

# THE COUNCIL'S BUDGET: MEDIUM TERM FINANCIAL FORECAST 2023/24 - 2027/28

<b>Cabinet Members</b>	Councillor Martin Goddard
<b>Cabinet Portfolios</b>	Finance
<b>Officer Contact(s)</b>	Andy Evans, Corporate Director of Finance
<b>Papers with report</b>	Appendix A: General Fund Budget Proposals Appendix B: HRA Budget Proposals Appendix C: Fees and Charges Proposals Appendix D: Capital & Investment Strategies Appendix E: Pay Policy Statement Appendix F: Budget Consultation Feedback

## HEADLINES

<b>Summary</b>	<p>This report sets out the Medium Term Financial Forecast (MTFF), which includes draft General Fund and Housing Revenue Account budgets for 2023/24, presented in the context of the Council's five-year budget strategy to 2027/28.</p> <p>Budget proposals for 2023/24 include a 4.99% increase in the headline rate of Council Tax. This comprises a core Council Tax increase of 2.99% alongside a 2% increase relating to the Adult Social Care Precept.</p> <p>Cabinet are requested to recommend their budget proposals to Council on 23 February 2023. 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 2023/24 financial year.</p>
<p><b>Putting our Residents First</b></p> <p><b>Delivering on the Council Strategy</b></p>	<p>This report supports our ambitions and commitments to residents as part of the Council Strategy 2022-26. The Medium Term Financial Forecast is the financial plan for the Council and contains the funding strategy for delivering its objectives.</p>
<b>Financial Cost</b>	<p>This report outlines a balanced budget for the 2023/24 financial year, on the basis of a below inflationary 2.99% increase in the headline rate of Council Tax and use of the 2.00% Social Care Precept in line with the Government's funding framework for local services.</p>
<b>Select Committees</b>	All
<b>Relevant Ward(s)</b>	All

## RECOMMENDATIONS

That Cabinet approves for recommendation to Council:

- 1) **The General Fund and Housing Revenue Account budgets and capital programme proposals for 2023/24 (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) **Authorise the Corporate Director of Finance, in consultation with the Cabinet Member for Finance, to respond on behalf of the Council to the consultation on the provisional Local Government Finance Settlement and to the Mayor of London's budget consultation.**

That Cabinet:

- 6) **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 2023/24. 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.

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 138 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 2023/24 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 2.99% of general Council Tax before triggering the need for a referendum and a further 2.00% in the form of a Social Care Precept. The current budget proposals reflect the full use of these limits, 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 £1,309k either way (increase or decrease) will result in an increase or decrease of 1.0% in the level of the Council Tax, equivalent to £12.63 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 2023/24 being the fourth 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.

This budget report has been prepared in the context of a broad range of risks faced by the Council, with key items noted in the report alongside mitigating and/or management strategies to suppress or contain these risks.

The Corporate Director of Finance can give surety on the robustness of estimates included within this consultation budget, which is based on established, rigorous business processes around robust financial modelling and closely aligned to service plans. Implementation of budget proposals will be closely tracked through the monthly budget monitoring processes during 2023/24.

### **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 2023, with comments from each committee presented in Appendix F to this report.

## SUPPORTING INFORMATION

### INTRODUCTION

1. This report provides an overview the Cabinet's budget proposals in respect of the Council's General Fund and Housing Revenue Account (HRA), alongside an update on the latest position on the Schools Budget which is being prepared in the context of the Council's Safety Valve agreement with 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 23 February 2023.
2. The General Fund budget for 2023/24 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 challenging economic circumstance globally, nationally and locally. Despite the first multi-year settlement in a few years in October 2021, there remains uncertainty around future funding levels due to political volatility and economic turmoil which has led to significant increases in service expenditure and ongoing uncertainty surrounding the implications for a high inflationary environment in the context of the Council's funding settlement, although confirmation of the majority of the Council's 2023/24 funding via the Final Local Government Settlement in February 2023 has been received. This has meant that in spite of the multi-year settlement there remains material uncertainty as to the levels of funding in the later years of the Medium Term Financial Forecast The Council continues to operate in a post-pandemic legacy environment with ongoing pressures from COVID-19, with the further pressures from inflationary pressures and the cost-of-living crisis impacting on residents' financial sustainability.
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. Inflationary pressures on management of current stock and new investment represent a challenge to HRA operating model, with the capping of rental increases at 7% by Government necessitating a renewed focus upon delivery of efficiency savings in this area.
4. Following December Cabinet on 15 December 2022, 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 budgeted use of Earmarked Reserves to smooth the impact of cost pressures landing in 2023/24, with one increase relating to ringfenced funding aimed at improving hospital discharges, therefore this funding is being earmarked for that purpose in the Council's budget.

5. Furthermore, updates have been received from London Councils on Hillingdon's forecast Concessionary Fares levy, along with an acceleration of the benefits from Hillingdon First Limited and revised projections for Capital Financing Costs and the funding for the Older People's Discount.
6. The table and narrative below outline the changes to the recommended budget proposals from the report considered by Cabinet on 15 December 2022, with improvements in funding projections in 2023/24 largely being used to eliminate the need to drawdown Earmarked Reserves to balance the budget. Each of these items is also considered in the relevant section of this report, with specific movements since December 2022 reported from paragraph 131.

**Table 1: Changes Since December Cabinet**

<b>General Fund Budget Corporate Summary</b>	<b>2023/24</b>	<b>Five Year Outlook</b>
	<b>£'000</b>	<b>£'000</b>
<b>Year on Year Change in Budget (Gap) / Surplus</b>	<b>0</b>	<b>9,542</b>
Budget (Gap) / Surplus for the Year	0	
<u>Updates</u>		
Provisional Settlement	(2,627)	(2,628)
Final Settlement	(472)	(76)
Better Care Fund	(719)	(719)
Social Care Funding	0	(1,609)
Collection Fund Month 9 Update	(24)	0
Energy Inflation	(186)	(186)
Contracted Expenditure Inflation	0	(1,912)
Cyber Security Demand-Led Growth	90	90
Capital Financing Costs	1,023	1,692
Acceleration of the Unwinding of the Flexible Use of Capital Receipts to finance Service Transformation	40	0
Legal Services Review	160	0
Concessionary Fares	(369)	412
Hillingdon First Limited	(750)	0
Social Care Reforms Funding	0	5,125
Planned Use of Earmarked Reserves	3,834	0
<b>Total Updates</b>	<b>0</b>	<b>189</b>
<b>Year on Year Change in Budget (Gap) / Surplus</b>	<b>0</b>	<b>9,731</b>
Budget (Gap) / Surplus for the Year	0	

7. Capital Programme Changes: Since publication of the consultation budget in December 2022, confirmation of a number of new grant funding streams, an increase in the contingency

budget to offset the risk of inflation and latest intelligence on project delivery has enabled a further refresh of the programme – facilitating a £28,607k uplift in planned investment with £21,744k of this cost to be funded from Prudential Borrowing, while the remainder is offset by increased third party contributions. This results in £368,610k planned investment over the MTFF period, with financing structured around £81,149k borrowing and £114,210k planned Capital Receipts.

8. Housing Revenue Account (HRA) Changes: The forecast balances as at the 31 March 2023 have been updated to reflect the Month 9 forecast, increasing balances by £17k to the position presented in December, with balances now forecast to be £15,085k by 31 March 2023, with a corresponding adjustment to revenue contributions to capital to present a net nil impact.
9. Further details on the General Fund movements are included later in this report in paragraph 131.

## **GENERAL FUND REVENUE BUDGET**

### **BUDGET STRATEGY AND SUMMARY OF PROPOSALS**

10. Budget proposals for 2023/24 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 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.
11. 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 £82k which will leave uncommitted General Balances at £26,801k entering the 2023/24 financial year. However, included in the 2022/23 position is a significant use of Earmarked Reserves to fund £5,757k 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 £3,597k 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.
12. Of the £13,346k savings within the 2022/23 budget, 92% are banked or on track for delivery in full, with no savings being reported as being at risk of non-delivery over the medium term. 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.
13. 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 £39,382k to £290,429k 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 £49,113k 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 £9,731k in later years of the MTFF period, a material element of which can be attributed to the aforementioned uncertainties in respect Central Government funding in the later years.

**Table 2: Budget Strategy**

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Total Resources	251,047	264,700	274,898	276,692	283,442	290,429
Total Service Expenditure	251,047	264,700	274,898	284,191	291,514	300,160
<b>Cumulative Budget Gap</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(7,499)</b>	<b>(8,072)</b>	<b>(9,731)</b>

14. 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 £21,691k in 2023/24, rising to £59,949k 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.
15. The adverse economic conditions and particularly the sudden onset of inflationary pressures and potential recession 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 in excess of 75% of the Council's funding now being derived from local taxation in the medium term.
16. Furthermore, COVID-19 legacy issues continue to impact on Council services and finances, with pandemic related pressures in 2022/23 of £14,888k at Month 9, with £11,291k of this having been factored into the previous budget strategy in February 2022 and £3,597k 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 £3,597k of new and emerging issues.
17. 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 £26,801k over the five-year MTF period. A review of the range of general risks affecting the Council indicates that the recommended level of uncommitted reserves should be between £22,000k and £41,000k. 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 £18,424k, with £1,660k of this sum being the remaining balance held to manage

COVID-19 costs and a further £3,599k being the remaining balance of identified funding to meet exceptional inflationary pressures. This strategy includes budgeted releases from Earmarked Reserves of £2,970k, with £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 £15,455k of Earmarked Reserves on the balance sheet at the end of the five-year budget strategy.

18. 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 £9,731k budget gap to be mitigated over the period from 2025/26 to 2027/28. 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.
19. With the Final Local Government Settlement now announced, 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 Outer London. The proposed increases will narrow the gap with other authorities but will still leave Hillingdon with the one of the very lowest levels of Fees & Charges per capita in London.
20. 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.
21. This draft budget outlines £368,610k 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 £81,149k is to be financed through borrowing. Taken together with historic capital spending, this investment will result in the Capital Financing Requirement peaking at £305,612k in 2024/25 and declining thereafter. Of this peak borrowing requirement, £231,243k is expected to necessitate external borrowing, with £46,078k being financed through General Fund reserves and working capital. This level of borrowing sits comfortably within the Council's borrowing headroom.

22. The following sections of this report and appendix A provide further commentary and analysis to support the General Fund budget strategy, before returning to the Schools Budget and Housing Revenue Account in turn.

## **RISK MANAGEMENT**

23. 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). As part of the development of the 2023/24 budget, this assessment of minimum reserve levels has been revised upwards to a range from £22m to £41m in recognition of the challenging economic circumstances in which the Council is operating.
24. 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 £26,801k 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.
25. 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 £18,424k 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.
26. With Earmarked Reserves forecast to be £18,424k by 31 March 2023, this represents a further 9% of reserves cover against the Council's Net Revenue Expenditure, this, alongside General Balances means the Council has total reserves available to cover 22% of Net Revenue Expenditure based on the 2022/23 budget, before considering increases in expenditure over the life of the budget strategy. The application of these earmarked reserves in the current financial year has enabled the Council to navigate the challenging economic conditions but means that consideration should now be given to rebuilding reserves over the medium-term within ongoing government funding constraints.

27. The budget strategy presented in this report has taken a prudent approach to the review of inflation, with the Council's core inflation assumption being that CPI continues to track at c. 10% per annum for 2022/23 and 2023/24, before falling to 4% for the remainder of the five-year strategy. The approach assumes that much of the Council's core contracted expenditure ultimately presents for an increase of this magnitude, albeit with an expectation that the timing of uplifts will present on a staggered basis. On a similar approach, Social Care continues to generate a significant inflation requirement against an expenditure budget exceeding £110m. Energy and fuel inflation forecasts continue to track significantly above inflation, predominantly linked to the impact from the war in Ukraine.
28. Following ten years of Hillingdon freezing Council Tax before applying more modest increases in recent times, Hillingdon has positioned itself as a low tax authority, however, as the Government assume that Councils will raise Council Tax in line with the referendum threshold, the Council's core spending power is tracking behind where Government models would assess it to be. Indeed, it should be noted that as a result of the ten-year freeze, even after applying this increase in 2023/24, Council Tax levels in Hillingdon are amongst the lowest in London. This means that the robustness of estimates is critical as the Council needs to ensure that Service Operating Budgets are sufficient to fund services going forward without the reliance on reserves.
29. The Council continues to take a robust approach to the Savings Programme, which is focussed on making improvements and efficiencies in service delivery rather than service reductions, with fully developed and assessed proposals being included in the Council's budget strategy, without arbitrarily assigning savings targets to departments, meaning that the Council can have greater certainty in the delivery of the saving programme, albeit with an inherent level of risk due to continuing adverse economic conditions and the increasingly complex nature of the savings initiatives being undertaken.
30. The combination of this substantial savings programme and proposed uplifts in Fees & Charges are projected to secure £20.8m benefit in the 2023/24 financial year, indicating the scale of measures required to manage the significantly increased savings requirement for the forthcoming financial year.
31. 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.
32. As part of the Cabinet's final budget proposals presented in this report and recommended to be approved to Council later this month, the Corporate Director of Finance has provided assurances around robustness of estimates and adequacy of reserves as part of the statutory framework for local authority budget setting – this commentary is set out from paragraph 138 below. These assurances will be framed with reference to principles and standards included within CIPFA's Financial Management Code, which provides a structure

against which an authority can self-assess the effectiveness of its financial management arrangements.

## FUNDING SOURCES

33. General funding available to support the Council's service expenditure is projected to grow from £251,047k in 2022/23 to £290,429k by 2027/28, an uplift of £44,272k across Council Tax, Business Rates and Government Grants offset by unwinding reliance on one-off funding sources to leave a net increase in resources of £39,382k by 2027/28. The following table and commentary provide an overview on each of these funding streams, with Appendices A1 and A2 providing detailed projections.

**Table 3: Funding Sources**

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Council Tax Revenues	131,179	137,440	146,651	153,953	159,891	166,040
Business Rates Income	56,616	60,670	61,884	61,884	61,884	61,884
Corporate Grant Income	58,362	65,109	66,363	60,855	61,667	62,505
<b>Total Recurrent Funding</b>	<b>246,157</b>	<b>263,219</b>	<b>274,898</b>	<b>276,692</b>	<b>283,442</b>	<b>290,429</b>
Collection Fund Deficit	(1,023)	(54)	0	0	0	0
Release of COVID-19 Reserves	5,913	1,535	0	0	0	0
Planned Use of Earmarked Reserves	0	0	0	0	0	0
<b>Total One-Off Funding</b>	<b>4,890</b>	<b>1,481</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Resources</b>	<b>251,047</b>	<b>264,700</b>	<b>274,898</b>	<b>276,692</b>	<b>283,442</b>	<b>290,429</b>

34. Income from Council Tax is projected to grow by £34,861k over the period to 2027/28 as a result of inflationary uplifts in the headline rate, further use of the Social Care Precept and growth in the taxbase. The first two years of the budget strategy include below inflationary increases but utilising the revised Council Tax referendum thresholds announced in the Autumn Statement, uplifts of 2.99% per annum have been factored into this budget, together with 2.0% per annum increases in the Social Care Precept in line with the Government's approach to managing demand in this area. From 2025/26 onwards, in line with the Council's inflation assumption, Council Tax is forecast to increase at the lower rate of 1.8% per annum for the core uplift alongside a further 1% Social Care Precept. Together, these increases secure £27,387k of the additional funding to meet growing demand and inflationary pressures.
35. The remaining £7,474k additional income from Council Tax is driven by growth in the taxbase as a result of 5,916 Band D equivalent properties from new residential development in the borough over the next five years and a 16% reduction in demand for the Council Tax Reduction Scheme as the economic impact of COVID-19 unwinds. Projections for new development represent a 4% 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. The Council is proposing to review the Council Tax Reduction Scheme and improve the targeting of the service to better support local residents.

36. Business Rates revenues are projected to grow by £5,268k, primarily driven by forecast increases of 2% per annum against the multiplier for the first two years of the budget strategy, with 2023/24 being funded by Section 31 Grant income following the Government's announcement to freeze the multiplier next year, with the increase in the rating list forecast for 2023/24 being driven by the national revaluation of commercial properties. Furthermore, the Council is proposing to increase the provisions within this area, as it is anticipated that the economic environment will lead to a reduction in collection rates, with a higher appeals provision also being required as the Country's rating based has revalued, and with 2023/24 being the first year of the increased rating list, it is anticipated that there will be an increase in the appeals made by local 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.
37. Due to the current economic climate, there remains a risk with the Council's forecast taxation income as residents and local businesses continue to be exposed to the recession in a high inflation environment, impacting on their ability to pay taxes. The Council has factored in a provision for a reduction in the collection of Council Tax for 2023/24 and 2024/25 and increased provisions within Business Rates, but due to the significant impact this is having on individuals and businesses alike, there remains an element of risk within these forecasts.
38. Following the publication of the Final Local Government Settlement, the Council now has certainty over the majority of Government funding for 2023/24, however, despite the Spending Review period running to 31 March 2025, the settlement did not cover the second year of the settlement period. The Settlement did however provide confirmation of increased funding for the Council, with an additional £4,146k in 2023/24, albeit with £1,047k of this increase being ringfenced to fund hospital discharge improvements, leaving a net £3,099k improvement for the Council.
39. The Autumn Statement confirmed the upcoming Social Care reforms set to introduce a cap on personal care costs alongside the Fair Cost of Care reform have both been delayed for two years, however, the funding that the Government set aside for these initiatives will continue to be allocated to Councils to support Social Care service expenditure. This, alongside other funding updates means the Government are increasing Council funding by up to £2.8bn in 2023/24 and up to £4.7bn in 2024/25 dependent on individual councils' use of the Social Care Precept at 2%, with the 2023/24 impact of these decisions on Hillingdon being included in the Final Government Settlement and presented in this report. However, due to the lack of any indication on local government funding beyond 2024/25 and with the Social Care Reforms still planned to be implemented by the Government, there is no

certainty that the funding allocated to the Council from the reforms delay will remain within the Council's funding from 2025/26 once the reforms are implemented.

40. In line with the continued approach from the Government to increase funding for Social Care and in order to secure the additional funding the Government have identified that the Council requires to fund these services, this budget includes the continued use of the Adult Social Care Precept and a 2% uplift in Social Care grant funding beyond the settlement year to support growing costs in this area.
41. There remain a number of areas of uncertainty regarding future funding levels, the most salient of the funding risks include:
  - i. The Final Local Government Settlement provided clarity on the Council's funding for 2023/24, however, there remains uncertainty on the final year of the Spending Review period going into 2024/25, with much greater uncertainty from 2025/26 onwards.
  - ii. 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.
  - iii. 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.
42. Furthermore, there are a number of risks associated with the Council's taxation income that have already been expanded upon, including the impact on residents and local businesses of the recession and inflationary pressures. Prior to the COVID-19 pandemic, pooling of Business Rates income across London secured additional income on occasions and 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.
43. The Council will continue to review and track progress against these risks, some of which may be included in future iterations of the Council's budget strategy prior to the Council setting the 2023/24 budget in February 2023, whilst others will require a longer review period and will be reported through the Council's budget monitoring process. The Council will continue to review and assess new and emerging risks and call upon existing strategies to manage and mitigate these risks.

## SERVICE EXPENDITURE

44. Service expenditure will continue to 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**

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Property & Infrastructure	10,997	10,798	10,314	10,736	11,154	11,583
Finance	25,307	33,213	40,687	42,765	42,464	43,115
Public Safety and Transport	23,964	24,893	25,280	26,657	27,244	27,843
Corporate Services and Transformation	28,169	22,681	23,062	24,581	26,071	27,580
Environment, Housing & Regeneration	52,295	58,231	59,168	61,702	63,865	66,230
Health & Social Care	107,487	115,506	121,887	128,294	134,760	141,353
Corporate Operating Budgets	2,828	(622)	(5,500)	(10,544)	(14,044)	(17,544)
<b>Total Service Expenditure</b>	<b>251,047</b>	<b>264,700</b>	<b>274,898</b>	<b>284,191</b>	<b>291,514</b>	<b>300,160</b>

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

### Inflation

46. Due to the current economic climate impacting prices around the globe, nationally and locally, inflation is the key driver behind the Council's increases in Service Expenditure, with inflationary cost pressures projected to total £59,949k against 2022/23 expenditure over the period to 2027/28, with material uplifts shown in relation to workforce budgets, care placements, contracted expenditure and energy costs in the below table. In order to ensure that budget plans are structured on the basis of robust projections, local inflation estimates have been reached following review of a broad range of economic forecasts – including EY Item Club, the Council's treasury advisors Arlingclose, the Bank of England and Office for Budget Responsibility.
47. These inflation projections are predicated on CPI averaging 10% during 2022/23 and 2023/24 before returning to 4% in the following years. As the Council set the 2022/23 budget with lower inflation assumptions than are currently being experienced in the market, this position includes an element of 'catch up' inflation to fund the forecast shortfall in 2022/23 which has been funded from a specific reserve which was created at outturn 2021/22 for exceptional inflation. The following table and commentary provide an overview of this requirement, with further detail set out in Appendix A3.

**Table 5: Inflation Provision**

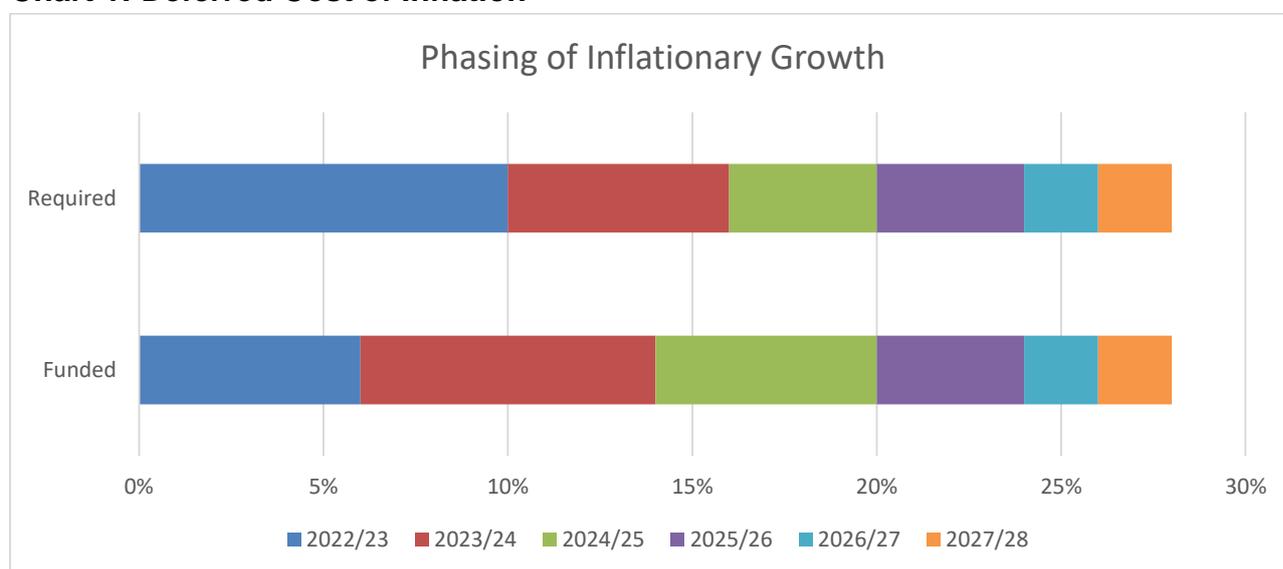
	2022/23 Budget £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Workforce Expenditure (including Pension Contributions)	129,727	8,618	2,076	2,662	2,853	2,911
Social Care Placements	110,393	8,703	6,626	5,030	5,230	5,438
Contracted Expenditure	40,238	3,219	2,607	1,843	958	977
SEND Transport	7,018	421	223	230	237	244
Energy & Fuel	4,580	3,458	411	432	453	476
Other Expenditure	11,014	156	225	228	233	238
Less: Externally Funded Items	(23,522)	(2,884)	(1,262)	(1,076)	(1,102)	(1,143)
Budgets Out of Scope of Inflation	(28,401)	0	0	0	0	0
<b>Total Inflation Requirement</b>	<b>251,047</b>	<b>21,691</b>	<b>10,906</b>	<b>9,349</b>	<b>8,862</b>	<b>9,141</b>

48. The workforce expenditure inflationary requirement is calculated to be £19,120k or 14% over the five-year budget strategy, which incorporates three discrete elements. Firstly, the requirement to fund the outcome of the 2022/23 pay award negotiations, reflecting a 5.9% uplift, with the approved budget for the year including a 2% inflationary requirement, with the Council therefore required to fund the 3.9% balance. Secondly, nationally negotiated pay settlements over the five-year period are forecast to be 11.35%, including a level of front-loading to reflect the current spike in general inflation. Finally, the unwinding of the 1.25% Employers' National Insurance Contributions, following the reversal of the uplift applied from April 2022 from 6 November 2022.
49. Inflationary increases of 7.9% have been added to Social Care Placements for 2023/24 in order to reflect inflationary pressures faced by the sector alongside upward pressure on wages, with an element of this uplift factoring in a permanent funding strategy for 2022/23 increases above the approved budget for the year. The following year is forecast to increase by 5.6% reflecting a 4% CPI uplift, plus an element of time delay of the 10% 2023/24 CPI uplift presenting. Children's Social Care is forecast to be somewhat protected from these exceptional uplifts and net down the overall uplift for Social Care, believed to be linked to high historical market rates, meaning providers are able to absorb much of the exceptional inflationary demand on their cost base. Future years are forecast to return to 4% per annum increases and track above the Bank of England target rate of 2% 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. This position adds £8,703k to the 2023/24 inflation requirement, rising to £31,027k over the five-year budget strategy.
50. Whilst the Autumn Statement included the delay of the Social Care reforms by two years, when the Fair Cost of Care review goes live in October 2025, the impact on the Social Care provider market and is expected to drive up the cost of care provision, however, under the Government's new burdens doctrine, this Government driven review should be fully funded

by Grant funding and not impact on the Council’s net Service Expenditure, with the impact of this noted earlier in the report under paragraph 39 above.

51. Contracted Expenditure is forecast to rise in line with CPI at 10% per annum for 2022/23 and 2023/24, however, it is anticipated that there will be a time lag in these uplifts presenting to the Council as suppliers grapple with a volatile inflationary environment and present uplift requests as and when forecasts become available to them. For this reason, the Council is forecasting c.4% of the uplifts driven by 2022/23 and 2023/24 indices will impact on the 2024/25 budget before returning to 4% in 2025/26 before reducing to the 2% Bank of England target rate from 2026/27 onwards as shown graphically below. These assumptions add £3,219k in 2023/24, rising to £9,604k by 2027/28.

**Chart 1: Deferred Cost of Inflation**



52. Special Educational Needs or Disability (SEND) Transport is forecast to require a 6% uplift in 2023/24, with this service area particularly exposed to volatility in fuel prices, with future uplifts forecast to reduce to 3%, tracking 1% below the Council’s forecast for contracted Services, with this position adding £421k to service operating budgets in 2023/24, rising to £1,355k over the life of the budget strategy.
53. Exceptional inflation provisions of 88.3% and 31.8% respectively have been included for energy and fuel budgets in 2023/24, reflecting ongoing market conditions, with this element of the budget particularly impacted by the war in Ukraine, with inflation requirements in the medium term projected at 5% per annum. This position is adding £3,458k in 2023/24, increasing by a further £1,772k over the remainder of the five-year budget strategy to £5,230k. Given current market volatility, this area will remain under close review and where possible mechanisms to minimise cost increases and/or minimise volatility will continue to be investigated.

54. 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 2023/24, no inflation has been applied to Business Rates in line with the freeze confirmed by the Chancellor in Autumn Statement 2022.
55. 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 2027/28, such mechanisms are expected to reduce the net cost of inflation by £7,467k.
56. In overall terms the Council has the ability to manage inflation risk through the Council's Balances & Reserve Policy and the amount contained within for inflation risk, alongside further cover that was provided at outturn 2021/22 when the Council set up a specific Earmarked Reserve to fund inflation volatility. To date, £5,757k of exceptional inflation has been drawn down from the reserve, with £3,599k remaining available for new and emerging pressures. The Council is in a position where it should take a prudent approach to assessing inflation and incorporating this within expenditure forecasts. . In this context there is a need to ensure service operating budgets are sufficiently resilient to cover forecast inflationary impacts and avoid any assumed reliance or expectation of reserve drawdowns.

#### **Demand-Led Growth**

57. 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 projections tend to focus on services where a smaller number of residents are supported with higher needs, or where demand levels are strongly linked to population changes, other areas impacted by population movements are deemed to have a smaller impact and therefore able to manage the additional demand within existing resources. These items are projected to add £23,171k or approximately 18% to the £125,877k budget for these functions in 2022/23, with this movement expanded upon below and in Appendix A4.

**Table 6: Demand-led Growth**

	2022/23 Budget £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Waste Disposal Levy & Contracts	14,148	483	706	561	561	563
WLWA One-Off Income	0	(1,000)	1,000	0	0	0
Support for Looked After Children	14,294	2,266	353	360	365	375
Support for Children with Disabilities	2,699	57	40	41	42	43
SEN Transport	11,442	703	683	656	627	497
Adult Social Care Placements	61,920	1,777	1,409	1,523	1,616	1,714
ASC Market Sustainability and Improvement Fund	0	(2,438)	0	0	0	0
Investment in ASC Market Sustainability	0	2,438	0	0	0	0
ASC Discharge Fund	0	(1,047)	0	0	0	0
Investment in ASC Discharge Support	0	1,047	0	0	0	0
Homelessness Prevention	3,299	2,111	0	0	0	0
Asylum Funding Shortfall	1,175	599	14	0	0	0
Investment in Public Health	18,538	394	342	0	0	0
GLL Leisure Contract	(1,638)	1,600	0	0	0	0
Cyber Security	0	90	0	0	0	0
<b>Total Demand-led Growth</b>	<b>125,877</b>	<b>9,080</b>	<b>4,547</b>	<b>3,141</b>	<b>3,211</b>	<b>3,192</b>

58. An uplift of £2,874k is projected on waste disposal costs, with an average of 1.7% per annum growth in waste tonnages over the five-year period and 4% per annum disposal costs in 2023/24, reducing to 2% per annum thereafter, driving this sustained increase in costs, although there remains scope for volatility in both demand and price. The Council continues to monitor demand and the effectiveness of the collection operation in an attempt to maximise efficiencies and reduce the environmental impact, with the Council required to use the West London Waste Authority for disposals and therefore unable to directly influence unit costs.
59. The COVID-19 pandemic continues to have a legacy impact in numbers of Looked after Children, with 2022/23 continuing to see higher than budgeted demand, with this demand being driven by demand for mental health services and the impact of court delays on children's care provision. The 2023/24 increase therefore includes an element of funding for those children that have already presented to the Council. With the legacy pandemic related demand now starting to slow and return to normal levels, future years are forecast to grow by 2% per annum in line with population growth forecasts. This position therefore adds £2,266k to the Council's Service Expenditure for 2023/24 before reducing to £1,453k for the remaining four-year period. This area remains one of the Council's high risk service areas, with demand continuing to be volatile, the ongoing risk exposure to high cost in-year placements and with the potential for the cost-of-living crisis to drive further demand for this

service area. Included in the Council's Saving Programme presented elsewhere in this report, is a proposed saving to reduce spend on Looked After Children by £950k from 2024/25 from the creation of the registered care beds, with the Demand-Led Growth bid representing the increase required before this mitigating action.

60. Numbers of Children with Disabilities are expected to grow in line with historic trends, adding a further £223k to the cost of this service over the life of the budget strategy. 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 £3,166k by 2027/28 to finance transport to education settings within and outside the borough.
61. Underlying demand for the Adult Social Care Placements is projected to continue to grow over the budget strategy period, which continues to have an ongoing COVID-19 legacy issue, with an element of the 2023/24 increase being required to fund a marginal increase in demand during 2022/23, before returning to pre-pandemic population increases. This position is therefore driving a demographic increase of £1,777k for 2023/24 before returning to a 2% per annum increase in client numbers, adding £6,262k from 2024/25 to 2027/28. Included in the proposed Savings Programme later in this report, are three savings initiatives aimed at reducing spend on Adult Social Care Placements by £2,550k by 2024/25, with the Demand-Led Growth bid representing the increase required before these initiatives are factored in to reduce the overall spend in this area.
62. Within the Adult Social Care service area, the Government have announced a number of ringfenced funding streams, one aimed at Market Sustainability and Improvements within the sector and a second aimed at improving hospital discharges, with this report proposing that these grants are accepted from Government and that delivery plans are put in place to spend these funds on their intended purpose to the benefits of the residents that access these services.
63. Homelessness continues to see additional demand presenting to the service, however, up until recently In Hillingdon it has largely been possible to mitigate through the additional Government funding following the introduction of the Homelessness Reduction Act in 2017 and ongoing central government measures to specifically address the Rough Sleeping cohort. Based on the Council's current demand and levels of Government funding, it is forecast that this service area will require additional demand funding of £2,111k in 2023/24, driven by additional numbers being placed in high-cost nightly accommodation. This service area is particularly volatile and is being impacted by pandemic legacy demand, the cost-of-living crisis and an increase in private sector evictions, all in the context of consultation on the Government funding allocations, for this reason, this area will continue to be kept under review, with any further changes to the Council's Service Expenditure to be presented in future refreshes of the Council's budget strategy.

64. Demand pressures associated with supporting Unaccompanied Asylum-Seeking Children (UASC), some of which is being driven by global crises, are intended to be met through specific grant. However, an increase in the number of children not eligible for grant funding is one of the key factors behind an increase the Council's net service expenditure, with a further impact being driven by subsistence for Care Leavers, with an increase of £599k in 2023/24, followed by a residual £14k in 2024/25, taking the total increase to £613k over the life of the budget strategy. It should be noted, that grant funding has not been sufficient to meet the financial burden on the Local Authority and that the Home Office are yet to revise rates for 2022/23, in the current economic climate, the absence of an inflationary increase in the funding regime could lead to further pressures on the Council's budget.
65. With Public Health continuing to be a ringfenced fund, the increase in service expenditure relates to the forecast increase in the Council's Public Health Grant allocations based on the 2021 Spending Review which set a multi-year settlement. With the Council required to spend any increase in Government funding on Public Health, this increase ensures the Council meets its statutory obligations and re-invests the increased funding into Public Health services, the remaining balance of the increased funding is being utilised to fund inflationary uplifts reported under contracted expenditure.
66. Following on from the pandemic, the Council continues to see legacy impacts in demand for leisure services, creating a challenging environment for the Council's leisure. In recognition of the ongoing impact of the pandemic on demand, the Council is close to finalising a review of its contract for delivery of leisure services with a £1,600k increase in service expenditure reflecting unwinding the existing contract, while the Savings Programme in this report including £1,300k of ongoing income which is expected to be more reflective of current market conditions, therefore representing a £300k net adverse movement overall.
67. With the continuing threat from cyber-attacks and the increasing complexity of such attempts against the Council's ICT systems, the Council's budget proposals include an investment of £90k to further increase the Council's resilience in this area to support the delivery of Council Services and protect residents' and commercial data.
68. The Council continues to monitor the impacts of demography across all Council services and in the wider context of population growth projections from the ONS and other sources and reviews these against the Council's forecast movements in the taxbase, with monthly updates on key areas reported on through the Council's monthly monitoring processes. The Council's Balances & Reserves strategy includes an element within the General Balances assessment for exceptional demographic pressure, with the Council also holding Earmarked Reserves specifically to mitigate against demographic pressure variations. The Council's monthly monitoring process also allows for early indication of new and emerging issues in a timely manner, allowing for remedial action to be reviewed and agreed where appropriate.

## Corporate Items

69. Adjustments to centrally managed or cross-cutting elements of the Council's budgets are presented within Corporate Items are projected to add £11,676k to service expenditure by 2027/28, 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**

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Capital Financing Costs	4,392	3,535	354	(1,614)	(192)
Flexible Use of Capital Receipts to finance Service Transformation	40	73	916	0	0
Public Health Rebadging	(1,000)	0	0	0	0
Earmarked Reserve Drawdown to Fund Transformation	681	0	0	0	0
Hillingdon First Enabling Developments	(750)	(250)	0	0	0
Council Tax Support Fund Grant Income	(474)	474	0	0	0
Council Tax Support Fund Scheme	474	(474)	0	0	0
Legal Service Review	160	(160)	0	0	0
Cost of Older People Discount	(92)	(85)	(80)	(75)	(70)
Earmarked Reserves use for Older People Discount	92	1,422	0	0	0
Concessionary Fares Rebate	175	2,283	1,146	500	0
Housing Benefit Subsidy (Recovery of Overpayments)	100	100	100	100	100
Movement in Added Years Pension Costs	(125)	(25)	(25)	(25)	(25)
<b>Total Corporate Items</b>	<b>3,673</b>	<b>6,893</b>	<b>2,411</b>	<b>(1,114)</b>	<b>(187)</b>

70. Capital investment plans set out within this budget will require £81,149k borrowing over the period to 2027/28, the servicing and repayment of which will add £6,475k 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 £1,029k to service expenditure by 2025/26. As the Council continues to join up health and care spend, the Council has reviewed current expenditure and identified £1,000k of expenditure that meets the criteria for the Public Health ringfence and can therefore be funded by the Public Health Grant and free up general funding for other frontline services. The pipeline of developments for Hillingdon First Limited is expected to secure additional income of £1,000k per annum by 2024/25 through the delivery of high-quality housing.
71. 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 £1,112k addition to service expenditure.

72. 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 over a four-year period. 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. Furthermore, a one-off investment of £160k is included for a review of the Council's Legal Service, which will help shape the service going forward.
73. Included in this section of the budget is a further announcement made by the Government as part of the Final Local Government Settlement, and the creation of the Council Tax Support Fund for 2023/24, with the Government allocating the Council £474k to fund additional support for residents against their Council Tax liability, with the Government confirming a discount of up to £25 per Council Tax Support claimant, with the remaining balance to be spent at the Council's discretion to support residents with the cost Council Tax. The Council will present a scheme to Cabinet for approval based on the Government's guidance in February Cabinet on the same agenda as this report as part of the Council's Budget Monitoring report.
74. Corporate risks are monitored on via the Council's monthly monitoring process, with outputs from this feeding into the medium-term budget strategy. This includes reviewing the impact of capital financing assumptions, both in terms of the Council's Capital Programme and cashflow management as well as the financial markets and the impact on the cost of borrowing and investment income due to interest rate changes both in the short and medium terms. An element of cover is included in the Council's Balances & Reserve Policy, with the Council also well placed manage cashflow requirements on a proactive basis through the regular review of the financial markets.

## **SAVINGS PROGRAMME**

75. A programme of savings proposals totalling £20,791k have been developed for the 2023/24 financial year, with a further £24,892k of measures from 2024/25 expected to secure £45,683k savings over the course of the MTFF. This represents a significant step change from the savings requirement anticipated in February 2022 This savings programme will continue to be delivered through a similar range of themes to proposals delivered in previous years, albeit with a pivot towards broader strategic programmes of activity. These strategic programmes include:
- i. Leveraging technology and other tools to deliver transformational change in service delivery models as part of end-to-end Service redesign to ensure cost effective and

efficient ways of working. Some of these tools include the deployment of Amazon Web Services to deliver voice automation within the Contact Centre to increase capacity for responding to resident engagement, adopting Perform Plus methodology to drive efficiencies in operational delivery, which has already been undertaken across Housing functions and greater use of automation to replace transactional processes where possible;

- ii. Moving towards a Community Hub model of service delivery, which brings together services within localities, providing residents with ready access to a range of Council provision while reducing overhead costs tied up in asset management;
  - iii. Continuing to manage demand across demand-led services such as Social Care and Homelessness through investment in early intervention, prevention and targeted support where this is appropriate for the needs of the service users, for example in partnership working with the NHS to provide Mental Health crisis intervention services or bolstering affordable housing supply in the borough, and;
  - iv. Continued proactive management of the Council's contracted out services, ensuring that third party provision continues to meet evolving resident requirements and secures Value for Money for the local taxpayer.
76. Over the next five years, these strategic measures, combined with an array of smaller tactical initiatives will be implemented to secure efficiencies and continue to deliver local services within the available financial envelope – a challenge made all the greater in the context of the high levels of inflation and ongoing constraints on funding. A thematic overview of this programme is set out below, with measures totalling £45,683k.

**Table 8: Medium Term Outline Savings Programme**

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Service Transformation	(6,612)	(4,671)	(2,875)	(1,000)	(1,000)
Effective Procurement	(3,430)	(553)	(122)	0	0
Managing Demand	(1,524)	(2,706)	(111)	(136)	0
Income Generation & Commercialisation	(6,845)	(4,218)	(2,500)	(2,500)	(2,500)
Zero Based Reviews	(2,380)	0	0	0	0
<b>Total Savings by Theme</b>	<b>(20,791)</b>	<b>(12,148)</b>	<b>(5,608)</b>	<b>(3,636)</b>	<b>(3,500)</b>

77. Service Transformation proposals amounting to £16,158k reflect the expected outputs from the BID programme, which is built around a number of key objectives:
- i. The impact of more fundamental, end to end, business process reengineering through a revised approach to digital customer contact/ channel shift at the front door, the roll out of robotics and automation to back-office processes and then the implementation of more efficient ways of working, such as the Perform Plus methodology.

- 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.
78. Measures to manage demand continue to be focused on early intervention and similar approaches with a value at £4,477k, anticipated 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, alongside the impact of Mental Health crisis stepdown as part of a review of this pathway within Adult Social Care.
79. Income Generation and Commercialisation measures totalling £18,563k reflect a continuation of the approach taken in 2022/23 to managing Fees and Charges, with the impact of inflation on core Council services necessitating a move towards greater cost recovery through Fees & Charges where appropriate. Appendix C to this report provides an overview of proposed Fees & Charges for the 2023/24 financial year, where this move towards greater cost recovery is proposed to minimise the requirement for cross-subsidisation from Council Tax.
80. In order to support the delivery of the Council's Saving Programme, pump priming expenditure of £6,000k is forecast for 2023/24 and 2024/25. In line with the Government's direction, Local Authorities are permitted to fund such expenditure from Capital Receipts generated through the sale of assets by the Council. Furthermore, in line with the Month 9 Budget Monitoring position presented to Cabinet on the same agenda as this report, a further £5,439k is forecast to be funded in this way (with an additional £561k expected to be incurred by year end) in support of the Council's General Fund savings delivery.
81. The following paragraphs provide an overview of specific savings proposed to balance the 2023/24 budget position, with appendix A6 providing a summary of savings proposals by Cabinet Member portfolio and theme and appendix A6a setting out the Council's pump priming proposals to support delivery of the programme. Where savings relate to back-office functions shared between General Fund and Housing Revenue Account, an element of the saving will benefit the HRA.

**Table 9: 2023/24 Savings Programme**

	<b>Gross Saving £'000</b>	<b>HRA Share £'000</b>	<b>General Fund Saving £'000</b>
Property, Highways & Transport	(1,727)	0	(1,727)
Finance	(117)	18	(99)
Corporate Services	(1,466)	388	(1,078)
Residents' Services	(11,931)	0	(11,931)
Children, Families & Education	(1,111)	0	(1,111)
Health & Social Care	(2,395)	0	(2,395)
Cross-Cutting Initiatives	(2,450)	0	(2,450)
<b>Total Service Expenditure</b>	<b>(21,197)</b>	<b>406</b>	<b>(20,791)</b>

82. As shown in the table above and expanded upon in the following paragraphs, £20,791k of General Fund savings proposals have been incorporated into the draft budget for 2023/24 (based on specific, planned measures but with inherent risk in delivery as ever),
- i. Property, Highways & Transport: A comprehensive service review of Highways and Transport is expected to deliver savings of £150k through the implementation of a staffing restructure and changes to operating models, alongside working with schools to implement a new model of road safety measures, which will reduce costs by £90k. In addition to this, maximising the use of assets is core to the wider transformation programme and projects are underway to review assets across the Borough including a wide-ranging programme for the use of the Civic Centre, which will to reduce running costs by £325k in 2023/24. As part of the review of assets, leases to voluntary sector organisations will be considered with a view to consolidating assets, which is anticipated to deliver £100k. The review of Fees & Charges in this area is projected to yield £356k of additional income.
  - ii. In line with maximising the appropriate funding available, zero-based reviews of Highways (£150k), Street lighting (£210k) and Town Centre (£346k) works will all be undertaken and relevant activities will be funded through Capital, releasing an estimated £706k of savings.
  - iii. 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.

- iv. 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.
- v. Residents Services: A series of restructures will be undertaken across the teams within Residents Service, following reviews of processes, ensuring that robust and efficient structures are in place to ensure efficient delivery of front-line services. These restructures include reviews within the following areas: Community Safety (£72k), Graffiti (£85k), Out of hours teams including merging Park locking duties (£240k), Parking (£45k), Projects and Events (£70k), and a wider review of management tiers across the Place Group (£200k).
- vi. Within Green Spaces, extensive transformation is underway, reviewing the service offer to ensure efficient functioning of parks and green spaces maintenance across the Borough in a sustainable way. Replacing bedding plants with perennials results in lower maintenance and is anticipated to save £50k, maximising recharges within the Green Spaces service securing £150k and reviewing hanging baskets (£50k) will all contribute to ensuring a cost-effective service. A wider Service redesign of Green Spaces will be undertaken, reviewing structures, operating models and funding strategies and aims to deliver a further £615k.
- vii. As part of wider Service redesign work, the operating model of several service areas will be undertaken to minimise Council subsidy where appropriate and ensure cost effective service delivery. A review of street cleaning to align more closely to the rerouted waste rounds is anticipated to deliver £400k, a full redesign of the Housing service, using technology and efficient ways of working to mitigate costs (£300k), investigating the creation of a charitable trust for heritage assets within the Borough (£115k), installation of LED lights within Cedars and Grainges car parks to reduce energy costs (£110k), rightsizing the active operations of the CCTV room to focus on peak activity times (£160k) and the creation of a locality needs based approach to libraries (£350k), will all be implemented over the course of 2023/24.
- viii. Within Waste Services, a series of projects are underway focusing on increasing levels of recycling and reducing contamination to ensure waste can be disposed of in the most cost-effective manner. The projects include; the re-routing of waste rounds, which was implemented on the 31 October, with a full year effect saving of £250k, further work to improve capacity at the Household recycling centre (£100k), continued management of demographic growth through effective recycling and disposal (£75k), reviewing food

waste, compost and bottle bank options (£84k), implementing changes to the distribution of recycling bags (£200k) and increasing levels of recycling within Schools to cut down on residual waste costs (£70k).

- ix. The review of the Leisure contract following the significant impact of pandemic on this industry, which is close to being finalised, will secure a saving of £1,300k as part of a broader programme of procurement and commissioning activities including a review of additional grant monies to fund Police activities (£500k).
- x. A number of zero-based review savings are included within this portfolio, ensuring value for money and maximising alternative funding streams. These total £674k in 2023/24 and includes an increase in application of S106 monies (£300k), alternative funding for events (£24k) and capitalisation of appropriate works and equipment within Green Spaces (£350k).
- xi. Within Residents Services, there are a number of opportunities to generate further income and a variety of proposals will be considered including increased parking charges (£3,470k) and in particular the implementation of a charge of £75 for the first parking permit within parking management schemes, removing the Council subsidy of the golf offer across the Borough (£100k) and increasing income from filming within the Borough (£50k). The broader review of Fees & Charges outlined within Appendix C is projected to generate an additional £5,516k income to support services within the Residents Services portfolio.
- xii. Children, Families & Education: Demand management and innovation to reduce costs are the key focus within Children's Services. The Stronger Families programme continues to embed and to support families in crisis or at risk, to ensure that the family unit remains intact where appropriate and avoids children entering the care system, with a further cost reduction of £150k anticipated from this work. Reductions in the cost of SEN transport are anticipated across the term of the MTFF, in line with the DSG recovery plan through the creation of greater in-Borough sufficiency of placements, with this expected to deliver £229k in 2023/24. In addition, further work will be done to minimise the current subsidy on the Council's provision of Early Years nursery provision, with a target of a £130k reduction in 23/24. Amendments to Fees & Charges are expected to yield a further £602k within this area.
- xiii. Health and Social Care: Within Health and Social Care, as in previous years, the Council continues to adopt a strong Early Intervention approach to deliver better outcomes for residents and contain placement costs. The Service continue to experience the impact of Covid on packages of care and work is focused on further mitigating these impacts, which is reflected in the savings within this area, with £500k in 2023/24 relating to post-pandemic reablement savings as the caseloads are stabilised and a further £500k for Mental Health Covid recovery reflecting efficiencies

from both early intervention and placements. In year realignments of staffing budgets for 'hard to recruit' posts are expected to provide a further £500k of one-off savings in 2023/24 based on trends in 2022/23 budget monitoring and the social care workforce. A comprehensive review of the grants distributed to the Voluntary Sector, with the aim of moving to a fully commissioned model, meeting the Public Health objectives of the Council, has generated a further £830k in 23/24, with £65k savings linked to a review of staffing structures.

- xiv. Cross-Cutting Initiatives: As detailed above, in addition to the specific portfolio savings programmes, there is a programme of strategic, multi-year activity, which cuts across all Council services, with £2,450k expected to be delivered in 2023/24. Moving to a Community Hub model of service delivery in localities across the Borough is underway and efficiencies through asset disposals are anticipated to deliver £500k in 23/24. Leveraging technology and other tools to deliver transformational change in service delivery models as part of end-to-end Service redesign is expected to deliver £650k in 23/24, with further savings planned across the term of the MTF. Through effective procurement, it is anticipated that part of the inflationary impacts projected in 23/24 will be contained and the saving of £800k reflects this activity. Finally, a zero-based review of all Corporate discretionary spend will target a reduction of £500k from budgets.
83. In order to ensure the effective management and delivery of this savings programme, the Council has embedded a robust governance structure around Service Transformation with monthly programme management boards tracking progress against all proposals and reporting through to Cabinet Members on a regular basis. Overarching outputs from this process will continue to form part of the monthly budget monitoring report to Cabinet, providing a key tool for the management of risk around delivery of the savings programme and by extension a balanced budget.
84. Where implementation of savings proposals requires upfront investment, it is recommended that these costs are funded through a combination of Earmarked Reserves and Capital Receipts as permitted by Government Direction. In order to make use of Capital Receipts, it is necessary for the Council to adopt and report on an efficiency strategy, with the London Borough of Hillingdon's Medium Term Financial Forecast serving this purpose. Regular reporting on use of these powers will be included in the monthly budget monitoring reports to Cabinet throughout 2023/24, with final outturn positions similarly reported to Cabinet.

## **CAPITAL PROGRAMME (2022/23 to 2027/28)**

### **Capital Expenditure**

85. Capital investment of £368,610k over the period 2022/23 to 2027/28 has been incorporated into the wider General Fund budget strategy set out within this report, with £198,153k investment in major projects, primarily delivering new or expanded infrastructure, and £141,779k investment in recurrent programme of works, ensuring that existing infrastructure

is maintained and improved, with a contingency of £28,678k being set against this programme. An overview of these investment plans including changes from the programme approved by Council in February 2022 is detailed below, with further detail available in Appendix A8.

### Changes to the Approved Programme

86. Development of the Capital Programme flows from the previously approved budget, where planned new borrowing over the MTFF period stood at £87,858k, with refinement of projections in respect of the Civic Centre transformation project and a review of alternative funding opportunities reducing this sum by £25,463k to leave a new borrowing requirement of £62,395k as of the December 2022 consultation budget. This step change in the borrowing requirement enabled the Council to mitigate the additional costs arising from increased debt financing costs flowing from recent uncertainty in the financial markets.
87. Since publication of the consultation budget in December 2022, confirmation of a number of new grant funding streams, an increase in the General Contingency to mitigate against high inflation during the years of high investment and the latest intelligence on project delivery has enabled a further refresh of the programme – facilitating a £28,607k uplift in planned investment with £21,744k of this cost to be funded from Prudential Borrowing, while the remainder is offset by increased third party contributions. This results in £368,610k planned investment over the MTFF period, with financing structured around £81,149k borrowing and £114,210k planned Capital Receipts.

**Table 10: Capital Programme Changes from December Cabinet Report**

	Project Budget £'000	Grants and Contributions £'000	CIL £'000	Capital Receipts £'000	Prudential Borrowing £'000
<b>December Cabinet</b>	<b>340,003</b>	<b>126,778</b>	<b>25,860</b>	<b>127,960</b>	<b>59,405</b>
Grant funding for Carbon Reduction	0	13,750	0	(13,750)	0
Charville Lane Children's Home Redevelopment	3,984	3,102	0	0	882
Investment in Social Care Equipment	2,455	2,455	0	0	0
Grant funding bid to Transport for London	1,126	1,126	0	0	0
Ongoing Investment in Leisure Centres	500	0	0	0	500
Corporate Technology & Innovation - Oracle Project	400	0	0	0	400
General Contingency	20,000	0	0	0	20,000
In-year movements from December position	142	180	0	0	(38)
<b>Change from December Cabinet</b>	<b>28,607</b>	<b>20,613</b>	<b>0</b>	<b>(13,750)</b>	<b>21,744</b>
<b>February Cabinet</b>	<b>368,610</b>	<b>147,391</b>	<b>25,860</b>	<b>114,210</b>	<b>81,149</b>

88. In addition to minor changes to mirror movements in the budget monitoring position since December 2022, specific changes to the capital programme include:

- i. Securing £13,750k of grant funding in support of the Council's existing programme of Carbon Reduction measures;
- ii. Securing match funding for investment in an expanded Children's Home offer at Charville Lane;
- iii. Uplifting budgeted spend on Social Care Equipment with the costs to be met from the capital element of the Better Care Fund;
- iv. Realigning projected funding levels from Transport for London to match the recently submitted bid;
- v. Establishing funding for ongoing investment in the Council's leisure centre estate;
- vi. Financing planning investment in a new Oracle Financial system from capital sources in place of Earmarked Reserves.
- vii. The General Contingency has been increased by £20,000k with £10,000k falling in the two years 2023/24 and 2024/25 to give the Council an element of cover against the high inflationary environment the construction industry is facing in the years of the programme that have the larger levels of investment.
- viii. Finally, the profile of asset disposals over the MTFF has been refreshed to reflect the latest pipeline of potential sales and take account of current economic conditions.

### Capital Programme By Cabinet Portfolio

89. The revised draft capital programme of £368,610k from 2022/23 to 2027/28 by Cabinet Member portfolio is set out in the table below.

**Table 11: Capital Programme by Portfolio**

Cabinet Member Portfolio	Major Projects £'000	Programmes of Works £'000	General Contingency £'000	Total £'000
Property, Highways & Transport	141,877	102,109	0	243,986
Finance	28,000	4,376	28,678	61,054
Corporate Services	0	5,375	0	5,375
Residents' Services	3,184	8,199	0	11,383
Children, Families & Education	25,092	4,694	0	29,786
Health & Social Care	0	17,026	0	17,026
<b>Total</b>	<b>198,153</b>	<b>141,779</b>	<b>28,678</b>	<b>368,610</b>

90. **Property, Highways and Transport** – total investment of £243,986k from 2022/23 to 2027/28 includes £34,845k to complete the construction of the new West Drayton Leisure Centre in 2024/25, and £25,035k to develop the new Hillingdon Water Sports facility, replacing facilities dispersed by the HS2 project. Other projects include £20,000k on the redevelopment of the Uxbridge Civic Centre to provide a modern base for Council services and release land for housing delivery, £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.

91. Complementing major projects investment is £102,109k programme of works spend, including £35,321k for the borough's roads and footways infrastructure, £21,766k works to improve the fabric of the borough's existing schools, and £12,974k investment in adaptations for residents through the Disabled Facilities Grant Programme. Other programmes include the cyclical renewal of the Council's existing asset base, ensuring that this remains fit for purpose.
92. **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.
93. **Corporate Services** – the budget of £5,375k includes £4,305k for continuing investment in the Council's ICT infrastructure and £1,070k for older people's initiatives.
94. **Residents' Services** – the draft budget of £11,383k includes £6,214k for the Chrysalis and playground replacement programmes, providing various facilities to residents, and £2,605k for various shopping parades initiatives to improve local high streets.
95. **Children, Families and Education** – within Major Projects a total of £25,092k based on current confirmed grant funding is included for increasing special educational needs places at several identified school sites, supporting the DSG recovery plan. There is also £4,694k under Programmes of Works for providing new uniformed scout/guide groups facilities (£1,900k) and devolved capital to schools.
96. **Health and Social Care** – the budget of £17,026k is for continuing investment in Social Care equipment for service users.

## Capital Financing

97. The capital programme is 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 changes and resulting levels of borrowing.

**Table 12: General Fund Capital Financing**

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Total £'000
Grants	24,213	58,890	27,432	13,441	10,285	10,285	144,546
CIL	9,742	2,463	3,750	3,750	4,500	4,500	28,705
Capital Receipts	21,920	23,977	40,365	13,305	7,240	7,403	114,210
Borrowing	18,754	52,395	10,000	0	0	0	81,149
<b>TOTAL</b>	<b>74,629</b>	<b>137,725</b>	<b>81,547</b>	<b>30,496</b>	<b>22025</b>	<b>22,188</b>	<b>368,610</b>

98. Prudential Borrowing has been reduced by £25,463k from the level approved by Cabinet and Council in February 2022, as set out in the above table of changes to the approved programme.
99. The capital receipts target has been required to be increased by £34,758k from the level of £79,425k approved in February 2022, mainly due to requiring £28,000k across transformation and DSG financing support, the latter being part of the safety valve agreement terms. Substantial receipts are expected to be generated through the planned reconfiguration of the Civic Centre site which will finance the gross £20,000k capital budget, alongside a broader review of the estate. Overall, this target for asset sales is deemed to be achievable, although there remains inherent risk from the necessary engagement with the market which will necessitate a level of investment to secure Value for Money in potentially challenging economic conditions.
100. Grants available to support planned investment include Department for Education funds for investment in special needs 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 provision of new uniformed groups facilities. In addition, a number of smaller grants have been secured for specific projects and Section 106 contributions are applied to eligible expenditure.
101. 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 West Drayton, with the community-led element being used to fund the Chrysalis Programme.
102. Section 106 Financing - improvements to processes around the management of developer contributions are also expected to enable application of existing Section 106 monies, with £178k Section 106 contributions favourably being applied to existing schemes as part of capital financing outturn in 2021/22. A further £822k over three years are assumed able to support the capital programme, set against the Carbon Initiatives budget.
103. Planned new borrowing of £81,149k, together with the Council's historic capital investment will result in the Capital Financing Requirement peaking at £305,612k in 2024/25 and

declining thereafter. Of this sum, £231,243k is expected to necessitate external borrowing, with £46,078k being financed through General Fund reserves and working capital as outlined in the table below.

**Table 13: General Fund Borrowing**

	<b>2022/23</b> <b>£'000</b>	<b>2023/24</b> <b>£'000</b>	<b>2024/25</b> <b>£'000</b>	<b>2025/26</b> <b>£'000</b>	<b>2026/27</b> <b>£'000</b>	<b>2027/28</b> <b>£'000</b>
<b>Capital Financing Requirement</b>	<b>259,674</b>	<b>304,483</b>	<b>305,612</b>	<b>296,358</b>	<b>286,930</b>	<b>277,321</b>
Projected External Borrowing	(208,499)	(258,008)	(259,336)	(250,280)	(240,852)	(231,243)
Projected Internal Borrowing	(51,175)	(46,475)	(46,276)	(46,078)	(46,078)	(46,078)

104. 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 the 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.
105. In addition to assessing forward-looking capital investment plans against the Prudential Code framework, a retrospective assessment of the Council's existing borrowing requirement provides a rounded view of the Council's capital health. As of 31 March 2022, the Council held General Fund assets valued at £1,196m, against which the outstanding Capital Financing Requirement stood at £248m or 21%. Provision to write-down this balance in full through Minimum Revenue Provision is in place, with 80% of the liability cleared over the next 24 years, reflecting a prudent estimate of the period over which these assets will be available for local service provision.
106. Financing plans set out within this draft budget include the application of £114,210k of Capital Receipts to be secured from the disposal of assets, with £28,000k of this sum being applied in line with Government direction towards the write-down of the Dedicated Schools Grant Deficit and funding investment in service transformation to secure future revenue savings. The residual £86,210k proceeds from projected asset sales will be applied to finance new investment as an alternative to borrowing, in the event that receipts are not available and subject to assessing prudence, affordability and sustainability, such new investment could be financed through additional borrowing.

## **SCHOOLS BUDGET**

107. The 2023/24 Schools Budget, with the exception of the High Needs Block, was agreed by Schools Forum on 18 January 2023 and is presented elsewhere on this agenda for approval by Cabinet, with the detail of the High Needs Block to be discussed at the March meeting of Schools Forum. The Council continues to move local distribution formulas in line with the National Funding Formula, with the local formulas moving at least 10% closer to the national formula as prescribed by the DfE. This budget deploys £358,867k of Dedicated Schools Grant and associated funding to the borough's schools, early years setting and other providers, including provisional figures for the High Needs Block of £62,084k of support for pupils with high needs. Schools Forum rejected a transfer of 0.5% from the Schools Block to support the previously noted demand for high needs places, with the Council submitting a disapplication request to the DfE on 6 February 2023, a decision for which is yet to be communicated. Based on this position, the 2023/24 Schools Budget presents an overall deficit of £3,617k before factoring in the Safety Valve Agreement payment of £3,750k and the Council's own contribution to the deficit of £4,000k.
108. As at Month 9, the projected year end deficit on the Schools Budget is projected to total £21,982k in line with previous projections, which together with the 2023/24 budget, Safety Valve Agreement and the Council's contribution to the deficit will result in the cumulative deficit totalling £17,849k at 31 March 2024. The Council's budget strategy continues to include 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.
109. The below table shows the split of the funding allocation of £358,867k, split into the respective blocks within the Schools budgets, and the deficit position:

**Table 14: Schools Funding Allocation Breakdown**

<b>Funding Block</b>		<b>£'000</b>
School Block	Income	(267,406)
	Expenditure	267,406
	<b>Net Total</b>	<b>0</b>
Early Years Block	Income	(26,897)
	Expenditure	26,897
	<b>Net Total</b>	<b>0</b>
High Needs Block	Income	(62,084)
	High Needs Recoupment	9,936
	Expenditure	55,765
	<b>Net Total</b>	<b>3,617</b>
Central School Services Block	Income	(2,480)
	Expenditure	2,480
	<b>Net Total</b>	<b>0</b>
<b>Overall DSG position</b>		<b>3,617</b>
Cumulative deficit carried forward (month 9 projection)		<b>21,982</b>
Safety Valve payment		<b>(3,750)</b>
Hillingdon Contribution		<b>(4,000)</b>
<b>Retained Deficit projected for 23/24</b>		<b>17,849</b>

## **HOUSING REVENUE ACCOUNT**

### **BUDGET STRATEGY AND SUMMARY OF PROPOSALS**

110. 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 2023/24 financial year and the period to 2027/28 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.
111. The HRA budget strategy over the Council's five-year budget strategy 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 370 new homes across the Avondale and Hayes Town Centre estates, a net increase of 72 during the MTFP period on the current configuration.
  - iii. Works to Stock – an enhanced programme of works to ensure that properties are refreshed on a rolling programme.
112. Development of HRA budgets over the five-year has been undertaken in the context of significant inflationary pressures, with CPI currently running in excess of 10%, which is being exacerbated by the inherent focus on construction and building-related expenditure which has been particularly affected during this period of high inflation. In order to manage this inflation in the context of Government capping rent increases below the prevailing rate of inflation at 7%, a programme of efficiency savings will be required over the MTFP period.
113. Forward looking financial plans are based on solid foundations, with a forecast balanced budget for 2022/23 and unallocated reserves projected to total £15,085k at 31 March 2023. Given that £15,000k reserves are judged to provide sufficient capacity for risk management purposes, the budget strategy maintains unallocated reserves at the target level.
114. Capital investment plans will result in the HRA Capital Financing Requirement reaching £344,273k in 2027/28, with both the budget strategy and 30 Year Business Plan demonstrating that the ongoing servicing and repayment of this level of borrowing is sustainable.
115. Further commentary on the HRA budget strategy is provided below, with detailed schedules included in Appendix B.

## RENTAL INCOME

116. HRA Dwelling Rental Income is projected to grow from £61,689k in 2022/23 to £85,187k by 2027/28, with this £23,498k increase in funding driven by a combination of inflationary rent increases and net growth of 486 dwellings as investment in delivery of new stock outstrips projected losses through Right to Buy sales and the Hayes Estates Regeneration Scheme. Within this projections, levels of void losses are projected to decline from 1.20% to 1.00% as a result of investment in service capacity to bring these properties back into use.
117. As part of the November 2022 Autumn Statement, the Government established a 7% cap on rent increases within the sector, which has been reflected in this draft budget for the 2023/24 and 2024/25 years. Thereafter, rental uplifts are assumed to return to the previous national formula of CPI+1%. With CPI currently running in excess of 10%, the 7% rent cap will necessitate delivery of efficiency savings within the HRA in the medium term.
118. 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 14: HRA Stock Numbers**

Tenanted Stock	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Change
Projected Opening Stock	10,222	10,239	10,285	10,487	10,541	10,713	N/A
Forecast Right-to-Buy Sales	(50)	(40)	(40)	(40)	(25)	(25)	(220)
New Units	107	93	100	100	100	20	520
Housing Regeneration voids	(40)	(7)	(65)	(6)	(66)	0	(184)
Housing Regeneration new build	0	0	207	0	163	0	370
<b>Projected Closing Stock</b>	<b>10,239</b>	<b>10,285</b>	<b>10,487</b>	<b>10,541</b>	<b>10,713</b>	<b>10,708</b>	<b>486</b>
Projected Average Stock	10,230	10,262	10,386	10,514	10,627	10,710	

## INFLATION

119. Inflationary cost pressures of £8,806k are projected within the HRA, with material uplifts relating to workforce costs, materials in relation to repairs and maintenance works and energy inflation, with an element of this cost pressure being required to provide permanent funding for 2022/23 inflationary pressures which are forecast to be greater than budgeted for in February 2022. Further analysis of the inflation requirement is presented in Appendix B2.
120. Workforce costs reflect anticipated pay awards of 17.1% over the budget strategy period, with 2023/24 including an element of 'catch up' inflation following a higher than budgeted pay award in 2022/23. The Council's overarching inflation assumptions are for CPI to

continue to track at 10% per annum for 2022/23 and 2023/24, before returning to 4% thereafter, with elements of the Councils expenditure and income being driven by alternative indices. 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 214% for gas and 69% for electricity in 2022/23 to reflect current market volatility before returning to 5% in the medium term. This weighting towards property-related spend in the HRA accounts for higher provisions being made for contract inflation over the medium term.

## **CAPITAL CHARGES**

121. Capital investment plans expanded upon later in this report necessitate £242,257k of new borrowing over the period to 2027/28, the ongoing servicing and repayment of which will add £10,496k to HRA service expenditure over the MTF period. These financing charges reflect the step change in borrowing costs in recent months, with underlying investment continuing to meet the thresholds for affordability, sustainability and prudence.

## **GROWTH**

122. Specific uplifts of £306k in planned service expenditure have been incorporated into this draft budget to ensure that sufficient organisational capacity is in place to deliver on local and national priorities. £190k of growth has been included to bolster capacity to meet expectations of the Social Housing Regulator and consumer standards charter, with a further £116k building capacity within the repairs service to accelerate turnaround of void units and facilitate investment in existing stock, including in relation to decarbonisation.

## **SAVINGS**

123. With the HRA operating as a ringfenced self-financing account, it is incumbent upon the Council to match expenditure to available resources. In the context of rental increases being capped at below the prevailing rate of inflation, it is therefore necessary to identify cost reductions to ensure the HRA remains financially sustainable. In order to ensure that capacity exists to continue to invest in existing and new housing stock, these cost reductions will be secured through identification of efficiency savings.

124. In line with the approach taken to managing service transformation on General Fund services through the BID Programme, a range of initiatives will be undertaken with a view to securing £1,690k of efficiency savings over the period from 2023/24 to 2024/25. These initiatives will include:

- i. Leveraging substantial programme of planned capital investment to minimise the requirement for higher cost reactive repairs;
- ii. Review of contracted expenditure to ensure that arrangements continue to meet service requirements and deliver Value for Money to rent payers, and;

- iii. Reflecting the benefits of broader efficiency programmes in back-office services shared between General Fund and HRA including implementation of the Perform Plus programme across the service, with £406k expected to be delivered during 2023/24.

## CAPITAL PROGRAMME (2022/23 to 2027/28)

### Capital Expenditure

125. Capital investment of £564,658k in expansion and enhancement of the housing stock over the period 2022/23 to 2027/28 has been fully reflected within this draft budget, including £369,522k funding to deliver 890 new dwellings gross and £195,120k investment in existing housing stock. Further detail on these investment plans can be found in Appendix B3, with a brief overview set out below.
126. Investment in new housing includes £160,982k budgets for the flagship regeneration projects on the Avondale and Hayes Town Centre estates which are expected to deliver 370 new homes, a net increase of 185 on the current configuration. A further £208,540k has been allocated to deliver 520 units through internal development and acquisitions, with project timelines set out to maximise use of retained Right to Buy receipts over the MTFF period.
127. £195,120k 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

128. 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 15: HRA Capital Financing**

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Total £'000
Revenue Contributions	25,309	21,597	24,025	26,089	25,234	24,582	146,836
Prudential Borrowing	27,167	64,648	35,740	61,774	52,911	0	242,240
Grants	15,146	16,922	21,258	17,133	22,014	33,593	126,067
Capital Receipts	11,449	8,082	7,400	10,372	10,719	1,476	49,498
<b>Total</b>	<b>79,071</b>	<b>111,249</b>	<b>88,423</b>	<b>115,369</b>	<b>110,878</b>	<b>59,652</b>	<b>564,642</b>

129. 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.
130. 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 £245,879k planned 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 16: HRA Borrowing**

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
<b>Capital Financing Requirement</b>	<b>180,612</b>	<b>235,382</b>	<b>260,879</b>	<b>312,320</b>	<b>354,800</b>	<b>344,273</b>
Projected External Borrowing	(165,612)	(220,382)	(245,879)	(297,320)	(339,800)	(329,273)
Projected Internal Borrowing	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)

## CHANGES SINCE REPORT TO CABINET ON 15 DECEMBER 2022

131. Funding Updates: The Council received a favourable funding settlement compared to originally anticipated from the Autumn Statement update from the Chancellor, with much of the local government sector surprised by the settlement based on the details in the Autumn Statement. This has led to increased funding of a net £3,099k after allowing for expenditure on ringfenced funding streams. Furthermore, the Council has increased its Better Care Fund income based on the latest intelligence from talks with Health colleagues as the 2022/23 Section 75 agreement is finalised. Included in this updated budget strategy is the acceleration of the £1,000k Hillingdon First Limited funding under Corporate Items, with the latest projections bringing forward £750k of benefit from 2024/25 into 2023/24. Within one-off funding, the Council's in-year surplus on the Collection Fund has improved by £24k to 436k. Following the final settlement and the clear indication that the Government are continuing to fund increased costs within Social Care, the budget strategy has been updated to include a 2% per annum increase in funding for the service beyond the settlement period. Finally, where the Council's Consultation Budget presented a drawdown from Earmarked Reserves of £3,834k, this has been removed from the Council's funding strategy, predominantly driven by these funding updates.
132. Social Care Reforms: The Government confirmed in the Local Government Finance Settlement that funding held for Social Care Reforms will be allocated to Councils from 2023/24 despite the delay in the implementation by a further two years. However, as the latest settlement only covers the period to 2024/25, there is a risk that when the reforms are implemented, the Council's funding allocation from delayed reforms will be at risk, the budget strategy is therefore based on no further funding being offered by Government, with a funding shortfall of £5.1m included in the Council's budget proposals from 2025/26.
133. Inflation Updates: Based on the latest projections, the Council's forecast for Contracted Expenditure inflation has been reduced from 4% to 2% from 2026/27 onwards, reducing the inflation requirement in the final two years of the strategy by £1,912k by 2027/28. As the Council purchases its energy requirement in advance each year, the Council has now purchased a larger proportion of this requirement and therefore has greater certainty of the inflationary impact in this volatile area, allowing for a £186k reduction in the inflationary pressure in this area.
134. Demand-Led Growth Updates: Due to the increasing risk of cyber-attacks, the Council is proposing to invest an additional £90k in Cyber Security to ensure that Council services continue to operate uninterrupted and that residents' and other data is held securely.
135. Capital Financing Costs: The Council's Capital Programme has been updated to include a reduction in the forecast level of Capital Receipts, which necessitates a higher level of prudential borrowing to support the planned expenditure in the programme, this has

increased capital financing costs by £1,023k in 2023/24, increasing to £1,692k over the five-year budget strategy.

136. Concessionary Fares: Following an update from London Councils on the use of Freedom Passes across London, the latest projections assume that demand levels will return to pre-pandemic levels over the next four years, with these projections now included in the Council's budget strategy. The final Concessionary Fares levy will be shared with the Council before the end of the 2022/23 financial year.
137. Other Corporate Items Updates: A one-off Legal Services Review has been included in the Council's budget proposals to ensure the service best meets the needs of the residents and supports the delivery of the future proposed saving in this area. The Council is also proposing to accelerate the unwinding of the reliance on the use of Capital Receipts to fund transformation work, bringing this forward to conclude by 31 March 2025.

## **OVERALL BUDGET FOR COUNCIL TAX SETTING 2022/23**

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

138. 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.
139. The Corporate Director of Finance is able to give surety on the robustness of the estimates in general for the coming year. This view is supported by the following processes:
- 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 Transformation Programme, with the overall approach to managing the Council's finances within the framework established in CIPFA's Financial Management Code (see Appendix A10 for Code principles).
  - 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. Corporate Risk Management processes operate in parallel with the budgeting process, with clear linkages between financial exposure tracked in risk registers (which are updated throughout the financial year) and the MTFF.

- v. 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.
  - vi. 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.
  - vii. 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.
140. The 2023/24 budget has been prepared in the context of a high inflationary environment impacting on both residents and businesses alike, a cost-of-living crisis facing the borough's residents, ongoing supply chain issues facing business, particularly the construction industry, and a challenging recruitment and retention environment for all Council services and professions which is particularly acute in the Social Care sector. These issues have been carefully considered in turn and factored into the Council's budget strategy, including, but not limited to, a forecast reduction in the Council Tax collection rate, increased provisions to support the Council against adverse movements within the business rates environment and providing coverage for inflationary pressures going forward, all whilst continuing to fund ongoing legacy impacts from the COVID-19 pandemic given the cessation of specific government grant last year. Local government funding streams continue to become increasingly complex with the additional funding elements such as the Social Care funding for 2023/24 being largely prescribed and very little indication of funding levels from 2025/26 onwards due to the continuation of one-year settlements. The accuracy of medium-term financial planning is further compromised by ongoing uncertainty around the possibility of more fundamental reforms such as the Fair Funding review and delay of the Fair Cost of Care.
141. Whilst the Council has provided for these issues as far as possible within the budget strategy presented in this report, the need to provide sufficient cover within the revenue position is a necessity due to the Council's reserve balances remaining relatively low and these wider funding uncertainties. As a result, the Council has less flexibility to rely on these balances to support variations in these projections and is required to place an emphasis on prudence and caution in its financial forecasting particularly when considering the later years of the MTFF strategy. This Council's position on reserves is demonstrated in the published CIPFA Resilience Indicator reports which facilitate comparative analysis of a local authority's financial standing in the context of its peers. Hillingdon is ranked as a 'higher-risk' authority in terms of reserve levels and reserve sustainability when compared to its nearest neighbours, reflecting its comparatively low reserves and a gradual reduction over the last few years, the latter going against wider sector trends. Future iterations of the Council's MTFF must therefore implement a strategy to rebuild reserve levels in order to increase the

Council's financial sustainability, especially given the significant drawdown from earmarked reserves required to offset the exceptional pressures during 2022/23.

142. In terms of capital health the Council's low level of gross debt and external interest payments sees it ranked as a 'lower-risk' authority within the CIPFA index when compared to London Boroughs and nearest neighbours. This has allowed to Council to manage the impact of the recent interest rates increases on revenue borrowing costs, which is seen as a reflection of the careful management of the Council's capital programme and future commitments. This position is mirrored in the Housing Revenue Account (HRA) where allowing for the commitment to the Hayes Town Regeneration scheme the level of indebtedness compares favourably on established benchmark and is well within the generally accepted parameters, while still providing headroom for further capital programmes based on sound business cases. Appendix B5 provides an overview of this robust HRA balance sheet position.
143. Alongside the exceptional inflationary environment and ongoing pandemic legacy costs, future arrangements for the management of Dedicated Schools Grant deficits and the delivery of the Safety Valve agreement with the Department for Education represents an ongoing area of risk to the Council's Medium Term Financial Forecast. It has now been confirmed that the statutory override establishing a ringfence around the Council's Dedicated Schools Grant deficit will remain in place during the 2023/24 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. Furthermore, the Council's Safety Valve agreement includes an element of flexible capital receipts and is heavily reliant on the development of new SEND school places, both of which could be impacted by the adverse economic conditions experienced in 2022/23. These issues, however, are common across this service area, with the quarterly monitoring regime, which is a component of Hillingdon's Safety Valve agreement, providing a mechanism for the Council to highlight and resolve any such issues directly with the DfE.
144. Taking into consideration all of the above the Corporate Director of Finance is of the view that the budget is robust. The proposed budgets for 2023/24 and 2024/25 are balanced, do not rely on unplanned withdrawals from earmarked or general reserves, and are based on a well-defined and specified savings and transformation programme. The Council has a strong track record of saving delivery, with the most recent position for the 2022/23 programme showing that 84% of savings have been banked or are on track to be delivered. However, given the scale and complexity of these programmes within the current economic conditions and risk environment, as well as the Council's relatively low reserve levels, there is an ongoing requirement for close monitoring of the budget, with particular focus on the savings and asset sales targets for 2023/24 and 2024/25.

## Statement on Balances and Reserves

145. 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 2023/24, the Corporate Director of Finance set a recommended range of balances of between £22,000k and £41,000k, with both of these levels being £2,000k higher than 2022/23. The following paragraphs outline the approach taken in determining this recommended range.
146. 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.
147. 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.
148. 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.
149. 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 increased the lower level to £22,000k and the upper limit to £41,000k, increasing both by £2,000k following a review of the risks facing the Council.
150. The Council has increased the level of reserves required for inflation and interest rate risk, due to the exceptionally high rate of these indices across the country at the current time and

continuing uncertainty over how long this will last for. The level of reserves required to cover the Council's saving programme have also been increased by £1,000k to reflect the challenge of delivering a saving programme of this size, which is materially higher than in more recent times. Finally, the level of reserves required to cover the availability of Council reserves has also been increased to reflect the reduced Earmarked Reserve balance as on 31 March 2023 compared to this time last year. 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 2023/24**

151. Budget proposals for 2023/24 include a 4.99% increase in the headline rate of Council Tax. This comprises a core Council Tax increase of 2.99% alongside a further 2% increase relating to an Adult Social Care Precept to fund ongoing pressures within Adult Social Care.
152. The budget proposals also include the continuation of the cash discounts offered to those currently in receipt of the Older People's Discount in 2023/24, however, the scheme was closed to new entrants as of 1 April 2021.

### **Council Tax Referendum**

153. 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.
154. The general Council Tax increase at which local authorities would be required to hold a referendum for 2023/24 as directed by the Secretary of State for Communities and Local Government is 3%. 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 2023/24.
155. For 2017/18 additional flexibility to levy a precept in support of Social Care expenditure was introduced by the Government, with the 2023/24 threshold being set at 2%, due to the high level of demand on Social Care being driven by the pandemic, the Council has opted to set the Adult Social Care Precept in 2023/24 at 2%.

### **Greater London Authority Precept**

156. The Mayor of London's final budget proposals for 2023/24 are scheduled for consideration and approval by the London Assembly on 23 February 2023. The proposals result in a 9.7% increase in the element of Council Tax relating to GLA functions, equivalent to a £38.55 increase in annual bills for Band D Households.

## RESIDENT BENEFIT & CONSULTATION

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

157. 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 2023/24 have been developed to maintain service provision through a 4.99% increase in the headline rate of Council.
158. This draft budget has been developed with due regard for the ongoing economic turmoil, the consequential cost of living crisis and legacy pandemic related pressures alongside the usual growing demand from population increases and the impacts of ongoing reductions in Government support for local services since the Government's austerity measures began in 2010, while minimising the impact on the level of service provision to residents. Overall, the package of proposals is designed to secure the most effective combination of service outcomes across the whole of the Council's business by improving Value for Money in delivery and maximising funding, procurement, efficiency and service gains where possible.
159. 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

160. 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 15 December 2022 for consultation at the January 2023 round of meetings. Each Select Committee prepared an agreed set of comments on the budget proposals presented within their remit, with these comments presented to Cabinet in Appendix F.
161. 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 15 December 2022, with the full report to December Cabinet also being available to view. Analysis of responses to this consultation and also presented within Appendix F to this report for information.
162. The Council received 611 responses from residents, representing a 431% increase on the volume of responses received to the consultation launched in December 2021.
163. Of those responses 20% of respondents were satisfied with the budget proposals, 19% agree that they represent Value for Money and 49% felt well informed about the proposals.

Where respondents expressed dissatisfaction with budget proposals, these primarily related increases in fees and charges, particularly parking charges. Positive comments focused upon proposed Council Tax uplift being lower than expected and below current inflation levels, with compliments for the budget based on well ran services.

## CORPORATE CONSIDERATIONS

### Corporate Finance

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

### Legal

165. 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.
166. 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.
167. 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.
168. 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 145 to 150 of the report which discharges this duty.
169. 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.
170. 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.

171. 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**

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

## **APPENDICES**

Appendix A – General Fund Budget Schedules

Appendix B – Housing Revenue Account Budget Schedules

Appendix C – Fees and Charges Proposals

Appendix D: Capital & Investment Strategies

Appendix E: Pay Policy Statement

Appendix F: Budget Consultation Feedback

## **BACKGROUND PAPERS**

Report to [Cabinet 15 December 2023](#) – Consultation budget

Report to Cabinet (18 February 2022) and Council (25 February 2022) - [The Council's Budget: Medium Term Financial Forecast 2022/23 - 2026/27](#)