



Brent

Cabinet
18 July 2022

Report of the Director of Finance

Quarter 1 Financial Report 2022/23

Wards Affected:	All
Key or Non-Key Decision:	Key Decision
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:	One: Appendix A: Savings Delivery Tracker 2022/23
Background Papers:	None
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1. Summary

- 1.1. This report sets out the current forecast of income and expenditure versus the revenue budget for 2022/23 and other key financial data. Total pressures for the year are forecast to amount to £0.5m.
- 1.2. The forecast £0.5m pressure against the DSG budget is the result of an increase in costs for the High Needs Block.
- 1.3. The 2022/23 budget was set to accommodate pressures arising from the impact of the COVID-19 pandemic, for example incoming losses and increased demand in social care. The 2022/23 budget includes a £2.7m savings target, which was agreed in February 2022, as set out in Appendix A

Table 1	Budget	Forecast	Overspend / (Underspend)
	£m	£m	£m
Chief Executive Department	30.1	30.1	0.0
Children and Young People	62.0	62.0	0.0
Community and Well-Being	137.1	137.1	0.0
Customer & Digital Services	24.3	24.3	0.0
Regeneration & Environment	52.8	52.8	0.0
Subtotal Service Area Budgets	306.3	306.3	0.0
Central items	(306.3)	(306.3)	0.0
Grand Total General Fund Budgets	0.0	0.0	0.0
DSG Funded Activity	0.0	0.5	0.5
Housing Revenue Account (HRA)	0.0	0.0	0.0
Position before COVID-19 funding	0.0	0.5	0.5

DSG gross income and expenditure

	Budget	Forecast	Under/ (Over)spend
	£m	£m	£m
DSG			
Income	(206.7)	(206.7)	0.0
Expenditure	206.7	207.2	0.5
Total	0.0	0.5	0.5

HRA gross income and expenditure

	Budget	Forecast	Under/ (Over)spend
	£m	£m	£m
HRA			
Income	(52.7)	(52.7)	0.0
Expenditure	52.7	52.7	0.0
Total	0.0	0.0	0.0

- 1.4. At the time of writing, there are significant risks connected to the uncertainty of inflation and pressures the Council may face as a result of the cost of living crisis. Inflation, as measured by the Consumer Prices Index, reached 9.1% in May and is forecast to peak in December 2022 at 11%, before starting to fall. Given that many contracts increase in price based on inflation as measured at a specific month, (e.g. every September) this creates a significant risk for this financial year that costs could grow faster than forecast if inflation is higher than currently forecast. Should this occur, the Council will need to find in year efficiencies in order to keep the budget in balance. As a last resort, the Council may need to utilise reserves to fund any further in year pressures. Further information on the impact of inflation and the cost of living crisis on the Council is set out in the Medium Term Financial Outlook report also on this agenda.
- 1.5. There are also significant risks in the Council's Capital programme, with a forecast underspend of £52.9m. This underspend is largely attributable to a delayed project start for Housing GF and an updated project plan in Regeneration. The table below shows the forecast position for each Capital Directorate:

Directorate	Original Budget	Revised Budget	Current Forecast	FY Variance
Corporate Landlord	5.7	14.6	16.3	1.7
Housing GF	73.6	97.8	88.5	(9.3)
Housing HRA	45.5	47.9	51.0	3.1
PRS I4B	19.8	25.1	19.7	(5.4)
St Raphael's	2.2	3.6	1.9	(1.7)
Public Realm	8.7	14.5	11.9	(2.6)
Regeneration	47.2	49.1	15.9	(33.2)
Schools	10.4	14.1	10.3	(3.8)
South Kilburn	22.1	26.2	24.5	(1.7)
Total	235.2	292.9	240.0	(52.9)

2. Recommendation

- 2.1. That Cabinet note the overall financial position and the actions being taken to manage the issues arising.
- 2.2. Cabinet delegates to the Director of Finance in consultation with the Deputy Leader authority to revise the terms of the loan agreement between the Council and i4B Holdings Ltd and First Wave Housing to allow borrowing within all tenures provided by the Public Works Loan Board for the reasons detailed in paragraphs 4.10 to 4.12.

3. Revenue Detail

3.1. Chief Executive Department (CE)

Chief Executive Department	Budget (£m)	Forecast (£m)	Overspend / (Underspend) (£m)
Legal, HR and Audit	10.4	10.4	0.0
Finance	8.6	8.6	0.0
Assistant Chief Executive	11.1	11.1	0.0
Total	30.1	30.1	0.0

Summary

- 3.1.1 Legal, Human Resources (HR) and Audit are currently forecasting to spend to budget for 2022/23.
- 3.1.2 Finance is forecasting to spend to budget for 2022/23.
- 3.1.3 The Assistant Chief Executive (ACE) department is currently forecasting to spend to budget for 2022/23.

Risks and uncertainties

- 3.1.4 The main risk to the budget is inflation uncertainty and the impact on energy and pay costs. These additional costs, across the council, may need to be funded from general reserves if they cannot be contained with the Council's overall budget or other in year efficiencies.

Savings and Slippages

- 3.1.5 A total of £0.2m of savings are planned through efficient working practices from the Oracle Cloud implementation and other departmental efficiencies. The department is on track to deliver these savings.

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

CYP Department	Budget (£m)	Forecast (£m)	Overspend / (Underspend) (£m)
Central Management	1.3	1.3	0.0
Early Help	5.0	5.0	0.0
Inclusion	2.8	2.8	0.0
Localities	21.0	21.0	0.0
Looked After Children and Permanency	7.0	7.0	0.0
Forward Planning, Performance & Partnerships	23.4	23.4	0.0
Safeguarding and Quality Assurance	2.0	2.0	0.0
Setting and School Effectiveness	(0.3)	(0.3)	0.0
Total	62.2	62.2	0.0

Summary

3.2.1 The Children and Young People department is currently forecasting a breakeven position. There are a number of risks and uncertainties discussed below which might have a significant impact on this position going forward, pending ongoing management actions to manage within the available budget.

Risks and uncertainties

3.2.2 There remain a number of risks and uncertainties within the department that may affect the forecast outturn position and these are identified below.

3.2.3 Within the Localities, Looked After Children, and Permanency (LAC&P) services, there are challenges regarding the recruitment and retention of skilled and experienced social work staff with the services relying on agency staff whose costs are more expensive than permanent staff. Rising caseloads are also a risk in this area, in 2021/22, caseloads exceeded the budgeted levels of 2,500 and increased to 3,000 a 16.7% increase. This was mainly attributed to the impact of the Covid-19 pandemic, and increases in referrals linked to asylum seeker dispersals. This led to a restructure of the social work teams increasing the number of social workers from 66 to 80 within the Localities service as the Council is committed to maintaining safe caseloads per social worker. If demand continues to grow, this could create an added pressure in this area. Management will continue to monitor the caseload levels and the use of agency staff while continuing the drive to recruit permanent staff.

3.2.4 The volatility surrounding the Placements budget for looked after children (LAC) managed within the Forward Planning, Performance and Partnerships service is a key challenge. Growth funds have been allocated against this area in 2022/23 to mitigate increase demand in the number of LAC and care leavers which saw a 19% increase in 2021/22 and one-off COVID funding was used to mitigate some of the pressure. However, despite this investment, there is a risk that with the impact of the National Insurance (NI) increase and high inflation costs, it is likely that providers will increase prices over and above inflation. In addition, the impact of the cost of living crisis on vulnerable families could also cause demand to increase.

3.2.5 Management actions in place to control spend include establishing additional sign off processes at Children's Placement Panel; 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.

3.2.6 The Children with Disabilities budget within the Localities service also received growth funds to mitigate pressures arising from increased demand and inflation. The pressures in this area are linked to the number of children with Education, Care and Health Plans (EHCPs), which saw an increase of 6% in 2021/22. There is a risk that further increases in EHCPs would put additional pressure on the care packages budgets in this area and impact on staffing costs.

3.2.7 The LAC&P service incurred additional costs in 2021/22 for specialist age assessment social workers, legal costs, additional personal advisors to manage cases, and

increased subsistence costs. This is because of an increase in the number of Unaccompanied Asylum Seeking Children (UASC) and Care leavers presenting to the borough. Growth funds have been allocated to the service this year to mitigate the pressures but there is a risk that the cost of living crisis could exacerbate pressures in this area.

3.2.8 The forecast position is also dependent on estimated income from the Home Office for UASC and Care leavers c£2.8m and Health contributions from the CCG of £1.5m. Any major fluctuations in these income streams could have an impact on the final outturn position.

Savings and Slippages

3.2.9 The department has a £0.3m savings target against the Gordon Brown Centre. There is a risk that elements of this target will slip, as the project to deliver the savings through the recovery initiatives funding is still ongoing. At this stage, it is assumed that the slippage will be managed within the department.

Summary of Key Assumptions

Key Assumption	Downside if worse	Upside if Better	Mitigations
LAC and Care Leaver placements forecast assumes numbers of about 791 and unit costs reflect current trends.	An increase in the number of high cost residential or secure placements would place pressure on the budget e.g., an increase by 4 placements in-year could cause an in-year pressure of c£0.6m (and £1.2m per annum)	Increased step-down arrangements result in falling number of residential placements. A single stepdown from a residential placement to a semi-independent placement could reduce expenditure by c£0.1m in-year.	Ongoing review of packages for best outcomes and focus on stepdown arrangements to support children to transition from residential to foster and/or semi-independent placements. Supporting the transition of care leavers to their own tenancies. To improve outcomes and independence and so increase the effectiveness of placements Innovative support and partnering with Health for CYP Mental Health and Wellbeing, among other preventative measures.

Health contributions for CYP placements and Children with Disabilities (CWD) packages will be maintained at the same levels as 2021/22.	The spend will not be mitigated by these contributions in proportion to the overall demand.	It will assist in mitigating overall net spend.	Maximising Joint commissioning with health to ensure contributions to placement costs where applicable.
Pressures arising because of the Covid-19 pandemic will be managed within the growth funds allocated in 2022/23 as part of Business As Usual costs (BAU).	It may create overspends which the department may not be able to mitigate.	More likely to stay within budget as growth provided more likely to cover expected increases.	Ongoing monitoring and reporting to ensure management action is taken as early as possible to enable mitigation.
Mix of social work staff and caseloads in the Localities and LAC & Permanency service to remain within budgeted level.	If increases follow the trend of 2021/22 and exceed budgeted levels by 15% during the year, there could be up to £1m additional spend on agency social work staff to manage the pressure	There would be a reduction in the use of agency staff and the reduced caseloads could be attractive to social workers seeking permanent roles.	Continued management action to monitor caseloads across the service and review and manage social work resources.

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

CWB Department	Budget (£m)	Forecast (£m)	Overspend / (Underspend) (£m)
Adult Social Care	105.1	105.1	0.0
Housing	4.0	4.0	0.0
Culture	5.1	5.1	0.0
Public Health	22.9	22.9	0.0
Total	137.1	137.1	0.0

Forecast

- 3.3.1 Based on current trends and assumptions around the inflation and the rising cost of living implications, the Community Wellbeing department is forecasting a break-even position for 2022/23.
- 3.3.2 The department's finances have been significantly impacted by the global pandemic and are anticipated to continue to be affected by the cost of living crisis. The 2022/23 budget has been set accordingly, based on assumptions around future demographic and inflationary trends.

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 for 2022/23. The key risks and uncertainties predominately relate to Adult Social Care and Housing services.

Adult Social Care

- 3.3.4 Within Adult Social Care, longer term effects of the pandemic, demographic and inflationary pressures, as well as uncertain implications of the introduced fair cost of care and social care reforms, all pose financial risks to the service's budgets.
- 3.3.5 As additional Clinical Commissioning Group (CCG) funding and COVID-19 grants come to an end, some of the pressures on social care and community services that have been contained with these funds still remain, posing a financial risk to the budgets. As this support ceases, this will have an impact on both the local authority and our providers who benefitted from these funds in order to reduce the impact of COVID-19 and the workforce challenges being faced in the sector. In 2021/22, the Council received an additional £6.5m in COVID-19 grants to support the care providers and CCG has covered £2.7m worth of costs as a result of CCG commissioning all Residential and Nursing placements that are typically more expensive than the usual cost to the Council. The CCG funding has been extended locally for one quarter in 2022/23 and thereafter the Council will be left to absorb the inherited higher costs as it is difficult to renegotiate the agreed placements. To manage this risk, the service are looking at creating a task and finish group with health colleagues to manage discharges in a different way in order to manage the costs, whilst also ensuring safe discharges.
- 3.3.6 Exacerbated by the pandemic, the demand for social care services and complexity of care needs are also ever-increasing resulting in higher costs. Whilst there are some reductions in costs due to less Residential and Nursing placement following the COVID-19 outbreaks, the demand for homecare and supported living is on the rise.
- 3.3.7 The cost of living crisis and the steep rise in inflation, heating and fuel costs are likely to have an impact on spot placement requests from providers who are looking to recover some of the additional costs they are incurring. For 2022/23, the Adult Social Care budget was increased in order to meet projected demographic growth demand and inflationary increases. Due to continued rises in inflation this creates additional risk and uncertainty, and care package budgets are therefore being monitored closely whilst any placement fee increase requests from providers are also being reviewed in detail.
- 3.3.8 Another key area of uncertainty is the fair cost of care and social care reforms. Work is ongoing to better understand the impact of the fair cost of care, the care cap and the number of self-funders coming forward which will create additional burdens. Whilst government funding is being made available to Brent in 2022/23 and future years, it is unknown at this moment in time whether this funding is enough to afford the market sustainability costs and implementation costs.

Housing

- 3.3.9 Within Housing, there is a risk that the demand for the services could increase and the number of homeless applications to rise. The current economic climate could also have an impact on the rent collection rates and result in increases in rent arrears.
- 3.3.10 In addition, the service is reliant on the Private Rented Sector (PRS) for supply to prevent homelessness and end statutory homelessness duties. However, this market continues to contract.
- 3.3.11 With more people placed in Temporary Accommodation, higher costs and less supply available to prevent homelessness, this could cause financial pressures on the budgets. These risks are being closely monitored and the service is focusing on early interventions and preventative actions.

Culture

- 3.3.12 Within Culture, reductions in income due to slower than anticipated recovery of facilities use remain a risk area for the service.
- 3.3.13 Looking further ahead, as energy costs double for leisure centres, the risk of provider failure is increasing forcing the Council to make difficult choices. An option is to support operators by subsidising their operating costs. Closing sites due to rising utility costs would also have a significant impact on both communities and income levels. The Council is working closely with the leisure providers to ensure continuity of the affordable service.

Public Health

- 3.3.14 Longer term implications of the pandemic on the people's lives, as well as the cost of living crisis, and subsequent demand for the public health services can be difficult to quantify at this stage, however this is being continuously monitored and financial implications assessed.
- 3.3.15 As is the case in other service areas, Public Health contracts are also likely to be affected by the rising levels of inflation, however for 2022/23 the costs are anticipated to be contained within the main Public Health grant.

Savings and Slippages

- 3.3.16 A total of £0.7m savings are planned to be delivered from the department budgets in 2022/23. A saving of £0.6m is expected from continuing to reduce demand for Temporary Accommodation through increasing the supply and a £0.1m saving to be achieved from better reablement. There are currently no slippages anticipated against the delivery of these.

Summary of Key Assumptions

Key Assumption	Downside if worse	Upside if better	Mitigations
The Adult Social Care providers' costs will increase to the anticipated level in line with inflationary assumptions.	A 1% increase on the cost of care packages could result in a £0.7m pressure.	A 1% decrease on the cost of care packages could result in a £0.7m reduction in anticipated costs.	The Council is working closely with the service providers and provides robust challenge of individual package costs based on evidence as part of placement reviews.
The additional cost of CCG placements reverts to the Council from July onwards.		Projected at £0.2m a month and if the NHS continues to fund this will bring the anticipated cost down.	Work with the CCG to prevent excessively priced care packages and review all care placements, to ensure that social care is responsible for funding those costs only.
The additional numbers of homeless people can be managed within the existing budgets.	Each person costs on average £340 per week to accommodate, so a delay for 13 weeks (1 quarter) of 20 people will cost an additional £0.1m.	Faster progress on homeless pathways will reduce expenditure by £340 per person per week.	The service is focusing on moving homeless clients along the various pathways. Use of Homelessness Prevention reserves could help to offset the pressures if required.
Rent collection rates for the Housing Needs service will not fall below the anticipated level.	A 5% worsening in the collection rate will cost £0.3m.	A 5% improvement in the collection rate will recover £0.3m.	Collection rates are being closely monitored and investigations into the drivers for the movements in the collection rates are ongoing.

3.4 Customer & Digital Services (CDS)

Operational Directorate	Budget (£m)	Forecast (£m)	Overspend / (Underspend) (£m)
Customer and Digital Services Directorate	0.5	0.5	0.0
Customer Services	10.7	10.7	0.0
Digital Services	0.2	0.2	0.0
ICT Client and Applications Support	7.5	7.5	0.0
Procurement	1.3	1.3	0.0
Transformation	4.1	4.1	0.0
Total	24.3	24.3	0.0

Summary

3.4.1 The CDS department is currently forecasting to budget for 2022/23.

Risks and uncertainties

3.4.2 There are no material risks identified.

Savings and Slippages

3.4.3 A total of £0.6m savings were planned to be delivered from the department's budgets. The savings are from staffing efficiencies (£0.4m), increased income from IT support (£0.1m), and the merger of Housing and Brent Customer Services Centre (£0.1m). The department is on track to deliver the savings.

3.5 Regeneration & Environment (R&E)

R&E	Budget (£m)	Forecast (£m)	Overspend / (Underspend) (£m)
Environmental Services	39.5	39.6	0.1
Regeneration Services	5.0	5.0	0.0
Property Services	6.5	6.6	0.1
R&E Directorate	1.8	1.6	(0.2)
Total	52.8	52.8	0.0

Forecast

3.5.1 The Regeneration & Environment department is currently forecasting a break-even position for 2022/23. The forecast break-even position consists of a £0.1m overspend in Environment and a £0.1m overspend in Property, which is mitigated by an underspend in the R&E Directorate.

- 3.5.2 The reported £0.1m overspend in Property relates to the use of agency staff which is planned to be reduced in year. As part of the mitigations, the service is looking at a restructure and converting the agency staff to permanent positions.
- 3.5.3 Environmental Services are forecasting a £0.1m overspend relating to Highways Management and the uncertainty around the TfL LIP funding they receive. Further updates are awaited from TfL on full year funding. and the impact of this on staffing capitalisation continues to be reviewed.
- 3.5.4 The forecast underspend in the R&E Directorate relates to savings delivered early.

Risks and Uncertainties

- 3.5.5 R&E has an income budget of £42m. A small percentage change can have a large monetary impact. For example, an additional 1% reduction in income would be equivalent to around £0.4m. In 2021/22 income collected was impacted due to the recovery from Covid-19 restrictions, such as in parking with changing motoring activities reducing traffic, and income from planning and building control applications reduced. It is hoped that with no restrictions income will continue to recover. In the current year there also remains some concern around the cost of living and the impact that could have on income received, this will be monitored throughout the year.
- 3.5.6 The Highways revenue budget is reliant on TfL LIP funding which was significantly reduced in 21/22 due to severe financial pressures on TfL. Since April 2020, TfL has negotiated a series of short-term funding settlements with the Government to enable it to continue operating public transport services and to enable the delivery of essential improvements to the transport network across London. Accordingly, the funding provided to Brent has been significantly below what it would usually expect to receive, and this impact continues to be felt in 2022/23. Reduced funding has been provided for quarter 1 of 22/23, with funding beyond that currently uncertain with further updates from TfL awaited.

Savings & Slippages

- 3.5.7 The department has a target of £0.3m savings to be achieved in 2022/23. Of these, all are on track to be fully delivered or have had alternative savings found.

Summary of Key Assumptions

Key Assumption	Downside if worse	Upside if better	Mitigations
Parking income will continue to recover to pre-pandemic levels	Increased pressure on the budget if income falls below the current forecast level.	If activity recovers faster than expected, then this would increase the income collected	Income will continue to be monitored. CCTV enforcement has been increased with additional cameras for 22/23, and a review of the existing cameras.

<p>SEN Transport taxi spend is within budget and expected client numbers.</p>	<p>Every additional child requiring transport via taxis costs the Council an average of £11,300 per annum.</p>	<p>Reduction in the growth requirement for future years.</p>	<p>The service is monitored as part of the shared service with Harrow. Client numbers can therefore be planned for.</p> <p>A strategic review of this service is planned to take place to look for efficiencies.</p>
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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 £179.2m. The actual net collectible amount as at May 2022 is £179.2m. It is expected that this figure may decrease during the year if relief granted to residents increase due to COVID-19 and the cost-of-living crisis. 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 2022, the amount collected was 19.3%, a shortfall of 0.5% when compared to the in-year target. The amount collected in the same period last year was 19.7%, however, pre-pandemic collection rates in the same period were around 3.3% higher amounting to £6m. If the under-collection of tax continues throughout the year it will have an adverse effect on the Council's cashflow and possible implications for the medium-term financial plan.
- 3.6.2 The budgeted net collectible amounts for Business Rates (after exemptions, reliefs and discounts) is £153.4m. The actual net collectible amount as at May 2022 is £153.2m, a decrease of £0.2m since April 2022. Further reductions may occur due to reductions in properties and successful appeals against rateable values. As at the end of May 2022, the amount collected was 16.7%. The amount collected in the same period last year was 19.7%. Prior to the pandemic the levels collected during the same period were around 3.3% higher, amounting to just over £5m. Similar to Council Tax, if the under-collection of tax continues throughout the year it will have an adverse effect on the Council's cashflow and possible implications for the medium-term financial plan.
- 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. 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 Dedicated Schools Grant (DSG)

Funding Blocks	Overall DSG Funding 2022/23	Forecast Expenditure	Overspend / (Underspend)
	£m	£m	£m
Schools Block	114.8	114.8	0.0
High Needs Block	67.8	68.3	0.5
Early Years Block	22.0	22.0	0.0
Central Block	2.1	2.1	0.0
Total DSG	206.7	207.2	0.5

Summary

- 3.7.1 There have been increases to the DSG funding blocks for 2022/23 and the overall DSG allocation for Brent is £349m but £132m was recouped from the Schools Block, and £8.2m from the High Needs Block (HNB) and transferred directly to Academies. In addition, for the first time the Education and Skills Funding Agency (ESFA) has also recouped £1.8m from the Schools Block to pay billing authorities directly for National Non-Domestic Rates (NNDR). This leaves a total allocation of £206.7m reflected in the table above. The Schools Block also made a 0.5% contribution to the High Needs Block of £1.2m to support the pressures in this Block. This leaves £206.7m, which forms the DSG budget.
- 3.7.2 At this stage, the DSG is currently reflecting a forecast in-year deficit of £0.5m against the HNB. This assumes a 6% increase in the costs associated with children with Education Health and Care Plans (EHCPs).
- 3.7.3 The cumulative DSG deficit brought forward from 2021/22 is £15.1m. The deficit has been disclosed as an earmarked unusable reserve in line with DfE regulations (the School and Early Years Finance (England) Regulations 2021). 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.
- 3.7.4 The Council has a Deficit Recovery Management Plan in place with longer-term actions to recover the deficit and a task group has been set up by the Strategic Director of CYP to coordinate and monitor these actions. Some of these actions to reduce costs include developing alternative provision education in the borough, increasing the amount of special provision within the borough, particularly for secondary phase pupils and 16–25-year old SEND students. A combination of these longer-term recovery actions and anticipated funding increases will reduce the deficit.

Risk and Uncertainties

- 3.7.5 A small in year deficit has been identified against the HNB but there remains a risk that the number of children and young people with EHCPs will continue to grow. The growth in EHCPs is a national and London wide trend whereby the number of children assessed as meeting the threshold for support continues to increase, but the HN Block funding has not increased in line with continued growth. Over the years, this has created financial pressures with a majority of authorities holding deficit balances. In 2021/22, the total deficits for authorities in London exceeded c£300m. The HN Block

did receive a 13% increase in funding for 2022/23 but the risk remains that this increase may not be sufficient to cover the costs of further increases in EHCP numbers and increases from providers for high inflationary costs.

- 3.7.6 The regulation that is in place to carry forward a deficit balance against the DSG is due to end in 2022/23 and this is a risk for the council if the expectation is that local authority's balances should cover the deficit.
- 3.7.7 The Council has been invited by the DfE to be part of the first tranche of 20 out of 55 authorities with deficits to tackle the pressures in the high needs system through a Delivering Better Value (DBV) in Special Educational Needs and Disabilities (SEND) programme. The DBV programme is for local authorities that have deficits, which are lower than the 14, other authorities with very high deficits on the DfE's Safety Valve programme. The programme is expected to commence in June 2022 and it is part of the DfE's support package to help local authorities maintain the delivery of effective SEND services within the funding available. The programme will provide SEND advisers and financial advisers to support the authority in producing a quality assured DSG Management Plan. As this is a new programme, the likely financial impact on the deficit is uncertain at this stage.

HRA

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

* The HRA budget is comprised of £57.2m expenditure and £57.2m income

Forecast

- 3.7.8 The budgets for the Housing Management function are contained within the ring-fenced Housing Revenue Account (HRA), which has a balanced budget set for 2022/23.
- 3.7.9 The forecast for the HRA is a break-even position for 2022/23. However, there are a number of risks and uncertainties in this fund that could pose financial pressures.

Risks and uncertainties

- 3.7.10 High levels of uncertainty around the inflation and rising interest rates pose a financial risk to the HRA. This has an impact on the cost of materials and repairs, as well as the cost of new build contracts. Rising energy costs are to be passed on to tenants and leaseholders resulting in an increased risk of non-collection. In addition, rising cost of living is likely to impact rent collection rates and consequently result in increased rent arrears. Other pressures involve the capital programme as there is no new government funding having been made available to meet environmental priorities and requirements such as carbon reduction works to homes. The increased costs experienced by the HRA would have to be met by rent inflation and modifying service delivery. These risks are being continuously monitored and reflected in the HRA Business Plan and the Council's Medium Term Financial Strategy (MTFS).

- 3.8 Recovery Initiatives** The Council has allocated £8.5m to be spent towards recovery initiative projects in the 2022/23 financial year. The departments have each forecast to spend to budget for these initiatives. The table below shows the allocated spend by department for 2022/23:

Department	Allocated Funding for Recovery Initiatives (£m)
Chief Executive Department	0.9
Children and Young People - General Fund	1.5
Community Well-Being – General Fund	0.5
Customer and Digital Services	0.6
Regeneration and Environment	3.4
Regeneration and Environment with Customer and Digital Services	1.6

4. Capital Programme

The table below sets out the Capital Programme current forecast to the revised budget position as at Q1 for 2022/23.

Directorate	Original Budget	Revised Budget	Current Forecast	FY Variance
Corporate Landlord	5.7	14.6	16.3	1.7
Housing GF	73.6	97.8	88.5	(9.3)
Housing HRA	45.5	47.9	51.0	3.1
PRS I4B	19.8	25.1	19.7	(5.4)
St Raphael's	2.2	3.6	1.9	(1.7)
Public Realm	8.7	14.5	11.9	(2.6)
Regeneration	47.2	49.1	15.9	(33.2)
Schools	10.4	14.1	10.3	(3.8)
South Kilburn	22.1	25.4	23.7	(1.7)
Total	235.2	292.1	239.2	(52.9)

Slippage of £52.9m from 2022/23 is being forecast against the revised budget.

4.1 Corporate Landlord

Corporate Landlord is projecting an overspend of £1.7m. The Civic Centre project overspent in 2021/22 due to emergency works. The service is currently submitting a business case for an additional capital budget in this financial year. The Digital Strategy programme, which includes the Acolaid upgrade program and digital inclusion program, is forecasting slippage of £0.4m due to a re-prioritisation of works.

4.2 **Housing GF**

Housing GF is projecting slippage of £9.3m. £11.3m slippage on the Brondesbury Road development, which is delivering supported housing units, is due to the delayed start on site of December 2022. There is an anticipated overspend of £2.5m at the Preston Park development, delivering affordable rented units, due to the expected inflationary pressure in the market. On Private Property Adaptation, an anticipated overspend of £1m is owing to high demand for adaptation works.

4.3 **Housing HRA**

Housing HRA is projecting an overspend of £3.1m. On Windmill Ct, delivering affordable rented units, 2022/23 forecast revised up by £5.9m to account for the revised anticipated spend reflecting estimated build works start in December 2022. For the tower blocks major repair programme, Watling Gardens (delivering a mix of supported living, affordable rented and shared ownership units) and Clement Close (delivering 20 affordable housing units), there is a total 2022/23 forecast slippage of £7.2m due to works progress being slower than previously anticipated. There is an anticipated overspend of £0.8m on Council Properties Adaptation Works. Currently there is an anticipated overspend of £0.9m on the Fire Safety scheme and £0.9m on Anuerin Bevan Court, delivering affordable rented units, due to inflationary pressure on the forecast works outstanding.

4.4 **PRS I4B**

The underspend of £5.4m represents budget slippage from 2021/22 that was not required. The purchasing programme is forecasting to spend to the full original budget of £19.7m to acquire 48 units.

4.5 **St Raphael's**

There is £1.7m forecast slippage on St Raphael's infill development which aims to deliver affordable housing through a co-design approach with the community and stakeholders. The slippage is on account of reprofiling of estimated costs for Phase 2 and 3 of the infill development to future years as those phases are not going to incur any spend in 2022/23.

4.6 **Public Realm**

The £1.2m slippage is due to the parks service moving budget for pitch improvement and parks service to better reflect the delivery schedule. There is a £1.4m slippage in the highways area caused by delays in last year's provision of funding from TFL resulting in a large carryforward, the service is working to establish a realistic spend profile and prioritisation of works for this financial year with the funding uncertainty going forward.

4.7 **Regeneration**

Regeneration is projecting slippage of £33.2m. This includes a forecast slippage of £27.5m for Housing Zones, delivering regeneration of Housing Zones including provision of affordable housing, for which an updated budget profile will be set based on the updated forecast. The Morland Gardens project, which will deliver affordable

homes, adult education centre and affordable workspace, is forecasting slippage of £5.5m. This is due to the project experiencing delays after a re-tender exercise was required.

4.8 Schools

£2.2m of the slippage is related to the SCIL allocation for the Onside Youth Zone, this will be reprofiled into future financial years whilst the Council continues to identify a suitable site. There is £0.4m underspend for the phase 3 of the Primary expansion programme as contingency within the programme is not expected to be utilised. There is also a £0.4m underspend for the Ark Elvin contribution that is no longer required and will be removed. There is an underspend of £0.8m in the Asset Management Plan budget and the Devolved Formula Capital grants, which is currently not being forecast to be spent so can be utilised as contingency to be used on future projects for those programmes.

4.9 South Kilburn

The slippage of £1.7m is due to a reduction in the forecasted leasehold acquisition expenditure at Masefield and Wordsworth, along with Crone Court and Zangwill. The development part of the programme is on track within the planned timescales.

Refinancing

- 4.10. The increase of base rate by the Bank of England has seen borrowing rates increase by over 1% across all areas of the yield curve. This is creating viability challenges across all the Council and i4B's capital projects funded by borrowing with rising materials costs as well as increased borrowing costs.
- 4.11. Currently the Council has a loan facility available across both i4B Holdings Ltd and First Wave Housing to deliver Phase 2 of the Private Sector Acquisitions Programme restricted to a 30 year tenure and the associated pricing by the Public Works Loan Board. The increase in borrowing rates for new loans is having a significant impact on the delivery of the acquisitions programme with some properties reaching viability thresholds whilst still in conveyancing. Given current bank rate forecasts, i4B Holdings Ltd will no longer be able to continue with its purchasing programme as per its business plan.
- 4.12. The Board of i4B Holdings Ltd has been in discussions with the Council on undertaking a variation to the loan facility to allow the companies greater flexibility to borrow within all tenures provided by the Public Works Loan Board. This will ensure a closer alignment of the useful life of the assets with the associated debt finance whilst also reducing the refinancing risk for i4B Holdings Ltd and reducing the risk for the Council as its sole Shareholder.

4. Financial Implications

- 5.1 This report is about the Council's financial position in 2022/23, but there are no direct financial implications in agreeing the report.

5. Legal Implications

6.1 As set out in Recommendation 2.2, Officers recommend a revision in the terms of the loan agreement between the Council and i4B Holdings Ltd and First Wave Housing and seek delegation to the Director of Finance to revise the loan agreement. The loan agreement contains provision allowing for variation. Paragraphs 4.10 to 4.12 details the reasons for such revision and indicates that any variation will allow borrowing within all tenures provided by the Public Works Loan Board.

6. Equality Implications

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

7. Consultation with Ward Members and Stakeholders

8.1 Not applicable.

8. Human Resources

9.1 Not applicable.

Report sign off:

Minesh Patel
Director of Finance