THE COUNCIL'S BUDGET:
MEDIUM TERM FINANCIAL FORECAST 2017/18 - 2021/22

Cabinet Members	Councillor Ray Puddifoot MBE Councillor Jonathan Bianco
Cabinet Portfolios	Leader of the Council Finance, Property and Business Services
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Papers with report	Appendices 1 to 15

HEADLINE INFORMATION

Purpose of report	This report sets out the Council's Medium Term Financial Forecast (MTFF), which includes General Fund and Housing Revenue Account budgets for 2017/18, along with indicative projections for the following four years. The revenue budget proposals have been developed to deliver a zero increase in the Hillingdon element of Council Tax for all residents in 2017/18 for the ninth successive year, and for the over 65s for the eleventh successive year, without reducing service provision or levying the Social Care precept for the second successive year, whilst maintaining balances and reserves above the minimum recommended level. The proposed General Fund Capital Programme includes total investment of £276m over the next 5 years with £67m in 2017/18, including significant investment in school facilities. Overall there will be an increase in the level of Council Tax as although the revenue budget proposals result in a freeze on the Hillingdon element at 2016/17 levels, there is a proposed increase of 1.2% on the Greater London Authority (GLA) precept. This equates to a £4.02 increase for Band D properties in the borough. The Housing Revenue Account budget proposals continue to underpin the self financing regime and include rent decreases of 1% in line with Government direction. Cabinet are requested to recommend their budget proposals to Council on 23 February 2017. This is in order to formally set the General Fund revenue budget, the Housing Revenue Account budget, the Capital Programme and Council Tax for the 2017/18 financial year.
Contribution to our plans and strategies	**Putting our Residents First***: Financial Management; Our People; Our Natural Environment; Our Built Environment.*

	The Medium Term Financial Forecast is the financial plan for the Council and contains the funding strategy for delivering the Council's objectives.

Financial Cost	Zero increase in Council Tax for the ninth successive year and an eleventh for over 65s.

Relevant Policy Overview Committee	Corporate Services and Partnerships Children, Young People's & Learning Residents' and Environmental Services Social Services, Housing and Public Health

Ward(s) affected	All

RECOMMENDATIONS

That Cabinet approves for recommendation to Council:

1) **The General Fund and Housing Revenue Account budgets and Capital Programmes outlined in appendices 1 to 7;**
2) **Proposed amendments to Fees & Charges included at Appendix 8;**
3) **The Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement for 2017/18 to 2021/22 as detailed in Appendix 10;**
4) **The proposed London Borough of Hillingdon Pay Policy Statement for 2017/18 set out at Appendix 11;**
5) **The proposed Housing Rents Policy set out at Appendix 12;**
6) **That the Council formally opt in to the national scheme for appointing local authority auditors, as detailed in Appendix 13;**
7) **That it resolves that Cabinet may utilise the general reserves or balances during 2017/18 in respect of those functions which have been reserved to the Cabinet in Article 7 of the Constitution (as set out in Schedule G of the Constitution - Budget and Policy Framework Procedure Rules).**

That Cabinet notes:

8) **The Corporate Director of Finance's comments regarding his responsibilities under the Local Government Act 2003.**

SUMMARY

1. This report represents the output following a comprehensive refresh of the Council's 2017/18 budget and medium term projections through to 2021/22 and with the exception of paragraph 222 relate solely to the Council's element of Council Tax.

2. Budget proposals have been developed to support a ninth successive Council Tax Freeze for all residents and a eleventh year for over 65s whilst avoiding implementation of the Social Care precept and maintaining frontline services - including weekly waste and recycling collection, free burglar alarms, swimming and allotments for the over 65s, continued investment in our award winning parks and open spaces, £1m annual funding for local communities through the Chrysalis programme, as well as a comprehensive library service. This represents a significant achievement in light of continuing cuts to government

funding for local government, estimated at 19% in 2017/18 alone, alongside a growing population driving an ever increasing demand for locally provided services.

3. In freezing Council Tax for a ninth year, savings have been developed under five broad themes, which focus on maintaining the existing service offer: Zero-Based Reviews; Preventing Demand; Service Transformation; Effective Procurement; and Maximising Income.

4. The position outlined in this report reflects the draft budget approved by Cabinet in December 2016 for broader consultation, updated to reflect the impact of reduction of the New Homes Bonus Grant ostensibly intended to fund investment in Social Care which resulted in a cut of £977k in Hillingdon's funding for 2017/18. Alongside a number of other minor adjustments to estimates, this increased savings requirement has been managed through the development of further Zero Based Review Savings in recent weeks.

5. An update on the Council's capital programme is also presented in this report where investment is providing sufficient school places to meet the growing demands from a rapidly rising population. In addition, the capital programme contains funding to deliver a new theatre, museum and bunker visitor centre in Uxbridge, alongside continued investment in the existing local infrastructure - including £3,000k for investment in local Highways during 2017/18.

6. The refreshed Medium Term Financial Forecast, covering 2017/18 and the following four years, presents the scope of the challenge facing the Council in the form of increased demand for services while responding to continuing reductions in central government funding through to the end of the decade. The key driver in responding to this challenge will be the Council's proven policy of sound financial management which will enable the Council to continue to 'Put Residents First' while securing efficiencies equivalent to approximately 30% of the Council's budget.

7. The Housing Revenue Account budget for 2017/18 is also presented, which includes a 1% reduction in rents for existing tenants as required by current Government policy. The associated HRA capital programme outlines a programme of investment to maintain existing stock while securing new units to replace stock sold under Right to Buy arrangements.

8. The Localism Act 2011 requires local authorities to publish a Pay Policy Statement annually. This Pay Policy Statement must set out the authorities' policies for the financial year relating to remuneration of its Chief Officers; remuneration of its lowest paid employees; and the relationship between the remuneration of its Chief Officers and the remuneration of those employees who are not Chief Officers. The proposed 2017/18 policy is included as Appendix 11 to this report.

Reasons for recommendations

9. The recommendations have been framed to comply with the Budget and Policy Framework rules and allow the presentation to Council of recommended budgets for 2017/18, including the impact on Council Tax, housing rents and service charges.

10. Cabinet should give full consideration to the Corporate Director of Finance's comments under the Local Government Act 2003 and the need to ensure sufficient resources are available in balances and contingencies in the event of any significant adverse changes in the Council's funding environment. These comments are set out from paragraph 211 of this report.

11. 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; however, they are not formally approved in setting the budget. The Capital Programme is approved over a five year period as the statutory framework provides greater freedoms under the Prudential Code to encourage a longer term approach to capital financing and borrowing decisions.

12. Recommendation 5 proposes the adoption of a HRA Rent policy. Appendix 12 sets out the overall HRA rent policy including the rent reduction of 1% for 2017/18. It also includes the delegation of authority to the Leader of the Council and relevant Cabinet portfolio holder to agree affordable rent levels for newly acquired or built properties. This will facilitate more efficient and timely decision making and some flexibility in ensuring the viability of proposed schemes. This is set against the context of a significant construction programme over the MTFF period, comprising of a number of different types of scheme.

13. Recommendation 6 proposes that the Council formally opts into the Public Sector Audit Appointments national collective scheme for the appointment of external auditors for the 2018/19 and later year's accounts. There are significant advantages, particularly in terms of value for money, to be gained from opting in to the national scheme. Details of the scheme are contained within Appendix 13 of this report.

14. Council will be requested to approve the proposals put forward by Cabinet. If approved without further amendment they will be effective immediately.

Alternative options considered / risk management

15. Growth proposals included in the budget could be removed and either the Council Tax requirement reduced or alternative items substituted for them. Similarly, further items could be added to the budget requirement either through additional growth, increased provision for risk, or by reducing the package of savings. Council Tax could then be increased accordingly within the constraints imposed by the Government's capping regime, which would limit any increase to 1.99% of general Council Tax and a further 3.00% in the form of a Social Care Precept. The current budget proposals reflect no increase in the Hillingdon share of Council Tax. A change in the budget requirement of £1,082k either way (increase or decrease) will result in an increase or decrease of 1.0% in the level of the Council Tax, equivalent to £11.13 per annum at Band D level.

16. Members could decide to add or remove new capital schemes from the Capital Programme included in this report. The funding for any additional new schemes would necessarily come from Prudential Borrowing in the first instance. This would have a consequential upward impact on the revenue budget requirement and Council Tax or the level of balances if they are HRA capital projects.

17. Members could decide to vary the proposed Fees and Charges outlined at Appendix 8. Any decision to do so could have an impact on the budget requirement. This would need to be reflected in the budgets to be recommended to Council.

18. The Council may choose to set rents lower than those proposed, however since 2016/17 Government directed local authorities to decrease rents by at least 1%, thereby removing the option to increase rents. Lowering rents even further than proposed would result in less income and a detrimental impact upon balances and be out of line with the agreed business plan for the self financing regime.

19. The Development and Risk Contingency identifies the key risks and uncertain items for which provision is contained within the revenue budget. Reduction of this provision is not recommended. This would otherwise increase the likelihood of unfunded pressures emerging into budget monitoring in the 2017/18 financial year. The Capital Programme also includes a contingency sum to manage financial risk on key schemes. In addition, unallocated balances are held within the range recommended by the Corporate Director of Finance. Whilst further contributions from balances could be made, any reduction in balances to below the lower limit of this range is not recommended.

Policy Overview Committee Comments

20. Each of the Policy Overview Committees has received reports setting out the draft revenue budget and Capital Programme proposals relevant to their remit. These were approved by Cabinet on 15 December 2016 for consultation at the January 2017 round of meetings.

21. Each service Policy Overview Committee referred their comments on to the Corporate Services and Partnerships Policy Overview Committee on 2 February 2017. The Committee's comments to Cabinet are contained in Appendix 14.

BACKGROUND

22. This is the second report to Cabinet on the budget for 2017/18, which refreshes the draft revenue budget and capital programmes approved by Cabinet in December 2016 for consultation with Policy Overview Committees and other stakeholders to take account of new intelligence, including the Local Government Finance Settlement. Changes from the draft budget are outlined below, before an explanation of the full range of budget proposals developed for 2017/18.

23. Budget proposals throughout this report are presented with reference to the savings requirement, which represents the quantum of cost reductions or additional income necessary to contain service expenditure within available resources and therefore deliver a balanced budget. In February 2016 the savings requirement for 2017/18 was estimated to be £18,464k. This was revised upwards to £20,508k, primarily as a result of increased inflationary pressure on the cost of Social Care placements. Taking account of the planned drawdown of £5,000k from General Balances, this leaves a net savings requirement of £15,508k. This represents an increase of £1,120k from the savings requirement included in the draft budget presented in December 2016, and a summary of movements is included from paragraph 32.

24. The Council continues to operate within the constraints of Government's deficit reduction programme, which has seen a sweeping reduction in central government funding since 2010/11, and is set to continue until at least the end of the decade. Alongside this reduction in funding, continuing demographic and demand pressures and a return to an inflationary environment over the medium term will necessitate delivery of further substantial savings.

25. Groups have been developing savings proposals sufficient to meet the externally driven budget gap and respond to increases in cost pressures. In addition to this work across directorates, a comprehensive review of the corporate elements of the budget has been undertaken since February, capturing funding, inflation and capital financing. During the early summer and again in the autumn, a series of challenge sessions were held to affirm the budget position. Each session followed a similar format reviewing:

- The 2015/16 outturn, particularly any on-going issues arising.

- The current position in 2016/17 - both monitoring and savings delivery.
- Existing and emerging pressures which need to be addressed in the 2017/18 budget and forecasts for future years.
- Progress on the development of savings proposals for 2017/18 and beyond.
- Identification of any potential growth or invest-to-save bids.
- Capital programme requirements.

26. This report collates the outputs from these sessions, with sufficient savings proposals having been developed to bridge the budget gap in 2017/18 without recourse to any significant reductions in service levels or levying the Social Care precept while freezing Council Tax for all residents for a ninth successive year and funding the freeze for older persons into a twelfth year in 2018/19.

GENERAL FUND REVENUE BUDGET

Update on 2016/17 Budget

27. Development of the 2017/18 budget builds upon the 2016/17 budget and therefore the current monitoring position provides a useful context and manages many of the same challenges to be expected in the new financial year. In addition, progress towards delivery of existing savings targets is of vital importance in considering both the feasibility of future savings initiatives and the potential need to identify alternative measures where planned savings cannot be secured.

28. An underspend of £1,844k is reported on normal operating activities at Month 9. This position incorporates a £2,835k net underspend across Directorate Operating Budgets, including an element of capitalisation, and a £800k underspend on Corporate Operating Budgets, off-set by contingency pressures of £1,791k, primarily relating to Children's Social Care placements and Asylum services. The following positions are reported on individual Directorate Operating Budgets:

    - An underspend of £83k is reported within Administration at Month 9, with the variance principally due a number of vacant posts throughout the Directorate.

    - Finance are reporting a £337k underspend at Month 9, as a result of vacancies within the establishment across the group.

    - An underspend of £1,369k is reported on Residents Services operating budgets. Within this overall position, a £2,216k staffing underspend is partially off-set by pressures on the Adaptations backlog budgets within Development & Assets and continued income shortfalls at Uxbridge car parks and from Imported Food sampling.

    - An underspend of £1,046k is reported across Social Care functions. Across the Group, underspends of £889k within workforce budgets account for the majority of the reported variance, with a number of pressures across non-staffing expenditure being contained through a combination of earmarked reserves and demand management.

29. Good progress is being made against delivery of the majority of the £13,309k savings included in the 2016/17 budget. At Month 9, £12,167k of savings are either banked or on track for delivery, with £1,142k of savings being classed as amber. The amber projects are covered in year with alternative savings and are expected to be deliverable in the longer term. Any necessary rephasing of savings has been reflected in the MTFF.

30. Within the reported position at Month 9 it is assumed that £500k uncommitted General Contingency and £654k Unallocated Priority Growth will be utilised to manage as yet unidentified emergent pressures and new initiatives. In the event that these sums are not required, the reported underspend would increase.

31. The reported underspend of £1,844k will reduce the planned £4,216k drawdown from reserves and result in £36,663k being carried forward as General Balances at 31 March 2017. However, the balances carried forward position is likely to be higher than this as the monitoring position includes Unallocated Priority Growth and General Contingency that may not be utilised in the last two months of the year. The Council's Medium Term Financial Forecast assumes that balances will remain between £15,000k and £32,000k to manage emergent risks, with sums above that level earmarked for use to smooth the impact of government funding cuts.

CHANGES SINCE REPORT TO CABINET ON 15 DECEMBER 2016

32. The table and narrative below outlines the changes to the recommended budget proposals from the report considered by Cabinet on 15 December 2016, with new proposals sufficient to off-set the adverse impact of a worse than expected funding settlement for 2017/18. Each of these items is also considered in the relevant section of this report.

Table 1: Changes since December Cabinet

	£'000
Provisional Surplus / (Deficit) - December 2016	**0**
Funding	
Adult Social Care Support Grant	(1,045)
New Homes Bonus	2,022
Better Care Fund	(47)
Education Services Grant	401
Other Grants	(100)
Corporate Items	
Transfer of Residual Education Functions from Local Government	(257)
Inflation	
Concessionary Fares Levy	(373)
Other Inflation Updates	6
Development and Risk Contingency	
Waste Disposal Levy	(37)
General Contingency	250
Priority Growth	
Bunker / Museum Exhibits	200
Drawdown from Battle of Britain Bunker Grant Funding	(200)
Children's Centres & Early Years Centres Improvement	200
Youth Provision	100
Traveller Incursions	100
Reduction in Unallocated Priority Growth	(100)
Additional Savings Requirement	**1,120**
Savings	
Additional Zero Based Review Savings	(1,120)
Revised Surplus / (Deficit) - February 2017	**0**

33. The Provisional Local Government Finance Settlement was published on 15 December 2016, and although core funding received through the Revenue Support Grant and Baseline Business Rates income was unchanged the transfer of funds from New Homes Bonus into the new Adult Social Care Support Grant has adversely impacted upon the Council's funding position - adding a net £977k to the savings requirement. The Council's response to the settlement consultation challenged this cut to funding for a Social Care providing authority, and at the time of publication a response is awaited. Any changes in funding announced after this report is published will be dealt with by amending the planned drawdown from General Balances.

34. The new Adult Social Care Support Grant is a one-off funding stream for 2017/18, which has been allocated from a national pot of £240m across Social Care authorities on the basis of relative need. This resulted in £1,045k being made available for Hillingdon, effectively accelerating roll out of the Enhanced Better Care Fund, from which Hillingdon is expected to benefit in 2018/19. This increased funding for Social Care was financed from within existing resources available for Local Government, with a number of reforms to the New Homes Bonus scheme releasing savings to fund this new commitment.

35. In order to finance the new Adult Social Care Grant, DCLG have proposed two amendments to the New Homes Bonus Scheme - only rewarding development above a national baseline of 0.4% and scaling back the scheme from six to five years in 2017/18 - delivering a £234m saving nationally. These changes reduce the Council's projected 2017/18 grant award by £665k and £1,357k respectively. Previous MTFF assumptions were based on the scheme being reduced to four years from 2018/19, which released sufficient resources to finance the creation of the Enhanced Better Care Fund. The £1,357k reduction will therefore only impact upon 2017/18 funding, while £665k from only rewarding growth above the baseline represents a recurrent pressure to the Council.

36. Indicative allocations of the Better Care Fund to Clinical Commissioning Groups released by the Department of Health show a 1.79% inflationary uplift for 2017/18, rather than the 1% planning assumption build into the December draft budget. This represents a £47k increase in income and corresponding reduction in the savings requirement.

37. Since preparation of the draft budget for December, projections for Education Services Grant income have been updated to reflect £401k less grant income for 2017/18 than previously estimated. Corresponding changes to the pace of functions transferring from the Council are outlined within the Corporate Items section of this report.

38. During January 2017, DWP and DCLG have confirmed allocations for the Housing Benefit and Council Tax Administration Subsidy Grants respectively, with lower than anticipated reductions allowing for a £100k improvement in the outlook for 2017/18.

39. Alongside confirmation of the £401k adverse movement in income projections for Education Services Grant, the decisions of Schools Forum around de-delegations of functions have now been reflected in this budget, reducing the savings requirement by £266k.

40. The Concessionary Fares Settlement has been published, with Hillingdon's levy for 2017/18 being set at £8,258k which is £373k lower than previously expected. This improvement relates to the introduction of the Hopper Fare on buses from September 2016, enabling multiple journeys for a single charge, and lower than anticipated journey volumes over the past year. In addition, the broader inflation provision has been refreshed, adding £6k to the savings requirement.

41. Following the release of 2017/18 budget proposals for West London Waste, the Council's provision for levy costs within Development and Risk Contingency has been adjusted downwards by £36k, reducing the savings requirement accordingly. In addition £250k additional provision has been set aside within General Contingency.

42. The Priority Growth section of this report has been expanded to include £200k provision for purchase of exhibits for the new Bunker and Museum to be funded from external grant funding, £200k additional provision for Children's Centres & Early Years Centres Improvements, £100k accelerated growth to support Youth Provision, and £100k Growth to support the costs of managing Traveller Incursions. In addition, unallocated Priority Growth has been reduced by £100k to leave £254k available from this source to support new initiatives during 2017/18.

43. Finally in relation to 2017/18, continuing review of the Council's base budgets has enabled Zero Based Review savings across the organisation to be increased by £1,120k, bringing the 2017/18 budget back into balance despite the loss of grant funding noted above.

44. Projections to 2021/22 have been refreshed alongside the 2017/18 position, with a net £1,365k adverse movement increasing the savings requirement to £69,749k. This worsening of the position primarily relates to the reductions in future New Homes Bonus income as a result of the introduction of a 0.4% baseline for growth noted above.

Budget Requirement 2017/18

45. The movement from the 2016/17 baseline to the 2017/18 budget requirement is summarised in the following table, which reflects the current position and incorporating movements since the budget was agreed in February 2016. Further details on each of the items accounting for this movement are expanded upon within the report. In order to reflect the changing composition of the Council's funding, the 2016/17 baseline has been restated to include additional grant funding and the planned use of General Balances within Corporate Resources, rather than within the Budget Requirement.

Table 2: Budget Requirement

	Movement from 2016/17	**2017/18 Budget Requirement**
	£'000	**£'000**
Funding Sources		
Council Tax and Business Rates Revenues	(3,368)	(158,513)
Collection Fund Surplus	(1,000)	(2,500)
Revenue Support Grant	9,918	(19,513)
Other Central Government Funding	2,627	(35,169)
Planned Use of General Balances	(784)	(5,000)
Total Resources	**7,393**	**(220,695)**
Budget Requirement		
Roll Forward Budget		228,088
Inflation	5,863	
Corporate Items	(1,523)	
Contingency	3,675	
New Priority Growth	100	
Savings Proposals	(15,508)	
Budget Requirement 2017/18	**(7,393)**	**220,695**
Surplus / (Deficit)	**0**	**0**

46. The Corporate Summary attached outlines the budget gap over the full MTFF period, showing the cumulative impact of the trends in funding and service pressures and the resultant savings requirement, which is projected to reach £69,749k by 2021/22. This is driven by an anticipated 41% reduction in core government grants and forecast cost pressures over the same period.

FUNDING SOURCES

47. Total resources available to support the budget requirement are projected to fall by £7,393k for 2017/18. Government funding is set to fall by £12,545k, with growth of £4,368k in locally generated income from Council Tax and Business Rates and an additional £784k to drawn down from General Balances sufficient to reduce the net reduction in resources to £7,393k. Current modelling assumes that the increases in local income are wholly attributable to taxbase growth and do not assume any inflationary uplift in Council Tax.

Table 3: Funding

	2016/17	(Favourable) / Adverse	2017/18
	£'000	£'000	£'000
Council Tax Precept	(106,585)	(1,614)	(108,199)
Council Tax (Surplus) / Deficit	(2,625)	2,125	(500)
Retained Business Rate Receipts	(48,560)	(1,754)	(50,314)
Business Rate (Surplus) / Deficit	1,125	(3,125)	(2,000)
Local Income Streams	**(156,645)**	**(4,368)**	**(161,013)**
Revenue Support Grant	(29,431)	9,918	(19,513)
Other Government Grant	(37,796)	2,627	(35,169)
Government Funding Streams	**(67,227)**	**12,545**	**(54,682)**
Planned Use of Balances	**(4,216)**	**(784)**	**(5,000)**
Total Resources	**(228,088)**	**7,393**	**(220,695)**

48. The rationale behind current funding assumptions and associated risks are discussed for each revenue stream in turn below. Local income projections reflect latest intelligence around new economic and residential development in the borough, with recent experience indicating limited scope for material variation in these estimates. These projections were fully reflected in the taxbase estimates presented to Council on 19 January 2017. Projections for grant funding is primarily based on allocations published by awarding bodies, including the multi-year settlement offer, and is therefore not expected to vary materially during 2017/18.

Council Tax Income

49. At Month 9, a surplus of £500k is projected on 2016/17 Council Tax income in contrast to larger surpluses recorded in recent years. Strong taxbase growth, declining demand for the Council Tax Reduction Scheme and high collection rates reducing the level of bad debt provision are being off-set by an exceptional one-off pressure on discounts. This relates to the continuation of historic empty property reliefs discounts awarded before these were reduced from 1 April 2016.

50. Implementation of an Empty Property premium is reflected in 2017/18 income projections, subject to approval of this measure as part of the broader budget. The Council has the power to levy a 50% premium on Council Tax for properties which have remained vacant and unfurnished for two years, of which there are currently 156 across the borough and numbers have remained consistently above 100 since 2013/14. This budget assumes an additional £56k income, equivalent to 50 Band D properties from the introduction of a premium with effect from 1 April 2017.

51. In addition to income from the premium, the latest projection assumes an annual 1,400 Band D equivalent increase in the net Council Taxbase, which is consistent with the position presented to members in February 2016. This increase will deliver £1,558k of additional income, which together with the £56k premium yield will increase the precept to £108,199k for 2017/18. It is expected that 1,200 of this increase will relate to new dwellings in the borough and 200 will reflect the continuing trend of declining uptake of CTR Scheme. It is assumed that the budgeted collection rate will remain at 98.5% in the new financial year.

Table 4: Council Taxbase (Band D Equivalent Properties)

	2016/17	Increase / (Decrease)	2017/18
Residential Properties	117,894	1,222	119,116
MOD Properties	704	0	704
Discounts & Exemptions	(10,482)	0	(10,482)
Empty Property Premium	0	50	50
Gross Council Taxbase	**108,116**	**1,272**	**109,388**
Council Tax Reduction Scheme	(10,888)	200	(10,688)
Allowance for Losses in Collection	(1,458)	(22)	(1,480)
Net Council Taxbase	**95,770**	**1,450**	**97,220**

52. Taxbase growth assumptions are assessed against both third party local population projections and local intelligence around new residential development within the borough. Over the current MTFF period, growth of 7,050 properties or 5.2% in the numbers of households is marginally lower than the 6.6% increase in working age population of the borough included in the 2014 Sub-National Population Projections, providing a level of assurance around assumed rates of growth. Similarly, latest intelligence on live developments within the borough suggests that 1,157 of the anticipated 1,222 new dwellings for 2017/18 will be delivered through sites under development or progressing through the planning process, with the remainder being secured principally through the conversion of commercial properties for residential use.

53. Projections in respect of the Council Tax Reduction Scheme and allowance for losses in collection reflect experience over recent years, and remain consistent with the approach taken in setting the 2016/17 taxbase.

Business Rates Income

54. A surplus of approximately £2,000k is projected on Business Rates Revenues for 2016/17, including £1,507k brought forward from 2015/16 in respect of the significant backdated increases in rateable value. It is expected that new properties coming on stream alongside a review of the approach to providing for appeal losses will secure additional income over the remainder of the year and deliver the surplus for release.

55. Projections in respect of Business Rates income for 2017/18 have been refreshed since December 2016 to reflect the impact of the introduction of the 2017 Rating List, and continue to reflect latest intelligence around planned commercial development in line with the December draft budget. Income from Business Rates and associated Section 31 Grants to compensate the Council for nationally determined changes to Business Rates reliefs is expected to total £359,811k, of which 30% or £107,943k is attributable to Hillingdon under the current 50% Business Rates Retention system. Prior to the introduction of pilots for 100% Retention, 50% was payable to Central Government with 20% funding GLA expenditure, with the GLA share increasing in 2017/18 at the expense of Central

Government as Transport activities are funded from retained Business Rates, rather than Government Grant. From this £107,943k share of income, the Council is required to transfer £51,412k to other local authorities around the country through the Tariff in order to reflect historic redistribution of funding, and a further £6,217k to Central Government through the Levy on growth. The net effect of these transfers is to leave £50,314k of locally raised income to support local services, consisting of £44,098k baseline funding equivalent to historic levels of Government Grant and £6,216k of retained growth.

56. Expected commercial development within the borough during 2017/18 is expected to contribute £870k of this retained growth, with a further £2,030k retained income from new developments over the remainder of the MTFF period. This £2,900k of growth over the next five years relates to properties outside Heathrow Airport and is equivalent to a net increase of £17,600k or 4.0% of the current Rateable Value. This equates to a 4.0% annual uplift since 2013/14, and therefore represents a continuation of current trends for commercial development in the borough. Current projections assume no movement in the Business Rates liability of Heathrow Airport due to new development on the site.

57. From 1 April 2017 Business Rates bills will be based on the new 2017/18 Rating List, which shows a 1% increase in Rateable Value for Hillingdon, with a 7.5% reduction across Heathrow Airport properties masking an 11.5% increase across all other hereditaments. As the national rating list has grown by 9.1%, the multiplier is expected to fall by an equivalent amount resulting in Business Rates bills for most commercial property in the borough to rise by 2.5% above inflation over the next five years. Given this limited movement, it is expected that the revaluation will have limited impact on collection rates or the Council's own Business Rates liabilities. Within the current Business Rates Retention system, movement in Business Rates income arising from revaluations do not impact upon the Council's share of revenues and the Tariff payable to Central Government has been reduced by £10,576k to compensate the Council for the move to a new Rating List.

58. Projections in respect of Business Rates income throughout this budget are modelled on maintenance of the current 50% retention system, on the assumption that the move towards 100% retention will be accompanied by either new responsibilities or corresponding reductions in existing grant income streams and therefore not affect funding available for local services.

Central Government Grant

59. Following the provisional Local Government Finance Settlement and subsequent updates from other Government Departments, projections in respect of Government Grant income have been refreshed and £54,682k funding expected for 2017/18. This represents a reduction of £12,545k or 19% on 2016/17 funding levels, and an adverse movement of £1,231k on December 2016 projections due to the new Adult Social Care Support Grant being insufficient to off-set the local loss of New Homes Bonus which was intended to finance the new grant nationally.

60. With the implementation of 100% Business Rates Retention by 2019/20, Revenue Support Grant will cease to exist as a separate funding stream and be absorbed into baseline Business Rates income. Until the mechanics of this transfer have been outlined by DCLG, the residual grant income will continue to be shown separately within the Corporate Summary. The transfer of additional functions into Business Rates as part of this reform will be reviewed and reflected in future refreshes of the MTFF as appropriate.

61. Projections in respect of Revenue Support Grant and Transition Grant are based on the multi-year settlement offer, published by DCLG in February 2016 alongside the final Local

Government Finance Settlement for 2016/17. For 2017/18 Revenue Support Grant is expected to drop by £9,918k to £19,513k, with an additional £515k being made available to the Council to compensate for changes in the distribution of RSG between authorities. This offer of fixed grant allocations, subject to exceptional circumstances, was contingent upon the Council submitting an Efficiency or Sustainability Strategy setting out the approach being taken to balance budgets to DCLG. The Council submitted its plan approved by Cabinet in September and the Government has subsequently confirmed that the multi-year settlement will be applied to Hillingdon. While final funding allocations for 2017/18 will not be confirmed until early 2017, this multi-year offer and announcements by the new Chancellor of the Exchequer around deficit reduction provide a measure of assurance that further cuts should not be forthcoming in the short term.

62. The Public Health Grant is now presented as part of the Council's corporate funding, reflecting the planned removal of the ring-fence from 2018/19. Alongside confirmation of the £18,452k 2016/17 grant award, the Department of Health set out annual reductions totalling £1,380k by 2019/20. A plan is in place to deliver efficiencies from Public Health funded services that mitigates this pressure in both 2016/17 and 2017/18.

63. Indicative Better Care Fund allocations for 2017/18 include a 1.79% inflationary uplift for 2017/18, which is expected to translate into £6,043k funding for Council managed activity. This represents an improvement of £47k on estimates included in December's draft budget report, although remains subject to approval of 2017/18 Better Care Fund plans by both the Council and its local partners. Annual inflation on this core allocation is projected to continue over the MTFF period, with income from 2018/19 supplemented by £10,411k of 'Enhanced Better Care Fund' financed from a topslice of Revenue Support Grant to provide £11,045k by 2021/22.

64. The Provisional Local Government Finance Settlement published in December 2016 included a new Adult Social care Support grant as a one-off funding stream for 2017/18, which has been allocated from a national pot of £240m across Social Care authorities on the basis of relative need. This resulted in £1,045k being made available for Hillingdon, effectively accelerating roll out of the Enhanced Better Care Fund, from which Hillingdon is expected to benefit in 2018/19. This increased funding for Social Care was financed from within existing resources available for Local Government, with a number of reforms to the New Homes Bonus scheme releasing savings to fund this new commitment.

65. In order to finance the new Adult Social Care Grant, DCLG have proposed two amendments to the New Homes Bonus Scheme - only rewarding development above a national baseline of 0.4% and scaling back the scheme from six to five years in 2017/18 - delivering a £234m saving nationally. These changes reduce the Council's projected 2017/18 grant award by £665k and £1,357k respectively. Previous MTFF assumptions were based on the scheme being reduced to four years from 2018/19, which released sufficient resources to finance the creation of the Enhanced Better Care Fund. The loss of £2,022k income for 2017/18 represents a reduction in non-ringfenced funding available to support local services, including Adult Social Care, which has not been recouped through the new funding stream. Income projections for future years take account of the expected scaling back of New Homes Bonus awards from 2018/19 in order to release resources within DCLG budgets to fund the enhanced Better Care Fund, and the on-going effect of only rewarding growth above the 0.4% baseline.

66. Spending Review 2015 set out the intention to further reduce local authorities' role in education, which would drive a £600m reduction in the £815.4m payable through the Education Services Grant. The first £65m of this cut fell in 2016/17, resulting in a loss of

£225k for Hillingdon. During the summer, the DfE confirmed that the grant would be abolished from September 2017, which results in a front-loading of the previously assumed cuts in 2017/18 and 2018/19. Income projections for this grant have been refreshed since December Cabinet, with income for 2017/18 to total £847k. It is assumed that through a combination of transferring expenditure from base budgets into the Dedicated Schools Grant, and reviewing delivery models for specific aspects of the services, will off-set a substantial element of this latest reduction. A number of announcements from the DfE have indicated that additional resources will be available to support School Improvement functions, which in the absence of other contributions towards these functions will be applied to meet the Council's statutory responsibilities for School Improvement.

67. Projections in respect of the Housing Benefit Admin Subsidy Grant (£1,132k) and Council Tax Administration Subsidy (£328k) are based on indicative allocations from DWP and DCLG, and represent an improvement of £100k on local estimates reported to Cabinet in December 2016. In addition, the DCLG Transition Grant (£515k) to reimburse the authority for changes to Revenue Support Grant allocations made in 2016/17 is included in this budget.

68. Latest funding projections do not include any allowance for additional income arising from further integration of Health and Social Care through mechanisms such as the Sustainability and Transformation Plan, around which there remains limited tangible intelligence and all indications are that any material changes would impact from 2020 at the earliest.

69. While funding for Phase 1 of 2014 Care Act Implementation has been subsumed into the Revenue Support Grant from 2016/17, additional grant funding and the associated uplift in expenditure have been factored into the MTFF from 2019/20 to reflect the original timescales for Phase 2 commencing. There remains uncertainty around the pace and scope of Phase 2 implementation, which will be reflected as refreshed intelligence becomes available.

70. In addition to the larger Department of Health funding streams, it is expected that the Local Reform and Community Voices Grant will continue at its current level of £142k per annum.

71. Finally, the DCLG have awarded £15k to the Council for 2017/18 through the Lead Local Authority Flood Grant which has been added to funding projections. This award follows a commitment made by the previous Secretary of State to protect flood funding in real terms over the remainder of this parliament.

BALANCES AND RESERVES

72. The final outturn for 2015/16 represented a £2,000k improvement on the position assumed at the time of budget setting in February 2016, principally arising from the capitalisation of £1,213k equipment expenditure. This improvement has enabled a refresh of planned use of balances, with £5,000k drawdowns in both 2017/18 and 2018/19 now included in this budget.

73. At 31 March 2016 General Balances were £39,005k, with a drawdown of £2,372k projected in 2016/17 and a further £14,500k drawdown profiled over the years 2017/18 to 2020/21, leaving £21,133k uncommitted. At present it is proposed to revise the recommended range for unallocated balances from £15,000k to £32,000k, leaving capacity to release further reserves in order to deliver balanced budgets. Taking account of the £1,844k underspend reported in Month 9 monitoring, up to £7,133k would be available to support the MTFF.

Table 5: Planned Use of Balances

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Opening Balances	36,633	31,633	26,633	23,633	22,133	36,633
Planned Drawdown	(5,000)	(5,000)	(3,000)	(1,500)	0	(14,500)
Closing Balances	**31,633**	**26,633**	**23,633**	**22,133**	**22,133**	**N/A**

74. Earmarked Reserves provide additional flexibility in the MTFF over and above the use of General Balances, with £16,844k of the £24,209k balance held at 1 April 2016 potentially available to support new investment without increasing the savings requirement. This budget assumes the use of £400k of this flexibility in 2016/17 to support the Council's High Speed 2 and Heathrow Expansion Challenge Funds.

INFLATION

75. Latest projections indicate that inflationary pressures for 2017/18 will contribute £5,863k to the savings requirement, including workforce inflation reflecting an annual 1% pay award and inflation on care placements reflecting pressures within this sector. This represents an increase of £2,067k on estimates for 2017/18 presented to Members in February 2016, with the movement principally driven by pressures within the Social Care Placement market, although estimates have been reduced by £367k since December 2016 due to confirmation of the 2017/18 Concessionary Fares Levy and a minor £6k increase in workforce inflation.

Table 6 - Inflation Provision

	Inflation Rate %	2016/17 £'000
Employee's Pay	1.0%	1,165
Added Years Pension Costs	0.9%	19
Electricity	0.0%	0
Gas	0.0%	0
Vehicle Fuel	0.0%	0
Residential / Nursing Placements	Various	3,403
Homecare Provision	Various	1,500
Other Contracted Services	0.0%	0
Business Rates	0.0%	0
Concessionary Fares	(2.1%)	(174)
Gross Inflation Provision		**5,913**
Less: Grant Funded Items		(50)
Net Inflation Provision		**5,863**

76. Provision for employee's pay continues to reflect the assumed 1% per annum inflationary pay awards across permanent employees, agency budgets and Members' allowances at a total cost of £1,165k. This reflects the previously announced awards for Chief Officers and other employees in 2017/18. An increase of 1% in the pay award would add approximately £1,150k to the budget gap. Any impact on the Council's own staffing costs from the roll out of a National Living Wage is assumed to be de-minimis for the purposes of budget setting as all employees are already paid at this level. Any resulting impact on pay rates for agency staff will be contained within relevant service budgets.

77. As in previous years, inflation relating to workforce funded from specific grants is assumed to be managed within the relevant grant and therefore does not impact on the overall budget gap. Following the significant transfer of workforce costs into the General Fund from both the HRA and Schools Budget, a similar approach has now been taken on recharge income targets relating to other funds. This change does not contribute towards the overall reduction in inflation costs, merely defraying an increase in the headline cost of workforce inflation from previous assumptions.

78. The inflation provision for Residential and Homecare placements across Social Care has been increased to £4,903k in 2017/18, reflecting a growing volume of inflation claims from providers which is primarily driven by wage pressures within the sector. In addition to the previously identified impact of upward movement in the National Living Wage within the Homecare sector, both Residential and Homecare are now seeing increases in line with higher London Living Wage.

79. In line with the approach taken for 2016/17 and reflecting experience during the current financial year, only care placement, levy and workforce budgets are being inflated for 2017/18. It is expected that the direct impact upon the Council from rising general inflation can be managed within existing revenue budgets for 2017/18.

80. Early iterations of the MTFF assumed that an inflationary uplift of up to £199k would be required on the Concessionary Fares levy, reflecting local population growth and assumed usage of the Freedom Pass. The Concessionary Fares Settlement has now been published, with Hillingdon's levy for 2017/18 being set at £8,258k which is £373k lower than previously expected. This improvement relates to the introduction of the Hopper Fare on buses from September 2016, enabling multiple journeys for a single charge, and lower than anticipated journey volumes over the past year.

CORPORATE ITEMS

81. There are a range of issues impacting upon the Council's overall budget and therefore managed corporately, including the implications associated with new burdens transferring to the Council, revenue implications of capital investment and the application of balances. Further details on these items included in the 2017/18 budget are explained below.

Table 7: Corporate Items

	2017/18
	£'000
New Burdens & Transfers of Responsibility	
Transfer of Residual Education Functions from Local Government	(1,059)
Adjustments to Funding, Financing & Corporate Budgets	
Movement in Council Tax Older People's Discount	(25)
Rephasing Capital Financing Costs	(750)
Technical Adjustment (Review of Capitalisation)	111
Funding for HIP Initiatives	(200)
Reduced Drawdown from Earmarked Reserves	400
Total Corporate Items	**(1,523)**

82. As noted within the Government Grants section of this report, the abolition of the Education Services Grant from September 2017 will require the transfer of a number of functions directly into the Dedicated Schools Grant (for which the current annual budget is £740k per

annum), School Improvement Services being fully funded from the new specific DfE grant and a BID Review of residual Education functions to streamline residual functions. These three workstreams are expected to deliver a £1,059k reduction in budgeted expenditure for 2017/18, rising to £1,204k in 2018/19.

83. The 2016/17 budget approved by Members in February 2016 included rephasing of £1,400k capital financing budgets, with £650k assumed to be required in 2017/18 to meet additional borrowing costs arising from capital investment. Latest capital expenditure projections, accelerated use of capital receipts within the General Fund and reduced interest income transfers to the HRA will allow £1,100k financing budgets can be slipped from 2017/18. In addition, it is proposed that £300k contingency previously held within budgets for interest and other treasury risks be released to deliver a £750k reduction in capital financing costs.

84. The revenue impact of capitalising equipment expenditure is expected to require £111k per annum additional provision within capital financing costs - this represents a reduction of £60k from the position previously reported to Members as a result of expenditure on such equipment reducing in 2017/18. Elsewhere within this report, capital budgets have been reduced from 2017/18 to reflect this lower level of activity.

85. The forecast of lower take-up of the Older People's Council Tax discount has been reflected in this budget resulting in a small reduction of £25k per annum. In addition, base budget funding for HIP Initiatives has been rebased to reflect current levels of activity, releasing £200k from 2017/18. The 2016/17 budget included a £400k drawdown from earmarked reserves, which is not assumed to continue into 2017/18.

DEVELOPMENT & RISK CONTINGENCY / SERVICE PRESSURES

86. The Development & Risk Contingency is used to manage budgets relating to volatile or demand-led services, where there will remain uncertainty of the level of resources required until actual demand for services is known at outturn. Rather than inflating Directorate Operating Budgets to cover all potential risk items, these are collated and budgeted for in the round.

87. The budget approved in February 2016 assumed a net increase of £2,108k would be required in 2017/18, which has since been revised up by £1,567k to £3,675k. This increase consists of growth in provision for Looked After Children's placements, Adult Social Care placements for transitional children and a new pressure from Deprivation of Liberty Safeguarding assessments.

Table 8: Development & Risk Contingency

	£'000
2016/17 Contingency Budget	18,453
Releases to Operating Budgets	(2,912)
Increase to Contingency Requirement	3,675
2017/18 Contingency Budget	**19,216**

88. Appendix 3 to this report provides a breakdown of the Development & Risk Contingency for 2017/18, with an explanation of key assumptions and risk factors on each item set out below:

- **Uninsured Claims (£50k reduction from 2016/17)** - A reduction to £291k in the provision for uninsured claims is proposed in this budget, which combined with base budget funding would be sufficient to contain £650k of claims annually. There is scope to finance any exceptional or high value claims over this amount from dedicated earmarked reserves, which currently total £2,415k.

- **Impact of Welfare Reform on Homelessness (£289k reduction from 2016/17)** - Numbers of households within Temporary Accommodation have risen by 8% from 2015/16 levels, although this has been largely mitigated through increased demand management. Challenges in securing a sufficient supply of affordable accommodation has resulted in a continued reliance of higher cost Bed & Breakfast placements, and limited scope for moving clients on which could result in further increased numbers in Temporary Accommodation as 2016/17 progresses. In addition, the roll out of further changes to welfare, including benefit cap reductions from November 2016, is expected to impact upon households presenting as homeless. In response to these challenge, a range of initiatives, including the new placement policy enabling out of borough placements where appropriate, refocusing of the Council's Homelessness & Lettings service following a BID review and closer working with Social Care and Fraud, are currently anticipated to enable the contingency requirement to be managed down by £289k to £1,736k.

- **Waste Disposal Levy & Associated Contracts (£794k increase from 2016/17)** - Underlying waste tonnages continue to grow in line with population growth and increasing economic activity is projected to drive on-going increases in the cost of waste disposal, with the latest modelling producing a £794k uplift in the contingency requirement for 2017/18. This movement is driven by projected growth in the West London Waste Authority Levy to reflect both population growth and the RPI-uprating of Landfill Tax, although final levy costs will remain subject to confirmation throughout 2017/18. Alongside the levy, there remains a level of risk around the Council's own waste disposal contracts which are expected to remain less expensive than WLWA provision but may vary according to prevailing market conditions.

- **High Speed 2 & Heathrow Expansion Challenge Funds (£100k reduction from 2016/17)** - This budget includes £200k to meet costs associated with the Council's on-going opposition to the expansion of Heathrow Airport, with a further £100k included to meet costs relating to High Speed 2.

- **Asylum Funding Shortfall (£564k reduction from 2016/17)** - Ongoing work within Social Care to manage down expenditure on Unaccompanied Asylum Seeking Children (UASC) is expected to reduce the contingency requirement by £564k to £1,648k in 2017/18. This remaining contingency requirement represents the cost of supporting the UASC population not met from Home Office grant and therefore falling upon the local Council Taxpayer. It is projected that numbers of under-18 UASCs will fall from the current 94 during 2017/18 due to aging up, with numbers in care expected to reach 48 by March 2018 - in line with the effective cap within the new National Transfer Agreement. Thereafter client numbers and costs are projected to remain constant across the MTFF period.

- **Children's Social Care Demographic Pressure (£1,564k increase from 2016/17)** - As reported through 2016/17 budget monitoring, the underlying cost of Looked After Children placements is higher than existing budget provision as a result of the complexity of need being seen in current caseloads. The proposed £1,564k increase held in Development and Risk Contingency will result in £5,298k contingency funding for 2017/18, which alongside base budget provision of £5,953k is available to manage the expected caseload of 433 Looked After Children. This 2017/18 baseline reflects reductions in numbers of residential placements and a move towards in house fostering as set out in 2016/17 savings proposals.

- **Children's Services Structure - Agency Pool (no change from 2016/17)** - Provision is proposed to manage the additional costs associated with use of agency cover for Children's Social Work where permanent recruitment has not yet been completed, or proves more challenging. The provision of £277k is based on the estimated premium associated with 10% of Social Worker and Social Work Management posts being covered by agency staff. This sum will continue to be managed through Development and Risk Contingency to provide transparency around such costs.

- **Special Educational Needs Transport (£184k increase from 2016/17)** - Following the substantial reduction in the cost of SEN Transport included in the 2016/17 budget, expenditure is projected to grow in line with a growing eligible population. Recent experience has shown numbers of Children with a Statement of Special Educational Need or Education, Health and Care Plan have grown faster than general school-age population, which is expected to continue with 5% annum growth resulting in an additional £184k contingency requirement.

- **Transitional Children (£1,211k increase from 2016/17)** - Provision is included within this budget to meet the costs associated with 30 children expected to transition into Adult Social Care placements during 2017/18. The estimated additional cost of £1,211k reflects the full year effect of those children who transitioned in 2016/17, with the schedule of expected transfers refreshed since the previous MTFF update. In all cases, it is assumed that the previous cost of care for these clients will reduce as a result of Adult Care Needs assessments.

- **Adult Social Care Demographic Pressures (£353k increase from 2016/17)** - A refresh of the Adult Social Care placements forecast and current commitments indicates a £353k uplift will be required for 2017/18. This results in a Development and Risk Contingency requirement of £785k to supplement the £48,260k base budget provision for placement costs.

- **Winterbourne View (£196k reduction from 2016/17)** - Projected costs for those clients transferring from the National Health Service in response to the Winterbourne View report have been refreshed, reflecting the ongoing dowry funding for the majority of cases and additional support from Hillingdon CCG where appropriate. This results in a residual cost of £197k per annum to the Council, which will be confirmed during 2017/18 upon the transfer of the final clients. The reduction from previous estimates represents the increased level of dowry funding available from the Department of Health.

- **Deprivation of Liberty Safeguards Assessments (new item - £759k increase from 2016/17)** - The Supreme Court decision on the Cheshire West case ruling from March 2014 continues to drive an increase in number of Deprivation of Liberty assessments, with no indication of any sustained funding from Central Government leaving this as a pressure to be managed locally. As the Council builds up experience in managing the volatile demand for assessments, it should be possible to reduce the level of provision within Development and Risk Contingency going forward.

- **Care Act New Burdens Funding (£300k reduction from 2016/17)** - It is proposed to release the £1,031k contingency provision required to fund ongoing Care Act responsibilities into Social Care base budgets, while the £300k applied to meet transitional costs will contribute towards reducing the budget gap for 2017/18.

- **Apprenticeship Levy (new item - £559k increase from 2016/17)** - From 1 April 2017 the Government will introduce an Apprenticeship Levy at 0.5% on all employers with a payroll in excess of £3,000k per annum, the cost of which is estimated at £559k and provided for within Development and Risk Contingency. This levy forms part of the broader agenda to encourage apprenticeships and the proceeds are to be made available to support training costs in those organisations making greater use of apprentices. A cross-cutting BID Review is being undertaken to develop sufficient off-setting efficiencies to mitigate this pressure and is included within the Savings section of this report. This review will look at the scope for changing some of our existing posts to apprentice posts and to register some of our existing training as apprenticeship training so it can be offset against the new levy. The aim is to try and make the proposed changes cost neutral for the Council.

- **General Contingency (£250k reduction from 2016/17)** - This budget contains £750k General Contingency, representing a £250k increase on the position outlined in December 2016.

89. As in previous years, it is recommended that Development and Risk Contingency budgets in respect of prior year demographic growth are released into service budgets with effect from 1 April 2017 to reflect the less volatile nature of this expenditure. It is proposed to transfer funding in respect of the Waste Disposal Levy, Looked After Children, Transitional Children and Adults' Demographic Growth.

PRIORITY GROWTH

90. This budget includes provision of £1,034k of Priority Growth in 2017/18, with £200k allocated to the costs of acquiring exhibits for the new Museum and Bunker developments, £200k provision to support additional investment in Children's Centres & Early Years Centres within the borough, £100k provision for investment in Youth Provision, £140k expected to be required to support the new Museum service from autumn 2018, £100k to provide funding to deal with any potential Traveller Inclusions within the borough, and £40k to meet the full year cost of a Members Enquiry Monitoring Officer. This leaves £254k of base budget provision available to support further new initiatives; with further capacity through earmarked reserves to manage additional commitments over £254k should it be required.

91. The February 2016 budget report assumed that £1,000k of growth would be required to finance capital investment in school expansions, however latest capital expenditure projections indicate that these funds will not be required until 2018/19 at the earliest. Deferral of this growth therefore reduces the savings requirement for 2017/18 by £1,000k.

SAVINGS

92. The refreshed projections in respect of funding, inflation, contingency, corporate budgets and growth results in a £15,508k savings requirement for 2017/18. The following paragraphs of this report provide detail on savings proposals developed to meet this requirement, consisting of £13,839k new savings proposals and £1,669k of full year effect of prior year initiatives. Savings proposals are focused on increased efficiency and effectiveness with no reduction in service provision, and fall into five broad themes, which are outlined below. These themes include; Service Transformation, Effective Procurement, Income Generation & Commercialisation, Preventing Demand and Zero Based Reviews.

93. Delivery of the programme of savings outlined below is expected to require resources to support pump priming and implementation costs, including redundancy payments, capital costs of early retirement and specialist project support amongst other items where relevant. An initial estimate of these costs for 2017/18 is £2,750k, which will be managed through a combination of capital receipts and earmarked reserves where necessary.

Table 9: Savings

	Admin £'000	Finance £'000	Residents Services £'000	Social Care £'000	Cross Cutting £'000	Total £'000
Service Transformation	(170)	(570)	(3,232)	(2,136)	(1,114)	**(7,222)**
Effective Procurement	0	0	(527)	(1,644)	0	**(2,171)**
Income Generation & Commercialisation	0	0	(445)	(572)	0	**(1,017)**
Preventing Demand	0	0	0	(407)	0	**(407)**
Zero Based Review	(51)	(286)	(1,999)	(2,355)	0	**(4,691)**
Total Savings	**(221)**	**(856)**	**(6,203)**	**(7,114)**	**(1,114)**	**(15,508)**

94. Alongside the development of new proposals, the full year effect of previously agreed proposals have been reviewed and resulted in increased savings within Social Care. In addition the profile for delivery of new Supported Living provision has been revised to take account of the latest estimates for delivery dates. The resulting impact of these changes is an increase in prior year savings from the £1,655k estimated in February 2016 to £1,669k.

95. Service Transformation represents the majority of proposed 2017/18 savings, with items presented in this category ranging from the full year effect of previously implemented proposals through the implementation of agreed BID Reviews to the expected benefits arising from potential new BID Reviews.

96. Effective Procurement savings are similarly made up of full year effect items and proposed reviews of delivery models in a number of areas.

97. Income Generation & Commercialisation proposals include brought forward items for which plans are already in place, and proposed amendments to Fees & Charges discussed below.

98. Savings proposals in relation to preventing demand are focused on managing Social Care placement expenditure, including the benefits of the Supported Living Programme, and represent a continuation of existing initiatives within Social Care.

99. Savings proposals from Zero Based Reviews represent budgets which have been identified as being surplus to requirements through the line-by-line review of outturn 2015/16 and similar exercises being undertaken by Finance.

Administration

100. A total of £133k new Service Transformation savings proposals have been presented by Administration, relating to implementing the HR BID Review. In addition, £37k savings relating to a previous restructure in HR and £51k Zero Based Review including a review of the small grants budget bring the total 2017/18 proposals for the Group to £221k. Detail on Administration proposals is set out in Appendix 5a.

Finance

101. Savings proposals from Finance total £856k for 2017/18, with new items consisting of £470k Service Transformation proposals and £286k output from Zero Based Reviews. An additional £100k full year effect savings relating to a previous restructure in Operational Finance bring the total 2017/18 proposals for the Group to £856k. Further detail on all proposals is included in Appendix 5b.

102. Service Transformation proposals include the £100k full year effect items relating to the previous restructure in Operational Finance and £72k linked to the implementation of the BID Review consolidating financial support within the Council. The remaining £398k new Service Transformation proposals are at an earlier stage of development proposals and include £298k from capturing the benefits of the new budget management system, £70k from the realignment of transactional functions across Accounting and Revenues & Benefits, £20k from a review of Business Assurance and £10k from the introduction a new digital strategy within Revenues & Benefits where new self service modules for Council Tax, NNDR and Benefits are being introduced.

103. Zero Based Review proposals totalling £286k include £180k from Compensatory Added Years budgets alongside £106k from External Audit Fees and other service budgets.

Residents Services

104. Savings totalling £6,203k have been developed across Residents Services in 2017/18, including £3,232k from Service Transformation, £527k from Effective Procurement, £445k from Income Generation & Commercialisation and £1,999k from Zero Based Reviews and capitalisation. Within this sum, £6,107k of new proposals are supplemented by a net £20k saving from the prior year proposals. An overview of individual proposals is set out in Appendix 5c.

105. Service Transformation proposals totalling £3,232k include savings arising from BID reviews covering Highways & Street Lighting (£1,346k), Phase 2 of the ICT Review (£750k), Business & Technical Support (£354k), a review of the directorate management structure (£250k), a review to secure efficiencies from synergies in the Grounds Maintenance and Street Cleansing operations (£250k), and reviews of Planning & Transportation (£212k), reviews of Housing/Homelessness functions (£131k), Parking Management (£115k), Pollution Control & Food Hygiene (£112k), Environmental Health, ASBIT & Community Safety functions (£74k), Bereavement & Culture services (£52k) and a review of standby arrangements for Emergency Response Officers (£10k). These proposals off-set the depletion of £424k per annum time limited DCLG funding for Weekly Collections, delivering £3,232k towards the broader savings requirement.

106. Proposals in relation to Effective Procurement include £100k of 2016/17 proposals for Facilities Management savings, with a further £332k new proposals through further review of contract arrangements in this area - including use of existing in-house resources where appropriate. In addition £95k savings on Blue Collar agency spend are included to reflect efficiencies in the recently let contract.

107. Income Generation & Commercialisation proposals are expected to deliver £445k savings, including £250k from proposed Fees & Charges changes outlined below and BID reviews to identify options for commercialisation of Trade Waste (£120k) and Building Control (£75k).

108. Zero Based Review savings total £1,999k, including £853k arising from expenditure reviews, £852k from income reviews, £252k from the use of flexibility to capitalise transformation

costs and £122k from estates budgets following the expiry of the Council's lease for Warnford Industrial Estate during 2016/17 and a review of provision for garages development and repairs. These new proposals for 2017/18 totalling £2,079k are off-set by £80k of one-off 2016/17 Zero Based Review savings falling out of the budget.

Social Care

109. Social Care have developed savings proposals totalling £7,114k, including £2,136k Service Transformation proposals, £1,644k from Effective Procurement, £572k from Commercialisation & Income Generation, £407k from Demand Management and £2,355k from Zero Based Reviews and capitalisation. This total includes £1,487k of full year effect savings and £5,627k of new savings. Further details on proposals for Social Care are included in Appendix 5d.

110. Service Transformation proposals consist of £403k savings from 2016/17, including review of the Children's Centre delivery model, and £1,733k new proposals. A planned major review of Social Care Staffing Structures is proposed to deliver £650k savings, with capitalisation of the Social Care Transformation Team previously funded from base budgets able to deliver £513k further savings. Proposed Transformation savings within provider services include £370k from the transfer of services from Merchiston House, £150k from reviewing staffing structures across in-house Children's Home provision and £50k from reviewing post 16 transport provision.

111. The £1,644k of proposals in respect of Effective Procurement includes the £305k Full Year Effect of outsourcing Learning Disability Services and £1,339k new proposals being developed for consideration. The BID Review of the 0 to 19 Healthy Child Programme is expected to deliver savings of £800k through reductions in overheads and administration costs, with a further £539k from a planned BID Review of Supported Living Contracts.

112. The £572k Commercialisation & Income Generation proposals within Social Care all relate to the full year effect of previous savings, including £210k growth in Client Income and £362k increase in Troubled Families Grant income.

113. Demand Management proposals include £207k from the continued delivery of the Supported Living Programme, with an additional £200k of new proposals developed for this budget cycle in relation to reviewing high cost placements and day care provision within the All-Age Disabilities Service.

114. The line-by-line review of 2015/16 outturn and 2016/17 budgets has identified £2,355k Zero Based Review savings for 2017/18, including £360k from applying capital grant to fund to Telecareline equipment.

Cross-Cutting Proposals

115. £1,114k cross-cutting proposals included within this budget are summarised in Appendix 5e. Service Transformation items include a proposal being developed to off-set the £559k Apprenticeship Levy through reviewing the Council's approach to training and use of apprentices and an initial £100k is included to reflect potential savings that could be delivered from a review of workforce Terms and Conditions. This section also includes £455k savings within the Public Health ringfence for 2017/18 to manage the previously announced cut in funding levels.

FEES AND CHARGES

116. The Council is empowered to seek income from Fees and Charges to service users across a wide range of activities. Some of these fees and charges are set by the Government or other stakeholders, but many others are set at the discretion of the Council, based on Cabinet's recommendations. The Council continues to operate a system of differential charges through the Hillingdon First card, which enables preferential rates to be offered to local residents.

117. Appendix 8 to this report sets out a number of amendments to the Council's schedule of Fees & Charges, which was presented in full to members as part of the February 2016 Cabinet and Council Budget Papers. The Council continues to benchmark Fees & Charges against those of neighbouring authorities and other service providers, with charges being set at a maximum of 90% of the relevant benchmark. As the Council has frozen many charges since 2011, while other providers apply annual uplifts, periodic benchmarking at 90% gives a larger rise to cover that fees yet remain lower than neighbouring authorities. Amendments are proposed in the following areas in line with the draft proposals presented to Cabinet in December 2016:

- Highways Crossovers & Skip Licensing - It is proposed to increase both application fees for Crossover works and charges for Crossovers and Skip Licensing, while remaining under the 90% benchmark;
- Golf Courses - A range of modest increases in charges frozen since 2011 are proposed, while remaining under the 90% benchmark for advertised prices at local courses;
- Bereavement Services - Increasing charges across Breakspear Crematorium and the Council's Cemeteries, while remaining below the 90% benchmark;
- Music Service - It is proposed to increase charges for the Music Service, which have been frozen since 2011, moving towards 90% of neighbouring authorities' charges over a three year period.
- Riding Establishments - Increases to fees for larger establishments (more than 6 animals) to move towards 90% of neighbouring authorities over a two year period;
- Adult Education Services - Tuition Fees for Hillingdon's establishments remain lower than those in neighbouring authorities, with proposals within this budget to increase charges in a move towards the 90% benchmark over a three year period;
- In addition, this schedule includes amendments to HRA service charges noted later in this report.

118. In addition, the following changes have been recommended following publication of the draft budget in December 2016:

- Arts and Theatres - A range of increases to charges for both residents and non-residents, while ensuring charges remain below the 90% benchmark;
- Colne Valley Caravan Park - An increase of £2.50 per week in rent is proposed to recoup the operating costs of new smart meters installed on the site.
- Schools Forum has raised concerns about the three Early Years Centres continuing to run at a loss and the consequential impact on the Schools Budget. A BID review is to be undertaken with the intention of increasing efficiency of operation. However, prior to the review, benchmarking of Early Years Centres against neighbouring boroughs has highlighted that fees are well below 90% of those of other providers. It is therefore proposed to increase Fees to close to the 90% level.

119. Leisure Fees - The Council's Leisure Services providers have indicated that they would prefer to benchmark fees once 2017/18 fees for neighbouring Boroughs have been published. If any increases are proposed as a result of this work they will be subject to separate formal approval and implemented during the 2017/18 financial year.

MEDIUM TERM OUTLOOK

120. The immediate focus of this report remains the delivery of a balanced budget for 2017/18; and while this report sets out an approach to meeting this immediate challenge in, there remains a significant savings requirement to be delivered from 2018/19. Sensitivity analysis of inflation and contingency items indicates limited scope for material favourable movements in the shorter terms, and therefore necessitates development of further savings proposals for delivery in the 2018/19 budget. In the case of funding, the current stance of Government combined with parliamentary timescales all but precludes any fundamental change to either the overall quantum of funding available to local government or its distribution amongst authorities.

121. Beyond 2018/19 there is potentially scope for a range of initiatives, including the move to 100% Business Rates Retention from 2019/20, the fair funding review considering distribution of resources between authorities for 2020/21, and further Health and Social Care integration through either the Better Care Fund or Sustainability and Transformation Plan to reduce the savings requirement for the Council. In addition, more radical options including local government reorganisation or a change in statutory responsibilities would be available to Government in delivering a more sustainable local government sector within a smaller resource envelope.

122. Notwithstanding the significant uncertainty beyond 2018/19, medium term projections for funding, inflation, contingency items and the revenue impact of capital investment have been refreshed and a headline budget gap of £69,749k is now projected by 2021/22, with savings proposals developed to manage £17,103k of this sum. The following paragraphs outline the factors driving this budget gap and a number of potential opportunities to reduce the quantum of savings ultimately required from service budgets.

123. Declining Central Government funding (consisting of grants and the Business Rates Baseline) continues to drive the budget gap, with reductions of £21,695k projected over the MTFF period. This reduction is primarily due to Revenue Support Grant declining from £29,431k in 2016/17 to £6,655k in 2019/20 in line with the multi-year settlement offer. While there has been no indication as to funding levels beyond 2019/20, it is expected that RSG will be rolled into the Business Rates baseline and remain steady in cash terms. In addition, scaling back the New Homes Bonus reward from six years to four years and limiting growth rewarded to development above a 0.4% baseline is expected to add £5,811k to the budget gap. Notional increases in the Better Care Fund totalling £5,334k over this period will be funded from these cuts in Revenue Support Grant and New Homes Bonus, and therefore do not represent a genuine increase in resources available to support Adult Social Care.

124. In Spending Review 2015, the Government outlined a funding settlement for Local Government to 2019/20 which ostensibly protected funding in cash terms at 2015/16 levels through a variety of mechanisms including the Enhanced Better Care Fund and use of flexibility by Councils to raise Council Tax - both in relation to the Social Care precept and more generally. The reductions in funding outlined in the previous paragraph represent the local impact of this funding settlement - referred to as Spending Power - with assumed Council Tax / Social Care precept increases of 3.99% per annum over the period from

2016/17 to 2019/20 balancing these reductions in the Government's view of Local Government Finance as outlined below.

Table 10: 2015 Spending Power Calculations (prior to New Homes Bonus Reforms)

HMT/DCLG 2015 Spending Power Analysis (Applied Hillingdon Projections)	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Baseline Council Tax Revenues	104,070	106,585	108,199	109,757	111,315
1.99% per annum Council Tax Increase	*N/A*	*2,121*	*4,316*	*6,586*	*8,932*
2.00% per annum Social Care Precept	*N/A*	*2,132*	*4,339*	*6,621*	*8,980*
Baseline Business Rates	42,858	43,214	44,067	45,367	46,819
Local Government Self-Financed Expenditure	**146,928** **76%**	**154,052** **80%**	**160,921** **85%**	**168,331** **89%**	**176,046** **91%**
Revenue Support Grant	39,509	29,431	19,513	13,124	6,655
Enhanced Better Care Fund	N/A	N/A	N/A	2,300	4,700
New Homes Bonus	8,079	9,127	9,127	5,800	5,600
Local Government Departmental Expenditure Limit	**47,588** **24%**	**38,558** **20%**	**28,640** **15%**	**21,224** **11%**	**16,955** **9%**
Local Government Spending (Cash Terms)	**194,516**	**192,610** **(1,906)**	**189,561** **(4,955)**	**189,555** **(4,961)**	**193,001** **(1,515)**
Assumed Council Tax Increases	*0*	*4,253*	*8,655*	*13,207*	*17,912*

125. This funding model outlined by the Government effectively assumes that all inflationary, demographic and locally-led investment would be financed from expenditure reductions in core services, but that a significant proportion of the Local Government sector's contribution to the broader programme of public sector deficit reduction would be met through raising headline rates of Council Tax. Furthermore, recent announcements on limiting the scale of New Homes Bonus to cover only development above a 0.4% growth baseline has reduced funding by £1,835k by 2019/20, indicating that those elements of the funding settlement not specifically protected in the multi-year offer are open to further cuts.

126. Additional funding is being made available regionally by Department of Health to support transformation of health and care services to meet local needs, with local health organisations and local authorities expected to develop Sustainability and Transformation plans in order to gain access this funding. While actual levels of funding for Hillingdon are to be determined, and the majority of funding will likely be managed through the Clinical Commissioning Group, implications for the Council will remain under review and reflected in future MTFF updates as necessary. It is likely that the principal financial benefit to the Council from this initiative will be in greater synergies with the local health sector, rather than additional funding.

127. In addition to cuts to funding for core Local Government responsibilities, current indications from the Department of Health are that the Public Health grant will be cut by £1,380k by 2019/20. Public Health reserves of £2,611k are also available to smooth the impact of these reductions if necessary, or to support invest-to-save or transformation expenditure to manage Public Health within this declining resource envelope.

128. While the move towards 100% Business Rates Retention will result in consolidation of a number of funding streams, including Revenue Support Grant, into Business Rates baselines, this is projected to be revenue neutral with any increases in grant award reflecting additional responsibilities. There may be scope to contribute towards bridging the budget gap in cases where the move to 100% Business Rates Retention requires new functions to

be transferred to the Council, either through identifying synergies with existing services or moving to alternative delivery models.

129. Conversely income projections from local taxation remain robust, with retained Business Rates income expected to grow by £2,619k to £7,965k in 2021/22 as a result of a 4% increase in Rateable Value on non-airport properties across the borough. This growth projection is based on the current Development Control pipeline and remains consistent with experience since partial localisation of Business Rates in 2013/14. An additional 1% growth in Rateable Value would be expected to secure a further £650k income.

130. While it is likely that the move from 50% to 100% Business Rates Retention will allow the Council to retain a greater share of growth, any benefit in the medium term would be at least partially off-set by the impact of the planned 're-set' of the system in 2020/21. Given the uncertainties associated with this 're-set', the central scenario for Business Rates income within the MTFF is based upon maintenance of the Council's current 30% share of growth. The move towards 100% Retention is also expected to increase the share of Business Rates payable to the GLA.

131. In July 2016 the Government published a consultation on the roll out of 100% Business Rates Retention which included detail on planned local flexibility to reduce the Business Rates multiplier and therefore bills for local businesses. This power will likely be limited to reducing rates payable by all businesses in the borough, with no scope for the Council to levy additional charges or limit discounts to certain classes of property. For more targeted reductions in Business Rates, the Council has scope to introduce discretionary reliefs under existing regulations.

132. Alongside growth in Business Rates, Council Tax income is projected to rise by £7,846k as a result of a 6,000 Band D Equivalent increase in the taxbase, 1,000 Band D Equivalent decline in demand for the Council Tax Reduction Scheme and 50 Band D Equivalent from introduction of an empty property premium. Taxbase growth reflects sites in the Development Control pipeline, with the 5.2% increase over the MTFF period marginally lower than the 6.1% growth in working age population projected by the Office for National Statistics over the same period. Declining demand for the CTR Scheme reflects a continuation of experience since introduction of the scheme in 2013/14. A 1% or 972 Band Equivalent movement in tax base projections would deliver £1,082k additional income, although would also likely result in an equivalent increase in population-led contingency items at an approximate cost of £1,021k.

133. No allowance has been made within the MTFF for increases in the headline rate of Council Tax; although assuming the maintenance of current regulations annual increases of 1.99% and an additional 2% per annum to 2019/20 in respect of the Social Care Precept could be levied without triggering a local referendum. A 1% increase in Council Tax, equivalent to £11.13 for a Band D household, would secure an additional £1,082k income, with the approach to continuing the Older People's Discount requiring £216k of this sum for any increases in 2017/18 or 2018/19 to leave £866k additional income to fund services.

134. Taking account of £1,500k 2015/16 Collection Fund surplus dropping out over the MTFF period, total resources, excluding use of balances, are projected to fall by £12,449k or 5.6% although this includes £1,179k of additional grant funding for new responsibilities so funding to support existing services is expected to fall by £13,628k or 6.1% by 2021/22.

135. The current planned drawdown from balances contributes a further £4,216k to the budget gap by 2021/22, with the phased reduction in planned drawdowns reducing unallocated General Balances from £39,005k at 1 April 2016 to £22,132k by 31 March 2022. This

leaves £7,132k over the £15,000k minimum recommended level of balances to support further smoothing of the savings requirement if required.

136. Provision to manage inflationary pressures over the MTFF period contributes a further £25,985k to the budget gap, including £12,542k relating to Social Care placements, £8,180k relating to workforce expenditure, £1,423k in respect of the Concessionary Fares Levy and £3,840k across contract and utilities expenditure. This level of inflation is broadly based on the rising inflationary pressures over the MTFF period, with CPI expected to increase to the 2% Bank of England target rate later after 2018/19. Concessionary Fares and contract expenditure are directly affected by headline inflation, with maintenance of CPI at 1% to 2021/22 could release approximately £2,000k.

137. Workforce inflation assumes continuation of the 1% per annum cap on inflationary pay increases within the public sector at a cost of £5,854k to 2021/22, with incremental drift being managed within individual service budgets. A 1% increase in inflationary pay awards would add £1,170k to the budget gap. In addition, pension contributions are assumed to rise by 2% over the MTFF period at a cost of £2,330k, resulting in £8,180k overall workforce inflation. Reductions in the Council's workforce from the current £115,068k payroll would result in a proportionate fall in inflation, with a 10% reduction reducing pay inflation by approximately £117k per annum.

138. Inflationary pressures on care placements costs expected to reflect the combined effect of private sector wage growth at least matching CPI-inflation and for the predominantly lower paid care workforce rising in line with the annual uplifts in the National Living Wage. This is expected to necessitate inflationary growth of £12,542k within the MTFF period. There may be scope to manage an element of this growth through reviewing procurement mechanisms for care placements, although some measures such as a move away from spot purchasing to block booking would result in the Council taking on additional risk in relation to void costs. Given that such a move would result in contract awards in excess of OJEU thresholds, legislative procurement timescales would prevent any material cashable savings from being realised prior to 2019/20.

139. Demand-led growth in service expenditure managed through Development and Risk Contingency is projected to contribute an additional £16,851k to the budget requirement, with Adult Social Care Placements (£8,461k), Waste Disposal (£4,172k), Children's Social Care Placement (£3,259k) and SEN Transport (£1,494k) representing the most significant areas of growing demand. An analysis of this growth between population-led and other factors identified £7,893k of this increase being driven by growth in population. A 1% movement in population projections from the latest 7.7% ONS Subnational Population projection to 2021/22 would add £1,021k to the contingency requirement.

140. Current capital programme commitments, including locally funded school expansions and the St Andrew's Park Theatre development, are projected to require an additional £5,645k for the servicing and repayment of debt. With the unwinding of one-off and short-term savings from the reversal of historic provision for debt repayment, deferral of borrowing and capitalisation of equipment adding a further £3,349k to capital financing budgets from the £4,855k 2016/17 baseline. This overall increase of £8,494k is equivalent to approximately £170,000k of locally financed capital expenditure, with a £10,000k movement in capital expenditure or capital receipts generated equivalent to approximately £500k per annum on-going revenue costs.

141. Overall, this results in a budget gap of £69,749k, with proposals totalling £17,103k over the period included in this report leaving £52,646k to be identified in future years, equivalent to 23% of current service expenditure.

CAPITAL PROGRAMME

Background to Capital Programme

142. The Council's Capital Programme, as approved by Cabinet and Council in February 2016, continues to be focused on the provision of sufficient school places to meet rising demand across the borough. Additionally, provision for major investment on the St Andrew's Park site in Uxbridge is included in the budget alongside the recurrent programme of works to maintain local infrastructure.

143. This report provides an update on the current Capital Programme, refreshed projections for investment in schools expansion from 2017/18, new proposed capital projects and a comprehensive review of all capital financing forecasts. Refreshed school places forecasts indicate lower growth in demand for school places than previously estimated and this has enabled the Schools Expansions programme to be reduced by £38,200k. Other programme expenditure changes and adjustments to the capital financing forecasts bring the gross decrease in the borrowing requirement to £33,835k.

144. This programme has been developed with reference to the Prudential Framework, with proposed schemes and the overall programme being tested for affordability, sustainability and prudence. Given the need to consider the full extent of the Council's commitments, financing and borrowing projections outlined below take account of the latest 2015/16 forecast outturn. All associated revenue implications have been factored into revenue budgets through the MTFF and reflected elsewhere in this report.

Changes since report to Cabinet on 15 December 2016

145. The table and narrative below outlines the changes to the recommended Capital Programme from the report considered by Cabinet on 15 December 2016.

Table 11: Changes to Proposed Capital Programme

	Capital Budget £'000	Prudential Borrowing £'000	Capital Receipts £'000	CIL £'000	Grants & Cont's £'000
Draft Capital Programme - December 2016	**326,178**	**131,357**	**71,078**	**30,580**	**93,163**
Yiewsley Development	18,712	(770)	19,482	0	0
Youth Provision	(2,003)	(2,003)	0	0	0
Additional Section 106 Funding	0	(171)	0	0	171
Transport for London Projects	5,955	0	0	0	5,955
Bowls Club Refurbishment	221	221	0	0	221
Battle of Britain Bunker Grant	0	1,000	0	0	(1,000)
Proposed Capital Programme - February 2017	**349,063**	**129,634**	**90,560**	**30,580**	**98,289**
Movement from December 2016	22,885	(1,723)	19,482	0	5,126

146. The most significant change to the capital programme since December Cabinet is related to revised proposals which have been prepared for the development of the former Yiewsley pool site, Yiewsley library and adjoining car park and former Yiewsley bowls club. Options include the construction of 72 flats to be marketed for sale under the Discounted Market Sale (DMS) scheme. Under this option, the General Fund would fund the £23,014k cost of the development leading to the creation of 72 flats (£18,632k), a gymnasium (£3,317k) and library (£1,065k).

147. The 72 flats would be marketed for sale under the Discounted Market Sale (DMS) scheme for sale to eligible households at 80% of the market value. The General Fund would be required to fund the upfront costs of development estimated at £23,014k. As there is already £4,302k capital budget set aside in the existing approved programme the increase in funding amounts to £18,712k. Latest estimates for proceeds from the sale of properties are expected to improve the outlook for capital receipts by £19,482k, thus reducing borrowing by a net figure of £770k.

148. A BID review of the Youth Service in the current year has highlighted that the current Youth Centre provision is significantly underutilised which suggests that the provision is not necessarily in line with what young people want. As a result of this finding any further building of youth Centres has been halted. Instead, and to ensure that the Council's youth offer continues to meet the needs of the widest possible cohort of young residents, the Council will engage expert external support to review the service and will make investment decisions accordingly. In advance of this review the existing £5,003k capital budget for Youth Centres has been replaced by £3,000k provision for broader investment in Youth Provision.

149. A further amount of £171k Section 106 monies in respect of affordable housing has been received in the last quarter of 2016/17 and it is proposed to add these to the existing S106 balances of £1,037k identified to support financing of the former Belmore Allotments development. This reduces the prudential borrowing requirement for this scheme.

150. As the TFL financed Hayes Town Centre improvements Major Scheme progresses to the final phase of implementation existing Section 106 balances totalling £573k are planned to be utilised to fund public realm improvements on the periphery of the town centre works including Blyth Road. This will ensure that further improvements from the Hayes & Harlington Crossrail station public realm works are joined up.

151. Section 106 monies amounting to £612k are also proposed to be utilised to complement schemes within the Transport for London Local Implementation Plan. These include works on transport interchanges, accessibility and mobility and reduction of transport impacts.

152. To simplify the budgeting and reporting process it is proposed to treat the Transport for London grant wholly as capital expenditure so that the total grant is recognised in the programme budget. The programme has also been updated to reflect LIP funding for 2017/18 confirmed by TFL in December. This has the effect of increasing the capital expenditure figure by £4,770k from 2017-22. Schemes that are revenue expenditure in nature will continue to be charged to revenue appropriately with adjustments to be made during the financial year end closing process.

153. A review of existing Capital Programme commitments has identified a £221k uplift required on the current programme of Bowls Club Refurbishments, which has been included in this budget.

154. It is proposed to treat the Battle of Britain Bunker grant of £1,000k for revenue purposes resulting in a change in financing of the capital scheme.

155. As the combined impact of these changes is a marginal £1,723k reduction in the Council's future borrowing requirement, no changes are proposed to the on-going revenue budgets for debt servicing and repayment outlined earlier in this report.

Update on Current Programme

156. As at Month 9, a net underspend of £5,961k is reported on the current Capital Programme, with a forecast £2,436k underspend against the Schools Programme and a net underspend of £3,525k across the remainder of the programme.

157. Within the reported position at Month 9, there remains £6,820k of unallocated contingency across the five year MTFF period and £530k uncommitted budget for 2016/17 Environmental and Recreational Initiatives.

2017/18 - 2021/22 CAPITAL PROGRAMME

Schools Expansion Programme

158. The Council's flagship School Expansion Programme remains at the centre of the Capital Programme, with total projected investment of £273,160k to secure 44 additional forms of entry (FE) over the period from 2010 to 2022. This represents a reduction of £38,200k and 6 FE from the position reported to Cabinet and Council in February 2016, reflecting reduced forecast growth in pupil numbers.

159. The Primary School Expansion Programme phases 1, 2 and 3 are now complete, with phase 4 developed in this programme. Growth forecasts indicate that demand for primary school places is plateauing in the north of the borough, with demand sustained in the south. The Phase 4 budget of £27,400k provides for three single form of entry expansions across three sites, however expansion of one site remains on hold as demand is lower than previously anticipated. The expansions of the other two sites are currently going through the planning application process. The construction of the permanent expansions at these two sites will not be complete until September 2018 at the earliest with the interim short term pressure being met through the installation of modular classrooms.

160. As outlined in December 2016, revised population growth forecasts in the Secondary sector have reduced the requirement to this programme from 19FE to 13FE inclusive of a 1FE requirement in 2016/17. The borrowing requirement has therefore reduced by £40,000k, off-set by increases of £1,800k additional temporary classrooms required to accommodate pupils during construction works, and 2-3 Specialist Resource Provision units that are anticipated to be required.

161. Confirmed Basic Needs funding within the existing schools expansion programme up to 2018/19 amounts to £10,331k with a further £14,490k in the approved budget currently assumed for the period 2019-21. Based on the revised lower schools places forecast for Secondary Schools expansions (13FE) it is assumed that grant awards for 2019-21 will be proportionately lower than previous assumptions for 19FE and therefore the draft grant budget was reduced in December 2016 by £4,600k leaving £9,890k in assumed grants for the following two years 2019-21. A further £3,000k funding is assumed for 2021/22.

Proposed Additions and Amendments to the Capital Programme

162. Alongside the refreshed School Expansion Programme, proposals for new General Fund capital projects and amendments to existing schemes totalling £25,030k have been developed for consideration and potential inclusion in the Capital Programme. These are outlined in the following paragraphs.

Self Financing Developments

163. Belmore Allotments and Melrose Close Car Park Mixed Tenure Housing Development is a proposed self financing housing development in Hayes under a range of tenures including Discount Market Sale. Out of a total number of 111 units, 30 units of varying sizes would be for private sale (similar to previous housing developments at South Ruislip and Hayes End libraries) and so the build costs would require to be financed from the General Fund. The build costs are estimated at £4,605k however if all the units are sold at 80% of market value it is anticipated that future capital receipts of around £7,700k would be generated which would generate a surplus over and above build costs. There would also be a notional capital receipt to the General Fund from the appropriation of the other portion of the site to the HRA for housing development.

164. Yiewsley Development - as described in more detail earlier in the report, the expenditure budget increases by £18,712k for the proposed housing development, with a related increase in forecast capital receipts.

Main Programme

165. Proposed new additions to the main programme include the following projects:

- A proposal has been submitted by the Ruislip Lido Railway Society to replace their workshop, which is a very outdated corrugated steel dome shaped structure which is deteriorating. The railway now needs a new building that can house a greater number of locomotives than was the case when the original workshop was built. Works have been costed at around £360k.

- The Uniter Building facility is located on the former site of RAF Uxbridge adjacent to the Battle of Britain Bunker and is currently being used to store the Bunker's collection of historic artefacts. The Council's current storage facility for museum collections in the basement of the Civic Centre is humid with fluctuating temperatures and regular small scale floods and it is therefore proposed to develop a stable and secure storage facility for the Borough's collections at the Uniter Building. However the building has no services such as electricity, water, toilet facilities or telephone lines and would require installation of shelving and other storage units. An initial estimate for the works is £400k.

- It is proposed to resurface the waste yard at Harlington Road Depot at an estimated cost of £200k, as the existing surface is nearing the end of its useful life.

166. Increases in expenditure budgets required on several existing projects due to revised cost estimates. These include £632k for the construction of a new museum at the St Andrew's RAF Cinema site, a further £432k for the rebuild of Bessingby FC clubhouse, and £150k to support the CCTV programme. In addition, realignment of planned Youth investment reduces future borrowing by £2,003k.

167. As noted earlier in the report there are additional Section 106 monies totalling £573k to develop the next phase of the Hayes Town Centre improvements programme and a capitalisation adjustment from revenue of £160k for Hayes & Harlington Crossrail complementary measures.

168. A further £600k funding provision has been included in 2017/18 for Environmental and Recreational Initiatives which will be allocated for smaller projects of this type that emerge

over the next year. In addition, £221k has been added to the Bowls Club Refurbishment budget to reflect latest cost estimates for programmed works.

Programmes of Works

169. Overall, this report sets out a £27,085k increase in capital investment across the five year programme, inclusive of an amount of £12,587k added for existing programmes for 2021/22. This is partly financed from additional grants and contributions totalling £20,110k. Significant changes being funded from Council resources are on the following programmes:

- Corporate Technology & Innovation proposal to amalgamate the former annual ICT Single Development Plan and one off major ICT investment projects under one new heading. The major increase proposed, £1,850k, relates to the Council moving fully to Windows 10 as a result of Microsoft ending support for Windows 7 in January 2020 and, with improvements to wireless based communication, the proposal to remove all staff desktops and replace with laptops.

- In line with the implemented financial control processes around the release and appropriate capitalisation of equipment expenditure it is proposed to formally recognise capitalisation of equipment in the five year capital programme. Based on current activity levels it is expected that £363k per annum of general equipment and furniture will be capitalised with an equivalent saving on revenue budgets. A further £114k per annum of ICT equipment is budgeted will be capitalised and included in the revised Corporate Technology & Innovation budget. In addition there is £985k Better Care Fund grant allocated to finance MedEquip and Telecareline equipment spend.

- An additional £500k has been added to the 2017/18 Civic Centre Works Programme budget to provide £1,000k capital funding against priorities. These works will be made up of building fabric, heating ventilation and air conditioning, electrical, fire & security measures and lift replacements.

- An additional £2,000k funding in local infrastructure for Highways Structural Works has been included in 2017/18 bringing total investment in locally maintained Highways to £7,000k over the MTFF period.

- There have been recurring underspends against the £450k annual budget for Private Sector Renewal Grants in recent years, so it is proposed to realign the budget to current activity levels, saving £900k over the next four years.

- Since the budget for adaptations for adopted children was created in 2014/15 there has been little demand against it and no new commitments arising in this financial year. It is proposed to remove this budget and manage any future cases from the recurring £1,500k per annum General Contingency budget. This reduces the budget by £800k over the next four years.

Capital Financing and Revenue Implications

170. In considering the funding strategy for the proposed Capital Programme and its associated revenue implications, it is necessary to include commitments in the current financial year in order to capture a comprehensive view of the Council's programme of investment. As such the following financing overview covers the period from 2016/17 to 2021/22.

171. Projections in respect of capital income streams have also been refreshed. Table 10 below provides a summary of capital expenditure and financing included in this programme.

Table 12: Capital Financing

	2016/17 £'000	2017/18 to 2021/22 £'000	Total £'000
Schools Programme	30,576	88,614	119,190
Main Programme	15,448	80,342	95,790
Self Financing Developments	50	27,569	27,619
Programme of Works	25,722	71,201	96,923
Development & Risk Contingency	820	7,500	8,320
Capital Expenditure	**72,616**	**275,226**	**347,842**
Prudential Borrowing	41,166	88,468	129,634
Capital Receipts	6,407	84,153	90,560
Community Infrastructure Levy	3,580	27,000	30,580
Council Resources	**51,053**	**199,621**	**250,774**
Government Grants	17,207	70,927	88,134
Other Contributions	4,256	5,899	10,155
Capital Financing	**72,616**	**276,447**	**349,063**

172. Capital Receipts of £90,560k over the period from 2016/17 to 2021/22 are now forecast, with a movement of £14,993k from existing budgets largely due to new receipts arising from the Yiewsley Development. Provision of £13,824k in respect of as yet unidentified surplus assets to be sold from 2017/18 onwards is included in the financing budget. Whilst this remains a risk this represents a reduction of £9,736k on this target as at February 2016, with this being achieved by a combination of increases in market values and identified new disposal sites.

173. Following the introduction of flexibility to apply Capital Receipts to fund transformation projects for the period from 2016/17 to 2018/19, the Council will identify and secure £2,500k additional receipts from asset sales in 2017/18 and 2018/19 to meet such costs, as noted in the savings section of this report.

174. The existing CIL financing budget of £25,080k from 2016/17 to 2020/2021 is mainly driven by forecast levels of residential development over the next five years with smaller elements relating to office, industrial and hotel developments. A further £5,500k is assumed for 2021/22 at a similar level to current assumptions. However there remains some uncertainty over the future level of CIL receipts as they will depend largely on external economic factors over the next five years.

175. Additional Section 106 contributions totalling £2,393k have been identified and added to the Capital Programme, including £1,208k affordable housing contributions to support the General Fund discounted market sale housing development at Belmore Allotments, and £1,185k Highways related balances to supplement the Hayes Town Centre and Transport for London programmes. Additional Education balances totalling £669k have been allocated to the 2016/17 Schools Expansions programme.

176. There continues to be limited information around grant awards beyond 2017/18 however the majority of existing funding streams are expected to continue over the medium term. This position will remain under review and the implications of any variances between actual awards and assumptions reported to Cabinet through the Monthly Budget Monitoring process.

177. As a result of the programme changes outlined in this report, the Council's borrowing requirement over the period to 2021/22 is expected to decrease by £34,835k from

£164,469k to £129,634k, mainly as a result of the decreased forecast demand for Secondary Schools places. The table below sets out the movements in the prudential borrowing requirement arising from the proposed refresh of the General Fund Capital Programme:

Table 13: Prudential Borrowing Requirement

	2016/17 £'000	2017/18 to 2021/22 £'000	Total £'000
Approved Capital Programme	**50,948**	**113,521**	**164,469**
Forecast Outturn Variance Month 7	(24,063)	19,452	(4,611)
School Expansion Programme		(38,200)	(38,200)
Additional Schools Funding		(3,701)	(3,701)
Programme Additions / Changes to existing projects	(250)	25,280	25,030
Programmes of Works Changes		27,085	27,085
General Contingency 2021/22		1,500	1,500
Additional DFG grant	(531)	(2,124)	(2,655)
Additional Capital Receipts	15,631	(30,624)	(14,993)
Grants & Contributions	100	(15,828)	(15,728)
Additional Section 106 Receipts	(669)	(2,393)	(3,062)
CIL 2021/22		(5,500)	(5,500)
Revised Programme	**41,166**	**88,468**	**129,634**
Increased Borrowing Requirement	**(9,782)**	**(25,053)**	**(34,835)**

HOUSING REVENUE ACCOUNT

178. The budget proposals for 2017/18 are based on the sixth full year of self-financing for the Housing Revenue Account. Under self-financing, the regulations maintain a ringfence around the Council's provision of housing, the cost of which is fully supported by rental income.

179. This budget reflects the 1% per annum reduction in rents to reflect Government policy, includes the impact of the High Value Voids Levy based on informal intelligence while providing for substantial investment in new General Needs and Supported Living units.

Changes since report to Cabinet on 15 December 2016

180. No changes are proposed from the HRA budget and Capital Programme approved by Cabinet for wider consultation in December 2016. The proposals within this report have been updated to include proposal of the HRA rent policy to Council for approval.

Update on 2016/17 Budget

181. Development of the 2017/18 Housing Revenue Account budget builds upon the 2016/17 budget and therefore the current monitoring position provides a useful context, highlighting areas of uncertainty which will impact upon the future of the HRA. As at Month 9, an underspend of £12,942k is projected on the HRA, a favourable variance of £3,680k compared to the budget, increasing forecast unallocated general balances to £46,886k at 31 March 2017.

182. Variances within the £3,680k reported underspend include: rent and other income favourable variance of £51k, mainly due to improved voids performance; housing

management overspend of £325k; tenant services underspend of £735k, mainly due to caretaking and sheltered housing staffing related costs; planned maintenance and repairs underspend of £3,235k due to the validation, procurement and consultation timetables required to deliver these; and interest and investment income overspend of £16k.

183. There were 75 properties sold under Right to Buy (RTB) arrangements between April and December 2016. Significant investment outlined in the HRA Capital Programme is required to replenish housing stock and avoid repayment of retained receipts with punitive interest charges.

Budget Requirement 2017/18

184. The movement from the 2016/17 baseline to the 2017/18 budget requirement is summarised below, with rental income projections and budget requirement levels refreshed from the position included in the February budget report. The budget includes an increase of £19,038k in the contribution to support in-year capital investment and £11,664k use of General Balances. This planned use of balances reflects increased investment in new housing stock, and the underlying financial position of the HRA remains robust.

Table 14: HRA Budget Requirement

	£'000
Funding Sources	
Dwelling Rents	55,064
Other Income	5,494
Total Resources	**60,558**
Budget Requirement 2016/17	52,193
Inflation	937
Corporate Items	19,092
Savings	0
Budget Requirement 2017/18	**72,222**
Surplus / (Deficit)	**(11,664)**

185. Appendix 7 to this report continues this presentation over the MTFF period, with annual surpluses set to reach £2,934k by 2021/22. Rental and Other income assumptions to 2021/22 are expected to achieve £63,296k, repayment of debt under self financing £15,407k, contribution to fund capital expenditure on existing stock of £13,516k and repairs & management costs of £31,436k, creating a surplus of £2,937k available to develop existing stock or support new development.

Rental and Other Income

186. Rental income projections have been fully refreshed to take account of revised estimates for the movement in the numbers of properties due to new builds, sales to pay for the High Value Voids Levy from 2018/19 and properties being sold under the RTB scheme. This budget has been prepared on the assumption that there is a decline in RTB sales from the peak of 115 to 60 over the medium term.

187. 2016/17 was the first of four years of the 1% rent reduction as part of the Chancellor of the Exchequer's announcement on rent reforms, which requires all housing authorities to cut rents by 1% in each of the next four years 2016/17 - 2019/20, a reversal of the 10-year old previous rental formula allowing annual increases of CPI + 1%. The announcement to reduce rents is part of the Government's wider welfare reform savings, aiming to reduce the

welfare bill by £12bn by 2019/20. Rental increases are assumed to revert to CPI + 1% in 2020/21 and this is reflected in the resource assumption level outlined in Appendix 7. At this stage it is assumed that the 1% provision for income losses arising from void properties will remain at this level, resulting in net dwelling rents of £55,064k.

188. Other income is expected to total £5,494k for 2017/18, mainly relating to service charges which are expected to be increased by CPI (September 2016 i.e. 1%) and are not subject to restrictions imposed by the Chancellor's rent reforms.

Balances and Reserves

189. HRA general balances are projected to reach £46,886 by 31 March 2017, representing 76% of rental and other income for 2017/18. It is proposed to keep the minimum level of HRA balances set at £12,000k with sums over and above this amount earmarked for investment in new or existing stock. The minimum level of balances is approximately 20% of rental and other income and has been estimated following a similar methodology to that applied in the General Fund. The Major Repairs Reserve (MRR) will be utilised to support capital investment and it is not planned to retain any uncommitted MRR balances over the medium term.

Inflation

190. An inflation provision of £937k included in this budget has been estimated using the same assumptions as for the General Fund inflation provision. This sum includes £314k in respect of inflation on operating cost budgets and £623k on repairs and planned maintenance budgets. The latter sum will be reviewed as procurement work progresses and the future position on a number of significant contracted workstreams becomes clearer.

Corporate Items

191. Movements contained within Corporate Items include changes in provision for capital financing costs, direct contributions to support capital investment, changes in balances and other presentational changes. The net movement of £19,092k shown in Appendix 7a consists of £19,038k increases to contributions to capital and £54k reduction in interest on balances due to a reduction in cash balances.

Development & Risk Contingency

192. The HRA budget includes contingency budgets totalling £1,738k to meet emerging risks and pressures during 2017/18. Within this sum £1,058k is identified as General Contingency with a further £680k provisionally earmarked for costs within the Repairs Service. At present there are no specific commitments against the General Contingency provision. The development and risk contingency budget will also be used, if required, to increase the level of the bad debt provision.

High Value Voids Levy

193. The Government indicated during 2015 that as part of agreeing a deal with Housing Associations to start a Right to Buy scheme the funding for this from Government would be generated from Councils selling their high value void properties. The November 2016 Autumn Statement outlined a five-year regional pilot of Right to Buy in the housing association sector, which DCLG ministers have since confirmed means no levy will be raised in 2017/18 outside these pilot areas of which Hillingdon is not part. Given the remaining uncertainty around the implementation of the levy, this budget reflects a prudent approach

with the first year of the levy assumed to be 2018/19. It is assumed that the levies payments will be met from the proceeds of selling high value void properties; with the resulting marginal annual reduction in housing stock reflected in future rental income projections.

Medium Term Outlook

194. On the basis of current assumptions and projections, the financial standing of the HRA is expected to remain sound over the MTFF period. The following paragraphs outline the key assumptions included in this budget and highlight potential risks which could adversely impact upon the HRA budget over the MTFF period.

195. This budget assumes that rental income will reach £57,285k by 2021/22, with an additional £6,008k generated through service charges and other income. Rental and other income is expected to reach £63,293k by 2021/22, which assumes rents will increase by CPI+1% from 2020/21 onwards. Over this period it is assumed that 1% of potential yield will be lost to void properties between tenancies.

196. There remains scope for volatility in rental income over the MTFF period as uncertainty around timing of additions to the housing stock and the loss of revenue associated with Right-to-Buy sales. This budget assumes that 445 dwellings will be sold over the five years to 2021/22 and 137 sold to fund the High Value Voids Levy, with the Council's current capital programme delivering an additional 335 units through new builds and buy-back mechanisms. It is expected that the current demand levels represent a peak following the discount changes in recent years and historically low interest rates, falling to approximately half of this level over the remainder of the MTFF. The net impact of these movements will be a reduction of 247 properties to leave 9,634 properties. A movement of 100 properties would be equivalent to securing approximately a net £10,200k capital receipt; however it would result in lost rent of £565k per annum.

Table 15: Projected Movement in Housing Stock

	2017/18	2018/19	2019/20	2020/21	2021/22
Projected Opening Stock	9,881	9,786	9,838	9,822	9,728
Forecast Right to Buy Sales	(115)	(105)	(105)	(60)	(60)
Forecast Sales (High Value Voids Levy)	0	(35)	(34)	(34)	(34)
New General Needs Units	20	30	85	0	0
New Supported Housing Units	0	162	0	0	0
Shared Ownership	0		38	0	0
Projected Closing Stock	**9,786**	**9,838**	**9,822**	**9,728**	**9,634**
Projected Average Stock	9,834	9,812	9,830	9,775	9,681

197. As reported through monthly budget monitoring, the Council's current 1:1 Replacement Agreement with DCLG enables the local retention of Right-to-Buy sale proceeds provided the Council replaces lost units within three years and provides 70% match funding. The increases in contributions to capital over the MTFF period are sufficient to meet this commitment, but will be kept under review given the sustained current demand of sales.

198. Revenue contributions to secure the level of new builds proposed in the capital programme are £63,150k, with £17,471k of Capital Receipts projected to support this investment over the medium term.

199. Alongside provision for investment in new stock this budget includes annual contributions towards the Works to Stock programme totalling £42,265k and £5,978k for major adaptations.

200. While there is sufficient capacity to finance the current approved HRA capital programme from direct revenue contributions and avoid use of Prudential Borrowing, annual provision of £15,407k is included in this budget for the servicing and financing of existing settlement debt. It is proposed to retain this level of provision in order to establish a capital contingency to enable further procurement of housing stock where opportunities present themselves.

201. The High Value Voids Levy remains a significant risk for the HRA. Whilst a prudent approach has been adopted by including the High Value Voids Levy in the MTFF, Hillingdon along with other Councils are awaiting Government guidance on when the levy will be implemented and the methodology for calculating the levy.

202. The projected HRA closing balances are shown in the table below.

Table 16: Projected Housing Revenue Account Closing Balances

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
General Balances	35,222	22,844	32,966	39,079	42,013

HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

Background to Capital Programme

203. The HRA Capital Programme remains focused on the twin objectives of maintaining existing stock and construction of new dwellings. Within the new build element of the programme, provision of supported housing to support the Council's Adult Social Care Reablement programme and associated revenue savings is a key strand. An overview of the revised programme is contained in Appendix 7b and this takes into account of the 2016/17 Month 9 budget monitoring position.

Update on Current Programme

204. As at Month 9 the major projects programme is forecast to underspend by £1,592k in 2016/17 and £2,910k over the period 2016-2021, which is attributable to the revised scope of the Supported Housing Programme.

2017/18 - 2021/22 CAPITAL PROGRAMME

205. As outlined above, this budget includes £48,243k provision for investment in existing housing stock, including £5,978k of funding for major adaptations to properties. This level of provision reflects the latest programme of works proposals, including 5% project management fees and inflation aligned to BCIS indices.

206. The capital programme contains provision of £90,122k to fund delivery of 335 new homes within the HRA over the period to 2021/22. These new build units will be financed from a combination of Capital Receipts from Right-to-Buy property sales retained under the 1:1 Replacement Agreement and direct revenue contributions from the Housing HRA. This new build programme consists of the following elements:

- For general needs housing (HRA), a provision of £31,391k is included to support construction or purchase of 135 new properties within the HRA, funded through 30% Right to Buy proceeds and 70% revenue contributions. There is scope to deliver these units through either new build or Buy Back arrangements, although it will be necessary to secure land for any new build proposals;

- £8,635k has been included for New Build appropriation of land for 2 new sites;
- £7,949k has been built into the programme for New Build Shared Ownership to deliver 38 units; and
- A budget of £32,647k is included to fund delivery of 162 Supported Housing units across a number of sites in the borough deliverable circa 2019/2020, which will be funded from 30% Right to Buy Receipts and 70% revenue contributions. As noted within the Adult Social Care savings section of this report, these projects will support the wider reablement agenda and reduce the Council's reliance on residential care placements.

207. A capital contingency of £9,500k is included within this programme to ensure the Council retains sufficient flexibility to secure additional housing units where opportunities become available. This contingency is to be initially funded from Prudential Borrowing, the on-going financing costs of which can be managed within the existing annual provision of £15,407k for the servicing and repayment of debt.

208. In addition to the £90,122k on new homes, £162k has been built into the HRA capital programme for HRA technology and innovation works. This is the HRA related costs of the Corporate Technology and Innovation programme, which is detailed in the MTFF Capital report.

SCHOOLS BUDGET

209. The Council receives funding for Schools' Budgeted Expenditure through the Dedicated Schools Grant (DSG), which is a ring fenced grant. The DSG funds both the delegated individual schools budget and items which the School and Early Years Finance (England) Regulations allow to be retained centrally by the Council, including Special Educational Needs, Alternative Education provision and Early Years provision.

210. Proposals in relation to the Schools Budget are presented to Cabinet in a separate report on this agenda, with no cost falling upon the Council Taxpayer for those services funded from the Dedicated Schools Grant unless the Council chooses to supplement the Schools Budget from the General Fund. The budget proposals contained within this report do not include any application of General Fund resources to support the Schools Budget. Proposals contained within this draft budget in relation to abolition of the Education Services Grant and associated transfers of functions have been, where relevant, fully considered in development of Schools Budgets Proposals.

OVERALL BUDGET FOR COUNCIL TAX SETTING 2016/17

Corporate Director of Finance’s Comments Regarding Responsibilities under the Local Government Act 2003

211. Under Section 25 of the Local Government Act 2003 the Corporate Director of Finance as the Council’s nominated section 151 officer, has a responsibility to comment on:

- The robustness of the estimates for the coming year.
- The adequacy of the Council’s reserves.

212. The Corporate Director of Finance is able to give positive assurances on the robustness of the estimates in general for the coming year. This view is based on:

- The use of an established, rigorous process for developing the budget through the Medium Term Financial Forecast (MTFF) process. This includes close alignment with the service planning process. This has been further strengthened through the continued development of the Business Improvement Delivery programme.
- The inclusion within the base budget of a £19,116k Development and Risk contingency.
- Service managers having made reasonable assumptions about demand pressures and taken a prudent view of volatile areas.
- Risk based financial monitoring being undertaken during the year and reported to Cabinet on a monthly basis. This includes the agreement of recovery plans to ensure that the budget is delivered in overall terms.
- Procedures in place to capture and monitor procurement and other efficiency savings.
- Prudent assumptions made about interest rates.
- The recommended increases in fees and charges are in line with the assumptions in the revenue budget.

213. The Corporate Director of Finance also has a duty to comment on the adequacy of the Council's reserves when the budget is being set. At the time of budget setting for 2016/17, the Corporate Director of Finance set a recommended range of balances. This was between £15,000k and £31,000k, based on an analysis of the risks facing the Council, with sums above this level being earmarked to support planned drawdowns from balances. The recommended range has been reviewed following a review of the risks facing the Council, with an increase in the upper end of this range to £32,000k recommended for 2017/18. This increase relates to increased provision for treatment of efficiency savings, inflation and contract risk, being off-set by an improved outlook for local income.

Statement on Balances and Reserves

214. The Corporate Director of Finance has undertaken a review of the risks currently facing the Council. This has enabled an update to the recommended range of balances that the Council should hold. This forms the basis of the guidance provided above in relation to his responsibilities under the Local Government Act 2003.

215. To assess the adequacy of general reserves, the Corporate Director of Finance has taken into account the strategic, operational and financial risks facing the Council. The Council should retain adequate reserves to cover unexpected expenditure and avoid costly short-term borrowing. Equally, the Council wishes to utilise the maximum resources available to achieve its objectives, therefore it plans to maintain reserves at the lowest prudent level.

216. To determine the recommended level of reserves the Council has assessed risk against the criteria as specified in Local Authority Accounting Panel (LAAP) Bulletin 99 (July 2014). This assessment includes the following:

- The robustness of the financial planning process (including the treatment of inflation and interest rates and the timing of capital receipts).
- How the Council manages demand led service pressures.
- The treatment of planned efficiency savings / productivity gains.
- The financial risks inherent in any major capital projects, outsourcing arrangements or significant new funding partnerships.
- The strength of the financial monitoring and reporting arrangements.
- Cashflow management and the need for short term borrowing.

- The availability of reserves, Government grants and other funds to deal with major contingencies and the adequacy of provisions.
- The general financial climate to which the Council is subject and its track record in budget and financial management.

217. The assessment, although based on the Council's procedures and structures, has an element of subjectivity and to allow for this the optimum level of reserves incorporates a range. The recommended range for unallocated reserves for 2017/18 is £15,000k to £32,000k, with an additional £14,500k required to finance planned drawdowns from balances included in the Council's MTFF. Appendix 8 details the risk assessment upon which this range is based, with additional provision being made against treatment of efficiency savings, inflation and contract risk and scaling back of provision against local income projections. Ideally the Council should avoid having balances below a minimum level of £29,500k, or above a maximum level of £46,500k during 2017/18. Budget proposals contained within this report have been structured to retain balances within this recommended range.

THE COUNCIL TAX REQUIREMENT FOR 2017/18

218. The budget proposals included in this report represent Cabinet's budget strategy for 2017/18 and beyond. The revenue budget proposals have been developed to deliver a zero increase in the Hillingdon element of Council Tax for the ninth successive year. The approved Council Tax level for 2017/18 is subject to Members' final choices in the budget setting process.

Council Tax Referendum

219. The Localism Act 2011 introduced a power for the Secretary for Communities and Local Government to issue principles that define what should be considered as excessive Council Tax including proposed limits. If the Council proposes to raise its Council Tax above the proposed limits set, a referendum will need to be held. The result of the referendum will be binding upon the Council.

220. The general Council Tax increase above which local authorities would be required to hold a referendum for 2017/18 as directed by the Secretary of State for Communities and Local Government is 2%. As the budget proposals outlined in this report maintain Council Tax at the same level as in 2016/17, the referendum threshold will not be triggered for the financial year 2017/18.

221. For 2017/18 additional flexibility to levy a further 3% precept in support of Social Care expenditure has been introduced by the Government, therefore enabling Hillingdon to raise the Council Tax payable by residents less than 5% without triggering a referendum.

Greater London Authority Precept

222. The Mayor of London's final budget proposals for 2017/18 are scheduled for consideration by the London Assembly on 13 February 2017 and approval by 20 February 2017. The proposals result in a 1.46% increase in the element of Council Tax relating to GLA functions, equivalent to a £4.02 increase in annual bills for Band D Households. This is analysed across the relevant functional bodies as follows:

Table 17: Change in Proposed GLA Precept

	Band 'D' Council Tax 2016/17 (£)	Band 'D' Council Tax 2017/18 (£)	Percentage Change (%)
Mayor's Office for Policing and Crime	202.11	206.13	1.99%
Other Services	73.89	73.89	0.00%
Total	**276.00**	**280.02**	**1.46%**

FINANCIAL IMPLICATIONS

223. This is a financial report and the financial implications are included throughout.

EFFECT ON RESIDENTS, SERVICE USERS & COMMUNITIES

What will be the effect of the recommendation?

224. The budget proposals in this report result in a zero increase in Council Tax for the ninth successive year for all Residents and eleventh year for those over 65. The Medium Term Financial Forecast contains the funding strategy for delivering the Council's objectives as set out in the Council Plan. The effects are therefore extremely wide ranging and are managed through the performance targets and outcomes that will be delivered through the resources approved in the budget.

225. The budget has been developed with due regard to on-going reductions in central Government support to the Council, while minimising any 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 the value for money offered by services and by maximising funding, procurement, efficiency and service effectiveness gains.

Consultation Carried Out or Required

226. Each of the Policy Overview Committees has received reports setting out the proposed revenue budget and capital programme proposals relevant to their remit. This was approved by Cabinet on 15 December 2016 for consultation at the January 2017 round of meetings. Comments on the budget from each of the service Policy Overview Committees were referred to the Corporate Services and Partnerships Policy Overview Committee, who met on 2 February 2017 to consider the comments received from the three other Policy Overview Committees on the budget proposals relevant to their remit. The comments from that Committee will be presented to Cabinet in Appendix 14.

227. The Council also has a statutory responsibility to consult on its budget proposals with business ratepayers and residents in the Borough. A budget consultation survey was published on the Council's web-site in relation to the Cabinet's budget proposals after the meeting on 15 December 2016. The Council received 73 responses from residents, with 68% satisfied with the Council's budget proposals, 67% agreeing proposals represent value for money and 81% felt well informed. Of those satisfied with the budget proposals, comments highlighted the following positive features:

- Continuation of freezes for Council Tax and the majority of Fees & Charges
- Continued investment in universal services, including waste and libraries

228. Of those not satisfied with the budget proposals and disagree that they provide Value for Money, there was no single common theme in the reason for dissatisfaction although the potential impact on service quality and financial sustainability from not adopting the Social Care precept, specific experiences of residents in relation to changes to service delivery models, and future investment priorities were raised by multiple respondents. Analysis of responses to this consultation is available on the Council's website and presented as Appendix 15 to this report for information.

229. The budget reported to December Cabinet has been available to view on the Council’s website and additionally, Schools Forum has been consulted on those budget proposals that have a potential impact on schools budgets.

CORPORATE IMPLICATIONS

Corporate Finance

230. This is a corporate finance report and the corporate financial implications are noted throughout.

Legal

231. The Budget and Policy Framework Procedure Rules as set out in the Council's Constitution require the Cabinet to make proposals on the Council's budget. This requires them to be in accordance with the timetable which it has published. The Cabinet proposals are set out in this report for the consideration of full Council.

232. In respect of income the Council provides a number of services in respect of which it can impose charges and fees to users. In certain instances those fees or charges may be set by Government. In other cases the Council has discretion as to the level of charges it sets. It should be noted that in respect of certain matters the Council can only impose a fee or charge which reflects the actual cost to the Council of providing such services. This has to be considered when setting the overall budget.

233. The Corporate Director of Finance’s duties under the Local Government Act 2003, insofar as they relate to budget setting, are set out in the body of the report. Of importance to Members is the duty for him to comment on the robustness of estimates for the forthcoming year. Members will note that earlier in this report, the Corporate Director of Finance has given a number of positive assurances in relation to this issue.

234. The second duty for Members to note is the duty imposed on the Corporate Director of Finance to comment on the adequacy of the Council's reserves. Members will note that a Statement of Reserves and Balances is contained within paragraphs 214 to 217 of the report which discharges this duty.

235. As the Council's Section 151 Officer, it is the Corporate Director of Finance’s professional duty to propose to Members a budget which is soundly based, balanced and adequate to fund the expected level of service provision in the forthcoming financial year. This duty is reinforced in the Council's Constitution. This requires the Corporate Director of Finance to ensure the lawfulness and financial prudence of decision-making.

236. The 'Wednesbury reasonable' principle also requires a local authority, when making decisions, to take into account all relevant considerations and to disregard all irrelevant considerations. Clearly, in the context of budget-setting, having regard to the Corporate Director of Finance’s professional advice is a relevant consideration for Members to take into

account. However, Members are not bound to follow his advice. However, they should have good reasons for departing from it should they choose to do so. Furthermore, Members must at all times have regard to the overriding principle that they should set a legal budget and one which is as prudent as the circumstances permit.

237. Members must have regard to section 106 Local Government Finance Act 1992. This is in respect of a Member who has not paid an amount due in respect of Council Tax for at least two months after it becomes payable. They may not vote on matters concerning the level of Council Tax or the administration of it. Therefore, any Members who are more than two months in arrears with their Council Tax payments must make a declaration to this effect at the beginning of the meeting.

Relevant Service Groups

238. The 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 Council 25 February 2016 – General Fund Revenue Budget and Capital Programme 2016/17 to 2020/21
Report to Cabinet 15 December 2016 - Draft General Fund Revenue Budget and Capital Programme 2017/18 to 2021/22

APPENDICIES

Appendix 1 - General Fund Corporate Summary
Appendix 2 - General Fund Corporate Items
Appendix 3 - General Fund Development & Risk Contingency
Appendix 4 - General Fund Priority Growth
Appendix 5 - General Fund Savings
Appendix 6 - General Fund Capital Programme
Appendix 7 - Housing Revenue Account Budget and Capital Programme
Appendix 8 - Changes to Fees & Charges
Appendix 9 - General Fund Balances & Reserves Policy
Appendix 10 - Treasury Management Strategy Statement and Investment Strategy
Appendix 11 - Pay Policy Statement 2017/18
Appendix 12 - Housing Rents Policy 2017/18
Appendix 13 - Scheme for external auditor appointments
Appendix 14 - POC Comments on the budget proposals
Appendix 15 - Budget Consultation Analysis