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

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Cabinet Portfolios	Leader of the Council Finance, Property and Business Services
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Papers with report	Appendices 1 to 14

HEADLINE INFORMATION

Purpose of report	This report sets out the Medium Term Financial Forecast (MTFF), which includes proposed 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. The proposed General Fund Capital Programme includes total investment of £311m over the next 5 years with £101m in 2016/17, including significant investment in school facilities. Overall there will be a reduction in the level of Council Tax as the revenue budget proposals result in a freeze on the Hillingdon element at 2015/16 levels and there is a proposed reduction of 7.5% on the Greater London Authority (GLA) precept. This equates to a £19 reduction for Band D properties in the Borough. The Housing Revenue Account budget proposals continue to underpin the self financing regime and include rent decreases of 1% in line with Government direction. Cabinet is requested to recommend their budget proposals to Council on 25 February 2016. This is in order to formally set the General Fund revenue budget, the Housing Revenue Account budget, the Capital Programme and Council Tax for the 2016/17 financial year.
Contribution to our plans and strategies	**Putting our Residents First***: Financial Management; Our People; Our Natural Environment; Our Built Environment.*

	The Medium Term Financial Forecast is the financial plan for the Council and contains the funding strategy for delivering the Council's objectives.

Financial Cost	Zero increase in Council Tax for the 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 approves for recommendation to Council:

1) **The General Fund and Housing Revenue Account budgets and Capital Programmes outlined in appendices 1 to 7;**
2) **The Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement for 2016/17 to 2020/21 as detailed in Appendix 9;**
3) **The Efficiency Strategy for the 2016/17 year as detailed in Appendix 10;**
4) **The proposed London Borough of Hillingdon Pay Policy Statement for 2016/17 set out at Appendix 11;**
5) **The Fees and Charges included at Appendix 12;**
6) **That it resolves that Cabinet may utilise the general reserves or balances during the MTFF financial years 2016/17 to 2020/21 in respect of those functions which have been reserved to the Cabinet in Article 7 of the Constitution (as set out in Schedule G of the Constitution - Budget and Policy Framework Procedure Rules).**

That Cabinet notes:

7) **The Corporate Director of Finance's comments regarding his responsibilities under the Local Government Act 2003.**

SUMMARY

1. This report represents the output from the latest comprehensive refresh of the Council's 2016/17 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; continued investment in maintaining parks and open spaces and a comprehensive library service. In addition, resources are set aside to maintain the freeze in Council Tax for Older People until 2018/19. This represents a significant achievement in light of continuing cuts to Government funding for local

government, calculated to be 11.8% 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, a museum and a bunker visitor centre in Uxbridge, three new Youth Centres, and a new playground renewal programme. The programme also bolsters investment in the existing local infrastructure including sports clubs from boxing to bowls and £1m for environmental and recreational initiatives. Further initiatives include improvements to road safety at school entrances and exits, to invest in more efficient street lighting, and to provide a new mobile library.

4. The refreshed Medium Term Financial Forecast (MTFF) presents the scope of the challenge facing the Council in the form of increased demand for services while managing continuing reductions in central government funding through to the end of the decade. In the development of the wider financial strategy over the period to 2020/21 a key driver was the Council's focus on 'putting our residents first'. A principal element of the strategy is the Council's response to continuing cuts in core central Government funding, with a sustained funding reduction to continue over each year of the MTFF period exceeding 30% by 2020/21. In addition, the Spending Review 2015 introduced flexibility in the use of Capital Receipts to enable the funding of transformation projects. To make use of this flexibility the Council is required to publish and agree an initial Efficiency Strategy for the next financial year. The proposed strategy is included at Appendix 10 to this report.

5. The Housing Revenue Account budget for 2016/17 includes a 1% reduction in rents for existing tenants in line with the Chancellor of the Exchequer's announcement within the July Budget. The associated 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.

6. The Localism Act 2011 requires local authorities to publish a Pay Policy Statement annually. This Pay Policy Statement must set out the authorities' policies for the financial year relating to remuneration of its Chief Officers; remuneration of its lowest paid employees; and the relationship between the remuneration of its Chief Officers and the remuneration of those employees who are not Chief Officers. The proposed 2016/17 policy is included as Appendix 11 to this report.

Reasons for recommendations

7. The recommendations have been framed to comply with the Budget and Policy Framework rules and allow the presentation to Council of recommended budgets for 2016/17, including the impact on Council Tax, housing rents and service charges.

8. Cabinet should give full consideration to the Corporate Director of Finance's comments under the Local Government Act 2003 and the need to ensure sufficient resources are available in balances and contingencies in the event of any significant adverse changes in the Council's funding environment. These comments are set out from paragraph 210 of this report.

9. 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.

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

Alternative options considered / risk management

11. Growth proposals included in the budget could be removed and either the Council Tax requirement reduced or alternative items substituted for them. Similarly, further items could be added to the budget requirement either through additional growth, increased provision for risk, or by reducing the package of savings. Council Tax could then be increased accordingly within the constraints imposed by the Government's capping regime, which would limit any increase to 1.99% of general Council Tax and a further 2.00% in the form of a Social Care Precept. The current budget proposals reflect no increase in the Hillingdon share of Council Tax. A change in the budget requirement of £1,066k either way (increase or decrease) will result in an increase or decrease of 1.0% in the level of the Council Tax, equivalent to £11.13 per annum at Band D level.

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

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

14. The Council may choose to set rents lower than those proposed, however for the first time in 2016/17 Government have directed local authorities to decrease rents by at least 1%, thereby removing the option to increase rents. Lowering rents even further than proposed would result in less income and a detrimental impact upon balances and be out of line with the agreed business plan for the self financing regime.

15. The Development and Risk Contingency identifies the key risks and uncertain items for which provision is contained within the revenue budget. Reduction of this provision is not recommended. This would otherwise increase the likelihood of unfunded pressures emerging into budget monitoring in the 2016/17 financial year. The Capital Programme also includes a contingency sum to manage financial risk on key schemes. In addition, unallocated balances are held within the range recommended by the Corporate Director of Finance. Whilst further contributions from balances could be made, any reduction in balances to below the lower limit of this range is not recommended.

Policy Overview Committee Comments

16. Each of the Policy Overview Committees has received reports setting out the draft revenue budget and Capital Programme proposals relevant to their remit. These were approved by Cabinet on 17 December 2015 for consultation at the January 2016 round of meetings.

17. Each service Policy Overview Committee referred their comments on to the Corporate Services and Partnerships Policy Overview Committee on 2 February 2016. The Committee's comments to Cabinet are contained in Appendix 13.

BACKGROUND

18. This is the second report to Cabinet on the budget for 2016/17, which refreshes the draft revenue budget and Capital Programmes approved by Cabinet in December 2015 for consultation with Policy Overview Committees and other stakeholders to take account of new intelligence, including the Local Government Finance Settlement. Changes from the draft budget are outlined below, before explaining the full range of budget proposals developed for 2016/17.

19. In February 2015 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 in early December 2015, the budget gap stood at £14,079k. Publication of the Local Government Finance Settlement on 8 February 2016 and a number of other funding announcements adversely affected this position, effectively increasing the budget gap by a further £6,144k. However, proposals to mitigate this adverse movement in funding and so balance the budget are included in this report.

20. The Council continues to operate within the constraints of the Government's deficit reduction programme, which has seen a reduction of 65% (£73m) in central Government funding since 2010/11 and settlements for future years indicates that funding will continue to decline. Analysis of the settlement and associated announcements from other Government departments indicates further funding reductions of 30.1% to 2020/21, broadly in line with estimates included in the December draft budget report rather than an improvement as previously anticipated on the basis of the overall outlook for public sector finances.

21. 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.

22. 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 over the last twelve months, 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.

23. 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. The report to Cabinet in December 2015 outlined the approach in place to manage the estimated £14,079k gap, with a surplus to contribute to the expected worsening in external funding expected in the Local Government Finance Settlement. The local government funding announcement on 8 February confirmed an expected £6,144k adverse movement in Council funding for 2016/17, in response to which a significant amount of work has been undertaken to mitigate this through the acceleration of a number of proposals in development for 2017/18 and other savings initiatives.

GENERAL FUND REVENUE BUDGET

Update on 2015/16 Budget

24. 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.

25. An underspend of £971k is reported on normal operating activities at Month 9. This position incorporates a £2,584k net underspend across Directorate Operating Budgets and a £1,370k underspend on Corporate Operating Budgets, off-set by contingency pressures of £2,983k, primarily relating to Children's Social Care placements and Asylum services. The following positions are reported on individual Directorate Operating Budgets:

    - An underspend of £146k is reported within Administration at Month 9, 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 £128k underspend at Month 9, which relates to vacancies within the establishment across the group.

    - An underspend of £822k is reported on Residents Services operating budgets. Within this overall position, £1,061k staffing underspends and additional income generated by Highways and Planning services is partially off-set by £285k pressures on maintenance budgets within Development & Assets and £813k income shortfalls on Uxbridge car parks (due to refurbishment work) and from Imported Food sampling.

    - An underspend of £1,488k is reported across Social Care functions, with a £177k improvement reported from the Month 8 position. This movement includes an adverse movement on Looked After Children's allowance payments being off-set by the transfer of an element of equipment expenditure to capital in line with 2016/17 budget proposals. Across the Group, underspends of £1,915k within workforce budgets account for the majority of the reported variance, with a number of pressures across non-staffing expenditure being contained through a combination of earmarked reserves and demand management.

26. 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 9, £8,202k of savings are either banked or on track for delivery, with £1,832k of savings being classed as amber due to delays in implementation, although all savings will be delivered in full. Any necessary rephasing of savings has been reflected in the MTFF.

27. 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 £1,421k. Of the original £20,000k of frozen investment, £200k remains outstanding from Heritable with a further distribution expected during 2016/17. Within the reported position at Month 9 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.

28. The reported underspend of £1,421k will reduce the planned £5,000k drawdown from reserves and result in £36,860k 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 Unallocated Priority Growth and General Contingency that would likely only be required to manage emergent pressures at this late stage in the year. The Council's Medium Term Financial Forecast assumes that balances will remain between £15,000k and £31,000k to manage emergent risks, with sums above that level earmarked for use to smooth the impact of government funding cuts.

CHANGES SINCE REPORT TO CABINET ON 17 DECEMBER 2015

29. The table and narrative below outlines the changes to the recommended budget proposals from the report considered by Cabinet on 17 December 2015, with new proposals sufficient to off-set the adverse impact of a worse than expected funding settlement for 2016/17. Each of these items is also considered in the relevant section of this report.

Table 1: Changes since December Cabinet

	£'000
Provisional Surplus - December 2015	**1,251**
Funding	
Revenue Support Grant	(7,467)
Transition Grant	517
Better Care Fund	101
Education Services Grant	(225)
Other Minor Grants	(129)
Corporate Items	
Remove One-off Care Act Implementation Expenditure	834
Removal of Residual Education Functions	225
Budget Gap after Funding Announcements	**(4,893)**
Funding	
Increased Council Tax Collection Rate	556
Inflation	
Confirmation of Concessionary Fares & Other Levies	472
Corporate Items	
Reversal of Voluntary Revenue Provision	1,770
Review of Capitalisation Policies	1,145
Funding Heathrow / HS2 Challenge from Earmarked Reserves	400
Reduced Drawdown from Balances	(784)
Contingency	
Confirmation of Waste Levy	79
Removal of PRA Contingency	400
Priority Growth	
New Priority Growth	(310)
Savings	
Additional Savings Proposals	1,165
Revised Surplus / (Deficit) - February 2016	**0**

30. The Provisional Local Government Finance Settlement was published on 17 December 2015 followed by a series of other announcements impacting upon the Council's budget. The changes were complex and wide ranging, with a significant front-loading of cuts in 2016/17, rolling in of Care Act funding into Revenue Support Grant (RSG), topslicing of RSG to fund New Homes Bonus payments and other as yet unidentified Government initiatives, and changes to the distribution of funding between local authorities. The net impact of these changes is an adverse movement of £7,467k on the RSG forecast reported to Cabinet in December.

31. The Final Local Government Finance Settlement published on 8 February 2016 confirmed the profile of cuts to RSG and announced a new Transition Grant for those authorities with the sharpest reductions in RSG. The Council will receive £517k in 2016/17 and a further £515k in 2017/18 under these transitional arrangements. In addition, confirmation of the Council's 2016/17 Better Care Fund allocation was received on 10 February 2016, providing an additional £101k inflationary uplift on previous estimates.

32. The funding rate for the Education Services Grant has been reduced from £87 per pupil to £77 per pupil, a cut of 11.5% rather than the 4% efficiency saving assumed in December projections, resulting in loss of £225k. Greater than anticipated reductions in other minor funding streams have resulted in the loss of a further £129k previously assumed income.

33. Confirmation within the settlement that one-off funding for Care Act implementation in 2015/16 will not continue into 2016/17 has been reflected by removing £834k transition expenditure budgets previously funded by Department of Health grant. The reduction in Education Services Grant is assumed to be managed through reducing expenditure on residual Education functions, reflecting the stated intention of Government to reduce the scope of Local Education Authorities.

34. The net impact of these funding announcements would be a budget gap of £4,893k, for which a number of mitigating actions are being taken to deliver a balanced budget for 2016/17. As this change represents acceleration in the pace of cuts to budgets, rather than an increase in the headline savings requirement over the MTFF period, a significant number of these mitigating actions relate to initiatives previously expected to balance the 2017/18 budget.

35. In developing the 2016/17 Council Taxbase for approval at Council in January 2016, a review of Council Tax collection rates confirmed that the previous 98% collection rate was overly prudent. Revision of the collection rate to 98.5% secures an additional £556k towards balancing the 2016/17 budget.

36. Confirmation of a number of levies and subscriptions for 2016/17 has resulted in an improvement of £472k from estimates presented to Cabinet in December, with the largest improvement coming from the Concessionary Fares levy.

37. A review of the Council's historic Voluntary Revenue Provision for repayment of debt previously expected to be implemented from 2017/18 has been brought forward, reducing the cost of capital financing by £1,770k in 2016/17.

38. The draft budget presented in December 2015 included £420k reduction in revenue expenditure from capitalisation of Telecareline equipment. Further reviews of revenue financed spend on Social Care equipment, furniture, ICT and general equipment has identified a further £1,145k budgeted expenditure that can be financed from capital resources on an on-going basis.

39. Given the availability of Earmarked Reserves to fund one-off initiatives, it is proposed to release £400k from the Development and Risk Contingency budget to fund the High Speed 2 and Heathrow Expansion Challenge Funds.

40. In light of other proposals being sufficient to balance the budget following the adverse movement in funding projections, it is possible to reduce the planned drawdown from balances by £784k from £5,000k to £4,216k in 2016/17.

41. Latest projections from the West London Waste Authority indicate that balances will exceed target levels by 31 March 2016 and enable a repatriation of funds to boroughs. The projected benefit of this exercise is now reflected in the contingency provision for Waste Disposal, resulting in a £79k improvement from the position reported in December.

42. Also within Development and Risk Contingency, £400k set aside in December's draft budget to manage any pressure within the Parking Revenue Account (PRA) has been removed to reflect scope to contain any such pressure within the PRA itself.

43. Additional provision of £310k has been added to Unallocated Priority Growth since December 2015 in order to support new initiatives during 2016/17.

44. Finally, a range of savings proposals in development for the 2017/18 budget have been brought forward and are now captured in this budget. These total £1,165k and include £282k from further BID efficiency projects not included in the draft budget in December, £140k from the Facilities Management contract changes agreed at Cabinet in December, £80k for Fuel Hedging agreed in January 2016, £100k from further Public Health efficiencies and £563k from a review of vacant posts and discretionary non-staffing budgets. Further details on these proposals are contained within the savings section of the report.

Budget Requirement 2016/17

45. 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 2015.

Table 2: Budget Requirement

	£'000
Funding Sources	
Council Tax Receipts	109,210
Retained Business Rate Receipts	47,435
Central Government Grant	39,648
Total Resources	**196,293**
Budget Requirement 2015/16	203,952
Inflation	2,967
Corporate Items	(5,480)
Contingency	8,383
New Priority Growth	(220)
Savings	(13,309)
Budget Requirement 2016/17	**196,293**
Surplus / (Deficit)	**0**

46. Appendix 1 of this report 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 £51,051k by 2020/21 and principally driven by an anticipated 30.1% 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 118.

FUNDING SOURCES

47. Latest projections indicate a reduction of £7,659k in resources available to support services, with £13,153k anticipated reductions in grant funding being offset by growth in local revenues. This growth in local income primarily reflects continuing growth in local domestic and commercial taxbases reflecting population growth and economic development.

Table 3: Funding

	2015/16 £'000	Increase / (Decrease) £'000	2016/17 £'000
Council Tax Precept	101,499	5,086	106,585
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	(10,078)	29,431
Other Government Grant	13,292	(3,075)	10,217
Total Resources	**203,952**	**(7,659)**	**196,293**

48. The majority of government grant funding has now been confirmed but there are a small number of grants which, at the time of preparing this report, have not been announced. These include asylum, Council Tax administration subsidy and Local Reform & Community Voices grants. However, there are not expected to be significant changes in these grants further to those already assumed in the budget and there is scope within existing contingencies to deal with any such variances should they occur.

49. The rationale behind current funding assumptions and associated risks are discussed for each revenue stream in turn below. Projections for Council Tax and Business Rates income reflect the taxbase projections approved by Council on 14 January 2016.

Council Tax Income

50. As at Month 9 a surplus is projected on Council Tax for 2015/16 which will be released to the General Fund in 2016/17. As a result of strong performance on collection to date 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 forecast.

51. 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 £5,086k growth in income to £106,585k. Growth in income from reviewing the CTR Scheme partially off-sets the decline in Government funding, the rationale for which is outlined below. Combined with release of the projected 2015/16 Collection Fund surplus of £2,625k, Council Tax income of £109,210k will be available to support provision of services in 2016/17.

Table 4: Council Tax Income

	February 2015 £'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
Collection Rate Assumption	0	(556)	(556)	500
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)**	**(106,585)**	**(1,467)**	**95,770**
Collection Fund Surplus	0	(2,625)	(2,625)	N/A
2016/17 Net Council Tax Income	**(105,118)**	**(109,210)**	**(4,092)**	**95,770**

52. This budget is based on an eighth successive Council Tax freeze, rather than the 2% increase previously assumed for budget planning purposes. The Government announced that those authorities providing Social Care would be able to levy a precept on Council Tax of up to 2% in support of Social Care, which for Hillingdon would equate to £2,132k additional income and would increase Council Tax on a Band D household by £22.26. However, the budget does not include the use of this levy for the 2016/17 year.

53. 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, delivering £1,958k additional income. In addition to growth in the taxbase, the following three initiatives are expected to influence Council Tax income in 2016/17.

54. Alongside movements in the physical Taxbase, an increase in the budgeted collection rate from 98% to 98.5% has been reflected in the approved Council Taxbase for 2016/17; equivalent to an increase of 500 Band D Equivalent properties or £556k additional revenue. This movement reflects a review of collection performance over the last three years and unwinds the majority of the 0.7% reduction in budgeted collection rate introduced in 2013/14 to manage any adverse impact from the introduction of the Council Tax Reduction Scheme.

55. 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.

56. Alongside 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 proposals would reduce this sum by £1,058k.

57. 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 CTRS, 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.

58. 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

59. 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.

60. 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.

61. Proposals to amend the current CTR Scheme and minimise this funding gap for 2016/17 have been subject to public consultation, with the main recommendations to reduce the maximum reduction for working age households from 80% to 75% and vulnerable households from 100% to 90%. This revised scheme reduces the annual cost of the scheme by £1,014k, substantially reducing the funding gap for 2016/17.

Business Rates Income

62. A deficit of £2,048k is reported on the Council's 30% share of Business Rates income for 2015/16 at Month 9, 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. 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.

63. The improved position on Rateable Value is expected to be delivered through the addition of 50 to 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 into 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.

64. 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 the local government sector 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 118.

65. 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.

66. During January 2016 a number of local authorities, excluding Hillingdon, received requests from NHS Trusts for their properties to be granted charitable relief from Business Rates. If such requests were received and granted by Hillingdon, this would equate to a loss of £200k per annum for the Council and could potentially be a much higher sum if awards were backdated. The award of such reliefs, in contrast with previous practice, would represent a substantial transfer of resources from the local government sector to health. DCLG are being lobbied to request that they minimise the adverse impact on vouncils. This emerging issue has not been reflected in the Council's Business Rates projections but will remain under review into 2016/17.

Central Government Grant

67. 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 suggested that cuts in the region of 33% will be required from unprotected areas such as local government, with the direction of travel being confirmed in both November's Autumn Statement and February's Final Local Government Finance Settlement.

68. While the overall level of funding cuts is consistent with the position previously presented to Members, the Provisional Local Government Finance Settlement published on 17 December presented a significant front-loading of cuts to local government over the Spending Review period, in contrast to the relatively benign level of reductions seen across the majority of the public sector. This budget reflects a £10,078k reduction in Revenue Support Grant (RSG) for 2016/17, representing an adverse movement of £7,467k on the position included in the December budget report. The Final Local Government Finance Settlement confirmed this level of reduction in RSG, although a separate £517k transitional grant was announced to off-set an element of this reduction and is presented within Other Central Government Funding.

69. While this movement in RSG is principally driven by the front-loading of cuts, additional factors driving the reduction include:

- Changes to the distribution of funding reductions amongst local authorities, providing additional protection to those areas most reliant on grant funding at the expense of areas such as Hillingdon with a stronger local taxbase;
- Funding being topsliced from RSG to replace support for the New Homes Bonus scheme previously provided from DCLG's own resources;

- Further topsliced funding assumed to support as yet unidentified new funding streams for the local government sector.

70. Despite consolidation of a significant number of funding streams since 2010, there remain a number of material funding streams outside the Settlement Funding Assessment for which the latest outlook for 2016/17 funding levels are outlined below. In addition the position on Home Office support for Unaccompanied Asylum Seeking Children is discussed in the Development & Risk Contingency section of this report.

71. Projections for income from the Education Services Grant have been revised downwards since December Cabinet, with the initial £65m tranche of cuts falling in 2016/17 with a reduction in per pupil funding rates from £87 to £77 for maintained schools. Taking account of these revised funding rates, growth in the school population as expansion projects are completed and the loss of 2,000 pupils per annum from the maintained sector as schools convert to Academy status, means the Council's grant award for 2016/17 is expected to reduce by £428k to £2,380k. As this increased cut is intended to reflect a reducing role for the Council as a Local Education Authority, this budget assumes that the £225k reduction from December estimates will be met from reduced spend on residual education expenditure. This reduction in expenditure is captured in the Corporate Items section of this report.

72. Specific grant funding for the administration of Housing Benefit and Council Tax Support will continue into 2016/17, with £1,190k and £290k respectively being expected for the new financial year. This represents a small adverse movement of £16k on earlier projections for these grants, with a further £100k of previously assumed funding being lost following confirmation that the Corporate Fraud Grant will not be maintained beyond 2015/16.

73. The 2015 Spending Review announced an increase of £1,500m in resources allocated to the Better Care Fund over the current parliament, although this increase will not be seen in Hillingdon's allocation until 2018/19. Confirmation of the 2016/17 Better Care Fund award was received on the 10 February at £5,711k, representing an inflationary uplift of £101k from the 2015/16 settlement on the Council's share of the fund.

74. 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 budget. The Local Government Finance Settlement confirmed that new burdens funding for Phase 1 would be subsumed into the Revenue Support Grant from 2016/17, representing an adverse movement on December Cabinet projections of £1,277k. The £834k of this sum relating to one-off implementation expenditure has been stripped out of the new year budget in the Corporate Items section of this report.

75. While there has been no additional specific grant funding identified to support Social Care expenditure in 2016/17, the Government has 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, equivalent to £2,132k additional income or £22.26 increase on the bill for a Band D household. This additional flexibility has not been reflected in the Council's budget for 2016/17 as the pressure in Adult Social Care budgets can at present be funded without the need to cut services.

76. In addition to these major funding streams, a further £129k income is expected on the Local Reform and Community Voices Grant, bringing total income from non-specific grants to £10,217k for 2016/17. New Homes Bonus is confirmed to total £9,082k for 2016/17, with no changes to the operation of the scheme until 2017/18 at the earliest. 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

77. The Council's Balances and Reserves Policy, which sets the recommended range for unallocated General Fund balances, has been reviewed alongside preparation of the 2016/17 budget and it is proposed to reduce the current £20,000k minimum level by £500k and maintain the current £45,000k upper limit. This range has been calculated with reference to the risk factors detailed in Appendix 8, which are deemed to necessitate holding unallocated balances in the range of £15,000k to £31,000k. The £1,000k increase on 2015/16 risk levels reflects the financial pressures affecting Social Care providers. The lower limit also includes £4,500k to support the budgeted drawdown in 2016/17 and the upper limit reflects the planned £14,000k drawdown from General Balances over the period to 2020/21, a reduction of £1,000k from the previously planned drawdown.

78. This planned drawdown of £14,000k reflects the current MTFF strategy of drawing down £4,216k in 2016/17 to smooth the front-loading of grant reductions, with this sum being reduced to £1,000k by 2020/21 to remove the reliance of balances by the end of the current MTFF period. The scale and pacing of these planned drawdowns can be revised in light of actual available balances and the ultimate pace of government funding cuts.

79. General Balances totalled £40,439k at 31 March 2015, with the planned drawdown of £5,000k in 2015/16 being off-set by a forecast £1,421k in-year underspend and subsequent release of £14,000k over the period to 2020/21 leaving £23,360k uncommitted at this stage. This level of unallocated balances remains comfortably within the £15,000k to £31,000k range recommended for under the Council's Balances and Reserves Policy.

80. Earmarked Reserves provide additional flexibility in the MTFF over and above the use of General Balances, with £16,844k of the £24,209k balance held at 1 April 2015 potentially available to support new investment without increasing the savings requirement. This budget assumes the use of £400k of this flexibility in 2016/17 to support the Council's High Speed 2 and Heathrow Expansion Challenge Funds.

INFLATION

81. Inflation projections have been updated from the original outlook for 2016/17, with the removal of £488k departmental non-staffing inflation and reduction in the Concessionary Fares levy in 2016/17 in line with provisional figures published by London Councils in December 2015. 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 & Other Levies	(1.7%)	(145)
Gross Inflation Provision		**3,074**
Less: Grant Funded Items		(107)
Net Inflation Provision		**2,967**

82. The Consumer Price Index has remained at historically low levels for some time, with the 0.2% increase reported in December 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.

83. Inflation on workforce costs is currently included at 1% per annum in line with the Government policy reconfirmed in the 2015 Spending Review and subsequent pay awards, 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.

84. 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. The higher rate applied to Homecare reflects the expected greater impact of the National Living Wage on this sector.

85. 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 that can be managed within existing revenue budgets. On Concessionary Fares, levy allocations for 2016/17 indicate a reduction of £117k in Hillingdon's share of costs, reflecting both a reduction in relative usage levels by Hillingdon residents and a lower than inflationary increase in the cost across London. Alongside this improvement, a £28k reduction in costs for a number of smaller corporate subscriptions has been reflected in this revised inflation provision.

CORPORATE ITEMS

86. 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
New Burdens & Transfers of Responsibility	
New Burdens associated with the Care Act	(834)
Transfer of Residual Education Functions from Local Government	(225)
Adjustments to Funding, Financing & Corporate Budgets	
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 (Voluntary Revenue Provision)	(1,770)
Technical Adjustments (Review of Capitalisation)	(1,565)
Review of HIP Budget Provision	(400)
Reduced Drawdown from General Balances	784
Reduced Drawdown from Earmarked Reserves	330
Total Corporate Items	**(5,480)**

87. As noted under the Government Grants section of this report, implementation of Phase 2 of the 2014 Care Act will be deferred from 2016/17 to 2019/20, resulting in removal of the associated £2,032k cost increase from the 2016/17 budget. In addition, the withdrawal of implementation funding for Phase 1 detailed in the funding outlook above is partially off-set by removal of £834k budgets relating to such implementation costs. In addition, this budget includes an assumed £225k reduction in the cost of residual Education functions to mirror projected reductions in Education Services Grant income.

88. 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 population 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.

89. 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.

90. 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 6 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.

91. Over and above statutory Minimum Revenue Provision, the Council has previously set aside additional monies for the repayment of debt as Voluntary Revenue Provision (VRP). Given the current funding pressures, spreading this cost over the life of assets represents a more affordable approach to financing historic investment and can be achieved by reversing this VRP over the next three years. The first reversal of £1,770k is planned for 2016/17 and reflected in this budget.

92. The approach to accounting for Social Care client equipment, furniture, ICT and general equipment has been reviewed and £1,565k annual investment previously funded from revenue will be met from capital funding streams. £580k of this sum will be financed through Social Care capital funding from the Department of Health, against which there are no existing commitments in the medium term, while the remainder of the capitalised sum will be funded over the life of purchased assets.

93. 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 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.

94. 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 improved position for 2016/17 provides scope to reduce the drawdown to £4,216k, resulting in a £784k movement in the planned drawdown. 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, being replaced by drawdown of £400k to fund Contingency provision of High Speed 2 and Heathrow Expansion Challenge Funds.

DEVELOPMENT & RISK CONTINGENCY / SERVICE PRESSURES

95. 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.

96. 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 2015 rising by £5,486k to £8,383k. 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 has been established, with specific funding identified from Earmarked Reserves.

Table 7: Development & Risk Contingency

	£'000
2015/16 Contingency Budget	12,340
Releases to Operating Budgets	(2,270)
Increase to Contingency Requirement	8,383
2016/17 Contingency Budget	**18,453**

97. Appendix 3 to this report provides a breakdown of the 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 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 year 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 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 (£517k increase from 2015/16)** - In anticipation of reserves being released 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 £517k. This represents an improvement of £79k on the position reported in December, reflecting greater certainty in the expected release of balances by the WLWA. Where permissible, the Council continues to make local arrangements for waste disposal where this offers better Value for Money than WLWA contracts. The £517k 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.

- **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 (£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 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 that were 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 held for 2015/16. 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 budget contains £1,000k General Contingency to manage unforeseen risks and pressures, including exceptional income variances.

PRIORITY GROWTH

98. This budget includes £1,114k of Priority Growth to support new initiatives and investment in services. Proposals to utilise £380k of this sum are included in this budget, with the majority of the remaining £734k 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.
    - £40k additional funding for Environmental Enforcement.
    - Further provision of £25k in support of carers.
    - £25k funding to support Domestic Violence Prevention.

SAVINGS

99. Savings proposals totalling £13,309k, 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.

100. The draft budget approved by Cabinet in December for wider consultation included £12,144k savings proposals, with £1,165k additional savings proposals included in this proposed budget in order to mitigate the worse than anticipated funding settlement. These include £282k from further BID efficiency projects, £140k from the Facilities Management contract changes agreed at Cabinet in December, £80k for Fuel Hedging agreed in January 2016, £100k from further Public Health efficiencies and £563k from a review of vacant posts and discretionary non-staffing budgets.

Table 8: Savings

	Admin £'000	Finance £'000	Residents Services £'000	Social Care £'000	Total £'000
Zero Based Review	(248)	0	(1,813)	(848)	(2,909)
Preventing Demand	0	0	0	(1,171)	(1,171)
Service Transformation	(635)	(745)	(2,304)	(1,478)	(5,162)
Effective Procurement	0	(382)	(540)	(626)	(1,548)
Maximising Income	(24)	0	(1,125)	(1,370)	(2,519)
Total Savings	**(907)**	**(1,127)**	**(5,782)**	**(5,493)**	**(13,309)**

Zero Based Reviews

101. £2,909k savings are being released in 2016/17 through Zero Based Reviews (ZBRs) 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.

102. 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.

103. Within Residents Services, such reviews have identified £1,077k of expenditure reductions and £653k of additional income, alongside £83k within the consolidated Technical Administration function.

104. ZBRs within Social Care have identified £124k surplus budgets and scope to reduce contributions for overheads within Central North West London NHS Trust contracts by £200k. In addition, reviews across services for Children have identified £274k ZBR savings on placements from the ageing up of clients affected by Staying Put legislation, £200k from a review of Children's Centre budgets and £50k of surplus budget within Teenage Pregnancy services.

Preventing Demand

105. 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 Social Care and major expansion of the establishment supporting children. Such initiatives are expected to deliver £1,171k savings in 2016/17.

106. Within 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.

107. The impact of new ways of working across children's social work, 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

108. The Council continues to review and challenge its existing business processes through the BID Programme, with £5,162k 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.

109. 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 £150k target has been included for further efficiencies to be secured over the coming months.

110. 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 £150k target has been included for further efficiencies to be secured over the coming months.

111. A broad range of BID reviews are underway across Residents Services with potential savings of £2,304k 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.

112. Alongside the reduction in contingency provision for SEN Transport, Social Care is 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 relation to provision for Children, Social Care 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 £636k target has been included for further efficiencies to be secured over the coming months.

Effective Procurement

113. Effective Procurement and on-going contract management continue to contribute towards the Council's broader savings programme, with £1,548k 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 £240k from Facilities Management contracts and £300k from Public Health contracts are being delivered by Residents Services, with £626k savings proposed from Social Care in relation to new delivery models for in-house provision and broader category management plan activity.

Maximising Income

114. 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 central 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 Social Care 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 and Charges which are expanded upon below.

FEES AND CHARGES

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

116. Most Fees and Charges, including parking, remain frozen but there are revisions to a small number of Fees and Charges proposed as part of this 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 and 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;
- Increases in Trade Waste charges to reflect 90% of those levied by neighbouring boroughs.

117. As noted within the savings section of this report, £338k additional income is projected from these amendments.

MEDIUM TERM OUTLOOK

118. Whilst the immediate focus of this report is on delivery of a balanced budget for 2016/17, there remains a significant challenge to meet both continuing reductions in funding from central government and growing demand for services arising from a growing population over the medium term. Appendix 1 to this report sets out the latest iteration of the Council's Medium Term Financial Forecast for the period 2016/17 to 2020/21, with the assumptions, risks and challenges arising from this position discussed below.

119. This overview outlines in turn: grant funding forecasts; local income projections; inflationary pressures; and factors driving demand for services before considering the resulting funding gap of £69,071k. Existing budget assumptions and measures to bridge this gap are then outlined, reducing this gross pressure to the £36,770k remaining budget gap to be bridged by 2020/21.

120. The single largest factor contributing to this emerging funding gap is the £32,410k reduction in grant funding by 2020/21, principally reflecting the settlement figures for the years 2016/17 to 2019/20 published by DCLG in February 2016. This represents an 80% reduction in grant funding over the period and forms the principal element of local government's contribution to delivering a national budget surplus by 2019/20. Spending Review and Autumn Statement 2015 outlined the Government's assumption that this funding reduction would be off-set by increased income from Council Tax and Business Rates, in terms of inflationary uplifts on bills, introduction of the Social Care Precept and growth in the local taxbase.

121. DCLG have provided a multi-year settlement covering the years to 2019/20 as part of the move towards making local government more self-sufficient and provide a level of certainty and stability to funding. While these indicative figures do provide a greater level of certainty than would be afforded by local forecasts, it should be noted that the Government have made it clear that annual settlements will still be issued and that they reserve the right to amend allocations for the transfer of functions to local government. In addition, the Secretary of State announced on 8 February that a review of the relative needs formulae would be undertaken, which would presumably result in changes to the distribution of funding between authorities. The Council has until 14 October 2016 to sign up to this multi-year settlement, although the implications of this decision are as yet unclear.

122. In addition to these on-going 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 £37,410k. 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.

123. Current MTFF projections assume an additional £6,051k will be secured by 2020/21 through new residential development growing the local taxbase, with a further £3,186k to be secured from concurrent expansion of the commercial taxbase. At present the Council has limited scope to influence the Business Rates levied on local businesses, with the nationally determined multiplier and resulting bills expected to increase by more than 8% over the MTFF period and deliver an additional £3,713k income to support local services. Taking account of the growth in these income streams, this would leave a gap of £23,489k to be managed through either Council Tax or savings initiatives.

124. The Government's intention to increase the local share of Business Rates to 100% over the MTFF period will be accompanied by the transfer of new responsibilities to the Council and therefore would not provide a mechanism for directly off-setting the loss of grant funding.

There will remain a risk that the transfer of functions will be accompanied by assumed 'efficiency savings' - as seen in the transfer of responsibility for Council Tax Reductions Schemes at 90% historic funding levels - thereby adding to the funding gap to be managed locally. Although, for an authority such as Hillingdon with a strong track record of growing the commercial taxbase, the move to 100% retention may provide scope to positively affect the assumed £3,186k growth assumption.

125. In addition to the specific issues arising from the move to 100% retention, which may become clearer with the launch of Government consultation on the subject in early 2016, the 2017 Business Rates revaluation and subsequent re-set of baseline income levels adds a further layer of complexity to estimating Business Rates receipts. 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 in the round from proposed reforms.

126. In addition to the decline in funding, inflationary pressures on the current cost base are expected to amount to £19,880k 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. £1,502k 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.

127. This budget includes £19,277k 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. Provision of Social Care for adults, including the impact of transitional children, is expected to drive £7,823k of this gap, alongside £4,650k required to manage projected growth in demand in Children's Social Care and £4,517k uplift in the cost of waste disposal.

128. 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 are expected to continue to impact upon the Council's financial standing.

129. Demand for school places, and specifically the shortfall in grant 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 - and an increase of £2,000k on the assumption in February 2015. In addition, other

capital investment is expected to add £2,295k to the savings requirement over the MTFF period.

130. The combined effect of these principal factors, alongside a small number of minor movements, would be a funding gap of £69,071k against expected revenues of £203,688k by 2020/21. The following policy assumptions and developed savings proposals have been reflected in the medium term outlook presented in Appendix 1 to leave a residual £36,270k budget gap to be bridged over the next five years.

131. No decisions have been taken with regards to future Council Tax increases but for illustrative purposes the MTFF has been prepared on the basis of the maximum allowable Council Tax increase for each year. On this basis Council Tax revenues are projected to grow by £16,625k over and above growth in the taxbase, consisting of the on-going £2,571k income from amendments to Council Tax discounts and the Council Tax Reduction Scheme in 2016/17 and £14,395k from inflationary increases to bills and the potential application of the Social Care Precept from 2017/18. This indicative increase from changes to the basic Council Tax consists of:

- Inflationary uplifts of 2% per annum are included from 2017/18 onwards which generates an additional £9,500k gross income by 2020/21 - as assumed in previous iterations of the MTFF;
- Levying the Social Care precept at 2% for the first time in 2017/18 and increasing annually by 2% in 2018/19 and 2019/20 to secure £7,125k additional income - not previously assumed in MTFF;

132. The on-going impact of savings initiatives outlined in the 2016/17 section of this report will secure a further £14,781k towards balancing the Council's budget over the medium term with 2016/17 reviews of Corporate Items such as the Council's approach to financing capital investment securing an additional £1,054k of cost reductions. This leaves a residual budget gap of £36,270k to be managed over the next five years, equivalent to reductions of approximately 19% in Directorate Operating Budgets.

CAPITAL PROGRAMME

Background to Capital Programme

133. 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 budget alongside the recurrent programme of works to maintain local infrastructure.

134. This report provides an update on the current Capital Programme, refreshed projections for investment in schools 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 £27,679k to the programme; while 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 £28,447k. The expected £2,000k additional cost for the servicing and repayment of this debt is provided for in the Council's revenue budget discussed earlier in this report.

135. This proposed 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.

Changes since report to Cabinet on 17 December 2015

136. The table and narrative below outlines the changes to the recommended Capital Programme from the report considered by Cabinet on 17 December 2015.

Table 9: Changes to Proposed Capital Programme

	£'000
Prudential Borrowing Requirement - December 2015	**154,614**
Revised Primary School Cost Projections	(4,900)
Street Lighting Invest-to-Save	5,500
Enhanced Pavements Growth	1,000
Additional Investment in Uxbridge Town Centre	888
London Regeneration Fund Grant Award and additional match funding from local businesses and developer contributions	(888)
TfL funding for CCTV Enforcement (School Keep Clear Zones)	(200)
Mobile Library	100
Bessingby Football & Boxing Clubhouse	950
Civic Centre Maintenance	1,000
Bowls Club Refurbishment	100
Car Park Resurfacing	180
Prudential Borrowing Requirement - February 2016	**158,344**

137. Following December Cabinet, specific proposals for delivery of Phase 4 Primary School Expansions in the north of the Borough have been developed and planned delivery of three Forms of Entry across three sites will be delivered for £4,900k less than previously projected. The total cost of delivering these units now stands at £27,400k.

138. Proposals for the renewal of the Council's existing street lighting with newer, more energy efficient technology is included in this programme at a total cost of £5,500k over the next two years. Reduced energy and maintenance costs for the renewed asset base are expected to secure revenue savings of approximately £800k per annum to finance this initial capital outlay as an Invest-to-Save scheme.

139. An additional £1,000k has been added to the Priority Growth for Pavements since December's draft budget, bringing the total budget for 2016/17 to £2,000k.

140. On 21 January 2016 the Mayor of London announced £800k of funding for investment in Uxbridge Town Centre from the London Regeneration Fund, with a further £88k of local match funding increasing the budget for this project to £1,996k. This project is supported by a further £100k Chrysalis funding to deliver investment of £2,096k during 2016/17 and 2017/18.

141. Additionally, use of flexibility in the Council's Transport for London grant allocation to support investment in CCTV Enforcement for School Keep Clear Zones will reduce the cost of this scheme borne by the Council by £200k.

142. Finally, a number of new and enhanced capital schemes have been added to the programme since December 2015, including funding to purchase a mobile library, specific provision for refurbishment of Bessingby Football & Boxing Clubhouse, further provision for structural maintenance at the Civic Centre, and additional funding for existing Bowls Club refurbishment and Car Park resurfacing budgets.

143. As the combined impact of these changes is a marginal reduction in the Council's future borrowing requirement, no changes are proposed to the on-going revenue budgets for debt servicing and repayment outlined earlier in this report.

Update on Current Programme

144. As at Month 9, a net underspend of £4,253k is reported on the current Capital Programme, with a forecast £2,448k underspend against the Schools Programme and a net underspend of £1,805k across the remainder of the programme.

145. Within the reported position at Month 9, there remains £6,511k of unallocated contingency across the five year MTFF period, £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

146. The Council's flagship School Expansion Programme remains at the centre of the Capital Programme, with total projected investment of £313,612k to secure 50 additional forms of entry (FE) over the period from 2010 to 2021. This represents an increase 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.

147. The Primary School Expansion Programme phases 1, 2 and 3 are now complete, with phase 4 developed in this 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. Further development of phase 4 proposals since December 2015 has enabled a £4,900k reduction in cost projections, reducing the uplift in budget for these schemes to £13,900k, reflecting the delivery of three single form of entry expansions across three sites. 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.

148. 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 11.5FE 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.

149. 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.

150. 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 capital programme.

151. 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.

152. In contrast, delivery of further Primary expansions on more challenging sites and the move to larger Secondary expansions will see the average cost 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.

Inward Investment in Local Infrastructure

153. The Council continues to be successful in leveraging external funding in support of local infrastructure investment and regeneration activity, with confirmation of a further £800k of funding from the Mayor of London's Regeneration Fund received on 21 January 2016. This increased scope of works to Uxbridge Town Centre brings total investment in infrastructure schemes to £16,086k over the period 2015/16 to 2020/21, consisting of:

- £1,357k capital investment in High Street renewals across the borough through the Inspiring Shopfronts programme,
- £2,490k capital investment in major public realm works on Uxbridge Road, Hayes under the Gateway Hillingdon project,
- £1,996k capital investment in Uxbridge Town Centre under the Change of Heart project, including £800k of new grant funding from the Mayor of London,
- £4,958k TfL funded capital investment in Hayes Town Centre and £1,066k allied revenue expenditure
- £3,894k capital investment in Crossrail Complimentary measures at Hayes & Harlington and West Drayton stations, with £325k associated revenue expenditure.

Proposed Additions and Amendments to the Capital Programme

154. Alongside the refreshed School Expansion Programme, proposals for new General Fund capital projects totalling £25,660k 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 £13,735k.

155. As outlined above, the Council has been successful in securing £800k from the Mayor of London's Regeneration Fund to support the flagship investment programme for Uxbridge

Town Centre - Change of Heart - alongside £87k of additional match funding from local business and planning contributions alongside the previously budgeted £1,109k Council contribution. This project will make improvements and bring improvement to the eastern end of the High Street, connecting it to the major new St Andrew's Park development on the former RAF Uxbridge site.

156. Proposals for the renewal of the Council's existing street lighting with newer, more energy efficient technology is included in this programme at a total cost of £5,500k over the next two years. Savings of approximately £800k from reduced energy and maintenance costs for the renewed asset base are expected to secure sufficient revenue savings to finance this initial capital outlay as an Invest-to-Save scheme.

157. Provision of £2,657k is included in this proposed 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 £200k of the initial investment being funded from flexibility within the Transport for London Local Implementation Plan.

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

159. Further investment in local infrastructure is included within this capital programme, with an additional £1,000k funding for Highways Structural Works in 2016/17 bringing total investment in locally maintained Highways to £6,000k over the MTFF period. In addition, £2,000k of specific growth to finance investment in pavements is included in the proposed capital programme for 2016/17.

160. The £1,000k funding available from Government to support renovation of the Battle of Britain Bunker at RAF Uxbridge is included in this 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.

161. £1,000k additional funding for investment in the Civic Centre during 2016/17 has been included in this Capital Programme, which represents a £500k increase from the budget presented in December 2015. This sum is expected to be further supplemented by the £1,054k underspend on 2015/16 budgets which will be rephased into the new year.

162. £950k has been added to the programme to ensure specific provision is in place to fund a refurbishment of the Council-owned Bessingby Football and Boxing clubhouse.

163. To fund the rolling replacement of playgrounds across the borough, an additional £1,250k is included in the 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.

164. £620k investment has been included for providing short-term accommodation for service users of the Rural Activities Garden Centre on the vacant neighbouring 1 & 2 Merrimans site, including appropriation of relevant land from the Housing Revenue Account.

165. A £250k increase in funding for car park resurfacing has been added to the programme since December, bringing the total investment in this programme to £430k.

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

167. Finally, £100k for the purchase of a mobile library has been added to the programme since December 2015.

168. Although these additions to the programme would be expected to increase the Council's borrowing requirement by £25,660k, the removal of £11,925k of budgets which are no longer required results in a net increase of £13,735k in the Council's need to borrow for non-schools investment. The budgets for the schemes being 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

169. 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.

170. Projections in respect of capital income streams have also been refreshed, with an additional £37,036k of capital receipts, 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 programme.

Table 10: Capital Financing

	2015/16 £'000	2016/17 to 2020/21 £'000	Total £'000
Schools Programme	32,105	152,988	185,093
Main Programme	14,977	88,880	103,857
Programme of Works	17,248	61,944	79,192
Development & Risk Contingency	748	7,500	8,248
Capital Expenditure	**65,078**	**311,312**	**376,390**
Prudential Borrowing	29,675	128,669	158,344
Capital Receipts	9,956	88,985	98,941
Community Infrastructure Levy	2,000	25,000	27,000
Council Resources	**41,631**	**242,654**	**284,285**
Government Grants	18,758	60,977	79,735
Other Contributions	4,689	7,681	12,370
Capital Financing	**65,078**	**311,312**	**376,390**

171. 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. Following introduction of flexibility to potentially apply Capital Receipts to fund transformation projects for the period from 2016/17 to 2018/19, further capital receipts will be identified to support

those projects outlined in the Efficiency Strategy at Appendix 10 of this report. This will have no impact on the receipts required to finance the Capital Programme over the period to 2020/21.

172. 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 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.

173. There continues to be limited information around grant awards beyond 2016/17 however the majority of existing funding streams are expected to continue over the medium term. This position will remain under review and the implications of any variances between actual awards and assumptions reported to Cabinet through the Monthly Budget Monitoring process.

174. A shortfall in anticipated EFA grant funding of £43,162k, outlined throughout this 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. Discussions have been on-going with the EFA since the last update in December 2015.

175. 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 £28,447k from £129,897k to £158,344k. 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	27,679	27,679
Shortfall in Schools Funding	2,303	40,859	43,162
Other Programme Additions	0	13,735	13,735
Additional Capital Receipts	15,984	(54,051)	(38,067)
Additions CIL / Section 106 Receipts	500	(9,579)	(9,079)
Cost of Programme	**29,675**	**128,669**	**158,344**
Increased Borrowing Requirement	**(23,042)**	**51,489**	**28,447**

176. 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 2020/21 onwards. As investment in School Keep Clear Enforcement and Street Lighting is expected to be financed from the Parking Revenue Account and resulting efficiencies respectively, borrowing in respect of these items does not represent an additional cost to the General Fund. 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

177. 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.

178. This proposed 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.

Changes since report to Cabinet on 17 December 2015

179. No changes are proposed from the draft HRA budget and Capital Programme approved by Cabinet for wider consultation in December 2015.

Update on 2015/16 Budget

180. 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 9, an underspend of £731k is projected on the HRA, increasing forecast unallocated general balances to £32,971K at 31 March 2016.

181. Variances within this reported underspend are: a £194k pressure on Rental Income due to a higher than anticipated reduction in dwelling numbers, £499k pressure on leaseholder contributions to capital works; and a £67k overspend on Housing Management; offset by a £436k underspend on Tenant Services due to vacant posts; a £24k underspend on the Repairs function; and a £1,033k underspend on Planned Maintenance due to efficiencies and slippage of projects into 2016/17.

182. There were 100 properties sold under Right to Buy (RTB) arrangements between April and December 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 £194k variance reported against rental income at Month 9. 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 HRA Capital Programme is required to replenish housing stock and avoid repayment of retained receipts with punitive interest charges.

Budget Requirement 2016/17

183. 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 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**

184. 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 £32,219k, creating a surplus of £5,215k 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

185. Rental income projections have been fully refreshed to take account of revised estimates for the numbers of properties being sold under RTB. The current exceptional level of sales is being driven by changes to the maximum level of discount during 2013/14, and this 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.

186. This 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.

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

Balances and Reserves

188. 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.

189. 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 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

190. The inflation provision of £563k included in this proposed 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

191. 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 a £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

192. 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.

193. An increase in the provision of £181k from 2015/16 budget requirement 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

194. 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 budget and highlight potential risks which could adversely impact upon the HRA budget to 2020/21.

195. The latest budget projections assume 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.

196. 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 RTB sales. This 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 period. 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

197. As reported through monthly budget monitoring, the Council's current 1:1 Replacement Agreement with DCLG enables the local retention of RTB 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.

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

199. Alongside provision for investment in new stock this 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.

200. 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 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	27,517	32,732
Major Repairs Reserve	0	0	0	0	0
Total HRA Reserves	**42,187**	**16,632**	**20,747**	**27,517**	**32,732**

HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

Background to Capital Programme

201. 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 programme is contained in Appendix 7b.

Update on Current Programme

202. As at Month 9, a net overspend of £759k 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. Across the remainder of the programme, no material variances are reported at this stage.

2016/17 - 2020/21 HRA CAPITAL PROGRAMME

203. As outlined above, this 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.

204. The 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:

205. **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% RTB 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.

206. **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% RTB Receipts and 70% revenue contributions. As noted within the 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.

207. Over and above this specific provision for securing additional units, a capital contingency of £15,000k is included within this 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.

SCHOOLS BUDGET

208. The Council receives funding for Schools' Budgeted Expenditure through the Dedicated Schools Grant (DSG), which is a ring fenced grant. The DSG funds both the delegated individual schools budget and items which the School and Early Years Finance (England) Regulations allow to be retained centrally by the Council, including Special Educational Needs, Alternative Education provision and Early Years provision.

209. Proposals in relation to the Schools Budget are presented to Cabinet in a separate report on this agenda, with no cost falling upon the Council Taxpayer for those services funded from the Dedicated Schools Grant unless the Council chooses to supplement the Schools Budget from the General Fund.

OVERALL BUDGET FOR COUNCIL TAX SETTING 2016/17

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

210. Under Section 25 of the Local Government Act 2003 the Corporate Director of Finance as the Council's nominated section 151 officer, has a responsibility to comment on:
    - The robustness of the estimates for the coming year.
    - The adequacy of the Council's reserves.

211. The Corporate Director of Finance is able to give positive assurances on the robustness of the estimates in general for the coming year. This view is based on:
    - The use of an established, rigorous process for developing the budget through the Medium Term Financial Forecast (MTFF) process. This includes close alignment with the service planning process. This has been further strengthened through the continued development of the Business Improvement Delivery programme.
    - The inclusion within the base budget of a £18,453k Development and Risk contingency.
    - Service managers having made reasonable assumptions about demand pressures and taken a prudent view of volatile areas.
    - Risk based financial monitoring being undertaken during the year and reported to Cabinet on a monthly basis. This includes the agreement of recovery plans to ensure that the budget is delivered in overall terms.
    - Procedures in place to capture and monitor procurement and other efficiency savings.
    - Prudent assumptions made about interest rates.
    - The recommended increases in fees and charges are in line with the assumptions in the revenue budget.

212. The Corporate Director of Finance also has a duty to comment on the adequacy of the Council's reserves when the budget is being set. At the time of budget setting for 2015/16, the Corporate Director of Finance set a recommended range of balances. This was between £20,000k and £45,000k, based on an analysis of the risks facing the Council. The recommended range has been refreshed following a review of the risks facing the Council.

This is set out in the next section, with a £1,000k increase to the upper limit against risk factors for in 2016/17, and a reduction in sums held for planned drawdowns from balances.

Statement on Balances and Reserves

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

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

215. To determine the recommended level of reserves the Council has assessed risk against the criteria as specified in Local Authority Accounting Panel (LAAP) Bulletin 99 (July 2014). This assessment includes the following:

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

216. The assessment, although based on the Council's procedures and structures, has an element of subjectivity and to allow for this the optimum level of reserves incorporates a range. The recommended range for reserves for 2016/17 is £19,500k to £45,000k, including £4,500k to £14,000k to fund planned drawdowns to smooth the impact of funding reductions over the MTFF period. Ideally the Council should avoid having balances below the minimum level of £19,500k, or above the maximum level of £45,000k. The current MTFF is structured to deliver balances within this range. Appendix 8 details the risk assessment.

217. The range of issues that impact on the need to hold balances and reserves has been reviewed since last year's budget setting process and the level of cover against each risk criteria refreshed. Additional provision of £1,000k has been made for the financial risk inherent in externally contracted service provision, reflecting the well publicised pressures on the Social Care sector. The range of risks against which unallocated reserves are to be held is therefore set at between £15,000k and £31,000k.

218. A further £14,000k has been earmarked to smooth the impact of exceptional funding reductions from 2016/17 and has therefore been included with the optimum level of reserves detailed in this report. As £4,500k of this sum is required during 2016/17, this has been factored into the lower limit for balances.

THE COUNCIL TAX REQUIREMENT FOR 2016/17

219. The budget proposals included in this report represent Cabinet's budget strategy for 2016/17 and beyond. The revenue budget proposals have been developed to deliver a zero increase in Council Tax for the eighth successive year. The approved Council Tax level for 2016/17 is subject to Members' final choices in the budget setting process.

Council Tax Referendum

220. The Localism Act 2011 introduced a power for the Secretary for Communities and Local Government to issue principles that define what should be considered as excessive Council Tax including proposed limits. If the Council proposes to raise its Council Tax above the proposed limits set, a referendum will need to be held. The result of the referendum will be binding upon the Council.

221. The general Council Tax increase above which local authorities would be required to hold a referendum for 2016/17 as directed by the Secretary of State for Communities and Local Government is 2%. As the budget proposals outlined in this report maintain Council Tax at the same level as in 2015/16, the referendum threshold will not be triggered for the financial year 2016/17.

222. From 2016/17 additional flexibility to levy a further 2% precept in support of Social Care expenditure has been introduced by the Government, therefore enabling Hillingdon to raise the Council Tax payable by residents less than 4% without triggering a referendum.

Greater London Authority Precept

223. The Mayor of London's final budget proposals for 2016/17 are scheduled for consideration by the London Assembly on 12 February 2015 and approval by 22 February 2015. The proposals result in a 7.5% decrease in the element of Council Tax that relates to the GLA precept. This is analysed across the relevant functional bodies as follows:

Table 15: Change in Proposed GLA Precept

	Band 'D' Council Tax 2015/16 (£)	Band 'D' Council Tax 2016/17 (£)	Percentage Change (%)
Metropolitan Police Authority	208.87	206.79	(1.0%)
Other Services	86.13	69.21	(19.3%)
Total	**295.00**	**276.00**	**(7.5%)**

FINANCIAL IMPLICATIONS

224. 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?

225. The budget proposals in this report result in a zero increase in Council Tax for the eighth 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 budget.

226. The 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

227. Each of the Policy Overview Committees has received reports setting out the proposed revenue budget and capital programme proposals relevant to their remit. This was approved by Cabinet on 17 December 2015 for consultation at the January 2016 round of meetings. Comments on the budget from each of the service Policy Overview Committees were referred to the Corporate Services and Partnerships Policy Overview Committee, who met on 2 February 2016 to consider the comments received from the three other Policy Overview Committees on the budget proposals relevant to their remit. The comments from that Committee will be presented to Cabinet in Appendix 13.

228. The Council also has a statutory responsibility to consult on its budget proposals with business ratepayers and residents in the Borough. A budget consultation survey was published on the Council's web-site in relation to the Cabinet's draft budget proposals after the meeting on 17 December 2015. The Council received 99 responses from residents, with 72% satisfied with the Council's budget proposals, 73% agreeing proposals represent value for money and 80% felt well informed. Of those satisfied with the budget proposals, comments highlighted the following positive features:

- Continuation of freezes for Council Tax and the majority of Fees & Charges
- Maintenance of current service levels, despite financial challenges
- Refuse & Recycling and Parking Services identified as excellent services

229. Of those not satisfied with the budget proposals and disagree that they provide Value for Money, there was no common theme in the reason for dissatisfaction although increases to charges for Bereavement Services were raised in a number of responses and mixed feedback was received on various planned capital schemes. Analysis of responses to this consultation is available on the Council's website and presented as Appendix 14 to this report for information.

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

CORPORATE IMPLICATIONS

Corporate Finance

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

Legal

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

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

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

235. The second duty for Members to note is the duty imposed on the Corporate Director of Finance to comment on the adequacy of the Council's reserves. Members will note that a Statement of Reserves and Balances is contained within paragraphs 213 to 218 of the report which discharges this duty.

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

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

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

Relevant Service Groups

239. The budget proposals included in this report result from a substantial corporate process involving all service Groups. In particular, individual Corporate Directors and CMT collectively have 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 2015 – General Fund Revenue Budget and Capital Programme 2015/16 to 2019/20.
Report to Cabinet 17 December 2015 - Draft General Fund Revenue Budget and Capital Programme 2016/17 to 2020/21.

APPENDICIES

Appendix 1 - General Fund Corporate Summary
Appendix 2 - General Fund Corporate Items
Appendix 3 - General Fund Development & Risk Contingency
Appendix 4 - General Fund Priority Growth
Appendix 5 - General Fund Savings
Appendix 6 - General Fund Capital Programme
Appendix 7 - Housing Revenue Account Budget and Capital Programme
Appendix 8 - General Fund Balances & Reserves Policy
Appendix 9 - Treasury Management Strategy Statement and Investment Strategy
Appendix 10 - Efficiency Strategy 2016/17
Appendix 11 - Pay Policy Statement 2016/17
Appendix 12 - Fees and Charges
Appendix 13 - POC Comments on the budget proposals
Appendix 14 - Budget Consultation Analysis