

THE COUNCIL'S BUDGET: MEDIUM TERM FINANCIAL FORECAST 2022/23 - 2026/27

Cabinet Members	Councillor Ian Edwards Councillor Martin Goddard
Cabinet Portfolios	Leader of the Council Finance
Officer Contact(s)	Paul Whaymand, Finance
Papers with report	Appendix A: General Fund Budget Proposals Appendix B: HRA Budget Proposals Appendix C: Proposed Amendments to Fees and Charges

HEADLINES

Summary	<p>This report sets out the Medium Term Financial Forecast (MTFF), which includes draft General Fund and Housing Revenue Account budgets for 2022/23, presented in the context of the Council's five-year budget strategy to 2026/27.</p> <p>Budget proposals for 2022/23 include a 2.8% increase in the headline rate of Council Tax. This comprises a core Council Tax increase of 1.8% alongside a 1% increase relating to the Adult Social Care Precept.</p> <p>Cabinet are requested to approve publication of this draft budget for consultation with Select Committees and residents during December 2021 and January 2022. Following consultation, Cabinet will be asked to consider final budget proposals in February 2022 for presentation to Full Council for final approval.</p>
Putting our Residents First	<p>This report supports the following Council objectives of: <i>Our People; Our Natural Environment; Our Built Environment; Our Heritage and Civic Pride; Strong Financial Management.</i></p> <p>The Medium Term Financial Forecast is the financial plan for the Council and contains the funding strategy for delivering the Council's objectives.</p>
Financial Cost	<p>This report outlines a balanced budget for the 2022/23 financial year, on the basis of a 2.8% increase in the headline rate of Council Tax.</p>
Relevant Select Committee	All
Relevant Ward(s)	All

RECOMMENDATIONS

That Cabinet approves for recommendation to Council:

- 1) **Approve the draft General Fund and Housing Revenue Account budgets and capital programme proposals for 2022/23 (as detailed in Appendices A and B) and beyond as the basis for consultation with Select Committees and other stakeholders.**
- 2) **Approve the proposed amendments to fees and charges included in Appendix C, as the basis for consultation with Select Committees and other stakeholders.**
- 3) **Request the comments of individual Select Committees on the draft budget proposals relating to their areas of responsibility, to be collated into a single report back to Cabinet from the Corporate, Finance and Property Select Committee.**
- 4) **Note that Provisional Local Government Finance Settlement and Dedicated Schools Grant Recovery Plan Agreement are awaited from HM Government and the output from these will be factored into the final 2022/23 budget proposals to be considered by Cabinet in February 2022.**
- 5) **Note that the HRA Regeneration Scheme costs will be refined once a partner is appointed.**
- 6) **Authorise the Corporate Director of Finance, in consultation with the Cabinet Member for Finance, to respond on behalf of the Council to the consultation on the provisional Local Government Finance Settlement and to the Mayor of London's budget consultation.**

Reasons for recommendation

The recommendations have been framed to comply with the Budget and Policy Framework rules. They allow the presentation to Council of recommended budgets for 2022/23. This includes the impact on Council Tax, alongside housing rents and service charges.

The Council has powers only to approve revenue budgets and set Council Tax and housing rents for the following financial year. Medium term revenue budgets are presented to aid future financial planning and support good decision-making, with this document outlining Cabinet's budget strategy for the next five years. The Capital Programme is approved over a five-year period as the statutory framework provides greater freedoms under the Prudential Code to encourage a longer-term approach to capital financing and borrowing decisions.

If approved by Cabinet, these budget proposals will be presented to Select Committees and residents for consultation before being presented to Cabinet in February 2022 for

recommendation to full Council. Once approved by Council in February 2022 proposals will become effective immediately.

Alternative options considered / risk management

In order to comply with the Budget and Policy Framework, the Cabinet needs to publish a draft budget for consultation at this meeting. The Cabinet could, however, choose to vary the proposals set out in the report, with any amendments reflected in the papers consulted upon with Select Committees during January 2022.

The Corporate Director of Finance can give positive assurances on the robustness of estimates included within this consultation budget, which is based on established, rigorous business processes around robust financial modelling and closely aligned to service plans. Implementation of budget proposals will be closely tracked through the monthly budget monitoring processes during 2022/23.

Select Committee comments

A full report on the budget process, financial strategy and detailed budget proposals for the relevant Cabinet portfolios will be taken to Select Committees for review in January 2022, with feedback presented to Cabinet alongside the final budget report to Cabinet on 17 February 2022.

SUPPORTING INFORMATION

INTRODUCTION

1. This report provides an overview the Cabinet's budget proposals in respect of the Council's General Fund and Housing Revenue Account (HRA), alongside an update on the latest position on the Schools Budget which is being prepared alongside the development of a recovery plan which needs agreement from the Department for Education. Both General Fund and Housing Revenue Account budgets are presented for the purposes of consultation with Select Committees and residents, in advance of budgets for the 2022/23 financial year being presented to Cabinet and Council for final approval in February 2022.
2. The General Fund budget for 2022/23 has been prepared in the context of a five-year strategy, which incorporates the impact of a comprehensive review of capital investment plans and strategic savings programme in the context of greater certainty around future funding levels following the publication of the Chancellor's Spending Review in October 2021.
3. A similar approach has been adopted for the HRA, with the five-year strategy being complemented by a 30 Year Business Plan which demonstrates the long-term financial sustainability of the ring-fenced account and viability of the significant capital investment plans expanded upon the relevant sections of this report.

GENERAL FUND REVENUE BUDGET

BUDGET STRATEGY AND SUMMARY OF PROPOSALS

4. Budget proposals for 2022/23 have been prepared in the context of a wider strategy addressing the five-year MTFF period through which service expenditure is to be managed within available resources. This is to be achieved through a combination of delivering efficiency savings, manageable increases in the Council Tax, and Fees and Charges, while maintaining General Balances at 2021/22 levels.
5. This budget strategy is based upon strong foundations, with the latest monitoring position for the 2021/22 financial year reporting a net underspend of £419k which will leave uncommitted General Balances at £26,520 entering the 2022/23 financial year. Of the £10,416k savings within the 2021/22 budget, 79% are either already banked or track for delivery, with 12% at an earlier stage of implementation and potential risks on 9% - relating to the Leisure Centre management fee. Further information on this position is set out in the budget monitoring report also presented to Cabinet on this agenda, but it is expected that all 2021/22 savings will ultimately be banked in full.
6. Based on 1.8% per annum increases in the core Council Tax and 1% per annum increases in the Social Care Precept, funding available to support service expenditure is projected to grow by £32,034k to £270,279k between 2021/22 and 2026/27. A combination of inflation and demand-led pressures (including the on-going impacts of the COVID-19 pandemic), together with capital investment plans would require a £66,341k uplift in service expenditure. However, to date, a savings programme of £29,572k has been developed, enabling delivery of a balanced budget for 2022/23 and leaving a residual budget gap of £4,735k in later years of the MTFF period.

Table 1: Budget Strategy

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Total Resources	238,245	249,862	251,897	256,317	263,130	270,279
Total Service Expenditure	238,245	249,862	255,005	259,640	267,650	275,014
Budget Gap	0	0	(3,108)	(3,323)	(4,520)	(4,735)

7. A significant factor affecting the development of this budget strategy is the on-going impact of COVID-19 on Council services and finances, with pandemic related costs over and above planned service expenditure of £31,492k in 2020/21 and £18,710k in 2021/22. While these extraordinary costs have been financed from specific grants to date, it is not expected that further funding will be forthcoming and on-going structural pressures emerging from the pandemic of £7,098k are contributing towards the overall budget gap by 2026/27.
8. Notwithstanding the additional challenge presented by the pandemic, this budget strategy does not rely upon use of General Balances to support service expenditure and therefore maintains these at £26,520k over the five-year MTFF period. A review of the range of

general risks affecting the Council indicates that the recommended level of uncommitted reserves should be between £15,000k and £32,000k.

9. In addition to General Balances, the Council holds Earmarked Reserves to manage specific risks, projects and cyclical expenditure commitments. At 31 March 2022, these are projected to total £30,185k, with £11,162k of this sum held to manage COVID-19 costs. This strategy limits budgeted releases from Earmarked Reserves to £10,108k, with £2,660k of previously planned releases and £7,448k COVID-19 funds being drawn down, leaving £20,077k of Earmarked Reserves on the balance sheet. Of this remaining balance, £4,164k is held to meet potential future COVID-19 costs.
10. This draft budget outlines £383,070k of proposed capital expenditure – including substantial investment in local infrastructure, a new leisure centre and delivery of significant additional SEND capacity in the borough’s schools – of which £121,746k is to be financed through borrowing.
11. Taken together with historic capital spending, this investment will result in the Capital Financing Requirement peaking at £311,768k in 2025/26 and declining thereafter. Of this peak borrowing requirement, £273,484k is expected to necessitate external borrowing, with £38,285k being financed through General Fund reserves and working capital.
12. The following sections of this report and appendix A provide further commentary and analysis to support the General Fund budget strategy, before returning to the Schools Budget and Housing Revenue Account in turn.

FUNDING SOURCES

13. General funding available to support the Council’s service expenditure is projected to grow from £238,245k in 2021/22 to £270,279k by 2026/27, an uplift of £38,563k across Council Tax, Business Rates and Government Grants offset by unwinding reliance on one-off funding sources including balances to leave a net increase in resources of £32,034k by 2026/27. The following table and commentary provide an overview on each of these funding streams, with Appendix A2 providing detailed projections.

Table 2: Funding Sources

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000	£'000
Council Tax Revenues	126,539	132,337	138,399	143,890	149,580	155,477
Business Rates Income	55,105	56,513	57,798	58,955	60,133	61,335
Corporate Grant Income	50,072	55,716	54,655	53,472	53,417	53,467
Total Recurrent Funding	231,716	244,566	250,852	256,317	263,130	270,279
Collection Fund Deficit	540	(617)	(490)	0	0	0
Local Council Tax Support Grant	2,734	0	0	0	0	0
Release of COVID-19 Reserves	834	5,913	1,535	0	0	0
Planned Use of General Balances	2,421	0	0	0	0	0
Total One-Off Funding	6,529	5,296	1,045	0	0	0
Total Resources	238,245	249,862	251,897	256,317	263,130	270,279

14. Income from Council Tax is projected to grow by £28,938k over the period to 2026/27 as a result of inflationary uplifts in the headline rate, further use of the Social Care Precept and growth in the taxbase. Below inflationary increases of 1.8% per annum have been factored into this budget, which together with 1.0% per annum increases in the Social Care Precept in line with the Government's approach to managing demand in this area. Together, these increases secure £20,051k of additional funding to meet growing demand and inflationary pressures.
15. The remaining £8,887k additional income from Council Tax is driven by growth in the tax base as a result of 5,060 Band D equivalent properties from new residential development in the borough over the next five years and a 20% reduction in demand for the Council Tax Reduction Scheme as the economic impact of COVID-19 unwinds. Projections for new development represent a 6% increase in the number of homes in the borough, a growth rate which remains consistent with recent experience, while reflecting both planned new development in the borough and medium-term population projections.
16. Business Rates revenues are projected to grow by £6,230k, primarily as an element of the COVID-19 related drop in income during 2020/21 and 2021/22 is recouped through economic recovery alongside a smaller contribution from inflationary increases in sums paid by liable businesses. Under the Business Rates Retention Scheme, the Council retains circa 15% of locally raised income, with the remainder being distributed between the Government, Greater London Authority and other local authorities.
17. Future grant funding levels are yet to be confirmed for individual local authorities, with the Provisional Local Government Finance Settlement published in December 2021 expected to provide this detail for the current Spending Review Period to 2024/25. While individual allocations are yet to be confirmed, the October 2021 Spending Review provides an indication of the overall quantum of funding for the local government sector which informs the £3,395k increase in grant funding over the MTF period factored into this draft budget.

18. Projections for grant funding incorporate the £1.5bn per annum additional funding announced by the Chancellor in the recent Spending Review, which is expected to fund the 1.25% increases in Employer's National Insurance (to support the NHS and Social Care Reform) while contributing towards management of current inflationary pressures and an element of the legacy costs of COVID-19. Further funding of £3.6bn grant over the three years to 2024/25 was also announced by the Chancellor to support the introduction of an £86k cap in personal care costs from October 2023. No allowance for this Social Care funding has been made within this draft budget, on the assumption that it will be required to meet the costs of implementing the new national policy.
19. There remain a number of areas of uncertainty regarding future funding levels, the most salient of these include:
 - i. The delayed review of the formula for distribution of grant funding between local authorities by the Department for Levelling Up, Housing and Communities is expected to marginally benefit Hillingdon as a result of the borough's higher than average population growth since the distribution method was last reviewed for 2013/14. The progress of this review will continue to be closely monitored, in particular around the potential impact of the levelling up agenda.
 - ii. Alongside the formula review, a reset of the Business Rates Retention system is planned which would redistribute growth secured since 2013/14. As Hillingdon has delivered strong growth over this period, this would be expected to adversely impact funding levels, which would probably eliminate any gains arising from distributional changes.
 - iii. Prior to the COVID-19 pandemic, pooling of Business Rates income across London secured additional income and on occasions has thus been beneficial to Hillingdon. This may offer similar such opportunities in the future and hence will be held under continuing review and scrutiny.
 - iv. The legacy impact of COVID-19 on local tax income, primarily in relation to demand for the Council Tax Reduction Scheme and for those businesses most acutely impacted by the pandemic will continue to be closely monitored. Of particular significance in this area is the aviation sector, with circa 50% of the Council's Business Rates linked to Heathrow Airport.

SERVICE EXPENDITURE

20. Service expenditure will grow due to inflationary pressures, demand-led growth and other corporate items including capital financing costs. The below table sets out the impact of these expenditure movements across the Council's Cabinet Portfolios.

Table 3: Cabinet Portfolio Service Expenditure 2021/22 to 2026/27

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000	£'000
Property & Infrastructure	6,478	6,817	6,901	5,675	5,748	5,821
Finance	16,745	17,756	18,257	18,513	18,983	19,469
Public Safety and Transport	1,927	1,058	487	314	124	(83)
Corporate Services and Transformation	25,305	25,451	25,916	26,506	27,115	27,741
Environment, Housing & Regeneration	30,228	30,240	30,175	30,765	31,340	31,899
Families, Education & Wellbeing	14,441	14,828	14,338	14,375	14,559	14,739
Health & Social Care	128,778	140,845	145,229	147,642	153,286	159,144
Corporate Operating Budgets	14,343	12,424	15,374	18,226	20,011	20,800
Cross-Cutting Initiatives	0	443	(1,672)	(2,376)	(3,516)	(4,516)
Total Service Expenditure	238,245	249,862	255,005	259,640	267,650	275,014

21. The drivers behind these expenditure changes, alongside the draft savings programme, are expanded upon in the following section.

Inflation

22. Inflationary cost pressures of £35,112k are projected against 2021/22 expenditure over the period to 2026/27, with material uplifts shown in relation to workforce budgets, care placements, contracted expenditure and energy costs. In line with wider MTFF modelling, inflation projections are predicated on CPI exceeding 4% during 2022/23 before returning to the Bank of England target rate of 2%. The following table and commentary provide an overview of this requirement, with further detail set out in Appendix A3.

Table 4: Inflation Provision

	2021/22 Budget £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Workforce Expenditure (including Pension Contributions)	127,310	6,351	2,613	2,047	2,076	2,105
Social Care Placements	102,339	2,529	2,592	2,656	2,722	2,789
Contracted Expenditure	44,732	1,935	1,245	1,172	1,214	1,257
Energy & Fuel	3,344	987	217	227	239	250
Other Expenditure	13,256	242	264	270	275	282
Less: Externally Funded Items	(24,077)	(681)	(688)	(674)	(691)	(710)
Budgets Out of Scope of Inflation	(28,659)	0	0	0	0	0
Total Inflation Requirement	238,245	11,363	6,243	5,698	5,835	5,973

23. The workforce expenditure inflationary requirement is estimated to be £15,192k or 11.5% over the five-year budget strategy, which incorporates three discrete elements. Nationally negotiated pay settlements of 9.75% over the five-year period, including a level of front-loading to reflect the current spike in general inflation and the awaited outcome to 2021/22 pay award negotiations. Provision of 1.25% from 2022/23 to meet increased Employers' National Insurance Contributions in the form of the Social Care Levy, and a further 0.5% uplift in Local Government Pension Scheme contribution rates as agreed in the latest triennial valuation of the Hillingdon fund.
24. Inflationary increases of 2.5% per annum have been added to Social Care Placements in order to reflect upward pressure on wages within the sector, with this level of uplift being consistent with that experienced in recent years. Inflationary increases on general contracted expenditure are expected to track with the 2.0% target rate of inflation in the medium-term, with an additional uplift factored into 2021/22 to reflect current conditions. Across both care placements and other contracted expenditure, budgeted uplifts will be held centrally and released to departmental budgets on confirmation of contractual requirements.
25. Exceptional inflation provisions of 35% and 14% respectively have been included for energy and fuel budgets in 2022/23, reflecting current market conditions, with inflation requirements in the medium term projected at 5% per annum. Given current market volatility, this area will remain under close review and where possible mechanisms to minimise cost increases and/or minimise volatility will be investigated.
26. Other inflation requirements relate primarily to levies payable to other public sector bodies, Business Rates payable on the Council's property portfolio and added years pension costs, all of which are expected to track with the headline rate of inflation in the medium term. For 2022/23, no inflation has been applied to Business Rates in line with the freeze confirmed by the Chancellor in Spending Review 2021.

27. In a number of areas, an element of inflationary cost pressures can be directly recouped from external funding sources, such as external grants, partner organisations and self-funding social care service users. Over the period to 2026/27, such mechanisms are expected to reduce the net cost of inflation by £3,444k.

DEMAND-LED GROWTH

28. Demand-led service projections relate to Council services where the financial impacts are driven by demand levels, and in some services, the markets in which those services are procured. These items are projected to add £24,932k or approximately 20% to the £101,118k budget for these functions in 2021/22, with this movement expanded upon below and in Appendix A4.

Table 5: Demand-led Growth

	2021/22 Budget £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Waste Disposal Levy & Contracts	14,867	610	469	600	600	600
Support for Looked After Children	12,567	2,794	476	359	430	690
Support for Children with Disabilities	2,738	122	127	132	132	132
SEN Transport	9,857	1,276	750	720	720	720
Adult Social Care Placements	58,278	5,739	1,117	1,117	1,117	1,117
Homelessness Prevention	2,323	0	0	0	0	0
Asylum Funding Shortfall	488	625	1	14	0	0
COVID-19 Impact on Fees & Charges	0	1,626	0	0	0	0
Total Demand-led Growth	101,118	12,792	2,940	2,942	2,999	3,259

29. An uplift of £2,879k is projected on waste disposal costs, with circa 2% per annum growth in waste tonnages and 2% per annum disposal costs driving this sustained increase in costs, although there remains scope for volatility in both demand and price. Provision has been included within this budget to manage the requirement for additional vehicles and collection routes to account for population growth within the borough.
30. The COVID-19 pandemic has resulting in a step change in numbers of Looked after Children, which has historically seen growth of circa 4% per annum, although requires an uplift of 13% in 2022/23 to take account of significant and sustained growth from 2020/21. Over the medium-term growth rates are projected to return to circa 4% per annum and necessitate an uplift of £4,749k in budgets by 2026/27, this sum also makes provision for additional staffing support to manage increased number of clients. Numbers of Children with Disabilities are expected to grow in line with historic trends, adding a further £645k to the cost of this service. As a result of increasing numbers of children being supported by an Education, Health and Care Plan (EHCP), demand for SEND Transport is expected to grow

by £4,186k by 2026/27 to finance transport to education settings within and outside the borough.

31. Underlying demand for the Adult Social Care Placements is projected to continue to grow over the MTFF period, which together with a COVID-19 driven step change being incorporated into budgets from 2022/23 onwards will necessitate £10,207k additional spending by 2026/27. This step change has been driven by two factors, firstly the need for social distancing has led to a lower level of outreach and reablement services, leading to an increase in demand for homecare services and secondly, the pandemic has led to an acceleration in the demand for Mental Health services, which were already facing challenges pre-pandemic.
32. No additional provision for homelessness prevention has been incorporated into this budget, as current levels of specific grant funding for the service are sufficient to manage demand, although, in line with other demand-led service budgets this will continue to be closely monitored.
33. While direct costs of supporting Unaccompanied Asylum-Seeking Children (UASC) are predominantly met through specific grant, an increase in demand linked to age disputed assessments and the National Transfer Scheme has necessitated additional investment in staffing and spending of independent age assessors. In the absence of further funding being made available by the Home Office, this will necessitate a £640k uplift in the locally funded spending.
34. In some service areas, changes in service user behaviour, for example reduced demand for commuter parking as flexible working increases, have resulted in historic income targets no longer being sustainable. Realigning these income targets has added £1,626k to the net cost of service delivery in 2022/23.

CORPORATE ITEMS

35. Adjustments to centrally managed or cross-cutting elements of the Council's budgets are presented within Corporate Items are projected to add £6,297k to service expenditure by 2026/17, with the servicing and repayment of borrowing undertaken in support of capital investment representing the most significant element of this movement. These adjustments are summarised below and within Appendix A4 of this report.

Table 6: Corporate Items

	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000
Capital Financing Costs	1,590	1,735	1,706	694	488
Flexible Use of Capital Receipts to finance Service Transformation	0	0	965	0	0
Hillingdon First Enabling Developments	0	0	(1,000)	0	0
Cost of Older People Discount	(99)	(92)	(85)	(80)	0
Earmarked Reserves use for Older People Discount	99	(92)	1,422	0	0
Concessionary Fares Rebate	(2,228)	1,105	514	874	0
Unwind Council Tax Hardship Allowance	(1,271)	0	0	0	0
Housing Benefit Subsidy (Recovery of Overpayments)	100	100	100	100	100
Movement in Added Years Pension Costs	(25)	(25)	(25)	(25)	(25)
General Contingency	(323)	0	0	0	0
Total Corporate Items	(2,157)	2,731	3,597	1,563	563

36. Capital investment plans set out within this budget will require £121,746k borrowing over the period to 2026/27, the servicing and repayment of which will add £6,213k to the capital financing budgets over this period. In addition, the planned switch of funding from capital to revenue for the Council's embedded transformation resources will contribute a further £965k to service expenditure from 2024/25. The pipeline of developments for Hillingdon First Limited is expected to secure additional income of £1,000k per annum from 2024/25 through the delivery of high-quality housing.
37. With the Council Tax Older People's Discount Scheme closed to new entrants, the cost of providing this discount is expected to decline over the medium-term, albeit that this will no longer be financed from Earmarked Reserves from 2024/25 onwards, resulting in a net £1,073k addition to service expenditure.
38. The consequential impacts of reduced tube and bus usage by those residents making use of the Freedom Pass both during, and after, the pandemic is projected to result in rebates from Transport for London in respect of the Concessionary Fares Levy. The combination of migration of claimants to Universal Credit and real time information sharing with the Department for Work and Pensions are expected to result in a £500k reduction in income recouped through the Housing Benefit Subsidy System by 2026/27. In addition, legacy added years pension payments are projected to decline by £125k over the same period.
39. The Council maintains a General Contingency to meet unforeseen pressures and manage emerging risk items, which had been held at £823k in 2021/22. This sum is to be reduced by £323k to £500k from 2022/23 onwards.

SAVINGS PROGRAMME

40. Savings proposals totalling £10,381k have been developed for 2022/23, delivery of which will secure a balanced budget for the financial year. In addition, outline proposals are being developed for subsequent financial years, with £19,191k measures identified to date, reducing the outstanding budget gap to £4,735k or 2% of current service expenditure.
41. The following section of the report provides detail on specific proposals for 2022/23 and an overview of proposals for subsequent years (albeit that these will not be subject to approval until the budget is prepared for the relevant financial year), with appendix A6 provides a summary of savings proposals by Cabinet Member portfolio and theme.

Table 7: 2022/23 Savings Programme

	2022/23 £'000
Property & Infrastructure	61
Finance	450
Public Safety and Transport	1,754
Corporate Services and Transformation	1,380
Environment, Housing & Regeneration	2,003
Families, Education & Wellbeing	475
Health & Social Care	3,075
Cross-Cutting Initiatives	1,183
Total Service Expenditure	10,381

42. As shown in the table above and expanded upon in the following paragraphs, £10,381k savings proposals have been incorporated into the draft budget for 2022/23.
- i. Property & Infrastructure: Savings of £61k are planned from uplifts in Fees and Charges.
 - ii. Finance: An in-hand review of the Exchequer and Business Assurance function is expected to secure £200k efficiency savings, with a further £150k from further centralisation and streamlining of transactional financial process, and £100k from a range of measures to minimise damage to the Council's vehicle fleet.
 - iii. Public Safety and Transport: Efficiency savings of £200k are to be delivered from a Review of Parking Services, with £1,554k additional income arising from the review of Fees and Charges in this portfolio area.
 - iv. Corporate Services and Transformation: Efficiency savings of £500k are planned from the on-going Review of Technical Administration, primarily through increased automation of business processes, with a further £415k savings linked to an in-hand review of Customer Contact which is focused upon digitisation and channel shift activity. A further £300k savings are expected from Democratic Services following

implementation of the boundary review in May 2022, while £100k efficiency savings are planned from the BID Review of Business Support. Fees and Charges proposals are expected to secure £65k savings.

- v. Environment, Housing and Regeneration: On-going reviews across Green Spaces are expected to secure savings of £737k through improvements to operating models, contract management and maximising income where appropriate. Reduction in waste volumes through food waste and recycling initiatives are expected to secure savings of £550k, while a programme of activity around homelessness prevention is planned to secure £250k through more cost effective use of temporary accommodation, increasing supply and maximising grant income. In addition, Fees and Charges proposals are projected to secure £466k of additional income.
 - vi. Families, Education and Wellbeing: An in-hand review of the Libraries service is projected to deliver £250k of savings through maximising the digital offer to residents, reviewing the operating model to create bespoke services responding to the needs of the local community. In addition, a BID Review of the Early Years Operating Model is expected to secure £100k with £125k additional income linked to Fees and Charges proposals.
 - vii. Health and Social Care: A return to the pre-pandemic delivery model for care, with Homecare provision being supported by community and outreach services with a strong focus on reablement, is expected to deliver improved outcomes for clients while securing a saving of £1,508k. A number of measures have been developed to secure efficiencies through procurement and commissioning of support for Looked after Children, which together with identification of efficiencies within the service are expected to secure £1,229k. Delivery of additional in borough SEND school places is expected to secure £188k savings through reduced transport spend. In addition, £150k savings are expected to be delivered through the recently implemented Stronger Families Programme, where early intervention can reduce the need for care placements and secure better outcomes for clients.
 - viii. Cross-Cutting Initiatives: A review of the Council's senior management structure is expected to deliver £608k savings, with a further £500k savings expected to be secured from future reviews and £75k additional income planned from reviewing advertising opportunities across the borough.
43. While savings proposals beyond 2022/23 are outside the immediate scope of this budget, outline proposals are being developed and provide a level of assurance that the Council will be able to deliver balanced budgets over the medium term. As set out in the table below, a further £19,191k of proposals are in development for potential implementation from 2023/24, bringing total savings by 2026/27 to £29,572k.

Table 8: Medium Term Outline Savings Programme

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Service Transformation	4,390	3,263	4,819	1,140	1,000
Effective Procurement	979	0	0	0	0
Managing Demand	2,346	1,454	1,606	11	136
Income Generation & Commercialisation	2,666	2,054	1,177	1,236	1,295
Total Savings by Theme	10,381	6,771	7,602	2,387	2,431

44. Service Transformation proposals totalling £14,612k reflect the expected outputs from the BID programme, which is built around a number of key objectives:
- i. The impact of more fundamental business process reengineering through a revised approach to digital customer contact/ channel shift and the roll out of robotics to back-office processes.
 - ii. The modernisation and reshaping of service delivery models including moving towards more integrated service hubs, and more efficient and effective service offerings.
 - iii. The streamlining and refocussing of Council management structures and then associated staffing structures through further BID reviews.
 - iv. Maximising use of assets, alongside a strategic review of the capital programme and its financing.
45. Measures to manage demand continue to be focused on early intervention and similar approaches intended to secure improved outcomes for residents at the same time as securing reductions in the cost of service delivery. Examples in this area include continuation of the focus on reablement, in-borough provision of SEND places and the Stronger Families Programme beyond 2022/23, alongside a review of the Mental Health pathway within Adult Social Care.
46. Income Generation and Commercialisation measures reflect a continuation of the approach taken in 2022/23 to managing Fees and Charges, with annual inflationary uplifts and application of benchmarking techniques to identify areas for further review.

CAPITAL PROGRAMME (2021/22 to 2026/27)

Capital Expenditure

47. Capital investment of £383,070k over the period 2021/22 to 2026/27 has been incorporated into the wider General Fund budget strategy set out within this report, with £215,689k investment in major projects, primarily delivering new or expanded infrastructure, and £158,464k investment in recurrent programme of works, ensuring that existing infrastructure is maintained and improved. An overview of these investment plans is detailed below, with further detail available in appendix A8.

Table 9: General Fund Capital Programme by Cabinet Portfolio

	Major Projects £'000	Programme of Works £'000	Total £'000
Property & Infrastructure	145,473	49,856	195,329
Finance	0	8,485	8,485
Public Safety and Transport	5,596	66,496	72,092
Corporate Services and Transformation	0	5,166	5,166
Environment, Housing & Regeneration	0	9,740	9,740
Families, Education & Wellbeing	64,620	4,683	69,303
Health & Social Care	0	14,038	14,038
Total Service Expenditure	215,689	158,464	374,153
Contingency	0	0	8,917
Total Capital Programme	215,689	158,464	383,070

48. Property and Infrastructure: £145,473k investment in new and expanded infrastructure features £36,670k on the new Yiewsley Leisure Centre due to complete in 2024/25, £35,000k on the redevelopment of the Uxbridge Civic Centre to provide a modern base for Council services and release land for housing delivery or other uses, £26,501k spending on replacement outdoor leisure facilities to replace those displaced by HS2, £25,000k investment in initiatives to reduce the borough's carbon footprint and £20,000k funding for Hillingdon First Limited to deliver high quality homes. In addition, major projects to deliver new libraries in Yiewsley and Northwood as part of wider developments, and a range of new investment in other Council assets have been included in this budget.
49. Complementing major projects investment is £49,856k programme of works spend, including £22,168k works to improve the fabric of the borough's existing schools, £ 11,739k investment in adaptations for residents through the Disabled Facilities Grant Programme and cyclical renewal of the Council's existing asset base, ensuring that this remains fit for purpose.
50. Finance: Capital investment of £8,485k focuses upon the programmed renewal of the Council's vehicle fleet.
51. Public Safety and Transport: Major projects include the continued investment in shopping parades across the borough, alongside £65,245k investment in the borough's road network and transport infrastructure and £1,251k funding to renew and replace the Council's CCTV network.
52. Corporate Services and Transformation: Funding of £3,966k for the cyclical replacement and upgrade of critical ICT infrastructure and £1,200k investment in the Older People's Initiative.

53. Environment, Housing and Regeneration: Investment in the Chrysalis Programme, alongside a range of other environmental projects and funds to manage the cyclical renewal of playgrounds across the borough.
54. Families, Education and Wellbeing: Major projects focused upon continuation of investment in school places, including £53,716k funding for delivery of SEND places, with programme of works spend supporting investment in youth provision and devolved schools capital.
55. Health and Social Care: Continuing investment in Social Care equipment for service users.

Capital Financing

56. The above capital investment is to be financed from a range of sources, including government grants, developer contributions, capital receipts secured from disposal of surplus assets and borrowing. Where borrowing is utilised to support investment, resulting interest costs and ultimately repayment of loans will be met from the revenue budget, with appropriate provision having been made in the Corporate Items section of these budget proposals. The following table and commentary provide an overview of capital financing and resulting levels of borrowing.

Table 10: General Fund Capital Financing

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	Total £'000
Capital Expenditure	71,461	99,979	92,543	60,320	31,531	27,235	383,070
<u>Financed by:</u>							
Grants & Contributions	(24,155)	(44,803)	(32,604)	(29,637)	(13,810)	(11,037)	(156,046)
Community Infrastructure Levy	(6,500)	(3,750)	(3,750)	(3,750)	(3,750)	(4,500)	(26,000)
Capital Receipts	(6,918)	(13,625)	(30,872)	(16,977)	(8,501)	(2,385)	(79,278)
Prudential Borrowing	(33,888)	(37,801)	(25,317)	(9,956)	(5,470)	(9,313)	(121,746)

57. Grants available to support planned investment include Department for Education funds for investment in school places and condition works, Department of Health and Social Care monies routed through the Better Care Fund to support Social Care services, Transport for London funding for transport infrastructure and High Speed 2 Funding linked to the re-provision of outdoor leisure facilities. In addition, a number of smaller grants have been secured for specific projects and Section 106 contributions are applied to eligible expenditure.
58. As is the case with revenue grant projections, Spending Review 2021 has provided an indication of the likely quantum of funding available but formal allocations are expected to be received between December 2021 and March 2022. If funding allocations materially differ

from those outlined in the budget, recommendations will be presented to Cabinet to recast capital budgets as appropriate.

59. The Community Infrastructure Levy is available to meet the additional infrastructure requirements of new development in the borough, with a requirement that spending plans are approved annually for this funding stream. For 2022/23 it is proposed that the majority of the levy is applied to fund the new leisure centre being provided in Yiewlsey, with the community-led element being used to fund the Chrysalis Programme.
60. Projections for capital receipts are based on latest asset management plans, with substantial receipts expected to be generated through the planned reconfiguration of the Civic Centre site which will defray a significant element of the gross £35,000k capital budget.
61. Planned new borrowing of £121,746k, together with the Council's historic capital investment will result in the Capital Financing Requirement peaking at £311,768k in 2025/26 and declining thereafter. Of this sum, £273,484k is expected to necessitate external borrowing, with £38,285k being financed through General Fund reserves and working capital as outlined in the table below.

Table 11: General Fund Borrowing

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Capital Financing Requirement	252,131	284,803	299,441	307,525	311,768	300,877
Projected External Borrowing	(208,935)	(265,671)	(282,009)	(282,946)	(273,484)	(249,021)
Projected Internal Borrowing	(43,196)	(19,131)	(17,433)	(24,579)	(38,285)	(51,856)

62. The ongoing cost of servicing and repaying this projected Capital Financing Requirement has been factored into the Council's budget strategy, with new borrowing and associated repayments to be matched to useful life of relevant assets – estimated at 25 years. This level of investment and associated costs have been considered by the Corporate Director of Finance in the context of CIPFA's Prudential Code for Capital Financing and judged to be prudent, affordable and sustainable.

SCHOOLS BUDGET

In-Year monitoring position and background

63. At month 7, the Schools Budget is reporting an in-year deficit of £12,657k which represents a net £5,329k adverse movement from the original budgeted position. The cumulative deficit is therefore forecast to be £38,043k at 31 March 2022.
64. At the time of writing the Council is currently in discussion with the DfE on a Safety Valve Agreement with the objective of securing conditional funding that would allow the DSG deficit to be eliminated over the five-year MTFF period.
65. As in previous years the draft budget for the 2022/23 financial year will propose a transfer of funds from the schools block into high needs to mitigate an element of the growing pressure. This disapplication process will form part of the ongoing safety valve discussions.

Funding Outlook

66. The core assumptions for the 2022/23 DSG budget have been informed by the funding announcements issued by Central Government in July. These indicated favourable settlements for both the Schools and High Needs Blocks in 2022/23, however, in line with the process introduced in 2020/21 funding for the Central School services will decrease by a further 20% in 2022/23. The final funding settlements for the DSG are usually published in December alongside the wider local government settlement details and the detailed impact set out in the Schools Budget report.
67. The recent Spending Review announced further COVID recovery monies that were expected to be allocated directly to schools alongside a significant uplift in SEN capital funding. This latter element will support measures included within the Council's DSG recovery plan which are incorporated into the general fund capital forecasts.

Timetable

68. The final recovery plan submission within these Safety Valve discussions is due to be submitted in December. The plan will be subject to Department for Education to review with the final decision on whether to enter into a Safety Valve Agreement being made by the Secretary of State and it is expected that a decision will be reached by February 2022. If that is the case it will be possible to reflect the terms of the agreement in the final budget reports in February 2022.
69. If the proposals are agreed to by the Secretary of State, they will be reflected in a published agreement and will form the basis of the DSG MTFF going forward. The agreement will require the authority to implement reforms to the agreed timetable, whilst maintaining an agreed savings profile within a prescribed and robust monitoring regime. It will set out additional funding which the Department will release to support the reduction of the cumulative DSG deficit aligned to the savings profile. The achievement of these milestones

will be key to securing the release of further funding. The Schools Budget report will set out these proposals in detail in February.

HOUSING REVENUE ACCOUNT

BUDGET STRATEGY AND SUMMARY OF PROPOSALS

70. The HRA is a ring-fenced, self-financing account whereby rental income from the Council's 10,222 social housing units are reinvested in the management, maintenance and expansion of stock for the benefit for tenants. Underlying detailed budget proposals for the 2022/23 financial year and the period to 2026/27 is a 30 Year Business Plan, which demonstrates that over the longer term the HRA is financially sustainable and that proposed capital investment will maintain this position.
71. The HRA budget strategy over the MTF period is structured around three key work programmes:
 - i. Housing Supply – delivering more than 100 new homes per annum to support increasing demand for social housing in a growing borough.
 - ii. Estate Regeneration – delivery of 369 new homes across the Avondale and Hayes Town Centre estates, a net increase of 185 during the MTF period on the current configuration.
 - iii. Works to Stock – an enhanced programme of works on a five-year cycle.
72. Forward looking financial plans are based on solid foundations, with an underspend of £109k reported on the 2021/22 budget and unallocated reserves projected to total £15,292k at 31 March 2022. Given that £15,000k reserves are judged to provide sufficient capacity for risk management purposes, the budget strategy releases £292k to support capital investment and maintains unallocated reserves at the target level.
73. Over the period to 2026/27, measures to strengthen the regulatory regime for residents of Social Housing will necessitate additional capacity being created within Housing Services, with this budget outlining a range of efficiency savings to meet this cost and the additional capacity required to support the enhanced works to stock programme and major programme of capital investment.
74. Capital investment plans will result in the HRA Capital Financing Requirement reaching £335,062k in 2026/27, with both the budget strategy and 30 Year Business Plan demonstrating that the ongoing servicing and repayment of this level of borrowing can be sustained.
75. Further commentary on the HRA budget strategy is provided below, with detailed schedules included in Appendix B.

RENTAL INCOME

76. HRA Rental Income is projected to grow from £58,944k in 2021/22 to £73,510k by 2026/27, with this £14,566k increase in funding driven by a combination of inflationary rent increases and net growth of 500 dwellings as investment in delivery of new stock outstrips losses through Right to Buy sales. Annual rental increases continue to be based on CPI+1% in line with HM Government guidance, with provision of 1.35% included to allow for void units in 2022/23, declining to 1.0% over the MTFF period.
77. The table below provides an overview of projected changes in stock numbers, with new units being delivered through the capital investment plans expanded upon later in this report while units are sold under Right to Buy.

Table 12: HRA Stock Numbers

Tenanted Stock	2022/23	2023/24	2024/25	2025/26	2026/27	Change
Projected Opening Stock	10,222	10,242	10,501	10,496	10,713	N/A
Forecast Right-to-Buy Sales	(40)	(40)	(40)	(40)	(25)	(185)
New Units	100	100	100	100	100	500
Housing Regeneration voids	(40)	(7)	(65)	(6)	(66)	(184)
Housing Regeneration new build	0	206	0	163	0	369
Projected Closing Stock	10,242	10,501	10,496	10,713	10,722	500
Projected Average Stock	10,232	10,371	10,498	10,604	10,717	

INFLATION

78. Inflationary cost pressures of £6,065k are projected within the HRA, with material uplifts relating to workforce costs, materials in relation to repairs and maintenance works and energy inflation. Further analysis of the inflation requirement is presented in Appendix B2.
79. Workforce costs reflect anticipated pay awards of 9.75% over the MTFF period, including 8.25% inflationary pay awards, 1.25% additional National Insurance contributions and 0.5% uplift in Local Government Pension Scheme contributions rates. Material costs are projected to grow by RPI+2% in light of ongoing supply chain issues and energy budgets are projected to require exceptional uplifts of 35% in 2022/23 to reflect current market volatility before returning to 5% in the medium term.

CAPITAL CHARGES

80. Capital investment plans expanded upon later in this report necessitate £234,829k of new borrowing over the period to 2026/27, the ongoing servicing and repayment of which will add £4,781k to HRA service expenditure over the MTFF period.

GROWTH

81. Projections for service expenditure have been uplifted by £1,114k from 2022/23 to take account of changes in requirements placed upon the HRA by HM government and local policy decisions. Within this total growth figure, £373k of growth has been included to fund additional costs linked to the incoming Social Housing Regulator's expectations and consumer standards charter. In terms of local policy decisions, additional funding of £250k to reduce void levels from 1.35% to 1.00% over the medium term and £250k to facilitate efficient use of existing stock are expected to maximise housing supply. Further investment of £201k in additional workforce capacity to implement the enhanced programme of works and £40k to manage Council Tax costs on long term empty units have also been included.

SAVINGS

82. A programme of £1,114k of savings have been developed to fund the above growth items, with £500k secured through zero based reviews of service expenditure, £199k through an efficiency review of housing services and £352k from a range of further BID projects – including the impact of robotics in streamlining business processes.

CAPITAL PROGRAMME (2021/22 to 2026/27)

Capital Expenditure

83. Capital investment of £518,953k in expansion and enhancement of the housing stock over the period 2021/22 to 2026/27 has been fully reflected within this draft budget, including £325,034k funding to deliver 869 new dwellings gross and £193,919k investment in existing housing stock. Further detail on these investment plans can be found in Appendix B5, with a brief overview set out below.
84. Investment in new housing includes £126,708k budgets for the flagship regeneration projects on the Avondale and Hayes Town Centre estates which are expected to deliver 369 new homes, a net increase of 185 on the current configuration. A further £198,326k has been allocated to deliver 500 units through internal development and acquisitions, with project timelines set out to maximise use of retained Right to Buy receipts over the MTFP period.
85. £193,919k has been budgeted for an enhanced programme of works to stock, based around a five-year cycle and including renewal of key components such as kitchens, bathrooms, roofs, windows and boilers. Through these works and further investment in insulation measures, this programme of investment is intended to increase energy efficiency and thereby contribute towards tackling fuel poverty. Additionally, investment in major adaptations to properties will continue, ensuring that wider needs of HRA tenants can be supported in their own homes where appropriate.

Capital Financing

86. Planned capital investment is to be financed from a range of sources, including external grant funding, capital receipts, direct contributions from the rental income and borrowing. Overall financing plans are summarised below, with a brief overview and further commentary on the sustainability of borrowing plans.

Table 13: HRA Capital Financing

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	Total £'000
Revenue Contributions	31,806	19,652	21,172	21,201	22,110	22,741	138,682
Prudential Borrowing	21,698	37,171	52,449	34,956	44,631	43,924	234,829
Grants	7,243	13,061	6,312	13,398	11,083	13,018	64,115
Capital Receipts	8,578	7,983	12,367	21,974	18,748	11,677	81,327
Total	69,325	77,867	92,300	91,529	96,572	91,360	518,953

87. External grant funding has been secured in support of the estate regenerations schemes and a number of smaller development projects, together with external funding to support energy efficiency measures across the estate and Department of Health and Social Care monies being applied to support an element of the adaptations programme. The primary application of capital receipts is from the retained element of Right to Buy sales.
88. A substantial element of the cyclical investment in works to stock is financed directly from rental income, with borrowing focused on delivery of new housing units whereby servicing and repayment of this debt can be managed from additional rental income on the new units. Provision for the servicing and repayment of existing HRA borrowing and the £234,829k planning borrowing has been factored into the 30-year business plan, demonstrating that proposed investment is sustainable in the longer term. The outlook for debt levels of the MTF period are shown below.

Table 14: HRA Borrowing

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Capital Financing Requirement	173,363	200,638	242,844	267,466	301,665	335,062
Projected External Borrowing	(158,071)	(185,638)	(227,844)	(252,466)	(286,665)	(320,062)
Projected Internal Borrowing	(15,292)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)

RESIDENT BENEFIT & CONSULTATION

The benefit or impact upon Hillingdon residents, service users and communities?

89. The Medium Term Financial Forecast sets out the resources available for delivering the Council's objectives. The effects on residents, service users and communities are therefore extremely wide ranging and managed through the performance targets and outcomes that will be delivered through the resources approved through the budget setting process. The budget proposals for 2022/23 have been developed to maintain service provision through a 2.8% increase in the headline rate of Council.
90. This draft budget has been developed with due regard to growing demand and the impacts ongoing reductions in Government support for local services since the Government's austerity measures began in 2010, while minimising the impact on the level of service provision to residents. Overall, the package of proposals is designed to secure the most effective combination of service outcomes across the whole of the Council's business by improving Value for Money in delivery and maximising funding, procurement, efficiency and service gains where possible.
91. Proposals within this budget have been developed in the context of the Council's commitment to achieving carbon neutrality and 100% clean energy by 2030. In addition, projects within the Capital Programme will be further developed and implemented with a view to impacting favourably on the Council's carbon footprint.

Consultation carried out or required

92. Following consideration at Cabinet, this report will form the basis of consultation with Select Committees during January 2022. Comments from the Select Committees will be reported back to Cabinet by the Corporate Finance and Property Select Committee when Cabinet meets on 17 February 2022. Cabinet will then agree a set of budget proposals for recommendation to the annual Council Tax setting meeting of full Council on 24 February 2022.
93. The Council also has a statutory responsibility to consult on its budget proposals with business ratepayers in the Borough, which will be undertaken alongside a wider public consultation of these proposals during the remainder of December 2021 and January 2022. Schools Forum will also be consulted on those proposals that have a potential impact on schools budgets. Where appropriate, individual service Groups will also be undertaking consultation with service users, staff and other stakeholders over this period on the key elements of their service proposals prior to full implementation in the new financial year.

CORPORATE CONSIDERATIONS

Corporate Finance

94. This is a Corporate Finance report and corporate financial implications are noted throughout.

Legal

95. The Cabinet is responsible for the preparation of the Council's Budget. Therefore, the Budget and Policy Framework Procedure Rules, as set out in the Constitution, require it to make proposals on its budgets in accordance with the timetable which it has publicised.
96. The Cabinet is free to amend the proposals in this report as it wishes. It must nevertheless have regard to the need for the budget to be soundly based, adequate to fund the expected level of service provision next year, and to provide for unexpected events through contingencies and balances.
97. Following this meeting, the Cabinet's proposals will be published and will form the basis of consultation with Select Committees and other consultees such as business ratepayers in the Borough and the Schools Forum who will have a period of six weeks to put forward their views.
98. The Cabinet will ultimately consider any responses from the Select Committees and other consultees and take them into account in drawing up firm proposals for submission to full Council at its meeting on 17 February 2022. Its report will reflect the comments made by consultees and its response to them.

Comments from other relevant service areas

99. The draft budget proposals included in this report result from a substantial corporate process involving all service Groups. In particular, individual Corporate Directors and CMT collectively have endorsed the proposals in this report. The implications for all services of the individual budget proposals are set out in detail in the attached appendices.

APPENDICES

Appendix A – General Fund Budget Schedules

Appendix B – Housing Revenue Account Budget Schedules

Appendix C – Fees and Charges Proposals

BACKGROUND PAPERS

Report to [Cabinet \(18 February 2021\)](#) and [Council \(25 February 2021\)](#) - The Council's Budget: Medium Term Financial Forecast 2021/22 - 2025/26