



# Cabinet

7 FEBRUARY 2011

**LEADER**

*Councillor Stephen Greenhalgh*

**REVENUE BUDGET AND COUNCIL TAX LEVELS 2011/12**

**Wards  
All**

This report sets out proposals in respect of the revenue budget for the Council for 2011/12 including Council Tax levels, and deals with the precept from the Greater London Authority (GLA), together with ancillary issues.

**CONTRIBUTORS**

All Departments

**HAS A EIA BEEN COMPLETED?  
YES**

**HAS THE REPORT CONTENT BEEN RISK ASSESSED?  
YES**

**Recommendations:**

1. To note the Council Tax freeze for the Hammersmith & Fulham element for 2011/12. For planning purposes, there will be no change for 2012/13 and 2013/14.
2. That the Council Tax be set for 2011/12 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 2011/12.
  - (b) The element of Council Tax charged by the Greater London Authority will be £309.82 per Band D property in 2011/12.
  - (c) The overall Council Tax to be set will be £1,121.60 per Band D property in 2011/12.

<b>Category of Dwelling</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>
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
<b>c)Total (Draft)</b>	<b>747.74</b>	<b>872.35</b>	<b>996.98</b>	<b>1,121.60</b>	<b>1,370.85</b>	<b>1,620.09</b>	<b>1,869.34</b>	<b>2,243.20</b>

3. That the Council's own total net expenditure budget for 2011/12 be set as £189.289m
4. That fees and charges be approved as set out in paragraph 4.4.
5. That the Director of Finance and Corporate Services' budget projections to 2013/14 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 (section 13).
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 2011/12 in accordance with the

**recommendations within this report and the Council's Standing Orders, Financial Regulations and relevant Schemes of Delegation.**

- 10. That Members note S106 of the Local Government Finance Act 1992 which requires any Member who is two months or more in arrears on their Council Tax to declare their position and not to vote on any issue that could affect the calculation of the budget or Council Tax.**

## 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 2011/12 (sections 2 to 6);
  - the Aggregate External Support estimated by the Council (section 7);
  - the Council Tax base set at Council on 26<sup>th</sup> January 2011 (section 8);
  - the precept notified by the Greater London Authority (section 9).
- 1.3 The requisite calculation for the Council's share of the Council Tax is set out in **Appendix A**.

## 2. BUDGET OVERVIEW

- 2.1 Last year, Britain's fiscal deficit was the largest in its peacetime history – the state borrowed one pound for every four that it spent. The Coalition Government came to power in May 2010 with a policy of accelerating the response to the deficit in the public finances. In June in-year savings of £6.2bn were announced. Local government's share was £1.16bn of which Hammersmith and Fulham's revenue grant reduction, excluding schools, amounted to £2.3m. The Local Government Finance Settlement (LGFS) announced on 13<sup>th</sup> December 2010 confirmed that the Coalition Government aim to tackle this deficit (£81bn) over the next four years. For local government, excluding schools, this means an average funding reduction of 8.5% in 2011/12 and 28.5% by 2014/15. For Hammersmith and Fulham, as a grant 'floor' authority the funding reduction is even greater. Formula Grant will fall by 11.3% in 2011/12 and by a further 7.4% the year after.
- 2.2 The LGFS 2010 did not just set financial targets. Radical changes were announced regarding the local government finance system with 90 specific grant funding streams reduced to just 9. Only 1 ring-fenced grant remains – the dedicated schools grant. These changes not only require the council to account for such resources in a different way but also represent a shift in power away from central government. A greater proportion of resources can now be allocated in line with local priorities.
- 2.3 The budget proposals now presented address these twin challenges. The Council is playing its part in tackling the fiscal deficit whilst focusing available resources on key local priorities. Front-line services and council tax payers are protected as far as possible (**a council tax freeze is proposed for 2011/12, following a 3% reduction each year over the last 4 years**) with a continued emphasis on value for money. A number of new cross-cutting transformational projects are to be taken forward both within the Council and with other partners – such as

collaborative working with the Royal Borough of Kensington and Chelsea and City of Westminster.

- 2.4 The scale of the financial challenge facing the Council is summarised in Appendix B. **Savings of nearly £27m are required to balance the budget in 2011/12 (12% of the Base Budget)**. This savings requirement increases to £64.2m by 2013/14 (29% of the Base Budget).
- 2.5 It is against this demanding background that the Council's revenue budget proposals are now presented to Council for approval.

### 3. THE BUDGET REQUIREMENT

- 3.1 The Director of Finance and Corporate Service's medium term projection of the Council budget requirement to 2013/14 is set out in Appendix B and summarised in Table 1 for 2011/12.

**Table 1: The Budget Requirement**

	<b>£000s</b>
<b>2010/11 Original Budget</b>	<b>184,345</b>
Add: Grant Funded Expenditure now Mainstreamed ( <i>para 4.1 refers</i> )	39,059
Less: Adjustment made for Economic Slowdown	(850)
<b>2010/11 Adjusted Budget</b>	<b>222,554</b>
<i>Plus</i>	
Inflation ( <i>para 4.2 refers</i> )	2,721
Growth	11,797
Unallocated core revenue grant ( <i>para 4.1 refers</i> )	2,409
<i>Less</i>	
Efficiency Savings and Income Generation	(26,709)
Net Drawdown from Earmarked Reserves ( <i>para refers</i> )	(3,342)
<b>Gross Council Budget 2011/12</b>	<b>209,430</b>
<i>Less</i>	
Core Revenue Grants (unringfenced)	<b>(20,141)</b>
<b>Budget Requirement</b>	<b>189,289</b>
<b>Funded From:</b>	
Formula Grant ( <i>para 7.1 refers</i> )	(124,510)
Council Tax ( <i>section 8 refers</i> )	(64,779)
	<b>(189,289)</b>

3.2 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 2011/12 included in the report. This statement is set out section 13.

#### **4. BUDGET ASSUMPTIONS**

4.1 **Grant Expenditure Now Mainstreamed.** The Local Government Finance Settlement has provided for a significant devolution of financial control to councils. The number of separate core grants has reduced from over 90 to just 9 with just 1 ringfenced grant, dedicated schools grant – which is excluded from the Council's budget requirement, remaining in 2011/12. A new public health grant will also be ringfenced but the timing and amount of this is not yet confirmed. The transition from the old system to the new system is quite complex.

- Some grants have been rolled into formula grant.
- Some grants have been rolled into the new core revenue grants.
- Some funding streams have stopped or appear to have increased.
- The position of some grants is not yet clear.

4.2 The latest known position is set out in Appendix F. Excluding the ring-fenced Dedicated Schools Grant (DSG), overall grant funding is estimated to have reduced by £23m from 2010/11 to 2011/12 – of which £7m is Specific and Area Based Grant funding (ABG) . Expenditure of £39m, which was previously funded through Area Based Grant (ABG), or from one of the new unringfenced core revenue grants, is now under local control and is mainstreamed within the budget requirement.

4.3 **Inflation.** In order to contain growth, no inflation has been applied except where there is a contract in place. A pay freeze is expected and no inflation has been built into the 2011/12 salary budgets. It has also been decided not to hold an inflation contingency for future pay awards 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. Current inflation is above the long-term government target and sensitivity analysis has been undertaken to identify the potential impact should this be on-going. This is identified as a risk in Appendix E

4.4 **Fees and Charges.** The budget has been prepared on the basis of an average 2% increase in fees and charges. Exceptions to the average 2% inflationary uplift are detailed in Appendix G.

- 4.5 **Pensions.** The funding position of the pension fund is measured by the Council's actuary every three years and the Council has now received the draft actuarial valuation results for 31st March 2010. The funding level has increased from 70% to 74% over the three year period from 31st March 2007 to 31st March 2010 and this has enabled the Council to maintain its current employer contribution rate of 24.7% for the next three years without need for further increases. The valuation report is currently still in draft and will not be signed off by the actuary until 31st March 2011, as it is possible that the government may announce changes to the local government pension scheme which could affect the valuation. Any changes would most likely improve the position on the pension fund further.
- 4.5 **Net Drawdown from Earmarked Reserves.** At the close of 2009/10 the Council had earmarked reserves of £32m. It is now proposed that £3.3m be drawn down as part of the 2011/12 budget. This relates to a reserve set aside for the transition from the Area Based Grant (ABG) regime. This is no longer required following the abolition of ABG. £1.97m will also be drawn down, from a planned underspend and other balances, to meet Adult Social Care Spend pressures. It is intended that use of this funding be one-off with spend pressures addressed as part of next years budget process.

## 5. GROWTH

- 5.1 In the course of the budget process departments have identified areas where additional resources are required. Additional requirements are detailed in **Appendix C** and summarised in Table 2 below for 2011/12.

**Table 2: Growth Proposals**

	<b>£000s</b>
Children's Services	150
Community Services	2,837
Environment Services	0
Finance and Corporate Services	547
Regeneration and Housing	2,313
Residents Services	1,600
Corporate Items (includes post Spending Review growth)	4,350
<b>Total Growth</b>	<b>11,797</b>

- 5.2 Table 3 summarises why budget growth is required

**Table 3: Reasons for Budget Growth**

	<b>£'000s</b>
Council Priorities	1,950
Government	3,753
Other Public Bodies	2,350
Demographic and Cost Pressures	1,719
Redundancy costs	1,500
Other	525
<b>Total Growth</b>	<b>11,797</b>

- 5.3 The main Council priority supported is £1.6m for the on-going provision of extended beat policing in the three town centres. This funding was previously met from earmarked reserves and is now mainstreamed.
- 5.4 £4.1m of growth is directly attributable to government policy. The main increase (£1.96m) relates to the proposed reduction in the cap on rent levels supported by housing benefit. This reduces the income receivable by the council regarding those properties it has rented/leased from landlords to house homeless persons.
- 5.5 £2.5m of growth relates to other public bodies. A significant element relates (£0.6m) to the freedom pass. There are a number of reasons for such growth including a move towards new usage data, changes in government funding and cost increases from the transport operators.
- 5.6 The unprecedented level of savings that the Council is required to deliver will inevitably result in an increased number of redundancies. Whilst action will be taken to keep these to a minimum the Director of Finance and Corporate Services considers it prudent to increase the existing provision, £1.2m, by a further £1.5m.
- 5.7 The financial environment in which the Council operates has become more challenging. Departments have identified a number of risks for future years (Appendix E). These reflect the unprecedented level of savings required to address the fiscal deficit.

## **6. SAVINGS AND INCOME GENERATION**

- 6.1 Over £64m of savings are required to balance the budget over the next 3 years. In bringing forward proposals to meet this challenge the Council has:
- Looked to protect front-line services.
  - Continued to focus on asset rationalisation to reduce accommodation costs and deliver debt reduction savings.
  - Built on previous practice of seeking to deliver the best possible service at the lowest possible cost. Effective budget management is essential.



- Considered thoroughly what benefits can be obtained from commercialisation and competition.
- Recognised that more cross-cutting action is necessary. A number of council wide transformation projects, such as Smart Working, World Class Financial Management and a Business Support Review, have been put in place to deliver savings.
- Taken forward working collaboratively with others. In the past couple of years progress was made regarding integration with the PCT (for which different arrangements now apply). New collaborative working proposals are now proposed with City of Westminster and Royal Borough of Kensington and Chelsea with discussions on-going. Other shared service solutions will be taken forward as and when appropriate.

6.2 The saving proposals put forward are detailed in **Appendix D** with the 2011/12 position summarised in Table 1.

**Table 4: Savings Proposals**

	<b>£000s</b>
Children's Services	6,515
Community Services	6,103
Environment Services	4,802
Finance and Corporate Services	3,876
Housing and Regeneration	923
Residents Services	3,791
Corporate Items	700
<b>Total Savings</b>	<b>26,709</b>

6.3 A categorisation of the savings is shown in Table 5. Posts will need to be deleted and the latest estimate of the reduction in employee numbers is identified. Job losses through redundancy will be kept to a minimum by focusing on vacant posts, controlling recruitment, improving redeployment procedures and releasing agency staff but significant numbers of redundancies are unavoidable. Some savings fit within more than one category – for the purposes of this analysis they are categorised according to the main element.

**Table 5: Analysis of the 2011/12 Savings**

<b>Type of Saving</b>	<b>£'000s</b>
Efficiencies	(4,354)
Staffing / Productivity	(4,801)
Commissioning	(856)
Procurement/Market Testing	(2,841)
Commercialisation / Income	(3,996)
Family Support Services Restructuring	(3,260)
Transformation Projects	(1,936)

Alternative Funding Regimes / Miscellaneous	(1,383)
Reconfiguration/Rationalisation of Services	(911)
Voluntary Sector Grants	(500)
Debt Reduction	(700)
Buildings	(665)
Sharing Services with Royal Borough of Kensington & Chelsea and City of Westminster	(506)
<b>Total</b>	<b>(26,709)</b>
Job Reductions (Full-Time Equivalents)	<b>(339)</b>

## 7. EXTERNAL FUNDING

- 7.1 **Formula Grant.** The Government announced a new 2-year Local Government Finance Settlement starting in 2011/12. The Council will receive Formula Grant of £124.5m – a decrease of £15.9m from the comparable 2010/11 allocation. A comparison against the London and National Position is set out in Table 6.

**Table 6: Formula Grant Decreases**

	2011/12	2012/13
Hammersmith and Fulham	-11.3%	-7.4%
Inner London	-11.2%	-7.4%
Outer London	-11.3%	-7.9%
National Average	-9.9%	-7.3%

- 7.2 Hammersmith and Fulham will be a 'floor' authority for each year of the settlement. In a change from previous years authorities with social services responsibilities have been placed in 4 different 'floor' bands. Those authorities, including this council, that are most dependant on formula grant (ie have the lowest share of their budget requirement funded from council tax) have been placed in Band 1. Hammersmith and Fulham is in Band 1 – formula grant accounts for 66% of the net budget requirement in 2010/11. In comparison, formula grant accounts for 18% of the budget requirement for Richmond LB. Given this low dependency, Richmond LB is in Band 4. The impact on the respective Bands is set out in Table 7.

**Table 7: Floor Bands**

Floor band	2011/12 floor	2012/13 floor
Band 1 (most dependent)	-11.3%	-7.4%
Band 2	-12.3%	-8.4%
Band 3	-13.3%	-9.4%
Band 4 (least dependent)	-14.3%	-10.4%

- 7.3 A consultation paper was issued in the summer on potential changes to the 2011/12 formula grant system. The options put forward largely updated and fine-tuned the existing system. The exception was the use of new data for the Area Cost Adjustment (ACA) – this recognises the higher cost of labour in certain parts of the country – which would disadvantage London. The changes to the ACA have been accepted and Hammersmith and Fulham’s notional formula grant figure is now £30m below the actual grant (previously the figure was £24m below). Were the ‘floor’ arrangements not in place this authority would be £30m worse-off. Unless radical changes are made to the formula grant system this authority will be at the ‘floor’ for the foreseeable future.
- 7.4 The Council continues to press for long term change. The coalition agreement set out plans to undertake a Local Government Resource Review. This is expected to commence in January 2011. Ministers have also indicated that they consider the current formula grant system to lack both clarity and common sense.
- 7.5 **Core Revenue Grants (unringfenced).** Details of the new unringfenced core revenue grants are set out in Table 8. The amount of grant funding was not confirmed until the Local Government Finance Settlement was published and further work is required to fully understand these funding streams. Out of the total grant allocation of £20.1m it is currently proposed that £2.4m be held in a contingency. This will allow the Council more time to properly consider how use of this funding is prioritised.

**Table 8: Core Revenue Grants (unringfenced)**

<b>Grant</b>	<b>Amount</b>	<b>Notes</b>
	<b>£'000s</b>	
Early Intervention Grant	9,429	This is a new grant that is intended to give local areas the freedom and flexibility to invest in early intervention. It is pulled together from a number of old specific grants (such as Sure Start) and ABG.
Learning Disabilities Grant	3,962	This is replacement funding. It reimburses the Council with budgets that have transferred from the PCT.
New Homes Bonus	909 (estimated)	This is new. It rewards Councils where new homes are built by match funding the Council Tax for six years.
Council Tax Freeze Grant	1,619	This is new. It rewards Councils, like this authority, that freeze their 2011/12 council tax levels. The grant is equivalent to a 2.5% increase in 2011/12 council tax.

Housing Benefit and Council Tax Administration Grant	2,288	This grant continues from previous years but is reduced from 2010/11 by £0.151m.
Preventing Homelessness	1,775	This continues from previous years but is £0.5m higher than in 2010/11.
Lead Flood Authority	159	This is new and intended to fund the new roles for the council under the Floods and Water Management Act 2010
<b>Total</b>	<b>20,141</b>	

**Note:** Confirmation is still awaited on the allocation for the PFI grant.

7.6 **Core Revenue Grants (ringfenced).** Funding for schools continues to be provided through ring-fenced Dedicated Schools Grant. The 2011/12 allocation for Hammersmith and Fulham will not be known until June 2012. Significant changes have been made to the funding formula with the inclusion of a new pupil premium for disadvantaged children. The direct government funding of this service requires the Council to exclude it from its budget requirement.

7.7 In summary major changes have been made to the grant regime. Overall external funding, excluding Dedicated Schools Grant, is estimated to have reduced by £23m from 2010/11 to 2011/12.

## 8. COUNCIL TAX BASE

8.1 The Council on 26th January 2011 has formally agreed a Tax Base of 79,799 equivalent Band D properties for 2011/12. Therefore the Council's element of the Council Tax can be calculated as follows:

$\frac{\text{Total Budget Requirement}}{\text{Tax Base}} = \frac{189,289-124,510}{79,799} = \text{£}811.78$
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8.2 This represents no change from the 2010/11 charge.

## 9. PRECEPTOR'S COUNCIL TAX REQUIREMENTS

9.1 The Greater London Authority's precept of £24.723m (agreed on 23rd February 2011) 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.

$\frac{\text{Preceptors Budget Requirement}}{\text{Tax Base}} = \frac{\text{£}24.723\text{m}}{79,799} = \text{£}309.82$
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9.2 For a third year this represents no change from the 2008/09 Council Tax level.

## 10. OVERALL COUNCIL TAX REQUIREMENTS 2011/12 AND 2012/13

10.1 It is proposed to freeze Hammersmith and Fulham's element of the Council Tax in 2011/12 in order to provide a balanced budget in year with £10m-£17m in current reserves (see section 13). The overall amount to be funded from the Council Tax is calculated as follows:

**Table 9**

	<b>£000s</b>
London Borough of Hammersmith & Fulham	189,289
Greater London Authority	24,723
<u>Less</u>	
External Support	(124,510)
<b>Total Requirement for Council Tax</b>	<b>89,502</b>

10.2 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 8) and then add the separate Council Tax requirements for each of the preceptors (section 9).

10.3 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>£89.502m</u>	=	£1,121.60
Tax Base		79,799		

10.4 The Band D charge is unchanged from 2010/11 for the Hammersmith and Fulham element and the Greater London Authority.

- 10.5 The robust forward financial plans set out in the Council's MTFs has enabled an indicative Council Tax figure to be provided for 2012/13. It is planned that it remain at the 2011/12 level of £811.78. For 2013/14 planning purposes, the Director of Finance and Corporate Services has again assumed no change to the 2010/11 Council Tax level.
- 10.6 The current Band D Council Tax charge is the 4<sup>th</sup> lowest in London and the current freeze follows 4 successive 3% decreases. Table 10 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 2011/12 is the lowest charge since that approved for 2002/03.

**Table 10**

	<b>Band D Hammersmith and Fulham Element</b>	<b>Change</b>	<b>Change</b>
	£	£	%
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	811.78	0	0
2012/13 (for planning purposes)	811.78	0	0
2013/14 (for planning purposes)	811.78	0	0

- 10.7 Council Tax in Hammersmith & Fulham has reduced by 11.5% from 2006/07 to 2010/11. This compares to a London average increase of 8% over the same period. This represents a £500 cash saving for Hammersmith & Fulham residents against the average Borough increase from 2006/07 to 2010/11.

## **11. CONSULTATION WITH NON DOMESTIC RATEPAYERS**

- 11.1 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.

- 11.2 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.

## **12. COMMENTS OF THE SCRUTINY COMMITTEES**

- 12.1 As part of the Scrutiny process each department's estimates have been reviewed by a relevant Scrutiny Committee. There are no comments from the Scrutiny Committees.

## **13. COMMENTS OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES**

### **The Robustness of the Budget Estimates**

- 13.1 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 2011/12 included in the report.
- 13.2 Budget estimates are exactly that, estimates of spending and income at a point in time. This statement about the robustness of estimates cannot give a guaranteed assurance about the budget, but gives Members reasonable assurances that the budget has been based on the best available information and assumptions. 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 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 savings.
  - Key risks have been identified and considered.
  - 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 provision for redundancy costs has increased to meet future restructuring and downsizing.
- The use of budget monitoring in 2010 -11 in order to re-align budgets where required
- A review via the Council Executive Management Board of proposed savings and their achievability
- A Member review and challenge of each department's proposals for the budget.

### **Risk, Revenue Balances and Earmarked Reserves**

- 13.3 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 balances and reserves the budget provides for. The level of balances is examined each year along with the level of reserves in light of the risks facing the Authority in the medium term.

### **General Fund Balances**

- 13.4 The Council's general balance stood at £15m as at 1<sup>st</sup> April 2010 and it is currently projected that they will increase by £0.1m the current financial year. This will leave approximately £15.1m in general balance at year end, which represents 8.2% of the current budget requirement.
- 13.5 The Council's budget requirement for 2011/12 is in the order of £189.3m. Within a budget of this magnitude there are inevitably areas of risk and uncertainty and this is particularly true for 2011/12 when a significant reduction is being made in the level of funding available to the council. The key financial risks that currently face the Council have been identified and quantified. They are set out in Appendix E and amount to £10.8m. The Council has in place rigorous budget monitoring arrangements and a policy of restoring balances once used.
- 13.6 Given the unprecedented scale of change in local government funding, the Director of Finance and Corporate Services considers that a wider than normal range needs to be specified for the optimal level of balances. She is therefore recommending that reserves need to be maintained within the range £10m - £17m. This compares to a range of £8m-£9m in 2006/07. The optimal level of £10m-£17m 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.



## **Earmarked Reserves**

13.7 The Council also holds a number of earmarked reserves to deal with anticipated risks and liabilities, and to allow for future investment in priority areas. Reviews are undertaken of the need for, and the adequacy of, each earmarked reserve as part of the budget process and again when the accounts are closed. These are formally reported to the Audit and Pensions Committee in June and September of each year.

## **14. COMMENTS OF THE ASSISTANT DIRECTOR (LEGAL AND DEMOCRATIC SERVICES)**

14.1 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.

14.2 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.

14.3 The recommendations contained in the report have been prepared in line with these requirements.

14.4 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**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext. of Holder of File/Copy</b>	<b>Department/ Location</b>
1.	Revenue Budget 2011/12	Andrew Lord Ext. 2531	Finance Department Room 5 Town Hall
2.	Formula Grant Papers 2011/12	Andrew Lord Ext. 2531	Finance Department Room 5 Town Hall
3.	Finance and Corporate Services Budget Papers	Dave Lansdowne Ext. 2549	Finance Department Room 4 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 and Regeneration Budget Papers	Kathleen Corbett Ext. 3031	Housing and Regeneration Department 77 Glenthorne Road
7.	Residents Services Budget Papers	Kathleen Corbett 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.	624,888
(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.	(435,599)
(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.	189,289
(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).	(124,510)
(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	64,779
(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:

<b>Band A</b>	<b>Band B</b>	<b>Band C</b>	<b>Band D</b>
541.19	631.38	721.58	811.78
<b>Band E</b>	<b>Band F</b>	<b>Band G</b>	<b>Band H</b>
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:

<b>Band A</b>	<b>Band B</b>	<b>Band C</b>	<b>Band D</b>
206.55	240.97	275.40	309.82
<b>Band E</b>	<b>Band F</b>	<b>Band G</b>	<b>Band H</b>
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:

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