ISLINGTON
For a more equal future

Resources Directorate

7 Newington Barrow Way, London N7 7EP

Report of: Executive Member for Finance, Planning and Performance

Meeting of: Executive

Date: 14 July 2022

Ward(s): n/a

Subject: Provisional Financial Outturn 2021/22

1. Synopsis

1.1. This report presents the provisional financial outturn for 2021/22. Overall, there is a balanced, net general fund (GF) position, (+£1.200m, change from the previous reported position at month 10). Within this, there was a COVID-19 related budget overspend of (+£20.404m) across GF council services after the application of service specific grant funding partially offset by a non-COVID-19 underspend of (-£2.081m). The overall, net General Fund overspend of (+£18.323m) is fully balanced by:

- General COVID-19 Grant and Contain Outbreak Management Fund (-£12.110m)
- Sales, Fees and Charges Quarter 1 Compensation claim, adjusted for reconciliation process (-£2.395m)
- COVID-19 Contingency budget (-£5.500m)
- Transfers to Energy and Inflation Reserve (+£1.682m)

1.2. COVID-19 continued to have a significant ongoing impact on the council's budget during the financial year 2021/22. There will be a knock-on impact on the council's budget position into 2022/23, together with the effect of generationally high levels of inflation and the increasing quantum and complexity of demand for council services. As a result of these significant risks and demands, it is essential to increase resilience in the council's balance sheet and reserves, where we have an opportunity to do so, to boost the council's financial resilience and protect the borough's residents.

1.3. There have been some net favourable movements from the previous reported position at month 10 of (-£4.642m). The most significant movements are summarised below, with the directorate narratives detailing all movements since month 10, alongside the analysis of the other outturn variances:

- Children's Services: Movement of (-£0.977m) reflecting increase in cost pressures in children's social care placement offset by improved recovery of children's centre income in the final quarter, increased UASC grant income and maximising use of the Holiday Activities and Food programme funding at year end.
- Community Wealth Building: (-£0.566m) additional one-off commercial property income for backdated rental income and (-£0.797m) underspend on property costs due to capitalisation of costs and reduced expenditure pending the outcome of the ongoing stock condition survey.
- Environment: (-£1.127m) additional income throughout the department, in particular around PCN, road closures, streetworks and licensing.
- Homes and Neighbourhoods: (-£1.090m) due to changes in a number of smaller grant income streams.

1.4. **Figure 1** shows the movement by directorate since the previous reported position and **Figure 2** shows the forecast variance by directorate over the course of the financial year.

Figure 1 – Movement by Directorate – Month 10 to Month 12

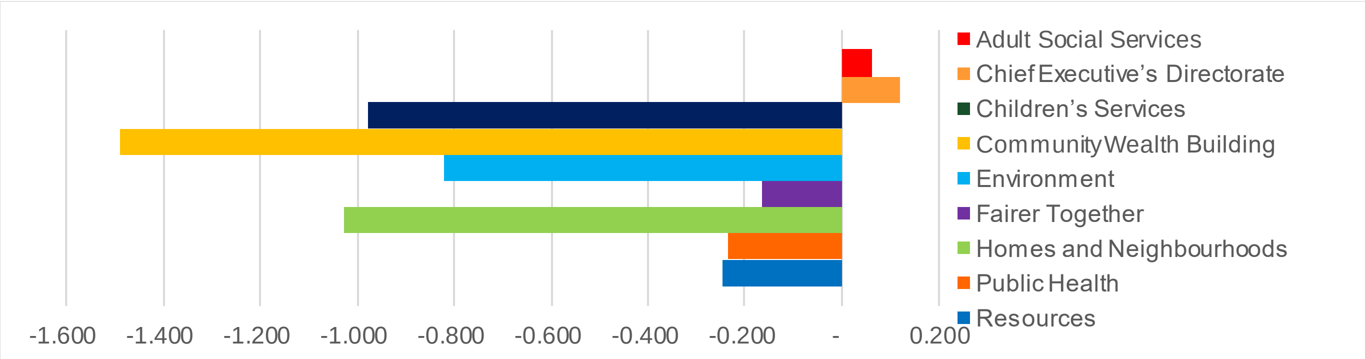
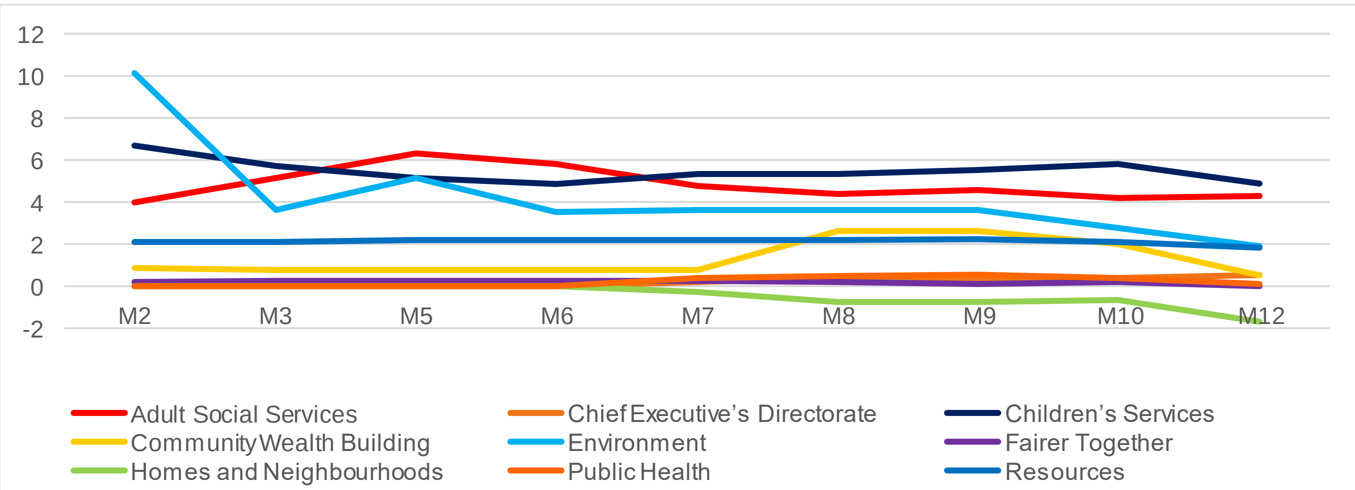


Figure 2 – Variance by Directorate 2021/22 Month 2 to 12



1.5. The provisional outturn for the HRA is an in-year deficit of (+£18.541m), a (+£8.909m) increase from the previous reported position. The primary reasons for this increase are (+£6.826m) temporary use of Revenue Contribution to Capital Outlay (RCCO) towards the financing of new build and property acquisitions programmes, aligning with the Council's

Treasury management strategy to delay external borrowing and as such the associated interest charges by utilising HRA reserves to finance HRA capital expenditure. A significant proportion of the HRA budget is funding towards the housing capital programme. This means that there can be large in-year fluctuations to revenue budgets when either capital expenditure or capital resources (e.g., property receipts) slippage occurs. This is a timing issue and not necessarily a reflection of the overall viability of schemes.

1.6. Capital expenditure of £128.359m has been delivered against the revised 2021/22 budget of £163.326m (£163.395m as at month 10), representing 78% spend against budget. The variance from budget was predominantly due to the slippage of programmes.

2. Recommendations

2.1. To note the breakdown of the forecast 2021/22 GF outturn by individual variance at **Appendix 1** and by service area at **Appendix 2**. (**Section 3 and Table 1**)

2.2. To note the overall 2021/22 GF net break-even position, after application of grants and contingencies. (**Section 3** and **Table 1**)

2.3. To note the allocation of Contain Outbreak Management Fund funding totalling £2.403m across eligible COVID-19 related expenditure in line with the terms of the grant. **(Paragraph 4.67 and Table 2)**

2.4. To agree the creation of new reserves, the outturn transfers to/from reserves, the movements between reserves and the provisional GF and HRA reserves balances, and to delegate authority to the Section 151 Officer to agree any further movements to/from reserves related to finalising the 2021/22 Statement of Accounts. **(Paragraphs 4.68-4.73**, **Table 3** and **4** and **Appendix 4)**

2.5. To agree the drawdowns from the corporate transformation fund in 2021/22. **(Paragraph 4.75-4.78, Table 5, and Appendix 3)**

2.6. To note the HRA in-year deficit of (+£18.541m), fully funded from a lower contribution to HRA reserves than planned in the original budget. (**Section 5** and **Appendix 2**)

2.7. To note the 2021/22 capital outturn and financing of the 2021/22 capital programme and the movement in the 2021/22 capital budget since the last reported capital programme at Month 10. (**Section 6, Tables 6,7** and **8 and Appendix 5**)

2.8. To approve the re-profiling of the 2021/22 capital outturn budget variances (-£34.967m) into the 2022/23 capital programme, with the exception of variances that are underspends rather than re-profiling in nature, and to delegate authority to the Section 151 Officer to agree any further capital financing adjustments related to finalising the 2021/22 Statement of Accounts. **(Section 6, Table 6,** and **Appendix 5)**

3. Revenue Summary

3.1. A summary position of the 2021/22 GF provisional outturn is shown in **Table 1**, a breakdown by individual GF variance in **Appendix 1** and a breakdown by GF and HRA service area in **Appendix 2**. Explanations of the key movements since the last reported position are included within the directorate narrative.

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

	COVID-19 £m	Non COVID-19 £m	M12 Total £m	M10 Total £m	Movement £m
Adults	2.734	1.524	**4.258**	4.197	0.061
Chief Executive's	0.257	0.273	**0.530**	0.412	0.118
Children's Services	2.905	1.970	**4.875**	5.852	(0.977)
Community Wealth Building	0.697	(0.182)	**0.515**	2.003	(1.488)
Environment	6.807	(4.906)	**1.901**	2.720	(0.819)
Fairer Together	0.000	0.000	**0.000**	0.163	(0.163)
Homes & Neighbourhoods	0.862	(2.552)	**(1.690)**	(0.665)	(1.025)
Public Health	0.634	(0.495)	**0.139**	0.375	(0.236)
Resources	2.148	(0.319)	**1.829**	2.075	(0.246)
Total: Directorates	**17.044**	**(4.687)**	**12.357**	**17.132**	**(4.775)**
Corporate	3.360	2.606	**5.966**	5.596	0.370
Total: General Fund	**20.404**	**(2.081)**	**18.323**	**22.728**	**(4.405)**
COVIID-19 Grant Funding	(12.110)	0.000	**(12.110)**	(11.714)	(0.396)
SFC Q1	(2.395)	0.000	**(2.395)**	(2.423)	0.028
General Contingency	0.000	0.000	**0.000**	(4.291)	4.291
COVID-19 Contingency	(5.500)	0.000	**(5.500)**	(5.500)	0.000
Total: Net General Fund	**0.399**	**(2.081)**	**(1.682)**	**(1.200)**	**(0.482)**
Transfer to Energy and Inflation Reserve	0.000	1.682	**1.682**	0.000	1.682
Total: Net General Fund	**0.399**	**(0.399)**	**0.000**	**(1.200)**	**1.200**

4. General Fund

Adult Social Services (+£4.258m, +£0.061m since previous reported position)

4.1. The provisional outturn for Adult Social Services is a net overspend of (+£4.258m), comprising (+£2.734m) COVID-19 related budget pressures and (+£1.524m) non COVID-19 related net overspends.

4.2. The provisional outturn position is net of the following transfers to/(from) reserves, included within **Appendix 4** for agreement:

- Transformation funding for programmes including Assistive Technology and the Transformation team (-£0.797m).
- Drawdown for projects that will be funded through the Social Care Grant (-£0.807m).

- Transfer to reserves (+£4.258m). In March 2022, a one-off arrangement was agreed with North Central London CCG for them to fund pressures in Adult Social Care placements arising from the COVID-19 pandemic (-£4.258m).

4.3. The pressures within Adult Social Care in-year have been in three main areas:

- Additional demand from the COVID-19 Hospital Discharge schemes.
- Care UK vacancies.
- Increased demand for services over demographic growth.

COVID-19 Hospital Discharge Schemes

4.4. The most significant COVID-19 budget pressure in the directorate is in relation to additional demand from the COVID-19 Hospital Discharge Service (+£2.734m, a decrease of -£0.535m since the previous reported position), summarised as follows:

- (+£2.481m, an increase of +£0.070m since the previous reported position) is in relation to the cohort of people who have received a care package since 19 March 2020 as a result of the Hospital Discharge schemes. 1,721 individuals have accessed social care through this route since the Hospital Discharge schemes began. Of these, 984 clients have been reviewed and determined to be eligible for social care with an estimated cost in 2021/22 of £14.481m. An estimated (+£12.000m) would have been funded as business as usual, causing this residual budgetary pressure.
- (+£1.958m, a decrease of -£0.344m 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. This figure has reduced as the number of packages that have been reviewed in the four-week funding timeframe has improved since initial projections. Throughout 2021/22, 642 individuals have accessed services through the scheme, with 83 currently awaiting a review.
- This is offset by NHS funding of (-£1.705m, an increase of -£0.261m since the previous reported position) due to the NHS discharge scheme being extended to the 31 March 2022 covering the costs of care packages for the first four weeks.

Care UK Vacancies

4.5. 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 budget pressure of (+£2.544m, an increase of +£0.437m since the previous reported position) due to an additional 73 spot purchased residential beds being required whilst also paying for the vacant beds in Care UK.

4.6. Previously it had been reported that the ongoing issues with Care UK would result in additional pressures in 2021/22 further to those detailed above, however these have not materialised in this financial year. These issues are expected to continue into 2022/23 with the potential for significant additional cost pressures to be incurred.

Demand for Services over Demographic Growth

4.7. Adult Social Services continues to be impacted by wider demographic pressures, including increased demand for services and need for acute care. This is part-funded through demographic budget growth assumed in the 2021/22 budget. However, there has been an additional, unbudgeted demographic growth pressure of (+£0.268m, a decrease of -£0.614m since the previous reported position) as well as a pressure of (+£0.250m) in relation to delivery of demand management savings. A sharp increase in the number of mental health clients towards the end of 2021/22 also caused a budgetary pressure (+£0.089m, an increase of +£0.089m since the previous reported position).

4.8. The additional clients entering Adult Social Services also increased the amount of client contributions the Council will receive. This partially offsets the pressures created from the additional demand by (-£0.583m, an increase of -£0.383m since the previous reported position).

4.9. Other underspends totalling (-£0.723m, an increase of -£0.235m since the previous reported position) make up the remainder of the non-COVID-19 variance. This is mostly in relation to underspends in transport budgets due to day centre closures.

4.10. Throughout 2021/22, expenditure relating to Transformation programmes (+£0.797m) including Assistive Technology and the Transformation team, and projects that will be funded through the Social Care Grant (+£0.800m) such as the Early Intervention for Adults and Investment in the Adult Social Care Workforce has been incurred. The provisional outturn position is net of Transformation and Social Care Grant funding being transferred from Corporate Reserves (£-1.597m).

Grants

4.11. In November 2021, the government announced it would award the Workforce Recruitment and Retention Fund to Adult Social Care and increased the Infection Prevention and Control Grant. In December 2021, the government increased these amounts to £1.607m.

- The Workforce Recruitment and Retention Fund (-£2.478m). This was used to offset workforce pressures over the winter 2021/22 period and further additional workforce costs internally and across our providers to support timely hospital discharges (+£2.478m, an increase of +£0.802m since the previous reported position).
- The Infection Prevention and Control Grant (-£2.118m). This was used to contribute towards infection control measures implemented by the council's care providers and by the council itself. It has been fully spent in 2021/22 (+£2.118m).
- The Adult Social Care Omicron Support Fund (-£0.321m). This has been used to offset existing pressures in the placements budget over the winter 2021/22 period.

Chief Executive's Directorate (+£0.530m, +£0.118m since previous reported position)

4.12. The provisional outturn position for the Chief Executive directorate is a net overspend of (+£0.530m), of which (+£0.247m) is attributable to additional costs within Communications in response to COVID-19 and (+£0.010m) relates to loss of income due to COVID-19. This is a movement of (+£0.118m) since the last reported position. There is a non-COVID-19 overspend of (+0.273m).

4.13. The significant variances underlying the provisional outturn position are set out below:

- (+£0.155m) costs of converting all documents on the council's website into accessible formats to meet legal requirements around accessibility. This directorate outturn variance is offset by a 'below the line' drawdown from corporate balances.
- (+£0.130m) costs relating to the 'More Equal Islington' project.
- (-£0.012m) underspend on supplies and services forecast throughout the Chief Executive's office.
- (-£0.025m) net underspends on running costs throughout Communications.
- (+£0.032m) overspend forecast within Print Services due in the main to agency and additional IT costs.
- (-£0.007m) additional income within Print Services.
- (+£0.010m) loss of advertising income due to the impact of COVID-19.

4.14. The (+0.118m) movement since the previous reported is due to the following:

- (+£0.247m) additional costs within Communications in response to COVID-19.
- (-£0.012m) underspend within the Chief Executive's office on supplies and services.
- (-£0.025m) net underspend throughout Communications on running costs.
- (-£0.077m) improved performance on Print Services income.
- (-£0.015m) reduction in other costs throughout Print Services.

Children's Services (£+4.875m -£0.977m since previous reported position), Schools (-£5.218m, -£0.338m since previous reported position)

4.15. The provisional outturn for Children's Services is a net overspend of (+£4.875m), comprising (+£2.905m) COVID-19 related budget pressures and (+£1.970m) non COVID-19 related net overspends.

4.16. The provisional outturn position is net of the following transfers to/(from) reserves, included within **Appendix 4** for agreement:

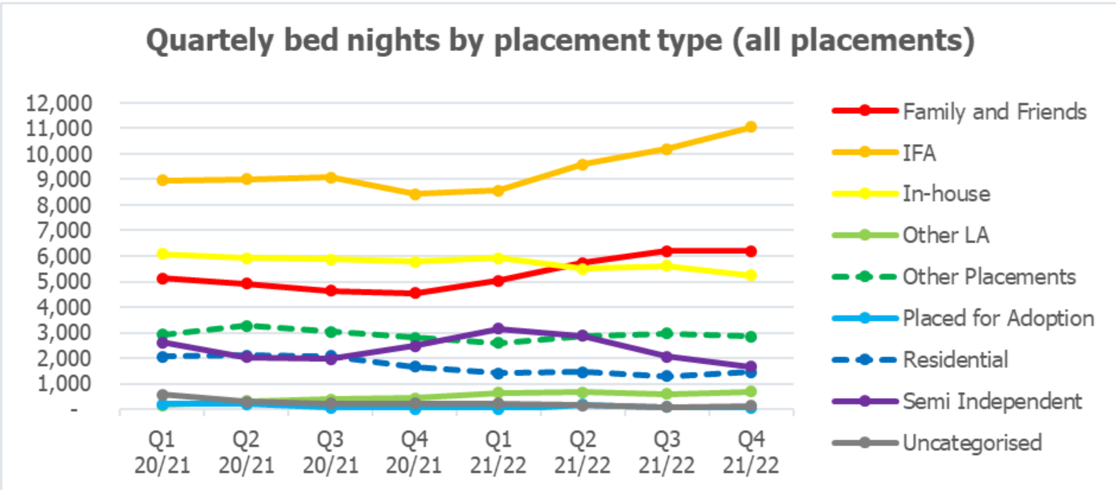
- Drawdown for projects that will be funded through the Social Care Grant (-£0.437m).
- Transformation funding (-£1.651m)

4.17. COVID-19 related budget pressures in the directorate comprise:

- (+£0.259m, a reduction of -£0.306m since the previous reported position) loss of parental fee income in Children's Centres due to sustained lower levels of attendance. The loss in income has improved as settings have seen a stronger recovery income over the spring term than expected.
- (+£0.326m, a reduction of -£0.029m since the previous reported position) loss of commercial income in relation to the universal youth offer.

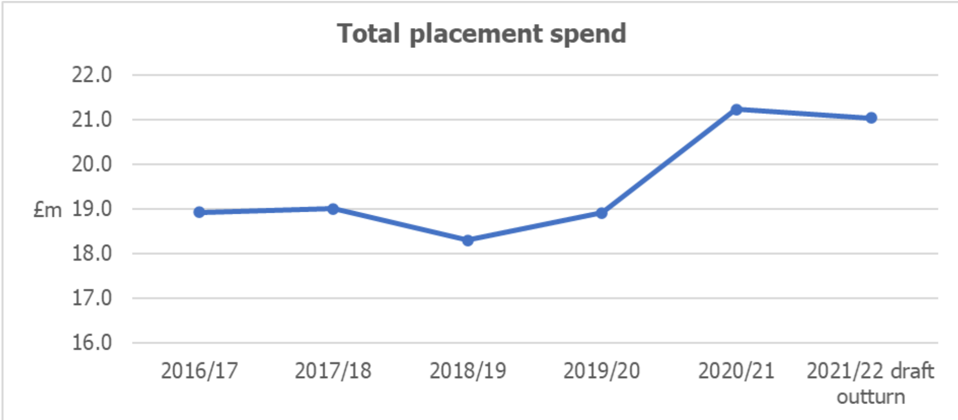
- (+£1.888m, an increase of +£0.464m since the previous reported position) net pressure against the children looked after placements budget, which is largely attributable to COVID-19. Bed night activity for all placement types (non-UASC) increased by 0.7% during quarter 4 and was 11% higher during quarter 4 2021/22 compared to a year earlier. As at quarter 4 there has been an increase in residential activity of 12% reversing a decrease in activity of 11% during quarter 3. Residential activity is however still 14% lower than during quarter 4 2020/21. Semi-independent activity has continued to reduce in quarter 4 (19%) and is now 33% lower than during quarter 4 2020/21. Activity in relation to independent foster care has increased by 8% during quarter 4, this follows an increase of 6% in quarter 3 and 12% in quarter 2. Activity is almost one third higher than this time last year. The reported spend for 2021/22 is £0.194m less than the 2020/21 outturn.

<u>Figure 4A – Quarterly Bed Nights by Placement Type</u>



<u>Figure 4B – Total Quarterly Bed Nights</u>

Figure 5 – Total spend for Children Looked After Budget 2016/17-2021/22

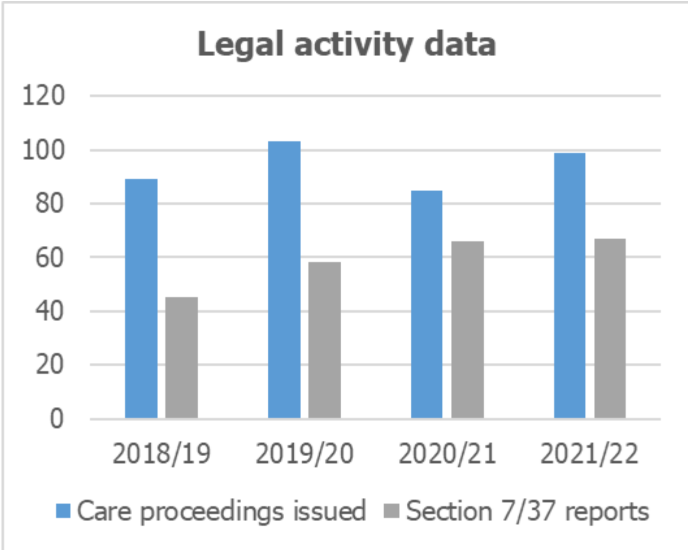


- Several management actions are in place to control placement costs including:
  - Detailed review of costs pressures through the placements board.
  - Focus on increasing in-house recruitment of foster carers.
  - Joint work with the housing team to develop solutions that enable care leavers to move into their own accommodation more swiftly.
  - 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.
- (+£0.136m, a reduction of -£0.134m since the previous reported position) overspend against Special Educational Needs and Disabilities (SEND) transport due to increased costs of transporting young people and the loss of curriculum income.
- (+£0.296m, a reduction of -£0.027m since the previous reported position) other COVID-19 cost pressures.

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

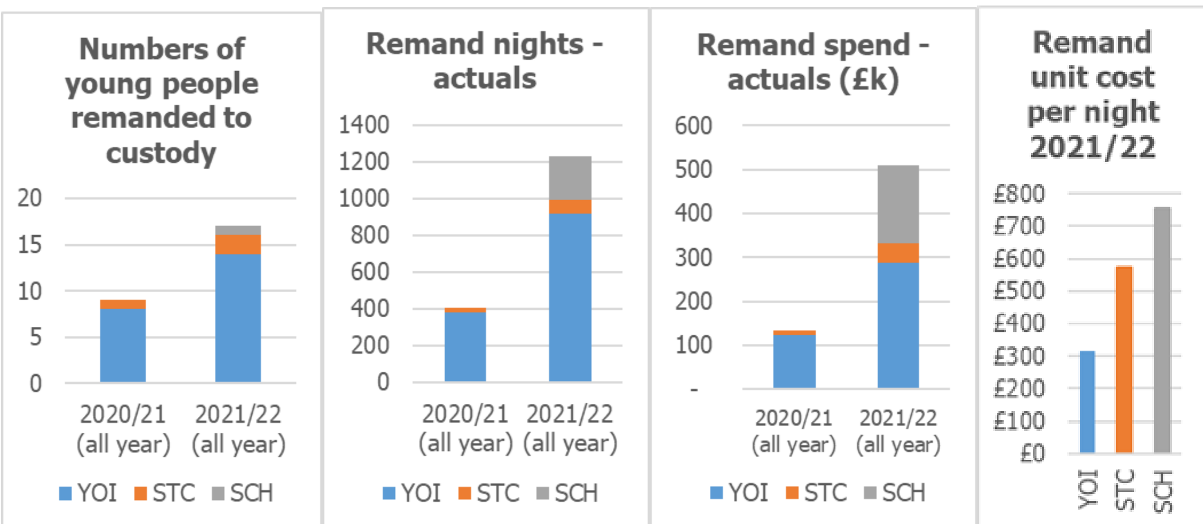
- (+£0.399m, a reduction of -£0.042m since the previous reported position) legal costs in relation to a delay in the conclusion of care proceedings, SEND appeals and other legal costs. The use of Counsel is subject to service director approval to minimise this cost pressure. Care proceedings issued and Section 7/37 reports remain high – care proceedings issued were 16% higher than in 2020/21, while numbers of section 7/37 reports were in line with last year. Activity continues to be impacted by the pandemic and pressures on Counsel spend is a national issue across local authorities.

Figure 6 – Care proceedings and Section 7/37 activity data



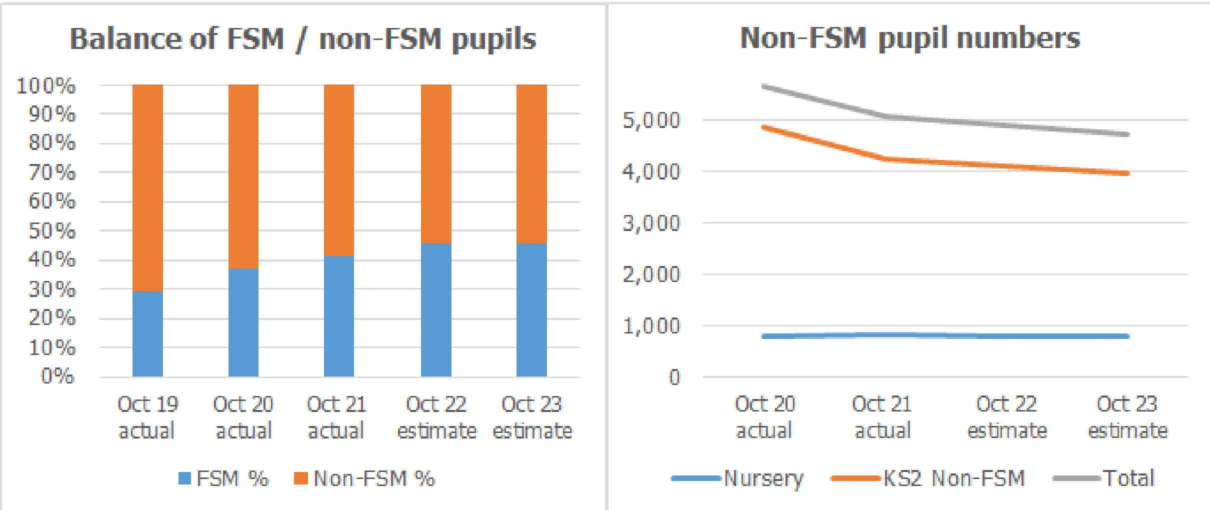
- (+£0.292m, a reduction of -£0.008m since the previous reported position) overspend due to a reduction in funding from the Youth Justice Board (YJB), despite rising activity, and further increased activity against the remand budget. Activity is significantly higher than last year – 17 young people have been remanded to custody this year for a total of 1,228 remand nights. This compares to 9 young people during 2020/21 for a total of 405 remand nights. We have seen an increase in activity of 203% during 2021/22 compared to 2020/21. The unit cost of remand, as set by the YJB, ranges from £315 per night for a Young Offenders Institute (YOI) to £574 per night for a Secure Training Centre (STC) to £753 per night for a Secure Children's Home (SCH). Most of the additional activity is in relation to young people remanded to the lower cost YOI, although one young person has been remanded to the highest cost SCH provision compared to zero last year.

Figure 7 – Activity data for Young People in Custody and Remand



- (+£0.016m, a reduction of -£0.063m since the previous reported position) staffing pressures to meet significantly increased caseloads in the SEND team in line with the SEND strategy and statutory duties.
- (-£0.198m, an increase of -£0.061m since the previous reported position) underspend on the council's Universal Free School Meals (FSM) programme due to increased eligibility for government funded free school meals and falling pupil numbers, offset by increased eligibility for school uniform grants and post-16 bursaries. High level estimates indicate that non-FSM pupils (nursery and KS2) will reduce by another 3.3% at October 2022 and 2.6% at October 2023. This follows a 10.5% reduction as at October 2021.

Figure 8 – Free School Meal / Non-Free School Meal numbers



- (+£0.262m, unchanged since the previous reported position) ongoing staffing pressure in relation to supporting increased numbers of care leavers in recent years.
- (+£0.098m, a reduction of -£0.027m since the previous reported position) cost pressure in relation to increased demand for temporary accommodation.
- (+£0.511m, a reduction of -£0.190m since the previous reported position) of in-year cost pressures in relation to early help, Islington Trauma Informed Practices in Schools (iTIPS), the National Assessment and Accreditation Grant, 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.
- (+£0.074m, a reduction of -£0.006m since the previous reported position) SEND transport pressure for looked after children in out of borough provision.
- (+£1.319m, an increase of +£0.520m since the previous reported position) of net staffing and non-staffing cost pressures across the service.
- (-£0.505m, a new variance since the previous reported position) of additional UASC income due to a recent increase in cohort numbers.
- (-£0.354m, an increase of -£0.289m since the previous reported position) underspend against early years, and universal play and youth due in part to the application of holiday activities and food programme funding.

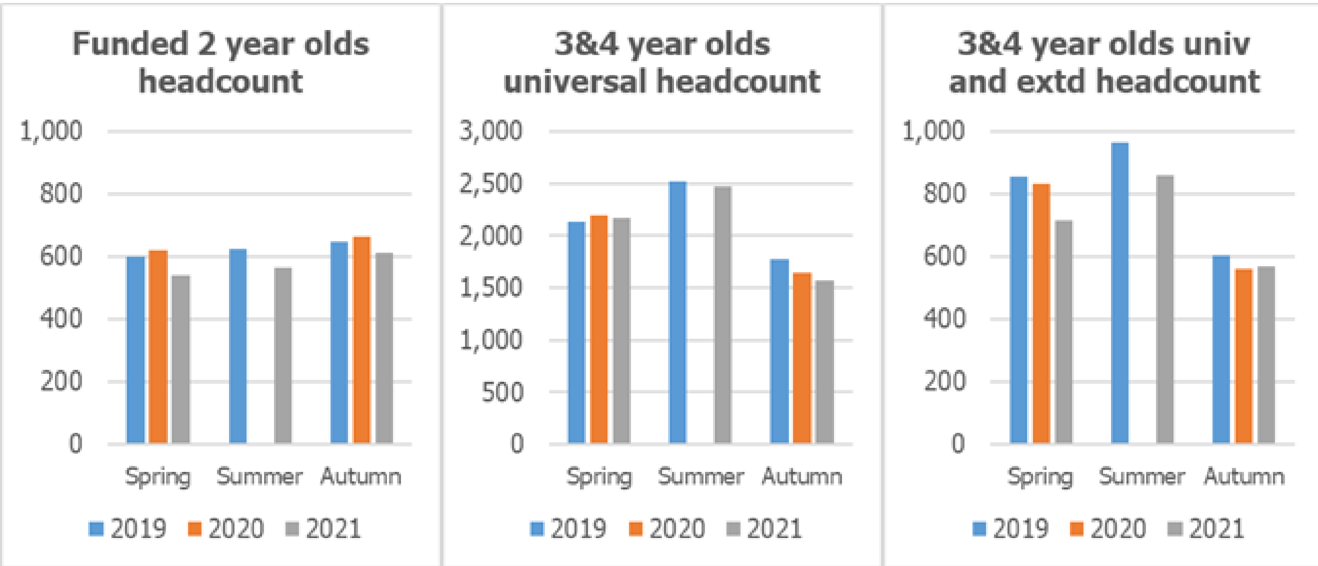
- (+£0.056m, a reduction of -£0.121m since the previous reported position) of other net overspends across the service.
- The previously reported cost pressures from the re-procurement of the youth offer have not materialised to the extent envisaged and have been absorbed by underspends elsewhere in the service (previously reported pressure of +£0.122m).

4.19. There is an underspend of (-£5.218m or 3.3%) against the ring-fenced Dedicated Schools Grant (DSG), an increase of (-£0.338m) since the previous reported position. This forecast includes (-£4.646m) of balances brought forward from previous years. The underspend is as follows:

- (-£0.088m, unchanged since the previous reported position) unallocated budget for growth and falling rolls following finalisation of the October school census.
- (-£0.321m, unchanged since the previous reported position) balance from the one-off cash payment in relation to the secondary unit of funding from 2019/20. This will be allocated in 2022/23.
- (-£0.367m, a new variance since the previous reported position) one-off DSG rebate in relation to Clerkenwell School which closed in the summer.
- (-£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.
- (-£0.011m, an increase of -£0.004m since the previous reported position) underspend against the budget for school admission appeals for the current academic year.
- (-£2.492m, an increase of -£0.407m since the previous reported position) forecast balance of high needs funding earmarked for future demand / funding pressures, 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.
- (-£0.118m, a new variance since the previous reported position) against the budget for additional needs.
- (-£0.039m, a new variance since the previous reported position) against the SEND outreach and commissioning budget.
- (-£0.463m unchanged since the previous reported position) 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.
- (-£0.518m, a reduction of +£0.632m since the previous reported position) early years contingency balance 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. The movement from the previous reported position is due to protection funding allocated to providers following the January funding adjustment from the DfE that took into account the summer and autumn term headcounts. Funding is normally based on the spring term headcount, but due to the impact of the pandemic on attendance, the

DfE have factored in the summer and autumn term headcount in this financial year which has reduced funding to the council. From 2022/23 the basis of funding will return to the spring term headcount only, which will be beneficial to Islington. Termly headcount shows that: the headcount for the 3- and 4-year-old universal entitlement remains depressed, at 11% below pre-pandemic levels in autumn 2021, a further deterioration from just 2% below in summer 2021 and spring 2021; while the headcount for 3- and 4-year-olds eligible for the extended entitlement and 2-year-olds are recovering. Funded 2-year-olds were 6% below pre-pandemic levels in autumn 2021, an improvement from 10% below in summer 2021 and 12% below in spring 2021. Universal and extended 3- and 4-year-olds were 5% below pre-pandemic levels in autumn 2021, an improvement from 11% below in summer 2021 and 14% below in spring 2021.

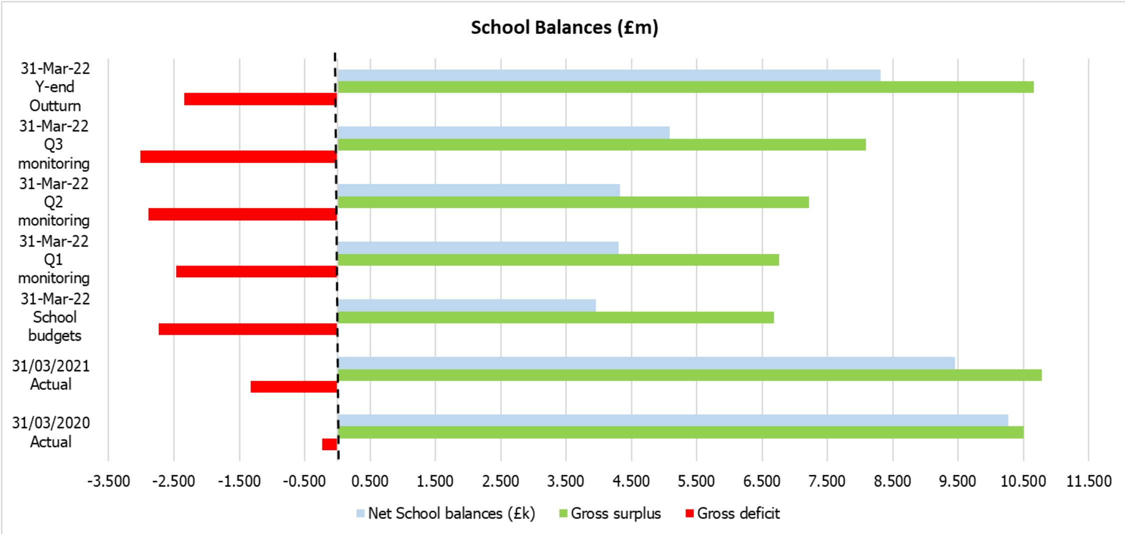
Figure 9 – Headcount data for entitlements to free early education and childcare



- (-£0.200m a new variance since the previous reported position) forecast underspend against the special education needs and disabilities inclusion fund due to a reduced take up of provision in line with the reduced headcount.

4.20. Individual schools' balances stood at £9.459m at the end of 2020/21. Schools had budgeted to reduce their balance by £5.464m to £3.995m over the course of the year. The position has improved throughout the year with a provisional reduction of £1.145m during the year to £8.313m (an improvement of £3.232m on the previous reported position). Some of the use of balances is for planned capital works where timing can be uncertain.

Figure 10 – School Balances

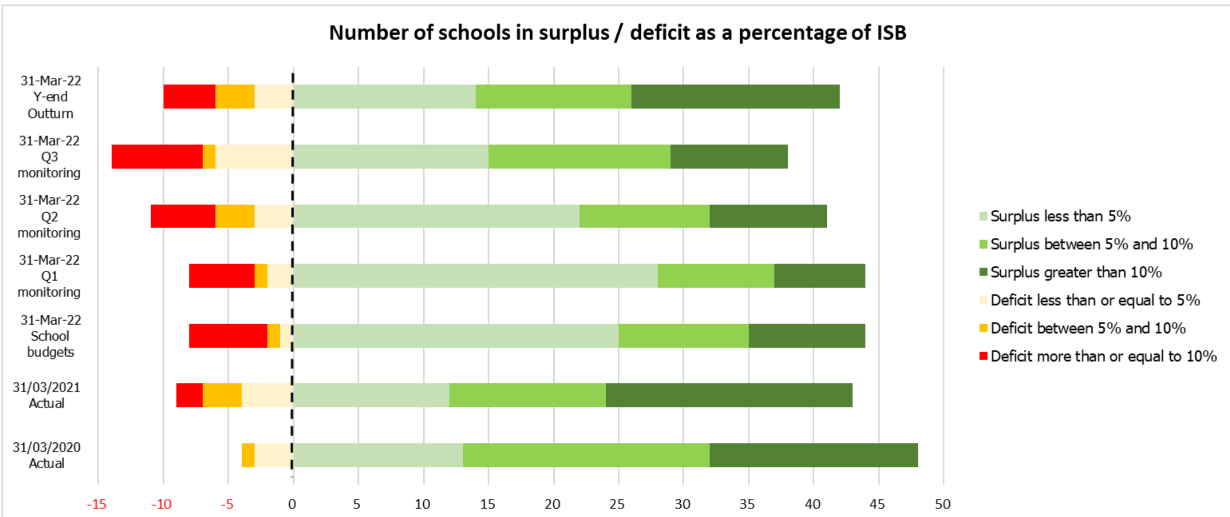


4.21. There are ten schools ending the 2021/22 financial year with deficit balances, compared to nine at March 2021. Of the nine reported deficits as at 31 March 2021, two schools have been able to deliver an underspend during the year meaning their cumulative financial position returns to surplus. Three schools during the 2021/22 financial year have entered a deficit.

4.22. An analysis of balances indicates that 21 schools are above the suggested limits of the Education and Skills Funding Agency (ESFA), 8% for nursery, primary and special schools and 5% for secondary schools). Of the 21, 11 schools reported an in-year deficit which means their cumulative balance has reduced when comparing year-on-year.

4.23. Of the 52 maintained schools in Islington, 37 have reported in-year deficits with only 15 schools reporting increases to their overall balances. This picture is reflective of the ongoing financial pressures schools are currently facing.

Figure 11 – Number of Schools in Surplus/Deficit



Community Wealth Building (+£0.515m, -£1.488m since previous reported position)

4.24. The provisional outturn for the Community Wealth Building directorate is a net overspend of (+£0.515m), of which (+£0.697m) is attributable to COVID-19.

4.25. The provisional outturn position is net of the following transfers to/(from) reserves, included within **Appendix 4** for agreement:

- Transfer to reserves in respect of the Restoration Levy on Islington Assembly Hall ticket sales (+£0.018m)
- Transformation funding for Corporate Asset Strategy (-£0.233m)
- Transformation funding for Future Work Phase 1 Business Case (-£1.575m)

4.26. The provisional outturn position includes COVID-19 related budget pressures in the department which have slightly changed compared to the previous reported position and include:

- (+£0.498m) reduced income from the Assembly Hall.
- (+£0.361m) additional pandemic response related costs (e.g., hygiene maintenance).
- (-£0.162m) offsetting reduction in operational costs at the Assembly Hall.

4.27. The Community Wealth Building directorate is reporting a (+£0.958m) payment to Guinness Partnership Limited as a 50% contribution to the Waking Watch programme at the Hungerford Estate. The Waking Watch is a fire safety system where suitably trained staff continually patrol the floors and the exterior perimeter of a building to maintain the safety of its occupants from fire. The aim of a waking watch is to ensure there is sufficient warning in the event of a fire to support the evacuation strategy. This is a one-off fire safety action, and this directorate provisional outturn variance is offset by an assumed 'below the line' drawdown from corporate balances.

4.28. Other non-COVID-19 related budget pressures are made up of:

- (+£0.075m) loss in commercial property income due to difficult market conditions.
- (+£0.231m) net overspend on staffing costs mainly due to vacancies that are filled by agencies throughout the directorate and the vacancy factor not being met in the Inclusive Economy division.
- (-£0.857m) underspend on property costs and supplies in the Corporate Landlord division. This is due to capitalisation of costs (-£0.531m) and reduced expenditure pending the outcome of the on the ongoing stock condition survey (-£0.326m).
- (-£0.249m) grant income received from the Arts Council to support Assembly Hall activities in the Corporate Landlord division.
- (-£0.300m) additional recharge income from Adult Social Services from Covid grants to support infection control and enhanced cleaning in the Corporate Landlord division.
- (-£0.448m) additional recharge income due to cleaning (-£0.288m), property (-£0.137m), and postage (-£0.063m). The additional income is mainly due to the Future Work pilot scheme.

- (+£0.252m) lost income due to a reduction in the levels of planning activity.
- (+£0.171m) additional costs due to advertising and legal fees in the Planning and Development division.
- (-£0.098m) underspend in supplies and services in the Corporate Landlord division.
- (+£0.083m) in the Capital Delivery Team for costs that are not able to be capitalised.

4.29. There has been a movement of (-£1.488m) between M10 and M12 as below of which (-£0.037m) is COVID-19 related

- (-£0.037m) underspend on operational costs in the Assembly Hall due to reduced events and activities.
- (-£0.566m) additional one-off commercial property income for backdated rental income. The backdated rental income is as a result of resolution of a dispute going back four years (-£0.459m) and unplanned rental income at NBW (-£0.097m).
- (+£0.081m) overspend on agency staff pending restructure in the Corporate Landlord division.
- (-£0.797m) underspend on property costs due to capitalisation of costs and reduced expenditure pending the outcome of the ongoing stock condition survey.
- (-£0.077m) additional grant funding from the Arts Council.
- (-£0.151m) additional recharge income from other directorates.
- (-£0.098m) underspend on supplies and services in the Corporate Landlord division.
- (+£0.083m) overspend in the Capital Delivery team for costs that are not able to be capitalised.
- (+£0.141m) additional agency costs for the directorate.
- (-£0.055m) underspend on agency costs in the Planning and Development division.
- (-£0.036m) underspend on additional services in the Planning and Development division.
- (-£0.002m) additional income in the Planning and Development division.
- (+£0.011m) overspend in the Procurement division due to agency staff.
- (+0.014m) pressure in the Inclusive economy division for the Archway and Finsbury projects.

Environment (+£1.901m, -£0.818m since previous reported position)

4.30. The provisional outturn for the Environment directorate is a net overspend of (+£1.901m), of which (+£6.807m) is attributable to COVID-19 related budget pressures. This is a movement of (-£0.818m) since the previous reported position.

4.31. The provisional outturn position is net of the following transfers to/(from) reserves, included within **Appendix 4** for agreement:

- Transformation funding for People Friendly Streets (-£0.093m).

- Corporate funding for the Greening the Borough project (-£0.040m).
- Drawdown from the Cemetery Service Reserve (-£0.355m).
- Drawdown from the Street Trading Reserve (-£0.122m).

4.32. The department heavily relies 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:

- (+£3.551m) loss in Parking related income – there has been a substantial decrease in projected income across Pay and Display and Permit and Vouchers.
- (+£2.158m) loss in Leisure related income – the council receives income from operating the leisure centres and from events within our parks and open spaces.
- (+£1.732m) loss in income across areas such as Commercial Waste, Registrars, Tables and Chair, Fixed Penalty Notice, and Pest Control due to reduced levels of services.

4.33. The Commercial Waste service received a reduction in the North London Waste Authority levy due to reduced commercial sales due to the pandemic (-£0.786m). Other reasons for the net overspend include:

- (+£0.203m) additional overtime, allowances, and mortuary costs throughout the Public Protection division as a result of COVID-19.
- (-£0.051m) Temporary Pavement License Grant.
- (+£0.753m) net overspend on employee costs within the Street Services Operations (SSO) division mainly due to annual leave cover.
- (+£1.088m) overspend within Parking financial charges, NSL/PCN debt registration and salary costs.
- (+£0.182m) net overspend on employee costs within the Public Protection division due to not meeting the vacancy factor.
- (+£0.273m) overspend on running costs mainly on staff recharges, software purchases and legal costs within the Public Protection division.

4.34. Offset by:

- (-£0.144m) underspend forecast within SSO operational division mainly on supplies/services and other running costs.
- (-£5.505m) additional income forecasted across Parking mainly on parking bay suspension, PCN and road closure income.
- (-£1.217m) additional income in the Public Protection division mainly in House in Multiple Occupation (HMO) licensing and other income.
- (-£0.516m) net additional income within Streetworks.

4.35. There has been a movement of (-£0.818m) for the department between provisional outturn and the previous reported position, the main details of which can be found below:

- (-£1.127m) additional income throughout the department, in particular around PCN, road closures, Streetworks and licensing.

- (-£0.269m) improvement in rental income due from GLL based on their latest set of management accounts.
- (-£0.201m) improvement in Registrars income.
- (-£0.095m) net improvement on Pay and Display and Permits/Vouchers.
- (-£0.086m) NLWA levy reduction.

4.36. Offset by:

- (+£0.531m) additional costs within Parking around financial charges, NSL/PCN debt registration.
- (+£0.155m) mainly due to additional costs incurred around tree planting within the Greenspace and Leisure division.
- (+£0.171m) additional staff recharge costs/legal costs within Public Protection.
- (+£0.099m) extra costs within Street Services Operations due to annual leave cover.
- (+£0.003m) net overspend throughout the division.

4.37. 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 will be a significant cost pressure in future years if current prices are sustained. This will need to be considered as part of the council's budget process.

Fairer Together (Net nil position, -£0.163m since previous reported position)

4.38. The provisional outturn for Fairer Together directorate is a net nil position.

4.39. The provisional outturn position is net of the following transfers to/(from) reserves, included within **Appendix 4** for agreement:

- Transformation funding for Resident Experience (-£0.131m)

4.40. The (+£0.220m) COVID-19 related budget pressures in the department are attributed entirely to the 'We are Islington' service for additional overtime and salary related expenditure, from providing extra support and assistance provided to the vulnerable, those isolating and communities in general. This has been offset by (-£0.220m) 'Practical Support Payments' grant funding, which was higher than anticipated in the previous reported position, resulting in a net nil position in relation to COVID-19.

4.41. Non-COVID-19 related budget pressures within the service are made up of:

- (+£0.430m) management costs in relation to set up of the Bright Lives service.
- (+£0.237m) in employee costs within Fairness and Equalities.

4.42. This is offset by:

- (-£0.386m) net underspend across Resident Experience service.
- (-£0.146m) from vacancies within Strategy and Commissioning.

4.43. The position has decreased (-£0.163m) from the last reported position due to higher than anticipated COVID-19 grant funding allocated against the Fairer Together directorate.

Homes and Neighbourhoods (-£1.690m, -£1.024m since previous reported position)

4.44. 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).

4.45. The provisional outturn for the Homes and Neighbourhoods directorate is a net underspend of (-£1.690m) for the General Fund including (+£0.862m) of COVID-19 related pressures, a decrease of (-£1.024m) since the previous reported position as explained below.

4.46. COVID-19 has continued to cause budget pressures across homelessness and NRPF services of (+£0.862m). 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.

4.47. The movement since the previous forecast is due to:

- Grants changes of (-£1.090m), broken down into:
    - (-£0.238m) Accommodation for Ex-Offenders Grant - due to increased grant funding matched with terms and conditions that saw committed expenditure fall into 2022/23.
    - (-£0.714m) Homelessness Prevention Grant/Additional Homelessness Prevention Grant/ Winter Weather Fund – there was a drop-off in expected costs from the previous reported position, with the money utilised for other established prevention and relief spend, previously covered from core funding.
    - (-£0.138m) Rough Sleeper Initiative Grant – a number of projects did not come to fruition and this grant has partly been re-purposed into paying Rough Sleeper Hotel costs previously covered from core funding.
- Successful legal challenges (-£0.043m).
- Delayed IT upgrades (-£0.097m).
- Reduced arrears in Islington Lettings (-£0.089m)
- This has been offset by increased bad debt, impairment, and other minor costs (+£0.229m).

4.48. 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.

4.49. Within the net non-COVID-19 related underspend, there is a forecast budget pressure of (+£0.314m) Islington Lettings, the council's not-for-profit letting agency. This pressure is partly due to writing off historic, uncollected rent. In the financial year 2021/22, these cost pressures were offset by specific grant income.

Public Health (+£0.139m, -£0.236m since previous reported position)

4.50. Public Health is funded via a ringfenced grant, £27.365m in 2021/22. The provisional outturn for the directorate is a net overspend of (+£0.139m), of which (+£0.634m) relates to COVID-19 budget pressures.

4.51. The provisional outturn position is net of the following transfers to/(from) reserves, included within **Appendix 4** for agreement:

- (-£0.157m) funding from the Public Health reserve for one-off projects.
- (+£0.530m) one-off income that is fully committed to be spent in future financial years.

4.52. The main COVID-19 budget pressures are in the Sexual Health division (+£0.595m) (increased online access to STI testing).

4.53. The movement compared to the previous reported position represents corporate decisions with regards to the Vaccination Programme and the Test and Trace Grant:

- Vaccination Programme costs (+£0.330m) – this expenditure is being funded corporately.
- Test and Trace costs (+£0.139m) – this outturn variance is offset by a 'below the line' drawdown from corporate balances.

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

- (+£0.129m) within the Substance Misuse division, predominantly due to the service continuing to commission withdrawal services and homelessness health services for 2021/22, because of demand remaining high. Since the previous reported position, expenditure has reduced by (-£0.055m). This is because of activity levels reducing within the GP Methadone Prescribing service.
- There is an underspend of (-£1.122m, an increase of +£0.042m since the previous reported position) within the Sexual Health division due to baseline tariffs being paid to providers coming in lower than anticipated, divisional efficiencies mitigating costs, and delays to the building refurbishment works in Archway.
- The remaining directorate divisions have an overall (-£0.044m) underspend.

4.55. In addition to the reported budget variance, the directorate has spent (+£0.414m) on one-off projects and (+£0.238m) on fixed term posts that are to be funded by wider Public Health underspends and drawing down £0.157m of the earmarked public health reserve.

4.56. The uplift on the 'Agenda for Change' contract has not been met from Islington Public Health resources, removing the financial pressure in 2021/22.

Resources (+£1.829m, -£0.246m since previous reported position)

4.57. The provisional outturn for the Resources directorate is a net overspend of (+£1.829m), comprising (+£2.148m) COVID 19 pressures and a (-£0.319m) net non-COVID-19 related underspend. This is a reduction in the overspend of (-£0.246m) from the previous reported position.

4.58. The provisional outturn position is net of the following transfers to/(from) reserves, included within **Appendix 4** for agreement:

- Transformation funding for Systems Review (-£0.038m)
- Transformation funding for Finance Transformation (-£0.098m)
- Transfer to reserves in respect of net gains in Housing Benefit subsidy provisions due to recovery and Universal Credit Impact (+£1.104m)
- Transfer to reserves in respect of underspend on Counter-Fraud initiatives which are delayed London-Wide, meaning that the previously provided budget growth was not required in 2021/22 (+£0.176m)
- Transfer to reserves relating to one-off budget growth in 2021/22 for the Human Resources service, which spans more than one financial year (+£0.305m)

4.59. The most significant COVID-19 budget pressure in the directorate is the estimated additional cost of (+£1.979m), (an increase (+£0.042m) from the previously reported position), in relation to IT related hardware and software solutions. This includes the fitting out of the council chamber for broadcasts, updating Wi-Fi in key buildings to enable social distancing, central government required PSN compliance and additional infrastructure required to support rapidly increasing the digitisation of services.

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

- (+£0.048m) shortfall in legal income from planning activities due to reduced demand.
- (+£0.100m) additional costs due to a delay in deliverable savings within Legal Services.
- (+£0.021m) annual cost of the Caselines system required by the courts during the pandemic

4.61. Non-COVID-19 related budget underspends within the directorate are made up of:

- (-£0.785m) extra income mainly from court costs activities including backlog cases from previous years due to lockdowns.
- (-£0.056m) of general savings elsewhere within the department.
- (-£0.149m) of savings from digital services for non-project items.

4.62. There are non-COVID-19 budget overspends in the following areas:

- (+£0.133m) pressure within financial management mainly around staffing costs and pension strain.
- (+£0.194m) pressure on existing transformation team budget linking to staff costs and the restructure.
- (+£0.139m) combination of overspend between HR and Legal due to restructure and delay in system implementation.
- (£+0.341m), HR overspends in connection with restructure, redundancy and interim agency costs.

4.63. The (-£0.246m) movement since the previous forecasts is due to:

- Over-recovery of court costs income in the last two months of the financial year, plus savings elsewhere within the Revenues team, greater than previously anticipated (-£0.934m).
- Changes to funding requirements in connection with ad-hoc transformation projects (£-0.135m).
- General savings of (£-0.023m) elsewhere within the department previously reported breakeven.
- This has been offset by increased in various staff related costs across the department due to ongoing restructure and pension strains and redundancy (+£0.697m).

Corporate Items

4.64. The corporate items forecast is a (+£5.965m) overspend, comprising (+£3.360m) COVID-19 related pressures and non-COVID-19 related net pressures of (+2.605m).

4.65. The COVID-19 related corporate budget pressure (+£3.360m, an increase of (+£0.760m) since the previous reported position) relates 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 (+£2.816m, an increase of +£0.216m since the previous reported position).
- Costs in relation to the London Wide Mortality Management Group and running of the BECC (+£0.464m, an increase of +£0.464m since the previous reported position).
- Overspend in respect of levies budget (+£0.080m), previously not recognised as it is COVID-19 related.

4.66. The forecast non-COVID-19 variance (+2.606m, a decrease of -£0.391m since the previous reported position) comprises:

- 1.75% pay award (+£2.601m, compared to the base budget assumption of a pay freeze).
- Underspend on remaining corporate levies budget (£-0.161m), a decrease of (+£0.022m) since the previous reported position.
- Other small variances including overspends on corporate subscriptions totalling (+£0.245m)

4.67. The council received Contain Outbreak Management Fund grant funding totalling £2.403m in 2021/22. This funding has been retrospectively allocated across eligible COVID-19 related expenditure in line with the terms of the grant. This is summarised in **Table 2** based on the relevant central government categories of activity.

Table 2 – Allocation of Contain Outbreak Management

Categories	£m
Vaccine deployment	0.022
Support for vulnerable groups and targeted community interventions	0.584
Other: Prevention, management of local outbreaks and data intelligence, surveillance, and communications	0.250
Compliance and Enforcement: other activities and staff	0.688
Other	0.860
Total	**2.403**

General Fund Earmarked and General Reserves

4.68. A fundamental element of the robustness of the council's annual budget and MTFS is the level of contingency budget, earmarked reserves, and General Fund balance, as determined by the Section 151 Officer.

4.69. Even prior to the COVID-19 crisis, the 2020/21 budget report had noted the need for the council to strengthen its financial resilience for budget risks over the medium term. In recent years external auditors have highlighted the comparatively low levels of the council's non-schools reserves and emphasised the importance of maintaining sufficient reserves. Furthermore, the significant expenditure pressures and income shortfalls incurred as a result of COVID-19 have highlighted the underlying level of risk in the council's budget.

4.70. The provisional outturn position is net of the transfers to/from earmarked reserves that is summarised in **Table 3** and detailed at **Appendix 4** for agreement.

Table 3 – Summary of Movement in Reserves 2021/22

Type	£m
Drawdowns	(3.475)
Base budget underspends/additional income	12.909
Budgeted	7.589
Transformation Drawdown	(4.615)
Other Timing Difference	5.007
Collection Fund Timing Difference	(7.885)
Movement Between Reserves	(7.181)
TOTAL	**2.349**

4.71. For approval in this report, **Table 4** sets out the movement in GF earmarked and general reserves in 2021/22 and the closing balances as at the end of the financial year. This includes the creation of the following new earmarked reserves based on an assessment of the current risk outlook:

- Capital Financing Reserve – To smooth the impact of capital financing (including interest rate risk) and the revenue impact of capital on the general fund.
- Energy and Inflation Reserve – To mitigate the risk and smooth the financial impact of rising inflation over the short-to-medium term, particularly in respect of energy prices but also relating to a range of non-pay budgets.

- Islington Assembly Hall Restoration Levy – To earmark the income from the Assembly Hall Restoration Levy fee on tickets for restoration works in future financial years.
- Dedicated Schools Grant (DSG) – Following advice from external audit as part of the 2020/21 Statement of Accounts process, it was advised that the underspend on the DSG should be transferred to earmarked reserves. This represents a change in accounting treatment.
- Earmarked Schools Balances – To earmark other schools balances which do not form part of individual schools balances.

4.72. The 2021/22 budget included an addition to the council's balance sheet of £4m towards strengthening financial resilience. This is helping towards funding the following movements in GF earmarked reserves within **Table 4**:

- £1.5m added to the Budget Strategy Reserve for the estimated costs of the Non-Recent Child Abuse (NRCA) Support Payment Scheme (SPS) Team to be drawn down over the next three years. This will include day-to-day expenditure on the SPS Team, payments to the external provider, set-up costs and other ad-hoc expenditure.
- £1.7m transferred to the Insurance Fund following the external, actuarial review of the Insurance Fund at year-end. This maintains the Insurance Fund at the same like-for-like footing as at the previous financial year-end, taking into account future, anticipated claims, liabilities and known risks, and 2021/22 calls on the Insurance Fund that have met settled claims and expenditure.
- It should be noted for information that the Care Experience Reserve, established previously to cover estimated maximum NRCA SPS claims over the course of the SPS, will increase to £20m in the financial year 2022/23 following changes to the draft SPS following consultation, with this reserve increase agreed as part of the 2022/23 budget report.

4.73. A summary of all planned transfers can be found at **Appendix 4**. The Executive is asked to delegate authority to the Section 151 Officer to agree any further movements to/from reserves related to finalising the 2021/22 Statement of Accounts, including Community Infrastructure Levy Reserve movements and Core Funding Reserve movements after the finalisation of the National Non-Domestic Rates outturn.

<u>Table 4 – GF Earmarked and General Reserves</u>

	Opening Balance 1 April 2021 £m	2021/22 Movements £m	Closing Balance 31 March 2022 £m
GF Earmarked Reserves			
BSF PFI Smoothing	5.762	0.007	5.769
Budget Risk and Insurance	25.425	(0.339)	25.087
Budget Strategy	21.111	(1.525)	19.586
Business Continuity	10.000	-	10.000
Care Experience	16.000	-	16.000
Community Infrastructure Levy (CIL)	8.435	(8.239)*	0.196
Core Funding	41.465	(7.885)	33.580
Joint Cemeteries Trading Account	2.107	(0.355)	1.751
Net Zero Carbon	2.548	(0.067)	2.481
Public Health	1.353	0.373	1.726
Social Care	5.985	3.014	8.999
Street Markets	0.260	(0.122)	0.138
Levies Reserve	-	2.726	2.726
DSG	-	5.218	5.218
Assembly Hall Restoration Levy	-	0.018	0.018
Energy and Inflation	-	5.576	5.576
Capital Financing	-	3.120	3.120
Earmarked Schools Balances	-	0.828**	0.828
Total GF Earmarked Reserves	**140.451**	**2.349**	**142.800**
Non-Earmarked GF Reserves			
General Fund (Non Schools)	16.664	5.000	21.664
Schools Balances	10.108	(1.795)**	8.313
Total Non-Earmarked GF Reserves	**26.772**	**3.205**	**29.977**

*Earmarked CIL Reserve has decreased primarily due to a change in accounting estimate whereby the non-administration element of CIL balances will now be held in the Capital Grants Unapplied reserve.
**Includes a movement in reserves between Schools Balances and earmarked schools balances of £0.650m.

Council Tax and Business Rates

4.74. The year-end position with regards council tax and business rates was still being finalised at the time of drafting the provisional outturn report and will be incorporated in the 2021/22 Statement of Accounts. In-year budget variances in relation to timing differences on business rates Section 31 grants have been transferred to/from the Core Funding reserve in line with the medium-term financial strategy.

Transformation Fund

4.75. Within 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.

4.76. The transformation fund is 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, where possible.

4.77. 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.

4.78. The 2021/22 drawdowns from the transformation fund are summarised by directorate in **Table 4** and detailed by project in **Appendix 3**.

Table 5 – Forecast 2021/22 Fund Drawdowns

	Month 12 Outturn £m
Adult Social Services	0.797
Children's Services	1.651
Community Wealth Building	1.808
Environment	0.093
Fairer Together	0.131
Homes and Neighbourhoods	0.000
Public Health	0.000
Resources	0.135
Total	**4.615**

5. Housing Revenue Account (HRA)

5.1. The provisional outturn for the HRA is an in-year deficit of (+£18.541m), a (+£8.909m) increase from the previous reported position. The primary reasons for this increase are (+£6.826m) temporary use of Revenue Contribution to Capital Outlay (RCCO) towards the financing of new build and property acquisitions programmes, aligning with the Council's Treasury management strategy to delay external borrowing and as such the associated interest charges by utilising HRA reserves to finance HRA capital expenditure. (+£0.533m) increase in depreciation charges resulting from an upward revaluation of HRA dwelling assets. (+£0.874m) increase in General Management primary due to a reduction in salary capitalisation and (+£0.675m) Capital Financing Costs. The position is summarised in **Appendix 2**.

5.2. The HRA is a ring-fenced account, as such the deficit as at 31 March 2022 of £18.541m will be funded from HRA reserves.

5.3. It should be noted that the key drivers making up the (+£18.541m) in year deficit and increased call on HRA reserves, namely the increase in RCCO of (+£14.741m), the increase in depreciation of (+£1.197m) and the reduction in salaries capitalised of (+£1.002m) are all in-year technical overspends that will be reversed out in future years by increasing borrowing and reducing RCCO. As such this increased call on reserves has a neutral impact on the HRA's overall financial position and can be accommodated within the 30-year HRA business plan.

Key HRA variances:

5.4. Other Income (-£0.739m), an increase of (-£0.739m) since the previous reported position, relating to HRA receipts under £10,000 including lease extension payments. The increase represents greater than anticipated generation of income from such activities compared to the original budget.

5.5. Leaseholder Charges Net (-£0.938m), an increase of (-£0.938m) since the previous reported position) this relates to a combination of:

a. an increased income in annual service charges of (-£2.076m) made up of; prior year (2020/21) adjustments of (-£1.3m) and an increase in 2021/22 charges across all heads of charge as compared to the budget of (-£0.800m), +6.5%.

b. a reduction in major works charges of (+£1.316m) as compared to the budget. This relates to the continuing impact of delays, arising from the pandemic and the commencement of the new capital works contracts, reducing the number of schemes that include leaseholder works commencing in 2021/22.

5.6. Parking Income Shortfall of (+£0.279m) ,an increase of (+£0.011m) since the previous reported position. Shortfall resulting from a decline in car spaces and garage usage compared to pre-pandemic levels.

5.7. Repairs and Maintenance (+£0.608m), an increase of (+£0.020m) since the previous reported position, of which, (+£0.787m) net increase predominately relating to repairs materials and sub-contractor usage and costs, (+£0.205m) carbon monoxide detector installation costs incurred to be complaint with regulation. Partly offset by (-£0.384m) additional gas staffing costs that can be capitalised, not anticipated in the budget.

5.8. General Management (+£1.646m), an increase of (+£0.874m) since the previous reported position) of which (+£0.570m) relates to the significant increase in housing disrepair claims received over the past year (60%) which has resulted in the need to increase the Tenant disrepair provision to cover the potential liability of on-going cases. (+£0.529m) increased costs relating to HRA use of temporary accommodation which has seen a sharp increase following the introduction of the Domestic Abuse Act 2021. (+£1.386m) as a result of a reduction in salary capitalisation, this arises because we have moved to a more robust method of allocating staff time between capital schemes & revenue, however it should be noted that this represents a technical overspend which will be offset by future year's reductions in RCCO contributions to fund the major works programme. This is partly offset by (-£0.839m) a favourable variance from a number of service areas, representing 1% of the total General Management budget.

5.9. PFI Payments (+£0.381m), an increase of (+£0.381m) since the previous reported position, resulting from increased PFI 2 call-off works (remedial works not within the scope of the contract where costs are paid by the Council) carried out in preparation for PFI 2 street properties returning to Council management from April 2022.

5.10. Capital Financing Costs of (+£0.675m), an increase of (+£0.675m) since the previous reported position, relating to a re-alignment in the cost of HRA internal borrowing as compared to 2021/22 budget setting.

5.11. Depreciation (+£1.197m), an increase of (+£0.533m) since the previous reported position. An upward revaluation of HRA dwelling assets during 2021/22 has resulted in an increase in annual depreciation charges. Whilst this appears to represent a cost pressure to the HRA, this is a technical overspend. Depreciation costs are transferred to the Major Repairs Reserve (MRR) to fund HRA major works projects, as such, the increase in MRR balances will reduce the use of Revenue Contributions to Capital Outlay (RCCO) over the medium term thus no adverse medium-term impact on the HRA.

5.12. Revenue Contributions to Capital Outlay (RCCO) (+£14.741m), an increase of (+£6.826m) since the previous reported position. This primarily represents the temporary use of HRA reserves to finance the new build and acquisitions programmes, in place of borrowing, in order to delay the impact to the HRA of incurring interest charges. In future years RCCO contributions set aside to balance the financing of the major works programme will be swapped for borrowing. This is therefore a temporary increase in the call on HRA reserves.

5.13. Bad Debt Provision (-£0.912m), a decrease of (-£0.462m) since the previous reported position. The tenants Bad Debt Provision (amount set aside for dwelling rental income owing that may become uncollectable in the future) as at 31 March 2022 stands at £7.301m, representing a cover rate of 47% against total tenant rent and service charge arrears. Lower rent arrear levels have meant that the requirement to increase the tenants Bad Debt Provision was lower than anticipated as compared to the budget (-£0.713m). Similarly, the required increase to the Leaseholder Bad Debt Provision was also lower than anticipated (-£0.199m).

5.14. Heating Charges - this relates to gas costs levied to tenants and leaseholders who benefit from our communal heating systems. A tenant heating reserve account is in place aimed to smooth out the year-on-year volatility of gas costs. As part of the 2021/22 budget setting process, based on estimated gas costs and heating charges set, it was anticipated that a contribution from the tenants heating reserve of (-£0.153k) would be required. However, due to actual gas costs being lower than expected, contrary to the above, a contribution to the tenant heating reserve (+£0.187m) is now necessary.

The reduced costs will be passed back to leaseholders as part of the service charge actualisation billing process.

6. Capital Programme

6.1. Capital expenditure of £128.359m (£26m less than forecast at Month 10) has been delivered against the revised 2021/22 budget of £163.326m, representing 78% spend against budget. The variance from budget is predominantly due to non-COVID-19 related delays across the programme.

6.2. This is summarised between the non-housing and housing capital programme in **Table 6** and detailed in **Appendix 5.**

Table 6 – Capital Outturn 2021/22

	Revised 2021/22 Budget £m	2021/22 Expenditure £m	Capital Variance (Under)/Over £m
Non-Housing	27.565	18.921	(8.644)
Housing	135.761	109.491	(26.270)
Total Programme	**163.326**	**128.411**	**(34.915)**

6.3. The financing of the 2021/22 capital programme is summarised in **Table 7**.

Table 7 – Financing of 2021/22 Capital Programme

	£m
Capital Grants and Third-Party Contributions	25.617
Capital Receipts	9.728
HRA – Major Repairs Reserve	33.462
HRA – Revenue Account	46.604
General Fund – Revenue Account	0.000
General Fund - Borrowing	13.000
Total	**128.411**

6.4. The capital budget chances since the previous reported position are summarised in **Table 8**.

Table 8 – 2021/22 Capital Budget Changes Since Previous Reported Position

Directorate	Month 10 Budget £m	Increase/ (Decrease) £m	Month 12 Budget £m	Explanation of Variance
Community Wealth Building	5.540	(0.352)	5.188	(-£0.352m) There was a net nil transfer between CWB & Environment relating to the Compliance and Modernisation budget
Environment	15.124	0.283	15.407	(£0.352m) There was a net nil transfer between CWB & Environment relating to the Compliance and Modernisation budget (-£0.539m) relates to removal of a notional legacy S106 Budget. (-£0.785m) relates to other changes in S106 budgets. (£2.488m) relates to additional and new grant funding from TFL. (-£1.234m relates to transfers to revenue
People	6.970	-	6.970	No Variance.
Housing	135.761	-	135.761	No Variance.
Total Programme	**163.395**	**(0.069)**	**163.326**	

6.5. Beyond 2021/22, the council has approved a capital programme totalling £614m over the three years 2022/23 to 2023/24. The approved capital programme will be reviewed and re-profiled as part of budget monitoring in 2022/23, including the impact of the reprofiling from 2021/22.

7. Implications

7.1. Financial Implications: These are included in the main body of the report.

7.2. Legal Implications: 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).

7.3. Environmental Implications: This report does not have any direct environmental implications.

7.4. Equality Impact Assessment: 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.

7.5. An equality impact assessment (EQIA) 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, therefore a separate EQIA is not required for this report.

Appendices:

- Appendix 1 – General Fund Revenue Monitoring by Variance
- Appendix 2 – Revenue by Service Area
- Appendix 3 – 2021/22 Calls on Transformation Fund
- Appendix 4 – 2021/22 Transfers to and from Reserves
- Appendix 5 – Capital Programme

Background papers: None

Final report clearance:

Signed by:

Diarmaid Ward.

Executive Member for Finance, Planning and Performance

Date: 5 July 2022

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