

COUNCIL BUDGET - 2022/23 REVENUE AND CAPITAL MONTH 6 BUDGET MONITORING

Cabinet Member	Councillor Martin Goddard
Cabinet Portfolio	Cabinet Member for Finance
Officer Contact	Andy Evans, Corporate Director of Finance
Papers with report	None

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 £50k is reported against General Fund revenue budget normal activities as of September 2022 (Month 6). Unallocated reserves are projected to total £26,769k at 31 March 2023. This headline position is a minor adverse movement of £10k to that reported to Cabinet for August 2022 (Month 5).</p> <p>COVID-19 pressures for the 2022/23 financial year are projected to total £14,579k at Month 6, a minor improvement of £24k, with this position being £3,288k 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, with permanent provision for those inflationary pressures which have emerged to be factored into the draft 2022/23 budget being considered at the December 2022 meeting of Cabinet.</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	This report supports the following Council objective of: <i>Strong financial management</i> . Achieving Value for Money is an important element of the Council's Medium Term Financial Plan.
Financial Cost	N/A
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 September 2022 (Month 6) 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 6 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 £14,579k 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 £3,288k 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 £14,579k for the 2022/23 financial year and leaves reserves at £1,969k by the 31 March 2023. With £1,535k of this already committed in the Council's budget strategy, the remaining balance of £434k 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 6 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 update on the energy cap continues to support the Council for the remainder of the financial year, 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 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 £50k is projected across General Fund budgets at Month 6, with this position being driven by a favourable variance from the Council's Treasury activities offsetting pressures within Children's & Young People's Services, Housing and reported pressures within the Planning service area. This position will result in unallocated General Balances totalling £26,769k at 31 March 2023.
11. The position reported has led to a £10k adverse movement on the position presented for Month 5, with the adverse movement being driven by increased spend on homelessness where expenditure is outstripping Government support. This pressure is being netted down by improvements within Adult Social Care workforce position from a range of minor forecast improvements and additional income forecast from CCG contributions to care, netted down by the delay in the closure of the Early Years Centres.
12. Within this position, £6,937k of the £13,346k savings planned for 2022/23 are banked or on track for delivery in full by 31 March 2023, with £5,423k 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, however discussions are ongoing with the provider to resolve these challenges. Where slippage in savings delivery is expected this has been factored into the reported monitoring position.
13. Within the Collection Fund, a surplus of £412k, which is a favourable movement of £7k from Month 5, is reported at Month 6 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.
14. 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

15. As at Month 6 an under spend of £53,428k is reported on the 2022/23 General Fund Capital Programme of £117,915k, 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 £3,356k. General Fund Capital Receipts of £10,667k are forecast for 2022/23 after financing DSG safety valve agreement costs and transformation. Total capital receipts are forecast to be £3,123k 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 under budget by £222k.

SCHOOLS BUDGET

16. The Dedicated Schools Grant (DSG) monitoring position is an in-year overspend of £6,029k at month 6, 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. This position is consistent with that reported at Month 5, and remains an area of significant activity to manage out the structural deficit on this account.

HOUSING REVENUE ACCOUNT

17. The Housing Revenue Account (HRA) is currently forecasting a favourable variance of £43k compared to the budget and a favourable movement of £10k on Month 5. The 2022/23 closing HRA General Balance is forecast to be £15,060k. A underspend of £31,875k is projected on the £106,197k 2022/23 HRA Capital Programme, primarily due to re-phasing of projects continuing into future years.

FURTHER INFORMATION

General Fund Revenue Budget

18. As noted above and presented in the table below, a £50k underspend is projected across the General Fund at Month 6, 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 £26,769k 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) £'000	Variance (As at Month 3) £'000	Movement from Month 3 £'000
	Approved Budget £'000	Forecast Outturn £'000			
Service Operating Budgets	248,842	248,792	(50)	(60)	10
Corporate Operating Budgets	500	500	0	0	0
Unallocated Budget Items	1,705	1,705	0	0	0
Sub-total Expenditure	251,047	250,997	(50)	(60)	10
Corporate Funding	(251,047)	(251,047)	0	0	0
Total Net Expenditure	0	(50)	(50)	(60)	10
Balances b/fwd	(26,719)	(26,719)			
Balances c/fwd 31 March 2022	(26,719)	(26,769)			

Service Operating Budgets

19. 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 5)	Variance (As at Month 3)	Movement from Month 3
		£'000	£'000	£'000	£'000	£'000
Property, Highways & Transport	Expenditure	20,008	19,816	(192)	(106)	(86)
	Income	(9,001)	(8,897)	104	27	77
	Sub-Total	11,007	10,919	(88)	(79)	(9)
Finance	Expenditure	135,998	136,240	242	243	(1)
	Income	(111,242)	(111,629)	(387)	(388)	1
	Sub-Total	24,756	24,611	(145)	(145)	0
Corporate Services	Expenditure	26,664	26,747	83	(70)	153
	Income	(1,632)	(1,750)	(118)	36	(154)
	Sub-Total	25,032	24,997	(35)	(34)	(1)
Residents' Services	Expenditure	63,293	65,133	1,840	1,471	369
	Income	(35,051)	(36,665)	(1,614)	(1,404)	(210)
	Sub-Total	28,242	28,468	226	67	159
Children, Families & Education	Expenditure	74,947	75,528	581	639	(58)
	Income	(22,615)	(22,992)	(377)	(511)	134
	Sub-Total	52,332	52,536	204	128	76
Health & Social Care	Expenditure	134,078	135,196	1,118	972	146
	Income	(26,605)	(27,935)	(1,330)	(969)	(361)
	Sub-Total	107,473	107,261	(212)	3	(215)
Total Service Operating Budgets		248,842	248,792	(50)	(60)	10

20. 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.
21. 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.

22. As can be seen from the table above, the net £50k 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 £88k 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 £104k adverse position with a minor £9k favourable movement from Month 5.
- b. **Finance** – A net underspend of £145k is reported at Month 6 with no movement from Month 5, 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 £35k 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 movements reported in Month 6 being driven by increased expenditure within the ICT service, offset by a number of small income updates yielding additional funding for the Council.
- d. **Residents' Services** – a net overspend of £226k is forecast representing an adverse movement of £159k from Month 5, 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, with the adverse movement being driven by a growing demand for homeless services outstripping the increased Government funding. The net overspend is being driven by two key drivers, housing demand outstripping Government funding, alongside a reduction in parking income in the early part of the financial year.
- e. **Children, Families & Education** – an overspend of £204k is being reported within this portfolio, with an adverse movement of £76k from Month 5. 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, with the adverse movement related to reductions in demand for care and corresponding contributions.
- f. **Health & Social Care** – an underspend of £212k is reported for this portfolio, with a favourable movement of £215k from Month 5. 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 updates to staffing forecasts spread across several services, with direct care provision accounting for an improvement of £367k, with further improvements coming from income updates linked to updated forecasts against CCG contributions to care. However, the overall improvement for this portfolio has been netted down by the delay in implementing the Early Year's Centre closures.

Transformation

23. 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 £4,205k 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

24. 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	(320)	(330)	0	0	(650)
Cabinet Member for Finance	(88)	(320)	(117)	0	0	(525)
Cabinet Member for Corporate Services	(432)	(727)	(783)	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	(1,394) 10%	(5,593) 42%	(5,373) 40%	0 0%	(986) 7%	(13,346) 100%
Month on Month Movement	(180) 1%	50 0%	130 -1%	0 0%	0 0%	0 0%

25. As of Month 6, £1,394k of the savings programme has already been banked, with a further £10,966k (82%) 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.
26. Currently there are £986k (7%) 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.
27. 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. 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 MTF. 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) £'000	Variance (As at Month 3) £'000	Movement from Month 3 £'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	3,288	3,288	3,311	(23)
Total Exceptional Items	11,291	14,579	3,288	3,311	(23)

28. As at Month 6, 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 £3,288k. 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 £1,126k is being reported against Parking income as demand continues to be reported below budgeted levels. Children's Social Care are incurring additional costs of £273k as a result of additional demand and delays in court activity. The remaining £251k 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.

29. 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 £14,579k and £4,406k being released from the local reserves to fund the increase in service operating budgets, this leaves a balance of £1,969k of funds for new and emerging pressures in 2022/23 and beyond.

Collection Fund

30. A surplus of £412k is reported within the Collection Fund at Month 6, translating into a £7k movement from the position reported at Month 5. Within the Collection Fund, an adverse position is reported within Council Tax of £2,349k (£187k adverse from Month 5), offset by a favourable position within Business Rates of £2,761k (£194k favourable from Month 5). 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.
31. 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 £412k in the next update to the Council's Budget Strategy, which will be reported to December Cabinet.

General Fund Capital Programme

32. As at Month 6 an under spend of £53,428k is reported on the 2022/23 General Fund Capital Programme of £117,915k, due mainly to re-phasing of project expenditure into future years. The forecast outturn variance over the life of the 2022/23 to 2026/27 programme is an under spend of £3,356k. General Fund Capital Receipts of £10,667k are forecast for 2022/23 after financing DSG safety valve agreement costs and transformation. Total capital receipts are forecast to be £3,123k 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 under budget by £222k.

Capital Programme Overview

33. 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. Projected variance against budget for the 2022/23 financial year are analysed between cost and rephasing, in the case of the latter, budget will only be rolled forward for use in future financial years with the explicit approval of 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	Movement
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cabinet Member Portfolio								
Finance	4,123	431	-	(3,692)	5,226	5,226	-	
Residents	3,788	3,375	(57)	(356)	10,933	10,876	(57)	(57)
Corporate Services	1,053	903	(150)	-	4,461	4,311	(150)	(50)
Children, Families and Education	20,954	9,566	-	(11,388)	28,749	28,749	-	
Health and Social Care	2,359	2,776	417	-	11,795	12,212	417	417
Property, Highways and Transport	84,358	46,156	(3,016)	(35,186)	247,143	243,577	(3,566)	(631)
Contingency	1,280	1,280	-	-	7,280	7,280	-	
Total Capital Programme	117,915	64,487	(2,806)	(50,622)	315,587	312,231	(3,356)	(321)
Major Projects	81,363	38,336	448	(43,475)	179,841	179,739	(102)	659
Programme of Works	35,272	24,871	(3,254)	(7,147)	128,466	125,212	(3,254)	(980)
General Contingency	1,280	1,280	-	-	7,280	7,280	-	
Total Capital Programme	117,915	64,487	(2,806)	(50,622)	315,587	312,231	(3,356)	(321)
Movement	378	(2,648)	229	(3,255)	378	57	(321)	

34. **Finance:** Forecast expenditure in 2022/23 has reduced by £3,692k as due to long lead times the replacement of numerous fleet vehicles would not be received until 2023/24 if ordered this year.
35. **Residents:** The budget includes the Chrysalis Programme, playground refurbishments, existing town centre initiatives and the CCTV programme. A net underspend of £57k is reported under town centres due to discontinuing future shop front grant schemes. The playgrounds programme is to be tendered later this year with works on site expected to occur in 2023/24.

36. **Corporate Services:** Underspends of £150k are reported, consisting of uncommitted funding within the Older People's Initiatives budget (£130k) and £20k on completion of a scheme within the Corporate Technology and Innovation programme.
37. **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 to commence later in 2022/23. The award of contract for the construction phase is expected to be made shortly, subject to Cabinet Members approval.
38. **Health and Social Care:** The capitalisation of social care equipment budget forecast has increased by £417k due to forecast demand. This is offset by a £636k under spend on Disabled Facilities Grant adaptations. Both budgets are financed by the Disabled Facilities Grant.
39. **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.
40. Works are in progress to extend the Uxbridge mortuary, however a forecast over spend of £916k is reported due to items that have arisen whilst on site resulting in contract prolongation, including further costs due to works required to replace the roof. A recommendation has been included in this report to vire funding from the general capital contingency fund to cover these costs.
41. 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.
42. An under recovery of £908k is forecast on Transport for London (TFL) grant funding, as the 2022/23 LIP funding award for the year is significantly lower than original budget assumptions. This is an improvement of £833k from Month 5 following the recent confirmation of funding for the remainder of this year from TFL funding.
43. 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.
44. 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.

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	Movement
Source of Finance								
Capital Receipts	18,447	10,667	(5,489)	(2,291)	81,414	78,291	(3,123)	2,325
CIL	8,455	9,742		1,287	24,205	24,205	-	
Prudential Borrowing	47,000	20,165	3,644	(30,479)	97,578	97,356	(222)	(3,380)
Total Council Resources	73,902	40,574	(1,845)	(31,483)	203,197	199,852	(3,345)	(1,055)
Grants & Contributions	44,013	23,913	(961)	(19,139)	112,390	112,379	(11)	734
Capital Programme	117,915	64,487	(2,806)	(50,622)	315,587	312,231	(3,356)	(321)
Movement	378	(2,648)	229	(3,255)	378	57	(321)	

45. Three sites have been sold at auctions recently for a total of £830k (before auctioneer fees). The overall forecast has reduced by £3,123k due in part to recent external valuations on numerous 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 current year forecast has increased by £3,000k due mainly to a large development commencing this year for which a demand notice has been issued. The medium-term forecast is to budget, reflecting uncertainty in the construction sector as current inflation levels may affect developer activity in the short to medium term.
47. Forecast grants and contributions are £11k lower than the revised budget, a favourable movement of £734k due partly to an improvement in 2022-23 TFL funding from previously forecast, although funding remains lower than pre-pandemic funding levels.

Schools Budget

48. The Dedicated Schools Grant (DSG) monitoring position is an in-year overspend of £6,029k at month 6, 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 6		Variance (As at Month 6) £'000	Variance (As at Month 5) £'000	Change from Month 5 £'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	22,951	0	0	0
Central Schools Services Block	3,003	3,096	93	93	0
High Needs Block	52,863	53,313	450	450	0
Total Funding Blocks	5,486	6,029	543	543	0
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.

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

55. 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)

56. 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.
57. 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

58. 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.

59. 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.
60. 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.
61. 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

62. 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

63. The Housing Revenue Account (HRA) is currently forecasting a favourable variance of £43k compared to the budget and a favourable movement of £10k on Month 5. The 2022/23 closing HRA General Balance is forecast to be £15,060k. 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 6		Variance (+ adv / - fav)		
	Revised Budget	Forecast Outturn	Variance (As at Month 6)	Variance (As at Month 5)	Movement from Month 5
	£'000	£'000	£'000	£'000	£'000
Rental Income	(61,689)	(61,643)	46	46	0
Other Income	(6,151)	(6,147)	4	4	0
Net Income	(67,840)	(67,790)	50	50	0
Housing Management	16,769	17,149	380	401	(21)
Tenant Services	4,289	4,249	(40)	(36)	(4)
Repairs	6,592	7,516	924	915	9
Planned Maintenance	3,372	3,211	(161)	(167)	6
Capital Programme Funding	19,694	18,194	(1,500)	(1,500)	0
Interest & Investment Income	16,198	16,198	0	0	0
Development & Risk	1,260	1,564	304	304	0
Contingency					
Operating Costs	68,174	68,081	(93)	(83)	(10)
(Surplus) / Deficit	334	291	(43)	(33)	(10)
General Balance 01/04/2021	(15,351)	(15,351)	0	0	0
General Balance 31/03/2022	(15,017)	(15,060)	(43)	(33)	(10)

64. As at Month 6, the rental income and other income is forecast to under recover by £46k and £4k respectively, compared to the budget and this represents no change on the Month 5 position. This will continue to be monitored during the year as more data becomes available to take into account stock movements and voids performance.

65. The number of RTB applications received in the first six months of 2022/23 was 67 compared to 95 for the same period in 2021/22. There has been 25 RTB completions in the first six months of 2022/23 compared to 20 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 6, the 2022/23 RTB sales forecast is 40, which is the same as the budget.

66. The housing management service is forecast to overspend by £380k which is a favourable movement of £21k on Month 5 due to staffing recruitment delays. The utility costs will continue to be monitored during the year given the potential increases in costs for electricity and gas.

67. Tenants' services are forecast to underspend by £40k, a favourable movement of £4k on Month 5 relating to updated staffing forecasts.
68. The repairs and planned maintenance service is forecasting an overspend at Month 6 of £763k which is a minor adverse movement of £15k on Month 5. The repairs and planned maintenance service will continue to 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 including inflation.
69. As at Month 6 the capital programme funding forecast is an underspend of £1,500k which is no change on the Month 5 position.
70. As at Month 6 the interest and investment income are forecast to breakeven. Although given current economic circumstances this will continue to be closely monitored.
71. The development and risk contingency budgets are forecast to overspend by £304k as at Month 6 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.

HRA Capital Expenditure

72. The HRA capital programme is set out in the table below. The 2022/23 revised budget is £106,197k and forecast expenditure is £74,322k with a total variance of £31,875k due mainly to rephasing of projects continuing into future years. Projected variance against budget for the 2022/23 financial year are analysed between cost and rephasing, in the case of the latter, budget will only be rolled forward for use in future financial years with the explicit approval of Cabinet.

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	72,056	55,317	146	(16,885)	306,627	306,773	146	(7)
Works to Stock programme	26,997	14,991	(955)	(11,051)	136,678	135,723	(955)	18
Green Homes Initiatives	4,244	1,514	0	(2,730)	22,151	22,151	0	
Major Adaptations to Property	2,900	2,500	0	(400)	13,936	13,936	0	
Total HRA Capital	106,197	74,322	(809)	(31,066)	479,392	478,583	(809)	11
Movement	2,000	5,257	11	3,246	2,000	2,011	11	

73. The revised budget has increased by £2,000k following October Cabinet acceptance of the GLA Right to Buy Back grant which also includes £3,410k Council match funding. The 2022-23 forecast has increased by £5,257k partly due to this additional resource and an increase in the annual acquisitions cap above from 20 units to 37. This has resulted from the commencement on site of the Maple and Poplar redevelopment, which will provide 34 general needs flats.
74. Works have completed and handed over at the 5x3 bedroom development at Moorfield Road, Cowley which will be provided as general needs housing. Works at the former garage site on Nelson Road to provide 6 affordable housing units are expected to be complete in November 2022. A forecast overspend of £156k is reported due to sewer works at Nelson Road and contractor expense claims on both projects.
75. 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 taking place in 2022/23 and demolitions and groundworks at Avondale estate will commence this year.
76. 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 £955k 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 will require an extension agreed beyond 2022-23 to fully utilise the grant.

Treasury Management Update as at 30 September 2022

Table 10: Outstanding Deposits

Period	Actual (£m)	Actual (%)	Benchmark (%)
Call Accounts and MMF's*	31.5	50.64	70.0
Up to 1 Month Fixed-Term Deposits	15.7	25.24	
Total	47.2	75.88	70.0
Strategic Pooled Funds	15.0	24.12	30.0
Total	62.2	100.00	100.0

*Money Market Funds

77. 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.
78. The average rate of return on day-to-day operational treasury balances is 1.09%. 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 1.42%.
79. 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 September, 67% of the Council's day-to-day operational treasury investments had exposure to bail-in risk compared to a September benchmark average of 55% 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.
80. Liquidity was maintained throughout September 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: 3.07%
Average Interest Rate on Temporary Borrowing: 0.40%

	Actual (£m)	Actual (%)
General Fund		
PWLB	74.93	22.86
Long-Term Market	15.00	4.58
Temporary	75.00	22.88
HRA		
PWLB	129.82	39.61
Long-Term Market	33.00	10.07
Total	327.75	100.00

81. During September there were four scheduled EIP debt repayments, two for £0.5m, one for £0.75m and one for £1m. Also £10m of temporary borrowing reached maturity.
82. Gilt yields moved up significantly during the month, partly due to the increase in base rate of 0.50% from 1.75% to 2.25%. With the Council's long-term borrowing need and with restrictive premiums, early repayment of debt remains unfeasible.
83. There were no breaches of the Prudential Indicators or non-compliance with the Treasury Management Policy and Practices.
84. To maintain liquidity for day-to-day business operations during October, cash balances will be placed in instant access accounts and short-term deposits.
85. Cash flow forecasts indicate refinancing of the £70m of temporary borrowing maturing this year is required by the end of 22/23, therefore £25m of forward dated borrowing has been secured, with funds coming into London Borough of Hillingdon in November 2022 and January 2023. Opportunities to secure the remaining £45m are being explored.

PART B: FINANCIAL RECOMMENDATION

That the Cabinet:

- a. Approve acceptance of £191k 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.
- b. Note the virement of £916k from the general capital contingency fund to the Uxbridge mortuary extension project.
- c. Accept a grant of £43.5k from Groundwork London in respect of the Crane Valley Project Fund.
- d. Ratify an Emergency Contract Decision taken on the 27 October 2022 by the Interim Chief Executive, with the agreement of the Leader of the Council, to vary Lot 2 of the recently approved Framework for Home Care and Outreach Services by Cabinet on 1 September 2022.

Reasons for recommendation

86. Grant funding has been offered by Defra which, with **recommendation 2a** seeking approval from Cabinet to accept this funding to 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.
87. The extension of Uxbridge mortuary is in progress and works are expected to complete in 2023. Due to various unforeseen issues arising on site additional works are required over and above the existing budget, **recommendation 2b** requests Cabinet to note that this is to be funded from a virement of £916k from the general capital contingency budget.
88. Groundwork London have awarded a grant of £43.5k from the Crane Valley Project Fund for a project to revive the Willow Tree Wander, a walking route along Yeading Brook, with **recommendation 2c** seeking approval to accept this funding. The project will be reported under Environmental and Recreational Initiatives.
89. **Recommendation 2d:** Cabinet on 1 September 2022 had approved the establishment of two framework agreements (Lot 1 and Lot 2) for homecare and outreach services and agreed the admission of named suppliers to each framework. These frameworks were agreed to be established in order to replace the existing Dynamic Purchasing System in use. One supplier on the Lot 2 framework needed to be removed due to their Care Quality Commission rating and, therefore, replaced by another suitable provider, and prior to the framework agreements being formally established.
90. Use of the Emergency Contract Delegation to the Chief Executive was exercised in consultation with the Leader of the Council for his agreement, as set out in Chapter 18 of the Constitution and Rules on Procurement, which also require such decisions to be reported to a subsequent Cabinet meeting for ratification.