

# 2023/24 BUDGET PLANNING REPORT FOR SERVICES WITHIN THE REMIT OF THE PROPERTY, HIGHWAYS & TRANSPORT SELECT COMMITTEE

<b>Committee name</b>	Property, Highways & Transport Select Committee
<b>Officer reporting</b>	Iain Watters, Director – Strategic & Operational Finance
<b>Papers with report</b>	N/A
<b>Ward</b>	All

## HEADLINES

This is the first opportunity for the Select Committee to discuss the current stage of development of budget planning work with regard to services within the remit of the Property, Highways & Transport committee. This paper gives a strategic context in which the detailed proposals to be discussed at Select Committee meetings in January 2023 will need to be considered.

## RECOMMENDATIONS

**That the Committee notes the financial context in which the 2023/24 budget setting process will take place in advance of detailed savings proposals being developed and approved at Cabinet in December 2022.**

## SUPPORTING INFORMATION

1. This is the first of two opportunities within the planning cycle for the Select Committee to consider issues relating to budget planning for 2023/24 and beyond. The focus of this report is the broader financial position of the Council, with the report to be considered in January 2023 setting out the detailed budget proposals for relevant services, those proposals having been included in the report to Cabinet on the Medium-Term Financial Forecast (MTFF) in December 2022.

### Corporate Overview – General Fund

#### 2022/23 General Fund Revenue Monitoring & COVID-19 Impact

2. General Fund pressures totalling £14,485k are projected in relation to the impacts of the COVID-19 pandemic and the ongoing financial impacts facing the Council in 2022/23, with £9,784k added to Service Operating Budgets to cover ongoing financial pressures from the pandemic and a further £1,507k one-off items in respect of pandemic driven Collection Fund losses in the Council's budget approved by Council in February 2022, with the remaining

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£3,194k being driven by new and emerging pressures relating to the ongoing impact of the pandemic on demand for, and delivery of, local services.

3. With no further funding being available to ongoing COVID-19 pressures, the Council is carrying a remaining balance of Government funding of £4,302k, alongside local funds of £6,868k. Including the Service Operating Budgets for pandemic related pressures of £9,784k, this gives scope to fund reported pressures of £14,485k for the 2022/23 financial year although leaves limited headroom to manage ongoing impacts above those already factored into Service Operating Budgets.
4. As the country faces unprecedented inflationary pressures, the Council will need to deploy specific earmarked reserves to mitigate the in-year pressures that are anticipated to arise throughout the year, with actual inflation rates now expected to exceed the sums built into the MTF. The Council is working closely with suppliers to ensure that the costs incurred by the Council reflect current market prices and that suppliers are compensated for increased costs, whilst also ensuring value for money for every pound of public money spent and temporary increases are recognised. This remains an emerging risk area which will continue to be closely monitored and managed given that economic forecasts continue to deteriorate.
5. While many of the discussions with suppliers are in the early stages of negotiations, the Council is also expecting that the final pay award will be higher than anticipated with further pressures emerging from the Month 3 monitoring process across energy, fuel and contracted services in Social Care. The latest intelligence on pay award negotiations is that the final award is unlikely to be finalised until late in the 2022 calendar year.
6. After allowing for the ongoing impact of the pandemic and the significant inflationary pressures facing the country which are to be funded from releases from Earmarked Reserves, an underspend of £46k is projected across General Fund budgets at Month 3, with this position being driven by a favourable variance from the Council's Treasury activities offsetting pressures within Adult's Social Care and Children's & Young People's Services, increased expenditure within Housing, which is largely offset by grant funding and reported pressures within the Planning service area. This position will result in unallocated General Balances totalling £26,765k at 31 March 2022.
7. Detailed updates on services that fall within the remit of this committee are included below at Cabinet Portfolio level on an exception basis:
  - a. **Property, Highways & Transport** – A net underspend of £77k is forecast for the portfolio, with the variance being driven by staffing underspends from a number of vacant posts across the Operational Assets and Planning & Regeneration services, with income forecasting a minor pressure and accounting for the movement from Month 2, due to a reduction in forecast lease income.

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## 2022/23 to 2026/27 General Fund Savings Requirement

8. While the focus of the discussion for the Select Committee should be the specific services within its remit, it is important that this discussion is conducted in the context of the overall corporate financial position. The following paragraphs outline the medium-term financial position presented in the 2022/23 Budget Setting Report approved by Cabinet and Council in February 2022.
9. At the time of budget setting, the gross savings requirement for the Council's General Fund over the period 2022/23 to 2026/27 was projected to total £35,252k which was primarily driven by inflationary cost pressures, growing demand for services and the cost of servicing and repaying borrowing incurred in delivery of the capital programme which are expanded upon below. For 2022/23, the gross savings requirement was forecast to total £10,647k.

**Table 1: Projected Budget Gap detail**

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	Total £'000
Changes in Funding	(12,802)	(3,707)	(5,840)	(6,768)	(7,098)	<b>(36,215)</b>
Inflation	12,035	6,430	5,716	5,854	5,993	<b>36,028</b>
Contingency / Service Pressures	13,520	3,334	3,284	2,999	3,259	<b>26,396</b>
Corporate Items (incl. capital financing costs)	(2,106)	3,573	4,643	2,441	492	<b>9,043</b>
<b>Annual Underlying Savings Requirement</b>	<b>10,647</b>	<b>9,630</b>	<b>7,803</b>	<b>4,526</b>	<b>2,646</b>	<b>35,252</b>
<b>Cumulative Underlying Savings Requirement</b>	<b>10,647</b>	<b>20,277</b>	<b>28,080</b>	<b>32,606</b>	<b>35,252</b>	<b>N/A</b>

10. An uplift of £42,744k in recurrent funding was projected over the five-year MTF period, primarily driven by Council Tax increase of 1.9% in 2022/23, with a proposed increase of 2.8% per annum thereafter accounting for £18,691k of the increase, with a further £8,887k expected to be driven by increases in the taxbase. Government Grants were forecast to increase by £8,826k, with the majority of this being front loaded in 2022/23 as a result of the Spending Review announcements and increases in Social Care Funding. Furthermore, retained Business Rates income is forecast to increase by £6,340k primarily driven by inflationary increases. This position is netted down by the unwinding of £6,529k of one-off funding, predominantly linked to the release of COVID-19 funding.
11. Inflation represents the single largest element of the underlying savings requirement, reflecting the growing cost of maintaining current service provision, with a headline pressure of £36,028k over the MTF period. Workforce inflation through anticipated annual pay awards accounts for £15,192k of this growth, with £5,212k inflation reflecting other contracted expenditure and expenses, offset by increases in recharges and contributions to services, all of which span across all of the Select Committees.

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12. Specifically, within the remit of this committee, energy and fuel are forecast to add £2,336k to this value, with increases significantly above standard inflation indices in the short-term, with uplifts anticipated to reduce to 5% per annum from 2023/24.
13. Increasing demand for services linked to a growing and changing population accounts for £26,396k of the projected savings requirement, which reflects Hillingdon's growing population and the impact this has on services. Areas within the specific remit of this committee include:
  - a. Fees & Charges: 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.
14. Corporate Items, which primarily relate to the ongoing costs of financing capital investment, represent the remainder of the budget gap with £9,043k growth required over the MTFP period. Budgeted capital investment in the current programme is the key driver of a £7,326k growth in debt financing and repayment costs over the medium term. The remaining balance of Corporate Items relate to movements in the TfL Concessionary Fare Levy and use of capital receipts to finance transformation activity, alongside moving the Council Tax Older People's Discount to being funded from base budget rather than Earmarked Reserves, with funding coming in from Hillingdon First Limited from 2024/25.
15. The approved budget presented to Cabinet and Council in February 2022 included a saving programme of £29,572k over the five-year period, leaving a budget gap of £5,680k by 2026/27 still to be found. Within the Savings Programme, £5,000k related to Further BID Reviews that were yet to be identified.

### **New and Emerging Risks**

16. In light of the exceptional inflation environment that economy is currently experiencing, the Council has begun to refresh its savings requirement over the budget strategy period, with inflation rates exceeding 10% in 2022. The Council has therefore reassessed the inflationary requirement associated with contracted expenditure, including within Social Care placements and SEND Transport, as well as rebasing workforce inflation based on the latest pay award offer. To this end, it is anticipated that further savings will be required by 2026/27 to fund additional inflationary demand, with this impact likely to be front-loaded.
17. Furthermore, demand-led growth continues to be monitored on a monthly basis, with the latest intelligence showing signs that elements of pandemic-driven demand for services remain high. This area will remain under close review in development of budget proposals for 20223/24 and beyond.

18. These factors are being fed into a reassessment of the savings requirement against which proposals for the 2023/24 budget and MTFF to 2026/27 are being developed, with the monthly budget monitoring updates to Cabinet providing commentary on these drivers.

### **Strategy to deal with the Budget Gap**

19. Due to the revised forecast for the new and emerging pressures, the Council is therefore undergoing a series of large-scale reviews to address this new and emerging position, with a significant review of transformational workstreams, a further review of the existing saving programme and a full review of the Council's Fees and Charges schedule and policy to bridge this gap.

20. As part of this work, the Council will also incorporate its standard approach to assessing the savings requirements strategy, including:

- a. Service Transformation, which represents the single largest category of savings, with items presented in this category primarily linked to implementation of the BID Programme;
- b. Savings proposals from Zero Based Reviews represent budgets which have been identified as being surplus to requirements through the line-by-line review of outturn and similar exercises being undertaken by Finance;
- c. Effective Procurement savings capture the benefits secured from efficiency savings from contracted services and reviews of delivery models in a number of areas;
- d. Preventing Demand - initiatives such as the Supported Living Programme where investment in early intervention and other support can avoid more costly intervention at a later date, and;
- e. Income Generation & Commercialisation proposals primarily relate to amendments to Fees and Charges.

21. With the current monitoring position forecasting General Balances to be £26,765k by 31 March 2023 and the Council's reserves policy setting a minimum reserves balance of £20,000k, there is a need to deliver against these workstreams at pace, with the initial review of the revised savings requirement and savings programme to be presented at December Cabinet and will be presented to Select Committees in January 2023 alongside the public consultation on the budget for the forthcoming year.

### **MTFF Process Update and Timetable**

22. The timetable for the budget process follows a similar format to previous years, with the consultation budget being considered by Cabinet in December for consideration by residents

and Select Committees during January, before final budget proposals are considered by Cabinet and Council in February. Alongside this local process, the Council will receive indicative funding allocations for the forthcoming year from central government in December, which will be confirmed in advance of the new financial year starting in April.

**Table 2: Budget Setting Timetable**

December	Provisional Local Government Finance Settlement
	Consultation Budget Report to Cabinet
January	Public Budget Consultation
	Following year Budget Proposals to January Select Committees
February	Final Local Government Finance Settlement
	Final Budget to Cabinet and Council

### **Next Steps**

23. The Medium-Term Financial Forecast setting out the draft revenue budget and capital programme will be considered by Cabinet in December 2022 and issued for consultation during the remainder of December 2022 and January 2023. This will include detailed consideration by each of the Select Committees of the proposals relating to their respective services.

24. Key issues within the remit of this Select Committee will continue to be tracked through the Council's budget monitoring process, with monthly reports to Cabinet detailing the latest position and outlook for 2022/23.

### **Implications on related Council policies**

Select Committees are at the heart of how the Council shapes policy at Member level.

### **How this report benefits Hillingdon residents**

Select Committees directly engage residents in shaping policy and recommendations from the Committees seek to improve the way the Council provides services to residents.

### **Financial Implications**

None at this stage.

### **Legal Implications**

None at this stage.

### **BACKGROUND PAPERS**

The Council's Budget: General Fund Revenue Budget and Capital Programme 2022/23 – reports

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to Cabinet 17 February 2022 and Council 24 February 2022.

The Council's Budget: 2022/23 Revenue and Capital Month 3 Budget Monitoring – report to Cabinet 1 September 2022

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