

THE COUNCIL'S BUDGET: GENERAL FUND REVENUE BUDGET AND CAPITAL PROGRAMME 2011/12

Cabinet Member	Councillor Jonathan Bianco
Cabinet Portfolio	Finance, Property and Business Services
Officer Contact	Christopher Neale, Director of Finance & Business Services Paul Whaymand, Deputy Director Finance & Business Services
Papers with report	Appendices 1 to 12

HEADLINE INFORMATION

Purpose of report	<p>The report sets out the Cabinet's proposals for the Council's General Fund revenue budget and capital programme for 2011/12. It includes indicative projections for the following three years.</p> <p>The revenue budget proposals have been developed to deliver a zero increase in Council Tax for the third successive year for all residents and for the fifth year for the over 65's. They also provide for priority growth of £1.8m, whilst maintaining balances and reserves at over £12m.</p> <p>The revenue budget proposals result in a complete freeze on Council Tax at 2010/11 levels. This is because both the Greater London Authority (GLA) and Council precepts are frozen.</p> <p>The capital programme for 2011/12 proposed in this report includes total investment of £193m over the next 4 years with £93.8m in 2011/12.</p> <p>Cabinet are requested to recommend their budget proposals to full Council on 24 February 2011. This is in order to formally set the General Fund revenue budget, capital programme and Council Tax for the 2011/12 financial year.</p>
Contribution to our plans and strategies	<p>The revenue budget and capital programme together form the financial plan for the Council for the 2011/12 financial year and contain the funding strategy for delivering the Council's objectives. They also provide the funding strategy for the Council's goals for Hillingdon as a whole in the Sustainable Community Strategy.</p>
Financial Cost	<p>Zero increase in Council Tax for the third successive year for all residents.</p>
Relevant Policy Overview Committee	<p>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</p>

Ward(s) affected	All
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RECOMMENDATIONS:

That Cabinet approves for recommendation to Council:

- 1. The General Fund revenue budget proposals for 2011/12 summarised at Appendix 1, including the detailed budget changes contained at Appendices 2 to 7;**
- 2. The proposed fees and charges included at Appendix 8;**
- 3. The capital programme set out at Appendix 9;**
- 4. The Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement for 2011/12 to 2013/14 as detailed in Appendix 11;**
- 5. That Cabinet notes the Corporate Director of Finance & Business Services' comments regarding his responsibilities under the Local Government Act 2003.**
- 6. That Cabinet recommends to Council (as set out in Schedule C of the Constitution - Budget and Policy Framework Procedure Rules) that it resolves that Cabinet may utilise the general reserves or balances during the MTFF financial years 2011/12 to 2014/15 in respect of those functions which have been reserved to the Cabinet in Article 7 of the Constitution.**

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 freeze in Council Tax for 2011/12. They seek to do this whilst maintaining balances and reserves above £12m.

The budget strategy has been delivered through a rigorous focus on identifying savings and efficiencies across the Council. This has been done through the Business Improvement Delivery Programme and monitored in conjunction with the Leader of the Council throughout the budget process.

The main challenge in delivering a balanced budget for 2011/12 was in the development of significant savings of over £26m, more than double the £10.3m required in 2010/11. Those savings proposals have been developed as a result of the in-year challenge of responding to a £3.6m government grant cut to funding in 2010/11 and a real reduction of £11.6m in income from Government Formula Grant in 2011/12.

The savings proposals are centred on more efficient delivery methods and implementing the new Council operating model, rather than service reductions. They also focus 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.

Total savings amount to over £26m, with £8.5m in Adult Social Care Health and Housing, £3.8m in Central Services, £5.7m in Education & Children's Services, £4.9m in Planning, Environment & Community Services, £2m in services previously funded by central government Area Based Grant and £1.2m of other savings. Full details of the proposals are contained in Appendix 7.

The identification of £26.2 m of savings for 2011/12 has allowed the budget proposals to absorb £7.4m of service pressures and the provision of a £11.8m contingency. The key issues arise from demographic pressures, uncertainty over future employer pension contribution increases and the continuing pressure from a reduction in DWP funding.

The budget also allows for the inclusion of £1.8m of new priority growth, in addition to £0.9m carried forward from 2010/11, giving a total of £2.7m to support the delivery of Cabinet's objectives for the Administration. New growth commitments included in the proposed revenue budget for 2011/12 are:

- Enhancement of the Careline and Telecareline service (£700k)
- Investment in Highways Maintenance (£500k)
- Support to Music and Arts (£175k)
- Staffing for new Youth centres (£131k)
- Investment in an obesity strategy through sport and exercise (£80k)
- Enhancement of the Town Centre Improvement Team (£80k)
- Extension of libraries opening hours (£10k – taking the total to £75k)
- Hayes Carnival (£35k)

Out of the total of £2.7m, a sum of £1m remains unallocated for further priority growth initiatives during the financial year. In addition, the draft budget continues to include revenue funding of £0.5m for further HIP Initiatives.

The report also includes the General Fund fees and charges recommendations for 2011/12. Discretionary fees and charges for certain services to Hillingdon residents have been frozen at the current level alongside Council Tax.

The capital programme for 2011/12 proposed by Cabinet and indicative allocations for the following three years are presented in this report. The draft capital programme over four years contains investment of £192.6m with £93.8m in 2011/12.

This capital programme includes funding for schools projects of £36.4m; 3 major self financing development projects which will be funded from the sale of residential units and on-going lease income, built alongside community facilities; the continuation of the libraries refurbishment programme; the next phase of the improvements to the Highgrove Pool leisure facilities; and several smaller improvement projects.

Additionally, the capital programme provides over £15m of funding for key ongoing programmes including £2m investment in Environmental assets, £1.2m in Highways and further significant sums in the Chrysalis programme, road safety, the Leader's Older Peoples Initiative, the upgrade of local town centres, and the ICT single development plan.

The report also includes the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement for 2011/12, including the Prudential Indicators. Each of these items is recommended by Cabinet for approval by full Council.

Legal Considerations

The Corporate Director of Finance & Business Services has a duty under the Local Government Act 2003 to comment on the robustness of the budget for the coming year and the adequacy of the Council's reserves. These duties are exercised in this report. The Corporate Director of Finance & Business Services has recommended that an appropriate level of unallocated balances for the authority is in the range from £12m to £24m. As described in the report, unallocated balances have been maintained well above £12m throughout the current year and are forecast to be in excess of £15m at the year end. They will remain in excess of the £12m as a result of the budget recommendations in this report. The budget also contains a Development and Risk Contingency of £10.7m over and above unallocated balances of £15m.

INFORMATION

Reasons for recommendations

The recommendations have been framed to comply with the Budget and Policy Framework rules. They allow the presentation to Council of recommended budgets for 2011/12. This includes the impact on the Council Tax and housing rents, service charges and allowances.

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

The Council has powers only to approve revenue budgets and set Council Tax 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 three-year period as the statutory framework provides greater freedoms under the Prudential Code to encourage a longer term approach to capital financing and borrowing decisions.

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

Alternative options considered / risk management

Growth proposals included in the budget could be removed and either the Council Tax requirement reduced or alternative items substituted for them. Similarly, further items could be added to the budget requirement either through additional growth, increased provision for risk, or by reducing the package of savings. The Council Tax could then be increased accordingly within the constraints imposed by the Government's capping regime and the loss of the Council Tax freeze grant of £2.7m. A change in the budget requirement of £0.9 m either way (increase or decrease) will result in an increase or decrease of 1.0% in the level of the Council Tax.

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

Members could decide to vary the proposed fees and charges outlined at Appendix 8. Any decision to do so could have an impact on the budget requirement. This would need to be reflected in the budget to be recommended to Council.

The Development and Risk Contingency identified the key risks and uncertain items for which provision is contained with the revenue budget. Reduction of this provision is not recommended. This would otherwise increase the likelihood of unfunded pressures emerging into budget monitoring in the 2011/12 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 & Business Services. Whilst further contributions from balances could be made, any reduction in balances to below the lower limit of this range are not recommended.

Comments of Policy Overview Committee(s)

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 16 December 2010 for consultation at the January 2011 round of meetings.

Each service Policy Overview Committee referred their comments on to the Corporate Services and Partnerships Policy Overview Committee on 9 February 2011. The Committee's comments to Cabinet are contained in Appendix 12.

Supporting Information

Background

- 1 This is the second report to Cabinet on the budget proposals for 2011/12 and beyond. The previous report presented to Cabinet on 16 December 2010 set out the Medium Term Financial Forecast (MTFF). Draft revenue budget and capital programme proposals were approved then for consultation with Policy Overview Committees and other stakeholders.
- 2 This report updates the earlier December Cabinet report for known changes. It sets out the Cabinet's General Fund revenue budget and capital programme for 2011/12, with medium term projections for three years beyond next year. The Council does not have the power to set budgets more than one year in advance. However, the inclusion of medium term figures helps to demonstrate the ongoing impact of the budget proposals. It also provides context for the budget decisions proposed.
- 3 The report includes Prudential Indicators for 2011/12 to 2013/14. These show the impact of the Council's capital spending plans, included in the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Statement for 2011/12, at Appendix 11.
- 4 The Corporate Director of Finance & Business Services' duty, under the Local Government Act 2003, to consider the adequacy of the Council's reserves and robustness of the estimates, is exercised within this report.

GENERAL FUND REVENUE BUDGET

Changes since Report to Cabinet on 16 December 2010

- 5 The table below summarises the changes to the recommended budget proposals from the report considered by Cabinet on 16 December 2010. Each of the items is considered in more detail in the following section.

Table 1: Changes to Revenue Proposals since Cabinet on 16 December 2010

	Amount 2011/121 (£000s)
Clarification of government grants and funding	(197)
Increase in priority growth	1,455
Reductions in pressures	(1,100)
Additions to contingency	2,108
Additional Savings proposals and amendments	(2,680)
Net Change	(414)

6 Clarification of government grants

The December report was based on an estimate of the reduction in central government funding. The final settlement was published on 31 January and as a result funding has been clarified in several areas. Total grant funding in relation to services previously funded by formula grant, area based grant and specific grants has decreased by £58k from our December estimate. This includes the final formula grant settlement which was £14k greater than the original consultation sum advised in December. Additional movements in funding have arisen from a new Lead Local Flood Authority grant of £127k being introduced and a £128k increase in the estimate for the New Homes Bonus. In total central government funding has therefore improved by £197k from that assumed in the December budget report.

7 Increase in Priority Growth Proposals

Additional proposals for priority growth have now been included in the draft budget: £700k for an enhancement to the existing careline and telecareline services; £500k for Highways maintenance; £80k to enhance the Town Centre Improvement Team; and £175k to support music & arts.

8 Reductions in Pressures

Following the finalisation of the London West Waste budget, the overall pressure on the West Waste levy has reduced by £850k in 2011/12. This was largely due to pressure led by this Council for the application of balances arising from underspends in the current and previous years as well as for better savings plans. Also the ongoing management action in Adult Social Care to start to cap and reduce the increased trend in demographic pressures is now forecast to have an impact in 2011/12 and as a result the forecast pressure has decreased by £250k.

9 Additions to Contingency

Whilst the above reductions in pressures resulted in a reduction in contingency, there has been an overall increase in contingency since the December report due to several issues. It was announced that the Carbon Reduction Commitment would impact in 2011/12, a year earlier than planned (£460k); a new contingency is proposed to cover any High Speed 2 challenge (£100k); an additional HIP contingency is proposed to pump prime future BID transformation work (£400k); the responsibilities in relation to flood defence are yet to be clarified necessitating the creation of a contingency (£50k); and continuing adverse movements in current year monitoring suggest the need for an increase in the Development Control contingency (£40k). £1,058k has also been included as a contingency against the delivery on new savings targets on grant funded income in ECS and ASCH&H.

10 New and revised savings proposals

Work on the development and refinement of savings proposals for 2011/12 and beyond is continuing, resulting in several changes for 2011/12 to those reported in December.

- In ASCH&H a new saving in relation to the First Time Buyer's Initiative of £250k has been proposed to reflect the slow down in property purchases and a 5% savings target of £439k against new unringfenced grant income.
- In Central Services there are further proposals in Business Services of £360k, additional Learning & Development savings of £50k, and savings from an initial review of the Housing Fraud Investigation team of £40k.
- In ECS additional savings are proposed through the Connexions service of £370k and a 5% savings target of £619k against new unringfenced grant income. There is also a proposal to decommission the Music Service as it is currently configured and remove the Council subsidy. The Council subsidy of £474k on direct costs and £737k when overheads are taken into account cannot be justified in the current economic climate. There is also a degree of uncertainty over grant funding going forward which if reduced would increase the Council subsidy further. This proposal will deliver £323k in 2011/12 and £474k in a full year, although redundancy costs will limit the savings in 2011/12. There are proposals included in priority growth to invest up to £175k in support to music and arts.
- In PECS the 30 minute free-parking for non-residents has been retained (-£63k) and a saving of £238k has resulted from the time limited growth re Community Police Officers put into the budget in 2009/10 falling out. Alternative funding for this service going forward has been found from LAA reward grant and other base budget.
- Other general savings proposals include £350k (£450k in a full year) from further BID restructuring, £300k from a proposal to capitalise equipment, the removal of the saving from Members' Allowances (-£40k), the re-instatement of the credit crunch contingency of (-£75k) for 2011/12, and other minor adjustments of £37k.

Budget Requirement 2011/12

- 11 The movement between the current 2010/11 year's budget and the draft budget requirement for 2011/12 is summarised in Table 2 below. Further detail on each of the lines in the table is set out in subsequent sections of the report. A more detailed summary of the MTFE over the full 4 year period is attached in Appendix 1.

Table 2: Budget Requirement 2011/12

	Budget (£000s)
Budget Requirement 2010/11	194,194
Non Formula Grant reductions	10,091
Inflation	1,980
Corporate Items	4,548
Service Pressures	7,369
Contingency	1,026
Priority Growth	1,776
Savings	-26,238
Budget Requirement 2011/12	194,746
<u>Funding Sources</u>	
Council Tax	108,870
Government Formula Grant (estimated)	85,876
Total Resources	194,746
- adjustment to Budget Requirement definition	
Council Tax Freeze Grant	-2,765
New Homes Bonus	-1,848
Revised Net Budget Requirement 2011/12	190,133

Inflation

- 12 The core inflationary cost increase in the draft budget for 2011/12 is £1.98m. This represents a decrease of £4m compared to earlier projections contained in the budget report to Cabinet and Council in February 2010.
- 13 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 the Council has 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.
- 14 Table 3 below sets out the general inflation rates applied to specific budget lines.

Table 3: 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

- 15 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 £4.6m in 2011/12 is required to cover these items which are shown in summary in table 4 below and in greater detail in Appendix 2. Details on the contributions from balances are included later in the report.

Table 4: 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	-293
Concessionary Fares Levy	735
National Insurance Contributions Increase	420
Total	4,548

- 16 The budget for 2011/12 includes 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.
- 17 Reward grant from the 2007 Local Area Agreement (LAA) is due in March 2011 following a claim 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 MTFE 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 £2.6m net adjustment to the 2011/12 budget.
- 18 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 MTFE reflects that these funding streams will not continue beyond that date. However, the budget does include £1.8m in the PECS budget in relation to a new reward grant called the New Homes Bonus. This bonus incentivises building locally by match funding the additional Council Tax for new homes and properties brought 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.
- 19 Following the consultation on the Concessionary Fares levy on the distribution method between London authorities, and the impact of TfL withdrawing from the 5 year deal on funding the Freedom Pass, the impact on Hillingdon is an increase in costs of around £0.7m. The total cost of the Freedom pass levy to Hillingdon is £7,712k.

- 20 Employers NI costs are estimated to increase by £0.4m next year as a result of the Government increasing the employers NI rate and changing the threshold levels after which NI becomes payable.

Service Pressures

- 21 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 budgeting process. Failure to identify a pressure over which there is little or no control is likely to result in a need to take corrective action that may have an impact on services.
- 22 Groups have continued to review their pressures to reduce the level of these items to a minimum. Table 5 sets out pressures identified by Groups totalling £7.4m for 2011/12. These items are set out in more detail in Appendix 3.

Table 5: 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	+1,300
Local land charges income	+720
Reduction in DWP funding	+800
Golf Course income	+303
Corporate Landlord	+100
Total	+7,369

- 23 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 £4m is also provided for in contingency.
- 24 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.
- 25 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.
- 26 The latest projections for the West Waste levy indicate a requirement of £1.3m to be added to the base budget. However, this is £228k lower than the contingency provided

for the current financial year. This saving is due to an improved outturn for 2009/10 due to lower waste volumes than expected which has continued into the current year and action led by this Council for West London Waste to use unnecessary reserves and make savings.

- 27 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.
- 28 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.
- 29 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, there is a pressure of £0.04m in relation to the shortfall of income from Stockley Park.
- 30 Ongoing pressures within the Corporate Landlord function have necessitated that £100k previously held in contingency be recognised as a service pressure within the budget.

Development and Risk Contingency

- 31 The Development and Risk Contingency provides for resources within the revenue budget. These are unallocated at the beginning of the year, but 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.
- 32 There have been a few changes to the profile of risks that need to be covered in the Development and Risk Contingency, since the report to Cabinet on 16 December 2010. There is an improving position in two areas, namely the improving trend projection on Adult Social Care demographics and the reduction in the previously forecast increase in the waste disposal levy, both discussed in the section above.
- 33 However, this has been offset by a worsening position in other areas. The contingency included in 2012/13 for the Carbon Reduction Commitment has been brought forward by one year following a government announcement of changes to the effective date of the scheme. New responsibilities in relation to flood defence measures have yet to be clarified and so a contingency of £0.05m is now included. Similarly a contingency of £0.1m has been included to cover any potential challenge against the High Speed 2 rail link. Further contingencies to offset the delivery of savings targets on grant income of £1,058 and £0.4m to cover potential pump priming of BID initiatives have also been added.
- 34 The draft Development and Risk Contingency is set out in Appendix 4. Items with a total potential risk outturn of £16.8m are included in the contingency for 2011/12. When the probability of occurrence is applied to these amounts, the total for which funding would need to be provided stands at £11.8m.

Priority Growth

- 35 Provision has been made in the budget strategy for £1.8m of new priority growth. Within this provision is an allocation of £700k to enhance the existing Careline and Telecareline services. This proposal is an integral part of an overall approach that prioritises individuals' ability to live in the community. The objectives of TeleCareLine are to: sustain independence and prevent hospital admissions; improve hospital discharge and the transfer of care; improve the quality of life for clients and their carers; and result in the delay and lower levels of admission to long-term residential or nursing home care.
- 36 Also included in priority growth is the full year effect of the funding for new Young people's centres; a new allocation of £500k for Highways maintenance; £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. Further growth allocations have been included of £80k to enhance the town centre improvement team, £175k to support Music and Arts in the borough, and £500k for Highways Maintenance.
- 37 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 £2.7m.

Savings

- 38 The savings proposed in the draft budget for 2011/12 total £26.2m. 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	8,540
Central Services	3,802
Education & Children's Services	5,674
Planning, Environment & Community Services	4,912
Other Savings options	1,254
ABG and unringfenced grant savings	2,056
Total Savings Proposals	26,238

- 39 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 £66m 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.
- 40 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.

- 41 The savings proposals currently developed total £26.2m 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

- 42 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. Savings of £8.5m in 2011/12 have been identified and details of these savings are included in appendix 7a.

Central Services

- 43 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. Savings of £3.8m in 2011/12 have been identified and details of these savings are included in appendix 7b.

Education and Children's Services

- 44 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' (statutory) for services deemed essential, backed by an 'additional offer' (preventative) 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. Savings of £5.7m in 2011/12 have been identified and details of these savings are included in appendix 7c.

Planning, Environment and Community Services

- 45 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 rolling out the Council's operating model and further savings proposals will be developed. Savings of £4.9m in 2011/12 have been identified and details of these savings are included in appendix 7d.

Other Savings Options

- 46 There are a range of other corporate savings totalling £1.3m which are detailed in appendix 7e.

Area Based Grant

- 47 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 have identified £2m in savings. Appendix 7f attached gives a breakdown of these savings.

Fees and Charges

- 48 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.
- 49 The MTFE 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 have 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% had an impact on some fees and charges that attract VAT, and as a result those charges were increased from 1 February 2011 to avoid a net loss of income to the Council. Charges for Leisure facilities related to the VAT increase came into effect on 1 January 2011.
- 50 Schedules detailing the proposals relating to fees and charges for 2010/11 are attached at Appendix 8.

Central Government Grant

- 51 The Local Government Finance Settlement for 2011/12 and 2012/13 was announced on 31 January 2011 and ratified in Parliament on 9 February 2011. The final settlement

was broadly in line with the assumptions contained within the draft budget report to Cabinet in December.

- 52 The settlement only covered the next two years, 2011/12 and 2012/13. A total review of local government finance is due to commence in early 2011 and the outcome of this review will inform the final two years of the four year settlement period.
- 53 The headline figures presented by central government were based on change in 'spending power' between 2010/11 and 2011/12. For Hillingdon this was -3.11% which was on the face of it better than many authorities. However, when the detail is analysed the settlement is much more severe than it first appears. The 3.11% reduction is on 'spending power' which includes Council Tax income which for Hillingdon is £109m, so that immediately doubles the effective percentage cut. The 3.11% is also net of the £2.8m Council Tax freeze grant which can only be spent on freezing Council Tax and £2.7m NHS funding to support Social Care and benefit health which has certain strings attached.
- 54 In reality, formula grant was cut by £11.2m (11.6%) in 2011/12 and a further £7.4m in 2012/13 (8.6%), equating to just over 20% in 2 years. £0.4m of the new Formula Grant settlement relates to the transfer of government grant funding from TfL in relation for concessionary fares, the effective cut is therefore £11.6m in 2011/12.
- 55 In the detail of this settlement, Hillingdon lost £4m through damping to support authorities below the floor, and without this damping our cut in grant would have been 7.5% in 2011/12. Also formula grant has been top sliced to fund academies irrespective of whether authorities have them.
- 56 The new grant funding for Social Care provided through PCT budgets is not straightforward. Although it is new money within the PCT, created by government transferring money from NHS capital to NHS revenue, local authorities will need to agree with the PCT how this funding should be best used to support social care services. The Hillingdon funding of £2.7m will be delivered through a S256 agreement with the PCT which will identify the initiatives on which this funding will be used.
- 57 As expected, the payment of a new Council Tax freeze grant was confirmed to enable Council Tax to be frozen. The grant is equivalent to what a 2.5% increase in Council Tax would generate in income. Councils are free to increase Council Tax above 2.5% although they would not qualify for the grant if they did so. The proposed level of this grant is £2.7m, £8k more than was assumed in the December Cabinet report.
- 58 A number of other grants, mainly Education grants that were previously either specific grants in Education or in ABG, have been transferred into a new Early Intervention Grant. However, the grants that transferred into this grant have been cut by £1m in 2011/12. This is in addition to the £1.8m cut in ABG made in 2010/11, as the base for the settlement figures is post 2010/11 in-year cuts. In addition, for grants transferring out of ABG or specific grants into RSG, an element has have been lost in damping, equating to £0.4m. Other new grants and their 2011/12 value are: an unringfenced grant for Preventing Homelessness for £0.5m; a Home Office Grant for £0.3m; and a local Flood Authority grant for £0.1m.
- 59 The proposed methodology for rewarding authorities for creating new homes through the New Homes bonus grant is currently out to consultation. Using the figures on the

DCLG website Hillingdon would receive a payment of £1.84m in 2011/12. This is £1.34m more than was assumed in the December Cabinet report. However, DCLG have put a minimal figure (£250m) into what will become a growing cumulative cost over the 6 years period over which the scheme runs. The deficit in future years has been top sliced from the settlement.

- 60 The overall impact of the settlement on grant funding is detailed on Appendix 1. As most of the limited number of grants that the authority will receive going forward are unringfenced it has been agreed to budget for all these grants corporately rather than in Group budgets. This way any changes in grant funding will be fully transparent and in effect all Council Services will become base budget funded and can be treated equally in the MTF process.

Balances and Reserves

- 61 The MTF 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 & Business Services. The original budget strategy for 2011/12 included a proposed drawdown from balances of £1.5m.
- 62 The projected unallocated balances and reserves are forecast in the Month 9 budget monitoring report to be £16.5m as at 31 March 2011. However, this assumes that the £1m of priority growth and the £0.5m HIP contingency will be spent in full which is unlikely and does not include the £2.5m Icelandic Impairment.
- 63 In addition, there are still a number of outstanding issues to be resolved with central government that may mitigate the £2.5m impairment.
- The government is still considering the Council's application in respect of capitalising redundancy costs. The government has already agreed other authorities redundancy capitalisation bids at 38% of the sum requested. If they do the same for Hillingdon then this would enable the capitalisation of up to £1m of redundancy costs in the current year and improve balances by an equivalent sum.
 - The government is also considering an application in respect of capitalising £1.8m of abortive BS21 costs. This will be considered under the special circumstances criteria under which they have already rejected Hillingdon's Icelandic impairment capitalisation bid.
 - The Council has asked central government to pay the LAA reward grant as 100% revenue grant rather than 50% revenue/50% capital or failing that as high a % as possible in revenue grant. If agreed, this would increase revenue balances by £1.8m.
- 64 The worst case scenario is that the government rejects all 3 applications and if this were the case then balances at the year end would be around £15.1m after absorbing the impact of the impairment. However, if Hillingdon's redundancy capitalisation bid is treated the same way as other authorities then balances would increase to around £16m. If the revised revenue/capital split for the LAA reward were also agreed then balances would increase to around £17.8m.

- 65 The forecast balances position is therefore sufficient to allow the proposed £1.8m draw down from balances in 2011/12. This would mean that balances at the end of 2011/12 would remain above the £12m long term target level of balances.

Medium Term Impact of Proposals

- 66 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.
- 67 In May 2010 the Council entered into a new four year electoral 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.
- 68 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 is undertaking a further restructure of the Council designed to identify savings that will not adversely affect service delivery and that protect front line services.
- 69 Additionally, the 2011/12 budget is the first year of a new settlement, which covers 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.
- 70 There will continue to be ongoing pressures on key Council services such as demographic pressures on adult social care, and escalating waste disposal costs. These are also included in the medium term forecast.
- 71 Looking at the wider picture, the economic recovery for 2011/12 is likely to be slow and uneven. With growth prospects remaining subdued the Monetary Policy Committee will want to keep interest rates low, however they are likely to come under pressure to increase rates as global and household inflation rises. Consumer Price Inflation is stubbornly above 3% and is likely to spike over 4% and possibly over 5% in the first quarter of 2011 as a result of increases in VAT, utilities and rail fares. Although the market is still pricing in interest rate rises, pressure for an early rate rise has subsided following the recently released GDP figures. Unemployment is near a 16 year high and is set to increase as the public sector shrinks. The initial reaction to the Comprehensive Spending review has been positive but framework and targets to reduce the budget deficit and government debt will be put to the test and crucial to the market's confidence in the credibility of the deficit reduction plans.
- 72 In this context, in the public sector the impact of a return to normal inflationary conditions may be delayed due to the pressure on the public finances. This should reduce pay expectations in local government, although this will be offset by inflationary pressures on contracts, subject to annual indexed increases.
- 73 The savings proposals outlined in the report deliver a balanced budget in 2011/12. However, at present there is still a budget gap remaining for the following 3 years, something that is not unusual at this stage of the MTF process. The MTF timetable

for 2012/13 is being accelerated to ensure that proposals sufficient to bridge the remaining £5.1m budget gap are delivered by July 2011.

SCHOOLS BUDGETS

- 74 The Schools Budget consists of all budgets which are devolved to maintained schools. In addition, it also includes 'centrally retained' items such as spending on admissions arrangements, education of children out of school, and Special Educational Needs (SEN). Since 2006/07, expenditure which falls within the Schools Budget has been funded by the ring-fenced Dedicated Schools Grant (DSG). No cost falls upon the Council Tax payer unless the Council chooses to supplement the Schools Budget from the General Fund.
- 75 The coalition Government has for 2011/12 made the most significant changes to schools funding since the introduction of the DSG in 2006/07. Although the way the DSG is allocated across England is fundamentally the same, a significant number of specific grants have been transferred into the DSG, that were in 2010/11 mainly paid through the now defunct Standards Funds. In addition, the Government has introduced the new ringfenced Pupil Premium grant as an additional source of funding for schools with disadvantaged pupils. The only revenue funding for schools that will not be processed through either the DSG or the Pupil Premium grant will be where schools have Children's Centres previously funded through Sure Start grant.
- 76 Schools Forum is the principal institution established for the Council's consultations with schools on financial matters. In order to ensure that Schools Forum makes informed decisions, the proposed funding arrangements are also issued to schools inviting responses that are subsequently considered by Schools Forum in making their decisions and advice.
- 77 Schools were therefore consulted on a range of funding issues which were set out in a consultation document that was released on 10 January 2011. Although Schools Forum has decision-making powers with regard to certain aspects of the Council's proposals for schools funding, most other aspects of the consultation process are to enable Schools Forum to advise the Council on the decisions that rest with Cabinet. Schools Forum has articulated its advice to Cabinet on the issues for consideration, which is contained in a separate report on this Cabinet agenda. Cabinet will make the final decisions on the arrangements for schools funding for 2011/12 from the recommendations of this report.

CAPITAL PROGRAMME

Background

- 78 The Capital Programme for 2010/11 saw the completion of a number of major projects as part of an ambitious 2006-10 Capital Strategy. These included considerable investment in leisure and cultural facilities, largely funded by the disposal of surplus assets directly associated with each development.

- 79 In addition, the Council has continued to invest in maintaining and improving the local infrastructure via programmes such as Chrysalis, Town Centres Initiative and Highways Structural Works.
- 80 The development of the capital programme for 2011/12 has been focused on maximising the use of identified funding to maintain investment in community facilities, particularly primary schools. The medium term capital strategy will become increasingly dominated by the need to provide additional primary school places of up to 36 forms of entry over the next four years.

Changes since Report to Cabinet on 16 December 2010

- 81 Table 7 below sets out the amendments to the draft Capital Programme since it was presented to Cabinet in December; the full capital programme is detailed in Appendix 9 to this report.

Table 7: Changes to the Capital Programme since 16 December

	£'000
Draft Capital Programme - December 2010	105,008
Department of Education Funding Confirmation	551
Primary School Expansions	(4,447)
Addition of HIV Capital Grant	925
Addition of ICT Single Development Plan	1,000
Addition of Sport & Cultural Projects	200
Addition to Environmental Assets	1,000
Addition of HIP Projects	300
Addition to Road Safety	100
Rephasing Uxbridge Main Library Project	(1,000)
Rephasing HRA Projects	235
Rephasing Purchase of Vehicles	(500)
Transport for London Funding Confirmation	(583)
Works to Stock funded from HRA Revenue	(8,985)
Adjustment of Contingency	(47)
Draft Capital Programme - February 2011	93,757

- 82 2011/12 grant funding from the DoE has been confirmed, with the Council due to receive £5.0m of Capital Maintenance grant and £10.6m of Basic Needs grant. These allocations, alongside existing resources, including Schools Kitchens funding, will provide an Urgent Building Condition Works budget of £6.8m in 2011/12 to enable essential works to existing schools.
- 83 Following the award of major construction contracts for provision of an additional sixteen forms of entry by September 2011, the 2011/12 budget for the Primary School Expansions programme has been phased to facilitate planned expansions for September 2011 and to commence on expansions required for the following academic year. The shortfall in external funding will necessitate the use of approximately £10.6m of borrowing.
- 84 The Council has been successful in obtaining £0.9m of DoH funding for the provision of supported housing for sufferers of symptomatic HIV within the borough.

- 85 A £1m ICT Single Development Plan budget has been included in this capital programme to support the Council's transformational BID programme, delivering savings through the implementation of more efficient processes.
- 86 Additional resources have been added to fund further investment in HIP projects and in Sports, Cultural and Environmental Assets across the borough.
- 87 It is expected that the refurbishment of Uxbridge Main Library will begin in 2011/12, however the profile of expenditure has been revised to show the projected phasing of such works.
- 88 A number of HRA Pipeline projects have been rephased since December, and the draft budget now includes provision for these works in 2011/12.
- 89 Funding for the Purchase of Vehicles has been transferred from contingency to the main programme to reflect the need for replacement vehicles in 2011/12. This investment should generate on-going revenue savings through reduced maintenance and leasing costs. In addition £1m has been included in the draft 2012/13 Capital Programme to meet the anticipated need for further ongoing replacements.
- 90 Levels of funding receivable from TfL have now been confirmed and are included in this Capital Programme.

Capital Funding and Revenue Implications

- 91 The table 8 below sets out the funding strategy for the 2011/12 Capital Budget. It should be noted that the draft programmes for 2012/13 onwards are currently limited to the completion of existing projects and on-going programmes of works.

Table 8: Funding Strategy

	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
GF Prudential Borrowing	26,400	(9,879)	(2,523)	6,825
GF Capital Receipts	21,319	21,846	10,851	388
Total GF Resources	47,719	11,967	8,328	7,213
HRA Prudential Borrowing	4,342	176	0	0
HRA Capital Receipts	4,742	0	0	0
Total HRA Resources	9,084	176	0	0
Total Grants	31,637	21,097	19,792	19,792
HRA Revenue	2,365	2,150	2,150	2,235
Section 106 Contributions	2,952	1,300	1,300	1,300
Total Other Resources	5,317	3,450	3,450	3,535
Total Funding	93,757	36,690	31,570	30,540

- 92 This four year capital programme includes £54.4m of capital receipts, of which £21.3m are expected in 2011/12, primarily generated through the disposal of surplus assets.

Capital Receipts arising from self-financing projects (Hayes End Library, South Ruislip Development and Yiewlsey Pool) are forecast to fall predominantly in 2012/13. The target of £21.3m target for 2011/12 is a significant sum and actual level of receipts achieved will clearly be influenced by market conditions at the time of sale.

- 93 Table 8 above indicates that should no further programme development take place, the Council would have a negative borrowing requirement in 2012/13 and 2013/14 due to capital receipts exceeding Council resourced expenditure, thus reducing borrowing costs arising from the initial funding of self-financing schemes in 2011/12.
- 94 It is anticipated that the 2011/12 General Fund programme will require the use of borrowing under the Prudential Code of approximately £26m. On-going revenue financing costs associated with this programme are expected to be approximately £0.7m per annum, following the application of capital receipts from self-financing schemes to repay debt in 2012/13.
- 95 Central Government support for the Council's Capital Programme has previously been delivered through a combination of grants and supported borrowing allocations. From 2011/12 supported borrowing allocations will cease.

On-going Programmes of Works

- 96 Continued investment in Highways and Infrastructure is provided in the 2011/12 Capital Programme. Budgets for Highways Infrastructure, Highways Localities, Road Safety and Street Lighting total £1.6m.
- 97 TfL funded budgets of £3.4m are also available to fund investment in infrastructure and transport within the borough, bringing total investment in the borough's infrastructure to approximately £4.9m in 2011/12.
- 98 Chrysalis, Environmental Assets, Leader's and Town Centre Initiatives have a total budget of £2.5m to provide resources for the delivery of localised capital schemes to enhance community wellbeing.
- 99 As part of the Council's wider re-enablement agenda, Disabled Facilities and Private Sector Renewal Grants providing adaptations to private housing will be funded from £1.5m DCLG funding and continued Council resourced match funding of a further £1.5m.
- 100 ICT Single Development Plan – see paragraph 85 above.
- 101 The Property Works and Civic Centre Programme budget of £1.8m is intended to fund urgent condition works to Council properties plus energy efficiency measures to deliver efficiencies and revenue savings.

Schools Capital

- 102 The Primary School Expansions budget for 2011/12 will facilitate the delivery of 15 forms of entry for September 2011 through a combination of permanent and temporary expansions and, in addition, allow the commencement of further expansions required for September 2012. This will result in a projected shortfall for 2011/12 of approximately £10.6m which will need to be met from Council resources.

- 103 In addition to this investment in the Primary Schools estates, works will be completed to provide sixth-form provision at Ruislip High School. This is to be funded from a combination of Council resources and Section 106 Contributions.
- 104 £9.7m of DoE funded Devolved Formula Capital and Urgent Building Condition Works budgets are available to manage the requirements of existing schools estates, many of which require condition works that would have otherwise been addressed as part of the aborted Building Schools for the Future programme.

Self-financing Projects

- 105 Three self-financing projects feature in the 2011/12 Capital Programme that will be funded from the sale of residential units and on-going lease income. These will be built alongside the community facilities on site.
- 106 The South Ruislip Development will deliver an Adult Education Centre and new Library; a further new library will be built at Hayes End; and a health centre will be provided on the site of the former Yiewsley Pool.

Other General Fund Projects

- 107 The Libraries Refurbishment programme is set to continue in 2011/12 with a further two libraries being refurbished and substantial works beginning at Uxbridge Main Library.
- 108 Highgrove Pool Phase II is also included in the 2011/12 Capital programme with a budget of £3.8m to improve leisure facilities and to replace aging pool plant there.
- 109 Total budgets of £5.7m are included to fund improvements of the New Years Green Lane Civic Amenity Site, further provision of CCTV, refurbishment of Council-owned Farm Barns, Willow Tree Centre, Arundel Road Development, HIV Capital Grant, HIP Projects, and Sport & Leisure Projects.
- 110 The resulting revenue financing costs arising from these capital projects have all been factored into the Medium Term Financial Forecast budgets included within the revenue section of this report.

General Contingency

- 111 A general contingency of £1m per annum has been included over the 2011/12 to 2014/15 budget period to facilitate minor variations of scoping of projects that are still at an early planning and development stage.
- 112 It is anticipated that the Council may be obliged to decontaminate a former GLC landfill within the borough which would represent an additional call on Council Resources unless alternative funding arrangements are identified. The precise scope and cost of this project, along with available grant funding, is yet to be determined.

HRA Projects

- 113 The HRA Capital Programme includes funding for works to existing stock and a number of new build pipeline projects which are funded from a combination of external grant,

HRA borrowing and capital receipts. Further information on the HRA Capital Programme is contained within the HRA Budget Report.

PRUDENTIAL INDICATORS

- 114 The Prudential Code was introduced from April 2004 under the local Government Act 2003. In carrying out unsupported borrowing, local authorities must follow the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities. The key objectives of the Code are to ensure:
- Capital investment plans are affordable, prudent and sustainable;
 - Treasury Management decisions are taken in accordance with good professional practice;
 - Prudential Indicators are set and monitored in order to demonstrate that these objectives are being met.
- 115 The Local Government Act 2003 requires the Council to produce prudential indicators to support and record local decisions made under the Prudential Code. Updated indicators reflecting the capital investment proposals in this report are included at Appendix 10 within the Annual Investment and Treasury Strategy. This is for consideration and approval of them, for then recommendation to Council.
- 116 There is a requirement under the Local Government Act 2003 for local authorities to have regard to the CIPFA Prudential Code when setting and reviewing their Prudential Indicators. It should be noted that CIPFA undertook a review of the Code in early 2008, and issued a revised Code in November 2009.
- 117 In addition to the revised Prudential Code, the Code of Practice for Treasury Management in Public Services (the “CIPFA TM Code”) was also revised in November 2009.
- 118 Included within the Prudential Indicators Code (PI No. 8) is the requirement that the Council adopts the CIPFA Code of Practice for Treasury Management.
- 119 Appendix 11 therefore explains the basis for the recommendation that Council adopt the revised CIPFA Treasury Management code.

OVERALL BUDGET FOR COUNCIL TAX SETTING 2011/12

Corporate Director of Finance & Resources Comments Regarding Responsibilities under the Local Government Act 2003

- 120 Under Section 25 of the Local Government Act 2003 the Corporate Director of Finance & Business Services, 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

- 121 The Corporate Director of Finance & Business Services 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 £11.8m Development and Risk contingency
 - Service managers having made reasonable assumptions about demand pressures and taken a prudent view of volatile areas.
 - Risk based financial monitoring being undertaken during the year and reported to Cabinet on a monthly basis. This includes the agreement of recovery plans to ensure that the budget is delivered in overall terms.
 - Procedures in place to capture and monitor procurement and other efficiency savings
 - Prudent assumptions made about interest rates
 - The recommended increases in fees and charges in line with the assumptions in the revenue budget
 - The use of the Council's project management approach to monitor delivery of the material savings in the revenue budget.
- 122 The Corporate Director of Finance & Business Services 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 2010/11, the Corporate Director of Finance & Business Services set a recommended range of balances. This was between £12m and £24m, based on an analysis of the risks facing the Council. The recommended range has been updated following a review of the risks facing the Council. This is set out in the next section.

Statement on Balances and Reserves

- 123 The Corporate Director of Finance & Business Services 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.
- 124 To assess the adequacy of general reserves, the Corporate Director of Finance & Business Services 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.
- 125 To determine the recommended level of reserves the Council has assessed risk against the criteria as specified in Local Authority Accounting Panel (LAAP) Bulletin 77 (November 2008). This assessment includes the following:
- The robustness of the financial planning process (including the treatment of inflation and interest rates and the timing of capital receipts)
 - How the Council manages demand led service pressures
 - The treatment of planned efficiency savings / productivity gains

- The financial risks inherent in any major capital projects, outsourcing arrangements or significant new funding partnerships
 - The strength of the financial monitoring and reporting arrangements
 - Cashflow management and the need for short term borrowing
 - The availability of reserves, Government grants and other funds to deal with major contingencies and the adequacy of provisions
 - The general financial climate to which the Council is subject and its track record in budget and financial management
- 126 The assessment, although based on the Council's procedures and structures, does have an element of subjectivity and to allow for this the optimum level of reserves incorporates a range. The recommended range for reserves for 2011/12 is £12m to £24m. Ideally the Council should avoid having balances below the minimum level of £12m, or above the maximum level of £24m. The Council's aim to maintain balances at £12m is therefore within this range. Details of the risk assessment are included in Appendix 10.
- 127 The range of issues that impact on the need to hold balances and reserves has been reviewed since last year's budget setting process, although the assessment of the minimum level of balances has remained constant due to a range of positive contributors being offset by negative assessments. Whilst most funding streams have now been confirmed, there remain a few uncertainties around the capitalisation of costs. Similarly, whilst the forecast year end balances have increased, the proposed contingency has also increased. But perhaps the most significant contributor to the minimum requirement arises from the front loading of the budget cuts, resulting in a budget for 2011/12 which contains savings proposals of over £26m.
- 128 The projected level and recommended range of balances will vary depending on the budget proposals that are put forward by Cabinet.

The Council Tax Requirement for 2011/12

- 129 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 the second successive year.
- 130 The Council Tax level is subject to Members' final choices in the budget setting process. The Government have announced that the existing capping powers will be retained for 2011/12 with the level at which authorities will be capped to be announced at the time of the final settlement. However, given the planned freeze on Council Tax this level is academic.

Greater London Authority Precept

- 131 The Mayor of London's draft budget proposals for 2011/12 are scheduled for approval by the London Assembly on 23 February 2011. The draft proposals result in a zero increase in the element of Council Tax that relates to the GLA precept. This is analysed across the relevant functional bodies as follows:

Table 9: Increase in Proposed GLA Precept by Functional Body

Functional Body	Band 'D' Council Tax 2010/11 (£)	Band 'D' Council Tax 2011/12 (£)	Percentage Change (%)
Metropolitan Police Authority	217.09	226.01	+4.11
London Fire and Emergency Planning Authority	59.65	51.76	-13.23
Greater London Authority	29.05	30.08	+3.55
Transport for London	4.03	1.97	-151.12
Total	309.82	309.82	

132 The largest element of the GLA Group's budget relates to the Metropolitan Police Authority. The increase in the Metropolitan Police's budget requirement allows ongoing capacity to focus on counter-terrorism, the targeting of gang, knife and gun crime, and the prevention of violence against women and youth. Minor decreases have been applied to the council tax contribution towards both the London Fire and Emergency Planning Authority and London Transport. '

133 The GLA budget includes the budget and Council Tax implications of the Olympics Delivery Authority. The contribution from Council Tax payers towards the Olympics remains at £20 per Band 'D' property in 2011/12, unchanged from 2010/11.

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 budget proposals in this report result in no change in the Council Tax for 2011/12. The budget proposals contain the funding strategy for delivering the Council's objective. The effects are therefore extremely wide ranging. They will be managed through the performance targets and outcomes that will be delivered through the resources approved in the revenue budgets and capital programme.

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

Impact on Partnerships

The Council continues to work on a range of initiatives and partnerships aimed at improving the services and opportunities for Hillingdon residents.

The Council is working closely with the residual NHS Hillingdon during the transfer of commissioning functions and budgets to GP practices and continues to work in partnership

across a range of service areas. The General Fund revenue budget includes funding for a jointly appointed Director of Public Health; the introduction of this post has improved partnership work on the broad public health and well-being agendas.

The Government has reduced the 2007-2010 Local Area Agreement reward (LAA) grant by 50% and abolished the rewards for the 2008-2011 LAA. Despite this reduction the Council has been working closely with partners to ensure that the funding is available to schemes which serve support local employment and town centre improvement initiatives.

Hillingdon remains committed to support to the voluntary sector, the grant to support core activities still remains in excess of £1.4m. The sector is being encouraged to find efficiencies and to share functions where possible. Through the commitment of this budget voluntary sector organisations are able to secure significant levels of external funding which is directly committed to delivering services to residents.

The forthcoming closure of the London Development Agency (LDA), which has been a long term partner and funder of skills and employment initiatives in the borough, has required the Council (and the neighbouring boroughs) to look at new ways of securing funding to deliver local employment initiatives.

The Council has consulted with Schools Forum on the allocation of the Dedicated Schools Grant. It will work with all schools to use this resource to drive up educational attainment and opportunities for young people across the borough.

Consultation Carried Out or Required

Each of the Policy Overview Committees has received reports setting out the draft revenue budget and capital programme proposals relevant to their remit. This was approved by Cabinet on 16 December 2010 for consultation at the January 2011 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 9 February 2011 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 are included in appendix 12.

The Council also has a statutory responsibility to consult on its budget proposals with business ratepayers in the borough. Twenty-five of the largest businesses in the borough were provided with Cabinet's draft budget proposals after the meeting on 16 December 2010. They were invited to attend the Policy Overview Committee meetings. No specific responses were received from the business community arising from this consultation. The draft budget reported to December Cabinet has also been available to view on the Council's website and for comments. Schools Forum has also been consulted on those budget proposals that have a potential impact on schools budgets.

CORPORATE IMPLICATIONS

Corporate Finance

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

Legal

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

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

The Corporate Director of Finance & Business Services' 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 in paragraph 121 of the report, the Corporate Director of Finance & Business Services has given a number of positive assurances in relation to this issue.

The second duty for Members to note is the duty imposed on the Corporate Director of Finance & Business Services to comment on the adequacy of the Council's reserves. Members will note that a Statement of Reserves and Balances is contained within paragraphs 123 to 128 of the report which discharges this duty.

As the Council's Section 151 Officer, it is the Corporate Director of Finance & Business Services' 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 & Business Services to ensure the lawfulness and financial prudence of decision making.

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

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

Corporate Landlord

Corporate Landlord has liaised very closely with Corporate Finance in the production of this report and concurs with all figures included within the revenue and capital budgets pertaining to the Corporate Landlord function. Where estimates have been used for the value of future planned asset disposals to support the capital programme, valuations have been carried out on such surplus assets alongside full option appraisals to determine optimal use.

The Council will continue its programme of strategic asset review throughout 2011/12, with an emphasis on optimising the efficiency of the Council's asset base in an environment of rapidly changing service delivery models, maximising opportunities for new developments to enable delivery of council priorities, in particular, addressing the urgent need for the provision of additional Primary School places within the borough.

Corporate Landlord will take operational responsibility for the delivery of the majority of the capital programme along with revenue asset management. Detailed scoping, tendering outcomes and monitoring of costs and progress of projects will be reported separately to Cabinet / Cabinet Member via individual reports and the monthly monitoring process.

Relevant Service Groups

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

BACKGROUND PAPERS

Report to Cabinet 16 December 2010 – Medium Term Financial Forecast 2011/12 – 2014/15

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

Local Government Finance Settlement 2011/12 located at
www.local.communities.gov.uk/finance/1112/grant.htm