Report of: Executive Member for Finance, Planning and Performance

Meeting of:	Date	Agenda Item	Ward(s)
Executive	24 November 2022		All
Delete as appropriate	~~Exempt~~	Non-exempt	

Budget Monitoring 2022/23 - Month 6

1. Synopsis

1.1. This report presents the estimated outturn position for the 2022/23 financial year as at the end of month 6 (30 September 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 (+£2.662m). 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 (£3.361m) 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 5 to Month 6 (£m)

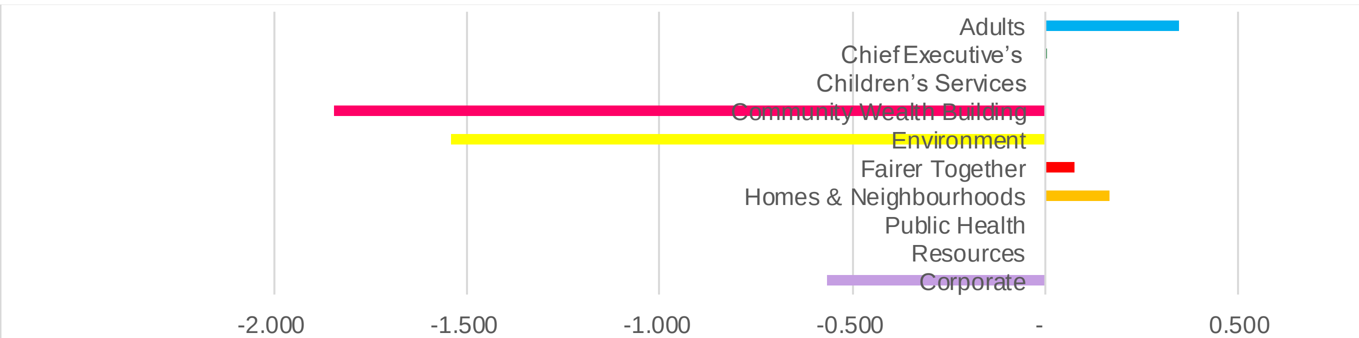
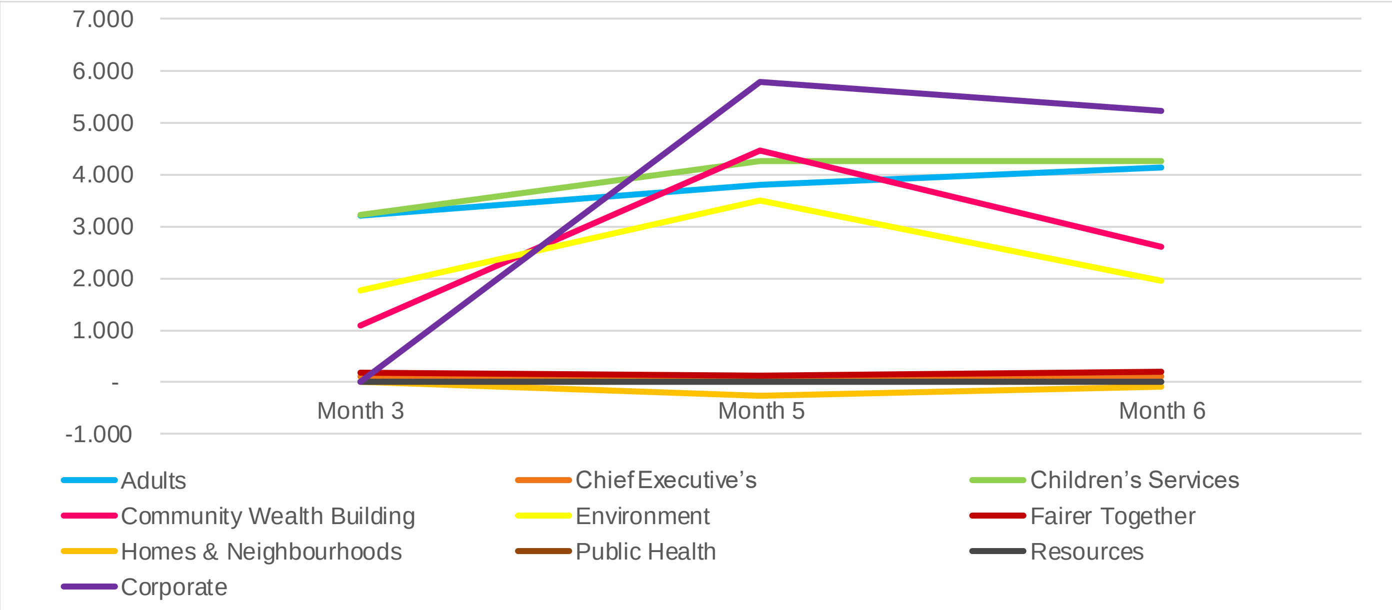


Figure 2 – Forecast Variance by Directorate Month 3 to Month 6 (£m)



1.5. The HRA is currently forecasting an in-year deficit of (+£4.552m), a decrease of (-£9.232m) since 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 6, total capital expenditure of £60.079m had been incurred against a 2022/23 forecast of £174.827m and the revised 2022/23 capital budget of £239.655m.

2. Recommendations

2.1. To note the breakdown of the forecast General Fund outturn by individual variance at Appendix 1 and by service area at Appendix 2. (**Section 3, Table 1, and Appendix 1 and 2**)

2.2. To note the transformation fund allocations and anticipated, profiled drawdowns for 2022/23 and to agree an additional allocation of £0.070m against the Transformation Fund for the People Friendly Streets programme. (**Paragraph 4.54 and Appendix 3**)

2.3. To note the collection fund monitoring position at month 6. (**Paragraphs 4.55 to 4.69**)

2.4. To note the Energy Price Analysis position at month 6. (**Paragraphs 4.70 to 4.79**)

2.5. To note the forecast 2022/23 HRA estimated outturn (+£4.552m) deficit at month 6. (**Section 5 and Appendix 1 and 2**)

2.6. To note that, at the end of month 5, capital expenditure of £60.079m had been incurred against a 2022/23 full year forecast of £174.827m and against the revised 2022/23 capital budget of £239.655m. (**Section 6 and Appendix 4**)

2.7. To agree capital slippage of £64.328m to future financial years and to note that there is a risk of further slippage over the remainder of the financial year. **(Section 6, Table 11 and Appendix 4)**

3. Revenue Summary

3.1. A summary position of the month 6 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 6 Total £m**	**Month 5 Total £m**	**Change to Previous £m**
Adults	4.130	3.783	0.347
Chief Executive's	0.103	0.100	0.003
Children's Services	4.254	4.254	-
Community Wealth Building	2.612	4.457	(1.845)
Environment	1.953	3.494	(1.541)
Fairer Together	0.193	0.118	0.075
Homes & Neighbourhoods	(0.104)	(0.270)	0.166
Public Health	-	-	-
Resources	-	-	-
Total: Directorates	**13.141**	**15.936**	**(2.795)**
Corporate	5.213	5.779	(0.566)
Total: General Fund	**18.354**	**21.715**	**(3.361)**
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	**2.662**	**6.023**	**(3.361)**

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 (+£4.130m), an increase of (+£0.347m) since the previous reported position

4.1. Adult Social Services is currently forecasting an overspend of (+£4.130m), which is detailed by key variances in **Appendix 1**.

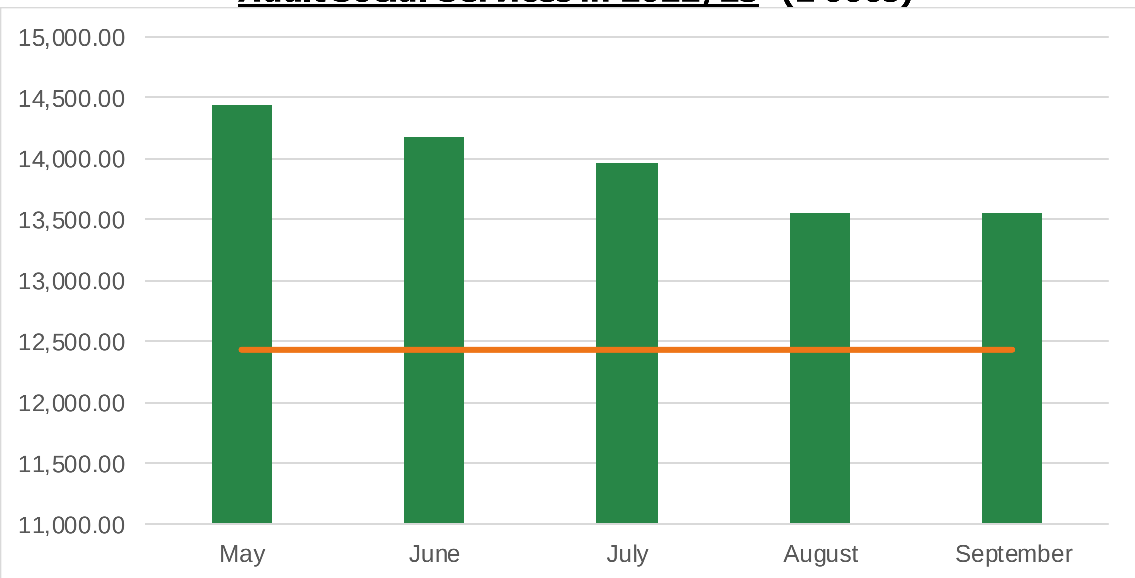
Covid and Hospital Discharge Pressures (+£1.381m, a decrease of -£0.045m since the previous reported position)

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

- (+£1.128m, an increase of +£0.010m 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
- (+£0.253m, a decrease of -£0.055m since the previous reported position) relating to hospital discharge pressures in the current financial year.

4.3. A pressure of (+£1.128m) 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 6, this pressure has reduced to (+£1.118m) as 179 individuals have left since April 2022 (see **Figure 3**).

Figure 3 - Value of Historical Covid-19 Hospital Discharge Care Packages within Adult Social Services in 2022/23 (£'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 (+£0.853m). 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 (+£0.253m). This is a reduction on the previous reporting period's forecast of -£0.055m 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 (+£2.349m, an increase of (+£0.057m) 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 (+£0.453m). 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.

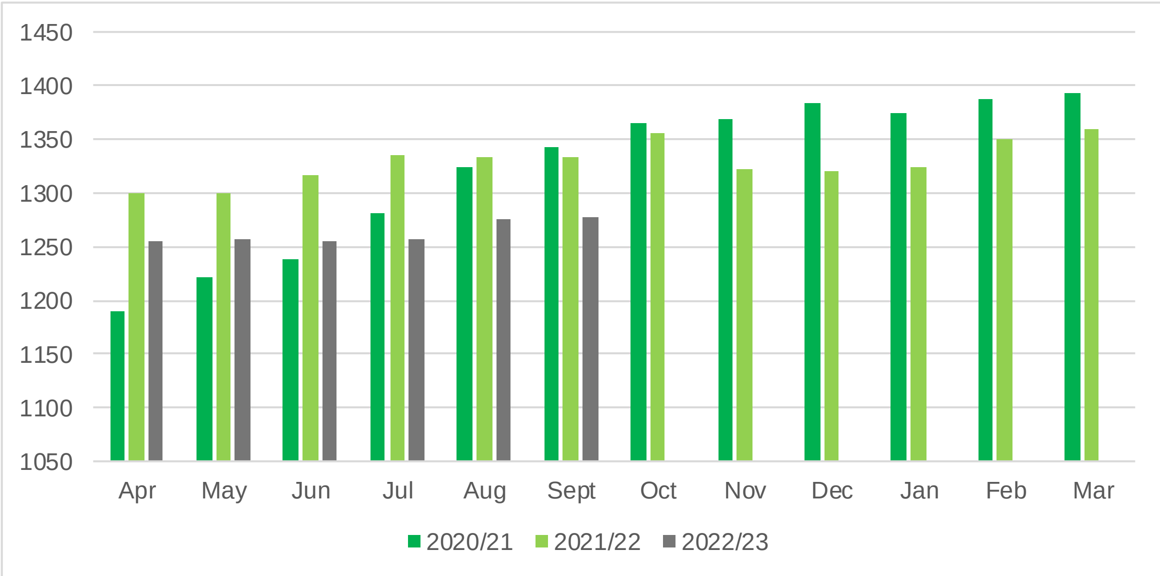
4.5. These trends link to the COVID related Hospital Discharge Scheme. When the funding was in place to support discharges, packages were often arranged quickly for residential and nursing settings as this would be paid for by the NHS. Although that funding has ended, hospitals are still under incredible pressure and the expectation 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 have reduced the forecasted risk from Month 5; however, it is now thought that these will not be able 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 (+£0.351m).

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.

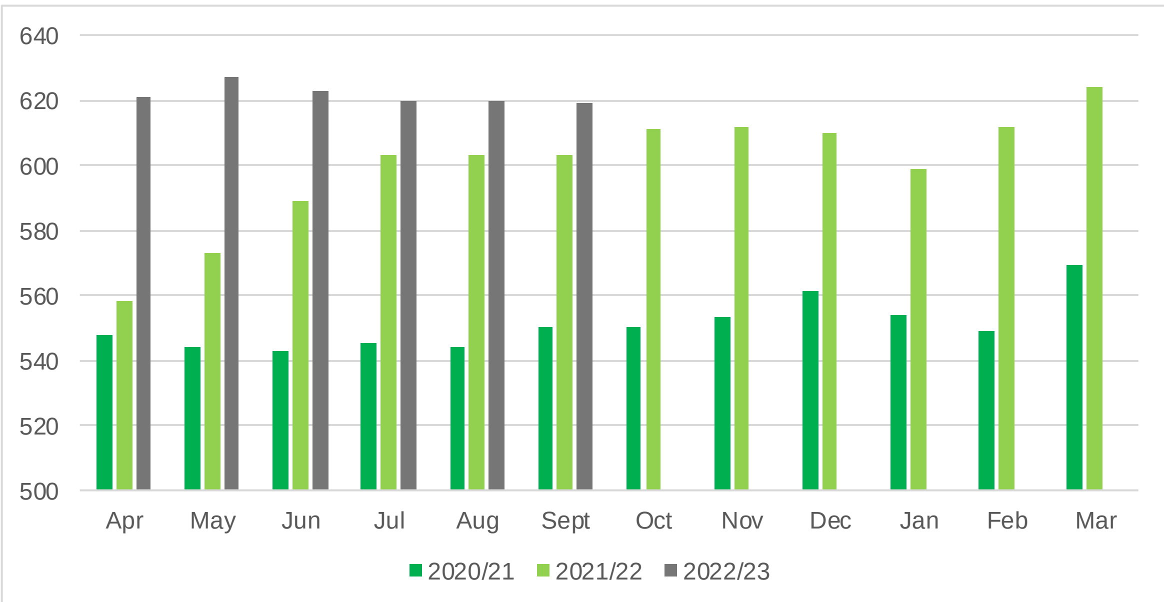
4.8. **Figure 4** shows that whilst demand for homecare is slightly less than it was in 2021/22, demand is still above early pandemic levels.

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



4.9. **Figure 5** shows that since the pandemic, demand for residential and nursing beds has been steadily increasing.

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



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 (+£0.385m, an increase of +£0.017m 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 (+£0.519m, an increase of £0.022m 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 (+£0.519m) which will be rectified in 2023/24.

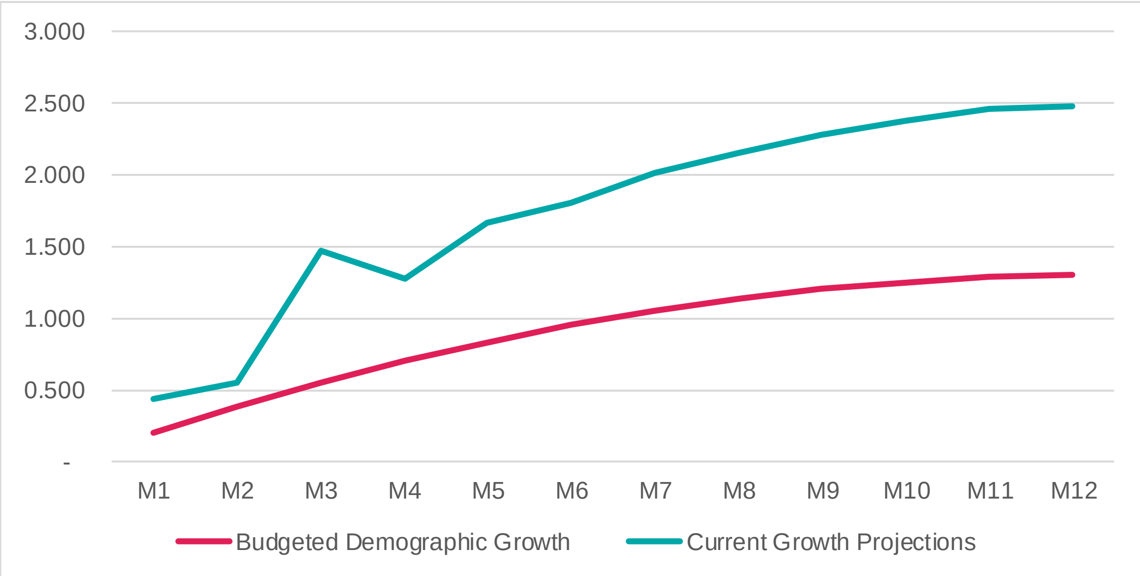
Delay to Beaumont Rise Opening (+£0.296m, (this was previously a risk which has now materialised) and increase of £0.296m since previous reported position)

4.13. There is a 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. As a result of not having this accommodation available means that the NHS contribution to the pool cannot be materialised as care is still required in NHS accommodation.

Risks and Opportunities for Adult Social Service's finances:

4.14. **Demand over Demographic Growth Allocation (+£0.317m)** - If demand continues at current rates, a further (+£0.317m) 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.
- The restructure of the reablement service has been completed however there are number of outstanding issues which means the service has not increased its capacity to take on additional 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.

4.15. **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 £0.519m from In-House Transformation.

Based on early consultation feedback there is a significant risk that the In-House transformation saving will not be fully delivered as the proposed structures may change and this will adversely impact the saving.

Chief Executive's Directorate (+£0.103m), an increase of (+£0.003m) since the previous reported position

4.17. The Chief Executive's Directorate is currently forecasting an overspend of (+£0.103m), which is detailed by key variances in **Appendix 1**.

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

- Unbudgeted activity within communications as part of the Accessible Documents project.
- Net overspend on employee and supplies and services within the Communications service as a result of increased communications activity.

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

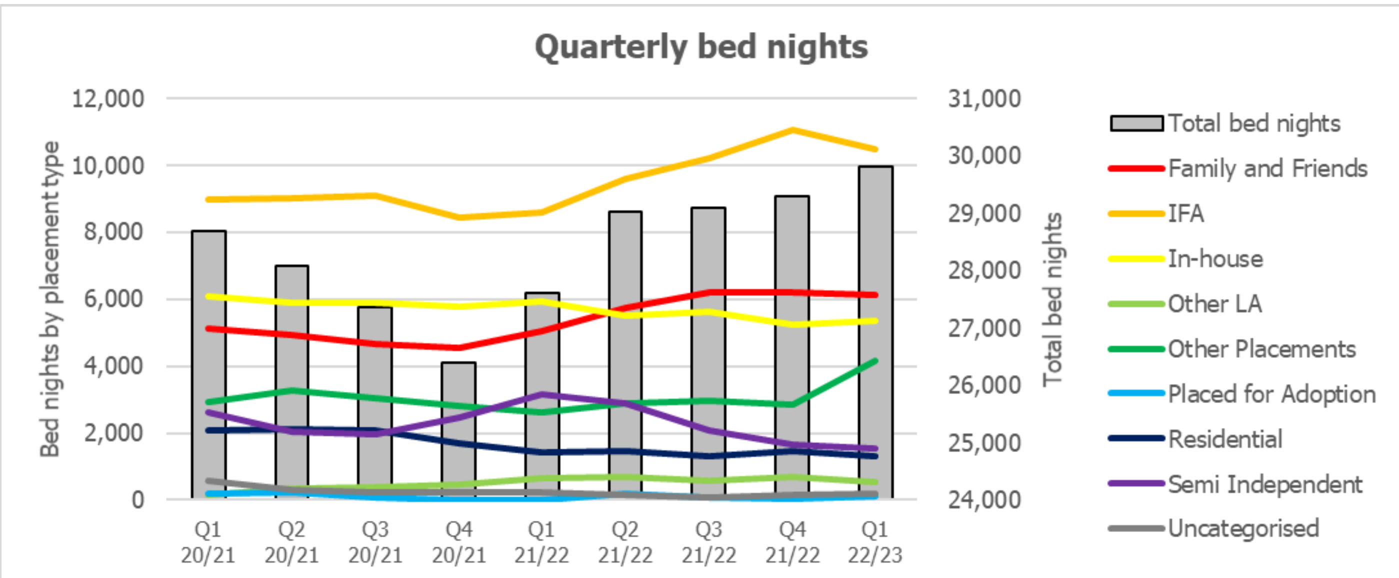
Children's Services (+£4.254m), unchanged since the previous reported position; Schools (-£1.438m), unchanged since the previous reported position

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

4.21. Variances to note include:

- (+£2.511m) 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.

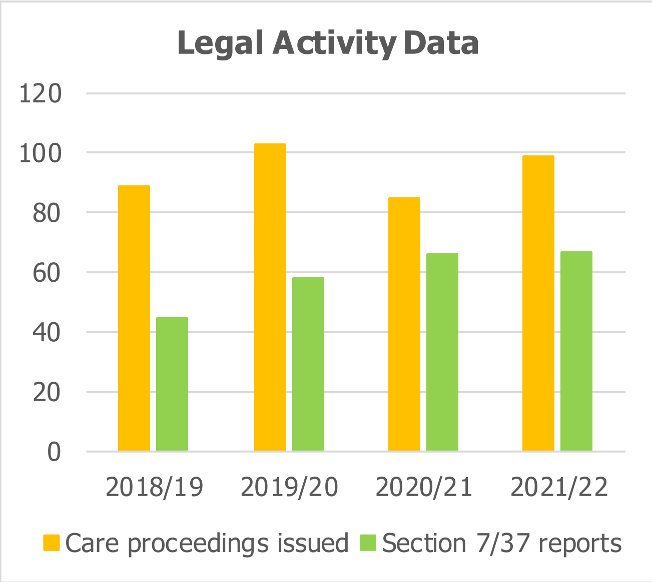
Table 3 – IFA bed night data extract

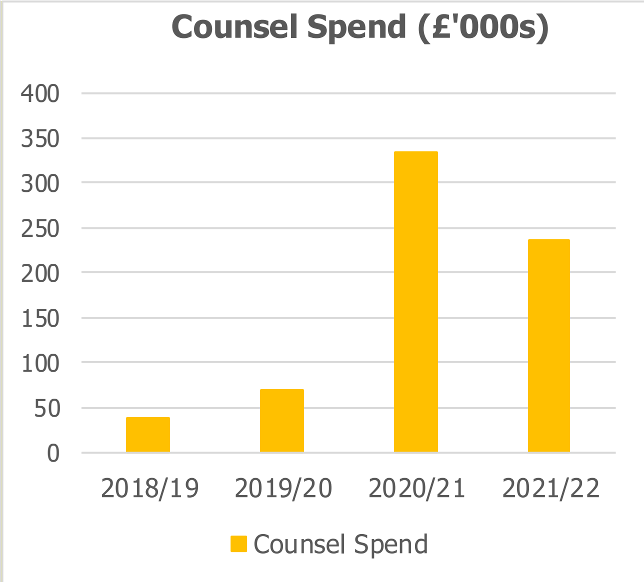
	Q1 21/22	Q3 21/22	Q4 21/22	Q1 22/23
IFA bed nights	8,574	10,191	11,049	10,471
Movement from previous quarter			+ 8%	- 5%
Movement from same quarter one year earlier				+ 22%

- 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.

- (+£0.250m) 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.

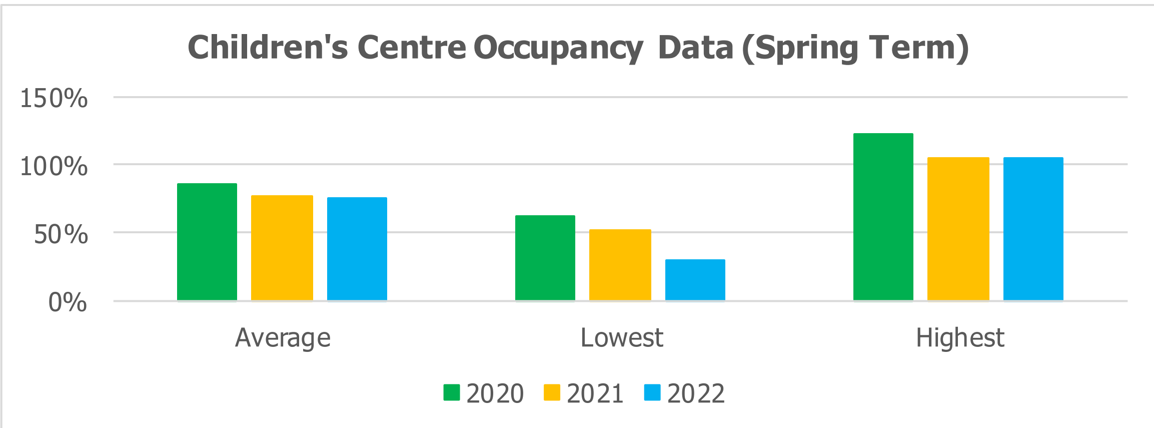
Figure 8 - Legal activity data and Counsel spend





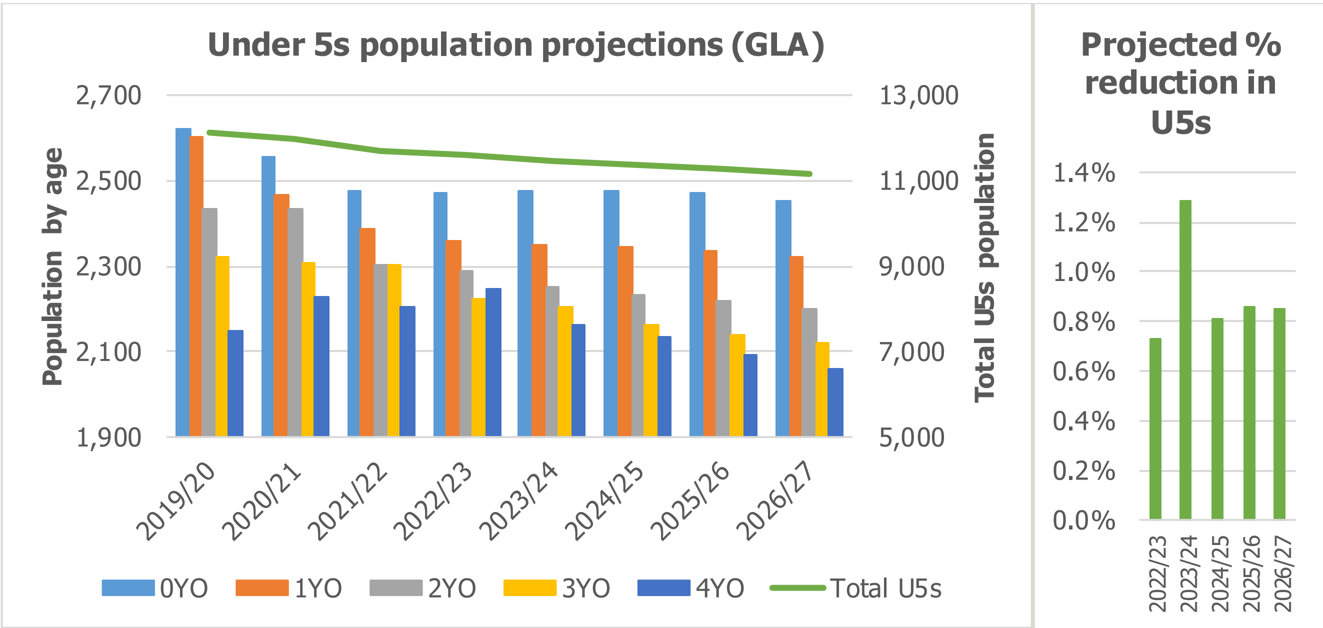
- (+0.271m) forecast cost of continuing to underwrite income losses at Lift and Rosebowl while income levels continue to recover to pre-pandemic levels.
- (+0.300m) estimated cost pressure from bringing the youth provision at platform back in-house. This includes estimates of pressures in relation to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



4.22. 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.

4.23. The ring-fenced Dedicated Schools Grant (DSG) is currently forecast to underspend by (-£1.438m), unchanged 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.

4.24. 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

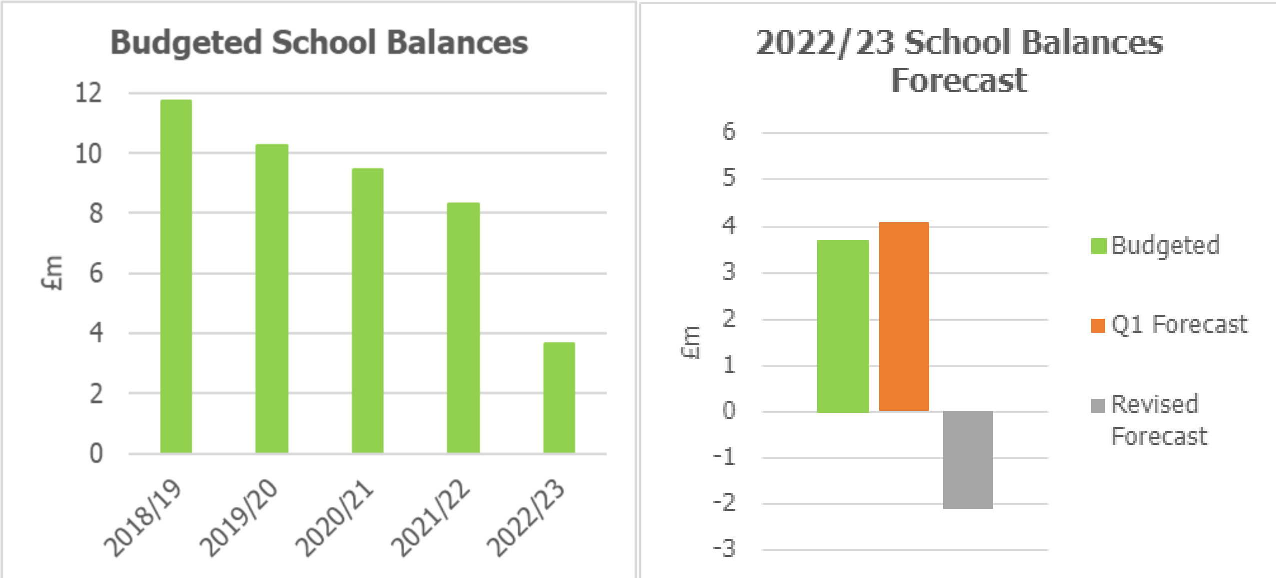
	Schools Block £m	De-delegated budgets £m	Central Schools Services £m	High Needs Block £m	Early Years Block £m	Total £m
Opening balance	**0.776**	**0.122**	**0.210**	**2.649**	**1.461**	**5.218**
Drawdowns	0.000	0.000	0.000	(1.252)	0.000	**(1.252)**
In-year DSG variance	(0.053)	0.000	0.068	1.423	0.000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

4.25. 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.

4.26. 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.

4.27. 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



4.28. 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 (+£2.612m), (-£1.845m) movement since Month 5 reported position

4.29. The Community Wealth Building Directorate is currently forecasting a (+£2.612m) overspend position, which is detailed by key variances in **Appendix 1**.

4.30. The movement from last month (-£1.845m) is due to revised forecasts as follows:

- The main movement from last reported position is due to decrease in energy prices (-£1.683m) for council buildings in the Corporate Landlord division. This decrease is due to the application of the energy cap discount that was announced on 30th Sept. 2022.
- There is a favourable movement in Commercial property income of (-£0.162m) compared last period. This relates to one-off ad-hoc income.

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

- It is expected that there will be a shortfall in Commercial property income in the Corporate Landlord division of (+£0.922m - including the ad-hoc income above) due to additional undeliverable savings of £0.840m and £0.244m from previous years. This variance will be reduced further once 3 leases worth £0.194m are transferred to

Corporate Landlord division. This income is currently claimed by Adult Social Care and Children Services.

- The division currently has 47 committed live leases with annual value of £3.407m including the 3 leases mentioned above. 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 £3.407m will be received.
- The Corporate Landlord department is forecasting an overspend of (+1.690m) in energy costs for council buildings. 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

4.32. 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.
  - 5 leases with a total value of £0.133m 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 (+£1.953m), (-£1.541m) change since the previous reported position

4.33. The Environment Directorate is currently forecasting a (+£1.953m) overspend position, which is detailed by key variances in **Appendix 1**.

4.34. The movement from last month (-£1.541m) is due to revised forecasts as follows:

- (-£1.655m) decrease in estimated energy prices for Street Lighting and GLL due to the price cap.
- (-£0.210m) fuel costs reduced.
- (-£0.057m) net underspend within the Business Performance & Improvement position.
- (-£0.041m) around the costs for EC1N database costs within the ASB Team.
- (-£0.030m) recruitment of an Energy Reduction Programme officer can now be covered within Net Zero Carbon service.

Offset by:

- (+£0.168m) pressure within the Grounds Maintenance Service due to the vacancy factor.
- (+£0.109m) net additional costs around Commercial Waste income and the NLWA levy.
- (+£0.125m) additional staff costs within Street Services Operations due to the two extra bank holidays (+£0.090m) and net employee supplies/services costs throughout the service (+£0.035m).
- (+£0.050m) net additional costs within the Tree Service.

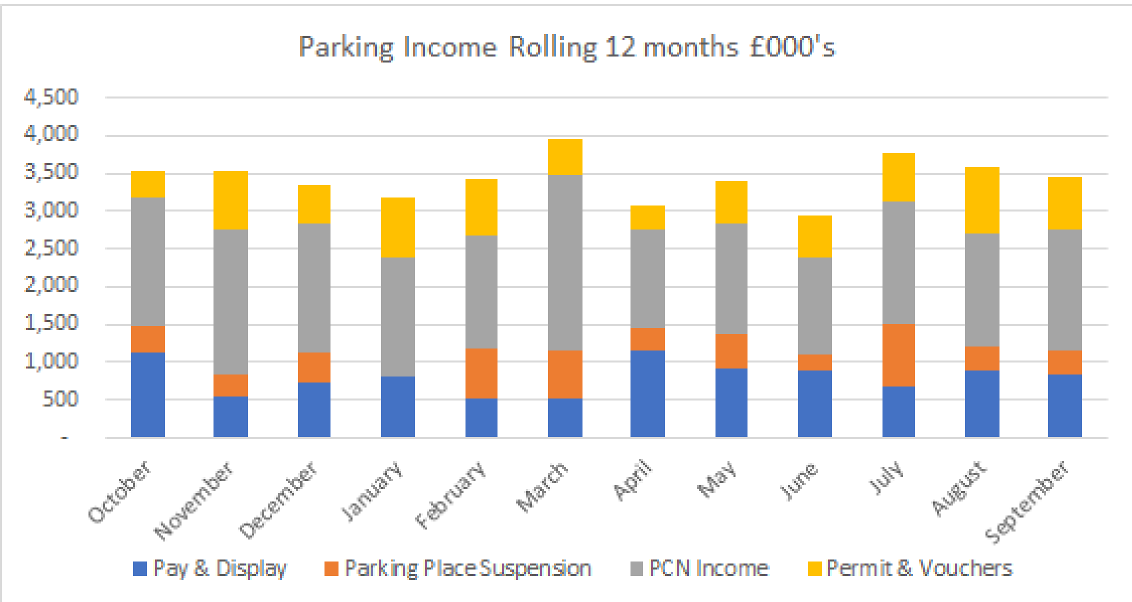
4.35. The significant variances within the department are as follows:

- 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.

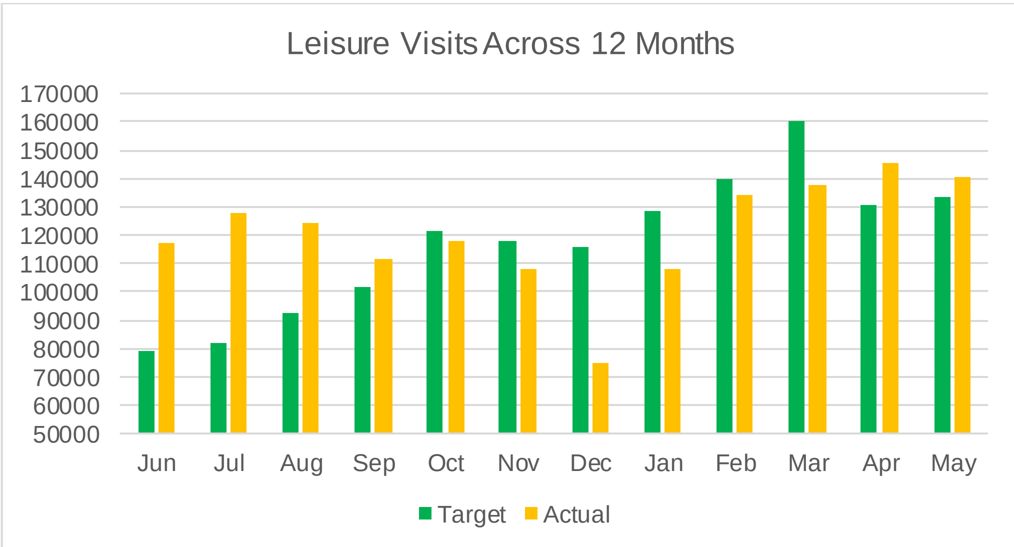
- The figure below shows the monthly breakdown of the main parking income streams over the last 12 months.

Figure 12 - Parking Income Streams October 2021- September 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 (+£0.576m). 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.

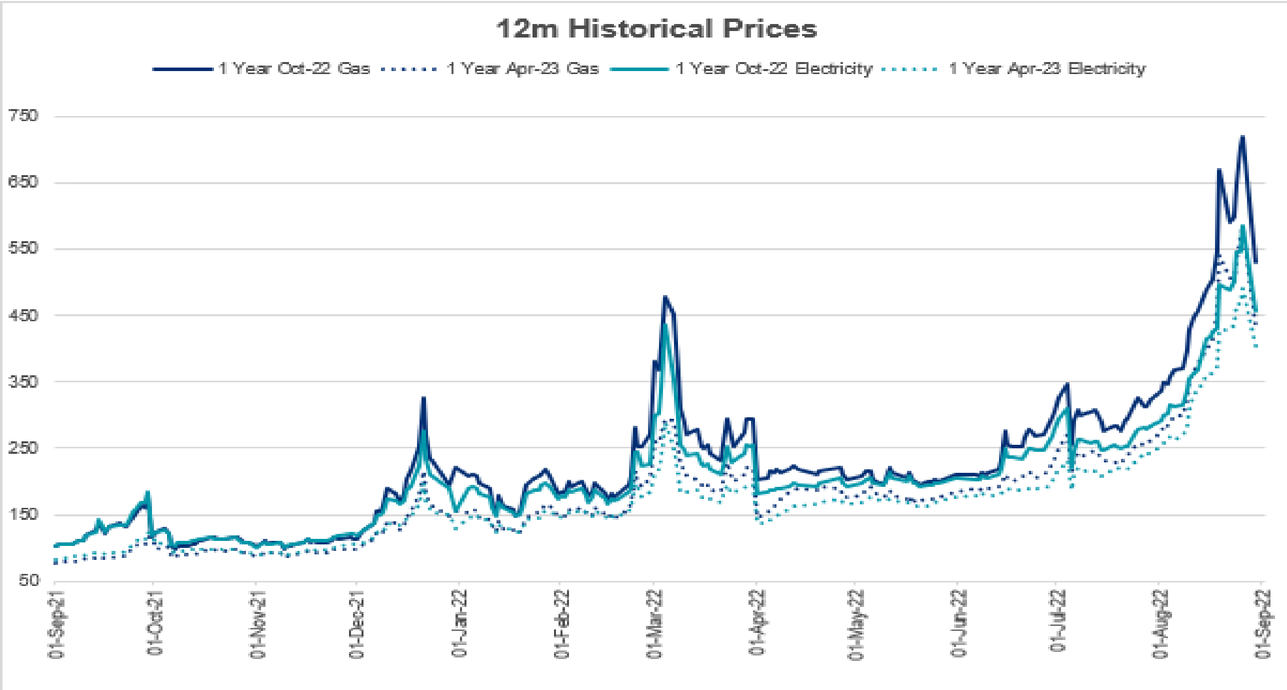
Figure 13 - Leisure Visits June 2021-May 2022



- 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.

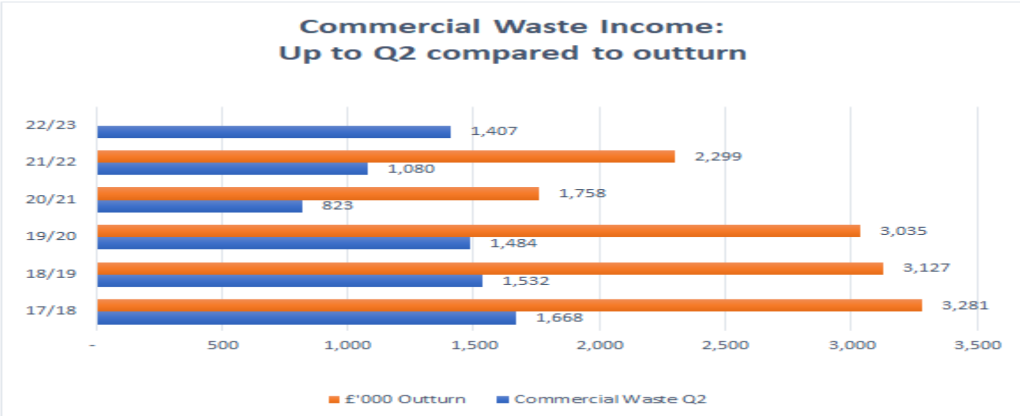
Figure 14 - Change in Commodity cost of Gas (pence per therm) and Electricity (pence per MwH). Change in price from 29 July 2021 to 29 July 2022 of purchasing October 22-23 and April 23-24 contracts



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.

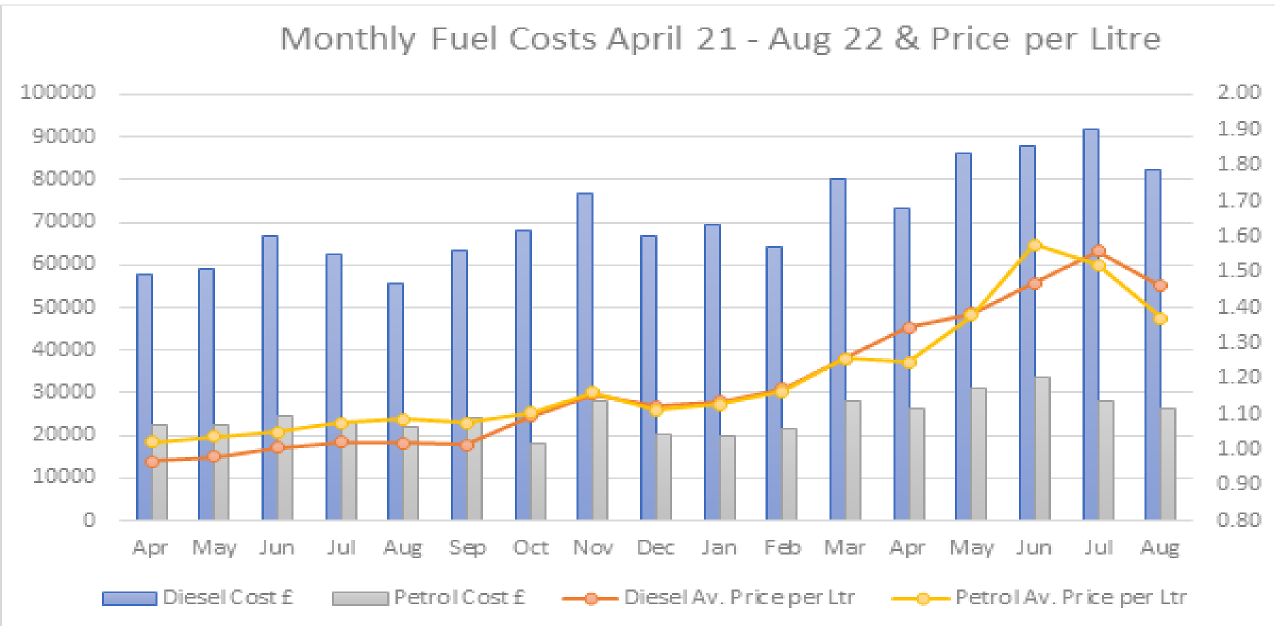
- There continues to be a pressure within the commercial waste service as the customer base recovers, however the first quarter income figures look encouraging. The chart below compares the income received during the first quarter compared to the outturn for the previous 5 financial years. The first 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 half compared to the outturn for the previous 5 financial years. The first half 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



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

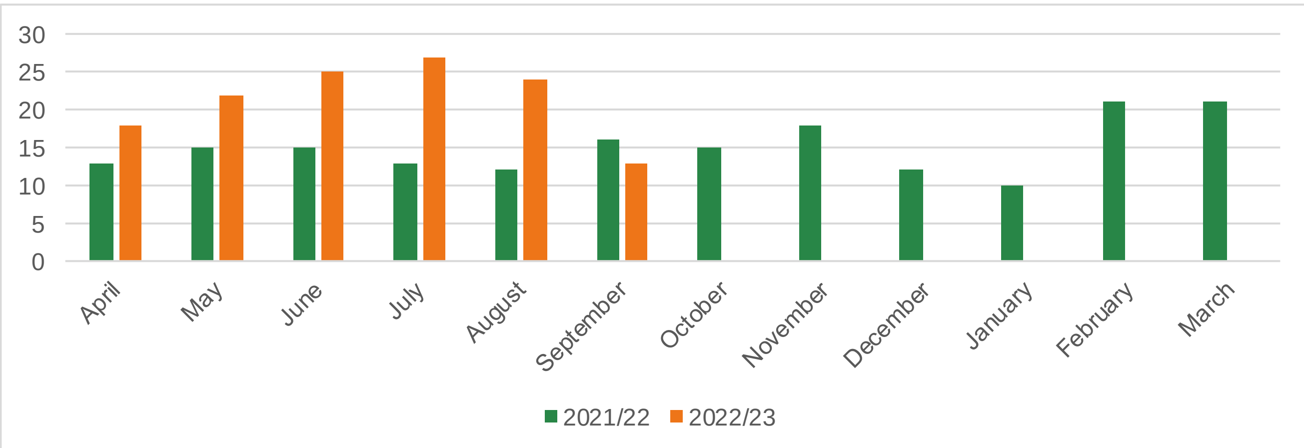
Fairer Together (+£0.193m), an increase of (+£0.075m) since the previous reported position

4.37. The Fairer Together Directorate is currently forecasting a (+£0.193m) overspend, which is detailed by key variances in **Appendix 1**. This position has increased (+£0.075m) which is mainly attributable to the additional support required within Resident Experience as a result of the Council's Cost of Living Campaign.

4.38. Significant variances within the directorate are as follows:

- (+£0.064m, +£0.007m 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.
- (+£0.055m, a new variance since the previous reported position) cost pressure due to the cost of three temporary full time Customer Service agents to support the Council's Cost of Living campaign.
- (+£0.021m, unchanged 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.

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



- (+£0.040m, unchanged since previous reported position) COVID-19 related costs from We Are Islington, which was wound down by Month 5. 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.
- (+£0.013m, a new variance since the previous reported position) shortfall due to unmet income targets within the emergency 24/7 service.

4.39. Risks and Opportunities

- There is a risk that in addition to the reported (+£0.064m) overspend above, that (+£0.065m) 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 risk in addition to the reported (+£0.013m) overspend above, that (+£0.014m) 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 (-£0.104m underspend) a movement of (+£0.166m) since the previous reported position

4.40. The Homes and Neighbourhood directorate is currently forecasting a (-£0.104m) underspend position, this is a decrease of (+£0.166m) in underspend since month 5. The primary reasons for the movement is the increase in payments being made for prevention and a rise in the number of clients in TA.

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

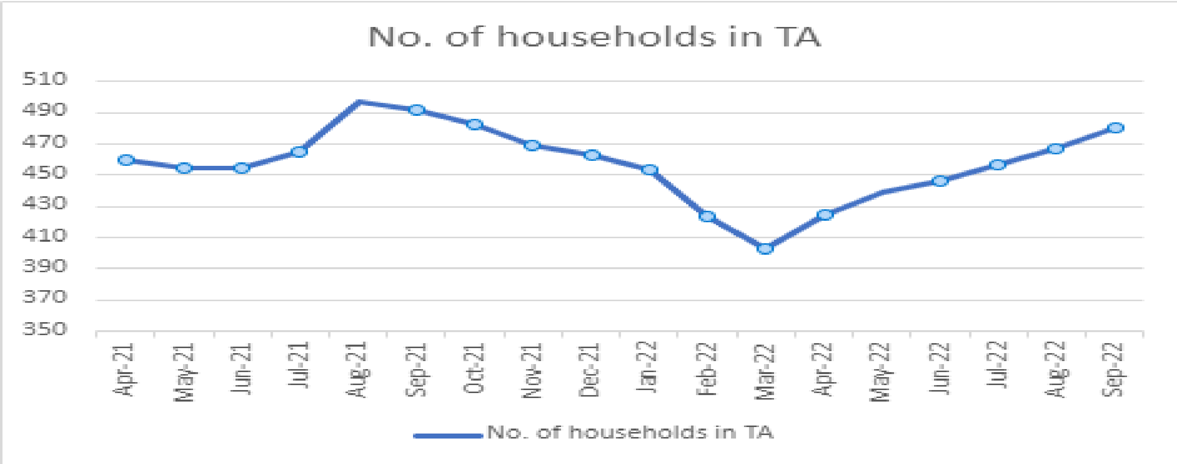
- Nightly Booked Temporary Accommodation (TA) is currently forecasting a modest underspend of (-£0.519m). Numbers in TA overall are rising, but the department believes that it can accelerate cases moving out of TA, with a number of new Property Acquisition Programme (PAPs) properties becoming available. There has been a sharp decline in the use of more expensive Notting Hill Genesis properties.
- 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 (+£0.174m) 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**.

4.42. 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 2021).
- The number of private rented sector properties available to rent has fallen in London by 38% (July 2021 to July 2022).
- 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 September 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, increase the responsibility on the service staff to manage these additional clients. There is a budget risk that core No Recourse to Public Funds (NRPF) client numbers may rise.
- 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.

4.43. 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), sustained rises in case numbers are increasing the risk that this saving will not be delivered.

4.44. 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

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

4.46. 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 Service is currently underspent. The Sexual Health Service 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). Since the previous reporting month, there has been an increase in activity of the e-service and this is expected to continue for the remainder of the year.
- 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 (+£0.521m) 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 (-£0.384m) with the remaining (-£0.137m) to be met from general underspends across the department.

4.47. 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 services 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.

4.48. 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

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

4.50. 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 (+£5.213m), a decrease of (-£0.566m) since the previous reported position

4.51. The corporate items forecast is a (+£5.213m) overspend.

4.52. The pressures relates largely 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.

4.53. This pressure is offset in part by:

- A forecast underspend on the corporate levies budget. (-£0.566m)

4.54. The latest transformation fund allocations and anticipated drawdowns are included at **Appendix 3** for noting. An additional allocation of £0.070m against the Transformation

Fund, for the People Friendly Streets programme, is included within **Appendix 3** for agreement.

Collection Fund Update

Background

4.55. 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.

4.56. 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.

4.57. 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

4.58. The council has set an in-year target collection rate for council tax collection of 95.33%, against which 48.6% (£70.1m) has been collected at month 6. This is +1.3% ahead of the monthly in-year target.

4.59. The council has set an in-year target collection rate for business rates of 96.7%, against which 55.3% (£160.6m) has been collected at month 6. This is +8.6% higher than the monthly in-year target.

4.60. 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

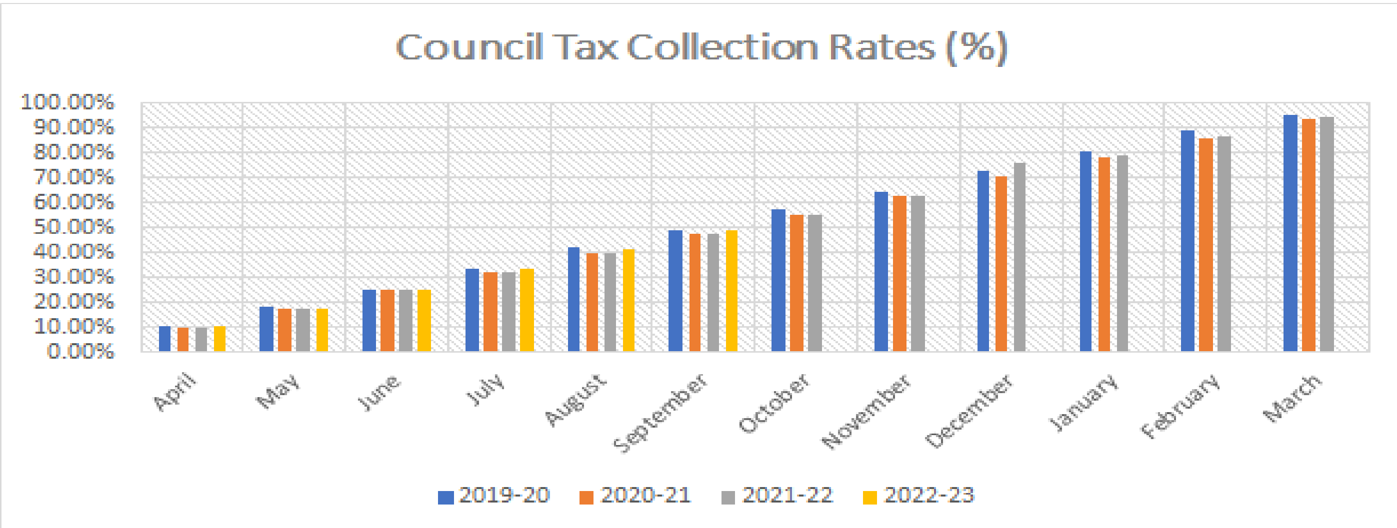
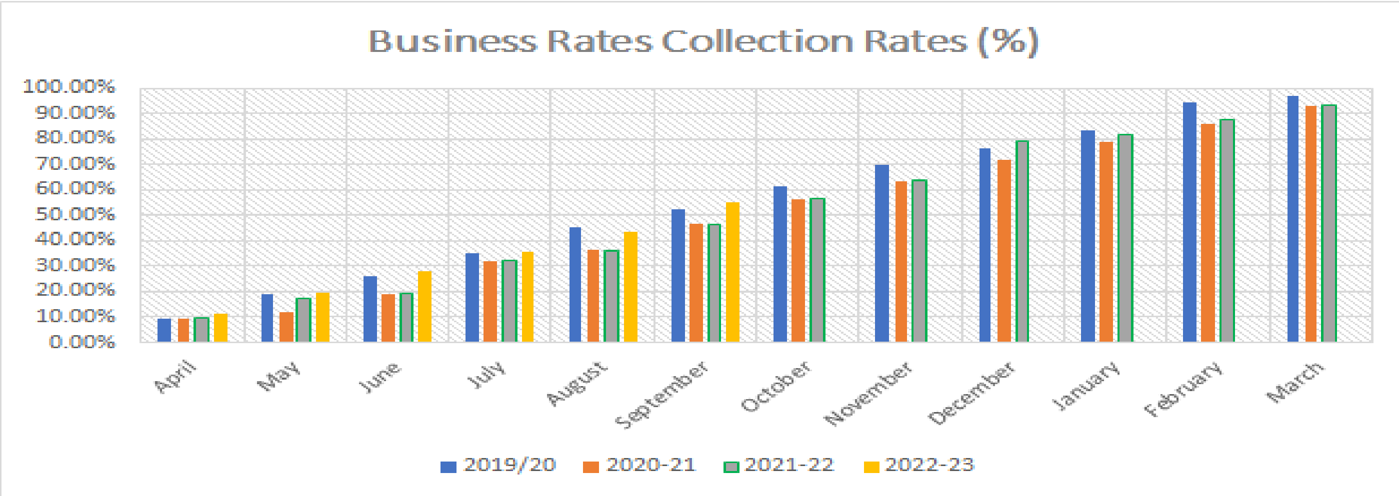


Figure 20 – Business Rates In-Year Collection Rate Trend



<u>Arrears Analysis</u>

4.61. The level of total council tax arrears outstanding at month 6 is £108.4m (£83.4m is Islington's share), of which £74.1m (£56.9m Islington's share) or 68% being the current year arrears. The remaining £34.3m relates to prior years.

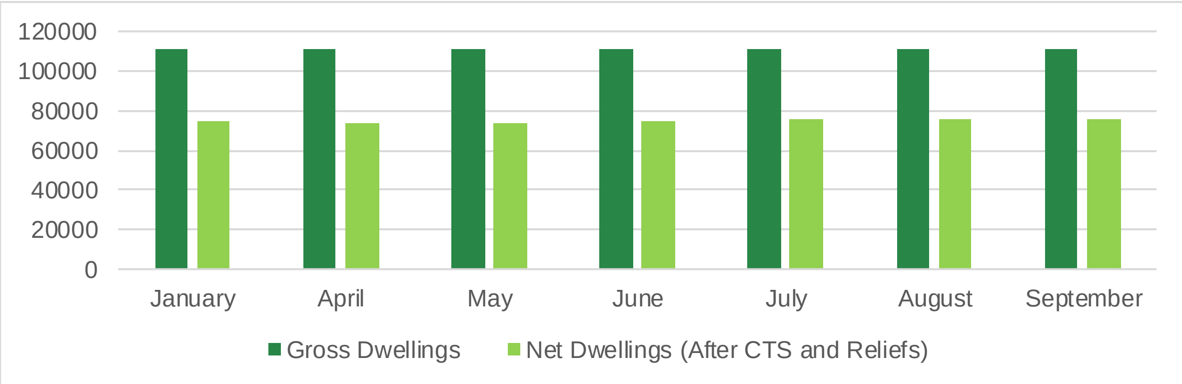
4.62. Out of the overall £108.4m current outstanding debts, it is estimated that £7.9m (7%), or 11,090 accounts, relates to payers who are in receipt of council tax support. At present it is not possible to identify those accounts who are also in receipt of Universal Credit however we are working with our software provider to be able to report on this.

4.63. The level of total NNDR arrears outstanding at month 6 is £144.9m (£43.5m Islington's share) of which £123.6m (£37.1m Islington's share) or 85.3% being the current year arrears. The remaining £21.3m relates to prior year arrears.

<u>Taxbase Analysis</u>

4.64. As at January 2020, the overall number of the council's gross dwellings was estimated to be 111,023 and net dwellings, after adjusting for Council Tax Support and various reliefs but before the collection losses, for taxbase purpose was 74,460. The number of gross dwellings currently stands as at 111,282, which is an increase of 0.23% and estimated net dwellings 75,956, which is an increase of 2.01%.

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



Additional Commentary

4.65. At month 6 the council has paid out £10.1m or 95.3% of the available grants (67,404 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.

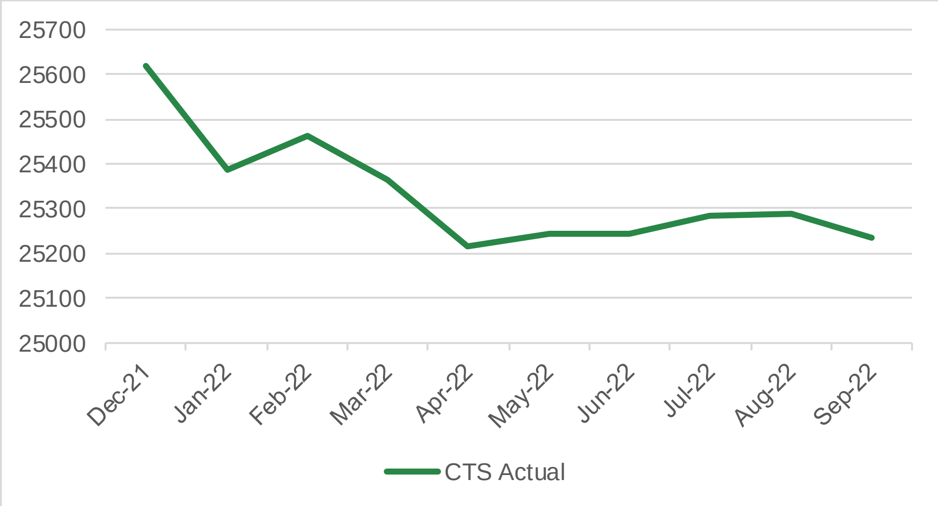
4.66. The council has also paid out £2.451m (£2.413m the previous month) or 99.4% of total available grants from the Discretionary Fund to 27,246 households. This is a combination of households (5,688) which do not automatically qualify for £150 Council Tax Rebates but are in need of support and those households (21,558) who received discretionary fund as a top up payment in addition to the main council tax energy rebates.

4.67. Of the £17.2m grant provided to the council under the Covid-19 Additional Relief Fund (CARF) scheme, the council has approximately paid out, £17.1m or 99.6% to 1,380 accounts. Take up has increased due to automatic award of the grants to identifiable businesses by the council.

4.68. The virtual court hearings system for both council tax and business rates continues to operate efficiently. At month 6 the council has issued 16,097 summonses (13,050 council tax and 3,047 business rates). Based on the current trend, costs raised through the summonses are in line with budget estimates.

4.69. At month 6 Council Tax Support (CTS) scheme caseload stood at 25,236 (representing £31.6m in financial terms), of which 18,227 (£22.1m) related to working-age recipients and 7,009 (£9.5m) related to pension-age recipients.

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



Energy Price Analysis – Month 6

4.70. 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. 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 assists in identifying trends and impacts over time. The graphs below reflect the movements in price since 1 March 2022.

Figure 23 - Weekly monitoring of electricity commodity price at Megawatt per hour

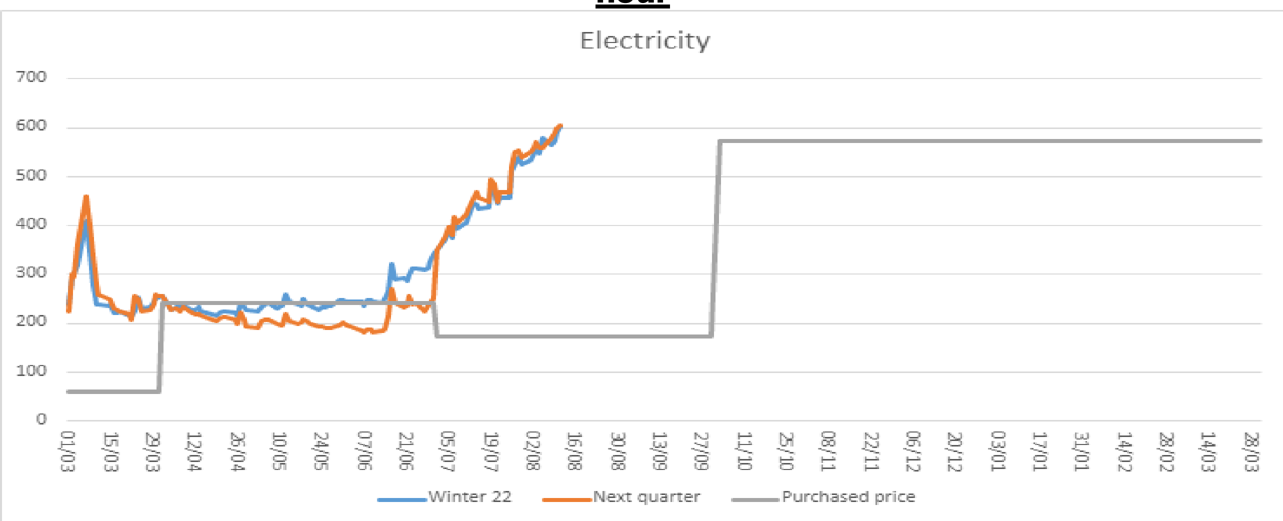
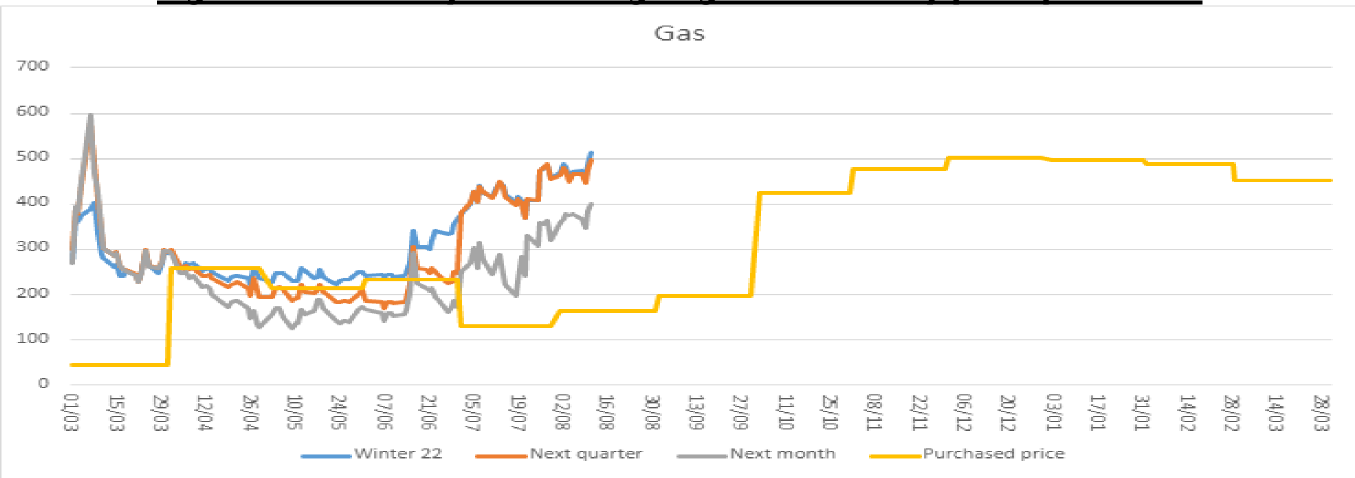


Figure 24 - Weekly monitoring of gas commodity price per therm



4.71. 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.

4.72. 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.

4.73. 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).

4.74. The government has introduced an 'Energy Bill Relief Scheme: help for businesses and other non-domestic customers' to take effect from 1 October 2022. The government is providing a discount for all non-domestic energy users at £211 per megawatt hour (MWh) for electricity and £75 per MWh for gas. Suppliers will apply reductions to the bills of all eligible non-domestic customers.

4.75. **Table 5** shows the estimated quarterly costs of gas and electricity for the General Fund and Leisure Centres, HRA and Schools following the introduction of the price cap. 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	1.108	0.418	1.746	1.392	0.664	0.357
Quarter 2 average	1.010	0.268	1.411	0.615	0.539	0.160
Quarter 3 average	1.320	0.550	1.683	2.059	0.641	0.529
Quarter 4 average	1.257	0.629	1.683	2.459	0.641	0.632
Total	**4.696**	**1.864**	**6.524**	**6.526**	**2.485**	**1.679**
Total Gas and Electricity	**6.560**		**13.050**		**4.164**	

4.76. **Table 6** shows energy pressures of (+£2.905m), reflected in the month 6 general fund and HRA financial positions.

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

Directorate/Service	**General Fund £m**	**HRA £m**
CWB - Corporate Landlord Services	1.690	-
Environment - Pressure on Leisure Contract	0.576	-
Environment - Street Lighting Contract	0.639	-
Landlord supplies and community centres (non-recoverable)	-	0.220
	2.905	**0.220**

4.77. Since the implementation of the price cap there has been a reduction of £3.258m from the month 5 position of (+£6.163m). Further commentary on 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.

4.78. Facilities Managers are currently running workshops to raise awareness, advice and guidance on how to save on energy. 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 (+£4.552m), a decrease of (-£9.232m) 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 6

	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, which was estimated to increase costs by (+£13.778m), (+£8.129m) gas and (+£5.649m) electricity.

- On 21 September 2022, the Government announced the Energy Bill Relief Scheme to help businesses and other non-domestic customers with soaring energy costs. The scheme introduced a discount on non-domestic gas and electricity unit prices of £211 per megawatt hour (MWh) for electricity and £75 per MWh for gas with a maximum discount of £345 per MWh for electricity and £91 per MWh for gas. Support will be provided for 6 months from 1 October 2022.

- Furthermore, the Council has taken immediate action to reduce the impact of increasing gas costs for our residents and took important steps to reduce the heating season and heating hours of the communal heating service, reducing the provision of communal heating by 5 hours a day and the heating period by 6 weeks. By reducing energy usage, it is expected a saving of approx. £1.128m will be achieved and bring costs down for our residents to a more affordable level.
- As a result of the Energy Bill Relief Scheme and the reduced heating hours, the forecast cost increases have been revised down to (+£4.546m), (+£2.176m) gas and (+£2.370m) electricity.

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

<u>Table 8 – Energy Budget and Forecast Variances 2022/23</u>

			Before Energy Bill Relief Scheme		**After EBRS and Reduced Heating Hours**		
		2022/23 Budget (£m)	**Forecast <u>BEFORE</u> (£m)**	**Variance <u>BEFORE</u> (£m)**	**Forecast <u>AFTER</u> (£m)**	**Variance <u>AFTER</u> (£m)**	**Reduction in cost (£m)**
Landlord supplies and community centres (not recoverable)	Elec	0.245	0.594	0.349	0.377	0.132	(0.217)
	Gas	0.083	0.300	0.217	0.171	0.088	(0.129)
Landlord supplies & community centres total		**0.328**	**0.894**	**0.566**	**0.548**	**0.220**	**(0.346)**
Communal Electricity and heating supplies (recoverable from tenants and leaseholders)	Elec	3.726	9.026	5.300	5.964	2.238	(3.062)
	Gas	3.040	10.952	7.912	5.128	2.088	(5.824)
Communal electricity & heating total		**6.766**	**19.978**	**13.212**	**11.092**	**4.326**	**(8.886)**
Total energy costs		**7.094**	**20.872**	**13.778**	**11.640**	**4.546**	**(9.232)**

- (+£0.220m) 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 (+£4.326m). 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 with any remaining balance being recovered in the following year as part of the actualisation billing process issued in Sept. 23.
- To further support tenants who are struggling with household bills, the council has decided to limit the increases in gas costs by investing the remaining £1.126m balance held in the tenant heat reserve to cover some of the increases tenants face.

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	-£4.326
Transfer from revenue to HRA reserves	+£7.896
HRA Reserves – Anticipated balance as of 31st March 2023	**+51.903**

- 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 6, total capital expenditure of £60.079m had been incurred against a 2022/23 full year forecast of £174.827m, representing 34% 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 4**.

Table 10 – 2022/23 Capital Programme

Directorate	Agreed Budget (£m)	21/22 Outturn Adj. (£m)	Budget Changes as at M6 (£m)	Revised Budget (£m)	Actuals to Date (£m)	Forecast Outturn (£m)	Forecast Variance (£m)
Community Wealth Building	19.721	3.940	0.000	**23.661**	5.465	**21.096**	(2.564)
Environment	25.481	5.255	0.000	**30.736**	2.958	**18.920**	(11.816)
Total GF	**45.202**	**9.195**	**0.000**	**54.397**	**8.423**	**40.016**	**(14.381)**
Homes and Neighbourhoods	168.607	16.651	0.000	**185.258**	51.656	**134.811**	(50.447)
Total HRA	**168.607**	**16.651**	**0.000**	**185.258**	**51.656**	**134.811**	**(50.447)**
Total Programme	**213.809**	**25.846**	**0.000**	**239.655**	**60.079**	**174.827**	**(64.828)**

6.3. Current forecasts suggest that almost 3 times the amount spent in the first 6 months of the year will be spent in the remaining 6 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 £114m forecast to be spent in months 7 to 12 of 2022/23. However, at month 6 2021/22, only £41m of total capital expenditure had been incurred so there is an increase from last year.

6.4. For agreement as part of this report, services are requesting to reprofile capital budgets to future financial years. This request is summarised for agreement in **Table 11**.

Table 11 – Slippage Requested to Future Financial Years at Month 6 2022/23

Directorate	Slippage Requested £m
Community Wealth Building	(2.564)
Environment	(11.816)
Total GF	**(14.381)**
Homes and Neighbourhoods	(49.947)
Total HRA	**(49.947)**
Total Programme	**(64.328)**

6.5. Key Terms:

- Capital Slippage – The reprofiling capital budgets to future financial years to match forecast timing of expenditure, whilst staying within the approved project budget.
- Capital Acceleration - The reprofiling capital budgets from future financial years to match forecast timing of expenditure, whilst staying within the approved project budget.
- Capital Additions - Capital budgets may be added in year where these are to be funded by resources available to the Council, including grant funding.
- Capital Reduction – A reduction in an agreed capital budget.
- Underspend - Where a capital scheme spend is less than the budget agreed.
- Overspend – Where a capital scheme spend is more than the budget agreed.

General Fund Position

6.6. As at month 6 there is a variance to the budget of (-£14.381m) against a budget of £54.397m. The majority of this variance relates to capital slippage (for agreement in this report) to be reprofiled into future years to match the latest expected spend profile.

Community Wealth Building

6.7. Forecast outturn is reported at £21.096m against a budget of £23.660m. The variance of (£2.564m) (11%) relates to capital slippage (for agreement in this report) as reported below:

- Slippage is reported on Toffee Park (£1.850m) and Islington Museum (£0.150m) - Both projects are in the early stages, and design is expected to start later this financial year; the bulk of the construction work will therefore take place in the new financial year.
- An additional slippage (£0.564m) is reported on school condition projects: Tenders for Ambler, Copenhagen and Montem window refurbishment have come in higher than the allocated budget. Projects are currently on hold with a view to rescope and incorporate decarbonisation works, which are likely to be carried out in the new financial year.

Environment

6.8. Forecast outturn is reported at £18.920m. There is a variance of £11.816m against the budget this year. The main cause of variance is the need to re-profile budgets, which will take place in month 7.

6.9. Current month Budget changes requested (for agreement in this report) - £11.816m. The key projects to be reprofiled are:

- Chapel Market (£0.975m) where changes in the scope of the project have occurred resulting in construction taking place in 2023/2024.
- Clerkenwell Green (£0.850) scheme is currently on track to deliver Public realm works with a recommendation paper being published on the future use of the toilets. This is likely to cause the scheme to slip into 2023/24.
- CCTV Upgrade (£2.354m) where the project is waiting on external works which must be completed prior to the upgrade.

- Greenspaces Projects (£2.380m) - schemes that have been reprofiled are current in design stage and are either out to tender or are to be sent to planning for approval, as such delivery will occur in 2023/24.
- Leisure Projects (£0.836m) - Sobell Leisure centre is currently having enabling works undertaken and surveys while procurement for a contractor is occurring. Works to commence in Q4 22/23 with a view to completion in early 23/24. Cally Project is currently being redesigned and as such the scheme has been reprofiled to 2023/24.
- People Friendly Streets (£1.609m) where it has been agreed that the project delivery will be revised.
- Public Realm – Kings Square and St John's Street (£0.666m) both schemes are undertaking design works and procurement currently.
- Vehicle Fleet Electrification (£1.483m) due to increased lead times on core supplies.
- For full list of projects to be reprofiled please see appendix 4.

Housing Capital Programme

6.10. The Housing (HRA and GF) capital forecast totals £134.811m 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.).

6.11. Forecast outturn is reported at £134.811m, of which:

- £41.440m relates to the major works capital programme covering the cost of investment in existing HRA stock.
- £57.134m relates to the HRA's new build programme.
- The remainder £36.237m relates to the acquisition programme of properties for temporary accommodation which is also on track.

6.12. The overall forecast reflects a variance totalling £50.447m which is made up of; slippage of £47.751m in respect of the new build programme, slippage of £2.196m in respect of the major works and improvements programme and a potential underspend of £500k in respect of the major works programme relating to retrofitting pilots which can only proceed if carbon offset grant is available which remains unconfirmed.

6.13. The £43m capital programme of major works and investment is largely on track for delivery except for £1.6m slippage primarily in respect of the Cyclical Improvement Programme which has arisen predominantly due to the re-phasing and repackaging of projects, planning delays and awaiting the necessary contractor accreditation required to access the social Housing Decarbonisation Fund.

6.14. The slippage of £47.751m in respect of new build programme arises due to a combination of unforeseen on-site events and by global inflationary pressures either delaying contract award or creating supply chain issues/labour shortages which is impeding contractor productivity and progress on site.

S106/CIL

6.15. The Community Infrastructure Levy (the 'levy') is a charge which can be levied by local authorities on new development in their area based on an approved charging schedule which sets out its levy rates. Most new development which creates net additional floor space of 100 square metres or more, or creates a new dwelling, is potentially liable for the levy.

6.16. In Islington, 50% of the CIL (known as Strategic CIL) collected from a development is used to help fund the Council's annual Capital Programme. For the other 50% Ward Councillors (in consultation with officers, constituents, ward partnerships etc) are asked to make recommendations to the Borough Investment Panel on how this funding is allocated.

6.17. 15% of the 50% (known as Local CIL) can be allocated to the provision, replacement, operation or maintenance of infrastructure or anything else that is concerned with addressing the demands that development places on an area. The remaining 35% (known as Strategic-Local CIL) can be allocated for the provision, replacement, operation or maintenance of infrastructure.

6.18. Planning obligations, secured through Section 106 Agreements of the Town and Country Planning Act 1990, are used to make developments acceptable in planning terms that would not be acceptable otherwise. Obligations can include either direct provision of a service or facility, financial contributions towards a provision made by the Council or external service provider, or both. With the introduction of the CIL in 2014, the council mostly now secures financial S106 contribution for non-CIL eligible infrastructure or to meet specific planning policy requirements such as off-site affordable housing and affordable workplace payments; carbon offsetting and employment and training contributions.

6.19. The table below sets out current budget position for S106 and CIL including current year income and spend forecast.

Table 12 – S106 and CIL

Fund	Received in 2022/23 (£m)	Brought Forward (£m)	2022/23 Forecast Expenditure (£m)	Forecast Carry Forward to 2023/24 (£m)
S106	1.970	28.479	5.873	24.576
CIL	2.346	11.926	3.359	10.913
Total	**4.316**	**40.405**	**9.232**	**35.489**

6.20. The capital forecast spend for S106 and CIL monies in the current financial year is projected at £9.232m against a total allocation of £35.191m. The carry forward balance will be £35.489m. A number of these projects are still at the planning stages with expected spend to be incurred in future years.

6.21. The revenue expenditure using S106/CIL is currently being allocated and will be reported in the next period.

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** – 2022/23 Revenue by Service Area
- **Appendix 3** – Transformation Fund Allocations
- **Appendix 4** – Capital Programme 2022/23

Background papers: None

Diarmaid Ward.

Executive Member for Finance, Planning and Performance

Date: 16 November 2022

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