



# Revenue estimates and capital programme 2009/2010

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# **LONDON BOROUGH OF HAMMERSMITH AND FULHAM**

## **REVENUE AND CAPITAL BUDGETS 2009/2010**

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# **LONDON BOROUGH OF HAMMERSMITH AND FULHAM**

## **REVENUE BUDGET 2009/2010**

### **INTRODUCTION**

The overall revenue budget for Hammersmith and Fulham is built up on a departmental basis, with each Service's revenue estimates reviewed by the appropriate Scrutiny Committee. The estimates are then consolidated along with centrally held budgets and presented to Budget Council for approval.

This Budget Book brings together these estimates for the whole Council, and represents Hammersmith and Fulham Council's approved Annual Revenue Budget.

### **OTHER PUBLICATIONS**

The Finance Department also produces the following publications dealing with different aspects of the Council's finances:

- Council Tax and Business Rates Booklet
- Statement of Accounts

Further details of these publications can be obtained from:

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# **LONDON BOROUGH OF HAMMERSMITH AND FULHAM**

## **REVENUE BUDGET 2009/2010**

### **SUMMARY**

#### **SECTION 1 – BACKGROUND TO BUDGET STRATEGY**

For 2009/10 the Council has received a 1.75% increase in central government funding. Under the current funding arrangements, central government grant provides around 64% of Hammersmith and Fulham's net resources with the remaining 36% coming from Council Tax. Every 1% increase in the Council's net expenditure that is not financed by central government equates to a 2.8% increase in Council Tax.

Since 2006/07, schools have been funded from the ring-fenced, Dedicated Schools Grant (DSG). The Government is now responsible for determining each local authority's 'Dedicated Schools Budget' (DSB) – the amount spent locally on schools and other services for pupils. Local authorities can opt to top-up such funding through additional contributions. Direct government funding of schools requires LBHF to exclude the DSB from the Council's budget requirement.

The Council facilitates the budget setting process through the implementation of a Medium Term Financial Strategy (MTFS). The MTFS identifies savings and growth items on a rolling three-year basis. These items have been evaluated for each department for 2009/10 and incorporated into the budget.

Under Section 25 of the Local Government Act 2003, the Director of Finance & Corporate Services is required to include in budget reports a statement of her view of the adequacy of the reserves for which the budget provides. In the Leader's Committee Report to Council of 25 February 2009 the Director of Finance & Corporate Services confirmed her satisfaction that the level of the Council's balances, reserves and provisions proposed in the report for 2009/10 are adequate and sufficient to allow for the risks identified.

The Director of Finance & Corporate Services considers that the optimal level of balances should be set at £12 - £15m. It is expected that at the end of 2008/09 there will be approximately £13.3m in general reserves. This is 7.2% of the current budget requirement. It is proposed that the reserves are increased by £1.3m in 2009/10. This will leave them at 7.9% of the Council's 2009/10 budget requirement of £185.8m.

Under Section 25 of the Local Government Act 2003, the Director of Finance & Corporate Services is also required to include a statement of her view of the robustness of the estimates included in budget reports. In the Leader's Committee Report to Council of 25 February 2009 the Director of Finance & Corporate Services confirmed her satisfaction with the accuracy and robustness of the estimates included in the report.

## **SECTION 2 – BUDGET REQUIREMENT**

The Council's budget requirement is funded from Revenue Support Grant, redistributed National Non-Domestic Rates, and Council Tax. The budget requirement is presented net of other government grants.

**Table 1 – Movement Between 2008/2009 and 2009/2010**

		<b>£000's</b>
	<b>2008/09 Budget</b>	<b>186,502</b>
	Adjustment for transitional arrangements for Area-Based grant	(1,737)
<u>Plus</u>	Inflation	8,284
	Growth	4,746
	Contribution to General Reserves	1,337
<u>Less</u>	Efficiency Savings and Income Generation	(12,097)
	Use of Earmarked Reserves (due to Economic Slowdown)	(1,271)
	<b>Net Council Budget 2009/10</b>	<b>185,764</b>

The Council's departments identified the following efficiency savings and areas of increased income as part of the MTFS process.

**Table 2 – Summary of Efficiency Savings and Income Generation**

	<b>£000's</b>
Children's Services	2,220
Community Services	3,983
Environment Services	3,083
Finance and Corporate Services	1,810
Residents Services	251
Corporate Items	750
<b>Total Savings and Income Generation</b>	<b>12,097</b>

The Council's departments identified the following growth requirements during the MTFS process.

**Table 3 – Summary of Growth Requirements**

	<b>£000's</b>
Children's Services	695
Community Services	738
Environment Services	207
Finance and Corporate Services	117
Residents Services	200
Corporate Items	2,789
<b>Total Growth</b>	<b>4,746</b>

### **SECTION 3 – FORMULA GRANT**

Formula Grant is the collective term for the Revenue Support Grant and redistributed National Non Domestic Rates (NNDR) paid by the government to local authorities. It is distributed on the basis of a four block model through the annual Local Government Finance Settlement. The four block model takes account of each local authority's relative needs, a central allocation, floor damping and their relative resources. Full details of how the calculations work are set out in the Local Government Finance Report which is approved by Parliament each year.

The breakdown of the 2009/2010 Formula Grant allocation for Hammersmith and Fulham is as follows:

**Table 4 – Formula Grant Settlement**

	<b>£000's</b>
Revenue Support Grant	22,345
Redistribution from Non Domestic Rates	96,808
<b>Net Formula Grant</b>	<b>119,153</b>

Under the current arrangements for National Non Domestic Rates (NNDR), often referred to as Business Rates, the council collects the rates for its area. The NNDR is based upon local rateable values, which are then multiplied by a uniform rate set by central government to provide the total amount due. The total amount due, less certain reliefs and other deductions, is paid into a central pool managed by the government, which in turn pays back to local authorities their share of the pool based on a standard amount per head of population.

The Revenue Support Grant represents the difference between the Formula Grant allocation and the redistributed NNDR income.

### **SECTION 4 – THE COUNCIL TAX**

The Council is obliged by law to set a balanced budget and has a responsibility to set the Council Tax every year in accordance with the Local Government Act 1992. The resource required from the Council Tax is calculated as follows:

**Table 5 - Calculation of Council Tax Requirements**

	<b>2009-10 £000s</b>
Budget requirement	185,764
Greater London Authority	24,531
Less: Total Formula Grant	(119,153)
Less: Prior Year Collection Fund Surplus	(347)
<b>Council Tax Requirement</b>	<b>90,795</b>

The Council Tax is primarily a property tax based on classifying domestic properties into one of several valuation bands, subject to certain reliefs and discounts.

Within the Council Tax system, Band D is used as the basis for setting each year's Council Tax demand. There are eight Bands, A to H, which are expressed as a ratio of the value of Band D. The sum of all Band D equivalents multiplied by the collection rate is known as the Tax Base for the Council. For 2009/2010 the Council has estimated that there are 80,795 Band D equivalent properties; the collection rate has been estimated at 98.0%, giving a council tax base of 79,179. The Council continues to exercise the power to reduce the discounts previously given in respect of second homes and empty properties, which has increased its council tax base. Many residents will be assisted with bills through their eligibility to Council Tax benefit.

The Band D council tax for 2009-10 and the movement from 2008-09 is set out in Table 6 below.

**Table 6 - Band D Council Tax 2008-09 to 2009-10**

	<b>2008-09 Band D - £</b>	<b>2009-10 Band D - £</b>	<b>Change £</b>
Hammersmith & Fulham	862.77	836.89	(25.88)
Greater London Authority	309.82	309.82	0
<b>Total</b>	<b>1172.59</b>	<b>1146.71</b>	<b>(25.88)</b>

For the third successive year, the Hammersmith & Fulham charge has reduced by 3%. The Hammersmith & Fulham element of the Band D charge is the fifth lowest in London and the overall Band D charge is the sixth lowest in England.

## **SECTION 5 – SERVICE TRANSFERS**

The Budget Book pages reflect the Council structure that was in place when the budget was approved. Subsequently a corporate restructure has taken place which has led to transfers between departments for a number of services. Appropriate budget adjustments will be made during 2009/10 to reflect these transfers.

## **CAPITAL PROGRAMME 2009/10 TO 2013/14**

### **SECTION 1 – INTRODUCTION**

This section sets out the 5 year capital programme for 2009/10 to 2013/14, which represents the Council's investment in a range of services from housing, schools, infrastructure, parks to IT in the Borough.

The existing Capital Programme has been updated as part of the 2009/10 budget process and reflects the following:

- Updated capital forecasts, giving a more up-to-date assessment of the amount and timing of capital expenditure,
- The existence of any uncommitted schemes,
- The approval of any new schemes, subject to confirmation of specific funding

An important element of the capital programme is the Council's debt reduction strategy. The Council is committed to reducing the current level of capital debt. In February 2007, Budget Council approved a target of setting aside £17.5m of capital receipts for debt redemption by 2011/12. This will deliver annual revenue savings, through lower capital financing charges, of £2.3m per annum by 2010/11.

It should be noted that the challenging economic conditions have required the Council to identify a number of actions to keep the overall programme in balance. In view of this and the debt reduction strategy, it was decided that no new investment, except in the rolling programmes and previously approved schemes, would be provided for within the mainstream funded capital programme.

### **SECTION 2 – INVESTMENT IN SERVICES**

The proposed capital programme and resource forecast is summarised overleaf. The overall programme is forecast to be in surplus to the end of 2011/12 and move towards a cumulative deficit of £1.264m by the close of 2013/14, as set out in table 1. This level of potential future deficit is considered manageable given the overall size of the programme (£78m to 2013/14) and opportunities for delivering future asset disposals. Allowance has been made for expenditure slippage of 15% regarding the mainstream programme.

In line with the Council's debt reduction strategy, no provision is made for new borrowing to support mainstream capital expenditure. The core mainstream programme continues to be funded from capital receipts. New borrowing will only be undertaken in exceptional circumstances, such as an unforeseen shortfall in capital receipts, or to support specific prudential schemes for which Member approval has been granted.

**Table 1 – General Fund Capital Programme Summary**

	<b>2009/10</b>	<b>2009/10 to</b>
	<b>£000's</b>	<b>2013/14</b>
		<b>£000's</b>
<b>Expenditure</b>		
Children's Services	8,570	20,090
Community Services	2,417	9,738
Environment Services	16,563	41,001
Finance and Corporate Services	2,018	2,018
Residents Services	4,342	4,843
<b>Total Expenditure</b>	<b>33,910</b>	<b>77,690</b>
<b>Resourced by:</b>		
Capital Receipts	(15,521)	(37,681)
Government Grants	(8,787)	(19,255)
Section 106	(8,002)	(8,452)
Transport for London	(3,691)	(3,691)
Other Income	(2,098)	(7,136)
<b>Total Resources</b>	<b>(38,099)</b>	<b>(76,215)</b>
Mainstream Programme Slippage	(1,746)	(938)
Budgeted Sum for Debt Reduction	727	727
<b>Cumulative Balance (Surplus)/ Deficit</b>	<b>(5,208)</b>	<b>1,264</b>

A full breakdown of the general fund capital schemes are provided on page 94.

### **SECTION 3 – FUTURE PROJECTS**

The Council has embarked on a number of major projects that are likely to impact on the capital programme over the next five years. As these projects progress, further amendments will be made to the figures set out in table 1. These include:

#### **Building Schools for the Future (BSF)**

BSF is a government funded programme that is intended to deliver transformational teaching and learning environments to secondary age students. Based on pupil numbers, it has been estimated that the Council may eventually attract capital funding, via Capital grants or Private Finance Initiative (PFI) revenue support, of £170m. The BSF Team within Children's Services is currently developing its strategy, which will provide the basis for an application to the Department for Children, Schools and Families (DCSF).

#### **Primary and Special Schools Strategy**

The strategy sets out a vision for the next five years. The vehicle for implementation of the Primary Strategy is the Primary Capital Programme which will provide capital funding for transformation of the primary estate from 2009/10 over a period of 15 years. The Council is currently scheduled to resubmit our Primary Strategy for Change to obtain DCSF approval for this programme.

### **Civic Accommodation Strategy**

The Council is currently taking forward proposals for a major change to the existing Civic Accommodation provision in Hammersmith. At present a developer has been appointed to take forward this scheme and it is hoped that the strategy can be delivered at net nil cost to the Council. This position, particularly in the light of the current economic conditions, will need to be kept under review

### **White City Collaborative Care Centre**

Work is now expected to start on site during 2009 on the White City Collaborative Care Centre. The centre will be both a flagship joint health and social care service centre operated in conjunction with Hammersmith & Fulham Primary Care Trust (PCT), and a major housing development, delivering on the Council's priority to increase home ownership in the borough. It is also expected to play a significant role in regenerating the physical environment in the north of the borough.

## **SECTION 4 – REGENERATION PROGRAMME**

The Community Strategy set out the borough's ambitions to become a Borough of Opportunity and tackle deprivation through a regeneration programme. Options were developed in 2007/08 for the delivery of housing capital receipts to support these objectives. A summary of the five year forecast is set out in table 2.

**Table 2 – Regeneration Programme Summary**

	<b>2009/10</b>	<b>2009/10 to 2013/14</b>
	<b>£000's</b>	<b>£000's</b>
<b>Expenditure</b>		
Watermeadow Court	4,000	5,500
<b>Resourced By:</b>		
Capital Receipts brought forward	(8,708)	(8,708)
Identified Capital Receipts	(12,097)	(18,597)
Contribution to Decent Homes Programme	2,946	4,946
Cost of Sales	327	503
<b>Total Resources</b>	<b>(17,532)</b>	<b>(21,856)</b>
<b>Cumulative Balance (Surplus)/ Deficit</b>	<b>(13,532)</b>	<b>(16,356)</b>

To date, the most significant scheme approved is Watermeadow Court. This represents HRA capital expenditure and will be accounted for accordingly. Other regeneration proposals are expected to be brought forward for consideration in the forthcoming months. In most instances the Council will need to incur some capital expenditure before sites can be brought forward for regeneration.

## **SECTION 5 – HOUSING REVENUE ACCOUNT (HRA) PROGRAMME**

The Council is continuing its work to eliminate all non-decent social housing by December 2010 in line with Government targets. It is estimated that extra investment of £192m will have been made from 2005/06 onwards. The local authority is currently undertaking a number of work condition surveys to identify the specific work required for 2010/11 onwards. Table 3 sets out the position for 2009/10 and onwards.

**Table 3 – HRA Capital Programme Summary**

	<b>2009/10</b>	<b>2009/10 to 2013/14</b>
	<b>£000's</b>	<b>£000's</b>
<b>Expenditure</b>		
Decent Homes Standard Work	80,085	140,284
Major Voids	2,572	3,815
Internal Component Work (e.g. Lift Schemes)	1,892	8,309
Major Refurbishments	3,588	12,379
Planned Maintenance	1,200	9,900
Minor Works (e.g. water tanks, lighting)	3,213	7,346
Disabled Adaptations	800	4,000
<b>Total Expenditure</b>	<b>93,350</b>	<b>186,033</b>
<b>Resourced By:</b>		
Supported Borrowing	(49,980)	(78,945)
Major Repairs Allowance	(29,675)	(89,994)
Capital Receipts	(2,530)	(2,530)
Expensive Voids	(2,946)	(4,946)
Leasehold Contributions	(5,346)	(26,710)
Specific Funding	(2,873)	(7,018)
<b>Total Resources</b>	<b>(93,350)</b>	<b>(210,143)</b>
<b>Cumulative Balance (Surplus)/ Deficit</b>	<b>0</b>	<b>(24,110)</b>

A detailed breakdown of the HRA capital programme is provided on page 102.

## **GLOSSARY**

## **AREA BASED GRANT (ABG)**

A new general grant introduced in 2008-09 which replaced a number of specific grants that were paid by a range of government departments. Accounting policies require the grant income to be shown corporately. Expenditure is shown within departmental budgets.

## **ACCOUNTING PERIOD**

The timescale during which accounts are prepared. Local authority accounts have an overall accounting period of one year from 1<sup>st</sup> April to 31<sup>st</sup> March.

## **ARMS LENGTH MANAGEMENT ORGANISATION (ALMO)**

This is a company owned by the council and set up to deliver management services in relation to its housing stock. The council's ALMO is called Hammersmith & Fulham Homes.

## **BALANCES**

The amount of money left over at the end of the year after allowing for all expenditure and income that has taken place. These are also known as financial reserves.

## **BEST VALUE ACCOUNTING CODE OF PRACTICE (BVACOP)**

BVACOP sets the financial reporting guidelines for local authorities. It supplements the principles and practice set out in the Code of Practice on Local Authority Accounting (known as the SORP), by establishing practice for consistent reporting. It provides guidance in three key areas

- The definition of total cost
- Trading accounts
- Service expenditure analysis

## **CAPITAL EXPENDITURE**

Expenditure on the purchase, construction and enhancement of Council assets such as houses, offices, schools and roads. Expenditure can only be treated as 'capital' if it meets the statutory definitions and is in accordance with accounting practice and regulations.

## **CAPITAL FINANCING**

This term describes the method of financing capital expenditure, the principal methods now being loan financing, leasing, capital receipts and Capital Resource Funds.

## **DEPRECIATION**

A provision made in the accounts to reflect the value of assets used during the year. Depreciation forms part of the capital charge made to service revenue accounts.

## **EARMARKED RESERVES**

These are reserves set aside for a specific purpose or a particular service, or type of expenditure.

## **GENERAL FUND**

The council's main revenue account that covers the net cost of all services other than the provision of council housing for rent.

## **GROSS EXPENDITURE, GROSS INCOME AND NET EXPENDITURE**

Gross Expenditure and Gross Income arise from the provision of services as shown in the General Fund and exclude the Direct Services/Labour Organisation accounts. Net Expenditure is the cost of service provision after the income is taken into account.

## **HOUSING REVENUE ACCOUNT (HRA)**

A statutory account that contains all expenditure and income on the provision of Council housing for rent. The HRA must be kept entirely separate from the General Fund and the account must balance. Local authorities are not allowed to make up any deficit on the HRA from the General Fund.

## **MEDIUM TERM FINANCIAL STRATEGY/PLAN (MTFS/MTFP)**

This is a financial plan over the medium term whose purpose is to set out how the Council will respond to changes and challenges over that timeframe and to set a context in which improved services and value-for-money will be delivered.

## **NATIONAL NON-DOMESTIC RATE (NNDR)**

The rates paid by businesses. The amount paid is based on the rateable value set by the Inland Revenue multiplied by a rate in the £ set by the government which is the same throughout the country. The rates are collected by local authorities and paid over to the government. They are then redistributed to local authorities on the basis of relevant population.

## **RESERVES**

The amounts held by way of balances and funds that are free from specific liabilities or commitments. The council is able to earmark some of its reserves towards specific projects, whilst leaving some free to act as a working balance.

## **REVENUE EXPENDITURE**

Expenditure on day to day items such as salaries, wages and running costs. These items are paid for from service income, RSG, NNDR and Council Tax. Under the Local Government Finance Act all expenditure is deemed to be revenue unless it is specifically classified as capital.

## **SERVICE LEVEL AGREEMENT (SLA)**

This is a formal contract between Council departments and partners for internal services. These are mostly between support functions and frontline service delivery departments.