Title of Report	**2022/23 Overall Financial Position - August 2022**	
Key Decision No	FCR S088	
For Consideration By	Cabinet	
Meeting Date	24 October 2022	
Cabinet Member	Cllr Chapman, Cabinet Member for Finance	
Classification	Open	
Ward(s) Affected	All Wards	
Key Decision & Reason	Yes	Result in the Council incurring expenditure or savings which are significant having regard to the Council's budget for the service / function
Implementation Date if Not Called In	1 November 2022	
Group Director	Ian Williams, Group Director of Finance and Corporate Services	

1. CABINET MEMBER'S INTRODUCTION

1.1 This is the third Overall Financial Position (OFP) report for 2022/23. It shows that as at August 2022, the Council is forecast to have an overspend of £7.856m on the General Fund - an increase of £100k from the previous month

1.2 As can be seen in Table 1 below, the overspend relates to various pressures including: - Adult Social Care (primarily Care Packages and Provided Services); Climate, Homes and Economy (primarily Planning income); Children and Education (Corporate Parenting and Access and Assessment); F&CR (Strategic Property Services and Housing Needs); and one off costs of the Cyberattack (backlog clearance, system investment and income pressures). The cyberattack costs were anticipated and provided for in the 2022/23 Budget and by reserves set aside.

1.3 The Council's Corporate Leadership Team is taking measures to reduce this overspend (see section 2.28), and its potential impact on future years, and will report back on progress in the OFP reports as these reductions are realised.

1.4 Both residents and the Council will continue to face significant financial pressures as the inflation surge is showing no sign of abating. In sections 2.34 to 2.41 below, a description is given of what the Council is doing to assist residents to manage the impact of the cost of living crisis. We will include this analysis in all the OFPs this year.

1.5 Inflation will impact on various components of many of the Council's services but in particular on those with significant energy, fuel and contract costs. Particular examples that have already emerged include increased energy costs of running Council buildings, fuel costs in Environmental Operations and SEND transport and inflationary pressures coming through from care providers. We are also forecasting considerable pressure as a result of 2022/23 pay negotiations. One specific area where increasing energy costs is having a significant financial impact is on leisure centres and specifically the Leisure Management Contract

1.6 The Council has long recognised the impact that sport and physical activity can have on the achievement of its priorities and since 2005 has made significant improvements to both the quality and operation of its sport and leisure facilities. This ranges from opening the new Britannia Leisure Centre, providing free swimming and concessions for key groups across all facilities and working with GLL to keep our fees and charges affordable when compared with other surrounding boroughs' offers.

1.7 However, the financial forecast for the Leisure Management Contract has changed markedly over recent months with the significant escalation in utility prices and growing uncertainty over the future of the energy market. In 2022/23 alone we are faced with a forecast increase in utility costs for the leisure centres of £2.21m, with minimal support being provided by the Government's Energy Price Guarantee for Businesses for the period October 2022 - March 2023.

1.8 In the face of other significant financial challenges, the Council and all local authorities need to urgently decide what action they want to take to mitigate utility price increases and ensure leisure centres can continue to operate through the current crisis. This is why we are introducing further energy saving initiatives, further subsidising the leisure centres and proposing to increase fees and charges, whilst protecting concessions at existing levels. These decisions are not taken lightly and we have done our utmost to protect those most likely to be affected by the cost of living crisis from fees and charges increases so they can continue to use our leisure centres. These mitigations are considered in **Appendix 1** and Cabinet is asked to approve the recommendations to affect these mitigations

1,9 The report also contains proposals to support the Voluntary and Community Sector. The VCS is able to respond to the needs of the most vulnerable and disadvantaged residents and support community cohesion. The impact of the pandemic, welfare cuts, reduced grants to local government and the ongoing cost of living crisis has led to increased demands and financial pressures upon the borough's VCS organisations. The proposals, set out below and in **Appendix 3**, are required to protect organisations providing vital services in these difficult times. Failure to do so would allow closures to progress unmanaged which could have significant consequences for Council services and residents.

1.10 Whilst accepting that services face considerable pressure as a result of inflation and increasing demand etc, it is clear that we must continue to take all steps to mitigate the current forecast overspend. Last year we managed to bring the overspend down from £7.3m in August to £4.6m in March and while I look forward to seeing a similar outcome as management actions are implemented I recognise that it is not straightforward, particularly given the inflationary pressures, and we must not be complacent that the previous performance will be repeated.

1.11 On the 8th September, the Government outlined support for domestic energy customers (Energy Price Guarantee) and commercial energy consumers (Energy Relief Scheme) to mitigate energy price increases. More detail has subsequently been provided. These are discussed in paragraphs 2.7 to 2.9 below.

1.12 On 23rd September, the Chancellor set out some of its plans for the economy in future years (taxation rather than spending) in a Fiscal Event. The Event is discussed in 2.18 to 2.24 below. Since then, and particularly following adverse market reaction to the Chancellor's statement, the Prime Minister has confirmed that she is looking for funding cuts across the public services, declaring that there are "plenty of areas" where taxpayers' money could be saved.

1.13 I commend this report to Cabinet

2. GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES INTRODUCTION

2.1 The OFP shows that the Council is forecast to have an overspend of £13.856m after the application of reserves but before the application of the set asides and earmarked reserves as provided for in the budget. The application of these reduces the overspend to £7.856m - an increase of £100k from the July forecast.

2.2 It should be noted that we set the budget before we were fully hit by the cost of living crisis and the exceptionally high energy price increase. All councils are being affected by this and it is clear that the level of pressures we are experiencing are not unique. On 28th June, the cross-party Local Government Association (LGA) said local services that were seemingly secure just three months ago were now at risk of closure or cuts as councils scramble to manage an unforeseen £2.4bn rise in energy and pay costs. The LGA estimates that without adequate long-term funding – in effect a revisiting of the spending review settlement agreed last autumn – the collective increase in inflationary costs faced by English councils this year will be £2.4bn, growing to £3bn in 2023/24 and £3.6bn in 2024/25. It argues that these pressures, coming on the back of more than a decade of austerity cuts to local authority funding, pose a "serious risk to the future financial viability of some services and councils."

2.3 The effects of inflation on local government could be worse than the period of austerity after 2010, Paul Johnson, the Director of the Institute for Fiscal Studies has warned. He also stated that there was a risk of continuing austerity "by the back door" if the Government did not increase public sector funding to compensate for rising costs. His comments came after analysis by the IFS found ministers would need to give councils an additional £1.2bn to protect the 3% increase in core spending power for this year that was promised in the 2021 spending review. Asked how bad the current financial pressures on councils were, he said: "The scale of the cuts – the actual cuts – in the early 2010s, I think will be much bigger than any real cuts that do happen over the next couple of years, but of course from a much tougher base. Bluntly, we know that the first few years of austerity were not very hard for local authorities, because they did have quite a lot of money. That's not the case now." He added: "I think the effects could be worse, because even small changes when you're teetering are potentially bigger than big changes when you're fine."

2.4 Despite these warnings from the LGA and IFS, the Government has not indicated that local government will receive any additional funding above that implied by the last Spending Review in response to the very high inflation. Indeed, it now looks certain that there will not be an additional 2023-24 Spending Review towards the end of this year which would have given the Government a vehicle to increase public sector funding in light of inflation.

2.5 In addition to the costs of inflation which were not budgeted for when the budget was formulated in January but are now included in the August forecast; non-inflation costs and demands have increased in various services, while some income streams have not recovered in line with expectations.

2.6 The cost of living crisis is putting further pressures on the resources and finances of our Voluntary and Community Sector partners. This will have both direct and indirect consequences for the Council and other statutory agencies as support for our residents is reduced. Given the financial pressures the Council is facing, one option would be not to intervene to support any organisation, but this could have an adverse cumulative impact on residents and on Council finances. Rather than allow the closure of organisations to progress unmanaged, it is proposed that a proportion of the Council's grant programme be used to provide some limited financial intervention, in the form of a cash grant and / or by unrestricting an existing grant award from the programme. This support would be restricted to where we identify significant strategic or financial risk to the Council and where there is a level of confidence in future organisational sustainability. A set of high level principles has been established to govern this process providing a set of conditions which must be met in order for support to be considered. These conditions include the equalities implications of closure, the direct financial impact to the Council and the strength of governance and the ongoing viability of the organisation concerned. Further details on the principles and processes are included in the report attached at **Appendix 3.**

2.7 On the 8th September the Government outlined support for domestic energy customers (Energy Price Guarantee) and commercial energy consumers (Energy Relief Scheme) to mitigate energy price increases. More detail has subsequently been provided

2.8 While benefiting those who need to use more energy, the Energy Price Guarantee is not well targeted at those on low incomes who will struggle most to cope with higher costs. Half of the giveaway will go to the top half of the income distribution. It is disappointing that the Government is not trying to implement a better targeted approach in the winter of 2023-24. With markets expecting energy prices still to be elevated in the following winter it is crucial that policymakers work now to ensure that better targeted approaches are available should they be needed beyond September 2024. The current approach is not sustainable in the long term.

2.9 The Energy Bill Relief Scheme will provide a discount on wholesale gas and electricity prices for all non-domestic customers (including all UK businesses, the voluntary sector like charities and the public sector such as schools and hospitals) whose current gas and electricity prices have been significantly inflated in light of global energy prices. Earlier in the year the Council negotiated a relatively favourable energy contract for 2022-23 at rates which are below the rates capped from 1 October and therefore little support can be expected in the 6 month period provided.

2.10 Increasing energy costs have a significant impact on leisure centre utility costs. Through a partnership with GLL, the Council provides and operates 7 sport and leisure facilities that offer programming and pricing policies which target the mass / community markets and the Council’s target groups:

- Britannia Leisure Centre
- Clissold Leisure Centre
- Hackney Marshes Centre (including Gainsborough Playing Fields, Mabley Green, North Marsh Pavilion and wider pitch booking of other facilities)
- Kings Hall Leisure Centre
- London Fields Lido
- Queensbridge Sports and Community Centre
- West Reservoir Centre.

2.11 The Council commenced the Leisure Management Contract (the “Contract”) with GLL on 1 April 2009 for a period of 15 years. The contract was extended in 2016 until 31 March 2029, as part of a wider renegotiation, which now means that the management of the Council’s sports and leisure facilities (listed above) is delivered at nil cost to the Council (excluding costs associated with meeting landlord maintenance responsibilities for the sports and leisure facilities).

2.12 Prior to the pandemic the Contract had positive financial performance, resulting in a surplus share being due to the Council from GLL each year. In 2021/22, despite the impacts of the pandemic still continuing, the Contract returned to a small surplus and GLL were anticipating that this positive trajectory would continue in 2022/23.

2.13 However, the financial forecast for the Contract has changed markedly over recent months with the significant escalation in utility prices and growing uncertainty over the future of the energy market. The utility costs for the Contract in 2019/20 (the last full comparable year of operation prior to the pandemic) were £0.94m and the forecast utility costs for 2022/23 are £3.15m (a forecast increase of £2.21m).

2.14 Given the above, GLL is now predicting that the Contract may fall into deficit in 2022/23 and the Council therefore needs to urgently decide what action it wants to take to mitigate utility price increases and ensure the leisure centres can continue to operate through the current crisis. These mitigations and other actions are set out in **Appendix 1** and an equalities impact appraisal of these are set out in **Appendix 2.**

2.15 Hackney recently signed up to be a member of the Co-Operative Councils Innovation Network. The Network is a non-party-political active hub for co-operative policy development, innovation and advocacy. It is Membership-based, funded by modest subscriptions from its member councils. It was established in 2012 and became a Special Interest Group of the LGA in 2014.

2.16 It provides a national voice for co-operative councils, informed by real experience and practice, with the aim of drawing on, influencing and framing national policy and political debates about the future of public services, local democracy, and communities across the country. This network aligns with the Council's commitments to place making and wealth building and putting residents at the heart of what we do, being financially sustainable and becoming a modern and innovative Council. In joining, Hackney has an immediate interest in building sustainable food networks that deliver local solutions tackling food poverty, developing sustainable food chains and increasing access to healthy food options.

2.17 Each year CCIN Members are encouraged to suggest projects where they can work with other members to find cooperative policy solutions to local government challenges. As the 2022 pot was undersubscribed, the Network has another call for Bids which will open in autumn. More information on projects funded by the Network (published and active) can be found here.https://www.councils.coop/funded-projects/.

2.25 Returning to the forecast, the main areas of overspend (excluding the Cyberattack) are: -

Childrens and Education (£1.568m) in the areas of Corporate Parenting (£1.083m), Access and Assessment (£0.124m), Looked After Children (£0.181m), Family Intervention Service (£0.134m) and the Disabled Children's Service (£0.156m); partially offset by an underspend on clinical services (£0.237m).

Adults, Health and Integration (£5.243m before Cyber) primarily in the areas of Care Support Commissioning (£2.941m), Provided Services (£1.719m) and Mental Health (£1.163m). This is partially offset by an underspend in Preventative Services (£0.434m).

Climate, Homes and Economy (£1.406m before Cyber) primarily in the area of Planning (£1.102m), Community Safety, Enforcement & Business Regulation (£0.268m) and Environmental Operations (£0.236m)

F&CR (£1.515m before Cyber) in Strategic Property Services (£0.486m) which is driven by a forecast increase in bad debts due to Covid19 (as some businesses are still struggling) and more recently, the macro-economic environment affecting consumer demand on businesses (which may potentially affect their ability to pay rent). There is also a £600k overspend in Housing Needs resulting from an increase in the number of hostels, and the increase in the need for 24 hour security, and a £791k overspend in ICT relating to staffing costs associated with increased demands on the service

Cyberattack - One off cost of £4.503m, which has been fully provided for by set asides and reserves in the 2022-23 Budget and in the 2021-22 closing process. The expenditure is primarily on additional staffing to work on the backlog resulting from the Cyberattack, and there is also the cost of systems recovery work in ICT and foregone income in revenues.

SEND - The forecast is a £5.41m overspend. The overspend is a result of a significant increase in recent years of children and young people with Education Health and Care Plans (EHCPs). There remains uncertainty around the treatment of this deficit post 2022/23. The brought forward SEND deficit in 2022/23 is circa £13.9m, based on current forecasts this will increase to circa £18.4m by the end of this financial year. This remains a risk for Hackney in the event there is no further funding provided by the Department for Education to mitigate this balance. Hackney is included in Tranche 2 of the Delivering Better Value (in SEND) programme which aims to help local authorities maintain effective SEND services, however the programme aims to provide assistance on deficit recovery actions rather than provide direct funding to address the deficit, hence the potential risk to the Council. Senior officers have held an introductory meeting with representatives of the DfE in respect to the format and workstreams of the programme, with the detailed work due to commence from January 2023

2.26 The forecast impact of the cyberattack and the inflationary pressures included in the report are estimates and we expect some revisions as we update the forecast during the year.

2.27 In order to address the overspend we will continue to undertake the measures we introduced in the Summer of 2021, which as Members will recall were successful. These include:

(a) Increased controls on non-essential spend (non-essential spend to be determined by Group Directors of their respective directorates) with many services placing emphasis on areas such as supplies, services, and professional fees.

(b) Increased controls on filling vacancies. In Education, for example, requests to recruit are submitted via a business case and require joint agreement by the Heads of HR and Finance before the initiation of any recruitment process. Within CFS, the high number of agency staff within the division allows for continual review of the establishment. Budget review meetings for key areas experiencing financial pressures such as Children in Need, DCS and Corporate Parenting review staffing in detail on a regular basis with the Director, relevant Head of Service and finance

(c) Reduction in agency staff. In ASC, plans have been set in place for rolling recruitment in critical areas where agency staff are most utilised, with the recent ADASS MoU on agency rates setting a helpful mitigation to the cost of staff going forward. In addition, the Principal Social Worker is creating relationships with universities, and seeking to set out a pathway for bringing in manageable levels of newly qualified social workers to complement existing numbers of experienced staff. This is expected to reduce agency numbers and/or vacancies by 5 posts per year.

(d) Additional controls over remaining agency spend (i.e. ensuring long-term agency staff are required to take equivalent leave of permanent roles and work a maximum of 36 hours a week). Again, in ASCm working with HR colleagues, data is being provided on annual leave by agency staff, which is currently only determined from the absence of timesheets submitted. This information will be reviewed monthly by managers and more robust tracking of leave is expected from September 2022.

In F&CR, Management will hold posts vacant for a longer period in order to reduce the overspend. This is visible in the Property Services, Directorate Finance Teams and Audit reductions. It has also identified other non-essential spend savings in 7 services which total £145k.

2.28 The Corporate Leadership Team will continue to consider further measures to reduce spend and report back in future OFPs. It is noted, for example, that specific measures have been identified in the high-spending areas of Adult's and Children's to bring down costs and the impacts will be factored into the forecast as and when then these materialise. Furthermore, additional one-off provisions were made as part of the budget setting process in relation to demand-led pressures and pressure on suppliers as a result of the NIC increase. At this stage these have not been applied in their entirety to the overspend position. Further consideration will be given to this as we get a better picture of the forecast as the year progresses.

2.29 The Council faces considerable challenges in implementing the nationally negotiated pay deal for 2022/23 which will impact our financial position, both in the current year and going forward. As has previously been advised in the 2022/23 Budget Report, the current year's budget factors is an assumption of a 2 per cent pay increase.

2.30 In August, the Employer side made a flat rate offer of £1,925 for all staff which according to modelling by London Councils translates into £2,355 for an inner London borough. The cost to the General Fund of the adjusted employer proposal, including on-costs, is estimated to be £10.956m, while the cost to the HRA is an estimated £2.154m. In the 2022-23 general fund budget we have £4m set aside for the award and so if the award costs £11m there will be a shortfall of £7m. This will be funded from the budget contingency and one-off reserves. Obviously if the award is higher then the deficit will be higher.

2.31 Looking beyond 2022/23 it is highly likely that pay claims will continue to exceed what is affordable for the sector with Government Funding unlikely to increase anywhere near enough to meet such increases or indeed other ongoing demand pressures.

2.32 The financial position for services in August is shown in the table below

Table 1: Overall Financial Position (General Fund) August 2022

Revised Budget	Service Area	Forecast Variance After reserves	Change in Variance from last month
		£k	**£k**
92,359	**Children and Education**	1,568	438
125,276	**Adults, Health and Integration**	5,243	121
27,382	**Climate, Homes & Economy**	1,406	147
20,813	**Finance & Corporate Resources**	1,515	(47)
15,376	**Chief Executive**	(379)	(98)
52,652	**General Finance Account**	0	0
	Sub Total	**9,353**	**561**
	One-Off Cyberattack Costs	**4,503**	**39**
333,858	**GENERAL FUND TOTAL**	**13,856**	**600**

Table 2: Funding

	Forecast Variance Before Reserves
	£000
GENERAL FUND TOTAL	13,856
LESS CYBER SET ASIDE	-2,500
LESS CYBER RESERVE	-2,000
LESS SAVING FROM SEPTEMBER 2022 REDUCTION IN NI RATE	-500
LESS COST PRESSURES SET ASIDE	-1,000
NET OVERSPEND	**7,856**

2.33 It should be noted that we are forecasting full achievement of the 2022/23 budget savings and the vacancy savings, although CHE is looking at mitigating actions to offset the possible non-achievement of £165k vacancy rate savings in Community Safety, Enforcement and Business Regulation.

Cost of Living Crisis

2.34 As the Council feels the pressure of rising inflation and interest rates, and increased fuel costs, so do our residents. Hackney already had high levels of poverty, this has worsened during the pandemic and now poverty is entrenching and more people are falling into difficulty. A cost of living crisis disproportionately impacts lower income groups, as more of their income goes on essential costs. Nationally, there is no coherent policy relating to poverty or the cost living crisis. The response from the markets will also have a greater negative impact on lower income groups as living costs go up even more and any financial support will be worth less than a few months ago. Furthermore, we are now concerned about an even greater range of groups becoming impacted, including those with high mortgages and any business affected by the value of the sterling

2.35 We will seek to play our part in helping residents with the cost of living crisis, but our response was already limited, and the situation has become even worse, as outlined above. The Council's updated Poverty Reduction Framework which was adopted by the Council in March 2022 forms the basis of our response. The actions we take are discretionary, although central government has awarded Councils funding through the Household Support Fund to distribute to residents, under strict conditions about spend.

2.36 The Poverty Reduction Framework has three priorities:

1. Prevention, early years and early help
2. Tackling low wages and cost of living
3. Responding to the material needs of poverty

2.37 The Framework identifies three specific areas of action to respond to the material needs of poverty and the cost of living crisis, that are built on making the best use of existing resources and ensuring any additional resources are directed as effectively as possible - these are emergency support, community partnerships and income maximisation. As these measures will be less impactful than a few months ago, we are more than ever reliant on the whole system that supports residents. This is why alongside this support, we are working with health partners and community partners on one plan to identify impacts and identify all the actions that Council partners and services can take. Health partners will be investing in the response outlined through the integrated care system. We are also working with London Funders to devise a London wide response, recognising the cumulative social impact this will have.

2.38 In terms of emergency support, we are simplifying existing financial support provided to our residents, and improving reach and take up. This will include:

- **A single point of entry,** where residents would only have to apply once to be considered for a range of financial support schemes.
- Use of our systems and data to **prompt proactive offers** of financial support, rather than waiting for residents to come to us. **Reduction in evidence threshold** for applications to funds, or switch to using data we already hold rather than asking residents to resubmit
- **Simple multi-agency models** to provide holistic wrap-around support to residents.

In terms of the financial support the Council is able to offer to residents through these processes, £150,000 is set aside per annum through the Hackney Discretionary Crisis Support Scheme (HDCSS). In addition, we also support residents having temporary difficulty meeting housing costs through the discretionary housing payments (DHPs) and of course we have also rolled out the Government's scheme to support residents with rising fuel costs. Spend this year in these areas is as follows:

- Discretionary Housing Payments - £744k paid out by the end of September 2022
- Hackney Discretionary Crisis Support Scheme - £63k paid out as at the end of September 2022
- CTRS Discretionary Hardship Scheme - £300k paid out as at the end of September 2022
- Fuel cost related rebates - Standard £150 Council Tax Rebates paid to 98,436 recipients with £14.7m paid out; and discretionary schemes £422k paid out to 12,361 recipients as at the end of September (primarily the £30 top-up scheme)

We have currently paid out £14.7m, which exceeds the allocation by £375k (2.6%)

2.39 A further £2.8m of Household Support Fund has been awarded for October 2022 to March 2023. This grant is similar to what was the Covid Local Support

Grant (previously Winter Grant), with similarly rigid restrictions on how the funding can be spent, which limits the potential. This time, there is no longer a rigid ring fencing around which groups can benefit. The Household Support Fund should primarily be used to support households in the most need with food, energy and water bills.The response from October 2022 is outlined below: :

- **Children and families 0-19:** Support primarily via vouchers for children on free school meals or those identified by local providers in the statutory and voluntary and community sector or Children's Centres (including the Orthodox Jewish community) and in local colleges. Support also via Children's Social Care.
- **Older people - 50 +**: package of cash support for pensioners to help with food, fuel and essentials, designed with and working with a range of partners and also linked to the single point of entry outlined above.
- **Help with housing costs and bills for people at risk of homelessness or homeless**: in temporary accommodation, supported living or hotels - identified by Benefits and Housing Needs - support averages £244.

2.40 The Community Partnerships Network is a broad network of community organisations which was developed during the pandemic response as a way of building local systems of support which make the best use of available resources when responding to the needs of residents. We are now:

- Developing the Community Partnership Network to support community organisations to work in partnership to most effectively support residents - including seeking to boost their volunteer base, food supplies and administrative capacity
- Providing strategic and operational support to the local food response

From 2022/23, we are spending a greater share of the Community Grants budget, £1m out of a £2.5m budget in recognition of the impacts of the pandemic that have increased demand and we continue to work closely with advice providers to ensure that they are working preventatively to resolve issues for residents.

2.41 I propose to provide regular updates across these areas as part of the OFP report to Cabinet.

3. RECOMMENDATIONS

3.1 Approve GLL and the Council continuing to implement decarbonisation and energy saving initiatives that, where possible, do not impact on the customers experience of the leisure centres;

3.2 Approve the Council using its existing Leisure Management Contract surplus share in conjunction with the other recommended options as a fund that can be drawn down from to ensure the Contract remains cost

neutral or in a small surplus to minimise the impact of fees and charges increases on leisure centre customers; and

3.3 Approve the introduction of a 4% increase in all leisure centre fees and charges, with the exception of concessions that will remain at their current level, as soon as possible (giving 30 days notice to leisure centre customers). Then, if necessary and required, introduce a further fees and charges increase of 5.4% on 1 April 2023, with the exception of concessions that would remain at their existing level, as part of the annual fees and charges process.

3.4 Approve the principles and process for determining Council intervention to support struggling VCS organisations as set out in Appendix 3

3.5 Approve the use of £198,000 from the voluntary sector grants programme reserves and underspend for the award of grants in 2022/23

3.6 Delegate authority to approve the grant awards for intervention to the Head of Policy and Strategic Delivery in consultation with the Cabinet Member for Health, adult social care, voluntary sector and leisure

3.7 Note that the Council will be distributing a further £2.8m Household Support Funding to households in the most need with food, energy and water bills.

3.8 Note that Hackney has recently joined the Co-Operative Councils Innovation Network.

3.9 Note the update on the overall financial position for August covering the General Fund and HRA

4. REASONS FOR DECISION

4.1 To facilitate financial management and control of the Council's finances and to implement the leisure centre, and voluntary and community centre organisations support recommendations

5.0 DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

5.1 This budget monitoring report is primarily an update on the Council's financial position. On the Leisure Centre Contract proposals the options considered are set out in section 6 in **Appendix 1.**

5.2 With regards to the VCS support proposal, the reductions in public spending through welfare cuts and reduced grants to local government, the impact of the pandemic and the ongoing cost of living crisis has led to increased demands upon the VCS. These factors have also had a significant impact on the finances of VCS partners, particularly small, local organisations. The unique position of the VCS means that it is able to respond to the needs of the most vulnerable and disadvantaged residents and to specific challenges in regards to community cohesion. The loss of VCS organisations will have both direct and indirect consequences for the Council and other statutory agencies as support for our residents is reduced. As a result there is no other option than to enable intervention. Failure to do so would allow closures to progress unmanaged which could have significant consequences for Council services and budgets but also the high level of community cohesion enjoyed in Hackney.

6.0 BACKGROUND

6.1 **Policy Context**

This report describes the Council's financial position as at the end of August 2022. Full Council agreed the 2022/23 budget on 2nd March 2022.

6.2 **Equality Impact Assessment**

Equality impact assessments are carried out at budget setting time and included in the relevant reports to Cabinet. Such details are not repeated in this report.

The Equality impact of the leisure centre proposals are set out in **Appendix 2** and those of the VCS proposal are set out in **Appendix 3**

6.3 **Sustainability and Climate Change**

As above

6.4 **Consultations**

Relevant consultations have been carried out in respect of the forecasts contained within this report involving the Mayor, the Cabinet Member for Finance, Heads and Directors of Finance and Service Directors through liaison with Finance Heads, Directors and Teams.

6.5 **Risk Assessment**

The risks associated with the Council's financial position are detailed in this report.

7. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

7.1 The Group Director, Finance and Corporate Resources' financial considerations are included throughout the report.

8. COMMENTS OF THE DIRECTOR OF LEGAL, DEMOCRATIC AND ELECTORAL SERVICES

8.1 The Group Director, Finance and Corporate Resources is the officer designated by the Council as having the statutory responsibility set out in section 151 of the Local Government Act 1972. The section 151 officer is responsible for the proper administration of the Council's financial affairs.

8.2 In order to fulfil these statutory duties and legislative requirements the Section 151 Officer will:

(i) Set appropriate financial management standards for the Council which comply with the Council's policies and proper accounting practices and monitor compliance with them.

(ii) Determine the accounting records to be kept by the Council.

(iii) Ensure there is an appropriate framework of budgetary management and control.

(iv) Monitor performance against the Council's budget and advise upon the corporate financial position.

8.3 Under the Council's Constitution, although full Council sets the overall budget, it is the Cabinet that is responsible for putting the Council's policies into effect and responsible for most of the Council's decisions. The Cabinet must take decisions in line with the Council's overall policies and budget.

8.4 Paragraph 2.6.3 of FPR2 Financial Planning and Annual Estimates states that each Group Director in charge of a revenue budget shall monitor and control Directorate expenditure within their approved budget and report progress against their budget through the Overall Financial Position (OFP) Report to Cabinet. This Report is submitted to Cabinet under such provision.

8.5 Article 13.6 of the Constitution states that Key decisions can be taken by the Elected Mayor alone, the Executive collectively, individual Cabinet Members and officers. Therefore, this Report is being submitted to Cabinet for approval.

8.6 With regards to the Leisure Centre proposals, the Council commenced the Leisure Management Contract with GLL on 1 April 2009 for a period of 15 years. The Contract was extended in 2016 until 31 March 2029, as part of a wider renegotiation. The Contract extension in 2016 (the third Variation Agreement to the Contract) included a utilities risk sharing mechanism that made the following provisions:

(a) GLL will be responsible for the payment of all utility costs for the leisure centres, including consumption costs and all relevant environmental charges and on-costs;

(b) GLL will be responsible for increases in utility consumption over and above the base consumption level; and

(c) The Council will be responsible for increases in the tariff over and above inflation (as determined by the main Contract annual inflator mechanism) only up to the base consumption figure.

8.7 This provision in the Contract means the Council would be responsible for all utility tariff increases over and above inflation - which based on current Contract annual inflator mechanism, would be a significant financial sum based on existing forecasts if GLL wished to trigger this Contract provision. Under the Financial Procedure Rules in Part 4 of the Council's Constitution any changes in all fees and charges and the introduction of new fees and charges shall require Cabinet approval.

8.8 Under the General Scheme of Delegation to Officers, paragraph E12 a Level 1 and Level 2 Officer can agree to the setting of fees and charges for services within an overall strategy approved by Cabinet.

8.9 The recommendations in paragraphs 3.4 to 3.6 of this Report concern the Council's Voluntary and Community Sector Grants Programme. Agreeing the award of grant aid from the voluntary sector grants programme is reserved to the Mayor and Cabinet under the Mayor's Scheme of Delegation (January 2017) so the awards in this Report will need to be approved by Cabinet.

8.10 The award of a grant is a discretionary function. The proposed grants from the Voluntary and Community Sector Grants Programme in this Report relate to those organisations who are struggling financially. Paragraph 2.2 i) of the Cabinet Procedure Rules states that "if the Elected Mayor delegates functions to the Cabinet, unless they direct otherwise, then the Cabinet may delegate further to ......an officer......". Therefore, subject to the approval of Cabinet, the Head of Policy and Strategic Delivery (in consultation with the Cabinet Member for Health, adult social care, voluntary sector and leisure) is permitted to award the Grants in paragraph 2.6 of this Report.

8.11 All other legal implications have been incorporated within the body of this report.

9. CHILDREN AND EDUCATION

Revised Budget	Service Area	Forecast Variance After reserves	Change in Variance from last month
£k		**£000**	**£000**
92,359	Children and Education	1.568	439

9.1 **The Children and Families Services (CFS)** CFS are forecasting a £1.568m overspend as at the end of August 2022 after the application of reserves totalling £4.45m and after the inclusion of the Social Care Grant allocation of £8.5m. The main driver for the movement of £0.44m in the forecast this month was thirteen new clients across CFS being factored into the forecast until the end of the financial year. As has been the practice since the grant was announced in 2019/20, the Social Care Grant allocation for both children's and adult social care has been split equally across both services. This financial year the grant was increased by a further £636m nationally and this has meant the Council has received a total of £17m this year, which represents a £4.3m increase on the previous year. Children's Services and Adult Social Care have each been allocated £8.5m respectively, and this has been fully factored into the current forecast.

9.2 There is a gross budget pressure in staffing across Children and Families Services (CFS) of £1.6m. Following the Ofsted inspection in November 2019, £1.6m of non-recurrent funding was agreed for 2020/21 to increase staffing levels to manage demand alongside additional posts to respond to specific recommendations from the inspection. In 2021/22, this additional £1.6m of staffing resource was funded from the corresponding increase in the Social Care Grant allocation. This resource continues to be factored into the forecast, and proposals are being developed by the Group Director and Director to review the staffing structure across the service. The expectation is that the implementation of the new structure will take place from October 2023.

9.3 The main areas of pressure for CFS continue to be on **looked-after children (LAC) and leaving care (LC**) placements costs, with £0.47m of the increase this month within this area due to thirteen new placements across this service. Corporate Parenting is forecast to overspend by £1.083m after the use of £2m commissioning reserves, largely driven by a change in the profile of placements linked to the complexity of care for children and young people coming into the service. Similarly, Looked After Children & Leaving Care Services is expected to overspend by £0.18m after the use of £0.6m reserves, and this relates to an increase in commissioning costs and some staffing costs pressures linked to additional posts and agency staff usage. This financial year we have seen a reduction in residential placements, however this month this has increased to 32 placements. We are expecting a further reduction in young people stepping down from residential placements in the next six months.

9.4 **Disabled Children's Services** are forecast to overspend by £0.16m after the use of £0.5m reserves, and this is largely due to an increase in demand for placements in direct payments (including short breaks) due to higher usage amongst families to provide respite and prevent the need for further intervention.

9.5 **The Access and Assessment and Multi Agency Safeguarding Hub** have an overspend of £0.12m primarily related to increased staffing costs for maternity cover and agency premiums due to a significant proportion of Social Workers leaving the Council towards the end of the last financial year. The Workforce Development Board has a rolling Social Worker recruitment process which should address the agency premium costs, through permanent appointments.

9.6 **Hackney Education (HE)** is forecast to overspend by around £4.59m. The underlying overspend across the service is £5.94m, and this is partially offset by mitigating underspends of £1.46m. The main driver is a £5.41m pressure in SEND as a result of a significant increase in recent years of children and young people with Education Health and Care Plans (EHCPs), and this increase is expected to continue in 2022/23. SEND Transport has had corporate budget growth awarded to the service of £1.1m this year, however the service is still forecasting a £0.7m pressure. This is partly due to increased activity coupled with increased fuel prices. Given the volatility of fuel prices, this area will be monitored closely throughout the year. Other areas of overspend are within Education Operations for the Tomlinson Centre (£0.26m) and Children's Centre income collection (£0.28m), and both overspends are mainly as a result of reduced usage for services post-pandemic.

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9.7 **Savings for Children's Services** Savings for Children's Services include £200k for Clinical Services from increased contributions from NEL CCG towards health costs within the service; £100k from joint funding towards complex health and social care packages; and a review of early help services designed to reduce costs by £350k this year. The saving for early help services of £350k will not be achieved fully this year and mitigating non-recurrent funds have been identified. It has been challenging to disentangle the Young Hackney contract from the support Prospects provides. The removal of the contract without a coherent alternative service in place is likely to see performance dip through increases in our children not in Education Employment or Training (NEET). Timeframes to remodel the service have also been impacted by changes in staff across Hackney Education and Employment and Skills with the Head of Service for Employment and Skills post, which was a key resource to enact the changes being vacated. Savings for Hackney Education are £117k to be delivered from merging the HE reception with the HSC, and a review of traded teams. This saving is on track to be delivered this financial year.

9.8 **Vacancy rate savings** A vacancy rate savings target of £1.754m has been set for the directorate in 2022-23 (£0.9m for Children and Families and £0.85m for Education) and the forecast assumes that this will be achieved. Progress against the target is carefully monitored and tracked by the C&E Senior Management Team and this will continue to be monitored closely and reported through this monthly finance report.

9.9 Many of the **financial risks** to the service that were present in 2021-22 continue into 2022-23. One of the main risks for the directorate is the cost of living and fuel price crisis, and the potential impact that it will have on the cost of service delivery going forward. It is difficult to estimate the impact that the cost of living crisis will have across services, however we can expect care providers to seek greater inflationary uplifts to care placements than in previous years. In Education, the trend data does illustrate that taxi fares within SEND transport are experiencing increased rates for journeys.

9.10 **SEND** - there is also uncertainty around the DSG high needs deficit and the treatment of any deficit post 2022/23. The brought forward SEND deficit in 2022/23 is circa £13.9m, based on current forecasts this will increase to circa £18.4m by the end of this financial year. This remains a risk for Hackney in the event there is no further funding provided by the Department for Education (DfE) to mitigate this balance. Hackney is included in Tranche 2 of the Delivering Better Value (in SEND) programme which aims to help local authorities maintain effective SEND services, however the programme aims to provide assistance on deficit recovery actions rather than provide direct funding to address the deficit, hence the potential risk to the Council. Senior officers have held an introductory meeting with representatives of the DfE in respect to the format and workstreams of the programme, with the detailed work due to commence from January 2023.

9.11 **Management Actions to reduce the overspend,** in addition to budgeted savings further cost reduction measures have been developed for 2022/23. For CFS, management actions of £1.5m have been identified and these are factored into the forecast when delivered. These include reductions in the number of residential placements (£1m); forensic review of the top 20 high cost placements (£0.3m); placement management business support review (£0.1m); and review of agency spend through tighter controls with the Head of Service and greater challenge through WfDB (£0.1m). For Hackney Education, the focus of cost reduction measures this year will be through further development of in-borough SEND provision and reviewing SEND transport eligibility. The cost reduction proposals will be monitored on a monthly basis highlighting delivery against these indicative targets. Detailed plans continue to be developed for these proposals, and these will be part of monthly discussions at C&E SMT. It is essential that the service delivers against these plans.

9.12 **Non-Essential Spend**. To reduce non-essential spend, the service will continue with the previous measures to control spending introduced in the Summer of 2021 For Children's and Education, the measures in place and to be developed include:

- **Increased controls on non-essential spend (non-essential spend to be determined by Group Directors of their respective directorates).** Opportunities to investigate and limit non-essential expenditure will continue this financial year. Monthly budget monitoring takes account of expenditure within areas such as supplies and services, indirect staff costs and professional fees with the aim of limiting the use of non-essential spend. The tracking of non-essential spend will be routinely shared with SLT's during the course of the year to review trends and ensure that all expenditure is necessary.

- **Increased controls on filling vacancies. Current processes to review the need for filling vacancies continue**. Requests to recruit within Education are submitted via a business case and require joint agreement by the Heads of HR and Finance before the initiation of any recruitment process. Within CFS, the high number of agency staff within the division allows for continual review of the establishment. Budget review meetings for key areas experiencing financial pressures such as Children in Need, DCS and Corporate Parenting review staffing in detail on a regular basis with the Director, relevant Head of Service and finance. In addition a wider review of CFS is expected to be completed this financial year.

- **Reduction in agency staff, for example, 20 per cent reduction on current level.** An overall target of £100k cost reductions within agency staff usage was achieved in 2021/22 and will continue this financial year. The London Pledge, a shared agreement on agency workers within London, is also expected to have a favourable impact on the rates offered to workers and overall cost.

- **Additional controls over remaining agency spend (i.e. ensuring long-term agency staff are required to take equivalent leave of permanent roles and work a maximum of 36 hours a week).** Communications to managers who supervise agency staff will be reinforced and a tracking system put in place to ensure that agency staff are taking annual leave and are working a standard day. Working with HR colleagues, a system to monitor compliance with this requirement will be implemented during quarter 3 of this financial year.

10. ADULT, HEALTH AND INTEGRATION

Revised Budget	Service Area	Forecast Variance After reserves	Change in Variance from last month
£k		£000	£000
125,275	Adults, Health and Integration (excl. Cyber)	5,243	122

10.1 Adult Social Care is forecasting an overspend of £5.5m (£5.243m before the Cyberattack) after the application of reserves of £2.4m and the inclusion of the Social Care Grant allocation of £8.5m. The Adults position has moved adversely by £0.25m this month, primarily driven by increased demand for external commissioned care services. As has been the practice since the Social Care grant was announced in 2019/20, the grant allocation for both children's and adult social care has been split equally across both services. This financial year the grant was increased by a further £636m nationally and this has meant the Council has received a total of £17m this year, which represents a £4.3m increase on the previous year. Children's Services and Adult Social Care have each been allocated £8.5m respectively, and this has been fully factored into the current forecast.

10.2 **Care Support Commissioning** is the service area with the most significant budget pressure in Adult Social Care - £2.9m. This service records the costs of long term care for service users, and the budget overspend reflects both the growth in client activity and increased complexity of care provision being commissioned. The forecast includes assumed NHS support of £1m towards ensuring efficient discharge of people from hospital and a total of £9.4m towards funding care costs for service users with learning disabilities.

10.3 **Provided services** forecast reflects an overspend of £1.7m against a budget of £9.2m. The overall budget pressure of £1.7m is made up primarily of an overspend within the Housing with Care (HwC) service of £2.3m offset by an underspend on day services of £0.6m. The HwC forecast overspend of £2.3m reflects both the impact of £1m of savings from 21-22 and 22-23 not yet forecast to be realised as well as high levels of staff sickness and the service engaging agency staff to cover these roles alongside additional capacity required to maintain the service. The majority of the day service underspend of £0.6m relates to the Oswald Street day centre which continues with a limited number of service users as a result of ongoing maintenance work needed at the premises in Oswald Street.

10.4 **Mental Health** position reflects an adverse movement of £0.5m this month, primarily due to increased demand within long term mental health care services. The overall position now reflects a £1.2m budget overspend, and is largely attributed to an overspend on externally commissioned mental health care services. Adult services continue to work in collaboration with East London Foundation Trust to reduce this budget overspend as part of the agreed cost reduction measures.

10.5 **Preventative Services** reflects a favourable movement of £0.2m this month, primarily due to a number of agency staff contracts ceasing. The overall position reflects a budget underspend of £0.4m, which is primarily attributable to the following: workforce budget pressures of £0.2m within the Integrated Discharge service, Taxicard Scheme budget overspend of £0.2m, offset by budget underspends across the Interim bed facility at Leander Court (£0.3m) and Substance Misuse (£0.3m) linked to lower then expected demand for these services.

10.6 **Care Management and Adult Divisional Support** is forecasting a budget overspend of £0.1m, which is primarily due to workforce pressures linked to maintaining staff capacity due to staff absences (maternity cover and sickness).

10.7 This directorate is coordinating the council response to the Homes for Ukraine scheme enabling Hackney residents to offer a home to people fleeing Ukraine. There is government support for the costs being incurred under this scheme and so no cost pressure of the scheme is currently forecast. This will continue to be carefully monitored.

10.8 **Public Health** is forecasting a breakeven position, and this forecast includes the delivery of planned savings of £0.5m. During the Covid-19 pandemic Public Health activity increased significantly, specifically around helping to contain the outbreak in the local area, and this saw some reductions in demand-led services due to the implementation of national restrictions. Post pandemic, demand-led services continue to be carefully monitored by the service to ensure service provision remains within the allocated Public

Health budget in the current financial year and future financial years. Hackney mortuary reflects a favourable movement of £135k this month, primarily due to revised estimates for the council contribution to the coroners cost. The overall budget position is now forecast to breakeven.

10.9 Adult Social Care has **savings** of £1.45m to deliver in 2022/23. Savings related to efficiencies of housing related support contracts (£650k); the promotion of direct payments (£50k); and increased care charging (£250k). All of these savings are on track to be delivered this financial year, and are factored into the forecast. Savings plans related to Housing with Care schemes (£500k) have not been developed sufficiently to deliver this amount in year. The saving against the Housing with Care schemes is part of £1m of wider savings across 2021/22 and 2022/23. There will be part mitigation (£400k) by further efficiencies within housing related support contracts this year but this currently results in a real cost pressure this year of £600k. Contract negotiations are currently underway with commissioned providers, and the service is confident that further mitigations will be identified throughout the year. Public Health has savings of £0.5m to deliver through a review of public health activities that deliver outcomes for the Council. This saving is on track to be delivered this financial year.

10.10 **A vacancy rate savings target** of £0.453m has been set for the directorate in 2022-23 and the forecast assumes that this will be achieved. Progress against the target is carefully monitored and tracked by the AH&I Senior Management Team and will continue to be monitored closely to ensure any risk to this target being achieved is reported through this monthly report including any mitigation measures.

10.11 **Risks.** Many of the financial risks to the service that were present in 2021-22 continue into 2022-23. The cyberattack continues to have a significant impact on a number of key systems across the local authority. There is a clear project plan to restore the social care system, and the intention is that the system will be restored from early November 2022. £0.3m is reflected in the forecast as the cost of additional staff to mitigate the impacts of this risk. In Adult Social Care, this risk is in relation to monitoring and capturing the cost of any additional demand for care, as the social care system (Mosaic) which holds and records this information remains inaccessible.

10.12 Reforms related to the cost of care and care-market sustainability present a significant financial risk. The risk relates to the impact of changes to the cap on care costs changing (both an annual cap and a lifetime cap) and the ability of more people becoming eligible to seek support for care costs from the council. The financial size of this risk is being evaluated. The council has been allocated £948k of funding towards market sustainability in 2022/23 - most of which will be passed onto providers of care and £116k to begin planning and preparations for charging reform.

10.13 One of the main risks for the directorate is the cost of living and fuel price crisis, and the potential impact that it will have on the cost of service delivery going forward. It is difficult to estimate the impact that the cost of living crisis will have across services, however we can expect care providers to seek greater inflationary uplifts to care placements than in previous years.

10.14 The current forecast includes only existing service users and does not include any potential costs arising from additional demand above estimated initial demographic growth assumptions. Year-on-year, the forecast increases by approximately 10% which represents an additional cost in the region of £5m and this is factored into the forecast as it materialises

10.17 **Management Actions to reduce the overspend,** In addition to budgeted savings, further cost reduction measures have been developed for 2022/23. For Adult Social Care, management actions of £1m have been identified and these are factored into the forecast when delivered. These include continuation of the multi-disciplinary panel process (£0.25m); working with ELFT to manage the Mental Health overspend (£0.35m); double handed care package review (£0.2m); direct payment monitoring of accounts (£0.1m); and review of agency spend through tighter controls with Head of Service and greater challenge through the Workforce Development Board (£0.1m). The cost reduction proposals will be monitored on a monthly basis highlighting delivery against these indicative targets. Detailed plans continue to be developed for these proposals, and these will be part of monthly discussions at AH&I SMT. It is essential that the service delivers against these plans.

10.18 **Non-Essential Spend**. In the May 22 budget report it was agreed that previous measures to control spending introduced in the Summer of 2021 will continue. For Adults, Health and Integration, the measures being explored at this stage include:

- *Increased controls on non-essential spend (non-essential spend to be determined by Group Directors of their respective directorates)*. Controls were set in place during 2021/22 and remain. Monthly budget monitoring ensures that non-essential spend, primarily linked to training and office supplies, are monitored. Training budgets are planned to be brought into a single cost centre during 2022/23, which will ensure that there is no duplication of training across teams and a more equitable and consistent access to mandatory or essential training

- *Increased controls on filling vacancies*. Controls were set in place during 2021/22 and remain. In addition, work completed on the establishment list has provided clarity on roles and vacancies, which provide assurance that only established posts going forward can be filled, except in exceptional circumstances as agreed by the director. This extends to those posts in ELFT, where a post number has to be provided prior to recruitment.

- *Reduction in agency staff, for example, 20 per cent reduction on current level.* Plans have been set in place for rolling recruitment in critical areas where agency staff are most utilised, with the recent ADASS MoU on agency rates setting a helpful mitigation to the cost of staff going forward. In addition, the Principal Social Worker is creating relationships with universities, and seeking to set out a pathway for bringing in manageable levels of newly qualified social workers to complement existing numbers of experienced staff. This is expected to reduce agency numbers and/or vacancies by 5 posts per year.

- *Additional controls over remaining agency spend (i.e. ensuring long-term agency staff are required to take equivalent leave of permanent roles and work a maximum of 36 hours a week).* Working with HR colleagues, data is being provided on annual leave by agency staff, which is currently only determined from the absence of timesheets submitted. This information will be reviewed monthly by managers and more robust tracking of leave is expected from September 2022.

11.0 Climate Homes and Economy (CHE)

Revised Budget	Service Area	Forecast Variance After reserves	Change in Variance from last month
£k		£000	£000
27,382	Climate, Homes and Economy excl. Cyber	1,406	147

11.1 The directorate is forecasting an overspend of £1.6m (£1,406m excluding the Cyberattack), following the use of £2.5m of reserves. This is an increase of £0.147m on the July forecast. The main areas of overspend for the directorate are in Planning, Community Safety, Enforcement and Building Regulation, and Environmental Operations.

11.2 **Planning Services** are forecasting a £1.1m overspend mainly relating to a continued level of income below the budget. The underlying overspend in Planning Services is primarily related to Planning Application fees and Building Control fee income, which has seen a steady decline over the past three years. There is also a shortfall of £185K in land charges income which is due to the continuing impact of cyberattack on the services. The shortfall in planning application fee income is linked to a decline in the number of very large major applications being received rather than a significant fall in overall planning application numbers for the past 3 - 4 years. This has further resulted in a reduction in the CIL and s106 income due to delays of schemes starting construction. There has been an increase in Planning Performance Agreement income which is now meeting its budgeted income levels.

11.3 The income target for minor applications is also forecast not to be achieved. It should be noted that the cost of determination of minor applications is more than the income received as Local Authorities have not yet been afforded the option by the Government of setting their own fees. In practice, major applications help subsidise minor applications therefore the shortfall in new major applications detrimentally affects this cross-subsidy and worsens the financial position.

11.4 **Building control** has a forecast shortfall of income of £140k reflecting a slowdown in the construction market.

11.5 **Community Safety, Enforcement and Business Regulation** is forecasting an overspend of £268K. This overspend is due to the ongoing requirement to deliver the vacancy factor savings in the service. All the enforcement teams are fully staffed there is maternity leave and long term illness to cover. In addition, the service is retaining a post to cover ongoing COVID-19 related administration. The Head of Service continues to review budget lines to identify opportunities to mitigate the overspend.

11.6 **Environmental Operations** is forecasting an overspend of £236k. This is an increase of £118k since the July forecast. With regards to the increasing service costs pressures the Head of Service is developing a number of proposals to improve the efficiency of service operations to deliver the vacancy factor saving without adversely impacting the service. There are also other potential pressures on budgets on the horizon with several supplier contracts for bag purchases, weed spraying, bins purchasing etc due for renewal and suppliers are currently trying to override existing prices due to their own costs increasing. Commercial waste income streams are nearly at the pre pandemic levels to mitigate the impact of these cost increases. A detailed review of the budget lines will be undertaken over the coming months to quantify the risks and identify mitigations to reduce the overspend.

11.7 While **Streetscene** is forecasting a (£92k) underspend, there is a significant risk that is emerging and may need to be addressed. Recharging the cost of transport engineers who work our highways and traffic schemes is reliant on TfL funding; funding agreement clarity is due to be confirmed at the end of September and it is expected to be much less than recent years. This results in a £685k pressure on staffing which may not be covered by recharges to capital projects. The Head of Streetscene is keeping a watching brief on the TfL funding availability to ensure that the service can respond quickly to funding announcements and maximise the amount of money to fund schemes across the borough. There is also an emerging risk that the cost of living crisis could affect the income budgets within Parking, Markets and Streetscene as people spend a larger proportion of money on energy and less elsewhere.

11.8 **Parks & Green Spaces** are forecasting a £48k over spend, which is an increase of £35k on the July position. The main driver to this overspend are water charges which have come through to the service. These are being challenged as they are significantly higher than previous years and the reasons for the increase need to be verified. The service is seeing an increase in fuel costs due to the new contractricing but this is being funded by allocation from the Energy Price increase provision.

11.9 The directorate is on target to achieve its **Savings** plans of £2.9m. However, the staff saving in Community Safety, Enforcement and Business Regulation has impacted the delivery of the ongoing vacancy factor savings by £165k. The Head of Service is reviewing budget lines to identify non essential spend savings to mitigate the overspend.

11.10 **Risks**

The table below sets out the budget risks for 2022/23

	Amount £000
Inflation on vehicle fuel - further impact	300
Decline in TfL funding impacting capitalised salaries in Streetscene	685
Delivery of vacancy factor savings in Environmental Operations	500
Total Risk	**1,485**

11.10 There is a further inflation risk which may impact the forecast outturn, which relates to the cost inflation on utilities in our Leisure Centre's. Through a partnership with GLL we operate 7 sport and leisure centres on a zero management fee basis and, despite the impacts of the pandemic still continuing, the Contract returned to a small surplus in 2021/22. GLL was anticipating that this positive trajectory would continue in 2022/23. However, the financial forecast for the Contract has changed markedly over recent months with the significant escalation in utility prices and growing uncertainty over the future of the energy market. GLL are now predicting that the Contract is likely to fall into deficit in 2022/23 due to forecast increased utility costs of £2.2m and in line with the Contract's terms, the Council is liable for the risk relating to utility price increases. A consideration of this issue is set out in paragraphs 2.9 to 2.13 above and the recommendations 3.1 to 3.3 and put forward to Cabinet to mitigate this risk.

11.11 **Management Actions to reduce the overspend include** Heads of Services are currently reviewing their overspends and working to identify strategies to mitigate the level of overspend. Strategic Directors will review all service areas to hold non essential spend to mitigate the overspending areas. These will be reflected in future forecasts.

12.0 F&CR

Revised Budget	Service Area	Forecast Variance After reserves	Change in Variance from last month
£k		£000	£000
20,813	Finance & Corporate Resources (Excl. Cyber)	1,515	-47

12.1 F&CR are currently forecasting an overspend of £1,515m, excluding cyberattack costs.

12.2 **Energy Forecast.** The increase in energy prices has had a significant impact on the council. The table below shows the effect on 3 services that have significant usage of electricity and gas. The £1.8m cost pressure will be funded by a specific budget set aside in respect of this risk.

Service Area	Gas		Electricity		Total
	Forecast	Change from Last Month	Forecast	Change from Last Month	Total Change
Strategic Property	270,507	184,329	617,563	390,237	574,566
›ft Facilities Management	273,065	167,065	1,162,471	614,371	781,436
Housing Needs	290,592	240,592	260,775	230,775	471,367
Total F&R	**834,164**	**591,986**	**2,040,808**	**1,235,383**	**1,827,369**

12.3 **Financial Management and Control** are currently reporting an overspend of £408k. a most of which relates to the cyberattack in particular the delay in the debt team realignment (£250k) and additional staffing

12.4 **Strategic Property** is currently forecasting an overall overspend of £486k, an improvement of £158k compared to last month. The service has decided to hold various posts vacant until January 2023 in order to reduce the overspend. The rise in energy prices had an impact of £575k but this has been offset by reserve usage.

Commercial Property are forecasting an overspend of £728k which mainly relates to the under recovery of income. The Head of Service has highlighted a high risk of tenants negotiating more rent free periods and deferred rent as the market is still very fragile and believes the pressure here could increase further.

Corporate Property and Asset Management (CPAM) & Education Property
CPAM is forecasting an underspend of (£222k) and Education (£27k) mainly due to holding posts vacant until early next year.

12.5 **Housing Benefits** are currently forecasting an overspend of £1.1m as a result of the additional agency staff required to work on the backlog of work as part of Cyber recovery (initially 7,700 cases of under/ overpayment of benefits, reduced to 5,000). The agency forecast is currently £1.75m, of which £750k can be absorbed by the underspend on permanent staff due to vacancies. This is an increase of £0.1m from July

There is a risk that there will be a deficit on the Net Cost of Benefits (NCOB) for 2022/23 resulting from the Cyberattack and Covid19 which produced a backlog of cases and delayed the recovery of overpayments. NCOB is the difference between what we pay out in Housing Benefits and what we receive back from the Government through subsidy. Because of the backlog there is a risk that we may lose housing benefit subsidy as we are likely to breach the subsidy error threshold (over a certain error level - the threshold - subsidy is reduced). This pressure is subject to ongoing review and could change significantly (up or down) as we get more up to date information throughout the year. There is also lower than usual cash recovery - the backlog has prevented us from taking recovery action to recover overpayments, which has added to the NCOB deficit. The risk is currently estimated to be £4m and if this materialises, it will be funded from historic grant balances.

12.6 **Revenues** are currently forecasting an overspend of £1.8m. The overspend relates to the following:

- £0.8m off-site resources required to access and process the backlog of outstanding work across Council Tax and Non Domestic Rates using the Council's existing software systems Comino (document imaging) and Academy (revenues system) due to Cyber.
- £0.3m relates to the ongoing need for additional staff in the Customer Services Contact Centre who are working on the increase in the level of customer calls relating to council tax as a result of Cyber.
- The remaining £0.7m relates to lost income in court costs as a result of Cyber, which has significantly reduced legal action across the service. The expectation remains that legal action will not re-commence until, at the earliest, the start of 2023.

12.7 **Registration Services** are currently forecasting an underspend of £150k, which is a favourable movement of £146k on the July forecast, and is a result of a revised income forecast.

12.8 **Housing Needs** are currently forecasting an overspend of £0.6m after a reserve drawdown of £971k. This is an unfavourable movement of £0.1m on the July forecast. The £0.6m relates to pressures on security costs as a result of; an increase in the number of hostels, and the increase in the need for 24 hour security. There are pressures within temporary accommodation net rental expenditure, however, at this point it is expected that this can be absorbed within the additional £1.6m Homelessness Prevention Grant funding received for 2022/23. However, there are risks that it will become increasingly difficult to place residents in Inner London accommodation, resulting in out of London placements, which have a higher net expenditure which could impact this forecast. Additionally, it is expected that nightly paid accomodation costs and PRS (private rented sector) costs will increase due to the current increase in the costs of living. This is currently under review and any changes will be factored into future forecasts.

12.9 **ICT** are currently forecasting to overspend by £1.52m after a reserve drawdown of £185k. This is an adverse movement of £128k compared to last month primarily due to specialist consultancy required to fill the gap in senior management.

ICT Corporate are currently reporting an overspend of £1.52m after a drawdown from reserves. The overspend is mainly due to £741k for Cyber projects and the ongoing AWS costs. Fortnightly meetings have been set up with finance to provide an update on how the service intends to reduce the key overspend causes.

Financial Management Systems are currently reporting an underspend of £40k for 2022/23.

Hackney Education ICT are currently forecasting an overspend of £40k which is significantly less than 21/22 due to the service being wound down.

12.10 **The Directorate Finance Team** are currently reporting an overspend of £17k. There is an £80k increase in costs due to the delay in the restructure as a result of Cyber, however the majority of the overspend has been offset by vacant posts across the service.

12.11 The Directorate is budgeting to make £1.92m of £2.17m **Savings** in 2022-23. The £250k non delivery relates to the delay in the debt team realignment as a result of Cyber.

12.12 **Risks.** Potential financial risks within F&R, where the forecast may see increases in the coming months are :

- Cyber Work - ICT and Customer Services Recovery of Systems
- Net Cost of Benefits - Loss of subsidy from Local Authority (LA) error & increase in the Bad Debt Provision (BDP)
- Repairs and Maintenance Costs exceeding the budget
- Energy costs
- Rental expenditure in Temporary Accommodation

12.13 **Management Actions.** Management will hold posts vacant for a longer period in order to reduce the overspend.

13.0 Chief Executive

Revised Budget	Service Area	Forecast Variance After reserves	Change in Variance from last month
£k		£000	£000

15,376	Chief Executive	-379	-98

13.1 The Chief Executive's Directorate is forecasting an underspend of £379K following the use of £1.9m of reserves. This is an improvement of £98K in the position since the July forecast. The main reason for the underspend is due to vacancies in Legal Governance and Election Services.

13.2 **Libraries & Heritage** are forecasting a £43k overspend which is caused by non delivery of income target (room bookings etc) and additional premises operational costs. The budgets are reviewed with the service on a monthly basis to try and mitigate areas that are overspending.

13.3 **Legal, Governance and Election Services** are forecasting an underspend of £328K which reflects a number of vacancies across the service. The service is achieving its vacancy factor and will be recruiting to vacant posts over the coming months. The forecast assumes that posts will be filled over the autumn and winter.

13.4 **Savings**. The directorate is on target to deliver the approved savings.

13.5 A summary of **risks** to the service going forward are:

- Not achieving budgeted income from our venues operations due to the impact of the cost of living crisis.
- Not achieving the external income target of £500K in legal services. Due to the slowdown in the development activity across the borough the income generated from capital recharges, property and S106 agreements fell in 2021/22 - this may continue through 2022/23. The service has a number of vacancies at the moment which is mitigating this risk,

13.6 **Management Actions.** Whilst the directorate is not forecasting an overspending position, the Directors and Heads of Service will continually review their budgets to identify opportunities to reduce reserve use and mitigate any potential income shortfalls that may arise as the year progresses.

14.0 HRA

14.1 The HRA is forecasting an overspend in net operating expenditure of £9.530m. However, the forecast overspend can be brought back into balance by a reduction in Revenue Contributions to Capital Outlay (RCCO). We are able to use £9.530m of the £10.712m RCCO budget to mitigate the overspend because we are not delivering a full capital programme in 2022/23 due to the delay in the procurement of the Housing Maintenance main contracts. Without a full capital programme in 2022/23 the RCCO is not required and therefore can be released. However, the backlog of maintenance work will be required in future years and management action is needed to reduce the level of operating expenditure to enable investment in existing housing stock.

14.2 The major variances are:

Income

- Under recovery of other charges for Services and Facilities of £177k, due to the cyberattack the invoicing of major works to leaseholders has been delayed and therefore the income expected from the major works admin fee has been reduced.

Expenditure

- Housing Repairs has a projected overspend of £2.7m, which is due to an increase in reactive repairs, material costs and an increase in legal disrepair cases.
- The Forecast overspend for Special Services, £4.9m, is mainly due to increasing energy prices. The cost of Gas and Electricity have been rising globally over the past year. Current forecasts estimate a 90% increase in cost arising from the new contract prices resulting in a significant overspend. There are also overspends in estate cleaning and lift servicing and repairs.
- The Supervision and Management of £891k overspend is due to 24hr security costs at a high rise building and the use of Temporary Accommodation by Housing Management.
- Rents, Rates Taxes and Other charges variances due to an increase in Council tax and Business rates.
- Provision for Bad and doubtful Debts is forecast to overspend by £500k, due to increased commercial property and Housing rent arrears following a slow recovery from the pandemic.
- RCCO has been reduced to offset the variances within the revenue account due to a reduced capital programme.

Appendices

Appendix 1: - Leisure Centre Contract Report
Appendix 2: - Leisure Centre Contract Equality Impact Assessment
Appendix 3 - Support for VCS Report - Principles and Process

Background documents

None.

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