3)
Tenant Services	4,331	4,331	0	0	0
Repairs	6,640	6,640	0	0	0
Planned Maintenance	3,372	3,372	0	0	0
Capital Programme Funding	19,694	19,694	0	0	0
Interest & Investment Income	16,198	16,198	0	0	0
Development & Risk	1,260	1,260	0	0	0
Contingency					
Operating Costs	68,174	68,171	(3)	0	(3)
(Surplus) / Deficit	334	331	(3)	0	(3)
General Balance 01/04/2021	(15,351)	(15,351)	0	0	0
General Balance 31/03/2022	(15,017)	(15,020)	(3)	0	(3)

60. At this early stage in the financial year, the rental income and other income is forecast to break even. This will continue to be monitored during the year to as stock movements and void trends become clearer. The budgets assume a void rate of 1.35%.
61. The number of RTB applications received in the first two months of 2022/23 was 25 compared to 30 for the same period in 2021/22. There has been 10 RTB completions in the first two months of 2022/23 compared to 5 for the same period in 2021/22. The RTB applications and sales will be kept under review during the year. As at Month 2, the 2022/23 RTB sales forecast is 40, which is the same as the budget.
62. The housing management service is forecast to underspend by £3k as at Month 2 which is due to staffing. Tenant services is forecast to break even at this early stage in the year. The utility costs will continue to be monitored given the anticipated increase in costs for electricity and gas.
63. The repairs and planned maintenance budget totals £10,012k and as at Month 2 is forecast to break even. This area will be kept under review especially due to potential pressures

relating to voids, disrepair, and the marketplace in terms of repairs inflation and contractor labour shortages.

64. As at Month 2 the capital programme funding, interest and investment income and the development and risk contingency budgets are forecast to break even. The development and risk contingency budget includes an annual allocation for bad debt provision of £660k. This will be kept under review during the year especially given the potential pressures and impact of inflation and living costs on households and consequently arrears.

HRA Capital Expenditure

65. The HRA capital programme is set out in the table below. The 2022/23 original budget is £77,867k and forecast expenditure is £72,888k with a net variance of £4,979k due to re-phasing of projects continuing into future years.

Table 9: HRA Capital Expenditure

	Revised Budget 2022/23	Forecast 2022/23	Cost Variance 2022/23	Project Re-Phasing 2022/23	Total Project Budget 2022-27	Total Project Forecast 2022-27	Total Project Variance 2022-27	Movement 2022-27
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
HRA Capital Programme								
Major Projects	50,784	46,771	-	(4,013)	285,355	285,355	-	-
Works to Stock programme	20,023	19,057	-	(966)	129,187	129,187	-	-
Green Homes Initiatives	4,160	4,160	-	-	22,067	22,067	-	-
Major Adaptations to Property	2,900	2,900	-	-	13,019	13,019	-	-
Total HRA Capital	77,867	72,888	-	(4,979)	449,628	449,628	-	-
Movement								

66. The Council continues to progress the acquisition of new properties for rental in the HRA through purchase and development routes, financed through a combination of borrowing, grants and receipts from units sold under Right to Buy.
67. In addition to individual acquisitions and small developments, the Council is engaged in major estate regeneration projects on the Hayes Town Centre and Avondale Estates, with further detail on these projects presented in a separate paper being considered at this meeting of Cabinet. Current inflationary pressures are impacting heavily on the construction industry and therefore viability of projects will continue to be closely monitored.
68. The Works to Stock programme 2022/23 is in various stages of progress. Works are ongoing across the housing estate under numerous workstreams.
69. The Council has successfully applied for further energy efficiency funding of £1,581k under the Social Housing Decarbonisation Fund for implementation in 2022/23 and this grant was accepted at March Cabinet and is reported under Green Homes Initiatives.

Treasury Management Update as at 31 May 2022

Table 10: Outstanding Deposits

Period	Actual (£m)	Actual (%)	Benchmark (%)
Call Accounts and MMF's*	32.9		
Up to 1 Month Fixed-Term Deposits	24.0	45.76 33.38	70.00
Total	56.9	79.14	70.00
Strategic Pooled Funds	15.0	20.86	30.00
Total	71.9	100.00	100.00

*Money Market Funds

70. Deposits are held with UK institutions, all of which hold a minimum A- Fitch (or lowest equivalent) long-term credit rating and AAA rated Money Market funds. UK deposits are currently held in NatWest Bank plc and the DMADF. There is also an allocation to Strategic Pooled Funds.
71. The average rate of return on day-to-day operational treasury balances is 0.68%. As part of the Council's investment strategy for 22/23, the Council continues to hold a total of £15m in three long-dated strategic pooled funds (£5m in each). The strategic pooled funds have a 3-5 year investment horizon with dividends being distributed periodically. When including projected dividend income on these strategic pooled funds, based on the previous six months income average, the overall rate of return increases to 1.01%
72. The Council aims to minimise its exposure to bail-in risk by utilising bail-in exempt instruments and institutions whenever possible. However, due to the significant amount held in instant access facilities, which is needed to manage daily cashflow, it is not possible to fully protect Council funds from bail-in risk. At the end of May, 58% of the Council's day-to-day operational treasury investments had exposure to bail-in risk compared to a March benchmark average of 60% in the Local Authority sector (latest benchmark provided quarterly by the Council's treasury advisors Arlingclose). The Council's exposure reduces to 0% once instant access facilities are excluded from the total bail-in percentage.
73. Liquidity was maintained throughout May by placing surplus funds in instant access accounts and making short-term deposits in the DMADF. Cash-flow was managed by ensuring deposit maturities with the DMADF were matched to outflows and where required, funds were withdrawn from instant access facilities.

Table 11: Outstanding Debt - Average Interest Rate on Debt: 3.06%
Average Interest Rate on Temporary Borrowing: 0.42%

	Actual (£m)	Actual (%)
General Fund		
PWLB	76.60	22.45
Long-Term Market	15.00	4.40
Temporary	85.00	24.91
HRA		
PWLB	131.57	38.57
Long-Term Market	33.00	9.67
Total	341.17	100.00

74. During May there were two scheduled £0.33m PWLB EIP instalment payments and £5m of Local Authority borrowing was repaid. Gilt yields moved up by 16 base points during the month. In the context of the Council's long-term borrowing need and with restrictive premiums, early repayment of debt remains unfeasible.
75. There were no breaches of the Prudential Indicators or non-compliance with the Treasury Management Policy and Practices. To maintain liquidity for day-to-day business operations during June, cash balances will be placed in instant access accounts and short-term deposits.

PART B: FINANCIAL RECOMMENDATIONS

That the Cabinet:

- a. Approves re-phasing of £25,257k 2021/22 General Fund capital expenditure and financing budgets into future years and the re-phasing of £2,298k 2022/23 Schools Conditions Building Programme funding into future years.
- b. Approves re-phasing of £27,765k 2021/22 HRA capital expenditure and financing budgets into future years.
- c. Accept revenue grant funding of £5,383k for 2022/23 through to 2024/25 from the Department for Levelling Up, Housing and Communities to deliver a multi-year programme of projects and support to end Rough Sleeping.
- d. Accept revenue grant funding of £59k for 2022/23 from the GLA to support the Council Property buy back programme.
- e. Approve changes to the Council's Discretionary Council Tax Energy Rebate Scheme set out in the report.

Reasons for recommendation

76. **Recommendation 2a** - The re-phasing of £25,257k 2021/22 General Fund capital expenditure and financing budgets are required to enable existing projects and programmes to be delivered in future years. The re-phasing of £2,298k Schools Condition Building Programme funding is to align annual budgets with forecast expenditure profiles for projects in development.
77. **Recommendation 2b** - The re-phasing of £27,765k 2021/22 HRA capital expenditure and financing budgets are required to enable existing projects and programmes to be delivered in future years.
78. **Recommendation 2c** – Recommends Cabinet acceptance of grant funding of £5,383k for the period 2022/23 to 2024/25 from DLUHC to deliver services aimed at ending Rough Sleeping.
79. **Recommendation 2d** – Recommends accepting grant funding of £59k from the Greater London Authority to support the Council's Property buyback programme within the Housing service.
80. **Recommendation 2e** – This recommendation proposes to change the Discretionary Council Tax Energy Rebate Scheme previously approved by Cabinet which included a proposal to award rebates to new Council Tax Reduction Scheme claimants that enter the scheme after the 1 April 2022. As this is not in line with the Government's direction on the core scheme that claimants are entitled based on their accommodation status on 1 April 2022, this recommendation will remove this element of the scheme and bring it in line with that direction. It is proposed that an element of funding earmarked for this element of the scheme is used to award an additional £37 to those residents in

a Band A-D property that do not receive Council Tax Reduction support but are in receipt of a disabled band reduction. Any remaining funding will be added to the Council's contingency fund aimed at supporting residents that present with financial difficulty.