

COUNCIL BUDGET - 2024/25 REVENUE MONTH 2 BUDGET MONITORING

Cabinet Member	Councillor Martin Goddard
Cabinet Portfolio	Cabinet Member for Finance
Officer Contact	Iain Watters, Finance
Papers with report	None

HEADLINES

Summary	<p>This report provides the Council's forecast financial position and performance against the 2024/25 revenue budget.</p> <p>A breakeven position is presented against the General Fund revenue budget as of May 2024 (Month 2), with a level of risk within demand-led pressures being managed within the position. Total reserves are projected to be £34,954k at 31 March 2025 and therefore remain above the minimum level of balances of £32,000k for the 2024/25 financial year.</p> <p>The Dedicated Schools Grant (DSG) monitoring position forecasts indicate a reduced in year deficit for 2024/25 in respect of the High Needs Block from £25,605k to £16,110k (a reduction of £9,495k) with a range of interventions partially mitigating underfunded demand within the High Needs block.</p> <p>No material variances have been reported across the Housing Revenue Account (HRA), with all service areas within the ringfence reporting a breakeven position or the five-year Capital Programme at this stage.</p>
Putting our Residents First	<p>This report supports the delivery of the Council Strategy 2022-2026.</p> <p>Achieving Value for Money is an important element of the Council's Medium Term Financial Plan.</p>
Financial Cost	N/A
Relevant Select Committee	Corporate Resources & Infrastructure
Relevant Ward(s)	All

RECOMMENDATIONS

That the Cabinet:

1. Note the budget monitoring position and treasury management update as at May 2024 (Month 2), 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 2 against budgets approved by Council on 22 February 2024 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 breakeven position is being reported at Month 2 against General Fund revenue budget normal activities as of May 2024 (Month 2), with a range of significant risks and pressures being managed within this position. This will result in unallocated balances totalling £26,848k at 31 March 2025.
6. The position at Month 2 includes a number of measures aimed at reducing spend across the Council throughout the year, with these measures needing to be closely monitored to assess the success rate of reducing the Council's spend. The Council is facing a number of significant challenges in 2024/25, with a risk of material variances being driven by exceptional circumstances including:
 - i. Demand for homelessness presents a risk to the position. However, actions are in place to mitigate these costs including increasing housing supply within the HRA. This is a national issue with a particular challenge across London, with Government funding not keeping pace with demand. The Council has an ambitious commissioning plan within the HRA to deliver 300 new homes in 2024/25, with efforts in this space progressing at pace to mitigate demand - including the acquisition of accommodation in Hayes, providing 113 homes, the acquisition of a development opportunity in Uxbridge that will ultimately supply in excess of 105 homes and the development of two sites in Yiewsley that will deliver a further 95 homes.
 - ii. The Council is also seeing continuing demand for Adult Social Care services, with growth in this service area outstripping the rate of growth in the population for the borough. This position is being managed within the overall service expenditure for the budget, with measures being put in place that will be closely monitored throughout the year.
 - iii. The 2024/25 budget is predicated on successful delivery of the 2024/25 savings programme, containment of emerging pressures on demand-led budgets and mitigations for pressures identified through the ongoing Zero Based Budgeting exercise. The totality of spend reductions required is £21,499k, with progress in delivery tracked on an ongoing basis.
7. As at Month 2, £6,764k or 31% of the £21,499k savings activity planned for 2024/25 are banked or on track for delivery in full by 31 March 2025, with £12,975k or 61% 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 £21,499k savings expected to be delivered in full or replaced with alternative measures in the medium term.
8. Hillingdon is not alone in facing these challenges, however the Council's opening reserve levels of £35,181k are lower than many of the boroughs across London. This limits the

Council's capacity to absorb cost overruns against reserves and places emphasis on the maintenance of stringent controls over expenditure and the achievement of savings programmes. If these measures are not sustained then there is a risk that reserve levels could fall beneath the minimum level set of £32,000k.

GENERAL FUND CAPITAL EXPENDITURE

9. As at Month 2 a £2,296k underspend is projected on the 2024/25 General Fund Capital Programme of £95,266k, with the forecast outturn variance over the life of the 2024/25 to 2028/29 programme estimated to breakeven. General Fund Capital Receipts of £20,332k are forecast for 2024/25 and are projected to achieve the income target of £75,216k for the five years to 2028/29. Overall, Prudential Borrowing required to support the 2024/25 to 2028/29 General Fund capital programme is forecast to be on budget at £63,082k.

SCHOOLS BUDGET

10. The Dedicated Schools Grant (DSG) total Block for the Maintained Schools is forecasting a deficit of £16,109k based on Month 2 (May 2024), representing a significant improvement from the £25,605k reported at outturn 2023/24 as a result of a broad range of positive measures being deployed by the Council. The in year deficit is wholly driven by High Needs placement demand and cost pressures which continue to be significantly underfunded in the DSG settlement that the authority receives from the DfE. This position means that the cumulative deficit carried forward to 2025/26 is forecast at £63,601k.
11. There is currently a time-limited statutory override in place until 31 March 2025 effectively keeping the Schools Budget deficit behind a ringfence which ensures that this deficit does not impact upon general reserves, and the Council's General Fund budget strategy is predicated on the further continuation of this override. The Council is one of many local authorities managing a deficit within the Schools Budget and this stood at £47,492k at 31 March 2024 and therefore exceeded General Fund reserve levels. It is worth noting that between outturn 2023/24 and the position presented in this report, the Council has successfully reduced spend against the Schools Budget by £9,495k and continues to make good progress in reducing spend in this area.
12. The issue of mounting DSG deficits remains a national issue, with projections for a £4bn deficit across the country forming a key strand to lobbying by sector bodies such as the LGA and London Councils

HOUSING REVENUE ACCOUNT

13. The Housing Revenue Account (HRA) is currently forecasting a breakeven position at Month 2, with the forecast rental yield being sufficient to contain operating costs and meet the planned Capital Programme Financing demands. The 2024/25 closing HRA General Balance is forecast to be £15,000k, in line with the target level established for 2024/25. The HRA has an ambitious development and acquisition programme for 2024/25, with this programme forecast to be on track at Month 2, with the remainder of the HRA Capital Programme also reporting a breakeven position at this early point in the year for both 2024/25 and the five-year programme to 2028/29.

FURTHER INFORMATION

General Fund Revenue Budget

14. A breakeven position is projected across the General Fund at Month 2, with the following section of this report providing an overview of emerging variances and management action in place to deliver this position. General Fund Balances are expected to total £26,848k at 31 March 2025 with Earmarked Reserves forecast to close with a balance of £8,106k, meaning total balances of £34,954k and therefore above the minimum threshold of £32,000k as approved by Cabinet and Council in February 2024.

Table 1: General Fund Overview

Service	Month 2	
	Approved Budget	Forecast Outturn
	£'000	£'000
Service Operating Budgets	282,003	282,003
General Contingency	500	500
Unallocated Budget Items	1,871	1,871
Subtotal Expenditure	284,374	284,374
Corporate Funding	(284,374)	(284,374)
Total Net Expenditure	0	0
Balances b/fwd	26,848	28,848
Balances c/fwd 31 March 2025	26,848	26,848

15. 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, with a level of risk across both homelessness support and Adult Social Care Placements, with close monitoring and development of mitigating actions in development across these areas.
16. Within the Council's payroll budget there is a Managed Vacancy Factor across the board of 3.5%, or £4,282k, to reflect natural levels of turnover and resulting structural underspend in the workforce budgets. The vacancy factor is currently forecast to be delivered in full, with experience over the last two financial years suggesting this should be exceeded, which is contributing to the management of local pressures within the overall monitoring position. 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.
17. Provision for use of Earmarked Reserves has been included in this position, with a marginal use of reserves of £227k included in the forecast to fund the ongoing commitment to ward budgets and schools conditions surveys, with further drawdowns in place to support transformation activity, this position therefore presents a closing balance against earmarked reserves of £8,106k.

Progress on Savings

18. The savings requirement for 2024/25 is £15,752k as set out in the Council's budget strategy, this position has been supplemented by a further £5,747k of prior year savings carried forward into 2024/25, resulting in an overall programme of £21,499k savings being delivered in year.

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	(448)	(613)	(136)	(487)	(80)	(1,764)
Cabinet Member for Finance	(47)	(1,033)	(378)	0	0	(1,458)
Cabinet Member for Corporate Services	(9)	(770)	(778)	0	(340)	(1,897)
Cabinet Member for Residents' Services	(205)	(1,920)	(671)	0	(853)	(3,649)
Cabinet Member for Children, Families & Education	(250)	(265)	(1,049)	0	0	(1,564)
Cabinet Member for Health and Social Care	0	(1,204)	(175)	0	0	(1,379)
Cross-Cutting	0	0	(9,788)	0	0	(9,788)
Total 2024/25 Savings Programme	(959) 4%	(5,805) 27%	(12,975) 61%	(487) 2%	(1,273) 6%	(21,499) 100%

19. As of Month 2, £6,764k (31%) of the savings and interventions are being recorded as banked or on track for delivery, with a further £12,975k (61%) being at the early stages of delivery. In addition, £1,760k (8%) are being reported as having potential challenges in delivery, with alternative delivery methods being considered in-year where appropriate.
20. Where savings are at risk of not being delivered in full during 2024/25, 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 either the full level of savings will ultimately be delivered, or alternative savings will be proposed to supplement for non-delivery of particular savings.
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 £5,192k 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 2024/25, alongside further Capital Receipts secured in year.

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 £16,625k of funding to meet forecast inflationary pressures and £14,286k for demographic and other drivers impacting on demand for services going into the 2024/25.
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)
		£'000	£'000	£'000
Property, Highways & Transport	Expenditure	18,051	18,378	327
	Income	(10,416)	(10,476)	(60)
	Subtotal	7,635	7,902	267
Finance	Expenditure	144,870	144,890	20
	Income	(106,371)	(106,406)	(35)
	Subtotal	38,499	38,484	(15)
Corporate Services	Expenditure	25,269	24,824	(445)
	Income	(2,073)	(2,085)	(12)
	Subtotal	23,196	22,739	(457)
Residents' Services	Expenditure	80,211	81,335	1,124
	Income	(53,041)	(53,285)	(244)
	Subtotal	27,170	28,050	880
Children, Families & Education	Expenditure	102,540	102,405	(135)
	Income	(26,165)	(25,740)	425
	Subtotal	76,375	76,665	290
Health & Social Care	Expenditure	162,621	161,499	(1,122)
	Income	(53,493)	(53,336)	157
	Subtotal	109,128	108,163	(965)
Total Service Operating Budgets		282,003	282,003	0

24. As can be seen from the table above, Service Operating Budgets are forecasting a breakeven position which is the cumulative effect of a number of variances which are briefly outlined below by Cabinet Portfolio:
- i. **Property, Highways & Transport** – An overspend of £267k is reported for this portfolio with pressures equally spread across Property Services, Operational Assets

and Highways, with these pressures being driven by a shortfall in income from garage rentals, civic centre running costs and highway maintenance expenditure.

- ii. **Finance** – At Month 2 an underspend of £15k is reported for the portfolio, with no material variances being declared.
- iii. **Corporate Services** – The portfolio is reporting an underspend of £457k, with this position largely being driven by holding a number of vacant posts within the service.
- iv. **Residents' Services** – An overspend of £880k is being reported at Month 2, with this position being driven by a number of key pressure areas across the portfolio. Community Safety is reporting a pressure, with this largely being the impact of changes in relation to imported food as a result of ongoing Brexit impacts. A further £600k relates to pressures within the waste services from a combination of demand increases and higher rates per tonne of disposal costs. The remaining balance is made up of pressures across the Town Centres service area.
- v. **Children, Families & Education** – At Month 2, this portfolio is reporting an overspend of £290k, with pressures across income streams including room hire and the remaining pressure being driven by the Early Years Centres.
- vi. **Health & Social Care** – An underspend of £965k is being reported at Month 2 with the underspend largely being delivered through vacancies against budgeted establishment.

Collection Fund

25. A surplus of £50k is reported within the Collection Fund at Month 2. Within the Collection Fund, an adverse position is reported within Council Tax of £191k, offset by a favourable position within Business Rates of £241k. This position is driven by 3 key factors:
 - i. Council Tax is presenting a minor in-year pressure of £94k against a £145,751k budget, with a further £97k being driven by the adverse movement on 2023/24.
 - ii. Business Rates is presenting an in-year pressure of £697k driven by a minor reduction in the Council's rating list, backdated over multiple years driving up the in-year impact.
 - iii. The Business Rates position is then offset by a favourable £938k against the 2023/24 outturn position.
26. Any surpluses or deficits within the Collection Fund impact on the Council's future year budgets, with the position reported up to Month 9 impacting on the 2025/26 saving requirement, leading to £50k that will be included in the Council's refresh of the budget strategy that will be presented to Cabinet in December 2024 as part of the consultation budget, with any further updates between Month 10 and outturn impacting on 2026/27. This position therefore will reduce the Council's gross saving requirement by £50k for 2025/26.

General Fund Capital Programme

27. As at Month 2 the General Fund forecasts are reporting an in-year underspend of £2,296k, with the 5-year programme forecast being in line with the budgeted expectations. At Month 2, Council's asset disposal programme is forecast to be on track and sufficient to fund the financing strategy for the DSG Safety Valve and broader transformation programme.

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 2024. Projected variance against budget for the 2024/25 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, a total favourable variance of £2,296k is projected against the rephasing variance. The position presented below is based on the approved Capital Programme budget from Cabinet and Council in February 2024 and is stated prior to rephasing of 2023/24 which are presented as a recommendation in this report, with £39,287k of Major Projects proposed to be rephased, £11,370k from Programme of Works and £10,701k from General Contingency from 2023/24 into 2024/25.

Table 4: General Fund Capital Programme Summary

	Approved Budget 2024/25	Forecast 2024/25	Cost Variance 2024/25	Project Re-phasing 2024/25	Total Project Budget 2024-2029	Total Project Forecast 2024-2029	Total Project Variance 2024-2029	5-year Movement
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cabinet Member Portfolio								
Property, Highways and Transport	58,238	55,942	0	(2,296)	160,770	160,770	0	0
Finance	8,945	8,945	0	0	12,945	12,945	0	0
Corporate Services	2,242	2,242	0	0	15,816	15,816	0	0
Residents' Services	2,472	2,472	0	0	9,272	9,272	0	0
Children, Families and Education	12,519	12,519	0	0	14,459	14,459	0	0
Health and Social Care	8,850	8,850	0	0	24,750	24,750	0	0
Contingency	2,000	2,000	0	0	10,000	10,000	0	0
Total Capital Programme	95,266	92,970	0	(2,296)	248,012	248,012	0	0
Major Projects								
Major Projects	63,181	60,885	0	(2,296)	104,040	104,040	0	0
Programme of Works	30,085	30,085	0	0	133,972	133,972	0	0
General Contingency	2,000	2,000	0	0	10,000	10,000	0	0
Total Capital Programme	95,266	92,970	0	(2,296)	248,012	248,012	0	0

29. As can be seen from the table above, Capital Programme Budgets are forecasting an in-year underspend of £2,296k, with this balance forecast to be rephased into 2025/26, the variance at Month 2 is wholly driven by the forecast for the Hillingdon Water Sports Facility, which is ultimately forecast to be delivered within budget over the life of the project. The salient risks and variances within this position are summarised in the following paragraphs by Cabinet Portfolio:

- i. **Property, Highways & Transport** – All programmes within this portfolio are currently forecast to budget with the exception of the Hillingdon Water Sports Facility, which is

forecast to be delivered in 2025/26, with a minor delay in 2024/25 pushing £2,296k into the following year, with this sum being reported as a rephasing variance to ultimately deliver the project to budget. All other projects in this portfolio are forecast to budget, with the largest Major Projects being the New West Drayton Leisure Centre, which is due for completion in 2025/26, Carbon Zero Initiatives and the Civic Centre Transformation Programme.

Programme of Works items within this portfolio are also forecast to come in on budget for 2024/25 at this early stage of the year, including the £9,000k investment in Highways Structural Works, £4,829k of School Building Conditions Works and the grant fund Disabled Facilities expenditure and Transport for London programmes.

- ii. **Finance** – The £8,945k budget in this portfolio is forecast to budget as at Month 2, with this portfolio including the investment for the Council’s transformation programme within Major Projects and the Vehicle Replacement Programme of Works investment.
- iii. **Corporate Services** – This portfolio is forecasting to spend the £2,242k Capital Programme budget for 2024/25 with this spend largely being linked to the Council’s investment in Corporate Technology and Innovation, with this programme being linked to the delivery of the Council’s digital savings within the revenue position.
- iv. **Residents’ Services** – As at Month 2 are forecasting to come in on budget with the programmes within this portfolio, these programmes including Major Projects on Shopping Parades and Waste Services Improvements, with this item being linked to saving delivery within the Council’s revenue budgets. Programme of Works projects in this portfolio include the Chrysalis and Playground Replacement programmes.
- v. **Children, Families and Education** – As at Month 2, the programmes within this portfolio are forecasting to budget at £12,519k, with this predominantly relating to the SEND expansion programme, increasing the number of placements in the borough, with this investment supporting the delivery of the Council’s Safety Valve Agreement with the Department for Education.
- vi. **Health & Social Care** – This portfolio is forecasting a breakeven position against the approved budget of £8,850k, with £6,000k of this sitting within Major Projects to fund the Investment in Care Home Capacity, with this investment linked to the delivery of revenue savings for the service area, with the remaining balance of £2,850k funding equipment for Social Care service users as a preventative measure that similarly supports the portfolio’s revenue expenditure on care placements.

30. The Capital Programme will continue to be closely monitored throughout the year, with progress against delivery plans to be reported back to Cabinet throughout the remainder of the financial year.

Capital Financing - General Fund

Table 5: Capital Financing

	Approved Budget 2024/25 £'000	Forecast 2024/25 £'000	Cost Variance £'000	Phasing Variance £'000	Total Financing Budget 2024-2029 £'000	Total Financing Forecast 2024-2029 £'000	Total Variance £'000	5-year Movement
Source of Finance								
Capital Receipts	20,332	20,332	0	0	75,216	0	0	0
CIL	3,750	3,750	0	0	21,000	0	0	0
Prudential Borrowing	26,766	26,766	0	0	63,082	0	0	0
Total Council Resources	50,848	50,848	0	0	159,298	0	0	0
Grants & Contributions	44,418	42,122	0	(2,296)	88,714	0	0	0
Capital Programme	95,266	92,970	0	(2,296)	248,012	0	0	0

31. The MTFF disposals programme 2024-29 forecasts total capital receipts of £75,216k, with 2024/25 forecast capital receipts at £20,332k in line with budgeted expectations. Progress is being made identifying and progressing potential asset disposals with these receipts forming 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

32. The Dedicated Schools Grant (DSG) total Block for the Maintained Schools is forecasting a deficit of £16,109k based on Month 2 (May 2024), representing a significant improvement from the £25,605k reported at outturn 2023/24. This in year deficit is wholly driven by High Needs placement demand and cost pressures which continue to be significantly underfunded in the DSG settlement that the authority receives from the DfE. Table 6 below sets out a summary of the Schools Budget and Forecast summarises the forecast.
33. Despite the pressures the service through the Safety Valve programme is very successfully taking control of the market, managing unit costs down and beginning to see a significant reduction in the deficit as a consequence.

Table 6: DSG Income and Expenditure Summary

Funding Block	Approved Budget £'000	Forecast Outturn £'000	Variance (As at Month 2) £'000
Schools Block	104,586	104,586	0
Early Years Block	37,480	37,480	0
Central Schools Services Block	2,429	2,429	0
High Needs Block	56,214	72,324	(9,495)
Prior Year Deficit	25,605		
Total Funding Blocks	226,314	216,819	(9,495)
Dedicated Schools Grant Income	(200,709)	(200,709)	0
In-Year Deficit	25,605	16,110	(9,495)
Balance Brought Forward 1 April 2024	47,492	47,492	
Balance Carried Forward 31 March 2025	73,097	63,602	

34. A core target for the revised High Needs Safety Valve Plan is to actively reduce unit costs by concentrating SEN support in-Borough within our maintained schools and thereby reduce dependence on high cost Independent and Out-of-Borough placements. Trend data shows clear evidence that the approach which has been in place since early last financial year is now beginning to have a really positive impact.
35. The service strategy to manage the High Needs Deficit Plan through a combination of mitigating costs and releasing savings is beginning to take affect and show significant success, with a forecast reduction of £9,495k on last year's deficit of £25,605k, with both costs and the in-year deficit reducing in 2024/25.
36. The issue of mounting DSG deficits remains a national issue, with projections for a £4bn deficit across the country forming a key strand to lobbying by sector bodies such as the LGA and London Councils.

Housing Revenue Account

37. The Housing Revenue Account (HRA) is currently forecasting a breakeven position, with ongoing inflationary risk being closely monitored for the remaining month of the year. The 2024/25 closing HRA General Balance is forecast to be £15,000k, in line with the target level set out in the Council's budget strategy. The table below presents key variances with all services forecast to spend in line with their budget allocation at this early stage of the year.

Table 7: Housing Revenue Account

Service	Budget £'000	Forecast Outturn £'000	Variance (As at Month 2) £'000
Rent & Other Income	(80,614)	(80,614)	0
Net Income	(80,614)	(80,614)	0
Operational Assets	14,017	14,017	0
Director of Housing	9,565	9,565	0
Other Service Areas	1,027	1,027	0
Contribution to Shared Services	13,297	13,297	0
HRA Operating Costs	37,906	37,906	0
Capital Programme Financing	26,676	26,676	0
Interest and Investment Income	16,133	16,133	0
Capital Programme Financing	42,809	42,809	0
(Surplus) / Deficit	(101)	(101)	0
General Balance 01/04/2023	15,101	15,101	0
General Balance 31/03/2024	15,000	15,000	0

38. At Month 2, rental income and other income is forecasting to come in on budget and deliver the £80,614k included in the budget strategy. The forecast is based on the Council's commissioning plan to increase housing stock by 300 units in 2024/25, which are on track for delivery at this early stage of the year but will be closely monitored as the year progresses. The budgets are based on a void rate of 1.35%, with any material variation from this level feeding into rental projections as appropriate.

39. The HRA Operating Costs Budget is £37,906k and at Month 12 is forecast to budget, with these budgets being based on supporting the Council's current housing stock as at 1 April 2024, with growth added in line with the commissioning plan's increase in stock numbers throughout the year. With these budgets being linked to the servicing of the Council's housing stock, these budgets are forecast to breakeven at Month 2 with the commissioning plan being in line with the Council's budget strategy. This area will remain under review throughout the year, with growth in these budgets to be deployed as and when new homes are brought online. Inflation was also added to these budgets in the Council's budget strategy, with early indications suggesting the budgeted uplift is sufficient to meet inflationary demands on the service.

40. The detail behind the service delivery of the blocks included in table 7 are as follows:

- i. Operation Assets budget funds the services provided for repairs and maintenance, void repairs, compliance and inspections.
 - ii. The Director of Housing budget includes tenancy management and tenants' services. The budgets include utility costs, and these will continue to be monitored given the volatility of the electricity and gas markets in recent times.
 - iii. The Other Service Areas budget includes the Careline contract, HRA specific ICT costs and the revenue regeneration costs.
 - iv. The Contribution to Shared Services budget includes the development and risk contingency, overheads and corporate and democratic core charges, and the bad debt provision.
41. The MTFF savings target is £500k with this saving expected to be delivered by virtue of the Council's general fund savings against support services, leading to a reduction in the recharge to the HRA for these services.
42. As at Month 2 the capital programme financing budget of £42,809k is forecast to breakeven. This budget forecast includes £26,676k (depreciation and revenue contributions) to fund the HRA capital programme, the position also includes £16,133k for repayments of loans and interest on borrowing, this position will be closely monitored throughout the year with clear linkages to the commissioning plan.

HRA Capital Expenditure

43. The HRA capital programme is set out in the table below. The 2024/25 approved budget is £184,917k, with 2023/24 rephasing of £22,791k proposed in Part B of this report, taking the total 2024/25 budget to £207,708k. The Month 2 update is forecasting the approved budget to breakeven in both 2024/25 and across the 5-year view to 2028/29.

Table 8: HRA Capital Expenditure

	Approved Budget 2024/25	Forecast 2024/25	Cost Variance 2024/25	Project Re-Phasing 2024/25	Total Project Budget 2024-29	Total Project Forecast 2024-29	Total Project Variance 2024-29	Movement 2024-29
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
HRA Capital Programme	147,987	147,987	0	0	373,331	373,331	0	0
Major Projects	27,717	27,717	0	0	127,284	127,284	0	0
Works to Stock programme	6,756	6,756	0	0	37,187	37,187	0	0
Green Homes Initiatives	2,457	2,457	0	0	12,347	12,347	0	0
Major Adaptations to Property	184,917	184,917	0	0	550,150	550,150	0	0
Total HRA Capital	147,987	147,987	0	0	373,331	373,331	0	0

44. As at Month 2, the HRA Capital Programme is forecast to budget, with the commissioning plan approved in February 2024 to deliver an additional 300 new homes in 2024/25 being reported as on track, with two major developments and acquisitions having been approved recently that support the delivery of an additional 500 homes by March 2027.

45. The Hayes Estates Regeneration scheme is forecast to breakeven, pending the approval of the 2023/24 rephased value into 2024/25 with piling work now complete and progress now being weather dependent. As a result of this revised profiling, vacant possession of Wellings House is not needed now until December 2024 and the block is being utilised for temporary accommodation until then, and all leaseholder interest vested to the Council as planned on 31 October 2023. The compulsory purchase negotiations on the remaining phases will complete as planned by the 31 March 2025 with expenditure forecasts aligned accordingly. Handover of Hayes Town Centre Phase 1 is expected around September 2025.
46. The Council's HRA Commissioning Plan is on track to deliver 300 new homes in 2024/25, with an approved budget of £43,995k for new developments and acquisitions before proposed rephasing from 2023/24 increases this to £60,749k. Should the rephasing request be approved, this will increase the 5-year budget allocation to £258,837k that will support increasing the Council's housing stock by 500 units by 31 March 2027.
47. Construction works have progressing on site at Petworth Gardens, Sullivan Crescent and Rowan Road, to provide a total of ten 2-, 3- and 4-bedroom houses. The forecast for Month 2 has these schemes forecast to breakeven in 2024/25. Petworth Gardens is expected to be ready for occupation by the summer. The development at Maple and Poplar of 34 2-bedroom flats is expected to be complete by Summer 2024. Delays have been incurred connecting utilities to the plant room, which is required before the homes can be let, rephasing of £4,172k from 2023/24 is included in the recommended rephasing request from 2023/24 to 2024/25.

HRA Capital Financing

48. The below table sets out the HRA Capital Financing forecast at Month 2:

Table 9: HRA Capital Financing

	Approved Budget 2024/25 £'000	Forecast 2024/25 £'000	Cost Variance £'000	Phasing Variance £'000	Total Financing Budget 2024-2029 £'000	Total Financing Forecast 2024-2029 £'000	Total Variance £'000	Move-ment
Source of Finance								
Capital Receipts	19,597	19,597	0	0	40,711	40,711	0	0
Revenue Contributions	22,337	22,337	0	0	111,257	111,257	0	0
Prudential Borrowing	106,265	106,265	0	0	299,324	299,324	0	0
Total Council Resources	148,199	148,199	0	0	451,292	451,292	0	0
Grants & Contributions	36,718	36,718	0	0	98,857	98,857	0	0
Capital Programme	184,917	184,917	0	0	550,150	550,150	0	0

49. As at Month 2, Capital Financing is forecasting a breakeven position in line with capital expenditure, with the service forecasting to achieve £19,597k of capital receipts with £36,718k of grant income being used to support green homes initiatives and contributions to developments and acquisitions. The Council's approach is to maximise external sources of funding and receipts before applying revenue contributions and prudential borrowing.

Treasury Management Update as at 31 May 2024

Table 10: Outstanding Deposits

Period	Actual (£m)	Actual (%)	Movement from Month 2 (£m)
Call Accounts and MMF's*	22.50	49.56	(0.6)
Up to 3 Month Fixed-Term Deposits	7.90	17.40	(1.5)
Total	30.40	66.96	(2.1)
Strategic Pooled Funds	15.00	33.04	-
Total	45.40	100.00	(2.1)
Average Investment Balances May 2024	69.87		(13.19)

*Money Market Funds

50. 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.
51. The average rate of return on day-to-day operational treasury balances since the beginning of the new financial year is 5.21%. As part of the Council's investment strategy for 2024/25, 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 5.09% based on the previous six months income average. With rising market interest rates there has been a lag in terms of dividend yield whilst the underlying assets mature and are refinanced, however over the last year income on these funds has been increasing. 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.
52. 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, 74% of the Council's day-to-day operational treasury investments had exposure to bail-in risk compared to a March benchmark average of 61% in the Local Authority sector (70% benchmark average for London and metropolitan boroughs). This exposure fluctuates during the month as DMADF deposits, which are not exposed to bail in risk, were generally higher over the month compared to the balance held with the DMADF at end of May.
53. Liquidity was maintained throughout May 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. Average investments over the month (including strategic pooled funds) were £69.9m, a reduction of £13.2m from April.

Table 11: Outstanding Debt

	General Fund	HRA	Total	Average Interest Rate (Total)
	£m	£m	£m	%
PWLB Long Term	72.2	144.6	216.8	3.14%
Market	15.0	33.0	48.0	4.11%
Temporary Borrowing:				
Local Authorities	64.0	0.0	64.0	5.25%
PWLB	0.0	20.0	20.0	5.07%
	151.2	197.6	348.8	3.77%
Monthly movement	0	0	0	0

54. As at end of May 2024, no new loans had been taken, although it is anticipated new borrowing will be required shortly to maintain liquidity and finance HRA capital expenditure, with the opportunity to access the PWLB concessionary rate available for financing eligible HRA projects included in the HRA capital programme. Loans reduced in May due to one temporary loan for £5m with another local authority maturing and instalments on PWLB EIP (equal instalments of principal) loans.
55. PWLB rates dipped and then rose back in May, with rates at the end of the month close to those at the beginning of the month. The Bank of England's Monetary Policy Committee voted by a majority of 7-2 to maintain the official Bank Rate at 5.25%. Two members preferred to reduce Bank Rate by 0.25 percentage points to 5.0%.

PART B: FINANCIAL RECOMMENDATIONS

That the Cabinet:

- a. Approves rephasing of £39,287k 2023/24 General Fund Major Projects, £11,370k from the Programme of Works expenditure, and £10,701k from General Contingency and associated financing budgets into future years.
- b. Approves rephasing of £22,791k 2023/24 HRA capital expenditure and financing budgets into future years as set out in the report.
- c. Agree the request to continue existing operational arrangements with Frankham Group whilst new contracts are agreed and formal governance approved.
- d. Approve acceptance of £2,759k grant funding from the Department of Energy Security and Net Zero Wave 2.2 funding to contribute towards the cost of £17,696k to undertake decarbonisation works in the Council's Housing properties.

Reasons for recommendation

56. **Recommendation 2a** seeks approval for the rephasing of £39,287k 2023/24 General Fund Major Projects and £11,370k General Fund Programme of Works (including £2,199k Schools Condition Building Programme funding, £2,566k purchase of vehicles, £2,173k Disabled Facilities Grant and £1,291k Corporate Technology & Innovation, £728k Chrysalis Programme funding and other grant funded schemes) capital expenditure and £10,701k from General Contingency and financing budgets as required to enable existing projects and programmes to be delivered in future years
57. **Recommendation 2b** seeks the rephasing of £22,791k HRA capital expenditure and financing budgets are required to enable existing projects and new developments to be delivered in future years
58. The introduction of the new Oracle system in May has significantly improved spend controls. Whilst that is a major benefit of the new system, one of the consequences is that where we do not have formal governance in place, the system limits the total value of purchase order to £100k and payments cannot be made above that level to suppliers. **Recommendation 2c** seeks approval for the continuing use of Frankham to deliver statutory fire risk assessment across housing and corporate sites was subject to a best value review in 2023 leading to a programme of assessment activity. A briefing note setting out the position has been shared with the relevant portfolio holder and Officers have added the project to the Forward Plan for formal approval.
59. **Recommendation 2d** seeks Cabinet acceptance of Grant funding from the Department of Energy Security and Net Zero, which if approved will be utilised to contribute towards the £17,696k costs to provide decarbonisation measures to 249 Council's Housing properties, including Loft and Wall Insulations, Ventilation and Double Glazed Windows.