Report of: Executive Member for Finance, Planning and Performance

Meeting of:	Date	Agenda Item	Ward(s)
Executive	13 October 2022		All
Delete as appropriate	~~Exempt~~	Non-exempt	

Budget Monitoring 2022/23 - Month 5

1. Synopsis

1.1. This report presents the estimated outturn position for the 2022/23 financial year as at the end of month 5 (31 August 2022). This estimated financial position for the financial year incorporates known and emerging budget variances and details any known residual risks.

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.

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 (+£6.023m). This is following the application of the following corporate resources:

- (-£1.400m) Corporate Energy Provision
- (-£5.509m) Energy and Inflation Smoothing Reserve
- (-£3.783m) Social Care Reserve drawdown
- (-£5.000m) General Contingency

1.4. There has been a net favourable movement in the forecast of (+£2.111m) since the previous reported position. **Figure 1** shows the movement by directorate and **Figure 2** shows the forecast variance by directorate over the course of the financial year.

Figure 1 – Movement by Directorate Month 3 to Month 5 (£m)

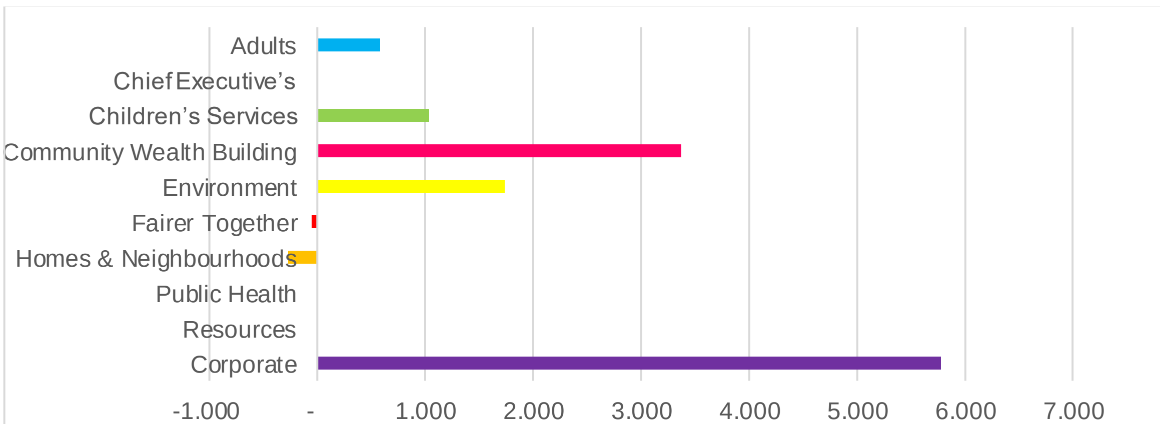
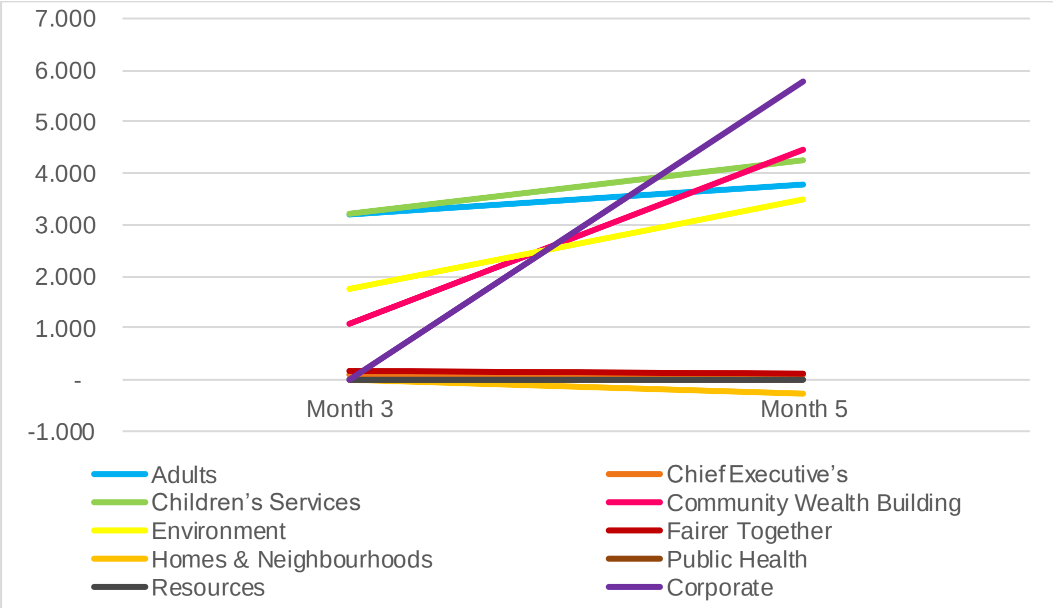


Figure 2 – Forecast Variance by Directorate Month 3 to Month 5 (£m)



1.5. The HRA is currently forecasting an in-year deficit of (+£13.784m), an increase of (+£14.596m) since the previous reported position. 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.

1.6. At the end of month 5, total capital expenditure of £51.283m had been incurred against a 2022/23 forecast of £182.423m and the revised 2022/23 capital budget of £239.655m.

2. Recommendations

2.1. To note the forecast 2022/23 GF estimated net outturn variance of a (+£6.023m) overspend at month 5. (**Section 3, Table 1, and Appendix 1**)

2.2. To note the transformation fund allocations and anticipated, profiled drawdowns for 2022/23. (**Paragraph 4.55 and Appendix 2**)

2.3. To note the collection fund monitoring position at month 5. (**Paragraphs 4.56 to 4.70**)

2.4. To note the Energy Price Analysis position at month 5. (**Paragraphs 4.71 to 4.79**)

2.5. To note the forecast 2022/23 HRA estimated outturn (+£13.784m) deficit at month 5. (**Section 5**)

2.6. To note that, at the end of month 5, capital expenditure of £51.283m had been incurred against a 2022/23 full year forecast of £182.423m and against the revised 2022/23 capital budget of £239.655m. (**Section 6 and Appendix 3**)

3. Revenue Summary

3.1. A summary position of the month 5 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 5 Total £m**	**Month 3 Total £m**	**Change to Previous £m**
Adults	3.783	3.202	0.581
Chief Executive's	0.100	0.100	-
Children's Services	4.254	3.217	1.037
Community Wealth Building	4.457	1.084	3.373
Environment	3.494	1.760	1.734
Fairer Together	0.118	0.171	(0.053)
Homes & Neighbourhoods	(0.270)	-	(0.270)
Public Health	-	-	-
Resources	-	-	-
Total: Directorates	**15.936**	**9.534**	**6.402**
Corporate	5.779	-	5.779
Total: General Fund	**21.715**	**9.534**	**12.181**
Less: Energy Provision	(1.400)	(1.400)	-
Less: Energy and Inflation Reserve Drawdown	(5.509)	-	(5.509)
Less: Social Care Reserve Drawdown	(3.783)		(3.783)
Less: General Contingency	(5.000)		(5.000)
Net: General Fund	**6.023**	**8.134**	**(2.111)**

3.2. The 2022/23 corporate energy provision of (-£1.400m) and the energy and inflation reserve of (-£5.509m) have been applied against the gross GF position to offset the significant increase in estimated energy-related costs in this financial year.

3.3. A drawdown against the Social Care Reserve of (-£3.783m) has been applied to smooth the increase in Adults Social Care pressures.

3.4. General Contingency of (-£5.000m) built into the budget has been applied due to the current estimates of the 2022/23 pay award being recognised as a pressure corporately. Further details can be found in the corporate monitoring section of this report.

4. General Fund

Adult Social Services (+£3.783m), an increase of (+£0.581m) since the previous reported position

4.1. Adult Social Services is currently forecasting an overspend of (+£3.783m), which is detailed by key variances in **Appendix 1**.

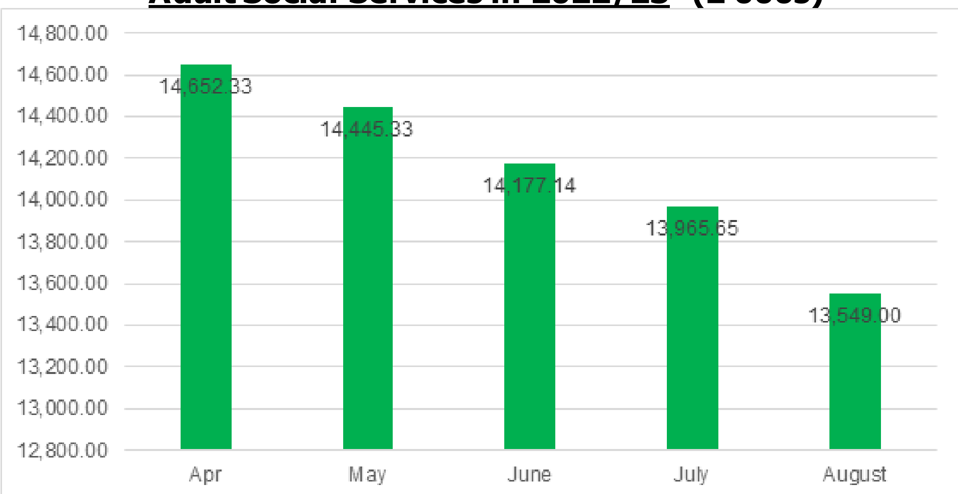
<u>Covid and Hospital Discharge Pressures (+£1.426m, a decrease of -£1.029m since the previous reported position)</u>

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

- (+£1.118m, a reduction of -£0.634m since the previous reported position) 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
- (+£0.308m, a decrease of -£0.395m since the previous reported position) relating to hospital discharge pressures in the current financial year.

4.3. A pressure of (+£1.118m) relates to individuals who came through the Covid related NHS Hospital Discharge scheme from March 2020 to March 2022 and are now receiving social care packages. The original cost for this cohort of 660 individuals at the start of 2022/23 was £14.652m, causing a pressure of (+£2.221m) over budget. It is expected that this will decrease throughout the year as these individuals leave the system. As at month 5, this pressure has reduced to (+£1.118m) as 152 individuals have left since April 2022 (see **Figure 3**).

<u>Figure 3 - Value of Historical Covid-19 Hospital Discharge Care Packages within Adult Social Services in 2022/23</u> (£'000s)



As a result of the current Hospital Discharge process and a change in the NHS funding, the Council is facing a gross pressure of (+£0.908m). This will be mitigated by the following actions:

- Examining other funding streams that may be used to mitigate the income loss (-£0.414m);

- Changing operational practices linked to Hospital discharges (-£0.063m);
- 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 (+£0.308m). This is a reduction on the previous reporting period's forecast of -£0.395m which is due to the individuals being reviewed faster once they enter the service. The majority of these individuals are then being moved into Older People placements and therefore categorised as demand over demographic growth causing a net nil impact.

Demand over Demographic Growth (+£2.292m, an increase of (+£1.275m) since the previous reported position)

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 quarter 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 (+£0.537m). 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.

4.5. These trends link to the Hospital Discharge Scheme. When the funding was in place to support discharges, packages were often arranged quickly for residential and nursing settings as this would be paid for by the NHS. Since that funding has ended, the appetite has remained to move individuals into these settings at pace. Mitigations in place to stem this demand include moving away from NHS Therapy led discharges and ensuring that the Council has more control with discharge decisions.

4.6. Management actions previously reported have reduced the forecast risk, but it is now thought that these will not be sufficient to reduce demand down to budgeted growth levels. Therefore, an additional pressure for demand over demographic growth for the rest of the year has been added for (+£0.210m).

4.7. Further analysis of the demand for placements (+£1.545m) has also highlighted process issues in uploading care packages on to the client record system in the previous financial year. This has changed the trend of growth of placements for this financial year. Management actions have been put in place to address, including the development of a revised set of guidance for practitioners, and system measures that ensure the service is uploaded before the service can start. A monthly data cleaning process has also been initiated to provide assurance on data quality.

Figure 4 - Monthly Snapshot of people accessing Homecare over the past three financial years

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

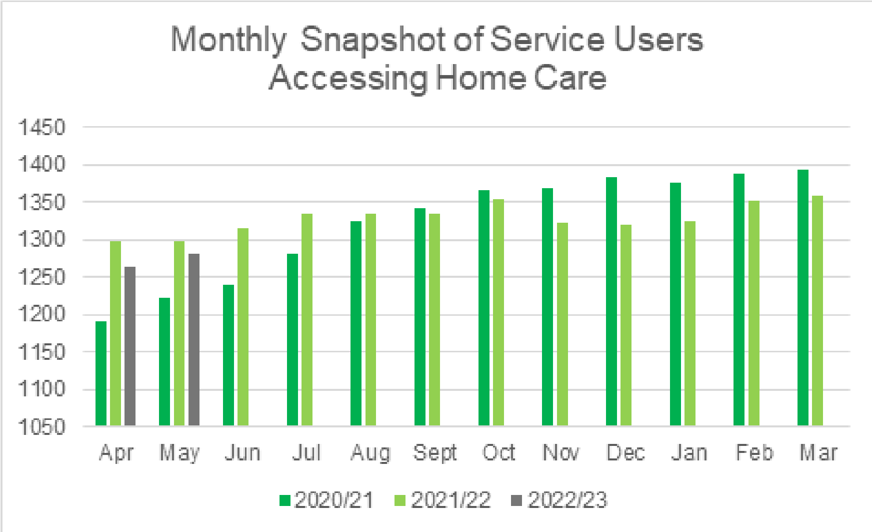
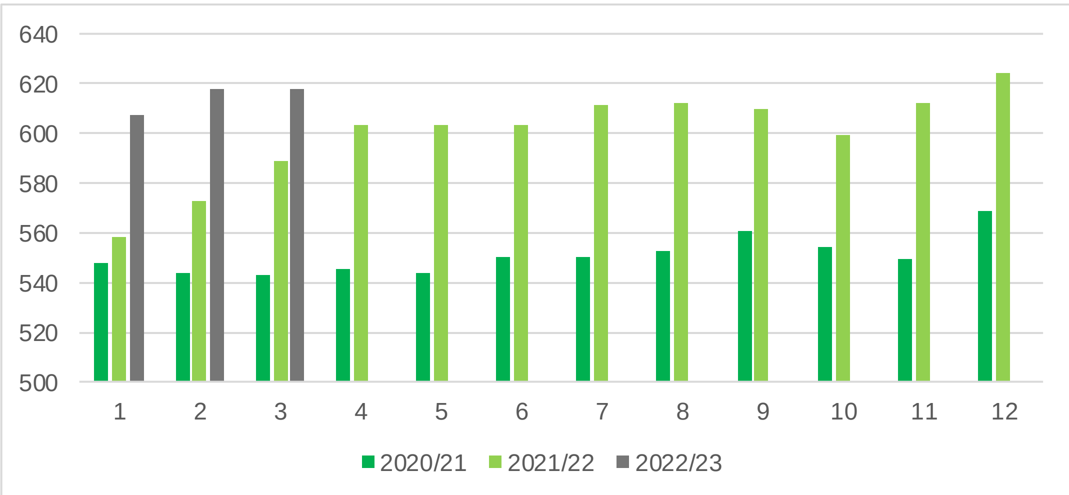


Figure 5 - Monthly Snapshot of people accessing Residential and Nursing beds over the past three financial years

4.9. This graph shows that since the pandemic, demand for residential and nursing beds has been steadily increasing.



Client Contributions and Direct Payments Drawdown (-£0.800m, no change since the previous reported position)

4.10. 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 (+£0.368m, an increase of +£0.036m since the previous reported position)

4.11. 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.

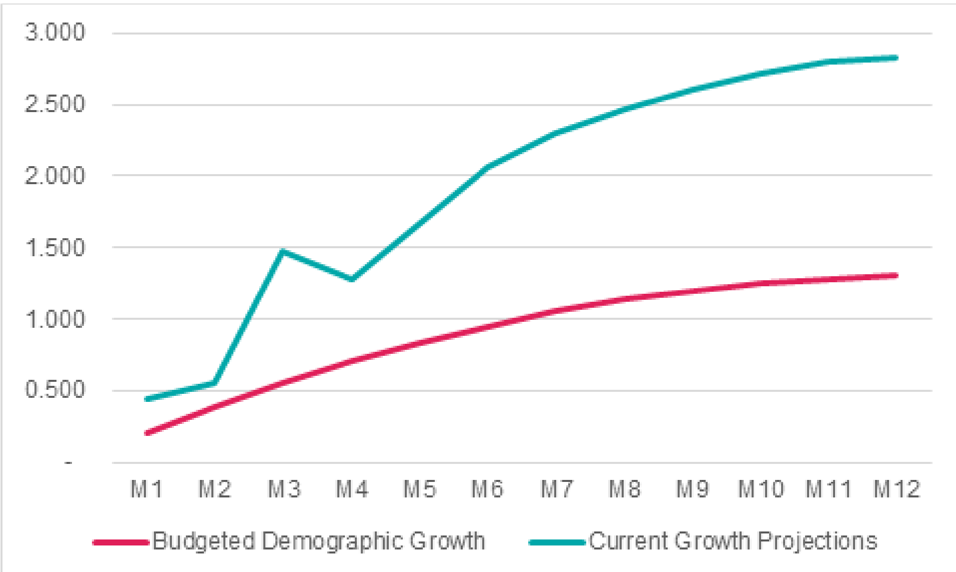
Savings Slippage (+£0.497m, an increase of £0.299m since the previous reported position)

4.12. The In-House Transformation Programme has been delayed to December 2022/23. This was due to requests for further information and further clarification from interested parties. The consultation has now begun and is due to end mid-October. There is potential risk for further delays if the consultation is further delayed through Union queries, however this has been factored in to the proposed go live date for December 2022. This will cause a financial pressure in 2022/23 of (+£0.497m) which will be rectified in 2023/24.

Risks and Opportunities for Adult Social Service's finances:

4.13. **Demand over Demographic Growth Allocation (+£0.417m)** - If demand continues at current rates, a further (+£0.417m) 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. This has reduced significantly since the previous reporting period, mainly due to separating out the issues identified in the recording of care packages on the system.

Figure 6 - Demographic Growth for Older People – Budget compared to Current Forecast



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.

4.14. **Delay to Beaumont Rise Opening (+£0.296m)** - 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.

4.15. **Social Work Teams (+£0.230m)** - To support increased reviews activity additional capacity has been required. A business case is being finalised requesting an additional £0.230m to fund the 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.

4.16. **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 £0.497m from In-House Transformation.

4.17. 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), no change since the previous reported position

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

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

4.20. There are no other significant variances to report.

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

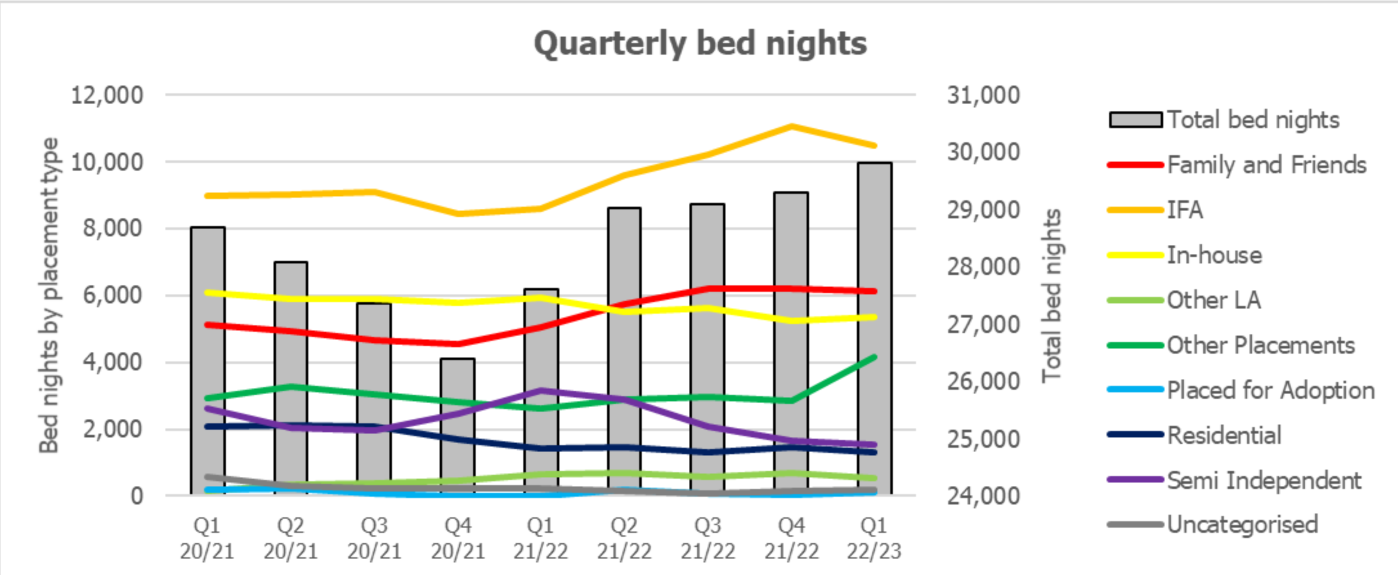
Children's Services (+£4.254m), an increase of (+£1.037m) since the previous reported position; Schools (-£1.438m), an increase of (-£0.536m) since the previous reported position

4.22. Children's Services are currently forecasting an overspend of (+£4.254m), an increase of (+£1.037m) since the pervious reported position, which is detailed by key variances in **Appendix 1**.

4.23. Variances to note include:

- (+£2.251m), an increase of (+£0.875m) since the previous reported position forecast overspend against the Children's Social Care placements budget, following the completion of the quarter 1 monitor. This is the first detailed forecast of the current monitoring cycle:
    - The latest bed night activity data is from quarter 1 2022/23. This shows that bed night activity for all placement types (non-UASC) increased by 1.8% during quarter 1 and was 8% higher during quarter 1 2022/23 compared to a year earlier.

Figure 7 - Quarterly bed night activity data (non-UASC)



- Residential bed night activity data is shown in **Table 2** below. At quarter 1 there was a decrease in residential activity, partially reversing the increase seen during quarter 4 2021/22. Residential activity is also lower than this time last year. Significant reductions were seen during 2021/22 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

	Q1 21/22	Q3 21/22	Q4 21/22	Q1 22/23
Residential bed nights	1,424	1,288	1,448	1,315
Movement from previous quarter			+ 12%	- 9%
Movement from same quarter one year earlier				- 7%

- Activity in relation to independent foster care (IFA) is shown in **Table 3** below. Activity reduced during quarter 1 reversing the trend of increases in each of the previous four quarters. However, activity is still almost one quarter higher than this time last year. Lengths of stay in foster care reduced by 23% (98 days) in 2021/22. This trend follows a significant increase in the average length of stay in IFA in 2020/21 which was then attributable to the pandemic.

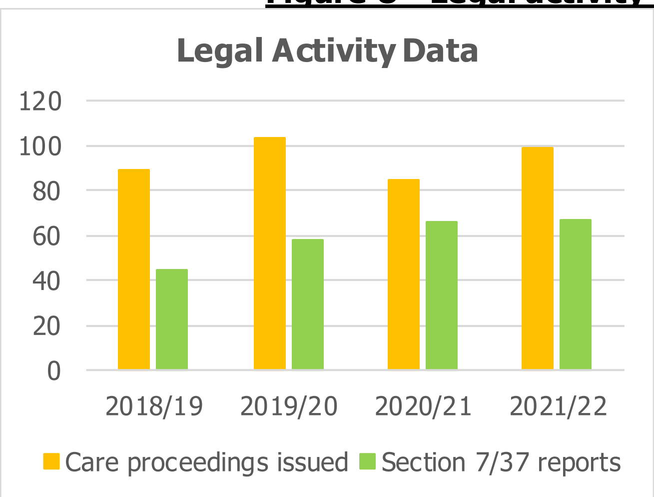
Table 3 – IFA bed night data extract

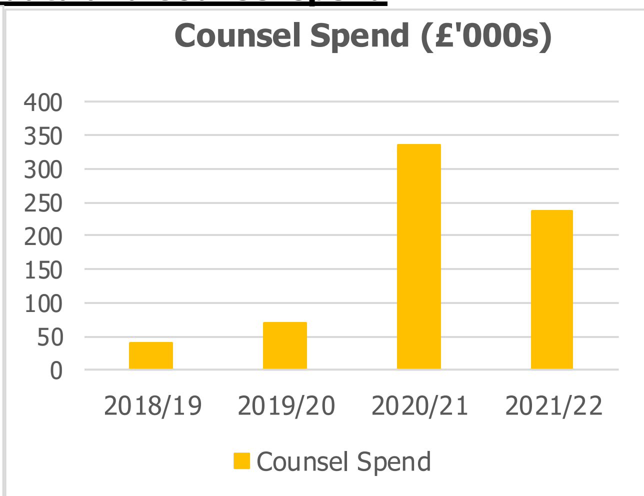
	Q1 21/22	Q3 21/22	Q4 21/22	Q1 22/23
IFA bed nights	8,574	10,191	11,049	10,471
Movement from previous quarter			+ 8%	- 5%
Movement from same quarter one year earlier				+ 22%

   - 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.

- (+£0.260m) provisional estimates of the impact of market inflation on Children's Social Care placement costs based on fee uplifts agreed to date.
- (+£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 8 - Legal activity data and Counsel spend

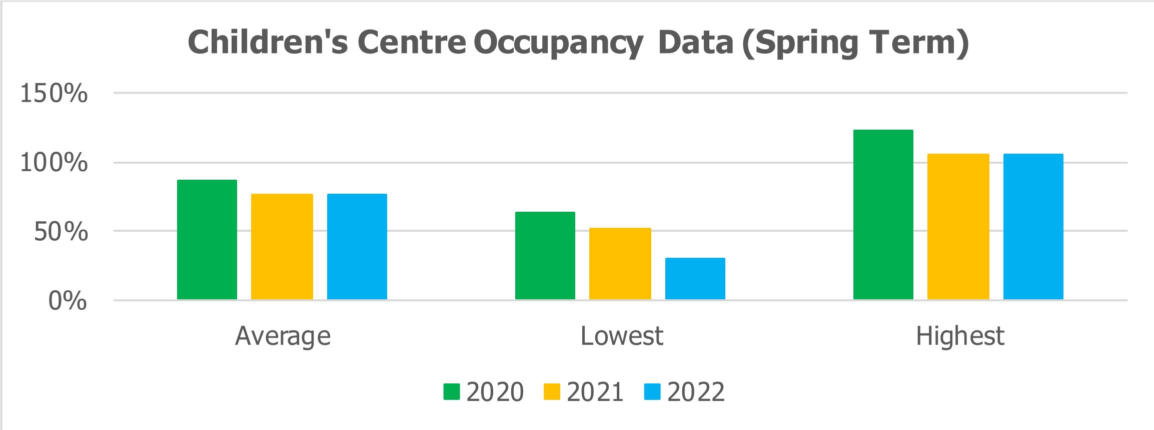




- (+0.271m) forecast cost of continuing to underwrite income losses at Lift and Rosebowl while income levels continue to recover to pre-pandemic levels.
- (+0.300m) estimated cost pressure from bringing the youth provision at platform back in-house. This includes estimates of pressures in relation to 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:

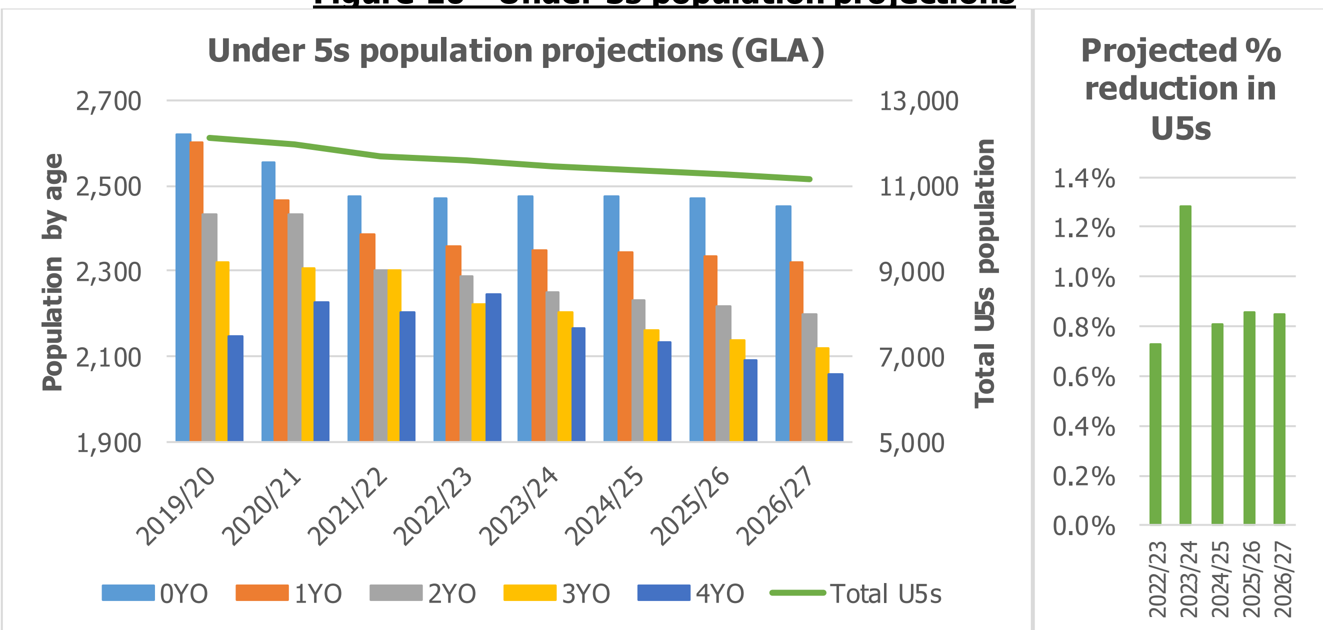
- Average occupancy on the spring term census day 2022 has not recovered compared to pre-pandemic levels. Average occupancy was 10.2% lower than pre-pandemic levels (spring 2020), and 0.8% lower than last spring.

Figure 9 - 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 10 - Under 5s population projections



4.24. Risks and Opportunities within the department are:

- There are risks in relation to the Children's Social care placements budget forecast:
  - Market inflation pressures are provisionally estimated at this stage based on uplifts agreed to date but could rise as further as the year progresses.

  - 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.

4.25. The ring-fenced Dedicated Schools Grant (DSG) is currently forecast to underspend by (-£1.438m), an increase of (-£0.536m) since the previous reported position:

- (-£1.423m) 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.

4.26. DSG balances are forecast to increase by (+£0.186m) to (+£5.404) 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

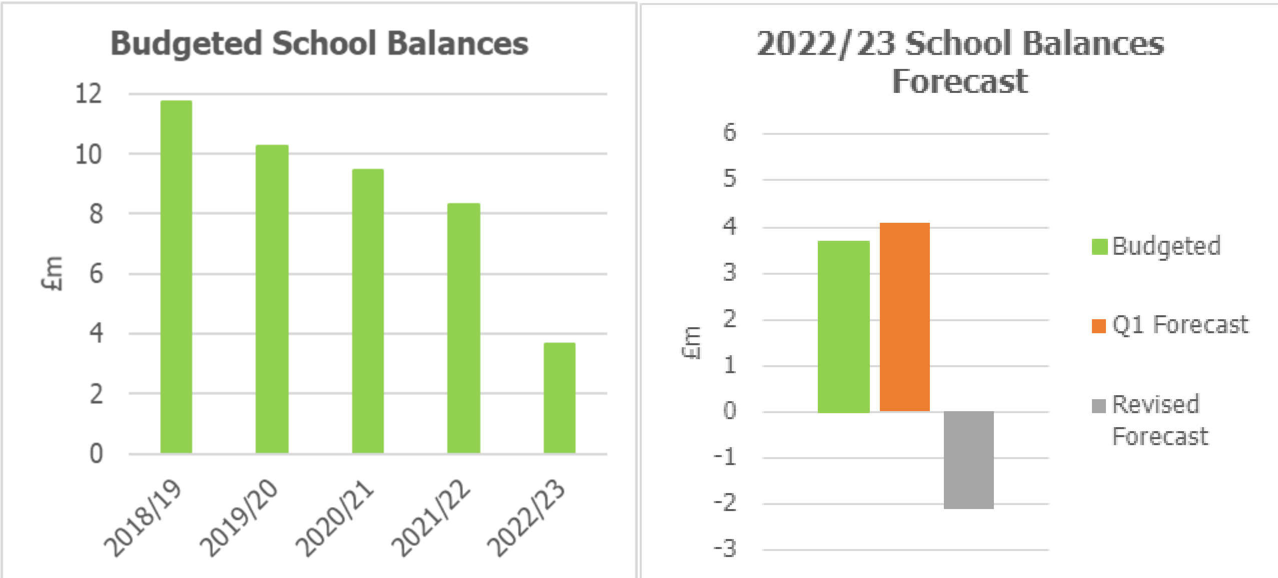
	Schools Block £m	De-delegated budgets £m	Central Schools Services £m	High Needs Block £m	Early Years Block £m	Total £m
Opening balance	**0.776**	**0.122**	**0.210**	**2.649**	**1.461**	**5.218**
Drawdowns	0.000	0.000	0.000	(1.252)	0.000	**(1.252)**
In-year DSG variance	(0.053)	0.000	0.068	1.423	0.000	1.438
Forecast closing balance	**0.723**	**0.122**	**0.278**	**2.820**	**1.461**	**5.404**

4.27. 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.

4.28. 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.

4.29. The Quarter 1 forecast from schools is for balances to reduce to +£4.052m, an improvement of £0.376m from the budgeted position. However since schools set their budgets there have been a number of significant changes to the fiscal environment: energy costs have increased further; and the pay award for teaching and non-teaching staff will be much higher than schools had budgeted for. The DfE did provide some additional funding for schools for energy and other cost pressures, but this is substantially short of the pressures now being faced. These cost pressures are being felt by schools across the country. Energy costs in schools are now set to be £6.478m in 2022/23 which is £4.981m higher than in 2021/22 (the share of the £6.478m related to maintained schools is £5.184m). The estimated impact of these pressures is that balances at the end of 2022/23 will be an overall deficit balance of -£2.135m, a £5.811m reduction from their budgeted position. The number of schools forecast to be in deficit increases from 11 at the end of the year to 31.

Figure 11: School balances



4.30. 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 (+£4.457m), (+£3.373m) movement since Month 3 reported position

4.31. The Community Wealth Building Directorate is currently forecasting a (+£4.457m) overspend position.

4.32. The movement from last reported position is due to increase in energy prices (+£3.373m) for council buildings in the Corporate Landlord division. This assumes that consumption remains the same as 2021/22. The service is actively seeking to mitigate this risk by reviewing heating and cooling systems, ensuring all lighting is LED, reviewing core working hours and rationalising the facilities estate

4.33. 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.

4.34. Risks and Opportunities within the department:

- Corporate Landlord
  - 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.
- Planning and Development
  - There is a risk of underachieving the income targets from planning applications, however the service is expecting 2-3 significant planning applications this year which will significantly contribute towards delivering income targets.
  - The service has recruited a total of 12 permanent staff (replacing 3 agency staff with 3 permanent staff) in the last year but faces the ongoing structural budget challenge of very limited general fund and a high reliance on fluctuating/deferred income, which generates in-year financial pressures. There is thus a risk of staffing overspend through use of additional agency staff, but at this stage the service expects to mitigate this risk in-year.

Environment (+£3.494m), (+£1.734m) change since the previous reported position

4.35. The Environment Directorate is currently forecasting a (+£3.494m) overspend position, which is detailed by key variances in **Appendix 1**.

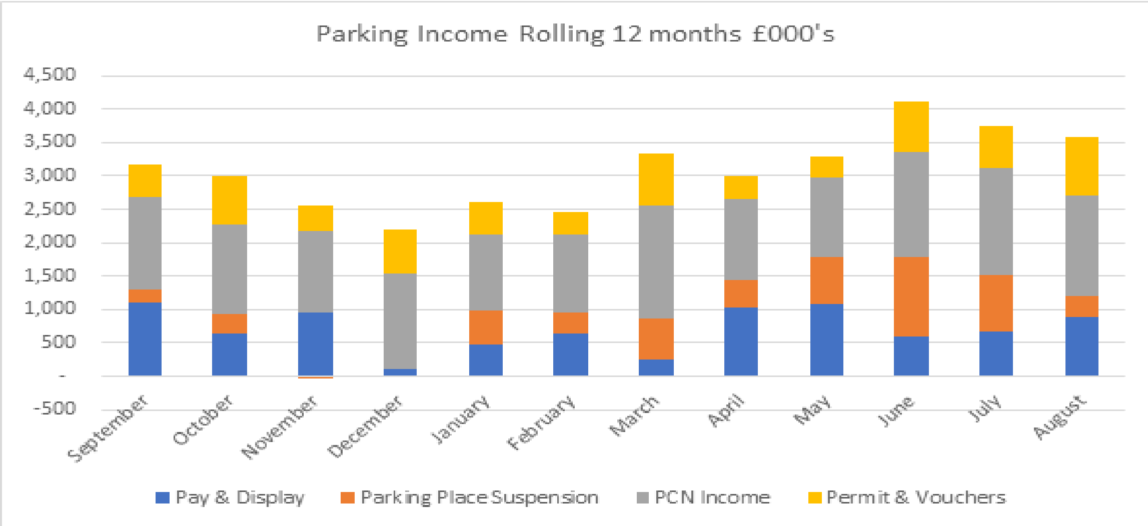
4.36. The movement from last month (+£1.734m) is due to revised forecasts as follows:

- (+£1.620m) increase in energy prices for Street Lighting and GLL.
- (+£0.084m) additional costs for ECIN database costs within the ASB Team.
- (+£0.030m) recruitment of an Energy Reduction Programme officer

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

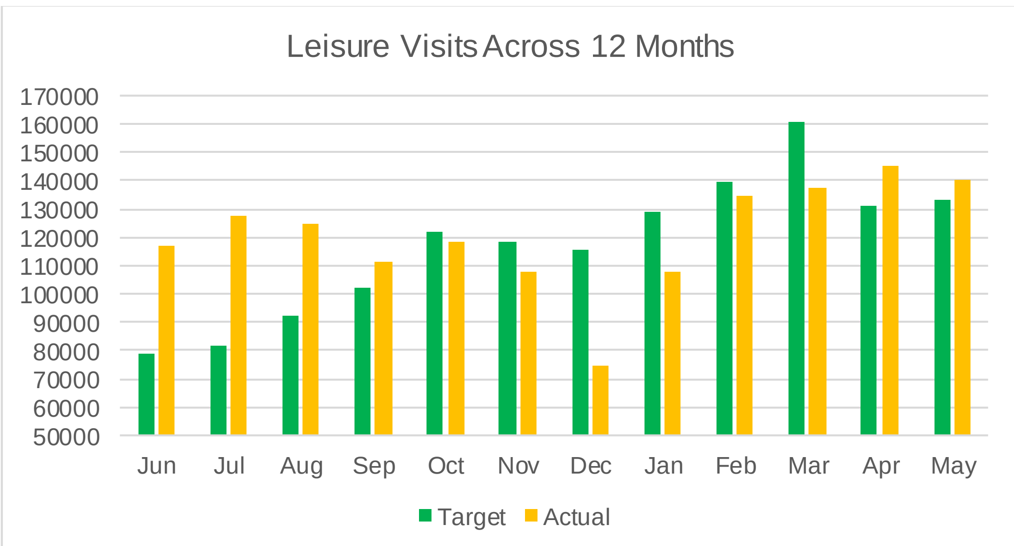
- The Parking account is currently forecast to break-even, however there are several risks around the significant income streams. Whilst volumes of pay and display transactions are increasing the average income per transaction is falling indicating shorter lengths of stays. Suspension income remains 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 figure below shows the monthly breakdown of the main parking income streams over the last 12 months.

Figure 12 - Parking Income Streams September 2021-August 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 2022/23 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 (+£1.1m). 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 figure 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.

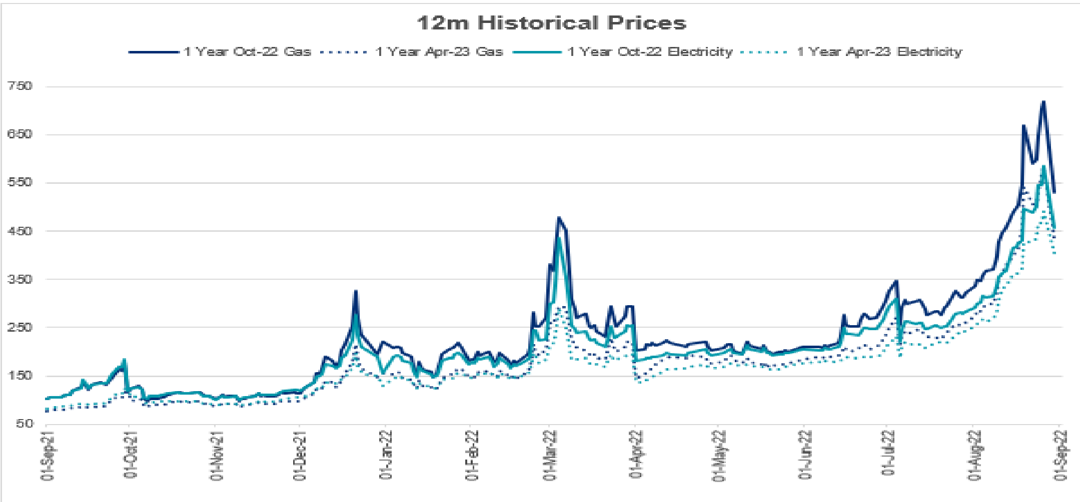
Figure 13 - Leisure Visits June 2021-May 2022



- 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 (+£1.77m) underprovided.

- The figure 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 2022 period.

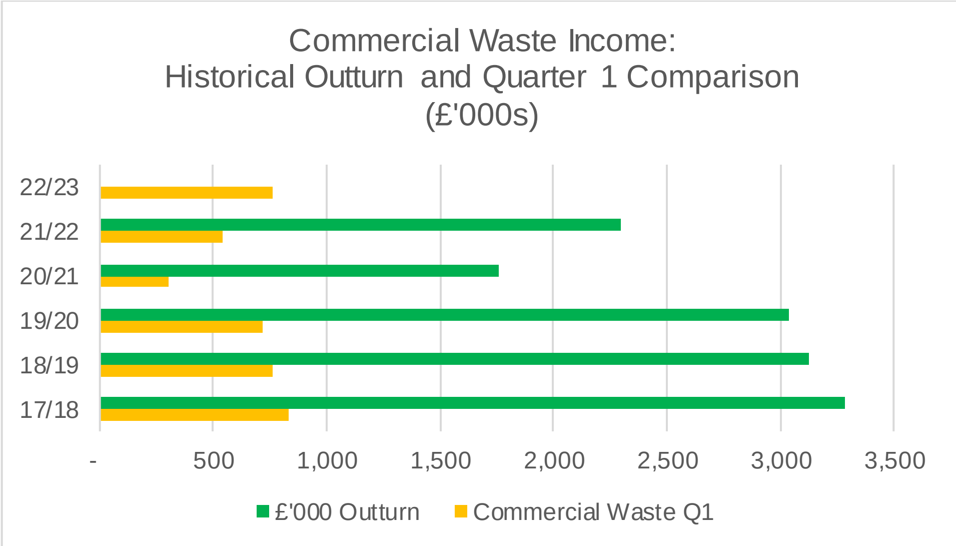
<u>Figure 14 - Change in Commodity cost of Gas (pence per therm) and Electricity (pence per MwH). Change in price from 29 July 2021 to 29 July 2022 of purchasing October 22-23 and April 23-24 contracts</u>



- As at 31 August 2022 the commodity cost of gas was trading at 505p per therm (up from 387p on 31 July 2022) whilst electricity was trading at £510 per MWh (up from £398.50 on 31 July 2022) to purchase a 1-year contract from October 2022.
- 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 chart 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.
- 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 chart 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

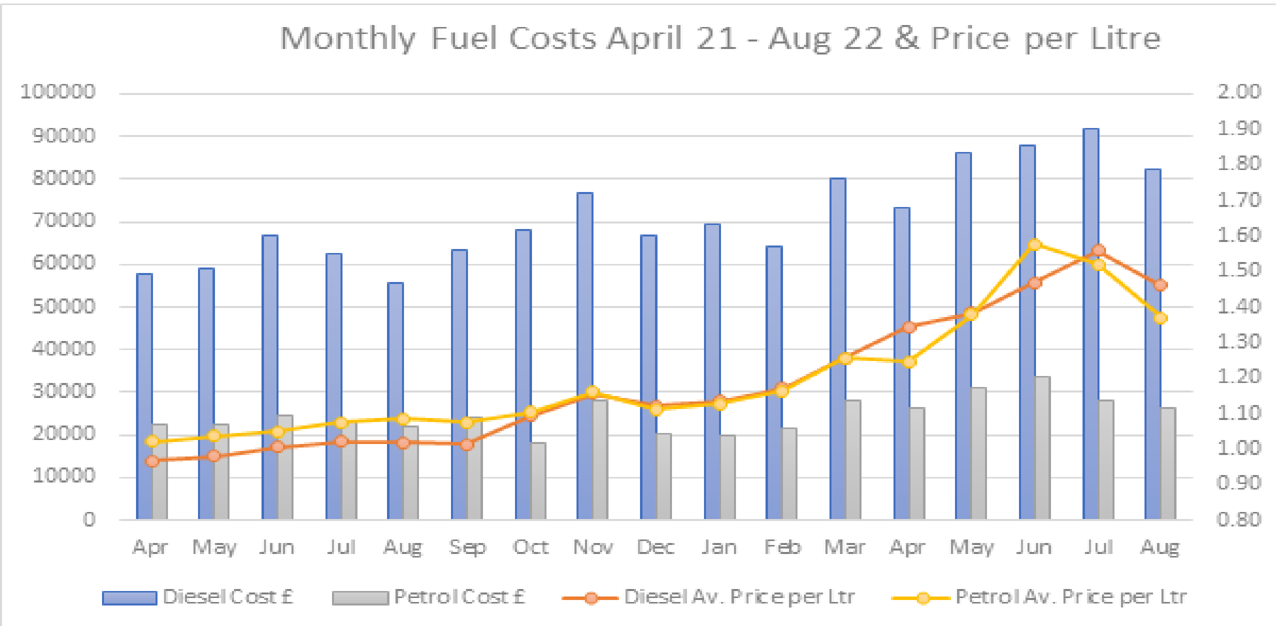
customer base utilising and re-focussing existing resources this pressure is expected to diminish over time.

Figure 15 - Quarter 1 Compared to Outturn: Current performance compared to last 5 years



- 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 (+£0.42m) split around 50/50 between the two services, representing a (+£0.21m) 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 £35k per month.

Figure 16 - Monthly spend on Diesel & Petrol: Impact of increasing Fuel costs



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

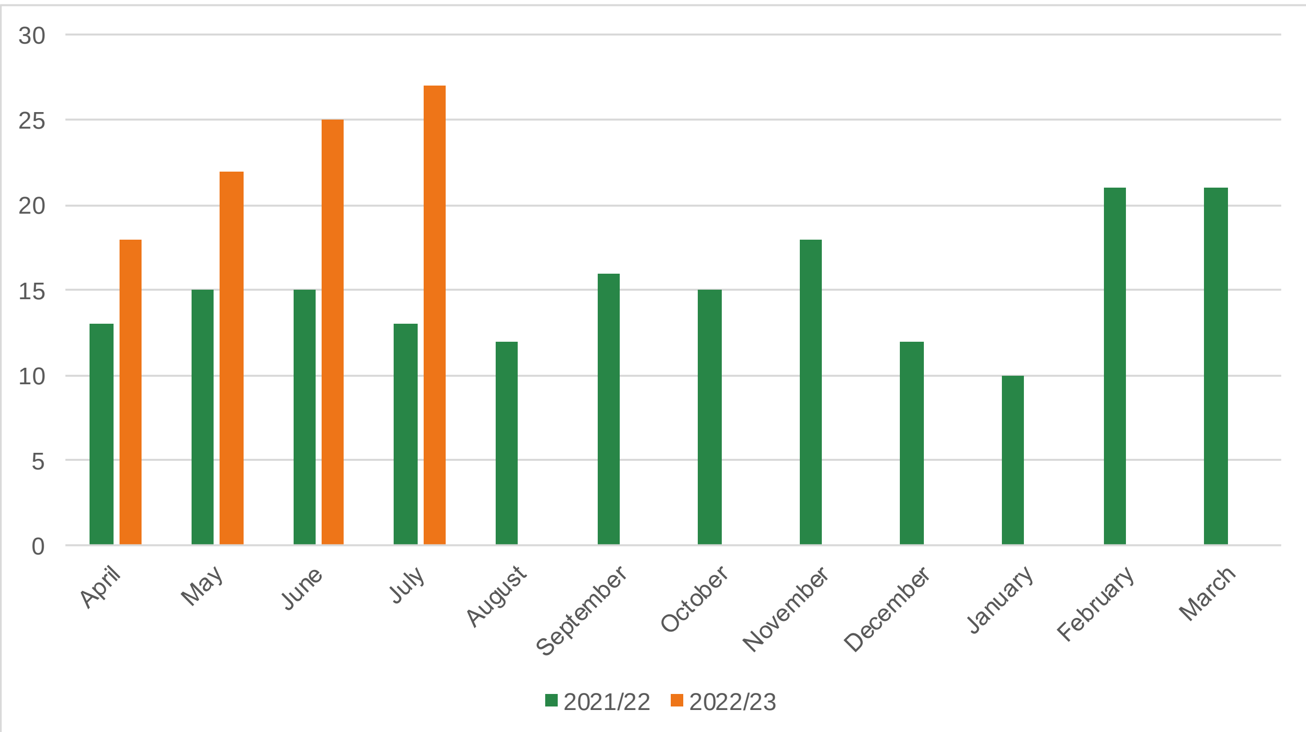
Fairer Together (+£0.118m), a decrease of (-£0.053m) since the previous reported position

4.39. The Fairer Together Directorate is currently forecasting a (+£0.118m) overspend, which is detailed by key variances in **Appendix 1**. This overspend has decreased by (-£0.053m) due to in-year changes to the complaints team and revised costs of winding down We Are Islington.

4.40. Significant variances within the directorate are as follows:

- (+£0.057m, a new variance since the previous reported position) cost pressure from materialised risk of unmet vacancy factor savings, as the sheer volume of calls received by the Access Islington team means vacancies must be filled by agency or overtime to deal with current workload.
- (+£0.021m, -£0.070m since the previous reported position) cost pressure due to overtime to deal with Chief Executive complaints effectively and efficiently, to combat Ombudsman action and ultimately avoid fines.

Figure 17 – 2021/22 Call volumes for the Chief Executive Team (Stage 2)



- (+£0.040m, -£0.040m since the previous reported position) related costs from 'We Are Islington' which has now been wound down. 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.

4.41. Risks and Opportunities

- There is a risk that in addition to the reported (+£0.057m) overspend above, that (+£0.081m) of the vacancy factor saving may be unmet. This risk, along with the reported overspend is equivalent to 3.5 full time Customer Service Agents.
- There is a (+£0.027m) risk within the emergency 24/7 service, due to ad-hoc unbudgeted costs which may materialise, and unmet income targets.
- 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 (-£0.270m underspend) a movement of (-£0.270m) since the previous reported position

4.42. The Homes and Neighbourhood directorate is currently forecasting a (-£0.270m) underspend position, this is an increase of (-£0.270m) in underspend since month 3. The main reason for this movement is the underspend position in Nightly Booked Temporary Accommodation, further details of this is explained below.

4.43. Within the underspend position there are a number of variances to note:

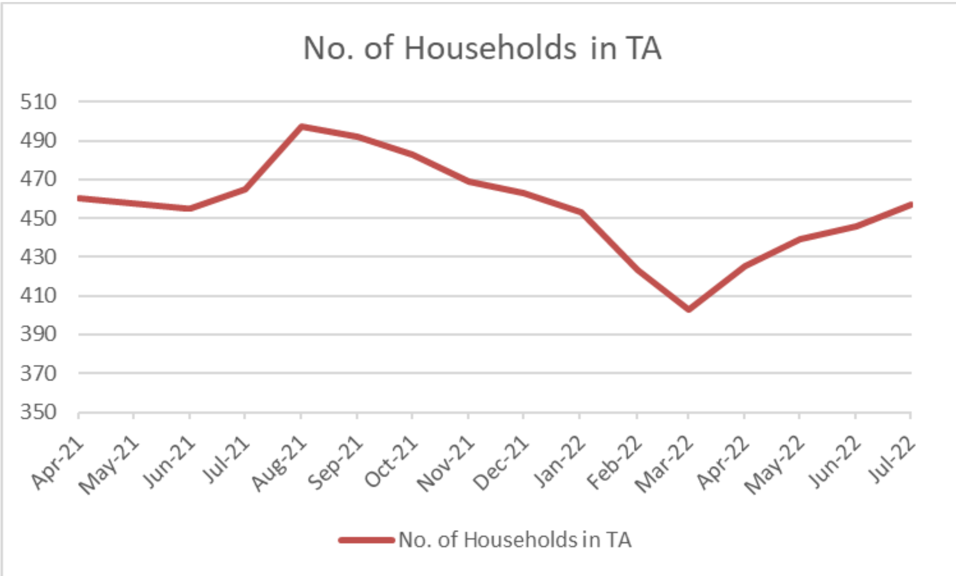
- Nightly Booked Temporary Accommodation (TA) is currently forecasting a minor underspend of (-£0.375m). Numbers in TA overall are rising, but the department believes that it can accelerate cases moving out of TA, with a number of new Property Acquisition Programme (PAP) properties becoming available. There has been a sharp decline in the use of more expensive Notting Hill Genesis properties. 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 variances detailed in **Appendix 1**.

4.44. 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 private rented sector properties available to rent has fallen by 35% 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 18 – April 2021 to July 2022 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. Current consultation estimates could see funding to Islington fall between £0.700m to £1.200m, which would come into effect from 2023/24.

4.45. 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.

4.46. It is difficult to draw long-term conclusions for FY2023/24 for the department. TA case rises, potential Homelessness Prevention Grant Reductions, service restructure costs, and the return of one-off NRPF demography in FY2023/24 make the long-term position particularly fluid.

Public Health (Break-even), unchanged since previous reported position

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

4.48. There are a number of variances that may impact on the department and have been included in the current forecast for 2022/23:

- The Sexual Health Division continues to pay suppliers at baseline tariffs, with a review later in the Financial Year. This is expected to increase costs. There are additional costs related to an increase in activity for Pre-Exposure Prophylaxis (PrEP).
- The Central and North-West London NHS trust has detailed a deficit in their funding and may require a contribution from Public Health Islington.
- The department is funding a number of one-off projects (+£0.537m) 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. The current forecasted drawdown from the reserves is (-£0.190m) with the remaining (-£0.347m) to be met from general underspends across the department.
- The realignment of budgets is to reflect the one-offs/drawdown of reserves between the relevant divisions.

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

- The PrEP budget has previously not been fully utilised, but this was more a consequence of the pandemic preventing full access to the service. Demand may continue to increase in the year ahead and will fully consume any additional funding.
- There is an increase in the use of online sexual health services that are not offset by a reduction in costs for in-clinic sexual health services, which are currently impacted by the response to the outbreak of monkeypox virus. Public Health cannot offset online sexual health service costs in the short term. It is possible that in the longer term some efficiencies across the sexual health system can be realised, but at the current time, the monkey pox virus outbreak following the impacts on operation over the first two years of the Covid pandemic means that this is a sector that is still in recovery.
- There are challenges in the Sexual Health team from the monkeypox virus. Vaccination costs are paid from NHSE, but the assessment, testing and treatment may have direct or indirect financial impacts on the service if support to meet the additional cost pressure is not provided by DHSC or NHSE.

- 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).
- Inflation risks creating financial pressures for providers, resulting in requests for additional payments or risk of 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 uplift will be needed to pay for the Agenda for Change pay awards in contracts, if so, this will likely consume all the uncommitted uplift.

4.50. 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 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), unchanged since the previous reported position

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

4.52. 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 (+£5.779m), an increase of (+£5.779m) since the previous reported position

4.53. The corporate items forecast is a (+£5.779m) overspend.

4.54. The pressures relates in full to the working assumption of the minimum 2022/23 pay award, based on the most recent Local Government pay offer. There is currently a centrally held budget to allow for a 2% pay award in 2022/23. The latest local government pay offer for the period 1 April 2022 to 31 March 2023 is for 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 £5.779m pressure to the in-year budget monitoring position. This is offset largely (at this stage) by applying the council's £5m contingency budget to the month 5 forecast. The ongoing, additional cost will need to be reflected in the 2023/24 base budget position going forward.

4.55. The latest transformation fund allocations and anticipated drawdowns are included at **Appendix 2** for noting. Directorates are asked to review the allocations and profiling in advance of the month 5 budget monitoring submissions.

Collection Fund Update

Background

4.56. The recovery of council tax and business rates continues to be impacted by the impact on household budgets of the cost-of-living crisis. The collection and recovery of collection fund income could be adversely affected in the current year.

4.57. 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.

4.58. 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

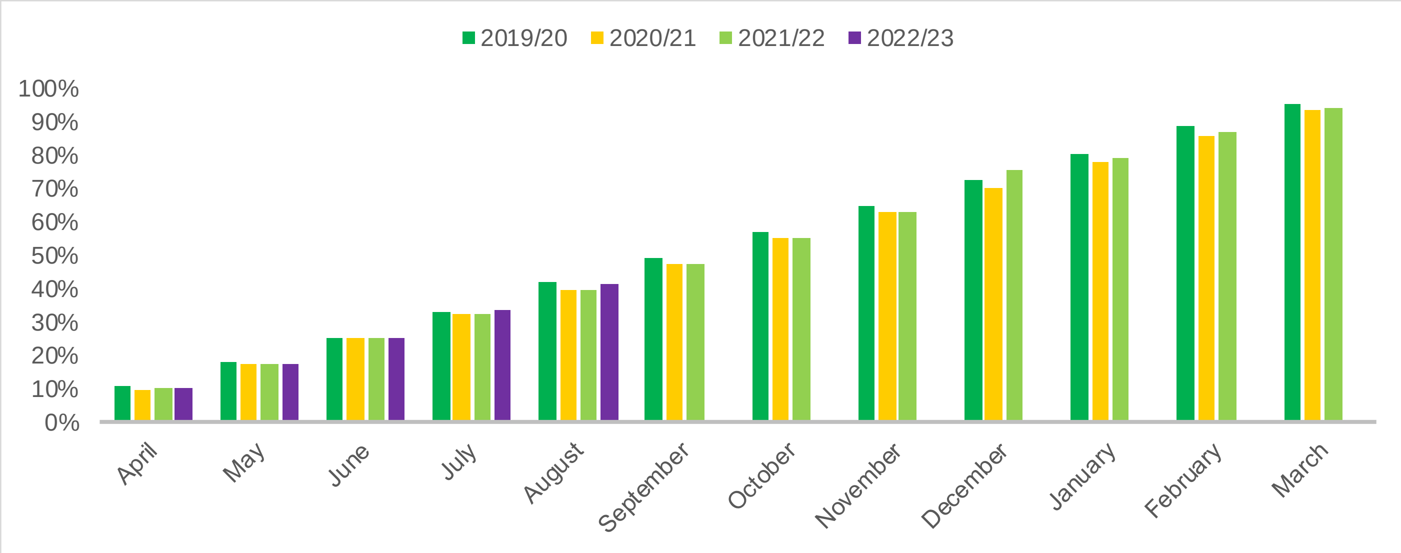
4.59. The council has set an in-year target collection rate for council tax collection of 95.33%, against which 41.1% (£59.3m) has been collected at month 5. This is +1.3% ahead of the monthly in-year target.

4.60. The council has set an in-year target collection rate for business rates of 96.7%, against which 43.5% (£127.0m) has been collected at month 5. This is -1.96% lower than the monthly in-year target.

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

Figure 19 – Council Tax In-Year Collection Rate Trend

Figure 20 – Business Rates In-Year Collection Rate Trend



Arrears Analysis

4.62. The level of total council tax arrears outstanding at month 5 is £120.4m (£92.6m is Islington's share), with £85.7m (£65.9m Islington's share) or 71% being the current year arrears. The remaining £34.7m relates to prior years.

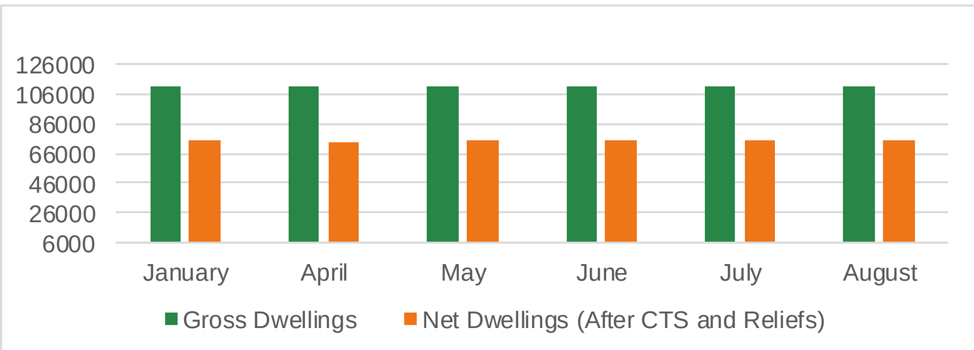
4.63. Out of the overall £120.4m current outstanding debts, it is estimated that £8.3m (7%), or 11,007 accounts, relates to payers who are in receipt of council tax support.

4.64. The level of total NNDR arrears outstanding at month 5 is £194.2m (£58.3m Islington's share) with £163.6m (£49.1m Islington's share) or 84.3% being the current year arrears. The remaining £30.6m relates to prior year arrears.

Taxbase Analysis

4.65. At January 2020, overall council's gross dwelling was estimated to be 111,023 and net dwelling, after adjusting for CTS and various reliefs but before the collection losses, for taxbase purpose was 74,460. The number of gross dwellings currently stands as at 111,276, which is an increase of 0.23% and estimated net dwellings to be 75,374, which is an increase of 1.23%.

Figure 21 – Monthly Changes in Gross Dwellings and Estimated Taxbase Before Collection Losses.



Collection Fund – Additional Commentary

4.66. At month 5 the council has paid out £10.1m or 95.05% of the available grants (67,069 properties) for 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.

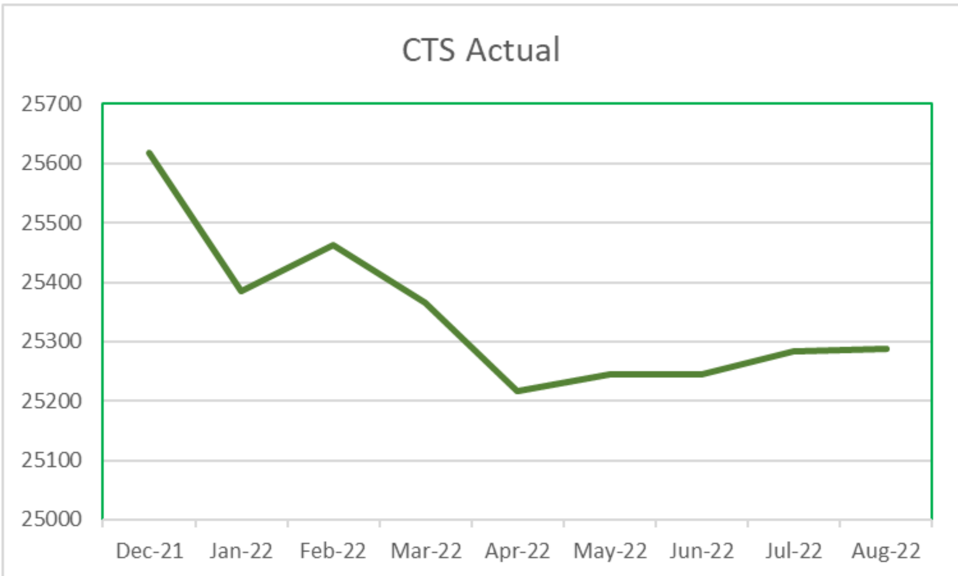
4.67. The council has also paid out £2.4m or 98% of total available grants from the Discretionary Fund to 26,838 households which do not qualify for £150 Council Tax Rebates but are in need of support.

4.68. Of the £17.2m grant provide to the council under the Covid-19 Additional Relief Fund (CARF) scheme, the council has so far paid out £3.2m or 18.6% to 398 accounts. Take up of the grants is much lower than anticipated.

4.69. The virtual court hearings system for both council tax and business rates continues to operate efficiently. At month 5 the council has issued 12,961 summonses (10,753 council tax and 2,208 business rates). Based on the current trend, costs raised through the summonses are in line with budget estimates.

4.70. At month 5 Council Tax Support (CTS) scheme caseload stood at 25,288 (representing £31.9m in financial terms), of which 18,273 (£22.4m) related to working-age recipients and 7,015 (£9.5m) related to pension-age recipients.

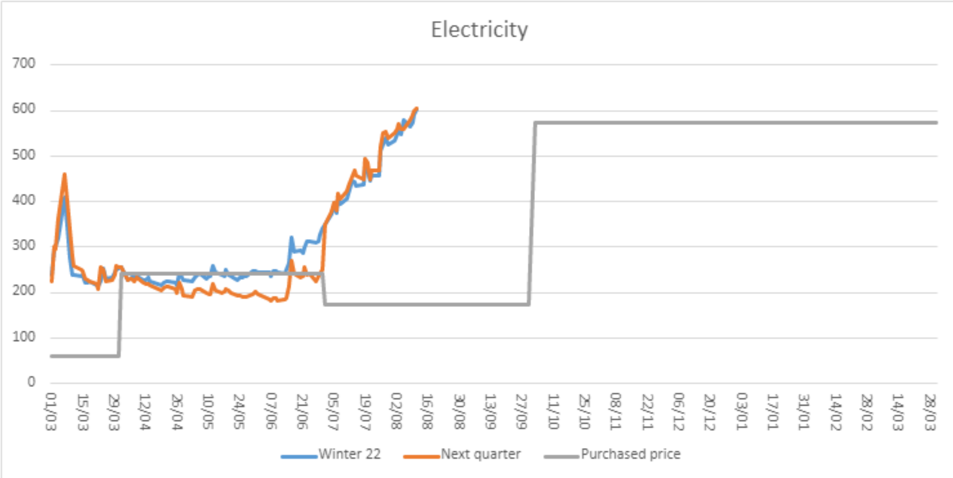
Figure 22 – Total Council Tax Support Case Load Over 2022/23



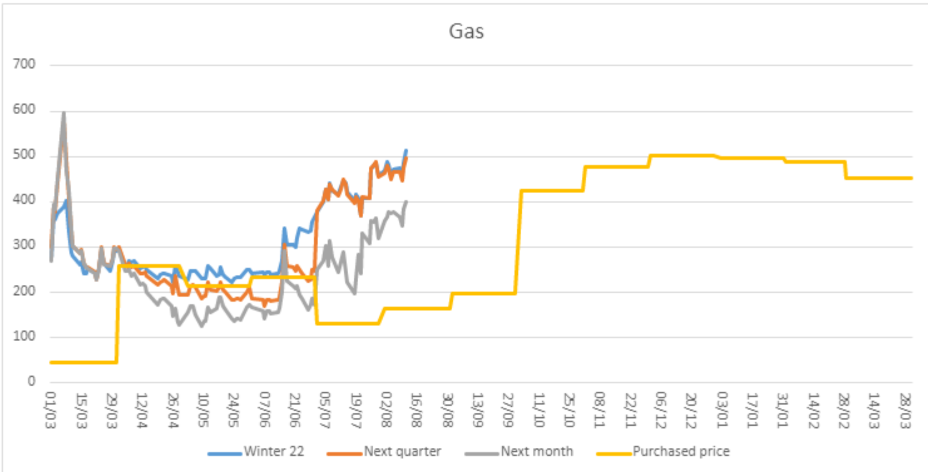
Energy Price Analysis – Month 5

4.71. 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. 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. **This forecast does not reflect the developments since month 5 relating to the government's energy price cap. Any change to 2022/23 forecasts as a result of the energy price cap will be reflected in the month 6 monitoring position.**

<u>Figure 23 - Weekly monitoring of electricity commodity price at Megawatt per hour</u>



<u>Figure 24 - Weekly monitoring of gas commodity price per therm</u>



4.72. 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.

4.73. There was a sharp increase in commodity prices for quarter 3 and quarter 4 since mid-June. This occurred while the council was waiting for the development and sign-off of a new energy purchasing strategy commissioned from an energy market consultancy firm.

4.74. Following the development and subsequent adoption of this strategy, the council purchased electricity at £575/megawatt (MW) and gas at an average price of 477p/therm. This equated to end user costs of around 70p/kWh for electricity and 17p/kWh for gas (a figure which includes an estimate of the standing charges).

4.75. **Table 5** shows the estimated quarterly costs of gas and electricity for the General Fund and Leisure Centres, HRA and Schools. These estimates are based on the prices purchased at and 2021/22 usage figures.

Table 5 – Quarterly Electricity and Gas estimates for 2022/23

	General Fund		**HRA**		**Schools (Incl. academies)**	
Period	**Elec. £m**	**Gas £m**	**Elec. £m**	**Gas £m**	**Elec. £m**	**Gas £m**
Quarter 1 average	1.097	0.273	1.746	1.392	0.664	0.357
Quarter 2 average	0.891	0.123	1.411	0.615	0.539	0.160
Quarter 3 average	2.079	0.805	3.342	4.213	1.264	1.061
Quarter 4 average	2.079	0.962	3.342	5.031	1.264	1.267
Total	**6.146**	**2.163**	**9.841**	**11.251**	**3.731**	**2.845**
Total Gas and Electricity	**8.309**		**21.092**		**6.576**	

4.76. **Table 6** shows energy pressures of (+£6.163m), reflected in the month 4 general fund and HRA financial positions.

Table 6 – Current Energy Pressures - 2022/23 Month 5

Directorate/Service	**General Fund £m**	**HRA £m**
CWB - Corporate Landlord Services	3.293	-
Environment - Pressure on Leisure Contract	1.100	-
Environment - Street Lighting Contract	1.770	-
Landlord supplies and community centres (non-recoverable)	-	0.565
	6.163	**0.565**

4.77. Further commentary on the figures in **Table 6** is included in the directorate narratives within the main body of the report. There is also commentary in the directorate narratives on emerging energy risks that have not yet crystalised into budget pressures.

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

4.79. 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 deficit of (+£13.784m), an increase of (+£14.596m) since previous reported position.

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:

- (-£0.648m) favourable variance from rent and service charge income, representing 0.35% of rent and tenant service charge income budgets. This is detailed in the table below:

Table 7 – Rent and service charge income - 2022/23 Month 5

	Current Budget £m	Forecast £m	Variance £m
Dwelling rents	(168.394)	(168.783)	(0.389)
Tenant service charges	(19.263)	(19.522)	(0.259)
Total Dwelling rents and tenant service charges	**(187.657)**	**(188.305)**	**(0.648)**

- (-£0.450m) forecast underspend variance from rent and service charge income, representing 0.35% of rent and service charge income budgets 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).
- The early repayment of the HRA's Pension deficit in 2022/23 of £20.000m funded from a planned drawdown from HRA reserves will relieve the HRA from annual pension deficit contributions, generating a saving of (-£1.600m) per annum.
- (-£1.099m) in respect of reduced Capital financing costs. A combination of temporarily funding the New build programme from reserves in 2021/22 and New build slippage of £45.314m in 2022/23 (from £104.885m to £59.571m) has reduced the HRA's budgeted increase in borrowing by £47.099m and as such, has reduced interest costs in 2022/23 by £1.099m. It should be noted that this reduction in borrowing is simply a timing issue, the overall borrowing requirement to fund the new build programme remains unchanged.
- (+£0.716m) The use of HRA reserves to temporarily fund the new build programme in 2021/22 has resulted in a reduction to HRA balances. As such, interest receivable in respect of HRA reserve balances are expected to reduce.
- (+£3.487m) increase in depreciation costs anticipated as a result of an upward revaluation of HRA dwelling assets during 2021-22. 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 Expenditure (RCCO) over the medium term thus no adverse impact on the HRA

- The council has secured its required electricity and gas supplies for 2022/23 in full. This is estimated to increase costs by (+£13.778m), (+£8.129m) gas and (+£5.649m) electricity.

Table 8 below outlines the expected costs arising from the increased energy prices:

Table 8 – Energy Budget and Forecast Variances 2022/23

		2022/23 Budget (£m)	Forecast (£m)	Variance (£m)
Landlord supplies and community centres (not recoverable)	Electricity	0.245	0.594	+0.349
	Gas	0.083	0.300	+0.217
Landlord supplies & community centres	**TOTAL**	**0.328**	**0.893**	**+0.565**
Communal Electricity and heating supplies (recoverable from tenants and leaseholders)	Electricity	3.726	9.026	+5.301
	Gas	3.040	10.952	+7.912
Communal electricity and heating	**TOTAL**	**6.765**	**19.978**	**+13.213**
Total energy costs		**7.093**	**20.871**	**+13.778**

- (+£0.565m) of the increased costs relate to supply costs for landlord supplies and community centres which are not recoverable from tenants and leaseholders, thus representing a cost pressure to the HRA.
- Communal electricity and communal heating costs are estimated to increase by (+£13.212m). These charges are recoverable from tenants and leaseholder and as such, should not adversely impact the HRA. However, given the current economic climate and the impacts of the cost-of-living crisis, residents may struggle to absorb the increased energy costs which would potentially present a risk to the HRA should costs become irrecoverable.
- 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 will be reflected in the 2022/23 estimated annual service charge bills issued in Sept. 22. Charges to leaseholders are subject to a limit of £1,500 for gas and £500 for electricity. The remaining balance will be recovered in the following year as part of the actualisation billing process issued in Sept. 23.
- The estimated cost increases represent a significant increase compared to the levels anticipated at budget setting. Electricity costs are set to be 142% greater than budgeted and Gas costs, 260% greater. This would represent an average annualised increase of

£3.63 per week for tenants and £188.61 per year for leaseholders for electricity (subject to an annual limit of £500) and an average annualised increase of £28.49 per week for tenants (subject to the consultation outcome for reducing service provision) and £1,846.04 per year for leaseholders for gas (subject to an annual limit of £1,500).

- The council has taken a decision to reduce the provision of communal heating by 5 hours a day and the heating period by 6 weeks to help manage energy consumption and reduce costs for our residents. In anticipation of residents agreeing to the changes, the measures introduced is expected to reduce consumption levels thus costs by 30%.
- It should be noted, although energy supplies have been secured for the year, the new energy procurement strategy enables the council to sell back if the market starts to fall and buy at a more favourable rate, so the current forecast does not necessarily reflect the final costs and could be subject to change.
- Following the government's Energy Price Guarantee announcement on 08/09/2022, the typical UK household will now pay up to an average £2,500 a year on their energy bill for the next two years. Households on heat networks which includes Islington council's tenants and leaseholders will be no worse off and receive support through a new fund. No details are available at present, but once more details are released, an assessment can be made on the impact to our tenants and leaseholder and how they can be supported.

5.4. HRA Reserves position

- The table below outlines the anticipated HRA reserves position as at 31 March 2023.

Table 9 – Forecast HRA Reserves Position as at 31 March 2023

	£m
HRA Reserves – Balance as of 1st April 2022	+£74.027
Early repayment of HRA's pension deficit	-£20.000
Revenue contribution towards Capital expenditure (RCCO)	-£5.694
Communal Electricity and Gas cost pressures	-£13.212
Transfer from revenue to HRA reserves	+£7.550
HRA Reserves – Anticipated balance as of 31st March 2023	**+42.671**

- HRA 2022/23 reserves opening balance totals £74.027m, whilst these reserves are in the long term designated to funding the major works capital programme, in the short term the reserves are available to temporarily cover planned drawdowns.
- The early repayment of the HRA's pension deficit will relieve the HRA from annual contributions towards the pension deficit, generating annual savings of £1.600m.
- In principle communal electricity and gas costs are recoverable from tenants and leaseholders. Options to recover are currently under consideration. Until a decision has

been reached, the communal electricity and gas cost pressures will be shown as a cost to the HRA met from reserves.

5.5. Risks and opportunities within the department include:

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 is 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.
- An initial assessment using June 2022 indices indicates a possible contract inflation cost pressure to the HRA of approx. (+£1.000m).
- As part of the re-integration of PFI 2 street properties to council management in 2022/23, additional budget worth £6.4m were provided to the repairs and maintenance service. The additional budget could potentially provide some scope to smooth the impact of inflationary cost pressures arising. The position will be closely monitored throughout the year to ensure pressures are identified and appropriate management actions can be taken to mitigate risk. Any inflationary pressure arising that can't be contained will need to be met from HRA reserves.

Pay Award

- National Employers have tabled a flat rate national pay offer of £1,925 on all NJC pay points with effect from 1 April 2022. This would equate to £2,355 on all Inner London pay points which includes Islington. The offer has yet to be agreed by the Unions and is currently being considered.
- The 2022/23 HRA budgets allow for a 2% pay award uplift and the current offer would represent an average uplift of 6.63% to the HRA resulting in a 4.63% shortfall. This would give rise to a pay award cost pressure of (+£2.454m). 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 Programme 2022/23

6.1. At the end of month 5, total capital expenditure of £51.283m had been incurred against a 2022/23 full year forecast of £182.423m, representing 28% of the forecast capital expenditure.

6.2. This is summarised between the non-housing and housing capital programme in **Table 10** and detailed in **Appendix 3**.

Table 10 – 2022/23 Capital Programme

	Revised Budget £m	Spend to Date M5 £m	Forecast Outturn 2022/23 £m	Forecast Variance £m	Forecast Expenditure M6-M12 £m
Non-Housing	54.397	6.354	42.979	(11.418)	36.624
Housing	185.258	44.929	139.444	(45.814)	94.515
Total Programme	**239.655**	**51.283**	**182.423**	**(57.232)**	**131.139**

6.3. Current forecasts suggest that almost 3 times the amount spent in the first 5 months of the year will be spent in the remaining 7 months. Capital spend analysis of the last 3 financial years shows an average spend in the second half of the financial year being approximately £77m – there is currently £131m forecast to be spent in months 6 to 12 of 2022/23. However at month 5 2021/22, only £29m of total capital expenditure had been incurred so there is an increase from last year.

Housing Capital Programme

6.4. The Housing (HRA and GF) capital forecast totals £139.444m compared to the revised 2022/23 capital budget of £185.258m (which includes £16.651m of net slippage from 2021/22 primarily in respect of the new build prog.).

6.5. As at the end of month 5 (+£44.929m) of capital expenditure had been incurred, representing 32% of the forecast capital expenditure. This is detailed at **Appendix 3**.

6.6. The latest review of the New Build programme suggest that at this stage slippage in 2022/23 is likely to remain at (-£45.314m) representing 43% of the revised new build capital budget. The slippage relates primarily to limitations of capacity, materials and labour on sites and therefore impacting 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

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