

## 2024/25 BUDGET PLANNING REPORT FOR SERVICES WITHIN THE REMIT OF THE PROPERTY, HIGHWAYS & TRANSPORT SELECT COMMITTEE

<b>Committee name</b>	Property, Highways & Transport Select Committee
<b>Officer reporting</b>	Chris Mayo, Assistant Director Financial Management Andy Goodwin, Head of Strategic Finance
<b>Papers with report</b>	N/A
<b>Ward</b>	All

### HEADLINES

This is the first opportunity for the Select Committee to discuss the current stage of development of budget planning work with regard to services within the remit of the Property, Highways & Transport committee. This paper gives a strategic context in which the detailed proposals to be discussed at Select Committee meetings in January 2024 will need to be considered.

### RECOMMENDATIONS

1. **That the Property, Highways & Transport Select Committee notes the financial context in which the 2024/25 budget setting process will take place in advance of detailed savings proposals being developed and approved at Cabinet in December 2023.**

### SUPPORTING INFORMATION

2. This is the first of two opportunities within the planning cycle for the Select Committee to consider issues relating to budget planning for 2024/25 and beyond. The focus of this report is the broader financial position of the Council, with the report to be considered in January 2024 setting out the detailed budget proposals for relevant services, those proposals having been included in the report to Cabinet on the Medium Term Financial Forecast (MTFF) in December 2023.

### Corporate Overview – General Fund

#### 2023/24 General Fund Revenue Monitoring

3. A marginal underspend of £23k is reported against General Fund revenue budget normal activities as of June 2023 (Month 3), representing no movement from 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 2024, in line with MTFF expectations.

4. Over and above specific variances being reported, there are a number of potential risk areas which continue to be closely monitored; the key items relating to progress in delivery of savings, pressures on 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. As in previous years Social Care continues to be monitored closely given the volatility and national systemic challenges across this sector.
  - c. The 2023/24 budget incorporated £21,691k to absorb inflationary pressures, with current projections indicating that a further £3,622k additional funding may be required, largely to meet the costs of a higher than anticipated staff pay award. Specific provision has been made within the Council's Earmarked Reserves to meet such costs, with this sum being offset in-year by £1,500k windfall income from the West London Waste Authority.
5. 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 3 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 £5,602k of this balance, with £4,550k of this being planned use within the Council's budget strategy, leaving a projected closing balance of £14,458k 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.
6. 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 & MTFE under the "demand-led growth" banner.
7. Within the Council budget there is a Managed Vacancy Factor across the board of 3.5%, or £4,149k, 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.

8. 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.
9. Further provision for use of Earmarked Reserves has been included in this position, with £1,754k 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 £191k of other costs. Windfall income from the West London Waste Authority's Energy from Waste operations has allowed £1,500k to be allocated to Earmarked Reserves, resulting in a net drawdown of £5,602k to leave a closing balance of £14,458k at 31 March 2024.

### **Savings Programme Update**

10. 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 1: 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
<b>Cabinet Member for Property, Highways &amp; Transport</b>	<b>(671)</b>	<b>(147)</b>	<b>(736)</b>	<b>(303)</b>	<b>0</b>	<b>(1,857)</b>
Services within the remit of other committees	(5,456)	(3,367)	(6,717)	(1,333)	(1,083)	(17,955)
Cross-Cutting	(500)	0	(500)	(1,950)	0	(2,950)
<b>Total 2022/23 Savings Programme</b>	<b>(6,627)</b> <b>29%</b>	<b>(3,514)</b> <b>15%</b>	<b>(7,953)</b> <b>35%</b>	<b>(3,586)</b> <b>16%</b>	<b>(1,083)</b> <b>5%</b>	<b>(22,762)</b> <b>100%</b>
<b>Month on Month Movement</b>	<b>0</b> <b>0%</b>	<b>0</b> <b>0%</b>	<b>0</b> <b>0%</b>	<b>0</b> <b>0%</b>	<b>0</b> <b>0%</b>	<b>0</b> <b>0%</b>

11. As of Month 3, £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-party approval is required ahead of implementation, with the remainder of this sum relating to timing issues on practical implementation of two further projects.
12. 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.
13. 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 £4,595k 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

14. 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.

15. Table 2 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 2: 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	20,031	20,013	(18)	(360)	342
	Income	(10,613)	(10,544)	69	360	(291)
	<b>Subtotal</b>	<b>9,418</b>	<b>9,469</b>	<b>51</b>	<b>0</b>	<b>51</b>
Services within the remit of other committees	Expenditure	463,577	463,457	(120)	(713)	593
	Income	(212,256)	(212,210)	46	690	(644)
	<b>Subtotal</b>	<b>251,321</b>	<b>251,247</b>	<b>(74)</b>	<b>(23)</b>	<b>(51)</b>
<b>Total Service Operating Budgets</b>		<b>260,739</b>	<b>260,716</b>	<b>(23)</b>	<b>(23)</b>	<b>0</b>

16. 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** – An overspend of £51k is forecast, representing an adverse movement of £51k from Month 2. With both the variance and the movement being driven by an improvement in recharge income offset by increased expenditure on services that are fully charged out.

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

17. While the focus of the discussion for the Select Committee should be the specific services within its remit, it is important that this discussion is conducted in the context of the overall corporate financial position. The following paragraphs outline the medium-term financial position presented in the 2023/24 Budget Setting Report approved by Cabinet and Council in February 2023.
18. At the time of budget setting, the gross savings requirement for the Council's General Fund over the period 2023/24 to 2027/28 was projected to total £55,414k which was primarily driven by inflationary cost pressures driven by global and national economics, growing demand for services and the cost of servicing and repaying borrowing incurred in delivery of the capital programme which are expanded upon below. For 2024/25, the gross savings requirement was forecast to total £12,148k.

**Table 3: Projected Savings Requirement detail**

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Total £'000
Changes in Funding	(13,653)	(10,198)	(1,794)	(6,750)	(6,987)	<b>(39,382)</b>
Inflation	21,691	10,906	9,349	8,862	9,141	<b>59,949</b>
Contingency / Service Pressures	9,080	4,547	3,141	3,211	3,192	<b>23,171</b>
Corporate Items (incl. capital financing costs)	3,673	6,893	2,411	(1,114)	(187)	<b>11,676</b>
<b>Annual Underlying Savings Requirement</b>	<b>20,791</b>	<b>12,148</b>	<b>13,107</b>	<b>4,209</b>	<b>5,159</b>	<b>55,414</b>
<b>Cumulative Underlying Savings Requirement</b>	<b>20,791</b>	<b>32,939</b>	<b>46,046</b>	<b>50,255</b>	<b>55,414</b>	<b>N/A</b>

19. An uplift of £39,382k in recurrent funding was projected over the five-year MTFP period, primarily driven by Council Tax increase of 4.99% in 2023/24 and 2024/25, with a proposed increase of 2.8% per annum thereafter accounting for £27,387k of the increase, with a further £7,474k expected to be driven by increases in the taxbase. Government Grants were forecast to increase by £4,143k, with this wholly being front loaded in 2023/24 as a result of the Spending Review announcements and increases in Social Care Funding. Furthermore, retained Business Rates income is forecast to increase by £5,268k primarily driven by inflationary increases. This position is netted down by the unwinding of £4,890k of one-off funding, predominantly linked to the release of COVID-19 funding.
20. Inflation represents the single largest element of the underlying savings requirement, reflecting the growing cost of maintaining current service provision, with a headline pressure of £59,949k over the MTFP period, with this being materially higher than recent budget strategies due to the exceptionally high inflation rates being experienced globally and nationally, in part due to the war in Ukraine. Workforce inflation through anticipated annual pay awards accounts for £19,120k of this growth, with £9,604k inflation reflecting other contracted expenditure and expenses, offset by increases in recharges and contributions to services, all of which span across all of the Select Committees.
21. There are no specific inflation issues within the remit of the Property, Highways & Transport Select Committee, with the material movements relating to the pay award and assumed contract uplifts.
22. Increasing demand for services linked to a growing and changing population accounts for £23,171k of the projected savings requirement, which reflects Hillingdon's growing population and the impact this has on services, with none of the increases being within the remit of the Property, Highways & Transport Select Committee.
23. Corporate Items, which primarily relate to the ongoing costs of financing capital investment, represent the remainder of the budget gap with £11,676k growth required over the MTFP period. Budgeted capital investment in the current programme is the key driver of a £6,475k growth in debt financing and repayment costs over the medium term. The remaining balance of Corporate Items relate to movements in the TfL Concessionary Fare Levy

(£4,104k) and use of capital receipts to finance transformation activity (£1,029k), alongside moving the Council Tax Older People's Discount to being funded from base budget rather than Earmarked Reserves, with funding coming in from Hillingdon First Limited from 2023/24 and 2024/25.

24. The approved budget presented to Cabinet and Council in February 2023 included a saving programme of £45,683k over the five-year period, leaving a budget gap of £9,731k by 2027/28 still to be found. Within the Savings Programme, £4,072k related to Further BID Reviews that were yet to be identified.

### **New and Emerging Risks**

25. In light of the exceptional inflation environment that the economy continues to experience, the Council has begun to refresh its savings requirement over the budget strategy period, with inflation rates forecast to average at 7% for 2023 before reducing to 3% by 2024 before returning to the Bank of England target rate of 2% thereafter. The local experience suggests that inflationary uplifts to contract expenditure run at a time lag between CPI updates and spend. The Council has therefore reassessed the inflationary requirement associated with contracted expenditure, including within Social Care placements and SEND Transport, as well as rebasing workforce inflation based on the latest pay award offer. To this end, it is anticipated that further savings will be required by 2028/29 to fund additional inflationary demand, with this impact likely to be front-loaded, but set within the context of very limited government funding information being available from 2025/26 onwards.
26. Furthermore, demand-led growth continues to be monitored on a monthly basis, with the latest intelligence showing signs that the legacy elements of pandemic-driven demand for services has largely been accounted for within the Council's budget strategy, with other issues like the cost-of-living crisis impacting on services, particularly homelessness. This area will remain under close review in development of budget proposals for 2024/25 and beyond.
27. These factors are being fed into a reassessment of the savings requirement against which proposals for the 2024/25 budget and MTFP to 2028/29 are being developed, with the monthly budget monitoring updates to Cabinet providing commentary on these drivers.

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

28. Due to the revised forecast for the new and emerging pressures, the Council is therefore undergoing a series of reviews to address this new and the emerging position, with an ongoing update of transformational workstreams, a further review of the existing saving programme and a refresh of the Council's Fees and Charges schedule and policy to bridge this gap.
29. As part of this work, the Council will also incorporate its standard approach to assessing the savings requirements strategy, including:

- a. Service Transformation, which represents the single largest category of savings, with items presented in this category primarily linked to implementation of the BID Programme;
  - b. Savings proposals from Zero Based Reviews represent budgets which have been identified as being surplus to requirements through the line-by-line review of outturn and similar exercises being undertaken by Finance;
  - c. Effective Procurement savings capture the benefits secured from efficiency savings from contracted services and reviews of delivery models in a number of areas;
  - d. Preventing Demand - initiatives such as the Supported Living Programme where investment in early intervention and other support can avoid more costly intervention at a later date, and;
  - e. Income Generation & Commercialisation proposals primarily relate to amendments to Fees and Charges.
30. With the current monitoring position forecasting General Balances to be £26,869k by 31 March 2024 and the Council's reserves policy setting a minimum reserves balance of £22,000k, there is a need to deliver against these workstreams at pace. The initial review of the revised savings requirement and savings programme will be presented at December Cabinet and to Select Committees in January 2024 alongside the public consultation on the budget for the forthcoming year.

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

31. The timetable for the budget process follows a similar format to previous years, with the consultation budget being presented by Cabinet in December for consideration by residents and Select Committees during January, before final budget proposals are considered by Cabinet and Council in February. Alongside this local process, the Council will receive indicative funding allocations for the forthcoming year from Central Government in December, which will be confirmed in advance of the new financial year starting in April.

**Table 4: Budget Setting Timetable**

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

#### **Next Steps**

32. The Medium Term Financial Forecast setting out the draft revenue budget and capital programme will be considered by Cabinet in December 2023 and issued for consultation



during the remainder of December 2023 and January 2024. This will include detailed consideration by each of the Select Committees of the proposals relating to their respective services.

33. Key issues within the remit of this Select Committee will continue to be tracked through the Council's budget monitoring process, with monthly reports to Cabinet detailing the latest position and outlook for 2023/24.

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

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

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

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

### **Financial Implications**

None at this stage.

### **Legal Implications**

None at this stage.

### **BACKGROUND PAPERS**

The Council's Budget: General Fund Revenue Budget and Capital Programme 2023/24 – reports to Cabinet 16 February 2023 and Council 23 February 2023.

The Council's Budget: 2023/24 Revenue and Capital Month 3 Budget Monitoring – report to Cabinet 14 September 2023.