

THE COUNCIL'S BUDGET: GENERAL FUND REVENUE BUDGET, HOUSING REVENUE ACCOUNT BUDGET AND CAPITAL PROGRAMME 2013/14

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Cabinet Portfolio	Leader of the Council & Finance, Property and Business Services
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Papers with report	Appendices 1 to 11

1. HEADLINE INFORMATION

Summary	<p>The report sets out the Cabinet's proposals for the Council's General Fund Revenue and Housing Revenue Account budgets and Capital Programme for 2013/14.</p> <p>The General Fund Revenue budget proposals have been developed to deliver a zero increase in Council Tax for a further two years (these being the fifth and sixth successive years for the general freeze and the seventh and eighth years for pensioners) as well as providing for priority growth initiatives, whilst maintaining reserves and balances well above the minimum recommended level.</p> <p>Overall there will be a small reduction in the level of Council Tax as the revenue budget proposals result in a freeze on the Hillingdon element at 2012/13 levels and there is a proposed reduction of 1% on the Greater London Authority (GLA) precept.</p> <p>The Housing Revenue Account budget proposals continue to underpin the self financing regime and propose rent increases of 3.1% in line with the Government rent restructure programme.</p> <p>The proposed General Fund and HRA Capital Programmes includes total investment of £243m over the next 4 years with £134m in 2013/14, including £4.5m of new priority capital growth.</p> <p>Cabinet are requested to recommend their budget proposals to full Council on 28 February 2013. 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 2013/14 financial year.</p>
Contribution to our plans and strategies	<p>The revenue budgets and capital programme together form the financial plan for the Council for the 2013/14 financial year and contain the funding strategy for delivering the Council's objectives. They also provide the funding strategy for the Council's goals for Hillingdon as a whole in the Sustainable Community Strategy.</p>

Financial Cost	Zero increase in the Hillingdon element of Council Tax for the fifth and sixth successive years for all residents and the seventh and eighth years for pensioners. The proposals for the Housing Revenue Account are ringfenced and have no direct impact on the Council's General Fund.
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

2. RECOMMENDATIONS

That Cabinet approves for recommendation to Council:

- 1. The General Fund revenue budget proposals for 2013/14 summarised at Appendix 1, including the detailed budget changes contained at Appendices 2 to 5;**
- 2. The Housing Revenue Account budget proposals for 2013/14 summarised at Appendix 6a including detailed budget changes contained at Appendices 6b to 6d;**
- 3. The proposed fees & charges and housing rents for both the General Fund and Housing Revenue Account included at Appendix 7;**
- 4. The capital programme set out at Appendix 9;**
- 5. The Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement for 2013/14 to 2015/16 as detailed in Appendix 10;**
- 6. The proposed London Borough of Hillingdon Pay Policy Statement for 2013/14 set out at Appendix 11;**
- 7. That it resolves that Cabinet may utilise the general reserves or balances during the MTFP financial years 2013/14 to 2016/17 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);**
- 8. That Cabinet notes the Director of Finance's comments regarding his responsibilities under the Local Government Act 2003.**

SUMMARY

The budget proposals included in this report represent Cabinet's budget strategy for 2013/14 and beyond. The General Fund revenue budget proposals have been developed to deliver a zero increase in the Hillingdon element of Council Tax for 2013/14 whilst maintaining balances and reserves at well above the recommended minimum level over the medium term.

There have been two main challenges in delivering a balanced budget for 2013/14. Firstly, the development of further revenue savings of £17.1m on top of the £17.7m being delivered in the 2012/13 and £60m in total over the 3 years since 2010/11. The Council's Business Improvement Delivery programme continues to drive the delivery of these savings and good progress continues to be made to achieve these savings. Secondly, managing the impact of the changes in the way resources are allocated to councils.

Analysis of the funding settlement for 2013/14 indicates a reduction of £7.4m from 2012/13 funding levels, an improvement of approximately £1.8m on estimates in December – of which approximately £0.7m is linked to new burdens related to Health and Social Care.

Detailed within the budget proposals are savings proposals of £17.1m, reductions in Corporate Items of £2.1m, £22.9m of contingency provisions and an allowance of £2.9m for inflation. In addition, provision has been made for over £2.6m of priority growth in revenue and £2m priority growth in capital.

- The key movements in corporate items arise from changes in the funding regime and new burdens transferring to local government.
- The Development and Risk Contingency has increased by £6.7m. This includes provision for £1.5m for Adult Social Care demographic pressures, £1.5m provision against the delivery of Social Care & Health BID restructure savings, £1.1m for the costs of Transitional Children, £0.8m for Children's Social care pressures, £0.5m for an asylum funding shortfall, £1.5m for an increase in the Waste Disposal Levy, £0.7m for SEN transport and £0.7m for pension auto-enrolment. These have been netted down by the removal of a contingency provision for various other pressures including development control and schools withdrawal from payroll and reductions relating to income from outsourced leisure services.
- The budget contains over £2.6m of priority growth, of which £1.0m remains unallocated at this stage. The proposals included in this report include allocations to investment in Highways and pavements, community safety projects, additional capital financing for primary school places projects and funding for several new posts to support environmental projects and planning changes.

Once again, the development of savings proposals has continued to concentrate on more efficient service delivery methods, the rolling out of the new Council operating model, focusing on core services and by not creating new pressures by providing services that are no longer funded by Central Government.

Total savings proposals amount to just over £17.1m, with £6.1m in Residents Services; £9.9m in Social Care & Health; and £1.1m in Administration & Finance. Full details of the proposals are contained in Appendix 5.

Also included in this report this year is the Housing Revenue Account budget and rent setting proposals for 2013/14. The Council continues to use the rent restructuring formula as in previous years to set rent levels as part of the 10 year plan and is recommending average increases of 3.1% for next year.

The report also includes the fees and charges recommendations for 2013/14 which include a freeze for residents on all fees and charges, detailed in Appendix 7.

The capital programme for 2013/14 and indicative allocations for the following three years are presented in this report and in Appendix 9. The General Fund Capital Programme amounts to £229m over four years, with £120m of that investment focused on meeting demand for Primary School Places across the Borough. In addition, this programme will enable completion of a number of major projects during 2013/14, including the Libraries refurbishment Programme.

The report also includes the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement for 2013/14, including the Prudential Indicators. Each of these items is recommended by Cabinet for approval by full Council.

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. This pay policy statement must be agreed by full Council. Full Council agreed the first pay policy for 2012/13, for publication on 1 April 2012. The statement for 2013/14 is now submitted for approval and publication. The 2013/14 statement, attached at Appendix 11, follows the same format to that approved in 2012/13, amended to reflect changes that have happened over the last year. The key differences are –

- Updates on the list of tier 1 and tier 2 roles evaluated at a pay scale that can range beyond £100,000 (Paragraph 9.3)
- Reduction in the pay multiple between the salary of the Chief Executive and the salary of the lowest paid employee from 12.5 to 12.26 (paragraph 15.2)
- Reduction in the pay multiple between the Council's median salary and the salary of the Chief Executive from 7.35 to 6.3 (paragraph 15.3).

Legal Considerations

The Director of Finance has a duty under the Local Government Act 2003 to comment on the robustness of the General Fund budget for the coming year and the adequacy of the Council's reserves. These duties are exercised in this report. The Director of Finance has recommended that an appropriate level of unallocated balances for the Authority is in the range from £15m to £30m. As described in the report, unallocated balances have been maintained well above the minimum level throughout the current year and are forecast to be in excess of £28m at the year end. They will remain well in excess of the £15m minimum level for 2013/14 as a result of the budget recommendations in this report. The budget also contains a Development and Risk Contingency of £22.9m over and above the unallocated balances.

In relation to the Housing Revenue Account (HRA) current legislation requires income from tenants for rents and service charges to be separately shown in the HRA. Under Department for Communities and Local Government (DCLG) guidelines these charges must be reviewed regularly to ensure the HRA does not go into deficit.

Reasons for recommendations

The recommendations have been framed to comply with the Budget and Policy Framework rules. They allow the presentation to Council of recommended budgets for 2013/14. This includes the impact on the Council Tax and housing rents and service charges.

Cabinet should give full consideration to the 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.

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 four 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.

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

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. The Council Tax could then be increased accordingly within the constraints imposed by the Government's capping regime and the loss of the Council Tax freeze grant of £1.1m. A change in the budget requirement of £1m either way (increase or decrease) will result in an increase or decrease of 1.0% in the level of the Council Tax equivalent to £11.12 per annum at Band D level.

Members could decide to add or remove new capital schemes from the draft capital programme included in this report. The funding for any additional new schemes would necessarily come from unsupported 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 Housing capital projects.

Members could decide to vary the proposed fees and charges outlined at Appendix 7. 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.

If the Council chose to set rents higher or lower than those proposed in line with the Government rents restructuring policy there would be different impacts on the HRA. Lower rents than proposed would result in less income and a detrimental impact upon balances whilst higher rents would have beneficial impact on balances and both would be out of line with the agreed business plan for the self financing regime. Higher rents than those proposed could also be subject to challenge by tenants on the basis the Council would not be implementing the agreed 10 year business plan. Neither option can be recommended.

The Development and Risk Contingency identifies the key risks and uncertain items for which provision is contained with 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 2013/14 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 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 Committees Comments

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 20 December 2012 for consultation at the January 2013 round of meetings.

Each service Policy Overview Committee referred their comments on to the Corporate Services and Partnerships Policy Overview Committee on 6 February 2013. The Committee's comments to Cabinet will be contained in Appendix 12, which will be tabled prior to Cabinet.

3. INFORMATION

Supporting Information

Background to the 2012/13 MTFF Process

- 1 This is the second report to Cabinet on the budget proposals for 2013/14 and beyond. The previous report presented to Cabinet on 20 December 2012 set out the Medium Term Financial Forecast (MTFF). Draft revenue budget and capital programme proposals were approved then for consultation with Policy Overview Committees and other stakeholders.
- 2 This report updates the earlier December Cabinet report for known changes and in particular the impact of the Local Government Finance Settlement for 2013/14 and 2014/15. It sets out the Cabinet's General Fund Revenue budget, Housing Revenue Account budget and Capital Programme for 2013/14, with medium term projections for three years beyond next year. The Council does not have the power to set budgets more than one year in advance; however, the inclusion of medium term figures helps to demonstrate the ongoing impact of the budget proposals. It also provides context for the budget decisions proposed.
- 3 The report includes Prudential Indicators for 2013/14 to 2015/16. These show the impact of the Council's capital spending plans, included in the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement for 2013/14, at Appendix 10.
- 4 The Director of Finance's duty, under the Local Government Act 2003, to consider the adequacy of the Council's reserves and robustness of the estimates, is exercised within this report.
- 5 The budget report for Council Tax setting for 2012/13 contained an initial savings requirement of £12.1m for 2013/14. The budget strategy developed in response to the Comprehensive Spending Review (CSR) 2010, which was reliant on the Hillingdon Improvement Programme (HIP) Business Improvement Delivery project, contained challenging savings targets totalling in excess of £60m over the subsequent four year period. Having delivered budgeted savings of around £15.6m in 2010/11, £26.2m in 2011/12 and £17.7m in 2012/13, a further £17.1m savings have been developed for 2013/14 which, if approved will mean in excess of £75m will have been saved over a 4 year period.
- 6 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 MTF 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.

- 7 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 (BID) 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.
- 8 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 introduced by the Local Government Finance Act 2012 replace the previous formula grant system, totally changing the way local government is funded in the future. The finalised local government finance settlement in January 2013 set out a 2 year settlement covering the years 2013/14 and 2014/15 and explained the full impact on local government of the changes being implemented through the new Act. The key changes are the retention of a percentage of Business Rates, replacement of Council Tax Benefit with a localised Council Tax Reduction Scheme and changes to Revenue Support Grant. In addition, there have been significant changes to Education funding for academies, the education provision for 2 year olds and the transfer from the PCT of Public Health responsibilities and funding. The estimated impact of these numerous changes on the level of Council funding have been incorporated into the proposed budget.
- 9 This budget report outlines a strategy incorporating the changes set out above including detailed proposals that are capable of bridging the budget gap of £17.1m 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 all fees and charges for residents for a further 2 years;
 - priority growth available for new initiatives: and
 - maintaining balances and reserves well in excess of the minimum recommended level, which will provide a significant buffer going forward if future settlements are worse than expected.

GENERAL FUND REVENUE BUDGET

Update on 2012/13 Budget Monitoring

- 10 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.
- 11 The latest in year revenue monitoring position as at Month 9 (December) shows that forecast net expenditure for the year 2012/13 is £2,726k less than the budget following recognition of a £620k exceptional levy payment required by the West London Waste Authority.
- 12 Directorate budgets are reporting a net underspend of £96k, however, this contains significant pressures related to slippage on Social Care Savings of approximately £1,500k and on contingency items totalling £1,088k. Early delivery on a number of 2013/14 savings initiatives is successfully containing these pressures in year, with work underway to manage these issues in the medium term.
- 13 Additional financing provision for the Primary School Capital Programme was prudently included in 2012/13 budget but as a result of the deferral of borrowing on the Programme, £3,250k is not required in this year. This represents a windfall available to sustain a healthy level of balances to manage risks around the implementation of Council Tax Support and the share of Business Rate income to the Council from April 2013.
- 14 Balances brought forward at 31st March 2012 were £23,313k, to which a further £2,126k was budgeted to be added during 2012/13. Forecast balances at 31 March 2013 are expected to reach £28,164k as a result of this budgeted contribution and the in year underspend noted above.
- 15 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 December 2012 is shown in the following table:

RAG Status of Savings (At Month 7)	Administration & Finance	Residents Services	Social Care & Health	Total (Month 9)	%
Blue - Banked	-1,781	-5,953	-5,812	-13,546	76.55
Green - On track for delivery	-55	-1,707	-263	-1,995	11.44
Amber - Potential significant savings shortfall or a significant or risky project which is at an early stage;	0	-203	-50	-293	1.43
Red - Serious problems in the delivery of the saving.	-300	-300	-1,272	-1,862	10.58
Total	-2,136	-8,163	-7,397	-17,696	100.00

- 16 Progress continues to be made towards delivering the £17,696k savings set out in the 2012/13 budget, with £15,571k, or 88% either banked or on track for delivery at Month 9 (86% at Month 8). There has been a reduction of £50k in red savings reported within Residents Services, while the remaining shortfall is off-set through early delivery of 2013/14 savings and other alternative measures.

CHANGES SINCE REPORT TO CABINET ON 20 DECEMBER 2012

Changes in the presentation of the Corporate Summary

- 17 A revised format for the Corporate Summary has been developed to reflect the new configuration of funding streams and to show the impact of business rates growth on the General Fund. This new presentation groups funding into three categories, the content of which are explained below:
- **Council Tax Revenues** – The format of this section is unchanged, however, the Council Tax Base figure has been reduced by 13,000 properties to take account of the cost of the local Council Tax Support Scheme. This reduction in Band D equivalent properties is off-set through the inclusion of £15,605k of Council Tax Support funding.
 - **Business Rate Revenues** – This is a new section to take account of both the element of existing business rate income that the Council retains under the new system (the baseline) and the Council's share of any growth over and above this sum. As previously reported, this growth is subject to a 50% levy which is also reflected in reaching the net business rate revenue available to the General Fund. Appendix 1A shows how the £331m business rate income to be raised in the Borough will be distributed between Hillingdon, the GLA and Central Government.
 - **Corporate Grant Income** – This includes the revenue support grant, which is the remainder of formula funding not incorporated into the business rates baseline. In order to simplify presentation on this summary, all other corporately managed grant income is shown as a single total, with a detailed breakdown contained in Appendix 1A.

Changes in the budget

- 18 The table and narrative below summarises the changes to the recommended budget proposals from the report considered by Cabinet on 20 December 2012. Each of the items is considered in more detail in the following sections of the report.

Table 1: Changes to Revenue Proposals since Cabinet on 20 December 2012

	2013/14 £000s
Budget gap/(surplus) at 20 December 2012	0
Proposal/Amendment	
Local Government Finance Settlement	-1,101
Collection Fund Surplus	-21
Net General Fund impact of central charges to grant funded services	-445
New provision for further new burdens	54
Refreshed Inflation provision	13
Social Care Demographics	-422
Increase to provision for West Waste	630
Provision for auto-enrolment	660
Increase to provision for Heathrow expansion Challenge	100
Increase to SEN contingency	510
New provision against any shortfall in delivery of Social Care BID staffing	1,500

savings	
Increased provision for priority growth	1,125
Reinstatement of Social Care commissioning savings	-735
New Social Care & Health BID staffing saving	-1,500
Net Increase in Social Care & Health BID savings to £1.5m	-368
Budget gap/(surplus) at 14 February 2013	0

- 19 **Adjustments to Funding and Grants** – A full analysis of the 2013/14 Local Government Finance Settlement and additional funding announcements have identified a further £1,101k of funding compared to the estimate contained within the December report. This includes newly announced funding to off-set the impact of extending the doubling of small business rates relief into 2013/14 (£200k), clarification of new homes bonus funding, Local Authority Central Spend Equivalent Grants (LACSEG) adjustments, Section S256 funding transfers, and various other minor grant adjustments.
- 20 **Increase in Priority Growth** - Additional priority growth of £1,125k has been included to fund Road and Pavement Maintenance; legal support for BID reviews; additional capital financing for the Primary Schools Capital Programme; and to increase unallocated priority growth to £1m.
- 21 **Adjustment to Inflation** - Further work has been done to refresh the inflation model which has resulted in a reduction of £13k in the overall inflation allowance.
- 22 **Adjustments to Pressures and Contingency** – since the last report to Cabinet in December 2012 a number of adjustments to the forecast contingency requirements have been made, which are summarised below and explained in detail in the contingency section of the report:
- West London West Authority - The WLWA draft budget and levy for 2013/14, published in December, indicates a further pressure of £630k above the contingency already included in Hillingdon's draft budget for the Waste Disposal Levy (Landfill Tax).
 - Pension Fund automatic enrolment – As a result of the impact of auto enrolment into both the Local Government Pension Scheme and the Teachers' Pension Scheme a new provision of £660k has been created.
 - Heathrow Expansion Challenge - In anticipation of proposals being developed to expand Heathrow, an additional contingency provision of £100k has been included in 2013/14.
 - SEN Transport - There is an increased pressure of £510k in SEN requirements due to an increase number of pupils from the new intake in September 2012.
 - Social Care Demographics – Following a refresh of Adult social care demographic the contingency for 2013/14 has been reduced by £422k.
 - Social Care & Health BID Staffing Structure Review – Provision has been made to cover any shortfall in the delivery of BID staffing structure review savings within Social Care & Health.
- 23 **Increase to Social Care & Health Savings** – the commissioning savings proposal of £735k has been reinstated, the BID savings for Social Care & Health has been increased to £1.5m and a new BID restructure saving of £1.5m has been created.

Budget Requirement 2013/14

- 24 The movement between the current 2012/13 year's budget and the budget requirement for 2013/14 is summarised in Table 2 below. Further detail on each of the lines in the table is set out in subsequent sections of the report. A more detailed summary of the MTFF over the full 4 year period is attached in Appendix 1.

Table 2: Budget Requirement 2013/14

	Budget (£000s)
Budget Requirement 2012/13	219,900
Inflation	2,926
Corporate Items	-2,143
Contingency	6,657
Priority Growth	930
Savings	-17,111
Budget Requirement 2013/14	211,159
<u>Funding Sources</u>	
Council Tax Receipts (including Council Tax Support Grant)	113,406
Retained Business Rate Receipts	41,311
Corporate Grant Income (net of Council Tax Support Grant)	56,442
Total Resources	211,159

Inflation

- 25 The core inflationary cost increases in the budget for 2013/14 total £2.9m. This represents a decrease of £2.1m compared to 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 January 2013. 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.
- 26 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.
- 27 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.
- 28 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. For those contracts with unavoidable inflationary increases provision has been made in line with contractual commitments.
- 29 The estimates provide 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 indicative figures published in November 2012. There

had been discussion of changing the apportionment basis for these costs which would have benefited Hillingdon; however the implementation of this change has been postponed until 2014/15.

30 Table 3 below sets out the general inflation rates applied to specific budget lines.

Table 3: Inflation

Category	Rate (%)	2013/14 (£000s)
Employee's Pay	1.80%	1,773
Electricity Costs	10.00%	200
Gas Costs	17.00%	94
Vehicle Fuel Costs	7.50%	66
Care Placements	0.70%	448
Contract with unavoidable inflation increases	Contractual %	233
NNDR budgets	NNDR Increase %	70
Levies	Specific Levy %	211
Sub Total		3,092
Adjustment for Children and Families Inflation already in the base budget		-166
Total		2,926

Corporate Items

31 This heading is used to describe items that affect the Council overall, or have a significant impact on the majority of service groups within the Authority. A net decrease in budget of £2.1m is estimated in 2013/14 to cover these items which are shown in summary in the table below and also in Appendix 2.

Table 4: Corporate Items

Corporate Items	Amount 2013/14 (£000s)
Change in budgeted Contributions (from/to) Balances	-2,126
Increase in Council Tax Older Persons Discount	15
New Health Responsibilities	151
Net Impact of central Support Cost Allocation to Grant Funded budgets	-445
LAA Reward Grant Share to Safer Hillingdon Partnership	-292
Provision for other new burdens	554
Total	-2,143

32 The 2012/13 budget included a payment into balances of £2.1m and also included the final 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.

33 The adjustment to the older persons discount 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.

- 34 From 1 April 2013, the Council will take on new responsibilities with regard to funding a local Healthwatch and other advocacy services at an estimated cost of £151k. These new burdens are funded from the DoH Local Reform and Community Voice Grant.
- 35 Other amendments to corporate items arise from changes to the funding regime, with changes to grant funded budgets reducing the support costs allocated to General Fund functions by £445k. Additionally a new provision of £554k has been included to cover further potential transfer of new burdens from Central Government to Local Authorities.

Development and Risk Contingency

- 36 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.
- 37 Groups have identified and reviewed all service pressures and as noted at the start of the report there are demand led pressures emerging in the current year's budget monitoring for which further new or additional provision has been included in next year's contingency budget.
- 38 A net increase in the contingency of £6.7m shown in Table 5 below reflects the latest estimate of potential funding to cover a range of financial risks faced by the 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 5: Development and Risk Contingency

Contingency Items	Current 2012/13 Contingency (£000s)	Pressure 2013/14 (£000s)	Change (£000s)
Total	16,226	22,883	6,657

- 39 **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 being developed for Adults Services. Although the models are still in the testing phase, a partial update has been done on the Adult demographic figures. This update suggests that the contingency requirement can be reduced by £422k. This change relates to a physical reduction in client numbers within Older People's services and changes to Learning Disability and Physical Disability projections. The contingency requirement for Social Care pressures is now forecast at £9.2m, including the requirement of Children' Social Care pressures of £0.8m, to cover any potential shortfall in savings from Social Care and Health.
- 40 **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 estimated 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.

- 41 **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 (£0.5m in excess of that assumed back in February 2012). Part of this change is due to the likely cut in the fixed gateway payment being signalled by UKBA, but which has yet to be confirmed. 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.
- 42 **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. While WLWA are yet to confirm the 2013/14 levy, local analysis of available information suggests that this will be in the region of £10.4m, an increase of approximately £2.5m on 2013/14. £1m of this increase is due to the on-going budgetary and financial issues at WLWA, which should be one-off in nature and could be funded as such. The remaining £1.5m relates to growth in waste tonnages and landfill tax increases. At December Cabinet a figure of £0.9m was quoted for the increased cost of tonnages, which was revised upwards on the basis of WLWA budget estimates showing increased waste disposal costs and less waste being diverted from landfill. The latest budget report from the WLWA suggests the need to increase the provision by a further £630k.
- 43 **Bid Pump Priming** - A contingency of £500k will support further development of BID work to deliver the required efficiencies for the Council during 2013/14.
- 44 **Social Care & Health BID staffing structure review savings** – a provision of £1,500k has been created to cover any shortfall in the delivery of BID staffing structure review savings within Social Care & Health.
- 45 **HS2 Challenge** - The Council joined forces with 17 other Councils to fight the proposed High Speed 2 link proposals and is one of the six lead Councils identified to take a leading role in 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. 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.
- 46 **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.

- 47 ***Pension Fund Automatic Enrolment*** - The automatic enrolment (Miscellaneous Amendments) Regulations 2012 requires all employers to automatically enrol all non scheme members of staff within their pension schemes and for Hillingdon the staging date was 1 February 2013. There are 550 employees who will be automatically enrolled on 1 February, although these employees have the right to opt out. It is currently estimated that 30% will remain enrolled in the scheme. A contingency of £660k is included to cover the estimated additional cost of this enrolment.
- 48 ***Heathrow Expansion Challenge*** – In anticipation of proposals being developed to expand Heathrow, a new contingency provision of £200k has been included in 2013/14 to fund a challenge to these plans. The contingency will fund a local referendum to gauge public opinion.
- 49 ***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 £217k, to account for the shortfall in Minet Gym Bromley Mytime income. The contingency requirement then increases to £300k in 2014/15 due to the full year impact of the loss of the Minet Gym income.
- 50 ***SEN Transport*** - There is an increased pressure in the current year due to a combination of increased SEN routes being provided compared to 2011/12, which has led to an increase in the contingency provision required for 2013/14 of £510k, taking the total provision to £760k. Whilst this is less than the assessed gross risk the service will be taking mitigating actions to contain the pressure within this level. A wider review on Transport and SEN 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.
- 51 ***Carbon Reduction Commitment Energy Efficiency Scheme*** - A contingency amount of £430k 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 £402k.
- 52 ***Impact of welfare reform on homelessness*** – The changes to Housing Benefit through changes to subsidy levels impacted negatively on the affordability of leasing schemes for 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 pa, the same level as in 2012/13. In addition, the introduction, later in the year, of the Housing Benefit cap to 'workless' households coupled with 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 £1,500k, 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.
- 53 ***General Contingency*** – The draft budget continues to include a sum of £1,000k 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 time.

Priority Growth

- 54 Provision has been made within the 2013/14 budget for over £2.6m of priority growth an increase of £0.9m from 2012/13. The change is detailed in table 6:

Table 6: Priority Growth

Priority Growth	Amount 2013/14 (£000s)
Additional Priority Growth to be added to the unallocated £1.7m in the 2012/13 budget	926
Additional Funding for Extended Library Opening Hours (Full Year Effect)	22
Litter and dog waste bins growth falling out	(18)
	930

- 55 A number of proposed new initiatives to be funded from the £2,630k priority growth provision are detailed below totalling £1,630k, leaving £1,000k unallocated and available to fund new growth priorities:

- An additional £500k revenue investment in the Borough's highways and footpaths is proposed bringing the total revenue investment to £1m alongside a further £2,000k of capital investment.
- Funding of £56k per annum is included to support a Proceeds of Crime Officer within the Enforcement team.
- Provision of £500k for schools capital programme financing costs.
- Additional Legal Support for BID reviews of £43k
- A dedicated Ruislip Lido Officer is included at £33k per annum, providing a single 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 £58k per annum.
- In addition, it is proposed to allocate £100k to support further investment in new Community Safety projects.
- 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 discussed further 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.
- To support the increased demands on Transportation Planning Policy and related customer engagement, £60k is being provided to fund an additional officer post in this area.

Savings

56 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. Total savings within the 2013/14 budget are £17.1m and are summarised in Table 7 below. Total savings figures for each Group are net of the redundancy costs contained within their package of proposals.

Table 7: Savings Proposals

Savings Proposals	Saving 2013/14 (£000s)
Administration & Finance	1,051
Residents Services	6,102
Social Care & Health	9,958
Total Savings Proposals	17,111

57 The approach to savings taken by each group is explained further below. Included within each of the group proposals is a specific target for major transformation projects and targeted reviews which although at an early stage of development are expected to provide further savings in 2013/14. Details of savings are set out in Appendix 5 split into 3 categories:

- Full year impact of prior year savings where there have been no changes to the proposals agreed in February 2012 Council Tax setting;
- Full year impact of prior year saving where proposals for 2013/14 presented to February 2012 Council Tax setting, have been revised in either amount or content;
- New proposals for 2013/14.

58 **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 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.

- 59 **Residents Services** - the approach to the delivery of £6,102k 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 of £1,300k and further additional savings to cover the estimated pressure arising from changes in schools funding arrangements. 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 (£1,024k), New Homes Bonus (£2,693k) and a new dry waste recycling contract (£536k). Further details of the savings proposals developed to date of £6,102k are included in Appendix 5b.
- 60 **Social Care & Health** are developing £9,958k of 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. There has been slippage on the associated revenue savings originally planned to be achieved in 2013/14, but these have now been phased into future years. 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 placements (£400k by 2014/15), use of the care funding calculator to negotiate lower rates for care placements (£255K) and a review of fostering provision (£300k). Included within the budget are savings of £3,044k to be generated from Social Care BID Transformational projects. Further details of the savings proposals developed to date are included in Appendix 5c.
- 61 There are a number of cross cutting Transformation and BID reviews, including the development of the Children's 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 Council's 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. This will be followed by further reviews of 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 the senior management restructures in Residents Services to incorporate Housing services and in Social Care & Health to incorporate Health and the transformation agenda. Therefore, it is likely, that the make-up of the BID savings targets by project will continue to change. It is also apparent that there are more savings to come from these projects as the reviews progress further.

Fees and Charges

- 62 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 Resident's Card, has introduced differential charging and any increase in fees and charges to residents have been limited through this mechanism. For 2013/14 and 2014/15 there is a proposed freeze on all 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 to fees and charges to non-residents.

- 63 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 additional income arising from non resident increases.
- 64 Schedules detailing the proposals relating to fees and charges for 2013/14 are attached at Appendix 7.

Central Government Grant

- 65 The final Local Government Finance Settlement 2013/14 was announced on 4 February 2013 for 2013/14 and also provided provisional allocations for 2014/15. It set out the impact of the changes to Council funding contained in the Local Government Finance Act 2012. As explained earlier, the format of the attached summary has been changed as a result of the new funding regime and the details are contained with appendices 1 and 1a.
- 66 The key technical changes in the Government's funding system from 1 April 2013 were explained in detail in the draft budget report to December Cabinet. This report sets out the actual funding levels for each of the key changes and their impact upon the Council's overall General Fund budget for 2013/14. Previously, the Council's resources came from Council Tax income, Formula Funding and other Government grants.
- 67 The finance settlement 2013/14 - 2014/15 is the first under the new scheme and the key funding resources are from:
- **Council Tax Revenues** – Council in January 2013 agreed the Council Tax base for 2013/14 as in previous years. However, with the introduction of the local Council Tax Reduction scheme from April 2013, the methodology for calculating the Council Tax base changed as part of the revenue now comes from a Council Tax Support Grant, which has been set at £15,605k for 2013/14.
 - **Business Rate Revenues** - The Settlement confirms the Council's retained local share of Business Rates at 50%, of which 40% is payable to the GLA and 60% is retained in Hillingdon. This share is now fixed until the first reset of the business rates retention system due in 2020. The Council's baseline Business Rate Income for 2013/14 has been set at £41,252k and an additional £59k is due from the local share of retained growth. Further details of the calculations of the Business Rates Revenues are set out in Appendix 1a.

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. During 2011/12, the rateable value in Hillingdon fell by £4.5m and has fallen further by £9m to December 2012. If this rate of decline continued into 2013/14 the Council would lose ongoing funding at the rate of around £2m p.a. There is a provision in the budget for a further fall in rateable value of £13m but if it continues to fall past this then the Council will start to lose income. Cabinet have agreed a new Economic Development Strategy with 6 workstreams aimed at countering this current trend and seeking to generate growth.

- **Corporate Grant Income** - This funding is made up of a combination of Revenue Support Grant (RSG) and other unringfenced grants. For 2013/14 RSG for Hillingdon will be £62,007k. Other central Government grants total £10,040k, made up of a number of unringfenced Government grants, previously identified separately, and now rolled into the new funding mechanism. These include the following:
 - Council Tax freeze grants 2011/2012 and 2012/2013,
 - Council Tax Support Grant,
 - Early Intervention Grant,
 - Homelessness Prevention Grant,
 - Lead Local Flood Authorities Grant, and
 - Learning and Disability Health Reform Grant.

Appendix 1a details the full list of grants included in the £10,040k. This also includes the Education Services Grant which covers the funding for the functions that are retained by the Council when Academy status is granted to the Council's schools. The sum of £3,118k includes an estimated cost £580k for those schools who will achieve academy status in 2013/14.

In addition, there are significant changes proposed to New Homes Bonus funding, whereby the funding for 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. This additional income is reflected in Residents Services proposed savings at Appendix 5b

- 68 Within the December budget report a £9.2m cash reduction in Central Government grant funding for 2013/14 as compared to 2012/13 was assumed. This was purposely set at a more pessimistic level than set out in the two year settlement due to concerns around the impact of changes in funding mechanisms set out in the Local Government Finance Act 2012. The actual level of grant set out in the Settlement equates to a cash reduction of £7.4m in 2013/14.

Balances and Reserves

- 69 The projected unallocated balances and reserves are currently forecast to be £28.1m as at 31 March 2013, well above the minimum target level of balances and over £2.7m in excess of what they were projected to be at the start of the current financial year. However, this assumes that the £1.7m of priority growth (£50k committed to date), £1m unallocated contingency (£511k committed to date) and the £800k HIP contingency (£537k committed to date) will all be spent in full by the year end.

- 70 The MTFF strategy was to maintain balances long-term at a level of no lower than £12m. However, the lower limit has been increased to £15m to reflect the transfer of risk from central Government to Local Government in respect of Business Rate Retention and the introduction of local Council Tax Reductions schemes. The budget strategy contained in this report will keep balances well above this level over the next three years. This should provide some contingency to help absorb any further adverse movement in central Government funding and other demand led pressures. The budget proposals contained within this report keep balances within the recommended range advised by the Director of Finance.

Medium Term Impact of Proposals

- 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. The final Local Government Finance Settlement announced in February 2013 set out the funding for 2013/2014 and included provisional amounts for 2014/15.
- 72 In May 2010 the Council entered into a new four year cycle, taking the opportunity both to set new goals and to adopt new approaches to the Council's ways of working through the HIP BID programme. A savings requirement of £60m was identified for the following four year period commencing 2011/12. The refreshed MTFF strategy now indicates that the requirement over this four year period will need to be around £75m. The incremental savings over the next two years commencing 2013/14 are assessed at £17.1m for 2013/14 and £17m for 2014/15.
- 73 Economic projections for growth 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 suggest central Government's austerity measures will last until 2018.
- 74 Work will continue to analyse known information and predictions to make assumptions on the likely funding available for 2015/16 and beyond and for any potential changes to that proposed for 2014/15.
- 75 The impact of the implementation of the local Council Tax Support Scheme will, however, take longer to quantify. Until the local Council Tax Support Scheme is established and there is some reliable data and experience, it will be difficult to forecast the impact with any degree of certainty. Linking this to the wide scale welfare reforms and the transfer of considerable risk from Central to Local Government, the uncertainty will continue for several years until these changes are fully embedded. Funding to support this scheme has been clarified for 2013/14 and while it is contained within the overall indicative settlement figure for 2014/15, there is no detail on the level of that funding. Support beyond 2014/15 will be clarified through the next CSR and future Local Government Finance Settlements.
- 76 The other key aspect of funding uncertainty is from the Business Rates Retention scheme. Future increases in funding will be delivered through business rates growth and we do not, as yet, have any mechanism to make any considered forecasts on this. However, future increases in business rate yields will very much depend on the local economy and the Council is in a position to influence to local economic growth. In

December, Cabinet agreed to a programme of six workstreams to provide a stronger basis across the Council to support economic growth and regeneration in Hillingdon. Intelligence gathered through this work will feed into the modelling system being developed around Business Rate Retention to enable the generation of estimates on potential future growth. Whilst this will not provide firm forecasts, it will provide a much stronger basis and understanding on how Council decision-making could influence future funding levels.

- 77 The savings proposals outlined in the report are capable of delivering a balanced budget in 2013/14, but there currently remains a very large savings requirement for future years. Work has already commenced on the strategy to develop £17.1m of savings for 2014/15 and initial work with Groups will begin as soon as the 2013/14 budget has been agreed.

HOUSING REVENUE ACCOUNT (HRA) BUDGET

- 78 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. This will ensure that the HRA budget build is subject to the same rigorous process as other Council budgets and will aid overall understanding and transparency.
- 79 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 and set at Council in February 2012.

Update on 2012/13 Budget

- 80 The month 9 monitoring position is showing a favourable variance of £6,257k against budget. Following the move of Housing into Residents Services an efficiency review of the delivery processes for Housing maintenance and management commenced which has led to delays in the delivery of works to stock programme. In addition, rental income is forecast to exceed budget by £1,017k, 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

- 81 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
<u>Funding Sources</u>	
Net Dwelling Rents	55,623
Non Dwelling Rents	1,805
Total Resources	57,428

Inflation

- 82 The core amount of inflation included in the draft 2013/14 is £502k. Inflationary increases have been calculated using 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

- 83 Corporate items contained within the budget contribute to a net decrease of £1,552k. This is chiefly due to the use of balances to fund an increases in the Major Works Programmes. The remaining £217k relates to the revenue impact of capital expenditure, which includes interest and principal payments in relation to borrowing undertaken on the introduction of the self-financing regime.

Priority Growth

- 84 Additional major works proposals of £4,937k 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. A more detailed report will be presented to Cabinet setting out the proposed major works.

Development and Risk Contingency

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

Savings

- 86 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 alongside a review of contracts will deliver savings of £381k.

Fees and Charges

- 87 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 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 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%.
- 88 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. A comprehensive list of fees and charges are set out Appendix 7.

Balances

- 89 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 March 2013 at £14.7m including an in year contribution of £1.8m. Based upon the month 9 monitoring position, the forecast will add a further £6.3m, increasing forecast balances to £20.8m at 31 March 2013. Table 9 below sets out the projected movement in balances over the next 5 years. Assumptions built into this forecast include rents being uplifted by 3.1% in 2013/14 and 3% in subsequent years and that inflation is aligned with the 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	-6,253				

SCHOOLS BUDGETS

- 90 The funding that the Council receives for Schools Budgeted expenditure is through the Dedicated Schools Grant (DSG), which is a ring fenced grant. The determination of the DSG has undergone a significant change for 2013/14 following further consultation on the schools funding formula, the amount of funding that should be allocated to Academy schools and the introduction of a free entitlement for two year olds for those families that are deemed to be in the 20% most disadvantaged range. The DSG has been calculated based on three funding blocks; the Early Years Block (including resources for the two year old free entitlement offer), the Schools Block and the High Needs Block. Each of these funding blocks is not ring-fenced individually, which allows for movement of funds between the funding blocks within the DSG.
- 91 The Early Years Block has been cash limited to 2012/13 values and converted into a Guaranteed Unit of Funding (GUF) by dividing the 2012/13 total adjusted budget by the number of pupils aged 3 and 4 (as at the 19 January 2012 census count) in both the school and Private, Voluntary and Independent Nursery sectors (PVI's). This funding will be adjusted throughout the 2013/14 financial year, based on the January 2013 census count and again by the January 2014 census count, where additional pupils will be funded by the pre-determined GUF for Early Years. This funding block will, with effect from 1 April 2013, include funding for the Two Year old free entitlement offer, part of which will fund the current provision, with the remainder funding growth in capacity.
- 92 The Schools Block has been calculated by multiplying the GUF for Schools by the October 2012 pupil numbers, where the GUF has been determined by dividing the 2012/13 baseline budget by the October 2011 pupil numbers. This takes into account the requirement to remove the funding for Special Resource Provisions (SRP's) from the Schools Block and include it within the High Needs Block and the requirement to delegate mainstream SEN funding (moving funding from the High Needs Block into the Schools Block).
- 93 The High Needs Block has been cash limited to 2012/13 values allowing no growth for Special Educational Need (SEN) pupils. With effect from 1 August 2013, this block will be responsible for funding 16 -25 provision, which was previously funded directly by the Education Funding Agency. These funds have been added to the DSG, but the total pupil numbers have been capped at a figure below the current placement numbers.
- 94 The DSG funds both the delegated individual schools budget and items which the new School and Early Years Finance (England) Regulations allow to be retained centrally, including Special Educational Needs, Alternative Education provision and Early Years provision. The Council also receives a Pupil Premium Grant based on the number of pupils that are, and were, eligible for a free school meal (FSM) over the last six years (known as Ever 6 FSM). This is passported directly to schools based on the following allocations:-
- The level of the Pupil Premium has been confirmed at £900 per pupil (an increase of £277 on the current rate of £623), distributed based on those pupils eligible for Free School Meals at any point over the last six years (Ever 6).

- Children in Care of school age who have been looked after for more than six months (i.e. the pupils counted on the SSDA903 (Under the Children Act 1989, a child is looked after by a local authority if he or she; is provided with accommodation, for a continuous period of more than 24 hours, [Children Act 1989 Section 20 and 21]; or is subject to a care order [Children Act 1989 Part IV]), will be those pupils that have been continuously looked after for over 6 months aged 4 to 15 at 31 August 2011. The count point for 2012 is 31st March) will also receive £900 per pupil (an increase of £277 on the current rate of £623).
 - An additional amount of £300 per pupil will be included in the Pupil Premium in 2013/14 for the children of members of the UK armed forces, which is an increase from the current £250.
- 95 No cost falls upon the Council Tax payer for those services funded from the DSG, unless the council chooses to supplement the Schools Budget from the General Fund.
- 96 Throughout this financial year (2012/13) the coalition Government has consulted extensively with Councils on a wide range of school funding issues including:
- Replacing Local Authority Central Spend Equivalent Grant (LACSEG) - Funding Academies and local authorities for the functions that devolve to Academies.
 - School Funding Reform – Next steps towards a fairer system.
 - Supporting Families in the Foundation Years: Proposed Changes to the Entitlement to Free Early Education and Childcare Sufficiency.
- 97 The outcomes of these consultations introduce some significant changes to the way in which both the schools and the Council will receive funding for delivering an Education Service.
- 98 The funding for schools has significantly changed following the introduction by the Government of a new funding formula for 2013/14, which all authorities have to use, which has a limited range of factors. This new funding formula will be used to determine the budget shares for all schools (including free schools) with effect from 1 April 2013.
- 99 The current LACSEG recoupment calculation for academy school funding will be replaced through a combination of delegating more DSG centrally retained budgets (thus removing the need for the DSG LACSEG adjustment) and by replacing the LACSEG top-slice with the Education Services Grant, which provides a unit of funding per pupil to both the local authority and academy schools to determine the amount of grant funding that will be paid to undertake a range of specific education duties.
- 100 The funding for the free entitlement for Two Year Old provision will move from the Early Intervention Grant into the DSG with effect from 1 April 2013.
- 101 Schools Forum is the principal institution established for the Council's consultations with schools on financial matters. In order to ensure that Schools Forum makes informed decisions, the proposed funding arrangements are also issued to schools inviting responses that are subsequently considered by Schools Forum in making their decisions and advice.
- 102 The main focus of Schools Forum has been to undertake a fundamental review of the changes proposed in the School Funding Reform – Next steps towards a fairer system
-

- which started in May 2012 and concluded on 10 December 2012. Schools were invited to a number of briefing sessions in September 2012 and again in October 2012 and consulted formally in October 2012. The outcomes of which were considered at the Schools Forum meeting on 23 October 2012.

- 103 The new regulations provide Schools Forum with more decision-making powers with regard to certain aspects of the Council's proposals for schools funding. However, it remains the responsibility of Cabinet to agree the Schools Budget for 2013/14 and this is addressed in a separate report elsewhere on this Cabinet agenda.

CAPITAL PROGRAMME

Background to 2013/14 capital budget development

104. 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 from 2010/11 to 2014/15 based on pupil number estimates and cost estimates of the projects.
105. 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.
106. 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.
107. A summary of the proposed capital programme has been included in Appendix 9 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.
108. The capital programme contains a number of on-going programmes of works requiring £10,977k 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

109. The only changes in the proposed additions to the capital programme for 2013/14 since December are as follows:
- a. A Community Safety Assets Fund of £2,000k has been established to support the Council's investment in Community Safety;
 - b. An increase in the Environmental Assets budget of £75k for increased electrical supply infrastructure costs at Ruislip Lido, plus £25k for foundation pile works required for the Railway Mess Office;

- c. Additional £100k for the Library refurbishment programme to provide welfare facilities at the Harlington Library;
- d. £325k has been included to support investment at the Compass Theatre, mirroring upgrade works at the Winston Churchill Hall.

Primary Schools Capital Programme

- 110 In order to meet the demand for additional school places, this draft budget includes provision for £120m over the next two years.
- 111 Phase 2 permanent expansions 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 £5.5m with increases in 2013/14 and 2014/15.
- 112 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.
- 113 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 now required, giving an increase of £5m.
- 114 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.
- 115 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.
- 116 Table 10 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 £127.52m to £149.69m. The increase is explained by the £10.31m 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	2011/12	2012/13	2013/14	2014/15	Total	Permanent FE	Temporary Units
	£'000	£'000	£'000	£'000	£'000	£'000		
Minor Works	559	158	437	0	0	1,154		3.0
Phase 1	1,080	8,106	6,538	6,302	535	22,561	6.0	
Phase 1A (incl. Rosedale)	10	1,993	905	0	0	2,908		7.0
Phase 2	0	1,027	5,484	58,882	28,453	93,846	17.5	-2.0
Phase 2A	0	42	2,840	0	0	2,882		10.0
Phase 3	0	157	854	9,804	11,925	22,740	6.0	
Phase 3A	0	0	0	2,300	1,300	3,600		13.0
Expenditure	1,649	11,483	17,058	77,288	42,213	149,691	29.50	31.00
DfE Grant*	1,649	9,055	14,087	25,942	8,564	59,297		
Section 106	0	2,428	2,971	5,800	3,870	15,069		
Council Resources	0	0	0	45,546	29,779	75,325		
	1,649	11,483	17,058	77,288	42,213	149,691		

Priority School Building Programme

117. 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.

118. However, there is a significant maintenance liability at Abbotsfield which will need resolving before the proposed timing of the delivery of new school buildings. The 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. However, should this prove to be the case, sufficient capacity exists within the Council's capital budgets to cover any shortfall.

119. The capital programme includes a total of £21.05m of on-going programmes of works; £10.07m 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	2014/15	2015/16	2016/17	Total
Capital Receipts	(£'000)	(£'000)	(£'000)	(£'000)	(£'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	11,098	9,797	5,910	4,485	31,290
Capital Receipts (Surplus)/Shortfall	-1,121	-4,684	-797	628	-5,974

120. These programmes may be suitable for the application of future 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

121. 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 - Phasing of Capital Receipts

	2012/13	2013/14	2014/15	2015/16	2016/17	Total
	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)
Original Budget	23,648	12,675	0	0	0	36,323
Total Receipts Current forecast	2,912	11,936	17,057	9,173	5,464	46,542

122. 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 RTB receipts.

Funding of the Capital Programme

123. Table 13 shows the proposed financing for the draft budget shown in Appendix 9 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	2014/15	2015/16	2016/17	Total
	£'000	£'000	£'000	£'000	£'000
GF Prudential Borrowing	75,513	26,634	563	3,772	106,481
GF Capital Receipts	11,936	17,057	9,173	5,464	43,630
Grants	37,069	15,580	8,068	8,068	68,784
Other 3 rd Party Contributions	6,261	3,870	0	0	10,131
Total	130,779	63,141	17,803	17,303	229,026

124. 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 £75.51m borrowing requirement for 2013/14 specific resources have been identified to support £45.5m investment in school expansions and Highgrove Pool, £17.36m invest-to-save/self-financing projects with the remaining £12.65m 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.
125. The potential new or enhanced proposals outlined in this report would create an additional £8.8m of unsupported borrowing that require revenue resources. Additional financing for funding has been included in priority growth. There remain 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.
126. 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.
127. 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.
128. 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.
129. Provision to support up to £24.85m of borrowing for investment in new housing stock has been included within the HRA's revenue budget, in addition to capital financing costs associated with 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. As a result the HRA has potential financial headroom to undertake further new housing schemes.
130. In conclusion, revenue resources for capital financing the draft programme 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.

Table 14 Capital Grant

Capital Grant	Awarding Body	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	Total £'000
Devolved Formula Capital (DFC)	DfE	535	535	535	535	2,140
Capital Maintenance	DfE	2,400	2,008	1,000	1,000	6,408
Basic Needs (Initial)	DfE	7,556	7,556	0	0	15,112
Basic Needs (Top Up)	DfE	6,000	0	0	0	6,000
Transport for London LIP	TfL	2,998	2,998	2,998	2,998	11,992
Outer London Fund (Town Centres)	GLA	1,965				1,965
Disabled Facilities Grant	DH	1,600	1,600	1,600	1,600	6,400
Empty Property Grant	HCA	260	312	312	312	1,196
LA Contaminated Land Grant	EA	0	0	1,622	1,623	3,245
Community Capacity	DH	560	571	0	0	1,131
2012/13-14/15 Allocations		23,874	15,580	8,067	8,068	55,589
Rephased DFC	DfE	444				444
Rephased Capital Maintenance	DfE	704				704
Rephased Basic Needs	DfE	11,386				11,386
Rephased Education Grants Other	DfE	227				227
Rephased Community Capacity	DH	434				434
Rephased Grants		13,195	0	0	0	13,195
Total Grant Funding Available		37,069	15,580	8,067	8,068	68,784

(Shaded grant allocations have been confirmed with awarding bodies, other amounts represent best estimates.)

131. 2013/14 grant funded expenditure falls into two distinct categories; £7,081k of investment is directly attributable to grants for which variations in external funding would simply lead to the equivalent variation in expenditure. Such projects are funded from Devolved Formula Capital, TfL Local Implementation Plan and a share of DfE Capital Maintenance grant. The remainder (£29,988k) is demand led and reductions in external funding would necessitate additional use of Council resources. £15,980k of such funding is either confirmed or carried forward from 2011/12. The remaining £14,008k consists of additional DfE Basic Needs funding to be announced by March 2013.

OVERALL BUDGET FOR COUNCIL TAX SETTING 2013/14

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

132. Under Section 25 of the Local Government Act 2003 the 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.

133. The 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 £22.9m 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 in line with the assumptions in the revenue budget.
- The use of the Council's project management approach to monitor delivery of the material savings in the revenue budget.

134. The 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 2012/13, the Director of Finance set a recommended range of balances. This was between £12m and £24m, based on an analysis of the risks facing the Council. The recommended range has been updated following a review of the risks facing the Council. This is set out in the next section.

Statement on Balances and Reserves

135. The 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.

136. To assess the adequacy of general reserves, the 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.

137. To determine the recommended level of reserves the Council has assessed risk against the criteria as specified in Local Authority Accounting Panel (LAAP) Bulletin 77 (November 2008). 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.
138. The assessment, although based on the Council's procedures and structures, does have an element of subjectivity and to allow for this the optimum level of reserves incorporates a range. The recommended range for reserves for 2013/14 is £15m to £30m. Ideally the Council should avoid having balances below the minimum level of £15m, or above the maximum level of £30m. The current MTFF maintains balances within this range. Details of the risk assessment are included in Appendix 8.
139. The range of issues that impact on the need to hold balances and reserves has been reviewed since last year's budget setting process and while most current funding streams have now been confirmed, the assessment of the minimum level of balances has increased to £15m due to the introduction of the Business Rates Retention Scheme and the localisation of Council Tax Support, both of which transfer a higher risk of financial uncertainty from central Government to local government. In particular, to increase future revenues flows from growth in Business Rates through economic development, whereas failure to grow will lead to a reduction in revenue with consequential impacts on the Councils budget. Similarly, the abolition of Council Tax Benefit and transfer of Council Tax support to local control increases the risk to the Council's finances in the event that the number of claimants entitled to Council Tax Reduction payments grows as this will fall to the Council to fund from within their current resources.
140. Whilst the forecast year end balances for 2012/13 have increased, the proposed contingency for 2013/14 has also increased. A further significant contributor to the necessity for reserves arises from the reductions in funding and the need to find further savings on top of the £60m budget cuts, delivered over the last 3 financial years.
141. The projected level and recommended range of balances will vary depending on the budget proposals that are put forward by Cabinet.

The Council Tax Requirement for 2012/13

142. The budget proposals included in this report represent Cabinet's budget strategy for 2013/14 and beyond. The revenue budget proposals have been developed to deliver a zero increase in Council Tax for the fifth successive year. The approved Council Tax level for 2013/14 is subject to Members' final choices in the budget setting process.

Council Tax Referendum

143. 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.
144. The Council Tax increase above which local authorities would be required to hold a referendum in 2013/4 on the basis of the Government's proposals is 2%. The budget proposals outlined in this report maintain Council Tax at the same level as in 2012/13

and therefore the referendum threshold will not be triggered for the financial year 2013/14.

Greater London Authority Precept

145. The Mayor of London's draft budget proposals for 2013/14 are scheduled for consideration by the London Assembly on 8th February 2013 and approval by 25 February 2013. The draft proposals result in a 1% decrease in the element of Council Tax that relates to the GLA precept. This is analysed across the relevant functional bodies as follows:

Table 15: Change in Proposed GLA Precept by Functional Body

Functional Body	Band 'D' Council Tax 2012/13 (£)	Band 'D' Council Tax 2013/14 (£)	Percentage Change (%)
Metropolitan Police Authority	228.10	220.25	-6
London Fire and Emergency Planning Authority,	40.30	50.65	+7.9
TFL,	1.97	2.37	+8
GLA	39.54	29.73	-5.2
Share of Collection fund Surplus	-3.19	0	
Total	306.72	303.00	-1.2

146. The largest element of the GLA Group's budget relates to the Metropolitan Police Authority and this aligns to the Mayor's primary responsibility in making London Safer. Whilst there is a reduction in the Metropolitan Police's budget requirement the Mayor is protecting operational capacity and police numbers to be at or around 32,000 during his administration.

147. The GLA budget continues to include the budget and Council Tax implications of the Olympic and Paralympic games over the period 2006/07 - 2016/17. The contribution from Council Tax-payers to the Games remains at £20 per Band D property in 2013/14 unchanged from 2012/13.

Financial Implications

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

4. EFFECT ON RESIDENTS, SERVICE USERS & COMMUNITIES

What will be the effect of the recommendation?

The budget proposals in this report result in no change in the Council Tax for 2013/14. The budget proposals contain the funding strategy for delivering the Council's objective. The effects are therefore extremely wide ranging. They will be managed through the performance targets and outcomes that will be delivered through the resources approved in the revenue budgets and capital programme.

The revenue budget and capital programme include growth in some new service areas and these proposals will result in improved outcomes for residents and service 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. This will be by improving the value for money offered by services and by maximising funding, procurement, efficiency and service effectiveness gains.

Consultation Carried Out or Required

Each of the Policy Overview Committees has received reports setting out the draft revenue budget and capital programme proposals relevant to their remit. This was approved by Cabinet on 20 December 2012 for consultation at the January 2013 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 6 February 2013 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 12.

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 draft budget proposals after the meeting on 20 December 2012. The results from those who responded indicated that 80% were satisfied with the budget and 70% agreed that it demonstrated good value-for-money. No specific responses were received from the business community arising from this consultation. Additionally, the January Policy Overview Committee public meetings have a specific focus on the budget proposals within each of the related service areas. The draft budget reported to December Cabinet has also been available to view on the Council's website. Schools Forum has also been consulted on those budget proposals that have a potential impact on schools budgets.

5. CORPORATE IMPLICATIONS

Corporate Finance

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

Legal

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.

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.

The 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 Director of Finance has given a number of positive assurances in relation to this issue.

The second duty for Members to note is the duty imposed on the 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 135 to 141 of the report which discharges this duty.

As the Council's Section 151 Officer, it is the 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 Director of Finance to ensure the lawfulness and financial prudence of decision-making.

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 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.

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

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 developed the proposals in this report. The implications for all services of the individual budget proposals are set out in detail in the attached appendices.

6. BACKGROUND PAPERS

Report to Cabinet 20 December 2012 – Medium Term Financial Forecast 2013/14 – 2014/15

Report to Council 24 February 2011 – General Fund Revenue Budget and Capital Programme 2011/12

Local Government Finance Settlement 2013/14 located at
<http://www.local.communities.gov.uk/finance/1314/settle.htm#Settle>