Appendix 4

Report of: Executive Member for Finance, Planning and Performance

Meeting of:	**Date**	**Ward(s)**
Executive	1 September 2022	All
Delete as appropriate	~~Exempt~~	Non-exempt

Budget Monitoring 2022/23 - Month 3

1. Synopsis

1.1. This report presents the estimated outturn position for the 2022/23 financial year as at the end of month 3 (30 June 2022). This is an initial view of the forecast financial position and incorporates known and emerging budget variances and risks at this early stage of the financial year.

1.2. The financial context of high inflation and continued recovery from the pandemic creates a very uncertain backdrop to the 2022/23 financial year. The impact of the cost-of-living crisis is already being felt hard by the council and residents. Moreover, the economy is showing signs of entering a period of stagflation (a combination of rising prices and slow, or negative, economic growth). This would impact both residents and council services, especially those services that are either demand-led or particularly reliant on income generation.

1.3. This report seeks to highlight the largest variances to budgets and how these are being managed. The main report includes the most significant budget variances by directorate with an exhaustive list of variances included at **Appendix 1**, with appropriate commentary. Overall, the General Fund (GF) is currently forecasting a net overspend of (+£8.134m), after applying the corporate energy provision of (-£1.400m) but before the use of the contingency budget or reserves.

1.4. The HRA is currently forecasting an in-year surplus of (-£0.812m). 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.

1.5. At the end of month 3, total capital expenditure of £25.380m had been incurred against a 2022/23 forecast of £188.425m and the revised 2022/23 capital budget of £242.182m.

2. Recommendations

2.1. To note the forecast 2022/23 GF estimated net outturn variance of a (+£8.134m) overspend at month 2. (**Section 3, Table 1, and Appendix 1**)

2.2. To note the transformation fund allocations and anticipated, profiled drawdowns for 2022/23. (**Paragraph 4.52 and Appendix 2**)

2.3. To note the collection fund monitoring position at month 3. (**Paragraphs 4.53 to 4.62**)

2.4. To note the Energy Price Analysis position at month 3. (**Paragraphs 4.63 to 4.69**)

2.5. To note the forecast 2022/23 HRA estimated outturn (-£0.812m) surplus at month 3. (**Section 5**)

2.6. To note that, at the end of month 3, capital expenditure of £25.380m had been incurred against a 2022/23 full year forecast of £188.425m and against the revised 2022/23 capital budget of £242.182m. (**Section 6 and Appendix 3**)

3. Revenue Summary

3.1. A summary position of the month 3 2022/23 GF financial position is shown in **Table 1**, with a breakdown by individual variance in **Appendix 1**.

Table 1: 2022/23 GF Over/(Under)Spend – Estimated Outturn

Directorate	**Month 3 Total £m**
Adults	3.202
Chief Executive's	0.100
Children's Services	3.217
Community Wealth Building	1.084
Environment	1.760
Fairer Together	0.171
Homes & Neighbourhoods	-
Public Health	-
Resources	-
Total: Directorates	**9.534**
Corporate	-
Gross Total: General Fund	**9.534**
Less: Corporate Energy Provision	(1.400)
Net Total: General Fund	**8.134**

3.2. The 2022/23 corporate energy provision of £1.4m, prudently built into the 2022/23 budget to provide some resilience against rising fuel and energy prices, has been applied and set against the gross GF position.

4. General Fund

Adult Social Services (+£3.202m)

4.1. Adult Social Services is currently forecasting an overspend of (+£3.202m), which is detailed by key variances in **Appendix 1**.

Covid and Hospital Discharge Pressures (+£2.455m)

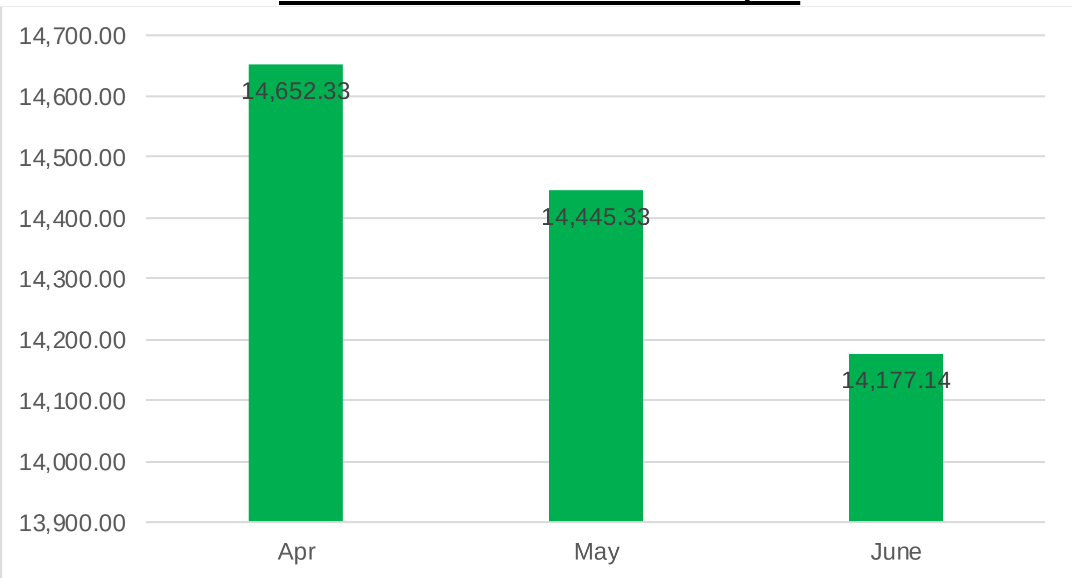
4.2. The Covid and Hospital Discharge pressures are made up of:

- (+£1.752m) relating to individuals who came through the NHS Hospital Discharge schemes from March 2020 to March 2022 and are now receiving social care packages; and

- (+£0.703m) relating to hospital discharge pressures in the current financial year.

4.3. A pressure of (+£1.752m) relates to individuals who came through the NHS Hospital Discharge scheme from March 2020 to March 2022 and are now receiving social care packages. The original cost for this cohort of 733 individuals at the start of 2022/23 was £14.652m, (+£2.221m) over budget. It is expected that this will decrease throughout the year as these individuals leave the system. As at month 3, this pressure is (+£1.752m).

Figure 1 - Value of Historical Covid-19 Hospital Discharge Care Packages within Adult Social Services in 2022/23



As a result of the current Hospital Discharge process and a change in the NHS funding, the Council is facing a gross pressure of (+£1.415m). This will be mitigated by the following actions:

- Examining other funding streams that may be used to mitigate the income loss (-£0.525m);
- Changing operational practices linked to Hospital discharges (-£0.062m);
- Better understanding discharges which are compliant with the funding and factoring these into future projections; and
- Reablement returning to full capacity (-£0.123m).
- This will result in a net pressure of (+£0.703m).

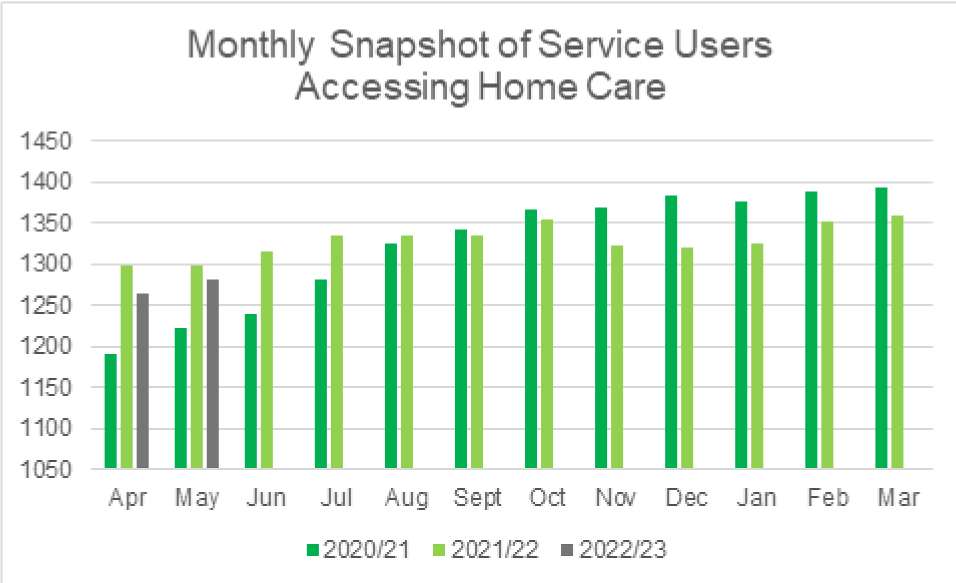
Demand over Demographic Growth (+£1.017m)

4.4. Adult Social Services continues to be impacted by wider demographic pressures, including increased demand for services and need of acute care. During budget setting, it was assumed that demographic growth would reduce back to pre-pandemic levels in 2022/23. However, in the first 3 month of the year we are seeing a continuation of the growth trends seen in 2021/22 during the pandemic, which is now an unbudgeted growth pressure of

(+£1.017m). This growth has primarily been in homecare throughout the pandemic. However, residential and nursing placements are also increasing to pre-pandemic levels after a dip in the past few years.

Figure 2 - Monthly Snapshot of people accessing Homecare over the past three financial years

4.5. This graph shows that whilst demand for homecare is slightly less than it was in 2021/22, demand is still above early pandemic levels.



Client Contributions and Direct Payments Drawdown (-£0.800m)

4.6. There are several factors to mitigate these pressures. As the number of individuals accessing care increases, so does the level of client contributions (-£0.300m) and one-off direct payment surplus will be drawn down to offset (-£0.500m).

Additional Staffing in the Adult Senior Leadership Team (+£0.332m)

4.7. This is mainly due to several roles where the postholder is involved in a long-term HR related issue and it has been deemed necessary to have another individual covering their post, resulting in the double cost of these roles and potential redundancy costs.

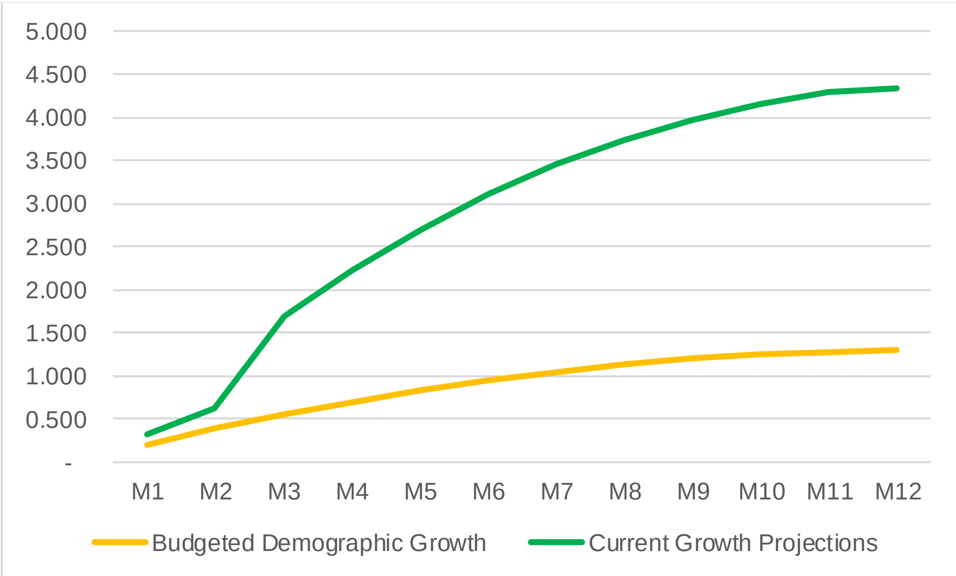
Savings Slippage (+£0.198m)

4.8. The In-House Transformation Programme has been delayed to the middle of 2022/23 due to the covid response at the end of 2021/22. This will commence following approval of new structures. This will cause a financial pressure in 2022/23 of +£0.198m which will be rectified in 2023/24.

Risks and Opportunities for Adult Social Service's finances:

4.9. **Demand over Demographic Growth Allocation (+£1.893m)** - If demand continues at current rates, a further (+£1.893m) will be spent in addition to the current forecasted overspend above the allocated demographic growth. This is based on current trends which shows that social care levels are still following the 2020/21 pandemic levels.

<u>Figure 3 - Demographic Growth for Older People – Budget compared to Current Forecast</u>



Management actions to mitigate the pressures from this increased demand include:

- Using the Integrated Quality Assurance Meeting (IQAM) Panel to focus on the right sizing of packages with an emphasis on maximising enablement. A slight reduction in the size of packages going forward should also start to be evidenced due to an amendment to custom and practice.
- There is a planned restructure to the reablement service to increase its capacity to take cases.
- Operational Social Work Management are working with the Finance team and Data Intelligence to capture further information on the pressures to be able to focus targeted work on areas of growth earlier.
- Further work is being undertaken to identify tangible saving opportunities in all areas of the service. These savings are primarily aimed at addressing pressures in future years but there is potential for work to be started sooner to offset additional pressures.
- Operational Changes to the Hospital Discharge Process. This includes a move away from NHS Therapy led discharges with the Hospital Social Work team managing the process from start to finish and all funding requests to come to a single IQAM Panel for agreement.

4.10. **Delay to Beaumont Rise Opening (+£0.189)** - the delay in the opening of a new residential Mental Health care home, Beaumont Rise, because of construction work delays due to restrictions to activity on the building site and supply chain issues resulting from COVID-19. Most of the Mental Health accommodation in the Mental Health Commissioning Section 75 Pooled Budget was redesigned as part of the Mental Health Accommodation project. This includes closing the Hanley Gardens and Caledonian Road homes (which NCL CCG currently pay for) and moving residents into other accommodation, predominately the new Beaumont Rise development. As a result of the delay to Beaumont Rise to January

2023, the CCG will be required to continue to pay for the Hanley Gardens and Caledonian Road contracts which are a higher cost than the new Beaumont Rise contract, and unable to transfer this budget into the pool. This is expected to cause a pressure of (+£0.409m). The CCG have agreed to pay £0.220m towards this through a Section 256 agreement. There is potential for additional income from the NHS from the part closure of Hanley Gardens. Negotiations are ongoing with the provider to see if budget can be released from the block arrangement. It is expected that this will offset the remaining pressure. However, if not agreed, this will cause a pressure for Adult Social Services of (+£0.189m).

4.11. **Social Work Teams (+£0.201m)** - Partially due to a delay in the Social Work Transformation programme resulting in a number of additional agency staff above the budgeted establishment. This will be managed by recruiting permanently to these posts with a temporary 'Temp to Perm' recruitment process already underway. A business case is expected to be put forward requesting an additional £0.201m to fund additional social workers for the rest of the financial year. If this is not agreed, this will cause a pressure on the Adult Social Care budget.

4.12. **Savings** - Adult Social Services have a significant amount of savings (£5.521m) to be delivered in 2022/23. This report assumes that all savings will be delivered except £0.198m from In-House Transformation.

4.13. There is a significant risk that the 'Managing Uplifts' saving (£0.650m) will be undeliverable due to the current inflationary pressures faced by providers.

Chief Executive's Directorate (+£0.100m)

4.14. The Chief Executive's Directorate is currently forecasting an overspend of (+£0.100m), which is detailed by key variances in **Appendix 1**.

4.15. This is wholly due to an unfunded pressure within communications as part of the Accessible Documents project.

4.16. There are no other significant variances to report.

4.17. There are no other known risks or opportunities to report.

Children's Services (+£3.217m); Schools (-£0.902m)

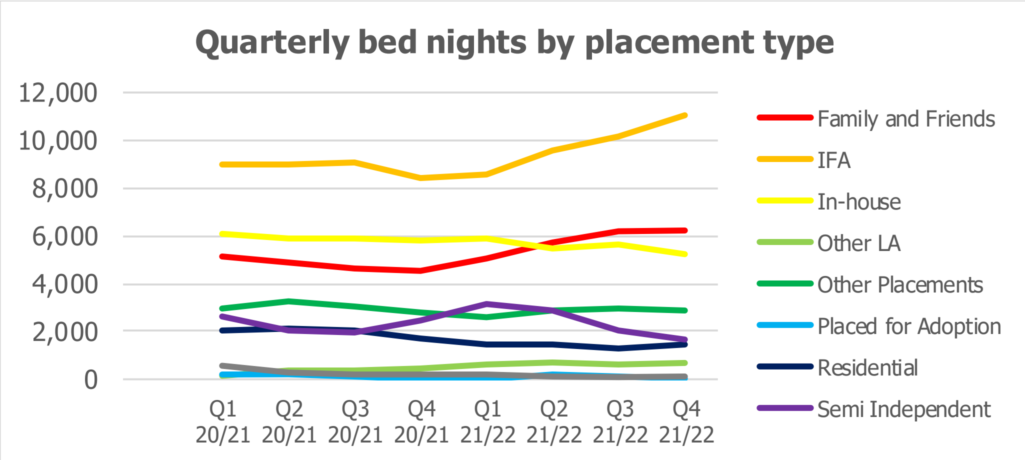
4.18. Children's Services are currently forecasting an overspend of (+£3.217m), which is detailed by key variances in **Appendix 1**.

4.19. Variances to note include:

- (+£1.636m) forecast overspend against the Children's Social Care placements budget, after allowing for drawdown of demographic growth. The increase in the forecast is due to factoring in provisional estimates of the impact of market inflation. This forecast is based on a projection of trends in expenditure since 2019/20:
    - Against a budget of £19.467m spend could increase to £22.328m in 2022/23 if the average trend of the last three years occurs (4.9% increase per annum) or down to £21.103m if the 2021/22 trajectory is followed (0.9% reduction). The outturn spend for 2021/22 was £21.035m. This analysis is purely based on spend data, not activity data.

- Taking an average of these two forecasts and comparing it to the budget after adjusting for savings and demographic growth, indicates that the budget could overspend by (+£2.599m). If the various transformation projects (ASIP and foster carer housing adaptations schemes) deliver cost reductions as per their business cases, then this forecast overspend could reduce to (+£1.636m). This analysis includes the estimated impact of market inflation.
- The latest bed night activity data is from quarter 4 2021/22. This shows that 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.

Figure 4 - Quarterly bed night activity data (non-UASC)



- Residential bed night activity data is shown in **Table 2** below. At quarter 4 there was an increase in residential activity, reversing the decrease in activity seen during quarter 3. Residential activity was however still lower than during quarter 4 2020/21. Significant reductions were seen during the year in welfare secure placements, parent and child court directed placements and therapeutic placements. The average length of stays in residential care reduced by 10% (38 days) in 2021/22. The average unit cost of residential placements has reduced in 2021/22 by £60 per week to £4,416 when compared to the previous year.

Table 2 – Residential bed night data extract

	Q4 20/21	Q2 21/22	Q3 21/22	Q4 21/22
Residential bed nights	1,675	1,452	1,288	1,448
Movement from previous quarter			- 11%	+ 12%
Movement from same quarter one year earlier				- 14%

- Activity in relation to independent foster care (IFA) is shown in **Table 3** below. Activity continued to increase during quarter 4 and is almost one third higher than this time last year. Lengths of stay in foster care have reduced by 23% (98 days) when compared to 2020/21. This trend follows a significant increase in the average length of stay in IFA in 2020/21 which was then attributable to the pandemic.

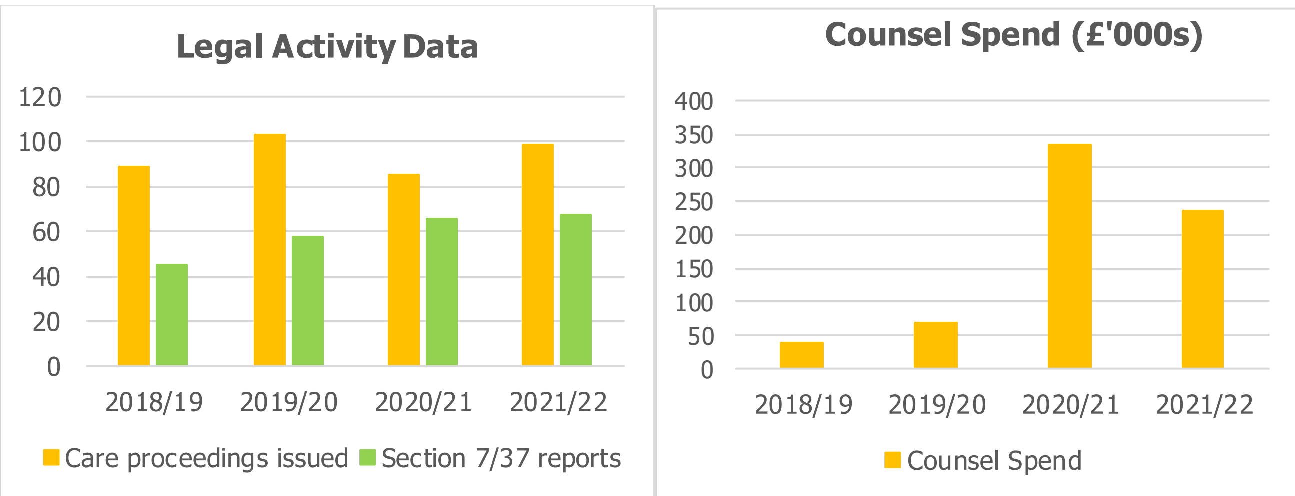
Table 3 – IFA bed night data extract

	Q4 20/21	Q2 21/22	Q3 21/22	Q4 21/22
IFA bed nights	8,421	9,589	10,191	11,049
Movement from previous quarter			+ 6%	+ 8%
Movement from same quarter one year earlier				+ 31%

- Cost pressures in relation to Children's Social Care placements is an issue across London. There has been a 36% increase in the cost of the support for the children in care are across all London Boroughs since 2015, a 64% increase in the unit cost of residential settings and a 13% increase in the unit cost of fostering settings.

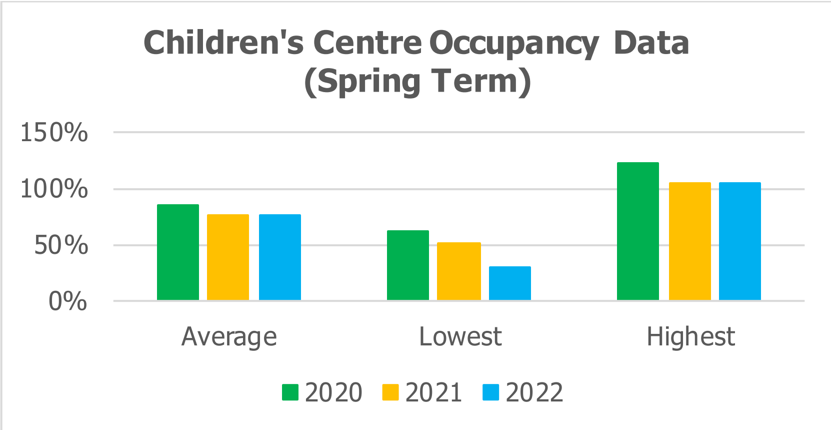
- (+£0.250m) estimated legal costs in relation to demand for care proceedings. The use of Counsel is subject to service director approval to minimise this cost pressure. Care proceedings issued and Section 7/37 reports remain high, and activity is not expected to reduce significantly from 2021/22 levels. Care proceedings issued in 2021/22 were 16% higher than in 2020/21, while numbers of section 7/37 reports were in line with 2021/22. Activity continues to be impacted by the pandemic and pressures on Counsel spend is a national issue across local authorities.

Figure 5 - Legal activity data and Counsel spend



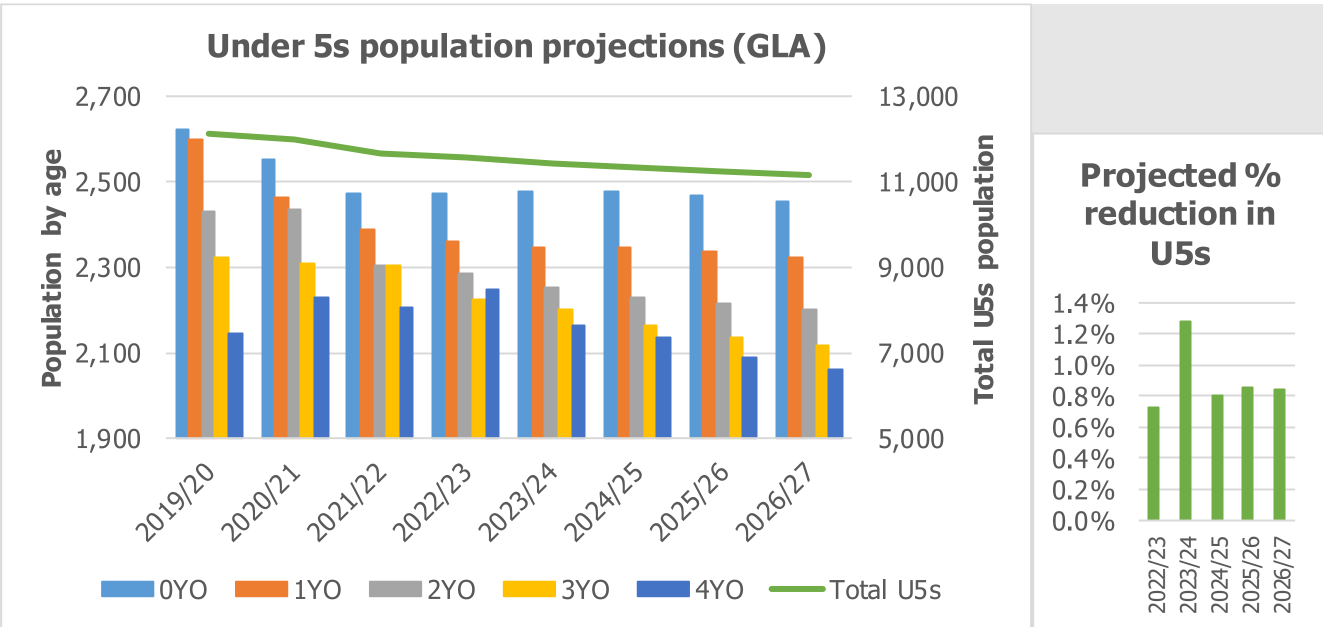
- (+0.271m) forecast cost of continuing to underwrite income losses at Lift and Rosebowl while income levels continue to recover to pre-pandemic levels.
- (+0.300m) estimated cost pressure from bringing the youth provision at platform back in-house. This includes estimates of pressures in relation to facilities management. The cost estimate is due to be updated in line with the latest plans.
- (+0.250m) estimated loss of parental fee income in Children's Centres due to sustained lower levels of attendance following the pandemic:
  - Average occupancy on the spring term census day 2022 has not recovered compared to pre-pandemic levels. Average occupancy was 10.2% lower than pre-pandemic levels (spring 2020), and 0.8% lower than last spring.

Figure 6 - Children’s Centre occupancy data



- The population of under 5s is projected to decline over the next 5 years based on GLA population estimates. The forecast reduction is 4.5% by 2026/27, this follows a 2.6% reduction in 2021/22 from last year. A declining U5s population alongside changing work patterns indicate that occupancy is likely to be under pressure for the medium to long term unless take-up of provision can be increased.

Figure 7 - Under 5s population projections



4.20. Risks and Opportunities within the department are:

- There are risks in relation to the Children’s Social care placements budget forecast:
  - The forecast overspend above is a based on a desktop exercise projecting levels of spend based on a range of trends seen in previous years. A more accurate forecast will be available at month 3 based on quarter 1 activity data.
  - Market inflation pressures have been estimated at this stage with a further 2% allowed for above the level included in budget setting (approximately 2%). Each 2% average increase in cost above this level will add (+£0.260m) of costs.

- The regulation of supported accommodation is due to come into force in April 2023. This will result in an increase in provision for 16/17-year-olds falling under the scope of Ofsted regulation as Children's Homes. Following consultation with providers they have set the intention to comply with regulatory changes which will result in a cost increase on provision for this cohort.

- Updated modelling in relation to Unaccompanied Asylum-Seeking Children (UASC) and leaving care indicates a cost pressure of (+£1.448m) in 2022/23. However, it is important to note that this is based on the current UASC and leaving care (Former UASC) cohort and does not take into consideration new UASC clients that may present in the borough in 2022/23. The projected pressure is due to the considerable number of UASC clients (39 in total) turning 18 and transferring to Leaving Care in 2022/23. The annual grant for someone under 18 is £0.052m, compared to £0.014m for someone 18 or over. This equates to a difference of £0.038m per year per client or £1.482m for 39 clients
- Recent increases in demand for temporary accommodation (+£0.098m overspend in 2021/22) may recur in 2022/23.
- Spend against the Universal Free School Meals (UFSM) budget is expected to continue to reduce in line with projected pupil numbers and increased eligibility for free school meals in future years. 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 in October 2021. UFSM spend could therefore reduce by (-£0.220m) in 2022/23 and (-£0.040m) in 2023/24. The reduction in spend in 2021/22 and future forecasts indicate that agreed 2022/23 savings of (-£0.195m) are deliverable and could be exceeded.
- The GLA have notified the Council of a potential in-year reduction (10%) of ACL grant funding. This will be confirmed later in the year.
- The forecast overspend for Children's Services takes into account the delivery of savings. All savings are on track for delivery with the exception of:
    - Targeted reduction in Children Looked After (£0.800m). This has not materialised due to increased demand, particularly during covid where: more children suffered serious harm; care proceedings were delayed, therefore more children stayed in care for longer; and a large increase in numbers of UASC presented. Savings against residential provision have been delivered but these have been offset by increased pressures on provision in IFAs and independent living. During Covid, the placement market was insufficient leading to ongoing unit cost increases – this is a national issue.

4.21. The ring-fenced Dedicated Schools Grant (DSG) is currently forecast to underspend by (-£0.902m):

- (-£0.849m) unallocated high needs block contingency. This is being held to mitigate any additional demand pressures, and in recognition that future increases in funding will be significantly lower than in previous years, despite the expectation of continued large increases in demand.

4.22. DSG balances are forecast to reduce to by (-£0.350m) to (+£4.868m) during 2022/23 taking into account the forecast underspend above, and the allocation of £1.252m of funding from the High Needs Block balance. This is shown in **Table 4** below. £1.152m of this is an allocation to mainstream primary schools to meet the additional cost of significantly increased levels of special educational needs and disabilities being experienced at the Early Years Foundation Stage.

Table 4: Forecast DSG Balances

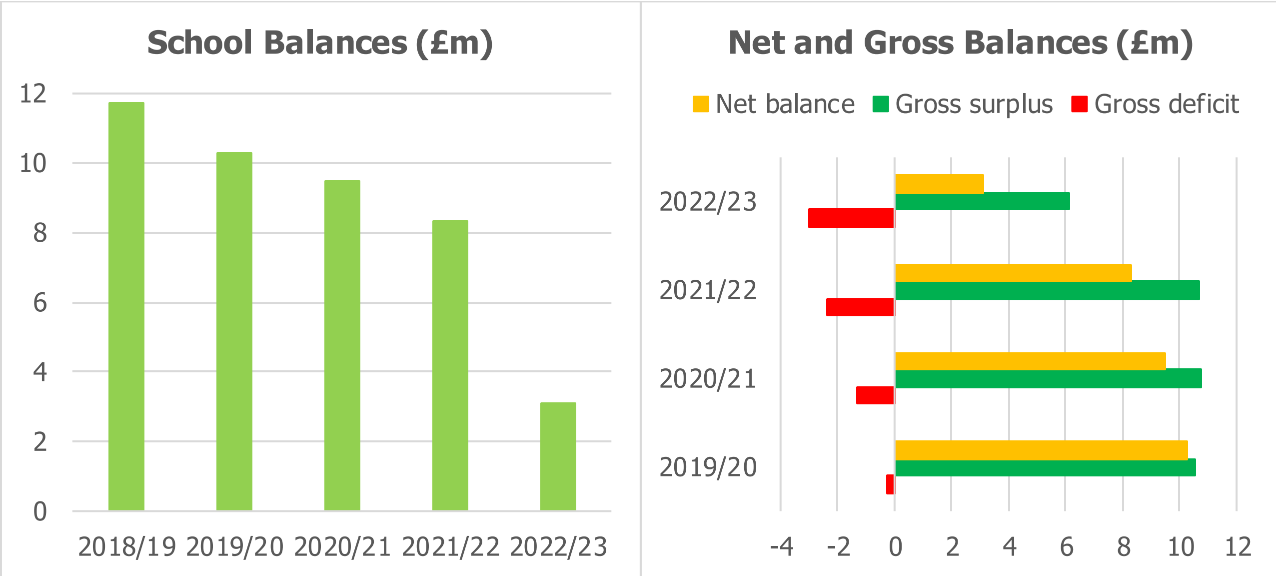
	Schools Block £m	**De-delegated budgets £m**	**Central Schools Services £m**	**High Needs Block £m**	**Early Years Block £m**	**Total £m**
Opening balance	**0.776**	**0.122**	**0.210**	**2.649**	**1.461**	**5.218**
Drawdowns	0.000	0.000	0.000	(1.252)	0.000	**(1.252)**
In-year DSG variance	0.000	0.000	0.053	0.849	0.000	**0.902**
Forecast closing balance	**0.776**	**0.122**	**0.263**	**2.246**	**1.461**	**4.868**

4.23. Risks and Opportunities within the DSG are:

- The main in-year risk to DSG funding is in relation to Early Years. Funding in the Early Years Block to fund statutory entitlements to early education and childcare is provisionally set to reduce by £1.555m (7.7%) in 2022/23 but will be adjusted in the summer term in line with the 2022 spring term early years census. Provisional allocations are based on the 2021 spring term headcount which was artificially suppressed due to the pandemic. In the normal course of events, we would expect some recovery in the data compared to 2021, and therefore a positive in-year funding adjustment. However, the Omicron variant had an adverse impact on recovery, therefore this remains a significant budget risk for the council and early years providers.

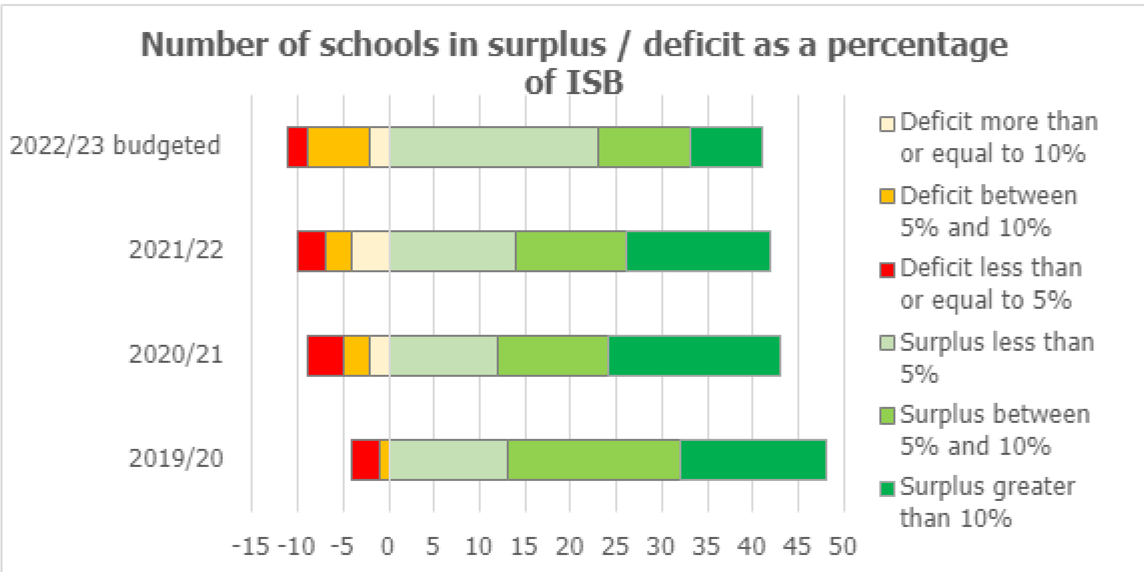
4.24. Individual school balances stood at £8.313m at the end of 2021/22. Schools have budgeted to reduce their balances by £5.233m to £3.080m over the course of the year. Individual school balances in Islington have been in decline since 2018/19 when they stood at £11.732m. Balances reduced steadily to £8.313m at the end of 2021/22 but are budgeted by schools to sharply decline during 2022/23. The decline in school balances is a national issue as schools face increasing cost pressures.

Figure 8: School balances



4.25. There were 10 schools in deficit as of 31 March 2022, based on the budget plans submitted by schools this is expected to increase to 11 by 31 March 2022, with two schools entering deficit and one coming out of deficit. A further analysis of balances, when compared to the Education & Skills Funding Agency (ESFA) suggested guidance of balances held by schools; 8% for nursery, primary and special schools and 5% for secondary schools, indicate 13 schools will be above the suggested limits at the end of 2022/23, a reduction from 21 at the start of the year.

Figure 9: Numbers of schools in surplus / deficit



4.26. The main causes of the decline in Islington are:

- Reducing pupil numbers. 90% of school funding is pupil led – each reduction in pupils equates to an average loss of funding per pupil of £5,430 in primary and £8,040 in secondary schools. Actual losses per pupil for individual schools will depend on the pupil characteristics at that school.

- Increasing numbers of pupils with SEND. Education health and care plans increased at a rate of 10.4% per annum in Islington in 2021/22.
- Below inflation per-pupil increases in funding under the national funding formula.

Community Wealth Building (+£1.084m)

4.27. The Community Wealth Building Directorate is currently forecasting a (+£1.084m) overspend position.

4.28. Variances to note include:

- It is expected that there will be a shortfall in Commercial property income in the Corporate Landlord division of (+£1.084m) due to additional undeliverable savings of £0.840m and £0.244m from previous years.
- The division currently has 44 committed live leases with annual value of £3.213m. This assumes 100% occupancy rate during the year with no void or rent- free periods. It is assumed that commercial tenants will remain throughout the year and rent of £3.213m will be received.

4.29. Risks and Opportunities within the department:

- In addition, there is a pipeline of £1.271m of new commercial property income opportunities for future years to offset the pressure in the longer term.
- 8 leases with a total value of £0.326m are being investigated and re-negotiated currently. The income from these contracts will reduce the overspend position if they are agreed and signed off.
- Apart from Commercial property income, there are no other known risks or opportunities.

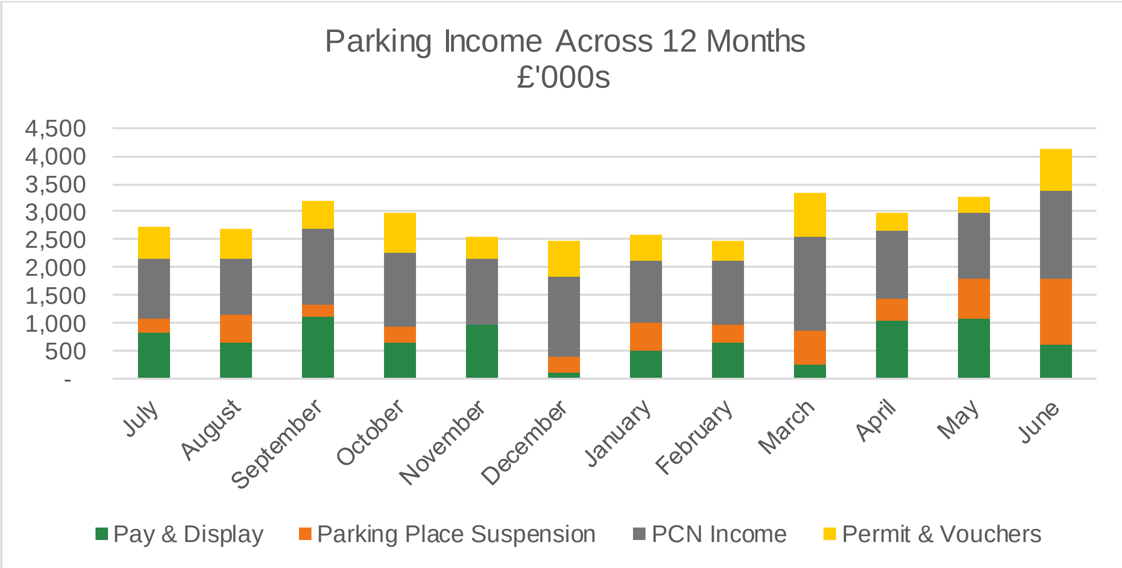
Environment (+£1.760m)

4.30. The Environment Directorate is currently forecasting a (+£1.760m) overspend position, which is detailed by key variances in **Appendix 1**.

4.31. The significant variances within the department are as follows:

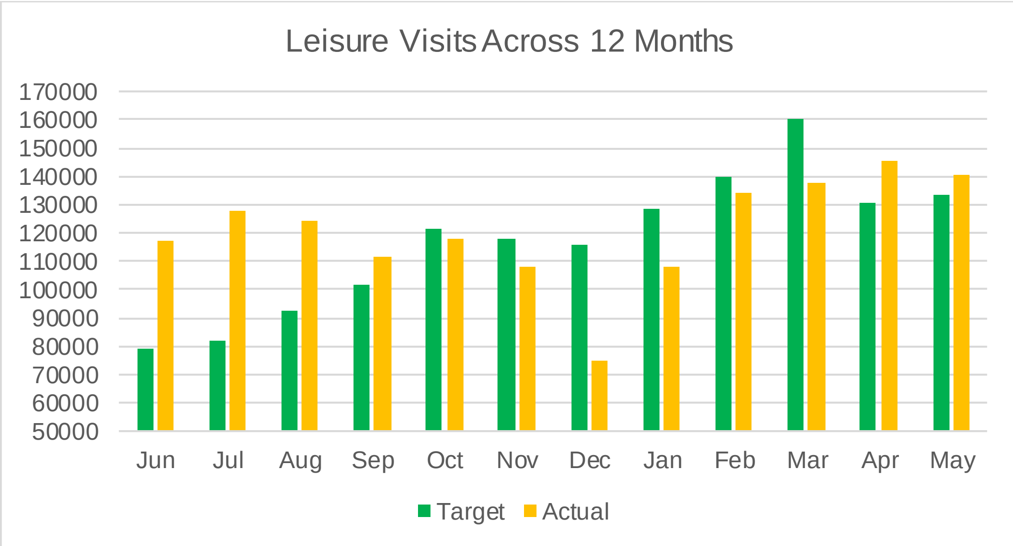
- The Parking account is currently forecast to break-even, however there are several risks around the significant income streams. Whilst volumes of pay and display transactions are increasing the average income per transaction is falling indicating shorter lengths of stays. Suspension income remains strong with the continued programme of fibre network roll-out across the borough. There is a risk around the timing of the delivery of the rollout of the GNetwork works programme which could lead to a pressure within the parking account as this gain is currently offsetting the shortfall within the pay and display budget of around £1.5m.
- There is a pressure on parking permit income which it is anticipated will be partially resolved by a mid-year pricing review. £0.300m was set aside within reserves from surplus parking income in 2021/22 to alleviate this part year pressure so is not included in the forecast. The table below shows the monthly breakdown of the main parking income streams over the last 12 months.

Figure 10 - Parking Income Streams July 2021-June 2022



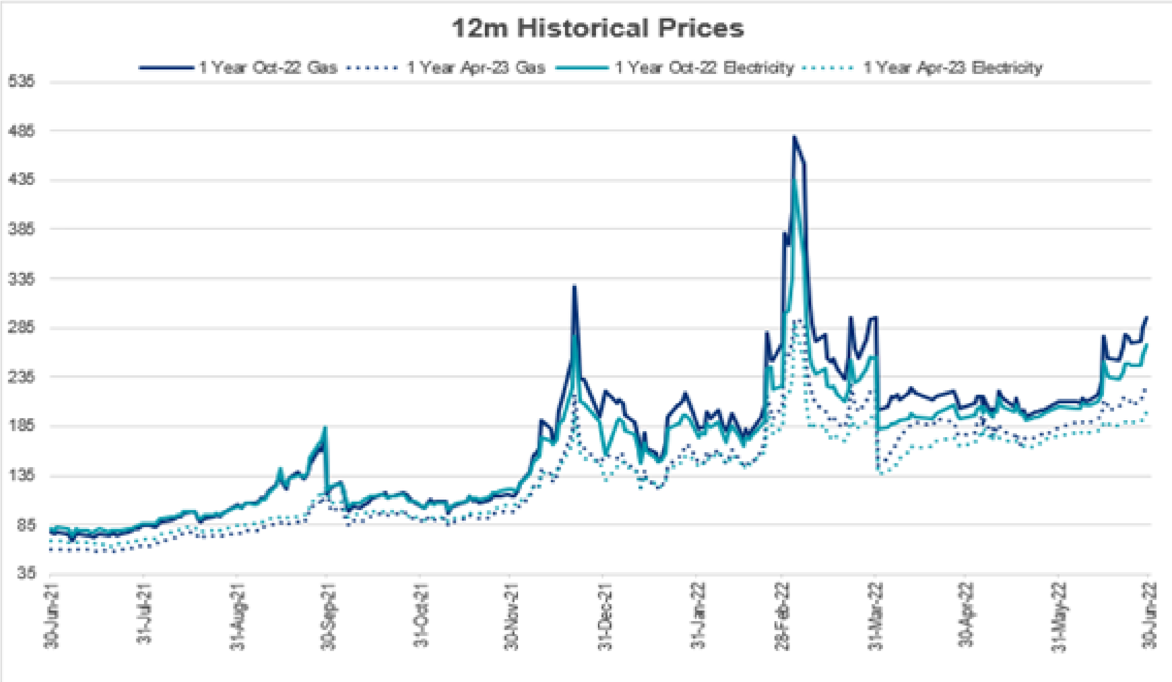
- It was agreed to continue to defer the rent receivable from GLL for the first quarter of 2022/23 (+£0.500m), of which the future repayment is uncertain, and this has been fully provided for as a one-off adjustment to the Environment budget for 22/23 so does not contribute to the overspend position.
- In the leisure contract there is also a pressure around the energy price risk share where the council would bear 50% of the rise in the cost of energy. This risk is uncertain but is currently estimated to be (+£0.750m). The capacity of GLL to absorb their portion of the energy risk is currently unknown and may be dependent upon an in-year price rise as the inflationary cost pressures continue. The table below shows the actual number of leisure visits against the target for the last 12 months. Whilst the recovery in the January to March period was behind target, the recovery has been stronger from April with targets being exceeded.

Figure 11 - Leisure Visits June 2021-May 2022



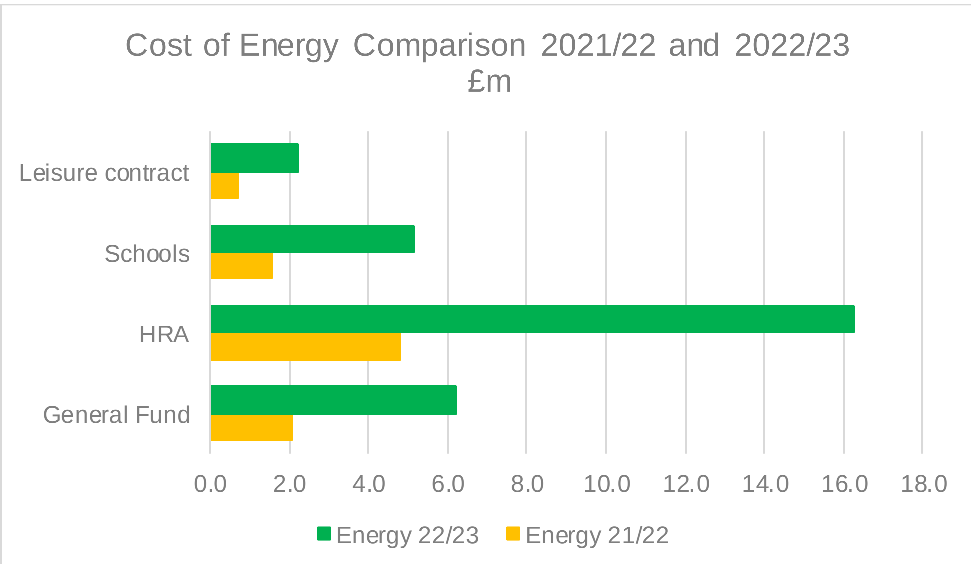
- The energy risk also impacts upon other service areas but particularly on the Street Lighting PFI contract. Some allowance has been made from the annual contract inflation provision however at current prices it is anticipated that this could be (+£0.500m) underprovided.
- The table below shows the commodity prices for gas and electricity. This tracks how the cost of annual contracts for gas and electricity for October 22-23 and April 23-24 has changed over the previous 12 months. Whilst costs are below the March peak at the start of the Ukraine crisis prices are again starting to climb particularly to cover the Winter 22 period.

Figure 12 - Change in Commodity cost of Gas (pence per therm) and Electricity (pence per MwH). Change in price from 30 June 2021 to 30 June 22 of purchasing October 22-23 and April 23-24 contracts



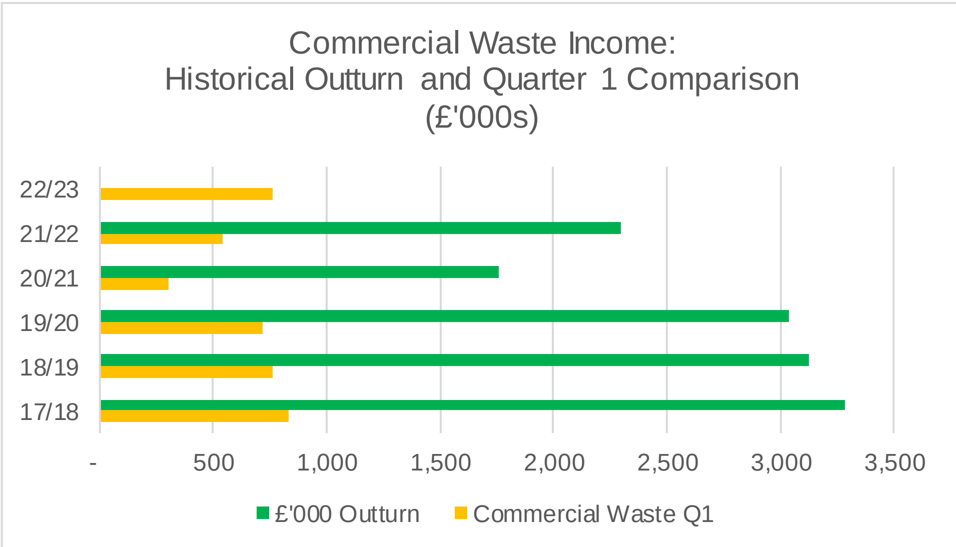
- As at 30 June 2022 the commodity cost of gas was trading at 296.25p per therm whilst electricity was trading at £267 per MWh to purchase a 1-year contract from October 2022. The table below illustrates the impact on council energy costs at these market rates compared to actual cost in 2021/22.

Figure 13 - Cost of 1 year contract from Oct 2022 – Oct 2023 at 30 June 2022 market prices



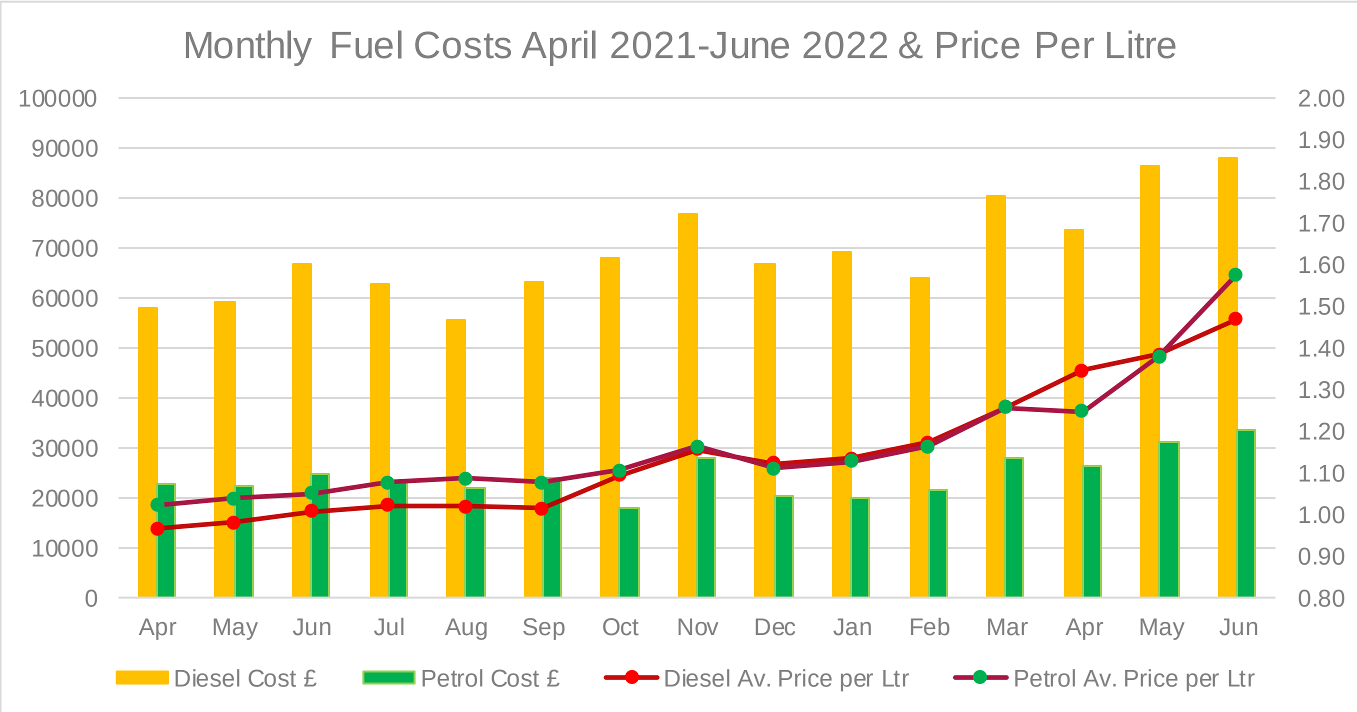
- There continues to be a pressure within the commercial waste service as the customer base recovers however the first quarter income figures look encouraging. The table below compares the income received during the first quarter compared to the outturn for the previous 5 financial years. The first quarter income of 2022/23 saw a return to pre-covid levels last achieved in 2018/19.
- With offsetting reductions in the commercial waste disposal levy it is estimated that there is a pressure of around £0.3m within the service. With a business plan to increase the customer base utilising and re-focussing existing resources this pressure is expected to diminish over time.

<u>Figure 14 - Quarter 1 Compared to Outturn: Current performance compared to last 5 years</u>



- There is a further pressure relating to the rising cost of fuel. The main consumers of fuel are Environment and the HRA. At current prices the pressure is estimated to be (+£0.420m) split around 50/50 between the two services, representing a (+£0.210m) risk to the Environment directorate.
- The council purchases around 60,000L diesel and 20,000L petrol per month. Wholesale prices have increased by over 50% in the last year increasing costs by around £40k per month.

Figure 15 - Monthly spend on Diesel & Petrol: Impact of increasing Fuel costs



4.32. All other areas are expected to break even at this stage.

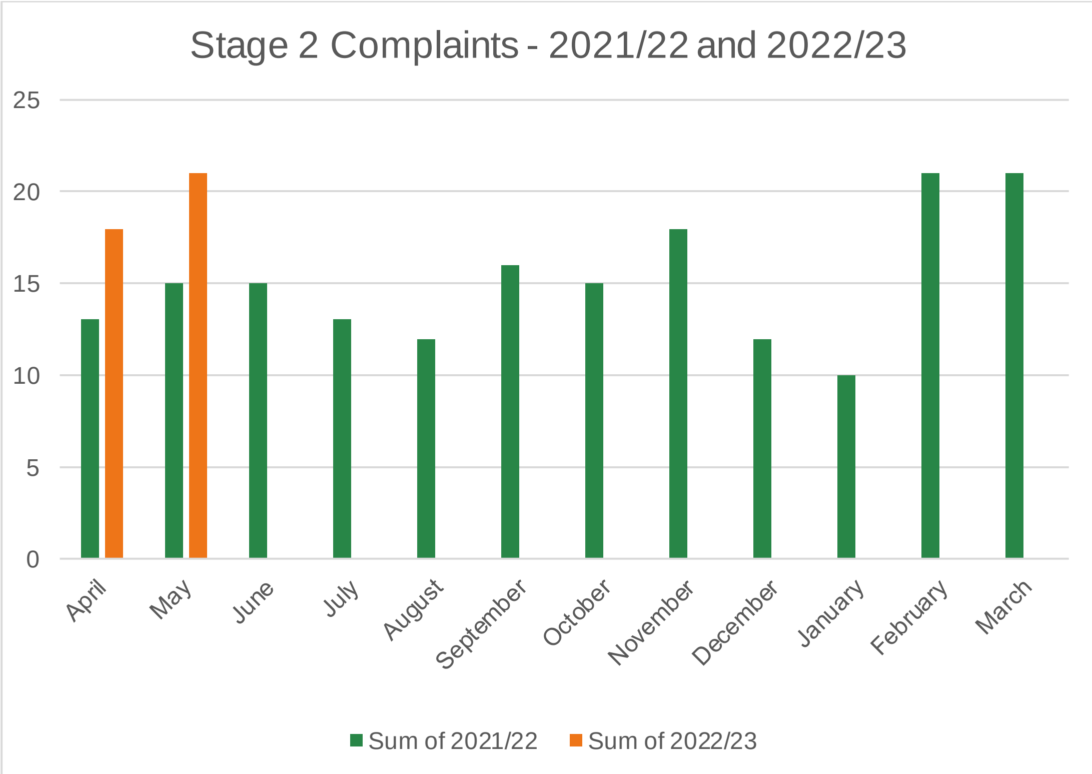
Fairer Together (+£0.171m)

4.33. The Fairer Together Directorate is currently forecasting a (+£0.171m) overspend, which is detailed by key variances in **Appendix 1**.

4.34. Significant variances within the directorate are as follows:

- (+£0.091m) cost pressure due to two full time secondments and additional overtime to deal with Chief Executive complaints effectively and efficiently, to combat Ombudsman action and ultimately avoid fines.

Figure 16 – 2021/22 Call volumes for the Chief Executive Team (Stage 2)



- (+£0.080m) COVID-19 related costs from 'We Are Islington' continuing to operate up until month 3 and will be wound-down by month 6. These costs are for additional overtime and salary related expenditure, from providing extra support and assistance provided to the vulnerable, those isolating and communities in general.

4.35. Risks and Opportunities

- There is a risk that due to the nature of the emergency 24/7 service within Resident Experience, that (+£0.065m) of the vacancy factor saving may be unmet.
- The service is currently undertaking a review into its honorarium payments, and as a result it is likely an opportunity to bring down salary costs will arise.
- There is a cost pressure (+£0.017m) risk within Resident Experience due to a redundancy payment if the staff member currently within a fixed-term contract is unable to be re-deployed.

Homes and Neighbourhood (Break-even)

4.36. The Homes and Neighbourhood directorate is currently forecasting a break-even position.

4.37. Within the break-even position there are a number of variances to note:

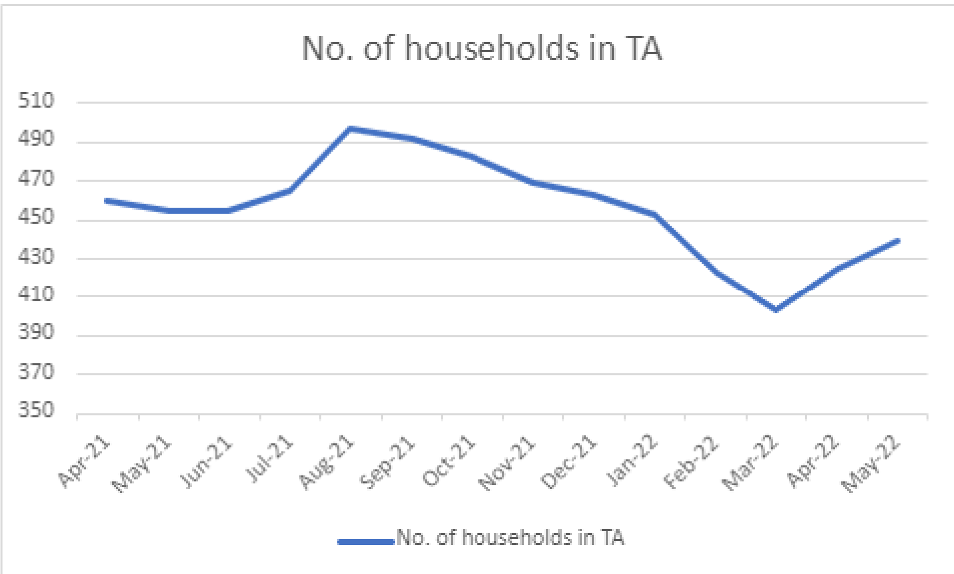
- Nightly Booked Temporary Accommodation (TA) is currently forecasting a minor underspend of (-£0.024m). Numbers in TA are rising, but the department believes that it can accelerate cases moving out of TA, with a number of new Property Acquisition Programme (PAP) properties becoming available. Overall case numbers will be monitored in the months ahead to ensure the department remain on track.

- Bad debts/arrears are expected to be (+£0.181m) overspent. As case numbers rise and the cost of living impacts, then more people will be in a position where other priorities conflict with TA rents, resulting in increased arrears. The department will seek to reform the management of this area ensuring it is led by a specialist team, to drive a focus on improving outcomes and collection rates.
- Islington Lettings is currently forecasting (+£0.249m) pressure. Islington Lettings is a guaranteed rent scheme that means a liability is created when tenants do not pay their rent and arrears develop. The department is seeking to mitigate the cost of this scheme by removing tenants from this more expensive accommodation either by transferring them into nightly booked TA or by creating direct relations between the tenants and the landlords, moving them out of the scheme.
- This is offset by smaller underspends detailed in **Appendix 1**.

4.38. There are a number of risks and opportunities to report for 2022/23. TA cases nationally are rising and expecting to rise to rise over the next 3 years by 20% per year by Heriot-Watt University. The local and national picture are increasingly difficult for the homeless:

- Nationally the cost-of-living crisis is beginning to impact on residents, private sector rents are rising in Islington by 16.2pc (based on inner-London rental values).
- The number of properties available to rent has fallen by 50% in the last 12 months.
- The number of evictions in the borough are rising due to the evictions ban ending in mid-2021.
- The number of cases presenting themselves to the team has risen in the first few months of 2022/23. The department is focusing on preventing case numbers rising insurmountably by increasing the number of clients being supported back into private sector options and through moving clients into cost neutral accommodation.

Figure 17 – 2021/22 Number of Households in Temporary Accommodation



- Islington is participating in a number of refugee schemes, namely those for Syrian, Afghan and Ukrainian citizens. These projects, while coming with grant money, provide an increased burden on the service staff to manage this influx of clients. There is a risk that core No Recourse to Public Funds (NRPF) numbers may rise as the service struggles to absorb both sets of cases.
- A number of different capital grants are coming into the HRA/HGF that will lead to an increase in Islington's acquisitions programme and the new Stacey Street project releasing up to 150 new properties. These properties will be cost neutral to the Housing General Fund budget and will help lower TA costs in the long term.
- The Housing Needs Service is currently undertaking a restructure, the outcome has not been determined; however, any immediate financial impact will be met from the department's own resources. It is not clear at this point what the impact will be in future financial years.
- Central government reviews of Homelessness Prevention Grant risk reduced funding for the Council. It is not clear if this will materialise in 2022/23 or in the next financial year.

4.39. Savings – Homes and Neighbourhood have a significant amount of savings (£0.675m) to be delivered in 2022/23. This report assumes that all savings will be delivered including the replacement of core council budget with additional homeless prevention grant available to the service, NRPF caseload reduction, increase income from training in NRPF connect and Temporary Accommodation. The impact of savings for Temporary Accommodation will depend on when the case numbers fall (or move into cost neutral accommodation), it is still too early to determine the long-term trend.

Public Health (Break-even)

4.40. Public Health is funded by a ring-fenced grant of £28.135m in 2022/23. The directorate is currently forecasting a break-even position.

4.41. There are a number of variances that may impact on the department in 2022/23:

- There is likely to be a significant underspend generated within the Sexual Health Division as the department continues to pay suppliers at baseline tariffs. There are additional costs related to an increase in activity for PrEP (-£0.835m).
- The Camden and North-West London NHS trust has detailed a deficit in their funding that is likely to require a substantial contribution from Public Health Islington. Early indications suggest the contribution could be up to (+£0.600m).
- The department is funding a number of one-off projects (+£0.452m) in the Other Public Health Division. This overspend will be partly met from underspends elsewhere, but also partly Public Health reserves to prevent an overall departmental overspend position.

4.42. There are a number of risks and opportunities in the area for 2022/23 and further:

- The Pre-Exposure Prophylaxis (PrEP) budget has previously not been fully utilised, but this was more a consequence of the pandemic preventing full access to the service. Demand is likely to increase in the year ahead and will fully consume any additional funding.
- There is an increase in demand for online sexual health services that are not offset by a reduction in costs for in-clinic sexual health services. Public Health cannot realise cost

efficiencies in clinics without substantially undermining their financial position. It is possible that in the long-term some efficiencies can be realised, but not in the short and medium term.

- The demerger between Camden and Islington risks creating a number of financial pressures. Additional staff may be required and there will be previously shared costs that may need to be absorbed solely going forward. It is too early to determine the financial outcome from this process, but the loss of overhead income from Camden would create a financial pressure of (+£0.219m).
- Inflationary pressures risk creating a pressure for providers that result in requests for additional payment or leading to provider failure, forcing the service to find alternative provision at additional cost. Inflationary pressures risk increased pay awards that will consume a greater share of the Public Health grant.
- The department has been awarded an additional core Public Health grant uplift of £0.767m from the 2021/22 allocation. It is unclear if this increase will be needed to pay for the Agenda for Change contract increases, if so, this will likely consume all the uncommitted uplift.

4.43. Savings – Public Health have a significant amount of recurring savings (£0.433m) to be delivered in 2022/23. At this stage it is assumed that all savings will be delivered including in Sexual Health where the budget has been realigned to reflect efficiencies through increased use of online services. Savings related to the re-modelling of the substance misuse prescribing service and the transformation of the oral health and healthy visiting service are on track.

Resources (Break-even)

4.44. The Resources Directorate is currently forecasting a break-even position.

4.45. Risks within the directorate include:

- There is an inflationary pressure and exchange rate risk in re-negotiating contracts with Digital Services suppliers. The service is monitoring this on an individual contract basis.
- Since the start of the pandemic the Digital Services department has had to improve technology in several areas, and this has seen a significant increase in projects. Digital Services are reviewing spend profiles on all projects in the department to ensure that project forecasts are robust and mitigate overspend risks on projects. The pressure in this area will become clearer as the review is completed.

Corporate Items (Break-Even)

4.46. The corporate position is currently forecast at break-even for the financial year.

4.47. There is a council-wide risk in relation to the budgeted pay award for 2022/23. There is currently a centrally held budget to allow for a 2% pay award in 2022/23. At the time of writing, the local government pay offer for the period 1 April 2022 to 31 March 2023 is a flat rate increase of £1,925 (for NJC pay points). On average, across the Council's payroll, initial estimates are that this would equate to a 6% increase in the council's pay bill. This would add an estimated £6.5m pressure to the in-year budget monitoring position and would need to be funded from the council's £5m contingency budget in-year plus further corporate balances/reserves to be identified. The ongoing, additional cost would need to be reflected in the 2023/24 base budget position going forward.

4.48. The latest transformation fund allocations are included in **Table 5** and **Appendix 2** for noting.

Table 5 – Transformation Fund Allocations 2022/23

Directorate	£m
Adult Social Care	0.710
Children's Services	1.482
Community Wealth Building	0.832
Environment	0.292
Fairer Together	0.243
Resources	4.569
TOTAL	**8.128**

Collection Fund Update – Month 3

Background

4.49. The recovery of council tax and business rates continues to be impacted by the Covid-19 pandemic and the impact on household budgets of the cost-of-living crisis. The collection and recovery of collection fund income is likely to be adversely affected in the current year.

4.50. Council tax and business rates income is a major source of the council's overall funding, representing around 24% of the council's gross general fund income. The combined collection fund income (council tax and business rates) is shared with the Greater London Authority (GLA) and central government. The council currently keeps 76.9% of council tax income collected, approximately £102.3m, and 30% of business rates income, approximately £73.7m, based on the estimated 2022/23 budget.

4.51. Collectable gross income and actual outturn is offset by a number of reliefs such as single person discounts and exemptions (council tax) and charity relief (business rates).

Current Collection Rate

4.52. The council in-year target for council tax collection is set at 95.33% annually, with £35.7m collected up until month 3 or 24.9%. This is -0.4% below the monthly in-year target.

4.53. The council in-year target for business rates collection is set at 96.7% annually, with £82.9m collected up until month 3 or 28.1%. This is +1.9% ahead of the monthly in-year target.

4.54. The two graphs below illustrate the trends of in-year council tax and business rates percentage collection by month and year.

Figure 18 – Council Tax In-Year Collection Rate Trend

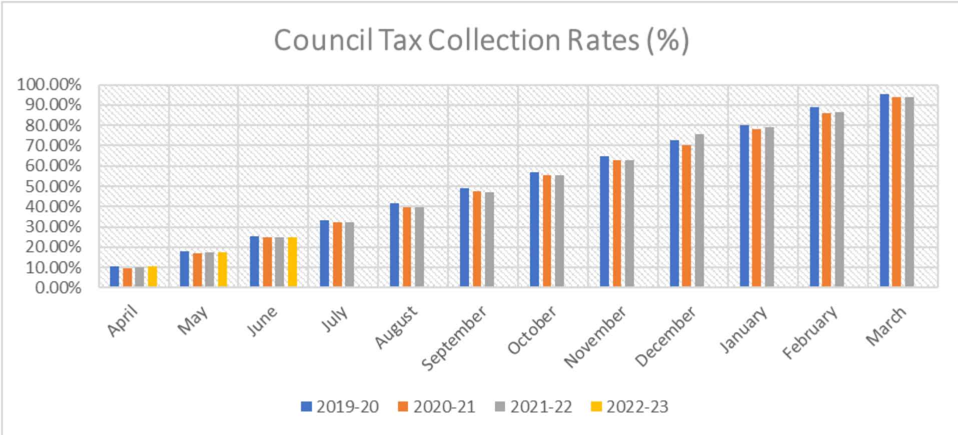
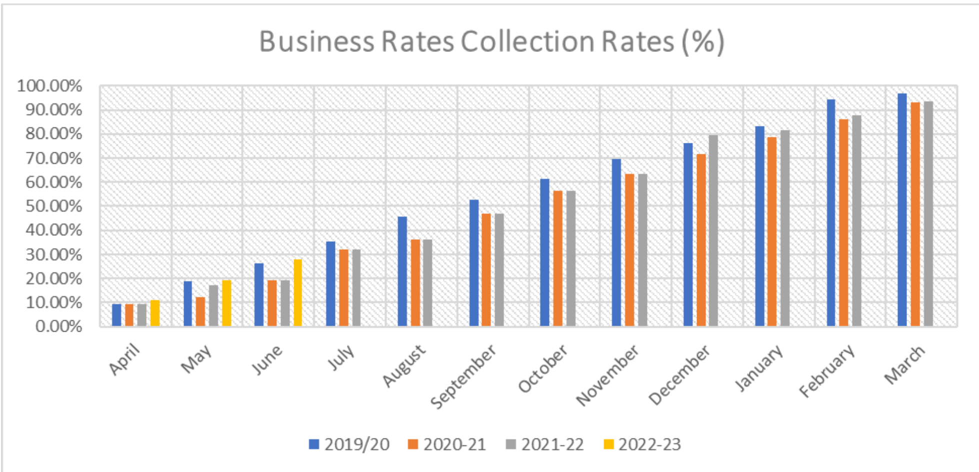


Figure 19 – Business Rates In-Year Collection Rate Trend



Collection Fund – Additional Commentary

4.55. The government provided £17.2m under the COVID-19 Additional Relief Fund (CARF) scheme to Islington Council to support those businesses that impacted by the pandemic but ineligible to claim any relief under previous support packages, such as the Retail Relief scheme. Take-up of the CARF scheme is lower than anticipated and up until month 3 the council has awarded relief to 310 local businesses, representing £2.5m or 14.6% of the overall grant awarded to the council.

4.56. The council has, at month 3, passed on £10.2m (99.7% of all eligible households) of the government's £150 Energy Bill Rebates scheme to help households with rising costs of living. This is available to properties in council tax bands between bands A to D.

4.57. The virtual court hearings system for both council tax and business rates continues to operate efficiently. At month 3, the council has issued combined 9,592 summonses (8,114 council tax and 1,478 business rates). Based on the current trend, costs raised through the summonses is in line with budget estimates.

4.58. As at the end of month 3, the number of claimants in connection with the Council Tax Support (CTS) scheme stood at 25,246, of which 18,260 relates to working-age claimants and 6,985 relate to pension-age claimants. At month 3, the council has provided £31.7m CTS to residents (£22.2m working-age and £9.4m pension-age).

Energy Price Analysis – Month 3

4.59. Rising energy prices, global supply chain issues and the economic consequences of the war in Ukraine have driven inflation levels to a 40-year high. Council budgets are under pressure from high inflation, for example council contracts and other running costs linked to CPI inflation (currently at 9.4%). It is important that the impact of rising prices is monitored within departmental monitoring submissions with, in addition, a more wide-ranging analysis in this section. This will assist in identifying trends and impacts over time. The graphs below reflect the movements in price since 1 March 2022.

<u>Figure 20 - Weekly monitoring of electricity commodity price at Megawatt per hour</u>

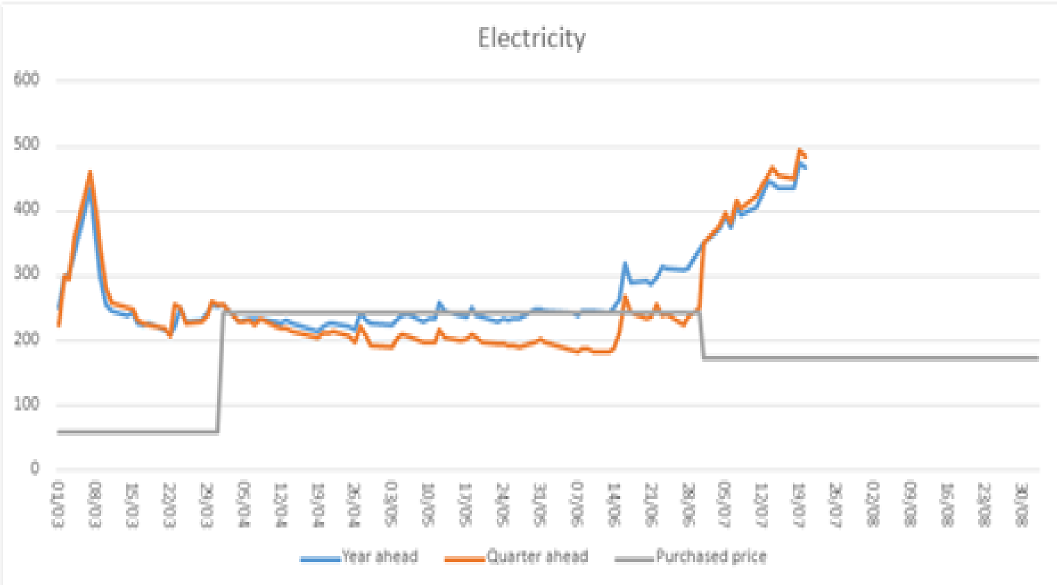
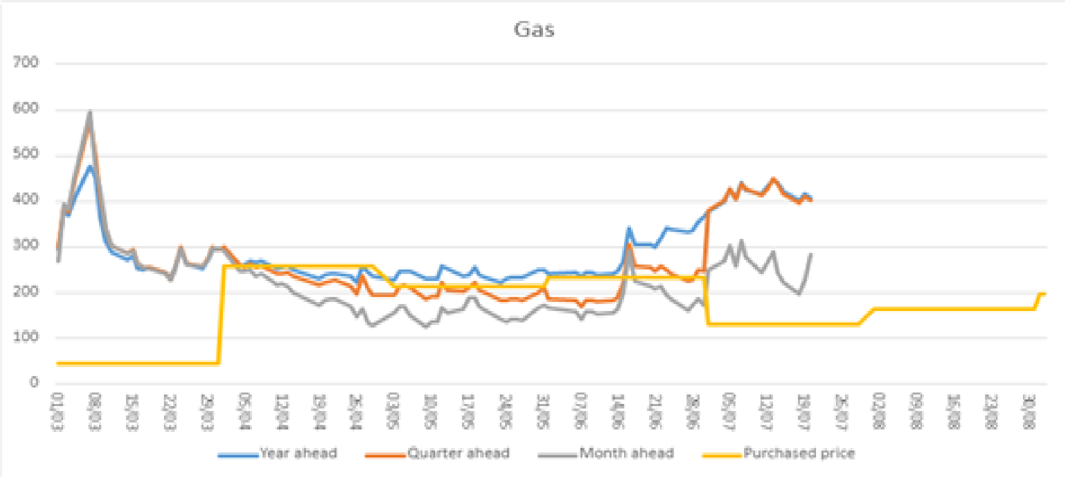


Figure 21 - Weekly monitoring of gas commodity price per therm



4.60. For quarter 1 of 2022/23 the council purchased electricity at £243/Megawatt (MW) and gas at an average price of 235p/therm. This equated to end user costs of around 37p/kWh for electricity and 9p/kWh for gas (a figure which includes an estimate of the standing charges). Volume was estimated at 2021/22 levels with an allowance of 20% in reduction or increase on usage. There was a drop in prices for Quarter 2 and electricity was purchased at £173/MWh and gas at 163p/therm on average, resulting in end user prices of around 30p/kWh for electricity and 7p/kWh for gas. **Table 6** shows the quarterly costs of gas and electricity for the General Fund and Leisure Centres, HRA and Schools.

Table 6 – Quarterly Electricity and Gas estimates for 2022/23

Period	General Fund and Leisure Centres		HRA		Schools (Incl. Academies)	
	Electricity £m	Gas £m	Electricity £m	Gas £m	Electricity £m	Gas £m
Quarter 1 average	1.097	0.402	1.746	1.392	0.664	0.357
Quarter 2 average	0.891	0.182	1.411	0.616	0.539	0.160
Quarter 3 average	1.784	1.040	2.862	3.683	1.083	0.930
Quarter 4 average	1.784	1.242	2.862	4.399	1.083	1.110
Total	**5.556**	**2.866**	**8.881**	**10.090**	**3.369**	**2.557**
Total Gas and Electricity	**8.422**		**18.971**		**5.926**	

4.61. There has been a sharp increase in commodity prices for Q3 and Q4 (which have not yet been purchased) since mid-June. Electricity has increased to an estimated end cost of £57p/kWh and gas to 14p/kWh. This price increase has been reflected in table 6 for quarters 3 and 4.

4.62. The cost of gas and electricity is being monitored daily as the forecasts do not indicate a drop in prices over the coming months. In addition to the daily monitoring of costs the council is taking steps to reduce spend in this area.

4.63. The Energy Services team have commissioned an energy market consultancy firm to devise a procurement strategy for the forthcoming months. They will advise the council on the timing of its energy purchases to try and secure the best possible prices for the upcoming periods.

4.64. Facilities Managers are currently running workshops to raise awareness, advice and guidance on how to save on energy. A number of mitigations are covered such as regular meter readings, actions on usage of lighting, technology, air conditioning and appliances.

4.65. The Corporate Landlord team is also reviewing building operating hours to determine if reducing operating hours will reduce energy costs.

5. Housing Revenue Account (HRA)

5.1. The HRA is currently forecasting an in-year surplus of (-£0.812m).

5.2. 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.

5.3. Variances within the department includes:

- (-£0.208m) favourable variance from rent and service charge income, representing 0.11% of rent and service charge income budgets.
- (-£0.450m) forecast underspend against provisions provided to accommodate one-off mobilisation costs arising from the re-integration of PFI 2 street properties to council management.
- Works to migrate tenants on housing benefits to universal credit has not progressed at a pace initially anticipated. As such, one-off provisions set aside to manage cost pressures that may have arisen is expected to be lower than budgeted (-£0.400m).
- Energy costs for landlord supplies and Community centres which are paid for by the HRA are expected to be significantly impacted by the unprecedented increases in energy prices. It is currently estimated that the full year increase will be approx. (+£0.246m) based on current prices. It should be noted that 2022/23 Q1 and Q2 supplies have been secured to date with the remaining two quarters have yet to be purchased. The energy market is currently experiencing significant volatility, as such, it is highly likely supply costs will fluctuate further as we seek to secure supplies for the remaining quarters which may result in a lower or higher energy forecast for the year.

5.4. Risks and opportunities within the department include:

- Increasing energy costs - The HRA procures gas supplies for around 4,300 of the 33,000 council tenants and leaseholders with gas heating on communal heating systems. The remaining 29,600 have individual gas boilers and therefore pay their own bills which are subject to the domestic market energy price caps (regulated). The council purchases its energy directly from the market (unregulated) therefore, council tenants and leaseholders on communal heating systems are not protected by the domestic market energy price caps. Increased communal gas costs, in respect of tenanted households are not covered by housing benefit (HB) or universal credit (UC), meaning these costs must be met in full by tenants.
- Increased communal electricity costs charged to tenanted households are covered by HB or UC. Around 75% of tenants living on estates, benefitting from a communal electricity supply are in receipt of either HB or UC. This means that any increase in cost should be

covered by HB or UC, leaving around 5,000 tenanted households that will potentially be required to meet the full cost of the increase.

- Leaseholders are required to meet in full any increases in the cost of communal gas or electricity. The impact of increases in costs incurred/anticipated by the council would be reflected in the 2022/23 estimated annual service charge bills issued in September 2022.
- As part of the 2022/23 budget setting process, it was anticipated that energy costs would increase significantly. It was anticipated gas costs would increase by 55%, which would be funded by a 25% (average increase of £2.12 per week) increase in charges to tenants for heating and hot water, and 30% funded from the heating pool to smooth the expected increase over a two-year period. Communal electricity costs were anticipated to increase by 49%, leading to an average increase in charges of 47p per week.
- The current energy market outlook indicates energy costs in 2022-23 could potentially exceed the increases anticipated during the budget setting process. Although most of the increased costs are rechargeable to tenants and leaseholder, any further increases would add to the impact of the cost-of-living crisis residents may already be experiencing. This would present a risk to the HRA should costs become unrecoverable.
- Heat Metering Regulation - The Heat Network (Metering and Billing) Regulations 2014 requires all properties connected to a heat network to have end point level meters or building level meters installed. Meters are to be installed by 1 September 2022, and failure to comply will mean that the council could face fines which are equivalent to the value of the works required to make our network compliant.
- Of the already assessed housing stock, 800 properties have been identified and will need to have end point meters installed. Once all assessments have been completed, it is likely to result in a further 800 properties requiring end point meters.
- Once end point metering are installed, the council is legally obliged to bill residents based on their individual use, taking into account the cost of fuel, contract costs including repairs and maintenance costs. Local authorities are expected to operate on a not-for-profit basis.
- A number of properties that require meters installed are currently on the pooled heating system and by virtue, will be removed from the pool once meters are installed. This is likely to distort the charges for those remaining in the pool which could cause a movement in charges levied on tenants from current levels.
- The installation of end point meters and Building level meters in particular sites that are older and more complex will require significant investment. It is unclear what the full costs of these works will be until a full assessment has been carried out.
- Non-pay/contract inflation: The HRA has a significant number of contractual arrangements in place that supports the delivery of repairs and maintenance services totalling approx. £19.800m per annum. With the current high inflation levels, there is a risk that contract uplifts payable could exceed levels assumed at 2022/23 budget setting (average 3.9% uplift) when contracts become due for their annual uplift review. The uplift indices applied will vary from contract to contract but could include CPI, CMPI (Construction Materials Price Index), and BCIS Maintenance Cost Indices.

- The table below outlines the potential cost pressure to the HRA should uplift rates exceed budgeted levels.

Table 7 – Potential Inflationary Cost Pressure Scenarios to HRA

Total current budget of contracts	Inflationary pressure at 1% above budget	Inflationary pressure at 3% above budget	Inflationary pressure at 5% above budget	Inflationary pressure at 10% above budget
£19.800m	+£0.198m	+£0.594m	+£0.990m	+£1.980m

- As shown above, any increase above budget will have an adverse impact on HRA finances, as such, the position will be closely monitored throughout the year to ensure pressures are identified and appropriate management actions can be taken to mitigate risk.
- Pay Award: Negotiations between National Employers and Unions on local government pay are currently underway. The 2022/23 HRA budgets allow for a 2% pay award but there remains a budgetary risk of a pay award above the 2%. For context, every 1% increase would equate to pay growth of £0.524m to the HRA. Any growth arising as a result would need to be met from HRA reserves and reflected in the 2023/24 base budget position.

6. Capital

6.1. At the end of month 3, total capital expenditure of £25.380m had been incurred against a 2022/23 full year forecast of £188.425m representing 13.5% of the forecast capital expenditure.

6.2. This is summarised between the non-housing and housing capital programme in **Table 8** and detailed in **Appendix 3**.

Table 8 – 2022/23 Capital Programme

	Revised Budget £m	Spend to Date M3 £m	Forecast Outturn 2022/23 £m	Forecast Variance £m	Forecast Expenditure M4-M12 £m
Non-Housing	54.397	3.231	47.553	(6.844)	44.322
Housing	187.785	22.149	140.872	(46.913)	118.723
Total Programme	**242.182**	**25.380**	**188.425**	**(53.757)**	**163.045**

Housing Capital Programme

6.3. The Housing (HRA and GF) capital forecast totals £140.872m compared to the revised 2022/23 capital budget of £187.785m (which includes £19.178m new build and property acquisition slippage from 2021/22). As at the end of month 3 (+£22.149m) of capital expenditure had been incurred, representing 16% of the forecast capital expenditure. This is detailed at **Appendix 3**.

6.4. The latest review of the new build programme suggests that, at this stage, slippage in 2022/23 is likely to be in the region of (-£46.913m) representing 25% of the revised capital budget. The slippage relates primarily to the ongoing fallout from COVID-19 and wider economic factors impacting capacity, materials and labour on sites and therefore scheme progress.

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 2022/23 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 and HRA Revenue Monitoring by Variance
- **Appendix 2** – Transformation Fund Allocations
- **Appendix 3 –** Capital Programme 2022/23

Background papers: None

Signed by: Diarmaid Ward.

Executive Member for Finance, Planning and Performance

Date: 16 August 2022

Responsible Officer:
Dave Hodgkinson, Corporate Director of Resources

Report Authors:
Tony Watts, Strategic Finance Manager – MTFS
Martin Houston, Assistant Director (Corporate Finance)

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