THE COUNCIL'S BUDGET:
MEDIUM TERM FINANCIAL FORECAST 2013/14 – 2016/17

Cabinet Member	Councillor Ray Puddifoot and Councillor Jonathan Bianco
Cabinet Portfolio	Leader of the Council and Finance, Property and Business Services
Officer Contact	Paul Whaymand, Finance
Papers with report	Appendix 1 to 9 (detailed MTFF proposals)

HEADLINE INFORMATION

Purpose of report	This report sets out the Medium Term Financial Forecast (MTFF), which includes draft General Fund and Housing Revenue Account budget for 2013/14, along with indicative projections for the following three years. The revenue budget proposals have been developed to deliver a zero increase in Council Tax for two further years (these being the fifth and sixth successive years), as well as providing for priority growth initiatives, whilst maintaining balances and reserves well above the minimum recommended level.
Contribution to our plans and strategies	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 fifth and sixth successive years.
Relevant Policy Overview Committee	Corporate Services and Partnerships Policy Overview Committee Education and Children's Services Policy Overview Committee Residents' and Environment Services Policy Overview Committee Social Services, Health and Housing Policy Overview Committee
Ward(s) affected	All

RECOMMENDATIONS

1) **Approve the draft revenue General Fund and Housing Revenue Account budget and capital programme proposals for 2013/14 and beyond as the basis for consultation with Policy Overview Committees and other stakeholders.**

2) **Request the comments of individual Policy Overview Committees on the draft budget proposals relating to their areas of responsibility, to be collated into a single report back to Cabinet from the Corporate Services and Partnerships Policy Overview Committee.**

3) **Approve the proposed fees and charges included at Appendix 8 as the basis for consultation with Policy Overview Committees and other stakeholders.**

4) **Authorise the Corporate Director of Finance, in consultation with the Leader of the Council, to respond on behalf of the Council to the consultation on the provisional Local Government Finance Settlement and to the Mayor of London's budget consultation.**

INFORMATION

Alternative options considered / risk management

In order to comply with the Budget and Policy Framework, the Cabinet needs to publish a draft budget for consultation at this meeting. The Cabinet could, however, choose to vary the proposals set out in the report, with any amendments reflected in the papers consulted upon with Policy Overview Committees during January 2013.

The section of the report on the Development and Risk Contingency considers the key risks and uncertainties that need to be managed and how these have been provided for within the budget strategy.

Comments of Policy Overview Committee(s)

Following consideration at Cabinet, this report will form the basis of consultation with Policy Overview Committees during January 2013. Comments from the Policy Overview Committees will be reported back to Cabinet by the Corporate Services and Partnerships Policy Overview Committee when Cabinet meets on 14 February 2013. Cabinet will then agree a set of budget proposals for recommendation to the annual Council Tax setting meeting of full Council on 28 February 2013.

1. BACKGROUND TO THE 2013/14 BUDGET

The Local Government Finance settlement in 2010 was for 2 years, and was the key driver for the Council's financial planning whilst Central Government took the opportunity to review the way resources are allocated to councils through a fundamental review of local government finances. The impact of the changes being introduced by the Local Government Finance Act 2012 will replace the formula grant system, totally changing the way local government is funded in the future. The next local government finance settlement due in December 2012 will cover the years 2013/14 and 2014/15 and will set out the full impact on local government of the changes being implemented through the new Act. The key changes include proposals for retention of a percentage of Business Rates, replacement of Council Tax Benefit with a localised Council Tax Support Scheme and changes to Revenue Support Grant.

The General Fund Revenue Budget and Capital Programme for 2012/13 was approved by Cabinet and Council in February 2012 in support of the setting of Council Tax for 2012/13. The report outlined the savings proposals to deliver a balanced budget in 2012/13 and identified savings of £12.1m for 2013/14 of which £9.9m had been allocated to Groups at that stage. The budget strategy, developed in response to the CSR 2010, which is reliant on the HIP Business Improvement Delivery project, contained challenging savings targets totalling in excess of £60m over the subsequent four year period. Savings of £15.6m in 2010/11 and £26.2m in 2011/12 have been fully delivered and the £17.7m in 2012/13 is on track for delivery. For the final year of the original strategy (2013/14), proposals for further savings of £12.8m have been developed by groups. In addition, all group and corporate pressures have been reviewed and updated and this work will continue until budget setting in February 2013.

Since February 2012, Central Government has published a large number of consultation papers that will potentially impact on Council funding, including a number in relation to Education funding. In addition, the local government finance settlement expected to be issued this month will lay out a new 2 year settlement for local government as well as incorporating fundamental changes to the local government finance system. The estimated impact of these numerous changes on the likely level of Council funding have been incorporated into the draft budget. However, there is clearly a high degree of uncertainty that will not be removed until the settlement has been issued and analysed in detail. This analysis will be incorporated into the February 2013 Cabinet budget report.

This draft budget report outlines a strategy incorporating the changes set out above including detailed proposals that are capable of bridging the budget gap of £12.8m in 2013/14 and future years, with minimal impact on the delivery of front line services and within the following parameters:

- zero increase for Hillingdon's element of the Council Tax for the next two years. This will be the 5th and 6th successive years for the general freeze in Council Tax and the 7th and 8th for pensioners;
- Freeze on most fees and charges for residents for a further 2 years;
- priority growth available for new initiatives of £2.0m;
- maintaining balances and reserves well in excess of the minimum recommended. This will provide a significant buffer going forward if the settlement is worse than expected.

2. MTFF PROCESS FOR THE 2013/14 BUDGET CYCLE

The timetable for the development of the 2013/14 budget was brought forward as in previous years with work commencing as soon as the 2012/13 budget was agreed by Council in February 2012. The initial technical consultation for the proposed Business Rates Retention scheme released in July included a commitment to maintain funding stability for local government as far as possible. This provided a basis for the development of the MTFF for 2013/14 building upon the total Government funding agreed for 2012/13 and enabled estimation of the likely budget gap for 2013/14 and the plans to bridge this gap to be developed.

Work on the development of savings proposals is integrated and aligned with service transformation work programmes, which is managed through the HIP Business Improvement Delivery programme. Over the last year, BID has continued to develop and evolve. The Deputy Chief Executive and Corporate Director of Residents Services has responsibility for the overall programme to ensure continuity across Groups and the well established group change boards take responsibility for the delivery of the programme within each group. This governance framework enabled significant early progress on the development of a balanced set of proposals for 2013/14.

Since February, Groups have continued to work on the detail of savings proposals. The BID programme has been expanded into new areas and this has helped scope out the potential for further savings. In addition, considerable work has been undertaken on the corporate aspects of the budget including grant funding, capital financing and inflation. Over the year, two blocks of six challenge sessions have been held covering the three groups, Corporate budgets, BID cross cutting proposals and the Housing Revenue Account. Each session followed a similar format reviewing:

- The current position in 2012/13 – both monitoring and savings delivery
- A review of existing and emerging pressures which need to be addressed in the 2013/14 budget
- Progress on the development of savings proposals for 2013/14
- Identification of any potential growth or invest-to-save bids
- Capital programme requirements and clarification on further work required.

All groups were instructed to deliver as a minimum their original savings target for 2013/14, and to then keep working on the development of further proposals. Where it was identified that savings would not be deliverable, Groups were instructed to develop alternative savings proposals or, where possible, to bring forward savings from future years. Early drafts of the budget report were provided to the Leader at the end of July and to the Cabinet and CMT Awayday in November.

The Chancellor of the Exchequer's Autumn Statement was published on 5 December 2012, which set out the economic context within which the UK is operating and the overall forecasts of growth, borrowing and expenditure for 2013/14 and future years. This indicates that local government will be protected from further cuts in funding in 2013/14 but will have a further 2% cut in funding for 2014/15 over and above that set out in CSR2010. The Local Government Finance settlement and the specific details for Hillingdon's future funding are expected to be issued on 19 December.

3. GENERAL FUND REVENUE BUDGET PROPOSALS

Update on 2012/13 Budget based on the month 7 monitoring position

1. To provide some context to the budget setting for 2013/14, it is essential that the position with the 2012/13 budget is fully understood as there is a strong link between many of the proposals included in the 2012/13 budget and those in 2013/14.

2. The latest in-year revenue monitoring position (Month 7 – October) shows that forecast net expenditure for the year 2012/13 is £2,066k less than the budget, an improvement of £326k on Month 6. There is a £314k forecast pressure on directorate budgets, a £620k exceptional

item in relation to a request for an additional in-year levy payment for the West London Waste Authority and a projected underspend on capital financing costs of £3,000k linked to required borrowing on the Primary School Capital Programme being deferred.

3. There is a reported improvement of £326k in the Group budgets position arising from the continued effort being undertaken across the Council to deliver outturn within budget this year, which will allow the capital financing underspend to be treated as a windfall.

4. There is still considerable flexibility in the current years forecast position as there is still £679k of unallocated contingency, £304k unallocated from the HIP contingency and £1,654k of unallocated priority growth available. Projected balances carried forward in the month 7 report are £27,505k, over £2m in excess of what they were forecast to be at the start of the current financial year.

5. The main issue to consider in the 2012/13 budget is whether there are any problems in the delivery of the £17.7m savings included in the budget, which could have an adverse impact in 2013/14 onwards. The latest tracking of savings delivery at the end of October 2012 is shown in the following table:

Rag Status of Savings (At Month 7)	Administration & Finance	Residents Services	Social Care & Health	Total (Month 7)	%
Blue - Banked	-1,781	-5,468	-4,793	-12,042	68.05
Green - On track for delivery	-55	-2,010	-1,112	-3,177	17.95
Amber - Potential significant savings shortfall or a significant or risky project which is at an early stage;	0	-335	-220	-555	3.14
Red - Serious problems in the delivery of the saving.	-300	-350	-1,272	-1,922	10.86
Total	**-2,136**	**-8,163**	**-7,397**	**-17,696**	100.00

6. As at Month 7, 86% of savings are classified as either banked or on track, with the banked element rising to 68% from 64% at Month 6. Progress continues to be made in banking these savings; however there remains 14% of savings reporting either potential or serious problems with delivery. Although progress is being made towards containing this shortfall in the current year, a number of alternative savings have been developed where original proposals appear unworkable. This is reflected in the fact that the overall Group position is showing an overspend of £314k rather than the £1.9m for projects currently flagged as red.

Budget Requirement 2013/14

7. The movement between the current year's budget and the draft budget requirement for 2013/14 is summarised in Table 1 below. The work undertaken on the budget since February has resulted in significant movement within each of the lines in Table 1, with the forecast budget gap changing as the impact of the numerous proposed changes to Local Government funding are remodelled. Additionally, a two year freeze on Hillingdon's element of Council Tax was factored into the budget. The format of this table will be developed to reflect the new funding sources of retained business rates, Council Tax support, and RSG and unringfenced grants once the details of the new LG Finance Settlement are published. However for the purposes of this report, the current format has remained the same as previous years to ensure continuity and comparison with previous years. Further detail on

each of the items is set out in the following sections of this report and a more detailed summary of the MTFF over the full 4 year period is attached in Appendix 1.

Table 1: Budget Requirement 2013/14

	(£000s)
Budget Requirement 2012/13	190,668
Inflation	2,913
Corporate Items (Appendix 2)	-2,403
Contingency (Appendix 3)	3,903
Priority Growth (Appendix 4)	-195
Savings (Appendix 5)	-12,789
Change to non formula grant	4,998
Budget Requirement 2013/14	187,095
Funding Sources	
Council Tax	113,444
Government Formula Grant (estimated)	73,651
Total Resources	187,095

Inflation

8. The core amount of inflationary cost increases in the draft budget for 2013/14 is £2.9m. This represents a decrease of £2.1m compared to the earlier projections contained in the budget report to Cabinet and Council in February 2012. Projections have been updated to reflect latest economic conditions and available forecast information from HM Treasury as at November 2012. Future inflation forecasts have reduced over the current financial year as it became clearer that the economy had gone back into recession and that any recovery is likely to be very slow.

9. The current inflation assumptions allow for a potential 1% Local Government pay award for 2013/14 and an uplift of 1% to fund increased employers pension contributions for those staff within the Local Government Pension Scheme. The pay forecast remains broadly in line with that assumed in the budget forecast in February 2012.

10. Inflation assumptions for electricity, gas and vehicle fuel have been refreshed to take account of current forecasts which indicate the continued need for relatively high inflation requirements in these areas. There remains significant volatility in this area and forecasts will continue to be refreshed on the basis of available intelligence and experience during the remainder of 2012/13.

11. Provision for 0.7% inflation on Social Care placements has been included, taking into account negotiations by the West London Alliance which are hoped to secure a fourth year of zero increases in these rates. For those contracts with unavoidable inflationary increases provision has been made in line with contractual commitments.

12. The estimates provide for no inflation on the majority of levies in line with experience over the last year or two. However, provision has been made for a 2.58% increase in Concessionary Fares to reflect latest intelligence. There are distributional changes in the apportionment of this levy proposed that will benefit the Council but a decision still needs to be made by London Councils as to whether this will be applied in 2014/15 or be phased in over 2 years.

13. Table 2 below sets out the general inflation rates applied to specific budget lines.

Table 2: Inflation

Category	Rate (%)	2012/13 (£000s)
Employee's Pay	1.80%	1,756
Electricity Costs	10.00%	201
Gas Costs	17.00%	94
Vehicle Fuel Costs	7.50%	65
Care Placements	0.70%	450
Contract with unavoidable inflation increases	Contractual %	229
NNDR budgets	NNDR Increase %	70
Levies	Specific Levy %	213
Sub Total		**3,079**
Adjustment for Children and Families Inflation already in the base budget		-166
Total		**2,913**

Corporate Items

14. There are a number of issues that impact on the Council overall, or have a significant impact on the majority of service groups within the Authority. A net decrease in the budget of £2.4m in 2013/14 has been identified which are shown in summary in the table below and in further detail in Appendix 2.

Table 3: Corporate Items

Corporate Items	Amount 2013/14 (£000s)
Contributions (from) / to balances	-2,126
LAA Reward Grant share to safer Hillingdon Partnership	-292
Increase in Council Tax Older People Discount	15
Total	**-2,403**

15. The 2012/13 budget included a payment into balances of £2.1m and also included the last year of the LAA reward grant share. As a result these items will both drop out of the budget in 2013/14. The current assumption is that there will be no draw down from balances or payment into balances in 2013/14 or in future years. However, with the very late notification of the Local Government Finance Settlement it may be necessary to include a small drawdown from balances in 2013/14 to allow time for further savings to be developed. This is a prudent assessment which provides a degree of flexibility if the settlement over the next 2 years is worse than expected.

16. The final adjustment reflects the Council's policy to keep Council Tax at a static level for older people, reflecting the demographic impact of a greater number of residents moving into the discount bracket.

Service Pressures & Development and Risk Contingency

17. Groups have undertaken work to identify and review all service pressures and will continue to challenge and review throughout the year. At this stage the draft budget contains no

provision for any specific unavoidable service pressure as emerging potential pressures are being provided for in contingency. As work on developing the 2013/14 budget will continue until the presentation of the final report to Cabinet in February 2013, the development and risk contingency is used to manage issues that typically arise during the budget process where the likelihood of resources being required is uncertain. Rather than include all of these in the draft budget and therefore overstate the estimated budget requirement, they are collated within the Development and Risk Contingency.

18. A net increase in the contingency of £3.9m shown in the table below reflects the latest estimate of potential funding to cover a range of financial risks faced by Council in 2013/14. The increase arises mainly from the significant demographic or demand led pressures facing the Council. A detailed breakdown on the development and risk contingency for the period 2013/14 to 2016/17 is shown in Appendix 3. Explanations of the current assessment of contingency requirements are detailed in the following paragraphs.

Table 4: Development and Risk Contingency

Contingency Items	**Current 2012/13 Contingency (£000s)**	**Pressure 2013/14 (£000s)**	**Change (£000s)**
Total	16,226	20,129	3,903

19. ***Social Care Pressures -*** A review of the financial models which are used to predict future demand for both Adult and Children's services was undertaken by LG Futures and as a result of the findings from that review, new more interactive finance models are currently being developed for both Adults and Children's Services. Work on the new models is nearing completion and once full analysis of the output is completed a refresh of the social care demographic pressures will undertaken, allowing the final figures to be incorporated into the February budget. In this report, the figures are, therefore, based on the existing models which indicate the demographic pressures for 2013/14 remains at £8.3m for Adults Social Care, an increase of £2.15m from 2012/13, and a new pressure of £0.78m for Children's Services. There are clear underlying pressures in these areas and work on improved models will allow these forecasts to be refined.

20. ***Transitional Children -*** The latest projections for transitional children moving through to Adult Services continue to demonstrate a continued pressure on service demand. The current assessment of the likely contingency requirement is £3.8m. Of this sum, £2.7m represents the cost of clients that have already transferred to Adults and £1.1m is the estimate for the cost of those likely to transfer across in 2013/14. Encouragingly there is some emerging evidence that recently transferred cases have transferred at lower costs than in previous years and if this trend continues then future contingency from 2014/15 could be reduced.

21. ***Impact of reduction in UKBA grant funding –*** The latest estimate of asylum client numbers and likely grant funding for 2013/14 indicates a requirement of £2m (£0.8m in excess of that assumed back in February 2012). £0.5m of this change is due to the likely cut in the fixed gateway payment being signalled by UKBA (being challenged by the Council). The remainder is due to reductions in client numbers that are eligible for grant funding resulting in an increased cost being borne by the Council.

22. ***Waste Disposal Levy (Landfill Tax) –*** There are a number of significant risks associated with the operation of the West London Waste Authority which are expected to impact on the Council's levy payments. As a result of increasing waste tonnages being directed to landfill and attracting additional landfill Tax costs through the accelerator, the requirement is expected to increase from £550k in 2012/13 to £1,380k in 2013/14 with further substantial increases beyond that if no mitigating action is taken.

23. ***Waste Disposal Levy (Supplementary Levy & Operation of WLWA) –*** The underlying pressure included in MTFF for Landfill Tax is exacerbated by financial and management issues at West London Waste, which have resulted in a supplementary levy being requested at a cost of £620k to Hillingdon during 2012/13. Officers are investigating options to mitigate and manage both aspects of this issue. There is currently no specific contingency provision in 2013/14 for further supplementary levy requests.

24. ***Bid Pump Priming –*** In the Autumn Statement, the Chancellor announced a further 2% reduction in the funding of local government in the 2014/15 year which will require further significant savings within the Council's overall budget. A contingency of £500k will support further development of BID work to deliver the required efficiencies for the Council.

25. ***HS2 Challenge -*** The Council joined forces with 12 other councils to fight the proposed High Speed 2 link proposals, and is 1 of the 6 lead councils identified that would take a leading role on challenging the Government. The Secretary of State announced the decision to go ahead with the proposals in January 2012 and there is currently formal consultation on safeguarding zones and the environmental impact process on the proposed route that would run through the north of the Borough.

26. A contingency of £200k has been provided for potential legal advice and representation requirements during 2013. There would also be a need to fund potential costs for any studies undertaken that would be deemed appropriate to provide evidence for a critical review of the business case being presented by the Government in support of the proposal.

27. ***Hillingdon Local Plan (previously referred to as Local Development Framework) –*** The draft 2013/14 budget in February 2012 included a contingency for the Local Development Framework legal and consultancy fees of £65k. This sum has now been reduced to £30k to cover the Examination in Public issues where costs are expected in 2013/14.

28. ***Heathrow Expansion Challenge*** – In anticipation of proposals being developed to expand Heathrow, a new contingency provision of £100k has been included to fund a challenge to these plans. It is likely that this will be a joint effort with other Councils such as LB Richmond.

29. ***Contingency against Leisure outsourced income streams -*** There are potential shortfalls in budgeted income in the Council's various outsourced leisure contracts, necessitating a contingency to provide for this shortfall. The contingency forecast for 2013/14 has been increased to £0.2m, to account for the shortfall in Minet Gym Bromley Mytime income and for the continued loss of the Mack Trading golf course fee income now the service has been brought back in house. The contingency requirement then increases to £0.3m in 2014/15 due to the full year impact of the loss of the Minet Gym income.

30. ***SEN Transport -*** There is a pressure of £250k in the current year due to a combination of increased SEN routes being provided compared to 2011/12. A wider review on Transport is

being undertaken through BID which will include this service and further work is underway to specifically look at the continuing impact of demographic pressures on this area.

31. ***Carbon Reduction Commitment -*** A contingency amount of £0.44m was included in the draft budget for 2013/14 for the payment of Carbon Allowances. As a result of changes in CRC legislation, it is expected that the amount required can now be reduced to £0.4m.

32. ***Impact of welfare reform on homelessness –*** The impact of the changes to Housing Benefit through changes to subsidy levels impacted negatively on the affordability of leasing schemes of temporary accommodation used by the Council to accommodate homeless households. This change combined with the increasing rental levels and the limited supply of properties created a pressure that is currently forecast at £737k p.a., the same level as in 2012/13.

33. In addition, the introduction of the Housing Benefit cap to 'workless' households coupled with the payment of benefit direct to claimants, rather than to the Council, is likely to increase the number of tenants who cannot afford to pay their rent, causing a pressure on the homelessness budget. An initial estimate of the gross risk is around £1.5m, although there are several actions which can be put in place to mitigate this pressure. Work is continuing to assess the overall financial implications of the risk and to develop mitigating actions to reduce this risk.

34. ***General Contingency -*** The draft budget continues to include a sum of £1m in general contingency within the development and risk contingency. This reflects the large degree of uncertainty that exists over a number of budgets and central Government funding at this point in time. In particular, it is too early to calculate the potential financial impact of auto-enrolment on staffing budgets at this stage.

Priority Growth

35. Provision has been made within the 2013/14 budget for just over £2m of unallocated priority growth an increase of £0.3m from 2012/13. As the budget for 2013/14 is presented as the movement from the 2012/13 budget and there is £518k of one-off growth in 2012/13 that drops out in 2013/14 the change from 2012/13 is -£195k. These movements are detailed in table 5:

Table 5: Priority Growth

Priority Growth	**Amount 2013/14 (£000s)**
Additional Priority Growth to be added to the £1.7m already in the 12/13 budget and still unallocated	301
Additional Funding for Extended Library Opening Hours (Full Year Effect)	22
One-off priority growth falling out (mainly Highways)	(518)
	(195)

36. A number of proposed new initiatives to be funded from the £2m priority growth provision are detailed below, totalling £1,477k and leaving £528k unallocated and still available to fund new growth priorities.

- An additional £1,000k revenue investment in the Borough's highways and footpaths is proposed, alongside a further £2,000k of capital investment.
- Funding of £56k per annum is included to support a Proceeds of Crime Officer within Enforcement.
- A dedicated Ruislip Lido Officer is included at £33k per annum, providing a single of point of contact for visitors, co-ordinating redevelopment work on the site and undertaking cleansing and enforcement tasks on a day to day basis.
- The creation of dedicated litter collection teams in the Borough's parks during the summer months is included at a cost of £57k per annum.
- With the falling out of historic LAA Reward Grant funding from 2012/13, there are a number of community safety initiatives, including support to Neighbourhood Watch and a Probation Officer to be continued at a cost of £108k per annum.
- To mitigate the increasing number of Highways insurance claims (managed through Development and Risk Contingency) priority growth of £33k is included to support an additional highways inspector, enabling more frequent inspections of local infrastructure.
- To support the Council's wider economic development objectives and ensure the borough is 'open for business' a dedicated planning co-ordinator for major developments is included at £50k per annum. The introduction of this new post is closely linked to the local retention of business rates which is expanded upon elsewhere in this report.
- To enhance the litter collection service across the Borough an additional Street Cleaning crew and funding for new litter bins with cigarette stubbing facilities of £65k is included.
- An additional £25k per annum is included to increase the maximum leaving care grant award to £1,500 (£1,800 for those in exceptional need) as recommended by the Education & Children's Services Policy Overview Committee's review.

Savings

37. The savings proposals contained within this draft budget have been developed through the HIP Business Improvement Delivery programme (BID), the Council's programme to transform all services, review all working practices and enable the delivery of savings in response to central Government's austerity programme.

38. The savings proposals currently developed total £12.8m for 2013/14 and are summarised in the table below. Total savings figures for each Group are net of the redundancy costs contained within their package of proposals. In February 2012, the estimated savings requirement for 2013/14 was £12.1m although at that stage only £9.9m had been allocated out to Groups. Since then a further £1.3m target was allocated to Residents Services to provide options that could mitigate the new pressure on Education funding arising from proposed changes to Academies funding. In addition, SC&H have developed further savings to meet the slippage in existing savings plans (particularly Supported Housing) or to meet any new pressures arising in the Group. All groups were tasked to look for further savings in addition to their original targets.

Table 6: Savings Proposals

Savings Proposals	Saving 2013/14 (£000s)
Administration & Finance	1,051
Residents Services	3,934
Social Care & Health	7,407
Additional BID Savings to be developed / drawdown from balances)	397
Total Savings Proposals	**12,789**

39. The approach to savings taken by each group is explained further below, the totals for each including those savings being developed through the BID programme. Additional proposals linked to BID reviews at an early stage of development are expected to provide further savings in 2013/14. Further details are contained in Appendix 5.

40. **Administration & Finance** have identified savings proposals totalling £1,051k for 2013/14, £465k higher than the original target for Central Services. The group continues to refine their service structures through the application of the Council's organisation design principles and operating model. The 2013/14 savings are largely derived from later phases of this restructuring and the full year effect of restructures already being implemented to deliver 2012/13 savings requirements. As Administration & Finance are largely support functions, the Group will continue to adapt to changes in the overall Council model and will implement further changes as part of this overall process. In 2013/14, the most significant savings proposals arise from a restructure of the strategic Human Resource services (£153k), a very early assessment of the merger of Revenues and Benefits (£100k) and the resultant integration of functions and the Council top tier restructure (£165k). Further details of the proposals developed to date are detailed in Appendix 5a.

41. **Residents Services** - the approach to the delivery of £3,934k savings within Residents Services continues to be driven through a programme of transformational reviews of every service. This includes a large scale reorganisation, restructuring and removal of duplication. Also the opportunity is being taken to question the need for services and the method of service delivery in all areas. Residents Services have developed sufficient savings proposals to cover their original savings target, a further £1,300k to cover the estimated pressure arising from changes in schools funding arrangements and further additional savings of £409k. In 2013/14, savings will start to be realised from some large cross cutting transformation projects, realigning how services are being provided. The most significant savings proposal arise from a fundamental review into Education services in light of schools becoming Academies (£919k), wide-ranging transformational BID reviews (£799k), New Homes Bonus (£750k) and a new dry waste recycling contract (£536k). Further details of the savings proposals developed to date of £3,934k are included in Appendix 5b.

42. **Social Care & Health** have developed £7,407k savings through the next phase of the development of their new strategic model, which gives specific focus to a 'core offer' of services which are deemed essential. However, a major change in service provision is dependent on developing new supported housing units. Due to amendments to service requirements requested by the department there have been increased costs and delays in delivering this programme, which is currently under review, which has led to slippage of around £0.9m on the associated revenue savings originally planned to be achieved in 2013/14. This is lower than the £1.5m slippage that exists in 2012/13 because the programme does catch up to some extent during 2013/14. As a result of this slippage the phasing of some other savings have been brought forward and new savings proposals

developed that will cover this estimated slippage in full. New savings proposals include a review of Out of Borough cases (£400k by 2014/15), use of the care funding calculator to negotiate lower rates for care placements (£255K), a review of fostering provision (£300k) and Social Care Transformational projects of £1,000k. Further details of the savings proposals developed to date of £7,407k are included in Appendix 5c.

43. There are a number of cross cutting BID reviews, including the development of the Childrens and Adults Pathways to develop a hub to deliver preventative programmes and support for families and clients to reduce longer term more costly interventions. The review of the Contact Centre has identified opportunities to reduce demand as well as implementing more efficiently ways of managing the remaining demand through the use of technology, channel migration and redesigning end to end service delivery. The recent reorganisation of the Councils departments has provided the opportunity to merge Housing Benefits and Revenues in addition a review of all facilities management functions across the whole Council including the management and maintenance of the Housing stock has identified savings of £144k from the reorganisation of service management and this will be followed by further reviews or the operations which will generate additional savings in later years. However, the BID programme is still being developed further and many reviews are at an early stage such as corporate transport, Adult Pathways and the senior management restructure in Residents Services to incorporate housing services. It is likely therefore that the make-up of the BID savings targets by project will change. It is also apparent that there are more savings to come from these projects as the reviews progress further

Fees and Charges

44. 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, through use of the Residents' Card, has introduced differential charging, and any increase in fees and charges to resident's has been limited through this mechanism. For 2013/14 and 2014/15 there is a proposed freeze on most fees and charges to residents including parking changes and a waiver of pest control fees for over 65's which will be funded from the Council's Older People's Initiative. There are a range of increases proposed in fees and charges to non-residents.

45. The inflation assumption included in the budget does not take account of any increase in income from fees and charges. However, within their detailed savings proposals groups will take account of any projected increases arising from non resident increases.

46. Schedules detailing the proposals relating to fees and charges for 2013/14 are attached at Appendix 8.

Central Government Grant, including New Burdens

47. Following the Comprehensive Spending Review in 2010, the current Local Government Finance Settlement was set for two years (2011/12 and 2012/13). During these first two years, central Government has taken the opportunity to review the way resources are allocated to councils through a fundamental review of local government finance. The Local Government Resource Review (LGRR) was the basis for the Local Government Finance Act 2012 which introduced a mechanism whereby councils will retain a proportion of business rates as a revenue funding stream. The pending Local Government Finance Settlement, due

in December 2012, will cover the years 2013/14 and 2014/15 and will take the full implications of the LGRR into account.

48. The changes contained in the Local Government Act 2012 will permit councils to retain a proportion of locally collected business rates and the proportion has been set at 50%. However, the 50% retained locally within London will be shared with the GLA, 30% retained in Hillingdon and 20% going to the GLA. Any growth in Business Rates Income will also be split, and growth above inflation will be subject to a tariff (likely to be around 50% for Hillingdon), which effectively means that the retention of any growth in business rates generated above inflation is likely to be around 15%.

49. Under the new arrangements, central Government will still use a resource equalisation mechanism to ensure that councils are not adversely impacted by these changes.

50. The stated rationale for these changes is to provide a strong incentive for councils to promote growth within their locality and allow them to benefit from the increase in business rate income that flows from any growth. However, the current business rate base in Hillingdon has been declining during the recession and if this continues into 2013/14 this could have an adverse financial impact. During 2011/12 the rateable value in Hillingdon fell by £4.5m and has fallen by £7.5m in the first half of 2012/13. If this rate of decline continued into 2013/14 the Council would lose ongoing funding at the rate of around £2m p.a. The Council will therefore need to take a more concerted effort to encourage business rate growth to maintain the current funding level. A report outlining a refreshed approach to Economic Development is contained elsewhere on this Cabinet agenda.

51. The Local Government Finance settlement 2012 will detail Hillingdon's business rates baseline on the basis of an average of its business rates income over a number of years, which will determine the Council's funding levels for the next two years and also 2013/14 and 2014/15 spending control totals and their share of Revenue Support Grant.

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52. A number grants have been rolled into the new funding mechanism, including:

- Council Tax freeze grant
- Council Tax Support Grant
- Early Intervention Grant
- Homelessness Prevention Grant
- Lead Local Flood Authorities Grant
- Learning and Disability Health Reform Grant

53. In addition, there are significant changes proposed to New Homes Bonus funding. The funding for from 2013/14 will all come from a topslice on the resources put into the local authority funding model. Any bonus that is paid from 2013/14 onwards will therefore just be recycled money. Hillingdon will still benefit to some extent, but only by generating housing growth above the average for the country as a whole.

54. In July 2012 the DfE issued a consultation paper on replacing Local Authority Central Spend Equivalent Grant in respect of funding Academies and local authorities for the functions devolved to Academies. The DfE's proposals are to replace LACSEG and the relevant element of local authority formula grant with a single national grant from DfE to Academies. The estimated impact of this loss of formula grant for the Council is £2.7m in 2013/14.

Savings to offset the initial estimate of £1.3m loss of grant have been identified and are set out in more detail elsewhere in this report.

55. Also in July 2012 the regulations were issued setting out the basis for funding free early education for two year olds from 2013/14, alongside funding for early education for three and four year olds. The free entitlement to early education will be extended to 20% of two year olds from September 2013 and to 40% of two year olds from September 2014. Local authorities will be required to fund free early education for two year olds through the Early Years Single funding formula (EYSFF), as they do for three and four year olds. This requirement will start when these regulations commence, 1 April 2013, and in advance of the commencement of the regulations which extend the free entitlement in September 2013. The estimated impact of extending free early education to 2 year olds is £3.3m in 2013/14.

56. A further change was introduced with the abolition of Council Tax benefit. This will be replaced with a local grant funded support scheme. Following consultation with residents on the details of the proposed Council Tax Reduction Scheme which ended 31 October 2012, the results have been analysed and a separate report is on this Cabinet Agenda to agree to recommend to Full Council the adoption of a local scheme from 1 April 2013. However, the challenge given to local authorities is to design a local scheme with 10% less funding than the current benefit scheme. As the scheme is designed to be self financing the impact of this change is more likely to impact on the Collection Fund in future years, should collection rates fall as a result.

57. On 16 October, CLG announced a new £100m transition grant which will seek to encourage best practice in the development of new Local Council Tax Reduction schemes. This voluntary grant will be available to councils, for one year, who choose to design their local schemes so that those who would be on 100% support under current Council Tax benefit arrangements pay between zero and no more than 8.5% of their Council Tax liability. The Council's proposed scheme is designed to be self financing and proposes that those who are entitled to 100% under Council Tax benefit arrangements would be required to pay at least 20% of their Council Tax liability. Initial calculations indicate that Hillingdon could be eligible for a grant of about £537k, but the reduction in Council Tax revenue to Hillingdon to make the changes to Hillingdon's proposed scheme would be to the scheme would be £1,295k, effectively a budget pressure of just over £750k.

58. Finally, public health duties are transferring from NHS to local government with effect from 1 April 2013 and the final funding arrangements, which will be issued alongside the LG Finance settlement, have yet to be confirmed. At this stage the Council is looking at opportunities to align current Council public health functions and contracts with those transferring from the local PCT to deliver an efficient, integrated service. However, final plans cannot be agreed until funding is known.

59. The Chancellor of the Exchequer's Autumn Statement published on 5 December gave very little insight into the potential detail of this year's Local Government Finance Settlement. He announced that there will be a further 1% cut to Government Departments in 2013/14 rising to 2% in 2014/15. However, only the 2% in 2014/15 will be applied to local government. He also announced further funding for school building and local road infrastructure. However, the details of this funding are not yet known so no assumptions have been made on these in this draft budget. Similarly additional funding for new affordable homes and for brining empty homes back into use was announced. In relation to business rates, empty property relief will be available for 18 months on newly built properties from October 2013, but it is

expected that this will be built into the new business rates retention scheme. It was also announced that public sector workers pay would rise by an average 1%.

60. However, the real detail and underlying implications will not be known until the Settlement is announced in December, and so considerable uncertainty remains in respect of our funding assumptions. However, in relation to the current position, the February 2012 MTFF figures assumed a £7.6m cash reduction in Central Government grant funding in 2013/14 compared to 2012/13. This was purposely set at a more pessimistic level than set out in the 2 year settlement because of concerns over changes in Education and other funding that were likely to be the subject to further consultation. The likely level of grant funding has now been refreshed taking into account the latest information from on-going consultation exercises and the latest intelligence on the likely settlement due in December and is now showing a £9.2m cash reduction year on year.

Council Tax Levels / Collection Fund position

61. The budget proposals have been developed to deliver a Council Tax freeze for the next 2 years and for the sixth successive year and so the only impact on Council Tax income arises from changes to the Council Tax base and the introduction of the Council Tax Reduction Scheme from April 2013. The latest projection is showing an increase of 1,265 band D equivalents during 2012/13, considerably higher than the 750 assumed back in February 2012. The new Council Tax Reduction Scheme being considered by Cabinet in December 2012 following extensive consultation on the new scheme, has been designed to be self financing. Going forward, in year changes to the number of residents receiving Council Tax support and the success of collecting Council Tax from those residents who now need to pay will need to be closely monitored for the impact upon the collection fund

62. Central Government has announced another year of funding the Council Tax freeze grant and this funding has been factored into the budget proposals within this report. However, the freeze grant for 2013/14 is only funded at the equivalent of a 1% increase in Council Tax rather than at 2.5% as has been the case in previous years.

63. As mentioned above, the falling rateable value could well impact on Collection Fund income on future years. With the introduction of the retention of business rates changes to rateable value will be closely monitored alongside the monthly monitoring of the Collection Fund.

64. The current forecast for the Collection Fund outturn for 2012/13 is a surplus of £480k, which arises from the fact that the base is growing faster than forecast and the fact that increased collection rates are having a positive impact on bad debt provision requirements.

Balances and Reserves

65. The MTFF strategy has been designed to build in flexibility to deal with uncertainty. This flexibility should be sufficient to deal with any further changes in government grant funding or other unexpected unavoidable pressures. The budget strategy contains very stretching savings targets and all areas of the Council have risen to the challenge in making significant progress in both the delivery of over £60m in savings over last 4 years. The current estimate of the savings requirement over the next 4 year period 2013/14 - 2016/17 is a further £51m, but could well change as a result of the Local Government Finance settlement in December.

66. The projected unallocated balances and reserves are currently forecast to be £27.5m as at 31 March 2013, well above the minimum target level of balances and over £2m in excess of what they were projected to be at the start of the current year. However, this assumes that the £1.7m of priority growth (£50k committed to date), £1m unallocated contingency (£321k committed to date) and the £0.8m HIP contingency (£0.5m committed to date) will all be spent in full.

67. The historical MTFF strategy was to maintain long term balances at a level of no lower than £12m. However, the associated risks and strategy have moved on considerably over recent years and the current budget strategy will keep balances well above this level over the next 3 years. There are no planned draw downs of balances built into the budget assumptions for future years at this stage. This should provide some contingency to help absorb any further adverse movement in Central Government funding.

Schools Balances

68. As at 31 March 2012, the total balances held by Hillingdon schools, excluding Academies were in excess of £17.6m, £16.1m in revenue balances and £1.5m in capital balances. All schools, with the exception of Abbotsfield, held balances and the total deficit on Abbotsfield was £293k. During the year 2011/12 overall balances increased by £4.9m. Schools should therefore have the capacity to manage emerging problems within their own resources.

Table 7: Summary Table

	Total Balances £000	Revenue Balances £000	Capital Balances £000
Opening Balances 1.4.11 – Surplus/(Deficit)	12,718	10,232	2,485
Movement in Year – Surplus/(Deficit)	4,923	5,874	-951
Closing Balances 31.3.12 – Surplus/(Deficit)	17,641	16,106	1,534

69. It should be noted, however, that these figures include balances relating to 13 schools which have either converted to or are due to convert to academy status during the 2012/13 financial year.

70. Whilst Central Government believe that schools are best placed to manage their own finances and it is sound financial management to maintain a small balance from year to year, Central Government also believe that local authorities have a duty to challenge and those schools with excessively high budgets, to ensure that funding is being correctly directed towards pupil needs.

4. MEDIUM TERM AGENDA

71. Whilst the immediate focus of this report is on the 2013/14 budget, this needs to be balanced with key developments over the medium term.

72. As explained earlier, the next finance settlement will only cover the years 2013/14 and 2014/15. Economic projections are currently fairly pessimistic and there are concerns that as Local Authorities have shown themselves to be very successful in delivering savings in response to budget cuts that further deeper cuts will be imposed through the next

Comprehensive Spending Review in 2014. Latest forecasts predict central Government's austerity measures will last until 2018.

73. Work will continue to analyse known information and predictions to make assumptions on the likely funding available for 2015/16 and beyond. The local government finance settlement will also help to clarify future years projections.

74. The impact of the implementation Business Rates Retention scheme and the Local Council Tax Support scheme will, however, take longer to quantify. Future increases in funding will be delivered through business rates growth and we are not yet in a position to make any considered forecasts on this. Additionally, until the Local Council Tax Support Scheme is established and we have some reliable data and experience we will be unable to forecast impact with any certainty.

75. The savings proposals outlined in the report should be capable of delivering a balanced budget in 2013/14. However, there remain very large unallocated savings requirements for future years at this stage. Whilst groups are continuing to develop savings proposals, many are at an early stage and while there is confidence that significant savings can be found, there is little quantification available at this stage. An approach will have to be agreed in respect of the setting of Group savings targets for future years and how the level of savings required will be split between groups.

5. HRA BUDGET

76. The system of self financing is now in place and in future the HRA budget is being developed using the same methodology and layout as for the General Fund budget. It will also ensure that the HRA budget build is subject to the same rigorous process as other Council budgets. This will aid overall understanding of the process and improve transparency.

77. There is a requirement to carry out a periodic review of rents for dwellings and charges for services and facilities provided to tenants. The rent restructuring formula used in previous years to set rent levels will continue into the future as part of the 10 year plan for the HRA. Attached at appendix 6 is a corporate summary of the HRA budget for 2013/14 – 2016/17 detailing all aspects of the budget movements from the budget agreed for 2012/13 set at Council in February 2012.

Update on 2012/13 budget

78. The month 7 monitoring position is showing a favourable variance of £2,721k against budget. Housing maintenance and management are both forecasting underspends on expenditure, while rental income is forecast to exceed budget by £1,135k, as a result of management action to maintain voids below the budgeted figure and increased income from major works on blocks of flats, a proportion of which is rechargeable to leaseholders as works over prescribed limits.

Budget Requirement for 2013/14

79. The movement between the current year's budget and the draft budget requirement for 2013/14 is detailed in table 8 below. Further detail on each of the lines in the table is explained below and a more detail summary is attached as appendix 6.

Table 8: HRA Budget Requirement 2013/14

	Budget (£000s)
Budget Requirement 2012/13	55,526
Inflation	502
Corporate Items	-1,552
Contingency	34
Priority Growth – Investment in Housing Stock	4,937
Savings	-2,019
Budget Requirement 2013/14	57,428
Funding Sources	
Net Dwelling Rents	55,623
Non Dwelling Income	1,805
Total Resources	57,428

Inflation

80. The core amount of inflation included in the draft 2013/14 is £502k. Inflationary increases have been calculated on the same rates adopted for the General Fund and these will continue to be refreshed through the rest of the year as economic forecasts are updated.

Corporate Items

81. Corporate items contained within the budget contribute to a net decrease of £1,552k. This is due mainly to the use of balances to fund the increases in the major works programmes set out below. The remaining £217k relates to the revenue impact of capital expenditure, which includes the interest and principal payments in relation to the self-financing regime.

Priority Growth

82. Additional major works proposals of £4.9m are included in 2013/14 to maintain and improve the condition of the Housing Stock. These relate to increasing the impact of the current major works programme agreed by Cabinet in February 2012 and include energy efficiency projects, adaptations to properties to meet the needs of tenants, environmental improvements, security access controls amongst others.

Development and Risk Contingency

83. There is an increase in the provision for doubtful debts of £34k in 2013/14.

Savings

84. Total savings of £2,019k are included in this draft budget of which £1,281k are new savings proposed for 2013/14. BID reviews of Housing Management Structure and remodelling of back office functions will deliver savings of £900k, and a remodel of the repairs service and a review of contracts will deliver savings of £381k.

Fees and Charges

85. Rental income is the most significant element of the total resources available to the HRA and corresponding increases to resources rely on increase to rent. This draft budget has been developed on the basis of a 3.1% increase to rents calculated in line with the CLG national rent restructuring programme. Whilst a little more flexibility is now available to the Council as a result of self financing settlement, there remains a considerable restraint in the requirement to repay the outstanding debt. In addition the proposed changes to Housing Benefit and the move to Universal Credit could increase the risk of rent arrears and default as a result and it would be prudent to continue to take a cautious approach to rent increases in the short to medium term. Charges for non-dwelling rents such as garages, hard standings, carports will also increase by the rate of inflation plus 0.5%.

86. Within the HRA self financing regime, the assumed expenditure allows for costs of general management and maintenance. This allowance does not cover certain services provided to tenants such as caretaking, cleaning, grounds maintenance etc. Other costs recharged to tenants include heating and energy, supported housing costs for those in sheltered housing and other optional services. In previous years for these charges and existing leasehold service charges the increases have been inflation plus a nominal amount to support the actual cost of service provision.

Balances

87. Whilst no formal balances strategy has been developed, the aim is to maintain HRA balances above £10m. The HRA 10 year projection in the budget approved in February 2012 projected balances at 31/03/2013 at £14.5m including an in year contribution of £1.8m. Based upon month 7 monitoring position underspends in 2012/13 are forecast to add a further £2.7m increasing balances to £17.3m at 31/03/2012. Table 9 below sets out the projected movement in balances over the next 5 years. There are a number of assumptions built into this forecast:

- Borrowing for Supported Housing is at the level assumed in 2012/13 Budget approved in February 2012.
- Rent income from 126 Supported Housing units included.
- Right to Buy and one for one replacement policy included with both borrowing costs and future rent income.
- Rents have been uplifted by 3.1% in 2013/14 and 3% in subsequent years.
- Inflation in line with corporate model.

Table 9 – 5 year movement in HRA balances

	2012/13 £000's	**2013/14 £000's**	**2014/15 £000's**	**2015/16 £000's**	**2016/17 £000's**
Balance b/fwd	-12,891	-14,708	-14,756	-16,818	-19,847
Net Rental Income	-55,526	-57,428	-59,374	-61,178	-62,748
Directorate Budgets	37,251	40,671	40,490	40,825	41,365
Corporate Budgets - Financing costs	15,135	15,352	15,443	15,923	16,020
Corporate Budgets – Contingency	1,323	1,357	1,379	1,401	1,401
Contribution (to)/from balances	-1,817	-48	-2,062	-3,029	-3,962
Balance c/fwd	-14,708	-14,756	-16,818	-19,847	-23,810
In year variance (month 7)	-2,721				

6. CAPITAL PROGRAMME DEVELOPMENT

Background to 2013/14 capital budget development

88. The current development of the medium term capital programme is still dominated by the requirement to provide sufficient primary school places with this programme projected to cost £149m based on pupil number estimates and cost estimates of the projects.

89. A driving principle underlying capital programme development has always been to minimise the revenue impact in future years arising from the interest payments and Minimum Revenue Provision (MRP) or alternatively, to identify future revenue resources to facilitate borrowing for capital purposes in a sustainable and prudent manner.

90. The budget proposed in this report has fulfilled these principles and would create minimal additional revenue liabilities over and above that already earmarked. However, there are risks associated with the realisation of capital receipts, the level of primary school places required and future programmes/liabilities that could adversely impact future revenue financing.

91. A summary of the proposed capital programme has been included in Appendix 7 and shows individual schemes alongside the financing source for each scheme. Particular focus should be placed on those schemes that require the use of the Council's own resources i.e. capital receipts or unsupported borrowing as it is these that create future revenue liabilities.

92. The capital programme contains a number of on-going programmes of works requiring £9,977k of Council resources in 2013/14. A large element of these programmes do not satisfy requirements for borrowing under the Prudential Code and as such are therefore reliant on sufficient un-ringfenced capital receipts to sustain delivery.

Additions to 2013/14 Capital Programme

93. The following additions have been included in the capital programme detailed in Appendix 7.

    a. To enhance the scope of the current Central Library refurbishment project at an additional cost of £1.1m to establish the site as a flagship library for the Borough. This will increase the budget for this project to £4.1m;
    b. An additional £1.083m for the Environmental Assets project to create a Ruislip Lido phase 2 series of improvements. These will include further ground works improvements, additional toilets, securing and upgrading the power supply and the development of new bathing arrangements at the waterside;
    c. Further investment of £0.41m in the Library refurbishment programme to include a revised scope for Harlington Library and provide air conditioning at the Botwell library site;
    d. Investment of £0.257m in new technology for CCTV in the Borough as part of the programme of improvements in this service, but phased into 2014/15;
    e. A self-financing scheme to provide a new Health Centre has been included at a gross cost of £11.58m;
    f. The re-provision of West Drayton Boys club on land close to its original location and adjacent to a school at an estimated cost of £0.85m. The project is anticipated to be developed in 2014/15;

g. An investment of £1.228m in grounds maintenance equipment and vehicles needed for a new in-house service provision. Financing of which will be charged to the current revenue resources available for the delivery of this service;
h. An investment of £94k in 2013/14 and £1.079m in 2014/15 for car park concrete works and resurfacing. A number of the surface car parks are reported to be in a poor state of repair and which has resulted in the need for regular patching works. Officers are recommending that a number of these car parks should be resurfaced. One surface car park is proposed for re-surfacing in 2013/14, along with concrete works in the Cedars and Grainges multi-story car park. The full resurfacing of Cedars and Grainges and 3 other surface car parks has been built into the budget in 2014/15.
i. Additional investment of £2,000k is included to support Priority Growth for capital highways works, in addition to the £1m of revenue funds to support the same initiative.

94. In addition to the items listed above there are a number of potential schemes for which the scope, costs and financing strategies are yet to be determined. These include works at Harlington Road depot, waste recycling facilities, golf courses, the Civic Centre and a variety of projects at RAF Uxbridge. Furthermore, amounts shown for future years' programmes in appendix 7 are, in many cases, broad estimates made within a context of as yet incomplete information e.g. potential Environment Agency work at New Years Green Lane.

Primary Schools Capital Programme

95. In order to meet the demand for additional school places, this draft budget includes provision for £149.259m over the next two years.

96. Phase 2 permanent expansion has been re-phased, the initial budget phasing was estimated last year based on percentages of expected delivery over the 3 years and split over the 3 sub phases. The revised profile sees a reduction in expected expenditure for 2012/13 falling from £28.1m to £8.1m with increases in 2013/14 and 2014/15.

97. Current cost estimates for phase 2 are showing a potential funding gap of £10.305m. This is due to a result of a number of design changes which have been implemented as enhancements to the existing plans / additional accommodation over and above the original anticipated specification. These costs are now at stage D for a number of the projects, the stage C cost evaluation showed a resource gap of £7.46m. The strategy is for value engineering cost reductions of between 5 – 10% to manage the forecast funding gap. If achieved on the schools that are currently being reviewed, this would only provide a cost reduction range of £2.4m - £4.9m. This leaves an absolute gap on the existing budget that potentially ranges between £5.4m - £7.9m.

98. The current budget for phase 2 also assumes 15.5 forms of entry, however, projects are being worked up for 16.5 forms of entry, the assumption being that one of the projects will be dropped as demographic factors unfold. School places projections are still being produced, however, current expectations are that the additional form of entry is increasingly likely to be required. If the additional form of entry is required resourcing will need to be increased by at least £5m.

99. The fundamental design elements for Phase 3 have now been agreed, and include a number of changes such as increased gross floor area and further infrastructure related to highways which have increased the estimated costs for the phase by £1.74m. This increases the original estimated budget of £18m to the revised £19.74m.

100. At the time of writing the ongoing work on school placements is indicating further growth in the pupil forecast, however although this analysis has not been finalised a localised pressure has emerged in the Hayes and Cranford Park areas for September 2013 for an additional 3 forms of entry. A number of options are being investigated, but it is clear that some additional temporaries will be required in the area and £1m is being added to phase 3A for 2013/14, and £3m for phase 3 permanent for a potential further 1 form of entry. Potential further forms of entry may be required to be planned for as the analysis continues and is updated with census information.

101. The table below therefore reflects the current capital budget position with revised phasing over the next 2 years from monitoring and forms of entry by phase. This shows that the programme has increased from £127.084m to £149.259m the increase is explained by the £10.305m for cost increase on phase 2 permanent and £1.13m for additional capacity, £4.74m for phase 3 new builds, £1m for Phase 3 temporaries for the September 2013 bulge and £5m for an additional form of entry for phase 2.

Table 10

Primary School Capital Programme	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	Total £'000	Permanent FE	Temporary Units
Minor Works	559	158	377	0	0	1,094		3.0
Phase 1	1,080	8,106	5,794	5,874	467	21,321	6.0	
Phase 1A (incl. Rosedale)	10	1,993	631	0	0	2,634		7.0
Phase 2	0	1,027	8,170	57,010	28,456	94,663	17.5	-2.0
Phase 2A	0	42	3,085	80	0	3,207		10.0
Phase 3	0	157	743	9,870	11,970	22,740	6.0	
Phase 3A	0	0	0	2,300	1,300	3,600		10.0
Expenditure	**1,649**	**11,483**	**18,800**	**75,134**	**42,193**	**149,259**	**29.50**	**28.00**
DfE Grant*	1,649	9,055	15,829	21,635	8,564	56,732		
Section 106	0	2,428	2,971	5,800	3,870	15,069		
Council Resources	0	0	0	47,699	29,759	77,458		
	1,649	11,483	18,800	75,134	42,193	149,259		

Priority School Building Programme.

102. The DFE announced earlier this year that the Abbotsfield bid had been approved. It has been confirmed that this would be funded through a new Private Finance Initiative which would be fully underwritten by the DFE. The works to be undertaken are to be managed directly by the DFE, with an expected start point of April – June 2014. Therefore this major schools project does not feature in the current programme.

103. However there are potential problems with regard to the significant maintenance liability at Abbotsfield, which will need resolving before the proposed timing of the delivery of new school buildings. It should be noted that funding from the DFE is solely for the provision of a new building and it will not cover ICT or fixture and fittings. The DFE's assumption is that these can be met from the School's revenue budget but this may not be feasible for Abbotsfield given their budget position.

HRA Capital Programme

104. The supported Housing Business case has been re-visited as increased construction costs emerged resulting from the refinement of project scope and requirements of the proposed developments. The current recommendation is for 126 out of the original 225 units to go ahead as part of a phased approach. This Phase 1 is based on a cohort of 12 sites where projects have been developed and are ready to commence. There are clear and definable benefits for MTFF savings to be achieved within social care adult placement budgets. These will result from clients that will be either transferred out of existing placements or deflected from a new placement. This first phase is estimated to cost £24.85m and will be financed through a combination of borrowing undertaken by the HRA and a HCA grant of £1.89m.

105. The remaining proposed units to be built will be developed into a second phase and will cost on current estimates £12.478m, this will deliver 49 units, there are a further 50 units that will be delivered through the transfer of one of the sites to a registered provider. This element will therefore be built outside the current programme. The total supported housing programme is now £37.3m with £3.385m of HCA grant. The detail around the second phase including its funding strategy will be agreed once further work has been undertaken on whether HRA resources may be required to build hostel accommodation to mitigate potential homelessness pressures as a result of the forthcoming benefits cap and other welfare changes.

106. The current pipeline programme phase 2 has been delayed in 2012/13 and is now expected to be delivered in 2013/14 and the HCA grant can be carried forward. This delay is to facilitate a review to be undertaken assessing the business case and original strategy for this Shared Equity scheme in light of the significant changes to the financing regime within which the HRA now operates.

Programme of Works

107. The capital programme includes a total of £20,098k of on-going programmes of works, £9.121m of this is funded by external grants or S106 funds. Of the balance not externally funded, £1m is likely to satisfy the Prudential Code for borrowing. The remainder of the works programme therefore needs to be funded from capital receipts, summarised in Table 11 below. The delivery of the current disposal programme will be sufficient to support delivery of these programmes up to 2016/17, at which point additional receipts or other funding sources will need to be identified.

Table 11

Application of Capital Receipts	2013/14 (£'000)	2014/15 (£'000)	2015/16 (£'000)	2016/17 (£'000)	Total (£'000)
Community Initiatives	1,525	1,525	1,525	1,525	6,100
Highways Programmes	3,638	1,638	1,638	1,638	8,552
Property & Facilities Management	3,464	600	600	600	5,264
Social Care Grants	1,350	1,350	1,350	1,350	5,400
Total Expenditure	**9,977**	**5,113**	**5,113**	**5,113**	**25,316**
Capital Receipts available to fund Programmes of Works	**8,525**	**10,643**	**6,152**	**0**	**25,320**
Capital Receipts (Surplus)/Shortfall	**1,452**	**-5,530**	**-1,039**	**5,113**	**-4**

108. These programmes may be suitable for the application of future Community Infrastructure Levy (CIL) funding and this, alongside optimisation of S106 and third party contributions may be used to alleviate pressures on requiring the disposal of assets.

Capital Receipts

109. The current receipts forecast is showing a reduction in the expectation for the current year 2012/13 with the phasing of receipts being pushed further into the future. This is summarised in the table below.

Table 12

Capital Receipts	**2012/13** (£000s)	**2013/14** (£000s)	**2014/15** (£000s)	**2015/16** (£000s)	**Total** (£000s)
Original Budget	23,648	12,675	0	0	36,323
Total Receipts Current forecast	6,551	9,362	21,994	6,402	44,310

110. It should be noted that the supported Housing programme has still to identify a number of suitable sites for the delivery of the planned units and that some of the Council sites listed in the programme of capital receipts are being actively considered for this purpose. This would have the impact of reducing forecast receipts with corresponding increases in the Council's borrowing requirement.

111. Table 12 does not include HRA receipts that could be used for general housing programmes should the Council elect to enter into an agreement regarding retention of Right to Buy (RTB) receipts.

Funding of the Capital Programme

112. Table 13 shows the proposed financing for the draft budget shown in appendix 7 prepared under assumptions that ongoing programmes of work are maintained at 2012/13 levels. Additionally external funding is yet to be confirmed for 2013/14.

Table 13

General Fund Financing	**2013/14 £'000**	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**	**Total £'000**
GF Prudential Borrowing	78,222	22,574	3,334	9,236	113,364
GF Capital Receipts	9,362	21,994	6,402	0	37,759
Grants	30,647	14,207	4,274	7,266	56,393
Other 3rd Party Contributions	6,179	3,870	2992	0	13,041
Total	**124,410**	**62,645**	**17,001**	**16,501**	**220,557**

113. In the absence of increased grant funding, significant use of Prudential Borrowing will be required to finance the proposed 2013/14 capital programme. Of the £78.22m borrowing requirement for 2013/14 specific resources have been identified to support £47.7m investment in school expansions and Highgrove Pool, £15.36m invest-to-save/self-financing projects with the remaining £15.16m requiring unsupported borrowing. However much of the latter represents rephased amounts from 2012/13 for which revenue financing costs have already been factored into the MTFF process in previous years.

114. The potential new or enhanced proposals outlined in this report would create an additional £8.6m of unsupported borrowing that would eventually require revenue resources commencing in 2014/15. Whilst this constitutes a relatively modest future call on revenue in terms of interest and MRP, there are several areas of uncertainties both within programme scope and potential costs/liabilities in the years following 2013/14 that could result in the Council requiring to undertake significant further unsupported borrowing.

115. Forecast 2013/14 capital receipts are sufficient to support continued investment in programmes of works such as Chrysalis, Highways Infrastructure and Disabled Facilities Grants. However, in the medium to long term such receipts will become increasingly more challenging to realise and hence the financing strategy for these programmes will require review. Additionally, the opportunity cost of using receipts in this manner necessarily restricts resources available for new capital schemes.

116. The assumed grant levels shown in Table 10 for the Primary Schools programme will hopefully prove to be somewhat conservative as it does not include as yet unannounced additional funding. Although this may not materialise, the Council has received extra funding of approximately £5m per year for the last two financial years.

117. Other contributions included in Table 13 are predominantly Section 106 contributions available to support school expansion projects and includes the proposed new school at RAF Uxbridge. However, given an increase in S106 unallocated balances it is hoped that additional resources can be added into the Primary capital programme to alleviate the increase in borrowing required.

118. The £24.85m of borrowing required for phase 1 of the HRA Supported Housing programme is already factored into HRA's revenue budget and 30 year plan under capital financing costs as part of the treasury portfolio designed on settlement of £191.6m debt subsidy payment to Central Government. This leaves, after appropriations approximately £16m headroom borrowing which is then supplemented by receipts, appropriations from HRA to General Fund, balances and the provisioning of principal repayment from capital financing revenue. Thus, the HRA does have potential financial headroom to undertake general housing schemes, the quantity of which is largely dependent on the cost of the remaining Supported Housing scheme and the Shared Equity scheme under Phase 2 pipeline sites.

119. In conclusion, revenue resources for capital financing the draft programme contained within this report can largely be considered to be already contained within the MTFF. The capital financing costs associated with the relatively small amount of new capital for which there is no existing provision or strategies already in place, is relatively minor. Such costs will be offset by updated Treasury strategies, in particular the deferral of borrowing whilst internal balances are strong and the fact that all current economic indicators lead to an interest rate environment in the foreseeable future of 'lower for longer' affording the Council relatively cheap borrowing.

Financial Implications

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?

The draft budget proposals in this report result in a zero increase in Council Tax for the fifth successive year. 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 draft budget.

The draft budget includes changes to several services which will impact on the level of service provision for some users. 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

Following consideration at Cabinet, this report will form the basis of consultation with Policy Overview Committees during January 2013. Comments from the Policy Overview Committees will be reported back to Cabinet by the Corporate Services and Partnerships Policy Overview Committee when Cabinet meets on 14 February 2013. Cabinet will then agree a set of budget proposals for recommendation to the annual Council Tax setting meeting of full Council on 28 February 2013.

The Council also has a statutory responsibility to consult on its budget proposals with business ratepayers in the borough. Schools Forum will also be consulted on those proposals that have a potential impact on schools budgets.

Individual service Groups will also be undertaking consultation with service users, staff and other stakeholders over this period on the key elements of their service proposals prior to full implementation in the new financial year.

CORPORATE IMPLICATIONS

Corporate Finance

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

Legal

The Cabinet is responsible for the preparation of the Council's Budget. Therefore the Budget and Policy Framework Procedure Rules, as set out in the Constitution, require it to make proposals on its budgets in accordance with the timetable which it has publicised.

The Cabinet is free to amend the proposals in this report as it wishes. It must nevertheless have regard to the need for the budget to be soundly based, adequate to fund the expected level of service provision next year, and to provide for unexpected events through contingencies and balances.

Following this meeting, the Cabinet's proposals will be published and will form the basis of consultation with Policy Overview Committees and other consultees such as business ratepayers in the Borough and the Schools Forum who will have a period of six weeks to put forward their views.

The Cabinet will ultimately consider any responses from the Policy Overview Committees and other consultees and take them into account in drawing up firm proposals for submission to full Council at its meeting on 28 February 2013. Its report will reflect the comments made by consultees and its response to them.

Relevant Service Groups

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

BACKGROUND PAPERS

Report to Council 23 February 2012 – General Fund Revenue Budget and Capital Programme 2012/13