Brent	**Cabinet** 19th July 2021
	Report from the Director of Finance

Quarter 1 Financial Report 2021/22

Wards Affected:	All
Key or Non-Key Decision:	Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	N/A
Background Papers:	N/A
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1. Summary

1.1. This report sets out the current forecast of income and expenditure versus the revenue budget for 2021/22 and other key financial data. Total pressures for the year are forecast to amount to £3.7m.

1.2. Of the £3.7m pressure, £3.5m relates to the Dedicated Schools Grant (DSG), and needs to be recovered from DSG received in future years. The remaining £0.2m relates to the Housing Revenue Account (HRA).

1.3. The 2021/22 budget was set to accommodate additional costs and losses of income arising as a result of the COVID-19 pandemic. These pressures amount to £13m, and are based on the central case from a scenario planning exercise. Currently, the General Fund forecasts match the central case as set in the February budget, however, the DSG and HRA are facing a £3.5m and £0.2m pressure, respectively.

Table 1	Budget	Forecast	Overspend / (Underspend)
	£m	£m	£m
Chief Executive Department	27.2	27.2	0.0
Children and Young People	52.5	52.5	0.0
Community and Well-Being	134.2	134.2	0.0
Customer & Digital Services	22.9	22.9	0.0
Regeneration & Environment	42.5	42.5	0.0
Subtotal Service Area Budgets	**279.3**	**279.3**	**0.0**
Central items	(279.3)	(279.3)	0.0
Grand Total General Fund Budgets	**0.0**	**0.0**	**0.0**
DSG Funded Activity	0.0	3.5	3.5
Housing Revenue Account (HRA)	0.0	0.2	0.2
Position before COVID-19 funding	**0.0**	**3.7**	**3.7**

1.4. These figures are more uncertain than at similar points in any year prior to 2020/21 due to uncertainty about the future course of the pandemic, and the future responses of government and society to the pandemic and its aftermath. At the time of writing, there are significant uncertainties, such as whether all social distancing restrictions will be relaxed on 19 July 21, how quickly the economy will recover from COVID-19, how individuals and businesses will change their behavior following the pandemic, and whether there will be a significant third wave of COVID-19 infections.

1.5. The pandemic has also created some significant risks for the council's capital programme, such as increasing costs for construction and housing acquisitions, which are detailed in section 4.

2. Recommendation

2.1. To note the overall financial position and the actions being taken to manage the issues arising

3. Revenue Detail

3.1. Chief Executive Department (CE)

Chief Executive Department	Budget (£m)	Forecast (£m)	Overspend / (Underspend) (£m)
Legal, HR and Audit	9.1	9.1	0.0

Finance	8.4	8.4	0.0
Assistant Chief Executive	9.7	9.7	0.0
Total	**27.2**	**27.2**	**0.0**

Summary

3.1.1. The CE department is currently forecasting to budget for 2021/22.

Risks and uncertainties

3.1.2. There is uncertainty in the conferences and events income forecast which is dependent on the Delta variant, further lockdown and restrictions. The outturn, which has been heavily affected by lockdowns in the past year continues to be reviewed as COVID-19 restrictions evolve.

3.1.3. The main risk to the financial impact is £0.2m within the Assistant Chief Executive department, caused by further loss of income due to cancellation of events held at The Drum.

3.2. Children and Young People (CYP) (General Fund)

CYP Department	Budget (£m)	Forecast (£m)	Overspend / (Underspend) (£m)
Central Management	3.3	3.3	0.0
Early Help	5.0	5.0	0.0
Inclusion	1.4	1.4	0.0
Localities	16.7	16.7	0.0
Looked After Children and Permanency	6.5	6.5	0.0
Forward Planning, Performance & Partnerships	17.7	17.7	0.0
Safeguarding and Quality Assurance	1.9	1.9	0.0
Setting and School Effectiveness	0.0	0.0	0.0
Total	**52.5**	**52.5**	**0.0**

Summary

3.2.1. The Children and Young People department is currently forecasting to breakeven at this early stage of the financial year. Due to the COVID-19 related pressures identified in 2020/21, the current budget has been set to mitigate expected recurring COVID-19 related pressures in 2021/22 only.

Forecast

3.2.2. There are a number of risks which may have an impact on this position going forward. The forecast assumes that COVID-19 related pressures identified in 2020/21, impacting this financial year, will be supported by COVID-19 one-off funding, however, if pressures are likely to be recurring, longer term solutions will need to be identified.

Risks and uncertainties

3.2.3. There are a number of risks and uncertainties within the department that may affect the projected outturn such as:

- Caseloads in the Localities and LAC & Permanency service are above the budgeted levels of circa 2,500 mainly due to an increase in referrals linked to the impact of COVID-19. This has required an increase in temporary agency social work staff to deal with the increased caseloads. There has been an 18% increase in the number of cases, an increase from 2,312 in April 2020 to 2,721 in April 2021 exceeding the budgeted levels of 2,500 cases. The caseload modelling is based on established national good practice and where there is scope to safely reduce agency staff levels, this management action will be undertaken. The Operational Director considers all requests for any new agency staff and extension requests for agency workers and there is close scrutiny of activity in this area.

- Risks due to the volatility of placement costs for Looked after Children and Children with Disabilities, as an individual high cost residential or secure placement can cost over £0.3m per annum. Amongst the factors at play are increased 'Remands into Local Authority Care', a further delay in the ability of the Home Office to process Immigration Status claims for care leavers, and COVID-19 having an impact on moving care leavers into their own tenancies, as well as reduced options for those bidding for LA accommodation. Whilst Looked after Children numbers have fallen slightly over the course of the pandemic, the difficulties around moving young people into their own accommodation have led to an increase in the number of over 18s placements and numbers have increased from 88 over 18s in January 2020 to 138 in April 2021, a 57% increase. There is also the risk of over inflationary price increases.

- Within the Forward Planning, Performance & Partnerships budget, the parent and baby element of the residential budget is another area of particular volatility. An increasing number of placements are court directed and despite the initial timeframe of 12 weeks for an assessment to be completed, extensions are at times required and/or further placements in parent and child fostering placements at a high rate are required. Brent is currently working with the Commissioning Alliance in regards to reviewing this sector with providers. Throughout 2020/21, Brent had an average of 3 placements and for 2021/22 this is forecast to an average of 4 placements, but significant rises beyond this level would lead to pressure on the budget.

- Management actions in place to control spend include establishing additional sign off processes at Children's Placement Panel; undertaking further work with finance colleagues to refine the forecast; more challenge and support around stepdown arrangements from residential placements to foster placements and/or semi-independent placements, monitoring and actively supporting the transition of care leavers to their own tenancies and reviewing financial policies and payments to carers for Special Guardianship support.

- The risk in the Early Help service where the Facilities Maintenance contract for the Family Wellbeing Centres is in the process of being insourced this could lead to the contract being £0.1m greater than budgeted for.

- The possibility of Brent joining a sub-regional foster carer alliance, where benchmarking shows Brent foster allowances are substantially below those of other potential members. The implications are that Brent may have to adopt higher rates for foster carer allowances.

Savings and Slippages

3.2.4. The department has a savings target of £0.6m in 2020/21 and £0.2m of the savings target is at risk of slipping due to the impact of the COVID-19 pandemic and these include; £0.1m CYP003 - Adjusting resources in demand led budgets (reduction in staffing assuming low caseloads). The LAC & Permanency service has seen caseloads increase due to the pandemic; £0.1m CYP002 - The Short Breaks Centre (SBC) and the Gordon Brown Centre (GBC) CYP005 each have a savings target of £50k to sell spare capacity at the SBC to neighboring authorities at market rate; and increase trading at the GBC. These slippages are forecast to be managed within the wider CYP budget set for 2021/22.

3.3. Community Well-Being (CWB) (General Fund)

CWB Department	Budget (£m)	Forecast (£m)	Overspend / (Underspend) (£m)
Housing	6.6	6.6	0.0
Public Health	22.3	22.3	0.0
Culture	5.1	5.1	0.0
Adult Social Care	100.2	100.2	0.0
Total	**134.2**	**134.2**	**0.0**

Forecast

3.3.1. Based on current trends and assumptions around COVID-19 implications, the Community Wellbeing department is forecasting a break-even position for 2021/22.

3.3.2. The department's finances have been significantly impacted by the COVID-19 outbreak in 2020/21. The 2021/22 budget has been set accordingly and takes into account that some pressures are expected to remain in this financial year.

Risks and uncertainties

3.3.3. There are a number of risks and uncertainties within the service that could affect the assumptions made and the overall forecast outturn. The key risks and uncertainties predominately relate to Housing and Adult Social Care services.

3.3.4. Within Housing, there are uncertainties in relation to the time required for the fall in rental income collected to reverse and for any improvement to rent collection rates to be sustained in order to provide assurance that the upward trend will continue. A potential future recession and the end of the furlough scheme is likely to slow this recovery in collection rates, leading to a greater income shortfall within the Housing service. Whilst the budget set for 2021/22 takes a likely temporary decrease in collection rates into account, if this decrease is greater than anticipated, this could create a budgetary pressure. A 10% drop in collection rates could cost over £2m. Collection rates are being closely monitored and there are continuous investigations to better understand the drivers for the movements.

3.3.5. When the ban on enforcing eviction orders is lifted, this could lead to an increased demand for temporary accommodation for homeless people. Based on scenario planning, the 2021/22 budget allows for an associated increase in costs, however there is a risk that the demand could be higher than anticipated. A 10% increase in tenancies could cost the Council an additional £0.6m in 2021/22. The impact of the eviction ban lift should become more certain in the second quarter of the year.

3.3.6. Within Adult Social Care, an increased demand for mental health services and a rise in homecare hours are expected to be offset by a reduction in costs as a result of a decreased demand for Residential and Nursing placements. However, if permanent effects of the prolonged pandemic on mental health and the increased complexity of care needs are greater than anticipated, this could create a budgetary pressure.

3.3.7. When the initial CCG funding of Residential and Nursing placements ceases, the Council could inherit some additional and more expensive placements. However, a formal pooled budget arrangement with Brent CCG for COVID-19 hospital discharges has been agreed and timely re-assessments are taking place.

3.3.8. In addition, within Culture, a restricted capacity and a slow uptake of leisure centres' offers could lead to higher than anticipated losses of income.

3.4. Customer & Digital Services (CDS)

Operational Directorate	**Budget (£m)**	**Forecast (£m)**	**Overspend / (Underspend) (£m)**
Customer And Digital Services Directorate	0.7	0.7	0.0
Customer Services	10.9	10.9	0.0
Shared ICT Service	0.0	0.0	0.0
ICT Client And Applications Support	6.3	6.3	0.0
Procurement	1.3	1.3	0.0
Transformation	3.7	3.7	0.0
Total	**22.9**	**22.9**	**0.0**

Summary

3.4.1. The CDS department is currently forecasting to budget for 2021/22.

Risks and uncertainties

3.4.2. There are a number of risks and uncertainties within the service that may affect the projected outturn and assumptions made. There is significant uncertainty in the Customer Services forecast, which is dependent on the Delta variant, further lockdown and restrictions. These risks include:

- The risk that further lockdowns will require additional shielding costs.
- Within Customer Services a call on additional Discretionary Housing Payments now the eviction bans has been lifted, demand on administration of benefits processing and overpayment, court costs in relation to Council Tax recovery, demand for Registration and Nationality services.

- Transformation - £0.2m for Dynamics online form and power BI dashboard development.

3.5. Regeneration & Environment (R&E)

R&E	Budget (£m)	Forecast (£m)	Overspend / (Underspend) (£m)
Environmental Services	33.5	33.5	0.0
Regeneration Services	1.1	1.1	0.0
Property Services	6.4	6.4	0.0
R&E Directorate	1.5	1.5	0.0
Total	**42.5**	**42.5**	**0.0**

Forecast

3.5.1. The department's budget has been set based on estimates of budget pressures in 2021/22, including for the impact of COVID-19. These assumptions are still holding true as at Q1, however there is considerable uncertainty, especially around the impact of COVID-19.

3.5.2. The department has committed to make savings of £0.9m in 21/22. £0.8m is on track to be delivered. The remaining £0.1m of savings was to be achieved through increased highways fees from the delivery of large-scale infrastructure improvement projects. Due to TfL funding issues, these projects are not taking place and the saving is now deemed undeliverable.

Costs/ loss of income due to COVID-19

3.5.3. The department is anticipating a circa £2.4m one-off impact due to COVID-19 and the wider economy. This has been budgeted for within the corporately held growth. The largest attributable costs and income losses include estimates of:

- £0.7m loss of income from commercial rent
- Estimated loss of £0.5m fees generated from the delivery of LIP funded schemes which may not be available in 2021/22
- £0.3m reduction in license income
- £0.3m reduction in income from building control

Risks and uncertainties

3.5.4. There are a number of risks and uncertainties within the service that may affect the projected outturn and assumptions made. These include:

3.5.5. The Brent Transport Service budget includes a required £0.3m saving from reviewing single occupancy routes in order to balance the budget and ensure that costs are within the allocated corporate growth. If there is a delay in this review or changes cannot be implemented quickly, there would be a reduction in the saving delivered in 2021/22 which may lead to an overspend.

3.5.6. The Highways revenue budget is reliant on TfL LIP funding and there is a risk that up to £1m of fees generated from the delivery of LIP funded schemes will not be available in 2021/22. The service has estimated that if this risk was to materialise, mitigating measures could reduce the financial impact on the council to £0.8m by releasing agency staff. The loss of fees cannot be fully mitigated because a minimum core staff complement is required to continue day to day operations. However, TfL has recently reached agreement with the Government and reported that funding will be available up to the end of December 2021. A TfL Board meeting takes places on 9 July to confirm funding allocations to boroughs. Further discussions are ongoing for funding after December 2021.

3.5.7. R&E has an income budget of £48.3m. A small percentage change can have a large monetary impact. For example, an additional 1% reduction in income would be equivalent to around £0.5m. Commercial rental income is likely to suffer as tenants may be unable to pay rent. The longer-term impact on income anticipated from planning applications and building control applications is also uncertain due to slow progress on current major projects and a potential reduction in the number of new major projects received.

3.6. Central items - Collection Fund

3.6.1. The budgeted net collectible amount for Council Tax (after exemptions, discounts and Council Tax support) is £175.9m. The actual net collectible amount as at May 2021 has reduced by £0.9m since April 2020. It is expected that this figure may decrease during the year if new properties are not completed as expected and reliefs granted to residents increase further due to COVID-19. This is being closely monitored to assess the overall impact over the timeframe of the medium-term financial plan. As at the end of May 2021, the amount collected was 19.7%, a shortfall of 2.9% when compared to the in-year target. The amount collected in the same period last year was 19%.

3.6.2. The budgeted net collectible amounts for Business Rates (after exemptions, reliefs and discounts) is £136.0m. The actual net collectible amount as at May 2021 is £135.6m, a decrease of £0.4m since April 2020. This figure will change further once the additional reliefs that were announced during the government's budget are applied and new assessments are made, which may include additional premises or reductions due to successful appeals. Additional grants will be made available to the council to offset the loss of income from the additional reliefs. As at the end of May 2021 the amount collected was 8.9%. The amount collected in the same period last year was 11.75%.

3.6.3. Movements between the budget and actual collectable amounts affect the overall level of balances held in the Collection Fund at year-end after deducting charges, with deficits requiring repayment by all of the precepting authorities in future years. At the end of 2020/21, additional amounts due to the General Fund totaling £20.3m were transferred into reserves to repay the council's share of the deficit. This will be repaid over three years, in-line with national accounting rules governing the Collection Fund. The overall impact will be closely monitored to assess the impact on the council's MTFS. The income due to the General Fund from the Collection Fund is forecast on budget with no variation expected in the current year.

3.7. Capital financing

3.7.1. The capital financing budget for 2021/22 is £23.6m and is currently forecast to spend to budget, as set out below. The minimum revenue provision for the year is £6.1m.

	£m
Interest Payable	22.4
Interest Receivable	(7.4)
Capital Financing and Minimum Revenue Provision	8.6
Total	**23.6**

3.8. Dedicated Schools Grant

Funding Blocks	**DSG Funding (£m)**	**Forecast (£m)**	**Overspend / (Underspend) (£m)**
Schools Block	246.5	246.5	0.0
High Needs Block	67.6	71.1	3.5
Early Years Block	23.4	23.4	0.0
Central Block	2.3	2.3	0.0
Total DSG	**339.8**	**343.3**	**3.5**

Summary

3.8.1. The DSG is forecast to overspend by £3.5m against grant funding for 2021/22; due to pressures on the High Needs (HN) block. This budget includes the recoupment for academies of £129m from the Schools Block and £7.6m from the HN block.

3.8.2. There have been increases to the main DSG funding blocks for 2021/22, and budgets have been allocated and agreed by the Schools Forum to address financial pressures caused by rising costs, pupil mobility and to provide a growth fund sufficient to support the rising pupil rolls in secondary schools.

3.8.3. The HN block budget has increased by £6m in 2020/21 which represents a funding increase of 10%. The number of children with Education, Health and Care Plans (EHCPs) has continued to rise, therefore in addition to a number of measures outlined in the DSG deficit recovery plan, there is a transfer of 0.5% from the Schools Block to the HN block to mitigate the growing demand. This equates to a transfer of £1.2m, which brings the HN block budget to £67.6m. This budget will be reduced due to a recoupment for import-export which will be adjusted in July. This accounts for school place funding for Brent pupils in other local authority areas.

3.8.4. At the end of 2020/21, the DSG budget was in deficit of £10.5m and a projected overspend on the HN block will increase the DSG deficit to £14.3m by the end of this financial year. The deficit has been disclosed as an earmarked unusable reserve in line with DfE regulations (the School and Early Years Finance (England) Regulations 2020). The regulations make clear that the deficit can be carried forward to be funded from future years' funding and/or recovery plans agreed with the DfE.

Forecast

3.8.5. The £3.5m pressure has mainly arisen against the HN block due to a continual increase in EHCP numbers which has resulted in forecast overspends in top-up funding, predominantly in out-of-borough special schools, mainstream schools, independent residential schools and post-16 placements. The growth in EHCPs is a London and national trend whereby the number of children assessed as meeting the threshold for support continues to increase, but HN funding has not increased in line with the exponential growth in overall pupil numbers creating financial pressures. There is a projected increase of 11% in the number of EHCPs from 2805 at the end of 2020/21 to 3114 at the end of 2021/22. The forecast position is due to the following pressures:

- £2m forecast pressures against mainstream, independent and out of borough special schools' top up funding due to increased number of pupils;

- £1.5m forecast pressure due to growth in the number of young people remaining in education in post-16 who have EHCPs and who may have to be supported from the High Needs block until the age of twenty-five.

3.8.6. The DfE requires Local Authorities to have a management plan agreed by the Schools Forum in place to recover the deficit over a number of years. To recover the deficit, options being reviewed by the task group set up by the Strategic Director of CYP include:

- The introduction of the SEN Support service with the expectation to manage demand, as part of the Graduated Response Programme; improved quality EHCP assessment; and person centred planning and SMART annual reviews. Therefore, young people will be provided with earlier support, thereby reducing the need for an EHCP to trigger additional support.

- Looking to establish more SEND provision in the borough as part of the School Place Planning Strategy Refresh including developing new Additionally Resourced Provisions (ARPs) (7 in Primary and 2 in Secondary) in the academic year 2022/2023. This will reduce the need for young people to be placed in schools in other boroughs.

- Ensuring there is full cost recovery from other local authorities that place pupils in Brent special schools including administration and other specific costs;

- Continued central government lobbying.

3.9. HRA

HRA	Budget (£m)	Forecast (£m)	Overspend / (Underspend) (£m)
HRA	0.0	0.2	0.2

Forecast

3.9.1. The budgets for the Housing Management function are contained within the ring-fenced Housing Revenue Account (HRA), which has a balanced budget set for 2021/22.

3.9.2. The total budgetary pressure for 2021/22 is forecast to be £0.2m. This is attributable to a possible increase in rent arrears and a subsequent requirement to increase provision for uncollectable debt as a result of a potential prolonged recession.

Risks and uncertainties

3.9.3. There are a number of risks and uncertainties within the HRA that could affect the projected outturn and assumptions made. The impact on rental income collection rates and the subsequent increase in arrears due to the prolonged effects of the pandemic and the end of the furlough scheme is uncertain. A 5% drop in collection rates could result in an increase in rent arrears of over £2m. Scenario analysis has been undertaken in order to evaluate a range of potential options and explore the extent of possible mitigating actions required.

3.9.4. Any reductions in planned and major works due to business disruption or supply chain challenges could reduce the level of service charges collected. This would consequently reduce the HRA's borrowing capacity and the ability to deliver improvements in future years.

4. Capital Programme

4.1. In February, Cabinet agreed the five-year capital budget of £638m, prior to approval by the full Council. Presently, the capital team are liaising with service areas to ensure they have realistic and updated forecast plans for the current financial year. This involves having to consider a range of risks and issues that could affect these plans going forward. Budgets will be reprofiled between financial years to match these plans, so expenditure progress can be measured.

4.2. Although in the UK we are progressing out of lockdown, any further setbacks could result in delays to delivery across the Capital Programme. Additionally, there are project delivery partners based in countries with high COVID-19 rates, which further increases the risk of interruptions. Essential COVID-19 protocols such as social distancing continue to slow down delivery.

4.3. One of the consequences of the pandemic lockdown is that we are yet to experience the full effect of Brexit, but this will change as the economy moves back to full capacity. There has already been disruption to supply chains as companies try to adapt to new rules and tariffs on moving supplies. Consequently, this has an effect on project delivery in particular where a scheme has to complete within a strict deadline.

4.4. With increased demand in the construction sector, the price of raw materials has risen sharply, increasing the expense to the council both directly and indirectly through increased input costs for delivery partners. This could have a larger effect on projects going out to tender shorty, as older projects might already have a fixed price.

4.5. The active housing market could result in volatile acquisition costs for schemes involved in property or land purchases. The Council could struggle to compete as demand fuels the market or conversely could see a decline in forecasted sales values.

4.6. There are excepted disruptions to the highways programme owing to the delay in TfL confirming the funding for the complete financial year; currently they have provided short term funding. If the council subsequently receives full funding, part of the delivery is still likely to run into the next financial year due to the delayed commencement.

4.7. Changes in the GLA Affordable Housing Grant criteria has resulted in replacement homes not meeting the funding criteria. This has increased the risk of a financial viability gap for Estate Regeneration programmes, requiring the council to find alternative funding sources or implement cost saving measures to offset the additional funding requirement.

5. Financial Implications

5.1. This report is about the Council's financial position in 2021/22, but there are no direct financial implications in agreeing the report.

6. Legal Implications

6.1. Managing public money responsibly is key legal duty, but there are no direct legal implications in agreeing the report.

7. Equality Implications

7.1. There are no direct equality implications in agreeing the report.

<u>Report sign off:</u>

Minesh Patel
Director of Finance