

Report to Council

24 FEBRUARY 2010

LEADER

*Councillor Stephen
Greenhalgh*

**REVENUE BUDGET AND COUNCIL TAX
LEVELS 2010/11**

**WARDS
All**

This report sets out proposals in respect of the revenue budget for the Council for 2010/11 including Council Tax levels, and deals with the precept from the Greater London Authority (GLA), together with ancillary issues.

CONTRIBUTORS

All Departments

Recommendations:

1. To note the Council Tax decrease, for the Hammersmith & Fulham element, of 3% for 2010/11. For planning purposes, there will be no change for 2011/12 and 2012/13.
2. The Council Tax be set for 2010/11 for each category of dwelling, as calculated in accordance with Sections 30 to 47 of the Local Government Finance Act 1992, as outlined below and in full in Appendix A:
 - (a) The element of Council Tax charged for Hammersmith & Fulham Council will be £811.78 per Band D property in 2010/11.
 - (b) The element of Council Tax charged by the Greater London Authority will be £309.82 per Band D property in 2010/11.
 - (c) The overall Council Tax to be set will be £1,121.60 per Band D property in 2010/11.

Category of Dwelling	A	B	C	D	E	F	G	H
Ratio	6/9 £	7/9 £	8/9 £	1 £	11/9 £	13/9 £	15/9 £	18/9 £
a) H& F	541.19	631.38	721.58	811.78	992.18	1,172.57	1,352.97	1,623.56
b)GLA	206.55	240.97	275.40	309.82	378.67	447.52	516.37	619.64
c)Total (Draft)	747.74	872.35	996.98	1,121.60	1,370.85	1,620.09	1,869.34	2,243.20

3. **The Council's own total net expenditure budget for 2010/11 is set as £184.345m**
4. **That fees and charges are approved as set out in paragraph 5.1.**
5. **That the Director of Finance and Corporate Services' budget projections to 2012/13 be noted.**
6. **That the Director of Finance and Corporate Services' statements under Section 25 of the Local Government Act 2003 regarding adequacy of reserves and robustness of estimates be noted (paragraphs 6 and 7).**
7. **That the Director of Finance and Corporate Services be authorised to collect and recover National Non-Domestic Rate and Council Tax in accordance with the Local Government Finance Act 1988 (as amended), the Local Government Finance Act 1992 and the Council Schemes of Delegation.**
8. **That all Chief Officers be required to report monthly on their projected financial position compared to their revenue estimates (as part of the Corporate Monitoring Report).**
9. **That all Chief Officers be authorised to implement their service spending plans for 2010/11 in accordance with the recommendations within this report and the Council's Standing Orders, Financial Regulations and relevant Schemes of Delegation.**

1 BACKGROUND

- 1.1 The Council is obliged by legislation to set a balanced budget. It also has responsibility to set the Council Tax every year in accordance with the Local Government Act 1992.
- 1.2 The calculation of the Council Tax is made up from the following elements:
- the recommended net Council budget for 2010/11 (sections 2 to 7);
 - the Aggregate External Support estimated by the Council (section 8);
 - the Council Tax base set at Council on 27 [January 2010](#) (section 9);
 - the precept notified by the Greater London Authority (section 10).
- 1.3 The requisite calculation for the Council's share of the Council Tax is set out in **Appendix A**.

2 INFLATION AND OTHER ADJUSTMENTS

- 2.1 In general, in order to contain growth, no inflation has been applied except where there is a contract in place. In 2009/10, the Council faced exceptional cost increases regarding certain non-contract items, such as energy or food and additional growth of £0.421m was provided for within the MTFS. These increases have proved to be short-lived and growth has not been required for future years. This position will be kept under review. Sensitivity analysis has been undertaken to review the impact on the Council should the current inflation assumptions be exceeded. Such impacts have been identified as a risk and are set out in **Appendix E**.
- 2.2 No additional inflation has been built into the 2010/11 salary budgets as they are considered adequate at the current level. The Government in its Pre-Budget Report 2009 has set out a public sector pay cap of 1% for two years from 2011 although it is not clear how this will operate for local government. At this point, it has been decided not to hold a pay inflation contingency for later years, but to increase the general contingency instead. This is because the uncertainty around the future economy makes it impossible to predict how financial pressures will manifest. The only certainty is that there will be pressures.
- 2.3 The last Actuarial Valuation, undertaken in 2007, required a 1% increase in the Employer's Pension Contribution rate for 2010/11. A new valuation report has been commissioned for March 2010, the results of which will be available next autumn. Any further changes to pension contribution rates will be applicable from 2011/12.
- 2.4 From 2006/07 funding for schools transferred to a ring-fenced, Dedicated Schools Grant (DSG). The Department for Children, Schools and Families is responsible for determining each local authority's 'Dedicated Schools Budget' (DSB) – the amount spent locally on schools and other services for pupils. Local

authorities can opt to top-up such funding through additional contributions. The change to direct government funding of schools has required LBHF to exclude the DSB from the Council's budget requirement.

3 GROWTH

- 3.1 In the course of the budget process departments have identified areas where additional resources are required. Additional requirements are summarised in **Appendix C** and summarised in Table 1 below for 2010/11.

Table 1

	£000s
Children's Services	1,515
Community Services	840
Environment Services	200
Finance and Corporate Services	2,157
Residents Services	2,037
Corporate Items	3,693
Total Growth	10,442

- 3.2 The economic slow down had a significant impact on Council budgets for 2009/10. In particular, the down turn in the property market led to a significant reduction in forecast income for services such as Building Control. The Council's current budget strategy assumes that the impact of the recession will not be on-going beyond 2010/11.
- 3.3 The revenue monitoring reports for 2009/10 have identified areas of spending pressures. The most significant relates to the increase in demand faced by Children's Services following the Baby Peter case. New growth of £1.0m has been set aside from 2010/11 onwards to address this cost increase.
- 3.4 The financial environment in which the Council operates has become more challenging. There is still uncertainty surrounding the current year spending pressures and the impact of the recession. Departments have identified a number of risks for future years (Appendix E).
- 3.5 In addition, the outlook for public finances in general is bleak with public borrowing now forecast to be £178bn in 2009/10. In the recent Pre-Budget Report, the Chancellor of the Exchequer forecast that public spending will increase by an average rate of 0.8% between 2011 and 2015. The increase for local government will be less than that average given that the Government has confirmed its commitment to deliver real terms increases for health, defence and education. Some commentators are already predicting cash reductions for local government. The current MTFS model assumes that there is no increase in formula grant from 2011/12. However, there is a significant concern that there will be a reduction in funding and this has been identified as a risk (Appendix E).

4 EFFICIENCY SAVINGS AND INCOME GENERATION

- 4.1 A key priority of the Council is the delivery of high quality value for money services at the lowest possible cost. The aim is for Hammersmith and Fulham to be the most efficient council in the country.
- 4.2 In order for the Council to deliver its key priorities a wide range of efficiency savings are being implemented by departments. These are detailed, along with income generating measures, in **Appendix D** and summarised in Table 2 below for 2010/11:

Table 2

	£000s
Children's Services	2,165
Community Services	3,604
Environment Services	3,516
Finance and Corporate Services	1,870
Residents Services	1,562
Corporate Items	580
Total Savings and Income Generation	13,297

5 FEES AND CHARGES

- 5.1 The 2010/11 budget has been prepared on the basis of an average 2% increase in income budgets. This is lower than the 5% assumed for the last three years. Where fees and charges have been increased by a rate other than 2%, except when the increases are set by statute, details are provided in **Appendix G**. The total income due to be collected (excluding Parking) will be approximately £40m of which £9m relates to income from residents.

6 REVENUE BALANCES, RESERVES AND PROVISIONS

- 6.1 The Council's general reserves stood at £14.8m as at 1st April 2009 and it is currently projected that £2.8m will be drawn down in the current financial year. This will leave approximately £12.0m in general reserves at year end, which represents 6.5% of the current budget requirement. In 2009/10, the Council has implemented a budget recovery plan to minimise the impact of emergent spend pressures. It is expected that this will reduce the current planned drawdown from reserves. At present, there are no proposals to increase the reserves in 2010/11.
- 6.2 Under Section 25 of the Local Government Act 2003, the Director of Finance and Corporate Services is required to include in budget reports a statement of her view of the adequacy of the reserves the budget provides for.

- 6.3 The Council's budget requirement for 2010/11 is in the order of £184.3m. Within a budget of this magnitude there are inevitably areas of risk and uncertainty. The key financial risks that currently face the Council have been identified and quantified. They are set out in Appendix E and amount to £9.6m. The Council has in place rigorous budget monitoring arrangements and a policy of restoring balances once used.
- 6.4 The Director of Finance and Corporate Services considers that this combined approach enables an optimal level of balances to be set at between £12-£15m. This optimal level is projected to be broadly met over the next 3 years and is, in the Director of Finance and Corporate Service's view, sufficient to allow for the risks identified and to support effective medium term financial planning. This range is £2m higher than that identified as part of the 2008/09 Budget Report (£11m-£13m). This higher optimal range reflects the Council's need to set aside sufficient resources to mitigate some of the risk associated with current economic conditions and uncertainty over future funding levels.

7 THE BUDGET REQUIREMENT

- 7.1 The relevant Service Directors and Cabinet Members, in conjunction with the Director of Finance and Corporate Services have considered the detail of the individual estimates. Under Section 25 of the Local Government Act 2003, the Director of Finance and Corporate Services is required to include in budget reports a statement of her view of the robustness of the estimates for 2010/11 included in the report.
- 7.2 For the reasons set out below the Director of Finance and Corporate Services is satisfied with the accuracy and robustness of the estimates included in this report:
- The budget proposals have been developed following guidance from the Director of Finance and Corporate Services and have been through a robust process of development and challenge.
 - Contract inflation is provided for.
 - Adequate allowance has been made for the increase in pension costs
 - Service managers have made reasonable assumptions about growth pressures.
 - Mechanisms are in place to monitor sensitive areas of expenditure and the delivery of efficiency savings.
 - Key risks have been identified and considered.
 - Procedures are in place to capture and monitor procurement and corporate savings.
 - Prudent assumptions have been made about interest rates and the budget proposals are joined up with the requirements of the prudential code and Treasury Management Strategy.

- The revenue effects of the capital programme have been reflected in the budget.
- The recommended increases in fees and charges are in line with the assumptions in the budget.
- The corporate contingency has been increased to reflect the uncertainty surrounding the economy and its impact on the Council.

7.3 The Director of Finance and Corporate Service's projection of the budget requirement for the Council in the medium term to 2012/13 is set out in Appendix B and summarised in Table 3 for 2010/11:

Table 3

	£000s
2009/10 Original Budget	185,764
One off Contribution to General Reserves in 2009/10	(1,337)
<i>Plus</i>	
Inflation	2,119
Growth	10,442
Contribution to General Contingency	654
<i>Less</i>	
Efficiency Savings and Income Generation	(13,297)
Net Council Budget 2010/11	184,345

8 EXTERNAL FUNDING

8.1 A three-year Settlement was announced from 2008/09. 2010/11 is the final year of this settlement and the Council will receive Formula Grant of £120.922m – an increase of 1.5% from 2009/10.

Table 4

	£000s
Revenue Support Grant	15,332
Redistributed Non-Domestic Rates	105,590
Total 2010/11 Formula Grant	120,922
Prior Year Collection Fund Deficit	(750)
Total External Support	120,172

- 8.2 Hammersmith and Fulham is a 'floor' authority and has received the national minimum in grant funding for each year of the existing 3-year settlement. The main reason why this authority is a 'floor' authority is that the Government have removed social care damping from the formula. Back in 2006/07 changes were made to the formulae for social services. The changes were bad news for London and, following representation, separate damping arrangements were introduced that provided some protection. The formulae have now been implemented in full. London Boroughs have consistently argued that these formulae are flawed and not fit for purpose. The removal of the damping makes it likely that this Council will be a floor authority for the foreseeable future. For example, were the floor not operating in 2010/11, this Council's Formula Grant allocation would be £26m lower.
- 8.3 The Government has abandoned the expected 2009 Comprehensive Spending Review (CSR). The CSR represents a long-term and fundamental review of government expenditure and sets out departmental allocations, including those for local government, for the next three years. In the absence of the CSR funding allocations beyond 2010/11 are subject to significant uncertainty. The expectation is that local government faces a lengthy period of spending restraint and a freeze in formula grant is currently assumed beyond 2010/11.
- 8.4 In 2008/09 a number of specific grants were replaced by a new general grant, Area Based Grant (ABG), which is usable for any purpose. The Council has put in place innovative arrangements for use of this funding to be approved in consultation with the Hammersmith and Fulham Primary Care Trust and Metropolitan Police. In 2010/11, the Council's ABG allocation is £22.6m. This includes funding of £11.47m for Supporting People, which has been directly passported to Community Services. As part of the Council's ABG process it was agreed that some schemes would be incorporated with the Council's mainstream service plans and challenged via the MTFs process. Other schemes would be subject to an annual bidding process and these are set out in summary in **Appendix H**. All allocations agreed to date are included within departmental revenue estimates.
- 8.5 The Local Government and Finance Act 1988 requires that all council tax and non-domestic rates income is paid into a Collection Fund, along with payments out regarding the Greater London Authority precept, the national pool for non-domestic rates and the contribution towards a Council's own General Fund. The recession has impacted on recovery rates and the level of council tax income collected has been lower than anticipated. A deficit of £0.750m is now forecast regarding the Collection Fund and allowance for this is made in the prior year adjustment shown in Table 4. A contribution will be received from the Greater London Authority regarding their share of the deficit.

- 8.6 A reformed Local Authority Business Growth Incentive (LABGI) Scheme is now in operation. It allows London boroughs to gain some benefit from the growth in business rate income across the London region. Hammersmith and Fulham received a grant allocation of £0.245m in 2009/10 and a similar sum is expected for 2010/11. The Council uses the LABGI award to help fund the Council's regeneration agenda.

9 COUNCIL TAX BASE

- 9.1 The Council has formally agreed a Tax Base of 79,052 equivalent Band D properties for 2010/11. Therefore the Council's element of the Council Tax can be calculated as follows:

$\frac{\text{Total Budget Requirement}}{\text{Tax Base}} = \frac{\text{£184.345m} - \text{£120.172m}}{79,052} = \text{£811.78}$

- 9.2 This represents a decrease of £25.11 or 3% in respect of the Council's own Band D Council Tax (2.2% on the overall Council Tax bill).

10 PRECEPTOR'S COUNCIL TAX REQUIREMENTS

- 10.1 The Greater London Authority's precept of £24.492m also has to be funded from Council Tax. The following table analyses the total amount to be funded and the resulting overall Band D Council Tax level.

$\frac{\text{Preceptors Budget Requirement}}{\text{Tax Base}} = \frac{\text{£24.492m}}{79,052} = \text{£309.82}$
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- 10.2 For a second year this represents no change from the 2008/09 Council Tax level.

11 OVERALL COUNCIL TAX REQUIREMENTS 2010/11 AND 2011/12

- 11.1 It is proposed to decrease Hammersmith and Fulham's element of the Council Tax by 3% in 2010/11 in order to provide a balanced budget in year with £12m-£15m in current reserves. The overall amount to be funded from the Council Tax is calculated as follows:

Table 5

	£000s
London Borough of Hammersmith & Fulham	184,345
Greater London Authority	24,492
<u>Less</u>	
External Support	(120,172)
Total Requirement for Council Tax	88,665

- 11.2 In accordance with the Local Government Finance Act 1992, the Council is required to calculate and approve a Council Tax for its own budgetary purposes (section 9) and then add the separate Council Tax requirements for each of the preceptors (section 10).
- 11.3 It must then set the overall Council Tax for the Borough. These calculations have to be carried out for each of the valuation bands A to H, and are set out in the recommendations at the front of the report. The amount per Band D equivalent property is calculated as follows:

<u>Total Budget Requirement</u>	=	<u>£88.665m</u>	=	£1,121.60
Tax Base		79,052		

- 11.4 In 2009/10 the overall amount per Band D equivalent property was £1,146.71. The decrease of £25.11 (2.2%) can be explained as follows:

Table 6

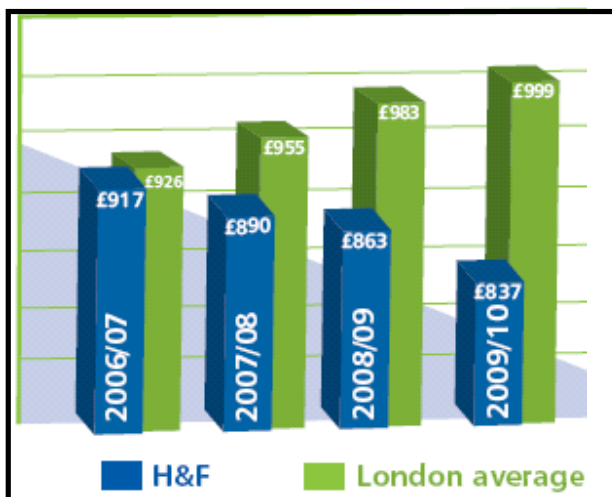
	2009/10 Band D	2010/11 Band D	Change From 2009/10
	£	£	£
Hammersmith & Fulham	836.89	811.78	(25.11)
Greater London Authority	309.82	309.82	0
Total	1,146.71	1,121.60	(25.11)

- 11.5 The robust forward financial plans set out in the Council's MTFs has enabled an indicative Council Tax figure to be provided for 2011/12. It is planned that it remain at the 2010/11 level of £811.78. For 2012/13 planning purposes, the Director of Finance and Corporate Services has again assumed no change to the 2010/11 Council Tax level.
- 11.6 The current Band D Council Tax charge is the 4th lowest in London. The proposed 2010/11 budget will enable a fourth successive 3% decrease to be delivered. Table 7 sets out the changes in the Band D charge for the Hammersmith and Fulham element of Council Tax since 2002/03. The proposed Band D charge for 2010/11 is the lowest charge since that approved for 2002/03. Table 8 sets out a comparison against the average London Borough.

Table 7

	Band D Hammersmith and Fulham Element	Change	Change
	£	£	%
2002/03	772.41	0	0
2003/04	848.49	+76.08	+9.85
2004/05	890.07	+41.58	+4.90
2005/06	903.42	+13.35	+1.50
2006/07	916.97	+13.55	+1.50
2007/08	889.45	-27.52	-3.00
2008/09	862.77	-26.68	-3.00
2009/10	836.89	-25.88	-3.00
2010/11	811.78	-25.11	-3.00
2011/12 (for planning purposes)	811.78	0	0.00

Table 8 – Comparison Against Other Boroughs



While Council Tax in Hammersmith & Fulham has reduced by 9% from 2006/07 to 2009/10, the London average has risen by 8% over the same period. This represents a cash saving of £320 for Hammersmith & Fulham residents against the average Borough increase from 2006/07 to 2009/10.

12 CONSULTATION WITH NON DOMESTIC RATEPAYERS

- 12.1 In accordance with the Local Government Finance Act 1992, the Council is required to consult with Non Domestic Ratepayers on the budget proposals. The consultation can have no effect on the Business Rate, which is set by the Government.
- 12.2 As with previous years, we have discharged this responsibility by writing to the twenty largest payers and the local Chamber of Commerce together with a copy of this report.

13 COMMENTS OF THE SCRUTINY COMMITTEES

- 13.1 As part of the Scrutiny process each department's estimates have been reviewed by a relevant Scrutiny Committee. Verbal Comments from the Scrutiny Committees were received by Cabinet at the meeting on 8 February 2010. However, in the absence of any written comments, there is no **Appendix F** to this report.

14 COMMENTS OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES

- 14.1 These are contained within the body of this report.

15 COMMENTS OF ASSISTANT DIRECTOR (LEGAL AND DEMOCRATIC SERVICES)

- 15.1 The Council is obliged to set the Council Tax and a balanced budget for the forthcoming financial year in accordance with the provisions set out in the body of the report.
- 15.2 In addition to the statutory provisions the Council must also comply with general public law requirements and in particular it must take into account all relevant matters, ignore irrelevant matters and act reasonably and for the public good when setting the Council Tax and budget.
- 15.3 The recommendations contained in the report have been prepared in line with these requirements.
- 15.4 Section 25 of the Local Government Act 2003, which came into force on 18 November 2003, requires the Director of Finance to report on the robustness of the estimates made for the purposes of budget calculations and the adequacy of the proposed financial reserves. The Council must take these matters into account when making decisions about the budget calculations.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Brief Description of Background Papers	Name/Ext. of holder of file/copy	Department
1.	Revenue Budget 2010/11	Andrew Lord Ext. 2531	Finance and Corporate Services Town Hall
2.	Formula Grant Papers 2010/11	Andrew Lord Ext. 2531	Finance and Corporate Services Town Hall
3.	Finance and Corporate Services Budget Papers	Dave Lansdowne Ext. 2549	Finance and Corporate Services Town Hall
4.	Community Services Budget Papers	Mark Jones Ext 5006	Community Services Department 77 Glenthorne Road
5.	Children's Services Budget Papers	Dave McNamara Ext. 3404	Children's Services Department Cambridge House
6.	Housing Revenue Account Budget Papers	Mark Jones Ext 5006	Community Services Department 77 Glenthorne Road
7.	Residents Services Budget Papers	Gary Hannaway Ext 3031	Residents Services Department 77 Glenthorne Road
8.	Environment Services Budget Papers	Dave McNamara Ext. 3404	Environment Department Town Hall Extension

APPENDIX A

The Requisite Calculations for Hammersmith & Fulham (as set out in Sections 36 to 36 of the Local Government Finance Act 1992)

		<u>£000s</u>
(a)	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.	692,114
(b)	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.	507,769
(c)	being the amount by which the aggregate at (a) above exceeds the aggregate at (b) above, calculated by the Council in accordance with Section 32 (4) of the Act, as its budget requirement for the year.	184,345
(d)	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, or additional grant, (in accordance with section 33 (1) decreased 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 (i.e. Council Tax Deficit). (i.e. Aggregate External Support plus Council Tax adjustments).	(120,172)
(e)	being the amount at (c) above less the amounts at (d) above, calculated by the Council in accordance with Section 33 (1) of the Act	64,173
(f)	being the amount at (c) above less the amount at (d) above all divided by the amount in Section 8 of the report, calculated by the Council, in accordance with Section 33 (1) of the Act, as the Basic Amount of its Council Tax (Band D) for the year i.e. $\frac{\pounds(c)k - \pounds(d)k}{\text{Amount Section 9}}$	811.78

(g) Valuation Bands – Hammersmith & Fulham Council:

Band A	Band B	Band C	Band D
541.19	631.38	721.58	811.78
Band E	Band F	Band G	Band H
992.18	1,172.57	1,352.97	1,623.56

being the amounts given by multiplying the amount at (f) above by the number which, in 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 that proportion is applicable to dwellings listed in 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 dwellings listed in the different valuation bands.

(h) Valuation Bands – Greater London Authority

That it be noted that for the year 2009-10, the following amounts in precepts issued to the Council in respect of the Greater London Authority, its functional and predecessor bodies, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below:

Band A	Band B	Band C	Band D
206.55	240.97	275.40	309.82
Band E	Band F	Band G	Band H
378.67	447.52	516.37	619.64

(i) That having calculated the aggregate in each case of the amounts at (g) and (h) above, the Council, in accordance with Section 30 (2) of the Local Government Finance Act 1992, hereby sets the following amounts of Council Tax for the year 2009-10 for each of the categories of dwellings shown below:

Band A	Band B	Band C	Band D
747.74	872.35	996.98	1,121.60
Band E	Band F	Band G	Band H
1,370.85	1,620.09	1,869.34	2,243.20