

	<p align="center"><b>London Borough of Hammersmith &amp; Fulham</b></p> <p align="center"><b>COMMUNITY SAFETY AND ENVIRONMENT POLICY AND ACCOUNTABILITY COMMITTEE</b></p> <p align="center"><b>29 January 2019</b></p>
<p><b>2019 Medium Term Financial Strategy (MTFS)</b></p>	
<p><b>Report of the Cabinet Member for Finance and Commercial Services</b></p>	
<p><b>Report Status:</b> Open</p>	
<p><b>Classification:</b> For review and comment.</p>	
<p><b>Key Decision:</b> No</p>	
<p><b>Wards Affected:</b> All</p>	
<p><b>Accountable Director:</b> Sharon Lea – Strategic Director of Residents’ Services</p>	
<p><b>Report Authors:</b> <u>Corporate Overview</u> Hitesh Jolapara – Strategic Director, Finance and Governance</p> <p>Emily Hill – Assistant Director, Corporate Finance</p> <p><u>Residents’ Services</u> Christina Cato - Director for Finance and Resources</p>	<p><b>Contact Details:</b> Tel: 020 8753 3145 E-mail: emily.hill@lbhf.gov.uk</p> <p>Tel: 020 8753 1979 E-mail: christina.cato@lbhf.gov.uk</p>

**1. EXECUTIVE SUMMARY**

- 1.1. Cabinet will present their revenue budget and council tax proposals to Budget Council on 27<sup>th</sup> February 2019. A balanced budget will be set in accordance with the Local Government Finance Act 1992.
- 1.2. This report sets out the budget proposals for the services covered by this Policy and Accountability Committee (PAC). An update is also provided on any proposed changes in fees and charges.
- 1.3. The council is entering into the 10<sup>th</sup> year of government-imposed austerity. This year’s reduction in government investment is £3.5m, meaning a total reduction of £73m (a real terms reduction of 59% from government).

- 1.4. Government resource assumptions, that are used to calculate Government grant for the London Borough of Hammersmith & Fulham (LBHF), model the Council increasing council tax by 3% in 2019/20. Council Tax has not increased in LBHF in recent years and was last reduced in 2015/16, bringing it to its lowest level since 2002/03. Over the last four years the Band D charge of £727.81 has reduced by 8.4% in real terms and is 34% lower than the London average of £1,112.
- 1.5. The government has modelled an adult social care precept since 2016/17. Government funding modelling assumes that this has been applied despite LBHF choosing not to apply it over recent budgets. Due to the continued high levels of inflation in the social care market and the Government's continued failure to propose a long-term funding solution to social care funding, for the first time the Council proposes to allow 2% of the government's adult social care levy for 2019/20. This compares to the 8% precept assumed, by the government, over the four years to 2019/20.
- 1.6. In accordance with the administration's policy of keeping the council tax low while protecting and improving services, the Council's budgeted council tax increase is restricted to an inflationary increase of 2.7%. This is pegged to the August 2018 increase in the Consumer Price Index and below the August Retail Price Index increase of 3.5%.

## 2. RECOMMENDATIONS

- 2.1. That the Policy and Accountability Committee (PAC) considers the budget proposals and makes recommendations to Cabinet as appropriate.
- 2.2. That the PAC considers the proposed changes to fees and charges and makes recommendations as appropriate.

## 3. THE BUDGET GAP

- 3.1. The 2018/19 gross General Fund budget<sup>1</sup> is £560m of which the **net budget requirement of £151.8m** is funded from council resources (such as council tax and business rates) and general government grant.

---

<sup>1</sup> Figures exclude capital charges and internal service level agreements. These have a net nil impact on the budget.

**Table 1 - 2018/19 Budget requirement**

<b>Budgeted Expenditure</b>	£'m
Housing Benefit Payments	145
Departmental Budgets	415
<b>Gross Budgeted Expenditure</b>	<b>560</b>
Less:	
Specific Government Grant (including housing benefits and dedicated schools grant)	(272)
Fees and charges	(65)
Contributions (e.g. health, other boroughs)	(49)
Other Income (e.g. investment interest, recharges to the Housing Revenue Account)	(22.2)
<b>Net Budget Requirement</b>	<b>151.8</b>

- 3.2. For 2019/20 the forecast budget gap, before savings, is £10.3m, rising to £48.6m by 2022/23. The budget is based on several key assumptions regarding resources and expenditure.

**Table 2 - Budget Gap Before Savings**

	2019/20	2020/21	2021/22	2022/23
	£'m	£'m	£'m	£'m
<b>Base Budget</b>	<b>151.8</b>	<b>151.8</b>	<b>151.8</b>	<b>151.8</b>
Add:				
- Cumulative Inflation (includes pay)	3.0	8.2	13.4	18.6
- Cumulative headroom	0.0	6.0	12.0	18.0
- Growth	10.8	10.7	10.4	10.4
<b>Budgeted Expenditure</b>	<b>165.6</b>	<b>176.7</b>	<b>187.6</b>	<b>198.8</b>
Less:				
- Government Resources	(15.2)	(10.4)	(9.9)	(9.4)
- Business Rates	(74.2)	(75.6)	(77.1)	(78.6)
- Forecast 2018/19 100% Business Rates Growth Pilot Surplus	(2.0)			
Council Tax & Collection Fund Surplus	(59.4)	(59.8)	(60.4)	(61.0)
Adult Social Care Precept	(1.2)	(1.2)	(1.2)	(1.2)
- Use of Developer Contributions	(3.3) *	(3.3) *	0.0	0.0
<b>Budgeted Resources</b>	<b>(155.3)</b>	<b>(150.3)</b>	<b>(148.6)</b>	<b>(150.2)</b>
<b>Cumulative Budget Gap Before Savings</b>	<b>10.3</b>	<b>26.4</b>	<b>39.0</b>	<b>48.6</b>

\* The Base Budget also includes funding of £1.7m from developer contributions for enhanced policing.

### Budget Assumptions

- 3.3. Grant funding has been cut in each year since 2010/11. The total reduction since April 2010 to April 2019 has been £73m. This is a cash terms reduction of 47% and real terms reduction of 59%. Funding is forecast to reduce by a further 5% per annum from 2020/21 onwards with no continuation of new one-off funding of £4m received in 2019/20.
- 3.4. **An adult social care precept** of 2% is modelled for 2019/20. This will generate additional income of £4.6m over 4 years and £1.15m in the first year. The Council is committed to use such funding to support adult social care. The 2019/20 budget proposals include provision of £4.1m for adult social care spend pressures and inflation. Part of these pressures will be met from increased better care funding grant of £1.8m and winter pressures grant of £0.9m.
- 3.5. **An inflationary Council Tax** increase of 2.7% is modelled for 2019/20. A 2.7% increase will generate additional income of £6.3m over 4 years and £1.56m in the first year. This will add £19.65 per annum (5.4p per day) to the Band D Council tax charge. Council tax will remain the third lowest in the country.
- 3.6. **The business rates system will change** for a third successive year. A rates revaluation in 2017/18 was followed by a pilot 100% rates retention scheme (for any growth in business) for London in 2018/19. Government has decided to reduce this to a 75% retention pilot in 2019/20.

**Table 3 – Business Rates Retention Scheme**

Business Rates Retained:	Proportion of Rates Income		
	2017/18	2018/19	2019/20
Hammersmith & Fulham	30%	67%	48%
Greater London Authority (GLA)	37%	33%	27%
Government	33%	0	25%
	<b>100%</b>	<b>100%</b>	<b>100%</b>

- 3.7. London Local Government worked to take forward a 100% business rates retention pilot for London from April 2018. This pools business rates across the 33 London Boroughs and GLA. Under this arrangement London keeps 100% of any growth in business rates, though business rates valuations and levels are still set by Government. Updated mid-year modelling identifies a one-off benefit to LBHF of £2.0m from the pool and this is included in 2019/20 forecast resources. Final figures will be confirmed in September 2019.
- 3.8. For 2019/20 the government has ended the 100% pilot. London Local Government has negotiated a new pilot however the imposition by

Central government of a 75% pilot will reduce the benefits to the London Boroughs and GLA. Indicative modelling suggests a one-off benefit for LBHF of £1.2m. This modelling is based on an aggregation of high level estimates and before Boroughs have submitted detailed 2019/20 figures. The actual benefit will not be confirmed until September 2020. This sum is not taken account of within the 2019/20 budgeted resources.

- 3.9 Under the 75% pilot LBHF potentially receives a share of London's future business growth. The pilot arrangements also require compensating adjustments in other funding streams.

**Table 4: Changes to 2019/20 Funding Streams from the 75% Business Rates Pilot**

	No-Pilot	With Pilot
Business Rates Baseline	76.9	123.0
Tariff payable to the Government	16.1	45.0
Funding Baseline	<b>60.9</b>	<b>78.0</b>
Revenue Support Grant	17.1	0
<b>Total LBHF Funding</b>	<b>78.0</b>	<b>78.0</b>
<b>Safety net threshold</b>	<b>73.4</b>	<b>74.1</b>

- 3.10 Table 4 sets out the sum assumed (£78.0m) by the Government in the 2019 Local Government Finance Settlement. In recent years the Council has received less than the assumed sum of business rates due to the impact of rating appeals. A safety net threshold is set which guarantees a minimum income to the Council. A further advantage of the pilot is that this threshold is set at a higher level (by £0.7m).
- 3.11 An updated forecast for business rates will be carried out by all boroughs in January 2019. This will provide greater clarity on the LBHF estimate and the potential benefits from the pilot pool arrangements.
- 3.12 The Government are undertaking a 'fair funding' review which will inform the 2020/21 Local Government Finance Settlement. This will impact on how grant and business rates are distributed between authorities. A Green paper is also due on the longer-term funding for adult social care. These changes, combined with current economic uncertainty, add significant risk to the funding forecast beyond 2019/20.
- 3.13 Planning obligations under s.106 of the Town and Country Planning Act 1990 (as amended), known as s.106 agreements, are a mechanism which make a development proposal acceptable in planning terms, that would not

otherwise be acceptable. They are focused on site specific mitigation of the impact of development. Property developments have placed increased pressure on council services in recent years.

- 3.14 Legal tests governing the use of s.106 agreements are set out in regulation 122 and 123 of the CIL Regulations 2010 as amended. The tests are:
- Necessary to make the development acceptable in planning terms;
  - Directly related to the development; and
  - Fairly and reasonably related in scale and kind to the development.
- 3.15 Local planning authorities are required to use the funding in accordance with the terms of the individual planning obligation legal agreement. This will ensure new developments are acceptable; benefit local communities and support the provision of local infrastructure. In LBHF there are three broad categories of s.106 contributions received:
- for a specific purpose defined and described in the s.106 agreement (such as specific highway works)
  - for a general functional purpose defined and described in the s.106 agreement but with geographical constraints (such as provision of community infrastructure in the White City area)
  - for a general purpose defined and described in the s.106 agreement but with no borough geographical constraints (such as economic development, education purposes, community safety initiatives etc).
- 3.16 Provided the Council respects the obligation to maintain a reasonable relationship with the developments and complies with the specific terms of each of the s.106 agreements giving rise to the funds, the Council has a degree of discretion as to how it allocates and spends some of the general purpose funds. The council has analysed all its s.106 agreements to determine funds with general purposes that can be considered for budgeting purposes. As is usual in these circumstances, many areas of Council activity that have faced increased demand following new developments offer a good fit with the purposes of some of the uncommitted s.106 funds which can therefore be lawfully used to finance such activities.
- 3.17 The 2019/20 budget assumes that £3.3m of expenditure will be funded from s.106 resources. In addition, contributions of £1.7m per annum are assumed towards the provision of enhanced policing. The Council has considered the level of general purposes funds available and has forecast s.106 receipts in hand at the end of 2018/19 of £11m. After estimating future receipts and commitments, including 2019/20 budget commitments, £9.6m is forecast to be in hand at the end of 2019/20. The forecasts are based on assumptions around implementation and completion of planning applications, as approved, the expected time of developments commencing and reaching trigger points. Looking further ahead, the level of uncertainty around trigger points increases and forecasts are less certain.

- 3.18 **Inflation.** A pay award of 2% per annum has been modelled. Inflation has also been provided, on a case by case basis, to meet contractual requirements.

## **GROWTH, SAVINGS AND RISKS**

- 4.1 The growth and savings proposals for the services covered by this PAC are set out in Appendix 1 with budget risks set out in Appendix 2.

### **Growth**

- 4.2 Budget growth is summarised by Service Area in Table 5.

**Table 5: 2019/20 Growth Proposals**

<b>Service Area</b>	<b>£'m</b>
Children's Services	3.3
Growth & Place	0.1
Public Services Reform	2.6
Social Care	3.6
Council Wide	0.7
Zero Based Budgeting and Service Redesign	0.5
<b>Total</b>	<b>10.8</b>

### **Savings**

- 4.3 The Council faces a continuing financial challenge due to overall Central Government funding cuts, unfunded burdens, inflation, and demand and growth pressures. The budget gap will increase in each of the next three years if no action is taken to reduce expenditure, generate more income through commercial revenue or continue to grow the number of dwellings and businesses in the borough.
- 4.4 To close the budget gap for 2019/20, savings (including additional income) of £10.3m are proposed.

**Table 6: 2019/20 Savings and Additional Income**

<b>Service Area</b>	<b>£'m</b>
Children's Services	(1.3)
Corporate Services	(0.3)
Finance & Governance	(1.6)
Growth & Place	(0.8)
Public Services Reform	(0.8)
Residents' Services	(2.4)
Social Care	(3.1)
<b>Savings</b>	<b>(10.3)</b>

4.5 The saving proposals are categorised by savings area in Table 7.

**Table 7: Categorisation of Savings and Additional Income**

	<b>2018/19 £'m</b>	<b>2019/20 £'m</b>
Business Intelligence	(0.4)	0.0
Budgets realigned with spend and income	(0.2)	(1.8)
Commercialisation	(3.4)	(0.5)
Estate Rationalisation	(0.1)	0.0
Income	(0.5)	(0.1)
Outside investment secured	(0.1)	0.0
Prevention	(1.6)	0.0
Procurement / Commissioning	(5.1)	(1.6)
Service reconfiguration	(3.1)	(4.1)
Staffing / Productivity	(0.9)	(2.2)
<b>Total All Savings</b>	<b>(15.4)</b>	<b>(10.3)</b>

### **Budget Risk and Reserves**

4.6 The Council's General Fund gross budget is £560m. Within a budget of this magnitude there are inevitably areas of risk and uncertainty particularly within the current challenging financial environment. The key financial risks that face the Council have been identified and quantified. They total £26m. Financial risks of £19.5m were identified when the 2018/19 Budget was set.

4.7 The level of balances and reserves are examined each year in light of the medium-term opportunities and risks facing the authority. The latest reserves forecast to 2021/22 assuming no overspends is set out in Table 8.



**Table 8: Reserves Forecast to 2021/22**

	<b>Opening balance</b>	<b>Budgeted contributions to 2021/22</b>	<b>Commitments to 2021/22</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Earmarked reserves	(79.146)	(7.691)	50.267	(36.570)
King Street Decant Costs				27.300
Estimated profit from JV				(11.100)
<b>Forecast earmarked reserves</b>				<b>(20.370)</b>
General balances				(19.004)
Earmarked restricted reserves				(15.583)
<b>Total reserves</b>				<b>(54.957)</b>

4.8 The existing commitments include:

- The planned investment of earmarked reserves on council priorities (for example implementing the IT strategy, incentive payments to landlords or managed services implementation).
- Prudently setting aside amounts to protect against budgetary risks such as the £14m regarding the forecast shortfall in Dedicated Schools Grant for the **High Needs Block**.
- The existing commitments include £5.4m of planned invest to save investment. The Council is considering capitalising such expenditure in accordance with a Government Regulation on the flexible use of capital receipts. Should such expenditure be capitalised the forecast balance of reserves will increase.

4.9 Funding for pupils with **high needs** is provided through Dedicated Schools Grant from government. A recent children's services finance survey showed that London boroughs were spending £78m more than their high needs grant allocation, with 32 out of 33 boroughs reporting a shortfall. For LBHF the cumulative shortfall in funding is forecast to be £14.2m by the close of 2018/19. The Council is developing options for a deficit recovery plan and has contacted the government to discuss funding levels. It is also discussing how this should be treated on the Council's Balance sheet following a consultation by the Education Funding Agency. Pending further clarification, the Council has set aside a reserve to cover the potential deficit.

4.10 Looking to the future an anticipated use of reserves is a planned investment of £27.3m in the King Street West Regeneration project with a forecast profit of £11.1m coming back to the Council from the proposed Joint Venture profits. This scheme will be considered at Full Council on 23 January 2019. The Council will benefit from efficiencies

in delivering modern, inclusively designed and fit-for-purpose office and civic accommodation for its staff and visitors, as well as for small and start-up businesses. It also avoids the need for significant capital investment in the existing Town Hall and Town Hall Extension, which in 2017 was estimated at between £29.2 million and £53.5 million for both buildings, depending on the extent of refurbishment works undertaken. These figures exclude professional fees (estimated to be at least £2million to tender stage) and the cost of decanting staff to allow works to take place.

- 4.11 Maintaining reserves and balances at an adequate level is essential to the future financial resilience of the Council. For example, an overspend of £4.9m is forecast in the month 6 Corporate Revenue Monitor. This will be a further call on reserves unless the overspend is tackled by year-end.
- 4.12 Reserves can only be spent once. The forecast to 2021/22 identifies a tightening in the Council's finances that will need careful management and review. Continued focus will be required on keeping spend within budget and avoiding the use reserves to balance future budgets and rebuilding reserves for future investments.

## **5 FEES AND CHARGES**

- 5.1 The budget strategy assumes:
- Social Care charges frozen
  - A standard uplift of 3.5% based on the August 2018 Retail Price Index for other charges
  - Case by case review for commercial services that are charged on a for-profit basis. These will be varied up and down in response to market conditions, with relevant Member approval.
- 5.2 The exceptions for this Committee are attached in Appendix 4.

## **6 2019/20 COUNCIL TAX LEVELS**

- 6.1 The administration proposes to increase the Hammersmith and Fulham element of 2019/20 Council Tax in line with inflation, by 2.7%. A 2.7% increase will generate additional income of £6.3m over 4 years and annual income of £1.56m and will add £19.65 per annum (5.4p per day) to the Band D Council tax charge. As set out below, 52% of dwellings are liable for 100% council tax with exemptions/discounts for Council Tax Support claimants, students, care leavers and single person households.

**Table 9: Liability for Council Tax**

Total dwellings in the borough	88,700
Reductions:	
Exemptions (mainly students, includes care leavers)	(3,600)
Council tax support claimants (elderly & working age on low income)	(11,200)
Single person discount (25% discount)	(28,200)
<b>Dwellings liable for 100% of Council tax</b>	<b>45,700</b> <b>52%</b>

- 6.2 **An adult social care precept** levy of 2% is budgeted for 2019/20 with a freeze in future years. This will generate additional income of £4.6m over 4 years and £1.15m in 2019/20. This will increase the Band D Council Tax charge by £14.55 (4p per day).
- 6.3 The Mayor of London's draft budget is currently out for consultation and is due to be presented to the London Assembly on 24 January 2019, with final confirmation of precepts on 25 February. The current Band D precept is £294.23.
- 6.4 The change to the LBHF Band D charge is set out in Table 10. The current LBHF Band D charge of £727.81 is 34% lower than the London average of £1,112. The overall Band D charge, including the GLA precept, is the third lowest in the country.

**Table 10: LBHF Band D Council Tax Charge**

2018/19 LBHF Band D charge	£727.81
Proposed 2019/20 Increase of 2.7%	£19.65
Proposed 2% Adult Social Care precept	£14.55
<b>2019/20 Total LBHF Band D charge</b>	<b>£762.01</b>

## **7 Comments of the Executive Director for Residents' Services on the Budget Proposals**

- 7.1 The Residents' Services Group (RSG) is proposing a total controllable expenditure budget of £78.6m for 2019/20, of which £60.8m is expected to be recovered through income. The total controllable net budget is therefore £17.7m. In addition to this, corporate charges and income, which are not controlled by the service group, total a net £19.9m. This is shown in table 11 below.

- 7.2 Savings proposals totalling £2.446m are included in the proposed budget for 2019/20. These are also summarised in Table 11 (and detailed in Appendix 1).

**Table 11 – Residents’ Services Budget 2019/20**

\* These savings are included in the budget figures in the table

Directorate	Expenditure £000	Income £000	Net Budget: 2019-20 £000	Savings 2019-20 £000
Building Control and Technical Support Services	1,571	(947)	624	
Cleaner, Greener & Cultural Services	12,822	(4,772)	8,049	136
Customer Services	16,638	(4,149)	12,489	
Environmental Health, Community Safety & Emergency Planning	8,486	(4,633)	3,853	130
Executive, Finance and Contingency	843	(136)	707	
Leisure & Parks	5,081	(2,306)	2,775	88
Libraries	2,381	(522)	1,859	
Other LBHF Commercial Services	4	(290)	(286)	50
Parking	10,873	(39,308)	(28,435)	1,850
Prevent	0	0.00	0	
Street Cleansing and Street Enforcement	11,938	(230)	11,708	117
Transport and Highways	7,969	(5,421)	2,548	75
<b>Total Controllable Budgets</b>	<b>78,606</b>	<b>(62,716)</b>	<b>15,891</b>	<b>2,446</b>
Capital Charges	13,260	0.00	13,260	0
Corporate and Departmental Overheads	12,788	(2,343)	10,445	0
<b>Total Corporately Managed Budget</b>	<b>26,048</b>	<b>(2,343)</b>	<b>23,705</b>	<b>0</b>
<b>Total Residents Services Budgets</b>	<b>104,654</b>	<b>(65,059)</b>	<b>39,596</b>	<b>2,446</b>

### Transport & Highways and Parks & Leisure

- 7.3 The Transport and Highways directorate is targeting efficiencies and income generating initiatives of £75,000 in 2019/20. For Leisure and Parks various proposals totalling £88,000 are put forward. These include rationalising contracts and maximising commercial rental income from parks and open spaces assets. The budget includes contract inflation of £285,000 toward Grounds Maintenance and Highway works contracts.

#### Parking

- 7.4 The Parking Service is operating effectively and efficiently to deliver the Council’s priorities in maintaining the highway/transport infrastructure and management of emissions. The introduction of cashless parking has resulted in efficiencies and increased income. The parking budgets have been realigned to reflect this. The service is expected to generate more income in 2018/19 than budgeted and this performance is projected to continue in 2019/20. This will deliver the proposed saving of £1.850m for 2019/20 and will continue on an on-going basis in future years.

## **Environmental Health, Community Safety & Emergency Services**

- 7.5 The Environmental Health service - Use of s.106 funding will allow the council to deliver current service levels at reduced cost, saving the council £120,000. A review of the Licensing team, to reduce management costs in Licensing team, by reviewing s.113 arrangements and officer responsibilities will save £10,000.

## **Cleaner, Greener and Cultural Services (CGCS)**

- 7.6 A sustained reduction in waste disposal costs is only possible through the reduction of waste generated by residents and an increase in recycle which would contribute to £117,000 of the £136,000 savings currently being achieved by the heavily discounted recycle rate. A proposed inflationary uplift on commercial waste fees and charges, being flexible with fees and charges for different kinds of customers, rather than having an across the board increase in fees for all customers, is expected to deliver the remaining £20,000 in income in 2019/20.

## **Commercial Services including Street Cleansing and Street Enforcement**

- 7.7 The Commercial Directorate has savings of £10,000 identified from increased legal disbursements income. A review of contract efficiencies has identified potential savings. The proposals are not yet fully developed but are expected to deliver savings of £83,000. Plans will continue to be developed in 2019/20. A further saving of £24,000 will be delivered by ending the subsidy for the Shepherds Bush convenience used by TfL staff.

## **Executive Support and Finance**

- 7.8 A review of Business and Executive Support will save the Council £50,000 from 2019/20.

## **8 Equality Implications**

- 8.1 A draft Equality Impact Analysis (EIA), which assesses the impacts on equality of the main items in the budget proposals relevant to this PAC, is attached as Appendix 3. A final EIA will be reported to Budget Council.

**LOCAL GOVERNMENT ACT 2000**  
**LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext. of holder of file/copy</b>	<b>Department/ Location</b>
1.	None		

Appendix 1 – Savings and Growth Proposals

Appendix 2 – Risks

Appendix 3 – Draft Equality Impact Assessment

Appendix 4 – Fees & Charges not Increasing at the Standard Rate