

Audit and Performance Committee

Decision Maker:	Audit and Performance Committee
Date:	7 September 2022
Classification:	General Release
Title:	2022/23 Quarter 1 Financial Monitor
Wards Affected:	ALL
Key Decision:	No
Financial Summary:	The report summarises the Council's 2022/23 quarter 1 financial position
Report of:	Gerald Almeroth, Executive Director – Finance and Resources

1. Executive Summary

- 1.1 This monitoring report presents the Council's summarised 2022/23 Quarter 1 financial position to date and the forecast for the remainder of the year, based on activity trends and analysis to date.
- 1.2 As at Quarter 1 of the 2022/23 Financial Year the General Fund - Revenue is reporting a forecast overspend of £4.465m against a budget of £184.862m
- 1.3 As at Quarter 1 the capital programme for 2022/23 reflected a projected £69.296m gross expenditure variance and £47.541m net variance.

2. Recommendations

- 2.1 That the Committee notes the current monitoring and forecast position at Quarter 1 for 2022/23

3. Revenue

Overview

3.1 In March 2022 Full Council approved the 2022/23 budget which included £16.671m of savings and £5.789m of investment and pressures. As at quarter 1 of the 2022/23 financial year the General Fund revenue position is reporting a forecast overspend of £1.293m against a budget of £184.862m.

3.2 Primarily this is due to the following reasons:

- Contract and other inflationary pressures across all directorates as inflationary rises continue. A budget provision was made when inflation was 5.4% but this has now risen to 10.1% in July and is expected to rise further over the next 12-months
- A favourable variance of £2.335m in Finance and Resources that is due to the return on investment within Treasury & Pensions forecasting increased returns because of interest rises
- An adverse variance in of £2.000m in Growth, Planning and Housing that as planning fee income on major applications remains lower than pre-pandemic levels
- An adverse variance of £1.546m in Children's Services that is primarily due to increased pressures on SEN Transport and Short Breaks.

3.3 As at Quarter 1 of the 2022/23 Financial Year the Housing Revenue Account (HRA) is reporting a forecast balanced outturn. Primarily this is due to use of contingency earmarked to fund capital can be redirected to mitigate emerging inflationary risks (with a net £2.7m worth of risk items identified at this stage).

3.4 The table below summarises the Quarter 1 General Fund position.

Overview	FY Budget (£m)	FY Forecast (£m)	FY Variance (£m)	Risks Identified (£m)	Opps Identified (£m)	Projected Variance inc Opps and Risks (£m)
Adult Social Care	50.570	51.314	0.744	1.256	-	2.000
Public Health	(1.141)	(1.141)	-	-	-	-
Growth, Planning & Housing	19.341	21.376	2.035	2.508	(0.450)	4.093
Finance and Resources	29.154	27.433	(1.721)	-	(2.000)	(3.721)
Corporate Items	30.201	30.201	-	-	-	-
Environment and City Management	1.033	2.807	1.774	5.954	(1.350)	6.378
Children's Services	38.280	39.913	1.633	0.270	(0.426)	1.477
Innovation and Change	13.351	13.351	-	-	-	-
Other Corporate Directorates	4.073	4.073	-	-	-	-
NET CONTROLLABLE BUDGET	184.862	189.327	4.465	9.988	(4.226)	10.227
Council Tax	(121.567)		-			-
Business Rates - Net of Tariff	(63.295)		-			-
CORPORATE FINANCING	(184.862)		-			-
Net (Surplus) / Deficit			4.465	9.988	(4.226)	10.277

3.5 Savings Summary

- 3.6 Details of progress against approved savings are outlined in the commentary for each directorate in the table below. Where savings are not on track, the directorates will consider mitigations to bring the budget back on target for this year.

ELT	Saving Achieved	Part Achieved/On Track	Part or Completely Reprofiled	Part or Completely at risk	Total
Adult Social Care	200	2,400	-	-	2,600
Children's Services	-	1,100	-	800	1,900
Environment and City Management	1,700	3,300	900	-	5,900
Finance and Resources	-	1,100	400	-	1,500
Growth, Planning and Housing	-	3,000	-	1,100	4,100
Innovation and Change	800	200	-	-	1,000
Total	2,700	11,100	1,300	1,900	17,000

3.7 Inflation

- 3.8 Historically the council has budgeted for inflationary pressures in the MTFP at approximately 2%, and this has been the case for several years as the UK has experience a prolonged period of low inflation and low interest rates. As the UK has emerged from the pandemic level of inflation have steadily increased over the last 12 months with CPI report at 10.1% in July and RPI at 12.3%. Inflation is predicted to rise even further over the next twelve months which presents a significant challenge on the Council's financial position as well as the national economy.
- 3.9 Originally the MTFP included an additional £2m for non-pay inflation costs, which could be used to fund increasing contract and utilities costs. During the 2022/23 budget process a further £4.8m was included in inflationary pressures to reflect the inflation rate of 5.4% at that time. This brings the total non-pay inflation provision to £6.8m.
- 3.10 CPI has continued to rise throughout 2022/23 and in July 2022 was reported at 10.1% with predictions that this will rise further. The Bank of England is currently forecasting inflation could reach 13% by 2023 and Citibank forecast 18.6%. One

of the factors' driving inflation is the war in the Ukraine and its impact on global energy and food supplies.

- 3.11 Inflationary pressures and subsequent costs are a significant risk to the Council's financial position for 2022/23 and future years. Each contract has a different inflationary uplift metric (e.g. CPI or RPI), but on average each 1% increase in the CPI rate could add a further c£1.6m cost to the current adverse variance.
- 3.12 Procurement and Commercial Services have provided updated guidance to Contract Managers on how to negotiate inflation increase requests from suppliers and ensure that value for money is being achieved.
- 3.13 In addition to contract inflation pressures negotiations are ongoing with Employers and the Unions to reach an agreement on the 2022/23 Pay Award. As part of the approved budget 2% was agreed for pay inflation which equalled £2.5m. The current offer, if accepted, will cost the council an additional £6.6m, this is £4m more than budgeted. Combined with contract inflation pressure the council would need to potentially fund an additional £13.2m unbudgeted spend.
- 3.14 The revenue forecast overspend for Quarter 1 is £4.465m of which £3.172m is related to contract inflation over and above the £6.8m budgetary provision made at the beginning of the year. This accounts for over 70% of the current full year forecast variance and will remain the highest risk to the financial outturn. This inflationary pressure has been reflected across each directorate forecast position.

4. Summary by ELT

Adult Social Care

- 4.1 The forecast outturn for Quarter 1 is a breakeven position. This position is underpinned by an assumption that funding from Discharge to Assess (D2A) will continue to the end of July and a new funding arrangement to be negotiated on a recurring basis for the remaining months. The directorate is currently in discussion, along with other councils across northwest London with NWL Integrated Care System (ICS).

Public Health

- 4.2 The service is reporting a net underspend of £0.995m which will be taken to reserves, leaving a net nil variance. This underspend is primarily due to £0.911m of increased Public Health grant income than budgeted as the 2022/23 allocation was announced after the Council approved its budget.
- 4.3 There is also a £0.179m net underspend within the commissioning services due to activity levels being lower than the maximum usage that is budgeted across a number of demand-led services such as GUM, Health Checks and Smoking

Cessation services. This is offset by £0.095m overspend within the non-commissioned services which include all overheads

Growth, Planning & Housing

- 4.4 An overspend of £2m is forecasted as at Quarter 1 against a budget of £19.341m. This is the result of income projections in Development Planning being £2m below budget. Major applications still remain significantly below pre-pandemic levels which may develop into an increased adverse variance if the remainder of the year does not improve.
- 4.5 The breakeven overall position for General Fund Housing assumes greater than budgeted use of the Homelessness Prevention Grant to off-set the increased cost of temporary accommodation leases. Current projections indicate a £2.6m increased use of HPG compared to last financial year. Cost pressures are particularly acute in the areas of Private Rented Sector units where we are projecting £1.25m increase in costs compared to 21/22 and in the nightly booked accommodation where we are projecting a £1.1m more expenditure than in 21/22

Finances and Resources

- 4.6 At Quarter 1, Finance and Resources is reporting an underspend of £2.335m against the budget of £29.154m. This is almost entirely a result of the favourable variance in Treasury & Pensions with the interest on cash deposit investments yielding a more favourable return. This is primarily because of interest rate rises so far this year, with the prospect of further increases to come as the Bank of England try to combat inflationary pressures.

Environment and City Management

- 4.8 ECM reports a small overspend at Quarter 1 of £0.082m against the budget of £1.033m, comprised of offsetting variances within individual services as below.
- 4.9 **Highways Infrastructure & Public Realm** - £0.028m underspend due to additional income of £0.200m in Roads Management, and an overspend of £0.172m in highways resulting from an inflationary increase to the TFL precept, paying for the maintenance on traffic signals within Westminster.
- 4.10 **Public Protection & Licensing** - due to a delay in delivery of the £0.900m saving projected through service redesign, now expected to be in place from 1 April 2023.
- 4.11 **Waste & Cleaning** - £0.790m underspend due to £0.700m of commercial waste income and £0.090 underspend from public conveniences becoming exempt from business rates.

Children's Services

- 4.12 Children's Services is reporting an overspend of £1.546m against the budget of £38.280m at Quarter 1.
- 4.13 The £1.057m adverse variance in Education is driven by increasing pressures arising from the provision of high-cost support packages for children with very complex care needs, and a net increase in the number of pupils receiving SEN Transport. The adverse variance in Family Services is £0.696m. Numbers of Looked After Children (LAC) and Care Leaver numbers are significant, and placement spend is directly impacted by the increasing cases of young people with more challenging support needs.
- 4.14 Forecasts for children's social care are extremely volatile and often driven by factors outside of the services' control such as school closures, placement availability, and changes to eligibility thresholds for joint funding. An inflation risk of £0.357m has been identified in SEN Transport, however corporately held growth is expected to mitigate this.
- 4.15 The Libraries and Archives adverse variance of £0.143m reflects the impact of income targets that are going to be difficult to deliver and MTFP pressures are being flagged separately as a risk. The service is exploring options to mitigate this risk as far as possible over the course of the year. Registrars is reporting a positive variance of £0.450m due to increased bookings post-pandemic.

Innovation & Change / Other Corporate Directorates

- 4.16 No variances to report at Quarter 1. There are several reviews ongoing in services areas including Communities, Strategy and Intelligence and Corporate PMO that may result in variances to be reported at Q2 when complete.

Housing Revenue Account

- 4.17 At Quarter 1 the Housing Revenue Account (HRA) is projecting a balanced outturn. However, the HRA is carrying £2.7m worth of risk items which are predominantly driven by exposure to inflation on the repairs budget. Mitigations were built into the HRA business plan to manage on-going financial risk, and these may be needed to offset any potential pressures as they arise.
- 4.18 The key elements of this position includes a £0.823m favourable variance on HRA staff due to vacant posts (for which recruitment is underway), £0.237m adverse variance on regeneration voids with the biggest cost being council tax, a £0.578m adverse variance of contract growth within Neighbourhoods and Innovation & Improvement.
- 4.19 Recruitment is underway across the service, but vacant posts still constitute 19% of the total HRA permanent structure, with the largest number of vacancies in the

Major Works team. Interim staff are providing cover in many areas, but an overall underspend on salaries is projected for the HRA as a whole.

- 4.20 The HRA budgets for the full cost of the staff structure (and does not include a vacancy allowance like some services). The current staff underspend represents a c.4% vacancy factor on the 2022/23 staff outturn which is considered an acceptable operating tolerance. However, some service areas (particularly Repairs and Major Works) are experiencing recruitment challenges due to skills shortages in these sectors.

5. Risks and Opportunities

- 5.1 ELT Directorates have identified £12.946m of risks and £2.226m of opportunities.

Risks

- 5.2 The inflationary challenge facing the wider economy is anticipated to have an impact in all ELT areas, especially where the Council must provide a statutory service.
- 5.3 Of the £7.646m risk within Environment and City Management, £7.146m is due to expected increases in contracts due to inflation. This pressure is only a forecast as the annual indices have not been released yet. The service area working to mitigate this risk via discussions with suppliers around the impact of inflation on their key cost drivers.
- 5.4 Adults are reporting a £2.000m risk due to Discharge to Assess as it is anticipated that funds would be depleted by August 2022 and there is no confirmation if further funds will become available. Integrated Care Systems have earmarked £5.000m to cover these claims across London Boroughs.
- 5.5 Growth, Planning and housing are reporting a risk of £2.543m of which £1.000m is due to Economy service. The service is funded from external income sources but due to the pandemic this has reduced significantly. A review of the service is taking place to put the service in an ongoing sustainable position.

Opportunities

- 5.6 WAES have bid for grant funding from GLA to run "Skills bootcamps for Londoners", which could see a significant increase in grant funding to the organisation. Announcements of this funding are expected in July 2022. This could lead to an opportunity of £0.450m.
- 5.7 Environment and City Management are reporting an opportunity of £1.350m. This is mainly due to an increased performance in commercial income across Commercial Waste, Cemeteries Income and Road Management Income. Trends

are being monitored by the services to understand the movements and review the forecasts regularly to assess any impact inflation may have.

- 5.8 Children's Services are reporting an opportunity of £0.426m. This is agreed funding of the continued growth in demand for SEN Transport services.

6. Horizon Scanning

- 6.1 Consideration has been given to future budgets and the following areas have been identified as potential events which may impact budgets in the medium term:
- 6.2 The cost-of-living crisis and rising inflation is a concern across the Council services. Inflationary increases may cause budget pressures due to increased cost of goods and services. Work is being undertaken to mitigate inflationary increases in contracts.
- 6.3 The current pay award offer, if accepted, may create an additional £4m pressure in 2022/23 over and above the original MTFP. Negotiations are ongoing and will be reflected in the monitor once approved.
- 6.5 Overall performance of the economy may have an impact on commercial income generated such as commercial rent.
- 6.6 Recent consultation on a change to the formula that determines the level of Homelessness Prevention Grant allocated to each authority from 2023/24 onwards has been released which may result in positive change for Westminster.

7. Capital Budget 2022/23

- 7.1 The table below summarises the Council's budget and forecast position on the 2022/23 capital programme, which reflects a projected £69.236m gross expenditure variance and £47.541 net variance. It should be noted that the budget with slippage will be put forward for cabinet approval in October.

ELT	2022/23 Expenditure Budget £m	2022/23 Income Budget £m	2022/23 Net Budget £m	2022/23 Expenditure Forecast £m	2022/23 Income Forecast £m	2022/23 Net Forecast £m	2022/23 Expenditure Variance £m	2022/23 Income Variance £m	2022/23 Net Variance £m
Adult's Services	0.653	(0.553)	0.100	0.532	(0.532)	0.000	(0.121)	0.021	(0.100)
Children's Services	10.428	(8.043)	2.385	10.428	(8.043)	2.385	(0.000)	0.000	0.000
Growth, Planning & Housing	138.994	(28.434)	110.560	112.216	(20.754)	91.462	(26.778)	7.680	(19.098)
Environment & City Management	125.404	(36.514)	88.890	94.389	(22.639)	71.750	(31.015)	13.875	(17.140)
Finance and Resources	54.790	(5.966)	48.824	72.697	(5.847)	66.850	17.907	0.119	18.026
Westminster Builds	50.633	(0.000)	50.633	21.404	(0.000)	21.404	(29.229)	0.000	(29.229)
Projects Funded from FCR*	0.000	(0.000)	0.000	0.000	(0.000)	0.000	(0.000)	0.000	0.000
Total for Council	380.902	(79.510)	301.392	311.666	(57.815)	253.851	(69.236)	21.695	(47.541)

- 7.2 As seen in the table below, eleven projects contribute to the majority of the expenditure variance. By way of comparison there are over 270 projects in the 2022/23 capital programme, and therefore, just 4% of the projects are causing 61% of the expenditure variance.

Project	2022/23 Variance to Budget £m	Comments
Westminster Builds	(30.503)	At Q1, the company will require £30.503m less investment than modelled in the Business Plan. The main reason for this is the decision to fundamentally change the tenure splits on 300 Harrow Road and Westmead, meaning the council will self-deliver rather than using WB. The overspends in the GF on these schemes offset this underspend – please see the line below.
300 Harrow Road and Westmead Regeneration Schemes	17.824	This is primarily due to the decision to remove private sale units on the 300 Harrow Road and Westmead schemes, meaning the scheme will now be delivered in the GF rather than through WB. This is offset by an underspend within the subsidiary company's section of the monitoring (as above) because the Council will no longer need to invest funds in WB to finance the development.
Oxford Street District	(22.749)	The programme is reporting reprofiling to future years of £22.749m with total spend in 22/23 of £2.3m. The review of the programme and its intended priorities are in progress. As a result, only the core programme costs have been included in the forecast until the future direction of the programme is set. This forecast is highly likely to increase once decisions around individual work packages have been taken, but no formal governance around this has been finalised.
Rough Sleepers' Acquisition Programme	(9.465)	£9.465m is to be reprofiled to 2023-24 due to delays on acquisition & new supply. Priority has been given to completing the partially grant funded programme.
WCH Development Loan	(6.473)	The scheme within WCH that this loan relates to is currently on hold and under review, so it is very unlikely it will be drawn down in 22/23.
Ceremonial Streetscape	(5.171)	Issues outside of the control of WCC such as access to land to commence works and material availability due to general shortage in the construction industry has resulted in re-profiling of this scheme to future years.

Electric Street Cleansing Vehicles City Wide	(4.000)	Testing of three different electric street cleansing vehicles currently underway. Recommendation on preferred vehicles and authorisation to proceed with project to come forward soon.
Public Conveniences Renovation Programme	(3.361)	Broadwick Street already begun with other sites soon to follow. Only Automatic Public Conveniences being completed this year and therefore the rest of the spend will take place in following year.
Waste Fleet Replacement Programme	(3.159)	Installation of electric charging infrastructure has some delays and delivery of electric waste vehicles rescheduled from October 2022 to April 2023.
Temporary Accommodation Acquisition Programme	(2.206)	There is £2.206m to be reprofiled into 2023-24. The 2022-23 target was for 68 acquisitions. Currently 7 units are expected to slip into 2023/24 along with the associated funding requirement.
Property Investment Acquisitions	27.094	Property will need to bring forward £27.094m of the Property Acquisitions £120m budget from 2023/24 to 2022/23 as purchases of a property in Vauxhall Bridge Road and the head lease of a property in Berwick Street were completed in April 2022.
Total	(42.169)	

7.3 Housing Revenue Account

7.4 The HRA capital budget and forecast position is summarised in the table below.

HRA Capital Programme	2022/23 Budget (£m)	2022/23 Forecast (£m)	2022/23 Variance (£m)
Planned Maintenance	57.826	49.985	(7.841)
Development	125.823	131.083	5.260
Other Projects	18.153	18.153	0
Total	201.802	199.221	(2.581)

7.5 The HRA is forecasting an outturn position for the year that is marginally below the in-year budget (resulting in a small underspend of **£2.581m** overall). The 2022/23 budget includes £4.294m of slippage from 2021/22 (due to be approved in July 2022).

7.6 The main area of variance is on Planned Maintenance. A full programme of works has been scheduled to deliver to the planned budget of £57.8m but a delivery adjustment has been applied to reduce the expected outturn and thereby reflect unforeseen delays across the various schemes (reflecting historic trends). The Development forecast is slightly higher than budget, which reflects minor adjustments to delivery profiles versus the business plan.

7.7 The variances within HRA Planned Maintenance are shown in the table below:

Project	2022/23 Variance to Budget (£m)	Comments
Major Works	(8.859)	The forecast is in line with service provider cashflows for the current financial year. This reflects some re-profiling versus the original assumptions in the HRA Business Plan due to some project starts now being scheduled for September.
Voids	1.700	The service is anticipating a larger number of voids in 2022/23 (329 vs 297 in 2021/22). In addition, there are a further 28 voids that had been earmarked for disposal but will now be put back into operation (creating a 20% year-on-year increase in volumes). In addition, the voids previously earmarked for disposal are generally in worse condition and are more expensive to repair (up to £39k in some cases). This has increased the average cost per void from £14,500 in 2021/22 to £15,700 in 2022/23.
PDHU	2.009	The Pimlico District Heating Unit (PDHU) project will now commence earlier than had been previously forecast in the HRA Business Plan. This does not alter the overall budget for the works over the medium-term (which remains £11m and excludes the wider strategic option considerations for the future operation of the PDHU).
Climate Works	2.928	Increase in forecast spend due to project re-profiling from 2023/24 to match grant funding now awarded in 2022/23. The key risk to the programme is resident take up (i.e., residents allowing retrofit work to be carried out within their properties).
Delivery Adjustment	(9.521)	Each element of the Planned Maintenance programme has an agreed schedule of projects and contractors in place to deliver. However, despite robust programme planning, delays are inevitable for which an over-arching delivery adjustment of c.15% has been applied to the overall programme. This reduces the outturn estimate versus what was included in the HRA business plan but would still result in a 25% increase on delivery versus 2021/22. This will be updated throughout the year as forecasts are adjusted to reflect known delays across the different programmes of work. It effectively represents an "over-programming" approach designed to maximise delivery whilst allowing for realistic financial planning (particularly in relation to HRA borrowing).
Total	(11.743)	

7.8 The key variances within the HRA Development are detailed in the table below:

Project	2022/23 Variance To Budget (£m)	Comments
Acquisitions (Ebury & Church Street)	5.721	Spend re-profiled to reflect an acceleration in the estimated number of acquisitions (based on availability).
Ashbridge	1.560	Variance reflects re-profiling on the project cashflow, as well as a cost increase driven by the inclusion of air source heat pumps to the development specification.
Ebury (Phases 1 and 2)	1.547	The spend profile for the Phase 1 scheme has been adjusted to reflect the later start on site in 2021/22 and the budget 2022/23 is now very closely aligned to the expected outturn (reflecting stable progress on the scheme). Spend on Ebury Phase 2 has been ramped up
Lisson Arches	(1.350)	The delivery profile for the scheme was accelerated in 2021/22 which led to planned spend being more front-loaded than what was reflected in the original budget estimates.
Queens Park Court	(1.470)	A preferred contractor has been identified and the forecast now reflects the revised cost plan that has been proposed. This scheme was recently reviewed by CRG and an increase to the overall cost of the scheme was noted (reflecting inflation in construction prices at the time of tender).
Total	6.008	

8. Financial Implications

8.1 The financial implications are set out in the Appendix 1 of the report

9. Legal Implications

9.1 There are no legal implications arising from this report

Appendices

Appendix 1 – Supporting Financial Information

**If you have any queries about this Report or wish to inspect any of the
Background Papers, please contact:**

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