COUNCIL BUDGET – 2023/24 REVENUE AND CAPITAL MONTH 2 BUDGET MONITORING

Cabinet Member	Councillor Martin Goddard
Cabinet Portfolio	Cabinet Member for Finance
Officer Contact	Andy Evans, Corporate Director of Finance
Papers with report	None

HEADLINES

Summary	This report provides the Council's forecast financial position and performance against the 2023/24 revenue budget and Capital Programme. A marginal £23k underspend is reported against General Fund revenue budget normal activities as of May 2023 (Month 2). As would be expected at this early stage in the financial year, there are a number of risk areas and potential pressures being managed to deliver this headline outturn. Unallocated reserves are projected to total £26,869k at 31 March 2023. While exceptional inflationary pressures were included and funded through the Council's budget strategy, such pressures remain stubbornly high with a £3,622k release from Earmarked Reserves projected to meet this potential pressure. Inflation continues to remain at high levels, albeit that latest data indicates a reduction from 8.7%to 7.9%. Together with other planned applications, Earmarked Reserves are forecast to total £14,513k at 31 March 2023. The Dedicated Schools Grant (DSG) monitoring position is an in-year overspend of £4,462k at Month 2, this overspend is due to ongoing pressures in the cost of High Needs placements. The cumulative deficit carried forward to 2024/25 is £20,879k. No material variances have been reported across the Housing Revenue Account or Capital Programme.
Putting our Residents First	This report supports the following Council objective of: *Strong financial management.* Achieving Value for Money is an important element of the Council's Medium Term Financial Plan.
Financial Cost	N/A

Relevant Select Committee	Finance & Corporate Services

Relevant Ward(s)	All

RECOMMENDATIONS

That the Cabinet:

1. **Note the budget monitoring position and treasury management update as at May 2023 (Month 2) as outlined in Part A of this report.**
2. **Approve the financial recommendations set out in Part B of this report**

Reasons for recommendation

1. The reason for **Recommendation 1** is to ensure that the Council achieves its budgetary objectives, providing Cabinet with the update on performance at Month 2 against budgets approved by Council on 23 February 2023 contained within **Part A** of this report. An update on the Council's Treasury Management activities is included within this section of the report.

2. **Recommendation 2** seeks approval for the range of financial recommendations set out within **Part B** of this report, which may include acceptance of grant funding, revisions to fees & charges and ratification of decisions taken under special urgency provisions.

Alternative options considered / risk management

3. There are no other options proposed for consideration.

Select Committee comments

4. None at this stage.

PART A: MONTHLY BUDGET MONITORING

SUMMARY

GENERAL FUND REVENUE

5. A marginal underspend of £23k is reported against General Fund revenue budget normal activities as of May 2023 (Month 2), with a range of risks and pressures being managed within this position. This will result in unallocated General Balances totalling £26,869k at 31 March 2023, in line with MTFF expectations.

6. Over and above specific variances being reported, there are three key risk areas which continue to be closely monitored; progress in delivery of savings, demand-led services and inflationary pressures.

   a. Within this position, £10,141k of the £22,762k savings planned for 2023/24 are banked or on track for delivery in full by 31 March 2024, with £7,953k or 35% tracked as being at an earlier stage of implementation. Where slippage in savings delivery is expected this has been factored into the reported monitoring position, with the full £22,762k savings expected to be delivered in full.

   b. At this early stage in the financial year, no pressures have been reported against demand-led service budgets, although a significant increase in approaches by households seeking support with homelessness will necessitate a significant level of management action to avoid a pressure in this area.

   c. The 2023/24 budget incorporated £21,691k growth to fund inflationary pressures, with current projections indicating that a further £3,622k additional funding may be required, in part to meet the costs of a higher pay award. Specific provision has been made within the Council's Earmarked Reserves to meet such costs, with this sum being supplemented in-year by £1,500k windfall income from the West London Waste Authority.

7. The Council holds Earmarked Reserves to manage risks and fund cyclical and project-based activities, with £20,060k being held at the beginning of 2023/24. Based on the Month 2 forecast, including the projected Local Authority pay award and an estimation for further inflationary demands above the approved budget totalling £3,622k, the Council is forecasting to drawdown £5,547k of this balance, leaving a projected closing balance of £14,512k as at 31 March 2024 to support the Council's ongoing financial resilience and fund project and cyclical based work in 2024/25 and beyond.

8. Within the Collection Fund, a surplus of £136k is reported at Month 2, with the surplus being derived from a favourable position within Business Rates of £1,695k from an increase in the Council's rating list above the budgeted position approved by Council in February 2023, offset by a slower than budgeted growth in Council Tax, linked to the ongoing slowing down in the construction industry due to the impacts of inflation and economic conditions on the viability of development. This position is compounded by an adverse position reported against Council

Tax Support as demand was impacted by the cost-of-living crisis, although has started to decline again in line with budgeted assumptions, these pressures lead to a forecast deficit of £1,558k on Council Tax. These in-year pressures on Council Tax are being mitigated through the overachievement of Business Rates income, resulting in a net £136k favourable movement against the approved budget.

9. The Collection Fund position has high exposure to both COVID-19 legacy impacts and broader economic conditions, which have the potential to significantly affect the finances of individual households and businesses, and therefore this remains an area under close review. Variances against the Collection Fund do not directly impact upon the 2023/24 monitoring position, but instead the variance up to Month 9 will be factored into the Council's budget proposals for the forthcoming year to be presented to Cabinet in December 2023 as part of the consultation budget, with any variances from Month 10 to outturn not impacting until 2025/26 with resulting impacts on MTFF forecasts.

GENERAL FUND CAPITAL

10. As at Month 2 a breakeven position is reported on the 2023/24 General Fund Capital Programme of £162,613k, with the forecast outturn variance over the life of the 2023/24 to 2027/28 programme similarly estimated to breakeven at this early stage of the year. General Fund Capital Receipts of £33,304k are forecast for 2023/24 and are forecast to reach the income target of £93,617k for the five years to 2027/28. Overall, Prudential Borrowing required to support the 2023/24 to 2027/28 capital programme is forecast to be on budget at £67,787k, with overall borrowing levels projected to peak at £305,669k in 2024/25 in line with the MTFF.

SCHOOLS BUDGET

11. The Dedicated Schools Grant (DSG) monitoring position is an in-year overspend of £4,462k at Month 2. This overspend is due to ongoing pressures in the cost of High Needs placements, where due to a lack of capacity in borough, the number and cost of independent placements has increased significantly since the budget was set and is a key area of review within the Safety Valve work. Inflationary pressures across the sector have continued to increase and are impacting on the costs of High Needs placements within each type of school setting. When the £21,887k deficit brought forward from 2022/23 is considered, along with the revised Safety Valve funding for 2023/24, the cumulative deficit carried forward to 2024/25 is £20,879k. This remains an area of significant activity, in terms of managing out the structural deficit on this account.

HOUSING REVENUE ACCOUNT

12. The Housing Revenue Account (HRA) is currently forecasting a breakeven position at Month 2, although the risk of inflationary pressures is being closely monitored. The 2023/24 closing HRA General Balance is forecast to be £15,101k, exceeding the £15,000k target level established for 2023/24. The use of reserves is funding investment in new housing stock. A breakeven position is reported against £111,663k 2023/24 HRA Capital Programme at this early stage of the year.

FURTHER INFORMATION

General Fund Revenue Budget

13. A marginal £23k underspend is projected across the General Fund at Month 2, with the following section of this reporting providing an overview of emerging variances and management action in place to deliver this position. General Fund Balances are expected to total £26,869k at 31 March 2024, and therefore remain within the recommended range 2022/23 of £22,000k to £41,000k as approved by Cabinet and Council in February 2023.

Table 1: General Fund Overview

Service	Month 2 Approved Budget £'000	Month 2 Forecast Outturn £'000	Variance (As at Month 2) £'000	Variance (As at Month 1) £'000	Movement from Month 1 £'000
Service Operating Budgets	260,739	260,716	(23)	0	(23)
General Contingency	500	500	0	0	0
Unallocated Budget Items	2,039	2,039	0	0	0
Subtotal Expenditure	**263,278**	**263,255**	**(23)**	**0**	**(23)**
Corporate Funding	(263,278)	(263,278)	0	0	0
Total Net Expenditure	**0**	**(23)**	**(23)**	**0**	**(23)**
Balances b/fwd	(26,846)	(26,846)			
Balances c/fwd 31 March 2024	**(26,846)**	**(26,869)**			

14. The Council's budget contains a number of areas subject to demographic pressures and higher levels of volatility which are closely monitored and discussed in the Budget Strategy & MTFF under the "demand-led growth" banner. These budgets total £134,957k for 2023/24, with latest forecasts remaining consistent with this position, with more detailed commentary on each of these areas set out in the portfolio commentary below.

15. Within the Council budget there is a Managed Vacancy Factor across the board of 3.5%, or £4,573k, to reflect natural levels of turnover and resulting structural underspend in the workforce budgets. Current indications are that the higher vacancy rate experienced during 2022/23 will continue into the new financial year and therefore result in an underspend over and above the Managed Vacancy Factor. The Council continues to closely manage recruitment activity, with post-level establishment controls providing a key mechanism for managing workforce costs at the organisational level.

16. The Council budgeted for a pay award in 2023/24 of 4%, however, due to the exceptional inflationary environment, the current pay offer exceeds this sum and equates to approximately 5.7% with an allowance of £2,622k being in place to meet this additional uplift in the Council's workforce expenditure included in the forecast use of the Council's identified earmarked reserve for exceptional inflationary pressures above the Council's approved budget.

17. Further provision for use of Earmarked Reserves has been included in this position, with £1,685k support for local priority initiatives, £1,535k release of grant funding to cover brought forward COVID-19 pressures in the Collection Fund, £1,000k further provision for inflationary

risks and a net £205k of other costs. Windfall income from the West London Waste Authority's Energy from Waste operations have allowed £1,500k to be allocated to Earmarked Reserves, resulting in a net drawdown of £5,547k to leave a closing balance of £14,513k at 31 March 2024.

Progress on Savings

18. The savings requirement for 2023/24 is £21,197k, which together with £1,565k brought forward from 2022/23, which gives an overall total of £22,762k to be managed in the current financial year. The savings being reported as undelivered in 2022/23 (£1,565k) were attributable to the Council managing measures required to contain and offset inflationary pressures as well the ongoing legacy issues associated with the COVID-19 pandemic. This value has been added to the budgeted savings agreed as part of the 2023/24 budget.

Table 2: Savings Tracker

Cabinet Member Portfolio	Blue Banked £'000	Green Delivery in progress £'000	Amber I Early stages of delivery £'000	Amber II Potential problems in delivery £'000	Red Serious problems in delivery £'000	Total £'000
Cabinet Member for Property, Highways & Transport	(671)	(147)	(736)	(303)	0	(1,857)
Cabinet Member for Finance	0	(100)	(17)	0	0	(117)
Cabinet Member for Corporate Services	(396)	(510)	(578)	0	0	(1,484)
Cabinet Member for Residents' Services	(4,080)	(1,042)	(5,762)	(559)	(1,083)	(12,525)
Cabinet Member for Children, Families & Education	(150)	(150)	(361)	(774)	0	(1,434)
Cabinet Member for Health and Social Care	(830)	(1,565)	0	0	0	(2,395)
Cross-Cutting	(500)	0	(500)	(1,950)	0	(2,950)
Total 2022/23 Savings Programme	**(6,627)** ***29%***	**(3,514)** ***15%***	**(7,953)** ***35%***	**(3,586)** ***16%***	**(1,083)** ***5%***	**(22,762)** ***100%***
Month on Month Movement	**(6,627)** ***29%***	**(3,514)** ***15%***	**(7,953)** ***35%***	**(3,586)** ***16%***	**(1,083)** ***5%***	**(22,762)** ***100%***

19. As of Month 2, £6,627k (29%) of the savings programme has already been banked, with a further £3,514k (15%) being reported as delivery in progress and £11,539k (51%) in the early stages of delivery which are ultimately expected to be delivered in full. There are a further £1,083k of savings recorded as having a serious problem with timely delivery, these savings could ultimately slip into 2024/25. Key items within this £1,083k include £600k linked to PCN banding changes where third part approval is required ahead of implementation, with the remainder of this sum relating to timing issues on practical implementation of two further projects.

20. Where savings are at risk of not being delivered in full during 2023/24, the associated pressures have been factored into the monitoring position with compensating actions bringing

the overall position back to breakeven. At this time, it is expected that the full £22,762k will ultimately be delivered in full or replaced with alternative measures in the event of any ongoing shortfall.

21. The Council is permitted to finance the costs associated with the delivery of this savings programme through Capital Receipts, with both one-off implementation costs and the support for service transformation being funded from this resource. Current projections include £4,205k for such costs, with all such costs subject to a specific funding strategy. It is anticipated that these pump priming costs will be financed from a combination of the £3,000k budget established for this purpose in 2023/24, alongside release of additional Capital Receipts secured during 2022/23.

Service Operating Budgets

22. Service Operating Budgets represent the majority of the Council's investment in day-to-day services for residents. With the Council continuing to operate in a high inflation environment driven by global and national influences, these budgets were supplemented with £21,691k of funding to meet forecast inflationary pressures and £12,753k for demographic and other drivers impacting on demand for services going into the 2023/24.

23. Table 3 represents the position reported against normal activities for the Service Operating Budgets, the salient risks and variances within this position are summarised in the following paragraphs.

Table 3: Service Operating Budgets

Cabinet Member Portfolio		Approved Budget	Forecast Outturn	Variance (As at Month 2)	Variance (As at Month 1)	Movement from Month 1
		£'000	£'000	£'000	£'000	£'000
Property, Highways & Transport	Expenditure	20,170	19,810	(360)	0	(360)
	Income	(10,602)	(10,242)	360	0	360
	Sub-Total	**9,568**	**9,568**	**0**	**0**	**0**
Finance	Expenditure	140,546	140,045	(501)	0	(501)
	Income	(106,144)	(106,243)	(99)	0	(99)
	Sub-Total	**34,402**	**33,802**	**(600)**	**0**	**(600)**
Corporate Services	Expenditure	26,442	26,260	(182)	0	(182)
	Income	(1,731)	(1,849)	(118)	0	(118)
	Sub-Total	**24,711**	**24,411**	**(300)**	**0**	**(300)**
Residents' Services	Expenditure	68,638	70,057	1,419	0	1,419
	Income	(46,466)	(46,059)	407	0	407
	Sub-Total	**22,172**	**23,998**	**1,826**	**0**	**1,826**
Children, Families & Education	Expenditure	96,236	96,087	(149)	0	(149)
	Income	(24,085)	(24,103)	(18)	0	(18)
	Sub-Total	**72,151**	**71,984**	**(167)**	**0**	**(167)**
Health & Social Care	Expenditure	131,023	130,268	(755)	0	(755)

	Income	(33,288)	(33,315)	(27)	0	(27)
	Sub-Total	**97,735**	**96,953**	**(782)**	**0**	**(782)**
Total Service Operating Budgets		**260,739**	**260,716**	**(23)**	**0**	**(23)**

24. As can be seen from the table above, Service Operating Budgets are forecasting a marginal underspend of £23k which is the cumulative effect of a number of variances which are briefly outlined below by Cabinet Portfolio:

a. **Property, Highways & Transport** – A net breakeven position is forecast for the portfolio, with the income pressure of £360k being driven by a lower than budgeted level of recharge income as a result of reduced activity with this is being offset by lower spend on this activity.

b. **Finance** – A net underspend of £600k is reported at Month 2 driven by a reduction in the Council’s energy requirements, this is being compounded by a number of small overachievements against income targets, with additional grant funding being provided to support Ukraine support provided in the borough and a favourable variance against investment income as a result of high interest rates. This position further benefits from a net underspend against staffing as a result of management action to contain expenditure in this area to support pressures against the wider forecast outturn.

c. **Corporate Services** – a net underspend of £300k is reported, with the underspend being driven by a number of small variances, with the staffing position forecast to deliver this underspend across the various services within the Corporate Services portfolio, with this position compounded by additional grant funding to support Ukraine refugee support.

d. **Residents’ Services** – an overspend of £1,826k is forecast for this portfolio, with a gross pressure of £3,426k included within the position offset by £1,600k of measures to reduce the pressure to the reported level, with this variance being driven by three key areas:

   i. Firstly, the saving programme within the Green Spaces is being impacted by external factors, including exception inflationary pressures, leading to approximately a third of the reported pressure.

   ii. Secondly a third of the pressure is being driven by the Community Safety & Enforcement service, with these pressures being driven by a combination of issues at Heathrow, including Brexit related changes and a cessation of Government funding, as well as pressures against parking income as recovery rates from the pandemic continue to track below budgeted predictions.

   iii. Finally, pressures within the Planning Service are driving a large quantity of the remaining pressure as a result of income pressures against fees and charges, as well as expenditure pressures from staffing costs and the use of external consultants to carry out planning activities.

iv. The above pressures are being managed down by measures aimed at delivering a £1,600k reduction in expenditure, predominantly through staffing spend controls.

Within this portfolio there are two areas that fall within the Council's Demand-Led Growth section of the budget strategy as a result of the impacts of demographics and volatility, with these two areas being Homelessness Prevention and Waste Disposal. Homelessness Prevention is experiencing a substantial uplift in demand with a gross pressure of £735k to be managed out during 2023/24 through a variety of approaches. Waste Disposal is currently forecast to come in on budget, with current forecast being in line with the Demand-Led Growth bid included in the budget proposals in February 2023.

e. **Children, Families & Education** – an underspend of £167k is being forecast at Month 2, with education functions including SEND and Adult Education largely breaking even, with additional expenditure being incurred to support Children in Need alongside the running of the Early Years Centres, offset by a reduction in the cost of service delivery for Looked After Children and measures put in place to contain staffing expenditure to deliver a further benefit for the portfolio.

Within this portfolio, there are three services that are reported in the Council's budget strategy under Demand-Led Growth: Children's Placements, Asylum Funding and SEND Transport. While there remains inherent volatility in demand for Looked after Children and Asylum services, at the present time budgeted provision appears sufficient. SEND Transport is currently forecasting a breakeven position, with the volatility against this budget largely impacting once the new academic year commences, the impact of the new uptake will therefore be monitored closely over the coming months.

f. **Health & Social Care** – an underspend of £782k is reported for this portfolio, with staffing underspends after Social Care activities being driven by recruitment difficulties for the sector impacting both at a local level and nationally. The reported overachievement of income is spread across services within the remit of this portfolio with no material variances.

Within this portfolio, Adult Social Care Placements is the only area that falls within the Demand-Led Growth section of the Council's budget strategy, with the Month 2 refresh of the impact of demographics and inflation forecasting a breakeven position for this budget at this early stage of the new financial year, however, due to the volatile nature of the service, this will continue to be reviewed throughout the year.

Collection Fund

25. A surplus of £136k is reported within the Collection Fund at Month 2. Within the Collection Fund, an adverse position is reported within Council Tax of £1,558k, offset by a favourable position within Business Rates of £1,695k. The pressure in Council Tax is predominantly driven by a reduction in the forecast growth of the taxbase as construction continues to slow down, due to inflationary pressures in the sector, with the slippage equating to 1,214 Band D

properties, compounded by an adverse position within Council Tax Support due to a short period of increased demand driven by the cost-of-living crisis, with demand returning to a declining rate, with the short-term increase accounting for a pressure of 619 Band D properties. The favourable position within Business Rates is being driven by the Month 2 refresh suggesting that some of the increased revenue from the national revaluation of commercial property can be released into the Council's financial position.

26. Any deficits within the Collection Fund impact on the Council's future year budgets, with the position reported up to Month 9 impacting on the 2024/25 saving requirement and will be included in the Council's refresh of the budget strategy that will be presented to Cabinet in December 2023, with any further updates between Month 10 and outturn impacting on 2025/26. This position will therefore reduce the Council's gross saving requirement by £136k for 2024/25, with any movement from Month 10 onwards to be factored in the next update to the Council's Budget Strategy for 2025/26.

General Fund Capital Programme

27. As at Month 2 the General Fund forecasts are in line with budgets, with no material variances or slippage being reported. Demand for school places and inflation on tender prices remain the most significant risks to the Council's investment programme with £27,500k contingency in place over the MTFF period as part of the broader mitigation strategy. Strong progress is reported across the Council's asset disposal programme, which forms a key element of the financing strategy for the DSG Safety Valve and broader transformation programme, alongside a mechanism to avoid recourse to borrowing to finance local investment.

Capital Programme Overview

28. Table 5 below sets out the latest forecast outturn on General Fund capital projects. Forecasts for future years include capital projects and programmes of work approved by Cabinet and Council in February 2023. Projected variance against budget for the 2023/24 financial year are analysed between cost and rephasing, in the case of the latter, budget will only be rolled forward for use in future financial years with the explicit approval of Cabinet. As of Month 2, no material variances on slippage are projected.

Table 5: General Fund Capital Programme Summary

	Approved Budget 2023/24 £'000	Forecast 2023/24 £'000	Cost Variance 2023/24 £'000	Project Re-phasing 2023/24 £'000	Total Project Budget 2023-2028 £'000	Total Project Forecast 2023-2028 £'000	Total Project Variance 2023-2028 £'000	Move-ment £'000
Cabinet Member Portfolio								
Finance	9,779	9,779	0	0	22,724	22,724	0	0
Residents	4,903	4,903	0	0	10,942	10,942	0	0
Corporate Services	2,073	2,073	0	0	4,805	4,805	0	0
Children, Families and Education	21,425	21,425	0	0	25,499	25,499	0	0
Health and Social Care	2,850	2,850	0	0	14,250	14,250	0	0
Property, Highways and Transport	109,773	109,773	0	0	214,251	214,251	0	0
Contingency	11,810	11,810	0	0	17,810	17,810	0	0
Total Capital Programme	**162,613**	**162,613**	**0**	**0**	**310,281**	**310,281**	**0**	**0**
Major Projects	114,125	114,125	0	0	169,459	169,459	0	0
Programme of Works	36,678	36,678	0	0	123,012	123,012	0	0
General Contingency	11,810	11,810	0	0	17,810	17,810	0	0
Total Capital Programme	**162,613**	**162,613**	**0**	**0**	**310,281**	**310,281**	**0**	**0**
Movement	0	0	0	0	0	0	0	0

29. **Finance:** At Month 2, the use of Capitalisation powers to fund Transformation Capitalisation and the DSG Safety Valve agreement are on track for delivery, with the Council's Purchase of Vehicles similarly forecast to breakeven at this early stage of the year.

30. **Residents:** A breakeven position is being reported at Month 2 for this portfolio, with Town Centre improvements and Shopping Parade investments forecasting to come in on budget, with these two schemes accounting for £1,927k of the budget. Other Capital Programme activity within this portfolio includes expenditure on the Council's green spaces, environmental and recreational initiatives and the playground replacement programme, with these activities alongside the Chrysalis programme anticipated to come in on budget and will be kept under review throughout the year.

31. Works have commenced to renovate tennis courts sites across Hillingdon following January Cabinet approval of the £270k project which includes £181k Lawn Tennis Association grant.

32. **Corporate Services:** The Corporate Technology and Innovation programme includes rephasing of £333k. A capital release of £40k was approved in April for telephony improvement. A capital release report is being progressed for the Laptop and Desktop Refresh programme.

33. **Children, Families & Education:** The Schools SEND programme is underway on several projects to provide additional special needs places. Work is progressing on site at Charville, Ruislip and Wood End Primary. The pre-construction service agreement appointed contractor is undertaking stage 2 design works for the expansion of Harefield Academy for use as a satellite school to be managed by Meadow High School, and Meadow High School expansion. Revised cost estimates are significantly above confirmed grant funding however, discussions are taking place with the Department for Education on available capital funding to deliver on SEND provision within the Safety Valve agreement.

34. **Health and Social Care**: The capitalisation of social care equipment is forecast in line with budget. The Disabled Facilities Grant adaptations includes rephasing of £279k and is forecast to spend in line with budget. Both budgets are financed by the Disabled Facilities Grant.

35. **Property, Highways & Transport:** The single largest project within this portfolio is the new West Drayton Leisure Centre, with the Capital Programme approved budget for this project being an investment of over £25m. Construction works are in progress on the new Platinum Jubilee leisure centre and are currently forecast to be completed in May 2024.

36. Works to extend the Uxbridge mortuary completed in April 2023. Works commenced in May 2023 at the Battle of Britain Bunker following recent approval to appoint a contractor.

37. The Carbon Zero Initiatives revised budget of £18,855k, funded from £13,751k Department Business, Energy and Industrial Strategy, has been fully earmarked for the Park Farm Solar Farm, the Civic Centre refurbishment, Winston Churchill Hall, Hillingdon Sports and Leisure Centre, and Highgrove swimming pool.

38. As of Month 2 the Transport for London (TFL) programme confirmed grant award is £2,527k, and is based on the 2023/24 Local Implementation Plan award and is significantly lower than pre-pandemic funding levels.

39. Following Cabinet approval last year of the acquisition of land at Broadwater Lake for the new Hillingdon Water Sports and Activity Centre (HWSAC) site, the legal options agreement with the vendor has been finalised and a planning application is expected to be submitted in June.

40. The Civic Centre transformation project has commenced with a number of projects under various workstreams to start in 2023/24. The main works contractor for the refurbishment was appointed in June and works are set to start in September on the pilot phase.

Capital Financing - General Fund

Table 6: Capital Financing

	Approved Budget 2023/24 £'000	Forecast 2023/24 £'000	Cost Variance £'000	Phasing Variance £'000	Total Financing Budget 2023-2028 £'000	Total Financing Forecast 2023-2028 £'000	Total Variance £'000	Move-ment
Source of Finance								
Capital Receipts	33,304	33,304	-	-	93,617	93,617	-	-
CIL	2,463	2,463	-	-	18,963	18,963	-	-
Prudential Borrowing	60,031	60,031	-	-	67,787	67,787	-	-
Total Council Resources	**95,798**	**95,798**	-	-	180,367	180,367	-	-
Grants & Contributions	66,815	66,815	-	-	129,914	129,914	-	-
Capital Programme	**162,613**	**162,613**	**-**	**-**	310,281	310,281	**-**	**-**
Movement	-	-	-	-	-	-	-	-

41. The MTFF disposals programme 2023-28 forecasts total capital receipts of £114,210 and includes £39,888k of further specific capital receipts to be identified. In 2023/24 forecast capital receipts are £23,977k, with solid progress being reported across the board on progressing potential asset disposals. These receipts will form a key strand to financing the Council's DSG Safety Valve and broader transformation programme, and therefore this activity remains a key corporate priority.

Schools Budget

42. The Dedicated Schools Grant (DSG) monitoring position is an in-year overspend of £4,462k at Month 2. This overspend is due to ongoing pressures in the cost of High Needs placements, where due to a lack of capacity in borough, the number of independent placements has increased significantly since the budget was set and is a key area of review within the Safety Valve work. In addition to this, inflationary pressures across the sector have continued to increase and impacting on the increasing costs for High Needs placements within each type of school setting, significantly higher than budgeted. When the £21,887k deficit brought forward from 2022/23 is considered, along with the revised Safety Valve funding for 2023/24, the cumulative deficit carried forward to 2024/25 is £20,879k.

Table 7: DSG Income and Expenditure 2022/23

Funding Block	Month 2		Variance		
	Approved Budget £'000	Forecast Outturn £'000	Variance (As at Month 2) £'000	Variance (As at Month 1) £'000	Change from Month 1 £'000
Dedicated Schools Grant Income	(348,931)	(348,931)	0	0	0
Schools Block	266,069	266,069	0	0	0
Early Years Block	26,511	26,511	0	0	0
Central Schools Services Block	2,938	2,938	0	0	0
High Needs Block	55,693	60,155	4,462	0	4,462
Total Funding Blocks	**2,280**	**6,742**	**4,462**	**0**	**4,462**
Balance Brought Forward 1 April 2022	21,887	21,887			
Safety Valve Funding	(7,750)	(7,750)			
Balance Carried Forward 31 March 2023	**16,417**	**20,879**			

Dedicated Schools Grant Income (nil variance)

43. The Dedicated Schools Grant income is currently reflecting a nil variance at Month 2. Early Years block will be adjusted further to reflect actual numbers accessing the free entitlement in the Spring term, and potential additional funding being announced for September. There will be further adjustment to the High Needs block allocation following confirmation of the import/export adjustment for 2023/24 which updates funding to reflect the local authority in which pupils with SEND are resident.

Schools Block (nil variance)

44. The Schools Block includes all funding paid directly to mainstream schools as part of their delegated budget share, including the funding recouped by the ESFA and paid to mainstream academies.

45. There is also a growth contingency fund which is funded from the Schools Block. Schools that are expanding, in agreement with the local authority, to meet basic need pupil population growth, receive additional funding to provide financial recompense throughout the relevant financial year to cover the cost of this agreed and planned growth.

Early Years Block (nil variance)

46. Two-year-old funding will be adjusted in July to reflect the number of children accessing the entitlement based on the January 2023 census. The 3 and 4-year-old funding for both the universal and the additional free entitlement will also be adjusted in July following the January 2023 census. This will be reported following the announcement in July.

Central School Services Block (nil variance)

47. The published DSG budget allocations confirmed a 20% decrease in the Central School Services Block provided for historic commitments. The Month 2 forecast anticipates a nil variance currently, which will be reviewed during the year.

High Needs Block (£4,462k adverse)

48. The High Needs Block for Month 2 is currently reporting an adverse variance of £4,462k with a number of reasons for the adverse position.

49. An in-year pressure for 2023/24 of £2.2m was included as part of the Safety Valve agreement, with the adverse movement against this primarily driven by inflationary pressures emerging on placement costs. Inflation was anticipated to be 3% within the Safety Valve but is currently at 7%, with a net impact of £2.4m for the current financial year. The continuing growth in the number of EHCP's above the Safety Valve baseline is adversely impacting on the position, alongside the high level of ongoing Out of Borough Independent placements, which are at a prohibitively high cost Measures are in hand to increase the level of in borough provision which will when in place significantly reduce the exposure to Out of Borough Independent placements.

50. The position will continue to be monitored with the DfE as part of the Safety Valve agreement.

Maintained School Balances & Budgets

51. Maintained schools ended the 2022/23 financial year with a cumulative closing surplus balance of £12.8m (£11.8m revenue and £1m capital). This was a £2.1m decrease from the previous year total. A review of the balances at the end of the 2022/23 financial year identified six schools which ended the year in deficit.

52. The table below summarises school revenue balances as a percentage of total revenue income plus balances brought forward from 2022/23. Analysis of the data in the table indicates that overall, the number of schools with balances over the recommended 8% (or 5% for secondary schools) is currently 48% compared to 54% in 2022/23. In addition, the number of schools with balances lower that 2% has increased to 8 from the 7 schools previously reported, with the number of schools with balances greater that 20% increasing from 6 to 7.

Sector	Number of Schools in Deficit	Number with Balances < 2%	Number with Balances > 2% and < 8%	Number with Balances > 8% and < 20%	Number with Balances > 20%
Nursery	0	0	0	0	1
Primary	5	2	18	14	6
Secondary	1	0	0	1	0
Special	0	0	0	2	0
Total	**6**	**2**	**18**	**17**	**7**

53. The 2022/23 budgets for maintained schools continue to be reviewed, with schools RAG-rated based on the balances position. Schools that are either in deficit or have managed to set a balanced budget but with very low balances, meaning that any significant unplanned change in expenditure could result in the school being in a deficit position are rated red. These schools are being closely monitored by officers to ensure that everything possible is being done to address the situation.

Housing Revenue Account

54. The Housing Revenue Account (HRA) is currently forecasting a breakeven position compared to the budget, with inflationary risk being closely monitored. The 2023/24 closing HRA General Balance is forecast to be £15,101k, marginally higher than the £15,000k target level. The table below presents key variances by service area.

Table 8: Housing Revenue Account

Service	Month 2		Variance (+ adv / - fav)		
	Budget	Forecast Outturn	Variance (As at Month 2)	Variance (As at Month 1)	Movement from Month 1
	£'000	£'000	£'000	£'000	£'000
Rent & Other Income	(74,063)	(74,063)	0	0	0
Net Income	**(74,063)**	**(74,063)**	**0**	**0**	**0**
Operational Assets	13,420	13,460	40	0	40
Director of Housing	9,287	9,431	144	0	144
Other Service Areas	1,080	998	(82)	0	(82)
Contribution to Shared Services	12,631	12,529	(102)	0	(102)
HRA Operating Costs	**36,418**	**36,418**	**0**	**0**	**0**
Capital Programme Financing	21,597	21,597	0	0	0
Interest and Investment Income	16,133	16,133	0	0	0
Capital Programme Financing	**37,730**	**37,730**	**0**	**0**	**0**
(Surplus) / Deficit	**85**	**85**	**0**	**0**	**0**
General Balance 01/04/2023	(15,186)	(15,186)	0	0	0
General Balance 31/03/2024	**(15,101)**	**(15,101)**	**0**	**0**	**0**

55. At this early stage in the financial year, the rental income and other income is forecast to break even. This will continue to be monitored during the year to take into account stock movements, voids and the regeneration programme. The budgets are based on a void rate of 1.35%, with any material variation from this level feeding into rental projections as appropriate.

56. The number of RTB applications received in the first two months of 2023/24 was 27 compared to 25 for the same period in 2022/23.There has been 6 RTB completions in the first two months of 2023/24 compared to 10 for the same period in 2022/23. The RTB applications and sales will be kept under review during the year. As at Month 2, the 2022/23 RTB sales forecast is 40 in line with budgeted expectations.

57. The HRA Operating Costs Budget is £36,418k and at this early stage in the financial year is forecast to break even. In line with experience elsewhere in the Council, the risk of significant inflationary pressures is being closely monitored. Within this position, a number of compensating variances are reported:

   a. The Operational Assets budget is £13,420k and includes repairs and planned maintenance budgets. The forecast is an overspend of £40k relating to the staffing vacancy factor. This will be kept under review as changes occur during the year. The repairs and planned maintenance budgets will continue to be kept under review during the year as more actuals data becomes available, especially due to potential pressures relating to demand on voids, day to day repairs, disrepair, and market conditions including inflation.

b. The Director of Housing budget is £9,287k and includes tenancy management and tenants' services. The forecast is an overspend of £144k relating to the staffing vacancy factor. This will be kept under review as changes occur during the year. The budgets include utility costs and these will continue to be monitored given the anticipated increase in costs for electricity and gas.

c. The Other Service Areas budget is £1,080k and includes the Careline contract, HRA specific ICT costs and the revenue regeneration costs. This is forecast to underspend by £82k which relates to agency costs.

d. The Contribution to Shared Services budget is £12,631k and is forecast to underspend by £102k due to running costs. The budgets include development repairs contingency, overheads and corporate and democratic core, and bad debt provision. The bad debt provision will be kept under review especially given current economic conditions and the impact on arrears.

58. As at Month 2 the capital programme financing budget of £37,730k is forecast to break even. This budget includes £21,597k (depreciation and revenue contributions) to fund the HRA capital programme, it also includes £16,133k for repayments of loans and interest on borrowings.

HRA Capital Expenditure

59. The HRA capital programme is set out in the table below. The 2023/24 revised budget is £111,663k and at Month 2 all forecasts are in line with budgets.

Table 9: HRA Capital Expenditure

	Revised Budget 2022/23 £'000	Forecast 2022/23 £'000	Cost Variance 2022/23 £'000	Project Re-Phasing 2022/23 £'000	Total Project Budget 2022-27 £'000	Total Project Forecast 2022-27 £'000	Total Project Variance 2022-27 £'000	Movement 2022-27 £'000
HRA Capital Programme								
Major Projects	80,739	80,739	0	0	309,559	309,559	0	0
Works to Stock programme	22,437	22,437	0	0	132,813	132,813	0	0
Green Homes Initiatives	6,147	6,147	0	0	33,141	33,141	0	0
Major Adaptations to Property	2,340	2,340	0	0	13,317	13,317	0	0
Total HRA Capital	**111,663**	**111,663**	**0**	**0**	**488,830**	**488,830**	**0**	**0**
Movement								

60. The 2022-23 forecast includes significant investment in housing regeneration of £24m as work has started on site at Hayes Town Centre and Avondale Drive estates. A further £14m is included for land assembly costs to acquire leasehold interests on both estates.

61. The annual acquisitions cap for 141 receipts funded buybacks has increased from 20 units to 61, due to the commencement on site for the Maple and Poplar North Block redevelopment and the new 24 temporary accommodation flats at Newport Road. At Month 2 fourteen acquisitions have been identified and approved on capital release of which 5 have been acquired. A further 12 properties have been identified for acquisition and are progressing through the approval process.

62. Construction works have commenced on site at Petworth Gardens to provide 4x4 bedroom houses, following the appointment of the main contractor.

63. The Works to Stock programme 2023/24 is in various stages of progress with works ongoing across the housing estate under numerous workstreams. Workstreams are forecast in spend in line with revised budgets.

64. Agreement has been reached to deliver a lower number of units under the Green Homes Initiatives due to rising prices, Works are nearing completion on delivering the Social Housing Decarbonisation Fund (SHDF) grant Wave 1, funded by £1,581k grant which is required to be spent by the 30 June 2023 after the granting of a short extension. Council match fundings of £2,069k towards Wave 1 is to be delivered by 31 October 2023. Match funding for future SHDF waves is yet to be agreed.

Treasury Management Update as at 31 May 2023

Table 10: Outstanding Deposits

Period	Actual (£m)	Actual (%)
Call Accounts and MMF's* Up to 1 Month Fixed-Term Deposits	3.0 46.8	4.63 72.22
Total	49.8	76.85
Strategic Pooled Funds	15.0	23.15
Total	64.8	100.00

*Money Market Funds

65. Deposits are held with UK institutions, all of which hold a minimum A- Fitch (or lowest equivalent) long-term credit rating and AAA rated Money Market funds. UK deposits are currently held in NatWest Bank plc and the DMADF. There is also an allocation to Strategic Pooled Funds.

66. The average rate of return on day-to-day operational treasury balances is 4.22%. As part of the Council's investment strategy for 2023/24, the Council continues to hold a total of £15m in three long-dated strategic pooled funds (£5m in each). The strategic pooled funds have a 3–5 year investment horizon with dividends being distributed periodically. When including projected dividend income on these strategic pooled funds, the overall rate of return decreases to 4.15% based on the previous six months income average. With rising market interest rates it is anticipated that income on these funds should increase over the investment horizon. As the fair value of these strategic pooled funds are currently lower than the sum initially invested it is not feasible to disinvest at this point in time.

67. The Council aims to minimise its exposure to bail-in risk by utilising bail-in exempt instruments and institutions whenever possible. However, due to the significant amount held in instant access facilities, which is needed to manage daily cashflow, it is not possible to fully protect Council funds from bail-in risk. At the end of May, 6% of the Council's day-to-day operational treasury investments had exposure to bail-in risk compared to a May benchmark average of 59% in the Local Authority sector (latest benchmark provided quarterly by the Council's treasury advisors Arlingclose). The Council's exposure is significantly lower than the norm due to concerns around the health of the banking system, which has resulted in the majority of funds being held in the DMADF, with a small exposure to MMFs and £500k balance being held in the Council's current account as part of usual contingency arrangements. The Council's exposure reduces to 0% once instant access facilities are excluded from the total bail-in percentage.

68. Liquidity was maintained throughout May by placing cash overnight and some short-term deposits. There was also a small balance held in instant access accounts. Cash-flow was managed by ensuring maturities of any short-term deposits with the DMADF were matched to outflows and funds were withdrawn from instant access facilities when required.

Table 11: Outstanding Debt
Average Interest Rate on Total Debt: 3.10%
Average Interest Rate on Debt Excluding Temporary Borrowing: 3.14%
Average Interest Rate on Temporary Borrowing: 2.99%

	Actual (£m)	Actual (%)
General Fund		
PWLB	80.27	25.78
Long-Term Market	15.00	4.82
Temporary	65.00	20.88
HRA		
PWLB	118.07	37.92
Long-Term Market	33.00	10.60
Total	**311.34**	**100.00**

69. During May there were two scheduled £0.33m PWLB EIP instalment payments and a scheduled £1.67m PWLB EIP instalment payment.

70. Overall gilt yields moved up during May, partly due to the increase in base rate of 0.25% from 4.25% to 4.50% at the MPC meeting on 11th May. Although many loans are in discount, the Council's long-term borrowing need and the high interest rates on new borrowing makes early repayment of unviable.

71. There were no breaches of the Prudential Indicators or non-compliance with the Treasury Management Policy and Practices.

72. To maintain liquidity for day-to-day business operations during June, cash balances will be placed in instant access accounts and short-term deposits.

PART B: FINANCIAL RECOMMENDATIONS

That the Cabinet:

a. **Approve a contribution of £30k to the Mayor's Charity from revenue generated from sales of resident deposits at textile banks within the authority.**
b. **Approve acceptance of £11k grant funding from the Department for Work and Pensions (DWP) to cover systems related costs arising from the requirement to comply with legislative changes.**
c. **Approve a contract extension with Oxygen Finance Ltd for the provision of the Hillingdon Council's early payment programme for the period to December 2027.**

Reasons for recommendation

73. **Recommendation 2a** seeks approval to contribute £30k from income generated from the sale of textiles that residents have deposited in textile banks located within the borough.

74. The DWP has made changes to the information provided through the Single Housing Benefit Extract (SHBE) - a mandatory monthly update provided to the DWP by Local Authorities. There is now a requirement to include the IP address of online application forms and the DWP has allocated funding which, if **Recommendation 2b** is accepted by Cabinet, will be utilised to cover the associated systems related costs to administer this change.

75. **Recommendation 2c** seeks approval to extend the Council's existing Supplier Incentive Programme. Hillingdon's Supplier Incentive Programme, in partnership with Oxygen Finance Ltd has generated £384K since going live in June 2018. Income is generated from paying onboarded suppliers ahead of contractual term in exchange for an agreed percentage rebate discount. The programme is now well established, forecast to generate £150K in 23/24. Early Payment Programmes are progressive, as they include an ever increasing onboarded supplier base and continuous purchase to pay process improvement. It takes time to realise the full benefits of the programme because of its nature and this is now delivering an increased income level each year. The Council is pleased with Oxygen Finance performance, income generated from the programme and the service received. Oxygen Finance are the market leading Early Payment Provider in the UK, and there is little known competition in the market. The initial contract was for five years with the option to extend for a further five years. The contract extension would allow for maximum income generation and uninterrupted service delivery of Payments to suppliers and residents. Officers perceive no risk to a five-year extension, due to satisfaction with current service and the fact there is no cost implication for an extension. The supplier is paid a gainshare percentage on income received through early payment discounts.