

CABINET

14 December 2021

Title: Revenue Budget Monitoring 2021/22 (Period 7, October 2021) and Quarter 2 Capital Programme Update	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open Report	For Information
Wards Affected: None	Key Decision: No
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Accountable Director: Philip Gregory, Finance Director	
Accountable Strategic Leadership Director: Claire Symonds, Managing Director	
Summary <p>This report sets out the Councils budget monitoring position for 2021/22 as at the end of September 2021, highlighting key risks and opportunities and the forecast position.</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 £184.127m which would be an overspend of £10.443m or £9.299 once income is taken into account. This is an improvement in the position by around £0.850m compared to last month from reduced forecasts especially in Care and Support and the recognition of government compensation for lost sales fees and charges income. This can be managed by use of the budget support reserve which was £11.433m at the end of the previous financial year however this will deplete the reserve increasing the risk in future years. The position will continue to be closely monitored and in-year remedial actions may need to be put in place if the overspend continues to increase.</p> <p>The overall capital programme for 2021/22 is £432.043m consisting of £82.46m General Fund, £306.37m Investment Strategy and £43.22m HRA. At the end of the second quarter expenditure of £129.46 had been incurred. The forecast for this year's expenditure is £366.54 meaning that there will be around £65.5m of slippage into future years.</p>	
Recommendation(s) <p>Cabinet is recommended to:</p> <p>(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;</p>	

- (ii) Note the update on savings and commercial income, as set out in section 4 of the report;
- (iii) Approve the revised Capital Programme for 2021/22 of £432.043m, incorporating the adjustments set out in section 5 of the report; and
- (iv) Note the Q2 capital expenditure and forecast spend for the year as set out in sections 6 and 7 and Appendix B to 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 fourth 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 (Counter Fraud), 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 £184.057m. 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 it would result in an overspend of £9.299m. 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.	NET FULL YEAR		
	BUDGET	Full Year Forecast	Variance
COMMUNITY SOLUTIONS	24,775	27,158	2,383
CORPORATE			
MANAGEMENT	4,417	1,900	(2,517)
INCLUSIVE GROWTH	1,342	1,979	637
LAW AND GOVERNANCE	(1,304)	(1,466)	(162)
MY PLACE	16,589	18,215	1,626
PEOPLE AND RESILIENCE	124,179	129,653	5,474
STRATEGY & CULTURE	3,617	6,618	3,001
TOTAL EXPENDITURE	173,614	184,057	10,443
FUNDING	(173,614)	(174,758)	(1,144)
TOTAL NET POSITION	173,614	184,057	10,443

3. Key Variances

- 3.1 This section provides a high-level summary of the main variances. There has been little change in the overall expenditure forecast but the position has improved this month with the recognition of government compensation for lost sales, fees and charges income in the first quarter. 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 - £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.** Following the introduction of new CPZs and increased activity as the lockdown has eased there has been an increase in Parking income. This can be volatile and will be monitored throughout the year. Currently it is assumed to be transferred to the Parking Account reserve.
- 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 in the past year 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. In addition, there are similar pressures in Disabilities for Children with Disabilities. There is also a short-term increase in the Equipment and Adaptations budget as the service works through a backlog built up during the lockdown period when access to homes of vulnerable people was restricted for their protection.
- 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. The forecast has worsened this month as it is now assumed that the income contribution from Central Park relandscaping will not be received this financial year.

4. **Savings and Commercial Income**

- 4.1 There is a savings target of £8.210m for 2021/22 – of which £2.641m are new savings approved in the MTFs, £5.033m are unachieved A2020 brought forward from the previous year(s) and £0.536m are Transformation programme savings in Care and Support. £4.799m of these savings depend on efficiencies and cost reductions and £3.411m are based on new or increased income. £5.278 of the Council's total commercial income saving has also been included in the tables as this is the incremental increase expected.
- 4.2 Currently around £6.5m of these savings are regarded as high or medium risk. High risk savings include the contact centre restructure, savings on the Foyer lease

Residential Developments	276,682	271,679		271,679	94,869	253,635	18,044	414,465	234,460
Temporary Accommodation	5,439	5,439		5,439	122	20	5,419		
Commercial Investments	29,801	29,252		29,252	4,471	18,621	10,632	21,087	
Investments Total	311,922	306,370	0	306,370	99,462	272,276	34,095	435,552	234,460
Transformation		641							
Total	399,434	412,153	20,532	432,043	129,464	366,544	65,500	470,924	239,800

Programme adjustments

5.5 The £20.532m budget increase affects the programmes in the General Fund below:

Table 3: 2021/22 Programme adjustments

Department	Q1 Budget £000's	Adjustment £000's	Q2 Budget £000's
Culture, Heritage & Recreation	8,795	106	8,901
Inclusive Growth	15,533	- 5,296	10,236
Transport for London schemes	1,411	35	1,447
My Place	8,139	218	8,356
Education, Youth and Childcare	18,626	25,470	44,095
General Fund		20,533	

5.6 Culture, Heritage & Recreation has benefitted from S106 funds of £0.11m contributing towards archaeological investigations at Barking Abbey.

5.7 Inclusive Growths' Green home initiatives' closure of phase 1A requires payment of grants back to the BEIS and to Energy On.

5.8 Transport for London schemes team are in the process of confirming funds available, which have been changed as a result of Covid-19.

5.9 My Place has benefitted from Local Improvement Plan (LIP) funding of £0.21m, improving road safety within various locations, alongside £8k of Section 106 contributions.

5.10 For 2021/22 and future years, the Education, Youth & Children's Capital Programme reflects DfE funding approved at the 13 July Cabinet relating to the Review of School Places and Capital Investment, budget updates reflected below:

- £5.23m to support condition and suitability improvements.
- £2.16m has been made available to support the provision for Special Education Need places, or improvement to SEND places.
- £12.12m for meeting unallocated basic needs provisions, where a combination of further updates to the costs plans and discussions for the apportioning of the funding is required.
- £7.13m of Free Schools Grant relating to Greatfields Secondary - which has partly been profiled to future years

6 2021/22 Q2 Spend

6.1 The 2021/22 Q2 spend was £129.46m with £99.46m (77%) spent in the IAS and the £30.18m spent on the rest of the capital programme.

- 6.2 Spend, especially in the IAS, is expected to accelerate in the latter part of 2021/22 as more schemes start on site.
- 6.3 Officers are monitoring the impact of Covid-19 on the organisation's ability to deliver its capital programme in 20/21. A monthly highlight report is tracking delivery of the main areas of spend and risk. Be First have produced an action plan to bring the new build delivery programme back on track after some delays caused by the pandemic, to ensure they deliver the programme as planned this year.

7. Forecast Updates

- 7.1 The £46.26m forecast reduction comprises of a £1.30m reduction of the GF, £10.32m of the HRA and £34.64m of the Investment strategy:

Department	Q1 Forecast	Change	Q2 Forecast
	£000's	£000's	£000's
Core	2,118	- 4	2,115
Culture, Heritage & Recreation	8,795	- 1,291	7,504
Inclusive Growth	15,533	- 5,296	10,236
Transport for London schemes	1,411	- 285	1,126
My Place	8,139	- 7	8,132
Education, Youth and Childcare	18,626	5,582	24,208
General Fund	61,925	-1,301	60,624
HRA			
Stock Investment (My Place)	35,130	- 10,317	24,813
HRA Total	43,961	-10,317	33,644
Investments			
Residential Developments	271,679	- 18,044	253,635
Temporary Accommodation	5,439	- 5,419	20
Commercial Investments	29,802	- 11,181	18,621
Investments Total	306,920	-34,644	272,276
Total	412,806	-46,262	372,246

7.2 Investments (32%):

- 7.2.1 The capital budgets are loaded as gross spend, with grant and sales funding removed via funding to produce a net borrowing amount. Expenditure where the spend is incurred in a Special Purpose Vehicle, such as for Muller, have been removed as this is reflected as a loan rather than capital spend.
- 7.2.2 Work has been undertaken to improve the reporting and prevent a significant underspend being reported. However, in-year agreements and cost increases can mean that the final budget may differ significantly compared to the budget proposed.

7.3. General Fund (25%):

- 7.3.1 **Adults Care & Support:** Covid-19 has delayed spend in Q2, with resistance on entry to homes existing, £1.007m of funding had been profiled to 2022/23. Adaptations reported under HRA as funded via HRA.

- 7.3.2 **Community Solutions:** The Touchdown Project is responsive to address COVID compliancy. Project will finish by Q3.
- 7.3.3 **Community Infrastructure Levy Schemes:** Community Infrastructure Levy is collected from new developments in the borough to pay for infrastructure to support growth and is payable on commencement of development. Schemes are due for completion by the end of 2021/22.
- 7.3.4 **Core:** Historical Bids funding enhancement of IT software/hardware and Service Recipients experience. There is a need for complete replacement of end user devices for 2022/23 with discussions in progress (£2.5m). Alongside end user device's a list of Major line of Business systems require upgrading or replacement in 2022/23 onwards, with further scoping in development.
- 7.3.5 **Culture, Heritage & Recreation:** Parsloes Parklife Activation has regional significance for its football pitch provision and the improvement of associated facilities. Along with the Central Park Masterplan to create new landscape and facilities spearheads, other project progressing with delivery are lake improvements, de-contaminating land adjacent to Eastbrookend Country park, park infrastructure and heritage schemes.
- 7.3.6 **Education, Youth and Childcare:** The Education programme is financed by DfE grant, the projects fall into two broad categories of either schools expansion or building works related to condition surveys, accessibility (SEN) and general improvements.
- 7.3.7 **Enforcement:** Spend on CPZ and enforcement equipment will now continue in 2021/22, although there has been a delay in spend during Q2.
- 7.3.8 **My Place:** Includes Council's requirement to dispersed working and community hubs. Infrastructure work to highways and bridges are expected to be committed as per budget. Work is being carried out to profile the remaining ward budgets for the Q3 report.
- 7.3.9 **Transport for London (TfL):** TfL are in the process of confirming funds available, which have been changed as a result of Covid-19.
- 7.3.10 **Public Realm:** Spend will commence in Q3 relating to Vehicle fleet replacements.
- 7.4 **HRA Capital (22%):** The HRA capital programme is self-financed by the HRA using a mixture of Government grants, capital receipts and HRA revenue funding. Therefore, they do not pose a pressure on the General Fund, in terms servicing the cost of borrowing. Monitoring is split into stock investment, estate renewal and new build. The new build scheme has a budget of 2.931m and the estate renewal is currently budgeted at £5.155m.
- 7.5 **Transformation:** Costs and Forecasts are being reflected in Revenue Monitoring. The budget will largely be funded by capital receipts and work is being completed in identifying the level of capital receipt expected for 2021/22, which will predominantly be from the sale of the film studio land to Hackman and for the sale of other assets held.

8. Financial Implications

Implications completed by: Katherine Heffernan, Head of Service Finance

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

9. Legal Implications

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

- 9.1 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.
- 9.2 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 together with logistic challenges which is causing 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.

10 Other Implications

- 10.1 **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.
- 10.2 **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.

Public Background Papers used in preparation of this report

- The Council's MTFs and budget setting report, Assembly 3rd March 2021
<https://modgov.lbbd.gov.uk/Internet/documents/s144013/Budget%20Framework%202021-22%20Report.pdf>

List of appendices:

- Appendix A: Revenue Budget Monitoring Pack (Period 7)
- Appendix B: Q2 Capital Programme Update