THE COUNCIL'S BUDGET:
MEDIUM TERM FINANCIAL FORECAST 2015/16 – 2019/20

Cabinet Members	Councillor Ray Puddifoot MBE Councillor Jonathan Bianco
Cabinet Portfolios	Leader of the Council Finance, Property and Business Services
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Papers with report	Appendix 1 to 8 (detailed MTFF proposals)

HEADLINE INFORMATION

Purpose of report	This report sets out the Medium Term Financial Forecast (MTFF), which includes draft General Fund and Housing Revenue Account budget for 2015/16, along with indicative projections for the following four years. The revenue budget proposals have been developed to deliver a zero increase in Council Tax for the next year for all and the next five years (which will extend the freeze to twelve years) for the over 65's, as well as providing significant sums for priority growth initiatives, whilst maintaining balances and reserves well above the minimum recommended level.
Contribution to our plans and strategies	**Putting our Residents First***: Financial Management; Our People; Our Natural Environment; Our Built Environment.* The Medium Term Financial Forecast is the financial plan for the Council and contains the funding strategy for delivering the Council's objectives.
Financial Cost	Zero increase in Council tax for the seventh successive year.
Relevant Policy Overview Committee	Corporate Services and Partnerships Children, Young People's & Learning Residents' and Environmental Services Social Services, Housing and Public Health
Ward(s) affected	All

Recommendations overleaf...

RECOMMENDATIONS

That Cabinet:

1) **Approve the draft revenue General Fund and Housing Revenue Account budget and capital programme proposals for 2015/16 and beyond as the basis for consultation with Policy Overview Committees and other stakeholders.**
2) **Request the comments of individual Policy Overview Committees on the draft budget proposals relating to their areas of responsibility, to be collated into a single report back to Cabinet from the Corporate Services and Partnerships Policy Overview Committee.**
3) **Approve the proposed fees and charges, including HRA Dwelling Rents calculated under the DCLG rent restructure policy, included at Appendix 8, as the basis for consultation with Policy Overview Committees and other stakeholders.**
4) **To agree the full use of the DCLG rent restructuring policy within the Housing Revenue Account, including changing to formula rent at tenancy change for all properties where convergence has not been completed.**
5) **Authorise the Corporate Director of Finance, in consultation with the Leader of the Council, to respond on behalf of the Council to the consultation on the provisional Local Government Finance Settlement and to the Mayor of London's budget consultation.**
6) **Agree to recommend to Council for approval in January that the Council Tax Reduction Scheme, first approved by Council on 17 January 2013 continue for a further year during 2015/16.**

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 2015/16. This includes the impact on the Council Tax and housing rents and service charges.

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

If approved by Cabinet, these budget proposals will be presented to Policy Overview Committees and local residents for consultation before being presented to Cabinet in February 2015 for recommendation to full Council. Once approved by Council in February 2015 proposals will become effective immediately.

The Local Council Tax Reduction Scheme was approved by Council 17 January 2013 for an initial two year period until March 2015 to award localised Council Tax support for those residents who the Council considers to be in financial need. A review of the scheme has been undertaken which did not reveal any key issues requiring change and it is therefore proposed to maintain the current scheme, subject to slight drafting amendment for the financial year 2015/16. These amendments have been fully consulted upon. With the roll out of Universal Credit over the next year, substantial changes will be required to the scheme for 2016/17.

Alternative options considered / risk management

In order to comply with the Budget and Policy Framework, the Cabinet needs to publish a draft budget for consultation at this meeting. The Cabinet could, however, choose to vary the proposals set out in the report, with any amendments reflected in the papers consulted upon with Policy Overview Committees during January 2015.

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

Comments of Policy Overview Committee(s)

Following consideration at Cabinet, this report will form the basis of consultation with Policy Overview Committees during January 2015. Comments from the Policy Overview Committees will be reported back to Cabinet by the Corporate Services and Partnerships Policy Overview Committee when Cabinet meets on 12 February 2015. Cabinet will then agree a set of budget proposals for recommendation to the annual Council Tax setting meeting of full Council on 26 February 2015.

SUMMARY

This report contains the output from the latest comprehensive refresh of the 2015/16 revenue budget and medium term projections through to 2019/20. Proposals contained within this report will enable the Council to deliver a freeze in Council Tax for the seventh successive year for all residents and ninth year for the over 65's. This is a significant achievement in light of continuing funding cuts from central Government, equivalent to 13.8% in 2015/16 alone. Savings proposals have been developed to off-set this loss of Government funding, to manage changes in projected contingency requirements arising from demand led pressures and to provide for further priority growth.

In addition to the revenue budget, this report contains a comprehensive update on the Council's capital programme including the continuation of the Council's flagship school expansion programme to the end of the decade as well as details of a number of new proposals for capital investment.

A refreshed budget for the Housing Revenue Account is also included, containing the inflationary increase in rents of 2.2%.

Alongside work on 2015/16 budgets, development of a wider financial strategy covering the period to 2019/20 is underway, with a key driver being the maintenance of the Council's focus on 'putting our residents first'. A principal element of the strategy is the Council's response to continuing cuts in central Government funding, with a reduction of 8% per annum assumed, at this stage, to continue over each year of the MTFF period.

2015/16 BUDGET AND MEDIUM TERM FINANCIAL FORECAST

1. This is the first report to Cabinet on the budget for 2015/16. The report to Council in February 2014 identified the estimated savings requirement for 2015/16 as £20,284k. A planned £5,000k drawdown from balances, to smooth the impact of front-loaded funding

cuts, reduced the outstanding budget gap to £15,294k. Initial savings targets totalling £7,645k were allocated to individual groups and £7,649k was set against Corporate and Policy Items to manage this opening budget gap.

2. The Council continues to operate within the constraints of the Government's deficit reduction programme, which has seen a reduction of 37% (£58m) in central government funding since 2010/11 and all indications are that funding will continue to decline. As reported to Council in February 2014, indicative sums for 2015/16 have been published by Department for Communities and Local Government (DCLG) and indicate a further 13.8% reduction in that one year alone. When combined with the broad range of demographic and other service pressures impacting upon the Council's finances, this requires the Council to continue to identify savings and efficiencies to protect services to residents.

3. Since February, groups have been developing savings proposals sufficient to deliver targets and to manage any increased cost pressures within their services, alongside continuing to proactively manage delivery of savings from earlier years. In addition, a comprehensive review of the corporate elements of the budget has been undertaken, including funding, inflation and capital financing. During June and early July, and then again during September and October, a series of budget challenge sessions were held covering Administration, Finance, Residents Services, Adult Social Care, Children and Young People, the Capital Programme, the Housing Revenue Account and Corporate Budgets. Each session followed a similar format reviewing:

   - The 2013/14 outturn, particularly any ongoing issues arising.
   - The current position in 2014/15 - both monitoring and savings delivery.
   - Existing and emerging pressures which need to be addressed in the 2015/16 budget and forecasts for future years.
   - Progress on the development of savings proposals for 2015/16.
   - Identification of any potential growth or invest-to-save bids.
   - Capital programme requirements.

4. Alongside these budget challenge sessions, Finance Managers have been leading a number of reviews focused on understanding and simplifying the Council's base budget position in order to ensure that budgets are fully aligned with management responsibility and to improve transparency around the existing cost base. These reviews have removed a significant number of notional internal charges and centralised a number of externally-set levies, enabling operational managers to focus on controllable expenditure and accountants to reduce unnecessary reworking of data.

5. This report collates the output from work undertaken since February 2014 and presents a balanced draft budget for consideration by Cabinet in December and wider consultation during January, prior to the final budget for 2015/16 being approved by Cabinet and Council in February 2015. Alongside the 2015/16 position, this report also considers the financial outlook for the Medium Term which considers the likelihood of sustained reductions in funding over the period from 2016/17.

GENERAL FUND REVENUE BUDGET

Update on 2014/15 Budget

6. Development of the 2015/16 budget builds upon the 2014/15 budget and therefore the current monitoring position provides a useful context and manages many of the same challenges to be expected in the new financial year. In addition, progress towards delivery of existing savings targets is of vital importance in considering both the feasibility of future savings initiatives and the potential need to identify alternative measures where planned savings cannot be secured.

7. As at Month 7 an underspend of £2,638k is reported on normal General Fund activities, with no exceptional items identified to date. A net underspend of £1,249k is reported on Directorate Operating budgets, with an underspend of £289k on Development and Risk Contingency and a £1,100k underspend projected on capital financing costs. Variances within contingency relate to an improved outlook on Homelessness and Adult Social Care placements, the medium term impact of which are reflected in this draft budget for 2015/16. The following positions are reported on Directorate Operating Budgets:

    - Administration - an underspend of £328k is reported due to posts being held vacant in advance of restructuring and additional income within the legal service, both of which are included as savings proposals for 2015/16.
    - Finance - a net underspend of £305k is reported at Month 7 with strong performance on recovery of overpaid housing benefit and court costs, detailed in the savings section of this report, being off-set partially by transitional staffing costs.
    - Residents Services - an underspend of £454k is projected as a result of underlying pressures on parking income and facilities management being off-set by the cost reduction resulting from closure of the Victoria Road Civic Amenity Site and posts being held vacant across the group. While this cost reduction will be reflected in full in 2015/16 budgets, cost pressures are expected to be managed out - partially through on-going investment in car parks and contract savings on the outsourced facilities management operation. Within this position, a one-off pressure on the buyer's premium in respect of asset sales in 2014/15 is off-set by a range of one-off underspends across the group.
    - Children & Young People's Services - the reported pressure of £283k is primarily attributable to use of agency staff during the transition to a permanent establishment. This variance is expected to be transitional in nature and not impact upon 2015/16 budgets.
    - Adult Social Care - an underspend of £445k is reported at Month 7, with savings from vacant posts across the group off-setting difficulties in releasing cashable savings from a reduced transport requirement following the realignment of day centre provision.

8. Good progress is being made to date against delivery of the majority of the £16,491k savings included in the 2014/15 budget (£12,802k from 2014/15 and £3,689k brought forward from earlier years) with £13,407k either already banked or on track for delivery in full. The remaining £3,086k is currently tracked as amber, principally due to being in the early stages of delivery, including £1,637k of cross-cutting BID savings, £1,212k of Adult Social Care savings and £237k of Residents Services savings.

9. The reported underspend on capital financing costs is temporary in nature and reflects a combination of early ring-fencing on monies to support the Council's programme of school expansions and an improved outlook on grant funding in support of the same programme.

10. At 31 March 2014 General Fund Balances totalled £35,915k and with the projected underspend for 2014/15, are expected to reach £38,522k by 31 March 2015. Disregarding the £5,000k planned drawn down in 2015/16, uncommitted general balances would total £33,522k.

Budget Requirement 2015/16

11. The movement from the 2014/15 baseline to the 2015/16 budget requirement is summarised in the following table. Further details on each of the items accounting for this movement are expanded upon within the report.

Table 2: Budget Requirement

	£'000
Funding Sources	
Council Tax Receipts	104,196
Retained Business Rate Receipts	46,955
Central Government Grant	52,508
Total Resources	**203,659**
Budget Requirement 2014/15	212,188
Inflation	2,920
Corporate Items	(5,278)
Contingency	2,942
New Priority Growth	1,000
Savings	(10,113)
Budget Requirement 2015/16	**203,659**
Surplus / (Deficit)	**0**

12. Appendices 1 to 5 attached continue this presentation over the MTFF period, showing the cumulative impact of the trends in funding and service pressures and the resultant cumulative savings requirement, which is projected to reach £60,912k by 2019/20.

FUNDING SOURCES

13. Previously reported trends are set to continue into 2015/16 on the three principal funding streams - Council Tax rising to reflect a growing population; Business Rates increasing to reflect local economic growth; and Central Government Grant being cut to meet Government's deficit reduction targets. The net impact on these changes will result in an overall reduction of £8,529k in resources in 2015/16 from 2014/15 levels, providing funding sufficient to support a budget requirement of £203,659k.

Table 3: Funding

	2014/15 £'000	Increase / (Decrease) £'000	2015/16 £'000
Council Tax Precept	99,327	2,172	101,499
Council Tax Surplus	3,610	(913)	2,697
Retained Business Rate Receipts	45,172	2,283	47,455
Business Rate Deficit	0	(500)	(500)
Revenue Support Grant	52,006	(13,787)	38,219
Other Government Grant	12,073	2,216	14,289
Total Resources	**212,188**	**(8,529)**	**203,659**

14. While an overall reduction in funding of £8,529k is quoted above, it should be noted that £1,889k of the increase in other government grants relates to monies to manage new burdens under the Care Act and will therefore not be available to support existing services. Disregarding this sum the reduction in funding for existing services rises to £10,418k.

15. As a result of continuing cuts to central Government funding locally raised income is expected to account for 74% of corporate funding in 2015/16 (69% in 2014/15).

Council Tax Income

16. Residential development within the Borough is continuing, with current projections for growth in the Council Tax Base remaining unchanged from the position reported to Cabinet and Council in February 2014 with an additional 1,500 Band D properties expected to be added to the base. Collection rates continue to outperform budget assumptions following the introduction of the local Council Tax Reduction Scheme securing revenues equivalent to a further 452 Band D properties. The combined impact of these movements is an increase in gross Council Tax Revenues of £2,172k from 2014/15, bringing total revenues to £101,499k.

17. This draft budget maintains the freeze on Council Tax into a seventh year for all households, with the Hillingdon element on a Band D property remaining fixed at £1,112.93 in 2015/16. Funding set aside in 2013/14 remains sufficient to maintain the discounted Council Tax for over 65s to 2018/19, maintaining the freeze for those households since 2008.

18. As announced by the Chancellor of the Exchequer in Spending Round 2013, Council Tax Freeze Grants will be available to those authorities, including Hillingdon, who do not increase Council Tax. The current budget assumes that the Council will receive funding of £1,168k for 2015/16 and 2016/17, equivalent to a 1% increase in Council Tax; however the precise mechanics of the grant will likely not be confirmed until early 2015.

19. Council Tax income of £101,499k includes provision to maintain the existing Council Tax Support scheme during 2015/16, with the numbers of eligible claimants expected to remain consistent at a cost of 13,247 Band D Equivalent households. Central Government funding for the scheme is contained within the Revenue Support Grant and for 2015/16 remains sufficient to fund the Council's current scheme.

20. A surplus of £2,697k is projected on the Council Tax Collection Fund at 31 March 2015, which will be released to the General Fund in 2015/16. This surplus includes the confirmed £797k surplus secured in 2013/14, and an expected £1,900k in-year surplus attributable to overachievement of current income targets and strong collection rates. When added to the

in-year receipts of £101,499k referred to above this results in total Council Tax income of £104,196k.

Business Rate Income

21. Continued strong growth in the Business Rate Base is projected for 2015/16, with development of major sites across the Borough beginning and the full-year effect of Heathrow Terminal 2 expected to be more than sufficient to offset the underlying trend of falling rateable value seen since 2010. Current indications are that this decline is principally attributable to revaluations following appeals, for which provision has been made in this draft budget.

22. Under the Business Rate Retention system, the Council retains only 15% of any growth above a government determined baseline level which is projected to equate to £4,597k in 2015/16, representing an increase of £1,480k of retained growth for 2014/15. Baseline Business Rate income is expected to rise by approximately 2% in line with the liability of local businesses to provide £42,858k of funding for 2015/16, bringing total retained income to £47,455k.

23. In addition to the substantial topslice on growth, the annual inflationary uplift in Business Rates is payable in full to Central Government and is not available to support local services. For 2015/16 this increased cost to local businesses will be capped at 2%, rather than increasing in line with the Retail Prices Index, as confirmed by the Chancellor of the Exchequer in the 2014 Autumn Statement.

24. There remains a level of risk associated with back-dated appeal losses within the partially-localised Business Rates Retention system; however, it is expected that sufficient provision is available within current growth projections to manage the 899 appeals outstanding with the Valuation Office Agency at the end of quarter 2, 30 September 2014.

25. A second key risk to this income stream relates to the continuing high level of vacant property relief being granted; however, increased investment in the Council's Corporate Fraud Team agreed in February 2014 is expected to enable this to be proactively managed.

26. A deficit of £500k is projected on the Business Rate Collection Fund at 31 March 2015, with the continuing high level of vacant properties and a number of issues in relation to Heathrow Airport adversely impacting upon revenues in the current financial year. Although these issues are to be managed in the medium term through use of the Council's new rating advisors, this deficit will reduce retained Business Rate income for 2015/16 to £46,955k.

Central Government Grant

27. Since 2010, the Government's wide-ranging deficit reduction programme has particularly impacted upon the local government sector, with headline reductions in the Local Government Departmental Expenditure Limit exceeding 35%. This is set to continue over the medium term. While the level of funding available continues to fall, further pressure is being placed upon the Council's budgets as an additional £800m funding will be top-sliced in 2015/16 to support new Government initiatives including the Troubled Families Programme and issues relating to the Care Act.

28. In December 2013 the Council received an indication of likely 'formula' funding levels (which includes Revenue Support Grant and Baseline Business Rate Income) alongside the 2014/15 Local Government Finance Settlement, which shows a reduction of £13,787k

(13.8%) in 2015/16, reducing the Revenue Support Grant to £38,219k. This level of cut is consistent with local modelling and, with no changes to Local Government funding in the December 2014 Autumn Statement, only marginal movement in this figure is expected.

29. Hillingdon continues to experience lower percentage cuts in funding than the majority of London boroughs as a result of historic make up of its formula funding. As a relatively more affluent borough, Hillingdon receives more funding through so-called rolled in grants, such as the former Early Intervention Grant, which have been protected at 2013/14 levels. Although the Council is a relative outlier within London, Hillingdon's funding make-up is closely aligned to the national average for England.

30. Funding in respect of residual Local Education Authority functions continues to be delivered through the Education Services Grant, with income of £2,808k projected for 2015/16. This represents a reduction of £492k, reflecting the 20% cut in funding rates announced by the Department for Education in Summer 2014 marginally offset by the growth in pupil numbers of approximately 2% per annum. Given the limited number of pending or potential Academy conversions, which would further reduce the grant award, the £459k earmarked reserve for such transfers is being released to smooth the impact of these further unexpected Government cuts.

31. It should be noted that this cut in funding rates further exacerbates the disparity in funding levels for maintained schools and Academies within the Education Services Grant, with significant protections built into the £140 per pupil Academy rate against £87 in the maintained sector. As Government's stated intention is to align these two rates there appears to be limited scope for further cuts in the maintained rate and therefore the Council's funding without further consideration of statutory duties falling upon Local Education Authorities.

32. Specific grant funding for the administration of Housing Benefit and Council Tax Support will continue in 2015/16, with provisional allocations being £1,311k and £316k respectively, representing a 10% 'efficiency' savings on 2014/15 funding levels. This level of funding reflects the transfer of anti-fraud functions to the Department for Work and Pensions, however, it is expected that the new Corporate Fraud Grant announced in 2013 will compensate for this loss and enable the Council to focus anti-fraud activity on local issues.

33. The introduction of the Better Care Fund is expected to increase resources available to the Council to support a sustainable health and social care system, providing better quality care and improved outcomes for health. A total of £17,991k is available for Hillingdon from the national pooled budget of £3,800m; however it should be noted that this replaces a range of existing funding streams for both the Council and local Clinical Commissioning Group (CCG). The Better Care Fund plan to be submitted to the Department of Health in January 2015 sets out the elements of this funding, with £10,032k in support of CCG commissioned activity and £7,959k to protect Social Care. The Council share is made up of £4,772k to replace the former Section 256 Agreement in support of Social Care; £612k revenue and £226k capital funds passported to the Council for new burdens funding to meet the costs associated with implementation of the Care Act; and £2,349k of capital funds to support investment in Disabled Facilities Grants and other Social Care priorities. Application of capital funding is detailed elsewhere in this report. The total revenue funding for Council health commissioned services included in this draft revenue budget total £5,384k. The MTFF strategy also has a £1,000k contingency against funding risks and other pressures within Health and Social Care.

34. The Care Act 2014 introduces significant changes to Adult Social Care funding arrangements which include the introduction of a number of new duties that the Council will need to implement prior to 1 April 2016. The Department of Health have recently completed a consultation exercise on new burdens funding, which indicates an additional grant of £1,277k to meet the costs of introducing deferred payments and assessing carers for their own needs will be available over and above monies within the Better Care Fund.

35. £503k of this indicative funding is intended to support implementation of a deferred payments scheme, however, this funding may be targeted towards those authorities without existing schemes and therefore may adversely impact upon Hillingdon's grant award. Latest projections for costs arising from the Care Act are set out under Corporate Items below.

36. In addition to the specific grants noted above, there are a number of small corporately managed grants which are expected to total £337k in 2015/16 and are detailed in Appendix 1a. Income in respect of the New Homes Bonus grant is projected to total £8,327k for 2015/16 and is managed within Residents Services budgets. This represents a marginal reduction of £160k on projections reported in February 2014 due to the timing of completion on a number of sites; however, it is expected that this position will be recovered in the medium term.

BALANCES AND RESERVES

37. The Council's Balances and Reserves Policy, which sets the minimum unallocated General Fund Balance at £15,000k, is maintained to manage a broad range of risks. This minimum balance was increased in 2013/14 to take account of new responsibilities transferring to the Council, no further changes to this limit are recommended at this time. However as the full implications of the Care Act and Better Care Fund become apparent it may be necessary to reconsider this minimum balance.

38. Unallocated balances are projected to remain well above the minimum balance, reaching £38,552k by 31 March 2015. However, given the likelihood of not all contingency and priority growth provision being committed over the remainder of the year actual balances could be higher than this sum. In addition, the Council has earmarked balances of around £20m going into the current financial year and although some is likely to be drawn down this year, and with £730k contributing towards this draft budget, substantial earmarked balances will still be carried forward at the end of 2014/15. Within these earmarked balances, provision is being set aside to support Abbotsfield School by writing off legacy loan balances and ensuring that it is financially secure going forward.

39. The current MTFF strategy assumes £5,000k of balances will be drawn down in 2015/16 to smooth the impact of front-loaded funding cuts. It should be possible to use further balances over the £30,000k upper limit and/or earmarked balances to further smooth the impact of future cuts. As such, the provisional MTFF strategy for 2016/17 onwards assumes further allocations from balances of £3m, £2m and £1m drawn down over a 3 year period to further smooth the impact of funding cuts. These can be revised in light of actual balances and actual funding cuts that materialise over this period.

INFLATION

40. This draft budget contains provision of £2,920k towards inflationary cost pressures, although it should be noted that the Council's general funding streams are not currently linked to inflation and this provision is wholly funded from savings outlined elsewhere in the report. In a number of areas, including Public Health and Asylum, it is assumed that inflationary cost pressures will be managed within available grant monies and therefore not present as a pressure on the General Fund. The inflation provision is based on a range of assumptions and projections, which are outlined below.

Table 4: Inflation

	Rate	£'000
Employees' Pay (including Pension Contributions)	2.00%	2,130
Electricity	5.00%	102
Gas	5.00%	24
Vehicle Fuel	5.00%	51
Contracted Expenditure	Various	117
Care Placements	0.50%	388
Business Rates	2.00%	53
Levies	Various	257
Gross Inflation Provision		**3,122**
Less: Grant Funded Items	N/A	(202)
Net Inflation Provision		**2,920**

41. This draft budget reflects the 2.2% inflationary uplift in employees' pay from January 2015 agreed by the Local Government Association and unions in November 2014, with 1% of the increase already funded in 2014/15 and the remaining 1.2% included at a cost of £1,278k. Employer's pension contribution rates in respect of the Hillingdon Fund of the Local Government Pension Scheme are set to rise by 1% to 22.1% in 2015/16, which will increase payroll costs for the 80% of employees in the scheme, accounting for a further 0.8% increase in salary expenditure. On the basis of the agreed pay award, the net cost of these inflationary uplifts is expected to be £2,130k.

42. Provision for inflation on energy and fuel costs totalling £177k is included in this draft budget, with electricity, gas and fuel budgets increased in line with Department for Energy and Climate Change projections and reflecting local procurement activity in these areas. Given the potentially volatile nature of costs in these areas, forecasts will be refreshed throughout the budget process to reflect latest intelligence.

43. A sum of £117k has been set aside to fund inflationary cost pressures on a number of externally contracted services, which are linked to the Retail Prices Index and Consumer Prices Index. At present, it is assumed the former will increase by 2.0% between 2014/15 and 2015/16 as rates rise from their current low point, however, this will position will remain under review. Outside these major contracts, it is assumed that effective procurement and contract management will contain the remainder of any inflationary pressure within existing budgets for the Council's £38,000k externally contracted services.

44. In addition, specific provision of £388k has been set aside to manage the impact of 0.5% uplift in the cost of Social Care placements with external providers. The unit cost of such placements has been frozen in headline terms since 2011/12 with limited increases seen

during 2014/15. Given general market conditions, an increase may be unavoidable for 2015/16. Over and above this inflationary allowance, projected cost increases associated with a growing population and savings linked to reducing demand for residential care placements are detailed elsewhere in this report.

45. Provision of £53k is included to fund the 2.0% increase in Business Rates on Council property in 2015/16 in line with the retention of the 2.0% cap announced in December's Autumn Statement.

46. It has been assumed, in line with recent experience, that all levies other than those for Concessionary Fares and the London Traffic Control System will be not be subject to inflationary increase and that any minor changes to amounts payable due to relative changes in Hillingdon's Council Tax base will be managed within existing budgets. Provision of £257k has been included to fund inflationary increases within the levies budget, the majority of which relates to the £8,553k Concessionary Fares Levy which will likely be confirmed during December 2014.

CORPORATE ITEMS

47. There are a range of issues impacting upon the Council's overall budget and therefore managed corporately, including the implications associated with new burdens transferring to the Council, revenue implications of capital investment and the application of balances. Further details on these items included in the 2015/16 budget are explained below.

Table 5: Corporate Items

	£'000
New Burdens associated with the Care Act	1,889
Adjustments to Funding, Financing & Corporate Budgets	
New Homes Bonus Topslice to fund Local Enterprise Partnership	105
Increase in Council Tax Older People's Discount	10
Drawdown from Earmarked Reserves to finance Older People's Discount	(10)
Rephasing of Capital Financing Costs	(250)
Savings Earmarked for Future Capital Investment	(442)
Review of Minimum Revenue Provision	(600)
Drawdown from General Balances	(5,000)
Drawdown from Earmarked Reserves	(730)
Overhead costs chargeable to the Housing Revenue Account	(250)
Total Corporate Items	**(5,278)**

48. From 2015/16 the Council will take on additional responsibilities within Adult Social Care as a result of the 2014 Care Act, with a corresponding increase in funding detailed in the Government Grants section of this report. The Council will be required to introduce the option of deferred payment for those individuals who face having to sell their home to pay their care home fees; undertake additional assessments for eligibility; provide advice and information to all clients irrespective of how their care is paid for; and ensure there is a wide range of care and support services available that enable local people to choose the care and

support they want. From April 2016 the cap on costs, to be set at £72k, is to be introduced to meet eligible needs for care.

49. While early local modelling suggesting that such costs can be contained within the £1,889k revenue resources available through the Better Care Fund and specific Department of Health grant funding, work will continue to refine projections. Given the level of uncertainty around both funding and the cost of rolling out a new service and broader care pressures, a separate contingency of £1,000k has been retained to manage the risk of any funding shortfall or increased cost pressure.

50. The Council, along with other London boroughs, is required to contribute £70,000k to the London Local Enterprise Partnership in 2015/16 from a topslice to their New Homes Bonus income in order to support the Local Growth Fund. While the level of topslice will be dependent upon final grant awards for 2015/16, current indications are that Hillingdon's share will total £2,450k. The Council's bids totalling £5,147k in relation to schemes meeting the criteria were submitted to the Local Enterprise Partnership on 29 October 2014. If successful this will mitigate the direct impact of the topslice.

51. Given that the majority of these bids are capital in nature and that the objectives of the fund are driven by long term investment in the local economy, it is expected that the majority of this topslice will be met from capital resources and the residual revenue impact of £210k profiled over 2015/16 and 2016/17. It should be noted that this topslice is expected to be one off in nature and that the Council will retain its full New Homes Bonus allocation from 2016/17 onwards.

52. The marginal increase in the cost of the Council Tax Older People's Discount due to demographic growth is projected to be £10k, which will be funded in full from the Earmarked Reserve established in 2013/14. Current balances within this earmarked reserve are sufficient to support the scheme until 2018/19.

53. Provision for financing costs remains sufficient over the MTFF period to support the existing capital investment programme, however, it is appearing increasingly likely that new physical borrowing can be deferred until 2016/17 at the earliest, enabling the further rephasing of capital budget as detailed in the Month 7 monitoring position. The net impact of this realignment is a £250k reduction in cost for 2015/16.

54. In addition to the rephasing of borrowing, there is scope to review the Council's annual provision for the repayment of debt, thereby ensuring that costs are spread over the full lives of assets purchased. It is expected that this review will secure a £600k reduction in annual costs from 2015/16, rising to £1,000k from 2016/17.

55. Following a review of charging policies for the appropriated garage stock, from the HRA to the General Fund, and a programme of investment to reduce the 43% of units currently vacant, the potential additional £442k rental income per annum will be ring-fenced to fund financing costs of the St Andrew's Park Theatre.

56. As set out in the February budget report a drawdown of £5,000k from General Balances, principally funded from the 2013/14 underspend, is included in this draft budget to smooth the impact of front-loaded funding cuts. This use of balances to smooth savings targets over the MTFF period will allow sufficient time to implement savings proposals and avoid unnecessary risk associated with front-loaded savings requirements. A further £730k is

being drawn down from earmarked reserves to support Priority Growth initiatives outlined below.

57. In addition, a further £250k being released as a result of a reduction in management overheads being borne by the General Fund reflects increased activity in a number of service areas, including counter-fraud activity, which benefits tenants through the Housing Revenue Account.

DEVELOPMENT & RISK CONTINGENCY / SERVICE PRESSURES

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

59. Work has been completed to fully refresh projections for all contingency items and initial reviews have reduced the demand on a number of significant contingency items. The budget approved in February 2014 assumed a net increase of £2,898k would be required, which has since been revised marginally upwards by £56k to £2,942k. In addition, a sum of £17,756k has been released to Directorate Operating budgets to reflect those areas where demand is more certain and should therefore be provided for within base budget.

Table 6: Development & Risk Contingency

	£'000
2014/15 Contingency Budget	24,738
Releases to Operating Budgets	(17,756)
Increase to Contingency Requirement	2,942
2015/16 Contingency Budget	**9,924**

60. Within this net movement, increases to contingency requirements include £1,914k of items linked to demographic changes, £2,293k in relation to Government policy, £615k reduction due to local management of risk and a further £650k from items no longer being provided for in contingency. Growth in Council Tax revenues from increased population noted earlier in this report is expected to total £1,669k, thereby providing a mechanism for supporting an element of growth in demand for services in the short-term. Adverse movements in relation to Government policy includes £1,000k against Social Care and Health funding risks and the incremental increase in landfill tax on waste disposal costs.

61. Appendix 3 to this report provides a breakdown of the draft Development and Risk Contingency for 2015/16, with an explanation of key assumptions and risk factors on each item set out below:

- **Uninsured Claims (£400k - no change from 2014/15)** - Provision of £400k is contained within this draft budget to supplement the existing £359k base budget for uninsured claims. Actual experience in 2013/14 exceeded the available budget and contingency by £137k, which was met from the significant earmarked balances (currently £1,063k), held to manage insurance risk over and above this contingency sum. Latest projections for 2014/15 suggest that claims will exceed budget and contingency by approximately £20k, to be met from these earmarked balances. Given recent experience it is likely that the requirement for 2015/16 will be at least £400k.

- **Carbon Reduction Commitment (£236k - £4k reduction from 2014/15)** - A sum of £236k is included within the Development and Risk Contingency to meet the projected cost of carbon allowances for energy used in 2015/16. This level of contingency assumes that the Council manages down demand for energy to mitigate the increase RPI uplift in tonnage tariffs from £15.60 per tonne.

- **Impact of Welfare Reform on Homelessness (£1,836k - £308k reduction from 2014/15)** - As the Council's measures to increase supply and affordability of temporary accommodation available to manage homelessness come into effect, the resulting gross pressure and contingency requirement is projected to fall by £208k to £1,936k in 2015/16 (an adverse movement of £342k on the position reported in February 2014, as a result of continuing demand for the service and reliance on Bed and Breakfast accommodation). Work continues to manage down this cost, with the new framework rates for Bed and Breakfast accommodation across London expected to enable this pressure to be managed down by £100k to the £1,836k provided for in this draft budget.

- **Special Educational Needs Transport (£469k - £240k increase from 2014/15)** - There has been no change in projections for SEN Transport from the position outlined in February 2014, with provision of £469k included in this draft budget. A comprehensive refresh of this position has been completed following on the basis of pupil numbers and required routes from September 2014. The cost of this service is projected to grow at 4% per annum, with a combination of growing population, more complex needs and related growth in more costly out-of-borough routes being only partially mitigated by the range of measures implemented following the recent BID review into this area.

- **Waste Disposal Levy (£2,211k - £1,400k increase from 2014/15)** - Population growth within the Borough will continue to place an upward pressure on the cost of waste disposal with a 2.5% increase in waste tonnages projected for 2015/16, accounting for an element of this projected increase. In addition to this demographic pressure, a 10% increase in the landfill tax from £80 in 2014/15 to £88 per tonne is expected to account for £1,160k of this increased contingency requirement. Alongside waste tonnages routes through the West London Waste Authority, the Council continues to divert waste through alternative disposal contracts where this offers better Value for Money. In addition to the £1,160k growth in costs noted above, a potential increase of £240k in the cost of disposal through the locally managed contract is included in this draft budget.

- **Asylum Funding Shortfall (£1,272k - £14k increase from 2014/15)** - The Home Office is reviewing the level of funding for 2015/16 to reflect a national fall in the number of Asylum Seeking Children that require support. The service is also undertaking a review, seeking to reduce the current cost of the Asylum service including establishment costs, which indicates that a £1,272k shortfall would need to be funded through Development and Risk Contingency, with measures such as the vacation of Weir House offsetting the loss of £200k of one-off grant monies secured for 2013/14 and 2014/15. There continues to be a level of uncertainty around future Home Officer funding and this draft budget assumes that further reduction in funding will be managed within Asylum services and not be offset by cuts to core Council services.

- **Children's Social Care Demographic Pressure (£465k - £465k increase from 2014/15)** - Projected costs for the provision of Children's Social Care are expected to rise in line with the growing population in the Borough, with an increase in Looked after Children cost of £299k due to 2.1% population growth in 2015/16. In addition to this underlying growth, there are two other factors driving this increased contingency requirement - with Government extending the upper age limit for foster care placements from 18 to 21 adding £66k to costs and an additional £100k included in this forecast in respect of Secure/Remand accommodation.

- **Early Support Cost Avoidance (New - £117k reduction from 2014/15)** - Implementation of the new Early Support structure within Children and Young People's Services is expected to reduce both the number of children being referred and those requiring more intensive Social Care interventions. The expected cost reduction has been estimated through a locally developed model, with the financial impact primarily arising from a reduced number of re-referrals.

- **Adult Social Care Demographic Pressures (£129k - £129k increase from 2014/15)** - Regular reviews of current Adult Social Care commitments have been performed over the past twelve months to build up a clear view of the underlying demand for and cost of providing care placements. From this baseline position, financial modelling has been undertaken which indicates that contingency of £129k over and above base budgets will be required to fund placement costs, representing growth of £129k from 2014/15.

- **Transitional Children (£380k - £380k increase from 2014/15)** - The latest projections for children transitioning into Adult Social Care indicate a contingency requirement of £380k, with 44 children identified for 2015/16. This estimate has been derived on the basis that the service can manage down the cost of care upon transition by 6%, taking account of experience in recent cohorts of children.

- **Winterborne View Report (New - £393k increase from 2014/15) -** The transfer of financial responsibility for a number of clients from National Health Service to the Council following the recommendations of the report into Winterborne View is expected to result in £393k pressure on the Council's budgets from 2015/16. To date four clients have transferred, with a further eleven having been assessed and expected to transfer between 2015/16 and 2017/18. As these placements reflect Continuing Health Care needs of clients, it is expected that 50% of the gross cost will be borne by Hillingdon Clinical Commissioning Group and this has been reflected in the £393k pressure.

- **Potential Shortfall in Social Care and Health New Burdens Funding (New - £1,000k increase from 2014/15)** - Given the residual uncertainty around financial impacts of the Better Care Fund and broader issues associated with Social Care costs noted above, this draft budget includes £1,000k provision within Development and Risk Contingency to mange any potential shortfall in funding or unavoidable service pressure in these areas.

- **BID (£250k, £250k reduction from 2014/15)** - A sum of £250k is retained in this budget to support the Council's Business Improvement Delivery programme and pump prime work required to deliver savings proposals contained within this budget.

- **General Contingency (£1,000k, no movement from 2014/15)** - This draft budget contains £1,000k General Contingency to manage unforeseen risks and pressures, no change from 2014/15.

62. Specific provision for challenges to High Speed 2 and Heathrow Expansion totalling £400k were included in the 2014/15 Development and Risk Contingency, however, these are not required in 2015/16 as there is sufficient capacity with the specific earmarked reserve, which currently totals £510k, to manage 2015/16 expenditure in these areas.

63. In addition to specific risk items being managed through the Development and Risk Contingency, there are a number of other issues being closely monitored across the Council's budget and subject to management action to avoid these issues becoming unavoidable pressures impacting on the base budget requirement.

- The recurrent pressure reported on the Parking Revenue Account is expected to continue into 2015/16 with a gross risk of up to £485k, due to changes to Government policy on use of CCTV in parking enforcement and an expected reduction in enforcement income following completion of improvements to Hayes Town Centre. Action needs to be taken to ensure that the ongoing shortfall is addressed within the PRA otherwise this will fall as a pressure on the General Fund.

- An additional pressure of up to £240k per annum is reported on off-street parking revenues, principally attributable to Uxbridge Town Centre car parks. However, with the opening of a new flagship store in the Pavillions Shopping Centre and Council-funded investment outlined in the capital section of this report it would be expected to increase usage and potentially revenues.

- The abolition of the Department of Work and Pensions' Independent Living Fund will see additional responsibilities transfer to the Council. Current indications are that expected new burdens funding of £260k will be sufficient to the financial impact of this transfer in 2015/16, with the on-going level of Government support likely to be determined during 2015.

PRIORITY GROWTH

64. This draft budget includes provision of £2,452k of Priority Growth, including £1,452k of brought forward uncommitted monies and £1,000k increase planned for 2015/16. A range of initiatives totalling £1,648k are detailed below, leaving a balance of £804k to support further investment during 2015/16. An element of growth monies is earmarked from 2016/17 to support expanded Youth Centre provision, leaving £384k available to fund ongoing commitments.

Table 7: Priority Growth

	£'000
Available Priority Growth	2,452
Additional Primary School Expansions Capital Funding	(750)
Additional Ward Budget Funding	(440)
Support for Police Tasking Team (Full Year Effect)	(62)
Rogue Landlord Taskforce	(130)
Adult Education ICT Investment	(97)
Ruislip Lido - Peak Season Support	(24)
Development Control Officer	(55)
Defibrillators for Schools	(90)
Remaining Priority Growth	**804**

65. A further £750k of growth is allocated to capital financing budgets to support the Council's investment in Primary School Expansions, with a further £1,700k set aside from 2017/18 to

support subsequent Secondary School Expansions. This will bring total revenue provision for this programme to £6,700k per annum.

66. £440k is provided to support a continuation of the Ward Budget Scheme, providing a sum of £22,000 for investment in each ward.

67. An additional £62k growth to fund the Police Tasking Team is included in this budget, representing the full year effect of monies included in the 2014/15 budget and bringing this funding to £134k per annum.

68. £130k Priority Growth is included in this budget to provide increase investment in tackling Rogue Landlords and Beds in Sheds across the Borough.

69. An additional £97k is to be provided in support of new ICT Infrastructure at the Council's Adult Education Centres.

70. In order to ensure that the benefits of recent investment in the Ruislip Lido site are maximised, £24k is being earmarked to fund additional staffing in the peak season.

71. Following introduction of the Prior Approvals system in May 2013 there has been a sustained growth in the number of planning applications lodged by residents. Funding of £55k per annum is therefore proposed to provide capacity in the team to manage these applications.

72. In addition to the growth items outlined above, proposals are in development to install defibrillators in all the Borough's schools at an estimated cost of around £90k.

SAVINGS

73. The savings proposals contained within this draft budget have been developed by services through the HIP Business Improvement Delivery Programme (BID), the Council's programme to transform all services, review all working practices and enable delivery of savings in response to Central Government's austerity programme. In February 2014 the General Fund Savings Requirement for 2015/16 totalled £15,294k after allowing for the £5,000k drawdown from balances to smooth the impact of funding cuts. £7,645k of this sum was allocated to services, with £7,649k to be delivered through Corporate and Policy Items.

74. As explained above, progress on 2015/16 budget development to date has adjusted the overall savings requirement through corresponding movements in funding, inflation and demographic cost pressures, while group savings targets have remained the same. Work is ongoing to fully develop savings proposals and to reflect further savings.

Group Savings

75. Included in the 2015/16 budget is £3,234k of full year effects of prior year savings for each of the groups, £6,774k of savings within group budgets and £105k in relation to the recovery of top-sliced New Homes Bonus monies, totalling £10,113k. The following sections focus on the development of new savings proposals, noting where initiatives have reduced pressures discussed elsewhere in this report

Table 8: Group Savings

	Initial Savings Target £'000	New Savings Proposals £'000	Cont. & Corporate Changes £'000	Variation on target £'000
Administration	(264)	(317)	0	53
Finance	(543)	(926)	(20)	403
Residents Services	(3,145)	(3,041)	50	(154)
Children & Young People's Services	(1,048)	(907)	(244)	103
Adult Social Care	(2,645)	(1,583)	(684)	(378)
2015/16 Group Savings Proposals	**(7,645)**	**(6,774)**	**(898)**	**27**

Administration

76. The Administration Group has identified £317k of new savings proposals, exceeding the £264k target allocated to the group in March 2014 by £53k. Proposals identified within Administration are primarily based on identifying more efficient approaches to meeting existing service levels and generation of additional income. Further detail on all proposals is set out within Appendix 5a.

77. The most significant proposal relates to increased legal fees on Section 106/CIL and other planning agreements which is expected to secure £140k. Restructuring proposals within Human Resources and an increase service offer in registrars make up a further £74k of proposals in the Group, with the remainder of proposals expanded upon in the appendix.

Finance

78. Within the Finance Group, new proposals totalling £946k have been identified towards the 2015/16 savings target of £543k, representing an overachievement of £403k. Proposed savings totalling £926k are principally secured from efficiencies and improved processes within the Revenues and Benefits Service, alongside restructures elsewhere in the Group, with an additional £20k reduction in insurance costs. Full details on progress to date on all Finance saving proposals are set out in Appendix 5b.

79. Significant improvements in the management of Housing Benefit since its transfer into the Group has reduced risk around Local Authority Error in the subsidy claim, which would allow the annual £200k provision for loss of subsidy due to high error rates to be released. Improved processes around collection of court costs in relation to Council Tax arrears will secure £125k per annum. The re-tendering of both the Revenues and Benefits Administration Contract and Council's Banking Contract will secure savings of £261k and £47k respectively, with the full year effect of the former rising to £760k p.a. or 41% of the contract sum by 2019/20. Additionally, proposed restructures within Internal Audit, Procurement and Revenues & Benefits contribute a further £151k towards delivery of the savings target while a review of other budgets has secured a further £142k.

Residents Services

80. Residents Services have identified new savings proposals totalling £3,041k, which along with £442k additional rental income from appropriated garages to be ring-fenced to fund financing costs of the St Andrew's Park Theatre and impact of additional counter-Fraud being under taken in support of the Housing Revenue Account, exceeds the £3,145k initial savings target for the group. Current proposals have been focused on the significant

revenue streams managed within Residents Services, alongside a range of efficiency proposals intended to reduce the Council's cost base while maintaining standards of service delivery to residents.

81. A proposed review of Fees and Charges across the group is expected to secure £150k through non-routine charges such as bereavement services, while reviews into budgeting for existing income such as commercial properties and development control could release a further £180k. Efficiencies of £50k in 2015/16, rising to £250k by 2017/18, are to be secured from consolidation of facilities management operations for corporate and housing estates. A review of residual Education budgets has identified a further £240k of savings arising from the Council's reduced role in the sector and efficiencies.

82. Reviews of the Highways operation, energy usage and further ICT rationalisation are to secure another £220k. Proposals in relation to the outcome of zero-based reviews across the group are expected to contribute £375k towards delivery of the savings target, while the budgetary impact of West London Waste Authority's closure of the Victoria Road Civic Amenity site would release £406k.

83. The centralisation of technical administration and business support functions for resident facing directorates into Residents Services has resulted in a proposal to further rationalise the service and release £284k savings. Further reviews of middle management across the group and the performance service are expected to secure an additional £506k in efficiencies.

Adult Social Care

84. Work on development of savings within Adult Social Care has identified £1,583k of new proposals against the £2,645k original target, with a further £684k secured through managing down contingency provisions through better preventative work. Proposals are focused on the effective commissioning of care, including a fundamental review of existing contracts alongside zero based reviews of existing budgets and outcomes of new models of service delivery. The strategy for the service is to move away from direct provision of Adult Social Care services through exploring options for service delivery through private, not for profit, and voluntary sector organisations.

85. Alongside the range of new proposals for 2015/16, the service continues to progress the Supported Living Programme, promoting independence for Social Care clients and avoiding costly residential placements. The current implementation programme is expected to secure efficiencies of £5,195k by 2019/20, although slippage in start dates on a number of schemes will result in corresponding slippage of £53k in savings previously earmarked for 2015/16. This temporary adverse movement has been offset against new proposals set out below.

86. The commissioning proposals include additional savings identified within the new contracts for Homecare Services and pre-paid cards of £162k; a further focus upon renegotiating the cost of historic residential and nursing packages (£410k); reviewing the use of Day Care facilities by clients who already receive 24 hour support through Residential and Nursing packages (£37k); and £383k from more frequent reassessments of Learning Disability service users and where appropriate reducing the volume and cost of taxi transport to take these users to and from placements.

87. Work is underway to consider the operational and financial implications of rationalising a number of contracts which are currently provided for non assessed support and care needs.

There is scope to secure savings of £193k from an overall budget of £1,600k. In addition, the strategy to move away from direct provision of services includes investigating new models of service delivery for in house provision for older people and users with Learning Disabilities giving estimated savings of £768k over the next 2 years.

88. The group is also undertaking a detailed zero based budget review and has identified a number of budgets which, following reviews of service delivery and future plans are not considered necessary for 2015/16; these total £199k per annum.

Children and Young People's Services

89. Children and Young People's Services have developed new savings proposals totalling £907k to date, with a £244k managed reduction in contingency to exceed the initial target of £1,048k by £103k. The principal focus of activity to date has been in the development of a new approach to Adoption and Fostering.

90. Implementation of a new structure for the placement and management of Looked After Children has been developed, which seeks to lever in transitional Government funding to support an initial major investment in Social Care capacity to ensure that children can be placed in suitable placements. In addition to improving outcomes for Looked After Children, this approach is expected to secure savings of £712k per annum from 2015/16.

91. Further savings proposals relate to additional benefits secured from effective procurement of accommodation at Bedwell Gardens, which is set to deliver £45k in 2015/16 in excess of the £27k included in 2014/15 budgets. Work to date on zero based reviews within Children and Young People's Services have identified £35k of surplus budgets in relation to translation and interpretation services. The on-going review of commissioned activity within Children and Young People's services is expected to secure an additional £115k of procurement savings during 2015/16.

Corporate and Policy Items

92. Progress to date against the initial Corporate and Policy Items saving target of £7,649k has primarily been secured through refreshed assumptions across corporate budgets and funding totalling £7,622k set out earlier in this report. These refreshed assumptions consist of:

- Release of £2,197k surplus from the Council Tax Collection Fund,
- Adverse net movement of £103k on projected Council Tax and Business Rate Revenues,
- Adverse movement of £193k in grant funding due to cuts in the Education Services Grant,
- Reduced inflation provision for contracted expenditure and levies, partially off-set by a small increase in staffing inflation releasing £271k,
- Release of £730k from uncommitted earmarked reserves,
- Rephasing of £1,150k of capital financing costs in 2015/16 due to delayed date for requiring physical borrowing (now 2016/17),
- £600k from a review of Minimum Revenue Provision policies for spreading the cost of capital investment,
- £500k of additional growth monies,
- £250k investment in the Council's Business Improvement Delivery Programme,

- A reduction in the assumed New Homes Bonus topslice of £904k to reflect latest estimates of funding payable to the Local Enterprise Partnership and grant projections across London,
- Recovery of the remaining £2,500k New Homes Bonus topslice.

93. Overachievement of individual group savings targets contributes a further £27k towards balancing the 2015/16 budget, which results in a balanced budget for 2015/16.

FEES & CHARGES

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

95. In addition to preferential rates for residents the Council froze almost all Fees and Charges for residents during 2013/14 and 2014/15, with modest increases proposed for a small number of charges in 2015/16. Where increases are recommended, charges have been benchmarked against those of neighbouring authorities and shown to remain competitive.

96. Appendix 8 to this report provides a full schedule of recommended charges, with increases proposed in the following areas:

- Registrars Service - aligning charges with those of neighbouring authorities, and reflecting a number of new services on offer,
- Highways - minor increases in skip licensing charges, remaining significantly lower than neighbouring boroughs,
- Breakspear Crematorium - maintaining charges at current levels and making cremations for under 18s free of charge,
- Cemeteries - uprating of internment fees, which remain below those of neighbouring authorities,
- Arts / Theatre Services - inflationary uplift to charges, which remain lower than other local providers, while simplifying charging arrangements for equipment rental,
- Trade Refuse - increase to fees for commercial bulk bin hire and trade services at civic amenity sites, reflecting the annual increase in landfill tax,
- Homes in Multiple Occupancy (HMO) Licensing - aligning charges to those of neighbouring authorities,
- Minimum client contributions in Adult Social Care - uplifted in line with the annual benefit uprating process.

MEDIUM TERM OUTLOOK

97. The immediate focus of this report is on delivery of a balanced budget in 2015/16, however, this must be considered in the context of an on-going reduction in funding to at least the end of the decade. In order to effectively manage funding cuts expected over this period, while continuing to 'put our residents first' and maintaining current levels of service provision, it will be necessary to take account of this medium-term outlook.

98. As previously reported the key pressure on the Council will remain managing the impact of the Government's austerity programme, particularly in light of continuing announcements from all parties on the need to reduce or eliminate the national deficit. Resource available to support existing services will continue to decline, with Revenue Support Grant expected to fall by £40,026k by 2019/20 and other corporate grant funding streams to decline by £3,195k over the same period, a total cut of £43,221k over five years, after accounting for new burdens. The extent of this cut, and the potential scope for a front-loading of reductions was again highlighted in the 2014 Autumn Statement, which could result in a requirement to identify savings earlier than previously expected.

99. The scenario outlined above assumes a continuation of existing trends to the end of the decade, however, this raises a number of issues as the level of Government funding to support core Council services falls to almost zero over this period.

100. Firstly, while current projections assume there is no material rise in the cost of providing the Council Tax Support Scheme beyond 2015/16, the scheme will be fully reviewed during next year and a new scheme developed for 2016/17. In addition, the upcoming Comprehensive Spending Review may revisit the level of funding available for this scheme.

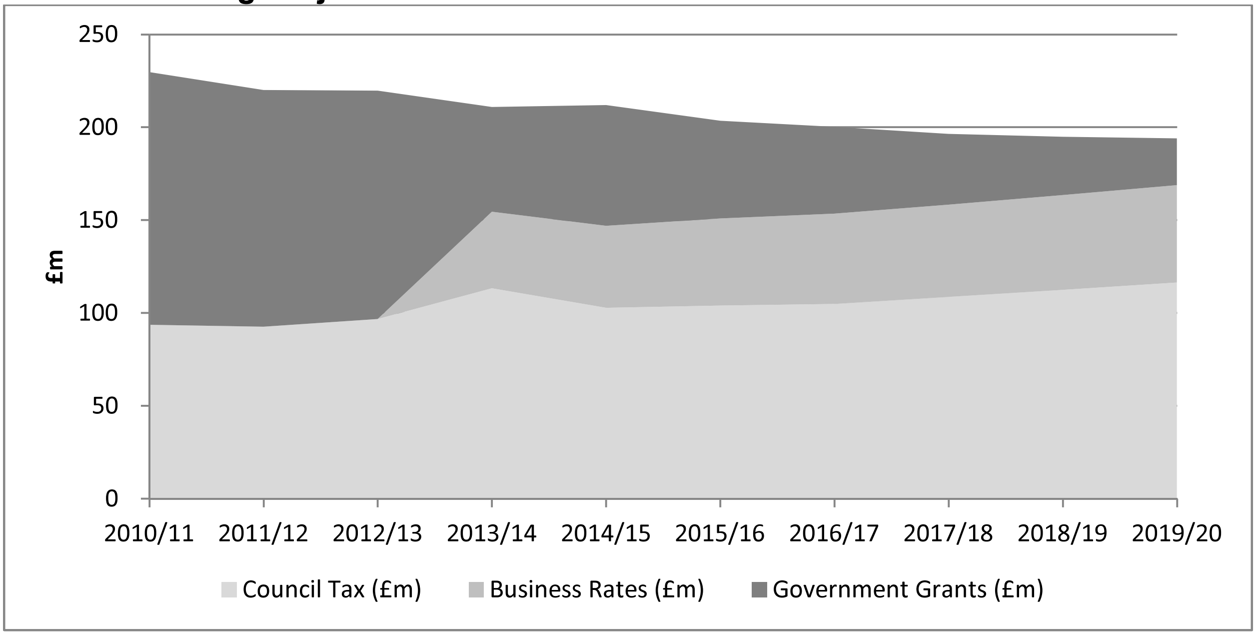
101. Secondly, as the prospect of Revenue Support Grant falling to zero for some councils by 2019/20 has become a real possibility, when combined with the policy intention announced by the Secretary of State for Communities and Local Government to raise the retained portion of Business Rates from 50% to 90%, this raises the spectre of wider funding reform during the next Parliament.

102. Finally, there are questions around the future of specific grant funding streams such as Housing Benefit Administration Subsidy Grant which would be expected to cease if Government seeks to integrate the benefit into Universal Credit. While there would be a corresponding reduction in required expenditure, the implications of any such change would be managed through the wider MTFF process. The Council's role with respect to Education also raises similar issues around the Education Services Grant.

103. While an element of this reduction is off-set by £7,237k growth in retained Business Rates income over the same period, this takes account of the expected outcomes of local efforts to promote economic growth, without which the financial impact of austerity measures would be even greater. Strong growth in the Council Tax base over the MTFF period is expected to increase tax revenues with the addition of 7,100 Band D equivalent properties by 2020, which along with additional revenue from changes to discount policies, could generate an additional £13,675k. For planning purposes it has been assumed that the Hillingdon share of Council Tax increases by 2% per annum from 2016/17 onwards, with each 1% increase or decrease either decreasing or increasing the budget gap by approximately £1,000k. It should be noted that where Council Tax Freeze grants have been awarded in 2014/15 and 2015/16 this has directly resulted in a further loss of Revenue Support Grant.

104. The net impact of funding projections is a reduction of £22,309k in resources available to support provision of existing services, before taking account of unavoidable cost pressures over this period. It is notable that by 2019/20 the Council will be raising 87% of its funding locally, an increase from 69% in 2014/15 and almost double the 48% seen in 2010/11, and therefore more acutely affected by changes in local circumstances and demand for services. This fundamental shift in funding is demonstrated graphically below.

Chart 1: Funding Projections

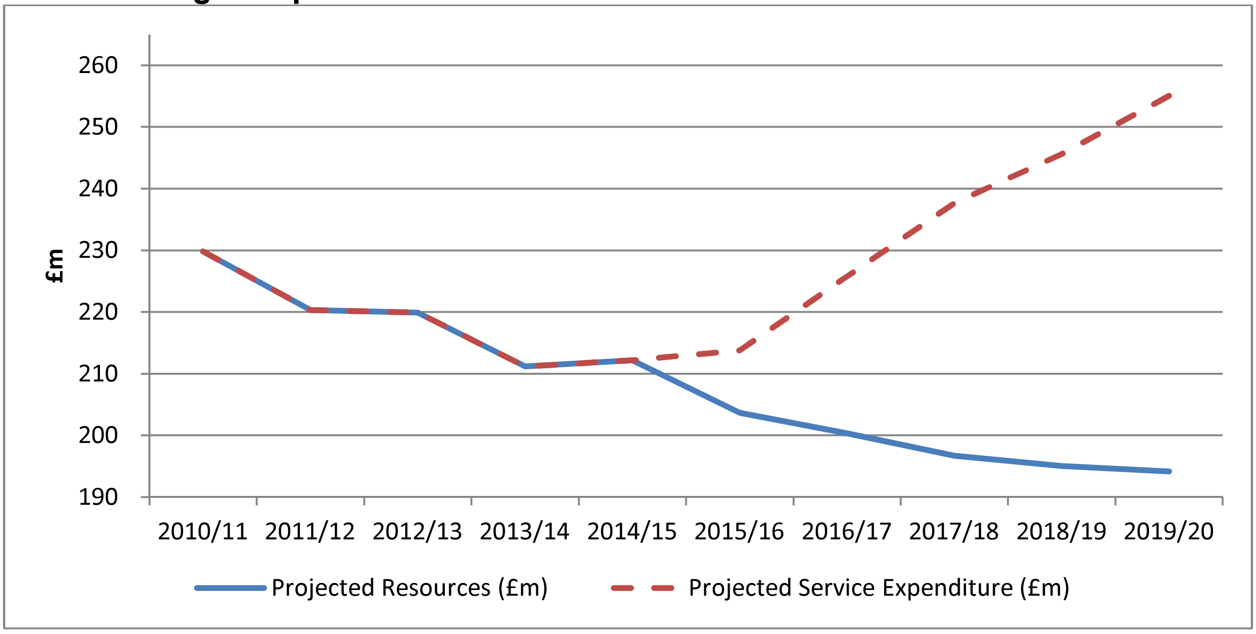


105. In addition to the decline in available funding, there will be a requirement to manage inflationary cost pressures over the period to 2019/20, expected to total £17,500k. The largest single component of this sum is employees' pay, with the current assumptions of a modest 1% per annum pay award from 2016/17 onwards. Every 1% award over this period adds approximately £1,000k to the budget gap. Current assumptions also include an annual increase in employer LGPS contribution rates, which is expected to reach 25.1% by 2019/20. However, at this stage, further reductions in staffing numbers, either through efficiency or alternative service delivery mechanisms have not been factored into inflation assumptions.

106. Growth in the Borough's population, estimated to rise by approximately 8% over the period to 2019/20 in line with growth in the Council Tax base, will have a corresponding impact on the cost of many demand-led services, such as Waste Disposal. Alongside this headline growth in population, projected changes to the makeup of the Borough's population are expected to increase demand for services such as Social Care and SEN Transport. The net impact of these costs is contained within the £15,860k growth in Development and Risk Contingency.

107. Current projections indicate that the cumulative savings requirement will rise to £60,912k by 2019/20, and although £19,449k of this sum is developed from 2015/16 onwards, there remains significant work to secure the remaining £41,463k. The scale of the required expenditure reduction is set out graphically below, against the 2014/15 budget requirement of £212,188k.

Chart 2: Budget Gap



108. An analysis of this £60,912k savings requirement identifies £19,258k or 32% being the result of inflationary and demographic growth in the cost of delivering services which could potentially be managed through a combination of cost avoidance and efficiency measures equivalent to approximately 9% of current expenditure. The remaining £41,654k, representing almost three quarters of the savings requirements, is the result of the current austerity programme and scaling back of public expenditure. A sustainable approach to bridging this element of the budget gap while continuing to meet statutory responsibilities is the principal financial challenge facing the Council.

109. There remains considerable uncertainty in terms of both funding and pressures arising from demand for services over the MTFF period, however baring any significant change of Government policy the overall quantum of savings required is expected to remain broadly consistent.

110. In terms of funding, until the expected Comprehensive Spending Review 2015, following next May's parliamentary elections, is underway confirmation of both the extent and phasing of reductions in Central Government funding will remain unknown. Although the risk associated with a front-loading of cuts could be managed, in the short term, through further planned drawdown of balances over the £30,000k upper limit, further savings will continue to be needed.

111. In a number of areas, there remains uncertainty around future cost pressures, for example the financial impact of introducing the Better Care Fund and new burdens associated with the Care Act, which are still to be quantified and any shortfall in funding may exceed the £1,000k sum included in Development and Risk Contingency.

112. With respect to Central Government policy, there remains a risk that the Council may have to bear the additional National Insurance costs associated with abolition of the Second State Pension from 2016/17, which could be in the region of £2,500k. However, while Treasury have indicated they may be willing to fund Councils for this burden, they are not in a position to confirm any future Government would do so.

113. Such risks will continue to be tracked through the MTFF process and their impact included as information becomes available.

GENERAL FUND CAPITAL PROGRAMME

Background to Capital Programme

114. The Council's Capital Programme, as approved by Cabinet and Council in February 2014, continues to be focused on the provision of sufficient school places to meet rising demand across the Borough. In addition, provision for major investment on the St Andrew's Park site in Uxbridge is included in the current programme alongside the recurrent programme of works to maintain local infrastructure.

115. This report explains the development of the existing programme, including addition of new projects, extension of the programme to cover 2019/20 and refresh financing assumptions. The updated programme outlined in this report has been contained within the resource envelope of the budget approved by Cabinet and Council in February 2014, with increased investment being off-set by additional capital receipts to leave a net borrowing requirement of £141,797k over the period 2014/15 to 2019/20. As a result there is no requirement for additional revenue provision over and above sums already earmarked for school expansions and the St Andrew's Park projects.

116. This draft programme has been developed within reference to the Prudential Framework, with proposed schemes and the overall programme being tested for affordability, sustainability and prudence. Given the need to consider the full extent of the Council's commitments, financing and borrowing projections outlined below take account of the latest 2014/15 forecast outturn. All associated revenue implications have been factored into revenue budgets through the MTFF and reflected elsewhere in this report.

117. The following sections of this report focus in turn upon the school expansion programme, new schemes proposed for inclusion in this programme and a refresh of expenditure forecasts on the remainder of the approved programme. The report goes on to provide an update on capital income streams, including capital receipts, Community Infrastructure Levy and Government grants.

Update on Current Programme

118. As at Month 7, a net underspend of £2,881k is reported on the current capital programme, with pressures on a number of legacy projects being off-set by underspends across a number of projects - including £1,848k on the School Expansion Programme and £995k on the £2,300k Disabled Facilities Grant budget. There remains £7,259k of unallocated General Contingency within the programme, which is available to manage new projects or emergent pressures on existing schemes. Additionally, rephasing of £20,543k expenditure is projected across a number of schemes, including £23,872k of Prudential Borrowing off-set by accelerated application of grant monies.

School Expansion Programme

119. The Council's flagship School Expansion Programme remains at the centre of the capital programme, with investment to secure additional places estimated to total £309,412k over the period from 2010 to 2020. In order to ensure sufficient high quality places across the

borough are delivered the Council is continuing to supplement Department of Education grants and Developer Contributions with Prudential Borrowing. The ongoing costs of £6,700k per annum have been factored into the revenue aspect of the Council's MTFF.

120. While the programme to date has concentrated on meeting demand in the Primary sector, the focus is now shifting to the Secondary sector with provision in this draft budget to deliver 19 forms of entry across the Borough by September 2019 at a total cost of £121,071k. In the absence of any firm indication of Government support beyond 2015/16, it has been assumed that funding levels will remain broadly consistent and support 75% of investment in expanded capacity and 25% for re-provision projects. The residual £50,603k will be met from Prudential Borrowing and ultimately funded by residents through Council Tax. The profile of this projected demand and investment is outline below.

Table 11: Secondary School Needs Analysis

	Sept-15	Sept-16	Sept-17	Sept-18	Sept-19
Projected Year 7 Pupil Numbers	3,288	3,325	3,582	3,767	3,890
% Growth in Pupil Numbers	9%	1%	8%	5%	3%
Need Profile (Forms of Entry)	1	4	3	2	9
Delivery Profile (Forms of Entry)	0	6	5	3	6
Cumulative Surplus / (Deficit)	**(1)**	**1**	**3**	**4**	**0**

121. Within the programme outlined above, projects at Abbotsfield and Northwood include re-provision of the existing schools partially funded through the Department for Education's Primary School Building Programme (PSBP). In early May 2014, the Government announced its intention to launch a second phase of this programme over the period 2015 - 2021 and the Council submitted expressions of interest for the re-provision of a further eight schools. If successful, these projects will supplement the expansion programme and potentially provide scope to secure additional capacity where required. As with the existing PSBP, the Government would look to manage the delivery of any identified schemes.

122. Following completion of the major expansion of the Primary sector completed since 2010, current projections indicate that a further three forms of entry will be required over the MTFF period to meet growth in pupil numbers. A budget of £13,500k is included in this programme, with the first expansion required in the Ruislip area by September 2017.

123. In order to reflect the inherent uncertainty in both pupil number projections, and the practicalities of delivering such an extensive programme of expansion, a contingency of £28,929k is contained within this programme. This contingency, supported through a combination of Prudential Borrowing and assumed grant funding, will also provide scope to contribute to any Primary School Building Programme projects should a Council contribution be required.

Proposed New Schemes and Changes to Existing Schemes

124. The existing approved programme includes a number of major schemes commencing in 2015/16, the funding for which has already been earmarked within the Council's broader MTFF. Key highlights include commencement of the 1,200 seat theatre project at St Andrew's Park, a borough museum and a new Youth Centre in Harefield.

125. This draft programme includes a number of proposed new schemes totalling £15,951k and a range of updates in relation to the scope and financing of existing schemes which will add £3,192k to the existing programme. Alternative funding streams have been identified to support £1,906k of this sum, leaving a residual amount of £17,237k to be funded from Council capital resources. Taking into account substantial movements in capital receipts outlined below, borrowing within the refreshed programme will not increase and therefore no additional revenue provision is required. Each of these new schemes and amendments are outlined below:

- **Battle of Britain Bunker, a Heritage Civic Pride project** - A restoration project on the former RAF Uxbridge Site. Plans include the replacement of a building near the Bunker known as the ASU building with potential for it to act as a visitor centre, the overall project is estimated to cost in the region of £4,850k with a target completion date of September 2015.

- **Highways Structural Works & Pavements Priority Growth** - £3,000k additional investment is included in this draft budget to continue the Council's programme of investment in these areas.

- **Grassey Meadow Dementia Centre** - As part of wider investment in Social Care, a new resource centre is proposed at an estimated cost of £1,000k.

- **Environmental and Recreational Initiatives** - £1,000k of funding to support a range of investments in environmental and recreational sites across the Borough.

- **Capital Priority Growth** - £1,000k provision to support additional schemes identified during 2015/16 and respond to new priorities.

- **Cedars & Grainges Car Park Improvements -** An extended scope has been outlined for the previously planned investment in Uxbridge Town Centre car parks, which will support economic development in the area. An increase of £2,155k, partially funded from £200k of Developer Contributions, is therefore included in this draft budget.

- **Borough-wide Car Park Improvements & Rural Activities Garden Centre Car Park** - An additional £500k of investment in off street car parks across the boroughs, including an enhancement of parking facilities at the Council's Rural Activities Garden Centre.

- **Ruislip Lido Boathouse** - Refurbishment of the Boathouse at Ruislip Lido for service use at an estimated cost of £210k.

- **Investment in Bowls Clubs** - £900k provision for the refurbishment of two existing bowls clubs and construction of third is included in this programme and intended to support the Council's broader Public Health responsibilities, by encouraging activity in the Borough's older population.

- **Haste Hill Golf Club Investment** - A set of two projects to refurbish the club house for use as a function room at a cost of £80k and a replacement of the irrigation system for £450k. An invest-to-save business case is in development around the updated clubhouse and improved parking provision, with financing costs associated with the project to be met from future revenue streams.

- **Care Act Implementation Project** - Alongside revenue funding outlined elsewhere in this report, a sum of £226k is earmarked within the Better Care Fund to support the capital costs of preparing for the Council's new responsibilities under the Care Act (assuming that the passporting of this sum is agreed by the CCG).

- **Department of Health funding for Social Care Investment -** There is a further £580k available through the Better Care Fund to support broader investment in Adult Social Care, which has been included in this draft budget.

126. The above schemes at a net cost to the Council of £14,945k are principally focused on extension of service provision and, with the exception of refurbishment works at Haste Hill Golf Club, will not generate revenue savings or additional revenue streams. Investment in sports clubs will contribute towards the Council's Public Heath duties and therefore, can be funded from £900k earmarked grant monies. As a result, Council resources of £13,045k will be required to support these new projects.

127. In addition to these new projects, the draft capital programme has been updated to include 2019/20 Programme of Works and funding assumptions have been refreshed. The following updates increase the Council resourced element of the programme by £3,192k:

- **Vehicle Replacement Programme -** In order to take account of inflationary cost pressures, the 2015/16 budget for replacement of Council fleet has been increased by £374k to £2,215k. This project is wholly funded from Prudential Borrowing, the on-going revenue impact of which will be offset by savings against hire and maintenance costs.

- **Civic Centre Works Programme -** An additional £800k has been included in this draft programme for urgent projects at the Civic Centre, which are required to maintain the building in a safe condition and provide a comfortable environment for visitors. This increases total investment for 2015/16 to £1,300k, and includes a new security office at the Members' car park entrance.

- **Department of Health funding for Disabled Facilities Grants** - From 2015/16 onwards Government support for this reablement programme will be routed through the Better Care Fund and is expected to total £1,569k per annum. This represents a small increase on previously assumed levels and therefore reduces required borrowing by £496k over the MTFF period, while maintaining annual investment of £2,500k in grants to residents.

- **Schools Capital Programme funding update -** An updated projection for Department for Education Capital Maintenance Grant and confirmation of available Section 106 Contributions has reduced the borrowing requirement on school projects by £1,303k.

- **2019/20 Programme of Works and General Contingency -** In order to reflect current levels of expenditure, budgets in support of programme of works have been reprofiled over the MTFF period and £1,000k Chrysalis funding and £1,500k General Contingency added to this draft programme in 2019/20. The net effect of these changes is an increase of £1,704k in Council resources.

Capital Financing and Revenue Implications

128. In considering the financing strategy for the updated capital programme and its associated revenue implications, it is necessary to include commitments in the current financial year in order to capture a comprehensive view of the Council's programme of investment. As such the following financing overview covers the period from 2014/15 to 2019/20.

129. Projections in respect of capital income streams have also been refreshed - with an additional £32,818k of capital receipts from asset sales and a reduction of £2,800k Community Infrastructure Levy payments expected over the period to 2019/20. Changes to budgeted grant income, other external funding and direct revenue financing is detailed alongside changes to the relevant projects above. Table 12 below provides a summary of the capital expenditure and financing included in this draft programme.

Table 12: Capital Financing

	2014/15 £'000	2015/16 to 2019/20 £'000	Total £'000
Main Programme	57,199	171,511	228,710
Programme of Works	24,489	57,928	82,417
Future Projects	0	70,422	70,422
Development & Risk Contingency	1,430	36,429	37,859
Total Capital Expenditure	**83,118**	**336,290**	**419,408**
Prudential Borrowing	24,836	116,961	141,797
Capital Receipts	5,271	59,267	64,538
Community Infrastructure Levy	200	20,000	20,200
Council Resources	**30,307**	**196,228**	**226,535**
Government Grants	44,848	133,890	178,738
Other Contributions	7,963	6,172	14,135
Total Capital Financing	**83,118**	**336,290**	**419,408**

130. Capital receipts of £64,538k over the period from 2014/15 to 2019/20 are now forecast, with movement of £32,818k from existing budgets resulting from increased valuations on a number of sites and projections for new assets to be sold from 2017/18 onwards. This sum includes remuneration for the transfer of a number of sites to the Housing Revenue Account for use in the Supported Living Programme, which is outlined in the HRA section of this report.

131. Projections in respect of Community Infrastructure Levy have been refreshed to take account of the slower than anticipated rollout of the scheme which is expected to add £2,800k to the Council's borrowing requirement in 2014/15. Income targets have been reprofiled over the remainder of the MTFF period, with receipts expected to increase as new developments start on site and the Sui Generis category of planning applications is brought into the scope of the Levy.

132. As a result of the programme changes outlined in this report, the Council's borrowing requirement over the period to 2019/20 is expected to reduce from £157,459k to £141,797k - principally as a result of expected income from asset sales. Movement in this position is set out below.

Table 13: Prudential Borrowing Requirement

	2014/15 £'000	2015/16 to 2019/20 £'000	Total £'000
Approved Capital Programme	41,536	115,923	157,459
Forecast Outturn Variance 2014/15	(5,960)	3,079	(2,881)
Forecast Rephasing from 2014/15	(23,872)	23,872	0
New & Amended Schemes	(44)	17,281	17,237
Forecast Capital Receipts / CIL	13,176	(43,194)	(30,018)
Draft Capital Programme	**24,836**	**116,961**	**141,797**

133. If borrowing can be contained within the £141,797k sum included in this draft budget, there is scope for significant savings to be secured from capital financing costs. However, given the inherent risk in relying on securing additional capital receipts to reduction in borrowing, it is recommended that the existing revenue provision is maintained at this stage.

HOUSING REVENUE ACCOUNT

Update on 2014/15 Budget

134. Development of the 2015/16 Housing Revenue Account budget builds upon the 2014/15 budget and therefore the current monitoring position provides a useful context, highlighting areas of uncertainty which will impact upon the future of the HRA. As at Month 6, an underspend of £4,220k is projected on the HRA, increasing forecast unallocated general balances to £27,040k at 31 March 2015.

135. The most salient variances within this overspend are: £2,498k underspend on planned maintenance due to procurement efficiencies and slippage; £917k underspend on Housing Management due to a number of posts remaining vacant pending restructuring; and £412k underspend on interest and investment income.

136. Although there were 104 properties sold under Right to Buy (RTB) arrangements between April and September 2014, no material variance is reported on income in the current year, with a combination of improved void turnaround rates and administration income offsetting RTB rental losses. The medium term implications of the continuing high level of demand for RTB are outlined below, including the significant investment required to replenish housing stock and avoid repayment of retained receipts with punitive interest charges.

Budget Requirement 2015/16

137. The movement from the 2014/15 baseline to the 2015/16 budget requirement is summarised below, with rental income projections and saving proposals refreshed from the position included in the February budget report. The draft budget includes the contribution of £3,434k to support capital investment and £1,336k to General Balances.

Table 14: HRA Budget Requirement

	£'000
<u>Funding Sources</u>	
Dwelling Rents	57,548
Other Income	4,154
Total Resources	**61,702**
Budget Requirement 2014/15	62,692
Inflation	372
Corporate Items	103
Contingency	(17)
Savings	(1,448)
Budget Requirement 2015/16	**61,702**
Surplus / (Deficit)	**0**

138. Appendix 7 to this report continues this presentation over the MTFF period, with annual surpluses set to reach £10,092k by 2019/20, primarily due to inflationary growth in rental income outstripping the adverse impact of both inflationary cost pressures and the loss of rental income from Right to Buy sales.

Rental and Other Income

139. Rental income projections have been fully refreshed to take account of revised estimates for the numbers of properties being sold under the RTB scheme. The current exceptional level of sales is being driven by changes to the maximum level of discount during 2013/14, and this draft budget has been prepared on the assumption that there is a decline from this peak over the medium term. For 2015/16 it is assumed that the loss of these 140 properties through RTB sales will be partially off-set by 22 new properties coming on stream through the Buy Back Scheme and initial Supported Housing projects.

140. This draft budget has been prepared on the assumption that the Council continues to follow the DCLG's national rent restructuring approach with increases of CPI + 1% from 2015/16. On current projections this will result in a 2.2% inflationary increase in rents. At this stage it is assumed that the 1% provision for income losses arising from void properties will remain at this level, resulting in net dwelling rents of £57,548k. The reduction in net rental income of £1,667k from the position reported to Cabinet in February 2014 is principally attributable to the continuing high number of sales.

141. Other income is expected to total £4,154k for 2015/16, mainly relating to service charges which are expected to be uplifted in line with rents.

Balances and Reserves

142. Housing Revenue Account general balances are projected to reach £27,200k by 31 March 2015 (£22,820k at 31 March 2014), representing 47% of rental and other income for 2015/16. While there remains no formal balances strategy for the HRA, this level of balances provides a significant level of flexibility within the HRA, providing both cover for emerging risks and scope to support new developments without recourse to Prudential Borrowing.

143. In addition to General Balances, the Major Repairs Reserve is projected to hold a balance of £12,499k at 31 March 2015 (£8,773k at 31 March 2014) however, the majority of this sum is

earmarked to support the capital programme approved by Cabinet and Council in February 2014.

Inflation

144. The inflation provision of £372k included in this draft budget is unchanged from that included in the February report to Council and has been estimated using the same assumptions for the General Fund provision outlined above. This sum includes £115k in respect of employees' salaries and pension contributions, £149k provision for utilities inflation and £106k inflation on contracted expenditure within the HRA. The latter sum will be reviewed as procurement work progresses and the future position on a number of significant contracted workstreams becomes clearer.

Corporate Items

145. Movements contained within Corporate Items include changes in provision for capital financing costs, direct contributions to support capital investment, changes in balances and other presentational changes. The net movement of £103k shown in table 14 consists of £3,434k additional contributions to capital, a payment of £1,336k into balances, release of £2,627k following the zero-basing of HRA budgets and a £2,040k technical adjustment to show income against resources rather than the budget requirement.

146. The capital programme and funding strategy remain broadly consistent with the position approved in February, with an increase of £3,434k to bring total revenue contributions into capital for 2015/16 to £19,125k. The application of these sums is expanded upon below.

147. On the basis of current projections, it is expected that £1,336k will be available to supplement General Balances in 2015/16.

148. A review of existing budgets within the Housing Revenue Account has identified a number of areas where historic budgets no longer reflect current activity. Removing these budgets has provided capacity to manage the true cost of the Independent Living Service after removal of the £200k Council Tax-payer funded subsidy and to release a further £2,627k for other priorities.

149. £2,040k income targets in respect of service charges have been transferred from Housing Management budgets to other income, to facilitate a consistent approach to monitoring and presentation of income and expenditure within the HRA. This change in presentation has no impact on the bottom line for the HRA and is included in this draft budget as a technical adjustment.

Savings

150. Current savings proposals are focused on aligning budgets to actual levels of demand for service and therefore implementation of these savings proposals would not impact on the level of service received by tenants. Over delivery of the 2013/14 savings in respect of remodelling back office functions and closure of the housing offices will secure £650k. In addition, reducing budgets for responsive and planned maintenance to reflect new approaches to working and procurement efficiencies would secure £123k and £675k respectively.

Medium Term Outlook

151. On the basis of current assumptions and projections, the financial standing of the Housing Revenue Account is expected to remain sound over the MTFF period. The following paragraphs outline the key assumptions included in this draft budget and highlight potential risks which could adversely impact upon the HRA budget to 2019/20.

152. The current draft budget assumes that rental income will reach £63,196k by 2019/20, with an additional £4,370k generated through service charges and other income. It has been assumed for planning purposes that rents will rise by projected CPI + 1%, equivalent to 2.2% per annum, in line with expected DCLG guidelines. A 1% movement in this inflationary increase would either increase or decrease income by approximately £600k per annum. Over this period it is assumed that 1% of potential yield will be lost to void properties between tenancies.

153. There remains scope for volatility in rental income over the MTFF period as uncertainty around timing of additions to the housing stock and the loss of revenue associated with Right to Buy sales. This draft budget assumes that 580 dwellings will be sold over the five years to 2019/20, with the Council's current capital programme delivering an additional 438 units through new build and buy-back mechanisms. It is expected that the 140 forecast sales for 2014/15 will represent a peak in demand following the recent discount changes, falling to approximately two thirds of this level over the remainder of the MTFF. The net impact of these movements will be a reduction of 142 properties to leave 10,027 properties. A movement of 100 properties would be equivalent to approximately £600k of income.

Table 15: Projected Movement in Housing Stock

	2015/16	2016/17	2017/18	2018/19	2019/20
Projected Opening Stock	10,169	10,050	10,040	10,192	10,122
Forecast Right to Buy Sales	(140)	(115)	(115)	(105)	(105)
New Build Supported Housing Units	4	24	147	0	0
Properties Secured via Buy Back Scheme	12	9	9	10	10
Council-provided New Build Property	6	72	111	25	0
Projected Closing Stock	**10,050**	**10,040**	**10,192**	**10,122**	**10,027**
Projected Average Stock	10,109	10,045	10,116	10,157	10,074

154. The Housing Revenue Account cost base is projected to remain fairly steady over the MTFF period, with inflationary growth of £1,731k, attributable to contracted repairs and maintenance expenditure, energy costs and staffing, and temporary increased contributions to fund capital projects before reducing by £1,250k by 2019/20.

155. As reported through monthly budget monitoring, the Council's current 1:1 Replacement Agreement with DCLG enables the local retention of Right to Buy sale proceeds provided the Council replaces lost units within three years and provides 70% match funding. The increases in contributions to capital over the MTFF period are sufficient to meet this commitment, but will be kept under review given the increase in RTB sales during the first quarter of 2014/15.

156. Alongside provision for investment in new stock this draft budget includes annual contributions towards the Work to Stock programme of between £14,993k and £11,659k.

This level of provision remains consistent with the budget approved by Council in February 2014, with any efficiencies or adoption of the 'Warm, Safe, Dry' standard potentially releasing funds for other purposes within the HRA.

157. While there is sufficient capacity to finance the current approved HRA capital programme from direct revenue contributions and avoid use of Prudential Borrowing, annual provision of £15,412k is included in this draft budget for the servicing and financing of existing debt. There may be scope to review this provision and reduce the annual contribution, particularly in light of the substantial additional provision for repayment of debt made during 2013/14.

158. Finally, the current HRA budget includes the savings proposals detailed above expected to secure £2,696k of efficiencies by 2019/20. Assuming that these savings are delivered and the assumptions noted above with regard to rental income and capital investment are unchanged, the HRA will generate a £10,092k surplus from revenue activity by 2019/20. Given that balances within the HRA are already over 40% of turnover, options around the use of these surpluses to support investment could be considered. Table 16 below sets out the latest projected balances for both General Reserves and the Major Repairs Reserve.

Table 16: Projected Housing Revenue Account Balances

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
General Balances	28,353	20,623	9,454	12,444	23,786
Major Repair Reserve	12,499	12,499	12,499	12,499	12,499
Total HRA Reserves	**40,852**	**33,122**	**21,953**	**24,943**	**36,285**

Housing Revenue Account Capital Programme

159. The Housing Revenue Account capital programme remains focused on the twin objectives of maintaining existing stock and construction of new dwellings. Within the new build element of the programme, provision of supported housing to support the Council's Adult Social Care Reablement programme and associated revenue savings is a key strand. An overview of the revised draft capital programme is contained at Appendix 7d.

160. The draft capital programme contains provision of £92,870k to fund delivery of 438 new homes within the Housing Revenue Account and a further 100 properties through partner organisations over the period to 2019/20. These new build units will be financed from a combination of capital receipts from Right to Buy property sales retained under the 1:1 Replacement Agreement and direct revenue contributions from the Housing Revenue Account. This new build programme consists of four key separate projects, and provision for transfer of land from the General Fund: The cost of this land will be met from Prudential Borrowing and financed over the life of these schemes.

- **Purchase & Repair of Housing Stock -** A budget of £9,578k to fund the buyback of 75 properties previously sold under Right to Buy arrangements. To date more than 200 expressions of interest have been received and it is expected that this will provide the quickest approach to replenishing stock numbers.

- **General Needs Housing (HRA) -** Provision of £38,389k to support construction of 213 new properties within the HRA is also included in this programme, funded through 30% Right to Buy proceeds and 70% revenue contributions. Delivery of this programme will require identification of sites to accommodate these new units.

- **General Needs Housing (RSL Partners) -** In order to supplement developments within the HRA, this budget assumes that £5,400k of Right to Buy receipts will be passported to Registered Social Landlords in exchange for nomination rights on 100 further properties.

- **Supported Housing Programme** - Finally, £32,877k is included to fund delivery of 175 Supported Housing units across a number of sites in the borough, which will be funded from 30% Right to buy Receipts and 70% revenue contributions. As noted within the Adult Social Care savings section of this report, these projects will support the wider reablement agenda and reduce the Council's reliance on residential care placements.

- **Appropriation of Land** - A sum of £6,626k is included within the programme to fund the purchase of land from the Council's General Fund in order to enable the developments outlined above.

161. Although the Council is able to utilise Prudential Borrowing to finance delivery of new housing stock, the financial standing of the HRA is such that all new development in this draft capital programme can be funded from revenue contributions and capital receipts, thereby avoiding the cost of servicing new debt. While the appropriation of land is to be initially financed from borrowing, this will be managed within the existing provision for servicing and repayment of debt and therefore not impact upon the rents payer. In the event that a more ambitious programme of development is required, current indications are that £125,290k borrowing headroom is available to support further projects.

162. In addition to provision for new developments, continuation of the existing programme of Works to Stock is included in this budget at an annual cost of between £14,993k and £11,694k, which is fully funded from revenue contributions. The adoption of the new 'Warm. Safe, Dry' standard will require a reappraisal of this budget provision, however, a fully developed programme will not be in place for February 2015 and the 2015/16 budget has therefore been prepared on the basis of the legacy 'Decent Homes' standard.

FINANCIAL IMPLICATIONS

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

EFFECT ON RESIDENTS, SERVICE USERS & COMMUNITIES

What will be the effect of the recommendation?

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

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

Consultation Carried Out or Required

166. Following consideration at Cabinet, this report will form the basis of consultation with Policy Overview Committees during January 2015. Comments from the Policy Overview Committees will be reported back to Cabinet by the Corporate Services and Partnerships Policy Overview Committee when Cabinet meets on 12 February 2015. Cabinet will then agree a set of budget proposals for recommendation to the annual Council Tax setting meeting of full Council on 26 February 2015.

167. The Council also has a statutory responsibility to consult on its budget proposals with business ratepayers in the Borough, which will be undertaken alongside a wider public consultation of these proposals during January 2015. Schools Forum will also be consulted on those proposals that have a potential impact on schools budgets.

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

CORPORATE IMPLICATIONS

Corporate Finance

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

Legal

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

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

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

173. The Cabinet will ultimately consider any responses from the Policy Overview Committees and other consultees and take them into account in drawing up firm proposals for submission to full Council at its meeting on 26 February 2015. Its report will reflect the comments made by consultees and its response to them.

Relevant Service Groups

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

BACKGROUND PAPERS

Report to Council 20 February 2014 – General Fund Revenue Budget and Capital Programme 2014/15