

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 Schedules (including Balances & Reserves Strategy) Appendix B – Housing Revenue Account Budget Schedules (including overview of 30 Year Business Plan assumptions) Appendix C – Fees and Charges Proposals Appendix D – Capital & Investment Strategies Appendix E – Pay Policy Statement Appendix F – Budget Consultation Feedback

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 1.9% increase in the headline rate of Council Tax. This comprises a core Council Tax increase of 0.9% alongside a 1% increase relating to the Adult Social Care Precept.</p> <p>Cabinet are requested to recommend their budget proposals to Council on 24 February 2022. This is in order to formally set the General Fund revenue budget, the Housing Revenue Account budget, the Capital Programme and Council Tax for the 2022/23 financial year.</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 1.9% 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) The General Fund and Housing Revenue Account budgets and capital programme proposals for 2022/23 (as detailed in Appendices A, B and C) and beyond, and having taken the consultation responses conscientiously into account outlined in Appendix F Budget Consultation Feedback;**
- 2) The Capital Strategy, Treasury Management Strategy Statement, Investment Strategy, and Minimum Revenue Provision Statement for 2022/23 to 2026/27 as detailed at Appendix D;**
- 3) The proposed London Borough of Hillingdon Pay Policy Statement for 2022/23 set out at Appendix E;**
- 4) That it resolves that Cabinet may utilise the general reserves or balances during 2022/23 in support of functions designated to the Cabinet in line with Part 4 of the Constitution (as set out in Schedule G of the Constitution - Budget and Policy Framework Procedure Rules).**
- 5) And in doing so, agree that this is subject to any technical changes required arising from the outcome of the Dedicated Schools Grant Safety Valve discussions with the Department for Education, which will be reported to Council.**

That Cabinet:

- 6) Authorise the Corporate Director of Finance, in consultation with the Leader of the Council, the Cabinet Member for Finance and Cabinet Member for Families, Education & Wellbeing, to approve and sign any agreement with the Department for Education relating to the Dedicated Schools Grant Safety Valve bid.**
- 7) Notes the Corporate Director of Finance's comments regarding his responsibilities under the Local Government Act 2003.**

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.

Alongside budget proposals for recommendation to Council, this report provides an update on the strategy and policy statements surrounding investment and borrowing activity for the forthcoming financial year. In line with guidance from the DLUCH / CIPFA in this area, the content of the Capital and Investment Strategies is provided in the four documents contained within Appendix D, with no substantive changes proposed for the new financial year.

Cabinet are asked to agree that should the Safety Valve discussions conclude prior to the Council setting the Council Tax level for 2022/23, that this is reflected in the budget presented to Council on 24 February 2022. It is also proposed that delegated authority is granted to the Corporate Director of Finance, in conjunction with the Leader of the Council, the Cabinet Member for Finance and Cabinet Member for Families, Education & Wellbeing to approve and sign such an agreement.

Both Cabinet and Council should give full consideration to the Corporate Director of Finance's comments under the Local Government Act 2003 and the need to ensure sufficient resources are available in balances and contingencies in the event of any significant adverse changes in the Council's funding environment. These comments are set out from paragraph 99 of this report.

The Localism Act 2011 requires local authorities to publish a Pay Policy Statement annually. This Pay Policy Statement must set out the authorities' policies for the financial year relating to remuneration of its Chief Officers; remuneration of its lowest paid employees; and the relationship between the remuneration of its Chief Officers and the remuneration of those employees who are not Chief Officers. The proposed 2022/23 policy is included as Appendix E to this report.

Alternative options considered / risk management

Increases proposed in the budget could be removed and either the Council Tax requirement reduced or alternative items substituted for them. Similarly, further items could be added either to the budget requirement through additional increases, increased provision for risk via the general contingency, or by reducing the package of savings. Council Tax could then be increased accordingly within the constraints imposed by the Government's referendum regime, which would limit any increase to 1.99% of general Council Tax before triggering the need for a referendum and a further 1.00% in the form of a Social Care Precept. The current budget proposals reflect a 0.9% increase in the Hillingdon share of Council Tax, alongside a Social Care Precept of 1%, as it continues to be clear that this is the Government's intended way to raise funding for Social Care pressures. A change in the budget requirement of £1,287k either way (increase or decrease) will

result in an increase or decrease of 1.0% in the level of the Council Tax, equivalent to £12.40 per annum at Band D level.

Members could decide to add or remove new capital schemes from the Capital Programme included in this report. The funding for any additional new schemes would necessarily come from Prudential Borrowing in the first instance. This would have a consequential upward impact on the revenue budget requirement and Council Tax or the level of balances if they are HRA capital projects.

Members could decide to vary the proposed Fees and Charges outlined at Appendix C. Any decision to do so could have an impact on the budget requirement. This would need to be reflected in the budgets to be recommended to Council.

The Council may choose to set rents lower than those proposed, however between 2016/17 and 2019/20 Government directed local authorities to decrease rents by at least 1%, thereby removing the option to increase rents, with 2022/23 being the third year of a return to rent increases. Lowering rents for a further year, or reducing the increase proposed, would result in less income and a detrimental impact upon HRA balances.

The Demand-led Growth section of the budget identifies the key risks and uncertain items for which provision is contained within the revenue budget. Reduction of this provision is not recommended. This would otherwise increase the likelihood of unfunded pressures emerging into budget monitoring in the 2022/23 financial year. The Capital Programme also includes a contingency sum to manage financial risk on key schemes. In addition, unallocated balances are held within the range recommended by the Corporate Director of Finance. Whilst further contributions from balances could be made, any reduction in balances to below the lower limit of this range is not recommended.

Select Committee comments

Full report on the budget process, financial strategy and detailed budget proposals for services within the remit of each Select Committees were presented for review at meetings during January 2022, with comments from each committee presented in Appendix F to this report.

SUPPORTING INFORMATION

INTRODUCTION

1. This report provides an overview of 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 to support Cabinet in recommending the budget to Council for final approval on 24 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 multi-year Spending Review in October 2021, alongside confirmation of the majority of the Council's 2022/23 funding via the Final Local Government Settlement in February 2022.
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.
4. Following December Cabinet on 16 December 2021, a number of funding assumptions have been firmed up, including announcements following the publication of the Final Local Government Finance Settlement increasing funding for the Council. This increase has been used to propose a reduction in the Council Tax uplift, meaning an overall reduction in the proposed uplift since the consultation budget of 0.9%, equivalent to £11.15 reduction per Band D household.
5. Furthermore, an update to the Council's inflation provision based on latest intelligence is included in the budget, alongside a revised forecast on Concessionary Fares and a refresh of the Council's Capital Financing projections. Included in this position is an update on the Council's in-year Collection Fund deficit, with the Council required to take any surplus or deficit within the Collection Fund into the following year's budget requirement. After factoring in an improvement in cross-cutting savings for 2022/23, and funding an element of transformation work from Earmarked Reserves, a balanced budget is presented for 2022/23.
6. The table and narrative below outline the changes to the recommended budget proposals from the report considered by Cabinet on 16 December 2021, with improvements in funding projections in 2022/23 largely being offset by an increased inflationary requirement. Each of these items is also considered in the relevant section of this report.

Table 1: Changes Since December Cabinet

General Fund Budget Corporate Summary	2022/23 £'000	Five Year Outlook £'000
Year on Year Change in Budget (Gap) / Surplus Budget (Gap) / Surplus for the Year	0 0	(4,735)
<u>Updates</u>		
Council Tax Revenues	(1,158)	(1,360)
Final Local Government Finance Settlement	1,179	3,337
Better Care Fund	346	244
Public Health Grant	728	1,464
Investment in Public Health	(728)	(1,464)
Inflation	(672)	(916)
Capital Financing Costs	(298)	(1,113)
Council Tax Reduction Scheme	0	0
Collection Fund Deficit 2021/22	(406)	0
Concessionary Fares Rebate	62	(1,137)
Cross-Cutting Savings	266	0
Earmarked Reserve Drawdown to Fund Transformation	681	0
Total Updates	0	(945)
Year on Year Change in Budget (Gap) / Surplus Budget (Gap) / Surplus for the Year	0 0	(5,680)

7. Capital Programme Changes: Within the Capital Programme, an increase in the budget for Hillingdon First Limited from £20m to £25m is proposed to finance projected costs of projects on the Otterfield Road and Northwood Hills Library sites, alongside updates to the budgets held for the new library provision on both sites to reflect latest cost estimates. These amendments can be financed through related uplifts in Capital Receipts projections and therefore will not impact upon the net borrowing requirement.
8. Housing Revenue Account (HRA) Changes: The forecast balances as at the 31 March 2022 have been updated to reflect the Month 9 forecast, increasing balances by £42k, with a corresponding adjustment to revenue contributions to capital to present a net nil impact. Furthermore, the HRA's energy inflation has been increased in line with the latest intelligence, adding £270k of additional requirement, offset by an increase in income from tenant service charges.
9. Further details on the General Fund movements are included later in this report in paragraph 92.

GENERAL FUND REVENUE BUDGET

BUDGET STRATEGY AND SUMMARY OF PROPOSALS

10. 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.
11. This budget strategy is based upon strong foundations, with the latest monitoring position for the 2021/22 financial year reporting a net underspend of £478k which will leave uncommitted General Balances at £26,579k entering the 2022/23 financial year. Of the £10,416k savings within the 2021/22 budget, 81% are either already banked or track for delivery, with 10% 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.
12. Based on 0.9% per annum increases in the core Council Tax for 2022/23 and 1% per annum increases in the Social Care Precept, followed by a 1.8% increase from 2023/24 and 1% per annum increases in the Social Care Precept, funding available to support service expenditure is projected to grow by £36,215k to £274,460k between 2021/22 and 2026/27. A combination of inflation and demand-led pressures (including the ongoing impacts of the COVID-19 pandemic), together with capital investment plans would require a £71,467k 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 £5,680k in later years of the MTFF period.

Table 2: Budget Strategy

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Total Resources	238,245	251,047	254,754	260,594	267,362	274,460
Total Service Expenditure	238,245	251,047	257,710	263,920	272,827	280,140
Budget Gap	0	0	(2,956)	(3,326)	(5,465)	(5,680)

13. A significant factor affecting the development of this budget strategy is the ongoing 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 £19,008k 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 ongoing structural pressures emerging from the pandemic of £7,083k are contributing towards the overall budget gap by 2026/27.
14. 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 £26,579k 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 £20,000k and £39,000k.

15. 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 £31,385k, with £11,313k of this sum held to manage COVID-19 costs. This strategy limits budgeted releases from Earmarked Reserves to £10,789k, with £2,660k of previously planned releases and £7,448k COVID-19 funds being drawn down, £681k being drawn down to fund Transformation activities, leaving £20,596k of Earmarked Reserves on the balance sheet. Of this remaining balance, £3,865k is held to meet potential future COVID-19 costs.
16. While the draft budget has been prepared on the basis of the Council's latest assessment of the ongoing impact of the pandemic, there remains an inherent level of uncertainty in the precise budgetary impact – both in terms of the pace of economic recovery and the level of at which pressures ultimately stabilise. The remaining £3,865k of COVID-19 reserves are therefore held to manage such risks during the 2022/23 financial year, with future iterations of the MTFF to be refreshed accordingly.
17. This draft budget outlines £390,135k 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.
18. Taken together with historic capital spending, this investment will result in the Capital Financing Requirement peaking at £311,757k in 2025/26 and declining thereafter. Of this peak borrowing requirement, £276,815k is expected to necessitate external borrowing, with £34,942k being financed through General Fund reserves and working capital.
19. The following sections of this report and appendix A and B 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

20. General funding available to support the Council's service expenditure is projected to grow from £238,245k in 2021/22 to £274,460k by 2026/27, an uplift of £42,744k 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 £36,215k by 2026/27. The following table and commentary provide an overview on each of these funding streams, with Appendix A1 and A2 providing detailed projections.

Table 3: Funding Sources

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Council Tax Revenues	126,539	131,179	137,188	142,632	148,273	154,117
Business Rates Income	55,105	56,616	57,901	59,059	60,241	61,445
Corporate Grant Income	50,072	58,362	58,620	58,903	58,848	58,898
Total Recurrent Funding	231,716	246,157	253,709	260,594	267,362	274,460
Collection Fund Deficit	540	(1,023)	(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	4,890	1,045	0	0	0
Total Resources	238,245	251,047	254,754	260,594	267,362	274,460

21. Income from Council Tax is projected to grow by £27,578k 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 0.9% for the Core Council Tax increase in 2022/23 moving to 1.8% per annum have been factored into this budget from 2023/24, which together with 1.0% per annum increases in the Social Care Precept from 2022/23 in line with the Government's approach to managing demand in this area. Together, these increases secure £18,691k of additional funding to meet growing demand and inflationary pressures.
22. 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.
23. Business Rates revenues are projected to grow by £6,340k, 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.

24. Following the publication of the Final Local Government Settlement, the majority of the Council's funding allocations following on from the Spending Review 2021 are now confirmed. With these updates all but confirming the Council's projected increase in grant income of £8,290k for 2022/23, with a five-year uplift of £8,826k, with the reduction in income predominantly driven by a forecast decrease in the Housing Benefit Administration Subsidy as claims transfer over to Universal Credit.
25. 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 and confirmation that airports will not be in scope of the newly announced COVID-19 Additional Relief Fund (CARF) to be applied to business rates bills in 2021/22.

SERVICE EXPENDITURE

26. 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 4: 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	6,833	6,918	5,692	5,765	5,838
Finance	16,745	17,883	18,498	18,765	19,247	19,746
Public Safety and Transport	1,927	1,127	611	443	259	57
Corporate Services and Transformation	25,305	25,453	25,919	26,510	27,119	27,745
Environment, Housing & Regeneration	30,228	30,289	30,242	30,835	31,412	31,973
Families, Education & Wellbeing	14,441	15,228	14,740	14,778	14,962	15,142
Health & Social Care	128,778	141,583	146,361	149,117	154,761	160,619
Corporate Operating Budgets	14,343	13,155	16,262	20,156	22,818	23,536
Cross-Cutting Initiatives	0	(504)	(1,841)	(2,376)	(3,516)	(4,516)
Total Service Expenditure	238,245	251,047	257,710	263,920	272,827	280,140

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

Inflation

28. Inflationary cost pressures of £36,028k 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 5% during 2022/23 before returning to the Bank of England target rate of 2% thereafter. The following table and commentary provide an overview of this requirement, with further detail set out in Appendix A3.

Table 5: 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	2,439	1,245	1,172	1,214	1,257
Energy & Fuel	3,344	1,159	404	245	258	270
Other Expenditure	13,256	242	264	270	275	282
Less: Externally Funded Items	(24,077)	(685)	(688)	(674)	(691)	(710)
Budgets Out of Scope of Inflation	(28,659)	0	0	0	0	0
Total Inflation Requirement	238,245	12,035	6,430	5,716	5,854	5,993

29. 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.
30. 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.
31. Exceptional inflation provisions of 41% 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 volatility will be investigated.
32. 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.

33. 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 £3,448k.

DEMAND-LED GROWTH

34. 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 £26,396k or approximately 22% to the £118,928k budget for these functions in 2021/22, with this movement expanded upon below and in Appendix A4. While there remains an additional level of uncertainty in relation to the pace and indeed level of recovery from the pandemic, the Council retains £3,865k uncommitted COVID-19 reserves to supplement demand-led budgets if required.

Table 6: 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
Investment in Public Health	17,810	728	394	342	0	0
Total Demand-led Growth	118,928	13,520	3,334	3,284	2,999	3,259

35. 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.
36. 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.

37. 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.
38. 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.
39. 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.
40. 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.
41. The Council's Public Health Grant includes an increase of £728k in 2022/23, rising to £1,464k over the 5-year MTFF, with this grant being ringfenced to support residents' public health needs, this increase in funding is being passported to the service area, with a corresponding investment in service delivery of £728k for 2022/23.

CORPORATE ITEMS

42. Adjustments to centrally managed or cross-cutting elements of the Council's budgets are presented within Corporate Items are projected to add £9,043k to service expenditure by 2026/27, 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 7: Corporate Items

	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000
Capital Financing Costs	1,888	2,457	1,657	907	417
Flexible Use of Capital Receipts to finance Service Transformation	0	0	965	0	0
Earmarked Reserve Drawdown to Fund Transformation	(681)	681	0	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
Independent Living Fund Expenditure	496	0	0	0	0
Concessionary Fares Rebate	(2,290)	544	1,609	1,539	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	(2,106)	3,573	4,643	2,441	492

43. 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 £7,326k 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, with £681k of transformation activity to be funded through Earmarked Reserves in 2022/23. 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.
44. Due to the Government continuing to announce one-year allocations of the Independent Living Fund Grant after the Council has approved the following year's budget at February Council, it is proposed to transfer this grant to be held corporately to de-risk the Health & Social Care service area from the potential for the grant to be withdrawn. For this reason, Corporate Items includes a proposal to increase the Health & Social Care budget by the value of the grant to reflect the transfer of the funding, with this adjustment being net nil across the Council's General Fund alongside the increase in Council Funding.
45. 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.
46. 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.

47. 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

48. Savings proposals totalling £10,647k 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 £18,925k measures identified to date, reducing the outstanding budget gap to £5,680k or 2.4% of current service expenditure.
49. 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 8: 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	1,449
Total Service Expenditure	10,647

50. As shown in the table above and expanded upon in the following paragraphs, £10,647k 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 £874k 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.

51. 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 £18,925k of proposals are in development for potential implementation from 2023/24, bringing total savings by 2026/27 to £29,572k.

Table 9: Medium Term Outline Savings Programme

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Service Transformation	4,656	3,166	4,650	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	10,647	6,674	7,433	2,387	2,431

52. 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.
53. 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.
54. 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

55. Capital investment of £390,135k over the period 2021/22 to 2026/27 has been incorporated into the wider General Fund budget strategy set out within this report, with £227,754k 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, with a contingency of £8,917k being set against this programme. An overview of these investment plans is detailed below, with further detail available in Appendix A8.

Table 10: General Fund Capital Programme by Cabinet Portfolio

	Major Projects £'000	Programme of Works £'000	Total £'000
Property & Infrastructure	152,538	49,856	202,394
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	222,754	158,464	381,218
Contingency	0	0	8,917
Total Capital Programme	222,754	158,464	390,135

56. Property and Infrastructure: £152,538k investment in new and expanded infrastructure features £35,296k 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, £25,712k 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 £14,858k 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.

57. 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.

58. Finance: Capital investment of £8,485k focuses upon the programmed renewal of the Council's vehicle fleet.

59. 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.
60. 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.
61. 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.
62. 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.
63. Health and Social Care: Continuing investment in Social Care equipment for service users.

Capital Financing

64. 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 11: 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	104,289	95,529	60,090	31,531	27,235	390,135
<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)	(13,258)	(35,872)	(16,977)	(8,501)	(4,817)	(86,343)
Prudential Borrowing	(33,888)	(42,478)	(23,303)	(9,726)	(5,470)	(6,881)	(121,746)

65. 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.

66. 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 yet to be received in most cases. If funding allocations materially differ from those outlined in the budget, recommendations will be presented to Cabinet to recast capital budgets as appropriate.
67. 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 Yiewsley, with the community-led element being used to fund the Chrysalis Programme.
68. 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.
69. Planned new borrowing of £121,746k, together with the Council's historic capital investment will result in the Capital Financing Requirement peaking at £311,757k in 2025/26 and declining thereafter. Of this sum, £276,815k is expected to necessitate external borrowing, with £34,942k being financed through General Fund reserves and working capital as outlined in the table below.

Table 12: 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	287,323	302,416	309,570	311,757	301,076
Projected External Borrowing	(189,935)	(247,604)	(264,874)	(281,144)	(276,815)	(252,486)
Projected Internal Borrowing	(62,196)	(39,719)	(37,542)	(28,426)	(34,942)	(48,590)

70. 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

71. The 2022/23 Schools Budget was agreed by Schools Forum on 18 January 2022 and is presented elsewhere on this agenda for approval by Cabinet. This budget deploys £333,935k of Dedicated Schools Grant and associated funding to the borough's schools, early years setting and other providers, including £57,639k of support for pupils with high needs. Schools Forum have approved a transfer of 0.5% from the Schools Block to support the previously noted demand for high needs places, although notwithstanding this and other actions being undertaken there remains an overall deficit of £4,887k on the Schools Budget for 2022/23.

72. As at Month 9, the projected year end deficit on the Schools Budget is projected to total £38,043k in line with previous projections, which together with the 2022/23 budget will result in the cumulative deficit totalling £42,930k at 31 March 2023. The Council is currently in discussions with the Department for Education on a safety value agreement to eliminate the cumulative deficit over five-year period, with a number of initiatives already underway to contribute towards this objective – including the delivery of significant numbers of new in-borough high needs places through the Council's Capital Programme and the Department for Education's investment plans.

HOUSING REVENUE ACCOUNT

BUDGET STRATEGY AND SUMMARY OF PROPOSALS

73. The HRA is a ringfenced, 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.
74. 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.
75. Forward looking financial plans are based on solid foundations, with an underspend of £133k reported on the 2021/22 budget and unallocated reserves projected to total £15,334k at 31 March 2022. Given that £15,000k reserves are judged to provide sufficient capacity for risk management purposes, the budget strategy releases £334k to support capital investment and maintains unallocated reserves at the target level.
76. 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.
77. Capital investment plans will result in the HRA Capital Financing Requirement reaching £346,733k 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.
78. Further commentary on the HRA budget strategy is provided below, with detailed schedules included in Appendix B.

RENTAL INCOME

79. 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.
80. 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 13: 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

81. 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.
82. Workforce costs reflect anticipated pay awards of 11.5% over the MTFF period, including 9.75% 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

83. 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

84. Projections for service expenditure have been uplifted by £924k 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, £183k 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

85. A programme of £924k 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 £162k from a range of further BID projects – including the impact of robotics in streamlining business processes, alongside the full year impact of the previously approved savings adding £63k to this position.

CAPITAL PROGRAMME (2021/22 to 2026/27)

Capital Expenditure

86. 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.
87. 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.
88. £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

89. 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 14: 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	19,694	21,172	21,201	22,110	22,741	138,724
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	7,941	12,367	21,974	18,748	11,677	81,285
Total	69,325	77,867	92,300	91,529	96,572	91,360	518,953

90. 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.
91. 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 15: HRA Borrowing

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Capital Financing Requirement	165,040	192,317	239,521	279,138	313,336	346,733
Projected External Borrowing	(149,706)	(177,317)	(224,521)	(264,138)	(298,336)	(331,733)
Projected Internal Borrowing	(15,334)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)

CHANGES SINCE REPORT TO CABINET ON 10 DECEMBER 2020

92. Funding Updates: Council Tax has been decreased by 0.9% since the Consultation Budget was published in December 2021, reducing the increase for a Band D by £11.15 per Band D property. This has been funded by Government funding forecast to increase by £2,253k, with this amount predominantly driven by favourable grant announcements in the Final Local Government Settlement, with favourable movements equating to £1,179k from this source as a result of Government adding inflation on top of the additional funding announcements made in the Spending Review 2021. A further increase of £346k is presented for the Better Care Fund as a result of the Council agreeing the 2021/22 Section 75 agreement with Hillingdon Clinical Commissioning Group (CCG) for a higher value than originally budgeted for at Cabinet in February 2021. Finally, the Council's Public Health Grant includes an increase of £728k, with the grant being ringfenced to public health needs and therefore being reinvested back into this service area.
93. Inflation: In light of the continuing increase in inflation seen nationally, particularly within energy spend, the Council has increased its inflation requirement by £672k in 2022/23, rising to £916k by 2026/27. This is the result of inflation forecasts for both gas and electricity exceeding the projections presented in December Cabinet adding £172k in 2022/23, alongside an increase in Contracted Expenditure being driven by the National Insurance uplift of 1.25% being added to employers' contributions expected to be passported to the Council by external suppliers, increasing the Council's inflation provision by £500k in 2022/23.
94. Capital Financing Costs: The Council's cost of financing capital investment has been refreshed based on the latest intelligence, which has added £298k in 2022/23, increasing by £1,113k by 2026/27. This reflects increases in government gilts and therefore borrowing through the PWLB, with the market consensus and treasury advisor projections long term interest rates being circa 2.4% rather than the previously budgeted 1.8%.
95. Collection Fund Deficit 2021/22: Following on from the Council's Month 7 deficit projection presented to Cabinet in December 2021, the Month 9 forecast which forms part of the Council's 2022/23 budget position includes an adverse movement of £406k. This position is driven largely by an adverse movement within Council Tax (£388k) as a result of a slowing down of taxbase growth in the latter part of the year as a result of the pandemic impacting on supply chain and constructions industries. However, this position is expected to recover throughout 2022/23, with major applications anticipated to bring the Council's taxbase back into alignment. Business Rates has seen an immaterial movement of £18k driven by minor fluctuations within the rating list.
96. Concessionary Fares Rebate: London Councils has issued a further update on projected usage across London's transport networks, leading to an increased rebate in 2022/23 of £62k, but are forecasting a faster rate of recovery from 2024/25 onwards than originally

modelled, leading to an overall adverse movement in this area of £1,137k by 2026/27. It is worth noting that the Council's approved budget for 2021/22 included a rebate of £1,107k, meaning from a 2020/21 baseline, Concessionary Fares spend is forecast to increase by just 2.8% by 2026/27, which is much lower than inflation over this period.

97. Cross-Cutting Savings: Since December Cabinet, Cross-Cutting Savings have been refreshed to reflect latest anticipated profiles for delivery, resulting in a net improvement of £266k in 2022/23.
98. Earmarked Reserve Drawdown to Fund Transformation: The Council is funding an element of transformation work from an Earmarked Reserve drawdown for one year.

OVERALL BUDGET FOR COUNCIL TAX SETTING 2022/23

CORPORATE DIRECTOR OF FINANCE'S COMMENTS REGARDING RESPONSIBILITIES UNDER THE LOCAL GOVERNMENT ACT 2003

99. Under Section 25 of the Local Government Act 2003 the Corporate Director of Finance as the Council's nominated section 151 officer, has a responsibility to comment on:
 - i. The robustness of the estimates for the coming year.
 - ii. The adequacy of the Council's reserves.
100. The Corporate Director of Finance is able to give positive assurances on the robustness of the estimates in general for the coming year. This view is based on:
 - i. The use of an established, rigorous process for developing the budget through the Medium Term Financial Forecast (MTFF) process. This includes close alignment with the service planning process and the Business Improvement Delivery programme.
 - ii. A robust approach to tracking delivery of budgeted savings through a monthly savings tracker presented to the Corporate Management Team and Cabinet alongside proposals for mitigation of any adverse movements.
 - iii. A series of robust, internally peer-reviewed financial models supporting forecasting in more volatile and/or material elements of the budget, providing reliable projections for both in-year performance and the overall savings requirement over the medium term.
 - iv. The effective integration of capital investment plans and associated financing costs into the Council's Medium Term Financial Forecast, ensuring that the sustainability of investment decisions can be considered in the context of the overall budget position.
 - v. The use of a locally developed budget management system to capture up to date projections across all areas of the Council, which enables effective challenge and scrutiny of the Council's financial position from individual budget managers, through to Corporate Directors and Cabinet.
 - vi. A proactive process of Zero Based Budgeting undertaken annually to ensure that departmental base budgets appropriately reflect the current cost of service delivery, rather than being determined on a strictly roll forward or cash limited basis.

101. The 2022/23 budget has been prepared in the context of the COVID-19 pandemic and while the exceptional pressures arising in 2020/21 and 2021/22 financial years are declining, projected ongoing service pressures of £7,083k have been fully incorporated in the MTFF alongside Collection Fund deficits arising from reduced local tax income and increased demand for the Council Tax Reduction Scheme. An element of these budgeted pressures are to be financed from dedicated Earmarked Reserves established to manage the pandemic, with £3,865k further balances retained to manage any additional or emerging COVID-19 pressures which are not covered through further government grant.
102. Alongside the pandemic, future arrangements for the management of Dedicated Schools Grant deficits and the associated Recovery Plan discussions with the Department for Education represents an area of significant uncertainty in the preparation of the Council's Medium Term Financial Forecast. The statutory override establishing a ringfence around the Council's Dedicated Schools Grant deficit will remain in place during the 2022/23 financial year, and although formal feedback is awaited from the Department of Education on arrangements beyond this date it appears increasingly likely that these arrangements will be extended. In addition, it is likely that any Safety Valve agreement would take the financial position of the Council into account, would spread any impact on the Council spread over multiple financial years and is likely to allow use of capital receipts to help fund the deficit. However, despite these likely mitigations the overall risk environment for the Council is increased because of uncertainty arising from any potential delay in obtaining a Safety Valve agreement, which may result in the Council financing the deficit for a longer period, and risks around the delivery of the required remediation programme in terms of time and value.
103. While there remains a level of uncertainty for Business Rates income as the long-term impact of the pandemic on the Council's rating list continues to be modelled, the 'Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Bill' has somewhat mitigated the potential lost income from changes to the rating list at Heathrow Airport. Following the Bill receiving Royal Assent, the Government announced the COVID-19 Additional Relief Fund (CARF) as a new Business Rates relief to support organisations that to date have not benefited from other Government relief schemes, namely the Expanded Retail Relief scheme, this new relief should help mitigate further potential risks associated with the Council's Business Rates income. For these reasons, the Director of Finance's positive assurance on estimates for the forthcoming year is reaffirmed.
104. The Corporate Director of Finance also has a duty to comment on the adequacy of the Council's reserves when the budget is being set. At the time of budget setting for 2022/23, the Corporate Director of Finance set a recommended range of balances of between £20,000k and £39,000k. The following paragraphs outline the approach taken in determining this recommended range.

Statement on Balances and Reserves

105. The Corporate Director of Finance has undertaken a review of the risks currently facing the Council. This has enabled an update to the recommended range of balances that the Council should hold. This forms the basis of the guidance provided above in relation to his responsibilities under the Local Government Act 2003.
106. To assess the adequacy of general reserves, the Corporate Director of Finance has taken into account the strategic, operational and financial risks facing the Council. The Council should retain adequate reserves to cover unexpected expenditure and avoid costly short-term borrowing. Equally, the Council wishes to utilise the maximum resources available to achieve its objectives, therefore it plans to maintain reserves within the prudent level range.
107. To determine the recommended level of reserves the Council has assessed risk against the criteria as specified in Local Authority Accounting Panel (LAAP) Bulletin 99 (July 2014). This assessment includes the following:
- The robustness of the financial planning process (including the treatment of inflation and interest rates and the timing of capital receipts).
 - How the Council manages demand led service pressures.
 - The treatment of planned efficiency savings / productivity gains.
 - The financial risks inherent in any major capital projects, outsourcing arrangements, or significant new funding partnerships.
 - The strength of the financial monitoring and reporting arrangements.
 - Cashflow management and the need for short term borrowing.
 - The availability of reserves, Government grants and other funds to deal with major contingencies and the adequacy of provisions.
 - The general financial climate to which the Council is subject and its track record in budget and financial management.
108. The assessment, although based on the Council's procedures and structures, has an element of subjectivity and to allow for this the optimum level of reserves incorporates a range. The recommended range has maintained the lower level at £20,000k and the upper limit of £39,000k following a review of the risks facing the Council.
109. The Council has increased the level of reserves required for inflation and interest rate risk, due to the exceptionally high rate of interest across the country at the current time and uncertainty over how long this will last for. The level of reserves required to cover the financial risk inherent in major contract arrangements has been increased reflecting the pressure contractors are experiencing following the extended pandemic, supply side issues and the high inflation environment currently being experienced. The latest position on the Safety Valve discussions described in paragraph 102 has also been reflected in this assessment. The reducing level of risk associated with Brexit is also reflected in the revised

balances range. A fuller rationale for the recommended range of balances is provided in Appendix A9 of this report, with budget proposals contained within this report having been structured to maintain balances within this recommended range.

THE COUNCIL TAX REQUIREMENT FOR 2022/23

110. Budget proposals for 2022/23 include a 1.9% increase in the headline rate of Council Tax. This comprises a core Council Tax increase of 0.9% alongside a further 1% increase relating to an Adult Social Care Precept to fund ongoing pressures within Adult Social Care.
111. The budget proposals also include the continuation of the cash discounts offered to those currently in receipt of the Older People's Discount in 2022/23, however, the scheme was closed to new entrants as of 1 April 2021.

Council Tax Referendum

112. The Localism Act 2011 introduced a power for the Secretary for Communities and Local Government to issue principles that define what should be considered as excessive Council Tax including proposed limits. If the Council proposes to raise its Council Tax above the proposed limits set, a referendum will need to be held. The result of the referendum will be binding upon the Council.
113. The general Council Tax increase at which local authorities would be required to hold a referendum for 2022/23 as directed by the Secretary of State for Communities and Local Government is 2%. As the budget proposals outlined in this report maintain core Council Tax increases below this level, the referendum threshold will not be triggered for the financial year 2022/23.
114. For 2017/18 additional flexibility to levy a precept in support of Social Care expenditure was introduced by the Government, with the 2022/23 threshold being set at 1%, due to the high level of demand on Social Care being driven by the pandemic, the Council has opted not to set the Social Care Precept in 2022/23.

Greater London Authority Precept

115. The Mayor of London's final budget proposals for 2022/23 are scheduled for consideration and approval by the London Assembly on 24 February 2022. The proposals result in a 8.8% increase in the element of Council Tax relating to GLA functions, equivalent to a £31.93 increase in annual bills for Band D Households.

RESIDENT BENEFIT & CONSULTATION

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

116. 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 1.9% increase in the headline rate of Council.
117. This draft budget has been developed with due regard to growing demand and inflationary pressures, 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.
118. 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

119. Each of the Select Committees has received reports setting out the proposed revenue budget and Capital Programme proposals relevant to their remit. This was approved by Cabinet on 16 December 2021 for consultation at the January 2022 round of meetings. Comments on the budget from each of the service Select Committees were referred to the Corporate, Finance & Property Select Committee, who met on 2 February 2022 to consider the comments received from the other Select Committees on the budget proposals relevant to their remit. The combined Select Committee comments are presented to Cabinet in Appendix F.
120. The Council also has a statutory responsibility to consult on its budget proposals with business ratepayers and residents in the Borough. A budget consultation survey was published on the Council's website in relation to the Cabinet's budget proposals after the meeting on 16 December 2021, with the full report to December Cabinet also being available to view. Analysis of responses to this consultation is available on the Council's website and presented as Appendix F to this report for information.
121. The Council received 115 responses from residents, representing a 35% increase on the volume of responses received to the consultation launched in December 2020.
122. Of those responses 67% of respondents were satisfied with the budget proposals, 71% agree that they represent Value for Money and 76% felt well informed about the proposals.

Where respondents expressed dissatisfaction with budget proposals, these primarily related to the Council Tax increase and differing views on the priority of expenditure, either based on particular services or geographical areas. Positive comments focused upon proposed Council Tax uplift being fair and compliments for the budget based on well ran services.

CORPORATE CONSIDERATIONS

Corporate Finance

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

Legal

124. The Budget and Policy Framework Procedure Rules as set out in the Council's Constitution require the Cabinet to make proposals on the Council's budget. This requires them to be in accordance with the timetable which it has published. The Cabinet proposals are set out in this report for the consideration of full Council.

125. In respect of income the Council provides a number of services in respect of which it can impose charges and fees to users. In certain instances those fees or charges may be set by Government. In other cases the Council has discretion as to the level of charges it sets. It should be noted that in respect of certain matters the Council can only impose a fee or charge which reflects the actual cost to the Council of providing such services. This has to be considered when setting the overall budget.

126. The Corporate Director of Finance's duties under the Local Government Act 2003, insofar as they relate to budget setting, are set out in the body of the report. Of importance to Members is the duty for him to comment on the robustness of estimates for the forthcoming year. Members will note that earlier in this report, the Corporate Director of Finance has given a number of positive assurances in relation to this issue.

127. The second duty for Members to note is the duty imposed on the Corporate Director of Finance to comment on the adequacy of the Council's reserves. Members will note that a Statement of Reserves and Balances is contained within paragraphs 105 to 109 of the report which discharges this duty.

128. As the Council's Section 151 Officer, it is the Corporate Director of Finance's professional duty to propose to Members a budget which is soundly based, balanced and adequate to fund the expected level of service provision in the forthcoming financial year. This duty is reinforced in the Council's Constitution. This requires the Corporate Director of Finance to ensure the lawfulness and financial prudence of decision-making.

129. The 'Wednesbury reasonable' principle also requires a local authority, when making decisions, to take into account all relevant considerations and to disregard all irrelevant considerations. Clearly, in the context of budget-setting, having regard to the Corporate

Director of Finance's professional advice is a relevant consideration for Members to take into account. However, Members are not bound to follow his advice. However, they should have good reasons for departing from it should they choose to do so. Furthermore, Members must at all times have regard to the overriding principle that they should set a legal budget and one which is as prudent as the circumstances permit.

130. Members must have regard to section 106 Local Government Finance Act 1992. This is in respect of a Member who has not paid an amount due in respect of Council Tax for at least two months after it becomes payable. They may not vote on matters concerning the level of Council Tax or the administration of it. Therefore, any Members who are more than two months in arrears with their Council Tax payments must make a declaration to this effect at the beginning of the meeting.

Comments from other relevant service areas

131. 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 (including Balances & Reserves Strategy)

Appendix B – Housing Revenue Account Budget Schedules (including Overview of 30 Year Business Plan Assumptions)

Appendix C – Fees and Charges Proposals

Appendix D – Capital & Investment Strategies

Appendix E – Pay Policy Statement

Appendix F – Select Committee Comments / Budget Consultation Feedback

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