ISLINGTON

Resources Directorate
Newington Barrow Way, London, N7 7EP

Report of: Executive Member for Finance and Performance

Meeting of	**Date**	**Ward(s)**
Executive	11 February 2021	All

Delete as appropriate	~~Exempt~~	Non-exempt

2020/21 BUDGET MONITORING – MONTH 9

1. SYNOPSIS

1.1 This report presents the forecast outturn position for the 2020/21 financial year as at the end of month 9 (31st December 2020). The in-year budget position remains very uncertain due to ongoing developments around the COVID-19 crisis.

1.2 Rather than a one-off event that the council's budget is recovering from, COVID-19 will continue to have a significant ongoing impact on the council's budget for the foreseeable future. There is a need to maintain and, where possible, increase resilience in the council's balance sheet and reserves to reflect hardening budget risks over the medium term.

1.3 Month 9 saw the introduction of Local Alert Levels Tier 3 and Tier 4 across London and forecasts have been prepared to reflect the financial impact of these restrictions. As the forecasts in this report were prepared and agreed with budget holders before a third national lockdown was announced on 5 January 2021, any impact of the national restrictions will be reflected in the month 10 report. Data from previous national lockdowns and informed assumptions will be used to update the forecasts. Given the unprecedented circumstances and ongoing developments, it is possible that there will be more volatility in the forecasts than would normally be expected towards the end of the financial year.

1.4 Overall, the council is currently estimating total COVID-19 related budget pressures of approximately £52m (comprising £16m additional costs and £36m income losses) relating to the current financial year. This includes a forecast in-year General Fund overspend, potential council tax and business rates income ('Collection Fund') losses that would impact future year budgets and Housing Revenue Account (HRA) budget pressures. The council has £26m of COVID-19 general government grant funding to set against these pressures and is currently assuming compensation of £16m from the government's sales, fees and charges loss scheme and £2m from the tax guarantee scheme for Collection Fund losses. This leaves a net COVID-19 related funding gap of approximately £8m in the current financial year. Any residual shortfall not funded by central government would significantly weaken the council's balance sheet and reserves, which would then need to be replenished in future financial years.

1.5 Within the overall position outlined above, there is a forecast General Fund COVID-19 related pressure of (+£42.471m) relating to the current financial year, including forecast Collection Fund losses. It is currently assumed that this will be balanced by the end of the financial year as follows:

- (-£5.065) non COVID-19 related underspends;
- (-£26.043m) COVID-19 general government grant received to date, net of the amount applied in the previous financial year;
- (-£16.491m) latest forecast compensation from the sales, fees and charges income loss scheme. This is subject to change based on actual irrecoverable losses at the end of the financial year.
- (-£2.478m) assumed compensation from the recently announced Tax Guarantee scheme which will cover 75% of Collection Fund losses relating to the current financial year. This is also subject to change based on actual irrecoverable losses at the end of the financial years.
- (+£2.541m) assumed transfer to the COVID-19 earmarked reserve for currently unfunded future year COVID-19 budget pressures and risks (including collection fund losses).

1.6 In addition, the government has provided a range of specific/ring-fenced COVID-19 funding streams that the council is administering as part of the local response to the crisis. This includes grants to support businesses closed due to COVID-19 restrictions or that have been significantly impacted for periods of national restrictions and local alert levels.

1.7 COVID-19 has also impacted the delivery of the capital programme. In light of the announcement of a national lockdown, a further degree of slippage is expected and to be prudent, the forecast has been adjusted centrally to reflect this. The revised forecast outturn is based on the current profile of spend continuing to the end of the year, with further slippage of £31m to future financial years.

2. RECOMMENDATIONS

2.1. To note the breakdown of the forecast General Fund outturn by individual variance at **Appendix 1** and by service area at **Appendix 2**, and to note the currently assumed approach to balancing the General Fund budget in 2020/21. (**Section 3** and **Table 1**)

2.2. To note that officers will work up proposals for the allocation of the Contain Outbreak Management Fund for inclusion in the month 10 report. (**Paragraph 3.32**)

2.3. To note the forecast in-year HRA deficit of (+£2.822m). (**Section 4** and **Appendix 2**)

2.4. To note that the revised capital budget, reflecting slippage agreed at month 8, is £124.657m with a revised in-year capital forecast of £93.109m. Approval for further slippage will be sought at year-end as part of the 2020/21 financial outturn report. (**Section 5** and **Appendix 3**)

2.5. To agree that £0.070m be added to the current year (2020/21) capital programme for works on CCTV replacement at the Town Hall, to be funded from a revenue contribution to capital. (**Paragraph 5.5**)

3. REVENUE POSITION: SUMMARY

3.1. A summary position of the General Fund and HRA is shown in **Table 1**, a breakdown by individual General Fund variance in **Appendix 1** and a breakdown by General Fund and HRA service area in **Appendix 2**.

Table 1 – 2020/21 General Fund and HRA Forecast Over/(Under)Spend

	CV-19 Related £m	Non CV-19 Related £m	Month 9 Total £m	Month 8 Total £m	Monthly Movement £m
GENERAL FUND					
Chief Executive's Directorate	0.510	(0.196)	0.314	0.319	(0.005)
Environment and Regeneration	21.571	(4.445)	17.126	16.314	0.812
Housing	0.053	(0.053)	0.000	0.000	0.000
People	10.893	0.187	11.080	12.499	(1.419)
Public Health	0.291	(1.175)	(0.884)	(1.430)	0.546
Resources Directorate	5.605	(1.580)	4.025	5.475	(1.450)
DIRECTORATE	**38.923**	**(7.262)**	**31.661**	**33.177**	**(1.516)**
Corporate Items	3.876	2.197	6.073	4.196	1.877
IN-YEAR GENERAL FUND	**42.799**	**(5.065)**	**37.734**	**37.373**	**0.361**
Collection Fund Losses	4.737	0.000	4.737	11.814	(7.077)
OVERALL GENERAL FUND	**47.536**	**(5.065)**	**42.471**	**49.187**	**(6.716)**
COVID-19 grant – Tranches 1-4			(26.043)	(26.043)	0.000
SFC Compensation Full Year Estimate			(16.491)	(15.777)	(0.714)
Assumed Tax Guarantee Scheme			(2.478)	(8.860)	6.382
Transfer to COVID-19 Reserve			2.541	1.493	1.048
Forecast Net Use of General Balances to Fund Overspend			**0.000**	**0.000**	**0.000**
HRA					
In-year (Surplus)/Deficit	**3.540**	**(0.718)**	**2.822**	**3.235**	**(0.413)**

GENERAL FUND

Chief Executive's Directorate (+£0.314m, a decrease of -£0.005m since month 8)

3.2. The Chief Executives directorate is currently forecasting a net overspend of (+£0.314m), comprised of (+£0.510m) COVID-19 related budget pressures and a (-£0.196m) non COVID-19 related net underspend. This is detailed in **Appendix 1** and summarised by division in **Appendix 2**.

3.3. COVID-19 has resulted in commercial rental income losses of an estimated (+£0.453m) and loss of advertising income (+£0.007m). In addition, a (+£0.050m) grant was given to the Angel Business Improvement District to support operational spend due to COVID-19 related budget shortfalls.

Environment & Regeneration (+£17.126m, an increase of +£0.812m since month 8)

3.4. The Environment and Regeneration directorate is currently forecasting a net overspend of (+£17.126m), comprised of (+£21.571m) COVID-19 related budget pressures and a (-£4.446m) non COVID-19 related net underspend. This is detailed by key variance in **Appendix 1** and summarised by division in **Appendix 2**.

3.5. The department relies heavily on fees and charges income to subsidise its services and the COVID-19 crisis has severely impacted on revenue generating activities across all service areas.

- Parking related income – there has been a substantial decrease in projected income across Pay & Display, Penalty Charge Notices and Permit & Vouchers. It is estimated that the full year impact will see a decline in income across these areas of around £11.529m (an increase of +£1.057m since month 8).
- Leisure related income – the council receives income from operating the leisure centres and from activities and events within our parks and open spaces. The current best estimate of the full year impact of this income loss is £4.820m (an increase of +£0.007m since month 8).
- Other areas such as Commercial Waste, Licensing, Energy Services, Highways, Street Markets, Local Land Charges and Pest Control services are also experiencing reduced levels of service and it is estimated that the income loss across these areas will be £3.824m (an increase of +£0.019m since month 8).

3.6. The directorate is also incurring additional costs in terms of agency cover for COVID-19 related sickness/self-isolation, overtime and additional contract costs to cover additional enforcement of social distancing, additional mortuary costs and Personal Protective Equipment. It is estimated that these additional costs will amount to £1.398m (an increase of +£0.068m since month 8) over the course of the financial year.

3.7. The main reason for the non COVID-19 related net underspend is additional projected income (-£2.458m, unchanged since month 8) from the acceleration of the Low Traffic Neighbourhood and People Friendly Streets programmes to aid social distancing measures on the streets. The remainder of the non COVID-19 related underspend is due to projected net staffing underspends and additional income such as the Housing Street Properties Fire Safety Inspections by Building Control and one-off income from Trading Standards penalties.

3.8. The move to Tier 3 in December has impacted on our assumptions of the COVID-19 impact on the forecast outturn, particularly around the main income streams. The assumption at the time of finalising the month 9 forecasts was that these restrictions would be in place until the end of January when restrictions would be eased. As we moved into a national lockdown in January, this will lead to a further deterioration of our forecast position. Assumptions are currently being updated and this will be assessed as part of the reported month 10 position.

3.9. Initial high level analysis based upon previous lockdown periods indicates the main areas impacted upon will be parking, commercial waste and leisure. There will also be additional costs around the operation of testing and vaccine centres on council sites in addition to additional costs of enforcing lockdown rules. With a current working assumption of the lockdown period extending to the end of March there could be a deterioration in the forecast pressures in parking (up to £3.000m increase increase), leisure (c£0.800m increase) and commercial waste (c.£0.250m increase). However, some of these income losses could be partially compensated through the Sales, Fees and Charges Compensation scheme from the government and the National Leisure Fund Recovery Grant for up to £0.550m could offset this.

Housing General Fund (Breakeven position, unchanged since month 8)

3.10. The Housing directorate includes Voluntary and Community Services (VCS) and the council's statutory, yet unfunded by central government, duty to provide a safety net to vulnerable migrants with No Recourse to Public Funds (NRPF) – including European Economic Area Nationals, under social services legislation (including the Care Act 2014 and Children's Act 1989).

3.11. The Housing directorate is currently forecasting a net breakeven position for the General Fund, comprised of (+£0.053m) COVID-19 related net budget pressures after specific grant funding and (-£0.053m) non COVID-19 related underspends. This is detailed by key variance in **Appendix 1** and summarised by division in **Appendix 2**. Within this forecast net breakeven position, there is an assumed (+£1.669m) transfer of specific grants to earmarked reserves, an increase of (+£0.330m since month 8).

3.12. COVID-19 is causing budget pressures across homelessness and NRPF services. This is showing through rising client numbers, increased provider costs, additional legal challenges, extra landlord incentive payments, higher rent arrears and lost income sources. These trends have the potential to be exacerbated by additional COVID-19 pressures over the winter. The homelessness service had to alter its service provision following a series of central government instructions. MHCLG has provided grants to partly offset these costs. The financial pressure is being met from wider departmental underspends and repurposed grants.

3.13. The move to national restrictions has seen cases rise, with a particular spike in COVID-19 related hospital discharges of homeless people. It is expected that the rise in case numbers will continue, but it is projected to be less precipitous overall than previous lockdowns.

3.14. COVID-19 is also placing pressures on key VCS partner organisations in the borough, including a loss of fundraising/earning potential, higher demand, and delays in applications from partner groups. To meet these pressures, the service estimates that it will need to draw down £0.041m of VCS contingency funding in earmarked reserves in the current financial year and then additional £0.270m over the next three financial years.

3.15. Underlying the COVID-19 impact are the continued financial pressures of the Homelessness Reduction Act 2017 and changes to the Statutory Homelessness Code of Guidance. This Act and amended Code are increasing the number of new homeless cases for the Council and resulting in rising legal challenges.

3.16. Islington Lettings remains a cost pressure with long and short-term issues resulting in a high level of 'write offs' of uncollected rent. Non-payers are currently estimated to be over 50% of all clients. Legal and administrative difficulties remain into FY20/21. New management and investigations into long standing issues are expected to result in an improved financial position.

People (+£11.080m, a decrease of £1.419m since month 8)

3.17. The People directorate (comprising Children's, Employment and Skills and Adult Social Services) is currently forecasting a (+£11.080m) overspend.

Children's, Employment and Skills - General Fund (+£6.771m, a decrease of -£0.625m since month 8), Schools (-£0.993m, unchanged since month 8)

3.18. Children's, Employment and Skills is currently forecasting a net overspend of (+£6.771m), comprised of (+£6.493m) COVID-19 related budget pressures and risks and (+£0.278m) non COVID-19 related net overspends. This is detailed by key variance in **Appendix 1** and summarised by division in **Appendix 2**.

3.19. The COVID-19 related budget pressures in the department include:

- (+£2.422m) forecast loss of parental fee income in Children's Centres, unchanged since month 8;
- (+£0.150m) legal costs in relation to an increase in emergency child protection orders, unchanged since month 8;

- (+£0.305m) cost of providing IT hardware to enable home learning for children without access to IT hardware at home, cost of providing free school meals over the Autumn half term and over the additional inset days prior to the Christmas break, unchanged since month 8;
- (+£0.223m) increase in allowances for carers in recognition of the increased costs of caring for young people while they are at home and the provision of financial support to care leavers through the summer, unchanged since month 8;
- (+£1.046m) forecast loss of income in relation to Cardfields, the Laycock Centre, the Arts Service, the Education Library Service and curriculum income in the SEN transport service, unchanged since month 8. We are unlikely to see much recovery in income at Cardfields, the Laycock Centre or in the SEN transport service this year due to the nature of the provision;
- (+£0.325m) agreed package of support to Isledon to ensure the continued provision of universal youth services across the borough following significant income pressures resulting from Covid-19. Prior to month 9 this had been reported as a COVID-19 budget risk but has now materialised.
- (+£0.064m) forecast cost pressure due to delays in moving families out of temporary accommodation due to COVID-19, unchanged since month 8; and
- (+£0.316m) other COVID-19 cost pressures, an increase of +£0.014m since month 8.

3.20. The forecast position includes an additional (+£1.642m, a decrease of -£0.964m since month 8) of COVID-19 budget risks in relation to the cost of packages for looked after children, staffing pressures in children's social care and potential further losses in income for traded services.

3.21. The impact of the national lockdown announced in January will be reflected in month 10. However, we are expecting increased loss of parental fee income in Children's Centres as the level of provision / take-up of places reduces during this period (this is estimated at a net loss of £0.066m per week); a potential reduction in costs in relation to the SEN transport service if the numbers of children in provision reduces; a reduction in income in the Education Library Service while schools are closed for most children; and additional costs supporting care leavers, foster carers and families with children with disabilities.

3.22. The forecast non COVID-19 related net overspends of (+£0.278m), unchanged since month 8, are detailed below.

- (-£0.200m) forecast underspend against the remand budget as numbers of young people remanded to custody by the courts remains low. However, this is a demand led budget, and a small increase in activity can have a significant impact on the budget.
- (+£0.344m) forecast costs in relation to increased care proceedings. There is an estimated further cost risk of (+£0.100m) against this budget. The use of legal Counsel is subject to service director approval to minimise this cost pressure.
- (+£1.021m) forecast net pressure against the children looked after placements budget. A number of management actions are being taken to control costs including:
    - Detailed review of costs pressures through the placements board;
    - Focus on increasing in-house recruitment of foster carers;
    - Working with providers to reduce the cost of packages;
    - Discussion with the judiciary to increase special guardianship orders as opposed to care orders; and

    - Service director approval required for all residential / high cost placements.
- (-£0.500m) drawdown of the placements contingency budget.
- (-£0.781m) underspend on the council's Universal Free School Meals programme due to the number of children being educated at home in the summer term. The council continued to provide free school meals/food vouchers to those pupils who were eligible for statutory free school meals in the summer term and all pupils who attended school.
- (+£0.070m) cost pressure in relation to the Post-16 bursary that has been funded from a balance of one-off funding in previous years but presents an ongoing cost pressure to the council that will be factored into 2021/22 budget setting.
- (+£0.060m) historical cost pressure in relation to Holloway Pool that will be factored into 2021/22 budget setting.
- (+£0.264m) of other net overspends across the service.

3.23. An underspend of (-£0.993m) is currently forecast on the ring-fenced Dedicated Schools Grant (DSG), unchanged since month 8. This underspend comprises:

- (-£0.094m) underspend against the budget for falling rolls. This forecast may change following the October schools census;
- (-£0.300m) potential underspend against high needs, however the risk of overspend has increased as a result of COVID-19. A better understanding of the impact on demand will be known later in the autumn term;
- (-£0.463m) prior year balance in relation to funding for the statutory entitlement for 2-year old provision that is being held by Schools Forum to offset a future funding risk ; and
- (-£0.136m) of other forecast underspends against de-delegated budgets that belongs to maintained schools.

Adult Social Services (+£4.309m, a decrease of -£0.794m since month 8)

3.24. Adult Social Services is currently forecasting an (+£4.309m) overspend. This is mainly (+£4.400m) attributable to the COVID-19 crisis, with a small underspend of (-£0.091m) in the Adult Social Services base budget. This is detailed by key variance in **Appendix 1** and summarised by division in **Appendix 2**.

3.25. The department is forecasting net COVID-19 related budget pressures of (+£0.852m, a decrease of +£0.103m since month 8) in relation to supporting the adult social care market and additional demand (including the risk of increased demand due to the COVID-19 Hospital Discharge Service). Other COVID-19 related estimated budget pressures totalling (+£3.548m) relate to:

- PPE costs (+£1.599m, a decrease of -£0.476m since month 8). This is due to all PPE now being purchased through a government portal following their commitment to pay for PPE;
- Workforce pressures (+£0.853m, a decrease of -£0.412m since month 8). The main reason for this deduction is due to recognising a COVID-19 related underspend that occurred due to day centres being closed;
- Loss of client contributions (+£1.096m, unchanged since month 8).

3.26. People funded though the COVID-19 discharge guidance funding arrangements which commenced on 19 March 2020, who enter a care package between 19 March and 31 August 2020, will continue to be funded through those arrangements. These funding arrangements will apply up until 31 March 2021. Relevant assessments should be completed for these individuals as soon as is practical to ensure transition to normal funding arrangements. After 31 March

2021, any care packages remaining will then need to be funded by Adult Social Services which has the potential to create a large budgetary pressure. Review teams have been set up to attempt to reduce the cost of these packages before the end of the year in order to reduce this pressure.

3.27. Adult Social Services continues to be impacted by wider demographic pressures, including increased demand for services and need of acute care. This is funded through a corporate demographic budget growth allocation.

Public Health (-£0.884m, a movement of +£0.546m since month 8)

3.28. Public Health is funded via a ring-fenced grant of £26.563m for 2020/21. The directorate is currently forecasting a net underspend of (-£0.844m), comprised of (+£0.291m) COVID-19 related budget pressures and (-£1.175m) underspends. This is detailed by key variance in **Appendix 1** and summarised by division in **Appendix 2**. The net underspend will be allocated to wider public health expenditure being incurred across the council due to the pandemic.

3.29. The main COVID-19 budget pressures in the directorate are in the Sexual Health division due to increased online access to STI testing and treatment and online contraception.

3.30. The forecast non COVID-19 related net underspends of (-£1.175m), are detailed below:

- Additional procurement savings in the Substance Misuse division (-£0.163m, unchanged since month 8);
- More efficient procurement in the Sexual Health division due to changes in baseline tariffs (-£0.378m, a movement of -£0.585m since month 8);
- Underspend of (-£0.642m, a movement of -£0.022m since month 8) on public health grant uplift following work with the NHS providers on the NHS pay awards;
- Further small overspends totalling (+£0.008m).

3.31. The council has received Local Authority Test and Trace government grant (£2.431m) to mitigate against and manage local outbreaks of COVID-19, of which £0.923m has been allocated to date across financial years 2020/21 and 2021/22 and further proposals are currently being worked up to allocate the remaining grant.

3.32. The council is also receiving funding from the Contain Outbreak Management Fund (COMF) whereby authorities receive amounts each month based on tier level. The regular payments from the COMF can be used for Public Health purposes to tackle COVID-19, and must be allocated in coordination with the Director of Public Health. To date, Islington has received £2.6m from the COMF. It is recommended that officers work up proposals for the allocation of this grant for inclusion in the month 10 report.

Resources (+£4.025m, a decrease of -£1.450m since month 8)

3.33. The Resources directorate is currently forecasting a net overspend of (+£4.025m), comprised of (+£5.605m) COVID-19 related budget pressures and a (-£1.580m) non-COVID-19 related underspend. This is detailed by key variance in **Appendix 1** and summarised by division in **Appendix 2**.

3.34. The most significant COVID-19 budget pressure in the directorate is an estimated (+£1.270m, an increase of +£0.003m since month 8) loss of income from Assembly Hall events and registrars' services (e.g. weddings) relating to cancellation of previously booked events and a lack of new bookings. There are additional net costs anticipated in regard to crisis payments and providing support of (+£0.595m, unchanged since month 8). In addition, there are estimated potential costs of (+£0.235m, an increase of +£0.074m since month 8) related to the re-opening and cleanliness standards of the Assembly Hall.

3.35. Further COVID-19 related income losses are estimated in relation to court costs (+£0.700m, unchanged since month 8) and legal income from planning and property matters (+£0.420m, an increase of +£0.301m since month 8).

3.36. Additional costs of (+£1.972m, a decrease of -£0.015m since month 8) are estimated in relation to IT infrastructure projects due to increased home working and additional support/maintenance costs.

3.37. The increase in non COVID-19 related underspend is due a contingency budget for emergency repairs that is currently estimated at £1.000m will not be called upon in the current financial year.

Corporate (+£6.073m, a movement of +£1.877m since month 8)

3.38. The latest corporate items forecast is a (+£6.073m) overspend, comprising (+£3.876m) COVID-19 related pressures and non COVID-19 related net pressures of (+£2.197m). Key corporate variances are set out in **Appendix 1** and summarised by area of the corporate budget in **Appendix 2**.

3.39. COVID-19 related corporate budget pressures include +£0.619m (an increase of +£0.202m since month 8) estimated additional costs of running the 'We are Islington' support service that are not reflected in directorate forecasts, +£1.082m (unchanged since month 8) estimated pressure in relation to mortality management costs allocated across London councils.

3.40. Unchanged from month 8, the forecast corporate budget variance also includes re-phasing of savings to future years (+£4.955m, of which +£2.175m is COVID-19 related) and undeliverable savings (+£0.968m) following review at the end of the previous financial year.

3.41. There are forecast non COVID-19 variances in the following areas:

- (-£2.385m) relating to an agreed vacancy factor management action across the council with effect from 1 July 2020 (9 months part-year effect), excluding services where vacancies have to be covered for safeguarding or service performance reasons. Due to a degree of risk around the delivery of this management action and related corporate budget risks, only 75% (£2.385m) of the estimated £3.180m saving is currently factored into the forecast net budget position. However, budgets have been adjusted for the full amount and directorates are required to operate within their revised cash limited budgets;
- (-£1.000m) one-off underspend on the corporate financing budget, in part due to COVID-19 related slippage in the capital programme;
- (-£1.250m) underspend on assumed contract inflation (£0.750m one-off, £0.500m ongoing); and
- (+£3.084m, an increase of +£1.675m since month 8) previously assumed drawdowns from earmarked reserves that now need to be maintained in reserves in light of COVID-19 related budget pressures and hardening budget risks over the medium term.

3.42. In line with the MTFS strategy and as agreed by the Executive as part of the month 8 budget monitoring report, it is assumed that any unallocated balance on the 2020/21 corporate contingency budget at the end of the financial year is transferred to General Fund balances.

Council Tax and Business Rates Losses (+£4.737m, comprising +£1.433m council tax and +£3.304m business rates)

3.43. COVID-19 is also leading to significant council tax income and business rates income losses in 2020/21 that will impact on future year budgets. The government has announced that these losses will be spread over 3 years (2021/22 to 2023/24) and a Tax Guarantee scheme which will compensate local authorities for 75% of 'exceptional' Collection Fund losses relating to the current financial year.

3.44. The latest council tax forecast is a £1.824m exceptional COVID-19 deficit to be shared between the council (£1.433m) and GLA (£0.391m) and spread over the 3 years 2021/22 to 2023/24. The 75% Tax Guarantee scheme for council tax losses is limited to reductions in the council tax base and specifically does not cover collection losses. Due to wider growth in the council's taxbase over the past year, the council is not expected to receive any compensation for the council's share of COVID-19 related council tax losses. Therefore, these losses (latest estimate £1.433m) will be borne in full by the council.

3.45. The latest business rates forecast, after government grant funding for COVID-19 business rates reliefs, is an exceptional deficit of £11.103m, of which the council's 30% share is £3.304m. This will spread over the 3 years 2021/22 to 2023/24 and it is assumed that 75% (£2.478m) will be funded by the government's Tax Guarantee scheme, leaving a net council shortfall of £0.826m.

3.46. In total, this means a forecast transfer of £2.259m to earmarked reserves for the future year budget impact of current year council tax losses (+£1.433m) and business rates losses (+£0.826m) not covered by the government's Tax Guarantee scheme.

3.47. Whilst there is a significant movement since month 8 in the forecast Collection Fund losses and compensation from the Tax Guarantee scheme, the net movement between these two elements is a (-£0.695m) decrease in the forecast net council losses since month 8. This reflects greater clarity on the overall Collection Fund position, the mechanics of the Tax Guarantee scheme and the required accounting treatment.

3.48. There have been reports in the press and indications from the Valuation Office Agency (VOA) that they are working with Rating Agents to agree reductions to rateable values across a wide variety of sectors in response to the effects of the pandemic. Whilst the VOA has recently confirmed that discussion have been suspended to gather further evidence, the eventual result of these discussions is expected to be a temporary Material Change in Circumstance (MCC) reduction which could apply to almost every property sector including offices, retail, airports, stadiums, car parks and factories. The effect could result in reductions in both 2020/21 and 2021/22.

3.49. For 2020/21, under the government's COVID support package, 75% of any business rates loss due to MCC appeals will attract government compensation and the net 25% loss would not impact until the 2022/23 budget (due to Collection Fund accounting arrangements). For 2021/22, in the absence of government support, this is a significant funding risk for the council and in theory could see the council lose retained business rates funding down to the level of the business rates retention safety net (anything up to a £15.1m funding loss). As a last resort, any business rates funding loss relating to 2021/22 (which would impact the 2022/23 budget due to accounting arrangements) may need to be funded within the council's reserves and any ongoing implications reflected as part of the base budget assumptions thereafter.

4. HOUSING REVENUE ACCOUNT (HRA)

4.1. A COVID-19 related in-year deficit of (+£2.822m) is currently forecast for the HRA, (a decrease of -£0.413m since month 8) and summarised in **Appendix 2**. As the HRA is a ring-fenced account, any overspend at the end of the financial year will be funded from HRA reserves.

4.2. The most significant COVID-19 impact on the HRA budget is increasing levels of rent/service charge arrears and the consequent impact on the required provision for irrecoverable losses at the end of the financial year (+£2.050m latest estimate). The potential level of arrears at the end of the financial year and the extent to which the council will be able to recover arrears is very difficult to predict and will depend on the wider economic outlook and particularly tenants' security of employment. The service is actively engaging with tenants in order to both secure the recovery of arrears and prevent the further escalation of arrears.

4.3. Additional HRA COVID-19 related cost pressures (+£1.490m, a decrease of -£0.275m since month 8) are forecast in the following areas:

- PPE (+£0.200m) – primarily for caretaking/concierge & repairs staff;
- Use of voids for Temporary Accommodation (+£0.270m) – refurbishment/furnishing costs;
- Commercial Rent waivers in Q1 (+£0.375m);
- Loss of Parking Income (+£0.175m);
- Caretaking cover (+£0.450m);
- Other (+£0.020m).

4.4. These COVID-19 HRA pressures are partially offset by non COVID-19 related HRA underspends (-£0.718m, a decrease of -£0.138m since month 8).

5. CAPITAL PROGRAMME

5.1. The delivery of the existing capital programme has been significantly delayed by the COVID-19 pause in construction activity during lockdown and ongoing restrictions.

5.2. The month 9 report was prepared prior to the announcement of a national lockdown, however where slippage is known or expected on specific forecasts this has been reflected in forecasts. In light of the announcement, a further degree of slippage is expected and to be prudent, the forecast has been adjusted centrally to reflect this. The revised forecast outturn is based on the current profile of spend continuing to the end of the year.

5.3. At the end of month 9 £69.832m of expenditure had been incurred against the revised 2020/21 capital forecast of £93.109m. In addition to identified slippage of £17.878m against specific projects, the capital forecast has been adjusted at a programme level by a further £13.670m. This is in light of the recent further COVID-19 lockdown restrictions which are expected to lead to further slippage but where the impact is not yet fully quantifiable. The forecast of £93.109m is based on the current profile of spend continuing to the end of the year.

5.4. The overall position is summarised by directorate in **Table 2** and by project in **Appendix 3** below.

Table 2 – 2020/21 Capital Programme

Directorate	2020/21 Budget* £m	Month 9 Spend to Date £m	2020/21 Forecast Outturn £m	Forecast Variance / Slippage £m
Environment and Regeneration	18.621	7.990	15.359	3.262
Housing	97.550	58.900	84.942	12.608
People	6.371	2.568	5.561	0.810
Resources	2.115	0.374	0.917	1.198
Total	**124.657**	**69.832**	**106.779**	**17.878**
Further Estimated COVID-19 Related Slippage			(13.670)	13.670
Revised Total			**93.109**	**31.548**

Directorate	2020/21 Budget* £m	Month 9 Spend to Date £m	2020/21 Forecast Outturn £m	Forecast Variance / Slippage £m
*The current budget has been amended to reflect the slippage which was approved as part of the month 8 report to Executive on 21 January 2021.				

5.5. The largest variance relates to the Housing New Build programme (slippage of £12.608m), with construction sites impacted by COVID-19 alongside disruption to the supply chain. Additionally, in the run-up to the international EU Exit agreement being reached, some schemes took longer to enter into contract due to EU Exit-related clauses.

5.6. There is also a risk that COVID-19 pushes up the overall costs of capital projects such as Bunhill Energy Centre Phase 2. Given slippage across the capital programme, cost pressures will largely be felt in future financial years. Work is ongoing to contain cost pressures within the approved capital programme budget.

5.7. Capital works are required to replace the CCTV cameras and infrastructure at the Town Hall. Undertaking this work in 2020/21 while the Town Hall is empty is beneficial and so it is recommended that £0.070m be added to the current year (2020/21) capital programme. It is proposed that £0.020m of this will be funded from a contribution from the Mayor of London's Violence Reduction Unit and £0.050m from a revenue contribution to capital that is already reflected in the revenue budget forecast. This project is expected to incur capital costs of £0.080m in 2021/22, which will be funded from the council's 2021/22 central capital budget allocation for compliance and modernisation work.

6. IMPLICATIONS

Financial Implications

6.1. These are included in the main body of the report.

Legal Implications

6.2. The law requires that the council must plan to balance its spending plans against resources to avoid a deficit occurring in any year. Members need to be reasonably satisfied that expenditure is being contained within budget and that the savings for the financial year will be achieved, to ensure that income and expenditure balance (Section 28 Local Government Act 2003; the council's Financial Regulations 3.7 to 3.10 (Revenue Monitoring and Control)).

Environmental Implications

6.3. This report does not have any direct environmental implications.

Resident Impact Assessment

6.4. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

6.5. A resident impact assessment (RIA) was carried out for the 2020/21 Budget Report agreed by Full Council. This report notes the financial performance to date but does not have direct policy implications, so a separate RIA is not required for this report.

Appendices:
Appendix 1 – General Fund Revenue Monitoring by Key Variance
Appendix 2 – Revenue Monitoring by Service Area
Appendix 3 – Capital Programme 2020/21 to 2022/23

Background papers: None

Final report clearance:

Signed by: 3 February 2021

Executive Member for Finance and Performance Date

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