

THE COUNCIL'S BUDGET - MEDIUM TERM FINANCIAL FORECAST 2014/15 - 2017/18

Cabinet Members	Councillor Ray Puddifoot Councillor Jonathan Bianco
Cabinet Portfolios	Leader of the Council Finance, Property and Business Services
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Papers with report	Appendix 1 to 9 (detailed MTFF proposals)

HEADLINE INFORMATION

Purpose of report	<p>This report sets out the Medium Term Financial Forecast (MTFF), which includes draft General Fund and Housing Revenue Account budget for 2014/15, along with indicative projections for the following four years.</p> <p>The revenue budget proposals have been developed to deliver a zero increase in Council Tax for the next two years for all and the next five years (which will extend the freeze to twelve years) for the over 65's, as well as providing significant sums for priority growth initiatives, whilst maintaining balances and reserves well above the minimum recommended level.</p>
Contribution to our plans and strategies	The Medium Term Financial Forecast is the financial plan for the Council, and contains the funding strategy for delivering the Council's objectives.
Financial Cost	Zero increase in Council tax for the sixth and seventh successive years.
Relevant Policy Overview Committees	Corporate Services and Partnerships Children, Young People & Learning Residents' and Environment Services Social Services, Housing & Public Health
Ward(s) affected	All

RECOMMENDATIONS

Cabinet is recommended to:

- 1) Approve the draft revenue General Fund and Housing Revenue Account budget and capital programme proposals for 2014/15 and beyond as the basis for consultation with Policy Overview Committees and other stakeholders.**
- 2) Request the comments of individual Policy Overview Committees on the draft budget proposals relating to their areas of responsibility, to be collated into a single report back to Cabinet from the Corporate Services and Partnerships Policy Overview Committee.**
- 3) Approve the proposed fees and charges, including HRA Dwelling Rents calculated under the DCLG rent restructure policy, included at Appendix 9, as the basis for consultation with Policy Overview Committees and other stakeholders.**
- 4) To agree the full use of the DCLG rent restructuring policy within the Housing Revenue Account, including changing to formula rent at tenancy change for all properties where convergence has not been completed.**
- 5) Authorise the Corporate Director of Finance, in consultation with the Leader of the Council, to respond on behalf of the Council to the consultation on the provisional Local Government Finance Settlement and to the Mayor of London's budget consultation.**

INFORMATION

Reasons for recommendations

Alternative options considered / risk management

In order to comply with the Budget and Policy Framework, the Cabinet needs to publish a draft budget for consultation at this meeting. The Cabinet could, however, choose to vary the proposals set out in the report, with any amendments reflected in the papers consulted upon with Policy Overview Committees during January 2014.

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

Comments of Policy Overview Committee(s)

Following consideration at Cabinet, this report will form the basis of consultation with Policy Overview Committees during January 2014. Comments from the Policy Overview Committees will be reported back to Cabinet by the Corporate Services and Partnerships Policy Overview Committee when Cabinet meets on 13 February 2014. Cabinet will then agree a set of budget proposals for recommendation to the annual Council Tax setting meeting of full Council on 20 February 2014.

1. BACKGROUND TO THE 2014/15 BUDGET

The General Fund and Housing Revenue Account Budgets and Capital Programme for 2013/14 were approved by Cabinet and Council in February 2013 in support of the setting of Council Tax for 2013/14.

Since the report to Council in February, funding streams and assumptions within the budget have been impacted by the Chancellor of the Exchequer's Budget Report in March, the June Spending Round and December's Autumn Statement, which contained several announcements relevant to local government. These announcements have had little impact on the overall funding position for 2014/15 but a significant worsening of potential funding for 2015/16.

The March budget included a further 1% reduction to local government funding in 2014/15 in addition to the 2% reduction announced in the Autumn Statement 2012. The 1% limit on pay inflation was extended to 2015/16 and it was announced that the draft Care Bill arising from the recommendations from the Dilnot Commission would be implemented a year earlier in 2016. These recommendations will cap individual payments for Adult Social care and support at £72k and the threshold for means testing for residential care will rise from £23k to £118k.

On 26 June 2013 the Spending Round was announced which outlined central government's spending plans for 2015/16. Unlike previous Spending Reviews this Spending Round covered one year only. The key impacts upon local government were that Local Government funding would be cut by 10%, 2% higher than the 8% assumption included in the February budget report. However, later clarifications of assumptions behind this announcement including top slicing of New Homes Bonus funding, which will go to LEP's increases the effective cut in 2015/16 to 15%. In addition it was announced that Council Tax Freeze Grant would be continued in 2014/15 and 2015/16 with a grant equivalent to a 1% increase and that £3.8bn of current pooled and NHS funding would be put into an Integrated Transformation Fund in 2015/16 to develop integrated health and social care services and £335m would be provided to local authorities in 2015/16 to prepare for the reformed Social Care funding system.

The additional 1% cut in Revenue Support Grant reduces Hillingdon funding in 2014/15 by £899k. But the continuation of the Council Tax Freeze grant for 2014/15 adds an additional £1,129k as a zero increase in Council Tax had already been factored into the MTF for 2014/15. The actual funding arrangements for 2014/15 will not be known until the Local Government Finance settlement for 2014/15 is announced which is expected to be around the 19th December 2013.

This draft budget report outlines a strategy incorporating the funding changes set out above and includes detailed proposals that are capable of bridging the budget gap in 2014/15 with minimal impact on the delivery of front line services and including the following headlines:

- Zero increase for Hillingdon's element of the Council Tax for a sixth and seventh successive year and to twelve years to 2018/19 for over 65s;
- Freezing fees and charges for Hillingdon residents;
- Priority growth available for new initiatives of £2,500k (as well as up to £1,500k of unallocated growth brought forward) including funding for extended library opening hours, a new Sport and Activity for all ages Fund and funding to reduce the threshold age for free access to the Telecareline service from 85 to 80;
- Significant capital investment of around £382,426k through to 2018/19 including the conclusion of the Primary schools capital programme, the development of a new

Secondary Schools capital programme, the provision of a new landmark theatre and museum, investment in roads and pavements, as well as investment in 3 new Youth centres and improvement work associated with other environmental and recreational facilities.

- Maintaining balances and reserves well in excess of the minimum recommended level. This will provide a significant buffer going forward as there is forecast to be significant further cuts in central government funding from 2015/16 through to 2018/19.

At this stage, whilst some uncertainty remains, until the final settlement is announced and the work on savings and pressures is completed, there is a surplus of £918k within the draft budget. This should provide sufficient flexibility to cover any unforeseen issues that may arise between now and Council Tax setting.

2. MTFF PROCESS FOR THE 2014/15 BUDGET CYCLE

The timetable for the development of the 2014/15 budget was brought forward as in previous years with work commencing as soon as the 2013/14 budget was agreed by Council in February 2013. Whilst an estimated position was set out in the MTFF for 2014/15, this was against a backdrop of the planned Spending Review announcement by the Central Government in late June, the details of which are summarised above.

Work on the development of savings proposals is fully integrated and aligned with service transformation programme, which is managed through the HIP Business Improvement Delivery programme. Over the last year, BID has continued to develop and evolve. The Deputy Chief Executive and Corporate Director of Residents Services has responsibility for the overall programme to ensure continuity across Groups and the well established group change boards take responsibility for the delivery of the programme within each group. This governance framework enabled significant early progress on the development of a balanced set of proposals for 2014/15.

Since February, Groups have been working up their savings proposals in further detail, to achieve their original target as a minimum and also to deliver further savings to cover any slippage in previous year's savings and to help fund growing demand led pressures. Considerable work has also been undertaken on the corporate aspects of the budget including grant funding, Collection Fund forecasts, capital financing and inflation. In addition to this, changes in Group structures and the appointment of 2 new Directors has enabled a fresh look at the MTFF for both Adults and Children's Social Care. Rather than rolling forward existing plans and then updating and refining the proposals, both these Groups MTFF's have been re-built from scratch on both the demographic pressures side and the savings side.

A large number of budget challenge sessions have been held covering Residents Services, Adult Social Care, Children and Young People Services, Administration & Finance, Capital and HRA, Procurement & Commissioning, All Age Disabilities and Corporate budgets, first in late June/early July and then a second round in late September/early October. Each session followed a similar format reviewing:

- The current position in 2013/14 – both monitoring and savings delivery;
- A review of existing and emerging pressures which need to be addressed in the 2014/15 budget and forecasts for future years, including detailed demographic modelling;

- Progress on the development of savings proposals for 2014/15;
- Identification of any potential growth and invest-to-save bids; and
- Capital programme requirements.

This report contains the latest output from these MTF sessions and the other budget preparation work undertaken since the setting of the 2013/14 budget in February 2013. Budget work on savings and other aspects of the budget is still ongoing and further proposals are likely to be put forward for potential inclusion in the budget prior to Council Tax setting.

The Chancellor of the Exchequer's Autumn Statement was published on 5 December 2013 which set out the economic context within which the UK is operating and the overall forecasts of growth, borrowing and expenditure for 2014/15 and future years. The Statement confirmed that local government would be exempt from any further budget cuts in 2014/15 and 2015/16 over and above those already announced. The Local Government Finance settlement and the specific details for Hillingdon's future funding are expected to be issued during the week commencing 16 December 2013.

3. GENERAL FUND REVENUE BUDGET PROPOSALS

Update on 2013/14 Budget based on the month 7 monitoring position

1. To provide some context to the budget setting for 2014/15, it is essential that the position with the 2013/14 budget is fully understood as there is a strong link between many of the proposals included in the 2014/15 budget and those in 2013/14.
2. As at Month 7, the forecast outturn position on in-year activities is a net underspend of £4,189k, representing an improvement of £2,252k on the position reported at Month 6. This position consists of a net underspend of £1,608k on directorate budgets, an underspend on capital financing costs of £2,500k and a net underspend of £81k on development and risk contingency. Movement in the reported position from Month 6 is primarily due to the recognition of the significant impact of aligning existing Council services and initiatives in support of health to Public Health funding.
3. Within the Directorate Operating Budgets, the following positions are currently reported:
 - An underspend of £871k is reported on Administration and Finance primarily due to vacant posts being held within a number of services, an improvement of £463k from that reported in Month 6 which includes the impact of integrating existing Council services with the new Public Health offer.
 - Residents Services are reporting an underspend of £555k at Month 7, with an exceptional pressure of £2,172k on temporary accommodation being off-set by £675k rental income on commercial properties appropriated from the Housing Revenue Account, underspends within Education and £555k efficiencies arising from synergies with Public Health. The improvement from Month 6 is primarily due to these synergies and a number of other minor movements.
 - A net improvement of £257k is reported on Children & Young People's Services, with £468k of efficiencies from aligning existing Council services to Public Health off-setting an adverse movement due to increased demand for secure accommodation.

- Within Adult Social Care, the previously reported pressure due to slippage in planned day centre reconfiguration and increased demand for care placements has been mitigated in year from the savings arising from integration of Public Health responsibilities resulting in a net underspend of £134k at Month 7.
4. Taking into account the release of £1,350k from the impairment held against the Council's remaining Icelandic Investments which is reported as an exceptional prior year item, unallocated General Fund balances are forecast to reach £35,789k by 31 March 2014. This position assumes that the remaining £194k on unallocated General Contingency and £430k unallocated Priority Growth are committed in full during the current financial year. It also excludes any further efficiencies arising from realigning and integrating Public Health responsibilities with other Council activities.
5. Within the above position, favourable progress is reported in delivery of the £17,111k programme of savings for 2013/14 with 81% badged as banked or on track for delivery in full by 31 March 2014 and sufficient compensatory savings in place to manage any shortfall within individual Directorate savings programmes.

		Admin. & Finance £'000	Residents Services £'000	C&YPS £'000	Social Care £'000	Cross Cutting £'000	Total 2013/14 Savings	
							£'000	%
B	Banked	(1,051)	(4,832)	(293)	(3,239)	0	(9,415)	56%
G	On track for delivery	0	(1,192)	(1,206)	(1,383)	(568)	(4,349)	25%
A	Potential significant savings shortfall or a significant or risky project which is at an early stage;	0	(78)	0	(97)	(2,432)	(2,607)	15%
R	Serious problems in the delivery of the saving	0	0	(445)	(295)	0	(740)	4%
	Total 2013/14 Savings	(1,051)	(6,102)	(1,944)	(5,014)	(3,000)	(17,111)	100%

6. There remains £740k savings reported as being undeliverable in 2013/14, which consists of £445K of initiatives within Children's and Young People's Services for which alternative initiatives are recommended in this report and £295k savings within Adult Social Care which have been delayed by the Judicial Review into day care reconfiguration that are expected to be fully achievable in the medium-term.
7. Work is ongoing on the delivery of the BID savings, where the BID savings figure of £3,000k included a general target of £1,500k for BID and a further £1,500k target for Social Care staffing which was covered by a corresponding £1,500k contingency. Work completed to date has identified £568k of savings but there is considerable work still in progress which will be added as the remainder of the year progresses.
8. In addition there remained £1,979k savings from prior year programmes which were unachieved as at 31 March 2013, £1,690k of which have now been delivered in full, with the remaining £289k linked to day care reconfiguration which are expected to be fully achievable once new service provision is in place.

Budget Requirement 2014/15

9. The movement between the current year's budget and the draft budget requirement for 2014/15 is summarised in Table 1 below. Table 1 summarises the movement in each of the

lines which reflect each of the detailed sections within the Corporate Summary. Further detail on each of the items is set out in the following sections of this report and a more detailed summary of the MTFF over the full 4 year period is attached in Appendix 1.

Table 1: Budget Requirement 2014/15

	(£000)
Budget Requirement 2013/14	211,159
Inflation	2,529
Corporate Items (Appendix 2)	(1,626)
Contingency (Appendix 3)	9,748
Service Pressures (Appendix 4)	320
Priority Growth (Appendix 5)	2,500
Savings (Appendix 6)	(13,140)
Budget Requirement 2014/15	211,490
<u>Funding Sources</u>	
Council Tax	102,601
Net Business Rate Revenues	45,676
Government Formula Grant (estimated)	64,131
Total Resources	212,408

INFLATION

10. Inflationary cost increases are expected to amount to £2,529k for 2014/15, representing a reduction of £950k on estimates included in the budget reports to Cabinet and Council in February 2013.
11. The current assumptions allow for a 1% inflationary pay award for 2014/15, however this will remain subject to confirmation as negotiations between trade unions and pay bodies are ongoing. However, no increase has been included for employers' pension contribution rates for 2014/15. For the last 6 years an additional 1% contribution has been paid by Hillingdon to fund the cost to the Pension Fund of early retirements. This position has been monitored on a quarterly basis and reported to Pensions Committee and with the reducing number of redundancies over the age of 55 it has been agreed with the actuary that there is no need to fund in advance this over the next valuation period. The underlying employers' rate will continue to rise at the rate of 1% per year over the next 3 years, but the impact of removing the early retirement funding offsets the increase for 2014/15. The net impact of these changes is a 2% increase over 3 years and the Actuary is likely to be flexible over how this increase is phased over the 3 year period.
12. Inflation set aside to manage inflationary cost pressures has been refreshed to take account of national government's stated intention to limit increases in energy costs, and although officers continuing to monitor potential changes, however any such changes would have a minimal impact on the overall inflation provision.
13. Provision has been included for a 1% inflationary increase in Social Care placement costs, to take account of potential increases in costs if on-going negotiations with the majority of suppliers through the West London Alliance cannot secure a further year of freezes. This will be kept updated through to Council Tax setting as negotiations conclude.
14. Inflation assumptions for existing contracts outside Social Care and NNDR costs continue to be refined on the basis of the latest RPI and CPI inflation forecasts. However as with energy

inflation volatility in this area would not be expected to have a material impact on the overall inflation provision.

15. With the exception of the London-wide Concessionary Fares Levy and the West London Waste Levy, which is dealt with elsewhere in this report, it has been assumed that all levy contributions will be frozen to reflect Central Government's on-going austerity drive. While some limited movement will be expected in the distribution of levy costs between levied bodies as a result of changes in apportionment bases, this is not expected to have a material impact on assumptions.
16. In November 2013 London Councils issued indicative figures for the 2014/15 Concessionary Fares Levy, which included a 4.5% increase to reflect growing demand for Freedom Passes and increases in Transport for London fares in line with RPI. This announcement also confirmed planned changes to the apportionment methodology and distribution of costs across London Boroughs, the net impact of both changes results in an increase of £99k in the levy for Hillingdon.
17. Table 2 below sets out the general inflation rates applied to specific budget lines.

Table 2: Inflation

Category	Rate (%)	2014/15 (£000s)
Employee's Pay	1.00%	1,040
Electricity Costs	9.00%	197
Gas Costs	9.50%	60
Vehicle Fuel Costs	7.50%	70
Care Placements	1.00%	630
Contract with unavoidable inflation increases	Various %	284
NNDR budgets	2.70%	74
Levies	Relevant %	173
Total		2,529

CORPORATE ITEMS

18. There are a number of issues impacting upon the Council's overall budget which are detailed in this section, including implications associated with new burdens transferring to the Council, revenue implications of capital investment and application of balances. The net impact of such changes in 2014/15 is expected to be a credit of £1,626k.

Table 3: Corporate Items

Corporate Items	Amount 2014/15 (£000s)
Removal of Schools & Academies from Carbon Reduction Commitment	253
New Initiatives linked to Section 256 Agreement	434
Rephasing of Capital Financing Costs	(900)
Savings Earmarked for Future Capital Investment	(1,413)
Total	(1,626)

19. As a result of changes to the Carbon Reduction Commitment Scheme coming into effect from 1 April 2013, schools will no longer be required to participate in the scheme which has been reflected in the gross cost of the scheme being reduced in the contingency section of this report. This corporate adjustment of £253k reflects the reduced recharge to the Dedicated Schools Grant, with the net result of no movement in costs borne by the General Fund.
20. Within the March 2013 Budget, the Chancellor announced that a further £200m would be transferred from Department of Health budgets to local government to support integrated Health and Social Care actions. While the particulars of the local transfer will be subject to discussions between the Council, the local Clinical Commissioning Group and NHS England, provision of 50% of Hillingdon's share of this funding at £434k has been set aside to manage demographic growth assumptions within the budget.
21. The draft budget presented in this report includes provision to continue the local Council Tax Discount for over 65s for an eighth year at a gross cost of £1,045k, although no additional provision is required in 2014/15 to manage the additional costs associated with a growing elderly population. This freeze is to be maintained until 2018/19, with the additional cost over and above the annual budget of £1,045k expected to total £2,880k. This future commitment will be supported by allocating £1,380k from General Balances and £1,500k from existing earmarked reserves.
22. As a result of favourable cash flows it appears likely that £900k provision for repayment and servicing of debt can be rephased from 2014/15 into 2015/16. In addition, a further £1,413k of capital financing budgets created through the transfer of commercial properties (shops and garages) to the General Fund has been earmarked to fund future capital investment.

DEVELOPMENT AND RISK CONTINGENCY

23. A detailed review has been undertaken on all demand led service pressures and potential costs outside of base budget funding which are being provided for in contingency. As work on developing the 2014/15 budget will continue until the presentation of the final report to Cabinet in February 2014, 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.
24. An increase in contingency of £5,545k reflects the latest estimate of potential funding required to cover a range of financial risks faced by Council in 2014/15. However, during 2013/14 £4,203k was released from contingency, bringing the gross increase for 2014/15 to £9,748k, as shown in the table below. 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 2014/15 to 2018/19 is shown in Appendix 3. Explanations of the current assessment of contingency requirements are detailed in the following paragraphs.

Table 4: Development and Risk Contingency

	Amount (£000s)
2013/14 Contingency Budget	22,883
Releases to Directorate Operating Budgets	-4,203
Increase to Contingency Requirement	9,748
2014/15 Contingency Budget	28,428

25. **Uninsured Claims (no movement from 2013/14)** - There is a contingency provision of £400k contained within the 2013/14 budget in addition to the base budget of £359k. The actual spend in 2012/13 was £533k in excess of the budget, covered by the use of insurance reserves and the 2013/14 month 7 position is forecasting a potential pressure of £215k on insurance budgets. Significant earmarked reserves exist to help deal with these pressures in the short term. However, these resources are finite and if preventative work is not successful then there may be an increased pressure on the budget in future years. However, at this stage it is proposed to continue to provide a contingency of £400k for uninsured claims whilst this preventative work is further developed.
26. **Carbon Reduction Commitment (£162k reduction from 2013/14)** - The Government's simplification changes for the CRC scheme have excluded schools from 2014/15 from the scheme. The revised provision, excluding schools and adjusted street lighting and an increase in the tonnage tariff is £240k, a £162k reduction on the 2013/14 provision.
27. **HS2 Challenge Contingency (no movement from 2013/14)** - £200k is currently proposed for the 2014/15 contingency to continue the Council's challenge against HS2.
28. **Heathrow Expansion Challenge Contingency (no movement from 2013/14)** – The Airports Commission has been set up to review the UK airport capacity and in anticipation of proposals being developed to expand Heathrow, a continued contingency provision of £200k is included to fund a challenge to any plans. It is likely that this will be a joint effort with other Councils.
29. **Impact of welfare reform on homelessness (£2,500k increase from 2013/14)** - The cost of temporary accommodation to meet the housing duty has risen sharply in 2013 due to increasing difficulty in accessing and retaining private rented sector properties. This pressure on supply has arisen from properties being taken by private tenants unable to buy properties and from other local London authorities offering higher incentives to landlords. In addition, foreign buyers are acquiring London properties, sustaining house prices at levels that are unaffordable for local residents. Within this context of diminishing supply, the Council has to house people in much more expensive Bed and Breakfast (B&B) accommodation to meet statutory obligations.
30. B&B costs are responsible for a £1,900k pressure in Housing Needs at month 7 of 2013/14. At the end of September 240 households were in B&B accommodation compared with 61 at December 2012, 102 at March 2013 and 178 at May 2013. In addition, the average net cost for B&B accommodation has risen from £4.3k per annum in 2012/13 to approximately £6k per annum currently. A further element of the pressure arises from increased incentive payments to procure prevention properties.
31. Currently, the gross risk for 2014/15 is estimated at approximately £3,000k; however a number of actions are being put in place which will have an impact on the position and are expected to mitigate this pressure to £2,500k in 2014/15. These actions include casework preventions, on the demand side, which effectively divert people to find their own solutions on the basis of housing advice. On the supply side actions include re-lets of void HRA properties and the procurement of new supplies through initiatives such as using trickle transfer funds. As some of the supply side measures will take time to fully impact, the pressure is expected to fall to £1,500k by 2015/16.

32. **SEN Transport (£804k increase from 2013/14)** - Within the 2013/14 budget a contingency of £760k was provided to cover the increase in transport costs for Special Education Needs children. Over recent months there has been a further increase in the number of statemented pupils and consequently a significant increase in contracted transport costs. The number of statemented pupils is a key factor influencing the increase in transport costs, with an 82% correlation between these growth rates. The faster growth rate of costs over pupil numbers reflects the increased need to provide transport to out-of-borough placements requiring greater distances travelled, as well as an increased number of children requiring individual transport due to more complex needs. Projections suggest that the number of statemented pupils at the end of the 2013/14 financial year will be 1,593, an increase of 7.6% over the financial year. If the increase in costs is also extrapolated on the same basis, this would imply a further cost increase within 2013/14 of 28.8%.

With the support of the BID transformation team a range of measures are being developed in order to mitigate the costs increases:

- Changes in the SEN transport and travel assistance policy
- Implementation of new panel arrangements to review and approved requests for travel assistance
- Independent travel training
- Route planning software
- Improved compliance with expenditure controls
- Encouraging increased local provision through Specialist Resource Provisions attached to expanding schools and Free Schools over the medium

All of these mitigating actions in terms of cost control, alternative approaches and eligibility will be required to limit the rate of growth in costs. They will not result in reduced costs overall as the predominant issue is not inefficiency or generous eligibility, but rather the underlying demographic growth in the number of statemented pupils and lack of local educational provision for the types of need experiencing the fastest growth rates. With regard to the final bullet point above, the ability to increase special needs provision locally is not guaranteed, as it relies on co-operation from schools, additional investment from central Government, site availability and project timescales.

33. Modelling of the impact of continued growth has been undertaken to determine the potential future pressures on the SEN Transport budget. Whilst an improvement has been seen in like-for-like prices from the re-procurement exercise this has been offset by the higher 'new for old' cost of new routes coming into effect from September 2013 compared to those routes that finished at the end of the summer term. This impact points towards the higher underlying demographic growth continuing to come through in the new academic year 2013/14 and beyond. At this stage, it is recommended that the contingency provision for 2014/15 is increased by £804k to £1,564k but the position will be kept under review until the budget is finalised.
34. **Waste Disposal Levy (Landfill Tax) (£800k increase from 2013/14)** – A number of factors have impacted on the waste streams during 2013/14 with both favourable and adverse impacts. Work undertaken by Council officers has confirmed that the possible transfer of the Victoria Road site from WLWA will increase costs by approximately £180k, largely due to the high level of fixed costs. Whilst, WLWA's position has now improved and they are proposing savings that could offset some of the underlying pressures from Landfill tax, they will need to balance this against their ongoing requirement to rebuild balances. It is also not clear what benefit, if any, will be available in 2014/15 through diversion from interim services through the

new major procurement contract with SITA. In addition, the Council are making changes on the collection side. The latest monitoring position on the (PAYT) levy position shows that tonnages are running slightly below the levels assumed in the budget. However the underlying pressure for landfill tax and tonnages due to increasing numbers of households in the Borough is in the region of £1,000k assuming around a 2.5% tonnage increase in landfill tonnages. The new dry recycling contract and food waste collections are expected to have a positive impact, but the gains are largely already accounted for in savings or net grant funding. It is therefore recommended to increase the contingency provision by £800k and make a more detailed assessment when WLWA make available more detailed budget proposals.

35. **Impact of reduction in Asylum grant funding (£537k reduction from 2013/14)** – A number of meetings have taken place with the Home office about the complexity and unfairness of the current asylum funding regime and the renegotiation of the UKBA Gateway agreement. The latest position is that there is likely to be a new Gateway funding agreement to replace the existing agreement that will run from 1/4/13 to 31/3/15. It is estimated that the Gateway agreement grant is likely to be in the region of £1,772k per annum. This funding covers the costs of the lease at Weir House; funding for up to £50k of legal costs relating to Asylum and funding of the Emergency Duty Team and the In Take Bid. The Home Office suggested that they would transfer the responsibility to the Border Agency and that the Council would then be funded directly from them. The impact of these potential changes on the asylum contingency requirement are shown in the table below:

Asylum Contingency Requirement 2014/15

	2014/15 £000
Projected Expenditure	7,402
Direct Asylum Grant	-3,721
Gateway Agreement Grant	-1,772
Housing Benefit	-391
Client Contribution	-60
Contingency Required 2014/15	1,458
Original Proposed Requirement 2014/15	1,995
Proposed Change Required (Improvement)	-537

36. **Potential Extension of Asylum Gateway Agreement** - The Home Office have also indicated that they will be putting forward proposals regarding the funding of other costs for which the Council has lobbied for many years. The most likely of these is funding the first 25 cases which under the current grant agreement are excluded from the Gateway grant. A contingency for this additional funding has been included for £200k. There have also been discussions on the cost of supporting over 18 Asylum Seekers (estimated to be £950k) and the cost of the impact of the Newcastle Judgement which requires local authorities to fund the cost of university education should the asylum seeker wish to progress their education at the non-EU rate (estimated to be £250k). If these are confirmed, then the position for Asylum will show a significant improvement and the MTFE will be updated to reflect the new position.
37. **Children's Social Care (£1,079k increase from 2013/14)** – As a result of growth in Children's Social care demographics the proposed contingency provision for 2014/15 is £1,860k, an increase of £1,079k from 2013/14. The demographic model has been completely refreshed following a review of the data and taking into account actual placements made between the period 1 September 2012 and 31 August 2013. There is now

considerably more clarity regarding both the in-year position with Children's placements, the direction of travel going forward and the likely budget requirement for 2014/15. The demographic data suggests that the number of Looked After Children (LAC) entering the system is increasing at a greater rate than those exiting the system (the number of new LAC between the period stated was 105 children, compared to 96 leavers and movers that have been identified, resulting in a net growth of 9 children), due to the growth in the general population and signs that there is an impact of Borough migration, where more families are starting to arrive in Hillingdon from neighbouring authorities and it is understood that the welfare reforms are starting to have an influence on where people can afford to live.

38. **Transitional Children (£1,408k decrease from 2013/14)** - The latest projections for transitional children moving through to Adult Services continue to demonstrate a pressure on service demand. The current assessment of the likely contingency requirement is £2,406k. Of this sum, the provision of £2,560k includes both the estimated cost of clients that are transferring in 2013/14 and the estimated cost of those anticipated to transfer across in 2014/15. Encouragingly there is some emerging evidence that recently transferred cases have been assessed at a lower cost when treated as an adult and therefore a reduction factor of 6% has been used to give a net contingency provision of £2406k in 2014/15. The decrease in the amount of contingency reflects the decision by Cabinet to release £2,589k in contingency into the base budget for those children who have transitioned before 1st April 2013.
39. **Potential Shortfall in Social Care Restructuring Saving (no movement from 2013/14)** - A BID savings target of £3,000k was included in the 2013/14 budget. A provision of £1,500k was included in the 2013/14 budget to cover potential shortfalls in the delivery of BID staffing structure review savings within Social Care. It is suggested that both the gross savings target and the £1,500k provision are retained in the MTFF going forward to be delivered through the ongoing BID reviews in these areas.
40. **Adult Social Care Demographic Pressures (£4,313k increase from 2013/14)** – Demographic changes in the client groups making up Adult Social Care Services, has been, and will continue to be a key financial risk to the Council. The demographic demand is expected to continue to rise particularly with the increasing incidence of life-limiting chronic conditions including dementia, and amongst 18-64 year olds with disabilities, alongside an increase in the longevity of very elderly people. Additionally, there is a considerable pressure from those LD clients who are living longer and out living elderly parents and carers, which results in increased numbers and higher levels of support. There are also significant risks from the outcome of the Francis enquiry at Mid Staffordshire Hospital and recent changes to the NHS '111' number on A&E admissions, which will put further pressure on social care to enable discharge of patients without delay and could lead to pressure to utilise residential placements.
41. In recent years, the service has sought to change the provision to clients from living in residential accommodation to remaining in the community either supported in their current homes or in purpose built Supported Living units. Living in the community has proven to be less costly than residential accommodation however growth in the number of adult social care clients continues to be a demand upon the Council's resources.
42. Two exercises have been undertaken in the current year to establish the actual cost of client placements and packages of care in order to verify the contingency requirement. One was undertaken earlier in the year based on May data and the other more recently based on October data. Both exercises show that the current cost of packages based on actual client

number and actual unit costs is in excess of the base budget and current contingencies set aside. In addition, the position worsened between May and October particularly on the Homecare side.

43. As part of this update work the financial model used to forecast the demographic growth in Adult Social Care clients, together with the unit costs of service provision, has been significantly revised to focus upon changes to the growth in client numbers for Older People, those with learning, physical and sensory disabilities and those with mental health issues.
44. The exercise undertaken in May 2013 compared the actual cost of all the care and support provided to individual Adult Social Care clients with the current base budget and the contingency provision set aside for ASC demographic growth for 2013/14 and the provision set aside for Transitional Children to March 2013. This exercise showed that current commitments exceeded current base budget plus contingency provision by an estimated £800k.
45. The exercise undertaken in October showed that there has been significant growth in the level of home care support provided since February 2013 which has now been reflected in the financial model by increasing the growth from 10% to 20% for home care costs in both 2013/14 and 2014/15. The impact of this increase is forecast to be an additional cost of £2,903k in 2014/15. Actions are being put in place to mitigate this increase by clearing outstanding reviews of home care cases. There has been an increase of 13 in the forecast number of clients with Physical and Sensory Disabilities since February 2013 which equates to a forecast increase in costs of £639k in 2014/15. There has also been a further reduction in the income received from the CCG for Continued Health Care funding which is estimated to be £496k. The council will be seeking to negotiate an increase in the level of CHC funding from the CCG, to more accurately reflect their funding responsibilities.
46. On the positive side, there are some favourable movements with a forecast reduction in the number clients of Older people which when taken into account gives an estimated net increase in demographic changes and cost of service provision of £4,313k for the financial year 2014/15. This brings the total of the proposed provision within the contingency for ASC demographics to £11,990k. Work on the financial model will continue over the coming months up until a final position is agreed prior to budget setting cabinet in February 2014.
47. ***Pump priming for BID savings (no movement from 2013/14)*** - In the spending review in June 2013, further reductions in funding were announced for 2014/15 which will require further significant savings within the council's overall budget. A contingency of £500k will support further development of BID work to deliver the required efficiencies for the Council.
48. ***General Contingency (no movement from 2013/14)*** - The draft budget includes £1,000k general unallocated contingency which reflects the large degree of uncertainty that continues to exist over a number of budgets. There are also several emerging issues which are being monitored to determine whether they have any impact on budgets and these could be contained within the unallocated contingency.

SERVICE PRESSURES

49. The Development and Risk contingency for 2013/14 contained provision for reduced income from outsourced services within Leisure and Cabinet took the decision to release the

contingency into base budget in Month 7. However, there remains an ongoing service pressure from reduced income in future years, the full year effect of which is £308k.

50. The 2013/14 budget approved by Cabinet and Council in February 2013 included provision for recruitment of an additional property lawyer, the full year effect of which is included at £12k and is being included in this report as a service pressure.
51. Total Service Pressures, detailed in Appendix 4, amount to £320k in 2014/15.

PRIORITY GROWTH

52. The draft budget for 2014/15 sets aside an additional £2,500k on a recurrent basis for Priority Growth Initiatives. This includes £1,750k for general initiatives and £750k of funding for schools places capital financing. When added to the £1,500k priority growth brought forward this brings the total available to fund new initiatives during 2014/15 to £4,000k. A number of growth proposals are included in this report, which if agreed would leave a balance of £1,614k to support further projects.

Table 5: Priority Growth

Priority Growth	Amount 2014/15 (£000s)
Available Priority Growth Balance	4,000
Additional Primary Schools Expansions Capital Financing	(750)
Extended Library Opening Hours	(236)
Sport & Activity for all ages Fund	(400)
Social Care Initiative Fund	(400)
Lamppost Refurbishment Programme	(400)
Telecareline	(100)
Investment in Local Rating Enforcement	(100)
Remaining Unallocated Priority Growth	(1,614)

53. In order to support the Council's major programme of investment in Primary School Expansions, a further £750k is provided to support the on-going revenue financing costs associated with servicing and repayment of debt. This brings total revenue support for these expansions to £5,000k per annum.
54. Following on from the Council's library refurbishment programme, extended opening hours are proposed for Uxbridge, Oak Farm and Harlington libraries, with £236k included in Priority Growth to support additional staffing costs.
55. An initial sum of £400k has been set aside to fund priority growth initiatives around sports and leisure that seek to improve activity levels amongst residents which should improve health more generally going forward.
56. In addition a sum of £400k has been set aside to fund Social Care Initiatives.
57. £400k has been included within Priority Growth for 2014/15 to commence a programme to repaint metal street lights in the borough.

58. In order to enable the threshold age for free access the Telecareline service to be lowered from 85 to 80, a sum of £100k has been set aside to off-set the loss of income from the affected clients.
59. The investment in local rating enforcement will ensure that the maximum amount of income is being billed and collected from liable parties.

SAVINGS

60. 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. In February 2013, the General Fund savings for 2014/15 were estimated at £16,970k. Of this figure, £6,814k was the full year impact of earlier savings, £5,100k was allocated to Service Groups to work up proposals and £5,056k was set against Policy Decisions and Corporate Savings in expectation that there was scope to increase the level of corporate savings within the MTFP.

Policy Decisions and Corporate Savings

61. When the budget was agreed in February, 50% of the initial 'budget gap' was allocated to the outcome of policy decisions and from corporate savings. As the development of the budget progressed, and as corporate budgets were reviewed and refreshed, the overall budget gap has reduced and the savings requirement is currently £13,140k. The most significant item to impact this area was a £3,610k surplus from the Collection Fund arising from a review of the bad debt provision for the Collection Fund at the end of 2012/13 as well as continued strong growth in Council Tax income collectable and high collection rates throughout 2012/13 and so far during 2013/14.

BID Cross Cutting savings

62. The main focus of the BID programme over this year has been on the key pathway projects Children's, Adults and All Age Disabilities. Savings arising from the work to date on the transformation of these services have been allocated to the existing £3,000k savings target incorporated into the 2013/14 budget.

Procurement

63. At the start of the budget process, it was agreed to create a specific General Fund savings target for the newly created Procurement & Commissioning Service of £1,000k. With the implementation of Category Management across the Council forward plans have been developed for all areas identifying all major contracts and their renewal dates. Considerable work has been undertaken to identify synergies between contracts to ensure going forward the delivery of best value to the Council. Whilst most of the detailed tendering for the 2014/15 contract savings has yet to be undertaken, indicative figures for each Group have been included in the Group Savings detailed below with the information being derived from the work detailed on the Procurement forward plan.

Group Savings

64. The Group savings proposals currently developed for 2014/15 are summarised in the table below and the total savings figure for each Group is net of the redundancy costs contained within their package of proposals. All groups were tasked to look for further savings in addition to their original targets. Further explanation of the progress within each Group is provided in the narrative below and in detail in appendix 6.

Table 6: Savings Proposals

Savings Proposals	Saving 2014/15 (£000s)
Administration & Finance	1,539
Residents Services	5,737
Children's and Young people's Services	1,447
Adult Social Care	4,417
Total Savings Proposals	13,140

The approach to savings taken by each group is explained further below.

Administration & Finance

65. Administration and Finance Groups have identified savings proposals totalling £1,539k for 2014/15, including £142k full year effect savings. The Groups continue to refine their service structures through the application of the Council's organisation design principles and operating model. The 2014/15 proposed savings are largely derived from various phases of this restructuring or the full year effect of restructures that are already being implemented to deliver 2013/14 savings requirements.
66. Administration savings proposals of £347k have been identified from the proposed outsourcing of Occupational Health (£25k) and from structure reviews in Human Resources (£55k), Policy, Performance & Partnerships (£172k) and Legal Services (£65k). There is also £30k of savings in Democratic Services from extra income generation in Registrars arising from expanded opening hours.
67. Finance savings proposals of £605k have been identified including £390k from the restructure of the Procurement & Commissioning service as part of the implementation of a category management strategy and £200k from a restructure of the Revenues & Benefits Service arising from the full integration of Benefits into the Revenues structure. There is also a further saving of £15k from a restructure of the Internal Audit function which is seeking to ensure that the service has the right mix of skills at the right level within the structure.
68. In addition, efficiency savings from realigning Public Health responsibilities and objectives within the group generates savings of £445k in 2014/15. Further details of the proposals developed for both Administration and Finance are set out in Appendix 6a.

Residents Services

69. The approach to the delivery of savings within Residents Services continues to be driven through a programme of transformational reviews of every service. This includes large scale reorganisation, restructuring and removal of duplication and the opportunities to question the

need for services and the method of service delivery in all areas. Residents Services have developed savings proposals of £5,737k, including £619k of full year effect savings.

70. Resident Services have also delivered significant increases in income to the General Fund through the transfer of responsibility for commercial shops and garages from the Housing Revenue Account. Cabinet agreed the transfer of the garages as at 1 November 2013 which will generate an estimated gross income of £1,000k per annum which will provide a net income to the General Fund of £770k per annum in 2014/15 after providing for routine maintenance and void costs to the assets. The transfer of the shops from the HRA took place 1 October and will generate a net income of £643k per annum from 2014/15 for the General Fund. This saving, totalling £1,413k, has been earmarked to fund capital investment going forward.
71. The increase in net grant for the New Homes Bonus receivable from the DCLG for bringing new homes into use within the borough, net of the proposed topslice to support the Local Economic Partnership for 2014/15 is £1,595k. The in-year award is based on the addition of approximately 900 properties to the Council Tax Base between October 2012 and September 2013, marginally lower than previous assumptions due to the phasing of residential developments coming on stream. In addition this saving includes an expected refund of £596k from the topslice on formula funding, expected if national performance remains consistent with prior years.
72. A target of £250k in 2014/15 for middle management restructures across the group has been set. There are a number of restructure consultations about to commence, along with a number in development across Public Safety, Planning, Green Spaces & Culture and Environmental Policy and Community Engagement.
73. A bench marking exercise has identified a list of corporate buildings where energy saving measures should generate savings estimated to be £100k per annum. Further efficiency savings totalling £250k are achievable from efficiencies in Waste Services (£150k) and fleet management costs (£100k) in 2014/15.
74. The highways permit scheme is now well established and the overachievement of income in 2012/13 amounted to £369k, Whilst there is a case to be cautious about building this additional income fully into the base budget given the potential for a review of the scheme, it is proposed to build in £200k from 2014/15.
75. The BID project to progress the Tenancy Sustainment work within the Housing Service has identified opportunities to merge individual elements of the current Housing Service with other services across the council delivering an estimated savings of £300k per annum.
76. Across the service, a number of procurement savings are being developed through the implementation of the category management approach. Whilst much of this work is at an early stage and the detailed tendering exercises have yet to be undertaken, an estimated savings of £197k is anticipated within Residents Services. In addition, the review of Public Health contracts is expected to deliver a further £450k of procurement savings in 2014/15. In addition efficiency savings from realigning Public Health responsibilities and objectives within the group generates savings of £1,571k in 2014/15
77. Savings proposals within the Education Service arise from reviews of all service still undertaken by the Council in light of the recent and the proposed future changes to the funding of Education Services and through the BID review of Education services. Savings for

2014/15 of £205k have been identified following reviews of Workforce Development, Information to Parents, and the School Improvement Service.

78. The proposed savings for 2014/15 do not as yet factor in any savings directly related to the Children's pathway or Education Service Reviews as these will contribute to the existing £3m BID savings target for 2013/14.
79. The total proposed savings for Residents Services for 2014/15 of £5,737k are explained in detail in appendix 6b.

Children and Young People's Services

80. Children and Young Peoples Services have reassessed the success of their current savings approach and developed new savings proposals which deliver savings of £1,447k in 2014/15, as well as providing replacement savings for £445k of savings from 2013/14 which were undeliverable.
81. The new savings arise from the service undertaking a project to review the costs of all Looked after Children (LAC) placements and to identify opportunities to change the placement type leading to savings in current placement costs. A high level desk top assessment of each case has been undertaken to test the opportunities for savings. Where a change is proposed a risk assessment has been applied to each case to reflect the chances of a successful conversion rate bearing in mind the difficulties in converting children from one placement to another.
82. This review incorporates the undelivered savings of £300k arising from DFE grant funded initiative for the Multidimensional Treatment Foster Care (MTFC) which will be replaced with a local scheme which removes some of the restrictions that the DFE scheme contained making it easier to recruit potential carers to care for challenging teenagers and a shortfall of £145k from the use of the Care Fund Calculator (CFC), which although developed by the West London Alliance (WLA) to help councils reduce the costs of Adult Social care placements, was less successful when applied to reducing the cost of LAC placements. The use of the adoption reform grant funding in 2013/14 will help resolve a number of cases which are awaiting final assessment in the move towards adoption. If successful this project is expected to deliver gross savings of £975k from 2015/16, with a part year effect of £869k expected in 2014/15.
83. As part of the review of all Education Services, a review of the non staffing Youth service budgets was undertaken which will deliver a proposed saving of £55k. In addition, the early work being done on the development of category management within Children's Services has identified a procurement saving of £27k from using the WLA select list for procuring semi independent accommodation to meet the needs of LAC who qualify.
84. Efficiency savings from realigning Public Health responsibilities and objectives within the group generates savings of £496k in 2014/15. The total proposed savings for Children and Young People's Services for 2014/15 are detailed in appendix 6c.

Adult Social Care

85. The Adult Social Care savings programme has been completely reviewed and refreshed and new proposals have been identified to replace all previous proposed savings which had a full year impact in 2014/15 and beyond. Following the changes to the Senior Management Team and the significant changes to the approach to Supported Living, it is proposed to start with a new set of proposals for the 2014/15 MTFF.
86. The BID review of Adult Social care is at an early stage in terms of implementation and there remains significant scope for the delivery of further savings. An additional target of £2,000k has been included within this draft budget for 2014/15.
87. The review of Section 117 funded cases due to increases in cost should identify a number of instances where a change in status will enable clients to become responsible for the rent element of packages and in some instances for a contribution to care costs, subject to income, giving an estimated saving of £109k.
88. The Supported Living programme is currently under review and the proposal includes a reduction in the previous HRA capital build programme to 75 units, reducing the specification for two flagship schemes, and progressing with the 110 units that Registered Providers have already committed to supply. The opportunity to transfer further sites for RP redevelopment may also be considered, including 12 units at Yiewsley pool that are currently factored into the capital programme and an additional 44 units of Extra Care for older people on Haydon Drive. The overall reduction in the capital build programme will be supplemented by maximising the use of existing assets such as long term voids and direct allocations, and continuing to develop a private sector partnership prototype to purchase smaller properties on the open market. This approach will mitigate against the risks associated with large-scale capital investment and potential oversupply. The accommodation and associated services will be delivered at a rate that reflects the number of people who are realistically ready and able to move, whilst maximising efficiency savings. For 2014/15 there is an additional assumption of 10 client stepdowns and 4 shared accommodation moves that will have a full year effect and then that one client per month will be transferred into general needs housing and that 4 tranches of 4 clients will transfer to shared housing. This programme is estimated to deliver savings of £736k in 2014/15 and £1,152k in future years.
89. Commissioning savings of £586k in 2014/15 will be delivered through a number of competitive tenders including community support services, preventative outreach/drop services, floating support services for people with mental health needs and the spot purchase of outreach services for clients who meet the criteria for Fair Access to Care services.
90. State pensions and welfare benefits are increased annually by CPI as at the end of September, which in 2013 was 2.7%. This increase in turn leads to an increase in client income which is estimated at £159k. Efficiency savings from realigning Public Health responsibilities and objectives within the group generates savings of £777k.
91. The total proposed savings for Adult Social Care is £4,417k 2014/15 and are included in Appendix 6d.

FEES AND CHARGES

92. 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, operates differential charging, enabling freezes on all charges to Residents, including Parking services.
93. Schedules detailing the proposals relating to fees and charges for 2014/15 are attached at Appendix 9, which if approved by Cabinet will form the basis for consultation with residents over the coming weeks. The only substantial amendments to fees and charges proposed in this document are a refresh of the charging structure for Pre-Planning Advice, in order to support the Council's Economic Development agenda, and a simplification of hire charges at the Compass Theatre, Winston Churchill Hall and Manor Farm, intended to put residents first and freezing residents charges at current levels.

CENTRAL GOVERNMENT GRANT

94. Since 2010, the Government's wide-ranging deficit reduction programme has driven down funding levels for local government at an unprecedented rate with headline reductions in formula funding over the four years to 2014/15 around 28%. Alongside these on-going reductions, there has been an increasing tendency for new government initiatives, such as New Homes Bonus and Troubled Families, to be funded from topslices of existing resources which places additional pressure on local government budgets.
95. This is set to continue into 2014/15 with an expected reduction of £10,213k in formula funding, which takes account of the additional 2% reduction announced by the Chancellor in the 2012 Autumn Statement and the further 1% announced in the March 2013 Budget. Although final confirmation of settlement figures will not be received until early 2014, publication of the draft settlement is expected on or around the 19 December.
96. Under the Business Rates Retention System an element of formula grant income is dependent on local collection of Business Rates. The risks around collection of this sum are detailed in the Collection Fund Section of the report below.
97. The current squeeze on formula funding is forecast to continue in the medium-term, with a headline 10% reduction contained within the 2015/16 draft budget, which increases to 15% once a number of top slices are taken into account, and 8% per annum from 2016/17 onwards. Further analysis of these cuts and their implications are contained within the Medium-Term Agenda below.
98. Despite the move towards simplifying local government funding within SR2010, the number and quantum of grants outside the settlement continues to increase with £13,602k included in the draft 2014/15 budget. With the exception of Section 256 transfers from Health and Housing Benefit Administration funding, the majority of these grants are recycled formula funding. This represents a gross increase of £3,562k on the Council's 2013/14 budget, of which £434k relates to new burdens related to funding transferred from the NHS. The remaining £3,128k represents a net increase in other Government Grants and while this includes a number of minor reductions in grant sums the most significant movements relate to Education Services Grant (£1,329k), transfers from Health under Section 256 (£1,046k) and confirmation of a Council Tax Freeze Grant for 2014/15 (£1,129k).

99. From 2013/14 funding for retained Local Authority Education Functions has been removed from formula funding and redistributed as the Education Services Grant, which links grant awards to pupil numbers in maintained schools. Following confirmation of the mechanism for adjusting funding for new Academies, assumptions around this grant have been refreshed and a sum of £3,300k is forecast for 2014/15, with write back of the previous provision for Academy transfers expected to release a further £580k.
100. Finally, Spending Round 2013 confirmed a further year of Council Tax Freeze Grants which have been factored into this draft budget at a sum of £1,129k for 2014/15 and 2015/16. The current assumption is that this freeze grant will follow the methodology for 2013/14 which saw the equivalent of a 1% increase award on the gross Council Tax Base before allowing for the impact of local Council Tax Reduction schemes.
101. Appendix 1a to this report contains a full schedule of corporate grant funding assumptions, with an overview of medium-term risks and issues set out later in this report. The net reduction in corporately managed grants and the business rates baseline, excluding support for new burdens, is forecast to be £7,085k.

COUNCIL TAX INCOME

102. There continues to be strong growth in Hillingdon's Council Taxbase with growth expected to increase gross Council Tax revenues to £98,991k, an increase of £1,670k on 2013/14. This increase represents the equivalent of 1,500 Band D properties coming on stream between April 2014 and March 2015, which includes a significant number of properties on key development sites such as St Andrew's Park, Uxbridge. The financial impact of the resulting increase in population is dealt with throughout the body of this report.
103. As of 1 April 2013, the Council's local Council Tax Reduction Scheme will have been in operation for a full year with experience to date indicating no material increase in either demand for the scheme or the resulting cost of awards. In addition, current indications are that earlier assumptions around collection rates of those affected by the scheme may have been overly conservative. Monitoring of the scheme will continue, in particular around the impact of wide-ranging Welfare Reforms currently underway, and inform preparations for the planned refresh of the scheme for 2015/16.
104. An in-year surplus of £1,200k is forecast for 2013/14 Council Tax Income, primarily due to new developments coming on stream and underlining the healthy position of Hillingdon's local tax collection. In addition to this surplus, a further £2,410k brought forward from 2012/13 will also be released to the Council's General Fund delivering a one-off surplus of £3,610k in 2014/15.

BUSINESS RATES INCOME

105. With effect from 1 April 2013, the Business Rate Retention System has resulted in the Council sharing in the benefit of economic development through retention of a proportion of growth in the Business Rate base. While there has been a clear downward trend in rateable value within the borough since the 2010 revaluation, with a reduction of 1.9% reported in 2012/13, on-going review of potential developments as part of wider economic development

work has identified a number of growth areas, which offer the opportunity to capitalise on this new opportunity.

106. Retained growth of £3,159k for Hillingdon is forecast for 2014/15, resulting from the removal of a one-off provision for back-dated rating appeals made in 2013/14 and new developments on targeted development sites off-set by a gradual reduction of the downward trend in general rateable value within the borough.
107. While a share of Business Rates income is now retained locally the scheme of mandatory and discretionary reliefs is still directed by central government, including operation of reliefs for empty properties which currently cost the Council approximately £2,000k per annum. In order to reduce this cost, provision of £100k has been made to provide additional capacity within the Council's Corporate Fraud Team to engage in more proactive inspection and prevention activities on an invest-to-save basis. In order to break-even, this proposal will need to secure an additional £667k income from businesses within the borough.
108. As with Council Tax Income any surplus or deficit generated within the Business Rates Collection Fund would be released to the General Fund through the budget setting process. For 2013/14 a breakeven position is reported, with no impact upon the draft 2014/15 budget.

BALANCES AND RESERVES

109. The MTFF strategy for 2014/15 has been designed to build in flexibility to deal with uncertainty. This flexibility should be sufficient to deal with any further changes in government grant funding or other unexpected unavoidable pressures. The budget strategy contains very stretching savings targets and all areas of the Council have risen to the challenge in making significant progress in both the delivery of over £71m in savings over last 4 years. The current estimate of the savings requirement over the next 3 year period 2014/15 - 2016/17 is a further £41,581k, with a considerable portion of this being required in 2015/16, although these figures could well change as a result of future Local Government Finance settlements.
110. The projected unallocated balances and reserves are currently forecast to be £35,789k as at 31 March 2014, well above the minimum target level of balances and over £5,000k in excess of what they were projected to be at the start of the current year. This assumes that the £430k balance of priority growth, £194k unallocated general contingency and the £345k unallocated HIP contingency will all be spent in full. However, of this sum £1,380k is being set aside as an earmarked reserve to fund a freeze on Older Peoples Council Tax through to 2018/19 and a further £5,000k is being set aside to support the revenue budget in 2015/16 to help smooth the impact of what is expected to be a 15% cut in formula funding in that year. The net balance after taking the earmarking of these balances into account is forecast to be £29,409k.
111. The 2013/14 MTFF strategy included maintaining long term balances at a level of no lower than £27,000k. However, the associated risks and strategy have moved on considerably over recent years and the current budget strategy will keep balances above this level.

SCHOOLS BALANCES

112. As at 1st April 2013, the total balances held by Hillingdon schools, excluding Academies were £15,413k, £14,243k in revenue balances and £1,168k in capital balances. All schools, with the exception of Abbotsfield, held balances and the total deficit on Abbotsfield was £50k.

Schools should therefore have the capacity to manage emerging problems within their own resources.

113. Whilst central government believe that schools are best placed to manage their own finances and it is sound financial management to maintain a small balance from year to year, central government also believe that local authorities have a duty to challenge and those schools with excessively high budgets, to ensure that funding is being correctly directed towards pupil needs. Hillingdon has a scheme in place which requires schools which hold excessive balances to provide a plan for use of their surplus balances.

4. MEDIUM TERM AGENDA

114. The immediate focus of this report is on delivery of a balanced budget for 2014/15. However there is a need to consider the medium term outlook and work up proposals to maintain the Council's robust financial position over this period.
115. Over the period to 2018/19 it is expected that the on-going Government's deficit reduction programme will place greater pressure on the Council's finances, with cuts in excess of 8% per annum expected in core formula funding. Combined with the increasing tendency for new government initiatives to be funded from existing resources, significant reductions in non-ringfenced grants are expected lead to a loss of £36,528k funding per annum by 2018/19, while assuming £7,479k of new responsibilities, resulting in a reduction of £44,007k in comparable grant funding.
116. In contrast to the national funding position, the Council's local income is forecast to remain robust and grow over the medium-term as new residential and commercial developments come on stream. Council Tax Income is forecast to grow by £13,508k by 2018/19 through an increased tax base and potential 2% per annum increased from 2016/17, with no material growth forecast in the cost of delivering the local Council Tax Reduction Scheme. Over the same period expansion in the NNDR base, primarily through developments on targeted sites within the borough, is expected to secure £5,122k retained growth and secure an additional £5,680k from inflationary uplifts in business rates. The combined impact of these changes is therefore expected to be a reduction of £19,697k in the Council's like-for-like budget requirement (taking account of the £7,479k new burdens included under Corporate Items).
117. In addition to the pressure on external funding, the expanding and changing make up of the borough's population will increase demand for services, with Social Care costs representing the majority of this increase. As can be seen from current experience an aging population, living longer through improving medical advances and a rising Looked After Children population, and a sharp increase in the number of statemented children combined with Housing problems from Welfare Reforms, are all causing a significant pressure on budgets. The net impact of Service Pressures and growth in Development and Risk Contingency is expected to be £20,006k by 2018/19.
118. Inflationary cost pressures over the period are expected to reach £16,013k by 2018/19, with employee costs representing the largest single component of this growth. Current assumptions are based on inflationary pay-awards averaging 1% and employers' pension contributions rising to 23.1% in the medium-term.

119. The total budget gap to be managed through the savings programme is estimated at £61,334k over the period to 2018/19. There is however a number of factors leading to a significant front-loading of this pressure, which are expanded upon below.
120. Firstly, Spending Round 2013 announced the government's intention to topslice £400m from the national New Homes Bonus to support growth funds managed by the Local Enterprise Partnerships (LEP). This will see £3,025k revenue resources transferred from Hillingdon, representing close to 40% of the Council's cumulative New Homes Bonus award. While there may be scope to recover an element of this funding for specific projects supported by the London LEP, this undermines the previous strategy of using these funds to support additional services required by an expanding population.
121. Secondly, a range of new policy initiatives announced at Spending Round 2013 are to be supported from an £800m topslice on the Revenue Support Grant resulting in approximately £3,000k of Hillingdon's formula funding being recycled as ring-fenced grants to support new government priorities at the expense of core services.
122. Thirdly, the strategy for balancing the 2014/15 budget includes use of a number of significant one-off items, including a Collection Fund surplus of £3,610k, writing back provision against loss of funding from Academy transfers at £1,160k.
123. The Health and Social Care Integration Fund, which Spending Round 2013 announced for introduction in 2015/16 will present an additional risk to be managed. This will see existing transfers from the NHS totalling £1,100m nationally pooled with other Department of Health resources to create a national fund at £3,800m to support integrated working between the health and local government sectors. Hillingdon's share of this additional funding has been estimated at around £8,000k; however the distribution methodology remains subject to confirmation and it will be necessary to ensure that existing commitments under the Section 256 agreement and previous Winter Pressures funding can be pass-ported into the fund before the impact on the Council's MTFP can be fully assessed. A provision of £1,000k per annum has been included in Development and Risk Contingency to cover the risk of funding being insufficient to cover any new burdens transferring to the Council.
124. Finally, as a result of the significant changes to Adult Social Care funding arrangements set out in the 2013 Care Bill, which includes introduction of capped care costs and increased deferred payment arrangements, significant new burdens funding is expected in the medium-term. While it remains too early to confirm the sufficiency of any new burdens funding being made available, concerns have been voiced by London Councils that there may be adverse financial impacts on local authorities in the capital. Local analysis will be completed over the coming months and any impacts managed through the 2015/16 MTFP cycle. As an aside, it should be noted that the funding being made available in 2015/16 is sourced from the supplementary £800m topslice on revenue support grant noted above.
125. Managing this savings requirement of £17,331k in 2015/16 will be a challenge far more difficult than those faced in recent years and one which will require some difficult decisions to be taken. The budget does, however, still contain significant flexibility, particularly in the level of balances and reserves built up through prudent financial management, which gives the potential to smooth the impact of the significant gap in 2015/16 over the following years. The draft budget proposes to earmark £5,000k of balances to support the revenue budget in 2015/16 and £1,380k to support a freeze on Older Persons Council Tax through to 2018/19 which would reduce estimated balances to £29,409k, still above the target minimum levels of balances.

5. HRA BUDGET

126. The budget proposals for 2014/15 are based on the third full year of self-financing for the HRA and have been developed using the same methodology and layout as for the General Fund budget. The HRA budget build is subject to the same rigorous process as other Council budgets to aid overall understanding of the process and improve transparency in the overall business plan.
127. Under self-financing most of the regulations governing the HRA remain. This includes requirements for the authority to carry out a periodic review of rents for dwellings and charges for services and facilities provided to council tenants. There is a general expectation that these charges are reviewed in line with the DCLG rent restructuring and include an annual rent increase.
128. An overview of the draft HRA budget for the period to 2018/19 is included in Appendix 7 to this report.
129. In accordance with requirements under the Housing Act 1985, tenants must be given 28 days notice of changes in their rents once set and approved by Council. If approved by Cabinet on 19 December 2013, this draft HRA budget will form the basis of a consultation period prior to final recommendations being made to Council on 16 January 2014. Subject to final approval at that meeting, notices will be issued in February 2014. This will ensure that tenants have four weeks notice of rent increases to come into force on Monday 7th April 2014.

Update on 2013/14 budget

130. The month 7 monitoring position is showing an in-year operating surplus of £2,240k, which is £2,192k above budget. The surplus is due to reduced expenditure on the major works programme (£2,761k), lower management costs (£902k) and reduced interest costs (£52k), offset by a reduction in rent income (£1,325k) and additional maintenance costs £146k.

Budget Requirement for 2014/15

131. The movement between the current year's budget and the draft budget requirement for 2014/15 is detailed in table 7 below. Further detail on each of the lines in the table is explained below and a more detail summary is attached as appendix 7.

Table 7: HRA Budget Requirement 2014/15

	Budget (£000s)
Original Budget Requirement 2013/14	57,428
Adjustment to show gross income from service charges	5,396
Restated Budget Requirement 2014/15	62,824
Inflation	670
Corporate Items	157
Contingency	200
Savings	-1,169
Budget Requirement 2013/14	62,682
<u>Funding Sources</u>	
Net Dwelling Rents	56,965
Non Dwelling Income	5,717
Total Resources	62,682

Inflation

132. The core amount of inflation included in the draft 2014/15 budget is £670k. Inflationary increases have been calculated on the same rates adopted for the General Fund and these will continue to be reviewed as economic forecasts are updated. Contractual inflation is predominantly in respect of the £11,487k Repairs & Maintenance revenue budget.

Table 8: HRA Inflation

Category	Rate (%)	2014/15 (£000s)
Employee's Pay	1.00%	100
Electricity Costs	9.00%	46
Gas Costs	9.50%	102
Contract with unavoidable inflation increases	Contractual %	422
Total		670

Corporate Items

133. Corporate Items includes changes in contributions to support the HRA programme of capital investment and unallocated General Balances. The net increase of £157k included in this draft budget relating to a net £205k increase to capital contributions and removal of the £48k budgeted surplus included in 2013/14 budgets.

134. A reduction in contributions to the budgeted works to stock programme of £6,021k, reflecting both a revised profile of expenditure for the on-going programme and the significant resources expected to remain available from 2013/14 budgets will see this programme reduce to a more manageable scope. Combined with the rephasing of £5,507k existing budgets, there is a net decrease in budgeted works to stock expenditure from £17,676k in 2013/14 to £17,161k in 2014/15.

135. The works to stock programme is presented as a single budget line within the capital programme for approval and management purposes, to enable a more holistic view to be taken of investment decisions in this area. Under current regulation governing operation of

the HRA, £9,002k per annum of this sum is financed from the annual depreciation charge and must meet the threshold for capitalisation. Officers will continue to track the level of capital expenditure and report any risk in this area on an exception basis.

136. In response to both the increasing demand for accommodation within the borough and the Council's obligations under the 1:1 Replacement Agreement with DCLG, which requires provision of new affordable housing to replace units sold under discount through the Right to Buy scheme, it is proposed to redirect £6,226k capital investment towards provision of new housing - resulting in a net increase in investment of £205k across the HRA.

137. It should be noted that prior to 2012/13 and the introduction of self-financing for the HRA, a sum in excess of £15,000k was transferred from the rents collected from Hillingdon tenants to central government for redistribution to other areas. As this negative subsidy is no longer payable, there is now scope to support additional investment in housing for local residents.

138. Secure rental income is crucial to the long term sustainability of the HRA and notwithstanding the requirements of the 1:1 Replacement Agreement, there is a need to ensure stock levels do not fall in the medium-term. Recent increases in Right to Buy discounts have added to risk in this area and resulted in a loss of rent which if sustained would impact adversely on the HRA's ability to support services for tenants. Table 9 below exemplifies the impact of these increased Right to Buy sales.

Table 9: RTB property sales

Category	No of Properties	Equivalent rent units	Rent Loss 2014/15 (£000s)
2012/13	47	32	262
2013/14 (forecast)	108	100	610
2014/15 (budget)	108	100	610
Cumulative Total	263	232	1,482

139. Further details on the HRA capital programme, including both new build and works to stock are set out later in this report.

Development and Risk Contingency

140. The 2013/14 HRA Development and Risk Contingency contained provision of £877k to offset non-collection of rental income, equivalent to a collection rate of 1.5% and a further sum of £480k as a General Contingency to manage any unforeseen risks in year.

141. It is proposed to maintain the contingency against rental income at £877k for 2014/15, reflecting actual experience and the potential additional risks arising from implementation of the government's programme of Welfare Reforms, including introduction of the benefit cap in Hillingdon from 30 September 2013.

142. As a result of the current high-level of unallocated General Balances held within the HRA, it is proposed to remove the £480k General Contingency and instead utilise balances to manage any unforeseen risks during 2014/15. Given the significant level of expenditure on repairs and maintenance of housing stock a sum of £680k is set aside to manage any exceptional call on the repairs service.

Savings

143. This draft budget includes savings totalling £1,169k, which consists of £845k from the full year effect of 2013/14 initiatives and a proposed £324k relating to the on-going review and remodelling of the repairs service which is expected to deliver a more responsive service. The full year effect savings include £426k from the completion of the BID review of Housing Management and associated remodelling of back office functions and £419k in relation to savings on overheads following the review of Area Offices.

Rents, Fees and Charges

144. Rental income is the most significant element of the total resources available to the HRA and corresponding increases to resources rely on increase to rent. This draft budget has been developed on the basis of a 3.92% increase to rents calculated in line with the DCLG national rent restructuring policy.

145. Rent restructuring is based on a current formula of RPI + 0.5% + a convergence factor up to a maximum of £2 per week. The 2013 September RPI as specified by the policy was 3.2% and the convergence factor is derived by reference to a Hillingdon HRA target rent to be achieved by 2016. The application of this will result in the average rent for 2014/15 increasing by £4.10 per week with a weighted average rent for the next financial year of £108.65. This is expected to yield an additional £1,353k rent income in 2014/15, after allowing for forecast Right to Buy sales. Rent by individual property size is shown in Appendix 9 for additional information.

146. To ensure comparable and consistent rents are being charged, it is important to ensure convergence with other registered providers of social housing is achieved within target timescales. It should be noted that some properties in the same area will attain convergence at different times. Therefore, this report recommends that chargeable rent should be moved to formula rent whenever there is a change in tenancy. This change will not affect current tenants and will apply to between 200 – 600 properties a year and therefore will have little (less than 0.1%) impact on the Council's weighted average rent but will correct anomalies as they are identified.

147. Whilst a little more flexibility is now available to the Council as a result of self financing settlement, there remains a considerable restraint in the requirement to repay the outstanding debt. In addition the wider implications of the Government's Welfare Reform programme 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.

148. 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 and the policy is based on the principle of full cost recovery. Utilities charges have been examined in detail and proposed charges are in line with corporate guidelines. However these will continue to be monitored closely and any savings from procurement activity will be passed on to tenants in line with policy and previous practise.

Balances

149. Whilst no formal balances strategy has been developed, the aim is to maintain balances sufficient to manage risks and support new initiatives not yet factored into the MTF. The HRA 5 year projection is shown in table 10 and based on the following assumptions.

- Borrowing for Supported Housing approved in February 2012 is no longer deemed necessary in line with revised capital proposals included in this report.
- Rent income from 75 Supported Housing units is included from 2017/18.
- Cumulative reductions in rental income arising from Right to buy sales over the period to 2018/19.
- One for one replacement policy included with additional affordable housing and supported future rent income of £50k in 2014/15 rising to £2,000k per annum by 2018/19 in line with capital proposals included in this report
- Rents have been uplifted by 3.92% in 2014/15, 3.5% in 2015/16 and 3% in subsequent years. Formula rent likely to be based on CPI + 1% from 2015/16 (consultation expected in December 2013).
- Inflation assumptions in line with corporate assumptions.

Table 10 – 5 year movement in HRA balances

	2014/15 £000's	2015/16 £000's	2016/17 £000's	2017/18 £000's	2018/19 £000's
Balance b/fwd	-22,453	-22,453	-22,453	-22,453	-22,453
Net Income	-62,682	-64,288	-66,006	-68,070	-70,334
Directorate	30,293	29,687	29,548	29,685	29,899
Corporate - Financing / Depn	30,832	33,044	34,901	36,828	38,878
Corporate Budgets – Contingency	1,557	1,557	1,557	1,557	1,557
Contribution to / (from) balances	0	0	0	0	0
Balance c/fwd	-22,453	-22,453	-22,453	-22,453	-22,453

Note: Includes 2014/15 surplus of £2,240k reported in period 7 which is subject to change in respect of capital contributions to the Major Repairs Reserve at year end.

6. CAPITAL PROGRAMME DEVELOPMENT

Background to 2014/15 General Fund Capital Budget Development

150. As in recent years, the Council's capital programme development is dominated by the requirement to provide sufficient school places with total investment now set to exceed £382,000k over the period to 2018/19. In addition, this draft programme includes provision for major investment in the St Andrews Park site and a continuation of existing programmes of works to maintain local infrastructure.

151. This draft programme has been developed with reference to the Prudential Framework, with all proposals being tested for affordability, sustainability and prudence. All associated revenue implications have been factored into revenue budgets through the MTF process and reflected elsewhere in this report.

152. This element of the report focuses upon the new proposals and the overall financing strategy for the programme. The latest draft of the full capital programme, and indicative financing, for 2014/15 to 2018/19 is set out in Appendix 8a. An overview of this financing strategy and revenue implications are set out below.
153. For those major projects already underway, expenditure forecasts have been refreshed and any necessary rephrasing of budgets in line with the position reported to this Cabinet in the Monthly Budget Monitoring Report. Any potential slippage on Programmes of Work to be reviewed as part of the Council's wider outturn position at year end, to enable members to redirect resources if necessary.
154. In presenting the capital programme, it is proposed to differentiate between fully costed proposals and those projects at an early stage of development through a separate budget heading for Future Projects. Appendix 7a has been structured to reflect this proposed new approach, which will enable monitoring reports to focus upon live projects.
155. The following sections of this report deal with proposed new schemes, the continuing programmes of works and the wider financing strategy in turn. In all cases projects will be subject to final approval through Cabinet and Cabinet Member reports outside the MTF process.

Proposed Additions to the General Fund Capital Programme

156. The following items have been costed in an adequate level of detail and are deemed ready to commence during 2014/15 if approved by members. In cases where expenditure will be phased over multiple years, this narrative makes reference to full project costs.
157. Provision for £2,000k Priority Growth investment in the borough's highways and a further £1,000k Priority Growth investment in pavements is included in this draft programme bringing capital investment in local infrastructure to more than £9,000k for 2014/15.
158. On 26 September 2013, Cabinet approved in outline a scheme to refurbish Harlington Road Depot site to enable a number of additional services to be transferred to the site and thus free up assets across the borough for disposal or alternative use. This capital programme assumes that surplus depot sites would be sold to fund £1,300k works at Harlington Road Depot.
159. West Drayton Cemetery is expected to reach full capacity by September 2014 and as a result provision of £456k has been included in this programme to enable an expansion to take place and associated infrastructure works to be completed on the site.
160. A sum of £310k has been included to fund refurbishment of the Council-owned Whiteheath Farmhouse in order to prevent further decay of the structure and meet English Heritage requirements with regard to maintenance of the site.
161. Within Programmes of Works, the addition of £500k per annum to 2017/18 (£600k for 2014/15) to support major electrical and mechanical works at the Civic Centre is proposed in order to ensure the site remains operational and safe over this period.
162. In addition improvements to the Rural Activity Garden Centre are included in this capital programme at £250k.

163. It is proposed to maintain the current level of £600k in the Property Works Programme to support larger projects at sites across the borough. It is expected that improvement to Northwood Recreation Ground at £70k, a number of Health and Safety projects on Golf Courses at £38k and drainage works at Whiteheath and Park Lodge farms for £105k be sourced from this budget in 2014/15.

Future Projects

164. There are a number of areas where capital investment is planned but the specifics of the project are yet to be costed in detail.

165. Following on from the Council's major programme of investment in expanding the borough's primary school capacity to meet the demands of a growing population, provision of £150,000k for delivery of two new secondary schools and major investment in both Abbotsfield and Northwood schools is included in this budget. As with the primary school expansion programme, there will likely be scope to secure a level of Department of Education funding which alongside developer contributions will reduce the level of Council investment required to deliver this programme.

166. For planning purposes it has been assumed that the Council will be required to finance 50% of expenditure on Abbotsfield and Northwood and 25% in the case of the other new schools. Provision to manage this level of borrowing has been included as a Priority Growth item in revenue budgets from 2017/18 onwards. While this funding profile reflects experience on the current primary school expansions, it will be necessary for officers to secure such funding through competitive bidding exercises and any shortfall in external funding would necessitate additional use of borrowing, with on-going revenue implications for the Council. In order to reflect this level of risk around DfE funding streams, the £28,000k grant funding in support of the Abbotsfield and Northwood projects has been shown as contingent under Development and Risk Contingency.

167. Provision has been made to support delivery of a landmark 1,200 seat theatre on the St Andrew's Park site at a estimated cost of £44,000k, the on-going financing costs of which will be supported from the existing £1,000k per annum provision for capital investment and £1,413k additional income from appropriated HRA commercial properties. Alongside this theatre, provision is also included to deliver a museum from Section 106 monies on this site at a cost of £1,000k. Further work on costing both proposals will continue and be fed into the MTFP process.

168. Provision of £13,500k to meet further demand in the primary school sector from 2015/16 has been included in this draft programme which would support delivery of a further three forms of entry through either new schools or expansions. As with the proposed secondary sector investment it has been assumed that 25% of costs of these works will be borne by the Council Tax payer, the costs of which are factored into revenue budgets over the MTFP period.

169. A sum of £5,100k has been included in this programme to fund delivery of three new Youth Centres across the borough, with the first being in Harefield. This investment will be funded from Prudential Borrowing, with provision for on-going revenue financing and operating costs included within Priority Growth.

170. £1,200k has been included in this programme to deliver a modernisation of the Civic Centre ICT network infrastructure, both ensuring continued availability of systems beyond 2016 when the existing infrastructure is de-supported and introducing Wi-Fi in place of hard cabling.

171. Also included is a sum of £1,000k is included to support the renovation of the Grade 2 listed Uxbridge Cemetery Gatehouse and Chapel, which will both preserve these buildings for the local community and ensure that the Council meets its statutory obligations with regard to maintaining the asset.

172. In addition a specific provision of £500k has been included to enable refurbishment/improvement works on a number of Council-owned bowls clubs within the borough.

173. In order to support Hillingdon's Local Plan submission, it may be necessary to undertake capital works for which a provision of £197k has been included in the budget.

Development & Risk Contingency

174. £1,500k per annum has been set aside within General Contingency to manage any unforeseen risks emerging on existing projects and provide capacity support new initiatives over this period. To date, the following projects at a very early stage of development have been identified which may represent a call on this resource; Golf irrigation, Restoration of Cranford Park Stables, further works at Ruislip Lido and further energy efficiency measures at the Civic Centre.

Programmes of Works

175. Annual investment in local infrastructure through the Programmes of Works continues to form a major element of the Council's wider capital programme, requiring funding of approximately £7,000k to be identified on an annual basis to support projects which do not meet Prudential Code requirements for use of borrowing.

176. From 2014/15 these programmes will be funded from a combination of capital receipts and the Community Infrastructure Levy (CIL), with current surplus assets available for disposal and early estimates of potential CIL income sufficient to support the current range of programmes in the medium-term.

Capital Financing

177. This report contains recommendations to approve the draft capital programme as set out in Appendix 8a, delivery of which will require investment of £382,426k over the period to 2018/19 of which Prudential Borrowing and Government Grants are expected to form the most significant funding streams. Table 11 sets out a summary of this programme and the latest assumptions on the availability of external funding.

Table 11: General Fund Capital Financing

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	Total £'000
Main Programme	79,517	7,134	500	0	0	87,151
Programme of Works	17,757	13,969	14,192	9,560	9,060	64,538
Future Projects	16,145	70,722	106,085	28,185	2,100	223,237
Development & Risk Contingency	1,500	1,500	1,500	1,500	1,500	7,500
Capital Expenditure	114,919	93,325	122,277	39,245	12,660	382,426
Prudential Borrowing	-38,898	-41,735	-62,354	-8,490	-2,743	-154,220
Capital Receipts	-11,418	-8,253	0	-5,000	0	-24,671
Community Infrastructure Levy	-5,000	-5,000	-5,000	-5,000	-5,000	-25,000
Council Resources	-55,316	-54,988	-67,354	-18,490	-7,743	-203,891
Government Grants	-49,778	-36,091	-54,296	-20,755	-4,917	-165,837
Other Contributions	-9,825	-2,246	-627	0	0	-12,698
Capital Financing	-114,919	-93,325	-122,277	-39,245	-12,660	-382,426

178. Government Grants are expected to represent the single most significant funding stream over the period to 2018/19, with the vast majority of these resources expected to be sourced from the Department for Education in support of school expansion programmes. There has been no confirmation of these funding arrangements beyond 2014/15 and this budget has been prepared on the assumption that the Council will be able to secure similar levels of grant support as achieved on the current primary school programme.
179. In order to secure the levels of grant funding detailed in this report, the Council will continue to submit bids through the Education Funding Agency over this period to ensure that this vital source of support for the programme is secured. As the MTF process continues further updates on these key funding streams will be included and assumptions refreshed accordingly.
180. An annual award of £1,600k in support of Disabled Facilities Grants is included in the above assumptions, however from 2015/16 this funding will be rolled into the Health and Social Care Integration Fund. In order to continue to deliver this programme it will therefore be necessary to ensure that sufficient resources are earmarked from the Fund for this purpose. Further information on the Integration Fund is contained in the Medium Term Agenda Section of this report.
181. A full schedule of current Government Grant forecasts is contained at Appendix 8c to this report.
182. Other external contributions primarily relate to Section 106 planning contributions, however from 2014/15 these will be replaced by the new Community Infrastructure Levy (CIL) which is to be managed as part of wider Council Resources.
183. Following application of external funding, the residual sum to be financed from Council Resources is forecast to be £203,891k, of which £24,671k is expected to be met from Capital Receipts, £25,000k from the Community infrastructure Levy and £154,220k from Prudential Borrowing. Forecast capital receipts are based on the Council's latest asset

disposal programme, which includes all sites identified as surplus to requirements in the medium-term.

184. In the case of CIL it has been assumed that the existing programmes of work and school expansion programme will meet the requirements for application of the majority of these funds as these projects include significant provision for managing the impact of a growing population. Following introduction of CIL during 2014, it will be necessary for Cabinet to determine local priorities for application of this income which may include funding for partner organisations, such as health and employment initiatives currently supported by Section 106 contributions.
185. The remaining sum of £154,220k to be sourced from Prudential Borrowing includes £49,100k for provision of the new Theatre at St Andrew's Park and new Youth Centres, and £96,935k towards the primary and secondary school expansion programmes, for which specific provision to manage borrowing costs has been made within the MTF. Prudential Borrowing required to support the remainder of the capital programme is expected to total £8,185k, the servicing and repayment of which will be contained within existing Interest and Investment Income budgets.
186. The majority of resources for schools investment during 2013/14 and 2014/15 have already been built into revenue budgets, accounting for the current underspend of £2,500k reported on financing budgets. With the exception of £900k of financing costs being rephased elsewhere in this report, this additional capacity in revenue budgets is expected to be utilised in full by 2014/15 which may place additional strain on revenue budgets if costs cannot be contained with Directorate Operating Budgets.

Housing Revenue Account Capital Programme and Financing

187. This draft budget includes an outline HRA capital programme for the MTF period to 2018/19, and is focused on the twin objectives of providing additional affordable housing and maintaining the existing housing stock. As a result of the sound financial standing of the HRA, it is expected that the level of investment detailed below can be financed without recourse to Prudential Borrowing which will minimise costs to future tenants.
188. This budget includes three major projects intended to procure new affordable housing for the residents of Hillingdon, with investment of £60,184k over the period to 2018/19 expected to deliver more than 300 new homes within the HRA. Investment in existing stock during 2014/15 is set to total £14,783k, with annual investment of approximately £12,000k from 2015/16 onwards.
189. A sum of £9,766k has been set aside within this capital programme to support purchase and repair of former Council properties, as approved in principal by Cabinet on 21 November, which had previously been sold under the Right to Buy scheme. This approach will enable properties brought on stream more quickly than alternative new build projects, and will have a limited impact on management costs as all properties are within current estates. By 2018/19 this project will bring 70 properties into the HRA, including 15 during 2014/15.
190. It is proposed that a £37,376k programme of general needs housing construction across the borough forms the core of the HRA capital investment over the period to 2018/19, delivering 172 new homes. Activity is expected to commence during 2014/15 with the first 27 units planned to be brought on-stream from 2016/17. This programme enables the Council to utilise the majority of capital receipts received under the 1:1 Replacement Agreement, with

match funding to be sourced from in-year revenue contributions rather than Prudential Borrowing – thus reducing the debt burden on future rent payers.

191. Alongside the general needs programme, £13,042k has been earmarked for investment in supported living accommodation to support efforts within Adult Social Care to reduce the number of people in long-term Residential Care. This sum is expected to deliver 75 units within the HRA, which will be supported by additional units delivered within the borough through Registered Providers.
192. For both the general needs and supported living programmes, the primary constraint on delivery is expected to be the availability of land which will require the Council to seek to identify and earmark surplus assets for this purpose.
193. Finally, a sum of £17,161k is contained within the 2014/15 capital budget to support investment and renewal of existing housing stock through the Works to Stock Programme. An initial profile of expenditure across Dwelling Component Renewal, Estates and Blocks Renewal and Welfare Projects has been developed on the basis on prior experience and condition survey information, however in all cases individual property surveys would be expected to ensure that the approach to renewal represents value for money.
194. Table 12 below sets out the overall financing strategy from this programme of investment over the period to 2018/19, which is currently forecast to be funded entirely from internal HRA resources although there may be opportunities to secure external funding for new build schemes.

Table 12: Housing Revenue Account Capital Financing

	2014/15	2015/16	2016/17	2017/18	2018/19	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Major Projects	5,964	8,719	9,899	16,702	18,900	60,184
Works to Stock Programme	17,161	15,250	14,754	14,296	14,296	75,757
Capital Expenditure	23,125	23,969	24,653	30,998	33,196	135,941
Prudential Borrowing	0	0	0	0	0	0
Capital Receipts	-1,955	-2,680	-3,037	-5,082	-5,744	-18,498
Major Repairs Allowance	-9,002	-9,002	-9,002	-9,002	-9,002	-45,010
Direct Revenue Contribution	-12,168	-12,287	-12,614	-16,914	-18,450	-72,433
HRA Resources	-23,125	-23,969	-24,653	-30,998	-33,196	-135,941

195. The capital receipts forecast included above assumes continuation of the current trends in Right to Buy Sales, with an average of 50 sales per annum assumed from 2015/16 and 108 sales during 2014/15. Under the 1:1 Replacement Agreement the Council is limited to applying these receipts to 30% expenditure with the remaining 70% investment in the form of match funding and it should be noted that failure to utilise receipts within three years would see the Council require to transfer funds to DCLG at a punitive interest rate.
196. The Major Repairs Allowance is a statutory transfer from the revenue account to support renewal of existing stock and is calculated on an annual basis based on the valuation of housing within the HRA. Over the MTFP this sum will support Dwelling Component Renewal, such as replacement of windows and roofs, and Welfare Schemes, such as adaptations, within the Works to Stock Programme.

197. Annual direct contributions from revenue support the remainder of this programme, rather than resorting to use of Prudential Borrowing which ensures that the available headroom within the self-financing system remains available to support future initiatives and reduces the cost of investment to future rents payers.

198. Over the period to 2018/19 it is expected that annual contributions from revenue will exceed planned expenditure which will enable the cumulative surplus, currently estimated at £3,545k, to be retained within the Major Repairs Reserve. This reserve will then provide a resource to fund major dwelling component renewals, the level of investment in which will be expected to rise from 2020 onwards as investment completed under the Decent Homes programme between 2003 and 2010 reach the end of its useful life. Table 13 below sets out forecast balances on the Major Repairs Reserve.

Table 13: Major Repairs Reserve Forecast

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Balance Brought Forward	1,123	8,773	5,484	6,769	7,103	5,067
Depreciation Charge to Revenue	9,002	9,002	9,002	9,002	9,002	9,002
Revenue Contribution for Works to Stock	8,674	2,653	8,674	5,761	5,303	5,316
Revenue Contribution for Major Projects	0	6,226	4,898	7,187	9,575	11,612
Reported Variance on Works to Stock Capital Programme Financing	-2,761	0	0	0	0	0
	-7,265	-21,170	-21,289	-21,616	-25,916	-27,452
Balance Carried Forward	8,773	5,484	6,769	7,103	5,067	3,545

FINANCIAL IMPLICATIONS

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

EFFECT ON RESIDENTS, SERVICE USERS & COMMUNITIES

What will be the effect of the recommendation?

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

The draft budget has been developed with due regard to on-going reductions in central government support to the Council, while minimising any impact on the level of service provision to Residents. Overall the package of proposals is designed to secure the most effective combination of service outcomes across the whole of the Council's business, by improving the value for money offered by services and by maximising funding, procurement, efficiency and service effectiveness gains.

Consultation Carried Out or Required

Following consideration at Cabinet, this report will form the basis of consultation with Policy Overview Committees during January 2014. Comments from the Policy Overview Committees will be reported back to Cabinet by the Corporate Services and Partnerships Policy Overview Committee when Cabinet meets on 13 February 2014. Cabinet will then agree a set of budget proposals for recommendation to the annual Council Tax setting meeting of full Council on 20 February 2014.

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

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

CORPORATE IMPLICATIONS

Corporate Finance

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

Legal

The Cabinet is responsible for the preparation of the Council's Budget. Therefore the Budget and Policy Framework Procedure Rules, as set out in the Constitution, require it to make proposals on its budgets in accordance with the timetable which it has publicised. The Cabinet is free to amend the proposals in this report as it wishes. It must nevertheless have regard to the need for the budget to be soundly based, adequate to fund the expected level of service provision next year, and to provide for unexpected events through contingencies and balances.

Following this meeting, the Cabinet's proposals will be published and will form the basis of consultation with Policy Overview Committees and other consultees such as business ratepayers in the Borough and the Schools Forum who will have a period of six weeks to put forward their views. The Cabinet will ultimately consider any responses from the Policy Overview Committees and other consultees and take them into account in drawing up firm proposals for submission to full Council at its meeting on 20 February 2014. Its report will reflect the comments made by consultees and its response to them.

Relevant Service Groups

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

BACKGROUND PAPERS

Report to Council 28 February 2013 – General Fund Revenue Budget and Capital Programme 2013/14