THE COUNCIL'S BUDGET – MEDIUM TERM FINANCIAL FORECAST 2011/12 – 2014/15

Cabinet Members	Councillor Ray Puddifoot Councillor Jonathan Bianco
Cabinet Portfolios	Leader of the Council Finance, Property and Business Services
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Papers with report	Appendix 1 to 10 (detailed MTFF proposals)

HEADLINE INFORMATION

Purpose of report	This report sets out the Medium Term Financial Forecast (MTFF), which includes draft General Fund revenue budget for 2011/12, along with indicative projections for the following three years, fees and charges proposals, and the draft capital programme for 2011/12 and beyond. The revenue budget proposals have been developed to deliver a zero increase in Council Tax for the third successive year, whilst maintaining balances and reserves at a minimum of £12m over the medium term. Further savings proposals are being developed and this will include the Leader undertaking a further restructure of the Council over the forthcoming year.
Contribution to our plans and strategies	The Medium Term Financial Forecast is the financial plan for the Council, and contains the funding strategy for delivering the Council's objectives.
Financial Cost	Zero increase in Council Tax for the third successive year.
Relevant Policy Overview Committee	Corporate Services and Partnerships Policy Overview Committee Education and Children's Services Policy Overview Committee Residents' and Environment Services Policy Overview Committee Social Services, Health and Housing Policy Overview Committee
Ward(s) affected	All

RECOMMENDATIONS:

That Cabinet:

1. **Approve the draft revenue budget and capital programme proposals for 2011/12 and beyond as the basis for consultation with Policy Overview Committees and other stakeholders.**

2. **Request the comments of individual Policy Overview Committees on the draft budget proposals relating to their areas of responsibility, to be collated into a single report back to Cabinet from the Corporate Services and Partnerships Policy Overview Committee.**

3. **Approve the proposed fees and charges included at Appendix 8 as the basis for consultation with Policy Overview Committees and other stakeholders.**

4. **Authorise the Corporate Director of Finance and Resources in consultation with the Leader of the Council to respond on behalf of the Council to the consultation on the provisional local government finance settlement and to the Mayor of London's budget consultation.**

5. **Agree the adoption of the new 'pay as you throw' West London Waste Authority (WLWA) levy mechanism for use from 1 April 2011 onwards.**

6. **Agrees the LATS (Landfill Allowance Trading Scheme) Trading Policy 2010-2015 as agreed by WLWA on 21 July 2010.**

SUMMARY

The budget proposals included in this report represent Cabinet's budget strategy for 2011/12 and beyond. The revenue budget proposals have been developed to deliver a zero increase in Council Tax for 2011/12 whilst maintaining balances and reserves at £12m over the medium term.

The real challenge in delivering a balanced budget for 2011/12 is the development of significant savings of around £22m, more than double the £10.3m required in 2010/11. Those savings proposals have been developed alongside the in-year challenge of responding to a £3.6m government grant cut to funding in 2010/11. As month 7 budget monitoring shows, good progress is being made in responding to this challenge; with the latest position showing an underspend on normal activities of £577k and a net overspend of £1,170k including the impact of the £3.6m in-year grant cuts.

The main pressure for the Council to deal with is the income from Government Formula Grant reducing by an estimated £10.8m. This is partially offset through an additional central government grant enabling a freeze in Council Tax in 2011/12.

Detailed within the draft budget proposals, in addition to the £22m savings proposals are £3.8m of corporate pressures, £7.5m of service pressures, an allowance of £2m for inflation and a reduction to the contingency requirement of £0.5m.

- The key corporate pressures arise from a net impact of £2.6m from LAA reward grant falling out, £1m provision for new capital required due to lack of funding from elsewhere, £0.4m National insurance increase and an estimated increase in the concessionary fares levy of £0.4m.

- The key service pressures, many of which have been provided for in contingency in prior years, include £1.25m for Adult Social Care demographic pressures, £2.5m for the costs of Transitional Children, £0.3m for SEN transport demographic costs, £1.5m for an increase in the Waste Disposal Levy, £0.8m for Homelessness, £0.7m for Land Charges arising from a change in the regulations and £0.3m in Golf Course income.

- The key contributors to the changes in the contingency requirement arise from an increase of £0.5m to general contingency, funding for uncertain demographic pressures, a reduction of £0.3m for the shortfall in asylum funding, a provision for £0.85m additional Employer's Pension contributions and a reduction for the change in the payments to the London Boroughs Grants scheme.

The development of savings proposals has concentrated on more efficient delivery methods and the new operating model and focusing on core services; and on not creating new pressures by providing services no longer funded by Central government, but instead seeking to avoid local impact as far as possible by new ways of working

At present total savings amount to around £22m, with £8.1m in Adult Social Care Health and Housing, £3m in Central Services, £4.9m in Education & Children's Services, £3.4m in Planning, Environment & Community Services, £2m in services previously funded by central government Area Based Grant and £0.7m of other savings. Full details of the proposals are contained in Appendix 7.

The report also includes the provisional fees and charges recommendations for 2011/12, which includes an increase of 2.5% on VAT where applicable with effect from 1 February 2011.

The draft capital programme for 2011/12 and indicative allocations for the following three years are presented in this report. The draft capital programme over four years is worth £256.5m with £105m of capital expenditure in 2011/12. This includes funding for new General Fund projects of £8.3m for the development of Yiewsley Pool site which includes a new heath centre.

In addition, the capital programme provides almost £9m of funding for key ongoing programmes including the Chrysalis programme, the Leader's Older Peoples Initiative and the upgrade of local town centres; and £19m of funding for ongoing major projects such as the Libraries refurbishment programme, Highgrove Pool Phase II and the South Ruislip Development.

INFORMATION

Reasons for recommendation

The recommendations have been framed to comply with the Budget and Policy Framework rules, and to allow the presentation to Council of a recommended budget for 2011/12 in February 2011, which takes into account consultation with Policy Overview Committees.

They also allow for representations to be made to the Department for Communities and Local Government in relation to the provisional local government finance settlement, and to the Mayor of London in relation to the Greater London Authority's budget proposals, in accordance with the required deadlines for responses.

The reasons for the two recommendations in relation the West London Waste Authority Levy and the Landfill Allowance Trading Scheme are included in Appendix 9 attached.

Alternative options considered / risk management

In order to comply with the Budget and Policy Framework, the Cabinet needs to publish a draft budget for consultation at this meeting. The Cabinet could, however, choose to vary the proposals set out in the report, with any amendments reflected in the papers consulted upon with Policy Overview Committees during January 2011.

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

Comments of Policy Overview Committee(s)

Following consideration at Cabinet, this report will form the basis of consultation with Policy Overview Committees during January 2011. Comments from the Policy Overview Committees will be reported back to Cabinet by the Corporate Services and Partnerships Policy Overview Committee when Cabinet meets on 17 February 2011. Cabinet will then agree a set of budget proposals for recommendation to the annual Council Tax setting meeting of full Council on 24 February 2011.

Supporting Information

Background

1. This is the first report to Cabinet on the budget proposals for 2011/12 and beyond. The budget report to Council, for Council Tax setting for 2010/11 in February 2010, contained an initial savings requirement of £20.3m for 2011/12. As part of the continuing work on the HIP Business Improvement Delivery project, a budget strategy was devised to address this gap. Each group was given a specific savings target for 2011/12 to deliver through their BID programme, with the initial total savings target set at £10.5m. In addition groups were tasked with reviewing and reducing all pressures and a review was also started on all corporate pressures.

2. During the year, Cabinet has monitored and increased the savings target to £22m. This includes an additional savings target of £2m for Area Based Grant (ABG) funded services following the post election budget when a £3.6m in-year cut was imposed by central government (£1.8m ongoing impact) and a £3.8m further worsening of the estimated formula grant funding for 2011/12 caused by the front loading of savings in the CSR announcement on 20 October 2010.

3. As mentioned above, an in-year cut of £3.6m was imposed by the central government, which came on top of the £10.28m savings already contained within the 2010/11 budget. Groups have made significant progress towards the delivery of these in year challenges with only a minor element outstanding. However, the expectation is that these savings will be fully delivered in year and the Month 7 position reflects this expectation.

4. The report includes revenue budget and capital programme projections for three years beyond next year, to reflect the four-year planning cycle used by the Council. The Council does not have the power to set budgets more than one year in advance, but the inclusion of medium term figures helps to demonstrate the ongoing impact of the budget proposals, and provides context for the budget decisions proposed.

GENERAL FUND REVENUE BUDGET

Budget Requirement 2011/12

5. The movement between the current year's budget and the draft budget requirement for 2011/12 is summarised in Table 1 below. Further detail on each of the lines in the table is set out in subsequent sections of the report. A more detailed summary of the MTFF over the full 4 year period is attached in Appendix 1.

Table 1: Budget Requirement 2011/12

	Budget (£000s)
Budget Requirement 2010/11	211,555
Inflation	1,980
Corporate Items (Appendix 2)	3,766
Service Pressures (Appendix 3)	7,497
Contingency (Appendix 4)	-539
Priority Growth (Appendix 5)	321
Savings (Appendix 6)	-22,017
Budget Requirement 2011/12	202,563
Funding Sources	
Council Tax	111,627
Government Formula Grant (estimated)	90,936
Total Resources	202,563

Inflation

6. The core amount of inflationary cost increases in the draft budget for 2011/12 is £1.98m. This represents a decrease of £4m compared to the earlier projections contained in the budget report to Cabinet and Council in February 2010.

7. This reduction is due to the fact that this year has seen a pay freeze for Local Government staff and the CSR set out a proposed freeze for a further 2 years. In addition we have not provided for inflation on most non-salary items unless there is an unavoidable contractual increase. However, officers are challenging what is deemed unavoidable through negotiation with suppliers. Increases of 2.5% have been applied to fees & charges income budgets and increases of 1.5% have been applied for adult's and children's services care placements, with zero increases for all other non contractual expenditure and income budgets.

8. Table 2 below sets out the general inflation rates applied to specific budget lines.

Table 2: Inflation

Category	Rate (%)	2011/12 (£000s)
Employees' Pay	Zero	0
Premises Costs	1.5%	330
Transport Costs	Zero	0
Care Placements	1.5%	860
Contracts with unavoidable inflation increases	Contractual %	790
Other Supplies and Services	0	0
Rents and Other Income	Zero	0
Total		**1,980**
* Fees and Charges	2.5%	-580

** included in the savings schedules*

Corporate Items

9. This heading is used to describe items that affect the Council overall, or have a significant impact on the majority of service groups within the authority. A net increase in budget of £3.8m in 2011/12 is required to cover these items which are shown in summary in the table below and in further detail in Appendix 2.

Table 3: Corporate Items

Corporate Items	Amount 2011/12 (£000s)
Additional capital programme financing provision	1,000
Capital programme financing costs	-400
Local Area Agreement Reward Grant - falling out	2,586
LABGI / Housing and Planning Delivery Grant – falling out	500
Contributions from balances	-707
Concessionary Fares Levy	367
National Insurance Contributions Increase	420
Total	**3,766**

10. The budget for 2011/12 includes the provision of a £2m revenue fund for financing future capital investment requirements such as the Primary Capital Programme (PCP). £1m of this is already in the 2010/11 budget and a further £1m will be added in 2011/12. The budget also incorporates a reduction of £0.4m in capital financing costs as a result of debt refinancing, MRP analysis and capital programme rephasing.

11. Reward grant from the 2007 Local Area Agreement (LAA) is due in March 2011 following a claim to be submitted in December 2010. In February 2010 the Council budgeted to receive £3m of revenue LAA reward grant as a one off in 2010/11 and to pay revenue reward grant to partners profiled as £0.6m in 2010/11, £0.6m in 2011/12 and £0.14m in 2012/13. The Government announced in June 2010 that reward grant would be reduced by 50%. The MTFF for 2011/12 reflects the gross budgeted grant of £3m falling out and also reflects revised payment sums and profiles to partners which results in a £2.5m net adjustment to the 2011/12 budget.

12. The Government has only committed to the Local Authorities Business Growth Incentives (LABGI) scheme and to Housing and Planning Delivery Grant (HPDG) up to the end of 2010/11. The MTFF reflects that funding streams will not continue beyond that date. However, the recently published White Paper 'Local Growth: realising every place's potential' indicates there will be several new funding incentives for local authorities to promote economic growth. These include Tax increment Financing, a New Homes Bonus and Business Rates Increase Bonus.

13. The New Homes Bonus will seek to incentivise building locally by match funding the additional Council Tax for new homes and properties brought back into use for 6 years after being built. Funding of £196m is being set aside nationally in 2011/12 with £250m for each of the following 3 years. The business rates increase bonus will seek to reward authorities where growth in business rates yield exceeded a threshold to keep the increase for a period of 6 years. The Tax Increment Finance scheme would enable authorities to retain business rate uplift generated from development and use this funding stream to borrow for infrastructure needed to start the development. Specific details relating to Hillingdon are not yet available. A provisional figure of £0.5m for 2011/12 has been included in PECS budget for 2011/12 as an early assessment of what the New Homes bonus might deliver for the Council but nothing is included as yet with respect to the business rates increase bonus or the Tax increment Finance scheme.

14. The budget approved for 2011/12 included a drawdown from balances of £1.5m. Whilst, this is a one-off item that cannot be repeated on an ongoing basis, a further drawdown of £0.7m has been applied to the draft budget based on the projected balances position as at 31 March 2011. As at month 7, the budget monitoring report was forecasting balances to be at £15.8m. A total drawdown of £2.2m would mean that unallocated balances would remain above the £12m target.

15. The Concessionary Fares levy is currently subject to consultation on the distribution method between authorities. This is part way through an exercise to redistribute costs across London. It is subject to a further potential negative impact as a result of TfL withdrawing from the 5 year deal on funding the Freedom Pass. It is not certain what the final apportionment methodology might be so the impact on the budget for 2011/12 still remains uncertain. However, our latest analysis indicates that the Hillingdon impact looks set to increase by £0.4m. As £0.1m of this was provided for in inflation this leaves a further unavoidable pressure of £0.3m.

16. Employers NI costs are expected to increase by £0.4m next year as a result of the Government changing the threshold levels after which NI becomes payable.

Service Pressures

17. The identification of all service pressures, thereby reducing the likelihood of unexpected overspends within the financial year, is one of the key objectives of the strategic budget process. Failure to identify a pressure over which there is little or no control is likely to result in an overspend in the year, and a need to take corrective action that may have an impact on services elsewhere in the authority.

18. Groups have undertaken work to identify and review these pressures but they will continue to be the subject to rigorous scrutiny, challenge and review that will reduce the level of these items to a minimum over the course of the budget development process. Table 4

sets out the pressures identified by Groups which total £7.5m for 2011/12. These items are set out in more detail at Appendix 3.

Table 4: Service pressures

Service Pressures	***Pressure 2011/12 (£000s)***
Adult Social Care demographic pressure	+1,250
Increase in Transitional Children	+2,546
SEN transport demographic pressure	+350
Waste Disposal Levy	+1,528
Local land charges income	+720
Reduction in DWP funding	+800
Golf Course income	+303
Total	**+7,497**

19. The demographic pressure in Adult Social Care, as reported in current year monitoring, is primarily due to increased placements into residential care. Whilst management action to start to cap and reduce this adverse trend is underway, there remains a base budget pressure of at least £1.2m. An additional £2.5m is also provided for in contingency.

20. The latest projections for Transitional Children moving through to Adult Services demonstrate an increasing trend on service demand causing an ongoing service pressure of £2.5m. This represents the cost of clients that have already transferred and are an actual current cost to ASCH&H. A further £1.2m is being provided for within contingency to cover the estimated costs of clients likely to transfer during the next year.

21. A service pressure of £0.35m exists in relation to SEN transport. The most significant driver of this pressure is from increased demand and the need to transport several clients out of the borough. Work is continuing on improving the procurement of such transport which has helped offset part of the demographic increases however a £0.35m pressure remains.

22. The latest projections for the West Waste levy indicate a requirement of £1.5m. This is an improved position on that previously expected. It is due to an improved outturn for 2009/10 due to lower waste volumes than expected which has continued into the first half of the current year. This figure will be updated once the final levy for West Waste is agreed.

23. Following a change in the regulations that forced Land Charges to be run on a cost recovery only basis, there has been a shortfall of £0.7m in income. This has been covered by contingency to date but now needs to be transferred to a service pressure as it is not downturn related but rather relates to the change in regulations.

24. Changes to the funding regime for homelessness were reported to Cabinet and Council in February 2010 when the pressure was quantified as £6m. £5.2m was added to the 2010/11 budget with the remaining £0.8m being held in contingency.

25. An ongoing service pressure on the golf course income budget resulted from the change in operator in 2006. The new contract set the income at £0.38m, but the budgeted income remained at £0.64m, resulting in a pressure of £0.26m. In addition, a pressure in relation to the shortfall in income from Stockley Park also exists of £0.04m.

Development and Risk Contingency

26. The Development and Risk Contingency provides resources within the revenue budget that are unallocated at the beginning of the year, and can be applied to issues as they arise during the year. The contingency is therefore used to budget for items where the probability or value of items is uncertain at the beginning of the year. This approach is a key aspect of the Council's Reserves and Balances Strategy.

27. Work on developing the 2011/12 budget is still underway, and will continue until the presentation of the final report to Cabinet in February 2011. The contingency is used to manage issues that typically arise during the budget process where the likelihood of resources being required is uncertain. Rather than include all of these in the draft budget and therefore overstate the estimated budget requirement, they are also collated within the Development and Risk Contingency.

28. A net decrease in the contingency of £0.5m reflects the latest estimate of potential funding to cover a range of financial risks faced by Council in 2011/12. The reduction arises from the transfer of a number of budgets to service pressures. This reflects that they are actual costs already being incurred now rather than potential costs that might arise over the following year. A detailed breakdown on contingency is shown in Appendix 4.

Table 5: Development and Risk Contingency

Contingency Items	*Pressure 2010/11 (£000s)*	*Pressure 2011/12 (£000s)*	*Change (£000s)*
Total	10,760	10,221	-539

29. In addition to the amounts contained within contingency as explained within the service pressures above, there are several other potential calls on the Council's budget over the next year. The contingency contains funding of £0.5m to cover demographic pressures on Children's Services relating to the Southwark Judgement, under which the Council is required to assess service needs to homeless children aged 16 and 17 under our statutory responsibilities for children's social care as opposed to our housing responsibilities.

30. The Government has not yet published any detail on asylum funding following CSR. However based on information on the funding arrangement published earlier in the year, on current volumes the asylum funding shortfall covered by contingency is expected to fall from £1.2m in the current year to £0.9m in 2011/12, a fall of £0.3m.

31. The Council's Pension Fund was subject to an actuarial review as at 31 March 2010. The valuation results are yet to be completed; however, early indications are that the deficit has increased. Final results will not be agreed until March, after Lord Hutton has delivered his final report on Public Sector Pensions and the valuation is recalculated to take his findings into account. However, as part of the long term funding strategy for the fund, which takes account of the affordability and stability of employer contribution rates, a 1% per annum increase to employer contributions over the valuation period (2011/12 to 2013/14) was built into the valuation assumptions. The current employer contribution rate of 18% is still well below the rate needed to fully fund the scheme of 25%. Increases therefore have been limited by General Fund affordability. Once the full impact of the

Hutton report is known and revised regulations are issued, the impact over future years of the MTFF will be calculated and the budget adjusted accordingly.

32. The draft budget includes a sum of £1m in general contingency within the development and Risk contingency. This reflects the large degree of uncertainty that exists over a number of budgets and central government funding at this point in time.

33. The current draft Development and Risk Contingency is set out in Appendix 4. Items with a total potential risk of £14.6m are included in the contingency for 2011/12 at this stage. When the probability of occurrence is applied to these amounts, the total for which funding needs to be provided stands at £10.2m.

Priority Growth

34. Provision has been made in the budget strategy for £0.3m of new priority growth. This reflects the full year effect of the funding for new Young people's centres, a new allocation of £80k for sport and leisure in relation to public health issues, £10k to fund the full year effect of increased library opening hours and £35k for the Hayes Carnival. The Hayes Carnival has previously been funded from other surpluses in the budget within PECS. However BID will delete these surpluses and if the Council is to continue with the Hayes Carnival Cabinet will have to allocate a specific budget for the purpose. These items are described further at Appendix 5. There is £935k of unspent priority growth brought forward from 2010/11 and this is being made up to £1m which will bring the total resource available to fund new initiatives to £1.3m.

Savings

35. The savings proposed in the draft budget for 2011/12 total £22m. These are shown in detail in appendices 6 and 7 and in summary in the table below.

Table 6: Savings Proposals

Savings Proposals	**Saving 2011/12 (£000s)**
Adult Social Care, Health & Housing	8,072
Central Services	3,014
Education & Children's Services	4,880
Planning, Environment & Community Services	3,364
Other Savings options	719
ABG and unringfenced grant savings	1,968
Total Savings Proposals	**22,017**

36. The savings proposals contained within this draft budget have been developed through the HIP Business Improvement Delivery programme (BID), the Council's response to the projected budget savings requirement of around £60m over the next four year period. A target operating model for the Council was established and all Groups are in the process of moving towards this model in the various proposals set out in the MTFF. This includes transfers to the Contact Centre and the implementation of agreed operating models for all common functions.

37. As explained in the report to Council in February 2010, the BID programme was developed through a themed approach, with 3 workstreams. These were aimed at

delivering successively more in-depth reviews of how council services and working methods could be re-engineered. The themed approach continued over the early part of the 2011/12 budget cycle. The various workstreams developed a programme of projects to revise ways of working and to develop savings proposals. Additional MTFF work within groups and corporately was also initiated to focus on mitigating key pressures in the MTFF. Over the summer, the workstream approach to BID was transitioned into a Group based approach and specific targets were allocated to each Group.

38. The savings proposals currently developed total £22m for 2011/12. The total savings figure for each group is net of the redundancy costs contained within their package of proposals. Group savings proposals also include savings generated through the council wide expenditure review that was coordinated by Corporate Procurement over the last few months. A summary of the approach taken in each group to the development of their savings proposals is given below.

Adult Social Care, Health & Housing

39. In developing their savings proposals, ASCH&H took the opportunity to develop a new strategic model, which gave specific focus to a 'core offer' of services which it deemed essential. As part of this process they identified 4 key priorities, allowing them to develop a thematic approach to their savings proposals of prevention, reablement, ongoing support provided in-house, and ongoing support provided externally. In addition savings proposals on a new common operating model and on fees and charges were developed. Progress to date has identified savings of £8.1m in 2011/12. Details of these savings are included in appendix 7a.

Central Services

40. The range of services within Central Services in a large part forms the basis of the support services to the rest of the council. Each service has undergone a review of their structure and purpose and this has led to the development of a range of savings proposals. In addition the transfer of several functions into the new Business Services function has identified opportunities for better ways of working and generation of income. Progress to date has identified savings of £3m in 2011/12. Work is continuing in many of these areas which could provide scope for further savings in 2011/12. Proposals developed to date are detailed in appendix 7b.

Education and Children's Services

41. ECS has also taken the opportunity to completely rethink how it delivers its overall service to Hillingdon's children and young people. It has applied a phased approach to developing a 'core offer' for services deemed essential, backed by an 'additional offer' of services which support the core services, as many of the core services do not, on their own, ensure child safety. Savings proposals have been developed on a service basis. The initial phase 1 proposals focus on the immediate efficiency savings from the reorganisation of the group based on the 'core offer' model. Phase 2 will focus on the development of a new operating model for ECS services. Progress to date has identified savings of £4.9m in 2011/12. Details of these savings are included in appendix 7c.

Planning, Environment and Community Services

42. The initial approach to the delivery of savings within PECS has been largely driven by the delivery of efficiencies through the merger of the former 2 groups of PCS and ECP. The creation of 4 new services within the combined group has enabled large scale reorganisation, restructuring and removal of duplication. Additionally the opportunity is being taken to question the need for services and the method of service delivery in all areas. Several opportunities exist within the group to review the scale of fees and charges and several proposals have been developed on this theme. Once the new services are operational, focus will shift to the roll out of the Council's operating model and further savings proposals will be developed. Progress to date has identified savings of £3.4m in 2011/12. Details of these savings are included in appendix 7d.

Other Savings Options

43. There are a range of other corporate savings totalling £0.7m which are detailed in appendix 7e.

Area Based Grant

44. In June 2010, the coalition government announced a range of in year grant reductions, which included an ongoing reduction in Area Based Grant of £1.8m. ABG is now an unringfenced general grant, which is built into the ongoing base budget of the Council. Prior to the removal of the ringfence it was provided for specific purposes. All Groups have reviewed the specific services where this funding had originally been allocated and to date have identified £2m in savings. Appendix 7f attached gives a breakdown of these savings.

Fees and Charges

45. 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.

46. The MTFF includes an inflation assumption of 2.5% and an associated increase in income of £0.5m. However this increase is not uniform across all fees and charges. Certain fees such as meals on wheels and parking for residents has been frozen. In addition there are proposals for targeted above inflation increases in certain fees and charges where they impact primarily on non-residents or where we are out of line with neighbouring Boroughs. The increase in the VAT rate by 2.5% to 20% will also have an impact on some fees and charges that attract VAT. These charges will be increased from 1 February 2011 and need to increase accordingly to avoid a net loss of income to the Council. Charges for Leisure facilities related to the VAT increase will come into effect on 1 January 2011.

47. Schedules detailing the proposals relating to fees and charges for 2010/11 are attached at Appendix 8.

Central Government Grant

48. The provisional Local Government Finance Settlement for 2011/12 has yet to be announced and so this draft budget has been prepared on the basis of estimated Government Formula Grant derived from the CSR.

49. The CSR published on 20th October outlined headline grant figures for local authorities. Total Local Authority Formula Grant will fall from £28 billion in the current year to £21.9 billion in 2014/15. This is a cut of 21.8% in cash terms over the 4 years. Prior to CSR the MTFF had a 21.2% cash reduction built in over the 4 years so this estimate was within £0.5m. However, the cut in formula grant is significantly front loaded resulting in an adverse impact of £3.8m in 2011/12. The percentage reductions and the resultant impact on the MTFF are outlined in the following table.

Table 7: Formula grant projections

Year	% reduction in formula grant	Impact on previous MTFF assumption (+ = adverse)
2011/12	-10.7	+£3.8m
2012/13	-5.7	+£0.2m
2013/14	-0.7	-£3.6m
2014/15	-4.7	+£0.1m
Total	-21.8	+£0.5m

50. £1.8m of Area Based Grant was cut in-year during 2010/11 as part of the post election budget. The MTFF assumes that this cut will be ongoing. Most area based grant will be subsumed into RSG from 2011/12 onwards, and the MTFF assumes that these grants that are rolled in will be subject to further cuts. In total a £10.8m reduction in grant funding has been assumed based on figures derived from the CSR.

51. However, the actual position is very complex and these headline figures need to be treated with a considerable amount of caution. The impact on individual authorities could vary considerably. This is because the methodology for apportioning RSG and the underlying data on which the apportionments are made is all being revised. In addition the points where the government decides to set the floors and ceilings to changes in formula grant will have a significant impact on individual authorities.

52. There are a large number of specific grants and ABG that are being subsumed into RSG or DSG. The relative cut that each grant will get and whether the cut is before or after rolling into RSG will significantly influence the impact on individual authorities. However, there are also new grants built into the CSR. These are not yet fully built into our projections as we do not as yet have the detail. The largest of these is a new £1bn DoH grant to fund Adult Social Care demographic pressures. The methodology for distributing this grant has not been published so has not been built into the MTFF at this stage. In addition the government have indicated that they might introduce a business rate increase bonus scheme. Under this scheme local authorities would retain some business rates on a 6 year rolling basis if they achieve a sufficient increase in business rate yield. This would in effect be a simpler and larger version of LABGI. Nothing as yet is incorporated into the MTFF in respect of this scheme until further details are published.

53. The Local Government Finance Settlement is expected to be published on 13th December. This is expected to show details of actual local authority funding for the two years 2011/12 and 2012/13. The actual funding for 2013/14 and 2014/15 will depend on the outcome of a wider review of local authority financing that is being commissioned. However, it is likely that some of the detail required to fully assess the impact of the settlement may not be available until the New Year. It is therefore likely to be mid January before a more definitive assessment of the full impact of the assessment is available.

Balances and Reserves

54. The MTFF strategy is to maintain balances long term at a level of no lower than £12m. This is also within the recommended range advised by the Corporate Director of Finance and Business Services. The original budget strategy for 2011/12 included a proposed drawdown from balances of £1.5m.

55. The projected unallocated balances and reserves are forecast in the Month 7 budget monitoring report to be £15.8m as at 31 March 2011. However, this assumes that the £1m of priority growth will be spent in full which is unlikely. Officers are also working on further recovery plans with the aim of increasing balances by the year end. Actual balances at the year end could therefore be in the region of £17m.

56. The forecast balances position is therefore sufficient to allow up to £3m to be drawn down from balances in 2011/12. This would mean that balances at the end of 2011/12 would still be £14m, £2m in excess of the £12m long term target level of balances. This strategy would also assist in helping to mitigate the impact of front loading of central government cuts. However, at this stage, the level of savings proposals developed are such that the report suggests a drawdown from balances of £2.2m. This will be reviewed once the details of the local government finance settlement are known.

57. The final decision on whether the government will permit the Council to capitalise the potential impairment from the investments in the Icelandic banks Heritable and Landsbanki will be announced on 17 December 2010. Should this permission not be granted then the potential impact on the Council's reserves at the year end is currently estimated at £3.4m.

58. Whilst this remains a risk, it should be noted that this is only one of several unknown factors on the final budget at this stage and the eventual drawdown from balances will be finalised once all these unknown factors are quantified.

Council Tax Levels

59. The budget proposals have been developed to deliver a zero increase in the Council Tax for 2011/12 for the third successive year. In the CSR announcement on 20 October 2010, the government announced that they would make funding available equivalent to a 2.5% increase in Council Tax for Councils who choose to freeze their Council Tax. This funding has been factored into the budget proposals detailed within this report.

Medium Term Impact of Proposals

60. Whilst the immediate focus of this report is on the 2011/12 budget, this needs to be balanced with key developments over the medium term.

61. In May 2010 the Council entered into a new four year cycle, taking the opportunity both to set new goals and to adopt new approaches to the Council's ways of working through the HIP BID programme.

62. Further savings proposals need to be identified to bridge the forecast budget gap over the 4 year period. Officers are still reviewing services with a view to identifying further savings opportunities and the Leader of the Council will be undertaking a further restructure of the Council over the forthcoming year.

63. Additionally, the 2011/12 budget is the first year of a new settlement, currently anticipated to cover only 2 years. A review of local government finance has been announced, which will commence early in 2011, and will deliver the framework for the following finance settlement. However the wider picture of the state of public finances is well documented and the reality of the need for significant cuts to all areas of public sector funding, including local government, has been factored into the medium term forecast.

64. The savings proposals outlined in the report should be capable of delivering a balanced budget in 2011/12. However, at present there is still a budget gap remaining for the following 3 years. Work is continuing to produce further proposals to bridge this projected gap over future years.

Greater London Authority Precept

65. The Mayor of London is expected to issue his draft budget proposals for 2011/12 on 22 December 2010. The Mayor of London has already announced that he expects to freeze the GLA precept meaning that the overall impact of the draft budget will be a zero increase in the Council Tax in total for Hillingdon's residents. It is recommended that the Corporate Director of Finance and Business Services in consultation with the Leader of the Council be authorised to endorse a response to the Mayor's budget consultation on behalf of Hillingdon.

CAPITAL PROGRAMME

Background to the Capital Programme

66. The capital programme for 2010/11 was approved by Cabinet and Council as a one-year capital budget that focused on maximising the use of identified funding in order to minimise the level of new borrowing that ultimately impacts on budget requirements funded through Council Tax.

67. The process of developing a capital programme has again focused on identifying and sustaining available funding streams whilst simultaneously managing the impact of increased demand for primary school places in the borough. The Primary Capital Programme is expected to require an investment in the region of £100m over the period 2010-15, to be financed from a combination of funding streams yet to be announced by central government.

68. The draft capital programme may need to be revised once the final impact of the settlement is known as this may impact on the affordability of the programme. A summary of the draft capital programme is shown in Appendix 10.

Funding of the Capital Programme 2011/12 – 2014/15

69. The Council has a range of key funding sources for the capital programme that are summarised in Table 8 below:

Table 8: Capital Programme Funding

Funding Source	Funding 2011/12 (£m)	Funding 2012/13 (£m)	Funding 2013/14 (£m)	Funding 2014/15 (£m)
Unsupported Borrowing	16.3	(11.4)	11.1	22.3
Unsupported Borrowing funded by Revenue Savings (Invest-to-Save)	5.3	0	0	0
Capital Receipts - General Fund	15.6	27.6	4.3	0.4
Total Council Resources	**37.2**	**16.2**	**15.4**	**22.7**
Supported Borrowing	**20.5**	**3.0**	**2.8**	**2.8**
Specific Capital Grants	36.8	25.7	25.7	25.7
Capital Receipts – Housing Revenue Account	3.6	0	0	0
Other Funding Sources	6.9	3.8	3.9	3.8
Total Other	**47.3**	**29.5**	**29.6**	**29.5**
Total	**105.0**	**48.7**	**47.8**	**55.0**

70. The proposed budget detailed in Appendix 10 requires borrowing (supported and unsupported) of £42.1m, representing the largest source of funding for the capital programme with anticipated grants following at £36.8m. In line with the funding position for the revenue budget, allocations of most capital grants for 2011/12 onwards are yet to be announced and the programme has been prepared on the basis of estimates. Capital grants tend to be provided for key statutory services, in particular schools and housing – the largest elements of capital grant for 2011/12 are schools programmes (£17.4m) and the Major Repairs Allowance for the Housing Revenue Account (£8.2m). The level of grant funding for schools includes remaining allocations from prior years and forecast allocations from 2011/12.

71. Capital receipts reflect the disposal programme of surplus Council assets identified through the Strategic Property Group review process, including £17.4m of capital receipts in 2012/13 from self-financing schemes undertaken in 2010/11 and 2011/12. These relate to the sale of flats on the South Ruislip, Hayes End Library and Yiewsley Pool sites that will take place the year after the spend on the development of the sites takes place. It is for this reason that the unsupported borrowing figure for 2012/13 is negative i.e. unsupported borrowing on these sites being repaid the following year through the sale of the flats.

72. Other external funding available to support the capital programme includes funding of approximately £4m in 2011/12 for local transport improvements funded by Transport for London, as well as funding from Section 106 agreements and the Housing Revenue Account.

73. Unsupported borrowing under the Prudential Code falls into two categories. The first type is for projects that are funded on an 'invest-to-save' basis, where the capital investment will lead to either a revenue saving or source of income sufficient to cover the financing costs of the initial borrowing. Funding for this type of project is an important lever for

improvement and maximising efficiency, which include in the draft capital programme the Council's strategy for replacing leased vehicles with outright purchase.

74. The second type of unsupported borrowing is for key capital developments that involve service enhancement, where the resulting revenue financing costs are effectively equivalent to a growth item impacting on the Council's budget requirement funded through the Council Tax. An example of this is the Council's on-going Library Refurbishment programme. This type of funding also includes items where upfront capital investment is needed in order to release future capital receipts that make the capital expenditure effectively self-financing over the life of the project – examples of this are the Hayes End Library and South Ruislip developments.

New Capital Schemes

75. The draft capital programme includes funding of £8.3m for two new General Fund capital projects that will enhance the Council's future service delivery and generate capital receipts and additional revenue resources to fund future years' capital programmes. These are summarised in the following table:

Table 9: New Capital Projects 2011/12

Project	Capital Expenditure 2011/12 (£000s)
Libraries Refurbishment - Central Library	2,000
Health Centre at Yiewsley Pool site	6,304
Total New Schemes	**8,304**

76. A major refurbishment of Uxbridge's Central Library as part of the wider Libraries refurbishment programme has been included over 2011/12 and 2012/13 at a cost of £3m, £2m of which will be incurred during 2011/12. The figure of £3m is an estimate of the value of works and may have scope to be varied.

77. Yiewsley Swimming Pool has been closed and replaced by new facilities at Hillingdon Sports and Leisure Complex and Botwell Park Leisure Centre. This project is to develop a new health centre which will be leased to Hillingdon PCT (and its successor organisations), generating income from lease payments and the sale of residential properties to support future capital investment.

Ongoing Capital Schemes

78. Continuing programmes of works are included in the draft programme for 2011/12 at a cost of £8.8m, predominantly funded from council resources, as follows:

- Disabled Facilities Grant (DFG) (ASCHH) £2.5m
- Private Sector Renewal Grant (PSRG) (ASCHH) £0.5m
- Leader's Initiative (DCE) £0.2m
- Chrysalis Programme (PE&CS) £1.0m
- Civic Centre Enhancements (PE&CS) £1.2m
- Environmental Assets (PE&CS) £1.0m
- Highways Localities Programme (PE&CS) £0.3m

- Highways Structural Works (PE&CS) £1.0m
- Property Enhancements Programme (PE&CS) £0.6m
- Road Safety (PE&CS) £0.2m
- Street Lighting (PE&CS) £0.2m
- Town Centre Initiatives (PE&CS) £0.3m

79. An indicative budget for the Transport for London has been set at £4.0m on the basis of the schemes set out in the Local Improvement Plan 2011-14. The level of funding received may vary from this figure and the programme will be adjusted accordingly.

80. In addition to the programmes set out above, the capital programme for 2011/12 provides £19m of funding for the following ongoing major projects, £13m of which is expected to be rephased from 2010/11 budgets:

- Arundel Road Development HIP (PE&CS) £2.0m
- CCTV Programme (PE&CS) £0.2m
- Farm Barns (PE&CS) £0.2m
- Hayes End Library Development (PE&CS) £2.1m
- Highgrove Pool Phase II (PE&CS) £3.8m
- Libraries Refurbishment (PE&CS) £0.6m
- New Years Green Lane (PE&CS) £1.6m
- Ruislip High School - Expansion (E&CS) £1.4m
- South Ruislip Development (PE&CS) £6.6m
- Willow Tree Centre (PE&CS) £0.3m

81. The Housing Revenue Account capital programme includes £11m ongoing works to the Council's housing stock, plus the continuation of new build schemes for general needs of £4.5m and extra care schemes for vulnerable residents of £7.2m. Both new build schemes are partly funded through grants successfully obtained from the Homes and Communities Agency.

82. The general schools capital programme is primarily funded from Department for Education resources. Final determinations of these allocations for 2011/12 onwards are not yet known and assumed levels of funding are included in the above programme. The £9.1m schools capital budget included in the latest draft programme is dependent on these external funding streams and will be adjusted to match available resources.

83. Primary school expansions are continuing, with major works to a number of schools in the borough due to be completed by September 2012. As noted above the £29.8m scheduled for 2011/12 is expected to be financed from existing funding allocations and other external contributions, reducing any call on Council Resources in 2011/12.

Revenue Impact of the Capital Programme

84. Revenue financing costs for the draft capital programme have been taken into account in producing the revenue budgets set out above. These will be kept under review and opportunities for improving the funding of the capital programme such as through external funding bids will be sought in order to minimise any impact on revenue financing costs.

85. The anticipated impact of the major investment in provision of school places beyond 2011/12 in the borough has been factored into future revenue budgets, with additional funding for capital financing of £2.9m being included by 2012/13.

86. To finance the proposed programme outlined in Appendix 9, council resources and supported borrowing of £57.7m is required, of which it is anticipated that asset disposals will generate £15.6m. The revenue impact of the remaining £42.1m of borrowing will be approximately £3.1m per year from 2012/13 in interest and MRP charges.

Summary of the Capital Programme

87. A summary of the Council's proposed capital programme by project themes is set out in Table 10 below:

Table 10: Summary of Proposed Capital Programme

Programme Type	Draft Programme 2011/12 (£000s)	Draft Programme 2012/13 (£000s)	Draft Programme 2013/14 (£000s)	Draft Programme 2014/15 (£000s)
New Capital Projects	8,304	1,000	0	0
Programmes of Works	8,813	7,798	7,728	6,613
Transport for London	4,000	4,000	4,000	4,000
Continuing Capital Projects	18,764	569	0	0
Schools Capital Budgets	9,119	6,656	6,656	6,656
Primary School Expansions	29,861	17,615	18,546	26,886
General Fund Contingency	2,547	0	0	0
Housing Revenue Account	23,600	11,026	10,850	10,850
Programme Total	**105,008**	**48,664**	**47,780**	**55,005**

SCHOOLS BUDGETS

88. The outcome of the Spending Review for schools revenue budgets includes a headline increase of 0.1% per year in real terms (i.e. after assumed inflation) in each year of the Spending Review period.

89. This equates to a cash increase of £3.6 billion nationally in the schools budget by 2014/15. £2.5 billion of this will be contained in the new Pupil Premium for disadvantaged pupils. The remaining cash increase will be needed to cover demographic pressures on pupil numbers, so that the basic per pupil amount of funding is likely to be frozen in cash terms over the Spending Review period.

90. The Spending Review also signals a major reduction in the number of specific grants associated with school funding. Remaining specific grants are likely to be rolled into either the Dedicated Schools Grant (DSG) or a new unringfenced Early Intervention Grant.

91. It is expected that local authority level and per pupil allocations of funding will only become available during December 2010. These allocations will then be translated into provisional proposals for consultation with schools that will be set out in a consultation paper to be issued following approval by the Cabinet Member for Education and Children's Services, and initial discussion with the Schools Forum.

92. The consultation will run until 17 January 2011, after which Schools Forum will consider the results of the consultation at its meeting on 25 January 2011, when decisions will be made on funding proposals for 2011/12. These decisions will be incorporated into a report to Cabinet on 17 February 2011. Schools will be issued with indicative budgets in early March 2011 for the 2011/12 financial year. Final budgets will be issued to schools by 31 March 2011.

HOUSING REVENUE ACCOUNT (HRA)

93. For 2011/12 the HRA budget setting process will continue to be largely dependent upon the HRA Subsidy Determination which is the responsibility of Department for Communities and Local Government. The draft Determination includes the parameters for the calculation of subsidy including management, maintenance and major repairs allowances. Since the introduction of rent restructuring in 2002, the Determination effectively has also provided government direction for individual council rents.

94. The draft Determination for 2011/12 was issued on 5th November 2010 and re-issued five days later on 10th November 2010 as the original contained minor errors for consultation. Responses are required by 16th December 2010. An analysis of the draft Determination proposals indicates that average rents in Hillingdon will need to increase by 5.9% so that the current average rent of £89.89 per week will increase by £5.26 to £95.24 per week. However, from 2011/12 Hillingdon as a 'first and second round' ALMO, are due to have their Decent Homes ALMO Allowance converted to debt for subsidy purposes which will attract interest relief within the subsidy system and the corresponding financial benefit from decent homes funding will be spread over the long term.

95. As these figures have been calculated from draft Determination data they are likely to change when the final Determination is issued in January. However, in recent years the change between the draft and final Determinations has not been significant. The main reason for this is that over the last three years DCLG has kept stable the broad parameters for the subsidy system to reduce volatility from year to year pending the HRA Review. The outcome of this review should mean that this is the last year for the HRA subsidy system as the government has planned to replace this with self-financing from April 2012 subject to parliamentary approval of the Localism Bill.

96. Self-financing will then be implemented through a mandatory one-off settlement payment between each local authority and central government, which will be determined by a valuation of each local authority's social housing business. These valuations will take account of income and expenditure needs over 30 years and the level of housing debt. DCLG are planning to publish a policy document in January detailing the methodology behind the settlement. It will also include a model with updated data that will enable local authorities to calculate the likely impact for them of the self-financing deal. Such a model along with data was published as part of the consultation document '*Council housing: a real future* in April 2010. The indicative figures for Hillingdon within the consultation document were favourable mainly due to the current system being disadvantageous and any change would therefore most likely improve the HRA finances.

97. The consultation document was published before the new coalition government plans for reducing the public sector deficit had been worked up. These are very likely to impact on the self-financing settlement and as noted above the changeover will be mandatory. The impact on the Hillingdon HRA will be reported to Cabinet soon after the policy document including the updated data that DCLG has planned for January is published.

Financial Implications

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

EFFECT ON RESIDENTS, SERVICE USERS & COMMUNITIES

What will be the effect of the recommendation?

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

The draft budget includes changes to several services which will impact on the level of service provision for some users. Overall the package of proposals is designed to secure the most effective combination of service outcomes across the whole of the Council's business, by improving the value for money offered by services and by maximising funding, procurement, efficiency and service effectiveness gains.

Consultation Carried Out or Required

Following consideration at Cabinet, this report will form the basis of consultation with Policy Overview Committees during January 2011. Comments from the Policy Overview Committees will be reported back to Cabinet by the Corporate Services and Partnerships Policy Overview Committee when Cabinet meets on 17 February 2011. Cabinet will then agree a set of budget proposals for recommendation to the annual Council Tax setting meeting of full Council on 24 February 2011.

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

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

CORPORATE IMPLICATIONS

Corporate Finance

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

Legal

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

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

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

The Cabinet will ultimately consider any responses from the Policy Overview Committees and other consultees and take them into account in drawing up firm proposals for submission to full Council at its meeting on 24 February 2011. Its report will reflect the comments made by consultees and its response to them.

Relevant Service Groups

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

BACKGROUND PAPERS

Report to Council 25 February 2010 – General Fund Revenue Budget and Capital Programme 2010/11.