ISLINGTON

Resources Directorate
Newington Barrow Way, London, N7 7EP

Report of: Executive Member for Finance and Performance

Meeting of	Date	Ward(s)
Executive	25 November 2021	All

	~~Exempt~~	Non-exempt

2021/22 BUDGET MONITORING – MONTH 6

1. SYNOPSIS

1.1 This report presents the forecast outturn position for the 2021/22 financial year as at the end of month 6 (30 September 2021).

1.2 The budget forecasts remain very uncertain at just half-way through the financial year and still in the recovery stage of the COVID-19 pandemic. 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, including:

- Inflationary pressures and a volatile energy market
- Social care demand (Children's and Adults)
- Impact of COVID-19 hospital discharge policy on adult social care costs
- Ongoing Covid developments and recovery of income streams
- Delivery of budgeted savings
- Schools funding pressures

1.3 Overall, the council is currently estimating total General Fund budget pressures of (+£23.048m). This is a decrease of (-£1.906m) since the previous reported position, primarily due to favourable movements in the Adult Social Services, Children's Services and Environment directorate forecasts. After the allocation of available COVID-19 funding and an assumed allocation from contingency, this reduces to a forecast net overspend of (+£0.511m) on the General Fund as follows:

- (-£11.714m) centrally allocated COVID-19 government grant confirmed to date, comprising general grant and Contain Outbreak Management Fund (COMF).

- (-£2.423m) estimated compensation from the government's sales, fees and charges (SFC) income loss scheme for 2021/22 Quarter 1 (Q1).
- (-£5.500m) COVID-19 contingency budget in the 2021/22 base budget.
- (-£2.900m) assumed call on contingency in relation to evolving assumptions on the pending 2021/22 local government pay award compared to the original budget setting assumption.

1.4 The Housing Revenue Account (HRA) is currently forecasting an in-year deficit of (+£8.814m), a (+£23.893m) increase since the previous reported position. The deficit is predominantly in respect of capital financing costs. These have increased as a result of the capital receipts in respect properties "built for sale" slipping into the next financial year. A significant proportion of the HRA budget is funding towards the housing capital programme. This means there can be large in-year fluctuations to revenue budgets when either capital expenditure or capital resources slippage occurs. This is a timing issue and not a reflection of viability of schemes overall.

1.5 At the end of month 6, capital expenditure of £41.536m had been incurred against a 2021/22 full year forecast of £124.608m and against the revised 2021/22 capital budget of £203.322m. As work is continuing at pace to reprofile schemes, a central adjustment of slippage to the capital forecast has been included to account for the levels of expenditure to date compared to full year project forecasts.

2. RECOMMENDATIONS

2.1. To note the forecast 2021/22 General Fund budget variance. (**Section 3**, **Table 1** and **Appendices 1-2**)

2.2. To note the forecast in-year budget variance on the Housing Revenue Account (HRA). (**Section 4**)

2.3. To review and note the estimated 2021/22 drawdowns from the transformation fund. (**Section 3.49**, **Table 2** and **Appendix 3**)

2.4. To note the 2021/22 capital expenditure forecast of £124.608m and that a review of the profiling of the capital programme is currently underway as part of the 2022/23 budget setting process. (**Section 5**, **Table 3** and **Appendix 4**)

2.5. To note the approval by the Borough Investment Panel on 14 October 2021 of the proposed allocation of £1.500m Community Infrastructure Levy funding to the Toffee Park Redevelopment Project. This will be profiled in the future year capital programme for consideration and approval as part of the 2022/23 budget report. (**Section 5** and **paragraph 5.5**)

3. GENERAL FUND

Summary

3.1. The forecast 2021/22 budget variance is summarised in **Table 1** and detailed by individual General Fund variance at **Appendix 1** and by individual service area at **Appendix 2**.

Table 1 – 2021/22 General Fund Forecast Over/(Under)Spend

GENERAL FUND	COVID-19 £m	Non COVID-19 £m	Month 6 Total £m	Month 5 Total £m	Monthly Movement £m
Adult Social Services	2.907	2.909	5.816	6.309	(0.493)
Chief Executive's Directorate	0.000	0.000	0.000	0.000	0.000
Children's Services	2.247	2.640	4.887	5.142	(0.255)
Community Wealth Building	0.800	0.000	0.800	0.800	0.000
Environment	8.329	(4.762)	3.567	5.099	(1.532)
Fairer Together	0.252	0.000	0.252	0.252	0.000
Homes and Neighbourhoods	1.028	(1.028)	0.000	0.000	0.000
Public Health	0.488	(0.488)	0.000	0.000	0.000
Resources	2.105	0.121	2.226	2.223	0.003
Total Directorates	**18.156**	**(0.608)**	**17.548**	**19.825**	**(2.277)**
Corporate	2.600	2.900	5.500	5.129	0.371
Total General Fund	**20.756**	**2.292**	**23.048**	**24.954**	**(1.906)**
COVID-19 Tranche 5 Grant and COMF	(11.714)	0.000	(11.714)	(11.714)	0.000
SFC Q1 Compensation (Estimate)	(2.423)	0.000	(2.423)	(2.436)	0.013
COVID-19 Contingency Budget/Reserves	(5.500)	0.000	(5.500)	(7.010)	1.510
Assumed Call on Contingency Budget	0.000	(2.900)	(2.900)	(2.900)	0.000
Net General Fund Over/(Under)Spend	**1.119**	**(0.608)**	**0.511**	**0.894**	**(0.383)**

Adult Social Services (+£5.816m, a decrease of -£0.493m since the previous reported position)

3.2. Adult Social Services is currently forecasting an (+£5.816m) overspend. Of this, (+£2.907m) is considered attributable to the COVID-19 crisis, with a non-COVID-19 overspend of (+£2.909m).

3.3. The most significant COVID-19 budget pressure in the directorate is in relation to additional demand from the COVID-19 Hospital Discharge Service (+£2.737m), summarised as follows:

- (+£2.454m, unchanged since the previous reported position) is in relation to the cohort of people who have received a care package since the 19 March 2020 as a result of the Hospital Discharge schemes. 1606* individuals have accessed social care through this route since the Hospital Discharge schemes began. Of these, 771* clients have been reviewed and determined to be eligible for social care with an estimated cost in 2021-22 of £14.500m. An estimated £12.000m would have been funded as business as usual, causing this residual budgetary pressure.

- (+£1.366m, an increase of £0.049m since the previous reported position) is in relation to the cohort of people who received a care package, through the Hospital Discharge schemes in this financial year, and are awaiting a review of their care packages to assess whether they are eligible for social care. There have been 582* individuals accessing services through this scheme to date, with 82* currently awaiting a review.

- This is offset by estimated NHS funding of (-£1.083m, an increase of -£0.360m since the previous reported position due to the NHS discharge scheme being extended to the 31 March 2022). Review teams were set up to reduce the cost of these packages, however a pressure persists.

  *as of October 2021

3.4. Non-COVID-19 related pressures include a contract with Care UK to manage the delivery of three care homes and day centres. Since September 2020, a fire related suspension has prevented any new placements from using vacant beds across all three care homes. This has created a forecast budget pressure of (+£1.850m, unchanged since the previous reported position) due to additional spot purchased residential beds whilst also paying for the vacant beds in Care UK. The ongoing issue with the provider also creates a pressure of (+£0.172m, unchanged since the previous reported position) in relation to delivery of the 'Better Use of Block Provision' saving.

3.5. The ongoing issues with Care UK will lead to an estimated additional cost of (+£1.400m) in 2021/22, with additional budgetary impact in future financial years.

3.6. Budget provision had been set aside to fund Care UK to pay the London Living Wage to their staff. This is no longer anticipated to be agreed in 2021/22, resulting in an underspend of (-£0.700m, unchanged since the previous reported position).

3.7. Adult Social Services continues to be impacted by wider demographic pressures, including increased demand for services and need of acute care. This is part-funded through demographic budget growth assumed in the 2021/22 budget. However, there is currently forecast to be an additional, unbudgeted demographic growth pressure of (+£0.812m, a decrease of -£0.182m since the previous reported position) as well a pressure of (+£0.250m) in relation to delivery of demand management savings.

3.8. The additional clients entering Adult Social Services will also increase the amount of client contributions the council will receive. This partially offsets the pressures created from the additional demand by (-£0.200m, unchanged since the previous reported position). There is also a one-off balance on the Direct Payment accounts of (-£0.500m).

3.9. Other small non-COVID-19 related underspends totalling (-£0.0175m, a decrease of -£0.158m since the previous reported position) make up the remainder of the non-COVID-19 variance.

Chief Executive's Directorate (Breakeven Position, unchanged since the previous reported position)

3.10. The Chief Executive's directorate is currently forecasting a breakeven position.

Children's Services - General Fund (+£4.887m, a decrease of -£0.255m since the previous reported position), Schools (-£5.803m, an increase of -£0.260m since the previous reported position)

3.11. Children's is currently forecasting a net overspend of (+£4.887m), comprised of (+£2.247m) COVID-19 related budget pressures and risks and (+£2.640m) non COVID-19 related net overspends.

3.12. COVID-19 related budget pressures in the department comprise:

- (+£0.565m, an increase of +£0.065m since the previous reported position) forecast loss of parental fee income in Children's Centres due to sustained lower levels of attendance.
- (+£0.285m, unchanged since the previous reported position) forecast commercial income risk in relation to the universal youth offer.

- (+£0.927m, a reduction of -£0.670m since the previous reported position) forecast net pressure against the children looked after placements budget, which is largely attributable to COVID-19. The main area of change is in the forecast for residential and semi-independent provision (two of the three principal areas of placement cost pressure). While there has been a slight increase in residential activity since quarter 1, it is still significantly reduced compared to the same period last year. Semi-independent activity has reduced significantly from the last quarter. Several management actions have been put in place 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 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 for the same placement and pushing up cost.
  - Service director approval required for all residential/high cost placements.
- (+£0.292m, an increase of +£0.006m since the previous reported position) forecast overspend against Special Educational Needs and Disabilities (SEND) transport due to increased costs of transporting young people and the loss of curriculum income. This is an increase of (+£0.022m) since the previous reported position.
- (+£0.178m, unchanged since the previous reported position) other COVID-19 cost pressures.

3.13. Non COVID-19 budget pressures are made up of:

- (+£0.177m, unchanged since the previous reported position) legal costs in relation to a delay in the conclusion of care proceedings and to SEND appeals. The use of Counsel is subject to service director approval to minimise this cost pressure.
- (+£0.393m, unchanged since the previous reported position) further cost risks in relation to the re-procurement of the youth offer. An enhanced offer will incur additional costs and there will be a risk to commercial income generated under the current offer.
- (+£0.455m, an increase of +£0.098m since the previous reported position) overspends due to a reduction in funding from the Youth Justice Board (despite rising activity), increased activity against the remand budget, and staffing pressures to meet significantly increased caseloads in the SEND team in line with the SEND strategy and statutory duties.
- (-£0.100m, unchanged since the previous reported position) underspend on the council's Universal Free School Meals programme due to increased eligibility for government funded free school meals and falling pupil numbers.
- (+£0.262m, unchanged since the previous reported position) ongoing staffing pressure in relation to supporting increased numbers of care leavers in recent years.
- (+£0.125m, unchanged since the previous reported position) cost pressure in relation to increased demand for temporary accommodation.
- (+£1.090m, unchanged since the previous reported position) of in-year cost pressures in relation to early help, Islington Trauma Informed Practices in Schools (iTIPS) and Partners in Practice due to timing differences in relation to funding. The funding for these items has already been recognised in previous financial years.

- (+£0.080m, a new variance since the previous reported position) SEND transport pressure for looked after children in out of borough provision.
- (+£0.158m, an increase of +£0.150m since the previous reported position) of other net overspends across the service.

3.14. There is an underspend of (-£5.803m) (3.7%) against the ring-fenced Dedicated Schools Grant (DSG), an increase of (+£0.260m) since the previous reported position. This forecast includes (-£3.750m) of balances brought forward from previous years. The underspend is as follows:

- (-£0.199m, unchanged since the previous reported position) unallocated funding in the Central School Services Block that is being held to smooth in reductions in funding in future years as the government continues to phase out funding for historic duties. (-£0.044m) of this underspend is a balance from previous years.
- (-£2.534m, an increase of +£0.314m since the previous reported position, following the allocation of funding to schools with higher than average numbers of children with Education, Health and Care Plans). (-£1.228m) of this underspend relates to balances from previous years.
- (-£0.340m, a new variance since the previous reported position) forecast underspend against the budget for centrally commissioned places in academies, the independent sector, further education and out of borough provision. While this budget is forecast to underspend, activity has increased from previous years, but at a slower pace than budgeted for.
- (-£0.234m, a new variance since the previous reported position) unallocated funding against the budget for additional needs.
- (-£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 year funding risk.
- (-£2.033m) early years contingency balance from previous years that is being held to offset funding risks due to lower numbers in provision because of COVID-19, and to meet pressures in relation to early years SEND.

3.15. Individual schools balances stood at £9.459m at the end of 2020/21. Schools have budgeted to reduce their balance by £5.468m to £3.991m over the course of the year. Quarter 1 monitoring has shown a £0.309m improvement in this position, with balances now projected to be £4.301m at the end of 2021/22. Some of the use of balances is for planned capital works where timing can be uncertain.

3.16. There were nine schools in deficit as at 31 March 2021. Based on the budget plans submitted by schools, this is expected to reduce to eight schools by 31 March 2022, with two schools coming out of deficit and one entering into a deficit.

Community Wealth Building (+£0.800m, unchanged since the previous reported position)

3.17. The Community Wealth Building directorate is currently forecasting a net overspend of (+£0.800m), comprised entirely of COVID-19 related budget pressures.

3.18. There are COVID-19 related budget pressures in the department which are unchanged since the previous reported position and include:

- (+£0.548m) reduced income from the Assembly Hall.
- (+£0.100m) reduced income from Planning fees.
- (+£0.213m) additional pandemic response related costs e.g. hygiene maintenance.

- (-£0.061m) offsetting reduction in operational costs at the Assembly Hall.

Environment (+£3.567m, a decrease of £1.532m since the previous reported position)

3.19. The Environment directorate is currently forecasting a net overspend of (+£3.567m), of which (+£8.329m) is attributable to COVID-19 related budget pressures.

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

- Parking related income – there has been a substantial decrease in projected income across Pay and Display and Permit and Vouchers. Early estimates indicate that the impact will see a loss in income across these areas of around (+£3.646m).
- Leisure related income – the council receives income from operating the leisure centres and from events within our parks and open spaces. The forecast impact of this income loss is (+£3.165m).
- Other areas such as Commercial Waste, Tables and Chair, Registrars Fixed Penalty Notice and Pest control income are also experiencing reduced levels of service and it is estimated that the net income loss across these areas will be (+£1.343m).

3.21. There are also COVID-19 expenditure budget pressures in the department of (+£0.175m) which due to additional overtime, allowances and mortuary costs throughout the Public Protection division.

3.22. Other reasons for the overspend include:

- Net overspend on agency costs within the Street Services Operations division due to annual leave cover (+£0.292m).
- Overspend within Parking financial charges, NSL/PCN debt registration (+£0.507m).
- Overspend within SES on vehicle maintenance (+£0.100m).
- Additional spend on running costs within Public Protection & Street Services Operations (+£0.108m).
- Net overspend on employee costs within the Public Protection division due to the vacancy factor (+£0.099m).

3.23. Based on prevailing activity, the department is forecasting additional income totalling (-£5.867m) for Parking Bay suspensions, House in Multiple Occupation licensing, Highways fees, recharge and other income. These activity levels are constantly monitored, and the forecasts will be refined based on emerging data.

3.24. There has been movement of (-£1.532m) since the previous reported position, comprising:

- Revised forecast on suspension income (-£1.491m) offset by additional costs on NSL/PCN debt registration (+£0.151m) with Parking Services.
- Additional agency costs forecast within Street Services Operations (+£0.269m) due to cover required for staff taking annual leave and overspend on road tax costs (+£0.096m), offset by additional income now forecast (-£0.154m).
- Within the Public Protection division there is a revised forecast for employee costs (+£0.148m) and additional HMO licensing income (-£0.200m).
- Other general minor revisions throughout the department resulting in a net overspend of (+£0.006m).

- The impact of COVID-19 on the department has decreased (-£0.358m) due to revisions on the deferral of GLL rent, the cost of COVID-19 functions that are still being carried out and an improved position on permits/vouchers and tables/chair income.

3.25. Based on prevailing activity, the department is forecasting additional income totalling (-£5.867m) for Parking Bay suspensions, House in Multiple Occupation licensing, Highways fees, recharge and other income. These activity levels are constantly monitored, and the forecasts will be refined based on emerging data.

3.26. Despite the significant spike in energy costs nationally, the council is protected in the current financial year as energy supplies were purchased and secured in advance. However, there would be a significant cost pressure in future years if current prices are sustained. This will need to be considered as part of the overall Medium-Term Financial Strategy.

Fairer Together (+£0.252m, unchanged since the previous reported position)

3.27. The Fairer Together directorate is currently forecasting an overspend of (+£0.252m) entirely attributable to the COVID-19 response and specifically the 'We are Islington' service. Additional overtime and salary related expenditure are being incurred due to extra support and assistance provided to the vulnerable, isolating and communities at large.

Homes and Neighbourhoods (Breakeven position, unchanged since the previous reported position)

3.28. The Homes and Neighbourhoods directorate includes 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).

3.29. The Housing directorate is currently forecasting a net breakeven position for the General Fund including (+£1.028m) of COVID-19 related pressures, an increase of (+£0.094m) since the previous reported position.

3.30. COVID-19 has continued to cause budget pressures across homelessness and NRPF services of (+£1.028m). This is shown through rising client numbers, increased provider costs, additional legal challenges, extra landlord incentive payments, higher rent arrears and lost income sources. The homelessness service had to alter its service provision following a series of central government instructions. The financial pressure is being met from wider departmental underspends and grants.

3.31. The movement since the previous forecast includes increased TA costs as client numbers have increased and will continue to rise. This is expected due to the end of the eviction ban and extra responsibility given to the council to extend priority need for homelessness assistance as a result of being a victim of domestic abuse. This pressure will be partly offset with the Rough Sleeper Initiative Grant. As TA cases remain high it is likely that higher amounts of rental income will feed through in the coming months. Offsetting cost reductions include further decrease in the use of private sector leasing properties and minor staffing changes.

3.32. 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 is increasing the number of new homeless cases for the council and resulting in rising legal challenges.

3.33. Within the net non-COVID-19 related underspend, there is a forecast budget pressure of (+£0.427m, unchanged since the previous reported position) on Islington Lettings, the council run not-for-profit letting agency. This pressure is partly due to write-offs of historic uncollected rent.

Public Health (Breakeven position, unchanged since the previous reported position)

3.34. Public Health is funded via a ring-fenced grant of £27.365m for 2021/22. The directorate is currently forecasting a breakeven position, of which (+£0.488m) are COVID-19 related budget pressures.

3.35. The main COVID-19 budget pressures are in the Sexual Health division (increased online access to STI testing).

3.36. The following non COVID-19 related budget pressures are forecast across the directorate:

- (+£0.091m, increase of +£0.049m since the previous reported position) within Smoking and Tobacco division for the additional cost of a two-year Smoke free Pregnancy project and the one-off payment towards stop smoking advisors who will provide support to service users and residents in supported accommodation.
- (+£0.184m, an increase of +£0.113m since the previous reported position) within Substance Misuse division, predominantly due to the service continuing to commission withdrawal services and homelessness health services for 2021/22, as a consequence of demand remaining high.
- (-£0.268m, a decrease of -£0.206m since the previous reported position) within Sexual Health as a result of changes to GUM services and the move to lower tariffs based on activity levels.
- (-£0.007m, an increase of £0.043m since the previous reported position) small underspends across the directorate.

3.37. In addition to the reported budget variance, the directorate is forecasting (+£0.413m) one-off projects and (+£0.252m) team posts that are to be funded by wider Public Health underspends and/or the earmarked public health reserve. It is forecast that £0.528m of the earmarked public health reserve (balance £1.353m) will be drawn down in the current financial year.

3.38. The directorate will need to ensure sufficient resources are allocated to fund the Agenda for Change salary uplift to NHS providers. It is unclear how much the additional cost will be as discussions are ongoing.

Resources (+£2.226m, an increase of +£0.003m since the previous reported position)

3.39. The Resources directorate is currently forecasting a net overspend of (+£2.226m), comprising (+£2.105m) COVID 19 pressures and a (+£0.121m) net non COVID-19 overspend.

3.40. The most significant COVID-19 budget pressure in the directorate is estimated additional costs (+£1.936m, unchanged since the previous reported position) in relation to IT related hardware and software solutions. Examples of these costs include the fit out of the council chamber for broadcasts, updating Wi-Fi in key buildings to enable social distancing, central government required PSN compliance, delays to schemes and additional infrastructure required to support rapidly increasing digitisation of services.

3.41. Additional COVID-19 cost pressures (+£0.169m, unchanged since the previous reported position) include:

- (+£0.480m) shortfall in legal income from planning activities due to reduced demand.
- (+£0.100m) forecast one-off implementation costs due to a delay in deliverable savings within Legal Services;
- (+£0.021m) annual cost of Caselines system required by the courts during the pandemic in order to process digitised papers for legal cases. This cost will be on-going as the courts move away from paper based to a digitalised system.

3.42. The directorate is also incurring non-COVID 19 related extra costs of (+£0.175m, unchanged from previous reported position) in connection with various ad-hoc projects including ongoing restructures in finance and HR, recruitment campaigns and software upgrade costs in connection with income receipts within the council. This is offset by non-COVID-19 underspends across the directorate of (-£0.054m, unchanged since previous reported position).

Corporate Items (+£5.500m, an increase of +£0.371m since the previous reported position)

3.43. The corporate items forecast is a (+£5.500m) overspend, comprising (+£2.600m) COVID-19 related pressures and non-COVID-19 related net pressures of (+£2.900m).

3.44. The COVID-19 related corporate budget pressure (+£2.600m, an increase of £0.371m since the previous reported position) relates in full to the in-year decision to continue the Council Tax Support Hardship Scheme in 2021/22, mirroring the additional £150 deductions scheme that supported residents in 2020/21.

3.45. The forecast non-COVID-19 variance (+£2.900m, unchanged since the previous reported position) is in relation to evolving assumptions on the 2021/22 local government pay award. Following announcements from the Chancellor during the budget setting process, the council set aside provision for a 0% general pay award together with an increase for those staff on the lower pay grades. It is now anticipated that there will be a pay award of at least 1.75%, with negotiations ongoing.

3.46. In addition, not currently factored into the forecast, it is anticipated that there will an underspend on the treasury management and capital financing budget due to continued low interest rates and re-profiling of the capital programme. The council's budget includes prudent provision for a revenue cost of borrowing to fund the capital programme that is higher than prevailing interest rates. This prudent provision ensures that the capital programme remains affordable if interest rates increase, with latest indications being of an increase in the near future. Alongside re-profiling of the capital programme, this lower and delayed cost of borrowing gives rise to budget underspends in the short term. The forecast in this area is currently being reviewed alongside the re-profiling of the capital programme and will be factored into the month 8 budget monitoring report to the Executive.

Council Tax and Business Rates

3.47. COVID-19 led to significant council tax income and business rates income losses in 2020/21. Whilst it is too early in the recovery from the pandemic to fully assess the budget outlook in this area, collection levels currently appear to be reassuring compared to the prudent assumptions made at 2021/22 budget setting.

3.48. As part of setting the 2021/22 council tax base in January 2021, will all the uncertainty of a second national lockdown and with the furlough scheme due to end on 31 March 2021, it was prudently assumed that council tax support caseload could significantly increase during 2021/22. To date, this significant increase has not materialised and it is currently anticipated (to be refined over the coming months ahead of the annual statutory Collection Fund forecast in January 2022), that there will be a significant in-year surplus on the council tax account. Other things being equal, this one-off surplus is expected to be in the region of £3.6m and in line with the Medium-Term Financial Strategy would be used to replenish reserves. Due to the time lag around accounting for Collection Fund surpluses and deficits, this surplus would not come into the council's budget and reserves until 2022/23 so would not affect the 2021/22 outturn position.

3.49. At this stage, a balanced in-year position is currently forecast on the business rates account after government grant income to offset the impact of increased reliefs on the council's retained rates income. This assumes that the government, as previously announced, legislates against COVID-19 Material Change of Circumstance (MCC) appeals by businesses and specifically that the cost of any such appeals does not fall on the council. The business rates forecast will be further refined over the coming months ahead of the annual statutory Collection Fund forecast in January 2022.

Transformation Fund

3.50. As part of the council's overall Medium-Term Financial Strategy, there is a corporate Transformation Fund for the one-off revenue costs of projects which aim to improve services and residents' experiences and/or support the delivery of budget savings.

3.51. The Transformation Fund was approved as part of the budget in 2019 with a total value of £15.1m, anticipated to be spread over three years. It was funded from the council's earmarked reserves. However, the expectation is that costs will be funded in the first instance from available in-year budgets in order to boost the council's financial resilience for hardening budget risks over the medium term.

3.52. Investment decisions are made in consideration of the benefits to residents, the approved savings the investment will deliver and available funds within the approved reserve.

3.53. The latest estimated drawdowns from the Transformation Fund for 2021/22 are summarised by directorate in **Table 2** and detailed by project in **Appendix 3**.

Table 2 – Estimated 2021/22 Transformation Fund Drawdowns

Directorate	**£m**
Community Wealth Building	2.915
Environment	0.450
Fairer Together	0.274
Homes and Neighbourhoods	0.130
Adults	1.050
Children's	1.768
Public Health	0.000
Resources	2.214
Total	**8.801**

4. HOUSING REVENUE ACCOUNT (HRA)

4.1. The HRA is currently forecasting an in-year deficit of (+£8.814m), predominantly in relation to capital financing costs which have increased temporarily as a result of capital receipts in respect of properties "built for sale" slipping into the next year financial year. The HRA budget forecast is summarised in **Appendix 2**.

4.2. As the HRA is a ring-fenced account, a surplus or deficit at the end of the financial year will be transferred to or from HRA reserves.

4.3. A significant proportion of the HRA budget is funding towards the housing capital programme. This means there can be large in-year fluctuations to revenue budgets when capital slippage occurs. At month 6, there is a forecast overspend on the HRA's Revenue Contributions to Capital Expenditure (RCCO) of (+£8.045m). This increase in RCCO relates in the main to the New Build section of the capital programme, comprising:

- (+£10.317m) delayed open market sale receipts.
- (+£7.271m) RCCO rolled forward from the prior year (at closing 2020/21 capital receipts planned for use in 2021/22 were swapped for RCCO).
- (+£0.800m) pump room upgrades to facilitate operational effectiveness of Bunhill 2.
- (+£0.180m) Holland Walk lighting improvement works (it should be noted that, except for Major Works growth (+£0.980m), this increase in RCCO is simply a timing issue straddling financial years and as such does not result in an additional cost pressure).
- (-£10.522m) anticipated RCCO slippage during 2021/22 (net of RTB receipts) as compared to the original 21-22 budget.

4.4. The remaining forecast budget variance (+£0.769m) is in relation to the following:

- (+£0.410m) HRA parking income shortfall as current data indicates that usage of car spaces and garages has failed to return to pre-pandemic levels. This could be partly due to a decline in the need to commute for work and behavioural changes influenced by the implementation of the Low Traffic Neighbourhood (LTN) initiative. There is a risk that HRA parking income could reduce further with the expansion of the Ultra Low Emission Zone (ULEZ) from October 2021.
- (+£0.588m) repairs and maintenance cost pressure, of which (+£0.233m) is a net pressure on in-house repairs and repairs sub-contractor expenditure and (+£0.350m) pressure resulting from the installation of carbon monoxide detectors to comply with the Smoke and Carbon Monoxide Alarm (England) Regulations 2015 amendment which requires social landlords to install carbon monoxide alarms in any room used as living accommodation where a fixed combustion appliance is used.
- (+£0.302m) forecast pressure on HRA use of temporary accommodation due to the introduction of the Domestic Abuse Act 2021. Islington is experiencing an estimated 45% sharp increase in tenant related anti-social behaviour, domestic violence and abuse cases compared to 2020/21.
- (-£0.531m) in additional generated income within the Rent and Service Charges department, representing 0.30% of the budget.

4.5. Despite the recent publicised "UK gas crisis", heating and hot water expenditure by the HRA will not overspend because gas supplies for 2021/22 were purchased and secured in advance. However, with current market prices being an estimated 60-70% higher than 2021/22 prices, it is highly probable that costs will increase significantly as we seek to secure supplies for next year. The gas market will be closely monitored as the year progresses to ensure supplies are secured at most competitive prices for our tenants and leaseholders. If costs were to increase, this would be managed by the utilisation of the tenant heat reserve to smooth the impact on tenants and a review of heating charges levied to tenants and leaseholders.

4.6. Whilst the HRA is not expecting any material variances to result from COVID-19 related activities, there remains a risk that tenant rent and service charge arrears could increase when the furlough scheme ends in September 2021. However, a more significant factor of increasing arrears is the ongoing migration from Housing benefit (HB) to Universal Credit (UC). This is because tenants on UC hold much higher arrears (UC tenants average arrears £1,400 and non UC tenants average arrears £750)

4.7. An assessment as to the recoverability of those arears that is reflected in the budget in the form of a provision for arrears that are deemed irrecoverable in the long term (known as bad debt provision). The 2021/22 HRA budget includes a bad debt provision of (+£2.250m) to accommodate tenant rent arrears that are deemed irrecoverable. In addition, a (+£1.500m) one-off provision has been made available for any pressure that may arise from the migration of housing benefit to universal credit. This assessment will be kept under review as the year progresses.

5. CAPITAL PROGRAMME

5.1. At the end of month 6, capital expenditure of £41.536m had been incurred against a 2021/22 full year forecast of £124.6081m and against the revised 2021/22 capital budget of £203.322m.

5.2. The capital forecast by scheme at month 6 reflects latest forecast variances where available, with identified slippage of £50.571m against specific projects. However, many schemes are still forecasting expenditure to budget pending a detailed review of capital expenditure profiles that is ongoing. It is expected that this will result in further re-profiling of the current year capital programme for approval in the month 8 budget monitoring report to the Executive.

5.3. A central adjustment to the capital forecast has been included due to the low levels of expenditure to date compared to full year forecasts, and the inference that further re-profiling is highly likely. This central adjustment extrapolates capital expenditure to date whilst recognising that capital expenditure is generally more weighted in the second half of the financial year. As a proxy, it is assumed that capital expenditure in the second half of the year (M7-M12) will be double what it was in the first half of the year (M1-M6).

5.4. The latest capital position is summarised by non-housing and housing programme in **Table 3** and detailed by lead directorate and project in **Appendix 4**.

Table 3 – 2021/22 Capital Programme

Programme	Revised Budget £m	Spend to Date M6 £m	Forecast Outturn 21/22 £m	Forecast Variance/ Slippage £m	Forecast Expenditure M7-M12
Non-Housing	57.321	4.878	39.652	(17.669)	34.774
Housing	146.001	36.658	113.099	(32.902)	76.441
Sub-Total	**203.322**	**41.536**	**152.751**	**(50.571)**	**111.215**
Central Adjustment			(28.143)	(28.143)	(28.143)
Total Capital Programme			**124.608**	**(78.714)**	**83.072**

5.5. Following agreement by the Borough Investment Panel on 14 October 2021, it is proposed to allocate £1.500m Community Infrastructure Levy funding to the Toffee Park Redevelopment Project. This will be profiled in the future year capital programme for consideration and approval as part of the 2022/23 budget report. Subject to approval, this additional funding (bringing the total budget to £3.000m) will provide improved Early Years, community and adventure play services as well as a new skateboard park in the Bunhill area. The scheme is in initial stages and expenditure is expected to be incurred in future financial years.

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 2021/22 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 Variance
Appendix 2 – Revenue by Service Area
Appendix 3 – Transformation Fund Drawdowns
Appendix 4 – Capital Programme

Background papers: None

Signed by:

16 November 2021

Executive Member for Finance and Performance Date

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Martin Houston, Strategic Financial Advisor

Legal Implications Author: Peter Fehler, Acting Director of Law and Governance