

COUNCIL BUDGET - 2022/23 REVENUE AND CAPITAL MONTH 3 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 £46k is reported against General Fund revenue budget normal activities as of June 2022 (Month 3). Unallocated reserves are projected to total £26,765k at 31 March 2023. This headline position is largely consistent with that reported to Cabinet for May 2022 (Month 2).</p> <p>COVID-19 pressures for the 2022/23 financial year are projected to total £14,485k at Month 3, £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 June 2022 (Month 3) 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 3 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 given that economic forecasts continue to deteriorate.
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 3 monitoring process across energy, fuel and contracted services in Social Care. The latest intelligence on pay award negotiations is that the final award is unlikely to be finalised until late in the 2022 calendar year.
9. After allowing for the ongoing impact of the pandemic and the significant inflationary pressures facing the country which are to be funded from releases from Earmarked Reserves, an underspend of £46k is projected across General Fund budgets at Month 3, with this position being driven by a favourable variance from the Council's Treasury activities offsetting pressures within Adult's Social Care and 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 £26,765k at 31 March 2022.
10. Within this position, £6,507k of the £13,346k savings planned for 2022/23 are banked or on track for delivery in full by 31 March 2022, with £5,853k 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. Where slippage in savings delivery is expected this has been factored into the reported monitoring position.

11. Within the Collection Fund, a surplus of £297k is reported at Month 3 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 and economic conditions 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.
12. The Collection Fund position has high exposure to both COVID-19 legacy impacts and current economic conditions, which have the potential to significantly affect the finances of individual households and businesses, and therefore this remains an area under close review. 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 with resulting impacts on MTFE forecasts.

GENERAL FUND CAPITAL

13. As at Month 3 an underspend of £23,631k is reported on the 2022/23 General Fund Capital Programme of £102,844k, 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 underspend of £1,062k. General Fund Capital Receipts of £10,057k are forecast for 2022/23 to meet the income target of £57,977k 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 £1,873k as a result of a more favourable than anticipated level of government funding for school condition works.

SCHOOLS BUDGET

14. The Dedicated Schools Grant (DSG) monitoring position is forecasting an overspend of £183k against budget, with the majority of the overspend being driven by the pay award anticipated to be higher than budgeted and a risk of further inflationary pressures emerging in this area as the year progresses. Furthermore, there remains an ongoing pressure 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 £21,047k.

HOUSING REVENUE ACCOUNT

15. The Housing Revenue Account (HRA) is currently forecasting a £8k underspend at Month 3, representing a £5k favourable movement from Month 2. The 2022/23 closing HRA General Balance is forecast to be £15,025k. The HRA Capital Programme budget of £477,545k is forecast to have a £153k overspend over the life of the programme and at this point is expecting to manage the impact of the pay award and other inflationary within its overall funding envelope.

FURTHER INFORMATION

General Fund Revenue Budget

16. As noted above and presented in the table below, a £46k underspend is projected across the General Fund at Month 3, with the following section of this report providing further information on an exception basis. This position is predicated on the deployment of significant sums from Earmarked Reserves, which have been set aside for these purposes, to manage inflationary and COVID-19 pressures. General Fund Balances are expected to total £26,765k 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 3		Variance (As at Month 3) £'000	Variance (As at Month 2) £'000	Movement from Month 2 £'000
	Approved Budget	Forecast Outturn			
	£'000	£'000			
Service Operating Budgets	249,572	249,526	(46)	(42)	(4)
Corporate Operating Budgets	500	500	0	0	0
Unallocated Budget Items	975	975	0	0	0
Sub-total Expenditure	251,047	251,001	(46)	(42)	(4)
Corporate Funding	(251,047)	(251,047)	0	0	0
Total Net Expenditure	0	(46)	(46)	(42)	(4)
Balances b/fwd	(26,719)	(26,719)			
Balances c/fwd 31 March 2022	(26,719)	(26,765)			

Service Operating Budgets

17. 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 3)	Variance (As at Month 2)	Movement from Month 2
		£'000	£'000	£'000	£'000	£'000
Property, Highways & Transport	Expenditure	20,076	19,973	(103)	(88)	(15)
	Income	(9,085)	(9,059)	26	(59)	85
	Sub-Total	10,991	10,914	(77)	(147)	70
Finance	Expenditure	135,354	135,877	523	526	(3)
	Income	(111,206)	(111,874)	(668)	(668)	0
	Sub-Total	24,148	24,003	(145)	(142)	(3)
Corporate Services	Expenditure	27,663	27,573	(90)	(36)	(54)
	Income	(1,632)	(1,650)	(18)	0	(18)
	Sub-Total	26,031	25,923	(108)	(36)	(72)
Residents' Services	Expenditure	62,855	63,953	1,098	945	153
	Income	(35,101)	(36,037)	(936)	(701)	(235)
	Sub-Total	27,754	27,916	162	244	(82)
Children, Families & Education	Expenditure	74,807	75,344	537	518	19
	Income	(22,171)	(22,623)	(452)	(466)	14
	Sub-Total	52,636	52,721	85	52	33
Health & Social Care	Expenditure	134,617	135,611	994	735	259
	Income	(26,605)	(27,562)	(957)	(748)	(209)
	Sub-Total	108,012	108,049	37	(13)	50
Total Service Operating Budgets		249,572	249,526	(46)	(42)	(4)

18. 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.
19. 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 £3,976k in place to meet an uplift in the Council's workforce expenditure. This increase will be funded by the Council's identified £5,997k earmarked reserve to fund exceptional inflationary pressures above Council's approved budget, however it is likely that negotiations will be ongoing into late 2022 and the position and impact will therefore continue to be closely monitored.
20. As can be seen from the table above, the net £46k underspend across Service Operating Budgets represents the cumulative effect of a number of variances which are briefly outlined below by Cabinet Portfolio:

- a. **Property, Highways & Transport** – A net underspend of £77k 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 income forecasting a minor pressure and accounting for the movement from Month 2, due to a reduction in forecast lease income.
- b. **Finance** – A net underspend of £145k is reported at Month 3 with a minor £3k improvement from 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 £108k is reported, with the underspend being driven by a number of small variances within the staffing position due to vacancies, with the most material being Human Resources, which also accounts for the favourable movement at Month 3, with the updated position in this service area accounting for £65k of the £72k movement.
- d. **Residents' Services** – a net overspend of £162k is forecast representing an improvement of £82k from Month 2, 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. The majority of the £82k improvement is similarly driven by the Housing service as demand continues to track above the budgeted position, offset by additional grant income.
- e. **Children, Families & Education** – an overspend of £85k is being reported within this portfolio, with an adverse movement of £33k from Month 2. 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. The adverse movement predominantly relates to increased demand impacting across the service area, with increased costs being reported for out of hours support and court services. Furthermore, minor movements across several income streams are leading to a net adverse movement of £14k.
- f. **Health & Social Care** – an overspend of £37k is reported for this portfolio, with an adverse movement of £50k from Month 2. 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.

The adverse movement is a continuation of this position, with an increase spend on care provision being offset by increased contributions.

Transformation

21. 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 £2,982k for such costs, which will increase over the coming months as work progresses on delivery of the transformation programme, with all such costs 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

22. 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.
- 23.

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)	(827)	(815)	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%	(5,333) 40%	(5,853) 44%	0 0%	(986) 7%	(13,346) 100%
Month on Month Movement	0 0%	(713) 5%	713 -5%	0 0%	0 0%	0 0%

24. As of Month 3, £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.
25. 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.
26. 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 3		Variance (As at Month 3) £'000	Variance (As at Month 2) £'000	Movement from Month 2 £'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

27. As at Month 3, 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 £1,027k is being reported against Parking income as demand continues to be reported below budgeted levels. Children’s Social Care are incurring additional costs of £340k as a result of additional demand and delays in court activity. The remaining £189k 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.
28. 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

29. A surplus of £297k is reported within the Collection Fund relating to an adverse position reported within Council Tax of £2,195k, offset by a favourable position within Business Rates of £2,492k. 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.
30. 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 £297k in the next update to the Council’s Budget Strategy, which will be reported to December Cabinet.

General Fund Capital Programme

31. As at Month 3 an under spend of £23,631k is reported on the 2021/22 General Fund Capital Programme of £102,844k, due mainly to re-phasing of project expenditure into future years. The forecast outturn variance over the life of the 2021/22 to 2025/26 programme is an overspend of £1,062k. General Fund Capital Receipts of £10,057k are forecast for 2021/22, and expected to achieve the budgeted target of £57,977k over five years to 2025/26. Overall, Prudential Borrowing required to support the 2021/22 to 2025/26 capital programmes is forecast to be above budget by £1,873k.

Capital Programme Overview

32. Table 5 below sets out the latest forecast outturn on General Fund capital projects. Forecasts for future years include capital projects and programmes of work approved by Cabinet and Council in February 2022.
33. The movement in the revised budget reflects the approved re-phasing of £25,257k funding from last year, approved by Cabinet in July, offset by removing £30,264k assumed SEND grant funding to reflect the current confirmed SEND grant position. The budget also includes £41k for the Spider Park Wildlife Corridor project, the grant for which was recently accepted by Cabinet.

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	4,123	4,123	-	-	5,226	5,226	-	
Residents	3,788	3,788	-	-	10,933	10,933	-	
Corporate Services	833	1,053	220	-	4,241	4,461	220	220
Children, Families and Education	20,307	16,101	-	(4,206)	28,102	28,102	-	
Health and Social Care	2,359	2,359	-	-	11,795	11,795	-	
Property, Highways and Transport	84,248	71,208	(1,502)	(11,538)	247,033	245,531	(1,502)	170
Contingency	1,500	1,500	-	-	7,500	7,500	-	
Total Capital Programme	117,158	100,132	(1,282)	(15,744)	314,830	313,548	(1,282)	390
Major Projects	81,364	65,959	239	(15,644)	179,842	180,081	239	170
Programme of Works	34,294	32,673	(1,521)	(100)	127,488	125,967	(1,521)	220
General Contingency	1,500	1,500	-	-	7,500	7,500	-	
Total Capital Programme	117,158	100,132	(1,282)	(15,744)	314,830	313,548	(1,282)	390
Movement	11,745	11,920	390	(215)	(4,967)	(4,577)	390	

34. **Finance:** Forecast expenditure of £4,123k in 2022/23 relates to the replacement of numerous fleet vehicles planned to be ordered this financial year, although due to long lead times there is a risk the bulk of vehicles will not be received until 2023/24.
35. **Residents:** The budget includes the Chrysalis Programme, playground refurbishments, and existing town centre initiatives. At this stage these budgets are forecast to be fully spent this year.

36. **Children, Families & Education:** The Schools SEND programme is underway on several projects to provide additional special needs places, including the expansions of Meadow and Harefield schools which are at preconstruction stage. The Council has recently been successful in a bid to the Department for Education, securing additional grant funding of £6,962k for projects linked to the DSG safety valve agreement.
37. **Corporate Services:** The Network and Telephony project (under Corporate Technology and Innovation programme) reports an overspend of £220k following site surveys conducted by the contractor at various remote sites across the borough which have identified a need for additional access points and related infrastructure.
38. **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.
39. **Property, Highways & Transport:** Works are in progress to extend the Uxbridge mortuary, however a forecast overspend of £200k is reported due to items that have arisen whilst on site resulting in contract prolongation.
40. There is a forecast over spend of £39k on the Yiewsley/West Drayton community centre project based on the draft final account which remains under negotiation with the contractor, and the requirement to replace defective lighting.
41. 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.
42. 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.
43. 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.
44. Works are in progress on the Leisure Centre refurbishment programme, forecast to be on budget.
45. Table 6 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	16,749	10,057		(6,692)	57,977	57,977	-	
CIL	3,500	5,000		1,500	17,500	17,500	-	-
Prudential Borrowing	55,481	41,783	(786)	(12,912)	131,018	132,891	1,873	5,503
Total Council Resources	75,730	56,840	(786)	(18,104)	206,495	208,368	1,873	5,503
Grants & Contributions	27,114	22,373	(811)	(3,930)	90,972	90,161	(811)	60
Capital Programme	102,844	79,213	(1,597)	(22,034)	297,467	298,529	1,062	5,563
Movement	12	(19,927)	-	(19,939)	12	5,575	5,563	

46. Capital receipts before transformation financing in 2021/22 include £1,264k in sales already achieved for four sites. The phasing variance of £6,692k is mainly due to major disposal sites that are not expected to be completed this financial year.
47. As at the end of June 2021, a total of £1,657k Community Infrastructure Levy receipts have been invoiced, net of administration fees. Forecast receipts for this financial year are a favourable variance of £1,500k as developer activity is increasing as the pandemic recedes, and several sizable developments are expected to be invoiced in 2021/22. The longer-term forecast for this income stream will remain under review as the economy recovers from the pandemic.
48. Forecast grants and contributions are £811k lower than the revised budget, due to the forecast under recovery of the 2021/22 TFL LIP grant compared to the original budget, which was based on pre-pandemic funding levels.
49. Prudential Borrowing is forecasting to be within budget by £13,698k in 2021/22 due mainly to forecast re-phasing of project expenditure into future years. The medium-term forecast is an adverse variance of £1,873k due mainly to the overspend on Yiewsley/West Drayton leisure centre, partly offset by the under spend on capitalised general equipment expenditure.

Schools Budget

50. The Dedicated Schools Grant (DSG) monitoring position is forecasting an overspend of £183k against budget, with the majority of the overspend being driven by a higher than budgeted for pay award, although there remains an ongoing pressure 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 £21,047k.

Table 7: DSG Income and Expenditure 2022/23

Funding Block	Month 3		Variance (As at Month 3) £'000	Variance (As at Month 2) £'000	Change from Month 2 £'000
	Revised Budget £'000	Forecast Outturn £'000			
Dedicated Schools Grant Income	(323,969)	(323,969)	0	0	0
Schools Block	250,638	250,638	0	0	0
Early Years Block	22,951	22,954	3	(12)	15
Central Schools Services Block	3,003	3,168	165	39	126
High Needs Block	52,663	52,678	15	(63)	78
Total Funding Blocks	5,286	5,469	183	(36)	219
Balance Brought Forward 1 April 2022	23,328	23,328			
Safety Valve Funding	(3,750)	(3,750)			
Local Authority	(4,000)	(4,000)			
Balance Carried Forward 31 March 2023	20,864	21,047			

Dedicated Schools Grant Income (nil variance)

51. The Early Years block has been 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 (nil variance)

52. 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.
53. 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.
54. 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.

55. 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 (£3k adverse)

56. Two-year-old funding has been 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 has also been adjusted in July following the January 2021 census. This has resulted in an increase of £2,796 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.
57. The projections will be revised in month 4 once the full impact of the funding adjustments is known. The adverse variance in this area relates to the anticipated pay award being agreed above the budgeted value from February 2022.

Central School Services Block (£165k adverse)

58. 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. The main budgetary pressure is in the Looked After Children Education Team, with the remaining pressure being driven by the anticipated pay award.

High Needs Block (£15k adverse)

59. 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.
60. 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. The adverse movement in this area is driven by the pay award anticipated to be higher than budgeted for in February 2022.

Maintained School Balances & Budgets

61. 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 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.

62. 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.
63. 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 will in some instances challenge these submissions.
64. The table overleaf 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

65. 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.

66. The status of school balances is likely to be impacted by emerging inflationary pressures, with the resulting challenge being inherently more acute for those schools at the lower end of the range of balances. There is no specific contingency held within the DSG for inflationary pressures, however the impact will continue to be closely monitored on both Council managed and delegated spend.

Housing Revenue Account

67. The Housing Revenue Account (HRA) is currently forecasting a favourable variance of £8k compared to the budget and a favourable movement of £5k on Month 3. The 2022/23 closing HRA General Balance is forecast to be £15,025k. The use of reserves is funding investment in new housing stock. The table below presents key variances by service area.

Table 8: Housing Revenue Account

Service	Month 3		Variance (+ adv / - fav)		
	Revised Budget	Forecast Outturn	Variance (As at Month 3)	Variance (As at Month 2)	Movement from Month 2
	£'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	16,769	16,732	(37)	(3)	(34)
Tenant Services	4,289	4,283	(6)	0	(6)
Repairs	6,592	6,619	27	0	27
Planned Maintenance	3,372	3,380	8	0	8
Capital Programme Funding	19,694	19,694	0	0	0
Interest & Investment Income	16,198	16,198	0	0	0
Development & Risk Contingency	1,260	1,260	0	0	0
Operating Costs	68,174	68,166	(8)	(3)	(5)
(Surplus) / Deficit	334	326	(8)	(3)	(5)
General Balance 01/04/2021	(15,351)	(15,351)	0	0	0
General Balance 31/03/2022	(15,017)	(15,025)	(8)	(3)	(5)

68. 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 as more data becomes available to take into account stock movements and voids. The budgets assume a void rate of 1.35%.

69. The number of RTB applications received in the first three months of 2022/23 was 35 compared to 46 for the same period in 2021/22. There has been 13 RTB completions in the first three months of 2022/23 compared to 7 for the same period in 2021/22. The RTB applications and sales will be kept under review during the year. As at Month 3, the 2022/23 RTB sales forecast is 40, which is the same as the budget.

70. In line with other funds, the higher than anticipated pay award will result in pressures on HRA workforce budgets, with work underway to develop an in-year funding strategy for this uplift.

71. The housing management service is forecast to underspend by £37k which is a favourable movement on Month 2 of £34k due to staffing recruitment delays. Tenant services is forecast

to underspend by £6k due to staffing. The utility costs will continue to be monitored during the year given the potential increases in costs for electricity and gas.

72. The repairs and planned maintenance budget totals £10,012k and as at Month 3 is forecast to overspend by £35k. This relates to staffing costs £27k and one-off repairs of £8k. The repairs and planned maintenance area will be kept under review during the year and as more actuals data becomes available as the months progress, especially due to potential pressures relating to voids, disrepair, and the marketplace in terms of repairs inflation and contractor labour shortages.
73. As at Month 3 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

74. The HRA capital programme is set out in the table below. The 2022/23 revised budget is £104,197k and forecast expenditure is £90,883k with a net variance of £13,314k due mainly 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	70,056	60,123	153	(10,086)	304,627	304,780	153	153
Works to Stock programme	26,997	24,747	-	(2,250)	136,678	136,678	-	-
Green Homes Initiatives	4,244	3,113	-	(1,131)	22,151	22,151	-	-
Major Adaptations to Property	2,900	2,900	-	-	13,936	13,936	-	-
Total HRA Capital	104,197	90,883	153	(13,467)	477,392	477,545	153	153
Movement	26,330	17,995	153	(8,488)	27,764	27,917	153	

75. Following re-tender, a contractor has been appointed for the construction of 34 general needs flats at the former Maple and Poplar day centre redevelopment site and works on site commenced in July 2022.
76. Works continue at both the 5x3 bedroom shared ownership development at Moorfield Road, Cowley and the former garage site on Nelson Road to provide 6 affordable housing units with construction expected to be complete at both sites in September 2022. A forecast overspend of £156k is reported due to sewer works at Nelson Road and contractor expense claims on both projects.

77. Cabinet Members have recently approved the development of 12 new build flats at Chippendale Way, Uxbridge at a cost of £4,220k and the acquisition of 95&97 Willow Tree Lane to provide two new larger family homes at a cost of £1,100k. These projects are financed within existing HRA capital budgets.
78. Contract terms have been finalised and approved in respect of the developer partner for the Hayes estates regeneration programme. Bulk purchases of properties from several registered providers are planned in 2022/23.
79. The Works to Stock programme 2022/23 is in various stages of progress. Works are ongoing across the housing estate under numerous workstreams. Green Homes Initiatives include further energy efficiency government grant funding of £1,581k awarded under the Social Housing Decarbonisation Fund for implementation in 2022/23.

Treasury Management Update as at 31 May 2022

Table 10: Outstanding Deposits

Period	Actual (£m)	Actual (%)	Benchmark (%)
Call Accounts and MMF's*	34.5	48.12	70.00
Up to 1 Month Fixed-Term Deposits	22.2	30.96	
Total	56.7	79.08	70.00
Strategic Pooled Funds	15.0	20.92	30.00
Total	71.7	100.00	100.00

*Money Market Funds

80. 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.
81. The average rate of return on day-to-day operational treasury balances is 0.76%. 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 1.14%
82. 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 June, 61% of the Council's day-to-day operational treasury investments had exposure to bail-in risk compared to a June benchmark average of 64% 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.
83. Liquidity was maintained throughout June 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	75.93	22.30
Long-Term Market	15.00	4.41
Temporary	85.00	24.96
HRA		
PWLB	131.57	38.64
Long-Term Market	33.00	9.69
Total	340.50	100.00

84. During June there were two scheduled £0.33m PWLB EIP instalment payments.
85. Gilt yields moved up by 41 base points during the month, partly due to the increase in base rate of 0.25% from 1.00% to 1.25%. With the Council's long-term borrowing need and with restrictive premiums, early repayment of debt remains unfeasible.
86. There were no breaches of the Prudential Indicators or non-compliance with the Treasury Management Policy and Practices.
87. To maintain liquidity for day-to-day business operations during July, cash balances will be placed in instant access accounts and short-term deposits.

PART B: FINANCIAL RECOMMENDATIONS

That the Cabinet:

- a. Approves a virement of £220k from the General Capital Contingency budget to the Corporate Technology and Innovation Programme to support the Network and Telephony project.
- b. Accept a grant award of £703k from the Market Sustainability and Fair Cost of Care Fund to prepare Social Care markets for reform.
- c. Approve acceptance of £100k grant funding from the Department for Environment, Food, and Rural Affairs (DEFRA) for costs associated with the delivery of new post-Brexit port health authority functions at the Heathrow Imported Food Office.
- d. Approve acceptance of £9k grant funding from the Department for Environment, Food, and Rural Affairs (DEFRA) for the implementation of legislation relating to allergen labelling changes for prepacked direct for sale food.
- e. Approve an increase in the fee charged to funeral directors for storage costs to £30 per day starting 48 hours after the coroner has released the body.
- f. Approve acceptance of gift funding in relation to a Planning Performance Agreement in accordance with the provisions of Section 93 of the Local Government Act 2003 for;
 - a. NCP Car Park - £17,500
 - b. Denville Hall - £17,500
 - c. Crown Trading - £32,000
 - d. Nestle Block - £17,500
- g. Ratify an urgent decision taken by the Leader of the Council, in consultation with the Cabinet Member for Children, Families & Education, to implement updated fees for the Music Service for 2022/23, due to the necessity to notify parents before the start of the September 2022 academic term.

Reasons for recommendation

88. The contractor for the Network and Telephony project has conducted site surveys at various remote sites across the borough and identified a need for additional access points and related infrastructure at a cost of £220k. These additional costs are above the original tendered sum and cannot be managed within the existing total project budget within the Corporate Technology and Innovation capital budget, **recommendation 2a** therefore proposes to fund this from the 2022/23 General Capital Contingency budget of £1,500k, which is currently uncommitted.

89. Following the announcement by Government in December 2021 and the white paper, People at the Heart of Care, the Government has outlined a 10-year vision that puts personalised care and support at the heart of Adult Social Care. **Recommendation 2b** seeks approval to accept the grant award of £702,747.58 from Government aimed at supporting local authorities to prepare the market for these reforms and to support local authorities to move towards paying providers a fair cost of care.
90. **Recommendation 2c** seeks approval to accept grant funding offered by DEFRA which, if accepted by Cabinet, will be utilised to fund the costs of additional environmental health and veterinary resources required at the Heathrow Imported Food Office in readiness for the implementation of new port health authority requirements for EU imports.
91. Grant funding has been offered by the Department for Environment, Food, and Rural Affairs (DEFRA) which if accepted by Cabinet will be utilised to fund costs incurred due to the introduction of Food Information (Amendment)(England) Regulations 2022 No 481 (otherwise known as “Natasha’s Law”). **Recommendation 2d** seeks authority from Cabinet to approve the acceptance of £9k, relating to the costs of Food Safety Environment Health Officers and Trading Standards Officers engaged in the enforcement of legislation relating to allergen labelling changes for prepacked for direct sale food.
92. The storage charge levied against funeral directors by the mortuary has not been uplifted since April 2015, **recommendation 2e** therefore seeks approval to increase this charge from £16 per day from working day 6 following the Coroner’s release, to £30 per day from working day 3, the main objective of the increase is to ensure capacity at the mortuary.
93. Gift funding has been offered by developers which if accepted by Cabinet will be utilised to fund dedicated staff to support this pre-application and application work. **Recommendation 2f** seeks authority from Cabinet to approve the acceptance of £84,500k in relation to four major developments.
- a. NCP Car Park - £17,500
 - b. Denville Hall - £17,500
 - c. Crown Trading - £32,000
 - d. Nestle Block - £17,500
94. **Recommendation 2g** seeks to ratify a decision to amend the fees for the Music Service, reducing the fee from the previously approved uplift that was due to come into effect from September 2022, making them more sustainable in the future, please see Appendix B1 for more information.

Appendix B1

Music Service Fees

Supporting information

There has been a disconnect between the 2021/22 approved fee levels by the Council and what has been previously advertised and charged for Music Services. The effect of this has been that most parents underpaid for the service last year from what was approved.

To correct this for 2022/23, updated Music Service Fees were approved in February 2022 and are due to be implemented and charged to parents from September at the start of the 2022/23 Academic Year. However, in recent weeks a further review has been undertaken of some specific fees that are more widely charged, **to reduce them from what was earlier approved for 2022/23** and position them at a more sustainable level. The aim of this is to ensure continued use of the service by existing users, but to also grow activity and demand. The excessive premium for non-residents has been reduced, as this had resulted in no such users and a lost opportunity for income.

The small reduction in expected income as a result of these updated fees will be fully mitigated through the Services' plan to develop a clear brand and increase activity levels and income and also through savings identified from sessional worker costs.

The specific updated fees approved are set out in **Table 1** overleaf and highlighted. Parents have been notified already. For 2023/24, there will be a full review of the structure of all music service fees to ensure that the Council's offer is modern and competitive and eliminates the need for general fund support.

Cabinet is requested to ratify this decision for public record as the body ordinarily charged constitutionally with approving and amending fees and charges.

Alternative options considered

The Council could have continued with the more significant fee increase approved for residents for the Music School in 2022/23, from what parents were previously paying. Additionally, the Council could have continued with a higher premium for non-residents but sought to reduce this to attract further subscribers and income.

Table 1 - changes to Music Service Fees approved **highlighted**

<i>Type of Fee: Residents (termly charge)</i>	<i>Actual Fees Charged in 2021/22</i>	<i>Cabinet Approved Fees 2021/22</i>	<i>Cabinet Approved Fees for 2022/23</i>	<i>Updated Fees agreed for 2022/23</i>	<i>% Change from actual charge in 2021/22</i>
Standard tuition	74.00	76.00	79.80	As approved by Cabinet 2022/23	7.84%
Music School only	68.00	80.00	84.00	80.00	17.65%
Weekday music school or Choir Only	33.00	33.00	34.70	As approved by Cabinet 2022/23	5.15%
Use of Instrument	21.00	21.60	22.70	As approved by Cabinet 2022/23	8.10%
Advanced Only	167.00	175.00	183.80	As approved by Cabinet 2022/23	10.06%

<i>Type of Fee: Non-Residents (termly charge)</i>	<i>Actual Fees Charged in 2021/22</i>	<i>Cabinet Approved Fees 2021/22</i>	<i>Cabinet Approved Fees for 2022/23</i>	<i>Updated Fees agreed for 2022/23</i>	<i>% Change from actual charge in 2021/22</i>
Music School only	144.50	120.00	126.00	90.00	- 37.72%
Weekday music school or Choir Only	115.00	81.50	85.58	50.00	- 56.52%
Use of Instrument	22.00	25.00	26.25	As approved by Cabinet 2022/23	19.32%
Advanced Only	230.00	200.00	210.00	As approved by Cabinet 2022/23	- 8.70%