

## 2023/24 BUDGET PLANNING REPORT FOR SERVICES WITHIN THE REMIT OF THE FINANCE & CORPORATE SERVICES SELECT COMMITTEE

<b>Committee name</b>	Finance & Corporate Select Committee
<b>Officer reporting</b>	Iain Watters, Finance
<b>Papers with report</b>	N/A
<b>Ward</b>	All

### **HEADLINES**

1. To comply with the Budget and Policy Framework procedure rules as part of the agreed consultation process for the General Fund and Housing Revenue Account budgets, alongside the Council's Capital Programme, this report sets out the draft revenue budget and Capital Programme for the services within the remit of the Finance & Corporate Services Select Committee. Following consideration by Cabinet on 15 December 2022, these proposals are now under consultation, and the relevant proposals being discussed at the January cycle of the Select Committees.
2. Cabinet will next consider the budget proposals on 16 February 2023, and the report will include comments received from Select Committees. At the meeting on 16 February 2023 Cabinet will make recommendations to full Council regarding the budget and Council Tax levels for 2023/24. Subsequently, Council will then meet to agree the budgets and Council Tax for 2023/24 on 23 February 2023.
3. The Committee needs to consider the budget proposals as they relate to the relevant service areas within the Finance and Corporate Services Cabinet Portfolios, but within the corporate context and the constraints applying as a result of the aggregate financial position of the authority.

### **RECOMMENDATIONS**

**That the Committee notes the budget projections contained in the report and comments as appropriate on the combined budget proposals affecting the relevant service areas within the Finance and Corporate Services Cabinet Portfolios, within the context of the corporate budgetary position.**

#### **General Fund Budget**

##### **Budget Strategy**

4. Budget proposals for 2023/24 have been prepared in the context of a wider strategy addressing the five-year MTFP period through which service expenditure is to be managed

within available resources in the context of a challenging economic environment both in terms of an exceptional inflationary pressures and legacy COVID-19 impacts, with further impacts resulting from the cost-of-living crisis and the impact on residents' financial standing. This balanced budget is to be achieved through a combination of delivering efficiency savings, increases in the Council Tax, and Fees and Charges, while maintaining General Balances at forecast 2022/23 levels.

5. This budget strategy is based upon the principle of sound financial management set against the backdrop of these challenging economic conditions, with the latest monitoring position for the 2022/23 financial year reporting a net underspend of £61k which will leave uncommitted General Balances at £26,780k entering the 2023/24 financial year. However, included in the 2022/23 position is a significant use of Earmarked Reserves to fund £5,307k of exceptional inflationary pressures on service budgets experienced to date, with much of this reserve created from favourable movements during outturn 2021/22. Furthermore, the Council budgeted to drawdown £5,913k to fund COVID-19 pressures included in the February 2022 budget strategy with a further £3,431k being drawn down above this and the inflation drawdown to fund pressures within service operating budgets, the majority of which are covering new and emerging COVID-19 pressures.
6. The Month 7 monitoring position for the services within this select committee present a net variance of £181k as presented in the table below:

**Table 1: Service Operating Budgets**

Cabinet Member Portfolio		Approved Budget	Forecast Outturn	Variance (As at Month 7)	Variance (As at Month 6)	Movement from Month 6
		£'000	£'000	£'000	£'000	£'000
Finance	Expenditure	136,549	136,824	275	242	33
	Income	(111,242)	(111,663)	(421)	(387)	(34)
	<b>Sub-Total</b>	<b>25,307</b>	<b>25,161</b>	<b>(146)</b>	<b>(145)</b>	<b>(1)</b>
Corporate Services	Expenditure	25,596	25,722	126	83	43
	Income	(1,632)	(1,793)	(161)	(118)	(43)
	<b>Sub-Total</b>	<b>23,964</b>	<b>23,929</b>	<b>(35)</b>	<b>(35)</b>	<b>0</b>
<b>Total</b>	Expenditure	162,145	162,546	401	325	76
	Income	(112,874)	(113,456)	(582)	(505)	(77)
	<b>Sub-Total</b>	<b>49,271</b>	<b>49,090</b>	<b>(181)</b>	<b>(180)</b>	<b>(1)</b>

7. With the following narrative setting out the variances and movement from Month 6 on an exception basis:
  - a. **Finance** – A net underspend of £146k is reported at Month 7 with a minor £1k improvement from Month 6, with the subjective variances being driven by additional

costs incurred by the Finance service as they deliver Government directed programmes such as the Council Tax Energy Rebate, which are offset by Government funding. In addition, the Council's Treasury activity is forecast to deliver a net underspend, predominantly driven by a favourable variance within the Capital Programme at outturn 2021/22.

- b. **Corporate Services** – a net underspend of £35k is reported, with the underspend being driven by a number of small variances within the staffing position due to vacancies, with the most material being Human Resources. With the subjective movements reported in Month 7 being driven by a number of minor updates, with the most significant being an increase in spend on the Legal service area, offset by pandemic related election grant funding in Democratic Services.
8. Of the £13,346k savings within the 2022/23 budget, 92% are banked or on track for delivery in full, with potential risks on 7% (£986k) - relating to the Leisure Centre management fee and reflects the particular impact of the COVID-19 pandemic on this sector and the ongoing challenges facing this service. 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 2022/23 savings will ultimately be banked in full.
9. The position on the savings included in the 2022/23 budget within the remit of this Select Committee are as follows:

**Table 2: Savings Tracker**

Cabinet Member Portfolio	Blue Banked £'000	Green Delivery in progress £'000	Amber I Early stages of delivery £'000	Amber II Potential problems in delivery £'000	Red Serious problems in delivery £'000	Total £'000
Cabinet Member for Finance	(105)	(320)	(100)	0	0	(525)
Cabinet Member for Corporate Services	(432)	(727)	(783)	0	0	(1,942)
<b>Total</b>	<b>(537)</b>	<b>(1,047)</b>	<b>(883)</b>	<b>0</b>	<b>0</b>	<b>(2,467)</b>

10. Based on 2.99% per annum increases in the core Council Tax and 2% per annum increases in the Social Care Precept, funding available to support service expenditure is projected to grow by £39,475k to £290,522k between 2022/23 and 2027/28. A combination of inflation and demand-led pressures (including legacy impacts of the COVID-19 pandemic), together with capital investment plans is projected to generate a £49,017k uplift in service expenditure. In order to address this differential, to date, a savings programme of £45,683k has been developed, leaving a residual budget gap of £9,542k in later years of the MTFP period.

**Table 3: Budget Strategy**

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Total Resources	251,047	264,763	271,475	277,868	284,082	290,522
Total Service Expenditure	251,047	264,763	271,475	281,886	290,046	300,064
<b>Cumulative Budget Gap</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(4,018)</b>	<b>(5,964)</b>	<b>(9,542)</b>
<u>Of which, Service Expenditure in the remit of this committee:</u>						
Finance	25,307	33,455	37,980	40,550	40,213	41,317
Corporate Services	23,964	24,733	25,280	26,657	27,389	28,142
<b>Total</b>	<b>49,271</b>	<b>58,188</b>	<b>63,260</b>	<b>67,207</b>	<b>67,602</b>	<b>69,459</b>

11. As is the case for the vast majority of local authorities, the Council has experienced exceptional economic factors that are driving a material inflationary requirement, which is having a significant impact on the cost of providing services to residents. The generally accepted measure of inflation, the Consumer Price Index (CPI) reached 10.1% in September 2022 and has yielded a forecast inflationary requirement of £21,877k in 2023/24, rising to £62,047k by 2027/28. This compares to a forecast of £6,430k for 2023/24 when the Council set out the previous iteration of the budget strategy in February 2022, with this latest refresh presenting a three-and-a-half-fold increase from these projections. Inflation, along with other updates on demand-led growth and corporate items has generated the need for a major savings programme, which stands at £20,791k in 2023/24, a significant increase from the £9,630k which was identified in February 2022.
12. The adverse economic conditions and particularly the sudden onset of a recession and inflationary pressures represent the main cause of the current cost-of-living crisis, with the impact from increasing costs and declining revenues having negative impacts on local residents and businesses, creating a challenging economic environment. It should be recognised that this in turn creates an element of risk on the Council's funding, with circa 75% of the Council's funding now being derived from local taxation.
13. Furthermore, COVID-19 legacy issues continue to impact on Council services and finances, with pandemic related pressures in 2022/23 of £14,722 at Month 7, with £11,291k of this having been factored into the previous budget strategy in February 2022 and £3,431k of new and emerging issues. While these extraordinary costs have been financed from specific central government grants up to 31 March 2022, it is not expected that any further funding will be forthcoming and ongoing structural pressures emerging from the pandemic will continue to cause cost pressures. This is largely driven by the unwinding of £4,406k of reserve balances used in 2022/23 to cover part of the budgeted pressure for the year and the £3,431k of new and emerging issues.
14. Notwithstanding the additional challenges presented by economic turmoil and the legacy impacts from the pandemic, this budget strategy does not rely upon use of General Balances to support service expenditure and therefore maintains these at £26,780k 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, meaning that £6,780k remains available to the Council to deploy, should it be required.

15. In addition to General Balances, the Council holds Earmarked Reserves to manage specific risks, projects and cyclical expenditure commitments. At 31 March 2023, these are projected to total £18,641k, with £2,149 k of this sum being the remaining balance held to manage COVID-19 costs and a further £4,297k being the remaining balance of identified funding to meet exceptional inflationary pressures. This strategy includes budgeted releases from Earmarked Reserves of £6,791k, with a drawdown of £3,834k being included to bridge the gap between funding and expenditure in 2023/24, with a further £1,535k of previously planned releases from COVID-19 funding and the continuation of the funding for the Older Peoples Discount for a further year, leaving a forecast £10,328k of Earmarked Reserves on the balance sheet at the end of the five-year budget strategy.
16. Savings proposals totalling £45,683k have been developed towards mitigating the emerging expenditure pressures as funding levels are projected to grow at a slower rate than demand for Council Services, with a residual £9,542k budget gap to be mitigated over the period from 2025/26 to 2027/28 should this programme of savings be realised in full. As in previous years, savings proposals for the forthcoming financial year are specific in nature, with medium-term plans structured around wider strategic approaches to transformation of local services. Proposals have been developed within the themes of Service Transformation, Effective Procurement, Managing Demand and Income Generation & Commercialisation, with an overview of specific measures set out within this report.
17. Whilst the Local Authority settlement is still awaited, it is clear that Government Grants and Business Rates income will fail to match prevailing levels of inflation currently and in the medium term and that demand levels for Adult and Children's Social Care provision have shown and will continue to show unrelenting growth. It has therefore proved necessary for the Council to propose a step change increase in Fees & Charges. These have historically been the lowest in London. The proposed increases will narrow the gap with other authorities and will still leave Hillingdon with the one of the lowest levels of Fees & Charges per capita in London.
18. Within Income Generation & Commercialisation savings are a range of proposals relating to levels of income raised from Fees & Charges, which are levied to support a number of specific services rather than the cost of these measures falling wholly on the local Council Taxpayer. The Council has sought to maintain lower levels of charges as part of the broader approach of delivering Sound Financial Management for residents, a strategy which has succeeded with charges per household being amongst the very lowest across London. As a result of the broad range of competing demands on limiting funding, a strategy of moving towards full cost recovery on these charges is set out within this budget.

19. This draft budget outlines £340,003k 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 £59,405k is to be financed through borrowing. Taken together with historic capital spending, this investment will result in the Capital Financing Requirement peaking at £273,015k in 2024/25 and declining thereafter. Of this peak borrowing requirement, £232,870k is expected to necessitate external borrowing, with £40,145k being financed through General Fund reserves and working capital.

## **Risk Management**

20. A fundamental context to the Council’s budget strategy are its levels of reserves. The Council holds a combination of General and Earmarked Reserves in order to mitigate the Council’s financial position against the risk of unforeseen or exceptional financial shocks, with General Balances held to cover a broad range of risks as set out in the Council’s Balances & Reserve Policy that was approved in February 2022 (along with the Council’s current budget strategy) which set a range of balances between £20m and £39m, and Earmarked Reserves being held to mitigate specific risks, or to fund project and cyclical expenditure (where the cycle is something other than a financial year).
21. The rationale for holding General Balances is set out in the Balances & Reserves Policy, and covers impacts from the general financial climate, including the Council’s own financial standing and that of its residents and local businesses, the risk of inflation and/or interest rate shocks, demography and contact management, the timing of capital receipts and availability of reserve levels. These General Reserves represent a mechanism for the Council to manage shocks, and with the reserve balance forecast to be £26,780k by 31 March 2023 these are within the approved range. For 2022/23, General Reserves stand at 13% of the Council’s budgeted Net Revenue Expenditure, which represents the cost of running Council services before taxation income and Government grants.
22. Earmarked Reserves are held for a number of reasons but are more specific in nature than the risks that General Balances cover, with the Council forecast to hold £18,641k by 31 March 2023. The Council holds Earmarked Reserves for a variety of purposes which include the mitigation of inflation and price risk, smoothing the impact of project related and cyclical commitments spanning financial years, managing expenditure associated with transformation and holding ringfenced/specific funding streams.
23. Based on the approach adopted to generating the Council’s budget strategy, the procedures it follows, and the assumptions included in this report, the budget strategy is deemed to be based on sound forecasting and realistic assumptions that enable the Cabinet to present this position to the public, local businesses and Council members for consideration.
24. As part of the Cabinet’s final budget proposals to Council presented in February 2022, the Corporate Director of Finance will provide assurances around robustness of estimates and adequacy of reserves as part of the statutory framework for local authority budget setting.

These assurances will be framed with reference to principles and standards included within CIPFA's Financial Management Code.

### **Budget Proposals for the Finance & Corporate Services Select Committee**

25. 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 Cabinet Portfolios within the remit of this Select Committee for 2022/23.

**Table 4: Service Expenditure Budget Proposals**

	2022/23	Inflation	Demand-led Growth	Corporate Items	Savings Proposals	2023/24
	£'000	£'000	£'000	£'000	£'000	£'000
Finance	25,307	3,678	0	4,569	(99)	33,455
Corporate Services	23,964	1,847	0	0	(1,078)	24,733
<b>Total Service Expenditure</b>	<b>49,271</b>	<b>5,525</b>	<b>0</b>	<b>4,569</b>	<b>(1,177)</b>	<b>58,188</b>

26. Inflation: Cost pressures of £5,525k are projected against 2022/23 expenditure going into 2023/24, with material uplifts in relation to workforce budgets, contracted expenditure and energy costs. In line with wider MTFE modelling, inflation projections are predicated on CPI being 10% during 2022/23 and 2023/24 before returning to 4% over the remainder of the Council's budget strategy. The exceptional inflationary environment within the national, and global, economy is the largest driving force behind the Council's saving requirement in the short-term, with 2022/23 CPI running above the Council's assumptions at the time of setting the 2022/23 budget, leading to the 2023/24 budget proposals including an element of funding for the 2022/23 uplifts above the budgeted level which are currently being funded from Earmarked Reserves.
27. Demand-Led Growth: There are no demand-led growth items within the remit of this committee.
28. Corporate Items: budget movements within the remit of this Select Committee account for £4,569k of the £9,572k increase across the Council over the life of the budget strategy to 2027/28, with a breakdown of these items presented below.
29. Capital investment plans set out within this budget will require £59,405k borrowing over the period to 2027/28, the servicing and repayment of which will add £4,967k to the capital financing budgets over this period. 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.

30. 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 £1,330k addition to service expenditure.
31. The consequential impacts of reduced tube and bus usage by those residents making use of the Freedom Pass both during, and after, the pandemic has led to reductions in the Council's Concessionary Fares levy from Transport for London with the position presented above reflecting the return to pre-pandemic levels of demand. 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 2027/28. In addition, legacy added years pension payments are projected to decline by £125k over the same period, with 2023/24 including an additional £100k reduction for an accelerated reduction in demand during the pandemic.

### **Savings Proposals**

32. As mentioned above, £20,971k of savings proposals have been incorporated into the draft budget for 2023/24, with £1,177k falling within the remit of this Select Committee. Included within this savings programme are proposals to increase Fees & Charges at a general increase of 30%, representing the unprecedented inflation rates for 2022/23 and 2023/24 and an accelerated catch up of historically low fees and charges compared to neighbouring authorities, with Hillingdon generating £108.61 per resident from this funding stream compared to the Council's three immediate neighbours in West London raising £209.02 per resident.
33. Broader reviews have been undertaken of the following areas within the remit of this Select Committee, with recommendations to increase fees at a slightly differing levels to contribute to the full cost recovery of providing the service, minimising the subsidy currently borne by the wider Council Taxpayer:
  - a. Contact Centre – the council is able to levy a maximum charge of £10 for the administration of a new/renewal Blue Badge, currently a charge of £2.10 is levied for both. It is recommended to increase the charge to £10.
34. Details of the savings programme proposals within the remit of this Select Committee are discussed below.
35. Finance & Transformation: Significant transformation is underway with the planned implementation of a new ERP system within Finance, which will enable the automation of transactional functions, impacting from 2024/25 onwards and result in corresponding savings of £600k from the back office. In addition, ongoing work within the Revenues and Benefits services, including channel shift to enable greater levels of self-service, is expected to achieve

£220k of savings. For 2023/24, savings include an initial £100k from the review of Revenues and Benefits, alongside £17k increased income from Fees & Charges.

36. **Corporate Services:** Service redesign within this portfolio has led to a series of planned restructures across these support functions, which will deliver £1.4m over a period of 3 years (with £1.1m expected to be delivered during 2023/24), including Human Resources (£206k), Business Support (£446k), Business Performance (£170k), Complaints and Members Enquiries (£90k), Democratic Services (£150k) and a wider review of the management structure across the Group (£200k), with a particular focus use of technology and removing management tiers. The review of Fees & Charges is expected to generate an additional £204k within this portfolio.

### Capital Proposals

37. Capital investment of £340,003k over the period 2022/23 to 2027/28 has been incorporated into the wider General Fund budget strategy set out within this report, with £193,865k investment in major projects, primarily delivering new or expanded infrastructure, and £137,358k investment in recurrent programme of works, ensuring that existing infrastructure is maintained and improved, with a contingency of £8,780k being set against this programme. An overview of these investment plans is detailed in appendix A8 that accompanied the Consultation Budget Report presented at December Cabinet.

**Table 5: General Fund Capital Programme by Cabinet Portfolio**

	<b>Major Projects</b>	<b>Programme of Works</b>	<b>General Contingency</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Total Capital Programme</b>	<b>193,865</b>	<b>137,358</b>	<b>8,780</b>	<b>340,003</b>
<u>Of which, Service Expenditure in the remit of this committee:</u>				
Finance	28,000	4,376	8,780	41,156
Corporate Services	0	4,975	0	4,975
<b>Total</b>	<b>28,000</b>	<b>9,351</b>	<b>8,780</b>	<b>46,131</b>

38. Further to the overview presented above, the below section sets out the Capital Proposals within the remit of this Select Committee.
39. **Finance** – the £28,000k budget under Major Projects relates to capitalisation support to cover costs of transformation (£12,000k in total over three years) and the DSG recovery plan (£16,000k in total over four years). These costs require to be financed by capital receipts which have been included in the capital financing budget. Under Programmes of Works, the budget of £4,376k focuses upon the programmed renewal of the Council's vehicle fleet.
40. **Corporate Services** – the budget of £4,975k includes £3,905k for continuing investment in the Council's ICT infrastructure and £1,070k for older people's initiatives.

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

The role of the Select Committees is to make recommendations on service changes and improvements to the Cabinet, who are responsible for the Council's policy and direction.

### **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: MEDIUM TERM FINANCIAL FOECAST 2023/24 - 2027/28,  
presented to 15 December 2022 Cabinet Meeting