

London Borough of Hammersmith & Fulham

Report to: Public Services Reform Policy & Accountability Committee

Date: 29/01/2020

Subject: 2020 Medium Term Financial Strategy (MTFS)

Report of: Cabinet Member for Public Service Reform – Councillor Adam Connell
Cabinet Member for Finance and Commercial Services – Councillor Max Schmid

Responsible Director: Strategic Director for Social Care and Public Services Reform
Strategic Director of Finance and Governance

Summary

Cabinet will present their revenue budget and council tax proposals to Budget Council on 26th February 2020. A balanced budget will be set in accordance with the Local Government Finance Act 1992.

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.

Recommendations

1. That the Policy and Accountability Committee (PAC) considers the budget proposals and makes recommendations to Cabinet as appropriate.
 2. That the PAC considers the proposed changes to fees and charges and makes recommendations as appropriate.
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Wards Affected: All

H&F Priorities

| Our Priorities | Summary of how this report aligns to the H&F Priorities |
|--|---|
| <ul style="list-style-type: none">• Being ruthlessly financially efficient | We need to always confirm that spend fits our Council's priorities; challenge how much needs to be spent; and achieve results within agreed budgets. Finance is everyone's business and every penny counts. |

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Background Papers Used in Preparing This Report

None.

Proposals and Detailed Analysis

The Budget Gap

- 1.1. The 2020/21 gross General Fund budget¹ is £525m of which the **net budget requirement of £154.3m** is funded from council resources (such as council tax and business rates) and general government grant.

Table 1 – 2020/21 budget requirement

| Budgeted expenditure | £m |
|---|--------------|
| Housing benefit payments | 110 |
| Departmental budgets | 415 |
| Gross budgeted expenditure | 525 |
| Less: | |
| Specific government grants (including housing benefits and dedicated schools grant) | (234.5) |
| Fees and charges | (65) |
| Contributions (e.g. health, other boroughs) | (49) |
| Other income (e.g. investment interest, rentals and recharges) | (22.2) |
| Budget requirement rolled forward to 2020/21 | 154.3 |

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

- 1.2. The budget proposals for 2020/21, and forecast to 2023/24, are summarised in Table 2. A balanced budget is proposed for 2020/21 with a contribution to reserves arising from one-off/ non-recurrent benefits, to enhance financial resilience, of £7.2m.

Table 2 - Budget Summary

| | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|--|----------------|----------------|----------------|----------------|
| | £m | £m | £m | £m |
| Base budget | 154.3 | 154.3 | 154.3 | 154.3 |
| Add: | | | | |
| Cumulative inflation (including pay awards) | 4.2 | 8.4 | 12.6 | 16.8 |
| Provision for future demand & demographic pressures | 0 | 4.0 | 8.0 | 12.0 |
| Investment | 8.3 | 8.3 | 8.3 | 8.3 |
| Increase in the unallocated contingency | 0.9 | 0.9 | 0.9 | 0.9 |
| Savings and additional income | -12.8 | -13.5 | -14.2 | -14.2 |
| Adjustment for one off items | 0.1 | 0.1 | 0.1 | 0.1 |
| Contribution to reserves | 7.2 | 0 | 0 | 0 |
| Budgeted expenditure | 162.2 | 162.5 | 170.0 | 178.2 |
| Less: | | | | |
| Government resources | (34.2) | (34.2) | (34.2) | (34.2) |
| Business rates | (57.2) | (57.2) | (57.2) | (57.2) |
| Fair funding impact (estimate) | 0 | 4.0 | 8.0 | 12.0 |
| Council tax | (63.8) | (64.4) | (65.0) | (65.6) |
| One-off use of resources | (5.3) | 0 | 0 | 0 |
| Use of developer contributions for enhanced community safety | (1.7) | (1.7) | (1.7) | (1.7) |
| Budgeted resources | (162.2) | (153.5) | (150.1) | (146.7) |
| Cumulative budget gap | 0 | 9.0 | 19.9 | 31.5 |

Budget Assumptions

- 1.3. **Government grant funding** will increase by £3.6m from 2019/20 to 2020/21 as a result of the Government's pre-election spending round in September 2019. This increase follows a decade of grant cuts with overall funding reducing by £68m from 2010/11 to 2020/21. This was a real terms funding cut of 54%.

- 1.4. However, the government have indicated they will undertake what they are terming a 'fair funding review' in 2020/21. This has the remit of reconsidering how grant is distributed between authorities. It is likely to be bad news for Hammersmith and Fulham and other London authorities as it is anticipated that resources will be redistributed away from inner city areas, which have traditionally received funding to address higher levels of deprivation, to other parts of the country with lower levels of deprivation. The Council will campaign vigorously against any such distribution away from areas of higher need.
- 1.5. **The government has modelled an adult social care precept** since 2016/17. In the first years of the levy, the Council determined not to apply the levy in Hammersmith and Fulham, despite the fact the Council's funding from government was modelled on the assumption that we would. 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, the Council proposes to allow 2% of the government's adult social care levy for 2020/21. The total levy increase for Hammersmith and Fulham over the 5 years to 2020/21 will be 4% compared to the 10% increase assumed by the government. The Council is committed to using such funding to support adult social care.
- 1.6. **An increase in the Hammersmith & Fulham element of council tax** of 1.99% is modelled for 2020/21. This will generate extra income of £1.2m in 2020/21 and £4.9m over a four-year period. This will support investment in key services for residents and future financial resilience. The Hammersmith and Fulham Band D Council Tax charge is the third lowest in the country and 35% below the London average. This is significantly below the July 2019 Retail Price Index inflation used for the Council's financial planning.
- 1.7. **The business rates system**, as set out in Table 3, is changing for a fourth successive year. For 2020/21 the government have ended the pilot London Business Rates pool with the share of business rates retained by LBHF reverting to 30%.

Table 3 – Business Rates Retention Scheme

| | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|--|----------------|-----------------|---------------------------|-----------------------|
| Hammersmith & Fulham | 30% | 64% | 48% | 30% |
| Greater London Authority | 37% | 36% | 27% | 37% |
| Government | 33% | 0 | 25% | 33% |
| Pool arrangements | None | 100% pilot pool | 75% pilot pool | Potential London pool |
| Business rates revaluation | Yes | No | No | No |
| H & F income (net of tariffs and adjusted on a like for like basis) | | | | |
| H & F share of business rates | £59.5m | £56.5m | £57.0m | £57.2m |
| Pool benefit (1-year lag i.e. 2018/19 benefit recognised in 2019/20) | 0 | 0 | £4.3m (£2.3m to reserves) | £1.9m (to reserves) |
| Assumed in budget/contribution to reserves | £59.5m | £56.5m | £61.3m | £59.1m |

- 1.8. London Local Government took forward a 100% business rates retention pilot in April 2018. This pooled business rates income across the 33 London Boroughs and GLA with all growth shared. The government reduced this to a 75% pilot in 2019/20 and have announced it will cease for 2020/21.
- 1.9. Current modelling forecasts that Hammersmith and Fulham will benefit by £1.9m from the 2019/20 pilot and this is assumed within the 2020/21 budget. As the pilot has ceased, the expected benefit is a one-off sum and therefore will be taken to reserves. The actual benefit will not be confirmed until September 2020.
- 1.10. London Local Government is developing a new pooling arrangement, without government support, for 2020/21. The financial benefit will be significantly less (as the government will take a higher proportion of the income raised and growth). No benefit is assumed from a possible new 2020/21 pool within the current budget forecast. Any benefit will be considered within the 2021/22 budget process.
- 1.11. Table 4 sets out the business rates budget for 2019/20 and 2020/21. The business rates system sets a safety net threshold which guarantees a minimum income to the Council. The 2017 business rates revaluation resulted

in a high-level of rates appeals by businesses in LBHF. This has required the Council's share of business rates income to be budgeted at the safety net threshold of £57.2m. The safety net threshold is set at 92.5% of the funding baseline (compared to 95% in the pool) resulting in a lower guaranteed income from business rates.

- 1.12. The instability in the government's approach to business rates makes medium-term financial planning difficult.

Table 4: Comparison between 2019/20 and 2020/21 business rates income

| | 2019/20 | 2020/21 |
|---|-------------|-------------|
| | £m | £m |
| Business rates baseline | 123.0 | 78.0 |
| Tariff payable to the government | (45.0) | (16.1) |
| Funding baseline | 78.0 | 61.9 |
| Safety net threshold (included in LBHF budget) | 74.1 | 57.2 |
| Less Revenue Support Grant collected within business rates in 2019/20 | (17.1) | 0 |
| Budgeted business rates | 57.0 | 57.2 |

- 1.11 An updated forecast for business rates will be undertaken by all Boroughs in January 2020. This will confirm the Hammersmith and Fulham 2020/21 estimate and provide more clarity on the potential benefits from the 2019/20 pilot pool arrangements.
- 1.12 **Developer Contributions.** 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.
- 1.13 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).

- 1.15 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 determined that a key priority area for the investment of available s.106 funds with general purposes is the provision of enhanced community safety arrangements. The 2020/21 budget assumes that contributions of £1.7m are invested to fund enhanced arrangements in this area and this can be met from receipts currently in hand.
- 1.16 A number of s.106 agreements have been negotiated which will result in the receipt of additional funds in the future. There is a level of uncertainty around the receipt of future s.106 funds as this relies on developments commencing and achieving specified trigger points. The Council will continue to monitor the receipt of s.106 funds expected in the short and medium term, where the level of uncertainty around trigger points increases, and is developing a strategic approach for investment of future s.106 funds.
- 1.17 **Inflation.** A national pay award has yet to be agreed for 2020/21. Provision is made within the budget for an increase of up to 2% (£1.7m) and this will be held corporately until a national agreement is reached on the annual pay award. Inflation of £2.6m has also been provided, on a case by case basis, to meet contractual requirements.

INVESTMENT, SAVINGS AND RISKS

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

Investment

- 1.19 Investment in services is summarised by department in Table 5 and by category in Table 6.

Table 5: 2020/21 Investment Proposals

| Department | £m |
|----------------------------|------------|
| Children's Services | 5.5 |
| The Environment Department | 0.5 |
| Public Services Reform | 0.1 |
| Social Care | 0.7 |
| Council Wide | 1.5 |
| Total | 8.3 |

Table 6: Categorisation of investment proposals

| | £m |
|---------------------------------------|------------|
| Increase in demand/demographic growth | 6.4 |
| Resident priority | 1.9 |
| Total | 8.3 |

Savings

- 1.20 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 and continue to grow the number of dwellings and businesses in the borough.
- 1.21 To proposed savings (including additional income) for 2020/21 are set out by department in Table 7.

Table 7: 2020/21 savings and additional income

| Department | £m |
|----------------------------|---------------|
| Children's Services | (0.8) |
| Finance & Governance | (4.5) |
| The Economy Department | (0.8) |
| Public Services Reform | (0.3) |
| The Environment Department | (1.0) |
| Social Care | (2.5) |
| Council Wide | (2.9) |
| Savings | (12.8) |

- 1.22 The saving proposals are categorised by savings area in Table 8.

Table 8: Categorisation of 2020/21 savings

| | £'m |
|---|---------------|
| Service rationalisation/budget reduced in line with spend | (3.0) |
| Commercialisation/Income | (2.0) |
| Debt reduction and restructuring | (0.3) |
| Pension - triennial Valuation | (2.1) |
| Prevention | (1.5) |
| Procurement / Commissioning | (0.8) |
| Service reconfiguration | (0.9) |
| Staffing / Productivity | (2.2) |
| Total All Savings | (12.8) |

Risk, revenue balances and earmarked reserves

- 1.23 The Council's General Fund gross budget is £525m. 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 £18.5m. Financial risks of £24m were identified when the 2019/20 budget was set.
- 1.24 Reserves play a crucial role in good public financial management. They exist so that a council can make one off investment in service transformation for the future or to respond to one off unexpected events or emerging needs. They are the foundation for good financial management and resilience. As one-off resources they can only be spent once.
- 1.25 As part of the Audit Findings Report for the year ended 31 March 2019 the Council's external auditors (Grant Thornton) commented on the level of the Council's reserves:

'The Council's reserves level is of concern as there doesn't appear to be sufficient cushion to weather the ongoing financial challenges that the Council will face over the medium term due to reductions in central government funding and forecast pressures of the DSG funding. The Council only has finite reserves available and it is important that you continue to maintain appropriate budgetary control. It cannot be stressed enough how important it is to have a fall back position to address the challenges of the future. We have seen a number of Councils reach the financial precipice and members have a fiduciary duty to ensure the Council retains financial sustainability. We would strongly recommend that use of reserves remains limited in future years other than for specifically earmarked schemes.'

- 1.26 The Council has put in place a reserves strategy to ensure effective oversight regarding the level and use of reserves and established an action plan to maintain reserves at an appropriate level. In accordance with the action plan, the 2020/21 budget proposals include new **one-off contributions to reserves of £7.2m.**

General fund balances

- 1.27 The Council's general balance stood at £19m as at 1 April 2019 and it is currently projected that this will not reduce in the current financial year. This will leave general balances at 3.6% (equivalent to 13 days spend) of the Council's gross budget of £525m.
- 1.28 Given the on-going scale of change in local government funding, and risks facing the Council, the Strategic Director, Finance and Governance considers that general balances need to be maintained within the range of £14m to £20m. The optimal level is projected to be broadly met over the next 4 years and is, in the Strategic Director's, Finance and Governance, view sufficient to allow for the risks identified and to support effective medium-term financial planning.

Earmarked reserves

1.29 The Council holds a number of one-off earmarked reserves. The latest forecast to 2023/24 is set out in Table 9. In the Strategic Director's, Finance and Governance, view such reserves are adequate to deal with anticipated risks and liabilities.

Table 9: Reserves forecast to 2022/23

| | Opening balance 2019/20 | Budgeted contributions to 2023/24 | Commitments to 2023/24 | Total 2023/24 |
|---|--------------------------------|--|-------------------------------|----------------------|
| | £m | £m | £m | £m |
| Earmarked reserves | 44.8 | 36.1 | (37.4) | 43.5 |
| New contributions in the 2020/21 budget | | | | 7.2 |
| Forecast earmarked reserves | | | | 50.7 |
| General balances | 19.0 | | | 19.0 |
| Earmarked restricted reserves | 17.5 | | (7.7) | 9.8 |
| Current year forecast overspend | | | | (9.5) |
| Other potential uses of reserves | | | | (28.6) |
| Total reserves | | | | 41.4 |

1.30 The existing commitments include the planned investment of earmarked reserves on council priorities (for example implementing the Information Technology strategy and incentive payments to landlords).

1.31 Net General Fund reserves of £6m are set aside for the civic campus scheme. This is based, in line with the current programme, on funding of lease costs for a 3.5 year relocation. The call on general fund reserves would increase by £5.9m if relocation was deferred to 5 years. The scheme benefits include 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 £29.2m and £53.5m for both buildings, depending on the extent of refurbishment works undertaken and excluded professional fees (estimated to be at least £2m) and the cost of decanting staff to allow works to take place.

1.32 The other potential uses for reserves includes allowance for a future shortfall in funding for **pupils with high needs**. For Hammersmith and Fulham, there was a cumulative shortfall in the Dedicated Schools Grant (from government) provided to fund expenditure on pupils with high needs of £13.8m at the close of 2018/19. The Council is developing options for a deficit recovery plan and estimates that it will receive extra grant of £2.9m from 2020/21 onwards.

Despite this funding increase, demographic and other pressures, require that a further **£15m** be set aside regarding the shortfall for the current year and next 4 years. The Council is also discussing with auditors how this should be treated on the Council's Balance sheet following a consultation by the Education Funding and Skills Agency. Pending further clarification, the Council has prudently set aside a reserve to cover the potential deficit.

- 1.33 The Strategic Director, Finance and Governance considers that current reserves are adequate to deal with anticipated risks and liabilities. Reserves can only be spent once and the forecast to 2023/24 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, avoiding the use of reserves to balance future budgets and on rebuilding reserves to support future investments and priorities.

FEES AND CHARGES

- 1.34 The budget assumes these are:

- Frozen for Adult Social Care, Children's Services and Housing.
- A standard uplift of 2.8% based on the July 2019 Retail Price Index applied for other non-Commercial and non-parking fees.
- Commercial services that are charged on a for-profit basis, will be reviewed on an ongoing basis in response to market conditions and varied up and down as appropriate, with appropriate authorisations according to the Council constitution.
- Parking charges and fines are set in line with transport policy objectives and are not considered as part of the budget process.

There are no exceptions for this Department.

2020/21 COUNCIL TAX LEVELS

- 1.35 The administration proposes to increase the Hammersmith & Fulham element of council tax by 1.99% for 2020/21. The Band D charge will be £792.42. This is significantly below the July 2019 Retail Price Index inflation used for the Council's financial planning.
- 1.36 This will result in a net cash terms increase of 3.7% since 2014/15 and compares to real terms inflation² of 15% over the same period. Unlike before 2014, no grant has been offered by government to councils who freeze or cut council tax. Instead, since 2014/15 the government, within the grant process, have assumed a Council tax increase of 12.6%. The 1.99% increase will generate extra income of £1.2m in 2020/21 and £4.9m over a four-year period.

² As measured by movement in the Retail Price Index

This will support investment in, and protect, key services for residents and strengthen future financial resilience.

- 1.37 As set out below, 53% 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 | 90,500 |
| Reductions: | |
| Exemptions (mainly students, includes care leavers) | (4,000) |
| Council tax support claimants (elderly & working age on low income) | (11,400) |
| Single person discount (25% discount) | (27,500) |
| Dwellings liable for 100% of council tax | 47,600 53% |

- 1.37 **The government's modelled adult social care precept** levy of 2% will generate additional income of £4.9m over 4 years and £1.22m in 2020/21. This will increase the Band D Council Tax charge by £15.24 per annum (4.2p per day).
- 1.38 The overall increase in the LBHF element of the Band D charge, including the government's modelled 2% adult social care precept, is £30.40 (8.3p per day).

Table 10: LBHF Band D Council Tax Charge

| | |
|--|----------------|
| 2019/20 LBHF Band D charge | £762.02 |
| Proposed H&F Element Increase of 1.99% | £15.16 |
| Proposed Adult Social Care precept of 2% | £15.24 |
| 2020/21 Total LBHF Band D charge | £792.42 |

Comments of the Strategic Director for Social Care and Public Services Reform (PSR) on the budget proposals

PSR is proposing a net budget before Capital and Corporately Managed budgets of £4.937m. The budget of £1.557m for corporately controlled expenditure represents the department's share of the Council's overheads such as IT, Finance and Property. Within PSR, there are also many services which support frontline council business and saving plans. As such, £3.351m of the budget is expected to be recovered as corporately controlled income.

The budget proposals look to support the delivery plan addressing many of the departmental overspends from previous years and to deliver savings in the medium term. Plans will continue to be developed to identify opportunities and investment to support the Business Intelligence service.

Zero based budgeting (ZBB) and efficiency work will carry on into its second and final year to ensure we have the capability we need to continue delivering the scale of savings required. The programme is now identifying areas for a second wave of reviews, and looking to mainstream the ZBB budget and service review model through heads of finance working with directorate management teams – with specialist support provided by Business Intelligence and Corporate Project Management Office services.

There are proposed savings of £0.255m in 2020/21. These are outlined by category (Table 11).

Investment of £0.056m was awarded to the department for 2020/21. This investment will be used to support resident priorities across co-production services.

Table 11: 2020/21 Public Services Reform Savings by Category

| Category | Total £m |
|-------------------------|---------------------|
| Staffing / Productivity | (0.255) |
| Total Savings | (0.255) |

Equality Implications

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.

List of Appendices:

- Appendix 1 – Savings and investment proposals
- Appendix 2 – Risks
- Appendix 3 – Draft Equality Impact Assessment