THE COUNCIL'S BUDGET:
MEDIUM TERM FINANCIAL FORECAST 2016/17 - 2020/21

Cabinet Members	Councillor Ray Puddifoot MBE Councillor Jonathan Bianco
Cabinet Portfolios	Leader of the Council Finance, Property and Business Services
Officer Contact	Paul Whaymand, Finance
Papers with report	Appendices 1 to 8 (detailed MTFF proposals & schedule of Fees & Charges)

HEADLINE INFORMATION

Purpose of report	This report sets out the Medium Term Financial Forecast (MTFF), which includes draft General Fund and Housing Revenue Account budgets for 2016/17, 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 all residents in 2016/17 for the eighth successive year and for the over 65s for the tenth successive year, without reducing service provision, as well as providing significant sums for priority growth initiatives, whilst maintaining balances and reserves well above the minimum recommended level.
Putting our Residents First	This report supports the following Council objectives of: *Financial Management; Our People; Our Built Environment; Our Natural Environment; Our Heritage and Civic Pride.* 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 eighth successive year and a tenth for over 65s.
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

That Cabinet:

1) **Approve the draft revenue General Fund and Housing Revenue Account budgets and capital programme proposals for 2016/17 and beyond as the basis for consultation with Policy Overview Committees and other stakeholders.**
2) **Request the comments of individual Policy Overview Committees on the draft budget proposals relating to their areas of responsibility, to be collated into a single report back to Cabinet from the Corporate Services and Partnerships Policy Overview Committee.**
3) **Approve the proposed Fees and Charges, included at Appendix 8, as the basis for consultation with Policy Overview Committees and other stakeholders.**
4) **Authorise the Corporate Director of Finance, in consultation with the Leader of the Council, to respond on behalf of the Council to the consultation on the provisional Local Government Finance Settlement and to the Mayor of London's budget consultation.**
5) **Following the completion of a public consultation, agree to recommend to Council for approval in January the following amendments to the Council's local Council Tax Reduction Scheme effective from 1 April 2016:**
    - **the maximum amount of reduction a working age household can receive is reduced to 75% of the council tax liability;**
    - **the maximum amount of reduction a vulnerable household can receive is reduced to 90% of the council tax liability;**
    - **to align the scheme with recent and impending welfare reforms, including changes to Housing Benefit.**

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 2016/17. 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 2016 for recommendation to full Council. Once approved by Council in February 2016 proposals will become effective immediately.

In order to align the on-going cost of the Council Tax Reduction Scheme with projected government funding, amendments to the scheme previously approved by Cabinet have been subject to Public Consultation and are now recommended for implementation from 1 April 2016. Subject to Cabinet approval, these changes will be reflected in the 2016/17 Council Taxbase recommended to Council for approval in January 2016.

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 2016.

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.

Policy Overview Committee comments

A full report on the budget process, financial strategy and detailed budget proposals for each of the service Directorates will be taken to the relevant Policy Overview Committees for review in January 2016, with feedback presented to Cabinet alongside the final budget report to Cabinet on 18 February 2016.

SUMMARY

1. This report represents the output from the latest comprehensive refresh of the Council's 2016/17 draft budget and medium term projections through to 2020/21. Budget proposals have been developed to support an eighth successive Council Tax Freeze for all residents and a tenth year for over 65s whilst maintaining frontline services - including weekly waste collection, burglar alarms for Older People, £1m annual funding for local communities through the Chrysalis programme, as well as a comprehensive library service. This represents a significant achievement in light of continuing cuts to government funding for local government, estimated at 11.2% in 2016/17 alone, while a growing population drives an ever increasing demand for locally provided services.

2. In freezing Council Tax for an eighth year, savings have been developed under five broad themes, which focus on maintaining the existing service offer: Zero-Based Reviews, Preventing Demand, Service Transformation, Effective Procurement and Maximising Income.

3. An update on the Council's capital programme is also presented in this report where expanded investment is providing sufficient school places to meet the growing demands from a rapidly rising population. In addition, the capital programme contains funding to deliver a new Theatre, museum and bunker visitor centre in Uxbridge, three new Youth Centres, provides funding for a new playground renewal programme as well as bolstering investment in the existing local infrastructure.

4. The refreshed Medium Term Financial Forecast presents the scope of the challenge facing the Council in the form of increased demand for services while facing continuing reductions in central government funding through to the end of the decade. The key driver in responding to this challenge will be to continue to 'Put Residents First' while securing efficiencies equivalent to approximately 33% of current expenditure.

5. The Housing Revenue Account budget for 2016/17 is presented alongside the Council's General Fund budget, including a 1% reduction in rents for existing tenants in line with the Chancellor of the Exchequer's announcement within the July Budget. The associated draft HRA capital programme outlines a programme of investment to maintain existing stock while securing new units to replace stock sold under Right to Buy arrangements.

BACKGROUND

6. This is the first report to Cabinet on the budget for 2016/17, building upon the position outlined in the 2015/16 budget report to Council in February 2015. In February the savings requirement for 2016/17 was estimated to be £20,276k. This was revised in the wake of the March 2015 Budget to £21,247k, with a planned £4,000k drawdown from balances to smooth the impact of front-loaded funding cuts reducing the outstanding budget gap to £17,247k. Following the reduction in funding cuts for 2016/17 signalled by the July 2015 budget and latest intelligence on core government funding, the budget gap stood at £14,079k. This report outlines measures being taken to bridge this gap in full.

7. The Council continues to operate within the constraints of Government's deficit reduction programme, which has seen a reduction of 56% (£67m) in central government funding since 2010/11 and all indications are that funding will continue to decline. There remains significant uncertainty around funding forecasts for the remainder of the MTFF period, with November's Autumn Statement reaffirming the direction of travel of local government funding.

8. The draft budget outlined in this report does not include the impact of funding outlined within the recent Spending Review as the detailed impact on what was set out in that review will not be known until the Local Government Finance Settlement is issued. However, the expectation is that the overall funding position for the next 4 years may have improved slightly from previous forecasts although the position in 2016/17 could well be worse than assumed because local government savings have been front loaded.

9. In order to provide a firm basis from which to respond to on-going funding reductions, there has been significant work undertaken to review and confirm the baseline position of demand-led service areas, with Looked After Children placements and the new permanent establishment for Children & Young People's Services being two examples. Alongside this work on demand-led budgets, monitoring of progress in the successful delivery of the 2015/16 savings programme has fed into development of the 2016/17 budget to ensure that the Council is not carrying forward issues into the new financial year.

10. Against this baseline position, groups have been developing savings proposals sufficient to meet the externally driven budget gap and respond to increases in cost pressures. In addition to this work across directorates, a comprehensive review of the corporate elements of the budget has been undertaken since February, capturing funding, inflation and capital financing. During the early summer and again in the autumn, a series of challenge sessions were held to affirm the budget position. Each session followed a similar format reviewing:

    - The 2014/15 outturn, particularly any on-going issues arising.
    - The current position in 2015/16 - both monitoring and savings delivery.
    - Existing and emerging pressures which need to be addressed in the 2016/17 budget and forecasts for future years.
    - Progress on the development of savings proposals for 2016/17.
    - Identification of any potential growth or invest-to-save bids.
    - Capital programme requirements.

11. This report collates the outputs from these sessions, with sufficient savings proposals having been developed to bridge the budget gap in 2016/17 while freezing Council Tax for all residents for an eighth successive year and funding the freeze for older persons into a twelfth year in 2018/19. A surplus of £1,251k is retained at this stage in the budget setting

process in order to manage the risk of further reductions in funding once 2016/17 grant awards have been confirmed.

GENERAL FUND REVENUE BUDGET

Update on 2015/16 Budget

12. Development of the 2016/17 budget builds upon the 2015/16 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.

13. An underspend of £703k was reported on normal operating activities at Month 7. This position incorporates a £1,901k net underspend across Directorate Operating Budgets and an underspend of £1,350k across treasury management activities within Corporate Operating Budgets, being off-set by contingency pressures of £2,548k reported on Children's Social Care and Asylum services. The following positions are reported on individual Directorate Operating Budgets:

    - An underspend of £144k is reported within Administration at Month 7, with the variance principally due to elected Members no longer being eligible for membership of the Local Government Pension Scheme. As previously reported, shortfalls in income within the group are being managed through underspends on expenditure.

    - Finance are reporting a £118k underspend at Month 7, which relates to vacancies within the establishment across the group.

    - An underspend of £693k is reported on Residents Services operating budgets. Within this overall position, £858k staffing underspends and additional income generated by Highways and Planning services is partially off-set by £474k pressures on maintenance budgets within Development & Assets and £295k income shortfalls on Uxbridge car parks and from Imported Food sampling.

    - An underspend of £646k is reported on Children & Young People's Services at Month 7, which is driven by staffing vacancies within the new Early Intervention & Prevention Service as recruitment proceeds. Significant additional investment totalling £3,335k is being applied from earmarked reserves to fund transitional managed service arrangements and recruitment costs as the service moves to new sustainable structures in advance of the new financial year.

    - An overall underspend of £300k is reported across Adult Social Care, where underspends on salaries and over recovery of income are offsetting the slippage in the delivery of the Supported Living Programme.

14. Good progress is being made against delivery of the majority of the £10,034k savings included in the 2015/16 budget (£9,907k from 2015/16 and £127k brought forward from earlier years). At Month 7, £8,172k of savings are either banked or on track for delivery, with £1,862k of savings being classed as amber due to delays in implementation, although all savings are expected to ultimately be delivered in full.

15. Over and above the underspend on normal operating activities, exceptional income of £450k relating to recovery of outstanding Icelandic investment balances brings the headline reported underspend to £1,153k. Within the reported position at Month 7 it is assumed that £500k uncommitted General Contingency and £654k Unallocated Priority Growth will be utilised to manage as yet unidentified emergent pressures and new initiatives. In the event that these sums are not required, the reported underspend would increase.

16. The reported underspend of £1,153k will reduce the planned £5,000k drawdown from reserves and result in £36,593k being carried forward as General Balances at 31 March 2016. However, the balances carried forward position is likely to be higher than this as the monitoring position includes uncommitted priority growth and contingencies that are unlikely to be fully spent by the year end. The Council's Medium Term Financial Forecast assumes that balances will remain between £20,000k and £30,000k to manage emergent risks, with sums above that level earmarked for use to smooth the impact of government funding cuts.

Budget Requirement 2016/17

17. The movement from the 2015/16 baseline to the 2016/17 budget requirement is summarised in the following table, which reflects the current position and incorporating movements since the budget was agreed in February. Further details on each of the items accounting for this movement are expanded upon within the report. It should be noted that there remains significant uncertainty around the level of Government grants available to fund local services in 2016/17; as such a surplus of £1,251k has been shown at this stage in the budget setting process to provide a buffer against further reductions.

Table 1: Budget Requirement

	£'000
Funding Sources	
Council Tax Receipts	108,654
Retained Business Rate Receipts	47,435
Central Government Grant	46,851
Total Resources	**202,940**
Budget Requirement 2015/16	203,952
Inflation	3,439
Corporate Items	(1,890)
Contingency	8,862
New Priority Growth	(530)
Savings	(12,144)
Budget Requirement 2016/17	**201,689**
Surplus / (Deficit)	**1,251**

18. The Corporate Summary attached provides further detail over the MTFF period, showing the cumulative impact of the trends in funding and service pressures and the resultant savings requirement, which is projected to reach £61,158k by 2020/21 and principally driven by an anticipated 33% reduction in core government funding to the end of this decade. Progress towards meeting this challenge is discussed in the Medium Term Outlook section of this report, from paragraph 85.

FUNDING SOURCES

19. Latest projections indicate a reduction of £1,012k in resources available to support services, with £5,950k anticipated reductions in grant funding being offset by growth in local revenues. There are two distinct elements to this growth in local income: continuing growth in local domestic and commercial taxbase reflecting population growth and economic development; and a review of the current Council Tax Reduction (CTR) Scheme and options regarding Council Tax discounts and exemptions.

Table 2: Funding

	2015/16 £'000	Increase / (Decrease) £'000	2016/17 £'000
Council Tax Precept	101,499	4,530	106,029
Council Tax Surplus	2,697	(72)	2,625
Retained Business Rate Receipts	47,455	1,105	48,560
Business Rate Deficit	(500)	(625)	(1,125)
Revenue Support Grant	39,509	(3,924)	35,585
Other Government Grant	13,292	(2,026)	11,266
Total Resources	**203,952**	**(1,012)**	**202,940**

20. The rationale behind current funding assumptions and associated risks are discussed for each revenue stream in turn below, with particular caution being required around Revenue Support Grant forecasts in the absence of any confirmation of funding cuts to the wider local government sector. Projections for Council Tax and Business Rates income will be confirmed on the basis of taxbase projections presented to Council on 14 January 2016.

Council Tax Income

21. As at Month 7 a surplus is projected on Council Tax for 2015/16 which would be released to the General Fund in 2016/17. As a result of strong performance on collection to September 2015 and a resulting reduction in provision for doubtful debts, a £1,189k overachievement of income is projected on Council Tax. In addition, a reduction in eligibility for the CTR Scheme has been seen since approval of the taxbase in January 2015, accounting for a further favourable variance of £454k. Taking account of the £982k surplus brought forward from 2014/15, an overall surplus of £2,625k is therefore forecast.

22. The freeze on Council Tax is to continue into an eighth year for all residents in 2016/17 and a tenth year for older persons, while growth in the taxbase from new developments in the borough alongside reviews of the CTR Scheme and discounts will result in £4,530k growth in income to £106,029k. Combined with release of the projected 2015/16 Collection Fund surplus of £2,625k, Council Tax income of £108,654k will be available to support provision of services in 2016/17.

Table 3: Council Tax Income

	February Cabinet £'000	Current Forecast £'000	Change £'000	Taxbase Change Band D
2015/16 Income	(101,499)	(101,499)	0	91,200
Provisional 2% Increase	(2,030)	0	2,030	N/A
Taxbase Movements	(1,589)	(1,958)	(369)	1,760
Council Tax Reduction Scheme	0	(1,014)	(1,014)	911
Review of Discounts & Exemptions	0	(1,058)	(1,058)	950
Single Person Discount Project	0	(500)	(500)	449
2016/17 Gross Council Tax Income	**(105,118)**	**(106,029)**	**(911)**	**95,270**
Collection Fund Surplus	0	(2,625)	(2,625)	N/A
2016/17 Net Council Tax Income	**(105,118)**	**(108,654)**	**(3,536)**	**95,270**

23. This draft budget is based on an eighth successive Council Tax freeze, rather than the 2% increase previously assumed for budget planning purposes.

24. Continued strong growth in the Council Taxbase is forecast over the remainder of 2015/16 and through 2016/17, with 360 new Band D equivalents expected to come on stream by 31 March 2016 and a further 1,400 forecast to come on stream in the new financial year. Tracking of new developments has identified specific sites delivering 1,285 of these units. The remaining 475 Band D equivalents will be confirmed prior to setting the taxbase in January 2016, which will also capture any material change in eligibility for discounts and the CTR Scheme. In addition to growth in the taxbase, three specific development initiatives are expected to influence Council Tax income in 2016/17:

25. Work to date by the Corporate Fraud Team on reviewing eligibility for Single Person Discount (SPD) has identified 642 cases and has reduced the on-going cost of the discount by £180k per annum. Data matching is on-going and it is expected that 2,000 cases can be identified from the currently budgeted 30,634, which would enable a reduction of £500k in the cost of this discount.

26. Alongside this targeted work on SPD, there has been a review of other discounts and exemptions under the powers granted from April 2013 to coincide with the abolition of Council Tax Benefit. It is proposed that from 1 April 2016 the existing Class B 25% discount available indefinitely on furnished empty properties will be abolished. Class C and D discounts on properties undergoing repair or major structural alteration will be scaled back from the current 6 month and 1 year time limits to a maximum of 21 days. Across West London, only Ealing continue to offer these discounts and they have limited the time period to 14 days. Expenditure in 2014/15 on relevant discounts totalled £1,680k. These draft proposals would reduce this sum by £1,058k.

27. The CTR Scheme established by the Council in 2013/14 was designed to be contained within the £15,605k funding envelope available at the time, minimising the impact of Government policy changes on resources to fund local services. The level of support for the scheme is no longer explicitly identified within the Local Government Finance Settlement and therefore is assumed effectively to be falling in line with the overall grant award. Since the implementation of the scheme, funding for the scheme through retained Business Rates and the Revenue Support Grant has declined at a faster rate than the eligibility for the scheme with the funding gap projected at £1,679k in 2016/17.

28. In light of these on-going reductions in government funding for the local CTR Scheme, the Council has reviewed options available in managing this gap:

- Raising Council Tax
- Reducing Other Service Provision
- Reducing CTR Scheme Provision
- Use of Capital Reserves

29. The options of increasing general Council Tax and cutting other services have been disregarded as these would simply transfer the cost of financing the CTR Scheme from national taxation to local taxation, with the Government policy of capping Council Tax increases providing an additional disincentive to raising Council Tax. The use of Capital Reserves to support recurrent expenditure would only represent a time limited option as such reserves represent a finite resource, and would therefore appear contrary to the Council's statutory obligation to set a balanced budget.

30. In contrast, reducing CTR Scheme provision to reflect declining Government support for the scheme would reflect national Government's stated intention of reducing welfare payments and contribute towards the broader deficit reduction agenda without adversely impacting upon either the cost or quality of other Council Taxpayer funded services.

31. Proposals to amend the current CTR Scheme and minimise this funding gap for 2016/17 have been subject to public consultation, with the principal recommendations to reduce the maximum reduction for working age households from 80% to 75% and vulnerable households from 100% to 90%. If approved, this revised scheme would reduce the annual cost of the scheme by £1,014k and substantially reduce the funding gap. This report recommends that Cabinet agree to recommend these changes to Council in January for approval.

Business Rates Income

32. Primarily as a result of lower than estimated growth from bringing Heathrow Terminal 2 back into the rating list since its opening in June 2014, a deficit of £2,048k is reported on the Council's 30% share of Business Rates income for 2015/16 at Month 7. The corresponding reduction in the levy on growth, alongside minor variances on Section 31 grant income and the brought forward deficit, reduces the ultimate impact on the General Fund to £1,125k. Whilst this position is expected to improve, the current deficit position is reported at this stage and reflected in the 2016/17 budget.

33. The improved position on Rateable Value is expected to be delivered through the addition of 50-60 hereditaments highlighted by the Valuation Office Agency (VOA) outside the main 'cumulo' account at Heathrow. There is no indication of timescales for these items being brought in to the list or approximate values involved, however this position will remain under review, with any progress in bringing these items into the rating list impacting favourably on the 2016/17 budget outlook.

34. Current income projections within the MTFF assume that reliefs and exemptions remain steady, with growth from new development in the borough being sufficient to off-set losses in income arising from successful appeals. Under the current Business Rates Retention system, the Council expects to retain its share of the baseline level of income and 15% of any growth above this level, as outlined below. It is not expected that the abolition of Revenue Support Grant and move towards local government retaining 100% of Business Rates by 2020 will impact upon the resources available to support local services in 2016/17. The broader implications of these reforms are discussed in the Medium Term Outlook section of this report, from paragraph 85.

Table 4 - Business Rates Income

	2016/17 £'000
RV on New Developments	(5,345)
RV Losses	2,474
Net RV Change	**(2,871)**
NNDR Multiplier	0.489
Baseline Income	(43,664)
Retained Growth	(4,896)
Total NNDR Income	**(48,560)**

35. The tracking of new commercial developments within the borough has identified sites sufficient to deliver the growth outlined above during 2016/17. Projected income from these developments is a local estimate based on the value assigned to similar developments by the VOA, taking account of any loss of existing Rateable Value. The phasing of developments will remain under review and subsequent MTFF reports will reflect any material movements in this position.

Central Government Grant

36. Since 2010, deficit reduction has significantly affected local government funding with cuts exceeding 50% over the period from 2010/11 to 2015/16. This general trend of falling resources is expected to continue over the period to 2019/20, with the Government's goal of securing a surplus by 2019/20 requiring a further £20bn savings from departmental expenditure. Local modelling suggests that cuts in the region of 33% will be required by unprotected areas such as local government, with the direction of travel being confirmed in November's Autumn Statement.

37. While this overall level of funding cuts is consistent with the position previously presented to Members, there remains significant uncertainty around the phasing of cuts to the Revenue Support Grant which is further exacerbated by potential distributional changes and proposed reforms to the New Homes Bonus grant outlined in the 2015 Spending Review. Development of this draft budget for 2016/17 has focussed on managing the level of cuts indicated by the July 2015 Budget, with projections to be confirmed by the Provisional Local Government Finance Settlement in December.

38. Despite consolidation of a significant number of funding streams since 2010, there remain a number of material funding streams outside the Settlement Funding Assessment which will likely not be confirmed until January 2016 at the earliest. Current assumptions regarding corporately managed grants are detailed below and will continue to be refined as further intelligence becomes available, with scope for amendments between publication of the consultation budget in December and Council Tax setting in February.

39. Current projections for the Education Services Grant are based on a 4% per annum cut to the per pupil funding rates, and the impact of schools moving to academy status being a loss of 2,000 pupils per annum in the maintained sector. This results in a cut of £203k from 2015/16 funding levels and forecast income of £2,605k in 2016/17, although this profile may be affected by the additional savings from this grant identified in the 2015 Spending Review. It should be noted that the Education Services Grant includes no provision for the financing of investment in school capacity, the only support for which from Government is received through capital funding streams.

40. Specific grant funding for the administration of Housing Benefit and Council Tax Support is assumed to continue in 2016/17, with latest estimates being £1,205k and £291k respectively on the assumption that the 8% 'efficiency' savings will be required in 2016/17. Alongside these funds, support of £100k per annum for tackling fraud is assumed to continue.

41. The 2015 Spending Review announced an increase of £1,500m in resources allocated to the Better Care Fund over the current parliament, although there is no indication on how this uplift is to be phased. Given this uncertainty, it is assumed that the £3,800m funding distributed nationally to Councils and Clinical Commissioning Groups (CCGs) through the Better Care Fund will be maintained in 2016/17. Hillingdon's share of this sum amounts to £17,991k, and is allocated as follows:

- NHS - Commissioned Services - £9,372k
- NHS - Non elective saving/Performance Fund - £660k
- Council - Care Act Implementation - £838k
- Council - Protecting Social Care (Revenue)- £4,772k
- Council - Protecting Social Care (Capital)- £2,349k

42. It is assumed, in line with the current agreement, that any risk associated with the performance element of the fund would be wholly owned by the CCG. In the absence of confirmation around on-going arrangements, the £838k and £4,772k revenue elements are assumed to continue into 2016/17.

43. Following the announcement on 17 July 2015 that implementation of Phase 2 of the 2014 Care Act would be deferred from 2016/17 to 2019/20, the anticipated uplift in expenditure and associated grant funding has been removed from this draft budget. The £1,277k awarded in 2015/16 for the initial phase of Care Act reforms is assumed to continue into 2016/17.

44. While there has been no additional specific grant funding to support Social Care expenditure in 2016/17 identified within the Autumn Statement, the Government have announced that those authorities providing Social Care will be able to levy a precept on Council Tax of up to 2% in support of Social Care. This additional flexibility has not been reflected in the Council's draft budget.

45. In addition to these major funding streams, a further £178k income is forecast on smaller corporately-managed grants which are assumed to be reducing by 8% per annum, bringing total income from non-specific grants to £11,266k for 2016/17. New Homes Bonus is currently monitored within Residents Services and is expected to total £9,680k for 2016/17, assuming no changes to the operation of the scheme. Consultation is to be launched by DCLG on reforming New Homes Bonus, the timing of which would necessitate a challenging timescale for the introduction of reforms for 2016/17. Funding projections from 2017/18 and issues arising from proposed reforms of the local government finance system are discussed in the Medium Term Outlook Section of this report.

BALANCES AND RESERVES

46. General Balances totalled £40,439k at 31 March 2015, with the planned drawdown of £5,000k in 2015/16 being off-set by a £1,153k in-year underspend and subsequent release of £15,000k over the period to 2019/20 leaving £21,593k uncommitted at this stage. This level of balances remains comfortably within the £15,000k to £30,000k range recommended under the Council's Balances and Reserves Policy.

47. Earmarked Reserves provide additional flexibility in the MTFF over and above the use of General Balances, with £12,397k of the £24,209k balance held at 1 April 2015 potentially available to support new investment without increasing the savings requirement.

INFLATION

48. Inflation projections have been updated from the position reported to Members in February 2015, with the removal of £488k departmental non-staffing inflation and £100k reduction in the Concessionary Fares levy in 2016/17 to reflect the continuing low inflation environment. Overall a conservative approach to inflation allocations has been applied, although assumptions have been refreshed to reflect likely growth over previous estimates of £280k in the cost of Homecare arising from introduction of a National Living Wage.

Table 5 - Inflation Provision

	Inflation Rate %	2016/17 £'000
Employee's Pay	1.8%	1,992
Added Years Pension Costs	0.5%	10
Electricity	0.0%	0
Gas	0.0%	0
Vehicle Fuel	0.0%	0
Residential / Nursing Placements	1.0%	694
Homecare Provision	4.0%	523
Business Rates	0.0%	0
Concessionary Fares	4.0%	327
Gross Inflation Provision		**3,546**
Less: Grant Funded Items		(107)
Net Inflation Provision		**3,439**

49. The Consumer Price Index has remained at historically low levels for some time, with the 0.1% decrease reported in October 2015 being substantially below the 2.0% Bank of England target rate. Projections from the Bank of England and other commentators suggest that rates will rise back towards the target by 2017 as growth in the wider economy picks up, and current unusually low increases in energy prices end. In light of this position inflation has been removed from fuel and Business Rates budgets.

50. Inflation on workforce costs is currently included at 1% per annum in line with the Government policy reconfirmed in the 2015 Spending Review, with a supplementary 0.8% included to reflect the 1% uplift in employers' pension contribution rates from 1 April 2016 for those staff in the Local Government Pension Scheme. The additional pressure on workforce costs arises from the abolition of the Second State Pension and resulting uplift in National Insurance contribution rates.

51. In order to reflect the low inflation environment experienced during 2014/15 and 2015/16, no inflation has been applied to the majority of non-staffing budgets with services seeking to manage any exceptional inflationary cost pressures through procurement efficiencies. In contrast to the general inflation situation, the well publicised issues around the financial viability of care suppliers have led to inclusion of 1% inflation on residential and nursing

placements to reflect assumed pay inflation in this sector and 4% inflation on Homecare Provision. With the higher rate applied to Homecare reflecting the expected greater impact of the National Living Wage on this sector.

52. With the exception of TfL Concessionary Fares, it is assumed that corporately managed levies are frozen to reflect continuing austerity and minor movements due to changes in apportionment bases can be managed within existing revenue budgets. On Concessionary Fares, projections over the period to 2020/21 have been reviewed and an underlying £400k per annum increase is projected, based on 1.5% to 2.2% annual growth in the eligible population and 2.5% per annum fare increases across TfL and other transport providers. From 2014/15 a new apportionment methodology has been phased in, which more accurately reflects tram and London Overground usage, and therefore diverts costs away from Hillingdon towards those boroughs better served by this infrastructure. This transition will be completed in 2016/17, reducing the increase in Hillingdon's share of levy by £100k.

CORPORATE ITEMS

53. 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 2016/17 budget are explained below.

Table 6: Corporate Items

	£'000
<u>New Burdens & Transfers of Responsibility</u>	
New Burdens associated with the Care Act	0
<u>Adjustments to Funding, Financing & Corporate Budgets</u>	
Increase in Council Tax Older People's Discount	30
Drawdown from Earmarked Reserves to finance Older People's Discount	(30)
Rephasing of Capital Financing Costs	(1,400)
Minimum Revenue Provision Review	(400)
Technical Adjustments (Review of Capitalisation)	(420)
Review of HIP Budget Provision	(400)
Reduced Drawdown from General Balances	0
Reduced Drawdown from Earmarked Reserves	730
Total Corporate Items	**(1,890)**

54. As noted under the Government Grants section above, implementation of Phase 2 of the 2014 Care Act will be deferred from 2016/17 to 2019/20, resulting in removal of associated £2,032k cost increase from the draft 2016/17 budget.

55. The cost of the Older People's Council Tax Discount Scheme is projected to rise by £30k to £1,521k in 2016/17, reflecting growth in the eligible population from both demographic changes and increased residential development in the borough. On current projections and Council Tax increase assumptions, the cost of the scheme is set to rise to £2,709k per annum by 2020/21 although earmarked reserves are in place to fund the scheme until 2019/20, after which the full cost of the scheme impacts upon the General Fund savings requirement.

56. Latest capital expenditure projections for the Council indicate that new borrowing is unlikely to be required until 2017/18 at the earliest, which alongside proactive management of the Council's current loan book, would indicate that £1,400k of General Fund interest costs can be deferred from 2016/17. This sum is principally driven by a review of the balance of debt between HRA and General Fund, which indicates appropriation of borrowing to the General Fund will not be required.

57. A review of the Council's approach to providing for repayment of debt associated with historic capital investment, the Minimum Revenue Provision, has been completed, and an alternative approach adopted which spreads the costs more evenly over the life of assets. This will substantially reduce the revenue cost to the General Fund over the current MTFF period, securing a saving of £1,000k. The £400k noted in Table 11 above represents the full year effect of this saving, which has been implemented in full during 2015/16 and contributes towards the in-year underspend on Capital Financing Costs.

58. The approach to accounting for £420k annual investment in Telecare equipment has been reviewed and an element of expenditure is to be treated as capital rather than revenue. It is planned to fund this additional investment from the £580k annual capital allocation within the Better Care Fund, against which there are currently no commitments in the medium term.

59. In order to reflect the availability of earmarked reserves to support investment in one-off initiatives, a reduction in the annual funding for HIP Initiatives from £800k to £400k is included in this draft budget. Spend over the last few years suggests that £400k per annum will be sufficient but if not this can be supplemented by the use of HIP earmarked reserves where necessary.

60. The 2015/16 budget approved by Cabinet and Council in February 2015 included drawdown of £5,000k from General Balances, which was to be scaled back by £1,000k per annum over subsequent years. The projected surplus for 2015/16 provides scope to maintain a drawdown of £5,000k in 2016/17, resulting in no movement in the planned drawdown from General Balances. In addition, there remains scope within General Balances to mitigate further front-loading of cuts to government grants. The 2015/16 budget included a one-off application of £730k from earmarked reserves to fund specific growth initiatives which will fall out of the 2016/17 budget.

DEVELOPMENT & RISK CONTINGENCY / SERVICE PRESSURES

61. 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.

62. Work has been completed to fully refresh all contingency items, with a net increase in the 2016/17 requirement from the £2,897k reported to Cabinet in February rising by £5,965k to £8,862k. This increase includes the £1,881k provision for increased National Insurance Contributions; an upward revision in the funding shortfall for Asylum services to £940k, and a £3,269k uplift in the projected cost of Children's Social Care Placements to reflect a step change in the number of Children in Care. Additionally, provision of £400k for High Speed 2 and Heathrow Expansion Challenge Funds and £400k contingency for potential deficits in the Parking Revenue Account has been established.

Table 7: Development & Risk Contingency

	£'000
2015/16 Contingency Budget	12,340
Releases to Operating Budgets	(2,270)
Increase to Contingency Requirement	8,862
2016/17 Contingency Budget	**18,932**

63. Appendix 3 to this report provides a breakdown of the draft Development & Risk Contingency for 2016/17, with an explanation of key assumptions and risk factors on each item set out below:

- **Uninsured Claims (£59k reduction from 2015/16)** - A reduction to £341k in the provision for uninsured claims is proposed in this draft budget, which combined with base budget funding would be sufficient to contain £700k of claims annually. There is scope to finance any exceptional or high value claims over this amount from dedicated earmarked reserves, which currently total £2,734k.

- **Impact of Welfare Reform on Homelessness (£189k increase from 2015/16)** - Over the past six months numbers of households being housed in temporary accommodation has remained substantially above levels assumed in setting the 2015/16 budget, with this demand-led pressure being exacerbated by housing supply issues which necessitate greater use of expensive Bed & Breakfast provision. The combined effect of these factors is a gross risk of £3,437k, although this draft budget takes account of planned and potential action to manage demand and increase supply which reduces the net call on Development & Risk Contingency to £2,025k.

- **Waste Disposal Levy & Associated Contracts (£596k increase from 2015/16)** - In anticipation of release of reserves by the West London Waste Authority (WLWA), who are currently projecting a surplus of £1,400k in 2015/16, the annual uplift in the cost of waste disposal has been reduced to £596k. Where permissible, the Council continues to make local arrangements for waste disposal where this offers better Value for Money than WLWA contracts. The £596k growth in 2016/17 includes £136k increase in the variable cost element of the Grundon's co-mingled dry recycling contract and £184k from the phased increase in costs under the Powerday contract - both arrangements remain less expensive than disposal through WLWA mechanisms.

- **High Speed 2 & Heathrow Expansion Challenge Funds (£400k increase from 2015/16)** - In order to continue to support the Council's opposition to both High Speed 2 and the further expansion of Heathrow airport, provision of £400k is established within Development & Risk Contingency for 2016/17.

- **Parking Revenue Account (£400k increase from 2015/16) -** The installation of CCTV enforcement of Keep Clear Zones outside the 89 schools across the borough is proposed within the draft capital programme for 2016/17, with provision held within Development & Risk Contingency to manage any pressure within the Parking Revenue Account should efficiencies within the account and resulting enforcement income be insufficient to off-set the full cost of this investment.

- **Asylum Funding Shortfall (£940k increase from 2015/16)** - A series of marked reductions in Home Office funding for Asylum Seekers since October 2013 has exacerbated the existing funding gap, with a gross pressure of £2,628k representing a £1,356k increase on the 2015/16 contingency provision. The majority of this gross risk relates to on-going support for post-18 former Unaccompanied Asylum Seeking Children where Home Office funding rates are not meeting the full cost following cuts in 2015/16. A range of proposals are in development to reduce this gap to £2,212k in 2016/17, although there remains a substantial uplift of £940k in the local subsidy for Asylum services. The current position assumes maintenance of 2015/16 funding levels into the new financial year, although there remains a risk that the Home Office will seek to further reduce funding rates.

- **Children's Social Care Demographic Pressure (£3,269k increase from 2015/16)** - Development & Risk Contingency provision for Children's Social Care has been rebased to reflect the marked increase in demand for the service over the past twelve months, with the overall requirement of £3,734k over base budget provision of £7,770k and representing an increase of £3,269k on the £465k already held in contingency. The projected cost for 2015/16 of supporting 449 children through both permanent and residential placements was £10,485k as of September 2015, with the full year effect of these placements and general population increase over the next year expected to add £779k and £240k respectively to this sum in 2016/17. This sum reflects a range of factors, including increased use of Special Guardianship Orders (SGOs) and Staying Put reforms with management action to mitigate this pressure presented as Service Transformation and Demand Management savings in this report.

  In line with the increased demand for Children's Social Care placements being reported in 2015/16, an increase of £1,353k in the headline cost of care placements is projected for 2016/17. Within this increase, £570k is specifically attributable to the additional cost of utilising SGOs rather than adoption for on-going permanent placements. This projected cost for placements assumes a reduction of £250k from the projected outturn position in 2015/16, reflecting management action to move away from residential placements while converting foster placements into SGOs.

- **Children's Services Structure - Agency Pool (new item - £277k increase from 2015/16)** - As Children's Services moves to a new permanent structure, provision is proposed to manage the additional costs associated with use of agency cover where permanent recruitment has not yet been completed, or proves more challenging. The provision of £277k is based on the estimated premium associated with 10% of Social Worker and Social Work Management posts being covered by agency staff. It is proposed to manage this sum through Development & Risk Contingency to provide transparency around such costs rather than build into the base budget for the Group.

- **Special Educational Needs (SEN) Transport (£520k decrease from 2015/16)** - The additional needs strategy sets out the requirement to develop a wide range of special educational provision in the local area and reduce the need for expensive journeys to out of borough schools. Whilst the number of children with SEN is increasing the number in out of area schools is beginning to decrease and with the increase in local developments, the expectation is that this will reduce the contingency requirements by £740k from the previous 2016/17 estimate. In addition a saving of £500k against the base budget for SEN Transport is also included in these budget proposals, bringing the total cost reduction from this initiative to £1,240k.

- **Transitional Children (£1,319k increase from 2015/16)** - Provision is included within this draft budget to meet the costs associated with 38 children transitioning into Adult Social Care placements during 2016/17 and the full year effect of those clients transferred in September 2015. This represents an increase of £80k from the position forecast in February 2015, with a lower number of clients now expected to transfer at higher cost. In line with recent experience, reassessment of care needs at the point of transfer undertaken within Adult Social Care is expected to result in a reduction of 5% from the current cost of placements.

- **Adult Social Care Demographic Pressures (£303k increase from 2015/16)** - The latest review of Adult Social Care placements has resulted in a reduction of £94k from the £397k uplift projected in February 2015, to provide £48,997k to meet the care needs of 3,373 Adult Social Care clients within the 2016/17 budget. Assumed levels of client contributions have been reviewed and increased through this review, reflecting the overachievement of income reported through 2015/16 budget monitoring. This projection takes account of the full year cost of those clients transferred to the Council following abolition of the Independent Living Fund, netted down by continuation of the £571k new burdens funding from the Department of Health and an estimated £100k of continuing Health Care contributions from the Hillingdon Clinical Commissioning Group.

- **Winterbourne View (no movement from 2015/16)** - Latest forecasts for the transfer of clients from the National Health Service in response to the Winterbourne View report indicate that no uplift in the £393k contingency requirement established in 2014/15. The £56k uplift previously forecast for 2016/17 related to a client has been identified as being the responsibility of Hertfordshire County Council. It is assumed that 50% of relevant costs associated with each placement will be met by the Clinical Commissioning Group due to the Continuing Health Care requirements of these clients.

- **Increased National Insurance Contributions (£1,881k increase from 2015/16) -** £1,881k is set aside through Development & Risk Contingency to manage the proposed 3% increase in Employers' National Insurance Contributions for those employees within the Pension Scheme following abolition of contracting out in April 2016. This cost has been estimated on the assumption that no staff leave the Pension Scheme as a result of these reforms, and that no additional funding is directed into the local government sector to compensate for the cost of this reform.

- **General Contingency (no movement from 2015/16)** - This draft budget contains £1,000k General Contingency to manage unforeseen risks and pressures, including exceptional income variances.

PRIORITY GROWTH

64. This draft budget includes £804k of Priority Growth to support new initiatives and investment in services. Proposals to utilise £340k of this sum are included in this draft budget, with the majority of the remaining £464k balance committed to funding an expanded Youth Service offer upon opening of the planned new centres from 2017. Specific growth items to be funded in this budget include:

    - An initial £50k towards the running costs of the first of three new Youth Centres, rising to £450k by 2018/19 to support all three.
    - Provision of £140k growth to fund a Museum Curator and Assistant on the RAF Uxbridge site.
    - Additional investment of £100k in Planning Enforcement.
    - Further provision of £25k in support of carers.
    - £25k funding to support Domestic Violence Prevention.

SAVINGS

65. Savings proposals totalling £12,144k, which are focused on increased efficiency and effectiveness with no reduction in service provision, have been developed through the Council's BID Programme and associated workstreams. The savings have been adjusted to take account of rephasing of 2015/16 proposals so the Council does not carry forward undeliverable savings in the refreshed MTFF. These proposals fall into five broad themes, which are outlined below, with further detail on individual proposals set out in the attached appendices.

Table 8: Savings

	Admin & Finance £'000	Residents Services £'000	Adult Social Care £'000	Children & Young People's Services £'000	Total £'000
Zero Based Review	(248)	(1,470)	(324)	(524)	(2,566)
Preventing Demand	0	0	75	(1,246)	(1,171)
Service Transformation	(1,280)	(2,058)	(733)	(409)	(4,480)
Effective Procurement	(382)	(300)	(726)	0	(1,408)
Maximising Income	(24)	(1,125)	(261)	(1,109)	(2,519)
Total Savings	**(1,934)**	**(4,953)**	**(1,969)**	**(3,288)**	**(12,144)**

Zero Based Reviews

66. £2,566k savings are being released in 2016/17 through Zero Based Reviews (ZBR) of service budgets, realigning budgets in those areas where either current activity is lower than historic budgeted spend or income generation reliably outperforms budget assumptions. These savings do not affect funding available to support the provision of services.

67. Within Administration, ZBRs include the £140k reduction in the cost of Members' allowances following changes to pension entitlement, £25k from a review of commitments under the Small Grants Programme and £83k across other budgets in the group.

68. Within Residents Services, such reviews have identified £734k of expenditure reductions and £653k of additional income, alongside £83k within the consolidated Technical Administration function.

69. ZBRs within Adult Social Care have identified £124k surplus budgets and scope to reduce contributions for overheads within Central North West London NHS Trust contracts by £200k.

70. Children's Services have identified £274k ZBR savings on placements from the aging up of clients affecting by Staying Put legislation, £200k from a review of Children's Centre budgets and £50k of surplus budget within Teenage Pregnancy services.

Preventing Demand

71. Demand management and associated early intervention measures form a key part of the Council's savings, reducing the on-going cost of service delivery through investment in new initiatives such as reablement in Adult Social Care and major expansion of the Children & Young People's Services establishment. Such initiatives are expected to deliver £1,171k savings in 2016/17.

72. Within Adult Social Care, investment in Supported Living through the Council's own capital programme and partnership working with local housing providers is expected to deliver substantial savings while improving the quality of life for service users. Estimates for the savings accruing from the managed move away from traditional, expensive residential placements to independent supported living placements have been revised to reflect the latest delivery dates for the new housing developments.

73. The impact of new ways of working in Children's Services, and the 'Fantastic 30' initiative to attract additional foster carers, are expected to reduce on-going placement costs by £562k and £506k respectively during 2016/17. Additionally, the expanded Early Intervention offer is intended to mitigate projected growth in Looked After Children through effective demand management, resulting in a saving of £178k. The combined effect of these measures is expected to mitigate a substantial element of the significant growth in such costs included in the Development and Risk Contingency.

Service Transformation

74. The Council continues to review and challenge its existing business process through the BID Programme, with £4,480k savings to be delivered in 2016/17 through implementation of new and more efficient ways of working. Specific examples of savings arising from service transformation include restructuring of areas of the Council's establishment to better meet service requirements, managed reductions in overtime & standby pay BID reviews of services across the Council.

75. Within Administration, there are initiatives including reviews of Democratic Services, Human Resources, Policy & Partnerships and Legal Services, alongside broader restructuring of management across the group, which are expected to secure £485k of savings through Service Transformation. In addition to these specific proposals, a further £100k target has been included for further efficiencies to be secured over the coming months.

76. Implementation of new ways of working which allow greater focus on value added work are expected to enable release of £595k savings across Finance, with significant efficiencies being generated in Revenues & Benefits, Procurement, Operational Finance and Internal Audit. In addition to these specific proposals, a further £100k target has been included for further efficiencies to be secured over the coming months.

77. A broad range of BID reviews are underway across Residents Services with potential savings of £2,058k expected to be delivered through Service Transformation in 2016/17. Specific initiatives include restructuring of Senior Management across the group; reviews of Wellbeing, Public Protection & Community Safety; Business Performance & Intelligence; Technical Administration; ICT and Corporate Fraud Services. Alongside these reviews, cross-cutting initiatives to reduce reliance on standby and overtime arrangements are expected to contribute towards savings delivery.

78. Alongside the reduction in contingency provision for SEN Transport, Adult Social Care are projecting a £500k reduction in the cost of service provision arising from increased use mechanisms such as Travel Training in place of private vehicle hire and greater targeting of the service offer. In addition £33k of savings are expected by providing Social Work support to Michael Sobell House alongside broader service provision, rather than a dedicated resource. In addition to these specific proposals, a further £200k target has been included for further efficiencies to be secured over the coming months.

79. Children and Young People's Services are implementing £309k of Service Transformation savings across the Early Support Service and within Children's Centres, reducing

management overheads to enable greater investment in service provision. In addition to these specific proposals, a further £100k target has been included for further efficiencies to be secured over the coming months.

Effective Procurement

80. Effective Procurement and on-going contract management continue to contribute towards the Council's broader savings programme, with £1,408k of 2016/17 savings proposals specifically linked to procurement activity. Within Finance, £360k savings relate to the continuing reduction in the Revenues & Benefits administration contract and £22k from re-tendering of Insurance contracts. Savings of £100k from Facilities Management contracts and £200k from Public Health contracts are being delivered by Residents Services, with £726k savings proposed from Adult Social Care in relation to new delivery models for in-house provision and broader category management plan activity.

Maximising Income

81. Savings proposals totalling £2,519k have been identified from maximising income through a range of mechanisms, including government grants, contributions from other public bodies in support of shared functions and reviews of charges to service users. £1,765k of additional income from Government is to be secured through New Homes Bonus and Troubled Families grants, which reward residential development in the borough and early intervention work in Children's Services respectively. A further £416k is to be secured through increased contributions from public sector partners, including the local National Health Service, with £338k savings arising from reviews of Fees & Charges which are expanded upon below.

FEES AND CHARGES

82. 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.

83. Revisions to a small number of fees and charges are proposed as part of this draft budget, with the cost to service users kept below 90% of relevant charges in neighbouring authorities. Amongst the proposed amendments are:

- Increases to Registrar's fees & charges for weddings, and introduction of Sunday wedding ceremonies;
- Increases to leisure fees and charges at a number of sites across the borough,;
- New charges in respect of the proposed FootGolf provision at Uxbridge Golf Course
- Increases to Cremation Fees;
- Introduction of new charges to support a new offer of pre-application advice in respect of Houses of Multiple Occupation (HMOs);
- Introduction of chargeable Private Post Mortems at the mortuary;

84. As noted within the savings section of this report, £428k additional income is projected from these amendments.

MEDIUM TERM OUTLOOK

85. Whilst the immediate focus of this report is on delivery of a balanced budget in 2016/17, this challenge must be considered in the context on continuing funding reductions to the end of the decade. Key forecasts and planning assumptions around the Council's finances are detailed in the following paragraphs, with total savings of £61,158k or 33% of directorate operating budgets required to balance the budget.

86. The principal pressure driving the savings requirement is the on-going decline in support from central government, with a £31,686k reduction forecast on the Settlement Funding Assessment (Baseline Business Rates Income and Revenue Support Grant) and other general funding streams. These spending reductions are projected to fall over the period 2016/17 to 2019/20 in order to secure the Government's stated intention of delivering a budget surplus by 2019/20. Government grant income is thereafter assumed to remain broadly flat in cash terms.

87. Spending Review 2015 has confirmed that core grants to local government continue to bear higher percentage cuts than all government departments, although clarity on the local impact will not be known until distributional changes and the effects of increasing the locally retained share of Business Rates to 100% are known. Given this uncertainty, the previously noted reduction in the Settlement Funding Assessment is retained for planning purposes at this stage.

88. In addition to these projected funding reductions, the £5,000k grant cuts deferred from 2015/16 and 2016/17 through application of General Balances contribute to the savings requirement over the MTFF period and bring the total reduction in grants to £36,686k. Contrary to the position on government grants, yield from local taxation in the form of Council Tax and Business Rates is expected to grow over the MTFF period.

89. Council Tax revenues are projected to grow by £17,319k over the period to 2020/21, with three distinct elements of this growth - taxbase growth, local reforms and inflationary increases - and the falling out of the £2,697k surplus recognised in 2015/16. In line with population projections for the borough the taxbase is projected to grow by 7,360 properties and secure an additional £8,191k income, the changes to discounts, exemptions and the CTRS outlined above could secure £2,571k of the uplift, while a 2% assumed inflationary uplift from 2017/18 would raise £9,254k.

90. From 2019/20 funding earmarked to maintain the Older People's Council Tax Discount, currently equivalent to £54.21 annually for each eligible Band D equivalent household, will be exhausted and the base budget provision of £2,235k per annum will be required - a £1,190k increase on the current base budget which is currently assumed to increase the savings requirement, although there is scope to earmark funds to continue the scheme.

91. On 5 October 2015, the Chancellor of the Exchequer announced the intention to devolve new powers from Whitehall to local areas to promote growth and prosperity. By 2020, local government will be able to retain 100% of local taxes, alongside a number of freedoms to boost enterprise and economic activity in their areas. With consultation on the implementation of this proposal due in early 2016, detail on likely operation of the new system will not be available until after the 2016/17 budget has been set, although redistributive elements will remain within the system and Hillingdon will continue to 'export' Business Rates income.

92. Core local government funding is currently below the £26bn raised in Business Rates nationally, and it will therefore be necessary for new responsibilities to transfer to local

government in order to both retain 100% Business Rates income within the sector and continue to contribute towards the Government's deficit reduction programme. Given the level of uncertainty around these changes, medium term projections within this report are based on the continuation of the current system of Business Rates Retention, although authorities such as Hillingdon which benefit from the current system are likely to be in a position to gain from proposed reforms.

93. Under the current system the Council retains 15% of income arising from physical growth in the local Business Rates base, with additional income of £6,366k expected to be secured by 2020/21. Of this increased income, £4,197k relates to the inflationary uplift in Business Rates which is topsliced from Revenue Support Grant income under the current arrangements.

94. In addition to the decline in funding, inflationary pressures on the current cost base are expected to amount to £20,352k by 2020/21. Workforce costs remain the single largest element of this projection at £10,264k, based on 1% per annum pay awards and increases to employers' pension contributions. Additionally, £5,471k is provided to manage the inflationary uplift in the cost of Social Care provision, with the sector expected to be particularly affected by the introduction of a national living wage. £1,974k has been set aside to manage growth in the Concessionary Fares levy, with the remaining provision linked to contract utility expenditure. Current inflation projections assume that CPI will rise from its current historic low to the 2% Bank of England target rate over the MTFF period, although there remains a risk that factors such as the introduction of a national living wage or shocks in commodity prices could drive up the cost of inflation for the Council. Inflationary uplifts in Council Tax assumed from 2017/18 would be sufficient to fund £9,254k of this pressure, leaving £11,098k to be met from additional savings.

95. This draft budget includes £19,697k of growth in Development & Risk Contingency which is principally driven by the increased demand for services arising from a growing population. Population growth of 7% over the period to 2020/21, which correlates with local development forecasts and Office for National Statistics projections, has been assumed for Adult Social Care, Looked After Children, SEN Transport and Waste Disposal forecasts. A significant element of this growth in cost is directly off-set by the £8,191k additional Council Tax receivable from a growing population, with declining Government support and limited benefit being retained locally from business growth, the remaining £11,506k necessitating identification of savings.

96. Alongside demographic changes, broader economic conditions and Government policy are potential drivers of cost pressures, with the significant £12bn reduction in working-age welfare expenditure likely to affect demand for locally provided services. In particular the impact of reducing the welfare cap in London to £23k, a four year freeze in working age benefits and changes to the tax credit system may drive increased demand. Similarly, issues around the availability of affordable housing is expected to continue to impact upon the Council's financial standing.

97. Demand for school places, and specifically the shortfall in government funding to meet this cost, represents a further significant risk to the MTFF. Since 2013/14 funding in support of the Council's education responsibilities has been limited to the Education Services Grant, which includes no provision to support capital investment in school places while annual capital grant allocations remain insufficient to deliver capacity within the borough. This budget includes £4,350k additional provision for financing school expansion, bringing total revenue provision to £10,050k by 2020/21 - equivalent to £100 per household or 8% of

Council Tax bills. In addition, other capital investment is expected to add £2,295k to the savings requirement over the MTFF period.

98. Overall this results in a £61,158k savings requirement, principally driven by £36,686k projected reductions in government funding, £11,135k of inflation and £11,506k projected growth in demand for services that cannot be contained within taxbase growth and £6,545k provision to support investment in school places and other capital schemes. With savings of £17,655k already identified this results in a remaining budget gap of £43,503k, disregarding externally set levies and capital financing the total savings requirement equates to 33% of departmental operating budgets.

CAPITAL PROGRAMME

Background to Capital Programme

99. The Council's Capital Programme, as approved by Cabinet and Council in February 2015, continues to be focused on the provision of sufficient school places to meet rising demand across the borough. Additionally, provision for major investment on the St Andrew's Park site in Uxbridge is included in the programme alongside the recurrent programme of works to maintain local infrastructure.

100. This report provides an update on the current Capital Programme, refreshed projections for investment in school expansion from 2016/17, new proposed capital projects and a comprehensive refresh of all capital financing forecasts. Growth in demand for school places is projected to add a further £32,578k to the programme. Reductions in funding for school provision are projected to add a further £43,162k to the borrowing requirement. Other programme changes, additional capital receipts and developer contributions bring the gross increase in the borrowing requirement to £24,717k. The expected £2,000k additional cost for the servicing and repayment of this debt is provided for in the Council's draft revenue budget discussed earlier in this report.

101. This draft programme has been developed with 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 2015/16 forecast outturn. All associated revenue implications have been factored into revenue budgets through the MTFF and reflected elsewhere in this report.

Update on Current Programme

102. As at Month 7, a net underspend of £3,487k is reported on the current Capital Programme, with a forecast £2,284k underspend against the Schools Programme and a net underspend of £1,203k across the remainder of the programme. Additionally, rephasing of £30,737k Council resourced expenditure is projected across a number of schemes, which is reflected in the draft capital programme presented within this report.

103. Within the reported position, there remains £6,775k of unallocated contingency, £965k unallocated Priority Growth and £750k uncommitted budget for Environmental and Recreational initiatives. It is proposed that a number of smaller new projects could be funded from one of these sources, rather than inflating the capital programme and associated revenue financing costs.

2016/17 - 2020/21 CAPITAL PROGRAMME

Schools Expansion Programme

104. The Council's flagship School Expansion Programme remains at the centre of the Capital Programme, with total projected investment of £318,512k to secure 50 additional forms of entry (FE) over the period from 2010 to 2021. This represents an increase of £32,215k from the position reported to Cabinet and Council in February 2015, reflecting increased growth in pupil numbers, inflationary pressures on construction costs and outturn on completed schemes.

105. The Primary School Expansion programme phases 1, 2 and 3 are now complete, with phase 4 developed in this draft programme. Growth forecasts indicating a requirement of 3FE above current capacity limit has emerged in the north of the borough, with the demand principally due to inward cross-border migration. Site investigation surveys and feasibility studies are underway to identify suitable re-provision or expansion sites in order for phase 4 to commence. Revised cost projections to meet this demand necessitate a £18,800k uplift in the existing £13,500k budget provision for delivery of these projects. Growth forecasts beyond medium term projections assume that demand levels in the Primary sector remain stable, with no further requirement identified for the period to 2025. Population growth assumed in the Secondary sector, consistent with broader population assumptions across the MTFF, has added 3FE requirement to this programme. The borrowing requirement necessary to meet this demand included in this programme is £19,000k, off-set by existing provision of £7,022k for such an increase. Proposed and existing schemes in the Secondary sector will enable the delivery of 19FE to 2020/21, including 11.5 FE for which specific proposals have been developed, 3FE for which funding is in place to finance expansions and a sum of £10,000k to support Free School provision to deliver the remaining 4.5FE.

106. Beyond this current MTFF period, the latest forecast of demand to September 2024 identifies the requirement of a net increase of 8FE in the secondary sector. While a strategy for delivery of these places is yet to be developed, under a continuation of existing funding arrangements this could represent a substantial burden on the Council's finances in the next decade.

107. In addition to provision for new permanent capacity, it is anticipated that an element of temporary provision will be required to accommodate pupils during construction projects, for which £1,800k is included in this draft capital programme.

108. Recent experience of Government support for projects is expected to continue and grant funding projections have been refreshed accordingly. Over the period 2010 to 2015 the Council delivered 32.5FE through phases 1 to 3 of the Primary School Expansion programme with 71% of the cost being met from Department for Education grant funding, equivalent to £3,086k funding per FE against a cost of £4,339k.

109. In contrast, delivery of further Primary expansions on more challenging sites and the move to larger Secondary expansions will see the average cost of each FE rise to £5,750k per FE while grant funding is expected to fall to £1,124k and only cover 20% of each expansion. This decline in grant funding is partly driven by the absence of any Targeted Basic Needs programme going forward, under which the Council was able to attract substantial additional funding, and anticipated reductions in per pupil funding rates. The net effect of this step change in external funding is the loss of £43,162k grant funding, thereby, substantially increasing the likely borrowing requirement of schools investment.

Proposed Additions and Amendments to the Capital Programme

110. Alongside the refreshed School Expansion Programme, proposals for new General Fund capital projects totalling £16,000k have been developed for consideration and potential inclusion in the capital programme, are outlined in the following paragraphs. Taking account of £11,925k of budgets which are no longer required, this reduces the net increase in borrowing from programme amendments to £4,075k.

111. Provision of £2,657k is included in this draft programme for enforcement at 'School Keep Clear' restrictions, spanning 124 sites across the borough. The ongoing revenue financing

costs associated with this scheme will be managed through the Parking Revenue Account, with an initial estimated subsidy of £400k per annum from the General Fund.

112. An increase of £2,000k to £4,072k in provision for replacement of the Council's fleet, which is intended to enable replacement of 51 vehicles, including 23 refuse lorries by 2020/21. In all cases consideration will be given as to whether outright purchase or leasing of vehicles offers better Value for Money.

113. Further investment in local infrastructure is included within this draft capital programme, with an additional £1,000k funding for Highways Structural Works in 2016/17 brining total investment in locally maintained Highways to £6,000k over the MTFF period. In addition, £1,000k of specific growth to finance investment in Pavements is included in the draft capital programme for 2016/17.

114. The £1,000k funding available from Government to support renovation of the Battle of Britain Bunker at RAF Uxbridge is included in this draft capital programme. This new investment will supplement the existing Council Resourced investment of £4,850k, which will create an educational facility and visitors centre to replace the existing RAF building.

115. To fund the rolling replacement of playgrounds across the borough, an additional £1,250k is included in the draft capital programme at £250k per annum from 2016/17 to 2020/21. This will enable the Council to continue to minimise on-going repairs and maintenance costs while enhancing facilities for residents.

116. Investment of £620k in providing short-term accommodation for service users of the Rural Activities Garden Centre on the vacant neighbouring 1 & 2 Merrimans site, including appropriation of land from the Housing Revenue Account.

117. Provision of £200k to continue investment in modernising the Council's Harlington Road Depot site is also included in this budget.

118. Programme of Works budgets have been refreshed to reflect current levels of expenditure and an additional year of investment added to the programme in 2020/21 at a net cost to Council Resources of £5,773k. Inclusion of £1,500k General Contingency in the 2020/21 Capital Programme is also recommended at this stage.

119. Although these additions to the programme would be expected to increase the Council's borrowing requirement by £16,000k, with removal of £11,925k of budgets which are no longer required resulting in a net increase of £4,075k in the Council's need to borrow for non-schools investment. Schemes for which provision could be removed are:

- Yiewsley Pool Development - (£8,233k)
- New Years Green Lane EA works - (£3,245k)
- Local Plan Requirement - (£197k)
- Community Safety Assets - (£250k)

Capital Financing and Revenue Implications

120. In considering the funding strategy for the proposed 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 2015/16 to 2020/21.

121. Projections in respect of capital income streams have also been refreshed, with an additional £37,036k of capital receipt, and an increase in CIL and Section 106 payments of £9,079k offsetting the £43,162k shortfall of assumed EFA grant funding. Table 10 below provides a summary of capital expenditure and financing included in this draft programme.

Table 10: Capital Financing

	2015/16 £'000	2016/17 to 2020/21 £'000	Total £'000
Schools Programme	32,105	157,888	189,993
Main Programme	14,977	81,163	96,140
Programme of Works	17,248	60,086	77,344
Development & Risk Contingency	748	7,500	8,248
Capital Expenditure	**65,078**	**306,647**	**371,725**
Prudential Borrowing	29,675	124,939	154,614
Capital Receipts	9,956	88,985	98,941
Community Infrastructure Levy	2,000	25,000	27,000
Council Resources	**41,631**	**238,924**	**280,555**
Government Grants	18,758	60,154	78,912
Other Contributions	4,689	7,569	12,258
Capital Financing	**65,078**	**306,647**	**371,725**

122. Capital Receipts of £98,941k over the period from 2015/16 to 2020/21 are now forecast, with a movement of £37,036k from existing budgets due to new receipts being identified to fund General Fund investment. Provision of £23,560k in respect of as yet unidentified surplus assets to be sold from 2017/18 onwards is included in draft assumptions.

123. Projections considering Community Infrastructure Levy (CIL) have been refreshed, and although an increase over the period of £7,000k against existing budgets is reflected, assumptions on the level of CIL income in the Capital Programme is lower than development growth expectations included elsewhere within the MTFF report. The prudent CIL assumption included in this draft programme is likely to mitigate potential emerging pressures in the level of Capital Receipts achievable to 2020/21, as new developments come online. The volatility in respect of the level of CIL liability is matched with a similar level of uncertainty around Education Funding Agency grants. An additional £2,079k of Section 106 contributions, principally related to school expansions, have been identified and added to the Capital Programme.

124. There is limited certainty around grant awards beyond 2016/17, however the majority of existing funding streams are expected to continue over the medium term. In addition the November Spending Review could add a further element of risk to this assumption.

125. A shortfall in anticipated EFA grant funding of £43,162k, outlined throughout this draft Capital Programme, is expected over the period to 2020/21. Budgeted grant projections had assumed that funding levels would remain broadly consistent with previous allocations, supporting 70% of investment in expanded school capacity, with residual sums met from Prudential Borrowing. The level of grant income has been revised downwards, reflecting the EFA's decision to recognise zero growth in the Primary sector, and reduced funding of Secondary Schools expansion projects. Award levels remain uncertain and discussions with the EFA are in progress.

126. As a result of the programme changes outlined in this report, the Council's borrowing requirement over the period to 2020/21 is expected to increase by £24,717k from £129,897k to £154,614k. This is mainly as a result of the increased 6FE demand across primary and secondary sectors and anticipated reduction in funding to provide school places, being off-set by an improved outlook for capital receipts.

Table 11: Prudential Borrowing Requirement

	2015/16 £'000	2016/17 to 2020/21 £'000	Total £'000
Approved Capital Programme	**52,717**	**77,180**	**129,897**
Forecast Outturn Variance 2015/16	(41,829)	32,846	(8,983)
School Expansion Programme	0	32,578	32,578
Shortfall in Schools Funding	2,303	40,859	43,162
Other Programme Additions	0	4,075	4,075
Additional Capital Receipts	15,984	(53,020)	(37,036)
Additions CIL / Section 106 Receipts	500	(9,579)	(9,079)
Cost of Draft Programme	**29,675**	**124,939**	**154,614**
Increased Borrowing Requirement	**(23,039)**	**47,677**	**24,717**

127. The on-going General Fund revenue cost of this borrowing is projected to reach £2,000k per annum, which is reflected in the Council's revenue budget forecasts from 2019/20 onwards. The potential additional cost of further Secondary School expansions beyond 2021 would require further provision for the servicing and repayment of debt, which is not captured in the MTFF outlined within this report.

HOUSING REVENUE ACCOUNT

128. The budget proposals for 2016/17 are based on the fifth full year of self-financing for the Housing Revenue Account and follow on the same methodology and layout as the General Fund. Under self-financing, the regulations maintain a ringfence around the Council's provision of housing, the cost of which is fully supported by rental income.

129. This draft budget reflects the 1% per annum reduction in rents to reflect Government policy and revision of the Works to Stock programme to reflect the new 'Warm, Safe, Dry' standard, while providing for substantial investment in new General Needs and Supported Living units.

Update on 2015/16 Budget

130. Development of the 2016/17 Housing Revenue Account budget builds upon the 2015/16 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 7, an underspend of £15k is projected on the HRA, increasing forecast unallocated general balances to £32,255K at 31 March 2016.

131. Variances within this reported underspend are: a £316k pressure on Rental Income due to a higher than anticipated reduction in dwelling numbers, £120k pressure on leaseholder contributions to capital works; and a £155k overspend on Housing Management; offset by a £359k underspend on Tenant Services due to vacant posts; a £105k underspend on the Repairs function; and a £142k underspend on Planned Maintenance due to efficiencies within the gas servicing contract.

132. There were 80 properties sold under Right to Buy (RTB) arrangements between April and October 2015, and although this is a marked reduction on RTB sales in comparison to the same period in 2014, this loss of stock is the main factor contributing to the £316k variance reported against rental income at Month 7. Void turnaround and income received from Buy Backs do partially offset the pressure created through RTB sales, with the medium term implications of the continuing high level of demand for RTB outlined below. Significant investment outlined in the draft HRA Capital Programme is required to replenish housing stock and avoid repayment of retained receipts with punitive interest charges.

Budget Requirement 2016/17

133. The movement from the 2015/16 baseline to the 2016/17 budget requirement is summarised below, with rental income projections and budget requirement levels refreshed from the position included in the February budget report. The draft budget includes the contribution of £8,545k to support in-year capital investment and £9,750k to General Balances.

Table 12: HRA Budget Requirement

	£'000
Funding Sources	
Dwelling Rents	56,192
Other Income	5,751
Total Resources	**61,943**
Budget Requirement 2015/16	60,051
Inflation	563
Corporate Items	(8,602)
Contingency	181
Savings	0
Budget Requirement 2016/17	**52,193**
Surplus / (Deficit)	**9,750**

134. Appendix 7 to this report continues this presentation over the MTFF period, with annual surpluses set to reach £5,215k by 2020/21. Rental and Other income assumptions to 2020/21 are expected to achieve £62,106k, repayment of debt under self financing £15,412k, contribution to fund capital expenditure on existing stock of £9,260k and repairs & management costs of £32,235k, creating a surplus of £5,199k available to develop existing stock or support new development. Over this period, current forecasts are that £58,007k of such surpluses will be utilised to deliver new housing stock.

Rental and Other Income

135. 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 2016/17 it is assumed that the loss of 115 properties through RTB sales will be partially off-set by 20 new properties coming on stream through the Buy Back Scheme and initial Supported Housing projects.

136. This draft budget has been prepared on the assumption that the Council implements the Chancellor of the Exchequer's announcement on rent reforms, which requires all housing associations to cut rents by 1% in each of the next four years, a reversal of the 10-year old previous rental formula allowing annual increases of CPI + 1%. The announcement to reduce rents in each of the following four years is part of the Government's wider welfare reform savings, aiming to reduce the welfare bill by £12bn by 2019/20. Rental increases will revert to CPI + 1% in 2020/21 and this is reflected in the resource assumption level outlined in Appendix 7. 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 £56,192k.

137. Other income is expected to total £5,751k for 2016/17, mainly relating to service charges which are expected to be frozen are not subject to restrictions imposed by the Chancellor's rent reforms.

Balances and Reserves

138. HRA general balances are projected to reach £32,437k by 31 March 2016, representing 52% of rental and other income for 2016/17. The Council has not previously set a specific Balances and Reserves Policy for the HRA, and it is proposed that a minimum level of balances is set at £12,000k with sums over and above this amount earmarked for

investment in new or existing stock. The minimum level of balances is approximately 20% of rental income and has been estimated following a similar methodology to that applied in the General Fund

139. In addition to General Balances, there is a projected balance of £22,046k held in the Major Repairs Reserve (MRR) at 31 March 2016. This draft budget assumes this balance is applied in full during 2016/17 to support capital investment and that all uncommitted balances over the medium term will be held in General Balances and not the MRR.

Inflation

140. The inflation provision of £563k included in this draft budget has been estimated using the same assumptions as for the General Fund inflation provision. This sum includes £144k in respect of inflation on workforce budgets, £72k provision for utilities inflation, and £347k 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

141. 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 £8,602k shown in Appendix 7a consists of £10,399k reduction to contributions to capital, the release of £530k following the zero-basing of HRA budgets, a £1,602k technical adjustment to show income against resources rather than the budget requirement and recognition of £335k projected investment income arising from growing cash balances in the HRA.

Development & Risk Contingency

142. The HRA budget includes contingency budgets totalling £1,738k to meet emerging risks and pressures during 2016/17. Within this sum £1,058k is identified as General Contingency with a further £680k provisionally earmarked for costs within the Repairs Service. At present there are no specific commitments against the General Contingency provision.

143. An increase in the provision of £181k, from 2015/16 budget requirements, is due to a pressure on workforce costs arising from the abolition of the Second State Pension and resulting uplift in National Insurance contribution rates from 1 April 2016.

Medium Term Outlook

144. On the basis of current assumptions and projections, the financial standing of the HRA 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 2020/21.

145. The current draft budget assumes that rental income will reach £55,805k by 2020/21, with an additional £6,301k generated through service charges and other income. A reduction in gross income assumptions of £4,230k compared with previous MTFF cyclical forecasts is primarily a result of recent changes in rent setting policy and Government cuts to welfare. Over this period it is assumed that 1% of potential yield will be lost to void properties between tenancies.

146. 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 500 dwellings will be sold over the five years to 2020/21, with the Council's current capital programme delivering an additional 353 units through new build and buy-back mechanisms. It is expected that the current demand level for sales is at a peak following the discount changes in recent years and historically low interest rates, falling to approximately half of this level over the remainder of the MTFF. The net impact of these movements will be a reduction of 147 properties to leave 9,823 properties. A movement of 100 properties would be equivalent to securing approximately a net £7,020k capital receipt, however it would result in lost rent of £500k per annum.

Table 13: Projected Movement in Housing Stock

	2016/17	2017/18	2018/19	2019/20	2020/21
Projected Opening Stock	9,970	9,875	10,052	9,976	9,877
Forecast Right to Buy Sales	(115)	(115)	(105)	(105)	(60)
New Supported Housing Units	0	186	0	0	0
New General Needs Units	20	106	29	6	6
Projected Closing Stock	**9,875**	**10,052**	**9,976**	**9,877**	**9,823**
Projected Average Stock	9,923	9,964	10,014	9,927	9,850

147. 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 sustained current demand of sales.

148. Revenue contributions to secure the level of new builds proposed in the draft capital programme are £58,007k, with £24,861k of Capital Receipts projected to support this investment over the medium term.

149. Alongside provision for investment in new stock this draft budget includes annual contributions towards the Works to Stock programme totalling £46,355k, including £6,252k for major adaptations. This represents a reduction of £17,617k from the programme approved by Council in February 2015, with the move to the 'Warm, Safe, Dry' standard releasing this sum for investment elsewhere in the Housing Revenue Account.

150. 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 settlement debt. It is proposed to retain this level of provision in order to establish a capital contingency to enable further procurement of housing stock where opportunities present themselves.

Table 14: Projected Housing Revenue Account Closing Balances

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
General Balances	42,187	16,632	20,747	26,958	32,173
Major Repairs Reserve	0	0	0	0	0
Total HRA Reserves	**42,187**	**16,632**	**20,747**	**26,958**	**32,173**

HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

Background to Capital Programme

151. The HRA 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 programme is contained in Appendix 7b.

Update on Current Programme

152. As at Month 7, a net overspend of £205k is reported on the HRA Capital Programme, largely a result of a forecast pressure on former New Build Schemes relating to contractual issues around the Triscott House development. This pressure is for the most part mitigated by favourable variances reported against the Dwelling Component and Estates/Block elements of the Works to Stock programme.

2016/17 - 2020/21 CAPITAL PROGRAMME

153. As outlined above, this draft budget includes £46,355k provision for investment in existing housing stock, including £6,252k of funding for major adaptations to properties. This level of provision reflects the latest programme of works proposals, including 8% project management fees and 4% per annum inflation aligned to BCIS indices.

154. The draft capital programme contains provision of £84,268k to fund delivery of 452 new homes within the Housing Revenue Account over the period to 2020/21. 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 two discrete elements:

155. **General Needs Housing (HRA)** - Provision of £43,762k to support construction or purchase of 167 new properties within the HRA is also included in this programme, funded through 30% Right to Buy proceeds and 70% revenue contributions. There is scope to deliver these units through either new build or Buy Back arrangements, although it will be necessary to secure land for any new build proposals.

156. **Supported Housing Programme** - A budget of £39,106k is included to fund delivery of 186 Supported Housing units across a number of sites in the borough deliverable in 2017/18, 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.

157. Over and above this specific provision for securing additional units, a capital contingency of £15,000k is included within this draft programme to ensure the Council retains sufficient flexibility to secure additional housing units where opportunities become available. This contingency is to be initially funded from Prudential Borrowing, the on-going financing costs of which can be managed within the existing annual provision of £15,412k for the servicing and repayment of debt.

FINANCIAL IMPLICATIONS

158. 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?

159. 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.

160. 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

161. 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.

162. 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.

163. 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

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

Legal

165. 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.

166. 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.

167. 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.

168. 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 25 February 2015. Its report will reflect the comments made by consultees and its response to them.

Relevant Service Groups

169. 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 26 February 2014 – General Fund Revenue Budget and Capital Programme 2015/16