

# THE COUNCIL'S BUDGET: GENERAL FUND REVENUE BUDGET, HOUSING REVENUE ACCOUNT BUDGET AND CAPITAL PROGRAMME 2014/15

<b>Cabinet Member</b>	Councillor Ray Puddifoot Councillor Jonathan Bianco
<b>Cabinet Portfolio</b>	Leader of the Council Finance, Property and Business Services
<b>Officer Contact</b>	Paul Whaymand, Corporate Director of Finance
<b>Papers with report</b>	Appendices 1 to 13

## 1. HEADLINE INFORMATION

<b>Summary</b>	<p>The report sets out the Cabinet's proposals for the Council's General Fund Revenue and Housing Revenue Account budgets and Capital Programme for 2014/15.</p> <p>The General Fund Revenue budget proposals have been developed to deliver a zero increase in Council Tax for a further two years (these being the sixth and seventh successive years for the general freeze) and funding for a further five years for over 65s, as well as providing for priority growth initiatives, whilst maintaining reserves and balances well above the minimum recommended level.</p> <p>Overall there will be a small reduction in the level of Council Tax as the revenue budget proposals result in a freeze on the Hillingdon element at 2013/14 levels and there is a proposed reduction of 1.3% on the Greater London Authority (GLA) precept.</p> <p>The Housing Revenue Account budget proposals continue to underpin the self financing regime and propose rent increases of 3.92% in line with the Government rent restructure programme.</p> <p>The proposed General Fund and HRA Capital Programmes includes total investment of £391m over the next 4 years with £118m in 2014/15, including £3.6m of new priority capital growth.</p> <p>Cabinet are requested to recommend their budget proposals to full Council on 20 February 2014. This is in order to formally set the General Fund Revenue budget, the Housing Revenue Account budget, the Capital Programme and Council Tax for the 2014/15 financial year.</p>
<b>Contribution to our plans and strategies</b>	The revenue budgets and capital programme together form the financial plan for the Council for the 2014/15 financial year and contain the funding strategy for delivering the Council's objectives.

	They also provide the funding strategy for the Council's goals for Hillingdon as a whole in the Sustainable Community Strategy.
<b>Financial Cost</b>	Zero increase in the Hillingdon element of Council Tax for the sixth and seventh successive years for all residents and for a further five years for over 65s, taking to 12 years in total. The proposals for the Housing Revenue Account are ringfenced and have no direct impact on the Council's General Fund.
<b>Relevant Policy Overview Committees</b>	Corporate Services and Partnerships Children, Young People and Learning Residents' and Environment Services Social Services, Housing & Public Health
<b>Ward(s) affected</b>	All

## **2. RECOMMENDATIONS**

**That Cabinet approves for recommendation to Council:**

- 1. The General Fund revenue budget proposals for 2014/15 summarised at Appendix 1, including the detailed budget changes contained at Appendices 2 to 6;**
- 2. The Housing Revenue Account budget proposals for 2014/15 summarised at Appendix 7a including detailed budget changes contained at Appendices 7b to 7d;**
- 3. The capital programme set out at Appendix 8;**
- 4. The Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement for 2014/15 to 2016/17 as detailed in Appendix 10;**
- 5. The proposed London Borough of Hillingdon Pay Policy Statement for 2014/15 set out at Appendix 11;**
- 6. The proposed fees & charges and housing rents for both the General Fund and Housing Revenue Account included at Appendix 12;**
- 7. That it resolves that Cabinet may utilise the general reserves or balances during the MTFE financial years 2014/15 to 2018/19 in respect of those functions which have been reserved to the Cabinet in Article 7 of the Constitution (as set out in Schedule G of the Constitution - Budget and Policy Framework Procedure Rules);**
- 8. That Cabinet notes the Corporate Director of Finance's comments regarding his responsibilities under the Local Government Act 2003.**

## SUMMARY

The budget proposals included in this report represent Cabinet's budget strategy for 2014/15 and beyond. The General Fund revenue budget proposals have been developed to deliver a freeze in the Hillingdon element of Council Tax for 2014/15 and 2015/16, with a further five year freeze for the over 65's, whilst maintaining balances and reserves at well above the recommended minimum level over the medium term.

The main challenge is the development of further revenue savings of £12,802k on top of the £17,111k being delivered in the 2013/14 and over £70,000k in total over the 4 years since 2010/11 as a result of the Government's continuing policy to reduce public expenditure. The Council's Business Improvement Delivery (BID) programme continues to drive the delivery of these savings and good progress continues to be made to achieve these savings.

Analysis of the funding settlement for 2014/15 indicates a reduction of £7,200k from 2013/14 funding levels, an adverse movement of £29k on estimates quoted in December due to local Government bearing part of the cost of Government's decision to cap NNDR increases to 2%.

Detailed within the budget proposals are savings proposals of £12,802k; reductions in Corporate Items of £1,626k; an increase of £1,855k from 2013/14 in contingency provisions, £4,370k of service pressures and an allowance of £2,529k for inflation. In addition, provision has been made for £2,500k of new priority growth in revenue and £3,600k priority growth in capital and for a further year's freeze on resident's fees and charges.

- The development of savings proposals has continued to concentrate on more efficient service delivery methods through the BID programme, the rolling out of the new Council operating model, focusing on core services and by not creating new pressures by providing services that are no longer funded by Central Government. Total savings proposals amount to £12,802k, with £5,399k in Residents Services; £4,417k in Adult Social Care, £1,447k in Children and Young People's Service, and £1,539k in Administration & Finance.
- An increase in contingency of £1,855k 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 £6,058k. The increase arises mainly from the significant demographic and demand led pressures facing the Council.
- The budget contains over £2,500k of new priority revenue growth and £1,500k brought forward from 2013/14. At this stage £1,452k remains unallocated. Proposals detailed within this report include allocations to support additional investment in the capital programme for Primary Schools Expansions, extended library openings, sport and activity for all ages, Social Care initiatives, lamp post refurbishment programme, Telecareline and Local Rating Enforcement.

The report also contains the Housing Revenue Account budget and rent setting proposals for 2014/15. The Council continues to use the rent restructuring formula as in previous years to set rent levels as part of the 10 year plan and is recommending average increases of 3.92% for next year.

The capital programme for 2014/15 and indicative allocations for the following four years are detailed, with the General Fund Capital Programme totalling £391,107k over five years.

£225,000k of that investment is focused on meeting demand for Primary and Secondary School places across the Borough. Alongside these works, additional funding for 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.

The Localism Act 2011 requires local authorities to publish a pay policy statement annually. This pay policy statement must set out the authority's policies for the financial year relating to remuneration of its Chief Officers; remuneration of its lowest paid employees; and the relationship between the remuneration of its Chief Officers and the remuneration of those employees who are not Chief Officers. The statement for 2014/15 has been amended and updated. The only key change is:

- Updates on the list of tier 1 and tier 2 roles evaluated at a pay scale that can range beyond £100,000 (Paragraph 9.3).

## **Legal Considerations**

The Corporate Director of Finance has a duty under the Local Government Act 2003 to comment on the robustness of the General Fund budget for the coming year and the adequacy of the Council's reserves. These duties are exercised in this report. The Corporate Director of Finance has recommended that an appropriate level of unallocated balances for the Authority is in the range from £20m to £35m. As described in the report, unallocated balances have been maintained well above the minimum level throughout the current year and are forecast to be in excess of £35m at the year end. They will remain well in excess of the £20m minimum level for 2014/15 as a result of the budget recommendations in this report. The budget also contains a Development and Risk Contingency of £24,738k over and above the unallocated balances.

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

## **Reasons for recommendations**

The recommendations have been framed to comply with the Budget and Policy Framework rules. They allow the presentation to Council of recommended budgets for 2014/15. This includes the impact on the Council Tax and housing rents and service charges.

Cabinet should give full consideration to the Corporate Director of Finance's comments under the Local Government Act 2003, and the need to ensure sufficient resources are available in balances and contingencies in the event of any significant adverse changes in the Council's funding environment.

The Council has powers only to approve revenue budgets and set Council Tax and housing rents for the following financial year. Medium term revenue budgets are presented to aid future financial planning and support good decision-making. However, they are not formally approved in setting the budget. The Capital Programme is approved over a four year period as the statutory framework provides greater freedoms under the Prudential Code to encourage a longer term approach to capital financing and borrowing decisions.

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

### **Alternative options considered / risk management**

Growth proposals included in the budget could be removed and either the Council Tax requirement reduced or alternative items substituted for them. Similarly, further items could be added to the budget requirement either through additional growth, increased provision for risk, or by reducing the package of savings. The Council Tax could then be increased accordingly within the constraints imposed by the Government's capping regime and the loss of the Council Tax freeze grant of £1,129k. A change in the budget requirement of £1,000k either way (increase or decrease) will result in an increase or decrease of 1.0% in the level of the Council Tax equivalent to £11.13 per annum at Band D level.

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

Members could decide to vary the proposed fees and charges outlined at Appendix 12. Any decision to do so could have an impact on the budget requirement. This would need to be reflected in the budgets to be recommended to Council.

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

The Development and Risk Contingency identifies the key risks and uncertain items for which provision is contained with the revenue budget. Reduction of this provision is not recommended. This would otherwise increase the likelihood of unfunded pressures emerging into budget monitoring in the 2014/15 financial year. The capital programme also includes a contingency sum to manage financial risk on key schemes. In addition, unallocated balances are held within the range recommended by the Corporate Director of Finance. Whilst further contributions from balances could be made, any reduction in balances to below the lower limit of this range is not recommended.

### **Policy Overview Committees Comments**

Each of the Policy Overview Committees has received reports setting out the draft revenue budget and capital programme proposals relevant to their remit. These were approved by Cabinet on 19 December 2013 for consultation at the January 2014 round of meetings.

Each service Policy Overview Committee referred their comments on to the Corporate Services and Partnerships Policy Overview Committee on 4 February 2014. The Committee's comments to Cabinet are contained in Appendix 13.

### **3. INFORMATION**

#### **Supporting Information**

##### **Background to the 2014/15 MTFF Process**

- 1 This is the second report to Cabinet on the budget proposals for 2014/15 and beyond. The previous report presented to Cabinet on 19 December 2013 set out the Medium Term Financial Forecast (MTFF). Draft revenue budget and capital programme proposals were approved then for consultation with Policy Overview Committees and other stakeholders.
- 2 This report updates the earlier December Cabinet report for known changes and in particular the impact of the Local Government Finance Settlement for 2014/15 and 2015/16. It sets out the Cabinet's General Fund Revenue budget, Housing Revenue Account budget and Capital Programme for 2014/15, with medium term projections for four years beyond next year. The Council does not have the power to set budgets more than one year in advance; however, the inclusion of medium term figures helps to demonstrate the ongoing impact of the budget proposals. It also provides context for the budget decisions proposed.
- 3 The report includes Prudential Indicators for 2014/15 to 2016/17. These show the impact of the Council's capital spending plans, included in the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement for 2014/15, at Appendix 10.
- 4 The Corporate Director of Finance's duty, under the Local Government Act 2003, to consider the adequacy of the Council's reserves and robustness of the estimates, is exercised within this report.
- 5 The budget report for Council Tax setting for 2013/14 contained an initial savings requirement of £16,900k for 2014/15. Through the Hillingdon Improvement Programme (HIP) Business Improvement Delivery project over £70,000k of savings have been delivered over the last 4 years. This report now contains proposals for a further £12,802k of savings during 2014/15. 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
- 6 Work on the development of savings proposals is integrated and aligned with service transformation work programmes, which is managed through the HIP Business Improvement Delivery (BID) programme. Over the last year, BID has continued to develop and evolve. The Deputy Chief Executive and Corporate Director of Residents Services has responsibility for the overall programme to ensure continuity across Groups and the well established group change boards take responsibility for the delivery of the programme within each group. This governance framework enabled significant early progress on the development of a balanced set of proposals for 2014/15.
- 7 The local Government finance settlement in January 2013 set out a 2 year settlement covering the years 2013/14 and 2014/15. The March budget included a further 1% reduction to local Government funding in 2014/15 in addition to the 2% already announced. In addition, 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.

- 8 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 in London, 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 the Better Care 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.
- 9 The additional 1% cut announced in the Chancellor's March 2013 Budget 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 MTFE for 2014/15. The final local Government settlement is expected on 12 February 2014.
- 10 This budget report outlines a strategy incorporating the changes set out above including detailed proposals that are capable of bridging the budget gap of £12,802k in 2014/15 and future years, with minimal impact on the delivery of front line services and within the following parameters:
  - A zero increase for Hillingdon's element of the Council Tax for the next two years. This will be the 6<sup>th</sup> and 7<sup>th</sup> successive years for the general freeze in Council Tax and to twelve years to 2018/19 for over 65's;
  - 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 £391,107k 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.

## GENERAL FUND REVENUE BUDGET

### Update on 2013/14 Budget Monitoring

- 11 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 2013/14 budget and those in 2014/15.
- 12 The latest in year monitoring position as at Month 9 (December) shows a net underspend of £4,572k on normal operating activities, consisting of a net underspend on Directorate Operating budgets of £1,769k, an underspend on capital financing costs of £2,500k and a £303k lower than budgeted call on Development and Risk Contingency.
- 13 Within Directorate Operating budgets, the following positions are currently reported:
  - Administration and Finance are reporting a combined underspend of £965k, which results from a number of posts being held vacant across the Administration and Finance directorates and the impact of integrating existing Council services into new Public Health responsibilities.
  - A net underspend of £650k is reported on Residents Services, with an exceptional £1,985k demand-led pressure on Homelessness being off-set by early delivery of 2014/15 savings - primarily within the Education service and from appropriation of commercial properties to the General Fund.
  - An underspend of £44k is reported within Children & Young People's Services, with a pressure on secure accommodation placement costs being off-set through underspends on establishment budgets.
  - Adult Social Care are declaring an underspend of £110k, with substantial underspends across establishment budgets and increased client contributions off-setting a pressure of £1,969k on care placements costs.
- 14 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 £36,172k by 31 March 2014. This position assumed that the remaining £194k uncommitted General Contingency and £230k unallocated Priority Growth are required in full during the current financial year.
- 15 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)	(5,345)	(1,174)	(3,652)	0	(11,222)	66%
G	On track for delivery	0	(751)	(325)	(970)	(568)	(2,614)	15%
A	Potential significant savings shortfall or a significant or risky project which is at an early stage;	0	(6)	0	(97)	(2,432)	(2,535)	15%
R	Serious problems in the delivery of the saving	0	0	(445)	(295)	0	(740)	4%
	<b>Total 2013/14 Savings</b>	<b>(1,051)</b>	<b>(6,102)</b>	<b>(1,944)</b>	<b>(5,014)</b>	<b>(3,000)</b>	<b>(17,111)</b>	<b>100%</b>

- 16 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 will therefore be delivered in full from 2014/15.
- 17 The total cross cutting savings required in 2013/14 are £3,000k and are to be identified through a bid review of staffing and other budgets through the restructuring of the Social Care Group. To date savings of £568k have been identified and include Children's Pathway of £300k, Support Services Hub £35k, Adults Pathway £37k, £46k in this year from the deletion of the post of the Corporate Director of Social Care and Health and £150k from surplus Children's Centre budgets. A contingency of £1,500k is held against the potential shortfall of savings and the monitoring assumption is that this will be applied in full. The remaining in-year net savings requirement is therefore £932k. Short term savings in staffing budgets in services subject to BID reviews are expected to cover this remaining saving in-year. The full year impact of BID restructures in Social Care, agreed to date, are expected to deliver savings of £1,005k in 2014/15. Further BID work is continuing and it is expected that this gap can be bridged during 2014/15.
- 18 In addition there remained £1,979k savings from prior year programmes which were unachieved as at 31 March 2013, £1,690k of which are 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.

## CHANGES SINCE REPORT TO CABINET ON 19 DECEMBER 2013

### Changes in the budget

- 19 The table and narrative below summarises the changes to the recommended budget proposals from the report considered by Cabinet on 19 December 2013. Each of the items is considered in more detail in the following sections of the report.

**Table 1: Changes to Revenue Proposals since Cabinet on 19 December 2013**

	<b>2014/15 £000s</b>
<b>Budget gap/(surplus) at 19 December 2013</b>	<b>(918)</b>
<b>Proposal/Amendment</b>	
• Funding issues	
Local Government Finance Settlement analysis	29
Increase to Council Tax Base	(336)
Rephasing of Business Rates growth	865
• Revisions to Contingency provisions	
SEN transport	276
WLWA increase to levy	440
Improvement in homelessness	(356)
<b>Budget gap/(surplus) at 14 February 2014</b>	<b>(0)</b>

- 20 **Local Government Finance Settlement** – Analysis of the 2014/15 Local Government Finance Settlement showed the settlement to be broadly in line with earlier assumptions, resulting in £29k less funding than was expected. However it should be noted that this movement relates to a number of separate adjustments, including a one-off release of funds previously held back by Government to fund the New Homes Bonus which offsets a cut in grant to fund the 2% cap on NNDR increases will only be partially funded.
- 21 Since December Cabinet, the Collection Fund position has been updated to finalise the Council Tax Base for 2014/15, agreed at Council on 16 January 2014, which increased the base by 302 Band D equivalents, equating to an increase in revenue of £336k. The Business rates forecast for 2014/15 was also approved at the same meeting of Council and the final position reduced growth income in 2014/15 by £865k, as a result of the rephasing of developments in the Borough. Retained income of £135k has been transferred from Business rates income to Government Grants to reflect levels of funding available to support the new retail relief announced by the Chancellor at the Autumn Statement.
- 22 **Adjustments to Pressures and Contingency** – since the last report to Cabinet in December 2013 a number of adjustments to the forecast contingency requirements have been made, which are summarised below and explained in detail in the contingency section of the report:
- An additional £276k has been added to the SEN Transport contingency to provide sufficient funding for new travel training initiatives and reflect a marginal increase in the underlying pressure. £1,611k has been transferred from Development and Risk Contingency to Service Pressures from 1 April 2014 to reflect current levels of demand for this service with contingency now set at £229k.
  - Refreshed assumptions around waste tonnages and arrangements at the Victoria Road site have led to a £440k increase to the waste disposal levy contingency requirement being included in this report. £2,439k has been transferred from Development and Risk Contingency to Service Pressures from 1 April 2014 to reflect current levels of demand, leaving a residual contingency of £811k.
  - A review of current levels of demand for temporary accommodation and progress on a number of mitigating actions have led to a £356k in the provision required to contain the costs of managing Homelessness in the Borough.

## Budget Requirement 2014/15

- 23 The movement between the current 2013/14 year's budget and the budget requirement for 2014/15 is summarised in Table 2 below. Further detail on each of the lines in the table is set out in subsequent sections of the report. A more detailed summary of the MTFE over the full 4 year period is attached in Appendix 1.

**Table 2: Budget Requirement 2014/15**

	<b>Budget (£000s)</b>
Budget Requirement 2013/14	211,159
Inflation	2,529
Corporate Items	(1,626)
Contingency	6,058
Service pressures	4,370
Priority Growth	2,500
Savings	(12,802)
Budget Requirement 2014/15	212,188
<u>Funding Sources</u>	
Council Tax Receipts	102,937
Retained Business Rate Receipts	44,326
Government Formula Grant	64,925
Total Resources	212,188

## INFLATION

- 24 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.
- 25 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 on-going. 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.
- 26 Resources set aside to manage inflationary pressures has been refreshed to take account of national Government's stated intention to limit increases in energy costs, although officers continue to monitor potential changes, any such changes would have a minimal impact on the overall inflation provision.
- 27 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.

- 28 Inflation assumptions for existing contracts outside Social Care and NNDR costs have been 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.
- 29 With the exception of the London-wide Concessionary Fares Levy and the West London Waste Levy, which is dealt with elsewhere in this report, levy contributions are to be frozen to reflect Central Government's on-going austerity drive. While there are some limited movement in the distribution of levy costs between levied bodies as a result of changes in apportionment bases, this does not have a material impact on assumptions.
- 30 London Councils have issued 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.
- 31 Table 3 below sets out the general inflation rates applied to specific budget lines.

**Table 3: Inflation**

<b>Category</b>	<b>Rate (%)</b>	<b>2014/15 (£000s)</b>
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 %	174
<b>Total</b>		<b>2,529</b>

## **CORPORATE ITEMS**

- 32 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 4: Corporate Items**

<b>Corporate Items</b>	<b>Amount 2014/15 (£000s)</b>
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)
<b>Total</b>	<b>(1,626)</b>

- 33 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.
- 34 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.
- 35 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.
- 36 As a result of favourable cash flows £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**

- 37 A further review has been undertaken of all demand led service pressures and potential costs outside of the base budget funding which are being provided for in contingency. The development and risk contingency is used to manage issues that typically arise during the budget process where the likelihood of resources being required is uncertain. Rather than include all of these in the draft budget and therefore overstate the estimated budget requirement, they are collated within the Development and Risk Contingency.

- 38 Groups have identified and reviewed all service pressures and as noted at the start of the report there are demand led pressures emerging in the current year's budget monitoring for which further new or additional provision has been included in next year's contingency budget.
- 39 An increase in contingency of £1,855k reflects the latest estimate of potential funding required to cover a range of financial risks faced by the Council in 2014/15. However, during 2013/14 £4,203k was released from contingency, bringing the gross increase for 2014/15 to £6,058k, 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 5: Development and Risk Contingency**

	<b>Amount (£000s)</b>
2013/14 Contingency Budget	22,883
Releases to Directorate Operating Budgets	-4,203
Increase to Contingency Requirement	6,058
<b>2014/15 Contingency Budget</b>	<b>24,738</b>

- 40 **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 9 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.
- 41 **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, which excludes schools, includes street lighting and allows an increase in the tonnage tariff is £240k, a £162k reduction on the 2013/14 provision. From 2014/15 the scheme will move to a system of two allowance purchases per year, with the second retrospective purchase at a higher punitive rate and scope for purchases in advance, as such future reports to Cabinet will address how to best secure Value for Money in purchasing allowances.
- 42 **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.
- 43 **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.

- 44 **Impact of welfare reform on homelessness (£2,144k 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.
- 45 B&B costs are responsible for a £1,730k pressure in Housing Needs at month 9 of 2013/14. At the end of December 244 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.
- 46 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 £2,144k 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.
- 47 **SEN Transport (£531k decrease from 2013/14)** - Over the past year there has been a further increase in the number of statemented pupils and consequently a significant increase in contracted transport costs. The faster growth rate of costs over pupil numbers reflects the increased need to provide transport to out-of-Borough placements requiring greater distance travelled, as well as increased numbers of children requiring individual transport due to more complex needs.
- 48 With the support of the BID transformation team a range of measures are being developed in order to mitigate the costs increases in the longer term:
- 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.
- 49 These measures will not result in reduced costs overall but rather serve to limit the overall increase in costs to a projected 4% increase as opposed to the 10% increase seen over the last calendar year. 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.

- 50 Provision of £229k has been included within contingency for 2014/15 to reflect a continuation of demand trends, with provision for the current level of demand and £108k towards implementing travel training is included within service pressures detailed elsewhere in this report.
- 51 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.
- 52 **Waste Disposal Levy (Landfill Tax) (£1,199k decrease from 2013/14)** – A number of factors have impacted on the waste streams during 2013/14 with both favourable and adverse impacts. A net decrease in the level of contingency required is reported following release of £2,439k to base budgets as a service pressure. Although an improved position is reported by West London Waste Authority, with savings proposals expected to reduce the cost to the Council, in particular through the fixed cost levy, these favourable movements have been insufficient to off-set the significant pressures in this area. Waste tonnages have increased by an estimated 2.5% during 2013/14, a further increase of £8 per tonne on the landfill tax and the move to a new compliant rubble and hardcore contract have led to a 2014/15 contingency requirement of £811k. Discussions between the Council and WLWA continue around arrangements at Victoria Road, with the levy increase build into this budget reflecting the higher cost of operating the site going forward.
- 53 **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 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:

**Table 6: Asylum Contingency Requirement 2014/15**

	<b>2014/15 £000</b>
Projected Expenditure	7,402
Direct Asylum Grant	-3,721
Gateway Agreement Grant	-1,772
Housing Benefit	-391
Client Contribution	-60
<b>Contingency Required 2014/15</b>	<b>1,458</b>
Original Proposed Requirement 2013/14	1,995
<b>Proposed Change Required (Improvement)</b>	<b>-537</b>

- 54 **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.
- 55 **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.
- 56 **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 £2,406k 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 1<sup>st</sup> April 2013.
- 57 **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.

- 58 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.
- 59 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.
- 60 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.
- 61 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.
- 62 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 Clinical Commissioning Group (CCG) for Continued Health Care (CHC) 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.
- 63 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 Adult Social Care demographics to £11,990k. A refresh of the forecast in January 2014 has not identified any material demographic changes since October.

- 64 **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.
- 65 **General Contingency (£1,500k increase from 2013/14)** - The draft budget includes £2,500k 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.
- 66 The increase of £1,500k in this contingency provision results from the transfer of the 2013/14 provision against shortfall in Social Care restructuring savings, with any residual risk on this saving to be borne by the General Contingency.

## SERVICE PRESSURES

- 67 Service Pressures for 2014/15, which primarily relate to items being transferred from Development and Risk Contingency into base budgets, total £4,370k and are detailed below.

**Table 7: Service Pressures**

<b>Priority Growth</b>	<b>Amount 2014/15 (£000s)</b>
Waste Disposal Levy	2,439
SEN Transport	1,611
Outsourced Leisure Income Streams	308
Additional Property Lawyer	12
<b>Total Service Pressures</b>	<b>4,370</b>

- 68 There is currently a call of £2,439k on the 2013/14 Development and Risk Contingency in respect of the waste disposal levy, which will be released to base budgets from 1 April 2014 and therefore included in this budget as a service pressure. As noted above, provision for forecast increases to levy costs for 2014/15 are to be held in contingency.
- 69 Provision of £1,611k has been included within Service Pressures to reflect the full year effect of current levels of demand for SEN Transport, and cover the pump priming of the recently approved travel training initiative. Additional budget provision to manage increasing levels of demand during 2014/15 has been included within Development and Risk Contingency.
- 70 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.

- 71 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.
- 72 Total Service Pressures, detailed in Appendix 4, amount to £4,370k in 2014/15.

## PRIORITY GROWTH

- 73 Provision has been made in 2014/15 for 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 £1,452k to support further projects.

**Table 8: Priority Growth**

<b>Priority Growth</b>	<b>Amount 2014/15 (£000s)</b>
<b>Available Priority Growth Balance</b>	<b>4,000</b>
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)
Finance Manager (Transformation)	(90)
Police Tasking Team	(72)
<b>Remaining Unallocated Priority Growth</b>	<b>(1,452)</b>

- 74 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.
- 75 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.
- 76 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.
- 77 In addition a sum of £400k has been set aside to fund Social Care Initiatives.
- 78 £400k has been included within Priority Growth for 2014/15 to commence a programme to repaint metal street lights in the Borough.

- 79 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. A further £600k capital growth has been included in this budget to support equipment costs of this initiative.
- 80 The investment of £100k in local rating enforcement will ensure that the maximum amount of income is being billed and collected from liable parties.
- 81 Funding of £90k has been included to create an additional Finance Manager role to provide extra capacity to work on the financial implications of the Council's transformation programme.
- 82 Provision of £72k is included within this budget to increase support for the Police Tasking Team within the Borough during 2014/15 and 2015/16.

## **SAVINGS**

- 83 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 MTFF.

### **Policy Decisions and Corporate Savings**

- 84 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 £12,802k. 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**

- 85 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**

- 86 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. Indicative procurement savings for each Group have been included in the respective savings detailed below with the information being derived from the work detailed on the Procurement forward plan.

## Group Savings

- 87 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 9: Savings Proposals**

<b>Savings Proposals</b>	<b>Saving 2014/15 (£000s)</b>
Administration & Finance	1,539
Residents Services	5,399
Children's and Young People's Services	1,447
Adult Social Care	4,417
<b>Total Savings Proposals</b>	<b>12,802</b>

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

## Administration & Finance

- 88 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.
- 89 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.
- 90 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.
- 91 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**

- 92 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 £5,399k, including £619k of full year effect savings.
- 93 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.
- 94 The increase in net grant for the New Homes Bonus receivable from the DCLG for bringing new homes into use within the Borough is £1,257k. 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 £133k from the topslice on formula funding, expected if national performance remains consistent with prior years. The level of funding to be returned is lower than previously expected due to a smaller topslice from Revenue Support Grant, resulting in the transfer of £339k from savings to corporate grants.
- 95 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.
- 96 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.
- 97 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.
- 98 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.

- 99 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
- 100 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.
- 101 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.
- 102 The total proposed savings for Residents Services for 2014/15 of £5,399k are explained in detail in appendix 6b.

### **Children and Young People's Services**

- 103 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.
- 104 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.
- 105 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.
- 106 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.

- 107 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**

- 108 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.
- 109 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.
- 110 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.
- 111 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.
- 112 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.

- 113 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.
- 114 The total proposed savings for Adult Social Care is £4,417k in 2014/15 and are included in Appendix 6d.

## **FEES AND CHARGES**

- 115 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.
- 116 Schedules detailing the proposals relating to fees and charges for 2014/15 are attached at Appendix 12. The only substantial amendments to fees and charges proposed in this report are a refresh of the charging structure for Pre-Planning Advice, in order to support the Council's Economic Development agenda, 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; and inflationary increases to trade waste charges.

## **CENTRAL GOVERNMENT GRANT**

- 117 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.
- 118 This is set to continue into 2014/15 with a reduction of £9,198k in formula funding set out in the Provisional Local Government Finance Settlement, 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. The apparent improvement from earlier estimates is primarily due to the transfer of £1,129k 2012/13 Council Tax Freeze grant into formula funding.
- 119 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.
- 120 The current squeeze on formula funding is forecast to continue in the medium-term, with a headline 14% reduction contained within the 2015/16 draft budget, which increases further 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.

- 121 Despite the move towards simplifying local Government funding within SR2010, the number and quantum of grants outside the settlement continues to increase with £12,919k 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 £2,879k on the Council's 2013/14 budget, of which £434k relates to new burdens related to the Better Care Fund and £446k is to partially off-set the loss of business rate revenues arising from the decision to cap annual increases at 2%. The remaining £1,999k represents a net increase in other Government Grants and while this includes a number of minor reductions in grant sums the most significant movement relates to the Education Services Grant (£1,329k).
- 122 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.
- 123 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.
- 124 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**

- 125 There continues to be strong growth in Hillingdon's Council Taxbase with growth expected to increase gross Council Tax revenues to £99,327k, an increase of £2,006k on 2013/14. This increase represents the equivalent of 1,804 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.
- 126 As of 1 April 2014, 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.

- 127 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 RATE INCOME**

- 128 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, ongoing 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.
- 129 Retained growth of £2,714k 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.
- 130 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.
- 131 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.
- 132 The Chancellor's December 2013 Autumn Statement announced a number of changes to business rate policy, including the 2% cap on the multiplier and a relief of up to £1k for retail premises in the Borough the costs of which will be supported by a specific Government grant. In order to implement the retail relief, it will be necessary for the Council to adopt the scheme proposed by Central Government which will be recommended in the Council Tax setting report to be presented to full Council later in the month.

## **BALANCES AND RESERVES**

- 133 The projected unallocated balances and reserves are currently forecast to be £36,172k as at 31 March 2014, well above the minimum target level of balances and over £5,922k in excess of what they were projected to be at the start of the current

financial year. However, this assumes that the balance of unallocated priority growth and unallocated contingency will all be spent in full by the year end.

- 134 The MTF strategy is to maintain balances long-term at a level of no lower than £15,000k, with an additional £5,000k earmarked to smooth the significant level of funding reductions expected in 2015/16. The budget strategy contained in this report will keep balances well above this level over the next three years. This should provide some contingency to help absorb any further adverse movement in central Government funding and other demand led pressures. The budget proposals contained within this report keep balances within the recommended range advised by the Corporate Director of Finance.

## **MEDIUM TERM IMPACT OF PROPOSALS**

- 135 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.
- 136 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 £37,120k funding per annum by 2018/19, while assuming £7,479k of new responsibilities, resulting in a reduction of £44,599k in comparable grant funding.
- 137 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 £14,377k 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 £5,286k retained growth and secure an additional £5,541k from inflationary uplifts in business rates. The combined impact of these changes is therefore expected to be a reduction of £19,435k in the Council's like-for-like budget requirement (taking account of the £7,479k new burdens included under Corporate Items).
- 138 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 £22,170k by 2018/19.
- 139 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.

- 140 The total budget gap to be managed through the savings programme is estimated at £62,318k over the period to 2018/19. There is however a number factors leading to a significant front-loading of this pressure, which are expanded upon below.
- 141 Firstly, Spending Round 2013 announced the Government's intention to topslice £70m from the New Homes Bonus to support London's 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 and is inconsistent with the treatment of this grant outside the capital.
- 142 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.
- 143 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.
- 144 The Better Care Fund (BCF) (previously 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 in 2015/16 is £17,991k made up of £15,642k revenue funding from the HCCG plus capital allocations of £1,769k for the Disabled Facilities Grant and £580k of Social Care Grant which the council currently receives but from 2015/16 will be funded via the NHS and then passported to the Council through the BCF. The funding will be managed through a section 75 pooling agreement and it will be necessary to ensure that existing commitments under the Section 256 agreement and previous Winter Pressures funding are also factored into the future use of the funds. The funding allocation includes a performance related element which is contingent upon planning and performance in 2014/15 and in part upon achieving specific outcomes in 2015/16. The performance related element of £4,521k represents one of a number of key risks to each partner and the impact on the Council's MTFE will need to be fully assessed as the BCF plan is developed and agreed over the next few months. A provision of £1,000k per annum has been included in the Development and Risk Contingency to cover the risk of funding being insufficient to cover any new burdens transferring to the Council from 2015/16.
- 145 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 MTFF 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.

- 146 Managing this savings requirement of £20,284k 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 £29,792k, still above the target minimum levels of balances.

## **HOUSING REVENUE ACCOUNT (HRA) BUDGET**

- 147 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.
- 148 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.
- 149 An overview of the draft HRA budget for the period to 2018/19 is included in Appendix 7 to this report.

### **Update on 2013/14 budget**

- 150 The Month 9 monitoring position is showing an in-year operating surplus of £4,870k, which is £4,822k above budget. The surplus is due to reduced expenditure on the major works programme (£4,660k), lower management costs (£882k), a decreased call on Development & Risk Contingency (£557k) and reduced interest costs (£52k), offset by a reduction in rent income (£1,329k).

## **CHANGES SINCE REPORT TO CABINET ON 19 DECEMBER 2013**

### **Changes in the budget**

- 151 The table and narrative below summarises the changes to the recommended budget proposals from the report considered by Cabinet on 19 December 2013.

**Table 10: Changes to Revenue Proposals since Cabinet on 19 December 2013**

	2014/15 £000s
<b>Budget gap/(surplus) at 19 December 2013</b>	<b>(0)</b>
<b>Proposal/Amendment</b>	
Refreshed rental income assumptions	(10)
Savings from remodelling back office functions	(57)
Review of Repairs Service	(200)
Increased Investment in Housing Stock	267
<b>Budget gap/(surplus) at 14 February 2014</b>	<b>(0)</b>

- 152 Updated forecasts on the expected level of Right to Buy property sales during 2014/15 has led to a marginal £10k improvement in rental income assumptions; with continuing review of HRA operations enabling a further £257k efficiencies in back office operations to be taken as savings. The net impact of these changes enables a further £267k to be set aside to fund investment in housing stock.

### Budget Requirement for 2014/15

- 153 The movement between the current year's budget and the draft budget requirement for 2014/15 is detailed in table 11 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 11: 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	424
Contingency	200
Savings	-1,426
Budget Requirement 2014/15	62,692
<u>Funding Sources</u>	
Net Dwelling Rents	56,975
Non Dwelling Income	5,717
Total Resources	62,692

### Inflation

- 154 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 12: 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
<b>Total</b>		<b>670</b>

### Corporate Items

- 155 Corporate Items include changes in contributions to support the HRA programme of capital investment and unallocated General Balances. The net increase of £424k included in this draft budget relating to a net £472k increase to capital contributions and removal of the £48k budgeted surplus included in 2013/14 budgets.
- 156 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.
- 157 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.
- 158 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, it is proposed to redirect £6,497k capital investment towards provision of new housing, resulting in a net increase in investment of £476k across the HRA. (The replacement agreement with DCLG requires provision of new affordable housing to replace units sold under discount through the Right to Buy scheme.)
- 159 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.
- 160 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 13 below exemplifies the impact of these increased Right to Buy sales.

**Table 13: RTB property sales**

<b>Category</b>	<b>No of Properties</b>	<b>Equivalent rent units</b>	<b>Rent Loss 2014/15 (£000s)</b>
2012/13	47	32	262
2013/14 (forecast)	100	97	548
2014/15 (budget)	116	103	658
<b>Cumulative Total</b>	<b>263</b>	<b>232</b>	<b>1,468</b>

161 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**

162 The 2013/14 HRA Development and Risk Contingency contained provision of £877k to off-set 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.

163 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 the Government's programme of Welfare Reforms, including introduction of the benefit cap in Hillingdon from 30 September 2013.

164 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**

165 This draft budget includes savings totalling £1,426k, which consists of £902k from the full year effect of 2013/14 initiatives and a proposed £524k 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 £483k 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**

166 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.

167 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 12 (Fees & Charges) for additional information.

- 168 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.
- 169 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.
- 170 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**

- 171 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 MTFF. The HRA 5 year projection is shown in table 14 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.
  - Inflation assumptions in line with corporate assumptions.

**Table 14: 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
<b>Balance b/fwd</b>	<b>-25,083</b>	<b>-25,083</b>	<b>-25,083</b>	<b>-25,083</b>	<b>-25,083</b>
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
<b>Balance c/fwd</b>	<b>-25,083</b>	<b>-25,083</b>	<b>-25,083</b>	<b>-25,083</b>	<b>-25,083</b>

**Note:** Includes 2014/15 surplus of £4,870k reported in period 9 which is subject to change in respect of capital contributions to the Major Repairs Reserve at year end.

## SCHOOLS BUDGETS

- 172 The Council receives funding for Schools Budgeted expenditure through the Dedicated Schools Grant (DSG), which is a ring fenced grant. The determination of the DSG continues to be reviewed by the Department for Education (DfE) as the DfE move towards a national funding formula, which will be implemented in 2015/16. However, the actual arrangements for the proposed national funding formula have not yet been issued.
- 173 The further review of the funding model for 2014/15 requires a number of changes to be made to the funding formula, which Schools Forum have considered and consulted all schools on in October 2013. This new funding formula is applicable to all schools, including Academy schools and Free Schools.
- 174 The DfE have confirmed that they will extend the free entitlement offer for two year olds for those families that are deemed to be in the 40% most disadvantaged range, with a corresponding increase in the DSG.
- 175 The DSG is calculated based on three funding blocks; the Early Years Block (including resources for the two year old free entitlement offer), the Schools Block and the High Needs Block (covering Special Educational Needs and Alternative Education Provision). Each of these funding blocks is not ring-fenced individually, which allows for movement of funds between the funding blocks within the DSG.
- 176 The Early Years Block for 2014/15 has been cash limited to 2013/14 values (which itself was cash limited to the 2012/13 values). This funding will be adjusted throughout the 2014/15 financial year, based on the January 2014 census count and again by the January 2015 census count, where additional pupils will be funded by the pre-determined Guaranteed Unit of Funding (GUF) for Early Years. This funding block includes funding for the Two Year old free entitlement offer, the majority of which will fund the current provision, with the remainder funding growth in capacity.
- 177 The Schools Block for 2014/15 has been calculated by multiplying the GUF for Schools by the October 2013 pupil numbers, where the GUF has been cash limited to 2013/14 values. The Schools Block no longer includes funding for Special Resource

Provisions (SRP's) as this is funded from the High Needs Block, but does include delegated funding for mainstream Special Educational Needs (SEN) pupils.

178 The High Needs Block for 2014/15 has been cash limited to 2013/14 (which itself was cash limited to the 2012/13 values). This now includes full year funding for the 16 -25 provision, which was previously funded directly by the Education Funding Agency. The DfE are yet to confirm the final budget for this funding block as they are still consulting with local authorities on the planned place numbers and potential growth in SEN pupil numbers.

179 The DSG funds both the delegated individual schools budget and items which the School and Early Years Finance (England) Regulations allow to be retained centrally, including Special Educational Needs, Alternative Education provision and Early Years provision. The Council also receives a Pupil Premium Grant based on the number of pupils that are, and were, eligible for a free school meal (FSM) over the last six years (known as Ever 6 FSM). This is passported directly to schools based on the following allocations:-

- The level of the Pupil Premium has been confirmed at £1,300 per pupil for primary schools (an increase of £347 on the current rate of £953) and £935 for secondary schools (an increase of £35 on the current rate of £900), distributed based on those pupils eligible for Free School Meals at any point over the last six years (Ever 6).
- For Looked After Children the amount will be significantly increased to £1,900 (an increase of £1,000 on the current rate of £900). The determination of this has been amended slightly and covers those Children in Care of school age who have been looked after for more than one day (i.e. the pupils counted on the SSDA903 (Under the Children Act 1989, a child is looked after by a local authority if he or she; is provided with accommodation, for a continuous period of more than 24 hours, [Children Act 1989 Section 20 and 21]; or is subject to a care order [Children Act 1989 Part IV]), will be those pupils that have been continuously looked after aged 4 to 15 at 31 August 2013. The count point for 2013 is 31st March).
- An additional amount of £300 per pupil will be included in the Pupil Premium in 2014/15 for the children of members of the UK armed forces, no change on the 2013/14 rate, although this has been extended to cover 4 years rather than 3.

No cost falls upon the Council Tax payer for those services funded from the DSG, unless the Council chooses to supplement the Schools Budget from the General Fund.

180 Throughout this financial year (2013/14) the coalition Government has continued with its consultation with Councils on a number of school funding issues including School Funding Reform – Findings from the Review of 2013/14 Arrangements and Changes for 2014/15 and Proposed Changes to the Role of the Local Authority in Early Education and Childcare. The latter consultation which proposed major changes to the funding for Early Years provision was withdrawn by the coalition Government following consultation with stakeholders.

181 In terms of the School Funding Reform, the coalition Government announced that it would implement a National Funding Formula in 2015/16. Additionally, further amendments were made to the funding formula for schools to be effective from 1 April 2014. All authorities have to use this standard model as it will be used to determine the

budget shares for all schools (including free schools) with effect from 1 April 2014. Schools Forum is the principal institution established for the Council's consultations with schools on financial matters. In order to ensure that Schools Forum makes informed decisions, the proposed funding arrangements are also issued to schools inviting responses that are subsequently considered by Schools Forum in making their decisions and advice.

- 182 The main focus of Schools Forum has been to undertake a further review of the funding formula taking into account feedback received from schools, using benchmarking data provided by the DfE and applying the new factors that the DfE require all local authorities to implement as set out in the School Funding Reform – Findings from the Review of 2013/14 Arrangements and Changes for 2014/15. In May 2013, Schools Forum consulted with schools to determine whether they had any concerns with the new funding formula, so as to inform them of areas that should be reviewed. Additionally schools were consulted in October 2013 and invited to a number of briefing sessions to explain the proposed changes that would be made to the schools funding formula. The outcomes of which were considered at the Schools Forum meeting on 23 October 2013.
- 183 The School Forum regulations provide Schools Forum with more decision-making powers with regard to certain aspects of the Council's proposals for schools funding. However, it remains the responsibility of Cabinet to agree the Schools Budget for 2014/15 and this is addressed in a separate report elsewhere on this Cabinet agenda.

## **CAPITAL PROGRAMME**

### **Background to 2014/15 General Fund Capital Budget Development**

- 184 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 £390,000k over the period to 2018/19. In addition, this draft programme includes provision for major investment in the St Andrew's Park site in Uxbridge and a continuation of existing programmes of works to maintain local infrastructure.
- 185 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 MTFF process and reflected elsewhere in this report.
- 186 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.
- 187 For those major projects already underway, expenditure forecasts have been refreshed and any necessary rephasing 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.
- 188 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 8a has been structured to reflect this proposed new approach, which will enable monitoring reports to focus upon live projects.
- 189 Subsequent 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 MTFF process.

### **Changes in the budget**

- 190 The table and narrative below summarises the changes to the recommended budget proposals from the report considered by Cabinet on 19 December 2013. These changes relate to amendments in scope to existing projects and updates to reflect changes in levels of external funding.

**Table 15: Changes to Capital Proposals since Cabinet on 19 December 2013**

	2014/15 - 2018/19 £000s
<b>General Fund Capital Programme at 19 December 2013</b>	<b>382,426</b>
<b>Proposal/Amendment</b>	
• <b>Amendments to scope of existing projects</b>	
St Andrew's Park Museum	4,000
Primary School Expansion Programme	1,000
Telecareline Priority Growth	600
Vehicle Replacement Programme	200
Other minor changes to specific projects	(42)
• <b>Amendments in programme due to external funding changes</b>	
Increased DfE Capital Maintenance Funding	2,032
Award of DfE Free School Meals Grant	565
Confirmation of TfL LIP Grant Funding levels	(209)
Addition of Section 106 Monies in support of TfL Schemes	535
<b>General Fund Capital Programme at 14 February 2013</b>	<b>391,107</b>

- 191 The estimate for construction of a museum on the St Andrew's Park site has been refreshed to take account of service requirements and an additional £4,000k added to the capital programme. In addition £1,000k has been added to the Primary School expansion programme in order to ensure demand for places in September 2014 can be met, a sum of £600k has been included to support the decision to offer free Telecareline service to the over 80s and a refresh of the Vehicle Replacement programme has required further investment totalling £200k.
- 192 The above changes are to be funded in full from Council Resources, with an increase of £6,538k to forecast capital receipts over the period to 2018/19 enabling these changes to be made without increasing the Council's borrowing requirement and subsequent revenue financing costs.
- 193 The capital maintenance fund for schools which is un-ringfenced was announced in late January, the Council's allocation for 2014/15 was £2,516k. This has been initially split between the Urgent Building Condition works programme £2m and the re-provision of secondary schools £516k. The current school conditions programme has a backlog of works required and will need additional funding to catch up. The balance for secondary re-provision is a contribution for schools that require rebuilding due to the current state of the building infrastructure.
- 194 The capital programme previously included a sum of £1,000k per annum in support of Urgent Building Condition Works at the Borough's schools, which was fully funded from Department for Education grant. Confirmation of this funding stream for 2014/15 and refreshed assumptions for grant income in the medium term has enabled an increase of £2,032k in provision for investment in such works.
- 195 Recent funding announcements from the DfE included £565k towards provision of facilities to support Free School Meals. Officers are identifying areas of demand

where this grant could be applied; however the limited sum available will necessitate innovative approaches to its application.

- 196 In light of the latest funding confirmations from Transport for London the capital programme and associated revenue budgets have been refreshed accordingly to reflect the on-going level of work.

### **Proposed Additions to the General Fund Capital Programme**

- 197 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.
- 198 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.
- 199 An increase of £2,032k is recommended to reflect the level of demand for Urgent Building Condition Works at schools, which reflects increased levels of DfE funding which have now been confirmed for 2014/15.
- 200 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.
- 201 It is recommended that an additional £1,000k of funding is added to the existing Primary School Expansions programme to ensure that sufficient scope remains to manage any temporary accommodation requirements for intakes in 2014 and 2015.
- 202 In order to provide for the necessary equipment to expand free provision of Telecareline services to residents over the age of 80, a sum of £600k has been included in this capital programme. This project will be funded from the Department of Health Community Capacity grant.
- 203 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.
- 204 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.
- 205 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.

- 206 In addition improvements to the Rural Activity Garden Centre are included in this capital programme at £250k. In addition a further £200k has been added to the Vehicle Replacement programme to ensure the Council's fleet is sufficient to support service delivery.
- 207 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**

- 208 There are a number of areas where capital investment is planned but the specifics of the project are yet to be costed in detail.
- 209 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.
- 210 In December 2013 the DfE announced a further round of Basic Needs funding for school places, although Hillingdon was not awarded any grant funding. These awards were based on the forecast shortfall in places to 2016/17 and therefore failed to recognise the increased demand which will flow through into the secondary sector. In order to maintain the Council's proactive approach to school place planning, this capital programme includes both the full cost of this future demand and a prudent assumption around likely DfE funding levels - although on the current approach these grants will not be confirmed until a later date.
- 211 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.
- 212 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 on this site at a cost of £5,000k. Further work on costing both proposals will continue and be reflected in the Council's MTF as appropriate.

- 213 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 MTFE period.
- 214 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.
- 215 £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.
- 216 Also included is a sum of £1,000k 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.
- 217 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.
- 218 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**

- 219 £1,500k per annum has been set aside within General Contingency to manage any unforeseen risks emerging on existing projects and provide capacity to 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**

- 220 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.
- 221 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

222 This report contains recommendations to approve the draft capital programme as set out in Appendix 8a, delivery of which will require investment of £391,107k over the period to 2018/19 of which Prudential Borrowing and Government Grants are expected to form the most significant funding streams. The table below sets out a summary of this programme and the latest assumptions on the availability of external funding.

**Table 16: General Fund Capital Financing**

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	Total £'000
Main Programme	82,090	7,334	0	0	0	89,424
Programme of Works	18,763	14,465	14,582	9,818	9,318	66,946
Future Projects	17,479	73,388	106,085	28,185	2,100	227,237
Development & Risk Contingency	1,500	1,500	1,500	1,500	1,500	7,500
<b>Capital Expenditure</b>	<b>119,832</b>	<b>96,687</b>	<b>122,167</b>	<b>39,503</b>	<b>12,918</b>	<b>391,107</b>
Prudential Borrowing	-37,510	-39,321	-57,595	-11,801	-1,440	-147,667
Capital Receipts	-15,137	-12,730	-2,956	-386	0	-31,209
Community Infrastructure Levy	-5,000	-5,000	-5,000	-5,000	-5,000	-25,000
<b>Council Resources</b>	<b>-57,647</b>	<b>-57,051</b>	<b>-65,551</b>	<b>-17,187</b>	<b>-6,440</b>	<b>-203,876</b>
Government Grants	-51,731	-37,634	-55,839	-22,316	-6,478	-173,998
Other Contributions	-10,454	-2,002	-777	0	0	-13,233
<b>Capital Financing</b>	<b>-119,832</b>	<b>-96,687</b>	<b>-122,167</b>	<b>-39,503</b>	<b>-12,918</b>	<b>-391,107</b>

223 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.

224 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.

225 An annual award of £1,645k in support of Disabled Facilities Grants is included in the above assumptions, however from 2015/16 this funding will be rolled into the Better Care 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 Better Care Fund is contained in the Medium Term Agenda Section of this report.

226 A full schedule of current Government Grant forecasts is contained at Appendix 8c to this report.

- 227 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.
- 228 Following application of external funding, the residual sum to be financed from Council Resources is forecast to be £203,876k, of which £31,209k is expected to be met from Capital Receipts, £25,000k from the Community infrastructure Levy and £147,667k 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.
- 229 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.
- 230 The remaining sum of £147,667k to be sourced from Prudential Borrowing includes £54,100k for provision of the new amenities at St Andrew's Park and new Youth Centres, and the balance towards the primary and secondary school expansion programmes, for which specific provision to manage borrowing costs has been made within the MTFF.
- 231 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**

- 232 This draft budget includes an outline HRA capital programme for the MTFF 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.
- 233 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.
- 234 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.

- 235 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.
- 236 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.
- 237 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.
- 238 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 of 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.
- 239 Table 17 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 17: 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
<b>Capital Expenditure</b>	<b>23,125</b>	<b>23,969</b>	<b>24,653</b>	<b>30,998</b>	<b>33,196</b>	<b>135,941</b>
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
<b>HRA Resources</b>	<b>-23,125</b>	<b>-23,969</b>	<b>-24,653</b>	<b>-30,998</b>	<b>-33,196</b>	<b>-135,941</b>

- 240 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 116 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.

- 241 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.
- 242 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.
- 243 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 £4,889k, 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 18 below sets out forecast balances on the Major Repairs Reserve.

**Table 18: Major Repairs Reserve Forecast**

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
<b>Balance Brought Forward</b>	<b>1,123</b>	<b>8,773</b>	<b>5,751</b>	<b>7,304</b>	<b>7,907</b>	<b>6,141</b>
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	6,493	5,166	7,456	9,845	11,882
Reported Variance on Works to Stock	-2,761	0	0	0	0	0
Capital Programme Financing	-7,265	-21,170	-21,289	-21,616	-25,916	-27,452
<b>Balance Carried Forward</b>	<b>8,773</b>	<b>5,751</b>	<b>7,304</b>	<b>7,907</b>	<b>6,141</b>	<b>4,889</b>

## **OVERALL BUDGET FOR COUNCIL TAX SETTING 2014/15**

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

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

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

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

- The use of an established, rigorous process for developing the budget through the Medium Term Financial Forecast (MTFF) process. This includes close alignment with the service planning process. This has been further strengthened through the continued development of the Business Improvement Delivery programme.
- The inclusion within the base budget of a £24,738k Development and Risk contingency.
- Service managers having made reasonable assumptions about demand pressures and taken a prudent view of volatile areas.
- Risk based financial monitoring being undertaken during the year and reported to Cabinet on a monthly basis. This includes the agreement of recovery plans to ensure that the budget is delivered in overall terms.
- Procedures in place to capture and monitor procurement and other efficiency savings.
- Prudent assumptions made about interest rates.
- The recommended increases in fees and charges in line with the assumptions in the revenue budget.

246 The Corporate Director of Finance also has a duty to comment on the adequacy of the Council's reserves when the budget is being set. At the time of budget setting for 2013/14, the Corporate Director of Finance set a recommended range of balances. This was between £15m and £30m, based on an analysis of the risks facing the Council. The recommended range has been updated following a review of the risks facing the Council. This is set out in the next section.

### **Statement on Balances and Reserves**

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

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

249 To determine the recommended level of reserves the Council has assessed risk against the criteria as specified in Local Authority Accounting Panel (LAAP) Bulletin 77 (November 2008). This assessment includes the following:

- The robustness of the financial planning process (including the treatment of inflation and interest rates and the timing of capital receipts).
- How the Council manages demand led service pressures.
- The treatment of planned efficiency savings / productivity gains.
- The financial risks inherent in any major capital projects, outsourcing arrangements or significant new funding partnerships.
- The strength of the financial monitoring and reporting arrangements.
- Cashflow management and the need for short term borrowing.
- The availability of reserves, Government grants and other funds to deal with major contingencies and the adequacy of provisions.
- The general financial climate to which the Council is subject and its track record in budget and financial management.

250 The assessment, although based on the Council's procedures and structures, does have an element of subjectivity and to allow for this the optimum level of reserves incorporates a range. The recommended range for reserves for 2014/15 is £20,000k to £35,000k. Ideally the Council should avoid having balances below the minimum level of £20,000k, or above the maximum level of £35,000k. The current MTFF maintains balances within this range. Details of the risk assessment are included in Appendix 9.

251 The range of issues that impact on the need to hold balances and reserves has been reviewed since last year's budget setting process and the level of cover against each risk criteria refreshed, although in contrast to 2013/14 there has been no need to update the risk criteria. To take account of the increasingly challenging savings targets required to deliver a balanced budget over the medium-term and reflect the increased scope of the Council's capital programme, the level of balances held against these criteria has been increased, while the level of cover for demand-led pressures and contracting have been reduced to reflect improved forecasting and moves towards a category management approach. The net impact of these revisions is an upper limit for unallocated General Fund reserves of £30,000k for 2014/15.

252 A further £5,000k has been earmarked to smooth the impact of exceptional funding reductions forecast for 2015/16 and has therefore been included with the optimum level of reserves detailed in this report.

## **THE COUNCIL TAX REQUIREMENT FOR 2014/15**

253 The budget proposals included in this report represent Cabinet's budget strategy for 2014/15 and beyond. The revenue budget proposals have been developed to deliver a zero increase in Council Tax for the sixth successive year. The approved Council Tax level for 2014/15 is subject to Members' final choices in the budget setting process.

## Council Tax Referendum

- 254 The Localism Act 2011 introduced a power for the Secretary for Communities and Local Government to issue principles that define what should be considered as excessive Council Tax including proposed limits. If the Council proposes to raise its Council Tax above the proposed limits set, a referendum will need to be held. The result of the referendum will be binding upon the Council.
- 255 The Council Tax increase above which local authorities would be required to hold a referendum for 2014/5 as directed by the Secretary of State for Communities and Local Government will be announced on 12 February 2014. As the budget proposals outlined in this report maintain Council Tax at the same level as in 2013/14 it is unlikely that the referendum threshold would be triggered for the financial year 2014/15.

## Greater London Authority Precept

- 256 The Mayor of London's draft budget proposals for 2014/15 are scheduled for consideration by the London Assembly from 29 January 2014 and approval by 14 February 2014. The draft proposals result in a 1.3% decrease in the element of Council Tax that relates to the GLA precept. This is analysed across the relevant functional bodies as follows:

**Table 19: Change in Proposed GLA Precept by Functional Body**

Functional Body	Band 'D' Council Tax 2013/14 (£)	Band 'D' Council Tax 2014/15 (£)	Percentage Change (%)
Metropolitan Police Authority	220.25	218.88	-0.6
London Fire & Emergency Planning Authority	50.65	52.51	3.67
TFL	2.37	2.33	-1.7
GLA	29.73	25.28	-14.8
Share of Collection fund Surplus	0	0	
<b>Total</b>	<b>303.00</b>	<b>299.00</b>	<b>-1.3</b>

- 257 The largest element of the GLA Group's budget relates to the Metropolitan Police Authority and this aligns to the Mayor's primary responsibility in making London Safer. Whilst there is a reduction in the Metropolitan Police's budget requirement the Mayor is continuing to protect operational capacity and police numbers to be at or around 32,000 during his administration.
- 258 The GLA budget continues to include the budget and Council Tax implications of the Olympic and Paralympic games over the period 2006/07 - 2016/17. The contribution from Council Tax-payers to the Games remains at £20 per Band D property in 2014/15 unchanged from 2013/14 which is paid to the Olympic Delivery Authority until its abolition in 2014 and thereafter to its successor bodies.

## Financial Implications

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

## **4. EFFECT ON RESIDENTS, SERVICE USERS & COMMUNITIES**

### **What will be the effect of the recommendation?**

The budget proposals in this report result in no change in the Council Tax for 2014/15. The budget proposals contain the funding strategy for delivering the Council's objective. The effects are therefore extremely wide ranging. They will be managed through the performance targets and outcomes that will be delivered through the resources approved in the revenue budgets and capital programme.

The revenue budget and capital programme include growth in some new service areas and these proposals will result in improved outcomes for residents and service users. Overall the package of proposals is designed to secure the most effective combination of service outcomes across the whole of the Council's business. This will be by improving the value for money offered by services and by maximising funding, procurement, efficiency and service effectiveness gains.

### **Consultation Carried Out or Required**

Each of the Policy Overview Committees has received reports setting out the draft revenue budget and capital programme proposals relevant to their remit. This was approved by Cabinet on 19 December 2013 for consultation at the January 2014 round of meetings. Comments on the budget from each of the service Policy Overview Committees were referred to the Corporate Services and Partnerships Policy Overview Committee, who met on 4 February 2014 to consider the comments received from the three other Policy Overview Committees on the budget proposals relevant to their remit. The comments from that Committee will be presented to Cabinet in appendix 13.

The Council also has a statutory responsibility to consult on its budget proposals with business ratepayers and residents in the Borough. A budget consultation survey was published on the Council's web-site in relation to the Cabinet's draft budget proposals after the meeting on 19 December 2013. The results from those who responded indicated that 84% were satisfied with the budget and 77% agreed that it demonstrated good value-for-money. Only one local business submitted a response to the consultation.

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

## **5. CORPORATE IMPLICATIONS**

### **Corporate Finance**

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

### **Legal**

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

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

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

The second duty for Members to note is the duty imposed on the Corporate Director of Finance to comment on the adequacy of the Council's reserves. Members will note that a Statement of Reserves and Balances is contained within paragraphs 247 to 252 of the report which discharges this duty.

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

The 'Wednesbury reasonable' principle also requires a local authority, when making decisions, to take into account all relevant considerations and to disregard all irrelevant considerations. Clearly, in the context of budget-setting, having regard to the Corporate Director of Finance's professional advice is a relevant consideration for Members to take into account. However, Members are not bound to follow his advice. However, they should have good reasons for departing from it should they choose to do so. Furthermore, Members must at all times have regard to the overriding principle that they should set a legal budget and one which is as prudent as the circumstances permit.

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

### **Relevant Service Groups**

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

## **6. BACKGROUND PAPERS**

- Report to Cabinet 19 December 2013 – Medium Term Financial Forecast 2014/15 – 2017/18
- Report to Council 14 February 2013 – General Fund Revenue Budget, Housing Revenue Account and Capital Programme 2013/14
- Local Government Finance Settlement 2014/15 - will be published once announced on 12 February 2014.

### **Appendices**

Appendix 1 - GF: Corporate Summary

Appendix 2 - GF: Corporate Items

Appendix 3 - GF: Development and Risk Contingency

Appendix 4 - GF: Service Pressures

Appendix 5 - GF: Priority Growth proposals

Appendix 6 - GF: Savings

Appendix 7 - Housing Revenue Account

Appendix 8 - Capital programme

Appendix 9 - GF: Balances and Reserves.

Appendix 10 - Treasury Management Strategy Statement and Investment Strategy

Appendix 11 - Pay Policy Statement 2014/15

Appendix 12 - Fees and Charges

Appendix 13 - POC Comments on the budget proposals