

COUNCIL BUDGET

2024/25 REVENUE MONTH 5 BUDGET MONITORING

Cabinet Member & Portfolio	Councillor Martin Goddard Cabinet Member for Finance
Accountable Corporate Director	Richard Ennis Corporate Director of Finance
Report author	Iain Watters, Finance

HEADLINES

Summary

This report provides the Council's forecast financial position and performance against the 2024/25 revenue budget.

At Month 5, the Council is reporting an overspend of £32.4m after allowing for strategic management action of £11.9m that is being firmed up for delivery in-year. The Council is currently working up interventions to mitigate against this position, with the work on the Zero-Based Budgeting built on at the officer star chambers already providing several interventions to reduce this financial pressure. These meetings have thus far produced indicative interventions in the region of up to £15.9m that are in the various stages of delivery, which if successful, will reduce the overspend to be in the region of £16.5m as a central case. The variance is being driven by significant past and current inflationary pressures, significant demand for services particularly for example in adults care, temporary accommodation, the effect of a rebasing exercise to largely respond to demand for services being insufficient and not accompanied by equal savings at that time, and insufficient delivery of savings.

The Council are currently reviewing options centred around releasing balance sheet assets, which if successful, will secure a further £10m of benefit in 2024/25 and reduce the overspend to £6.6m based on the central case.

The Zero-Based Budgeting exercise is extensive and has addressed all aspects of the Council's activities so far identified potential interventions and savings totalling £39.6m, £15.9m of this can be delivered in 2024/25, the balance in later fiscal years. Further initiatives are being pursued within this programme of work and it is expected that this will be largely concluded by the end of October 2024 ahead of robust testing in the lead up to presentation at the December Cabinet for consideration.

Following the Month 5 deep dive review, the Council has held officer 'Star Chamber' sessions, to work up options that are subject to member consideration and decision, with these sessions tasked with taking urgent action to address the emerging issues, with these sessions reviewing:

- Resident service provision
- Hillingdon Council priorities
- Leveraging relationships to access funding
- Driving efficiencies and driving value for every taxpayer £
- Leveraging financial instruments
- Relationship with local business

- Accelerating capital delivery

The outputs of these sessions are estimated in this report and are being firmed up over the autumn.

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 £25.6m to £16.1m (a reduction of £9.5m on 2023/24) with a range of interventions partially mitigating underfunded demand within the High Needs block.

No material variances have been reported across the Housing Revenue Account (HRA), with all service areas within the ringfence reporting a breakeven position with further work planned to robustly test this position and look to drive better value for residents.

Putting our Residents First - Delivering on the Council Strategy 2022-2026	This report supports the delivery of the Council Strategy and the Council's objective of: <i>Strong financial management</i> . Achieving Value for Money is an important element of the Council's Medium Term Financial Plan.
Financial Cost	N/A
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 August 2024 (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 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. Following on from the Month 4 report to Cabinet that set out the activity being undertaken to firm up the Council's financial position, the Month 5 report is highlighting the considerable financial challenges that Hillingdon is facing in line with peers across both London and nationally. London Councils, the collective of Local Government in the capital, estimates that boroughs will overspend against original budget plans by £600m this year (averaging £18.2m per borough) and are forecasting this to grow to £700m in 2025/26, however, this is before factoring in in-year overspends which are likely to increase this 2025/26 estimate, with three London boroughs reliant on Exceptional Financial Support from Government. The deep dive reviews through the Zero-Based Budgeting (ZBB) work, of the pressures identified in the Month 2 monitoring position have been firmed up and are set out in this report, covering the gross pressure the Council is facing from demographic growth, service demand pressures and challenges in the delivery of the Council's saving programme.
6. As at Month 5, the review of the Council's financial position generates an in-year overspend of £32.4m after allowing for strategic management actions amounting to £11.9m. As a result of the identified pressures, and as part of the ZBB programme, the Council held a series of officer star chambers, subject to member consideration and decisions, to identify actions to address this position, with the sessions identifying interventions thus far forecast to deliver a £15.9m net benefit for the Council, reducing the overspend from £32.4m to £16.5m, thereby forecasting a closing reserves level of £17.7m. This monitoring position is therefore in line with the average pressure across London boroughs. As part of this activity, the benefits realisation process is being tightened to ensure more robust reporting and delivery going forward.
7. For this reason, the Council will utilise a number of options built up to enable the protection of the Council. These will include utilising balance sheet items that will enable the Council to undertake further work to ensure the Council's financial position can be strengthened. These measures are expected to secure a further £10m of net benefit, further reducing the in-year pressure to £6.6m and increasing the forecast closing reserves balance to £27.7m.
8. With the Council carrying out a series of officer star chambers, subject to Member consideration and decisions, building on the ZBB work with sessions focused on each area of service delivery and cross-service thematic sessions also being carried out to ensure a robust and comprehensive review of Council operations is conducted. These sessions are focused on in-year recovery as much as possible, as well as the Council's medium-term objectives and challenges, with the latter to be presented back to Cabinet in December as part of the consultation budget. This is to allow time to undertake this work. At present, the in-year recovery actions are forecast to secure £15.9m in the central scenario, with a further £10m to come from releasing balance sheet assets in-year, including a review of the Council's debt and provision cover which could be favourable or adverse, with this review potentially

leading to a favourable or an adverse outcome, with these items to be firmed up throughout the autumn.

9. The table below sets out a summary of the impact of the results of this work thus far, which is subject to member consideration and decisions:

Table 1: General Fund Overview

Service	Approved Budget	Forecast Outturn	Underlying Variance	Forecast Variance Month 2	Change in Variance
	£m	£m	£m	£m	£m
Service Operating Budgets	282.0	294.0	12.0	0.0	12.0
Development & Risk Contingency	0.5	0.5	0.0	0.0	0.0
Unallocated Budget Items: Pay Award Inflation	6.4	6.4	0.0	0.0	0.0
Unallocated Budget Items: Unallocated Savings	(4.5)	0.0	4.5	0.0	4.5
Unallocated Budget Items: Savings	0.0	1.8	1.8	0.0	1.8
Unallocated Budget Items: Rebasing	0.0	14.1	14.1	0.0	14.1
Total Net Expenditure	284.4	316.8	32.4	0.0	32.4
Corporate Funding	(284.4)	(284.4)	0.0	0.0	0.0
Subtotal	0.0	32.4	32.4	0.0	32.4
Interventions	0.0	(15.9)	(15.9)	0.0	(15.9)
Net Total	0.0	16.5	16.5	0.0	16.5

10. This underlying position is being driven by Service Operating Budgets forecasting an overspend of £12.0m, with Corporate Budgets forecasting the remaining £20.4m, with the latter primarily being driven by a requirement to rebase the service operating budgets by £14.1m to unwind historic pressures due to demographic growth being above the budgeted increase in prior years and unachieved savings due to changes in service delivery leading to planned savings no longer being deliverable. The remaining £6.3m relates to cross-cutting savings within the budget strategy that are yet to be allocated to service operating budgets, including £1.8m of savings that are due to be pulled back to the corporate centre. Given the forecast position, these unallocated savings are unlikely to be deliverable in 2024/25. This position is predicated on the 2024/25 pay award being in line with the Council's budgeted assumption of a 4.5% uplift in pay from the national pay negotiations.
11. The Service Operating Budget pressure of £12m is largely being driven by three areas, with:
- i. c£4.6m relating to pressures within Adult Social Care from demand outstripping the budgeted growth.
 - ii. c£4.5m relating to homelessness demand continuing to run at a level above the budgeted assumption, with this being an issue across London.
 - iii. c£3.3m relates to Children's Social Care demand, with support provided to Looked After Children reporting exceptional demand above that included in the budget strategy.
12. The forecast position is predicated on the 2024/25 pay award being in line with the budgeted uplift of 4.5% and is based on the Autumn Statement not having an in-year impact,

recognising that there has been precedence in the past for in-year changes such as National Insurance changes. There therefore remains an element of risk that the Government's first budget update on 30 October could impact on this position.

13. As work continues on the Star Chamber element of the ZBB programme, it is expected that further interventions and savings will be identified, however, the possibility exists that 2024/25 year end balances may fall below the Council's minimum recommended level of £32m as set out in the Council's budget strategy for 2024/25.
14. As Government prepares to announce their first budget at the end of October, Government funding and policy changes remain a risk for the Council, with the Government looking to address their deficit, with Government's policy paper on public spending reporting a £21.9bn forecast overspend against totals set by Treasury in the Spring Budget 2024. The outcome from the October budget could potentially lead to in-year impacts for the authority, such as changes to the employers National Insurance rate, with the Government having a precedence for in-year changes to this rate.

SCHOOLS BUDGET

15. The Dedicated Schools Grant (DSG) total Block for the Maintained Schools is forecasting a deficit of £16.1m based on Month 5 (August 2024), representing a significant improvement from the projected £25.6m 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 £63.6m.
16. 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 £47.5m 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 £9.5m and continues to make good progress in reducing spend in this area.
17. 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

18. The Housing Revenue Account (HRA) is continuing to forecast a breakeven position at Month 5, 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 £15m, 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 5, 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

19. As at Month 5, the Council's General Fund is reporting an overspend of £32.4m after allowing for inflight activities to contain pressures and use of £0.9m of Earmarked Reserves and £8.2m transformation capitalisation. This Council is currently reviewing a further £15.9m of measures that if successful, will reduce the overspend down to £16.5m, with further work underway to release a balance sheet asset of £10m in-year that will further reduce this pressure to £6.6m, with this option in the early stages of development and therefore not included in the table 1 above. General Fund Balances and Earmarked Reserves are expected to total £27.6m should the additional measures be achieved, meaning total balances are forecast to be below the minimum threshold of £32m as approved by Cabinet and Council in February 2024 without further actions.
20. As stated above, this position includes £14.1m of rebasing within Service Operating Budgets, with this value being required to resolve underlying pressures within day-to-day service budgets for the Council, these pressures have emerged as a result of demand outstripping the budgeted increases in prior years and service delivery changes meaning that historic savings cannot be delivered as intended. This rebasing figure effectively becomes an additional saving target in the corporate centre that the Council ultimately need to fund through further saving measures to address this pressure, with these measures being worked up throughout the autumn, with delivery expected to land in future years and therefore representing a pressure in 2024/25. This pressure will form part of the budget gap for 2025/26, with the first refresh of the Council's budget strategy to be presented to Cabinet in December as part of the Consultation Budget.
21. The Month 5 position includes deploying £0.9m of Earmarked Reserves, with this one-off funding source being used to predominantly fund homelessness pressures, with £0.7m of this related to releasing funding for this purpose, with the remaining balance funding Public Health services from the ringfenced reserve, transformation activity that is not related to the Council's saving programme and therefore cannot be funded from capital receipts and Schools Conditions Surveys, with funds for this activity having been earmarked in previous years.
22. With Transformation activity underway to deliver against the Council's saving programme, the position is predicated on using £8.2m of capital receipts to fund implementation costs in line with the Government's guidance, with the Council expected to secure £11.1m from asset disposals in 2024/25, leaving £2.9m of headroom to fund further transformation activity over the remainder of the year.
23. After these one-off funding sources, the underlying variance stands at £44.3m, before management action of £11.9m of management action nets this down to £32.4m, with management action being used to reflect activity that is underway but is yet to be firmed up. The management action is predominantly within three service areas, with details being as follows:

- i. £6.9m related to Health & Social Care, with this relating to containing inflationary uplifts to a level below the budgeted uplift and maximising health contributions to packages of care.
- ii. £1.6m within Resident Services related to Waste Services where additional income is expected from the West London Waste Authority as a result of income generation from energy sales.
- iii. £1.3m in relation to Homelessness services, reflecting interventions to manage demand for the service.
- iv. £2.0m relates to smaller items spread across multiple service areas.

Progress on Savings

24. The savings requirement for 2024/25 is £15.8m as set out in the Council's budget strategy, this position has been supplemented by a further £5.7m of prior year savings carried forward into 2024/25, resulting in an overall programme of £21.5m savings being delivered in year:

Table 2: Savings Tracker

Cabinet Member Portfolio	Blue Banked £m	Green Delivery in progress £m	Amber I Early stages of delivery £m	Amber II Potential problems in delivery £m	Red Serious problems in delivery £m	Total £m
Cabinet Member for Property, Highways & Transport	(0.4)	(0.6)	(0.1)	(0.5)	(0.1)	(1.7)
Cabinet Member for Finance	0.0	(1.4)	0.0	0.0	0.0	(1.4)
Cabinet Member for Corporate Services	0.0	(1.3)	(0.2)	0.0	(0.3)	(1.8)
Cabinet Member for Residents' Services	(0.2)	(1.9)	(0.7)	0.0	(0.9)	(3.7)
Cabinet Member for Children, Families & Education	(0.3)	(0.4)	(0.7)	(0.2)	0.0	(1.6)
Cabinet Member for Health and Social Care	(0.1)	(1.2)	(0.2)	0.0	0.0	(1.5)
Cross-Cutting	0.0	0.0	(9.8)	0.0	0.0	(9.8)
Total 2024/25 Savings Programme	(1.0) 5%	(6.8) 32%	(11.7) 54%	(0.7) 3%	(1.3) 6%	(21.5) 100%
Month 2	(1.0) 5%	(5.8) 27%	(13.0) 60%	(0.5) 2%	(1.3) 6%	(21.5) 100%
Movement	0.0 0%	(1.0) 5%	1.3 -6%	(0.2) 1%	0.0 0%	0.0 0%

25. As of Month 5, £7.8m (37%) of the savings and interventions are being recorded as banked or on track for delivery, with a further £12.4m (58%) being at the early stages of delivery. In addition, £1.3m (6%) are being reported as having potential challenges in delivery, with alternative delivery methods being considered in-year where appropriate.

26. 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 from the outputs of the officer star chambers, subject to member consideration and decisions.

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 £16.5m of funding to meet forecast inflationary pressures and £14.3m for demographic and other drivers impacting on demand for services going into the 2024/25.
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

Service		Approved Budget	Underlying Forecast	Rebasing	Earmarked Reserves	Transformation Capitalisation	Forecast Outturn	Variance
		£m	£m	£m	£m	£m	£m	£m
Cabinet Member for Property, Highways & Transport	Expenditure	18.1	19.1	(0.4)	(0.1)	0.0	18.6	0.5
	Income	(10.4)	(10.8)	0.0	0.0	0.0	(10.8)	(0.4)
	Subtotal	7.7	8.3	(0.4)	(0.1)	0.0	7.8	0.1
Cabinet Member for Finance	Expenditure	144.9	148.1	0.0	(0.1)	(2.5)	145.5	0.6
	Income	(106.4)	(107.0)	0.0	0.0	0.0	(107.0)	(0.6)
	Subtotal	38.5	41.1	0.0	(0.1)	(2.5)	38.5	0.0
Cabinet Member for Corporate Services	Expenditure	25.3	26.6	(0.8)	0.0	(1.0)	24.8	(0.5)
	Income	(2.0)	(2.1)	0.0	0.0	0.0	(2.1)	(0.1)
	Subtotal	23.3	24.5	(0.8)	0.0	(1.0)	22.7	(0.6)
Cabinet Member for Residents' Services	Expenditure	83.1	101.3	(7.0)	(0.9)	(0.4)	93.0	9.9
	Income	(52.4)	(57.9)	0.0	0.1	0.0	(57.8)	(5.4)
	Subtotal	30.7	43.4	(7.0)	(0.8)	(0.4)	35.2	4.5
Cabinet Member for Children, Families & Education	Expenditure	96.7	107.6	(2.4)	0.0	(3.9)	101.3	4.6
	Income	(23.6)	(24.4)	(0.4)	0.0	0.0	(24.8)	(1.2)
	Subtotal	73.1	83.2	(2.8)	0.0	(3.9)	76.5	3.4
Cabinet Member for Health and Social Care	Expenditure	158.8	169.2	(1.5)	(0.5)	(0.4)	166.8	8.0
	Income	(50.1)	(53.4)	0.0	0.0	0.0	(53.4)	(3.3)
	Subtotal	108.7	115.8	(1.5)	(0.5)	(0.4)	113.4	4.7
Total Service Operating Budgets		282.0	316.3	(12.5)	(1.5)	(8.2)	294.1	12.1

29. As can be seen from the table above, Service Operating Budgets are forecasting a £12m overspend 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 £0.2m with pressures predominantly relating to Property Services, with these pressures being driven by a shortfall in income from commercial shops, with the management action predicated on maximising recharge income from the capital programme in relation to activity undertaken by the capital team.
 - ii. **Finance** – At Month 5 an overspend of £0.6m is reported for the portfolio, with this variance expected to be covered by the management action included in the position in relation to treasury activity outside of the intervention mentioned earlier in this report.
 - iii. **Corporate Services** – The portfolio is reporting a net underspend of £0.6m, with this position largely being driven by holding a number of vacant posts within the service.
 - iv. **Residents' Services** – An underlying overspend of £4.5m with this position being driven largely by homelessness demand outstripping the level of demographic growth built into the service area in the budget strategy, with £3.8m of the pressure relating to homelessness support. The majority of the remaining pressure is being driven by the Community Safety service, with this largely being the impact of changes in relation to imported food as a result of ongoing Brexit impacts. Waste Services are experiencing increased demand equating to a £0.6m pressures for the service, with this position being funded by one-off income expected from the West London Waste Authority.
 - v. **Children, Families & Education** – At Month 5, an underlying pressure of £3.3m, with the pressure nearly wholly related to care provision to looked after children as a result of demand outstripping the budget strategy growth for the service. Further pressures are included within the position across income streams including room hire with further pressures being driven by the Early Years Centres, however, these have been mitigated by service underspends within the Children in Need & Protection service from staffing underspends.
 - vi. **Health & Social Care** – An underlying overspend of £4.6m with the overspend largely being due to exceptional demand for adult social care services being materially higher than the amount included in the Council's budget strategy, with the management action aiming to contain an element of this spend by supplier management and containing annual uplifts to a value below the budgeted increase (with the budgeted increase being based on the ADASS value of 7.9% and CPI running significantly below this value at 2.2% in August 2024). The overspend driven by Adult Placements after management action is forecast to be £5.8m, with staffing underspends across the service reducing the overall pressure on the portfolio budget to £4.6m.

Collection Fund

30. A surplus of £0.05m is reported within the Collection Fund at Month 5. Within the Collection Fund, an adverse position is reported within Council Tax of £1.7m, offset by a favourable position within Business Rates of £1.7m. This position is driven by 3 key factors:
- i. Council Tax is presenting an in-year pressure of £1.6m against a £145.8m budget, with a further £0.1m being driven by the adverse movement on 2023/24.
 - ii. Business Rates is presenting an in-year surplus of £0.8m driven by an increase in the realisation of the benefit from the revised rating list for 2023.
 - iii. The Business Rates position is then compounded by a favourable £0.9m against the 2023/24 outturn position.
 - iv. The Council continues to monitor the outstanding debt associated with Council Tax and Business Rates and provide cover against this debt, with this position remaining under review.
31. 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 £0.05m 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 £0.05m for 2025/26.
32. Whilst this position presents an adverse position for Council Tax, it is anticipated that this will be offset by the favourable position on Business Rates into 2025/26, with the retained income yield from taxation not expected to adversely impact the Council's budget strategy in the medium term.

Schools Budget

33. The Dedicated Schools Grant (DSG) total Block for the Maintained Schools is forecasting a deficit of £16.1m based on Month 5 (August 2024), representing a significant improvement from the £25.6m 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.
34. Whilst the Safety Valve Agreement with the Department of Education (DfE) is currently suspended, work has continued and 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. It should be noted that constructive discussions with the DfE are continuing and that the Council is holding £8m of available capital receipts which can ultimately be allocated to reduce the deficit.

Table 6: DSG Income and Expenditure Summary

Dedicated Schools Grant (DSG) Blocks	Budget 2024/25			Forecast Month 5 £m	Variance Month 5 £m	Change from Month 2 £m
	DSG Settlement	Academy Recoupment	LBH Maintained			
	£m	£m	£m			
Schools Block	277.8	173.3	104.5	104.5	0	0
Early Years Block	37.5	0	37.5	37.5	0	0
Central Schools Block	2.4	0	2.4	2.4	0	0
High Needs Block	67.9	11.6	56.3	72.4	16.1	0
Total	385.6	184.9	200.7	216.8	16.1	0
Balance Brought Forward 1 April 2024					47.5	
Total Deficit at 31 March 2025					63.6	

35. 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.
36. 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 £9.5m on last year's deficit of £25.6m, with both costs and the in-year deficit reducing in 2024/25.
37. 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

38. 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 £15m, 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 £m	Forecast Outturn £m	Variance (As at Month 5) £m	Variance (As at Month 2) £m	Change from Month 2 £m
Rent & Other Income	(80.6)	(80.6)	0.0	0.0	0.0
Net Income	(80.6)	(80.6)	0.0	0.0	0.0
Operational Assets	14.0	14.0	0.0	0.0	0.0
Director of Housing	9.6	9.6	0.0	0.0	0.0
Other Service Areas	1.0	1.0	0.0	0.0	0.0
Contribution to Shared Services	13.3	13.3	0.0	0.0	0.0
HRA Operating Costs	37.9	37.9	0.0	0.0	0.0
Capital Programme Financing	26.7	26.7	0.0	0.0	0.0
Interest and Investment Income	16.1	16.1	0.0	0.0	0.0
Capital Programme Financing	42.8	42.8	0.0	0.0	0.0
(Surplus) / Deficit	(0.1)	(0.1)	0.0	0.0	0.0
General Balance 01/04/2023	15.1	15.1	0.0	0.0	0.0
General Balance 31/03/2024	15.0	15.0	0.0	0.0	0.0

39. At Month 5, rental income and other income is forecasting to come in on budget and deliver the £80.6m 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.
40. The HRA Operating Costs Budget is £37.9m and at Month 5 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 5 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.
41. The detail behind the service delivery of the blocks included in table 7 are as follows:

- i. Operational 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.
42. The MTFF savings target is £0.5m 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.
43. As at Month 5 the capital programme financing budget of £42.8m is forecast to breakeven. This budget forecast includes £26.7m (depreciation and revenue contributions) to fund the HRA capital programme, the position also includes £16.1m for repayments of loans and interest on borrowing, this position will be closely monitored throughout the year with clear linkages to the commissioning plan.

Treasury Management Update as at 30 August 2024

Table 10: Outstanding Deposits

Period	Actual (£m)	Actual (%)	Movement from Month 2 (£m)
Call Accounts and MMF's*	19.90	49.8%	(1.7)
Up to 3 Month Fixed-Term Deposits	5.10	12.8%	(2.9)
Total	25.00	62.5%	(4.6)
Strategic Pooled Funds	15.00	37.5%	-
Total	40.00	100.0%	(4.6)
Average Investment Balances May 2024	62.21		(13.0)

*Money Market Funds

44. 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.
45. The average rate of return on day-to-day operational treasury balances since the beginning of the new financial year is 5.18%. 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 4.99% based on the previous six months income average. With the high 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.
46. 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, 80% of the Council's day-to-day operational treasury investments had exposure to bail-in risk compared to a March benchmark average of 62% 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 the end of the month.
47. Liquidity was maintained 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 £62.21m.

Table 11: Outstanding Debt

	General Fund	HRA	Total	Average Interest Rate (Total)
	£m	£m	£m	%
PWLB Long Term	71.6	199.0	270.6	3.40%
Market	15.0	33.0	48.0	4.11%
Temporary Borrowing:				
Local Authorities	80.0	0.0	80.0	5.17%
PWLB	0.0	20.0	20.0	5.07%
	166.6	252.0	418.6	3.90%
Monthly movement	-5.0	5.0	0.0	-0.02%

48. During August 2024, a £5m PWLB Long Term loan was secured, taking advantage of the concessionary rate available for financing eligible HRA projects included in the HRA capital programme. Within the General Fund a £5m Local authority loan was repaid. It is anticipated new borrowing will be required shortly to maintain liquidity and finance further HRA capital expenditure.
49. PWLB rates initially dipped and then rose back in August, with rates at the end of the month close to those at the beginning of the month.

PART B: FINANCIAL RECOMMENDATIONS

That the Cabinet:

- a. **Agrees the rebasing proposal to process a budget virement and credit the corporate centre with £14.1m to the support Service Operating Budgets.**

Reasons for recommendation

50. **Recommendation 2a** asks cabinet to agree a budget virement following a rebasing exercise that the Council has carried out, with the output of this work identifying that service operating budgets are facing a £14.1m pressure associated with demand outstripping the budgeted increase along with savings that can no longer be delivered due to changes in service delivery models.