ISLINGTON

Resources Directorate
Newington Barrow Way, London, N7 7EP

Report of: Executive Member for Finance and Performance

Meeting of	Date	Ward(s)
Executive	18 March 2021	All

Delete as appropriate	~~Exempt~~	Non-exempt

2020/21 BUDGET MONITORING – MONTH 10

1. SYNOPSIS

1.1 This report presents the forecast outturn position for the 2020/21 financial year as at the end of month 10 (31 January 2021). 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 Forecasts reflect latest best estimates of the third national lockdown announced on 5 January 2021 and it is assumed that these restrictions remain largely in place until at least the end of the financial year. 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 £55m (comprising £17m additional costs and £38m 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 £18.6m from the government's sales, fees and charges loss scheme and £2.4m 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 (+£50.706m) 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:

- (-£6.248) non COVID-19 related underspends, a favourable movement of (-£1.183m) since month 9;
- (-£26.043m) COVID-19 general government grant received to date, net of the amount applied in the previous financial year, unchanged since month 9;
- (-£18.690m) latest forecast compensation from the sales, fees and charges income loss scheme, an increase in funding estimates of £2.199m since month 9. This increase reflects the increase in COVID-19 pressures due to the third national lockdown in areas such as parking. This is subject to further 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.
- (+£2.753m) assumed transfer to the COVID-19 earmarked reserve for currently unfunded future year COVID-19 budget pressures and risks (including collection fund losses), an increase of (+£0.212m) since month 9.

1.6 In addition, the government has provided a range of specific COVID-19 funding streams that the council is allocating and/or 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. 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, an increase of (+£0.512m) since month 9.

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 agree a transfer to the Budget Risk and Insurance reserve of the (-£1.250m) underspend on contract inflation. (**Paragraph 3.45**)

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 is £126.020m with a revised in-year capital forecast of £94.984m. Approval for further slippage will be sought at year-end as part of the 2020/21 financial outturn report. (**Section 5** and **Appendix 3**)

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 10 Total £m	Month 9 Total £m	Monthly Movement £m
GENERAL FUND					
Chief Executive's Directorate	0.510	(0.170)	0.340	0.314	0.026
Environment and Regeneration	26.050	(5.305)	20.745	17.126	3.619
Housing	0.003	(0.003)	0.000	0.000	0.000
People	9.955	(1.073)	8.882	11.080	(2.198)
Public Health	0.297	(1.620)	(1.323)	(0.884)	(0.439)
Resources Directorate	5.408	(1.524)	3.884	4.025	(0.141)
DIRECTORATE	**42.223**	**(9.695)**	**32.528**	**31.661**	**0.867**
Corporate Items	3.746	3.447	7.193	6.073	1.120
IN-YEAR GENERAL FUND	**45.969**	**(6.248)**	**39.721**	**37.734**	**1.987**
Collection Fund Losses	4.737	0.000	4.737	4.737	0.000
OVERALL GENERAL FUND	**50.706**	**(6.248)**	**44.458**	**42.471**	**1.987**
COVID-19 grant – Tranches 1-4			(26.043)	(26.043)	0.000
SFC Compensation Full Year Estimate			(18.690)	(16.491)	(2.199)
Assumed Tax Guarantee Scheme			(2.478)	(2.478)	0.000
Transfer to COVID-19 Reserve			2.753	2.541	0.212
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**	**2.822**	**(0.000)**

GENERAL FUND

Chief Executive's Directorate (+£0.340m, an increase of +£0.026m since month 9)

3.2. The Chief Executives directorate is currently forecasting a net overspend of (+£0.340m), comprised of (+£0.510m) COVID-19 related budget pressures and a (-£0.170m) 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.

3.4. The underspend is due to forecast net underspends in the Community Wealth Building division on employee costs (-£0.083m) and non-staffing budgets (-£0.086m).

Environment & Regeneration (+£20.745m, an increase of +£3.619m since month 9)

3.5. The Environment and Regeneration directorate is currently forecasting a net overspend of (+£20.745m), comprised of (+£26.050m) COVID-19 related budget pressures and a (-£5.305m) non COVID-19 related net underspend. This is detailed by key variance in **Appendix 1** and summarised by division in **Appendix 2**.

3.6. 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 £14.650m (an increase of +£3.121m since month 9).
- 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 £5.177m (an increase of +£0.357m since month 9).
- 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 £4.112m (an increase of +£0.288m since month 9).

3.7. 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 £2.111m (an increase of +£0.713m since month 9) over the course of the financial year. The increase since month 9 is largely attributable to additional support to GLL (+£0.329m) and additional social distancing and PPE costs in departments (£0.209m).

3.8. The main reason for the non COVID-19 related net underspend is additional projected income (-£2.458m, unchanged since month 9) 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 other variances detailed in Appendix 1 and additional income such as the Housing Street Properties Fire Safety Inspections by Building Control and one-off income from Trading Standards penalties.

3.9. There has been offsetting of savings around reduction in agency usage to arrive at the overall position.

Housing General Fund (Breakeven position, unchanged since month 9)

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 (+£0.003m) COVID-19 related net budget pressures after specific grant funding and (-£0.003m) 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 (+£1.880m) transfer of specific grants to earmarked reserves, an increase of (+£0.211m since month 9).

3.12. COVID-19 is causing budget pressures across homelessness and NRPF services of (+£0.003m). 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 (+£8.882m, a decrease of £2.198m since month 9)

3.17. The People directorate (comprising Children's, Employment and Skills and Adult Social Services) is currently forecasting a (+£8.882m) overspend.

Children's, Employment and Skills - General Fund (+£5.666m, a decrease of -£1.105m since month 9), Schools (-£1.066m, a reduction of -£0.073m since month 9)

3.18. Children's, Employment and Skills is currently forecasting a net overspend of (+£5.666m), comprised of (+£6.502m) COVID-19 related budget pressures and risks and (-£0.836m) non COVID-19 related net underspends. 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:

- (+£1.757m) forecast loss of parental fee income in Children's Centres, a decrease of -£0.665m since month 9 due to cost savings in settings due to lower levels of attendance as a result of COVID-19;
- (+£2.609m) forecast net pressure against the children looked after placements budget, an increase of (+£1.588m) from month 9. While the pressure against the placements budget is largely being attributed to COVID-19, other factors are also being considered alongside a recovery plan, this will identify how quickly and to what extent the budget can be brought back into balance. There is a risk that some of the impacts of COVID-19 may have a longer-term impact on demand and spend. 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;
- Regional work across London regarding the high costs placements, a local welfare secure unit for children who need their liberty restricted due to risk;
- Sub regional block booking with Independent Fostering Agencies to reduce costs by reducing boroughs competing with each other for the same placement and pushing up cost;
- Service director approval required for all residential / high cost placements.

- (+£0.163m) legal costs in relation to an increase in emergency child protection orders, an increase of +£0.013m since month 9;
- (+£0.265m) 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, a decrease of -£0.040m since month 9;
- (+£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 9;
- (+£0.774m) 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, a reduction of -£0.272m since month 9. 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;
- (-£0.211m) forecasts reduction in the costs of the libraries service due to the ongoing closure of the settings. This is a new underspend at month 10;
- (+£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, unchanged since month 9;
- (+£0.064m) forecast cost pressure due to delays in moving families out of temporary accommodation due to COVID-19, unchanged since month 9; and
- (+£0.447m) other COVID-19 cost pressures, an increase of +£0.131m since month 9 due to some previously reported cost risks materialising.

3.20. The forecast position includes an additional (+£0.586m) 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. This suggests a decrease of (-£1.056m) since month 9, however some of these risks have materialised into cost pressures and other risks have reduced or not materialised at all.

3.21. The forecast non COVID-19 related net underspends of (-£0.836m), a decrease of (-£1.114m since month 9) relates to the reprofiling of some pressures to COVID-19 pressures and the following:

- (-£0.249m) forecast underspend against the remand budget as numbers of young people remanded to custody by the courts remains low, an increase of +£0.049m since month 9. However, this is a demand led budget, and a small increase in activity can have a significant impact on the budget;
- (+£0.442m) forecast costs in relation to increased care proceedings, an increase of (+£0.098m) since month 9. 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;

- (-£0.734m) underspend on the council's Universal Free School Meals programme due to the number of children being educated at home in the summer term, an increase of (+£0.047m) since month 9. 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;
- (+£0.39m) 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, a reduction of -£0.031m since month 9;
- (+£0.060m) historical cost pressure in relation to Holloway Pool that will be factored into 2021/22 budget setting; and
- (-£0.394m) of other net underspends across the service, a decrease of -£0.658m since month 9.

3.22. An underspend of (-£1.066m) is currently forecast on the ring-fenced Dedicated Schools Grant (DSG), a reduction of -£0.073m since month 9. This relates to funds managed within the council and not school balances. Maintained schools are responsible for, and monitor their own budgets and these are consolidated into the Council's accounts at year end. The DSG underspend comprises:

- (-£0.094m) underspend against the budget for falling rolls;
- (-£0.070m) underspend against the budget for growth, a new variance at month 10;
- (-£0.031m) forecast staffing underspend against the Schools Admissions Service that is funded by the DSG. This is a new variance at month 10;
- (-£0.263m) forecast underspend against high needs, due to a slower than planned rollout of the new area-based inclusion fund to strengthen our SEN support offer due to COVID-19. This is an increase of +£0.037m since month 9 and is a volatile budget so is subject to significant movement before year-end;
- (-£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
- (-£0.145m) of other forecast underspends against de-delegated budgets that belongs to maintained schools, a decrease of -£0.009m since month 9.

3.23. The position against the early years block is challenging to forecast at this stage due to uncertainty over the impact of Covid-19. Local authorities receive retrospective funding adjustments from the DfE after the spring census, however it is not yet known to what extent participation will have recovered by then. A £1.671m contingency balance from 2019/20 is currently held, but we need to be mindful of the following:

- Retrospective DSG funding reductions can be significant following the spring census. The DfE have confirmed that they will be using the January 2021 headcount for funding the 2021 spring and summer terms, with only limited provision for protection where this has reduced from January 2020. Local authorities and settings are required to absorb the first 15% reduction (a cost of up to £978k per term). Any reduction in the headcount beyond this is protected provided it recovers by Easter. Every 10% reduction that does not recover will cost £651k per term. This will remain a funding risk over the medium term to long term.

- The 2-year old balance is being held to smooth in new funding arrangements if the DfE no longer continues to allow us to cross-subsidise provision for 2-year olds from funding for 3- and 4-year olds. This is currently subject to annual agreement by the Secretary of State.
- There are on-going pressures on SEND in early years, with a forecast cost pressure of £190k this year, although this is likely to reduce by year end

Adult Social Services (+£3.216m, a decrease of -£1.093m since month 9)

3.24. Adult Social Services is currently forecasting an (+£3.216m) overspend. This is mainly (+£3.453m) attributable to the COVID-19 crisis, with a small underspend of (-£0.237m) 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 (+£0.176m, a decrease of -£0.676m since month 9) 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 (+£3.093m) relate to:

- PPE costs (+£1.577m, a decrease of -£0.022m since month 9). All PPE is now being purchased through a government portal following their commitment to pay for PPE;
- Workforce pressures (+£0.447m, a decrease of -£0.406m since month 9 as a result of £164k use of the workforce capacity grant to fund staffing from Jan-March and £242k due to additional Mental Health resource requirement not materialising);
- Loss of client contributions (+£1.225m, an increase of +£0.129m since month 9).

3.26. People funded through 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. Individuals entering a care package after 1 September 2020 receive funding from the NHS for 6 weeks, after which they will either end their package or transition to social care.

3.27. 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.

3.28. 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 (-£1.323m, a movement of -£0.439m since month 9)

3.29. Public Health is funded via a ring-fenced grant of £26.563m for 2020/21. The directorate is currently forecasting a net underspend of (-£1.323m), comprised of (+£0.297m) COVID-19 related budget pressures and (-£1.620m) 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.

3.30. 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.

3.31. The forecast non COVID-19 related net underspends of (-£1.620m), are detailed below:

- Additional procurement savings in the Substance Misuse division (-£0.163m, unchanged since month 9);
- More efficient procurement in the Sexual Health division due to changes in baseline tariffs (-£0.379m, a movement of -£0.001m since month 9);
- Underspend of (-£0.604m, a movement of +£0.038m since month 9) on public health grant uplift following work with the NHS providers on the NHS pay awards;
- Draw down of Public Health reserves to mitigate COVID-19 Public Health pressures across the council (-£0.517m, new pressure at month 10).

3.32. This non COVID-19 related underspend is offset by some overspends:

- Increase in costs for the Making Every Contact Count (MECC) training in the Obesity and Physical division (+£0.035m);
- Further small overspends totalling (+£0.008m).

3.33. 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 £0.821m 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.

3.34. 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.

Resources (+£3.884m, a decrease of -£0.141m since month 9)

3.35. The Resources directorate is currently forecasting a net overspend of (+£3.884m), comprised of (+£5.408m) COVID-19 related budget pressures and a (-£1.524m) non-COVID-19 related underspend. This is detailed by key variance in **Appendix 1** and summarised by division in **Appendix 2**.

3.36. The most significant COVID-19 budget pressure in the directorate is an estimated (+£1.460m, a decrease of -£0.190m since month 9) 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 9). In addition, there are estimated potential costs of (+£0.235m, unchanged since month 9) related to the cleanliness standards of the Assembly Hall.

3.37. Further COVID-19 related income losses are estimated in relation to court costs (+£0.609m, a decrease of -£0.091m since month 9). This decrease is due to virtual hearings now being anticipated to take place from March 2021.

3.38. Potential losses in relation to legal matters from planning and property matters are forecasts (+£0.420m, unchanged since month 9).

3.39. Additional costs of (+£1.972m, unchanged since month 9) are estimated in relation to IT infrastructure projects due to increased home working and additional support/maintenance costs. Additional costs of (+£0.204m, a decrease of -£0.296m since month 9) are forecast in relation to ICT and stationary support for colleagues’ working from home arrangements.

3.40. The non COVID-19 related underspend is due to:

- A reduction in previously planned repairs and maintenance of £0.700m;

- An over recovery of Housing Benefit overpayments versus the anticipated level.

Corporate (+£7.193m, an increase of +£1.120m since month 9)

3.41. The latest corporate items forecast is a (+£7.193m) overspend, comprising (+£3.746m) COVID-19 related pressures and non COVID-19 related net pressures of (+£3.447m). Key corporate variances are set out in **Appendix 1** and summarised by area of the corporate budget in **Appendix 2**.

3.42. COVID-19 related corporate budget pressures include +£0.489m (a decrease of -£0.130m since month 9) estimated additional costs of running the 'We are Islington' support service that are not reflected in directorate forecasts, and +£1.082m (unchanged since month 9) estimated pressure in relation to mortality management costs allocated across London councils.

3.43. Unchanged from month 9, 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.

3.44. 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;
- (+£3.084m, unchanged since month 9) 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.

3.45. In light of significant uncertainty around inflation and demographic pressures over the medium term, it is recommended that the (-£1.250m) underspend on assumed contract inflation (£0.750m one-off, £0.500m ongoing), is transferred to the Budget Risk and Insurance reserve.

3.46. In line with the MTFS 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, unchanged since month 9)

3.47. 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.

3.48. 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.

3.49. 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.

3.50. 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.

3.51. 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 discussions 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 (not currently factored into the forecast) and 2021/22.

3.52. 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, unchanged since month 9) is currently forecast for the HRA 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, unchanged since month 9) 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, unchanged since month 9).

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. Month 10 forecasts were prepared in the knowledge of the third national lockdown and where slippage is known or expected on specific forecasts this has been reflected in forecasts. In light of the lockdown and the impact of COVID-19 on capital delivery milestones, 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 10 £77.487m of expenditure had been incurred against the revised 2020/21 capital forecast of £94.984m. In addition to identified slippage of £21.035m against specific projects, the capital forecast has been adjusted at a programme level by a further £10.001m. This is in light of the recent further delays expected in relation to COVID-19 and lockdown restrictions which are expected to lead to further slippage but where the impact is not yet fully quantifiable. The forecast of £94.984m 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 10 Spend to Date £m	2020/21 Forecast Outturn £m	Forecast Variance / Slippage £m
Environment and Regeneration	20.038	9.294	15.372	4.666
Housing	97.550	63.909	83.568	13.982
People	6.371	2.863	4.184	2.187
Resources	2.061	1.421	1.861	0.200
Total	**126.020**	**77.487**	**104.985**	**21.035**
Further Estimated COVID-19 Related Slippage			(10.001)	10.001
Revised Total			**94.984**	**31.036**

5.5. The largest variance relates to the Housing New Build programme (slippage of £14.535m), 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.

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:

9 March 2021

Executive Member for Finance and Performance — Date

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