2025/26 BUDGET AND FUTURE MEDIUM-TERM FINANCIAL STRATEGY

Cabinet Member & Portfolio	Cllr Martin Goddard, Cabinet Member for Finance and Transformation
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Papers with report	Appendix A – General Fund Budget Schedules Appendix B – Housing Revenue Account Budget Schedules Appendix C – Fees and Charges Proposals

HEADLINES

Summary

This report sets out the progress on developing and refreshing the Council's Medium-Term Financial Strategy [*MTFS*] and builds on the previous strategy set out and approved by Cabinet in December 2023 and finalised in the Budget and Council Tax Setting report approved by Council in February 2024.

Local Government has experienced significant financial pressures over the last decades and is evidenced by the growing number of councils across the country drawing down on reserve levels and making difficult decisions or seeking exceptional financial support from Central Government. This report sets out proposals for members to consider, at this stage, in order to address the future challenges of the continued under-funding of the sector. Whilst the Council will ensure it takes advantage of any new Government funding to benefit our residents it is all very mindful that it must operate in a more efficient and effective way to continue to provide the best possible services for Hillingdon Residents. It will therefore undertake a significant piece of work to change its operating model (Target Operating Model).

A number of uncertainties remain within the assumptions set out in this report and further revisions are expected to be made as further clarity becomes available – not least the Local Government Finance Settlement expected towards the end of December which will confirm in detail many of the core funding and grant streams provided by Central Government, along with any additional requirement, to councils as well as the fine detail of measures relating to local government announced in the Chancellor's recent Autumn Budget. Where possible and with a reasonable degree of probability grants have been estimated following the Autumn Budget Statement and later Local Government Finance Settlement Policy Statement announcement.

The budget position, forecasts and proposed budget changes set out in this report, inform members of the current assumptions and outlook for the Council's medium-term financial position

and will be used as the basis for engaging with relevant stakeholders to undertake necessary consultation prior to a final budget and MTFS report being presented for consideration by Cabinet and Council in February 2025.

Putting our Residents First **Delivering on the Council Strategy 2022-2026**	This report supports our ambition for residents / the Council of: An efficient, well-run, digital-enabled council working with partners to deliver services to improve the lives of all our residents This report supports our commitments to residents of: A Digital-Enabled, Modern, Well-Run Council Delivery of the Council's core objectives and strategy is predicated on budgets being robust and adequately resourced over the short as well as medium-term together with sufficient reserves to mitigate any unforeseen pressures. This report sets out a draft budget framework to deliver on this.

Financial Cost	This report sets out a draft financial budget for 2025/26 and an outline medium-term financial strategy for a further four years. For the General Fund, available and usable reserves would fall from £35.1m at the start of 2024/25 to an expected £26.2m at the end of 2024/25 and thereafter to £19.8m by the end of 2025/26. The proposals set out in the Medium-Term Financial Strategy would, if all fully materialise as expected, see available and usable reserves rise to £29.8m by the end of 2029/30.

Select Committee	All

Ward(s)	All

RECOMMENDATIONS

That the Cabinet:

1) **Approve the draft General Fund and Housing Revenue Account budgets and Capital Programme proposals for 2025/26 (as detailed in Appendices A and B) and beyond as the basis for consultation with Select Committees and other stakeholders;**

2) **Approve the proposed amendments to fees and charges to take effect in 2025/26 included in Appendix C, as the basis for consultation with Select Committees and other stakeholders;**

3) **Request the comments of individual Select Committees on the draft budget proposals relating to their areas of responsibility;**

4) **Note that the Provisional Local Government Finance Settlement is awaited from HM Government and the output from these will be factored into the final 2025/26 budget proposals to be considered by Cabinet in February 2025;**

5) **Authorise the Corporate Director of Finance, in consultation with the Cabinet Member for Finance & Transformation, to respond on behalf of the Council to the consultation on the provisional Local Government Finance Settlement and to the Mayor of London's budget consultation;**

6) **Authorise the Chief Executive, in consultation with the Corporate Director of Finance and the Chief Operating Officer, the Leader of the Council and Cabinet Member for Finance and Transformation to develop specific savings proposals to meet (as a minimum) the savings currently identified as Target Operating Model savings;**

7) **Note the significant risks associated with this budget strategy in relation to the forecast level of reserves as set out in this report; and**

8) **Note the budget monitoring position and treasury management update as at October 2024 (Month 7), noting the actions proposed by officers as outlined in Section 3 of this report.**

9) **Delegate authority to the Cabinet Member for Finance and Transformation (in consultation with the Corporate Director of Finance) to approve the purchase of grounds maintenance equipment to be funded from this year's budgeted capital contingency.**

Reasons for recommendation(s)

The recommendations have been framed to comply with the Council's Budget and Policy Framework rules. They require the presentation to Council of recommended budgets for 2025/26. This includes the impact on Council Tax, alongside housing rents and service charges.

The Council has powers only to approve revenue budgets and set Council Tax and housing rents for the following financial year. Medium term revenue budgets are presented to aid future financial planning and support good decision-making, with this document outlining Cabinet's budget strategy for the next five years. The Capital Programme is approved over a five-year period as the statutory framework and Prudential Code provides greater freedoms to encourage a longer-term approach to capital financing and borrowing decisions.

If approved by Cabinet, these budget proposals will be presented to Select Committees, the business community and residents for consultation before being updated and presented to Cabinet in February 2025 for recommendation to full Council. Once approved by Council in February 2025 proposals will become effective immediately.

Alternative options considered / risk management

In order to comply with the Budget and Policy Framework, the Cabinet needs to publish a draft budget for consultation at this meeting. The Cabinet could, however, choose to vary the proposals set out in the report, with any amendments reflected in the papers consulted upon with Select Committees and other stakeholders during January 2025. Where appropriate, and following consultation, Equalities and Impact Assessments [*EQIA's*] will be provided to members prior to final budget decisions being made by members in February.

This budget report has been prepared in the context of a broad range of risks faced by the Council, with key items noted in the report alongside mitigating and/or management strategies to suppress or contain these risks.

The Council is not considering the latter three options for local authorities to close any budget gap as set out in paragraph 5.2 of this report.

Democratic compliance / previous authority

This is the first budget report in the 2025/26 to 2029/30 cycle, with consultation responses and latest updates to be factored into the budget report for February 2025 Cabinet.

Select Committee comments

A full report on the budget process, financial strategy and detailed budget proposals for the relevant Cabinet portfolios will be taken to Select Committees for review in January 2025, with feedback presented to Cabinet alongside the final budget report to Cabinet on 13 February 2025.

SUPPORTING INFORMATION

1. EXECUTIVE SUMMARY OF REPORT

1.1. The Council is currently running a billion-pound plus business as set out in the table below:

Table 1: Total Council Budgeted Spend

Budgeted Spend	£m
General Fund	499,181
Housing Revenue Account	81,736
Schools Budget	385,990
Total Expenditure 2024/25	**966,907**
General Fund Capital	207,078
Housing Revenue Account Capital	125,319
Grand Total	**1,299,304**

1.2. The Council aims to set a balance budget for 2025/26, with further focus on the period to 2029/30, with this report setting out in the appendices a 5-year budget strategy. In this setting this medium-term financial strategy, the objectives are:

- To continue to drive value for money for our residents in our services;
- To continue to be a low Council Tax charging borough;
- To review our operating model to deliver even more efficient and effective services and make significant savings;
- To invest in new assets for the borough, building out our infrastructure and seeking invest to save opportunities through our capital programme;
- To invest in improving the quality of our homes for our housing residents;
- To increase our income levels and charge appropriate levels of fees;
- To continue to respond to inadequate levels of Government funding including lobbying central Government and the GLA for more funding for our residents; and
- Rebuilding our financial resilience.

1.3. These are financially challenging times for local authorities to deal with, and respond, to a number of significant national pressures, within a significantly reduced funding envelope. Particular pressures for Hillingdon include the increased cost of adult social care, children's placements, homelessness, asylum seekers and ensuring it has an experienced workforce to deliver the best services it can to its residents.

1.4. The Council will continue to lobby national Government and the Greater London Authority [*GLA*] for increases in funding to deal with particular issues to us, such as the impacts of being a port authority.

2. CURRENT APPROVED BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY

2.1. The Council approved a budget for 2024/25 and a Medium-Term Financial Strategy [*MTFS*] at its meeting on 22 February 2024. That budget set out projections for a balanced budget for 2024/25 but with further mitigations to be identified over the remainder of the MTFS planning period to achieve a continued balanced position. The gap inherent in the MTFS assumptions was forecast to have a residual budget deficit rising from £7.1m in 2025/26 to £18.5m by 2028/29.

2.2. The balanced budget for 2024/25 and forward-looking MTFS positions was predicated on the delivery of £15.7m of savings to be delivered in the first year and a further £17.8m over future years – a total of £33.4m over the full MTFS planning horizon.

2.3. The ability to balance the 2024/25 Budget was predicated on the full deliverability of the savings and being able to mitigate all other pressures that might emerge during the year.

2.4. During the first quarter of 2024/25, the Council assessed the budget set against current and forecast commitments and identified a requirement to rebase Service Operating Budgets to account for legacy issues including undelivered savings from 2023/24 and prior years that no longer had viable delivery options. The review concluded that Service Operating Budgets required an additional £14.1m of funding, with Cabinet approving this increase in the Month 6 monitoring report, effectively transferring service pressures and creating an additional saving requirement to be held in the corporate centre. The revised 2024/25 budgets following rebasing are set out in the table below.

Table 2: 2024/25 Revised Portfolio Budgets

Portfolio		£m
Property, Highways & Transport	Expenditure	18.4
	Income	(9.9)
Property, Highways & Transport Total		**8.5**
Finance & Transformation	Expenditure	144.1
	Income	(105.7)
Finance & Transformation Total		**38.4**
Corporate Services	Expenditure	28.1
	Income	(2.0)
Corporate Services Total		**26.1**
Residents' Services	Expenditure	85.1
	Income	(47.0)
Residents' Services Total		**38.1**
Children, Families & Education	Expenditure	78.4
	Income	(18.3)
Children, Families & Education Total		**60.1**
Health & Social Care	Expenditure	170.7
	Income	(45.3)
Health & Social Care Total		**125.4**
Development & Risk Contingency	Expenditure	0.5
Development & Risk Contingency Total		**0.5**
Unallocated Budget Items	Expenditure	(12.7)
Unallocated Budget Items Total		**(12.7)**
Funding		(284.4)

3. LATEST BUDGET FORECAST FOR 2024/25

3.1. The Council has carried out a review of the budget monitoring position in conjunction with constructing the budget strategy, with the in-year position setting out the pressures and challenges that the Council faces, with the consultation budget setting out how these measures will be addressed over the medium term.

3.2. As at Month 7, the Council is reporting an adverse movement of £2.0m from the position presented at Month 6 due to increasing costs associated with homelessness support adding £1.5m, with a further £0.6m adverse movement from a reduction in the assumed benefit from the West London Waste Authority’s forecast release of surplus from energy sales, with this position being offset by a £0.1m favourable movement from Adult Social Care. Overall, the Council is forecasting an £8.9m adverse General Fund revenue variance.

3.3. Homelessness support is recognised as a national issue, with particular implications for London authorities, with London Councils, the collective of Local Government in the capital, reporting the capital are facing an overspend of £600m in 2024/25, averaging at £18.2m per borough.

3.4. The outputs from the Zero-Based Budgeting review at the beginning of the year continue to be the foundations of the Star Chamber interventions that reduce the in-year pressures and form the basis of the savings programme set out in this budget strategy report.

3.5. The below table sets out the Council's Month 7 General Fund revenue monitoring position, presenting an overspend of £8.9m, representing a £2.0m adverse movement within Service Operating Budgets. Furthermore, the below table sets out the £14.1m of rebasing and £6.3m of unallocated savings that require unwinding, as set out in the Corporate Items section of the budget strategy.

Table 3: Month 7 Monitoring Overview

Service	Approved Budget £m	Forecast Outturn £m	Underlying Variance £m	Forecast Variance Prior Month £m	Change in Variance £m
Service Operating Budgets	297.9	310.9	13.0	11.0	2.0
Development & Risk Contingency	0.5	0.5	0.0	0.0	0.0
Unallocated Budget Items: Pay Award Inflation	6.4	5.5	(0.9)	(0.9)	0.0
Unallocated Budget Items: Unallocated Savings	(6.3)	0.0	6.3	6.3	0.0
Unallocated Budget Items: Rebasing	(14.1)	0.0	14.1	14.1	0.0
Total Net Expenditure	**284.4**	**316.9**	**32.5**	**30.5**	**2.0**
Corporate Funding	(284.4)	(284.4)	0.0	0.0	0.0
Net Total	**0.0**	**32.5**	**32.5**	**30.5**	**2.0**
Star Chamber Outputs	0.0	(23.6)	(23.6)	(23.6)	0.0
Total	**0.0**	**8.9**	**8.9**	**6.9**	**2.0**

3.6. This position therefore takes General Fund reserves from £35.1m to £26.2m by 31 March 2025, with this being the opening position of the reserves as set out in Appendix A1 of this budget strategy.

4. ECONOMIC AND FINANCIAL OUTLOOK

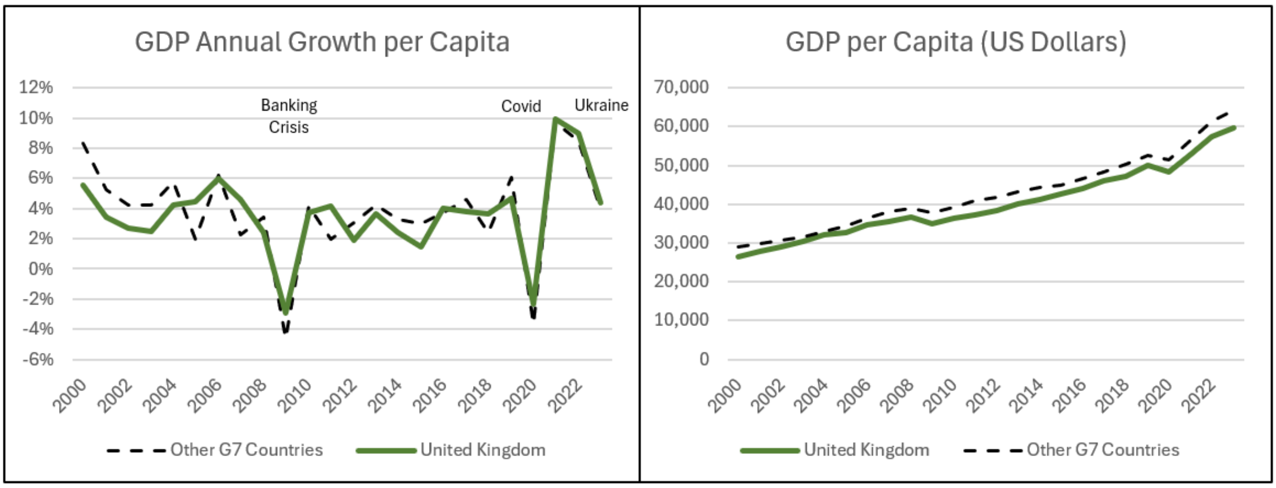
4.1. The Council has been and will continue to be impacted by the general economic climate and financial situation affecting the whole economy, the public sector, and its own local position. The following summarises some of the critical factors that have impacted on the Council and have the potential to impact on future assumptions set out throughout this budget report.

The Overall Economy

4.2. The national economy has gone through a turbulent time over the past fifteen years. The banking crisis led to a significant economic downturn starting around 2008 and was thereafter faced with a sustained period of government spending austerity. The decision of the UK to leave the European Union has meant a change in the way the country trades with it European neighbours. The impact of the Covid pandemic saw an unprecedented (and perhaps permanent) impact on the high street and business in general and more recently events in Ukraine have seen global adjustments to market prices particularly in the energy sector.

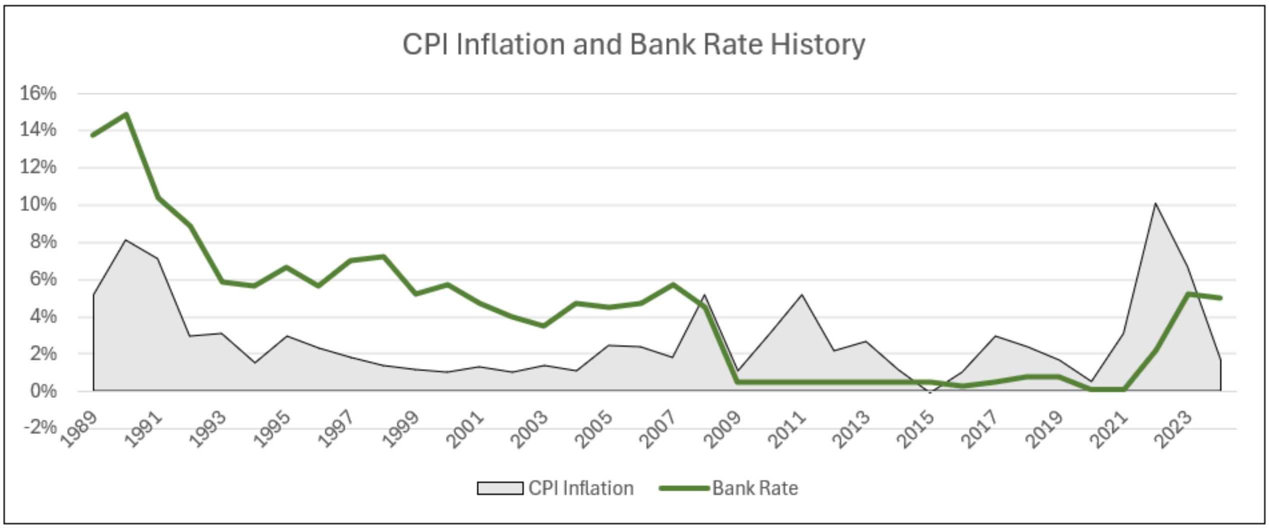
4.3. These three substantial shocks to the economy, together with an illustration of the United Kingdom's historic structural underperformance in GDP growth of the economy are set out in the charts below:

Chart 1: Gross Domestic Product Trends



4.4. Macro-economic policy has been one aimed at growing the economy and maintaining inflation levels at or around 2% in order to promote business confidence and stimulate economic activity. The shocks to the economy have led to a sustained period of low interest rates over the years 2009 to 2021.

Chart 2: CPI Inflation and Interest Rate Trends



4.5. The Chancellor of the Exchequer's recent Autumn Budget 2024 set out predictions that the then level of inflation would rise slightly from the then 1.7% to around 2.6% in 2025 before trending back down to the Bank of England's target rate of 2.0% by 2029. Our MTFS modelling is based around low inflation rates continuing in the future but, as the chart above illustrates, can be prone to higher inflation spikes.

4.6. The ability of government to balance their budget over the life of the Parliament is predicated on growth above recent trends. Failure to deliver on these targets would jeopardise the government's capacity to fund future spending levels. A summary of some key economic forecasts published as part of the Autumn Budget are set out below:

Table 4: Key Economic Forecasts

	Outturn	<--------------------- OBR Economic Forecast -------------------->					
	2023	2024	2025	2026	2027	2028	2029
GDP Growth	0.1%	1.1%	2.0%	1.8%	1.5%	1.5%	1.6%
CPI Inflation	7.3%	2.5%	2.6%	2.3%	2.1%	2.1%	2.0%
Employment	33.2m	33.1m	33.4m	33.7m	33.9m	34.1m	34.3m
Unemployment	4.0%	4.3%	4.1%	4.0%	4.1%	4.1%	4.1%

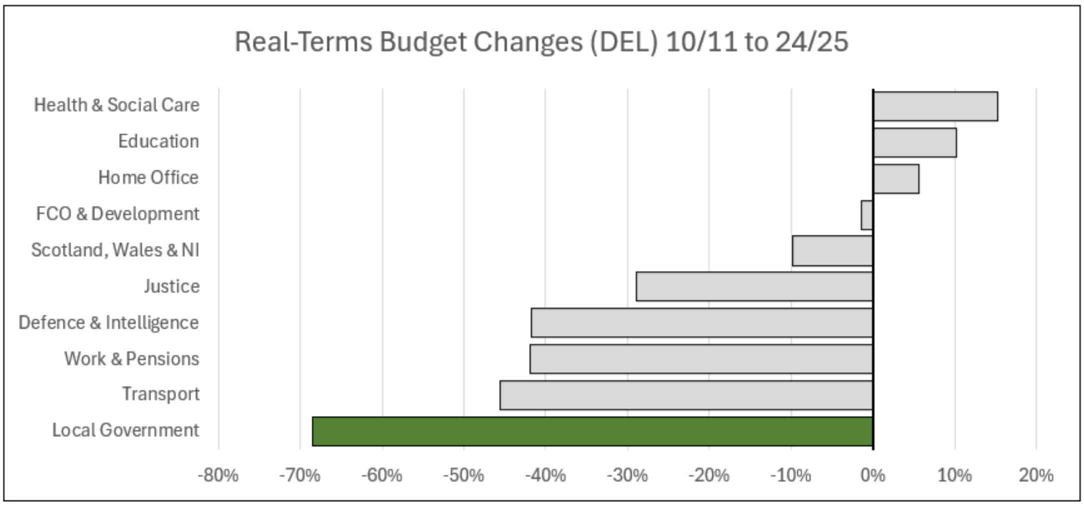
4.7. The Autumn 2024 Budget represents Phase One of the government's budget strategy and focusses on the short term. A new spending round is to take place over the first half of next year and this Phase Two will look to the longer term over the remainder of the Parliament. As previous governments have experienced, longer term economic forecasts are subject to variance from initial projections and economic shocks as experienced and illustrated in the previous charts.

4.8. Local authorities will be impacted by changes to the above assumptions both as a purchaser of supplies and services and provider of Council Tax benefits and other support such as temporary accommodation. Furthermore, the ability of government to adequately fund local government spending is predicated on the government's growth agenda to boost revenue resources. Past experience would point to these potential risks being such that they cannot be ignored in considering the adequacy of the level of reserves held by local authorities.

Local Government Funding and Spending

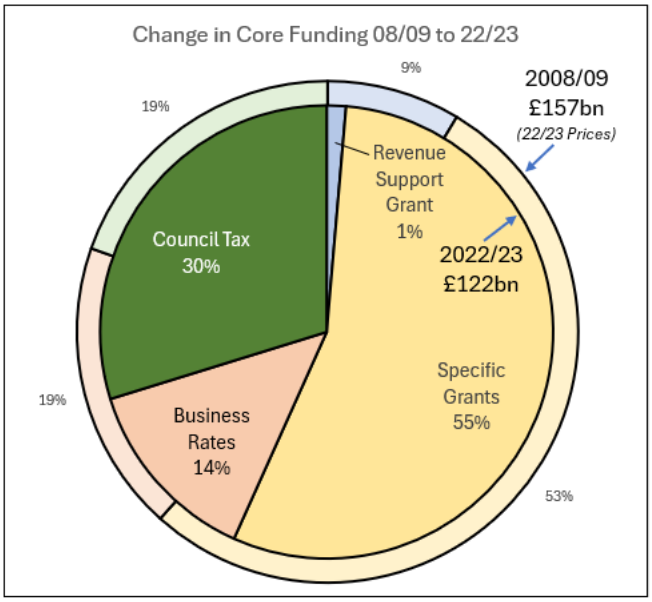
4.9. Local Government, like the economy as a whole, has faced significant financial headwinds over the last fifteen years. Our analysis of government's Departmental Expenditure Limits [*DEL*] for local government has seen the biggest reductions across the major departmental funding levels.

Chart 3: Real Terms Change in Government Departmental Expenditure

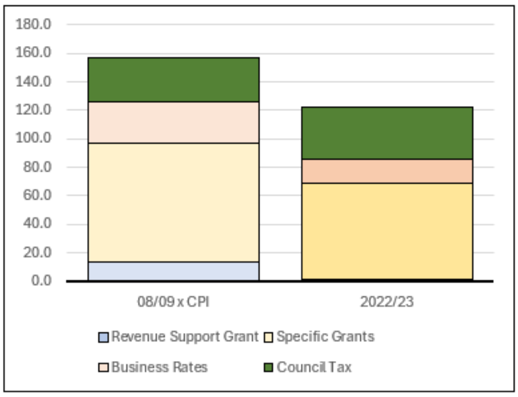


4.10. The years of public sector austerity have seen core funding for local authorities diminish in both terms of purchasing power and composition. Compared to 2008/09, English local authorities have seen the total of Revenue Support Grant [*RSG*]; specific grants; business rate; and council tax income decline in real terms by 22%. The greater proportional reliance on local council taxpayers and decline in the share funded from RSG is particularly marked.

Chart 4: Change in Composition of Local Authority Funding



	2008/09 (£m's)	08/09 x CPI (£m's)	2022/23 (£m's)
Revenue Support Grant	9.4	13.5	1.7
Specific Grants	57.9	83.3	67.5
Business Rates	20.5	29.5	16.5
Council Tax	21.4	30.8	36.3
Total	**109.3**	**157.1**	**121.9**



<u>The Autumn 2024 Budget Statement</u>

4.11. The Chancellor's Autumn Budget referenced a 3.2% increase in local government core spending power for 2025/26, but as such would include freedoms to increase Council Tax levels. As part of that overall increase, £1.3bn of new grant funding was announced and included £600m of new grant funding for social care. This announcement was made as part of a single-year settlement and fails to deliver on local government calls for greater future funding certainty with a multi-year settlement. We await more detailed clarification of the local government funding envelope to be released in late December 2024 when the Provisional Local Government Finance Settlement is announced, and more detailed allocations of funding is made clear on an individual council by council basis.

4.12. Whilst a real-terms increase in funding is welcomed, optimism at this stage must be tempered by potential pressures that may emerge from other announcements set out in the Autumn Budget. Pending further clarification and announcements, our initial assessment of the impact of the Autumn Budget highlighted the following potential headline impact on the Council:

- The increase in Employers National Insurance [*NI*] rates from 13.8% to 15.0% was largely anticipated, but not a reduction in the secondary threshold (the point at which employers start paying national insurance) from £9,100 to £5,000 per employee . Whilst the government has committed to protecting public services from the impact of this change, we await confirmation that local government will fully benefit from that protection. The estimated impact of the changes would see around a £2.5m additional pressure on the Council's General Fund employee budgets - £1.8m of which is caused by the change in thresholds – but subject to protection for councils which has not been specified thus far;

- The Impact of the NI changes on contracted expenditure will be significant, and whilst the Council is sympathetic to business and charities, it will not be possible for the Council to absorb the additional costs which will ensue.
- Therefore, the potential for increased costs of employment to filter into our own supply chain will need to be pushed back if the Council is not to see a potential cost pressure – particularly with regard to social care packages;
- Changes to the Minimum Wage are not expected to impact on the costs of the Council's own workforce but again may impact on contract costs chargeable to the Council;
- The Retail, Hospitality and Leisure sector is to receive extended support in the form of business rate relief in 2025/26, with a view to more fundamental and permanent support to the sector from 2026/27. In the longer term, such support is expected to be funded from additional charges on other larger properties – this could have a negative impact on the rates payable across the Council's high value properties it or its contractors occupy;
- The announcement of an additional £1.3bn of grant funding for local government in 2025/26 includes the following: £600m for Social Care; £230m for Homelessness; and £470m, for other services. We await further details and individual notifications of exact allocations but provisionally estimate the allocations for Hillingdon to be £2.43m; £1.82m; and £1.58m respectively;
- A £1bn national allocation to fund the Household Support Fund was announced for 2025/26 but is expected to be matched by corresponding spending obligations;
- A levy on packaging used by suppliers is expected to raise £1.1bn nationally (£3m announced for Hillingdon) next year but may be largely offset by planned increases in waste disposal costs and levies previously announced in the March Budget. This funding is expected to reduce over future years as suppliers react to the charges and reduce the amount of packaging produced;
- Departmental efficiencies within government departments are targeted to deliver a 2% saving. Should that savings target be achieved by cuts in funding rather than operating savings, it would potentially reduce our Settlement Funding Assessment by up to £1.2m;
- Funding for the UK Shared Prosperity Fund is extended for a further year into 2025/26 but at £900m nationally represents a 40% cut on current year levels. Scope exists for the Council to bid for project funding against this quantum;

- A 6% real-terms increase in funding to support Special Education Needs and Disability [*SEND*] could improve the Council's existing funding shortfall by around £3m. Whilst this is welcome, it fails to tackle the underlying Dedicated Schools Grant [*DSG*] deficit position; and

- The last major change in the local government funding in 2013/14 was based on then assessed needs and resources. A further review of local government funding allocations is promised. Whilst the 2013/14 Settlement top-sliced £4.5m of funding needed for Hillingdon to subsidise a damping grant for other councils, we are benefitting from over £9m of surplus on business rate growth which could also be lost by any reform of the local government funding methodology.

4.13. Further clarification over the specific changes in funding the above measures will have on the Council is expected to emerge over the coming two months and, in particular, will be informed by the Local Government Finance Settlement [*LGFS*] which is expected to be announced in the latter part of December 2024. However, a summary of our current working assumptions as to the impact on the General Fund are set out in the table below:

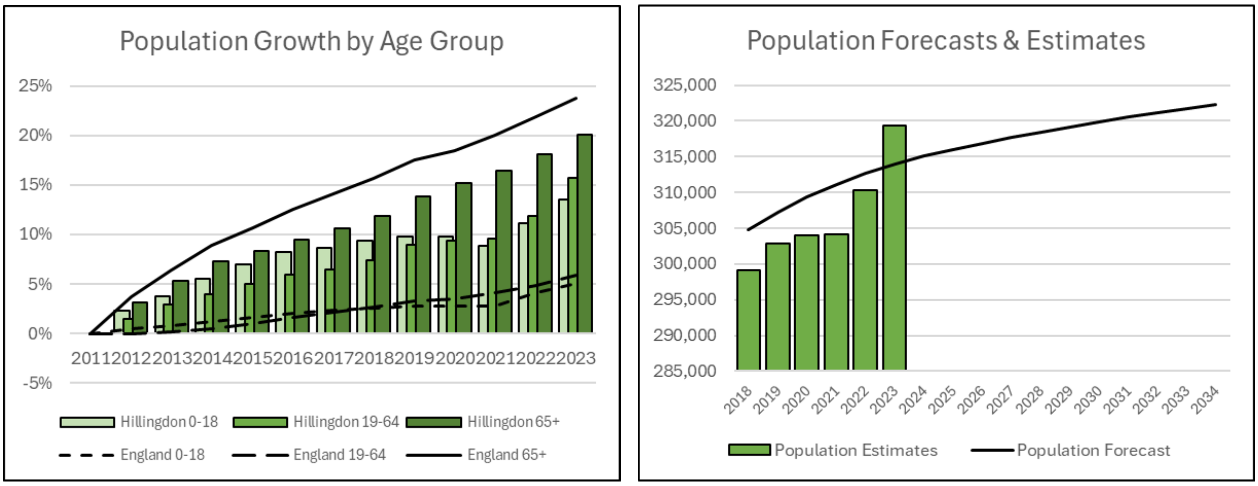
Table 5: Summary of assumed Impacts from Autumn Budget

	Nationally *(£m's)*	Assumed Hillingdon Share *(£m's)*	
Social Care	600	2.43	Based on Social Care Grant Share
Temporary Accommodation	230	1.82	Based on Homlessness Prevention Grant Share
Other	470	1.58	Based on 24/25 SFA Share
Essential Services Funding	1,300	5.83	
Household Support Fund	1,000		
	2,300	5.83	
2% MHCLG Efficiencies		(1.20)	Based on 24/25 SFA Share
National Insurance Impact		(2.50)	Calculated at Post level (incl Pay Award)
less NI compensation		1.80	Assumes compensation covers Threshold changes
		3.93	

Hillingdon’s Economic and Financial Environment

4.14. Since 2010/11, Hillingdon has seen its population numbers rise by more than the national average – this growth from 2013/14 has not been reflected in government’s determination of the subsequent core funding allocated. The Office for National Statistics [*ONS*] projects the population of Hillingdon to continue rising.

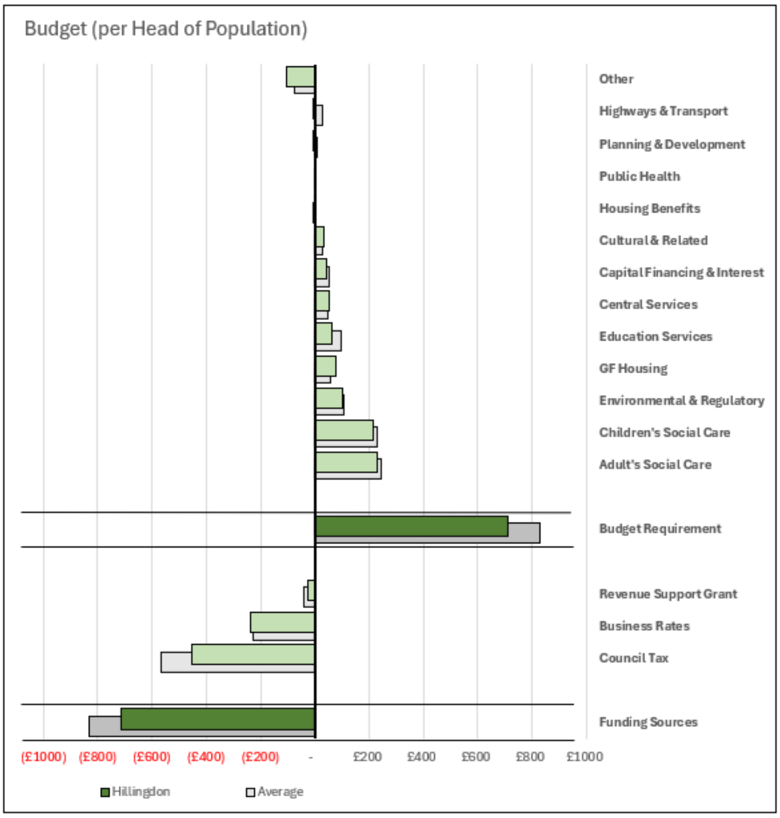
Chart 5: Change in Hillingdon Population



4.15. Neither the increase in population nor relatively falling behind in the amounts raised in Council Tax compared to similar authorities have been reflected in the methodology used to allocate funding since 2013/14. The allocation of the 2013/14 core funding saw a top-slice of Hillingdon’s allocation of £4.5m in order to fund a damping grant made available to other authorities where their assessed allocation should have otherwise fallen. This Council has thus effectively been under-funded by around £50m over the past eleven years in order to support other councils to receive more than the government’s formula funding methodology suggested they should have been allocated.

4.16. In terms of our spending profile, Hillingdon has an average level of need and deprivation and underspends in total when 2024/25 General Fund budgets are compared. The one significant outlier across service budgets relates to the costs associated with General Fund Housing Services (homelessness and temporary accommodation) where budgets are £21 per head higher than the average – this equates to £7m when multiplied by the 319,000 population level. Taken collectively, the Council spends £118 per head on average less than the rest of the CIPFA cohort and totals £38m when multiplied by population numbers. The ability to deliver efficiencies across spend budgets is thus impaired by already being a comparatively low spend authority.

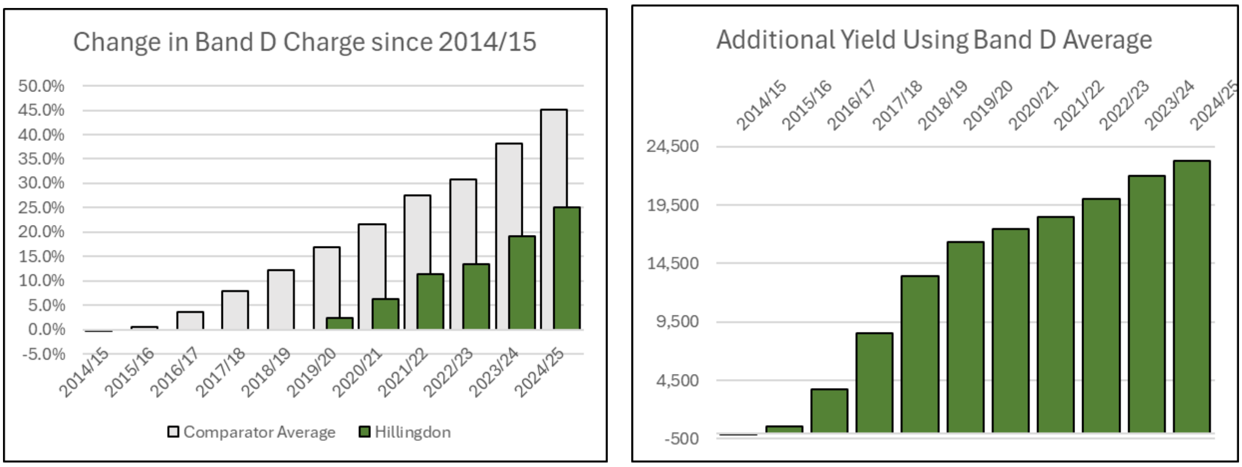
Chart 6: Income & Spend per Head Compared to Cohort Average



4.17. The proportional underspend is matched by an equivalent lower level of funding to produce a balanced budget – our core funding (from business rates; revenue support grant and council tax) is thus £21 per head (or £38m in total) lower than the cohort average.

4.18. Most significantly within the lower-than-average funding sources available to finance the General Fund budget requirement is the income from council tax. Whilst the taxbase has grown broadly in line with that of the cohort comparator authorities over the last ten years and is now 20% higher than the level in 2013/14, the Band D equivalent charge did not increase until 2019/20 and results in a lower total yield for the Council. In 2014/15, Hillingdon's charge (excluding the GLA precept) was £1,112.57 and compared to the average of the other cohort members of £1,127.57. For the current year Hillingdon's Band D charge is £1,392.51 (an increase of 25% over ten years) whereas the equivalent across the rest of the cohort has risen to £1,637.86 (45% increase). Had the Band D charge for Hillingdon residents increased by the cohort average, an additional £23m would have been able to be raised in 2024/25 and over the last ten years delivered total additional funding of £144m. The important counter factual of this is that the Council has enabled residents to keep more of their money in their pockets to decide where they wish to spend their earnings.

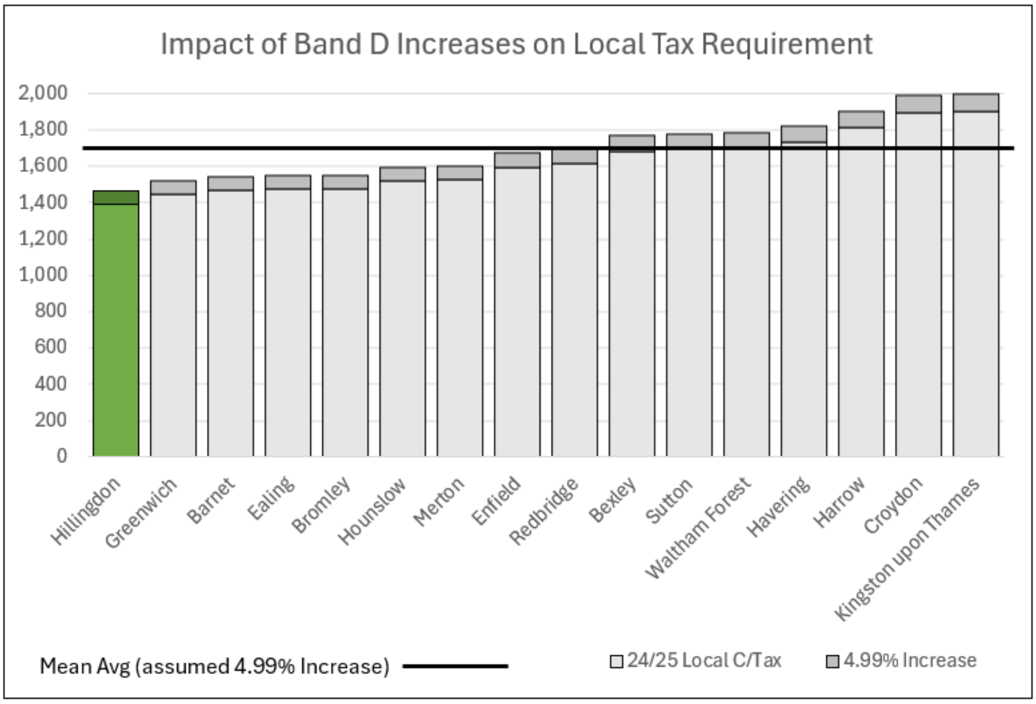
Chart 7: Change in Council Tax Band D Charge and Yield



4.19. Regulations introduced under the Localism Act 2011 allow the Secretary of State to limit the annual increase in the Band D charge, beyond which a referendum must be held and won if a local authority wishes to increase their charge by more than this threshold. Any proposed budget that breaches the referendum threshold is required to be presented alongside a substitute budget that alternatively does not breach the limit. The cost of holding a referendum would be chargeable directly to the Council. The Local Government Finance Settlement Policy Statement confirmed that the threshold for 2025/26 increases will remain at the same 4.99% without the need to hold a referendum.

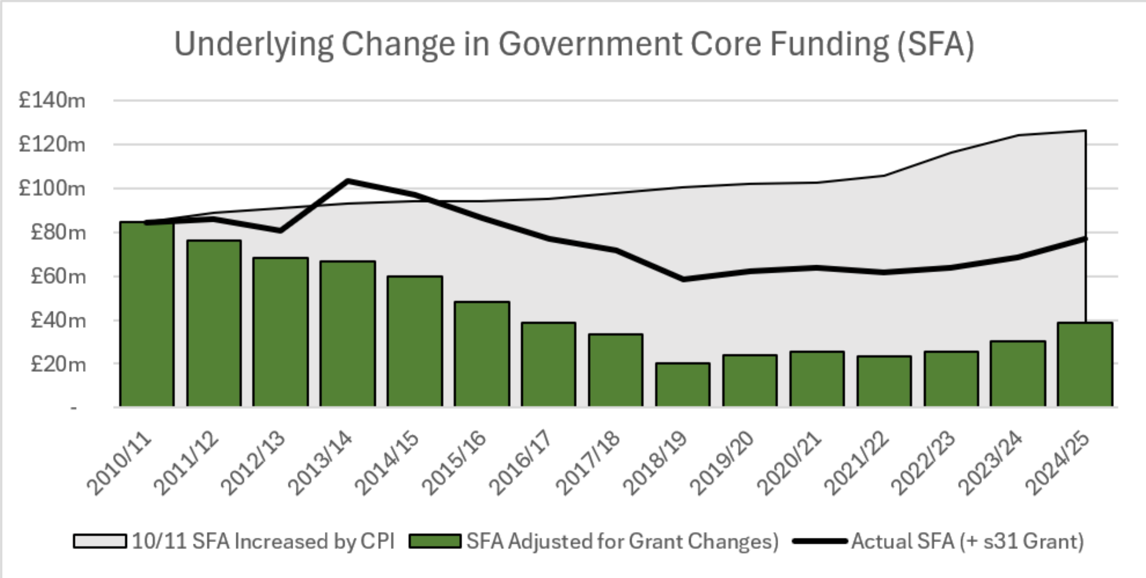
4.20. Based on the existing 2024/25 Council Tax Bases, the same percentage increase in the Band D charge yields differing gains across the nearest neighbour comparators. A 4.99% increase would yield £7.3m for Hillingdon, whereas the same percentage increase would yield £6.0m for Merton or £13.0m for Croydon. The chart below shows the comparative ranking of Hillingdon's Band D charge compared to other similar councils (both before and assuming a 4.99% increase next year).

Chart 8: Band D Charge Comparison (Including assumed 5% Increase



4.21. The reductions in funding seen across the local government sector as a whole have impacted on this Council. In 2020/11 Hillingdon received £84m in core funding in the form of Revenue Support Grant and re-distributed National Non-Domestic Rates [*NNDR*]. Had that level of funding been maintained to keep pace with inflation it would have grown to £126m by the current year. However, the equivalent funding today is only £77m. To compound the scale of funding reduction, the £77m value includes a number of grants previously paid outside of core funding but now included within the headline £77m figure (including Supporting People Grant and Housing Benefit Subsidy). Excluding these grants would indicate an equivalent figure of just £39m in 2024/25 - an £87m or 69% reduction in real purchasing power from 2010/11.

Chart 9: Underlying Change in Government Funding

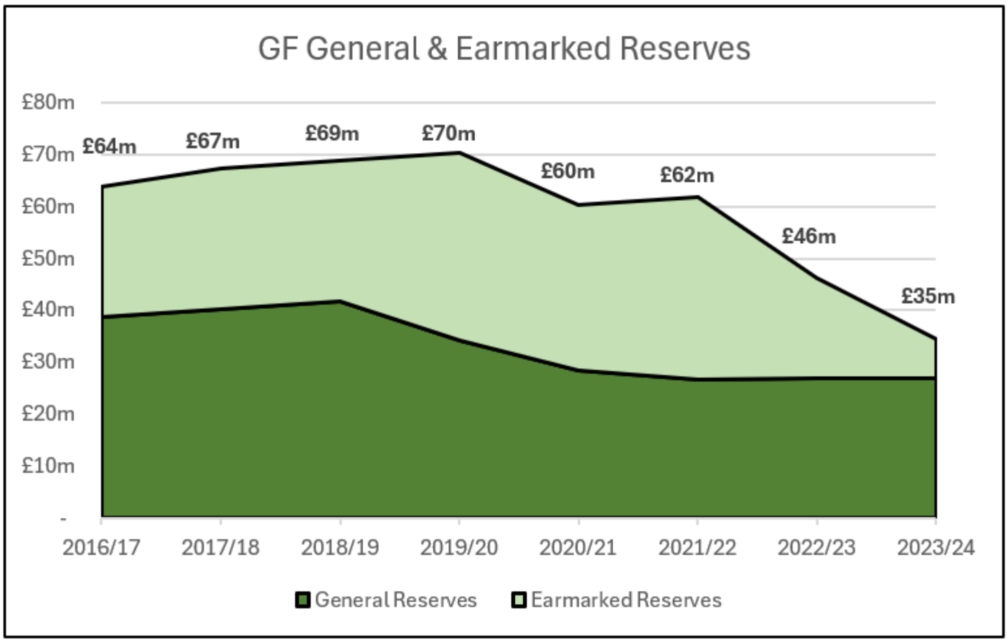


4.22. The methodology previously used by government for allocating core funding to local government is one based on assessed needs and resources, subject to damping grants or contributions to limit the rise or fall between any two years. In the move to the localised business rate system this assessment has not been refreshed since 2013/14 and thus has not kept pace with individual local authorities changing spending requirements or levels of council tax receipts.

4.23. The ability for a local authority to manage and mitigate the financial impact of in-year unbudgeted pressures and risks is largely dictated by the holding of adequate reserves and contingency provisions. Such reserves may be "earmarked" and held for specific purposes, or "general" against non-specific risks.

4.24. Excluding certain specific earmarked reserves which are required to be held against future known pressures or liabilities (including Schools/DSG; Business Rates Timing; Housing; Private Finance Initiative; and Public Health reserves), the Council had £35m of general and earmarked reserves available at the start of 2024/25 to provide a buffer against emerging pressures. This total has seen steady decline over the last four years as illustrated in the chart below:

Chart 10: Change in Reserves Levels



4.25. The current level of reserves is forecast to fall further as the latest reported General Fund budget monitoring position predicts a £8.9m variance. The £35m balance brought forward would thus decline to £26m by the end of 2024/25 based on that forecast but has potential to vary (either upwards or downwards) dependent on any further pressures or opportunities that may emerge over the coming months.

4.26. The Medium-Term Budget Strategy approved by Council in February 2024 recognised the need to replenish reserves and identified a target range of between £32m and £55m. A planned £1.5m annual contribution to general reserves was included in the budget assumptions to add £7.5m over the future five-year period to total £44.9m by the end of 2028/29.

4.27. The reserves are too low for a borough of our size and complexity, it is essential that the Council increases its level of reserves. The February budget report will include a clearer assessment and guidance on the level of reserves that we need to endeavour to achieve. It is essential that the Council delivers the value of savings programme within the report if the level of reserves are not going to be put at further risk of depletion.

5. THE CURRENT BUDGET DEFICIT

5.1. Over the Autumn, the Council has updated projections against Funding, Inflation, Demand-Led Growth and Corporate Items to assess the budget gap, with this refresh setting out a budget gap for 2025/26 of £39.0m, rising to a cumulative impact of £62.1m by 2029/30. To date, the Council has identified savings of £32.6m in 2025/26, leaving a budget gap of £6.4m, with savings in later years increasing to a cumulative total of £65.2m. This budget strategy therefore forecasts reserves to reduce to £19.8m by the end of 2025/26, before increasing to £29.8m by 31 March 2030, with this position set out in the table below:

Table 6: Budget Gap Analysis

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Gross Budget (Deficit)/Surplus	(15.8)	39.0	48.7	53.0	57.2	62.1
Cumulative Savings	15.8	(32.6)	(50.4)	(55.2)	(60.2)	(65.2)
Gross Budget (Deficit)/Surplus	**0.0**	**6.4**	**(1.7)**	**(2.2)**	**(3.0)**	**(3.1)**
Reserves	26.2	19.8	21.5	23.7	26.7	29.8

5.2. With a budget deficit for 2025/26 of £6.4m, the Council faces a challenge to deliver a balanced budget by February 2025 in line with the statutory requirement. Local Authorities have a number of options available to them to close a budget gap, with details set out below:

- Options the Council has used in this budget strategy:
  - Increased net savings (reducing expenditure and maximising income);
  - Council Tax policy (within Referendum Thresholds); and
  - Release funding from reserves.

- Options the Council is not pursuing:
  - Seek Secretary of State approval for an increase in Council Tax above the Referendum Threshold;
  - Hold a Referendum to ask the Residents to support a Council Tax increase above the Referendum Threshold; and/or
  - Seek Secretary of State approval for Exceptional Financial Support [*EFS*] through a Capitalisation Direction, which is effectively a loan to the Council that is required to be repaid (potentially with extra interest charges) but gives an authority more time to identify and implement measures that close the budget gap.

5.3. The Council's 2025/26 budget gap is driven by Inflation, Demographic Growth pressures and pressures classified as Corporate Items, (with the latter pressures being cross-cutting in nature or relate to the overarching delivery of a local authority). The breakdown of these items is set out as follows:

- <u>Inflation</u> is driving **£4.7m** of the proposed increased expenditure for the authority, with an overarching inflation assumption that 2025/26 contracted expenditure will be maintained at 1.7% as per September's CPI, in line with the Government's approach to index link many government-led uplifts to this measure. Workforce pay expenditure is forecast to increase by 3% in 2025/26, with these uplifts being offset by a forecast 11.1% reduction in energy inflation, with full details set out in the Inflation section of the report and Appendix A3.

- <u>Demand-Led Growth</u> and demographic pressures are forecast to increase Council expenditure by a further **£12.3m** in 2025/26, with Adults & Children's Social Care accounting for £4.6m of this growth and a further £5.0m due to exceptional demand for homelessness support in line with other authorities across the country. Demand for Waste services is projected to increase costs by a further £1.6m, with £1.1m coming from other smaller updates as set out in the Demand-Led Growth section of the report and Appendix A4.

- <u>Corporate Items</u> add **£37.3m** to the Council's running costs in 2025/26, this is being driven by £14.1m of rebasing Service Operating Budgets for historical pressures as set out above and in the Month 6 monitoring report. A further £6.4m is being added to write-out unallocated savings held in the corporate centre, a £9.0m increase to fund financial risks, including £5.0m General Contingency and £4.0m is proposed in recognition of increasing risks associated with contracted expenditure, £2.9m is being added to fund capital financing costs largely associated with the borrowing requirement within the capital programme, with a further £2.5m forecast to be needed to increase bad debt provisions across the Council. Further items add £2.4m to this sum from smaller updates including £1.5m due to the Council's pan-London responsibility to fund Concessionary Fares for residents as set out in the Corporate Items section of the report and Appendix A5.

- Finally, a forecast increase in <u>funding</u> reduces this pressure by **£15.3m** due to £8.4m of increased income from Council Tax, £3.2m from Business Rates, £2.9m from Corporate Grant, £3.9m expected benefit from the Autumn Statement announcement, less £3.1m adverse movement from other updates, mainly the unwinding of the 2023/24 Collection Fund surplus, with the full breakdown of this movement included in the funding section of the report and Appendices A1 and A2.

5.4. The table below sets this out alongside 2026/27 and 2029/30:

Table 7: Budget Gap Breakdown 2025/26 to 2029/30

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000
Changes in Recurrent Funding	14.4	9.5	9.6	10.1	8.6
Changes in One-Off Funding	0.9	(3.9)	0.0	0.0	0.0
Total Changes in Funding	**15.3**	**5.6**	**9.6**	**10.1**	**8.6**
Inflation	4.7	5.2	6.5	6.7	6.8
Corporate Items	12.3	4.6	5.4	4.3	4.3
Demand-Led Growth	37.3	5.5	2.0	3.3	2.4
Total Changes in Service Expenditure	**54.3**	**15.3**	**13.9**	**14.3**	**13.5**
Gross Annual Budget Deficit	**39.0**	**9.7**	**4.3**	**4.2**	**4.9**
Savings	(32.6)	(17.8)	(4.8)	(5.0)	(5.0)
Net Annual Budget Gap	**6.4**	**(8.1)**	**(0.5)**	**(0.8)**	**(0.1)**
Cumulative Budget Gap	**6.4**	**(1.7)**	**(2.2)**	**(3.0)**	**(3.1)**

7. Inflation

7.1 Inflation is set to add £4.7m to the Council's budget gap in 2025/26, rising to £29.9m by 2027/28, with the breakdown of this set out in the below table:

Table 8: Inflation 2025/26 to 2027/28

	Base Budget £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Workforce Expenditure (including Pension Contributions)	144.4	3.3	1.6	3.0	3.1	3.2	**14.2**
Social Care Placements	136.3	2.3	2.8	2.8	2.9	2.9	**13.7**
Contracted Expenditure	36.8	0.6	0.7	0.8	0.8	0.8	**3.7**
SEND Transport	14.2	0.2	0.3	0.3	0.3	0.3	**1.4**
Energy & Fuel	5.7	(0.5)	0.2	0.2	0.2	0.3	**0.4**
Other Expenditure	13.6	0.4	0.3	0.3	0.3	0.3	**1.6**
Less: Externally Funded Items	(23.8)	(1.6)	(0.7)	(0.9)	(0.9)	(1.0)	**(5.1)**
Budgets Out of Scope of Inflation	(42.6)	0.0	0.0	0.0	0.0	0.0	**0.0**
Total Inflation Requirement	**284.6**	**4.7**	**5.2**	**6.5**	**6.7**	**6.8**	**29.9**

7.2 Workforce Expenditure is forecast to increase by 3% in 2025/26 (less release of 2024/25 underspend) before returning to the Bank of England target rate of 2% thereafter, with the impact of this against the Council's £144.4m workforce budget expected to increase expenditure by £3.3m in 2025/25, the impact of the pay award has been offset by an expected 2% reduction in the employers pension contribution from 2026/27 as a result of the refreshed triennial review of the pension fund, leading to a net increase of a further £10.9m by 2029/30.

7.3 Social Care Placements costs are forecast to increase by 1.7% in 2025/26 in line with September CPI and in line with the Government's approach to use this index to uplift many costs and income across the public sector, this adds £2.3m to the £136.3m spend in this area, with future uplifts based on the Bank of England target rate of 2%, adding a further £13.7m by 2029/30.

7.4 Contracted Expenditure is forecast to mirror Social Care expenditure, with the Council's approach to contract negotiations in 2025/26 to use this index, with this position adding £0.6m in 2025/26, rising by a further £3.1m by 2029/30. The Council are looking to mitigate against this increased cost with a Procurement saving of £0.6m per annum over the next three years as set out in the saving section below.

7.5 SEND Transport follows the same approach as Social Care Placements set out above, adding £1.4m to the Council's running costs by 2029/30.

7.6 Energy & Fuel are set to see a decrease in unit costs, with the impact of high energy prices driven by conflicts in Ukraine and other parts of the world having previously driven up costs in this area, with 2025/26 forecast to see a reduction in energy costs of 11.1%, with Fuel forecast to increase by 2%, seeing an overall reduction in expenditure in this area by £0.5m, with future uplifts forecast to increase by 5% thereafter, adding £0.4m by 2029/30.

7.7 Other Expenditure relates to smaller items of Council spend and includes the Council's own Business Rates and Council Tax liabilities as well as paying levies due from pan-London and regional arrangements, with expenditure in this area set to increase by £1.6m by 2029/30.

7.8 Externally Funded Items relates to funding streams that are directly linked to the Council's expenditure, the largest items in this area include contributions to Social Care provision from service users and the NHS, with these contributions set to increase by £5.1m by 2029/30, partially offsetting the increased costs associated with these services.

8. Demand-Led Growth

8.1 Demand-Led Growth is set to add £12.3m to the Council's budget gap in 2025/26, rising by a further £10.0m to £30.9m by 2029/30, with the breakdown of this set out in the below table:

Table 9: Demand-Led Growth Breakdown

	Base Budget £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Waste Disposal Levy & Contracts	15.9	1.7	0.7	0.7	0.6	0.6	4.3
Support for Looked After Children	18.6	0.4	0.4	0.4	0.4	0.4	2.0
Support for Children with Disabilities	2.4	0.1	0.0	0.0	0.0	0.0	0.1
SEND Transport	15.2	1.0	1.2	1.6	0.5	0.5	4.8
Adult Social Care Placements	78.5	3.2	1.8	2.7	2.8	2.8	13.3
Homelessness Prevention	6.5	5.0	0.0	0.0	0.0	0.0	5.0
Digital & Intelligence Cost Rebasing	16.7	0.0	0.5	0.0	0.0	0.0	0.5
Private Sector Housing	7.1	0.4	0.0	0.0	0.0	0.0	0.4
Imported Food Office	0.6	0.3	0.0	0.0	0.0	0.0	0.3
Christmas Lighting Growth	0.0	0.2	0.0	0.0	0.0	0.0	0.2
Total	**161.5**	**12.3**	**4.6**	**5.4**	**4.3**	**4.3**	**30.9**

8.2 Waste Disposal Levy & Contracts are forecast to increase by £1.7m in 2025/26, rising by a further £2.6m per annum to 2029/30 with the additional pressure in 2025/26 providing a mechanism to fund the additional pressures in 2024/25 due to West London Waste Authority (WLWA) Levy costs from residual tonnages being the key element for the in-year pressure.

8.3 Support for Looked After Children & Children with Disabilities is forecast to grow in line with population projections, adding £0.5m in 2025/26 and a further £1.6m per annum thereafter. The demand-led growth bid in this service represents the gross pressure on the service before interventions, with savings later in the report that more than mitigate against this pressure and lead to an overall reduction in spend for the service.

8.4 SEND Transport are forecasting an increase of £1.0m in 2025/26, rising by a further £3.8m over the following four years, the growth rate within the service is currently running at 7% per annum, with ongoing demand for Education, Health & Care Plan [*EHCP*], with an underspend in 2024/25 being released to offset the growth in 2025/26, with the latter years anticipating this to reduce as population projections forecast children numbers to decline in later years.

8.5 Adult Social Care Placements have seen exceptional demand since COVID-19, with ongoing pandemic related scarring continuing to impact on the service, since April 2023, the service has seen a 7% growth in headcount, with the majority of this landing in 2023/24 and remaining in the system, generating a full year impact in 2024/25 above the budgeted position, the growth in this area therefore funds this pressure on an ongoing basis, adding £3.2m in 2025/26, with a further £10.1m over the following four years. The service is looking to mitigate this pressure through a number of measures, including reviewing health funding eligibility, with savings proposals included later in this report that offer mitigating actions against this growth bid.

8.6 Homelessness Prevention is currently facing exceptional demand, with the in-year monitoring position reporting an overspend of £5.0m, with the increase in the budget strategy affectively funding the additional growth that is in the system, with savings included later in this report that set out the Council's mitigating actions to address this pressure going forward. Homelessness support is a national issue and is forecast to generate an overspend of £170m across London in 2024/25.

8.7 Digital & Intelligence Cost Rebasing are currently forecasting a requirement to increase expenditure by £0.5m by 2026/27 in recognition of the Council's increased investment in the Digital Strategy through the Capital Programme, ensuring that sufficient revenue resources are available to support to increased use of digital technology to support the Council's efficiency drive, with savings associated with the digital strategy included in the savings section of this report.

8.8 Private Sector Housing require an investment of £0.4m in 2025/26 due to increasing statutory responsibilities, with the service unable to meet these without additional resource, with the service under increasing pressure due to inspections, including unlicenced HMOs in the borough, with the service generating income from fines that partially offsets the cost of the service.

8.9 Imported Food Office requires a £0.3m increase in budget to right-size the service, due to the service having an income budget that is greater than the expenditure budget, creating a net surplus budget when the service is required to deliver a breakeven service and cannot make a surplus.

8.10 Christmas Lighting Growth is required for £0.2m to write out the 2024/25 saving on a permanent basis, with a new saving proposal included in this budget report.

9. Corporate Items

9.1 Corporate Items are set to add £37.3m to the Council's budget gap in 2025/26, increasing to £50.5m by 2029/30 with movement in these items beyond year one largely driven by capital financing and concessionary fares pressures, with the breakdown of this set out in the below table.

Table 10: Corporate Items Breakdown

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Capital Financing Costs	2.9	4.5	1.3	1.7	2.4	**12.8**
Rebasing - Adult Services & Health	1.4	0.0	0.0	0.0	0.0	**1.4**
Rebasing - Children & Young People Services	2.8	0.0	0.0	0.0	0.0	**2.8**
Rebasing - Place	6.1	0.0	0.0	0.0	0.0	**6.1**
Rebasing - Central Services	1.4	0.0	0.0	0.0	0.0	**1.4**
Rebasing - Chief Digital Data & Technology	0.8	0.0	0.0	0.0	0.0	**0.8**
Rebasing - Cross-Cutting	1.6	0.0	0.0	0.0	0.0	**1.6**
Reversal of Undelivered Savings	6.4	0.0	0.0	0.0	0.0	**6.4**
Increase in General Contingency	5.0	0.0	0.0	0.0	0.0	**5.0**
Create Contract Risk Contingency	4.0	0.0	0.0	0.0	0.0	**4.0**
Increase in Bad Debt Provision	2.5	0.0	0.0	0.0	0.0	**2.5**
Hillingdon First Enabling Developments	0.8	0.0	0.0	0.0	0.0	**0.8**
Cost of Older People Discount	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	**(0.5)**
Concessionary Fares	1.6	1.0	0.7	1.6	0.0	**4.9**
Housing Benefit Subsidy (Recovery of Overpayments)	0.1	0.1	0.1	0.1	0.1	**0.5**
Total Corporate Items	**37.3**	**5.5**	**2.0**	**3.3**	**2.4**	**50.5**

9.2 Capital Financing Costs are forecast to increase by £2.9m in 2025/26, rising to £12.8m by 2029/30, with this increases driven by the requirement to fund £94.5m from prudential borrowing to fund the proposed capital programme set out later in this report with this increase also including the servicing and repayment of the Council's existing borrowing portfolio.

9.3 Rebasing adds £14.1m to the Council's budget gap in 2025/26 as a result of an exercise carried out in 2024/25 that identified a number of legacy pressures within the Council's budget related to the non-delivery of savings and unfunded pressures as a result of demand growth and income shortfalls. In October 2024, the Cabinet approved a budget virement to increase Service Operating Budgets by this amount and create an additional in-year saving target that is required to be written out of the Council's base budget with the breakdown by Corporate Director set out in the table above.

9.4 Writing Out Undelivered Savings is a second element of the review of the Council's base budget that writes out the remaining balance of legacy savings that have not been delivered that are held in year in Corporate Operating Budgets, writing out these savings adds £6.4m to the pressures to be funded in 2025/26.

9.5 Increase in General Contingency is proposed to be increased by £5m to £5.5m in 2025/26 to provide adequate cover for unforeseen circumstances in 2025/26. With the Month 7 monitoring report presenting a pressure due to unfunded growth demand and an in-year rebasing exercise adding £14.1m to the budget gap, a greater level of contingency is required to ensure successful delivery of this budget strategy.

9.6 The budget strategy proposes to Create a Contract Risk Contingency in recognition of the ongoing impact external factors play in negotiating contract uplifts and ensuring suppliers are sustainable going forward, whilst also ensuring financial stewardship over public money. Any drawdowns from this contingency will need Corporate Director of Finance sign-off.

9.7 Given the increase in exposure to the debt repayment as a result of the cost-of-living crisis and impacts from the pandemic on households, an Increase in Bad Debt Provision due to the Council's debt position has been increasing in recent times, the Council is forecasting an increase in the provision required to offer increased protection against the non-payment of debt, with this requirement adding £2.5m to the Council's budget gap in 2025/26.

9.8 Hillingdon First Enabling Developments are forecast to unwind the dividend paid to the borough, with £0.8m of income being removed from the base budget due to all completed developments having been sold and the company not having any active developments in the pipeline, this position will be kept under review in line with market conditions.

9.9 Cost of Older People Discount continues to reduce as the Council closed the scheme to new entrants on 1 April 2021, with regular churn reducing this budget by £0.1m per annum.

9.10 Concessionary Fares relates to the Council funding the freedom pass for Hillingdon Residents, with cost being levied on the Council by Transport for London [*TfL*] based on usage statistics, with TfL forecasting future demand, with the forecast contained in the budget strategy adding £3.3m over the next three years.

9.11 Housing Benefit Subsidy (Recover of Overpayments) adds £0.1m to the Council's expenditure per annum due to the transition from Housing Benefit to Universal Credit impact on the income recouped through the Housing Benefit Subsidy system.

10. Funding

10.1 Funding is forecast to increase by £15.3m 2025/26, increasing to £49.2m by 2029/30, with the breakdown of this set out in the below table.

Table 11: Funding Breakdown

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Council Tax Revenues	145.8	154.2	164.0	173.8	184.4	193.4
Business Rates Income	69.0	72.2	72.2	72.1	72.2	72.1
Corporate Grant Income	66.8	69.7	69.3	69.2	68.6	68.3
Total Recurrent Funding	**281.6**	**296.1**	**305.5**	**315.1**	**325.2**	**333.8**
Collection Fund Deficit	4.5	(0.1)	0.0	0.0	0.0	0.0
Rebuilding Reserves	(1.5)	0.0	0.0	0.0	0.0	0.0
Autumn Statement	0.0	3.9	0.0	0.0	0.0	0.0
Total One-Off Funding	**3.0**	**3.8**	**0.0**	**0.0**	**0.0**	**0.0**
Total Resources	**284.6**	**299.9**	**305.5**	**315.1**	**325.2**	**333.8**
Annual Movement		**15.3**	**5.6**	**9.6**	**10.1**	**8.6**
Cumulative Movement		**15.3**	**20.9**	**30.5**	**40.6**	**49.2**

10.2 Council Tax Revenues are forecast to increase by £8.4m in 2025/26 with £1.0m of this coming from a net 754 increase in the taxbase driven by 1,048 increase in the gross taxbase, offset by 386 reduction from increased demand for the Council Tax Reduction Scheme [*CTRS*]. This position is compounded by £7.4m increase driven by a 4.99% proposed increase in the rate of Council Tax, taking the Band D increase from £1,392.51 to £1,534.95, equivalent to £1.33 increase per week for a two-adult household in a Band D property.

10.3 Business Rates Income is forecast to increase by £3.2m in 2025/26 as a result of the Council releasing the final element of the 2023 revaluation impact applied against the rating list that saw the Council's commercial property taxbase increase by c5%, which the Council held in an appeals provision reserve in 2023/24 whilst the rating list stabilised, releasing funds in 2024/25 and again in 2025/26.

10.4 Corporate Grant Income grows by £2.9m 2025/26 as a result of an early indicative announcement of the Extended Producer Responsibility grant of £3.2m in relation to the Government taxing business for the amount of packaging they use and redistributing this across the Local Government sector, offset by a number of smaller movements leading to a net reduction of £0.3m. The majority of the Corporate Grant income is forecast to be cash flat as Council awaits the Provisional Local Government Settlement due to be published later in December. Included under one-off income is an assumption that the Council receives an additional £3.9m of funding from the Autumn Statement announcements above and beyond the Extended Producer Responsibility grant, with this element to be firmed up with the settlement.

10.5 Collection Fund Surplus in line with the Month 6 budget monitoring position, the Collection Fund reported a 2024/25 surplus of £0.1m, driven by a £1.3m deficit against Council Tax and £1.4m surplus against Business Rates, with any variances within the

Collection Fund up to Month 9 impacting on the 2025/26 budget and any movement from this position between Month 9 and Outturn impacting on the 2026/27 budget.

10.6 Autumn Statement as set out above, this budget assumes an Autumn Statement favourable funding position of £3.9m against announcements made by the Chancellor, however, the overall budget position is forecast to be adverse from this statement due the impacts on contracted expenditure, with the £4.0m contract risk contingency being included under Corporate Items to provide a level of cover for impacts generated by Government policy adversely affecting Council expenditure pressures.

11. SAVINGS PROPOSALS TO BRIDGE THE GAP

11.1 The Council's budget strategy includes £32.6m of savings for 2025/26, increasing to £65.2m by 2029/30 (including £5m Target Operating Model savings, rising to £15m by 2029/30), with the breakdown of these savings at Cabinet Portfolio level set out in the table below:

Table 12: Savings Programme 2025/26 to 2027/28

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Property, Highways & Transport	(0.8)	(0.5)	0.0	0.0	0.0	**(1.3)**
Finance & Transformation	(1.1)	(0.2)	(0.1)	0.0	0.0	**(1.4)**
Corporate Services	(5.1)	(1.2)	(0.2)	0.0	0.0	**(6.5)**
Residents' Services	(6.6)	(1.1)	(0.8)	0.0	0.0	**(8.5)**
Children, Families & Education	(5.2)	(1.9)	(2.0)	0.0	0.0	**(9.1)**
Health & Social Care	(7.8)	(1.1)	0.0	0.0	0.0	**(8.9)**
Target Operating Model	(5.0)	(10.0)	0.0	(5.0)	(5.0)	**(25.0)**
Cross-Cutting Initiatives	(1.0)	(1.8)	(1.7)	0	0	**(4.5)**
Total Savings	**(32.6)**	**(17.8)**	**(4.8)**	**(5.0)**	**(5.0)**	**(65.2)**

11.2 Property, Highways & Transport have savings proposals totalling £0.8m in 2025/26, rising by a further £0.5m in 2025/26 with three savings against this portfolio associated with increased rental yields from commercial properties and garages, with the third proposal centred around maximising the use of Council assets.

11.3 Finance & Transformation proposals amount to £1.1m in 2025/26, with key proposals including:

11.3.1 A review of the Revenues & Benefits service, targeting increased automation and digital solutions to secure £0.3m in 2025/26, rising to £0.6m by 2027/28.

11.3.2 Further efficiencies from the new Oracle Fusion financial system, securing £100k in 2025/26 in addition to the £300k in 2024/25.

11.3.3 Process review and realignments of structures are forecast to reduce spend by £0.4m without impacting on service delivery.

11.3.4 The remaining proposed balance relates to technical updates, reviewing recharges and cashflow arrangements with full details set out in the Savings Appendix (A6).

11.4 Corporate Services savings proposals for 2025/26 total £5.1m, increasing by a further £1.4m by 2027/28 to £6.5m. Savings in these are include the following proposals:

11.4.1 Savings in relation to the Digital Strategy, including contracted expenditure and reshaping resident experience are forecast to secure £3.8m in 2025/26, rising to £4.3m by 2027/28.

11.4.2 Reviewing structures that support Corporate Services including Human Resources, Legal, Communications and Democratic Services are forecast to deliver £0.8m in 2025/26, rising to £1.2m by 2027/28, with these measures continuing to protect frontline service delivery.

11.4.3 The remaining balance comes from a number of smaller proposals aimed at increasing efficiency without impacting on resident experiences with full details set out in the Savings Appendix (A6).

11.5 Residents Services proposals for 2025/26 total £6.6m, increasing to £8.5m by 2027/28, with savings proposals in this portfolio including:

11.5.1 Proposed measures to mitigate against rising Homelessness support totalling £3.6m are included for 2025/26, rising to £5.1m by 2027/28, offsetting the Demand-Led Growth proposal reported on earlier in this report. The mitigating actions include finding alternative low-cost interventions, exploring procurement opportunities in the B&B market leasing additional accommodation.

11.5.2 Measure to increase income account for £1.4m in 2025/26, rising to £1.7m by 2027/28, with proposals including the introduction of parking charges on Sundays were charges currently don't exist, an increase in the parking fine banding level and reducing the discount offered to residents through the Hillingdon First Card but still maintaining a substantial discount, with total parking measures securing £1.1m in 2025/26. These proposals will be carefully monitored to assess any impact on total revenue from elasticity of supply. Other income measures include Building Control and Planning fees yielding an additional £0.4m in 2025/26.

11.5.3 Other saving measures include the removal of the Beck Theatre subsidy, securing sponsorship for Christmas Lights and a review of the Out of Hours Noise Nuisance Service, with these three items forecast to deliver £0.6m in 2025/26.

11.5.4 The remaining £1.0m of proposals come from a number of smaller updates, with full details set out in the Savings Appendix (A6).

11.6 Children's, Families & Education proposals account for £5.2m of the savings programme for 2025/26, rising to £9.1m by 2027/28, with proposals including:

11.6.1 The service are proposing to reduce expenditure on Semi-Independent and Shared Accommodation by £2.2m in 2025/26, rising to £2.6m by 2027/28, with the proposal centred around moving young people into appropriate accommodation which has been a challenge in 2024/25 due to demands on General Needs property, with the plan to maximise the Council's 'Staying Close' strategy to reduce costs on the service.

11.6.2 A further £1.0m is proposed to be delivered from a revised Social Care Delivery Model which contains 2 strands of activity, firstly, under the Stronger Families Initiative, the service aim to avoid more cost interventions within the Children in Need service and the housing support provided to Children (£400k), secondly redirecting post adoption care to avoid court proceedings costs (£600k).

11.6.3 Children's Social Care are proposing a new Care Model (Operating Model), forecast to deliver £0.6m in 2025/26, rising to £3.7m by 2027/28, with the saving to be achieved by converting more expensive placements in external fostering provision to a lower cost internally run fostering service, effectively saving the management fee whilst maintaining or improving the level of service being offered.

11.6.4 Other savings included in this portfolio are set out in the Savings Appendix (A6) and include a review of the Early Years Operating Model (with a report to Cabinet on the same agenda as the budget report) securing £0.2m in 2025/26, a review of catering to secure £0.2m and inflationary uplifts in Fees & Charges increases to secure £0.8m, with the remaining balance to come from smaller proposals.

11.7 Health & Social Care savings proposals are forecast to deliver £7.8m in 2025/26, with a further £1.1m in 2026/27 taking the total savings to £8.9m, with detailed proposals including:

11.7.1 Reviewing service users eligibility for health funding in relation to Mental Health Needs is forecast to delivery £2.0m in 2025/26, with a further £2.5m of measures within Adult Placements from renegotiating care contracts (£1.7m) and decanting a building to deliver a more efficient service for residents (£0.2m) and banking service delivery efficiencies achieved in-year (£0.6m).

11.7.2 The acquisition of a care home is proposed to deliver £0.6m in 2025/26 through efficiencies in running the service via a Special Purpose Vehicle [*SPV*], with a further £0.3m to be achieved from the creation of an SPV to support the employment of temporary staff within the service.

11.7.3 A saving of £0.6m in 2025/26, rising to £1.0m by 2026/27 has been proposed from a Post-16 review of the Council's Transport offer, implementing a revised policy to offer Personal Transport Budget [*PTB*] as the default offer to reduce expenditure on higher cost options including minibuses and taxis except in circumstances where it can be demonstrated that this is more cost effective.

11.7.4 The service are proposing to increase the use of Artificial Intelligence [*AI*] in the operation of Social Work Practices which is forecast to secure £0.5m of efficiencies without impacting on frontline services to residents, with the measure aimed at using technology to carry out admin tasks for the service, with scope for the technology to also consider if a client may also require a health assessment from the NHS.

11.7.5 Further savings included in this portfolio are included in the Savings Appendix (A6) to this report.

11.8 Target Operating Model A full review of the Council's Target Operating Model to identify and deliver a further £5.0m saving in 2025/26, rising by a further £10.0m in 2026/27 to a total of £15.0m, with a further £5.0m in each of the last two financial years of the budget strategy, with a full review of every service and how it operates, building on the work that started in the Zero-Based Budgeting reviews that set the groundwork for this budget strategy. The delivery of target Operating Model savings are essential for the financial future of this Council.

11.9 Cross-Cutting Initiatives proposals amount to £6.0m in 2025/26, rising by a further £13.5m over the next two years to deliver £19.5m of savings by 2027/28. Savings recorded as cross-cutting include:

11.9.1 Procurement savings of £0.6m are included in each of the three years, with the procurement service to work with service areas during contract negotiations and tender exercises to maximise opportunities for the Council and effectively counter the impact of the inflationary uplift built into the budget strategy.

11.9.2 Pension measures of £0.4m are included for 2025/26, rising by a further £0.1m in 2025/26 from a combination of cashflow measures with the interactions between the General Fund and Pension Fund (£0.3m) and a proposal to delay automatic enrolment for new starters into the pension scheme until post-probation (£0.1m in 2025/26, £0.2m by 2026/27).

11.9.3 Finally, inflationary uplifts to Fees & Charges from 2026/27 onwards are included under cross-cutting items at £1.1m per annum to 2027/28, with the impact of uplifts for 2025/26 included under each portfolio.

11.10 The increases in Fees & Charges is shown in Appendix C and maintains significant discounts for residents. Further work will be undertaken ahead of the February Cabinet to test any impact caused by the elasticity of demand.

12. RISKS

12.1 The draft budget set out in this report includes a number of savings that are in early stages of development, and which need to be thoroughly refined and progressed over the coming months ahead of and during the early part of 2025/26. This is the case for all savings proposals and in particular, for the Target Operating Model saving line (£5m in 2025/26, rising to £15m in 2026/27 and a further £5m in both 2028/29 and 2029/30). They will need a laser focus on planning and delivery and where needed additional capacity and expert capability added to our existing teams. Risk awareness, management and mitigations will have a heightened importance over the course of the remainder of this financial year and onwards to maintain a robust budget with adequate reserves to mitigate for any further adverse financial developments or non-delivery of assumed savings.

12.2 Council approved the 2024/25 Budget and MTFS and recognised the need to replenish reserves, then estimated to total £37.3m at the start of the current year and then grow by

£1.5m per year to total £44.8m by the end of 2028/29. This rebuilding in reserves was consistent with the then Director of Finance written opinion that between a minimum of £32m up to a maximum £55m was necessary given the financial risks facing the Council. The position on the expectation on reserves will be revisited ahead of the February budget considering our prevailing financial position.

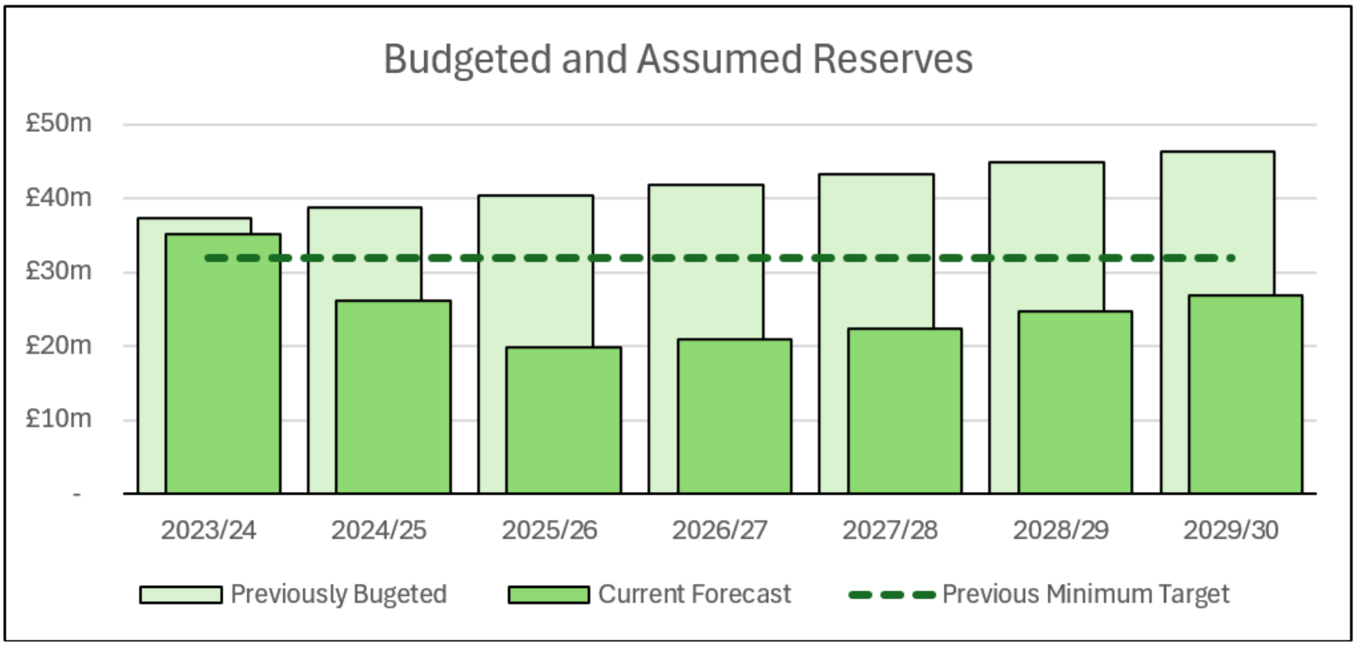
12.3 Some of the risks identified in (or unforeseen at the time of) the current year budget being set in February 2024 have materialised and as such our latest revenue monitoring position reflects closing general and available earmarked reserves falling to £26.2m against a previously anticipated £38.8m. This change from previous assumptions helps illustrate the need to hold adequate levels of reserves against such events.

12.4 The Council has not needed to request Exceptional Financial Support [*EFS*] from Government and is working hard to resolve its own financial pressures. Given the pressures and scale of financial savings officers will ensure that the Cabinet and Council are regularly updated in this respect. Our financial position is very challenging and whilst this is a national issue and systematic failure and not a uniquely Hillingdon problem, it is the Council's responsibility to ensure strong financial management to avoid this risk crystallising. If the savings are not delivered in broad terms EFS cannot be ruled out as is the case with many boroughs.

12.5 The Cabinet have given a clear steer to officers that they wish to resolve as much as possible the financial issues facing the borough, with our own efficiencies and savings programme. Exceptional Financial Support through borrowing as viewed by many as a 'sticking plaster' that does not resolve the underlying reductions and lack of funding for Hillingdon and Local Government as a whole. EFS, increases the cost to the tax payer, through additional borrowing costs, unless funded through additional capital receipts to a large extent.

12.6 Reference to the summary budget position set out in Section 6 of this report shows anticipated levels of future reserves based on the budget assumptions set out in this report and is summarised below:

Chart 11: Budgeted and Assumed Levels of Reserves



12.7 Having low levels of reserves to mitigate future potential risk is a significant risk in itself and ultimately could lead to the issuing of a s114 Notice leading to an immediate cessation of all non-essential spend and raising the possibility of Government intervention.

12.8 The budget as it currently stands contains a significant degree of risk in its assumptions, and in particular the following:

a. Declining and the slow rebuild of general and earmarked reserve levels;

b. Significant and the largest savings programme put forward to be delivered and will require stringent monitoring to ensure delivery and any optimism bias removed;

c. Further potential demand pressures that may arise – particularly around social care costs and temporary accommodation pressures;

d. Macro-economic headwinds including inflation, interest rates and pressures that could further arise as the result of any downturn in the general economy;

e. Future Government funding levels being maintained in real terms – especially if the government's growth agenda to re-balance public finances fails to deliver as planned;

f. Changes to the business rates system further increasing cost of occupying the Council's larger buildings or indirectly through our partners on the running cost of leisure centres;

g. Whilst a fundamental review of the local government finance system has again been promised, any rebasing has the potential for the Council to lose the gains from growth above baseline already accumulated since 2013/14; and

h. The Council has a significant Dedicated Schools Grant deficit which is currently held on the Balance Sheet but not impacting on the level of general reserves. Should the statutory over-ride preventing it from affecting general reserves be withdrawn this would result in general reserves being negative.

12.9 Any delay in the timeframes for the delivery of assumed savings (or their quantum) has the potential to adversely impact on the forecast level of future reserves. To date, a significant number of savings proposals remain to have a full delivery programme validated to provide necessary assurance.

13. RESERVES

13.1 The risk section above indicates we are below the minimum level of reserves for an authority of our size and complexity and we need to rebuild them given the many financial pressures that we are under.

14. CAPITAL PROGRAMME (2025/26 to 2029/30)

Capital Expenditure

14.1 Capital investment of £301.6m over the period 2025/26 to 2029/30 has been incorporated into the wider General Fund budget strategy set out within this report, with £134.1m investment in major projects, primarily delivering new or expanded infrastructure, and £157.5m investment in recurrent programme of works, ensuring that existing infrastructure is maintained and improved. Further details are set out in the sections below and included in Appendix A8.

Capital Programme by Cabinet Portfolio

14.2 The revised draft capital programme of £341.6m from 2025/26 to 2029/30 by Cabinet Member portfolio is set out in the table below.

Table 13: Capital Programme by Portfolio

	Major Projects £m	Programme of Works £m	General Contingency £m	Total £m
Property, Highways & Transport	94.7	97.5	0.0	192.2
Finance & Transformation	35.0	20.7	10.0	65.7
Corporate Services	0.0	14.2	0.0	14.2
Residents' Services	8.6	8.5	0.0	17.1
Children, Families & Education	11.3	2.3	0.0	13.6
Health & Social Care	24.5	14.3	0.0	38.8
Total	**174.1**	**157.5**	**10.0**	**341.6**

14.3 **Property, Highways & Transport** – Total investment for this portfolio stands at £192.2m, with £54.7m relating to Major Projects, with the budget including £19.0m to complete the Platinum Jubilee Leisure Centre in West Drayton, alongside £23.1m to develop the new Hillingdon Water Sports facility, replacing facilities dispersed by the HS2 project. Other projects include £16.5m to modernise the Civic Centre that will also reduce the revenue running costs of the building, with a further £13.5m for other Carbon Zero Initiatives to reduce the Council's carbon footprint. With this portfolio overseeing the Council's property assets, other investments in this area include expenditure enhancing existing assets or building new ones, particularly linked to the Council's saving programme, including the Charville Lane Children's home programme.

14.4 The Council currently leases its grounds maintenance equipment and is paying a premium because it is out of contract. Agreeing to release a capital contingency to purchase new equipment rather continuing to lease is planned to save the Council £54k per year and the potentially give the Council larger future year savings by extending the economic life of the equipment. Given the age of the current equipment it also mitigates further high maintenance costs. Delegation is requested to allow the Cabinet member for Finance & Transformation (in consultation with the Corporate Director of Finance) to approve entering into a contract to purchase this equipment (estimated cost £1.5m).

14.5 In addition to this Major Projects investment, £97.5m of Programme of Works expenditure is planned to 2029/30, with £51.0m investment in the Council's roads and footways infrastructure, with a further £16.1m included for Transport for London (TfL) projects, street lighting and Highways, Bridges & Structures. A further £24.1m is included for Schools Conditions work, improving the fabric of the Council's existing schools. A Disabled Facilities Grant budget of £15.0m is proposed to fund adaptations to residents' properties, with this investment funded through grant income included in the Better Care Fund. Other programmes include the cyclical renewal of the Council's existing asset base, ensuring that this remains fit for purpose.

14.6 **Finance & Transformation** – the £35.0m budget under Major Projects relates to capitalisation support to cover costs of transformation (£10.0m in 2025/26 and 2027/28 to support the size of the saving programme in those years) and the DSG recovery plan (£4.0m for 2025/26 included from the existing Safety Valve agreement). These costs require to be financed by capital receipts which have been included in the capital financing budget. Under Programmes of Works, the budget of £20.7m focuses upon the programmed renewal of the Council's vehicle fleet, with this investment supporting the revenue position and reducing maintenance costs and the hiring of vehicles.

14.7 **Corporate Services** – This portfolio includes an investment in Corporate Technology and Innovation of £13.2m, with this investment linked to the savings included for the Council's Digital Strategy approved by Cabinet in October of this year. The remaining investment funder the Older People's Initiative.

14.8 **Residents' Services** – An investment of £17.1m is included for this portfolio, with a proposed Major Projects budget of £8.6m, including £7.5m investment in Green Spaces equipment, with this proposal linked to reducing revenue expenditure within the Green Spaces service by investing in equipment to reduce day-to-day running costs. A further £1.6m is included for the investment of Shopping Parades supporting local commercial activity in the borough. The £8.5m Programme of Works budget mainly supports the Chrysalis Programme (£7.5m) and Playground Replacement (£1.0m).

14.9 **Children, Families and Education** – Total capital investment in this area is forecast to be £13.6m, with £11.3m of Major Projects relating to Schools programmes including increasing special education needs placements and increasing school placements capacity. The Programme of Works budget of £2.3m funds £1.9m of Devolved Capital to Schools and £0.4m for Scout/Guide groups via the Youth Provision programme budget.

14.10 **Health & Social Care** – This portfolio has two capital programme budgets, with a £24.5m investment in Care Home Capacity, with this investment delivering a revenue budget for the service, alongside £14.3m of equipment capitalisation to support early intervention and prevention.

Capital Financing

14.11 The capital programme is financed from a range of sources, including government grants, developer contributions, capital receipts secured from disposal of surplus assets and borrowing. Where borrowing is utilised to fund capital programme investment, interest costs and the repayment of the loan impacts on the Council's revenue budget, with Capital Financing being included in the Corporate Items section of the budget strategy set out earlier in this report. The following table and commentary provide an overview of capital financing changes and resulting levels of borrowing.

Table 14: General Fund Capital Financing

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Grants	19.6	10.3	10.3	10.3	10.3	60.8
CIL	3.8	4.5	4.5	4.5	4.5	21.8
Capital Receipts	27.4	10.0	7.5	7.0	7.0	58.9
Borrowing	83.6	57.6	26.8	20.5	11.8	200.3
Total	**134.4**	**82.4**	**49.1**	**42.3**	**33.6**	**341.8**

14.12 **Grants** - Grants available to support planned investment include Department for Education funds for investment in special needs school places and condition works, Department of Health and Social Care monies routed through the Better Care Fund to support Social Care services, Transport for London funding for transport infrastructure and High Speed 2 Funding linked to the provision of new uniformed groups facilities. In addition, a number of smaller grants have been secured for specific projects and Section 106 contributions are applied to eligible expenditure.

14.13 **The Community Infrastructure Levy (CIL)** – this source of funding is available to meet the additional infrastructure requirements of new development in the borough, with a requirement that spending plans are approved annually for this funding stream. For 2024/25 it is proposed that the majority of the levy is applied to fund the New West Drayton Leisure Centre, with the community-led element being used to fund the Chrysalis Programme.

14.14 **Capital Receipts** – Substantial receipts are expected to be generated through the planned reconfiguration of the Civic Centre site, alongside a broader review of the estate in 2026/27. The future years' targets ensure transformation activity can take place and be funded under the Government's Flexible Use of Capital Receipts guidance, this target for asset sales is deemed to be achievable, although there remains inherent risk from the necessary engagement with the market which will necessitate a level of investment, with the Council to keep this under review in context of the wider economic conditions and the impact on achieving value for money from asset sales.

14.15 **Borrowing** – With the Council having a low level of borrowing, the planned new borrowing of £200.3m included in the capital programme maintains the Council as a low borrowing authority, with this financing option generally being applied to investments that generate revenue savings for the Council and therefore, generate a net revenue saving for the Council. This planned new borrowing along with the servicing of historic debt from capital investment in the past will result in the forecast Capital Financing Requirement peaking at £331.6m in 2026/27 and declining thereafter. Within this forecast, £310.7m is forecast to come from external borrowing, with the remaining £20.9m being financed through General Fund reserves and working capital as outlined in the table below.

Table 15: **General Fund Borrowing**

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m
Capital Financing Requirement	325,086	331,631	325,312	318,661	311,664
Projected External Borrowing	(305,243)	(310,720)	(302,914)	(294,012)	(284,722)
Projected Internal Borrowing	(19,843)	(20,911)	(22,398)	(24,649)	(26,942)

14.16 The ongoing cost of servicing and repaying this projected Capital Financing Requirement has been factored into the Council's budget strategy, with new borrowing and associated repayments to be matched to the useful life of relevant assets – estimated at 25 years. This level of investment and associated costs have been considered by the Corporate Director of Finance in the context of CIPFA's Prudential Code for Capital Financing and judged to be prudent, affordable and sustainable.

14.17 In addition to assessing forward-looking capital investment plans against the Prudential Code framework, a retrospective assessment of the Council's existing borrowing requirement provides a rounded view of the Council's capital health. As of 31 March 2024, the Council held assets valued at £2,207m on the balance sheet, against which the outstanding Capital Financing Requirement stood at £456m or 21%. Provision to write-down this balance in full through Minimum Revenue Provision is in place, with 80% of the liability cleared over the next 24 years, reflecting a prudent estimate of the period over which these assets will be available for local service provision.

14.18 Financing plans set out within this draft budget include the application of £58.9m of Capital Receipts to be secured from the disposal of assets, with £35.0m of this sum being applied in line with Government direction towards the write-down of the Dedicated Schools Grant Deficit and funding investment in service transformation to secure future revenue savings. The residual £23.9m proceeds from projected asset sales will be applied to finance new investment as an alternative to borrowing, in the event that receipts are not available and subject to assessing prudence, affordability and sustainability, such new investment could be financed through additional borrowing.

15. HOUSING REVENUE ACCOUNT

15.1 The Housing Revenue Account (HRA) is a ringfenced, self-financing account whereby rental income from the Council's c10,000 social housing units are reinvested in the management, maintenance and expansion of stock for the benefit for tenants. The budget strategy for the HRA for the 2025/26 financial year in the context of the five year's is set out in this report, underpinned by a 30-Year Business Plan, which demonstrates that over the longer term the HRA is financially sustainable and that proposed capital investment will maintain this position.

15.2 The HRA Capital Programme that forms part of the budget strategy is structured around four key elements:

- Housing Supply – delivering a net 209 new homes in 2025/26, with a further 1,460 by 2029/30 to support increasing demand for social housing in a growing borough.
- Recognising the impact of the Autumn Statement announcement on the Right to Buy Scheme, where the Government has reduced the discount to Council Tenants from £136.4k to £16k for all applications received after 21 November 2024. As a result, the Council saw a spike in demand in October from an average of 3 per month to over 300 applications (not all applications will lead to finalised sales).
- Estate Regeneration – delivery of 370 new homes across the Avondale and Hayes Town Centre estates, a net increase of 72 during the MTFS period on the current configuration.
- Works to Stock – an enhanced programme of works to take into account early indicative results of a Housing Stock review, anticipating 30% of the Housing Stock to require further work to meet decency standard, with further investment to ensure that properties are refreshed on a rolling programme.

15.3 Development of HRA budgets over the five-year has been undertaken in the context of significant pressures on housing demand in the borough, across London and nationally, which is being compounded by the relatively high proportion of construction and building-related expenditure to meet housing regulatory requirements and to increase housing supply. The Government continue to cap rent increases at CPI+1% for 2025/26, with the Government consulting on extending this arrangement to the end of this MTFS period with the Government set to confirm this before the Council finalises the 2025/26 budgets, with any update to be brought to Cabinet in February 2025.

15.4 The Council increased the revenue budgets for managing the HRA in 2024/25 with a growth item of £1.5m to fund additional regulatory requirements (£0.5m) and ongoing maintenance and remedial work (£1.0m), with this increase proving to be sufficient in-year and beyond.

15.5 Forward looking financial plans are based on solid foundations, with a forecast balanced budget for 2024/25 and unallocated reserves projected to total £15.0m at 31 March 2025.

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Given that £15.0m reserves are judged to provide sufficient capacity for risk management purposes and considering the economic context, the budget strategy maintains unallocated reserves at the target level. The Council will be reviewing the level of reserves in the future given the rising stock number over the medium-term.

Table 16: Housing Revenue Account Budget Strategy

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Total Resources	74.3	78.8	84.9	91.0
Total Service Expenditure	49.2	59.6	65.3	69.4
Contribution to Finance Capital Programme	25.2	19.2	19.6	21.6
Cumulative Budget Gap	**(0.1)**	**0.0**	**0.0**	**0.0**
Closing General Balances	15.0	15.0	15.0	15.0

15.6 Capital investment plans will result in the HRA Capital Financing Requirement reaching £496m in 2029/30, with both the budget strategy and 30 Year Business Plan demonstrating that the ongoing servicing and repayment of this level of borrowing is sustainable.

15.7 Further commentary on the HRA budget strategy is provided below, with detailed schedules included in Appendix B.

Rental Income

15.8 HRA Dwelling Rental Income is projected to grow from £74.2m in 2024/25 to £98.0m by 2028/29, with this £23.8m increase in funding driven by a combination of inflationary rent increases and net growth of 1,669 dwellings as investment in delivery of new stock outstrips projected losses through Right to Buy sales and the Hayes Estates Regeneration Scheme properties come into operation.

15.9 As part of the Autumn Statement, the Government established a1%+CPI rent increase for 2025/26 with future years expected to be confirmed by Government before the Council finalises its budget in February 2024, this budget strategy therefore takes a prudent approach of maintaining increases from 2026/27 onwards at CPI, with the expectation the additional 1% will be announced shortly.

15.10 The table below provides an overview of projected changes in stock numbers, with new units being delivered through the capital investment plans expanded upon later in this report while units are sold under Right to Buy.

Table 17: HRA Stock Numbers

Tenanted Stock	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Change
Projected Opening Stock	10,228	10,438	10,647	10,860	11,633	11,949	N/A
Net Movement*	210	209	213	773	316	158	**1,669**
Projected Closing Stock	**10,438**	**10,647**	**10,860**	**11,633**	**11,949**	**12,107**	**1,669**
Projected Average Stock	10,333	10,543	10,754	11,247	11,791	12,028	n/a

* The net movement includes: right-to-buy sales; new units and regeneration voids – updated and full details will be provided in the February 2025 Cabinet report.

Inflation

15.11 Inflationary cost pressures of £3.5m are projected within the HRA for 2025/26, rising to £17.3m by 2029/30, with contracted expenditure forecast to grow in line with the General Fund projections at 1.7% in 2025/26, then 2% thereafter in line with the Bank of England target rate. The pay award for the HRA is similarly in line with the General Fund at 3% in 2025/26 reducing to 2% per annum thereafter, with energy forecast to reduce in 2025/26 offsetting the increase in expenditure in year 1, before returning to a 5% increase thereafter. Further analysis of the inflation requirement is presented in Appendix B2.

Capital Charges

15.12 Capital investment plans expanded upon later in this report necessitate £444.4m of new borrowing over the period to 2029/30, the ongoing servicing and repayment of which will add £12.0m to HRA service expenditure over the MTFS period. These financing charges reflect current borrowing costs, with underlying investment continuing to meet the thresholds for affordability, sustainability and prudence.

Growth

15.13 Growth of £1.5m was added to the HRA in 2024/25 to fund £0.5m of regulatory costs and £1.0m of repairs and maintenance costs, with the in-year monitoring position reporting that this growth bid is sufficient to cover these costs, with no further growth required in the HRA over the next 5 years.

Savings

15.14 With the Council presenting a balanced budget for the HRA and maintaining reserves at £15.0m over the life of the budget strategy, the HRA is not in a position where efficiency savings are required, however, it is worth noting that this does not mean the HRA will seek to maximise efficiency opportunities with the running of the Council's housing stock.

HRA Capital Programme

15.15 Capital investment of £931m in expansion and enhancement of the housing stock over the period 2025/26 to 2029/30 has been fully reflected within this consultation budget, including £725.2m funding to deliver 1,669 net increase in dwellings and £206.0m investment in existing housing stock. Further detail on these investment plans can be found in Appendix B4, with a brief overview set out below.

15.16 Investment in new housing includes £132.3m budgets for the flagship regeneration projects on the Avondale and Hayes Town Centre estates which are expected to deliver 370 new homes, a net increase of 72 on the current configuration. A further £592.9m has been allocated to deliver 1,299 net increase in units through internal development and acquisitions, with project timelines set out to maximise use of retained Right to Buy receipts over the MTFS period.

15.17 £156.4m has been budgeted for an enhanced programme of works to stock, based around a five-year cycle and including renewal of key components such as kitchens, bathrooms, roofs, windows and boilers, with this budget significantly increase since February 2024 to increase the standard of tenants' homes. A further £49.7m is included for further investment in insulation measures and green investments, with this programme of investment intended to increase energy efficiency and thereby contribute towards tackling fuel poverty. Additionally, investment in major adaptations to properties will continue, ensuring that the wider needs of HRA tenants can be supported in their own homes where appropriate.

Capital Financing

15.18 Planned capital investment is to be financed from a range of sources, including external grant funding, capital receipts, direct contributions from the rental income and borrowing. Overall financing plans are summarised below, with a brief overview and further commentary on the sustainability of borrowing plans.

Table 18: HRA Capital Financing

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	Total £'000
Revenue Contributions	19.1	19.6	21.6	19.7	27.5	**152.1**
Prudential Borrowing	44.4	129.3	77.4	59.1	32.5	**440.5**
Grants	69.3	80.0	42.0	42.1	31.9	**297.8**
Capital Receipts	9.6	4.8	5.0	5.3	5.5	**40.9**
Total	**142.4**	**233.7**	**146.0**	**126.2**	**97.4**	**931.3**

15.19 External grant funding has been secured in support of the estate regenerations schemes and a number of smaller development projects, together with external funding to support energy efficiency measures across the estate and Department of Health and Social Care monies being applied to support an element of the adaptations programme. The primary application of capital receipts is from the retained element of Right to Buy sales.

15.20 A substantial element of the cyclical investment in works to stock is financed directly from rental income, with borrowing focused on delivery of new housing units, whereby servicing and repayment of this debt can be managed from additional rental income on the new units. Provision for the servicing and repayment of existing HRA borrowing and the £299.3m planned borrowing has been factored into the 30-year business plan, demonstrating that proposed investment is sustainable in the longer term. The outlook for debt levels of the MTFS period are shown below.

Table 19: HRA Borrowing

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000
Capital Financing Requirement	309.9	428.7	495.6	507.9	511.3
Projected External Borrowing	(296.1)	(414.9)	(481.8)	(492.9)	(496.3)
Projected Internal Borrowing	(15.0)	(15.0)	(15.0)	(15.0)	(15.0)

16. Schools Budget

16.1 The Dedicated Schools Grant (DSG) total Block for the Maintained Schools is forecasting an in-year deficit of £17.3m based on Month 7 (October 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. This position has been impacted by a one-off £4.0m adverse movement as a result of a review of the balance sheet and the need to recognise a prior year correction required to the accounts. The in-year deficit is largely 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 £68.8m.

16.2 There is currently a time-limited statutory override in place until 31 March 2026 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 large 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 in-year spend against the Schools Budget by £8.3m and continues to make good progress in reducing spend in this area (albeit that an adverse adjustment of £4m has proved necessary in respect of prior years' income).

16.3 The Autumn Statement announced increased funding for SEND provision, with the Council awaiting details of the individual allocations, with Schools Forum being consulted on the 2025/26 budget.

HILLINGDON
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RESIDENT BENEFIT & CONSULTATION

The benefit or impact upon Hillingdon residents, service users and communities?

The Medium-Term Financial Strategy sets out the resources available for delivering the Council's objectives. The effects on residents, service users and communities are therefore extremely wide ranging and managed through the performance targets and outcomes that will be delivered through the resources approved through the budget setting process. The budget proposals for 2025/26 have been developed to maintain service provision through a 4.99% increase in the headline rate of Council.

This draft budget has been developed with due regard for the ongoing economic turmoil, the consequential cost-of-living crisis and legacy pandemic related pressures alongside the usual growing demand from population increases and the impacts of ongoing reductions in Government support for local services since the Government's austerity measures began in 2010, while minimising the impact on the level of service provision to residents. Overall, the package of proposals is designed to secure the most effective combination of service outcomes across the whole of the Council's business by improving Value for Money in delivery and maximising funding, procurement, efficiency and service gains where possible.

Proposals within this budget have been developed in the context of the Council's commitment to achieving carbon neutrality and 100% clean energy by 2030. In addition, projects within the Capital Programme will be further developed and implemented with a view to impacting favourably on the Council's carbon footprint.

Consultation & Engagement carried out (or required)

Following consideration at Cabinet, this report will form the basis of consultation with Select Committees during January 2025. Comments from the Select Committees will be reported back to the Cabinet meeting on 13 February 2025. Cabinet will then agree a set of budget proposals for recommendation to the annual Council Tax setting meeting of full Council on 20 February 2025.

The Council also has a statutory responsibility to consult on its budget proposals with business ratepayers in the Borough, which will be undertaken alongside a wider public consultation of these proposals during the remainder of December 2024 and January 2025. Schools Forum will also be consulted on those proposals that have a potential impact on schools' budgets. Where appropriate, individual service Groups will also be undertaking consultation with service users, staff and other stakeholders over this period on the key elements of their service proposals prior to full implementation in the new financial year.

CORPORATE CONSIDERATIONS

Corporate Finance

This is a Corporate Finance report, and corporate financial implications are noted throughout.

Legal

The Local Government Finance Act 1992 mandates that councils must set a balanced budget. This involves ensuring that projected expenditures do not exceed projected revenues. The requirement is to do so, in respect of the 25/26 financial year, before 11 March 2025. The 1992 Act sets out what the Council has to base its budget calculations on and requires it to set its budget with regard to the advice of its Chief Financial Officer (the Section 151 Officer).

Sections 25 to 28 of the Local Government Act 2003 impose duties on the Council in relation to how it sets and monitors its budget. These provisions require the Council to make prudent allowance for the risk and uncertainties in its budget and regularly monitor its finances during the year.

Section 25 also requires the Council's Section 151 Officer to make a report to full Council when it is considering its budget and Council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that members will have authoritative advice available to them when they make their decisions.

This report deals with the preparation of a draft budget and the consultation that must follow on the same. Cabinet is then scheduled to meet on 13 February 2025 to settle the draft budget that it wishes to present to Council on 20 February for adoption.

Comments from other relevant service areas

The draft budget proposals included in this report result from a substantial corporate process involving all service Groups. In particular, individual Corporate Directors and CMT collectively have endorsed the proposals in this report. The implications for all services of the individual budget proposals are set out in detail in the attached appendices.

BACKGROUND PAPERS

Report to Cabinet (15 February 2024) and Council (22 February 2024) - The Council's Budget: Medium Term Financial Forecast 2023/24 - 2027/28