

CABINET

21 September 2021

Title: Revenue Budget Monitoring 2021/22 (Period 4, July 2021) and Q1 Capital Programme Update	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
Report Author: Katherine Heffernan and Philippa Farrell, Heads of Service Finance, David Dickinson, Head of Treasury and Investments	Contact Details: E-mail: Katherine.heffernan@lbbd.gov.uk Philippa.farrell@lbbd.gov.uk
Accountable Director: Philip Gregory, Finance Director	
Accountable Strategic Leadership Director: Claire Symonds, Managing Director	
Summary <p>This report sets out the Council's budget monitoring position for 2021/22. highlighting key risks and opportunities.</p> <p>The Council's General Fund budget for 2021/22 is £173.614m. At this early stage of the financial year there is still significant uncertainty in the forecast position due to continued financial risks arising from the Covid epidemic. The current forecast outturn position is £183.846m which would be an overspend of £10.232m or £9.712m once income is taken into account. This can be managed by use of the budget support reserve which was £11.433m at the end of the previous financial year.</p> <p>The overall capital programme for 2021/22 is £411.511m, consisting of £61.926m for the General Fund, £306.370m for Investments and £43.215m for the Housing Revenue Account (HRA). At the end of the first quarter, expenditure of £71.349m or around 17% had been incurred. However, at this stage programme managers are still planning to spend their full programme amount.</p>	
Recommendation(s) <p>The Cabinet is recommended to:</p> <ul style="list-style-type: none">(i) Note the projected revenue outturn forecast for the 2021/22 financial year, as set out in sections 2 and 3 and Appendix A of the report;(ii) Note the update on key savings programmes and commercial income, as set out in section 4 of the report;(iii) Note the 2021/22 Quarter 1 Capital Programme expenditure position, as set out in section 5 and Appendices B and C of the report;	

- (iv) Approve the changes to the Capital Programme totalling £22.745m and £10.669m reprofiling, resulting in a net increase to this year's programme of £12.076m, as set out in paragraphs 5.1 - 5.3 and 5.6 – 5.10 of the report; and
- (v) Approve an increase in the Industria programme budget of £3.97m, in light of the tender returns, to a total development budget of £38.618m, as set out in paragraphs 5.4 - 5.5 of the report.

Reason(s)

As a matter of good financial practice, the Cabinet should be informed about the Council's financial risks, spending performance and budgetary position. This will assist in holding officers to account and inform further financial decisions and support the objective of achieving Value for Money as part of the Well Run Organisation.

1. Introduction and Background

- 1.1 This is the first budget monitoring report to Cabinet for the 2021/22 financial year. The financial outturn for the previous financial year was a net underspend after transfers to and from reserves of £1.951m (subject to finalisation of the external audit). This was the net result of a large overspend of £26.13m offset by additional in year grant income from the Government of £28.02m. The grant income was provided to meet the financial challenges to Local Government from the Covid pandemic and the lockdown/other measures taken to contain it. The overspend was driven by a range of factors including underlying demographic pressures, additional costs and demands arising from Covid and delays in making savings and income.
- 1.2 There has been a net £17.817m of growth added to the budget for 2021/22 as part of the Council's budget setting process in February in order to meet the then known pressures especially those in Care and Support. This was funded from Council tax increases, commercial returns and government grants including special grants to meet additional Covid related costs in the first quarter of the year.
- 1.3 Despite the growth this year has a high level of financial risk including the continuing impact of the Covid pandemic and its aftermath, the potential impacts of Brexit, the long-standing pressures that impact across the Local Government sector and the high levels of deprivation and disadvantage that already existed for residents of the borough.
- 1.4 As part of our ongoing improvement programme a more streamlined budget monitoring process has been introduced. This has resulted in some changes to the format of the budget monitoring report. This report is now a high-level summary with key information and action points with more detailed being contained within the appendices.

2. Overall Financial Position

- 2.1 The 2021/22 budget was approved by the Cabinet in February and is £173.613m – a net increase of £17.817m from last year. Growth funding was supplied for Care and Support (to meet demographic and cost pressures), Community Solutions (for

Homelessness, Temporary Accommodation and the Creation of a Customer Experience Team), Inclusive Growth (Economic Development Team), Legal and Finance, Participation and Engagement and Council-wide (staff pay award and non-staff inflation). It also includes £8.201m of savings plans – most of which were brought forward from previous years.

- 2.2 As the table below shows the expenditure forecast is £183.864m. This is a prudent estimate and as it is still early in the year it is possible that this can be managed down. However, if the final outturn is in line with this forecast, this would result in an overspend of £9.71m. This level of overspend can be fully met from the budget support reserve without the need for recourse to the General Fund which will remain at £17m. However, this would reduce the Council's ability to absorb further financial risks or support new investment in transformation in future years.
- 2.3 A proportion of the additional pressures are driven by the Covid epidemic – however as time has passed some of the additional costs have now become the “new normal” and it is becoming increasingly hard to draw a sharp distinction between covid costs and business as usual. Additional government support has been provided for the first quarter of the year and this has already been built into the forecasts.

Table 1.	FULL YEAR BUDGET (£000)	Full Year Forecast (£000)	Forecast Variance (£000)
COMMUNITY SOLUTIONS	24,009	27,139	3,130
CORPORATE MANAGEMENT	5,044	2,636	(2,408)
INCLUSIVE GROWTH	1,292	1,967	676
LAW AND GOVERNANCE	(1,114)	(976)	138
MY PLACE	16,529	18,858	2,329
PEOPLE AND RESILIENCE	124,138	128,434	4,296
STRATEGY & CULTURE	3,717	5,789	2,071
TOTAL EXPENDITURE	173,614	183,846	10,232
FUNDING	(173,614)	(174,134)	(520)
TOTAL NET POSITION	0	9,711	9,712

3. Key Variances

- 3.1 This section provides a high-level summary of the main variances. More detail on all Council services is given in Appendix A.
- 3.2 **Community Solutions** - This service is facing a range of different financial risks and pressures including demand and cost pressures that may be partly covid driven in Homelessness, NRPF and the contact centre, additional costs from Digitalisation and the Innovate IT system and the loss of some external grant funding. In response a range of mitigation actions have already been put in place and the service continues to work on new grant bids to replace lost funding and long-term strategies to manage homelessness.
- 3.3 **Corporate Management** - There is a forecast underspend of £1.4m in central expenses from provisions and corporate contingencies. This effectively serves as a buffer against service overspends. It should be noted that this is a much lower

figure than in previous years as more funding has been moved into service department budgets. There is also an underspend on the ELWA levy budget.

- 3.4 **Inclusive Growth** - There is an overspend in this area from income shortfalls of £335k for historic grants no longer being received, which needs to be corrected in the MTFs, and £281k from the Film Unit where income generation is still being adversely affected by the impact of Covid.
- 3.5 **Law and Governance** - There is currently a small overspend forecast linked to staffing pressures in some areas and income shortfalls in Enforcement. However, Enforcement income is improving steadily and so there is potential for the budget to return to balance (or even underspend) before year end.
- 3.6 **My Place** - There are long standing pressures in this service in both Homes and Assets and Public Realm including staffing and agency costs (which have been exacerbated by Covid and the self-isolation rules), transport costs and income from the HRA and commercial rents. The service is undertaking an in-depth review of its operating model to identify its true funding needs and where there is scope for cost reductions.
- 3.7 **People and Resilience** - There has been a very substantial increase in the Children's Care and Support caseload which is thought to be linked to Covid and lockdown. In addition, the number of children requiring residential care placements and the cost of that provision has also risen. Altogether there is an overspend of £2.3m in Children's Care and Support as a result of these two issues. There are similar pressures in Children with Disabilities services.
- 3.8 **Strategy and Culture** - The main pressure in this area is the loss of the Leisure concession income and financial support to the provider directly linked to Covid. In addition, there are income shortfalls across heritage and leisure and historic pressures in the ICT budget.

4. **Savings and Commercial Income**

- 4.1 There is a savings target of £8.210m for 2021/22. £2.641m are new savings approved in the MTFs, £5.033m are unachieved A2020 savings brought forward from the previous year(s) and £0.536m are Transformation programme savings in Care and Support. £4.649m of these savings depend on efficiencies and cost reductions and £3.561m are based on new or increased income.
- 4.2 There are £3.282m high-risk savings including the contact centre restructure, changes to the Foyer, Continuing Health Care and Charging income in Adults and Disabilities and improvements in corporate debt and income including the Council Tax Support Scheme.
- 4.3 There are £3.776m of medium risk savings including staffing reductions following the return of the Elevate services, Children's process efficiencies and commissioning savings, delays in exiting Roycraft House and Enforcement income including the additional day in the Barking Market. All savings will be monitored throughout the year to ensure that progress continues to be made and alternatives identified where necessary.

- 4.4 As part of its savings and growth strategy, the Council has created subsidiary companies which are expected to provide a commercial return to the main budget. These returns are made in arrears following approval and audit of the previous year's accounts. The accounts for 2020/21 are not yet finalised.
- 4.5 Current indications are that Be First will be able to make a return – however this is not likely to be confirmed until later in the year. BDTP has been adversely affected by Covid and there is a significant risk that they will not be able to make any payment. This creates a risk of £2m to the Council's commercial income.

5 Capital Programme Quarter 1

- 5.1 The overall capital programme for 2021/22 is £412.5m, consisting of £61.9m for the General Fund, £306.4m for Investments and £43.2m for HRA. This excludes the Transformation Programme.
- 5.2 This represents a net increase since the MTFs was approved of 12.078m. This is a net figure after £22.745m additions and changes to the programme and £10.669m reprofiling between years. Where new capital schemes are agreed, for example in the Investment and Acquisition Strategy (IAS), these will be added after each Cabinet and will be reported as an adjustment against the base budget for the year. There have been £23.709m additions to the capital programme offset by a reduction of £0.964m on the TFL schemes. The main changes to the Capital Programme are as follows:
- The programme now includes a scheme of £15.533m for Green Homes. This is the total across a multi borough collaboration agreement and is fully funded by external grant from BEIS and Salix. There is also an HRA scheme for £1.9m to fulfil the match-funding requirement. It is currently shown in 21-22 but is likely to be reprofiled once plans are developed further.
 - The Council has been made aware of contaminated land adjacent to Eastbrookend Country Park. The cost of decontamination will be met from a provision made for this purpose during the previous financial year. This is an increase of £1.5m.
 - The grant funding available from Transport for London has been reduced. Following a detailed review, the revised programme is £0.964m lower in 21-22 with the main reductions being made on the bus priority schemes and the Cycle Route 10.
 - The My Place programme has been increased by £1.060m for Dispersed Working and Ward Capital Spend. This programme was previously approved in February but is now being added to this year's programme. The Wards budget has been moved into My Place from other.
 - The Education Youth and Childcare programme is funded by a range of capital grants from the ESFA/DfE. Regular reports are provided to Cabinet on this programme – most recently in July 2021. The programme has been updated in line with the grant funding and schemes approved. This has resulted in an increase of £5.6m in 21/22.
- 5.3 Cabinet is asked to approve the above amendments which are incorporated into Appendix B (in the 'Adjustment' column.).

- 5.4 Approval is also sought for an increase to the Industria (Intensifying Barking's Industry) Programme which was approved by Cabinet in December 2020 (Minute 59) with a total development cost of £34.65m (listed under 'Commercial Investments' within the approved Capital programme. Following a contract tendering exercise in summer 2021, the project now seeks a total development cost of £38.618m, inclusive of interest and project contingency. This price is based on the actual construction tender return at the time of writing in August 2021 and presents a maximum contract price agreed with McLaren Construction Limited, the main contractor appointed following competitive tender via the Be First Development Framework. This represents a £3.97m increase from the December 2020 Cabinet agreed development cost, mainly attributed to the increase and high volatility of construction material, labour market costs and design developments. As a result, the financial performance has worsened but the scheme remains viable with a positive net present value (NPV).
- 5.5 It is recommended that the Cabinet approve a revised total development cost for Industria of £38.618m to enable the project to proceed, with a Practical Completion date of the end of January 2023. The profiling of this new cost will be included in the Quarter 2 update in the Autumn.
- 5.6 The following reprofiling changes have also been made:

Scheme	Original 2021-22 budget	Reprofiled to 2022-23	Revised Budget
Disabled Facilities Grant	2,589	-1,007	1,582
Core/IT programme	2,376	-258	2,118
Parsloes Park	5,996	-1,199	4,797
Other Park/Play Programmes	2,857	-358	2,499
CPZ Schemes	1,959	-1,235	724
Vehicle Fleet Replacement	2,210	-860	1,350
Abbey Green HLF Project	1,367	-200	1,167
Investments	311,922	-5,552	306,370
TOTAL	331,276	-10,669	320,607

- 5.8 The IAS programmes in particular have had a detailed profiling review in line with development timescales agreed by the Investment Panel.
- 5.9 In addition the HRA programme has been reallocated within the approved total.
- 5.10 A summary of the programme is provided in the table below and a list of all the projects is included in Appendix B with more detailed notes in Appendix C. Cabinet is requested to approve the revised Capital Programme for 2021/22.
- 5.11 As shown in the table below actual expenditure in the first quarter was generally low. However, at this stage all programme managers are planning to spend to their full allocation for the year.
- 5.12 There is one anticipated overspend on the HRA Estate Renewal Programme which funds the costs of decants and buybacks.

Department	Full Year Budget	Adjustment	Revised Budget	Q1 YTD Expenditure	Q1 Forecast	Budget Remaining
Adults Care & Support	2,589	-	1,582	15	1,582	1,567
Community Solutions	74	1,007	74		74	74
Core	2,376	-	2,118	89	2,118	2,030
CIL	1,501	258	1,501	156	1,501	1,345
Culture, Heritage & Recreation	8,852	-	8,795	242	8,795	8,553
Enforcement	1,960	56	724	208	724	516
Inclusive Growth	-	-	15,533		15,533	15,533
Transport for London schemes	2,375	1,235	1,411	119	1,411	1,292
My Place	6,498	-	8,139	619	8,139	7,520
Public Realm	2,517	860	1,657	38	1,657	1,620
Education, Youth and Childcare	13,010	5,616	18,626	7,982	18,626	10,643
Other	2,544	-	1,765	16	1,765	1,749
General Fund	44,296	17,630	61,926	9,484	61,925	52,442
HRA						
Stock Investment (My Place)	35,130	-	35,130	1,925	35,130	33,205
Estate Renewal (Be First)	5,155	1	5,155	3,157	5,900	1,998
New Build Schemes (Be First)	2,931		2,931	172	2,931	2,759
HRA Total	43,216	-1	43,215	5,253	43,961	37,962
Investments						
Residential Developments	276,682	-	271,679	51,027	271,679	220,652
Temporary Accommodation	5,439	5,003	5,439	910	5,439	4,529
Commercial Investments	29,801	-	29,252	4,674	29,802	24,578
Investments Total	311,922	-5,552	306,370	56,611	306,920	249,759
Total	399,434	12,078	411,512	71,349	412,806	340,163

6. Financial Implications

Implications completed by: Katherine Heffernan, Head of Service Finance

- 6.1 This report is one of a series of regular updates to Cabinet about the Council's financial position.

7. Legal Implications

Implications completed by Dr Paul Feild, Senior Standards and Governance Lawyer

- 7.1 Local authorities are required by law to set a balanced budget for each financial year. During the year, there is an ongoing responsibility to monitor spending and ensure the finances continue to be sound. This does mean as a legal requirement there must be frequent reviews of spending and obligation trends so that timely intervention can be made ensuring the annual budgeting targets are met.
- 7.2 Nevertheless, the unique situation of Covid 19 presents the prospect of the need to purchase additional supplies and services with heavy competition for the same resources which causes scarcity and rising costs. Still, value for money and the legal duties to achieve best value still apply. There is also the issue of the Councils existing suppliers and service providers also facing issues of pressure on supply chains and staffing matters of availability. As a result, these pressures will inevitably create extra costs which will have to be paid to ensure statutory services and care standards for the vulnerable are maintained. We must continue careful tracking of these costs and the reasoning for procurement choices to facilitate grounds for seeking Covid 19 support funds.
- 7.3 It is noted that BDTP is not expected to make a positive return to the Council for this year (para 4.5 supra). This will need close monitoring, particularly in terms of its operating viability and delivery of its business plan. As local government is an emanation of the state, the Council must comply with UK Law regarding Subsidies (previously called State Aid). This means that local authorities cannot subsidise their commercial undertakings or confer upon them an unfair economic advantage. While the UK has left the European Union (EU), issues regarding state aid have not ceased. For example, the UK membership of the World Trade Organisations agreement on trade also has requirements regarding State Aid albeit somewhat less prescriptive than the EU. In a nutshell Council trading enterprises in the parlance of the Trade and Cooperation Agreement 2020, must operate on 'a level playing field' as other operators in the public and private sectors and must deliver a positive rate of return on investment.

8. Other Implications

- 8.1 **Risk Management** – Regular monitoring and reporting of the Council's budget position is a key management action to reduce the financial risks of the organisation.
- 8.2 **Corporate Policy and Equality Impact** – regular monitoring is part of the Council's Well Run Organisation strategy and is a key contributor to the achievement of Value for Money.

8.3 **Property / Asset Issues** – this report includes an update on the Council's Capital Programme

Public Background Papers Used in the Preparation of the Report:

- The Council's MTFS and budget setting report was presented to Assembly on 3rd March 2021.
<https://modgov.lbbd.gov.uk/Internet/documents/s144013/Budget%20Framework%202021-22%20Report.pdf>
- Intensifying Barking's Industry Project
<https://modgov.lbbd.gov.uk/Internet/documents/s142503/IBI%20Report.pdf>

List of appendices:

- Appendix A: Revenue Budget Monitoring Pack
- Appendix B: Q1 Detailed Capital Programme
- Appendix C: Capital Monitoring Notes