COUNCIL BUDGET –
2022/23 REVENUE AND CAPITAL MONTH 5 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	This report provides the Council's forecast financial position and performance against the 2022/23 revenue budget and Capital Programme. A net in-year underspend of £60k is reported against General Fund revenue budget normal activities as of August 2022 (Month 5). Unallocated reserves are projected to total £26,779k at 31 March 2023. This headline position is largely consistent with that reported to Cabinet for September 2022 (Month 3). COVID-19 pressures for the 2022/23 financial year are projected to total £14,602k at Month 5, £3,311k higher than budgeted in February 2022 and therefore being funded from Earmarked Reserves held for this purpose. Exceptional inflationary pressures are being managed from funds set aside to manage this area of risk. The latest positions on other funds and the Capital Programme are detailed within the body of this report.
Putting our Residents First	This report supports the following Council objective of: *Strong financial management.* Achieving Value for Money is an important element of the Council's Medium Term Financial Plan.
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 August 2022 (Month 5) 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 5 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 £14,602k are projected in relation to the legacy 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 £3,311k 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 Central Government funding being available to ongoing COVID-19 pressures, the Council is carrying a remaining balance of 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 £14,602k for the 2022/23 financial year although this 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 expected to exceed the sums built into the MTFF. Pressures continue to be monitored in the Month 5 refresh of the Council's position, with the eventual pay award, energy, fuel and contracted services in Social Care driving the bulk of the Council's inflationary pressures. A number of additional cost control measures are being implemented in-year to mitigate against these exceptional inflationary pressures.

8. The Council is working closely with suppliers of contracted services to ensure that the costs incurred by the Council reflect current market prices and that suppliers are compensated for increased costs, whilst also recognising that some increases may be temporary. The recently announced energy cap together with some recent stabilisation in fuel costs will help to mitigate some of this pressure but it remains an ongoing area of risk which will continue to be closely monitored and managed.

9. The Council is expecting that the final pay award for 2022/23 will be higher than anticipated, albeit with this pressure now being expected to be partly offset by an in-year reduction in National Insurance contributions. The latest offer has been accepted by one of the larger local government trade unions which reduces the uncertainty regarding the eventual impact of this pressure although the final award is unlikely to be confirmed until late in the 2022 calendar year.

10. 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 £60k is projected across General Fund budgets at Month 5, 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 £26,779k at 31 March 2023.

11. Within this position, £6,857k of the £13,346k savings planned for 2022/23 are banked or on track for delivery in full by 31 March 2023, with £5,503k 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 short-term. Where slippage in savings delivery is expected this has been factored into the reported monitoring position.

12. Within the Collection Fund, a surplus of £405k is reported at Month 5 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.

13. 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 MTFF forecasts.

GENERAL FUND CAPITAL

14. As at Month 5 an underspend of £50,402k is reported on the 2022/23 General Fund Capital Programme of £117,537k, 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 £1,753k with General Fund Capital Receipts of £11,598k are forecast for 2022/23 available for financing the programme. Total capital receipts are forecast to be £5,448k below the income target of £81,414k 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 over budget by £3,158k due mainly to the under recovery of £5,448k in forecast capital receipts.

SCHOOLS BUDGET

15. The Dedicated Schools Grant (DSG) monitoring position is an in-year overspend of £6,029k at month 5, compared to the revised budgeted deficit of £5,486k. This overspend is due to ongoing inflationary pressures in the cost of High Needs placements, where due to a lack of capacity in borough, the number of independent placements has increased since the budget was set. When the £23,522k deficit brought forward from 2021/22 is taken into account,

along with the second payment of Safety Valve funding and local authority contribution, the cumulative deficit carry forward to 2023/24 is £21,801k.

HOUSING REVENUE ACCOUNT

16. The Housing Revenue Account (HRA) is currently forecasting a favourable variance of £33k compared to the budget and a favourable movement of £25k on Month 3. The 2022/23 closing HRA General Balance is forecast to be £15,050k. The HRA capital programme for 2022/23 has a revised budget of £104,197k and forecast expenditure is £64,920k with a total variance of £39,277k due mainly to re-phasing of projects continuing into future years 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

17. As noted above and presented in the table below, a £60k underspend is projected across the General Fund at Month 5, with the following section of this report providing further information on an exception basis. This position is predicated on the deployment of sums from Earmarked Reserves, which have been set aside for these purposes, to manage inflationary and COVID-19 pressures. In order to manage this call on reserves, a number of initiatives are underway to reduce costs and mitigate the impacts wherever possible. General Fund Balances are expected to total £26,779k at 31 March 2023 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 5		Variance (As at Month 5)	Variance (As at Month 3)	Movement from Month 3
	Approved Budget £'000	Forecast Outturn £'000	£'000	£'000	£'000
Service Operating Budgets	249,265	249,205	(60)	(46)	(14)
Corporate Operating Budgets	500	500	0	0	0
Unallocated Budget Items	1,282	1,282	0	0	0
Sub-total Expenditure	**251,047**	**250,987**	**(60)**	**(46)**	**(14)**
Corporate Funding	(251,047)	(251,047)	0	0	0
Total Net Expenditure	**0**	**(60)**	**(60)**	**(46)**	**(14)**
Balances b/fwd	(26,719)	(26,719)			
Balances c/fwd 31 March 2022	**(26,719)**	**(26,779)**			

Service Operating Budgets

18. 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 £'000	Forecast Outturn £'000	Variance (As at Month 5) £'000	Variance (As at Month 3) £'000	Movement from Month 3 £'000
Property, Highways & Transport	Expenditure	20,055	19,949	(106)	(103)	(3)
	Income	(9,048)	(9,021)	27	26	1
	Sub-Total	**11,007**	**10,928**	**(79)**	**(77)**	**(2)**
Finance	Expenditure	136,421	136,664	243	270	(27)
	Income	(111,242)	(111,630)	(388)	(415)	27
	Sub-Total	**25,179**	**25,034**	**(145)**	**(145)**	**0**
Corporate Services	Expenditure	27,452	27,205	(247)	(90)	(157)
	Income	(1,632)	(1,483)	149	(18)	167
	Sub-Total	**25,820**	**25,722**	**(98)**	**(108)**	**10**
Residents' Services	Expenditure	62,505	64,153	1,648	1,098	550
	Income	(35,051)	(36,568)	(1,517)	(936)	(581)
	Sub-Total	**27,454**	**27,585**	**131**	**162**	**(31)**
Children, Families & Education	Expenditure	74,959	75,598	639	537	102
	Income	(22,615)	(23,126)	(511)	(452)	(59)
	Sub-Total	**52,344**	**52,472**	**128**	**85**	**43**
Health & Social Care	Expenditure	134,066	135,038	972	994	(22)
	Income	(26,605)	(27,574)	(969)	(957)	(12)
	Sub-Total	**107,461**	**107,464**	**3**	**37**	**(34)**
Total Service Operating Budgets		**249,265**	**249,205**	**(60)**	**(46)**	**(14)**

19. Within the Council budget there is a Managed Vacancy Factor across the board of 3.5%, or £4,005k 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.

20. The Council budgeted for a pay award in 2022/23 of 2%, however, due to the exceptional inflationary environment, the current pay offer (which has been accepted by one of the major unions) exceeds this sum and an allowance is in place to meet this additional uplift in the Council's workforce expenditure after factoring in the reduction in National Insurance announced as part of the Chancellor's latest measures. This increase will be funded by the Council's identified earmarked reserve for exceptional inflationary pressures above Council's approved budget, however it is possible that final negotiations will be ongoing into late 2022 and the position and impact will therefore continue to be closely monitored.

21. As can be seen from the table above, the net £60k 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 £79k 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 £27k adverse position with no material movement from Month 5.

b. **Finance** – A net underspend of £145k is reported at Month 3 with no movement from Month 3, 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 £98k 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, with the movement at Month 5 linked to reductions in spend and the corresponding impact on recharge income.

d. **Residents' Services** – a net overspend of £131k is forecast representing an improvement of £31k from Month 3, 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 £31k 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 £128k is being reported within this portfolio, with an adverse movement of £43k from Month 3. 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 favourable movement of £59k, predominantly linked to additional income for Looked After Children.

f. **Health & Social Care** – an overspend of £2k is reported for this portfolio, with a favourable movement of £35k from Month 3. The subjective variances are 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 favourable movement relates to a number of small variances spread across several services, with no material movements within the position.

Transformation

22. 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 £3,248k 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

23. 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)	(380)	0	0	(650)
Cabinet Member for Finance	(40)	(320)	(165)	0	0	(525)
Cabinet Member for Corporate Services	(300)	(827)	(815)	0	0	(1,942)
Cabinet Member for Residents' Services	0	(3,013)	(1,224)	0	(986)	(5,223)
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	**(1,214)** ***9%***	**(5,643)** ***42%***	**(5,503)** ***41%***	**0** ***0%***	**(986)** ***7%***	**(13,346)** ***100%***
Month on Month Movement	(40) ***0%***	(310) ***2%***	350 ***-3%***	0 ***0%***	0 ***0%***	**0** ***0%***

24. As of Month 5, £1,214k of the savings programme has already been banked, with a further £11,146k (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 5		Variance (As at Month 5)	Variance (As at Month 3)	Movement from Month 3
	Approved Budget £'000	Forecast Outturn £'000	£'000	£'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	3,311	3,311	3,194	117
Total Exceptional Items	**11,291**	**14,602**	**3,311**	**3,194**	**117**

27. As at Month 5, 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 £3,311k. 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 £1,081k is being reported against Parking income as demand continues to be reported below budgeted levels. Children's Social Care are incurring additional costs of £364k as a result of additional demand and delays in court activity. The remaining £228k 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 £14,602k and £4,406k being released from the local reserves to fund the increase in service operating budgets, this leaves a balance of £1,946k of funds for new and emerging pressures in 2022/23 and beyond.

Collection Fund

29. A surplus of £405k is reported within the Collection Fund relating to an adverse position reported within Council Tax of £2,162k, offset by a favourable position within Business Rates of £2,567k. 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 £405k 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 5 an underspend of £50,402k is reported on the 2022/23 General Fund Capital Programme of £117,537k, 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 £1,753k. General Fund Capital Receipts of £11,598k are forecast for 2022/23 after financing DSG safety valve agreement costs and transformation. Total capital receipts are forecast to be £5,448k below the income target of £81,414k 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 over budget by £3,158k due mainly to the under recovery of £5,448k in forecast capital receipts.

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.

Table 5: General Fund Capital Programme Summary

	Approved Budget 2022/23 £'000	Forecast 2022/23 £'000	Cost Variance 2022/23 £'000	Project Re-phasing 2022/23 £'000	Total Project Budget 2022-2027 £'000	Total Project Forecast 2022-2027 £'000	Total Project Variance 2022-2027 £'000	Move-ment £'000
Cabinet Member Portfolio								
Finance	4,123	562	-	(3,561)	5,226	5,226	-	
Residents	3,788	3,652	-	(136)	10,933	10,933	-	
Corporate Services	1,053	953	(100)	-	4,461	4,361	(100)	(320)
Children, Families and Education	20,576	9,628	-	(10,948)	28,371	28,371	-	
Health and Social Care	2,359	2,359	-	-	11,795	11,795	-	
Property, Highways and Transport	84,358	48,701	(2,935)	(32,722)	247,143	244,208	(2,935)	(1,433)
Contingency	1,280	1,280	-	-	7,280	7,280	-	
Total Capital Programme	**117,537**	**67,135**	**(3,035)**	**(47,367)**	**315,209**	**312,174**	**(3,035)**	**(1,753)**
Major Projects	81,363	40,607	(761)	(39,995)	179,841	179,080	(761)	(1,000)
Programme of Works	34,894	25,248	(2,274)	(7,372)	128,088	125,814	(2,274)	(753)
General Contingency	1,280	1,280	-	-	7,280	7,280	-	
Total Capital Programme	**117,537**	**67,135**	**(3,035)**	**(47,367)**	**315,209**	**312,174**	**(3,035)**	**(1,753)**
Movement	379	(32,997)	(1,753)	(31,623)	379	(1,374)	(1,753)	

33. **Finance:** Forecast expenditure in 2022/23 has reduced by £3,561k. There are long lead-in times for the replacement of numerous fleet vehicles which are not expected to be received until 2023/24 if ordered this year.

34. **Residents:** The budget includes the Chrysalis Programme, playground refurbishments, existing town centre initiatives and the CCTV programme. The playgrounds programme is to be tendered later this year with works on site expected to occur in 2023/24.

35. **Corporate Services:** Following September Cabinet and approval of a virement of £220k from general contingency, the previously reported overspend on the Network and Telephony project (under Corporate Technology and Innovation programme) has been removed. Additional costs were due to the need for additional access points and related infrastructure

at remote sites across the borough. An under spend of £100k is reported on the Older People's Initiatives budget which will not be fully committed this financial 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. Site surveys and enabling works are in progress at Harefield academy with construction works expected to commence later in 2022/23.

37. **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.

38. **Property, Highways & Transport:** A planning application has been submitted for re-modelling works at News Year Green Lane Civic Amenity Site to improve materials diversion rates. Works are expected to be £1,000k lower than the original budget estimate and a £200k grant for West London Waste Authority has been secured.

39. Works are in progress to extend the Uxbridge mortuary, however a forecast over spend of £200k is reported due to items that have arisen whilst on site, resulting in contract prolongation. It is anticipated there will be further costs due to works required to replace the roof.

40. There is a forecast over spend of £39k on the Yiewsley/West Drayton community centre project based on the draft final account, 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 the original budget assumptions. TFL funding remains significantly affected by reduced travel with increased home working. Funding for the remainder of the year is expected to be confirmed shortly.

42. Construction works are in progress 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 close to finalisation and a planning application is expected to be submitted later this year.

44. A forecast underspend of £396k is reported on Disabled Facilities Grants as the annual budget is not expected to be fully committed.

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	18,447	11,598	(164)	(6,685)	81,414	75,966	(5,448)	(5,448)
CIL	8,455	6,742		(1,713)	24,205	24,205	-	
Prudential Borrowing	47,000	24,850	(2,126)	(20,024)	97,578	100,736	3,158	3,441
Total Council Resources	**73,902**	**43,190**	**(2,290)**	**(28,422)**	**203,197**	**200,907**	**(2,290)**	**(2,007)**
Grants & Contributions	43,635	23,945	(745)	(18,945)	112,012	111,267	(745)	254
Capital Programme	**117,537**	**67,135**	**(3,035)**	**(47,367)**	**315,209**	**312,174**	**(3,035)**	**(1,753)**
Movement	379	(32,997)	(1,753)	(31,623)	379	(1,374)	(1,753)	

45. Two sites were sold at auction in September 2022 for a total sum of £530k and a third is re-scheduled for October auction. The overall forecast has reduced by £5,448k due to recent updates to the external valuations on a number of sites in the planned disposals programme, reflecting inflationary costs being experienced in the construction sector and resulting market slowdown.

46. The 2022-23 Community Infrastructure Levy receipts forecast includes £4,742k carried forward from last year to support financing of the new West Drayton leisure centre project. The re-phasing variance of £1,713k reflects uncertainty in the construction sector as current inflation levels may affect developer activity in the short term.

47. Forecast grants and contributions are £745k lower than the revised budget, due partly to the forecast under recovery of £1,741k 2022/23 TFL LIP grant compared to the original budget, which was based on pre-pandemic funding levels. The movement of £254k is partly due to the confirmation of the new £200k WLWA grant for the NYGL extension project.

Schools Budget

48. The Dedicated Schools Grant (DSG) monitoring position is an in-year overspend of £6,029k at month 5, compared to the revised budgeted deficit of £5,486k. This overspend is due to ongoing pressures in the cost of High Needs placements, where due to a lack of capacity in borough, the number of independent placements has increased since the budget was set in combination with inflationary pressures across the sector. When the £23,522k deficit brought forward from 2021/22 is taken into account, along with the second payment of Safety Valve funding and local authority contribution, the cumulative deficit carry forward to 2023/24 is £21,801k.

Table 7: DSG Income and Expenditure 2022/23

Funding Block	Month 5		Variance		
	Revised Budget £'000	Forecast Outturn £'000	Variance (As at Month 5) £'000	Variance (As at Month 3) £'000	Change from Month 3 £'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	22,951	0	3	(3)
Central Schools Services Block	3,003	3,096	93	165	(72)
High Needs Block	52,863	53,313	450	15	435
Total Funding Blocks	**5,486**	**6,029**	**543**	**183**	**360**
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	**21,258**	**21,801**			

Dedicated Schools Grant Income (nil variance)

49. 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)

50. 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.

51. 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.

52. 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 ring-fenced in the Schools Block with the expectation that it would be offset by an underspend in 2022/23.

53. 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 (nil variance)

54. 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.

55. The projections will be revised in month 4 once the full impact of the funding adjustments is known.

Central School Services Block (£93k overspend, £72k favourable movement)

56. 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.

High Needs Block (£633k adverse, £618k adverse movement)

57. 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.

58. 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

59. 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 variation 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.

60. 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.

61. 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.

62. 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**

63. 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 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

64. The Housing Revenue Account (HRA) is currently forecasting a favourable variance of £33k compared to the budget and a favourable movement of £25k on Month 3. The 2022/23 closing HRA General Balance is forecast to be £15,050k. 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 5		Variance (+ adv / - fav)		
	Revised Budget	Forecast Outturn	Variance (As at Month 5)	Variance (As at Month 3)	Movement from Month 3
	£'000	£'000	£'000	£'000	£'000
Rental Income	(61,689)	(61,643)	46	0	46
Other Income	(6,151)	(6,147)	4	0	4
Net Income	**(67,840)**	**(67,790)**	**50**	**0**	**50**
Housing Management	16,769	17,170	401	(37)	438
Tenant Services	4,289	4,253	(36)	(6)	(30)
Repairs	6,592	7,507	915	27	888
Planned Maintenance	3,372	3,205	(167)	8	(175)
Capital Programme Funding	19,694	18,194	(1,500)	0	(1,500)
Interest & Investment Income	16,198	16,198	0	0	0
Development & Risk Contingency	1,260	1,564	304	0	304
Operating Costs	**68,174**	**68,091**	**(83)**	**(8)**	**(75)**
(Surplus) / Deficit	**334**	**301**	**(33)**	**(8)**	**(25)**
General Balance 01/04/2021	(15,351)	(15,351)	0	0	0
General Balance 31/03/2022	**(15,017)**	**(15,050)**	**(33)**	**(8)**	**(25)**

65. As at Month 5, the rental income and other income is forecast to under recover by £46k and £4k respectively, compared to the budget. This forecast is based upon the actuals to date. This will continue to be monitored during the year as more data becomes available to take into account stock movements and voids performance.

66. The number of RTB applications received in the first five months of 2022/23 was 53 compared to 79 for the same period in 2021/22.There have been 21 RTB completions in the first five months of 2022/23 compared to 15 for the same period in 2021/22. The RTB applications and sales will be kept under review during the year especially given the current economic conditions. As at Month 5, the 2022/23 RTB sales forecast is 40, which is the same as the budget.

67. The housing management service is forecast to overspend by £401k which is an adverse movement on Month 3 of £438k. The forecast includes a pressure of £370k for the estimated pay award for HRA staff and £68k for running costs (legal and ICT costs). The utility costs will continue to be monitored during the year given the potential increases in costs for electricity and gas.

68. Tenants' services are forecast to underspend by £36k, a favourable movement of £30k on Month 3 relating to updated staffing forecasts.

69. The repairs service is forecasting an overspend at Month 5 of £915k which is an adverse movement on Month 3 of £888k. This is due to £323k for voids related costs, both void repairs and agency voids management. It takes into account volume of work and current market conditions. The forecast is based on 736 void properties, an average of 61 per month and after appropriate capitalisation of costs. Day to day repairs accounts for £525k of the movement on Month 3 and takes into consideration volume and revenue cost of repairs, permanent and agency trade operatives and cost of materials. Material costs have increased in the last year in the marketplace by 44%. The remaining movement of £40k is due to an increase in demand for pest control.

70. The planned maintenance Month 5 forecast is an underspend of £167k which is a favourable movement on Month 3 of £175k. This reflects updated forecasts on the external decorations/ painting programme

71. The repairs and planned maintenance service will be kept under review during the year as more actuals data becomes available, especially due to potential pressures relating to voids, day to day repairs, disrepair, and market conditions especially inflation.

72. As at Month 5 the capital programme funding forecast has been reduced by £1,500k. This considers the forecast re-phasing in the HRA capital programme (Works to Stock) as at Month 5 and funds the key HRA revenue pressures contained in this report.

73. As at Month 5 the interest and investment income is forecast to break even. Although given current economic circumstances this will continue to be closely monitored.

74. The development and risk contingency budgets are forecast to overspend by £304k as at Month 5 due to the inclusion of Packet Boat House development legal costs. This will be kept under review for the remainder of the year. The budget also includes an annual allocation for bad debt provision of £660k (£400k in 2021/22). The bad debt provision will be kept under review especially given the potential pressures and impact of inflation and living costs on households and consequently arrears levels.

HRA Capital Expenditure

75. The HRA capital programme is set out in the table below. The 2022/23 revised budget is £104,197k and forecast expenditure is £64,920k with a total variance of £39,277k 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	43,588	153	(26,621)	304,627	304,780	153	-
Works to Stock programme	26,997	16,319	(973)	(9,705)	136,678	135,705	(973)	(973)
Green Homes Initiatives	4,244	2,113	-	(2,131)	22,151	22,151	-	-
Major Adaptations to Property	2,900	2,900	-	-	13,936	13,936	-	-
Total HRA Capital	**104,197**	**64,920**	**(820)**	**(38,457)**	**477,392**	**476,572**	**(820)**	**(973)**
Movement	-	(25,963)	(973)	(24,990)	-	(973)	(973)	

76. Works have commenced on site for the construction of 34 general needs flats at the former Maple and Poplar day centre redevelopment. Works have completed and handed over at the 5x3 bedroom development at Moorfield Road, Cowley which will be provided as general needs housing. Works are ongoing at the former garage site on Nelson Road to provide 6 affordable housing units with construction expected to be complete later this year. 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 Waye, 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 and demolitions and groundworks at Avondale estate will commence this year.

79. The Works to Stock programme 2022/23 is in various stages of progress with works ongoing across the housing estate under numerous workstreams. There is a forecast under spend of £973k on programmes for which the budget is not expected to be committed this financial year. Green Homes Initiatives include further energy efficiency government grant funding of £1,581k awarded under the Social Housing Decarbonisation Fund which may require an extension agreed beyond 2022-23 to fully utilise the grant.

Treasury Management Update as at 31 August 2022

Table 10: Outstanding Deposits

Period	Actual (£m)	Actual (%)	Benchmark (%)
Call Accounts and MMF's* Up to 1 Month Fixed-Term Deposits	27.7 37.6	34.50 46.82	70.00
Total	65.3	81.32	70.00
Strategic Pooled Funds	15.0	18.68	30.00
Total	80.3	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 0.99%. 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 1.33%

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 August, 42% 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 August 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 August there were no scheduled debt repayments.

85. Gilt yields moved up about 80 base points during the month, partly due to the increase in base rate of 0.50% from 1.25% to 1.75%. 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 September, cash balances will be placed in instant access accounts and short-term deposits.

PART B: FINANCIAL RECOMMENDATIONS

That the Cabinet:

a. Accept Transport for London grant funding of £172k for the Green and Healthy Streets Programme.
b. Accept HS2 Amenity funding of £1,500k for projects to mitigate the impacts of the HS2 project in areas affected by the construction works.
c. Accept the award of £6,704k GLA grant funding for acquisitions and internal developments to increase the supply of affordable housing.
d. Agree the virement of £3,410k from the unallocated HRA Unallocated HRA Acquisition and Development Budget to create the Right To Buy Buyback Fund Budget of £5,410k.
e. Approve acceptance of £10k grant funding from the Department for Levelling Up, Housing and Communities for running costs associated with the continuation of temporary pavement license provisions.
f. Approve a public consultation exercise on the following potential amendments to the Council's local Council Tax Reduction Scheme with a view to reforming the scheme with effect from April 2023:
    a. Non-dependent charge to be increased to £8 per week
    b. Increase the minimum award from £1 to £2 per week
g. Approve the amendments to the leisure Fees and Charges set out in Appendix B1 of this report.

Reasons for recommendation

88. The Council has been awarded £172k from the Transport for London Green and Healthy Streets fund to deliver air quality and active travel improvements on a section of North Hyde Road, Hayes, with **recommendation 2a** proposing that Cabinet accept this funding. Funds are to be spent by December 2023.

89. **Recommendation 2b** proposes to accept funding that HS2 have agreed from proposals totalling £1,500k to transform several uniformed group huts, creating a community facility for use by uniformed groups as well as the wider community to serve a range of users.

90. **Recommendation 2c** is for Cabinet to accept the successfully secured additional GLA grant funding for acquisitions and developments under two GLA schemes. The first scheme is funded from the GLA Building Council Homes for Londoners Grant and is known as the Right To Buy Ringfence Grant and Negotiated Grant scheme and is £4,704k in total. The grant will 30% finance existing acquisitions and internal development projects. The second scheme is the Mayor's Right to Buy BuyBack scheme and is specifically to return former stock to Council ownership. Grant funding of £2,000k has been awarded to the Council to acquire 20 units at £100k grant per unit.

91. **Recommendation 2d** is for Cabinet to agree a virement to allocate Council match funding of £3,410k from the currently unallocated HRA Acquisitions and Developments capital funding to the Right to Buy Back scheme, also financed by £2,000k GLA grant as noted above.

92. Grant funding has been offered by the Department for Levelling Up, Housing and Communities which, if **recommendation 2e** is approved, will be utilised to fund the costs incurred by the Council in operating the temporary pavement licences regime (which was introduced in July 2020 to support the hospitality sector during the COVID-19 pandemic). This new burdens payment will address spend associated with running the regime, including processing, monitoring and enforcement not covered by the fees chargeable.

93. The Council has the opportunity each year to review the Council Tax Reduction Scheme for working age claimants, with support provided to 65+ claimants being governed by statute. **Recommendation 2f** seeks approval to go to public consultation on two proposed changes to Hillingdon's scheme, firstly reviewing the Council's non-dependent charge, increasing this from £5 to £8 and secondly, increasing the minimum award from £1 to £2. The outcome of the public consultation will be fed back to Cabinet in December as part of the Consultation Budget when the Council presents a refreshed view of the five-year budget strategy.

94. **Recommendation 2g** seeks the approval for revisions to Leisure service Fees and Charges in-year, with effect from 1 November 2022. Due to the exceptional rises in inflation in recent months, it is proposed to make interim increases to fees and charges during 2022/23. Proposed changes are largely in line with latest published CPI figures and will ensure the Council is able to mitigate inflationary cost pressures in this service area which have developed since the 2022/23 budget was approved in February 2022.

95. A broader review has been undertaken of this service area, with the most recent revisions to fees and charges at the Council's leisure centres being agreed in August 2021. Proposed changes are recommended following a benchmarking exercise and in consultation with the Leisure operator to reflect the increase in costs since August 2021, whilst remaining competitive against our nearest neighbours. Full details of the proposed changes are included in Appendix B1.