

# Council budgets 2010-2011



## SECTION 1 - GENERAL INFORMATION ON COUNCIL FINANCE

The Financial Calendar, Budgets and Interaction with the Council's Business Planning Process .....	2
Financial Regulations .....	3
Revenue Finance .....	13
Charts of Council Tax and Formula Grant History .....	16
General Revenue Budget Summary Charts .....	17
Capital Finance .....	18
Capital Strategy .....	19
Capital Programme History .....	20
Treasury Management .....	21
Pension Fund and Enhanced Pension Fund .....	28
Trading Accounts and Service Level Agreements .....	31
Audit .....	34
Employees .....	35
The Finance Department .....	36
Glossary of Local Authority Finance .....	37

## SECTION 2 - COUNCIL'S REVENUE BUDGET AND COUNCIL TAX

Council Net Revenue Expenditure .....	42
General Fund Reserves .....	44
Budget Requirement .....	46
Local Authority Grant Settlement .....	46
Calculation of Council Tax Amounts .....	47
Council Tax Amounts for 2010/11 .....	50
General Revenue Budget Framework .....	51
Appendix A - Summary of Service Budgets .....	52
Appendix B - Analysis of Service Budgets 2010/11 .....	54
Appendix C - Summary of Levies and Charges .....	56
Appendix D - Examples of Contingencies .....	57
Appendix E - Special Reserves .....	58
Appendix F - Elements of the Budget Requirement Calculation .....	60
Appendix G - Council Tax Decision .....	62
Appendix H - Impact of each additional £1 million Council Tax .....	65
Appendix I - Council Tax Bills .....	66
Appendix J - General Revenue Budget Framework .....	68

### SECTION 3 – DEDICATED SCHOOLS BUDGET

Review of Dedicated Schools Budget and Budget Framework .....	69
Appendix A – Dedicated Schools Budget .....	73

### SECTION 4 – COUNCIL HOUSING BUDGETS

Review of Housing Revenue Account and Business Plan .....	75
Appendix A – Housing Revenue Account Estimates for 2010/11 .....	85
Appendix B – Council Housing Budget Framework .....	87
Appendix C – Housing Revenue Account 30 Year Business Plan.....	88
Appendix D – Council Housing Capital Programme .....	89

### SECTION 5 – GENERAL CAPITAL BUDGETS

Capital Resources .....	91
General Capital Budget Framework .....	93
Summary of Programme .....	95

**SECTION 1**  
**GENERAL INFORMATION ON COUNCIL FINANCE**

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This section gives outlines of the Council's finances and financial procedures, the financial calendar, treasury policy, and employee numbers, together with brief information about the Finance Department and the Council's accounts. Further information on the Council's final accounts is published each year in the Annual Report, available in September.

## THE FINANCIAL CALENDAR, BUDGETS AND INTERACTION WITH THE COUNCIL'S BUSINESS PLANNING PROCESS

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The Council's services are subject to four, largely separate, budget frameworks which are detailed in later sections of this book. These are the general revenue budgets, the Dedicated Schools Budget, the Council housing budgets, and the general capital budgets. These budget frameworks are driven by the Council's key service objectives as set out in the Corporate Business Plan (CBP).

The Executive, under the scrutiny of the Corporate Resources Committee, deals with the development and review of financial policies and procedures, and the allocation of financial resources to services within the broad limits defined by the budgets adopted by the Council shortly before each financial year (running from 1st April to 31st March). Net expenditure is planned from the start of the year to be contained within budgets, and monitored during the year by budget holders and senior managers. The service managers are generally expected to seek to finance any additional spending requirements from savings made elsewhere and also to eliminate any overspendings. If they are unable to comply with these requirements, any requests for additional resources (known as "budget variations") must be approved by the Executive. To give flexibility for minor departures from budget, the Director of Finance is authorised to make compensating adjustments between budgets in consultation with the relevant service director. Committees and the Executive are advised by the Director of Finance, or his representatives, on financial matters including the budgetary position.

The timing of the main events in the yearly financial cycle is indicated below, though some variations may occur. Key non-financial elements of the business planning process are shown in italics for completeness.

MARCH/APRIL	Council decides council tax and general revenue budget framework and treasury management policy Council tax and non-domestic rate bills despatched <i>Key issues and CPA priorities agreed</i>
JUNE	Previous year outturn reports to Committees Annual reports on treasury management, council tax and business rates collection <i>CBP agreed</i>
SEPTEMBER	Capital programme review, revenue budget reviews commence
NOVEMBER	Charges reviews
DECEMBER	Local authority grant proposals for next year announced by Government
JANUARY	Revenue budget reviews completed and development budget completed Council housing rent and Housing Revenue Account business plan review Additions to general capital programme decided by Executive Council tax-base and collection fund surplus/deficit calculated
FEBRUARY	Council decides Housing Revenue Account business plan and reviews rents Precepts and levies announced by other local government bodies Council decides general capital budget framework
MARCH	Council decides council tax and general revenue budget framework and treasury management policy Council tax and Non-domestic rate bills despatched

**1. STATUS AND REVIEW OF FINANCIAL REGULATIONS**

- 1.1. The Council expects the highest standards of propriety in the conduct of all its business, prudence in managing risks, and economy, efficiency and effectiveness in all its functions. Accordingly these Financial Regulations apply to every member and officer of the Council and anyone acting on its behalf.
- 1.2. The Financial Regulations identify the principal financial responsibilities of the full Council and its committees, the Executive and overview and scrutiny committee members, the Chief Executive, the Monitoring Officer, the Director of Finance and other chief officers. References to "chief officer" in these Financial Regulations should be read as referring to directors, heads of service and headteachers with full delegated responsibility for financial management.
- 1.3. The Director of Finance is responsible for maintaining a continuous review of the Financial Regulations and submitting any additions or changes necessary to the full Council for approval.
- 1.4. The Director of Finance is responsible for issuing financial directives, practice-notes and advice as needed to underpin the Financial Regulations.
- 1.5. Chief Officers are responsible for ensuring that their staff are sufficiently aware of, and comply with, the Council's Financial Regulations and financial directives and guidance issued by the Director of Finance, issuing further advice and instructions as appropriate for their own area.

**2. FINANCIAL MANAGEMENT FRAMEWORK**

- 2.1. The full Council is responsible for adopting the Authority's Constitution and Members' Code of Conduct and for approving the policy framework and budget within which the Executive and Chief Officers operate. It is also responsible for approving and monitoring compliance with the Council's overall framework of accountability and control, set out in its Constitution, and for monitoring compliance with the policy framework and budget.
- 2.2. The Executive is responsible for proposing the policy framework and budget to the full Council, and for discharging Executive functions in accordance with the policy framework and budget. Executive decisions can be delegated to a committee of the Executive, an individual Cabinet member, an officer or a joint committee. The Executive is responsible for establishing protocols to ensure that individual Cabinet members consult with relevant officers before taking a decision within their delegated authority, having proper regard to the legal and financial liabilities and risk management issues that may arise from the decision. Also, the Executive is responsible for maintaining a Scheme of Delegations to officers.
- 2.3. Overview and scrutiny committees, and the Audit Committee, have functions of monitoring, advice, scrutiny and review of financial matters, in accordance with Article 6 of the Constitution.

## FINANCIAL REGULATIONS

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- 2.4. The General Purposes Committee are responsible for approving the statement of the Council's accounts for each financial year, on the basis of a report by the Director of Finance – as set out in Appendix D of Part 3 of this Constitution. The Audit Committee are responsible for consideration of the external auditor's opinions on financial statements and of other reports addressed to the Council at Member level from the Audit Commission and its appointees/representatives; deciding any required initial response; obtaining assurance that appropriate action is being taken on any issues raised; initiating any appropriate recommendations to the Executive for matters within their remit; and otherwise approving any action or matter that the Committee consider appropriate in relation to these opinions and reports;
- 2.5. The Chief Executive and the Monitoring Officer have special responsibilities within the Council's framework of accountability and control, as set out in provisions of the Constitution.
- 2.6. Chief officers are responsible for:-
- (a) ensuring that Council resources are used with the maximum degree of economy, efficiency and effectiveness;
  - (b) ensuring that Council resources are used only for the purpose intended to achieve the approved policies and objectives, are appropriately secured and maintained, and are properly accounted for;
  - (c) consulting with the Director of Finance in a timely manner and seeking Executive and/or the appropriate regulatory or other committee approval on any matter liable to affect the Council's finances materially, before any commitments are incurred;
  - (d) promoting sound financial practices in relation to the standards, performance and development of their staff, partnerships where the Council is the accountable body and other partnership-type organisations on which the Council is represented and has a lead-borough role, devolved management organisations such as schools, resident management organisations in respect of Council-owned housing property and voluntary organisations funded by the Council or in respect of which the Council has a contractual relationship, and commercial contractors, liaising as necessary with and having regard to advice of the Director of Finance and the Borough Solicitor;
  - (e) ensuring that they are properly advised of the financial implications of all proposals in relation to their services;
  - (f) ensuring that councillors are properly advised of the financial implications of all proposals they are known to be considering, and that the advice is endorsed by the Director of Finance, with such advice being sought from the Director of Finance in a timescale that allows for a full financial appraisal to be carried out;
  - (g) maximising levels of external funding for activities aimed at achieving the Council's approved policies;

- (h) ensuring that there are suitable exit strategies in place that minimise the effect on the Council's budget in the event of the withdrawal of any time-limited grants or external funding; and
  - (i) working strategically with partners and external stakeholders to focus resources to secure shared objectives and maximise efficiency.
- 2.7. The Director of Finance is the officer appointed by the Council in accordance with Section 151 of the Local Government Act 1972 to be responsible for the proper administration of the Council's financial affairs. The Director of Finance is therefore responsible in particular for:
- (a) setting and monitoring compliance with financial management standards;
  - (b) advising on the corporate financial position and monitoring compliance with the financial frameworks and Member exception reporting controls;
  - (c) approving financial processes and arrangements including within operational systems;
  - (d) providing financial advice on proposals before the Council;
  - (e) determining the accounting policies and procedures for the Council;
  - (f) presenting budgets and accounts for the Council's approval; and
  - (g) treasury management.

### 3. FINANCIAL PLANNING

- 3.1. The full Council is responsible annually, in February/March, for setting revised capital and revenue budgets for the current financial year, the capital and revenue budgets for future financial years including allocation to different services and projects, and reserves for specified and general contingencies for the forthcoming financial year, the budget requirement, and basic amounts of tax.
- 3.2. The Executive is responsible for --
- (a) submitting to the Council annually, after having regard to the advice of the Director of Finance, its proposals regarding capital budgets; and
  - (b) submitting to the Council annually in February or early March, after having regard to the advice of the Director of Finance, its estimates in relation to revenue budgets for the current financial year, the revenue budgets for future financial years including allocation to different services and projects, and reserves for specified and general contingencies for the forthcoming financial year, the budget requirement, and basic amounts of tax.

## FINANCIAL REGULATIONS

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- 3.3. The full Council in dealing with the matters referred to in paragraph 3.1 above normally determines the amounts of council tax for all categories of dwellings by aggregating the basic amounts of tax with the amounts stated by major precepting authorities; otherwise the full Council will direct that the amounts are to be determined by the Executive or by such other committee of the Council as it may appoint.
- 3.4. The Director of Finance is responsible:
- (a) for ensuring that budgets, estimates and advice including options and sensitivity modeling are prepared as required by the Executive for the purposes of paragraph 3.2 above;
  - (b) for advising on appropriate levels of reserves for the Council having regard to the opportunity cost of maintaining balances;
  - (c) for informing chief officers of the amounts of their budgets;
  - (d) for authorising, with the agreement of any Directors concerned, the transfer of provision from one budget head to another to move resources to priority objectives;
  - (e) for maintaining arrangements for chief officers to forecast expenditure and income in relation to budgets so that prompt reports are made to the Executive and the appropriate overview and scrutiny committee if forecast adverse variances exceed thresholds defined by the Council;
  - (f) for carrying out statutory consultation with ratepayers' representatives in accordance with Section 65 of the Local Government Finance Act 1992;
  - (g) for making statutory returns of budgets and of actual income and expenditure;
  - (h) for making arrangements to meet statutory requirements for publishing accounts and making them available for inspection; and
  - (i) for annual review of the Medium-Term Financial Strategy which integrates the detailed financial management processes with the key objectives in the corporate business plan.
- 3.5. It is the responsibility of chief officers –
- (a) to ensure that an accountable budget manager is identified for each item of income and expenditure under the control of the chief officer, aligning budget responsibility as closely as possible to the decision-making that influences the income/expenditure concerned;
  - (b) to ensure that budget managers prepare and implement realistic plans to deliver services within budget, and prepare and submit to the chief officer and the Director of Finance realistic forecasts of income and expenditure compared with budget in the form and at the frequency required by the Director of Finance;
  - (c) to ensure that appropriate corrective action is taken where significant variations from the approved budget are forecast; and

- (d) to ensure that prior approval is given by the full Council or the Executive (as appropriate) for any measures that are likely to materially extend or reduce the Council's services, and for new commitments for which there would otherwise be no budget provision.

**4. RISK MANAGEMENT AND CONTROL OF RESOURCES**

**Risk Management**

- 4.1. It is the responsibility of chief officers –
  - (a) to ensure that their corporate risk specialist reviews and their departmental risk reviews are carried out within the timescales and format prescribed by the Directors' Board;
  - (b) to ensure the regular identification, review and management of risk within their departments, having regard to the Council's risk management strategy and associated advice and instructions from the Director of Finance and other specialist officers (e.g. crime prevention, business continuity, health and safety);
  - (c) to notify the Director of Finance immediately of any loss, liability or damage that may lead to a claim against the Council, together with any information or explanation required by the Director of Finance or the Council's insurers;
  - (d) to notify the Director of Finance immediately of any risks, properties, vehicles or other assets that require or cease to require insurance, and of any alterations affecting existing insurances;
  - (e) to consult the Director of Finance and the Borough Solicitor on the terms of any indemnity that the Council is requested to give, on appropriate contract conditions for contractors to indemnify the Council, and on suitable minimum insurance levels for inclusion in contracts; and
  - (f) to ensure that employees, councillors, school governors, or anyone else acting on behalf of the Council, is instructed not to make any admission of liability or offer of compensation that might prejudice the assessment of a potential liability of the Council or of its insurers.
- 4.2. The Director of Finance is responsible for reviewing risk management strategy and advising and instructing chief officers accordingly, and for procuring insurance cover where appropriate.

### **Internal Control**

- 4.3. It is the responsibility of chief officers to maintain and promote sound arrangements for internal control. These arrangements will be devised by management to help to ensure that the Council's objectives are achieved in a manner that promotes economical, efficient and effective use of resources and that the Council's assets and interests are safeguarded. The arrangements will have regard to the advice and instructions of the Director of Finance. The Director of Finance, through the Head of Audit, is responsible for reviewing systems of internal control and advising and instructing chief officers accordingly. Chief Officers are responsible for the timely implementation of all agreed recommendations in Internal Audit Reports.
- 4.4. The Audit Committee are responsible for approving the Annual Governance Statement in accordance with the applicable Accounts and Audit Regulations, the CIPFA/SOLACE Guidance and in the light of reviews of the effectiveness of risk management arrangements and the control environment.

### **Audit**

- 4.5. The Director of Finance is responsible for ensuring –
- (a) the maintenance of an internal audit function that is sufficient in its coverage and independent in its planning and operation;
  - (b) that the Head of Audit has direct access to the Chief Executive, all levels of management and the Finance Sub-Committee of the General Purposes Committee and the Audit Committee; and
  - (c) that the internal auditors are trained to comply with professional good practice.
- 4.6. The Audit Commission is responsible for appointing external auditors to each local authority to review and report upon -
- (a) the financial aspects of the Council's corporate governance arrangements;
  - (b) the Council's financial statements, to be satisfied that the statement of accounts "presents fairly" the financial position of the Council and its income and expenditure for the year in question and complies with the legal requirements; and
  - (c) aspects of the Council's arrangements to manage its performance, including the preparation and publication of specified performance information and compliance in respect of the preparation and publication of the Best Value Performance Plan.
- 4.7. The Council may, from time to time, be subject to audit, inspection or investigation by external bodies such as H.M. Revenues and Customs, who have statutory rights of access.

- 4.8. It is the responsibility of chief officers –
- (a) to ensure that internal auditors, external auditors, and other authorised inspectors, are given access at all reasonable times to premises, personnel, documents and assets, and are provided with any information and explanations, that they consider necessary for the purposes of their work;
  - (b) to consider and respond promptly to recommendations in audit reports; and
  - (c) to ensure that any agreed actions arising from audit recommendations are carried out in a timely and efficient fashion.
- 4.9. The full Council will maintain an Audit Committee, responsible for reviewing external auditor's reports and annual audit letter, the Council's Risk Management Strategy and the Head of Audit's annual report. This Committee can consult directly with internal and external auditors.

**Preventing Fraud and Corruption**

- 4.10. All Council Members and employees are personally responsible for ensuring integrity in the conduct of the Council's business, in particular by ensuring that they (and any subordinates) are aware of the Council's anti-fraud and anti-corruption policies and procedures, and by alerting the relevant chief officer or the Head of Audit to any suspected breach.
- 4.11. Chief officers are responsible for notifying the Head of Audit immediately of any suspected fraud, theft, irregularity, improper use or misappropriation of the Council's property, assets, resources or services.
- 4.12. The Director of Finance is responsible for advising the Audit Committee, Executive and chief officers on the maintenance and implementation of an anti-fraud and anti-corruption policy and associated arrangements for appropriate treatment and registration, by employees and members, of relevant interests, gifts and hospitality.

**Assets**

- 4.13. Chief officers, having regard to advice and instructions from the Director of Finance and any other relevant professional advisors employed by the Council, should ensure that:
- (a) resources are used only for the purposes of the Council and are properly accounted for;
  - (b) resources are available for use when required;
  - (c) resources no longer required are disposed of in accordance with the law and the procedure rules of the Council so as to maximise benefits;
  - (d) an asset register is maintained for the Council, assets are recorded when they are acquired by the Council and this record is updated as changes occur with respect to the location and condition of the asset;

- (e) all staff are aware of their responsibilities with regard to safeguarding the Council's assets and information, including the requirements of the Data Protection Act 1998, the Freedom of Information Act 2000 and software copyright legislation;
- (f) all staff are aware of their responsibilities with regard to safeguarding the security of the Council's computer systems, including maintaining restricted access to the information held on them and compliance with the Council's computer and internet security policies; and
- (g) contingency plans for the security of assets and continuity of service in the event of disaster or system failure are in place.

### **Treasury Management**

- 4.14. The full Council is responsible for approving annually in February/March, and at other times should the circumstances require it the treasury management policy statement, including statutory limits on borrowing.
- 4.15. The Executive is responsible for proposing the treasury management policy statement to the full Council on the advice of the Director of Finance.
- 4.16. The Director of Finance is responsible for ensuring that the Council's treasury management is conducted in accordance with the Council's Treasury Policy Statement and the Treasury Systems Document (including the Treasury Management Practices), that these are prepared with due regard for good professional practice and relevant codes such as those issued by the Chartered Institute of Public Finance and Accountancy and the Financial Reporting Council (FRC) which is the United Kingdom's independent regulator for corporate reporting and governance, and that reports are made to the appropriate Overview and Scrutiny Committee on treasury management policies, practices, and activities, including strategy in advance of each year and a review after its close.
- 4.17. The Director of Finance is responsible for making arrangements for the Council's banking and cash handling arrangements. This includes the issuing of instructions with regard to the closing, opening and operation of bank accounts, the arrangements for retention of cash on Council premises and the issuing of instructions concerning the operation of any credit, debit or other payment cards.
- 4.18. It is the responsibility of chief officers:
  - (a) to establish and maintain banking and imprest accounts only as approved by, and in accordance with instructions issued by, the Director of Finance;
  - (b) to ensure that loans outside the terms of Council-approved schemes are not made to third parties, and that interests are not acquired in companies, joint ventures or other enterprises, without the approval of the Executive following consultation with the Director of Finance;

- (c) in relation to school funds, resident or user amenity funds, and any other funds held on behalf of third parties, to ensure secure administration in a manner approved by the Director of Finance; and
- (d) to ensure that leasing agreements and other credit arrangements are not entered into without the prior approval of the Director of Finance and, if applicable, approval of the scheme through the capital programme.

**5. INCOME AND EXPENDITURE PROCEDURES**

- 5.1. The Executive, having regard to the advice of the relevant chief officer and the Director of Finance, is responsible for determining discretionary charges for Council services, for writing off sums due to the Council, and for delegating authority to officers to determine discretionary charges and to write off sums due to the Council.
- 5.2. It is the responsibility of chief officers to ensure that:
  - (a) all income due to the Council is identified and charged correctly;
  - (b) all charges for Council services are reviewed at least once a year having regard to their appropriateness in relation to relevant Council policies;
  - (c) all income is collected from the correct person, at the right time, using the correct procedures and the appropriate stationery;
  - (d) all money received by an employee, contractor or agent on behalf of the Council is paid without delay to the Council's bank account, properly recorded, and reconciled to the bank account by a person who is not involved in the collection or banking process;
  - (e) cash collection duties are separated from those for identifying the amount due and those for reconciling the amount due to the amount received;
  - (f) effective action is taken to pursue non-payment within defined timescales;
  - (g) formal approval for debt write-off is obtained without delay;
  - (h) a scheme of delegation is operated effectively within their area identifying staff authorised to act on the chief officer's behalf in respect of placing orders, payments, income collection and preparation of write-offs for submission to the Director of Finance, together with the limits of their authority;
  - (i) all goods and services are ordered only by appropriate persons and are correctly recorded;
  - (j) goods and services received are checked to ensure they are in accordance with the order by someone different from the person who placed the order;

## FINANCIAL REGULATIONS

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- (k) payments are not made unless goods have been received by the Council to the correct price, quantity and quality standards;
  - (l) all payments are made to the correct person, for the correct amount and are properly recorded, regardless of the payment method;
  - (m) for payments to employees and members, proper authorisation procedures are in place there is adherence to corporate timetables in relation to starters, leavers, variations, and enhancements, and payments are made on the basis of timesheets or claims;
  - (n) all taxable transactions are identified, properly carried out and accounted for within stipulated timescales;
  - (o) information is provided for tax and other appropriate authorities within their stipulated timescale; and
  - (p) external funds are acquired only to meet Council policies, only if any matched funding requirements can be met within budgets, and only if the key conditions of external funding will be met.
- 5.3. The Director of Finance shall make a report under Section 114 of the Local Government Finance Act 1988 if it appears to him that the authority:-
- (a) has made or is about to make a decision which involves or would involve the authority incurring expenditure which is unlawful,
  - (b) has taken or is about to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency on the part of the authority, or
  - (c) is about to enter an item of account the entry of which is 'unlawful'.

Expenditure. The Council's revenue expenditure includes those costs associated with the day to day running of services. This includes the salaries and wages of employees, premises costs, transport, supplies and services, payments to contractors, central, technical and departmental support, and a range of other expenses particular to each service. It also includes depreciation charges on assets where applicable.

Income. Government grants form a large part of the Council's revenue income. Specific grants relate to particular services, for example, housing benefits subsidy or education standards fund grant. Income is due from other local authorities in respect of pupils with special needs from their area. Rents received on housing properties are considered annually as part of the review of the income and expenditure on the statutory ring-fenced Housing Revenue Account. The budget for this account is reviewed in January/February each year and rents adjusted for the following year in the light of this and other factors (see Section 4). Fees and charges for services, where the Council has discretion, are generally reviewed in November/December. Interest received on the Council's balances held during the year (such as unused capital receipts) and interest on Council mortgages are also shown as revenue income.

Financing of Net Revenue Expenditure. The Council receives Formula Grant as general Government support towards its budget requirement. The budget requirement, less the Formula Grant, with the Council's share of any surplus or deficit on the previous year's Collection Fund, produces the Council's net requirement to be met from the council tax.

Collection Fund. The fund administered by a billing authority into which council taxes and business rates are paid, and from which payments are made to the General Funds of the Council and Greater London Authority and to the national business rate pool.

### INCREMENTAL BUDGET CONSTRUCTION

The Council operates an incremental approach to budget construction: the budget used originally to set the last council tax forms the base for revising that budget and for setting budgets for the following three years, adjusted by changes for inflation and the effects of approved growth. Zero-based, and other reviews of budgets are undertaken, but their results are always expressed in terms of the net change to the current budget (a "budget variation"), for the purposes of constructing future budgets.

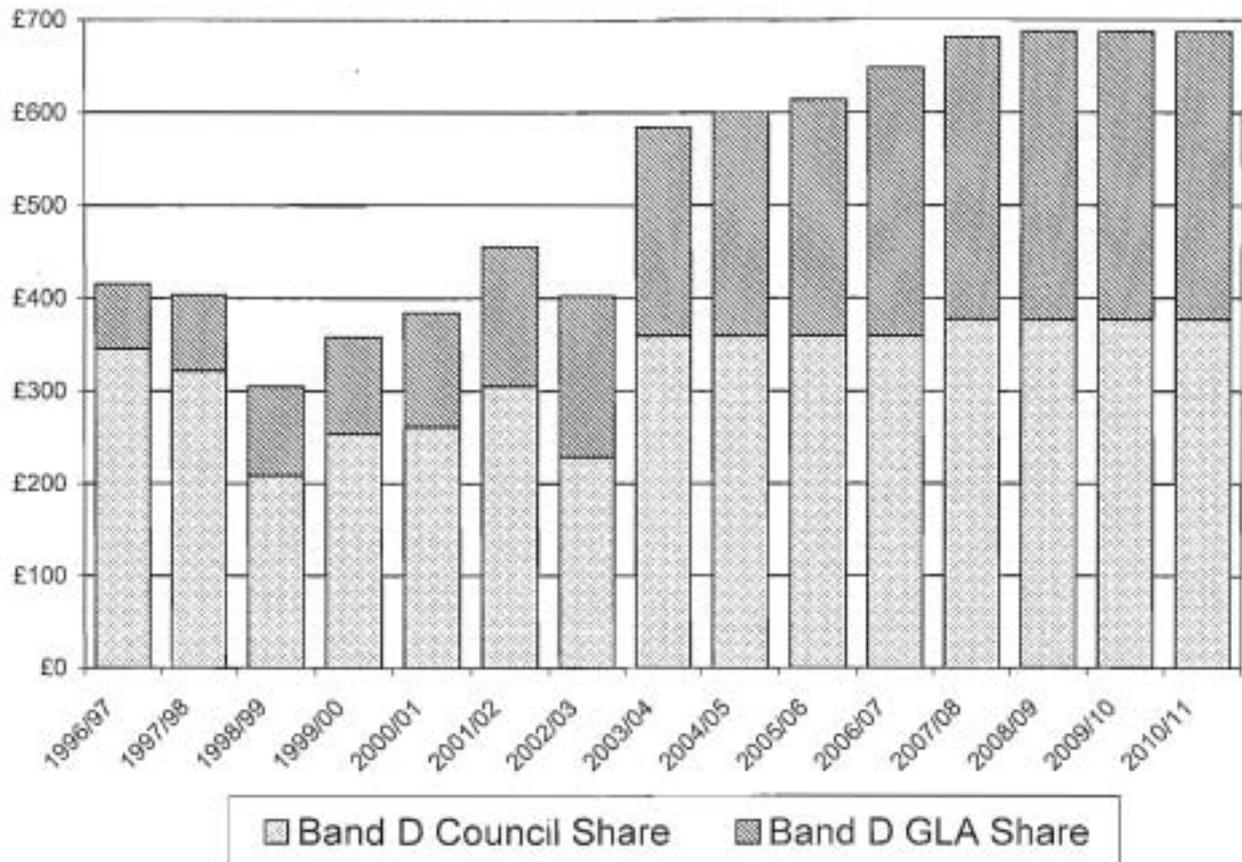
#### **Inflation**

- (a) Salaries and wages budgets are increased in line with pay awards when approved. Most awards are effective from April each year, so the amount added to the budget is generally similar for both the revised budget and subsequent years' budgets.
- (b) Budgets for service contracts are increased by the contractual inflation allowance and are usually effective from the anniversary date of the contract. Where this date is after 1st April, the amount added for the revised budget will only be for a part-year. The addition for subsequent years will, however, be the full year effect of the increase.
- (c) Most other running cost budgets are increased, for the revised budget, by the standard percentage considered appropriate when the council tax was set. This ensures that additions to detailed budgets are consistent with the general policy. Budget managers are required to stay within overall budgets, balancing those areas where inflation costs exceed the general rate with those where they are less. For the subsequent years' budgets, however, additions for inflation, for the twelve months to November of the revised budget year, reflect the measured changes in prices during this period.
- (d) Some running cost budgets are not increased for inflation, chiefly depreciation on buildings, infrastructure and equipment.
- (e) Budgets for charges are increased to reflect the reviews of charges made each year. Charges are reviewed in line with the Council's charging policy which is to maximise charges for specific services so as to minimise any indirect subsidy from the council tax payer, seeking wherever possible to recover the cost of the service provision as a minimum. In addition there are other income budgets which are not included in the charges report. Budgets for charges increased by statute or under delegated authorities (e.g. linked to the increase in costs) are adjusted accordingly. Government grant budgets are already at outturn prices in the original budgets.

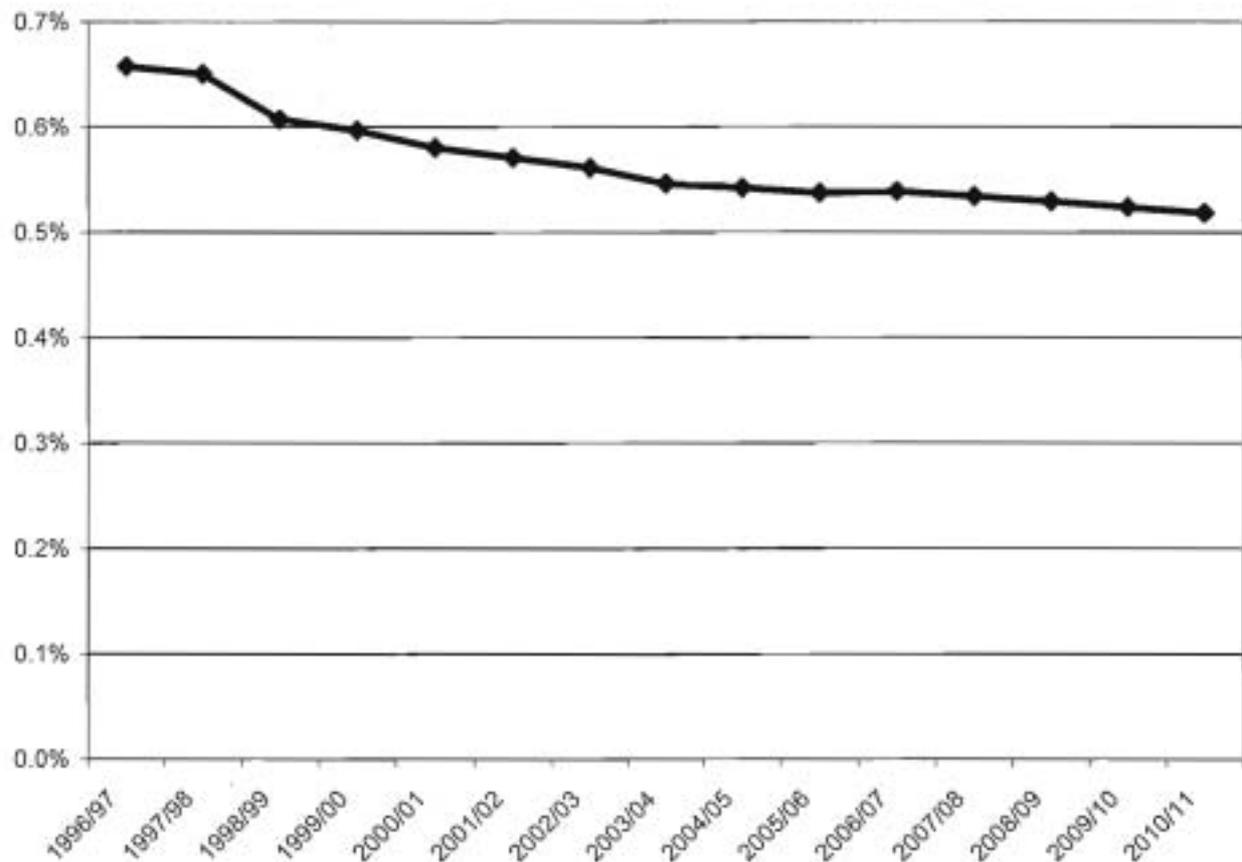
**Developments**

- (a) Budget variations. Whenever a report to Committee has financial implications, the Director of Finance advises either (i) that the additional cost can be met or saving retained within the budget, or (ii) that a request should be made to the Executive for a "budget variation". If a budget variation is approved, it is shown among the developments.
- (b) Revenue effects of the capital programme. Budgets for the financing costs of capital schemes are adjusted each year to reflect the latest approved programme for capital spending, including additions to the capital programme approved by the Executive. There are differing effects in each year depending when the capital expenditure is planned. Capital financing charges start in the year following the capital expenditure. When these are completed, budgets are reduced by the amount of capital financing charges ending.
- (c) Transfers within/between committee. Budget managers, with the approval of the Director of Finance, can move ("vire") budgets between service heads to reflect latest spending patterns or changes in spending priority. The overall effect of virement is, of course, nil. There are also occasionally transfers between committee budgets - particularly where budgets exist for the recharge of costs from one committee to another.
- (d) External changes. Adjustments are included to reflect changes in Government funding, and changes in volume where services are almost wholly demand-led (e.g. housing benefits).
- (e) Accounting changes and other technical adjustments. Occasionally new accounting codes of practice for local authorities come into force, necessitating changes to the structure of accounts and hence also budgets.

## WANDSWORTH'S AVERAGE BAND D COUNCIL TAX

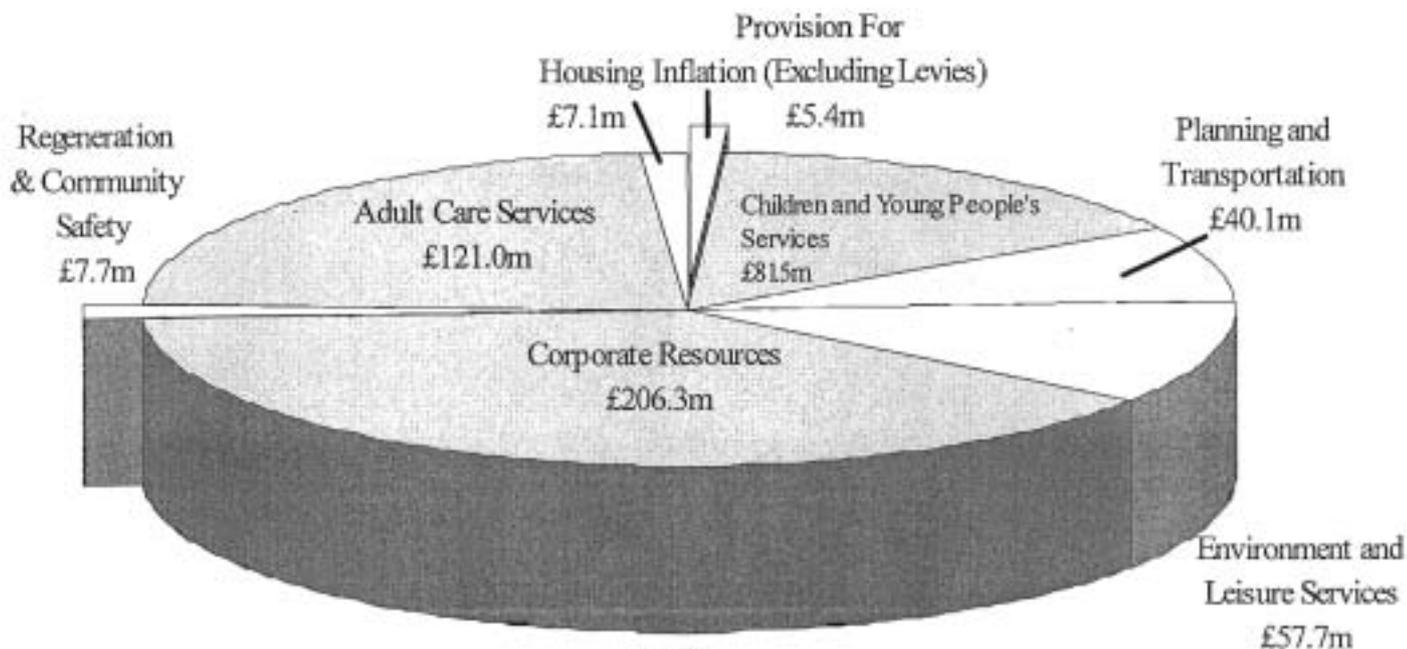
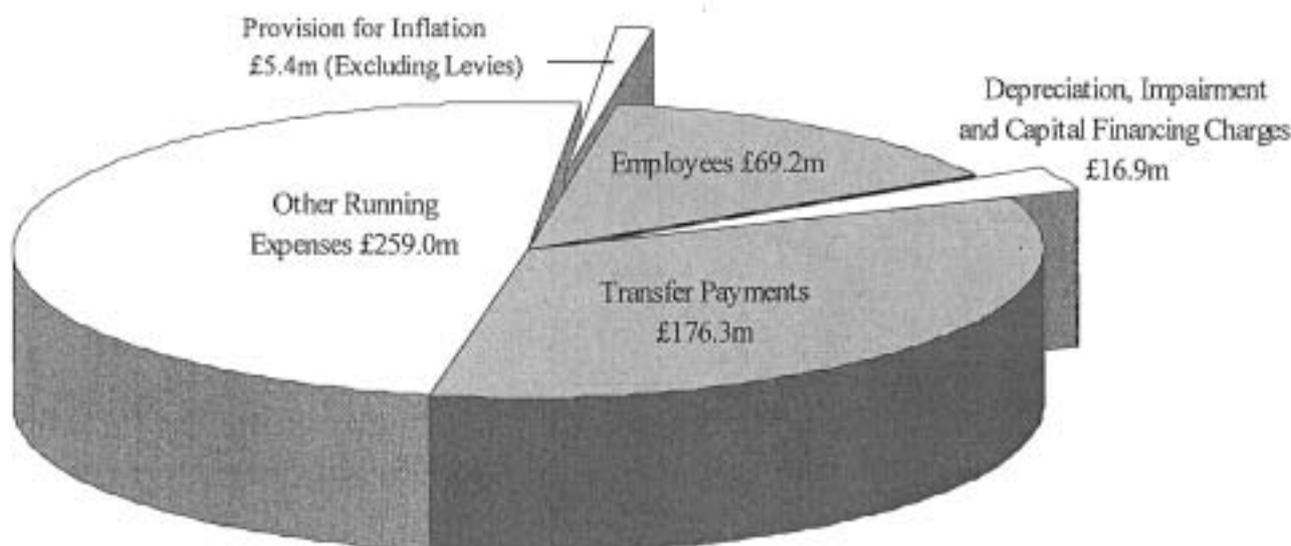
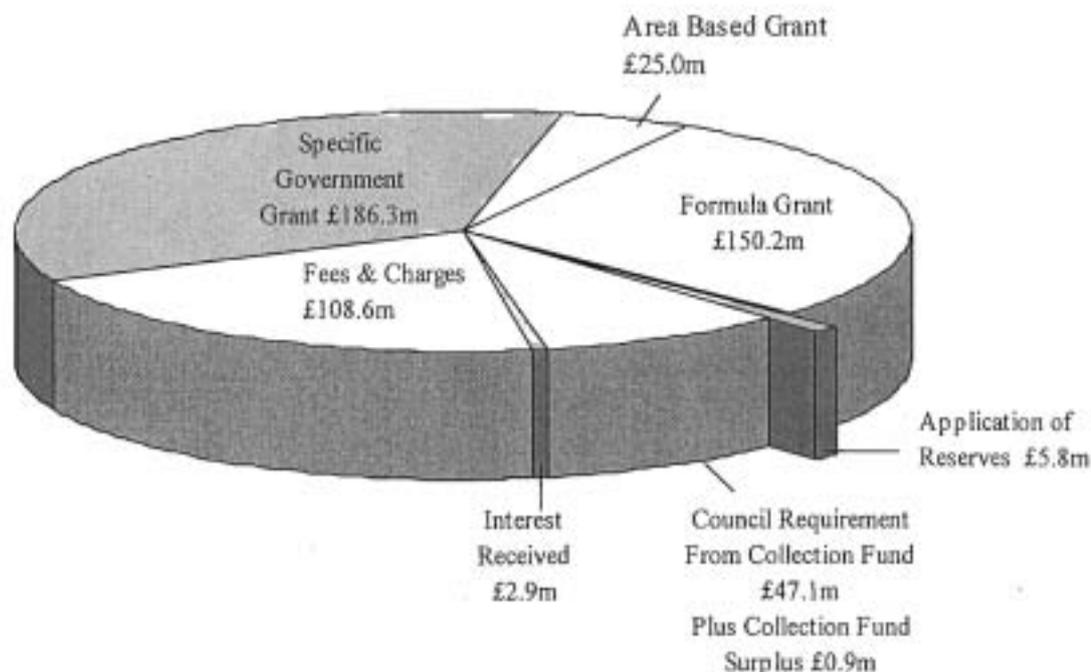


## WANDSWORTH'S DWINDLING PERCENTAGE SHARE OF THE TOTAL NATIONAL FORMULA GRANT



# THE COUNCIL'S GENERAL REVENUE INCOME AND EXPENDITURE 2010/11

**TOTAL £526.8m**



## CAPITAL FINANCE

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Capital finance is treated separately from revenue finance for most purposes, because it is subject to different legislation. Capital finance generally involves a long-term asset of some kind, such as land or a building. For Council housing, however, distinctions between capital and revenue finance are less significant: much housing investment is financed from revenue, and the boundary between maintenance and investment is not clear-cut.

75% of dwelling receipts and 50% of receipts from housing land are required to be paid over to the Government. An exemption for receipts other than right-to-buy disposals is allowed if they are earmarked to finance the cost of "the provision of affordable housing and regeneration". All other capital receipts can be used in full to finance capital expenditure; pending this they are invested, yielding interest for the general revenue budget.

Local authorities are required to manage their affairs so that at any time their borrowing does not exceed their affordable borrowing limit, as defined in Part 1 of the Local Government Act 2003. This limit is determined by the authority itself to reflect the maximum amount that a local authority decides that it can afford to borrow. As this Council has usable investments, the limit has been set to allow no new borrowing, except for the possibility of an education "spend-to-save" scheme that requires borrowing, so that costs may be passed on to schools in accordance with the Government's school funding regulations.

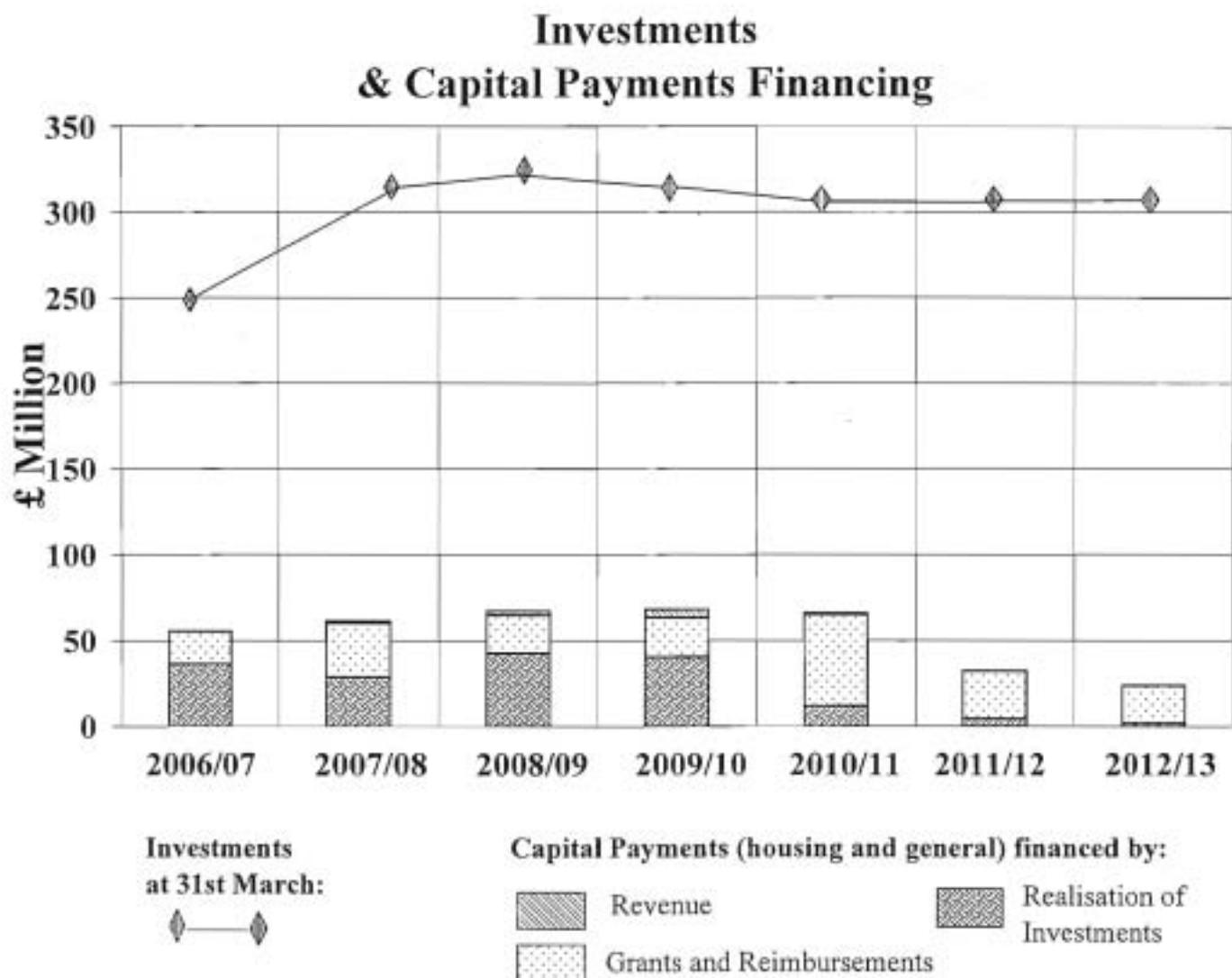
The scope for capital expenditure not charged to a revenue account in any year for this Council is largely determined by the availability of usable investments, and grants and reimbursements.

Any service using a capital asset has to bear economic charges in its revenue account for the use of that asset.

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The Council's capital programme, detailed in Section 5 of this book, is prepared for the current year and the two subsequent years, and operates within the Council's Capital Strategy summarised below:-

- (a) Asset Management: make maximum beneficial use of assets; maintain and refurbish economically having regard to all relevant costs including sustainability costs and income over the asset life cycle; identify and seek to minimise under-use; and dispose of surplus assets promptly to best advantage (including non-financial benefits where applicable).
- (b) Financial Resources: maximise grants and reimbursements, provided that the associated conditions are consistent with Council objectives and requirements.
- (c) Resource Planning: programmed capital expenditure to be kept well within expected financial resources; council housing schemes to be financed within the Housing Revenue Account, including ringfenced grants and revenue contributions, and usable capital receipts for the "provision of affordable housing"; other schemes to be financed by relevant grants and reimbursements, and usable capital receipts.
- (d) Scheme Appraisal: outline schemes to be costed and appraised in relation to service delivery needs, and for economy, efficiency and effectiveness having regard to asset life sustainability and the intended period of use, and taking account of all associated requirements including annual net costs; users', neighbours' and other stakeholders' views to be ascertained and weighed as appropriate; independent review of appraisal to be conducted by Property Audit Team; alternatives of influencing provision by others, or negotiating joint provisions, to be considered wherever applicable.
- (e) Prioritisation: consider most potential additions to the council housing programme and to the general capital programme at the same time so that relative priorities may be weighed and proposals that cross service boundaries may be more readily handled; involve leading members; give higher priority where there is a time-limited opportunity to invest in a particular advantageous manner.
- (f) Procurement: maintain and observe codes of practice to ensure probity and economy in procurement of assets and related works and services; have regard to the nature of potential supplier markets, and to possible changes in those markets and in service needs, when deciding whether and how to combine the procurement of an asset with related ongoing services.
- (g) Programme Control and Review: maintain appropriate procedures for identifying, reporting and authorising changes in timing and costs, with defined thresholds for member involvement; allow managers' virement of cost reductions, but only within limits that safeguard members' interest in policy changes and in reallocation of significant sums; review programme as a whole at least annually, and report to the Corporate Resources Overview and Scrutiny Committee, and the Executive with appropriate performance measures.
- (h) Sustainability: adopt sustainability and energy efficiency proposals and cost effective, having regard to Council policies such as the Sustainable communities Strategy, the Environment Policy and the Energy Code of Practice; seek to reduce energy consumption and carbon emissions in line with Council targets; and increase the use of materials from sustainable sources where costs effective.



Since early 2008 there has been a marked deterioration in the amounts of capital receipts the Council received, either by way of auction or other disposal means, for the sale of vacant or surplus site properties. Forecast receipts are expected to remain at similar levels in 2010/11 but are expected to reduce further in 2011/12 and 2012/13. This reflects the uncertain economic conditions and the property market, but based on forecast cash flows investments are expected to remain at similar levels.

Due to the high level of investments no borrowing is envisaged for 2010/11 and later years.

The most significant capital grants are Government grants for education schemes and the Major Repairs Allowance, which is Government support for council housing.

STRATEGY FOR 2010/11

The following table shows the outlook for investment and debt levels for the period 2009/10 to 2012/13, taking into account estimates of major cash flow movements.

	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>
	£'m	£'m	£'m	£'m
Estimated investments 1 <sup>st</sup> April	324.7	318.0	311.6	311.5
Estimated debt 1 <sup>st</sup> April	-6.6	-6.5	-6.5	-6.5
Deposit facilities for other bodies and funds	-1.1	-0.4	-0.3	-0.2
<u>Net investments 1<sup>st</sup> April</u>	<u>317.0</u>	<u>311.1</u>	<u>304.8</u>	<u>-304.8</u>
<b>Deduct</b>				
Capital payments – general	-35.6	-31.6	-12.5	-2.8
Capital payments – HRA	-32.6	-34.4	-19.7	-19.9
Payment of capital receipts to Government	-1.7	-1.3	-1.3	-0.3
Reduction in net creditors	-14.4	-3.8	-	-2.5
<u>Add</u>				
Capital receipts	18.7	20.8	6.6	1.5
Capital grants	38.8	41.4	27.9	22.8
Movement in funds, reserves & provisions	15.0	0.9	-29.5	-0.1
Revenue provisions for capital and credit liabilities	5.9	1.7	1.1	1.1
Increase in net creditors	-	-	27.4	-
In-Year net investment movement	<u>-5.9</u>	<u>-6.3</u>	<u>0.0</u>	<u>-0.2</u>
<b>Net investments 31<sup>st</sup> March</b>	<u>311.1</u>	<u>304.8</u>	<u>304.8</u>	<u>304.6</u>
Estimated investments 31 <sup>st</sup> March	318.0	311.6	311.5	310.9
Estimated debt 31 <sup>st</sup> March	-6.5	-6.5	-6.5	-6.2
Deposit facilities for other bodies	-0.4	-0.3	-0.2	-0.1
Repayment of debt	0.1	0.0	0.0	0.3
Change in use of deposit facilities	0.7	0.1	0.1	0.1

The Council is expected to begin the year with investments of £318 million, and repayments of long-term debt falling due over the next year from April 2010 will have a negligible impact on the level of investments. The estimated movements for the following two years based upon current cash flows show that investments are likely to remain at similar levels. The possibility of prematurely redeeming the Council's external debt has been explored, but it is not cost effective to do so, because of the premium that would be incurred. Neither is it cost effective for the Council to borrow, despite historically low interest rates, partly due to equivalently low investment rates, but primarily because the Council would lose the benefit of being able to have a "prudent" minimum revenue provision of nil. New long-term borrowing will therefore not be required within this timescale, unless it is taken up specifically for an education "spend-to-save" scheme, which requires borrowing so that costs may be passed on to schools in accordance with the Government's school funding regulations. This would require the approval of the Schools Forum.

Affordable Borrowing Limit and Operational Boundary The Council has to set an affordable borrowing limit and operational boundary for 2010/11 under Section 3 of Part 1 of the Local Government Act 2003. This limit refers only to gross borrowing, ignoring investments, and it is intended that it reflect the maximum amount that a local authority decides that it can afford to borrow. As the Council has net investments and is unlikely to have a new gross borrowing requirement, unless for an education "spend-to-save" scheme, the limit in Wandsworth reflects the existing outstanding debt, including deposit facilities offered to other bodies and external funds, such as Western Riverside Waste Authority, the North East Surrey Crematorium Board. From the 1st April 2010 revised regulations no longer permit the Council to borrow from the Pension Fund. The borrowing limit will therefore not have to allow for the fluctuation in the Pension Fund cash flow, as the pension fund will have its own bank account, and will not be depositing cash with the Council. A limit of £9 million is therefore proposed for the affordable borrowing limit and operational boundary, reflecting the estimated position at 1st April 2010 (£7 million) and allowing for the possibility of borrowing for an education "spend-to-save" scheme, and short-term fluctuations in cash flows.

SCOPE OF CORPORATE TREASURY MANAGEMENT

Treasury management activities are defined as the 'management of the Council's cash flows, banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks, supporting the achievement of the Council's business and service objectives.'

All cash, bank balances, financial assets, borrowings and credit arrangements held or made by any person in the course of their employment by the Council fall within the scope of Corporate Treasury Management, apart from items specifically excepted for this purpose by the Executive. The current exceptions are:

- (i) Funds held as cash and as bank balances, and managed by officers of the Education and Youth Services for the purposes of school journey grants, voluntary funds, and encashment of wages.
- (ii) Funds held as cash and as bank balances and managed by officers of Social Services Care Establishments for small items of expenditure and on behalf of residents.
- (iii) Funds held in bank accounts for school disbursements and managed by officers in schools that have exercised their right to use different bankers from the Council.
- (iv) Pension Fund investments and balances under the control of investment managers appointed by the Finance Sub-Committee of the General Purposes Committee.

## TREASURY MANAGEMENT

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### ADMINISTRATION

- (a) The Director of Finance's responsibilities for Treasury Management are prescribed in the Council's Financial Regulations. Corporate Treasury Management is part of the statutory responsibility of the Director of Finance under Section 151 of the Local Government Act 1972, and no other Council or school employee is authorised to borrow or make credit arrangements on behalf of the Council.
- (b) Subject to (c) below, the Director of Finance has delegated authority in relation to Treasury Management as follows:
  - (i) To invest any surplus balances of the Council's funds other than the Pension Fund and to sell investments for the purpose of reinvestment or to meet the needs of a particular fund.
  - (ii) To administer the Council's external debt within the ambit of any policy as to borrowing which the Council may have from time to time determined, and specifically
    - (a) to raise, repay, renew and otherwise vary the terms of the loans; and
    - (b) to enter into any collateral agreements necessary to facilitate effective debt management.
  - (iii) To negotiate and enter into leasing agreements in order to finance the acquisition of vehicles, plant and equipment and to enter into any collateral agreements necessary to facilitate an effective leasing policy.
- (c) The Director of Finance shall submit for the approval of the full Council by 31st March of each year, a Treasury Policy Statement defining the overall arrangements and strategy for the ensuing financial year, a mid-year review report, and a report on the exercise of his delegated authority by 30th September in the following financial year. Such statements and reports will have regard to good professional practice and relevant codes such as the CIPFA Guide to Treasury Management in the Public Services. The Policy Statement will distinguish between general strategy, which will be followed without exception, and strategy specific to the circumstances foreseen for the coming year, from which the Director may depart if changed circumstances so require provided that the departure be reported to the next meeting of the Corporate Resources Overview and Scrutiny Committee, and the Council. The Director may depart from the policy to act upon the lowest credit rating of the three credit rating agencies when making investment decisions, with the approval of the Cabinet member for Corporate Resources, if circumstances become such that investment opportunities under this policy are so restricted that it is not possible to place investments other than with the Debt Management Account Deposit Facility.
- (d) Day-to-day Treasury Management responsibilities shall be handled by the Treasury Management Group of the Finance Department, in accordance with a Treasury Systems Document reviewed annually by the Director. The Treasury Systems Document will contain details of the Council's Treasury Management Practices, including how the Council will manage and control the relevant activities.

- (e) Treasury Management activities and issues shall be reviewed at a monthly Financial Planning meeting within the Finance Department chaired by the Director, and attended by the Heads of Treasury, Corporate Finance, Service Finance, Audit and Pension Payments and Support. This meeting makes strategic decisions relating to items such as structure of investments and timing of long-term borrowing. The Director of Finance or, in his absence, either the Head of Corporate Finance, or Head of Service Finance may authorise changes in strategy previously defined at a monthly meeting if circumstances require.

### GENERAL STRATEGY

- (a) Corporate Treasury Management will be conducted in a manner that regards the successful identification, monitoring, and control of risk as of prime importance, and accordingly the analysis and reporting of treasury management will include a substantial focus on the risk implications, and employ suitable performance measurement techniques within the context of effective risk management.
- (b) Investment
- (i) Cash Balances - The Council shall not borrow in order to make financial investments.
- (ii) Investment of the Council's surplus cash balances (other than the exceptions listed under longer term investments) shall be for up to 364 days through brokers in the sterling money market, or directly through the Government's Debt Management Account Deposit Facility (DMADF). Around £80 million of the portfolio should be invested for 3 months or less, and the remaining balance will be invested for periods of between 3 months and 364 days.
- (iii) Investments shall be placed with institutions in accordance with the following criteria:-
- up to £40 million with institutions with a Fitch credit rating of at least F1+ short-term, AA long-term, and a short-term outlook that is not negative (or equivalent under Moody's or Standard and Poor's), where generally no more than £20 million is placed for periods longer than 6 months;
  - up to £40 million with institutions with a Fitch credit rating of at least F1+ short-term which are under UK state ownership and a short-term outlook that is not negative (or equivalent under Moody's or Standard and Poor's), with no investments being placed for periods longer than 6 months;
  - up to £40 million with institutions with a Fitch credit rating of at least F1+ short-term, and a short-term outlook that is not negative (or equivalent under Moody's or Standard and Poor's), where the institution is one of the named institutions eligible for the Government credit guarantee scheme, and where generally no more than £20 million is placed for periods longer than 6 months;
  - up to £20 million with UK local authorities,
  - up to £10 million with institutions with a Fitch credit rating of at least F1 short-term, A+ long-term, and a short-term outlook that is not negative (or equivalent under Moody's or Standard and Poor's); and
  - up to £5 million with Building Societies with a Fitch credit rating of at least F1 short-term, A long-term and short-term outlook that is not negative (or equivalent under Moody's or Standard and Poor's), or with an institution with a negative short-term outlook but otherwise satisfying the criteria for £10 million or £40 million investments.

The credit ratings from Fitch, Moody's and Standard and Poor's shall be reviewed on a monthly basis and the lowest of the three will be used.

The above investment criteria shall be regarded as maximum levels and due regard shall be had to market conditions. Restrictions on the above limits may be placed from time to time on a temporary basis by the Director of Finance or in his absence the Head of Corporate Finance or the Head of Service Finance. Any such temporary restrictions applied shall be reported to the next meeting of the Corporate Resources Overview and Scrutiny Committee, and the Council.

- (iv) Longer Term Investments - The only exceptions are, if the Director of Finance authorises, investments that may be for longer than 364 days: -

a) investment directly through commercial money market funds i.e. investments are placed in loans to companies with high credit ratings;

b) Investments with those UK financial Institutions eligible for the Government Credit Guarantee Scheme introduced on 13th October 2008, but only with those guaranteed eligible financial instruments: and

c) Investments in UK gilt-edged securities.

- (v) Enhanced Pension Fund. In accordance with general accounting standards (SSAP24) the Council has established an Enhanced Pension Fund, to cover the enhanced pension liabilities that fall outside the various statutory pension funds for Council employees. Funds have been passed to the Council's Pension Fund investment managers for investment on the Council's behalf. The funds may be invested by them in either UK gilt-edged securities, or in cash deposits that meet the criteria for the Council's other investments.

- (c) No credit arrangements shall be undertaken except

- leases of land and buildings approved by the Executive or under powers delegated to the Borough Valuer and Estates Surveyor or another officer, and
- finance leases for vehicles, plant, and equipment on terms more favourable than realisation of investments.

- (d) Generally, at least 90%, and always at least 80%, of the Council's borrowing will be taken in the form of loans raised for a period in excess of one year and, if practicable, with an average original period of at least six years and with no more than 15% of the long-term portfolio maturing in any one year. Long-term loans shall be taken up through either brokers in the sterling money market or the Public Works Loan Board (PWLb).

- (e) Longer Term Investment Strategy The amount that can prudently be invested for longer than 364 days must relate to forecasts of investments, taking into account foreseeable net spending needs, and allowing for adequate reserves and contingencies. The forecasts shown in the Strategy for 2010/11 indicate that investments are expected to remain around the £300 million level over the next three years, so a prudent limit for the maximum amount to be invested for longer than 364 days is £220 million. Investments will not be for longer than two years.

## PENSION FUND AND ENHANCED PENSION FUND

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The Pension Fund is administered by the Council in accordance with regulations made under the Superannuation Act 1972. All employees except teachers can be members of the Fund contributing a percentage of pay at a tiered rate ranging from 5.5% to 7.5% depending on salary level. Pensions and lump sum payments are based upon final salary and are index-linked.

The Council's minimum contribution (employer's rate) is determined by actuarial valuation every three years. The statutory valuation as at 31st March 2007, certified an unchanged employer's rate of 19% applicable from 1st April 2008 and remaining the same in 2009/10.

At 31st December 2009 the Pension Fund was valued at £719.7 million. It is invested in UK and overseas shares and bonds. All of the investments are managed externally.

The Government operates a notional pension fund for teachers. The employers' contribution to this fund remains at 14.1%.

The Enhanced Pension Fund, which represents around 0.79% of the main fund, was established in 1997/98 to meet liabilities arising from awards of added years of service to employees outside the Pension Fund. It can only be invested in Government bonds and cash.

The senior managers of the Pension Fund are:

Head of Pensions, Payments and Support	Robert Claxton	020 8871 6402
Accounting and Investments: Pension Fund Controller	Peter Harris	020 8871 8887
Administration and Policy: Pensions Manager	Colette Hollands	020 8871 6510

The Pension Fund budget has been re-priced to take account of predictable volume changes and carried forward at outturn prices where significant areas of volatility are probable. This approach provides a definitive trail to variations between budget and outturns and is thus a tool to manage and account for variances in income and expenditure in the Pension Fund.

Employee's contributions have been variable over the past few years due to optional membership of the pension scheme, changes in rates imposed by legislation and unpredictable staff turnover. Employer's contributions are affected by similar influences but from 2011/12 the results of the triennial valuation of the Pension Fund will produce the new employer contribution rate for the following three years. Accordingly these elements of income are shown at 2009/10 outturn levels.

Expenditure on retirement lump sums and pensions has historically been relatively predictable and re-pricing represents the volume changes from inflation and new retirees as the Fund demographics continue to mature.

Investment management income and expenses are projected on the assumption that managers meet their investment targets for out-performance, before any element of performance fees becomes payable.

Profits and losses of investments are not budgeted items as their return is too unpredictable. Additionally Pensions Fund values will go down as well as up and will accordingly affect budget amounts shown for investment income.

**PENSION FUND BUDGET**

		<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>
		£'000	£'000	£'000	£'000
	<u>Notes</u>				
<b>Contributions</b>					
Contributions Receivable					
Employees		8,413	8,413	8,413	8,413
Employers Normal	(1)	22,767	22,767	22,767	22,767
Employers Additional		913	913	913	913
Transfer In		4,638	4,638	4,638	4,638
<b>Benefits Payable</b>					
Pensions		-17,218	-18,303	-19,456	-20,682
PIA		-8,073	-8,154	-8,235	-8,318
<b>Lump Sum Benefits</b>					
Retirement Benefits		-7,287	-7,746	-8,234	-8,753
Death Benefits		-440	-440	-440	-440
Transfers Out		-3,730	-3,730	-3,730	-3,730
Establishment		-570	-570	-570	-570
<b>Net Additions/Withdrawals from Dealing with Members</b>		<b>-587</b>	<b>-2,212</b>	<b>-3,934</b>	<b>-5,761</b>
<b>Returns on Investments</b>					
Investment Income		21,490	21,490	22,914	24,437
Investment Management Expenses	(2)	-1,705	-1,511	-1,609	-1,699
Custody		-70	-70	-70	-70
Legal & Consultancy		-180	-80	-80	-80
<b>Total</b>		<b>18,948</b>	<b>17,617</b>	<b>17,221</b>	<b>16,827</b>

Notes:

- (1) Employer Cost - 19% is split between 3.1% past service adjustment and 15.9% for future service.  
 (2) The Investments are held by external managers.

When the Council exposes the provision of its services to competitive tendering, and an in-house bid by its own labour force is awarded the 'contract', then these activities are treated as 'trading' operations. The charge to the 'client' service is not the actual cost but the charge which would be appropriate if the labour force had obtained the work on the same footing as a private contractor. This charge is then treated as income to a trading account, which also bears the actual costs, to determine whether the labour-force is commercially viable.

A trading account surplus at the end of the year can be carried forward to meet future deficits, or it may be credited to the General Fund for the more immediate benefit of taxpayers, or if housing related credited to the Housing Revenue Account. Deficits may be similarly treated.

Reports showing financial results are presented to the relevant Overview and Scrutiny Committee on each trading account. In practice, some caution is necessary in drawing conclusions on competitiveness merely from these financial results.

Other activities, while not being put out to tender, are also subject to the discipline of trading accounts. The heightened management awareness associated with the need to demonstrate achievement of both financial and service delivery targets within these disciplines is generally recognised as beneficial. The term Service Level Agreement (SLA) is usually applied to these arrangements when the activity has not been subject to competitive tender.

Charges for SLA's are designed to maintain a break-even situation taking one year with another; in the interest of properly accounting for costs in the year of account, deficits carried forward are limited to 2.5% of gross expenditure and surpluses to 5%. Deficits or surpluses within these parameters are expected to be reflected in charges for the subsequent year; excess deficits or surpluses are fully reported to the responsible Committee, and reflected in adjusted charges in the year of account.

The present extent of trading accounts and SLA's in each Department is shown on the next page, together with an indication of the gross budget included within such arrangements.

## TRADING ACCOUNTS AND SERVICE LEVEL AGREEMENTS

	2010/11 ANNUAL VALUE <u>£'000</u>
<u>ADMINISTRATION DEPARTMENT</u>	
Telecommunications	1,058
Training Centre	369
Graphics	308
Quickprint	466
	<u>2,201</u>
<u>ADULT SOCIAL SERVICES DEPARTMENT</u>	
<i>Providers</i>	
Home Care	2,616
Meals on Wheels and Frozen Meals	299
PLD Hostels	545
PLD Day Care & SECs	3,701
Atheldene – Eld/PD	201
Adult Placement Service	70
<i>Support Services</i>	
Central Support Services	1,595
Departmental Support Services	8,930
	<u>17,957</u>
<u>CHILDREN'S SERVICES DEPARTMENT</u>	
<i>Children and Families</i>	
Adoption and Fostering	3,248
Family Resource Centres	1,674
<i>Schools Trading Accounts</i>	
Schools IT Support	461
Personnel Services	373
Learning Resources	294
Curriculum and Professional Development	50
Schools Financial Management	288
Music Support	93
Contracts	247
Performance and Standards	143
PC Training and Development	130
Literacy Support	360
	<u>7,361</u>

## TRADING ACCOUNTS AND SERVICE LEVEL AGREEMENTS

	2010/11 ANNUAL VALUE <u>£'000</u>
<u>FINANCE DEPARTMENT</u>	
Income Collection Service	918
Audit	1,333
Housing Contract Services: Rent Collection	1,178
Accounting Services	580
Payroll	614
	<u>4,623</u>
<u>HOUSING DEPARTMENT</u>	
Housing Contract Services: general management and maintenance	11,235
	<u>11,235</u>
<u>LEISURE AND AMENITY SERVICES DEPARTMENT</u>	
Tree Maintenance Administration	298
	<u>298</u>
<u>TECHNICAL SERVICES DEPARTMENT</u>	
Engineering Consultancy and Highway Maintenance	10,800
Design Service	2,900
Building Maintenance	9,300
Transport Management Services	2,200
Social Services Transport	1,020
Education Transport	1,930
	<u>28,150</u>
 TOTAL	 <u>71,825</u>

## AUDIT

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External Audit. PricewaterhouseCoopers have been appointed by the Audit Commission as the Council's external auditor from the 1st April 2008. The auditor covers the financial aspects of corporate governance, the Council's accounts and performance management (including Comprehensive Area Assessment and the Corporate Business Plan), and reports via the Audit Commission to the Audit Committee. When the accounts have been prepared, usually about July, they are advertised as open to inspection by anyone interested. Any elector can make objections to the auditor about any items in the accounts.

Internal Audit. The Council has a statutory obligation to maintain an adequate and effective system of internal audit of the accounting records and internal control systems, with a corresponding right of access at all times to documents, information and explanations needed. The Finance Department's Internal Audit Service is concerned to ensure that both financial and non-financial systems and procedures at all levels operate to safeguard the Council's interests, maximise economy, efficiency and effectiveness and contribute to the achievement of the Council's objectives. The Section maintains a capacity for special investigations and, along with its contractor, works to a programme of reviews in all departments of the Council.

The Director of Finance is under a duty to report to the Council and the external auditor if it appears that any proposal would incur unlawful expenditure or cause a loss or deficiency.

The Head of Audit reports at least annually to the Directors, the Directors' Board and the Audit Committee, and has the prime responsibility for advising this Committee regarding the Annual Governance Statement for publication with the Council's accounts.

The Head of Audit is a member of the Procurement Advisory Group that considers all procurement with a total value in excess of £100,000.

The Head of Audit is the initial contact for staff, Members and third parties to report suspicions of fraud, corruption or financial irregularity, and is the Council's Money Laundering Reporting Officer.

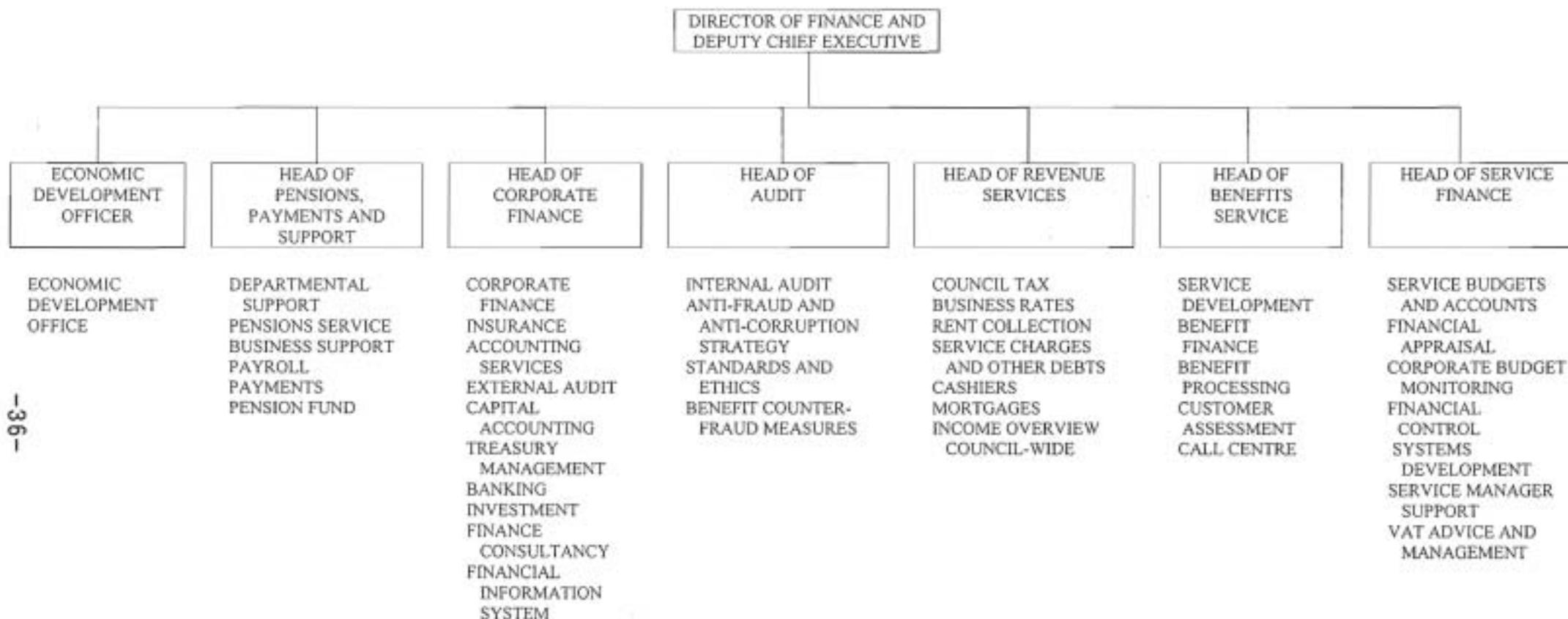
The table below shows the employee budgets for 2010/11 by department, compared with the previous year:

<u>DEPARTMENT</u>	<u>2009/10</u> £'000	<u>2010/11</u> £'000
Administration	13,554	13,719
Adult Social Services	21,451	21,807
Children's Services	180,155	193,405
Finance	15,482	15,487
Housing	18,566	18,587
Leisure and Amenity Services	13,416	13,540
Technical Services	28,037	28,670
	<u>290,661</u>	<u>305,215</u>

The table below shows an estimate of the number of employees (full-time equivalents and including employees of foundation and voluntary-aided schools, and agency and sessional staff) for 2010/11 by department compared with the previous year.

<u>Staff Numbers</u>	<u>2009/10</u>	<u>2010/11</u>
Administration	288	282
Adult Social Services	505	515
Children's Services	4,774	4,831
Finance	385	380
Housing	454	451
Leisure and Amenity Services	364	365
Technical Services	780	760
	<u>7,550</u>	<u>7,584</u>

## THE FINANCE DEPARTMENT



-36-

The senior managers of the department are:

		<u>Location</u>	<u>Telephone</u>
Director of Finance and Deputy Chief Executive	Chris Buss	TH 27	020-8871 8300
Economic Development Officer	Mike Brook	THE 1	020-8871 6202
Head of Pensions, Payments and Support	Robert Claxton	TH 20	020-8871 6402
Head of Corporate Finance	Ernie Jarvis	TH 217	020-8871 6406
Head of Audit	Phil Read	TH 65	020-8871 6450
Head of Revenue Services	Kevin Legg	THE 2	020-8871 6895
Head of Benefits Service	Kristina Burman	THE 1	020-8871 7061
Head of Service Finance	Fenella Merry	TH 212b	020-8871 6498

**Agency and Contracted Services** - services provided by an external supplier, such as a private contractor or public authority.

**Area Based Grant** - Government grant to local authorities that was previously a series of specific grants. This grant may be spent by the council on any general fund service.

**Balances** - the accumulated surplus of income over expenditure, which can be used to finance future expenditure.

**Billing authority** - a local authority empowered to set and collect council taxes, and manage the Collection Fund on behalf of itself and precepting authorities in its area. London Boroughs and the City of London are billing authorities.

**Budget requirement** - an amount calculated, in advance of each year, by each billing authority, and by each major precepting authority. It is broadly the authority's estimated net revenue expenditure after allowing for movement in General Fund reserves.

**Capital expenditure** - the definition extends to:

- the acquisition, reclamation, enhancement or laying out of land, exclusive of roads, buildings and other structures;
- the acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures;
- the acquisition, installation or replacement of movable or immovable plant, machinery and apparatus and vehicles and vessels;
- the making of advances, grants or other financial assistance to any person towards expenditure incurred or to be incurred by him on matters mentioned in the three categories above or in the acquisition of investments;
- the acquisition of share or loan capital in any body corporate, excluding pension fund investments.

**Capital Financing Costs** - the revenue costs arising from loss of interest on investments used to pay for capital expenditure.

**Capital receipts** - sums received from the sale of assets where expenditure on those assets would be expenditure of a capital nature.

**Capping** - the Secretary of State has the power to 'cap' the local authority budgets that he considers to be excessive, requiring them to be reduced and council tax bills to be re-issued for correspondingly lower amounts.

**Collection Fund** - the fund administered by a billing authority into which council taxes and business rates are paid, and from which payments are made to the General Funds of charging and precepting authorities and to the national business rate pool.

**Council tax** - the local taxes on property, set by the charging authority and the precepting authorities in order to collect sufficient revenue to meet their demand on the Collection Fund. It is based on the value of the property. The Valuation Office Agency assesses the properties in each district and assigns each property to one of eight valuation bands, A to H. The tax is calculated on the basis of the weighted number of properties, equated to Band D. Tax levels for dwellings in other bands are then set relative to the Band D amount.

**Council tax benefit** - financial help given to taxpayers whose income falls below prescribed amounts. The cost is substantially covered by specific government grant.

**Dedicated Schools Budget (DSB)** - consists of the delegated schools budgets and the central spending by the Council in support of schools. This budget is ring-fenced and wholly funded by grant.

**Demand on the Collection Fund** - the amount calculated by a billing authority to be transferable from its Collection Fund to its General Fund. Apart from any surplus or deficit in the Collection Fund, the amount is calculated as the authority's budget requirement less Government general grants.

**Depreciation** - the fall in value of an asset over time.

**Formula Grant** - Government grant to local authorities, applicable to the General Fund as a whole and not to any specific service. Legally it consists of Revenue Support Grant and a population-related share of a national pool of non-domestic rates, but this anachronism has no real significance. Formula Grant comprises a Relative Needs Amount, a (negative) relative Resource Amount, a Central Allocation, and a Damping Amount, but subject to rules that limit the change from the previous year's Formula Grant.

**General Fund** - the fund within which most transactions of a local authority take place. Although strictly it includes the Housing Revenue Account and the DSB, it commonly refers only to items outside that Account. Other funds held by a local authority may include a Collection Fund, Superannuation Fund and trust funds held for charitable purposes.

**Housing benefit** - financial help (sometimes known as rent allowances) given to local authority, housing associations or private tenants whose income falls below prescribed amounts.

**Housing Revenue Account (HRA)** - a local authority statutory account, legally within the General Fund but commonly regarded as distinct, covering current income and expenditure relating to its own housing stock.

**Indirect Employee Expenses** - includes costs incurred for staff training and for recruitment.

**Major precepting authority** - the Greater London Authority makes a precept on the Collection Fund, as county councils do elsewhere.

**Non-domestic rates (NDR)** - are a national tax on businesses otherwise known as "business rates", according to the rental value of the properties they occupy. Prior to 1990/91, rate poundages were set by local authorities and so varied from authority to authority, but since 1 April 1990, a single national poundage has been set by the Government and the proceeds collected by all local authorities are pooled nationally.

**Precept** - represents the amount required from the Collection Fund to finance the expenditure of a major precepting authority.

**Premises Costs** - includes repair and maintenance of fixed plant, maintenance of grounds, fuel, light, cleaning, water, fixtures and fittings, rent and rates, and premises-related insurance.

**Provisions** - amounts set aside generally as estimates of liabilities or losses already incurred but whose exact amount will be determined in the future e.g. bad debts.

**Reserves** - Revenue account reserves can be amounts for general contingencies and to provide working balances, or they can be earmarked to specific future expenditure.

**Revenue Expenditure** - in a general sense, expenditure on recurring items including the running of services, interest, and annual debt repayments.

## GLOSSARY OF LOCAL AUTHORITY FINANCE

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**Settlement** - "Local Government Finance Settlement" is the annual determination made in a Local Government Finance Report by affirmative resolution of the House of Commons for the following year's provision for local authority expenditure, the amount of Formula Grant and other central government support for that expenditure, how that support will be distributed, and the support for certain other local government bodies.

**Special grants** - these are grants paid by the Government for very specific and usually temporary purposes e.g. School Standards Grant.

**Specific grants** - these are grants paid by various Government departments for use on specific services, such as Education Standards Fund grants, housing benefit subsidies.

**Supplies and Services** - includes equipment, furniture, materials, clothing, uniforms, laundry, printing, stationery, telephones, postage, computers, advertising (other than for recruitment), and grants to voluntary bodies.

**Trading services** - local authority services that are, or are generally intended to be, financed mainly from charges levied on the users of the service.

**Transfer Payments** - payments to individuals for which the authority does not receive any direct goods or services, e.g. housing benefits.

**Use of Transport** - includes repair and maintenance of vehicles and moveable plant, fuel, oil, tyres, licences, transport insurance, hire of vehicles and moveable plant, and employee car allowances.

**SECTION 2**  
**COUNCIL'S REVENUE BUDGET AND COUNCIL TAX**

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This section sets out how the 2010/11 revenue budget, council tax, and budget framework were developed from the previous year's budget. It is based on reports considered by the Corporate Resources Overview and Scrutiny Committee on the 20th January 2010 and 3rd March 2010, and by the Council on the 10th March 2010. The section contains appendices summarising the budgetary effect of developments and of repricing from November 2008 to 2009, levies from other public bodies, special reserves, and the council tax base.

## **COUNCIL NET REVENUE EXPENDITURE**

### **Service Revenue Budgets**

1. In January 2010, the Executive approved the service revenue budgets, which showed the effects of providing for current programmes, policies and developments as detailed in the cream-coloured pages of this book.
2. In doing so, the Executive also approved the detailed changes to take account of inflation between November 2008 and November 2009. Major pay settlements included the National Single Status pay award of 1% from April 2009 and the teachers' award of 2.3% from September 2009. Budgets for contracted services were increased by the retail price index or other specified repricing basis from the relevant review date. Other running costs were cash limited in 2009/10 to the 1.5% allowed for when deciding the Council's budget, but for 2010/11 the inflation reflects the actual change in prices between November 2008 and November 2009. The effects of inflation to November 2009 amounted to £3.9 million in 2009/10 and £3.7 million in a full year, as summarised in Appendix A.

### **2009/10 Service Budgets**

3. The revised budgets for 2009/10 total £210.314 million (excluding Area Based Grant), a decrease of £0.8 million on the original budget (including provision of £5.588 million for inflation) approved in March 2009. This reduction included savings arising from staffing reviews (£0.041 million); economies and efficiencies (£0.083 million); VAT claim income (£2.239 million); Wandsworth Community Fund slippage to 2010/11 (£1.0 million); realignment of central support services (£0.216 million); asylum seekers review (£0.187 million); Migration Impact Fund (£0.098 million) and Children's Services savings (£0.072 million). These decreases were partially offset by fees and charges reviews (£0.313 million); contract reviews (£0.667 million); People with Learning Disabilities – growth (£1.0 million); I.T. Infrastructure programme (£0.115 million); changes in Government grants (£0.26 million); Administration Department reorganisation (£0.112 million); NNDR Hardship Relief (£0.12 million); Highways maintenance (£0.5 million); court charges – Children's Specialist Services (£0.156 million); Youth Offending Team (£0.029 million); Learning Disabilities (£1.157 million) and Transforming Adult Social Care (£0.206 million).

### **Future Service Budgets**

4. The Executive agreed in March to make an allowance of £5.44 million for inflation from November 2009 prices through to 2010/11 outturn. Further increases for 2011/12 and 2012/13 of £8.72 million and £6.45 million were also recommended.

5. The Executive also made provision for the £25.6 million levies and charges from other public bodies, as listed in Appendix C, requiring increased budget provision of £4.57 million. The large increase is chiefly due to significant rises in the charge for Concessionary Fares and associated costs, and the levy and estimated charges from Western Riverside Waste Authority (WRWA). The charge for the Concessionary Fares scheme has increased by £3.0 million (51.3%) partly reflecting the loss of the one-off substantial rebate in 2009/10 of £0.8 million (following an overestimate of the impact of non-London eligible residents' travel on the TfL bus network introduced in 2008/09). This loss was compounded by the decision of the Government to significantly reduce the grant for the London scheme in 2010/11, with a local cost to Wandsworth of £0.9 million, and the second year of a three-year phased change in the apportionment of costs from 'number of users' in the borough to 'total usage' in the borough, costing a further £1.3 million. Above inflation increases of £0.7 million (8.0%) and £0.6 million (5.6%) are forecast for 2011/12 and 2012/13 respectively, reflecting the final phase of the change in apportionment of costs, and the increased costs of providing the service. The WRWA increase of £1.4 million (13.8%) results from continuing increases in landfill tax (at £8 per tonne per annum). A further £2.0 million (16.6%) and £0.3 million (1.9%) have been forecast for 2011/12 and 2012/13 respectively, reflecting continuing increases in landfill tax in 2011/12, but levelling off in 2012/13 when the Energy from Waste Plant at Belvedere becomes fully operational and the increases in landfill tax cease.
  
6. This produced total 2010/11 service budgets of £204.023 million shown analysed by Committee and by income and expenditure categories in Appendix B. It is £6.7 million more than the equivalent figure for 2009/10. Developments identified and budget variations approved during the year included income reviews (£0.5 million); contract reviews (£0.2 million); People with Learning Disabilities – growth (£2.0 million); I.T. Infrastructure programme (£0.1 million); Administration Department reorganisation (£0.1 million); 2010 Borough Election (£0.4 million); Wandsworth Community Fund (£1.0 million); court charges – Children's Specialist Services (£0.2 million); Youth Offending Team (£0.2 million); Learning Disabilities (£0.4 million); Mental Capacity Act (£0.2 million); Transforming Adult Social Care (£0.8 million); service provision at Hazel Court (£0.3 million); transfer of funding for Post-16 (£0.2 million) and other positive revenue developments (£0.6 million). These developments are partly offset by staffing reviews (£0.2 million); changes in grants (£0.1 million); economies and efficiencies (£0.3 million); cash office closures (£0.1 million); Interpreting Service review (£0.1 million); realignment of central support services (£0.4 million); asylum seekers review (£0.6 million); removal of continuing effects of increases approved in previous years of highways maintenance (£0.5 million); Planning Delivery Grant (£0.2 million); WRWA - tonnage reduction (£0.3 million); Children's Services economies (£0.3 million); Adult Social Services service reviews (£4.0 million); interest on reserves (£0.9 million) and other departmental economies and savings (£1.0 million). The net effect of inflation, excluding levies is £3.6 million. An increase in the cost of levies (£4.6 million) is outlined in paragraph 5 above. With further inflation and with extra costs generated largely by the capital programme, the projected service budgets for 2011/12 and 2012/13 are £210.765 million and £217.670 million, as shown in Appendix A.

### Area Based Grant

7. In 2008/09 the Government merged a number of existing specific grants into a new Area Based Grant (ABG), with allocations being provided for the three years to 2010/11 to coincide with the period of the 2007 Spending Review. ABG is a non-ringfenced grant with no conditions on use imposed as part of the grant determination ensuring full local control over how funding can be used. The Government originally determined that Wandsworth's ABG in 2009/10 would be £13.762 million but has now increased to £13.868 million. The Government has further determined Wandsworth's ABG to be £24.959 million in 2010/11. The increase in 2010/11 chiefly reflects the transfer to ABG of Supporting People grant of £11.177 million in that year. Although no allocations of ABG for 2011/12 have been announced, it has been assumed for budgeting purposes that there will be a 2% cash reduction in each year after 2010/11.

### GENERAL FUND RESERVES

8. The calculation of the Council's requirements has to include the amount of financial reserves which it will be appropriate to raise or use in the financial year. The Council has no need for reserves for two of the purposes which it is obliged to consider: to cover deficits remaining from any earlier financial year (as there are none), and to cover 2011/12 expenditure to be incurred before revenues for that year are available (as this can be met within the Council's temporary borrowing limit).

### Special Reserves

9. The special reserves are those appropriate for meeting future expenditure in performing the Council's functions. The existing and proposed special reserves are shown in Appendix E, although those relating to the Housing Revenue Account and schools are not directly relevant.

- (a) Finite Services Fund. Provision has been made in the Finite Services Fund to pre-finance fully the cost of certain schemes of limited duration. The Fund has specific provision to finance the Council's obligations to contribute towards the anticipated costs in preparation for the Olympics in 2012, the preparatory costs of the Building Schools for the Future programme, and utilisation of Local Public Service Agreement (LPSA) grant. The use of the Fund over the next three years is anticipated to be as follows:

	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>
	£m	£m	£m	£m
Olympic preparation	0.019	0.022	0.021	0.021
LPSA	0.040	-	-	-
Building Schools for the Future	1.500	-	-	-

- (b) Renewals Fund. Approval has previously been given for resources to be set aside for the ICT infrastructure project, the maintenance backlog on operational properties, Building Schools for the Future and the new centre at Roehampton. The Fund also provides resources for short-term "loans" for building and plant maintenance, investment in IT schemes, and allows monies for replacement of vehicles and equipment to be saved in advance. Estimated drawings from the Fund in 2010/11 amount to £1.2 million.
- (c) Insurance Reserve. This reserve was established to meet certain non-specific liability and property claims where the Council does not insure externally. An external review carried out in 2008 determined that the reserve exceeds the Council's requirements. The surplus is being returned to the General Fund and Housing Revenue Account over a period of years, reflecting due caution given the volatility of potential claims. The General Fund will receive £0.6 million in each year from 2010 to 2014.

### General Reserves

10. The general reserves at 31st March 2010, on the basis of previous reports and the current outlook for 2009/10, were then estimated as:

	<u>£m</u>	<u>£m</u>
General Fund balance 1st April 2009		14.431
Planned contribution to general reserves		-0.463
Return of unused creditor provision		0.336
Reduction in Committee budgets 2009/10		
Original	197.351	
Revised	<u>196.446</u>	
		0.905
Estimated General Fund balance 31st March 2010		<u>15.209</u>

11. The Council must make an appropriate prudent allowance for contingencies for the forthcoming year. The Council considered that it would be prudent to retain a general reserve for contingencies of all kinds of about £10.0 million. This is a reduction of £2.5 million from last year where money was set aside chiefly to fund the significant budgetary pressures facing Adult Care Services. As £2.0 million has now been consolidated into the budget for Adult Care Services this provision is no longer required. The range of uncertainties in the next financial year is indicated by the items shown in Appendix D. With the General Fund balance estimated to be £15.209 million at 31st March 2010, £5.209 million is available to reduce the budget requirement for 2010/11.

## BUDGET REQUIREMENT

12. The budget requirement is essentially the Council's net expenditure less any drawing on general reserves. The recommended budget requirement is, therefore, calculated as follows:

	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>
	£m	£m	£m
Council's Net Expenditure (para.6)	204.023	210.765	217.670
Contribution from General Reserves (para.11)	-5.209	-	-
Contribution to Renewals Fund (para. 9)	-	-	-
Contribution from Insurance Reserve (para.9)	-0.605	-0.605	-0.605
Financing from (-)/to (+) Finite Services Fund (para.9)	-0.022	-0.021	-0.021
Council's Budget Requirement	<u>198.187</u>	<u>210.139</u>	<u>217.044</u>

The statutory form of calculation by the Council is shown in Appendix G, part d (i) to (iii) with details in Appendix F.

Section 25 of the Local Government Act 2003 requires that when a local authority is making its budget calculations, the Director of Finance must report to it on the robustness of the estimates made for the purposes of the calculations, and the adequacy of the proposed financial reserves. The Director of Finance considers that the estimates are sufficiently robust for the purposes of the calculations and that the proposed financial reserves are adequate.

## LOCAL AUTHORITY GRANT SETTLEMENT

### Formula Grant

13. The Local Government Finance Settlement for 2010/11 was laid before Parliament on 25th January, and subsequently approved on 4th February. This is the final year of a three-year settlement coinciding with the 2007 Comprehensive Spending Review. The settlement for 2010/11 is in line with the provisional settlement announced last year and includes very heavy damping to the calculation of Formula Grant. As in previous years the cost of the "floor" increase would be paid for by applying a scaling factor to reduce grant for all authorities above the floor. For Wandsworth, and other authorities with education and social services responsibilities, the floor is a 1.5% increase in 2010/11 (compared with 1.75% in 2009/10), with all grant entitlements above the floor being scaled down by 72%. Wandsworth is again at the floor with a grant of £150.204 million for 2010/11, £2.220 million (1.5%) higher than the 2009/10 settlement, using the Government's calculation of a like-for-like basis. This compares with average increases of 2.65% nationally and 1.98% for the London area. The Council is benefiting by £51.6 million from damping arrangements and can expect to remain on the grant floor for many years. No indicative grant figures have been provided for future years. For budgetary purposes it is assumed that there will be a 2% cash reduction in Formula Grant in both 2011/12 and 2012/13.

## CALCULATION OF COUNCIL TAX AMOUNTS

### Collection Fund

14. The tax requirements of the Council are aggregated with those of the precepting authorities within the Collection Fund. The Council's part represents its budget requirement less its share of Formula Grant, and any Collection Fund surplus or deficit. It is estimated that the Collection Fund will have a surplus of £1.577 million at 31st March 2010. Of this amount £0.866 million will be credited to the Council's General Fund in 2010/11. The remainder is passed to the Greater London Authority.

### Wandsworth Council Share

15. After taking account of Formula Grant, the amount that this Council needs to raise from council tax for its own purposes is as follows:

	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>
	£m	£m	£m
Budget requirement (para.12)	198.187	210.139	217.044
Less: Collection Fund surplus (para.14)	-0.866	-	-
	<hr/>	<hr/>	<hr/>
	197.321	210.139	217.044
Less: Formula Grant (para.13)	-150.204	-147.200	-144.256
	<hr/>	<hr/>	<hr/>
Wandsworth Council tax needs	47.117	62.939	72.788

### Council Tax Bases

16. In order to translate the Council's demand upon the Collection Fund into household tax amounts, it is necessary to relate it to the appropriate tax bases. The Council tax bases are now calculated annually by the Director of Finance following delegation of the determination by the Council at its meeting on 4th February 2004. These tax bases were calculated making a number of assumptions:

- (a) Existing properties - Valuation list as at November 2009
- (b) New, converted and demolished property - no effect on the tax base
- (c) Exempt property - Property currently exempt plus those under review
- (d) Appeals - number outstanding at 30th November 2009, 50% successful
- (e) Disabled bandings reduction - Reductions currently granted
- (f) Discounts - Based on those granted at 30th November 2009 plus an allowance for reviews
- (g) Collection rate - 95.5%

The main statistics for the calculation are shown in Appendix H. Based on these assumptions, the council tax bases for 2010/11 amount to 124,957 for the borough as a whole and 26,573 for the Wimbledon and Putney Commons Conservators' (WPCC) area. The corresponding figures for 2009/10 were 122,401 and 26,462 respectively. Growth of 2,000 properties per annum has been assumed for future years.

### Special Expenses

17. The Council is required to treat as a special expense the levy of the Wimbledon and Putney Commons Conservators, and formally resolved to do so for successive financial years at its meeting on 10th March 1993. For 2010/11 this levy amounts to £633,788.26. As a special expense it must be charged only to taxpayers within the Conservators' area, who will therefore have tax amounts £23.85 higher than elsewhere in the Borough at band D (applying the 26,573 taxbase figure for the Conservators' area and after allowing for roundings in calculations), with proportionate differences in other bands. The Conservators' total levies, including those parts of their area in other boroughs, have fallen by 1.4% from £936,536 to £923,242.

### Basic Amounts of Tax for 2010/11

18. The Council has to calculate first an average band D tax element (dividing the tax needs shown in paragraph 15 by the 124,957 taxbase figure), and then separate amounts for the majority of the Borough (excluding the special expenses) and for the Conservators' levy area. The statutory form of statement is shown in Appendix G part d(v) to (viii) and the amounts are:

	Average	Majority	Conservators' Area
	£	£	£
For 2010/11	377.06	371.99	395.84
For 2009/10	377.25	371.99	396.31

19. Having calculated band D amounts, the Council has to calculate for each part of its area the amounts of tax for valuation bands other than D. The calculation is made by applying the statutory proportion for each band to the relevant band D amount. The amounts are shown in Appendix G part (d)(ix).

### Budget Capping

20. In a letter to all local authority leaders dated 9th December 2009, the Parliamentary Under Secretary of State at the Department for Communities and Local Government stated: "...it would, therefore, be a mistake for any authority to assume that previous years' capping principles will apply in 2010/11. I have made it very clear that the Government expects the average band D council tax percentage increase to reach a 16 year low in this period. I have also indicated that we will take capping action against any excessive increases ...". Subsequently on 20th January 2010 she stated: "...Capping action has already been initiated against three police authorities in advance to limit their council tax increases to around 3 per cent. The Government has maintained the three year settlement in challenging economic times and there can be no excuse for any authority setting excessive council tax increases next year...". Although not explicit, the implied-threat is that an increase in excess of 3% would lead to capping. The recommendations of this report entail an increase of 0.7% in the budget requirement and no increase in the average band D amount in 2010/11. Capping is, therefore, not expected to apply to Wandsworth in 2010/11, but there are risks for subsequent years as discussed in paragraph 27 below.

### Greater London Authority

21. As well as GLA core services, the GLA has responsibility for four functional bodies: Transport for London (TfL), the London Development Agency (LDA), the Metropolitan Police Authority (MPA) and the London Fire and Emergency Planning Authority (LFEPA). The GLA has set a consolidated budget requirement for its core activities and its functional bodies for 2010/11 of £3,263.0 million:

	<u>2009/10</u>	<u>2010/11</u>	<u>Increase (+)/</u> <u>Decrease (-)</u>	<u>Increase (+)/</u> <u>Decrease (-)</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>%</u>
Metropolitan Police Authority	2,640.3	2,673.3	33.0	1.2
Greater London Authority	135.3	140.4	5.1	3.8
Transport for London	12.0	12.0	-	-
London Development Agency	-	-	-	-
London Fire and Emergency Planning Authority	416.2	437.3	21.1	5.1
Total GLA Group	3,203.8	3,263.0	59.2	1.8

22. Across the GLA, although inflation has been largely offset by efficiency savings, the total budget has increased by £59.2 million, representing net growth in existing services, and service improvements. The band D amount included to support the cost of the 2012 Olympic and Paralympic Games remains at £20.

23. After general Government grants, and the use of Collection Fund surpluses and reserves, the GLA band D precept amounts are:

	<u>2009/10</u> Band D Amounts £	<u>2010/11</u> Band D Amounts £	Increase (+)/ Decrease (-) £	Increase (+)/ Decrease (-) %
Metropolitan Police Authority	224.34	216.83	-7.51	-3.35
Other Services	85.48	92.99	+7.51	+8.8
<b>Total GLA</b>	<b>309.82</b>	<b>309.82</b>	<b>+0.00</b>	<b>+0.00</b>

24. This is the second successive year with no increase in the GLA precept. Further annual increases of 2.0% are, however, assumed for the budget framework.

#### **COUNCIL TAX AMOUNTS FOR 2010/11**

25. Combining this Council's tax amount with that of the GLA produces total band D amounts as follows:

	<b>Average</b> £	<b>Majority</b> £	<b>Conservators' Area</b> £
Wandsworth Council	377.06	371.99	395.84
Greater London Authority	309.82	309.82	309.82
<b>Band D total</b>	<b>686.88</b>	<b>681.81</b>	<b>705.66</b>

The amounts for all valuation bands are shown in Appendix G part (f). In 2009/10 this Council set the lowest tax amounts in the country for each band. The amounts for 2010/11 should remain the lowest in the country.

#### **Council Tax Bills**

26. The consequential bills for each valuation band, and the increases compared with 2009/10, are shown in Appendix I. After taking account of discounts, exemptions and the distribution of properties over valuation bands, the average bill for all dwellings in the Borough is estimated to be around £658.

## GENERAL REVENUE BUDGET FRAMEWORK

### 27. **Future Years and Budget Framework**

The budget, inflation allowances, and grant assumptions described earlier, imply that the average band D tax amounts for the Council would be £496 in 2011/12 and £564 in 2012/13. These represent increases of 31.5% and 13.9% in 2011/12 and 2012/13, compared with the preceding year. If Government capping criteria required increases of no more than 3%, the budget requirement would have to be reduced by £21.202 million in 2012/13. With the assumed GLA precept increases, the total average band D amount would rise to £812 in 2011/12 and £887 in 2012/13. The budget framework showing these amounts is given in Appendix J. In accordance with the Council's constitution, the Council should be recommended to adopt the framework in Appendix J on the basis that the Executive may then approve budget variations within the overriding restrictions that unearmarked reserves should not be forecast to fall below £5 million in 2010/11, nor the council tax band D forecast for the next two years rise by more than a further £40.01.

## APPENDIX A

### SUMMARY OF SERVICE BUDGETS

	2009/10 REVISED BUDGET				2010/11 BUDGET		
	2009/10 ORIGINAL BUDGET	INFLATION TO NOV, '09	DEVEL- OPMENTS	TOTAL	INFLATION TO NOV, '09	DEVEL- OPMENTS	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Salaries	62,398	936	4,231	67,565	933	2,335	65,666
Wages	1,419	20	53	1,492	20	80	1,519
Indirect Employee Expenses	1,833	34	305	2,172	39	152	2,024
Premises	10,889	-160	-972	9,757	-451	-1,299	9,139
Use of Transport	4,203	136	867	5,206	45	825	5,073
Concessionary Fares	6,260	4	2	6,266	4	3,010	9,274
Supplies and Services							
- Grants to Voluntary Bodies	10,738	120	-450	10,408	81	1,282	12,101
- Economic Development	602	9	62	673	8	-104	506
- Other	27,554	314	-4,454	23,414	347	-4,613	23,288
Agency and Contracted Services							
- Education by Other Authorities	140	2	-	142	2	-	142
- Precepts, Levies and Charges	14,363	-	-	14,363	-	1,213	15,576
- Other	138,255	1,868	2,347	142,470	2,583	-2,812	138,026
Transfer Payments - Hsg Benefits etc.	176,992	50	-177	176,865	37	-728	176,301
Central and Technical Support	46,621	683	-954	46,350	250	-1,062	45,809
Capital Financing Charges							
- Interest on Reserves	1,496	-	-7	1,489	-	-202	1,294
Depreciation and Impairment	13,688	52	3,394	17,134	52	1,872	15,612
<b>GROSS EXPENDITURE</b>	<b>517,451</b>	<b>4,068</b>	<b>4,247</b>	<b>525,766</b>	<b>3,950</b>	<b>-51</b>	<b>521,350</b>
Government Grants	-200,805	-	905	-199,900	-	14,501	-186,304
Rents	-1,831	-	-22	-1,853	-	5	-1,826
Education for Other Authorities	-4,337	-	-212	-4,549	-	146	-4,191
Fees, Charges and Other Income	-102,662	-195	-2,900	-105,757	-209	305	-102,566
Interest Received	-2,292	-	-1,101	-3,393	-	-631	-2,923
<b>INCOME</b>	<b>-311,927</b>	<b>-195</b>	<b>-3,330</b>	<b>-315,452</b>	<b>-209</b>	<b>14,326</b>	<b>-297,810</b>
<b>NET EXPENDITURE</b>	<b>205,524</b>	<b>3,873</b>	<b>917</b>	<b>210,314</b>	<b>3,741</b>	<b>14,275</b>	<b>223,540</b>
<b>REVENUE EXPENDITURE BY SERVICE</b>							
Adult Care Services	81,350	1,464	1,160	83,974	2,141	8,864	92,355
Children and Young People's Services	73,032	1,271	-7,870	66,433	853	-8,073	65,812
Corporate Resources	-23,236	411	20,520	-2,305	286	24,485	1,535
Environment and Leisure	47,673	298	-4,255	43,716	80	-3,426	44,327
Housing	10,744	40	-5,259	5,525	39	-5,722	5,061
Planning and Transportation	10,424	326	-2,681	8,069	283	-775	9,932
Regeneration and Community Safety	5,537	63	-698	4,902	59	-1,078	4,518
<b>NET EXPENDITURE</b>	<b>205,524</b>	<b>3,873</b>	<b>917</b>	<b>210,314</b>	<b>3,741</b>	<b>14,275</b>	<b>223,540</b>

SUMMARY OF SERVICE BUDGETS

	<u>2009/10</u> £'000	<u>2010/11</u> £'000	<u>2011/12</u> £'000	<u>2012/13</u> £'000
2009/10 ORIGINAL BUDGET at November 2008 price levels	205,524	205,524	205,524	205,524
INFLATION TO NOVEMBER 2009	3,873	3,741	3,741	3,741
2009/10 ORIGINAL BUDGET REPRICED	<u>209,397</u>	<u>209,265</u>	<u>209,265</u>	<u>209,265</u>
<b>DEVELOPMENTS</b>				
Adult Care Services	1,160	8,864	8,727	8,668
Children and Young People's Services	-7,870	-8,073	-8,193	-8,193
Corporate Resources	20,520	24,485	23,511	23,602
Environment and Leisure	-4,255	-3,426	-3,875	-3,905
Housing	-5,259	-5,722	-5,864	-5,901
Planning and Transportation	-2,681	-114	-382	-382
Regeneration and Community Safety	-698	-1,078	-1,465	-1,465
	<u>917</u>	<u>14,936</u>	<u>12,459</u>	<u>12,424</u>
Part of Developments included in Original Budget	-	661	661	661
NET EFFECT OF DEVELOPMENTS	<u>917</u>	<u>14,275</u>	<u>11,798</u>	<u>11,763</u>
NET EXPENDITURE with inflation to November 2009	<u>210,314</u>	<u>223,540</u>	<u>221,063</u>	<u>221,028</u>
<b>ANALYSIS BY SERVICE</b>				
Adult Care Services	83,974	92,355	92,218	92,159
Children and Young People's Services	66,433	65,812	65,692	65,692
Corporate Resources	-2,305	1,535	561	652
Environment and Leisure	43,716	44,327	43,878	43,848
Housing	5,525	5,061	4,919	4,882
Planning and Transportation	8,069	9,932	9,664	9,664
Regeneration and Community Safety	4,902	4,518	4,131	4,131
NET EXPENDITURE with inflation to November 2009	<u>210,314</u>	<u>223,540</u>	<u>221,063</u>	<u>221,028</u>
Area Based Grant	-13,868	-24,959	-24,460	-23,970
Inflation to outturn	-	5,442	14,162	20,612
NET EXPENDITURE with inflation to outturn	<u>196,446</u>	<u>204,023</u>	<u>210,765</u>	<u>217,670</u>

ANALYSIS OF SERVICE BUDGETS 2010/11

£'000	ADULT CARE SERVICES	CHILDREN & YOUNG PEOPLE'S SERVICES	CORPORATE RESOURCES	ENVIRONMENT & LEISURE	HOUSING	PLANNING & TRANSPORT	REGENERATION & COMMUNITY SAFETY	GENERAL FUND TOTAL	DEDICATED SCHOOLS BUDGET	HOUSING REVENUE ACCOUNT	TOTAL
<b>EXPENDITURE - at November 2009 prices for General Fund</b>											
Salaries	10,976	22,486	6,688	13,449	2,721	6,984	2,362	65,666	160,855	7,876	234,397
Wages	-	1,463	-	-	-	56	-	1,519	1,878	-	3,397
Indirect Employee Expenses	531	1,216	77	85	21	68	26	2,024	2,196	189	4,409
Premises	308	1,446	598	4,992	269	1,482	44	9,139	13,117	60,054	82,310
Use of Transport	1,392	3,139	3	341	47	118	33	5,073	732	68	5,873
Concessionary Fares	-	-	-	-	-	9,274	-	9,274	-	-	9,274
Supplies and Services											
- Funding to Voluntary Bodies	3,528	5,728	2,581	213	51	-	-	12,101	1,876	-	13,977
- Economic Development	-	-	-	-	-	-	506	506	-	-	506
- Other	2,107	10,802	3,329	2,305	94	3,313	1,338	23,288	10,532	2,056	35,876
Agency and Contracted Services											
- Precepts, Levies and Charges	-	1,445	580	12,899	-	652	-	15,576	-	-	15,576
- Other	94,376	12,074	2,530	16,725	1,484	8,939	2,040	138,168	10,560	14,541	163,269
Transfer Payments											
- Housing Benefits etc	-	2,048	172,722	-	1,531	-	-	176,301	747	27,386	204,434
Central & Technical Support	7,570	14,148	13,676	4,496	908	4,157	854	45,809	2,141	5,902	53,852
Depreciation and Impairment	175	5,469	2,216	2,166	-	5,076	510	15,612	-	-	15,612
Capital Financing Charges											
- Capital Charges to Users	-	-	-	-	-	-	-	-	-	2,171	2,171
- Interest on Reserves	-	-	1,292	-	2	-	-	1,294	-	-	1,294
- Leasing Charges	-	-	-	-	-	-	-	-	-	22	22
<b>TOTAL</b>	<b>120,963</b>	<b>81,464</b>	<b>206,292</b>	<b>57,671</b>	<b>7,128</b>	<b>40,119</b>	<b>7,713</b>	<b>521,350</b>	<b>204,634</b>	<b>120,265</b>	<b>846,249</b>

ANALYSIS OF SERVICE BUDGETS 2010/11 (Continued)

<b>£'000</b>	<b>ADULT CARE SERVICES</b>	<b>CHILDREN &amp; YOUNG PEOPLE'S SERVICES</b>	<b>CORPORATE RESOURCES</b>	<b>ENVIRONMENT &amp; LEISURE</b>	<b>HOUSING</b>	<b>PLANNING &amp; TRANSPORT</b>	<b>REGENERATION &amp; COMMUNITY SAFETY</b>	<b>GENERAL FUND TOTAL</b>	<b>DEDICATED SCHOOLS BUDGET</b>	<b>HOUSING REVENUE ACCOUNT</b>	<b>TOTAL</b>
<b>INCOME - at November 2009 prices for General Fund</b>											
Government Grants	2,044	11,315	169,234	595	1,143	121	1,852	<b>186,304</b>	184,155	-	<b>370,459</b>
Education for Other Authorities	-	4,191	-	-	-	-	-	<b>4,191</b>	13,761	-	<b>17,952</b>
Rents	359	-	1,308	159	-	-	-	<b>1,826</b>	-	96,092	<b>97,918</b>
Fees/Charges & Other Income	26,205	146	31,321	12,590	895	30,066	1,343	<b>102,566</b>	6,718	21,681	<b>130,965</b>
Interest Received	-	-	2,894	-	29	-	-	<b>2,923</b>	-	2,492	<b>5,415</b>
<b>TOTAL</b>	<b>28,608</b>	<b>15,652</b>	<b>204,757</b>	<b>13,344</b>	<b>2,067</b>	<b>30,187</b>	<b>3,195</b>	<b>297,810</b>	<b>204,634</b>	<b>120,265</b>	<b>622,709</b>
<b>NET EXPENDITURE</b>	<b>92,355</b>	<b>65,812</b>	<b>1,535</b>	<b>44,327</b>	<b>5,061</b>	<b>9,932</b>	<b>4,518</b>	<b>223,540</b>	<b>-</b>	<b>-</b>	<b>223,540</b>
Area Based Grant								<b>-24,959</b>			
General Fund inflation from November 2009 to end of 2010/11								<b>5,442</b>			
<b>Net Committee Budgets</b>								<b>204,023</b>			

APPENDIX CSUMMARY OF LEVIES AND CHARGES

	<u>Existing</u> <u>Budget</u> £'000	<u>Change in</u> <u>Requirement</u> £'000	<u>2010/11</u> <u>Budget</u> £'000
Western Riverside Waste Authority	10,437	1,441	11,878
London Councils			
- Concessionary Fares	6,023	3,008	9,031 *
- London Lorry Ban	19	-1	18
- London Borough Grants Committee	982	-1	981
TFL - Traffic Technology	371	6	377
Environment Agency – Flood Defence	245	3	248
London Pensions Fund Authority			
- Greater London	496	-19	477
- Inner London	1,376	69	1,445
- Deficit	84	72	156 *
Lee Valley Regional Park Authority	376	5	381
Port of London Authority - river debris clearance	6	-	6
Wimbledon and Putney Commons Conservators	644	-10	634
<b>TOTAL</b>	<b>21,059</b>	<b>4,573</b>	<b>25,632</b>

\*Estimate – awaiting final figures

EXAMPLES OF CONTINGENCIES WHICH COULD INCREASE  
GENERAL FUND EXPENDITURE

- (a) Changes in application of legislation and the conditions for Government specific grants (e.g. for value added tax and housing benefit).
- (b) Reorganisations, budget reductions, and competition procedures giving rise to unbudgeted severance and enhanced pension costs.
- (c) Increase in inflation above the levels anticipated when setting the budget.
- (d) The application of higher than anticipated inflation indices to contracted out services, where increases are contractually based on the inflation index for specified calendar months.
- (e) Retendering of service contracts at higher costs due to factors such as the Working Time Directive, the statutory minimum wage, and less competitive markets.
- (f) Unforeseen difficulties in recovering arrears, requiring additional provision to be made for doubtful debts.
- (g) Other unforeseen demands, and opportunities for service improvements in line with the Council's general policies, which could not be accommodated within approved budgets.
- (h) Utilisation of specific grants or area based grants already consolidated into the budget.
- (i) Budgetary pressures facing Adult Care Services, especially for people with learning disabilities arising from changes in local demographics.
- (j) Shortfalls in capital receipts, adding to the net interest borne by the General Fund.
- (k) Interest rate reductions, producing additional costs of approximately £0.8 million for every ½ per cent reduction in interest rates.
- (l) Cost of a local disaster not covered by Government grant under the Bellwin Scheme.
- (m) Transfer of responsibilities from health authorities to local authorities.
- (n) Risk of breaching the housing benefit subsidy overpayment threshold.
- (o) Reduction in income streams due to the current economic recession.
- (p) The potential impact of the introduction of International Reporting Standards.

## APPENDIX E

### SPECIAL RESERVES

All these reserves are legally part of the Council's General Fund, though earmarked for specific purposes. The reserves, their purposes, and the expected change in their balances, under existing policies are summarised below:

	Balance 1st April 2009 £'000	Budgeted Change 2009/10 £'000	Budgeted Change 2010/11 £'000	Balance 1st April 2011 £'000
1. <u>Renewals Fund</u>				
Net Use - Parking		-	-	
Net Use - Other		-6,126	-1,245	
Increase in Fund		2,000	-	
	38,083	-4,126	-1,245	32,712

This fund is for "loans" to services with unusually large requirements for building refurbishment, energy conservation schemes, computer software and vehicle and plant replacements. The planned expenditure is chiefly for securing replacement operational property following the expiry of the lease on one of the main operational properties. The additional contributions are to fund the maintenance backlog on operational properties.

2. <u>Finite Services Fund</u>				
Use of Fund	1,623	-1,559	-22	42
	1,623	-1,559	-22	42

This reserve provides for some pre-financing of identified costs of limited duration, now chiefly the Building Schools for the Future programme.

3. <u>Specific Grant Reserve</u>	4,400	-	-	4,400
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This reserve is for potential over-estimates or losses of specific Government grants for General Fund services, such as housing and council tax benefits.

4. <u>Housing Revenue Account/ Housing Repairs Account</u>	160,894	20,482	-915	180,461
----------------------------------------------------------------	---------	--------	------	---------

The Housing Revenue Account and Housing Repairs Reserve balances provide the resources for the annual revenue and long term housing major works programme, and a cushion against future reductions in government resourcing. There are statutory restrictions on transfers from these accounts, so these Reserves are not available for other purposes.

	Balance 1st April 2009 <hr/> £'000	Budgeted Change 2009/10 <hr/> £'000	Budgeted Change 2010/11 <hr/> £'000	Balance 1st April 2011 <hr/> £'000
5. <u>School Balances</u>	14,646	-	-	14,646

Schools generally have statutory rights to carry forward unspent balances of delegated budgets so these are not available for any other purposes.

6. <u>Insurance Reserve</u>	9,161	-839	-839	7,483
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This reserve was established to meet certain non-specific liability and property claims where the Council does not insure externally. A recent external review determined that the reserve exceeds the Council's requirements. The surplus is being returned to the General Fund and Housing Revenue Account over a period of years, reflecting due caution given the volatility of potential claims.

7. <u>Employer's Pensions Contributions Reserve</u>	51,000	-	-	51,000
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This reserve was established to mitigate the impact of future increases in employer's pension contributions.

8. <u>Pensions Reserve</u>	-143,077	-	-	-143,077
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This reserve reflects the Council's estimated net Pension Fund liabilities.

TOTALS	<hr/> 136,730	13,958	-3,021	<hr/> 147,667
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**APPENDIX F**

**ELEMENTS OF THE BUDGET REQUIREMENT CALCULATION**

	<u>£000</u>	<u>See Note</u>
(a) The expenditure the Council estimates it will incur in the year in performing its functions and will charge to a revenue account for the year;	835,654	1
(b) Such allowance as the Council estimates will be appropriate for contingencies in relation to expenditure to be charged to a revenue account for the year;	10,000	
(c) The financial reserves which the Council estimates it will be appropriate to raise in the year for meeting its estimated future expenditure	NIL	
(d) Such financial reserves as are sufficient to meet so much of the amount estimated by the Council to be a revenue account deficit for any earlier financial year as has not already been provided for; and	NIL	
(e) Any amounts which it estimates will be transferred from its General Fund to its Collection Fund pursuant to a direction under sub-section(5) of section 98 of the Local Government Finance Act 1988 and charged to a revenue account for the year, other than any amounts which it estimates will be so transferred,	NIL	
<u>either -</u>		
(i) pursuant to a direction under that sub-section relating to the difference between amounts in respect of community charges credited and charged to a revenue account for any earlier financial year, or		
(ii) pursuant to the direction under that sub-section which is contained in the Collection Fund (Council Tax Benefit (England) Directions 2001).		
SUB-TOTAL	<u>845,654</u>	
<u>LESS</u>		
(a) The sums which it estimates will be payable for the year into its General Fund and in respect of which amounts will be credited to a revenue account for the year, other than sums which it estimates will be so payable in respect of redistributed non-domestic rates, revenue support grant, additional grant or relevant special grant	628,719	1

	<u>£000</u>	<u>See Note</u>
(b) Any amounts which it estimates will be transferred from its Collection Fund to its General Fund pursuant to a direction under sub-section(4) of section 98 of the Local Government Finance Act 1988 and credited to a revenue account for the year other than any amounts which it estimates will be so transferred pursuant to a direction under that sub-section relating to the difference between amounts in respect of community charges credited and charged to a revenue account for any earlier financial year; and	518	
(c) The amount of the financial reserves which the Authority estimates that it will use in order to provide for the expenditure items (a), (b) and (e) above	18,230	2
SUB-TOTAL	<u>647,467</u>	
DIFFERENCE (BUDGET REQUIREMENT)	<u>198,187</u>	

Note 1

	<u>Expenditure</u> £'000	<u>Income</u> £'000
Gross Expenditure/Income as in Appendix B	846,249	647,668
less internal recharges	-18,913	-18,913
plus inflation to end of 2010/11	5,924	482
less credit from Collection Fund shown separately	-	-518
less contributions to special reserves within Gross Expenditure	2,394	-
	<u>835,654</u>	<u>628,719</u>

Note 2

	£'000
General reserves available (para.10)	15,209
Less drawings from special reserves (Appendix E)	3,021
	<u>18,230</u>

## APPENDIX G

### COUNCIL TAX DECISION

- (a) That the revised revenue estimates for the year 2009/10 referred to in Paper No.10-138 and the revenue estimates for 2010/11 as summarised in Appendix B of this paper be approved;
- (b) That the details of the budget requirement for the year 2010/11, as set out in Appendix F of this paper, be approved;
- (c) That it be noted that the following amounts for the year 2010/11 have been calculated in accordance with the delegation made by the Council on 4th February 2004 and with regulations made under Section 33(5) and 34(4) of the Local Government Finance Act 1992:
- (i) 124,957 being the amount calculated by the Council, in accordance with regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992, as its council tax base for the year; and
  - (ii) 26,573 being the amount calculated by the Council, in accordance with Regulation 6 of the Regulations, as the amount of its council tax base for the year for dwellings in the Wimbledon and Putney Commons Conservators' Levy Area;
- (d) That it be noted in accordance with Section 25 of the Local Government Act 2003 that the Director of Finance has reported that the estimates are sufficiently robust for the purposes of the calculations and that the proposed financial reserves are adequate, and the following amounts be now calculated by the Council for the year 2010/11 in accordance with Sections 32 to 36 of the Local Government Finance Act 1992:
- (i) £845,653,957 being the aggregate of the amounts which the Council estimates for the items set out in Section 32(2)(a) to (e) of the Act;
  - (ii) £647,467,214 being the aggregate of the amounts which the Council estimates for the items set out in Section 32(3)(a) to (c) of the Act;
  - (iii) £198,186,743 being the amount by which the aggregate at d(i) above exceeds the aggregate at d(ii) above, calculated by the Council in accordance with Section 32(4) of the Act as its budget requirement for the year; -

- (iv) £151,069,994 being the aggregate of the sums which the Council estimates will be payable for the year into its General Fund in respect of redistributed non-domestic rates, revenue support grant, additional grant or relevant special grant increased by the amount of the sums which the Council estimates will be transferred in the year from its Collection Fund to its General Fund in accordance with Section 97(3) of the Local Government Finance Act 1988 and any sums relating to the difference between amounts in respect of community charges credited and charged to the revenue account for any earlier financial year, and any sums pursuant to the direction that is contained in the Collection Fund (Council Tax Benefit) (England) Directions 2001;
- (v) £377.0637 being the amount at (d)(iii) above less the amount at (d)(iv) above, all divided by the amount at (c)(i) above, calculated by the Council in accordance with Section 33(1) of the Act as the basic amount of its council tax for the year;
- (vi) £633,788.26 being the aggregate amount of all special items referred to in Section 34(1) of the Act, namely the levy of the Wimbledon and Putney Commons Conservators;
- (vii) £371.9916 being the amount at (d)(v) above less the result given by dividing the amount at (d)(vi) above by the amount at (c)(i) above, calculated by the Council in accordance with Section 34(2) of the Act as the basic amount of its council tax for the year for dwellings in those parts of its area to which no special item relates;
- (viii) £395.8424 being the amount given by adding to the amount at (d)(vii) above the amount of the special item at (d)(vi) above divided by the amount at (c)(ii) above, calculated by the Council in accordance with Section 34(3) of the Act as the basic amount of its council tax for the year for dwellings in that part of its area to which the special item relates; and

(ix)	<u>Valuation Bands</u>	<b>Wimbledon and Putney Commons Conservators' Levy Area</b>	<b>All other parts of the Council's Area</b>
		£	£
	A	263.8949	247.9944
	B	307.8774	289.3268
	C	351.8599	330.6592
	D	395.8424	371.9916
	E	483.8074	454.6564
	F	571.7724	537.3212
	G	659.7373	619.9860
	H	791.6848	743.9832

being the amounts given by multiplying the amounts at (d)(vii) and (d)(viii) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation Band D, calculated by the Council in accordance with Section 36(1) of the Act as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands;

- (e) That it be noted that for the year 2010/11 the Greater London Authority has stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below:

<u>Valuation Bands</u>	<b>Greater London Authority</b> £
A	206.55
B	240.97
C	275.40
D	309.82
E	378.67
F	447.52
G	516.37
H	619.64

- (f) That having calculated the aggregate in each case of the amounts at (d)(ix) and (e) above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of council tax for the year 2010/11 for each of the categories of dwellings shown below:

<u>Valuation Bands</u>	<b>Wimbledon and Putney Commons Conservators' Levy Area</b> £	<b>All other parts of the Council's Area</b> £
A	470.44	454.54
B	548.85	530.30
C	627.26	606.06
D	705.66	681.81
E	862.48	833.33
F	1,019.29	984.84
G	1,176.11	1,136.36
H	1,411.32	1,363.62

## IMPACT OF EACH ADDITIONAL £1 MILLION COUNCIL TAX

<u>Circumstances/Band</u>	<u>Major Part</u>	<u>No. of Dwellings W &amp; PCC Levy Area</u>	<u>Borough</u>	<u>Increase per Household Before Benefit</u> £
<b>2 + Adults</b>				
A	833	1,732	2,565	5.33
B	3,235	1,906	5,141	6.22
C	17,133	3,679	20,812	7.11
D	17,139	3,731	20,870	8.00
E	11,923	2,736	14,659	9.78
F	8,849	1,643	10,492	11.56
G	7,359	2,440	9,799	13.33
H	1,060	988	2,048	16.00
	(67,531)	(18,855)	(86,386)	
<b>1 Adult</b>				
A	2,692	672	3,364	4.00
B	5,435	1,361	6,796	4.67
C	11,261	2,814	14,075	5.33
D	7,738	1,934	9,672	6.00
E	4,280	1,069	5,349	7.34
F	2,433	608	3,041	8.67
G	1,491	372	1,863	10.00
H	206	53	259	12.00
	(35,536)	(8,883)	(44,419)	
<b>Chargeable Empty/Second Home</b>				
A	90	22	112	4.00
B	150	37	187	4.67
C	531	133	664	5.33
D	490	123	613	6.00
E	335	84	419	7.34
F	240	60	300	8.67
G	151	38	189	10.00
H	74	18	92	12.00
	(2,061)	(515)	(2,576)	
Exempt A-H	2,380	594	2,974	NIL
<b>TOTALS</b>	<b>107,508</b>	<b>28,847</b>	<b>136,355</b>	

APPENDIX ICOUNCIL TAX BILLS 2010/11

<u>Band</u>	<u>No. Of Households</u>	<u>Council Tax</u> £	<u>Change</u> £
2+ Adults Major Part of the Borough			
A	833	454.54	0.00
B	3,235	530.30	0.00
C	17,133	606.06	0.00
D	17,139	681.81	0.00
E	11,923	833.33	0.00
F	8,849	984.84	0.00
G	7,359	1,136.36	0.00
H	1,060	1,363.62	0.00
2+ Adults W & PCC Part			
A	1,732	470.44	-0.32
B	1,906	548.85	-0.36
C	3,679	627.26	-0.42
D	3,731	705.66	-0.47
E	2,736	862.48	-0.57
F	1,643	1,019.29	-0.68
G	2,440	1,176.11	-0.78
H	988	1,411.32	-0.95
1 Adult Major Part of the Borough			
A	2,692	340.90	0.00
B	5,435	397.72	0.00
C	11,261	454.54	0.00
D	7,738	511.36	0.00
E	4,280	625.00	0.00
F	2,433	738.63	0.00
G	1,491	852.27	0.00
H	206	1,022.71	0.00

<u>Band</u>	<u>No. Of Households</u>	<u>Council Tax</u> £	<u>Change</u> £
1 Adult W & PCC Part			
A	672	352.83	-0.24
B	1,361	411.64	-0.27
C	2,814	470.44	-0.32
D	1,934	529.24	-0.36
E	1,069	646.86	-0.43
F	608	764.47	-0.51
G	372	882.08	-0.59
H	53	1,058.49	-0.71

Chargeable Empty/Second Home  
Major Part of the Borough

A	90	340.90	0.00
B	150	397.72	0.00
C	531	454.54	0.00
D	490	511.36	0.00
E	335	625.00	0.00
F	240	738.63	0.00
G	151	852.27	0.00
H	74	1,022.71	0.00

Chargeable Empty/Second Home  
W & PCC Part

A	22	352.83	-0.24
B	37	411.64	-0.27
C	133	470.44	-0.32
D	123	529.24	-0.36
E	84	646.86	-0.43
F	60	764.47	-0.51
G	38	882.08	-0.59
H	18	1,058.49	-0.71

## APPENDIX J

### GENERAL REVENUE BUDGET FRAMEWORK

	<u>2009/10</u> <u>Revised</u> £m	<u>2010/11</u> £m	<u>2011/12</u> £m	<u>2012/13</u> £m
Committee Budgets at 2009 prices				
Adult Care Services	83.974	92.355	92.218	92.159
Children and Young People's Services	66.433	65.812	65.692	65.692
Corporate Resources	-2.305	1.535	0.561	0.652
Environment and Leisure	43.716	44.327	43.878	43.848
Housing	5.525	5.061	4.919	4.882
Planning and Transportation	8.069	9.932	9.664	9.664
Regeneration and Community Safety	4.902	4.518	4.131	4.131
Area Based Grant	-13.868	-24.959	-24.460	-23.970
Total	196.446	198.581	196.603	197.058
Inflation to outturn prices		5.442	14.162	20.612
Contributions to (+)/drawings from (-) General, Renewals and Finite Services Funds	0.278	-5.836	-0.626	-0.626
Budget Requirement	196.724	198.187	210.139	217.044
Less:				
Collection Fund surplus	-2.537	-0.866	-	-
Formula Grant	-148.011	-150.204	-147.200	-144.256
Tax Needs	46.176	47.117	62.939	72.788
Band D Council Tax	£	£	£	£
Wandsworth Council	377.25	377.06	495.75	564.44
Greater London Authority	309.82	309.82	316.02	322.34
Total	687.07	686.88	811.77	886.77
Increase in Wandsworth council tax		0.0%	31.5%	13.9%
Budget changes needed in future years to maintain Wandsworth council tax increases to 3%			<u>£ millions</u> 13.632	<u>£ millions</u> 21.202

**SECTION 3**  
**DEDICATED SCHOOLS BUDGET**

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Since April 2006 Schools Budgets have been predominantly funded through a ring fenced grant from the Department for Children, Schools and Families (DCSF) known as the Dedicated Schools Grant (DSG). The use of this grant is defined by the School Finance (England) Regulations 2008. Further funding for schools is received in the form of Standards Fund grant and 6<sup>th</sup> Form Education grant from the Young Peoples Agency.

The Dedicated Schools Budget consists of the Individual Schools Budget (ISB) which is delegated budget allocated to individual schools and a central expenditure budget which enables provision for pupils which the Council funds centrally, such as Special Educational Needs and Pupil Referral Units.

## **DEDICATED SCHOOLS BUDGET**

### **MINIMUM FUNDING GUARANTEE**

1. Local authorities are required by law to provide schools with a Guaranteed Funding Level (GFL) based on the Minimum Funding Guarantee (MFG) increase on each school's previous year's budget.
2. The calculation of the MFG provides a 2.1% increase per pupil for all schools for 2010/11. The MFG for 2011/12 is yet to be announced by the DCSF.
3. The MFG calculated in accordance with the methodology set out by the DCSF is compared against the Fair Funding allocation derived using the Council's local Fair Funding Formula, and a budget that has been increased to reflect the Council's total DSG. Each school then receives the higher of these two budgets. The majority of schools in the Borough will receive an increase above the MFG.
4. The school funding settlement for the Dedicated Schools Grant was previously established for the 3 year period 2008/11. Funding from 2011/12 onwards is not yet confirmed and therefore the future years' figures in Appendix A are estimated based on current pupil numbers. The DCSF should announce a new 3 year school funding settlement following the formula review of the DSG that they are currently undertaking.

### **CENTRALLY RETAINED BUDGETS IN THE DEDICATED SCHOOL BUDGET**

5. The overall Dedicated Schools Budget (DSB) is defined by regulation and contains items of expenditure which do not form part of the Individual Schools Budget. The Individual Schools Budget (ISB) and central expenditure budgets are set out in Appendix A.
6. There is provision in the regulations which ensures local authorities do not increase their spending on centrally funded items (such as Special Education Needs (SEN) and excluded pupils) by a greater percentage than their spending on schools. In exceptional circumstances, local authorities may seek their Schools Forum agreement to any increase above their central expenditure limit.
7. Spending on central expenditure within the DSG has increased at a rate that is higher than the general increase in the DSG. This is because of significant increases in costs of various central expenditure items, most notably in fees for pupils at independent special schools. The Wandsworth Schools Forum (WSF) has agreed to this overall breach in the Central Expenditure Limit (CEL) for 2010/11.
8. Regulations allow for retirement and redundancy costs for school staff to be charged to the DSG where a future saving to the DSG can be demonstrated. As there are a number of cases each year of early retirement or redundancy which produce a saving in schools budgets the WSF have agreed that the budget of £400,000 for 2010/11 and the cost of early retirement and redundancies be provided within the DSG.

## DEDICATED SCHOOLS BUDGET

9. Provision was made within the DSB for Secondary schools Building Schools for the Future (BSF) of £300,000 in 2007/08 £500,000 in 2008/09 and £400,000 in 2009/10. The Schools Forum have agreed to further annual funding from the DSG for 2010/11 to 2012/13 of £490,000.
10. 2010/11 sees the adoption of International Financial Reporting Standards by local authorities, which will bring about the most significant changes to the content and presentation of local authority accounts. As a result depreciation on buildings, infrastructure and equipment is now charged directly to individual cost centres. This accounting change does not impact on the Council's overall budget, but the effects on individual service budgets are shown on the following budget pages.

### POST-16 FUNDING

11. School budgets for schools with sixth forms will include the funding delivered by the post-16 funding arrangements previously administered by the Learning and Skills Council (LSC). From 1st April 2010 the LSC will be abolished and the funding will be delivered by the newly formed Young People's Learning Agency (YPLA). The LSC have provided indicative figures for 2010/11 and these have been included in the Individual Schools Budget total.

### SIZE OF THE INDIVIDUAL SCHOOLS BUDGET AND ESTIMATED DSG

12. The Council's estimated DSG of £153.559 million for 2010/11 requires the Council to increase the Individual Schools Budget by £7.69 million (an increase of 5.3%). This estimate is based on the actual January 2010 pupil numbers of 27,231, and the average DSG funding of £5,639 per pupil. The DSG will be finalised by the DCSF by 31st May 2010 following verification of the Council's pupil number returns.
13. The 2010/11 Individual Schools Budget totalling £170.220 million is net of individual specific grants such as Standards Fund. The remaining budget is financed as follows:

	<u>£'million</u>
Dedicated Schools Grant (DSG)	153.559
6th Form Grant	12.532
Other Specific Grants	4.129
Schools Budget	<u>170.220</u>

### THE BUDGET FRAMEWORK FOR DEDICATED SCHOOLS BUDGET

14. The Dedicated Schools Budget is 100% funded by grant whilst the Children's Services General Fund budgets are funded from the totality of the Council's income, including Revenue Support Grant, Area Based Grant, Council Tax and charges. Elements of the DSB funded from the same sources as the General Fund are included under the Education and Early Years Services.

## DEDICATED SCHOOLS BUDGET

15. With the Executive determining budget variations, with the involvement of the Children's Services Overview and Scrutiny Committee, referrals to Council would only be needed in extreme circumstances. The Council's adopted rule of reporting to Committee if the forecast in-year overspend exceeds £500,000 on General Fund budgets, will still apply. A departure from the budget, requiring clearance by the Council, is defined as arising when forecast net overspends implied a call of more than 50% upon unearmarked reserves (i.e. more than £5 million currently based on a general contingency of £10 million), or an equivalent change in the council tax forecast for future years.
16. Under the Act, the Council has to approve the budget including allocations to the different services, and a clear framework has to be established for reasonable virements by the Executive within appropriate limits beyond which full Council approval is required. These provisions are included within the Council's Constitution. The Council's standing orders and financial regulations include provision to allow the Executive to reallocate monies within the budget. These provisions allow for situations where the Executive needs to make an urgent decision, which would otherwise be contrary to the budget without reference to the full Council.
17. The Council's Scheme for Financing Schools, based on a model scheme developed by the DCSF under section 45-53 of the Schools Standards and Framework Act 1998 as amended by the Education Act 2002, defines the financial management standards required by schools and the respective responsibilities of Head Teachers and School Governors in managing schools budgets and approving virements between budgets.

APPENDIX A**DEDICATED SCHOOLS BUDGET**

	<u>Original</u> <u>Budget</u> <u>2009/10</u> £'000	<u>Revised</u> <u>Budget</u> <u>2009/10</u> £'000	<u>Original</u> <u>Budget</u> <u>2010/11</u> £'000	<u>Future</u> <u>Years</u> £'000
<u>EXPENDITURE</u>				
Individual Schools Budget:				
Nursery	1,552	1,674	1,607	1,671
Primary	80,042	86,089	75,675	76,717
Secondary	52,502	64,943	53,999	54,170
Special	23,071	23,766	22,928	21,849
SEN, Early Years and Support Services	17,129	18,640	18,510	18,918
Recoupment	2,596	2,733	2,732	2,841
Specific Grants	9,700	4,883	9,695	9,695
Standards Fund	15,744	3,467	17,168	17,168
	<u>202,336</u>	<u>206,195</u>	<u>202,314</u>	<u>203,029</u>
<u>INCOME</u>				
Dedicated Schools Grant	-140,882	-145,363	-153,559	-153,919
Recoupment	-12,705	-13,006	-10,462	-10,447
Specific Grants	-21,434	-25,051	-16,661	-16,959
Standards Fund	-15,470	-17,593	-16,895	-16,895
	<u>-190,491</u>	<u>-201,013</u>	<u>-197,577</u>	<u>-198,220</u>
<u>NET EXPENDITURE</u>	<u>11,845</u>	<u>5,182</u>	<u>4,737</u>	<u>4,809</u>

**SECTION 4  
COUNCIL HOUSING BUDGETS**

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Under Part VI of the Local Government and Housing Act 1989, each Local Authority is required to keep a Housing Revenue Account (HRA), for income and expenditure relating to council housing, in accordance with proper practices and detailed directions by the Secretary of State. The Act also requires that:

- (a) During January or February each year, the Council must formulate proposals for expenditure and income for its housing for the following year, which will ensure, on the best assumptions that can be made at that time, that the HRA for that year does not show a debit balance;
- (b) These proposals must be implemented and monitored to ensure that the HRA will not show a debit balance;
- (c) Within a month of formulating its proposals, a statement must be prepared, showing these proposals and the estimated HRA income and expenditure. This statement must be made available for public inspection until the end of the year following the year to which the statement relates.

The following pages record how the Executive met the requirement outlined in (a) above at their meeting on 25<sup>th</sup> January 2010. The requirement for monitoring, described in (b) is delegated to the Director of Housing. The requirement to make available the statement referred to in (c) above is met by including it as Appendix A within these pages, which are then available for reference in public libraries in the borough.

## COUNCIL HOUSING

### REVIEW OF HOUSING REVENUE ACCOUNT AND BUSINESS PLAN

1. The Government issued on 10th December 2009 draft determinations regarding the level of HRA subsidy that the authority will receive in 2010/11. The final determination was issued on 3rd February 2010. Although rent rebate housing benefit and associated subsidy are now accounted for within the General Fund, the HRA continues to bear the cost of rent rebate subsidy limitation. The housing subsidy element, calculated as in previous years using notional credits and debits, continues to be a negative amount and, after receipt of the major repairs allowance, results in a net payment to Government of their assumed net rent surplus on the HRA. The main features of the calculation of credit and debit items in this notional HRA are as follows:-

(a) Notional Gross Income from Rents. The Council's revised average weekly 'guideline rent' for 2009/10 was £92.37 (originally the Government set this to be £95.14 assuming a national increase of 6.2% but subsequently reduced this to 3.1% as a concession to affordability in the current economic climate). For 2010/11 the Government has fixed the guideline increase at its tolerance level for affordability (3.1%) and reduced the number of steps to achieve convergence with formula rent as the balancing factor. The guideline rent has therefore been reduced by 0.9%, representing negative inflation of 1.4% plus an annual 0.5% real-terms increase and then further increased by one third of the difference between this adjusted guideline rent and an assumed 'formula rent' for 2010/11. On this basis the convergence date by which all rents for social housing should converge to a common 'formula rent' would not be achieved until 2012/13, compared with the original ten year target of 2011/12 but much earlier than the 2023/24 target in the 2009/10 Determination. Further explanation of the 'formula rent' is also given in paragraph 14. The resulting 'guideline rent' for 2010/11 is £95.89 representing an increase of £3.52 per week or 3.8% over 2009/10. Without the amendment to the convergence date the overall decrease would have been £0.91 per week.

Whilst a guideline rent increase is simply matched by an increase in negative subsidy there is nevertheless a collateral effect on the HRA of moving the convergence date about. This occurs because another mechanism known as the 'limit rent', which protects the DWP from contributing to local rent additions, is also converging towards the formula rent. Because the limit rent began with some leeway and is currently £2.97 above the guideline rent this is a concession that will be whittled away when convergence is complete. Given the Government's stated intention to achieve convergence as early as possible no business plan advantage was assumed in 2009/10 from the deferral of convergence by seven years and this has been vindicated by the date now being brought forward again by nine years.

(b) Notional Allowances for Management and Maintenance. Nationally the management and maintenance allowances per dwelling have increased by 2.25% for inflation and by 0.8% for rebasing which compensates for the effect of rent restructuring on the aggregate level of resources nationally, an overall increase of 3.05%. Transitional protection has been continued in cash terms for a further year but without inflation uplift, and with no guarantee of continuing protection beyond 2010/11. The Council's total weekly management and maintenance allowances have together, after allowing for stock reduction, increased by £1.02 million (2.45%) compared with 2009/10 but management allowances are still deemed to be above target allowances. As a consequence, much of this increase does not come through because of the cash freeze of the protection mechanism, resulting in the loss of £540,000 of the inflation uplift of 3.05% in 2010/11 available to other local authorities.

(c) Loan Charges and Interest Earned. Previously, major works were funded by credit approvals from central government which set the limit of a local authority's long term borrowing and the Secretary of State determined the level of HRA credit approvals admissible for subsidy. In 2001/02 the Government introduced the major repairs allowance to fund the long-run refurbishment of stock. Since then subsidised borrowing allocations have been prioritised towards remedial decency works, regeneration and new-build, and the decisions on this have now passed to the Mayor for London. Under the prudential borrowing regime, a local authority is free to make its own borrowing decisions according to what it can afford. The Executive decided in March 2004 (Paper No.04-232) not to undertake borrowing but to apply instead non-right to buy housing receipts and HRA reserves including the annual major repairs allowance to finance the HRA capital programme. However, central government support for borrowing through HRA subsidy continues to be given on the basis of the historical amount of supported capital expenditure approved by Government, although no new allocation has been received since 2005/06. A gap had therefore established between the subsidised level of debt of £106 million and the actual debt, which in 2007/08 stood at £47 million. When the possibility arose that the reform of council housing finance might redistribute national housing debt using actual debt rather than subsidised debt as a starting point, action was taken in the 2008/09 accounts to finance £26 million of that year's capital spend from internal borrowing rather from capital receipts and the Major Repairs Reserve, in order to mitigate incurring extra debt. Whilst the risk has receded and subsidised debt now appears to be recognised by CLG as the fair starting point for redistribution the HRA business plan allows for a further year of internal borrowing in 2009/10 to align the two debt figures. The internal borrowing will be reversed as soon as the reform proposals have been resolved.

(d) Major Repairs Allowance. The Government introduced an annual formula-based allowance for major repairs in 2001/02 based on its estimate of the long run cost to maintain different property 'archetypes' of age and build, which assume the property starts in good condition. In the interests of stability, the Determination has deferred changes to base costs of the archetypes, but a regional factor reflecting relative building cost inflation in London has been allowed through. The Council's major repairs allowance for 2010/11 is therefore £16.374 million, which is £129,000 more than the inflated amount that had been expected in the November business plan.

2. The net result of these factors is that negative subsidy is increased from £21.623 million in 2009/10 to £23.490 million in 2010/11.
3. The maximum average rent eligible for rent rebate subsidy (the 'limit rent') was £96.80 in 2009/10. In parallel with the guideline rent the 'limit rent' is uplifted first by -0.9% representing negative inflation of 1.4% plus a 0.5% assumed real-terms increase. The uplifted figure is further increased by one third of the difference between this uprated 'limit rent' and the assumed 'formula rent' referred to in paragraph 1(a) above. The resulting 'limit rent' for 2010/11 is £98.86 representing an increase of £2.06 or 2.1% over 2009/10. The difference of £1.46 in the increase in the guideline rent not covered by increase in the 'limit rent' will add £832,600 to HRA costs in 2010/11. From 2006/07, the cost of rent rebate housing benefit is now fully charged to the General Fund, however the cost of subsidy limitation (£7.038 million in 2009/10) is paid over by the HRA to the General Fund to make good the shortfall in housing benefit subsidy against actual housing benefits granted.

## COUNCIL HOUSING

### **HRA Estimates and Business Plan**

4. HRA Estimates and Business Plan. The table below sets out the estimated position on the HRA, including the Housing Major Repairs Reserve, from 2009/10 to 2012/13, reflecting current policies, the Government's latest subsidy determinations and the approved capital programme before additions as presented to the Housing Overview and Scrutiny Committee in January. The estimates allow for the actual level of inflation in the current year. The 2010/11 estimates reflect estimated outturn prices for that year assuming inflation on pay of 1%. Inflation on running costs is assumed at 2.2% and the average interest rate to be 1.45%. The additional cost of anticipated inflation during 2010/11 is estimated to be £1.435 million. The financial effect of a 1% variation in the level of pay and prices in 2010/11 is estimated to be £694,900. Future years' estimates of the HRA and Housing Major Repairs Reserve are at outturn prices. Average rent increases to match those in Government guideline rents are assumed for 2011/12 and 2012/13, reflecting the HRA business plan, but no increase is yet included for 2010/11.

## COUNCIL HOUSING

	<u>Original</u> <u>Budget</u> <u>2009/10</u> £'000	<u>Revised</u> <u>Budget</u> <u>2009/10</u> £'000	<u>Budget</u> <u>2010/11</u> £'000	<u>Budget</u> <u>2011/12</u> £'000	<u>Budget</u> <u>2012/13</u> £'000
<b><u>EXPENDITURE</u></b>					
<b><u>REVENUE</u></b>					
Supervision, Management and Maintenance					
Repairs & Maintenance	25,718	25,875	26,309	26,534	27,195
General Management	31,572	31,289	30,929	31,773	32,663
Special Services	13,287	12,327	13,059	13,346	13,680
Rent Rebates	6,956	7,038	5,671	6,513	7,466
Capital Financing Costs	2,488	2,229	2,119	1,956	1,783
Other Expenses	773	1,003	1,000	1,026	1,055
HRA Subsidy Payable	37,734	37,495	39,864	45,083	46,559
	(118,528)	(117,256)	(118,951)	(126,231)	(130,401)
<b><u>CAPITAL</u></b>					
Repairs and Improvements	32,847	26,862	27,073	10,030	758
Purchase of Properties	50	50	50	-	-
Portable Discounts	450	725	725	-	-
Roehampton Regeneration Project & Wider Non-Derogation Leases	3,272	100	3,233	-	-
	(36,619)	(27,737)	(31,081)	(10,030)	(758)
	<b>155,147</b>	<b>144,993</b>	<b>150,032</b>	<b>136,261</b>	<b>131,159</b>
<b><u>INCOME</u></b>					
<b><u>REVENUE</u></b>					
Gross Rents – Dwellings	98,507	95,490	95,385	99,160	102,195
Gross Rents – Non-Dwellings	3,311	3,193	3,202	3,282	3,364
Mortgage Interest	38	38	20	10	5
Leaseholder Service Charges	12,401	12,324	12,264	12,575	12,893
Other Income	10,908	10,587	10,259	9,521	9,528
	(125,165)	(121,632)	(121,130)	(124,548)	(127,985)
<b><u>CAPITAL</u></b>					
Government Major Repairs Allowance	15,872	15,872	16,374	16,764	17,165
Capital Receipts	6,935	-	10,226	19,747	2,039
Leaseholder Major Works Charges	2,579	2,579	2,476	1,623	173
Borrowing	-	25,158	-	-	-
	(25,386)	(43,609)	(29,076)	(38,134)	(19,377)
	<b>150,551</b>	<b>165,241</b>	<b>150,206</b>	<b>162,682</b>	<b>147,362</b>
Total reserves at beginning of year	145,576	160,895	181,377	181,785	156,536
Appropriation from Insurance Reserve	234	234	234	234	234
Repayment of Internal Borrowing	-	-	-	(51,904)	-
Total reserves at end of year	141,214	181,377	181,785	156,536	172,973

## COUNCIL HOUSING

5. The table shows that reserves before decisions on rents and additions to the capital programme would rise to £172.973 million at 31st March 2013, on the assumptions outlined in paragraph 4 above. The 30-year HRA business plan reported previously in November 2009 (Paper No. 09-986) provides an overview of HRA trends for the coming years, though it involves a raft of assumptions that could give different results if varied. That business plan shows that planned HRA expenditure would remain affordable over the remaining term of the 30-year plan with reserves now estimated at £68.760 million, equivalent to £24.891 million in present value terms, uncommitted after 30 years based on the recommendations in this report. However, virtually all of this is restricted to capital expenditure within the Major Repairs Reserve. The position shown graphically at Appendix C assumes guideline increases from 2010/11 onwards and takes into account the draft HRA subsidy announcements, updated cash flows on capital programme schemes and the additions to the capital programme approved by the Executive, including the effect of adopting an average reduction in charges of £1.10 per week resulting from a rent decrease of £3.50 per week and further unpooling of service charges of £2.40. All these have been accommodated without taking the HRA revenue projection into deficit.

### PROPOSALS FOR EXPENDITURE

#### Management and Maintenance

6. The annual notional allowances for HRA subsidy purposes in 2010/11 are equivalent to £2,496 per dwelling. Without the transitional protection expected to end in 2010/11 the allowances are just £2,304 per dwelling. The estimates in paragraph 4 above show actual management and maintenance unit costs of £3,086 after adjusting for service charges. The difference is equivalent to £10.326 million. Expenditure and notional allowances at broadly these levels have been anticipated in the HRA business plan and it is not proposed to vary these budgets now, although this is one element that must be kept under review to ensure the long-run viability of the business plan.

#### Major Works

7. The HRA estimates have been based on the current cash flows for the approved capital programme adjusted for slippage. On existing policies, the finance for the HRA capital programme comes from:
  - (a) Government grants, especially the formula-based major repairs allowance introduced in 2001/02, at a sum of £16.374 million for 2009/10 (compared to £15.872 million in 2008/09). In addition the Council successfully bid for £8.065 million of funds for the installation of cavity wall insulation in Council dwelling, to be spent by the end of 2010/11;
  - (b) the HRA and Housing Major Repairs Reserve mentioned in paragraphs 4 and 5 above, insofar as these are available; and
  - (c) for 2010/11 it was agreed to again temporarily substitute internal borrowing for these sources of funding, as referred to in paragraph 1(c).
8. In accordance with the HRA business plan, the Director of Housing proposed additions to the capital programme. The resulting capital programme is shown in summary and detail in Appendix D. The additional cost to the HRA, net of amounts which should be charged to leaseholders, is estimated at £23.836 million in 2011/12 and 2012/13. The total additional amount which would be chargeable to leaseholders is £4.920 million. The actual amount

recharged to leaseholders in their service charge bills is subject to consultation and will depend on the incidence of spending on these major works on different housing properties.

## PROPOSALS FOR INCOME

### Duty to Review Rents

9. Section 24 of the Housing Act 1985 empowers the Council to "make such reasonable charges as they may determine for the tenancy or occupation of their houses", and requires the Council to "from time to time review rents and make such changes, either of rents generally or of particular rents, as circumstances may require". In so doing, Members should of course bring to bear their own knowledge and experience of the Borough and of needs of Council tenants, and may properly consider other information on such matters as current Government rent policy, inflation on prices and income, the eligibility of tenants for housing benefit, and private sector rents.

### Non-Dwelling Property Charges

10. The proposed non-dwelling property charge increases also considered by the January meeting, representing 1.3% inflation uplift, have been reflected in the increased income levels for 2010/11.

### Rent levels

11. The current average weekly rent, excluding tenant service charges, for the 17,293 dwellings is £108.24. The rent level assumed in the notional HRA for subsidy purposes is £92.37. Average rents in other London boroughs currently range from £68.43 to £96.51 but are expected to increase generally in April. The Rent Officer currently sets, for housing benefit purposes, Local Housing Allowances for the level of rent allowance payments to be made to tenants in the private rented sector. In Wandsworth these currently range from £96 for a bedsit to £623 for 5+ bedrooms. The average weekly rent in the private sector upon which housing benefit (including homelessness provision) has been assessed has increased from £159.30 in December 2008 to £175.37 in December 2009, but is still significantly higher than the average rent charged to Council tenants.

### Rent increases

12. Each 10 pence average rent increase is estimated to yield £89,920 additional rent in 2010/11 but give rise to additional rebate entitlement of £58,980 producing net income of £30,940. Around 68% of tenants are entitled to rebate and will be fully compensated for any rent increase. The increase in rent nationally which has been assumed for the purpose of HRA subsidy is 3.1%. In Wandsworth this would imply an increase of £3.36 per dwelling/week. Normally, the guideline rent increase is set to cover inflation plus an annual half percent real terms increase, together with an equal step towards the Government's higher formula rent target. This last stage varies for each authority so the percentage guideline rent increase is similarly variable. This year, however, the Government has fixed the guideline increase at its tolerance level for affordability (3.1%) and has reduced the number of steps to achieve convergence with the formula rent as the balancing factor. On this basis convergence would be achieved in 2012/13, compared with the original ten-year target of 2011/12. The effect is to reduce the addition for assumed convergence with formula rent to £4.43 compared with £0.97 prior to the revision. The combined subsidy loss for both inflation and convergence is £3.52 per dwelling/week. To restore the previous year's relationship between

## COUNCIL HOUSING

rents and prices would require a rent decrease of £0.85 per dwelling/week (-0.78%) and to restore that between rents and earnings would require an increase of £1.39 per dwelling/week (+1.28%). The Council noted both the increase in negative subsidy as a result of the guideline rent increase and the inflation freeze on management allowances despite the evidence of underfunding accepted in the Government's consultation document on the reform of council housing finance. The arguments for further unpooling of service charges and the rent decrease that that would permit are compelling, given the Government's intention to legislate to extend regulation to include an enforceable rent standard. The Determination sets the parameters for 2010/11 subsidy only and Ministers have given no commitments for the future while they address the long-term future of the housing subsidy system and the Director of Housing will need to continue to identify efficiencies wherever possible. An average net decrease in charges of £1.10 was therefore considered appropriate taking all relevant matters into account.

### Rent Distribution

13. Previously, legislation required the Council "to have regard to the principle that the rents of houses of any class or description should bear broadly the same proportion to private sector rents as the rents of houses of any other class or description". This legislation has been repealed by the Local Government Act 2003, but has still not been replaced with any mandatory instruction on rent setting. Accordingly, the Council's rents policy remains that rents are set in the same proportion to the open market rental value of each dwelling, currently based on a full valuation carried out during 2004. The table below shows how full implementation of the latest valuations would move the pattern of council rents closer to that of private rents:-

#### AVERAGE RENTS AS INDEX NUMBERS IN RELATION TO 2-BEDROOM AVERAGE

	<u>Index Numbers for Current Council Rents</u>	<u>Index Numbers for Proposed Council Rents</u>	<u>Index Numbers for Private Rents 2004</u>
1 Bedroom	81	82	83
2 Bedroom	100	100	100
3 Bedroom	132	131	130
4+ Bedroom	155	155	166

14. Members have been informed previously of a Government policy statement published in December 2000 envisaging convergence of rent structures for all social housing landlords originally over a ten-year period but now extended by one year to 2012/13, from the original target of 2011/12, and reflected in a corresponding adjustment to HRA subsidy. The basis of rent restructuring advocated by the Government involves setting rents for every dwelling according to a standard formula – the 'formula rent' - so that:

- 30% of each property's rent is based on its value relative to the national average;
- 70% is based on average earnings in the local county relative to the national average;
- a bedroom factor is applied so that smaller properties have lower rents;
- rent 'caps' limit the maximum weekly rent, ranging from £85 for a bedsit to £100 for a four-bedroom or larger property; and
- there are rent 'limits' to ensure that no tenant's rent changes by more than £2 per week above inflation plus 0.5%.

The former ODPM originally deferred decisions on an interim review of rent restructuring which recognised that the policy was “causing excessive compression of the rent differences between properties of different sizes” although Ministers subsequently implemented the review proposals in full from 2006/07 onwards, with some increase in ‘rent caps’ for larger properties. The 2009/10 formula rent of £106.02 has been uplifted by 0.5% in real terms and then deflated by 1.4% to produce a target formula rent in 2010/11 of £105.07.

15. Members have previously been advised that the Government’s preferred ‘formula rent’ approach would reduce the rent differentials between properties of varying sizes reversing the effect of Section 162 of the 1989 Act described above and that until the statutory position changes the Government policy statement must be disregarded. The repeal of the previous legislation by the 2003 Act has not been replaced by any statutory basis for adopting ‘formula rents’. Given the adverse redistributive effects of the ‘formula rent’ the Executive have agreed that the existing basis of open market rental values should continue unless the Council is specifically directed by legislation to adopt an alternative methodology.
16. For existing tenants, the effect of the rent increase in 2009/10 was limited to a maximum increase of 8% for any existing tenant. Rent levels were subject to no decreases except where necessary to achieve a transfer that substantially reduces under-occupation of a larger property or where there would be different rents for almost identical properties in the same location as a result of changes in valuation from time to time and the rate at which the rents of such properties move towards the valuation rent. In such limited circumstances it has been agreed that the Director of Finance, in conjunction with the Director of Housing, be authorised to harmonise rents at the lower level. Where the maximum percentage increase has been applied, the higher valuation rent is brought into effect on any change of tenancy following vacation. The table below summarises the effects of the net average £1.10 decrease, allowing no individual increases. The 68% of tenants in receipt of Housing Benefit will see a corresponding adjustment to their entitlement while they remain on benefit.

Summary of distribution of net Rent Decrease  
with average of £1.10 per week, no increases  
(equivalent to an average decrease of £0.87 per week)

<u>Bedrooms</u>	<u>Average Increase</u>		<u>Total Dwellings</u>
	<u>£</u>	<u>%</u>	
Bedsit	-0.57	-0.9	1,005
1	-0.69	-0.8	4,561
2	-0.89	-0.8	6,453
3	-1.13	-0.8	4,200
4	-0.77	-0.5	998
5+	-0.85	-0.4	76
Total	-0.87	-0.8	17,293

## **COUNCIL HOUSING**

### **SERVICE CHARGES**

17. Individual service charges for tenants were introduced from 2004/05 on an equivalent calculation for leaseholders, but restricted to charges for cleaning in blocks, communal electricity in blocks and the hire of paladins. A review of tenant service charges in 2009/10 has led to the further unpooling of charges from the rent including garden maintenance, block entrycall, communal aerials and cleaning of the estates to be introduced with effect from the 5th April 2010. All service charges, new or existing, are deemed to be a notional element of the rent, which will continue to be calculated in the usual way.

### **HRA BUDGET FRAMEWORK**

18. The table in paragraph 4 covers the number of years that the Council considered appropriate for the HRA budget framework, when adopting the current constitution in September 2001, but rolls it forward for another year. Appendix B within these pages sets out a framework that reflects the proposals approved by the Housing Overview and Scrutiny Committee on 19th January 2010 and all subsequent budget virements and any budget variations already approved by the Executive for 2010/11. The 30-year HRA business plan provides an overview of HRA trends for the coming years and the latest forecast of reserves is shown graphically at Appendix C. The plan involves a raft of assumptions that could give different results if varied but currently assumes guideline rent increases and takes into account latest estimates of revenue spend and capital spending in line with the stock condition survey. The framework shown at Appendix B, and the HRA business plan similarly updated (Appendix C), demonstrates that the Council is in a strong position to finance future expenditure plans and to achieve and maintain the decent homes standard, with Major Repairs Reserves of £111.904 million, equivalent to £40.509 million in present value terms, uncommitted after 30 years. However, all of this is restricted to capital expenditure within the major repairs reserve and the position for HRA revenue expenditure remains finely balanced.

**DECISIONS MADE**

19. Having considered the foregoing information the Executive recommended and the Council subsequently approved:
- a) that the capital programme additions be adopted;
  - b) that the Director of Housing be authorised to serve notices upon tenants of HRA dwellings to change rents with effect from Monday 5th April 2010, making an average decrease of £1.10 per dwelling/week, distributed in accordance with the latest valuations, but with no decrease below the revised target rent for a dwelling;
  - c) that the further service charges identified be deemed a notional element within total rent, separately identified in bills, but leaving the combined charge and individual tenant entitlement to Housing Benefit unaffected;
  - d) that the estimates shown in Appendix B to the report for the HRA for the financial years 2009/10 to 2012/13 be adopted as the HRA budget framework, subject to any variations subsequently approved by the Executive within the overriding restriction that the HRA reserves shown for 31st March 2013 should not be forecast by the Director of Finance to reduce by more than £10 million.

These decisions are reflected in the statutory statement of the Council's Housing Revenue Account proposals, shown as Appendix A to this section.

## COUNCIL HOUSING

### APPENDIX A

#### HOUSING REVENUE ACCOUNT ESTIMATES FOR 2010/11

Under s.76(8) of the Local Government and Housing Act 1989, the Council is required to prepare a statement of its proposals for the Housing Revenue Account for each year. The proposals for 2010/11 were contained within papers considered by the Executive on 25th January 2010, subsequently endorsed by the Council on 3rd February 2010 and shown in the proceeding pages of this book. As a result of those decisions, the estimates for the Housing Revenue Account for the year 2010/11 are as follows:

<b><u>HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT</u></b>	<b><u>£'000</u></b>
<b>Income</b>	
Gross Rents - Dwellings	93,079
- Non-Dwellings	3,202
Charges for Services and Facilities	21,491
<b>Total Income</b>	<b><u>117,772</u></b>
<b>Expenditure</b>	
Repairs and Maintenance	25,559
Supervision and Management	48,219
Rents, Rates, Taxes and Other Charges	163
Rent Rebates	3,897
Depreciation and Impairment of Fixed Assets	16,374
Increase in Bad Debt Provision	856
Negative Housing Revenue Account Subsidy Payable	23,490
<b>Total Expenditure</b>	<b><u>118,558</u></b>
<b>Net Cost of HRA Services as Included in the Whole Authority Income and Expenditure Account</b>	<b>786</b>
HRA Services Share of Corporate and Democratic Core	1,209
<b>Net Cost of HRA Services</b>	<b>1,995</b>
<b>HRA Share of the Operating Income and Expenditure Included in the Whole Authority Income and Expenditure Account</b>	
Interest Payable and Similar Charges	1,118
Interest and Investment Income	(2,492)
Pensions Interest Cost and Expected Return on Pension Assets	275
<b>(Surplus)/deficit for the year on HRA Services</b>	<b>896</b>

<b><u>STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE</u></b>	<b><u>£'000</u></b>
(Surplus)/deficit for year on the HRA Income and Expenditure Account	896
<b>Additional items required by statute and non-statutory proper practices to be taken into account in determining the movement in the Housing Revenue Account Balance</b>	
HRA share of contributions to or from the Pensions Reserve	955
Capital Expenditure funded by the Housing Revenue Account	(6,729)
HRA share of the Minimum Revenue Provision	1,000
HRA share of Insurance Provision	(234)
<b>(Increase)/decrease in the Housing Revenue Account Balance</b>	<b>(4,112)</b>
<b>Housing Revenue Account balance b/fwd</b>	<b>(80,337)</b>
<b>Housing Revenue Account balance c/fwd</b>	<b>(84,449)</b>

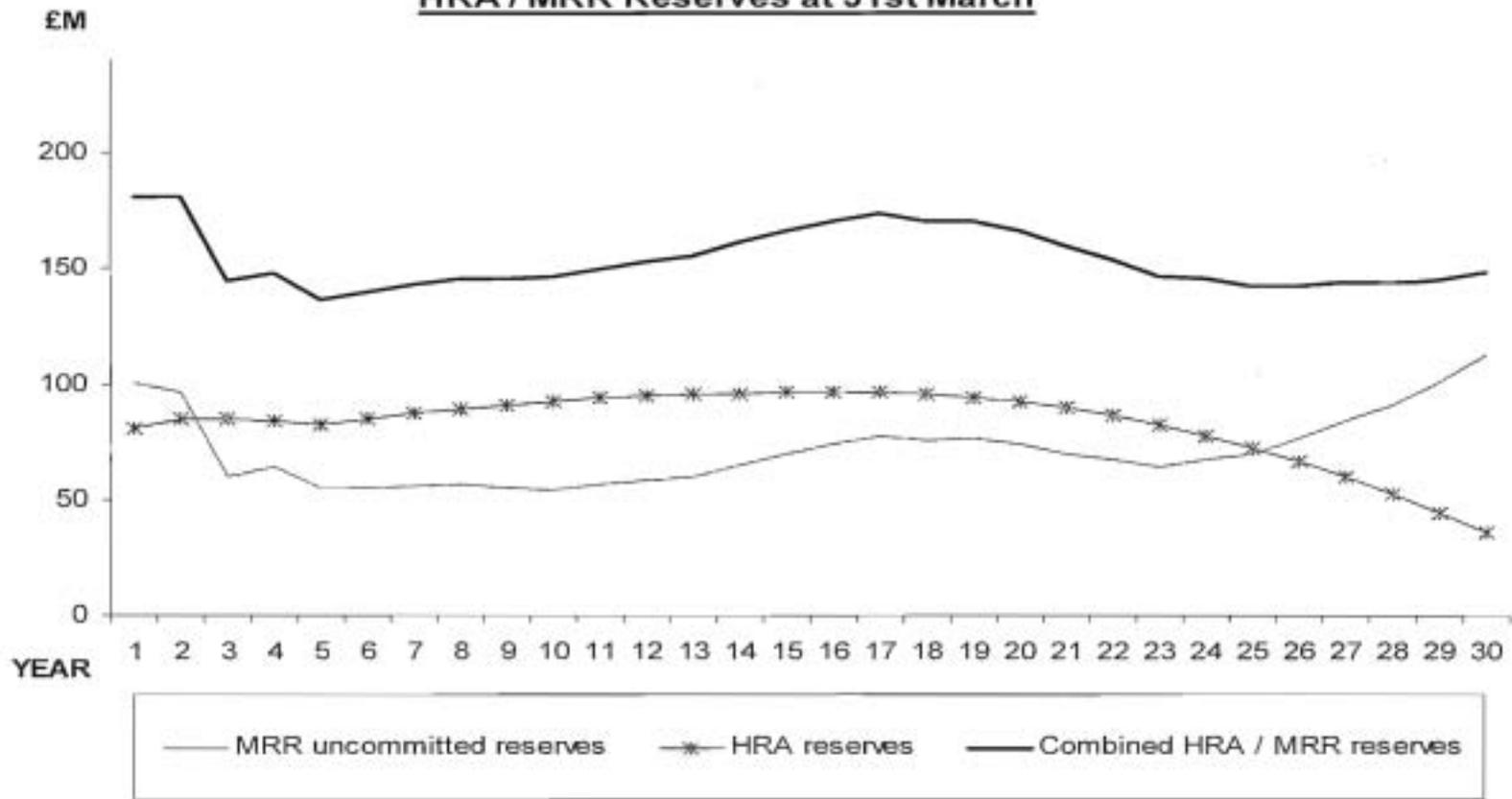
# COUNCIL HOUSING

## APPENDIX B

### COUNCIL HOUSING BUDGET FRAMEWORK

	<u>Original</u> <u>Budget</u> 2009/10 £'000	<u>Revised</u> <u>Budget</u> 2009/10 £'000	<u>Budget</u> 2010/11 £'000	<u>Budget</u> 2011/12 £'000	<u>Budget</u> 2012/13 £'000
<b><u>EXPENDITURE</u></b>					
<b><u>REVENUE</u></b>					
Supervision, Management and Maintenance					
Repairs & Maintenance	25,718	25,125	25,559	25,784	26,445
General Management	31,572	31,289	30,870	31,695	32,585
Special Services	13,287	12,327	13,059	13,346	13,680
Rent Rebates	6,956	7,038	3,897	4,433	5,388
Capital Financing Costs	2,488	2,229	2,119	1,956	1,783
Other Expenses	773	1,003	1,019	1,045	1,074
HRA Subsidy Payable	37,734	37,495	39,864	45,083	46,559
	(118,528)	(116,506)	(116,387)	(123,342)	(127,514)
<b><u>CAPITAL</u></b>					
Repairs and Improvements	32,847	31,701	31,799	23,691	19,869
Purchase of Properties	50	50	100	50	-
Portable Discounts	450	725	725	750	-
Roehampton Regeneration Project & Wider Non-Derogation Leases	3,272	100	3,233	-	-
	(36,619)	(32,576)	(35,857)	(24,491)	(19,869)
	<b>155,147</b>	<b>149,082</b>	<b>152,244</b>	<b>147,833</b>	<b>147,383</b>
<b><u>INCOME</u></b>					
<b><u>REVENUE</u></b>					
Gross Rents – Dwellings	98,507	95,490	93,080	96,142	99,111
Gross Rents – Non-Dwellings	3,311	3,193	3,202	3,282	3,364
Mortgage Interest	38	38	20	10	5
Leaseholder Service Charges	12,401	12,324	12,264	12,575	12,893
Other Income	10,908	9,837	11,699	11,040	11,153
	(125,165)	(120,882)	(120,265)	(123,049)	(126,526)
<b><u>CAPITAL</u></b>					
Government Major Repairs Allowance	15,872	15,872	16,374	16,764	17,165
Capital Receipts	6,935	-	7,000	18,312	3,474
Capital Reimbursements	-	4,839	5,403	1,452	-
Leaseholder Major Works Charges	2,579	2,579	2,771	3,058	3,692
Borrowing	-	25,158	-	-	-
	(25,386)	(48,448)	(31,548)	(39,586)	(24,331)
	<b>150,551</b>	<b>169,330</b>	<b>151,813</b>	<b>162,635</b>	<b>150,857</b>
Total reserves at beginning of year	145,576	160,895	181,377	181,180	144,312
Appropriation from Insurance Reserve	234	234	234	234	234
Repayment of Internal Borrowing	-	-	-	(51,904)	-
Total reserves at end of year	141,214	181,377	181,180	144,312	148,020

### HRA 30 Year Business Plan HRA / MRR Reserves at 31st March



# COUNCIL HOUSING

## APPENDIX D

### CAPITAL PROGRAMME

	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>
	£'000	£'000	£'000
<u>SUMMARY</u>			
REPAIRS AND IMPROVEMENTS TO DWELLINGS			
Major Refurbishment of Estates	18,014	16,232	12,036
Re-Lifting	194	2,614	404
Re-Wiring	1,093	830	441
Heating Improvements	1,913	1,348	2,371
Heating Repairs	771	4,662	2,728
Special Repairs	1,133	1,222	1,100
Sheltered Housing	4,000	273	583
Adaptations for the Disabled	950	1,050	1,050
Entrycall/CCTV	1,443	2,583	1,180
Environmental/Estate Improvements	100	300	100
Hidden Homes	2,090	685	1,698
	<hr/>	<hr/>	<hr/>
	31,701	31,799	23,691
PORTABLE DISCOUNTS	725	725	750
PURCHASE OF PROPERTIES	50	100	50
ROEHAMPTON REGENERATION PROJECT AND WIDER NON-DEROGATION LEASE ISSUES	100	3,233	-
	<hr/>	<hr/>	<hr/>
TOTAL	32,576	35,857	24,491

**SECTION 5**  
**GENERAL CAPITAL BUDGETS**

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This section includes the review of the financing of the Council's General Capital Programme 2009/10 to 2011/12, approved by the Executive on 10th March 2010.

Capital Financial Controllers:

Adult Care Services:	Susan Brown Tel: 020-8871 6506
Children and Young People's Services:	Matthew Rowe Tel: 020-8871 8041
Corporate Resources:	Nick Fidler Tel: 020-8871 6499
Environment and Leisure:	Brian Skelton Tel: 020-8871 7969
Housing:	Mark Davies Tel: 020-8871 6502
Planning and Transportation:	Katherine Burston Tel: 020-8871 6505
Regeneration and Community Safety:	Katherine Burston Tel: 020-8871 6505
Treasury Management/Capital Accountant:	John Steer Tel: 020-8871 7589

## **CAPITAL RESOURCES (GENERAL)**

### **Financing the Programme**

1. The Council's ability to finance capital spending is restricted only by its own view on affordability, subject to the Government's possible imposition of limits on local authority borrowing for macro-economic reasons.
2. The potential sources of finance for the Council's capital expenditure are: -
  - (a) grants and reimbursements earmarked for particular schemes or services, and obtained only on condition that a corresponding addition is made to the programme;
  - (b) Government capital grants not earmarked for particular schemes or services;
  - (c) realisation of investments of usable capital receipts and reserves;
  - (d) borrowing; and
  - (e) contributions from Council revenue accounts.
3. Not all of these resources are currently relevant, however. Borrowing is financially disadvantageous compared with the alternative of investment realisation, as long as the Council has substantial investments available for this purpose - except in the limited circumstances of 'spend-to-save' schemes in schools. Moreover, the Government has the powers to impose a national limit on local authorities' borrowing, and has not yet confirmed its intentions, even for 2010/11. So borrowing could not be relied upon to finance a medium-term capital programme, currently. Contributions from Council revenue accounts are rarely available because of the impact on council tax, although £4.9 million is being financed from the Renewals Fund in the current year.
4. Currently then, the major sources of finance for the Council's capital expenditure are grants and realisation of investments. These are discussed in more detail below.

## **Capital Grants**

5. Capital grants are often given for specific projects but, occasionally, grants are unearmarked as "Supported Capital Expenditure (Capital) Single Capital Pot". However, there currently appears to be no prospect of the Government issuing wholly unearmarked grants, and grants continue to be earmarked for particular schemes or services.
6. Grants and reimbursements expected to support the programme over the three years exceed £42.5 million. The most significant are Government grants for education schemes totalling around £29.6 million. Other major sources of funds are Transport for London grant of £6.5 million, and renovation grants of £3.1 million.

## **Realisation of Investments**

7. The amount of the Council's investments at any time reflects daily variations in routine cashflows as well as capital spending, debt redemption, and new capital receipts. The overall outlook for investments is reviewed in the context of the treasury management policy (see pages 21 to 27). The Council's Treasury Management Strategy for 2010/11 shows total investments expected to be around £318 million by 31st March. But these relate almost entirely to current liabilities and to General Fund reserves for contingencies and specific purposes. The only investments available specifically for financing the general capital programme are those arising from the capital receipts, which are neither payable to the Government nor used within the Housing Revenue Account and specific elements within the renewals fund which were previously set aside to finance capital projects.
8. The Council had usable capital receipts in hand amounting to £32.3 million at the start of 2009/10. Forecast capital receipts include the estimates of sales of Council dwellings, based on existing policies, of 34 in 2009/10, 30 in 2010/11 and 25 in 2011/12, and the sale of hidden homes to Notting Hill Trust Housing Association estimated at £2.2 million in 2009/10. Also included are estimates relating to sales of sites already identified as surplus, amounting to £7.6 million in 2009/10, £13.1 million in 2010/11, and £0.4 million in 2011/12. The estimates for total receipts are shown in the table in the General Capital Budget Framework on the next page.
9. Regulations require part of housing capital receipts to be paid to the Government: 75% for dwelling sales and 50% for other sales of HRA assets, such as land. The Council takes full advantage, however, of the exemption for receipts other than proceeds from Right-to-Buy disposals that are earmarked to finance the cost of "the provision of affordable housing and regeneration". The estimates for receipts paid to the Government and used for affordable housing and regeneration are also shown in the table in the General Capital Budget Framework.

## GENERAL CAPITAL BUDGET FRAMEWORK

10. The table below compares the estimated capital grants and receipts with the capital payments to be financed. The £32.3 million usable receipts at the start of 2009/10 after decreasing to £27.6 million by the end of 2009/10 will decrease further to £19.2 million at the end of 2010/11 and then fall to £15.3 million by the end of 2011/12.

	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>
	£'m	£'m	£'m
<b>Usable Capital Receipts at start of year</b>	32.3	27.6	19.2
Add: Grants and reimbursements	15.5	19.1	8.1
Add: Renewals Fund	4.9	0.7	0.1
Add: New capital receipts	18.7	20.8	6.6
Less: Capital receipts paid to Government	- 1.6	- 1.6	- 1.2
Less: Capital receipts for affordable housing	- 6.6	- 15.8	- 4.9
Less: Total General Capital Payments (after slippage)	- 35.6	- 31.6	- 12.6
<b>Usable Capital Receipts at end of year</b>	<u>27.6</u>	<u>19.2</u>	<u>15.3</u>

11. The table in paragraph 10 forms part of the revised general (non-HRA) capital budget framework adoption by the Council. In view of the adverse trend signalled in paragraph 10, the overall pressures on council tax in the next few years and the £0.9 million net financing requirement for this programme in 2012/13, it is proposed that the discretion be limited to a net figure of about £5.3 million, i.e. the forecast usable capital receipts at 31st March 2012 must not fall below £10.0 million. The additional full year annual impact of such a reduction would be equivalent to about £0.45 on band D council tax.

### **Revenue Effects**

12. Capital payments have no revenue effect to the extent that they are financed by capital grant, provided that the grant is not significantly delayed. Payments financed by the realisation of investments entail loss of interest on those investments. While the Council is expected to remain at the formula Grant "floor" for the foreseeable future, the Government support for capital spending through the Formula Grant system offers no benefit.
  
13. The revenue effects, based on the loss of investment interest at the current budgeted rate, of the revised General Capital Programme shown in the table in paragraph 10 have a full annual impact of £0.502 million, equivalent to £4.02 band D council tax.

SUMMARY OF GENERAL CAPITAL PROGRAMME 2009/10 - 2011/12

	<u>2009/10</u> £'000	<u>2010/11</u> £'000	<u>2011/12</u> £'000
<u>ADULT CARE SERVICES</u>			
Adult Care Services	395	712	229
	<hr/>	<hr/>	<hr/>
	395	712	229

CHILDREN AND YOUNG PEOPLE'S SERVICES

Secondary Education	411	1,627	-
Primary Education	2,587	8,871	5,634
Special Schools and Other Schemes	2,831	2,282	-
Integrated Children's Centres	742	1,302	-
Other Education Funded Schemes	3,285	5,481	2,055
Integrated Youth Services	132	127	400
Playgrounds/Play Services	1,070	1,062	-
Children's Specialist Services	77	52	-
	<hr/>	<hr/>	<hr/>
	11,135	20,804	8,089

CORPORATE RESOURCES

Administrative Buildings	2,647	1,558	590
IT Services	477	-	-
Property Services	4,777	25	25
	<hr/>	<hr/>	<hr/>
	7,901	1,583	615

ENVIRONMENT AND LEISURE

Leisure Centres and Sports Services	67	222	-
Libraries and Heritage Services	3,559	111	-
Parks and Open Spaces	1,790	30	-
Bereavement Services	3	-	-
Environmental Services	25	-	-
	<hr/>	<hr/>	<hr/>
	5,444	363	-

SUMMARY OF GENERAL CAPITAL PROGRAMME 2009/10 - 2011/12

	<u>2009/10</u> £'000	<u>2010/11</u> £'000	<u>2011/12</u> £'000
<u>HOUSING</u>			
Loans to Leaseholders	50	50	50
Renovation Grants	3,418	1,070	-
	<u>3,468</u>	<u>1,120</u>	<u>50</u>
 <u>PLANNING AND TRANSPORTATION</u>			
Highways Services	7,878	5,066	2,623
Planning Services	187	140	100
	<u>8,065</u>	<u>5,206</u>	<u>2,723</u>
 <u>REGENERATION AND COMMUNITY SAFETY</u>			
Economic Development Programme	476	750	310
Community Safety	245	30	30
	<u>721</u>	<u>780</u>	<u>340</u>
 <u>TOTAL CAPITAL PROGRAMME</u>	 <u>37,129</u>	 <u>30,568</u>	 <u>12,046</u>

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