COUNCIL BUDGET –
2023/24 REVENUE AND CAPITAL MONTH 5 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 £13k underspend is reported against General Fund revenue budget normal activities as of August 2023 (Month 5), an adverse movement of £10k on the position at Month 3. As would be expected as we approach the mid-point of the financial year, there are a number of potential risk areas and pressures which need to be managed to deliver this headline outturn. Unallocated reserves are projected to total £26,859k at 31 March 2024. In addition, Earmarked Reserves are forecast to total £14,262k at 31 March 2024.

While exceptional inflationary pressures were included and funded through the Council's budget strategy, such pressures remain relatively high with a £3,622k release from Earmarked Reserves projected to meet this potential pressure. Headline Inflation rates remain at historically high levels, albeit that latest data indicates a reduction from 6.8% to 6.7%.

The Collection Fund is forecast to deliver a surplus of £1,380k due to lower than anticipated appeals against the 2023 Business Rates revised list. This surplus has not been reflected in this outturn forecast.

The Dedicated Schools Grant (DSG) monitoring position is an in-year overspend of £4,462k at Month 5, this overspend is due to ongoing pressures in the cost of High Needs placements, which are largely being driven by inflationary factors which are not fully reflected in the funding which the Council is receiving from the Department of Education ("DfE"). 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 August 2023 (Month 5), noting the actions proposed by officers 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 5 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 £13k is reported against General Fund revenue budget normal activities as of August 2023 (Month 5), a £10k adverse movement from Month 3, with a range of risks and pressures being managed within this position. This will result in unallocated General Balances totalling £26,859k at 31 March 2024, in line with MTFF expectations.

6. Over and above specific variances being reported, there are a number of risk areas which continue to be closely monitored against a backdrop of challenging external conditions. The key items relating to progress in delivery of savings, pressures on demand-led services and inflationary pressures.

    i. Within this position, £10,795k of the £22,762k savings planned for 2023/24 are banked or on track for delivery in full by 31 March 2024, with £11,725k or 52% 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.

    ii. As we approach the mid-point of the financial year, pressures are emerging against demand-led service budgets, although these have been funded by demand-risk reserves held by the Council for this purpose. In particular, a pressures related to volatility within Looked After Children and Adult Social Care placements, alongside increasing approaches from households seeking support with homelessness and reduced income from planning fees as a result of broader economic conditions are material factors. Across these areas, officers are seeking to develop mitigations in year while meeting this demand, including a review of discretionary expenditure and balance sheet items to release capacity where appropriate.

    iii. 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.

7. As would be expected the latest forecast underspend of £13k against the Council's General Fund reflects present best estimates for inflation and demand figures, alongside assumptions around the impact of both in flight and planned management actions. Given the current challenging external conditions, it is expected that such management actions will be complemented by a review of discretionary expenditure and the Council's balance sheet to ensure available funds are being deployed to best effect. This balance sheet review will cover application of any unallocated third-party contributions or grants, provisions for doubtful debts and risk items, and historic overprovision of Minimum Revenue Provision.

8. 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 5 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 £5,798k of this balance, with £4,550k of this being planned use within the Council's budget strategy, leaving a projected closing balance of £14,262k 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.

9. Within the Collection Fund, a surplus of £1,380k is reported at Month 5, with the surplus being derived from a favourable position within Business Rates of £2,791k 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 has been impacted by the cost-of-living crisis, although this has started to decline again in line with budgeted assumptions, these pressures lead to a forecast deficit of £1,411k on Council Tax.

10. These in-year pressures on Council Tax are being mitigated through the overachievement of Business Rates income, resulting in a net £1,380k favourable movement against the approved budget. The favourable movement at Month 5 is driven by a release of the Council's appeals provision into the position as the financial year progresses post revaluation reset of the commercial properties in the borough.

11. 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. The £1,380k will therefore be available to support the Council's 2024/25 budget.

12. National economic circumstances will continue to drive a requirement to closely monitor service expenditure and trends in 2023/24, particularly for demand-led services where there are higher risks and given the context of Hillingdon's commitment to Social Care and its budget being based on delivering a substantial savings programme. These challenges are not unique to Hillingdon, numerous local authorities have publicly reported significant in-year cost pressures reflecting these factors and the downturn in economic forecasts since 2023/24 budgets were set. Hillingdon will also continue to advocate for specific funding in recognition of its specific exposures as a port authority.

GENERAL FUND CAPITAL

13. As at Month 5 a £13,566k underspend is projected 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 estimated to breakeven. 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 £60,787k, with overall borrowing levels projected to peak at £305,669k in 2024/25 in line with the MTFF.

SCHOOLS BUDGET

14. The Dedicated Schools Grant (DSG) projected position is an in-year overspend of £4,462k at Month 5, with no movement on forecasts reported at Month 3. This overspend is due to ongoing pressures in the cost of High Needs placements, where inflationary pressures which are not met by DfE increased funding and the already identified under-capacity in borough, has driven increases in the number and cost of independent placements has increased significantly and is a key area of review within the Safety Valve work. Inflationary pressures apply across the sector have continued to increase and are impacting on the costs of High Needs placements within each type of school setting. Measures are in place to reduce the number of high cost Out of Borough Independent placements which present the largest unit cost within the High Needs Block, costing 58% more on average than In Borough Independent placements. However, these will take time to deliver. When the £21,887k deficit brought forward from 2022/23 is considered, along with the revised Safety Valve funding for 2023/24, the forecast cumulative deficit carried forward to 2024/25 is £20,879k.

HOUSING REVENUE ACCOUNT

15. The Housing Revenue Account (HRA) is currently forecasting a breakeven position at Month 5, 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 £118,138k 2023/24 HRA Capital Programme with the exception of a small favourable cost variance reported on Major Projects of £529k over the 5-year programme budget.

FURTHER INFORMATION

General Fund Revenue Budget

16. A marginal £13k underspend is projected across the General Fund at Month 5, representing an adverse movement of £10k from Month 3, 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 £26,859k at 31 March 2024, and therefore remain within the recommended range 2023/24 of £22,000k to £41,000k as approved by Cabinet and Council in February 2023.

Table 1: General Fund Overview

Service	Month 5 Approved Budget £'000	Month 5 Forecast Outturn £'000	Variance (As at Month 5) £'000	Variance (As at Month 3) £'000	Movement from Month 3 £'000
Service Operating Budgets	260,767	260,754	(13)	(23)	10
General Contingency	500	500	0	0	0
Unallocated Budget Items	2,011	2,011	0	0	0
Subtotal Expenditure	**263,278**	**263,265**	**(13)**	**(23)**	**10**
Corporate Funding	(263,278)	(263,278)	0	0	0
Total Net Expenditure	**0**	**(13)**	**(13)**	**(23)**	**10**
Balances b/fwd	(26,846)	(26,846)			
Balances c/fwd 31 March 2024	**(26,846)**	**(26,859)**			

17. 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.

18. Within the Council budget there is a Managed Vacancy Factor across the board of 3.5%, or £4,126k, 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.

19. 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.

20. Further provision for use of Earmarked Reserves has been included in this position, with £1,690k 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 £451k 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 £5,798k to leave a closing balance of £14,262k at 31 March 2024.

21. This represents an adverse movement of £196k on Month 3 which is predominantly relates to movements within a reserve specifically held to fund insurance risk, with movements in this area being offset by changes in the insurance provision that the Council holds. The reported surplus against the Collection Fund of £1,380k offer an element of offsetting the use of reserves in 2023/24 with these are realised in the 2024/25 financial year.

Progress on Savings

22. 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)	(260)	(623)	(303)		(1,857)
Cabinet Member for Finance	(100)		(17)			(117)
Cabinet Member for Corporate Services	(651)	(585)	(198)	(50)		(1,484)
Cabinet Member for Residents' Services	(4,190)	(1,112)	(5,575)	(1,407)	(242)	(12,525)
Cabinet Member for Children, Families & Education	(150)	(181)	(329)	(774)		(1,434)
Cabinet Member for Health and Social Care	(830)	(1,565)				(2,395)4
Cross-Cutting	(500)	0	(500)	(1,950)	0	(2,950)
Total 2023/24 Savings Programme	**(7,092)** *31%*	**(3,703)** *16%*	**(7,242)** *32%*	**(4,484)** *20%*	**(242)** *1%*	**(22,762)** *100%*
Month on Month Movement	***(465)*** ***2%***	***(189)*** ***1%***	***711*** ***-3%***	***(898)*** ***4%***	***841*** ***-4%***	***0*** ***0%***

23. As of Month 5, £7,092k (31%) of the savings programme has already been banked, with a further £3,703k (16%) being reported as delivery in progress and £11,725k (52%) in the early stages of delivery which are ultimately expected to be delivered in full. There are a further £242k of savings recorded as having a serious problem with timely delivery, these savings could ultimately slip into 2024/25. Key items within this £242k relate to timing issues on practical implementation of two projects, which are ultimately expected to be resolved.

24. The majority of savings currently being tracked as being in the early stages of delivery relate to changes to Fees & Charges and resulting uplifts in income targets, where it remains necessary to closely monitor demand for services in challenging external conditions. As the year progressing it will be possible to firm up projections in this area and refresh the savings tracker accordingly.

25. 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.

26. 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 £5,378k 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

27. 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.

28. 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 £'000	Forecast Outturn £'000	Variance (As at Month 5) £'000	Variance (As at Month 3) £'000	Movement from Month 3 £'000
Property, Highways & Transport	Expenditure	20,047	19,937	(110)	(18)	(92)
	Income	(10,614)	(10,912)	(298)	69	(367)
	Subtotal	**9,433**	**9,025**	**(408)**	**51**	**(459)**
Finance	Expenditure	141,133	140,828	(305)	(336)	31
	Income	(106,809)	(107,206)	(397)	(264)	(133)
	Subtotal	**34,324**	**33,622**	**(702)**	**(600)**	**(102)**
Corporate Services	Expenditure	26,693	26,877	184	83	101
	Income	(2,053)	(2,252)	(199)	(90)	(109)
	Subtotal	**24,640**	**24,625**	**(15)**	**(7)**	**(8)**
Residents' Services	Expenditure	69,169	69,966	797	802	(5)
	Income	(46,889)	(45,770)	1,119	692	427
	Subtotal	**22,280**	**24,196**	**1,916**	**1,494**	**422**
Children, Families & Education	Expenditure	96,422	96,330	(92)	(82)	(10)
	Income	(24,198)	(24,154)	44	(93)	137
	Subtotal	**72,224**	**72,176**	**(48)**	**(175)**	**127**
Health & Social Care	Expenditure	131,050	130,974	(76)	(112)	36
	Income	(33,184)	(33,864)	(680)	(674)	(6)
	Subtotal	**97,866**	**97,110**	**(756)**	**(786)**	**30**
Total Service Operating Budgets		**260,767**	**260,754**	**(13)**	**(23)**	**10**

29. As can be seen from the table above, Service Operating Budgets are forecasting a marginal underspend of £13k which is the cumulative effect of a number of variances which are briefly outlined below by Cabinet Portfolio:

   i. **Property, Highways & Transport** – An underspend of £408k is forecast, representing a favourable movement of £459k from Month 3. The improvement in this area relates to the Council winning a Business Rates appeal with the Valuation Office, leading to a reduction in the liability. Outside of this update, the variance in this area is being driven by the intrinsic relationship between property work expenditure and capital programme recharge income.

   ii. **Finance** – A net underspend of £702k is reported at Month 3, representing a £102k improvement from Month 3, with this position being 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. The movement in this area relates to additional grant income and one-off improvement in debt income collection. 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.

iii. **Corporate Services** – a net underspend of £15k is reported, representing a favourable movement of £8k, 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. The movement in this area is made up of a number of minor updates, with no material movements.

iv. **Residents' Services** – an overspend of £1,916k is forecast for this portfolio, with a gross pressure of £3,516k 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 exceptional 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.

The movement in this portfolio relates to further adverse movements within parking income as recovery to pre-pandemic levels continues to lag behind original forecasts.

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 £833k 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.

v. **Children, Families & Education** – an underspend of £48k is being forecast at Month 5, which represents an adverse movement of £127k, 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. With the movement in this area relating to a reduction in income within the Safeguarding service area.

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, Looked After Children is presenting a pressure in Month 5, however, this has been offset by a drawdown from the Council's demand risk reserve. 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.

vi. **Health & Social Care** – an underspend of £756k 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, with the largest being additional grant income. The movement at Month 3 is driven by a number of minor updates, with no material movements.

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 5 refresh of the impact of demographics and inflation forecasting a broadly 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

30. A surplus of £1,380k is reported within the Collection Fund at Month 5. Within the Collection Fund, an adverse position is reported within Council Tax of £1,411k, offset by a favourable position within Business Rates of £2,791k. This position is driven by 3 key factors:

i. 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, with no movement from Month 3.

ii. This position is then 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 660 Band D properties.

iii. The favourable position within Business Rates is being driven by the Month 5 refresh suggesting that some of the increased revenue from the national revaluation of commercial property can be released into the Council's financial position, with the favourable movement of £1,081k being driven by this refresh.

31. 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 £1,380k 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

32. As at Month 5 the General Fund forecasts are reporting a variance of £13,666k. 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

33. 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 5, a total favourable variance of £13,666k is projected against the rephasing variance.

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	4,703	0	(200)	10,942	10,942	0	0
Corporate Services	2,073	1,958	0	(115)	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	96,422	0	(13,351)	214,251	214,251	0	0
Contingency	11,810	11,810	0	0	17,810	17,810	0	0
Total Capital Programme	**162,613**	**148,947**	**0**	**(13,666)**	**310,281**	**310,281**	**0**	**0**
Major Projects	114,125	103,987	0	(10,138)	169,459	169,459	0	0
Programme of Works	36,678	33,150	0	(3,528)	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**	**148,947**	**0**	**(13,666)**	**310,281**	**310,281**	**0**	**0**
Movement	0	(2,506)	0	(2,506)	0	0	0	0

34. **Finance:** At Month 5, 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.

35. **Residents:** A breakeven position is being reported at Month 5 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.

36. 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.

37. **Corporate Services:** The Corporate Technology and Innovation programme includes rephasing of £333k from 2022/23. Projects this year include telephone improvements which has an approved capital release, and the Laptop and Desktop Refresh programme is pending a capital release.

38. **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 for the Harefield Academy site to be used as a satellite school to be managed by Meadow High School is now pending a contract variation as the project has changed to a demolition and rebuild scheme. The appointed contractor is undertaking stage 2 design works it is expected that the main works contract will commence before the end of the year. A decision is pending on the Meadow Site expansion plans, and if approved work will commence on site in December. Revised cost estimates remain 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.

39. **Health and Social Care**: The capitalisation of social care equipment is forecast in line with budget. The Disabled Facilities Grant adaptations includes rephasing from 2022/23 of £279k and is forecasting rephasing of £1,272k in 2024/25. The full budget is projected to be committed; however, a significant number of adaptations will commence this year but will complete in 2024/25. Both budgets are financed by the Disabled Facilities Grant, and the Council have been allocated a further £445k grant for 2023/24.

40. **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 have been halted when the contractor entered into administration at the beginning of September 2023. The Council is working proactively towards the successful delivery of the scheme, and the forecast will be refreshed in future updates accordingly.

41. Planning for the Hillingdon Water Sports Facility has been submitted and a decision is expected in January. Procurement of a contractor is now taking place and subject to planning

approval and appointment of a contractor, work is expected to commence on site at the end of the year resulting in rephasing of £4,905k.

42. Works commenced in May 2023 at the Battle of Britain Bunker following recent approval to appoint a contractor, slippage of £50k is forecast for retention payments. Slippage is also reported for Charville Lane Childrens House (£446k), Harefield Family Hub (£250k), Motor Vehicle Workshop (£385k) and the Otterfield Road Library (£1,214k).

43. 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, installation of PV panels at the Civic Centre, Winston Churchill Hall, Hillingdon Sports and Leisure Centre, and Highgrove swimming pool. Forward phasing of £687k is required following the appointment of Ameresco to install PV panels at these sites.

44. As of Month 5 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.

45. 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.

46. The Schools Building Condition Works programme has been agreed is projected slippage of £1,272k for works planned for next summer and for final stage payments due next year.

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	33,104	0	486	93,617	93,617	0	0
CIL	2,463	2,463	0	0	18,963	18,963	0	0
Prudential Borrowing	60,031	52,122	0	(6,316)	67,787	67,787	0	0
Total Council Resources	**95,798**	**87,689**	0	**(5,830)**	**180,367**	**180,367**	0	0
Grants & Contributions	66,815	61,258	0	(7,836)	129,914	129,914	0	0
Capital Programme	**162,613**	**148,947**	**0**	**(13,666)**	310,281	310,281	**0**	**0**
Movement	0	(2,506)	0	(2,506)	0	0	0	0

47. The MTFF disposals programme 2023-28 forecasts total capital receipts of £114,210k and includes £39,888k of further specific capital receipts to be identified. In 2023/24 forecast capital receipts are £33,104k, 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

48. The Dedicated Schools Grant (DSG) projected position is an in-year overspend of £4,462k at Month 5, with no movement on forecasts reported at Month 3. This overspend is due to ongoing pressures in the cost of High Needs placements, where inflationary pressures which are not met by DfE increased funding and the already identified under-capacity in borough, has driven increases in the number and cost of independent placements has increased significantly and is a key area of review within the Safety Valve work.

49. Inflationary pressures apply across the sector have continued to increase and are impacting on the costs of High Needs placements within each type of school setting. Measures are in place to reduce the number of high cost Out of Borough Independent placements which present the largest unit cost within the High Needs Block, costing 58% more on average than In Borough Independent placements. However, these will take time to deliver.

50. When the £21,887k deficit brought forward from 2022/23 is considered, along with the revised Safety Valve funding for 2023/24, the forecast cumulative deficit carried forward to 2024/25 is £20,879k.

Table 7: DSG Income and Expenditure Summary

Funding Block	Month 5		Variance		
	Approved Budget £'000	Forecast Outturn £'000	Variance (As at Month 5) £'000	Variance (As at Month 3) £'000	Change from Month 3 £'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	4,462	0
Total Funding Blocks	**2,280**	**6,742**	**4,462**	**4,462**	**0**
Balance Brought Forward 1 April 2023	21,887	21,887			
Safety Valve Funding	(7,750)	(7,750)			
Balance Carried Forward 31 March 2024	**16,417**	**20,879**			

51. As noted above, the sole material variance on the Schools Budget at Month 5 remains the High Needs Block where inflationary pressures on individual High Needs placements are outstripping funding made available by the DfE through the DSG. This differential accounts for the budgeted £2,280k pressure, with continuing high levels of inflation exacerbating this in the new year. There is no standard mechanism for DSG to be varied to reflect inflationary pressures and therefore the shortfall represents an additional challenge in the context of the Safety Valve.

Maintained School Balances & Budgets

52. 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.

53. 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**

54. The 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

55. The Housing Revenue Account (HRA) is currently forecasting a breakeven position compared to the budget, with ongoing 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 5		Variance (+ adv / - fav)		
	Budget £'000	Forecast Outturn £'000	Variance (As at Month 5) £'000	Variance (As at Month 3) £'000	Movement from Month 3 £'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	40	0
Director of Housing	9,287	9,431	144	144	0
Other Service Areas	1,080	998	(82)	(82)	0
Contribution to Shared Services	12,631	12,529	(102)	(102)	0
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**

56. At Month 5, rental income and other income is forecast to budget. Delays are expected handing over new completions and the profile of buyback acquisitions ready to let is expected towards the latter part of the year. Other stock movements, such as voids and the regeneration programme will continue to be monitored closely. The budgets are based on a void rate of 1.35%, with any material variation from this level feeding into rental projections as appropriate.

57. The number of RTB applications received in the first five months of 2023/24 was 56 compared to 53 for the same period in 2022/23.There has been 17 RTB completions in the first five months of 2023/24 compared to 21 for the same period in 2022/23. The RTB applications and sales will be kept under review during the year. As at Month 5, the 2023/24 RTB sales forecast is 40 in line with budgeted expectations.

58. The HRA Operating Costs Budget is £36,418k and at Month 5 is forecast to budget. In line with experience elsewhere in the Council, the risk of significant inflationary pressures is being closely monitored. Within this position, a number of variances are reported:

    i. The Operational Assets budget is £13,420k and includes repairs and planned maintenance budgets. The forecast is an overspend of £52k relating to a specialist team put in place to respond to damp and mould issues to ensure timely remedial work. This is expected to be an on-going pressure and is currently expected to be funded in year with one-off saving from the external decorations budget. The responsive repairs service and planned maintenance budgets are currently not experiencing budget pressures and will continue to be kept under review as the winter months approach when pressure may emerge on day-to-day repairs. Legal disrepair costs are continuing to increase and are being monitored closely.

ii. The Director of Housing budget is £9,287k and includes tenancy management and tenants' services. The forecast is an overspend of £35k relating to the staffing costs. 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 budgeted increase in costs for electricity and gas.

iii. 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 £35k which relates to agency costs.

iv. The Contribution to Shared Services budget is £12,631k and is forecast to underspend by £102k. The budgets include development and risk contingency, overheads and corporate and democratic core, and bad debt provision. The bad debt provision is being closely monitored. There are signs arrears are increasing and additional resource has been seconded to the income recovery team due to the increase caseload.

59. The MTFF savings target is £690k and £284k is yet to be fully identified and the position presented in this report is based on the full delivery of these savings.

60. As at Month 5 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 borrowing.

HRA Capital Expenditure

61. The HRA capital programme is set out in the table below. The 2023/24 revised budget is £118,138k and at Month 5 all forecasts are in line with budgets except for a small favourable cost variance on Major Projects.

Table 9: HRA Capital Expenditure

	Revised Budget 2023/24 £'000	Forecast 2023/24 £'000	Cost Variance 2023/24 £'000	Project Re-Phasing 2023/24 £'000	Total Project Budget 2023-28 £'000	Total Project Forecast 2023-28 £'000	Total Project Variance 2023-28 £'000	Movement 2023-28 £'000
HRA Capital Programme								
Major Projects	87,214	86,685	(529)	0	316,034	315,505	(529)	(529)
Works to Stock programme	22,437	22,437	0	0	132,813	132,813	0	0
Green Homes Initiatives	6,147	3,000	0	3,147	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	**118,138**	**117,609**	**(529)**	**3,147**	**495,305**	**494,776**	**(529)**	**(529)**
Movement	0	(3,147)	0	3,147	0	0	0	(529)

62. There is a small favourable cost variance on Major Projects. The council acquired a property from a Registered Provider providing accommodation to vulnerable adults. The property was previously financed from social care grant for which the Council has taken on the grant liability and was therefore not required to pay full market value as was budgeted for. The HRA will provide landlord services and Adults will continue to provide care.

63. The 2023-24 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.

64. 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 3 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.

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

66. 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 to spend in line with revised budgets.

67. 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.

HRA Capital Financing

68. The below table sets out the HRA Capital Financing forecast at Month 5:

Table 10: HRA 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	8,142	8,122	0	20	38,109	38,109	0	20
Revenue Contributions	22,010	20,436	0	1,574	122,761	124,334	1,573	1,573
Prudential Borrowing	70,990	69,578	(529)	883	232,918	231,485	(1,433)	(21)
Total Council Resources	**101,142**	**98,136**	**(529)**	**2,477**	**393,788**	**393,928**	**140**	**1,572**
Grants & Contributions	16,996	16,326	0	670	101,517	100,848	(669)	(1,572)
Capital Programme	**118,138**	**114,462**	**(529)**	**3,147**	**495,305**	**494,776**	**(529)**	0
Movement	0	(3,147)	(529)	3,676	0	0	0	20

69. At Month 5, the £529k Capital Programme underspend is being funded by additional revenue contributions, leading to a reduction in prudential borrowing, with a reduction in grant income linked to the Green Homes Initiative, linked to the reduction in the number of units as mentioned above.

Treasury Management Update as at 31 August 2023

Table 10: Outstanding Deposits

Period	Actual (£m)	Actual (%)
Call Accounts and MMF's*	31.9	49.84
Up to 1 Month Fixed-Term Deposits	17.1	26.72
Total	49.0	76.56
Strategic Pooled Funds	15.0	23.44
Total	64.0	100.00

*Money Market Funds

70. 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 (MMFs). UK deposits are currently held in NatWest Bank plc and the DMADF. There is also an allocation to Strategic Pooled Funds.

71. The average rate of return on day-to-day operational treasury balances is 4.57%, an increase of 0.14% since Month 3. 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 long-term investment horizon with dividends being distributed periodically. When including projected dividend income on these strategic pooled funds, the overall rate of return decreases to 4.47% based on the previous six months income average. With rising market interest rates there is a lag in terms of dividend yield whilst the underlying assets mature and are refinanced, however 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 time.

72. 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 August, 65% of the Council's day-to-day operational treasury investments had exposure to bail-in risk compared to a June benchmark average of 63% in the Local Authority sector (latest benchmark provided quarterly by the Council's treasury advisors). The Council's exposure reduces to 0% once instant access facilities are excluded from the total bail-in percentage.

73. Liquidity was maintained throughout August by placing surplus funds in instant access accounts and making short-term deposits, including overnight deposits, in the DMADF. Cash-flow was managed by ensuring maturities of any short-term deposits with the DMADF were matched to outflows.

Table 11: Outstanding Debt
Average Interest Rate on Total Debt: 3.21%
Average Interest Rate on Debt Excluding Temporary Borrowing: 3.14%
Average Interest Rate on Temporary Borrowing: 3.51%

	Actual (£m)	Actual (%)
General Fund		
PWLB	79.60	26.47
Long-Term Market	15.00	4.99
Temporary	55.00	18.29
HRA		
PWLB	118.07	39.27
Long-Term Market	33.00	10.98
Total	**300.67**	**100.00**

74. A £10m local authority temporary loan was repaid during August.

75. Gilt yields moved up during the first half of August, but then fell back to levels only slightly higher than the beginning of the month. Although many loans are in discount, the Council's long-term borrowing need and the high interest rates on new borrowing makes early repayment unviable.

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

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

78. Due to the amount of borrowing required by the end of 2023/24 two further forward dated temporary local authority loans totalling £11m were obtained with start dates in November 2023 and January 2024. These were secured as a hedge against any future base rate rises and brings the total of secured forward dated borrowing to £21m. Opportunities to secure further temporary borrowing will be monitored.

PART B: FINANCIAL RECOMMENDATIONS

That the Cabinet:

a. Accepts a grant of £163,419 from the North West London Integrated Care Board to fund two staffing posts to support the implementation of Population Health Management.
b. Accepts a grant of £1,583,351 from the Department of Health and Social Care's Market Sustainability and Improvement Fund (MSIF) Workforce Fund to address Adult Social Care workforce pressures during the winter period to 31st March 2024.
c. Accepts £20k additional grant funding from the Office for Product Safety and Standards (OPSS) for costs associated with supporting the Product Safety at Ports & Borders Programme for 2023/24.

Reasons for recommendation

79. Population Health Management (PHM) uses historical and current data to understand what factors are driving poor outcomes in different population groups. This informs the design new proactive models of care that will improve the health and wellbeing of these groups and contribute to managing demand on health and social care services. **Recommendation 2a** proposes to accept the grant that will be added to the NHS funding received in 2022/23 to enable the Council to employ two suitably qualified people on two-year contracts to provide the capacity to implement PHM approaches in Hillingdon.

80. **Recommendation 2b** proposes to accept a newly announced Department of Health and Social Care grant, which in accordance with grant conditions, this funding will be used to pay for short-term increase in the rate paid to some providers, increasing workforce capacity and retention and reducing Adult Social Care waiting times. The Cabinet Member for Health and Social Care will be asked to approve a spending plan in her capacity as co-chairman of the Health and Wellbeing Board, which is also a grant condition.

81. Additional grant funding has been offered by the Office for Product Safety and Standards (OPSS) for 2023/24, with **recommendation 2c** proposing this grant is accept which will be utilised to cover the cost of Trading Standards team resources required to undertake market surveillance and enforcement activities, in support of the Product Safety at Ports & Borders Programme (which aims to improve consumer product safety of imported goods).