

London Borough of Hammersmith & Fulham

Report to: Full Council

Date: 26/02/2020

Subject: Revenue Budget and Council Tax Levels 2020/21

Report of: The Leader of the Council – Councillor Stephen Cowan

Responsible Director: Hitesh Jolapara, Strategic Director of Finance & Governance

Summary

The Council is obliged to set a balanced budget and council tax charge in accordance with the Local Government Finance Act 1992.

The 2020/21 revenue budget proposals are set out regarding:

- Council tax levels
- Investment and savings proposals
- Changes to fees and charges
- Budget risks, reserves and balances
- Equalities Impact Assessments

Recommendations

That Council, for the reasons set out in this report and appendices, agree:

1. To increase the Hammersmith & Fulham element of council tax by 1.99% for 2020/21.
2. To apply central government's modelled "adult social care precept" levy of 2% for 2020/21.
3. To set council tax for 2020/21 for each category of dwelling, as calculated in accordance with Sections 31A to 49B of the Localism Act 2011, as outlined in the table below and in full in Appendix A:
 - (a) *The element of council tax charged for Hammersmith & Fulham Council will be £792.42 per Band D property in 2020/21.*
 - (b) *The overall Council Tax to be set at £1,124.49 per Band D property in 2020/21 as follows.*

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	528.28	616.33	704.37	792.42	968.51	1,144.61	1,320.70	1,584.84
b) GLA	221.38	258.28	295.17	332.07	405.86	479.66	553.45	664.14
c) Total	749.66	874.61	999.54	1,124.49	1,374.37	1,624.27	1,874.15	2,248.98

4. To note the element of council tax charged by the Greater London Authority in accordance with Section 40 of the Local Government Finance Act 1992 will be £332.07 per Band D property in 2020/21.
5. To set the Council's own total net expenditure budget for 2020/21 at £121.003m.
6. To approve £8.3m of new investment on key services for residents.
7. To approve fees and charges as set out in paragraph 3.1 below including freezing charges in adult social care, children's services and housing.
8. To note the budget projections to 2023/24 made by the Strategic Director, Finance and Governance in consultation with the Strategic Leadership Team.
9. To note the statement of the Strategic Director, Finance and Governance, under Section 25 of the Local Government Act 2003, regarding the adequacy of reserves and robustness of estimates (section 10).
10. To approve the reserves strategy and realignment of reserves as set out in Appendix J and Appendix K.
11. To authorise the Strategic Director, Finance and Governance 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's Scheme of Delegation.
12. To require all Directors to report on their projected financial position compared to their revenue estimates in accordance with the Corporate Revenue Monitoring Report timetable.
13. To authorise Directors to implement their service spending plans for 2020/21 in accordance with the recommendations within this report and the Council's Standing Orders, Financial Regulations, relevant Schemes of Delegation and undertake any further consultation required regarding the Equalities Impact Assessment.

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.
<ul style="list-style-type: none">• Creating a compassionate council	The Council intends to apply 2% of the government modelled adult social care levy for 2020/21 to ensure that we can continue to invest and protect services for some of our most vulnerable residents.

Financial Impact

This report is financial in nature and those implications are contained within.

Legal Implications

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.
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. The Council should be satisfied that the proposals put forward are a reasonably prudent use of resources in both the short and long term and that the interests of Council Tax payers and ratepayers on the one hand and the users of Council services on the other are both taken into account. The recommendations contained in the report have been prepared in line with these requirements.
3. Section 25 of the Local Government Act 2003 requires the Strategic Director, Finance and Governance 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.

4. A public authority must, in the exercise of its functions, comply with the requirements of the Equality Act 2010 and in particular section 149, the Public Sector Equality Duty (“PSED”). Members need to consider this duty in relation to the present proposals. In addition, where specific budget proposals have a potential equalities impact these are considered and assessed by the relevant service as part of the final decision-making and implementation processes and changes made where appropriate.
5. The protected characteristics to which the PSED applies are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race/ethnic/national origin, sexual orientation, religion or belief and sex.
6. The PSED provides (so far as relevant) as follows:
 - (1) *a public authority must, in the exercise of its functions, have due regard to the need to:*
 - (a) *eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;*
 - (b) *advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;*
 - (c) *foster good relations between persons who share a relevant protected characteristic and persons who do not share it.*
 - (2) *Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:*
 - (a) *remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;*
 - (b) *take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;*
 - (c) *encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.*
 - (3) *The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.*
 - (4) *Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to —*
 - (a) *tackle prejudice, and*
 - (b) *promote understanding.*

(6) Compliance with the duties in this section may involve treating some persons more favourably than others; but that is not to be taken as permitting conduct that would otherwise be prohibited by or under this Act.

7. Case law has established the following principles relevant to compliance with the PSED which the Council will need to consider:

(i) The PSED is an integral and important part of the mechanisms for ensuring the fulfilment of the aims of anti-discrimination legislation.

(ii) The duty to have "due regard" to the various identified "needs" in the relevant sections does not impose a duty to achieve results. It is a duty to have "due regard" to the "need" to achieve the identified goals.

(iii) Due regard is regard that is appropriate in all the circumstances, including the importance of the area of life of people affected by the decision and such countervailing factors as are relevant to the function that the decision-maker is performing.

(iv) Although the weight to be given to equality issues and countervailing factors is for the decision-maker, it is for the Court to determine whether "due regard" has been given. This will include the court assessing for itself whether in the circumstances appropriate weight has been given by the authority to those "needs" and not simply deciding whether the authority's decision is a rational or reasonable one.

(v) The duty to have "due regard" to disability equality is particularly important where the decision will have a direct impact on disabled people. The same goes for other protected groups where they will be particularly and directly affected by a decision.

(vi) The PSED does not impose a duty on public authorities to carry out a formal equalities impact assessment in all cases when carrying out their functions, but where a significant part of the lives of any protected group will be directly affected by a decision, a formal Equalities Impact Assessment ("EIA") is likely to be required by the courts as part of the duty to have 'due regard'.

(vii) The duty to have 'due regard' involves considering not only whether taking the particular decision would unlawfully discriminate against particular protected groups, but also whether the decision itself will be compatible with the equality duty, i.e. whether it will eliminate discrimination, promote equality of opportunity and foster good relations. Consideration must also be given to whether, if the decision is made to go ahead, it will be possible to mitigate any adverse impact on any particular protected group, or to take steps to promote equality of opportunity by, for e.g., treating a particular affected group more favourably.

(viii) The duty is non-delegable and must be fulfilled by the Council and members personally.

(ix) The Council must ensure that it is properly informed before taking a decision

(x) Council officials must be rigorous in both enquiring and reporting to the Council on equalities issues to assist Council and members to fulfil that duty.

(xi) The duty must be exercised in substance, with rigour, and with an open mind. It is not a question of “ticking boxes”.

(xii) The duty is a continuing one and equalities issues must be kept under review.

8. All these matters have been, or will be, considered by service departments as part of the final decision-making and implementation processes, but must also be considered by the Council when taking its decision.
9. To assist the Council in fulfilling its PSED, an EIA in respect of the proposed overall budget is attached to this report at Appendix G. This Appendix includes a screening of all budget measures undertaken to ensure that the equality duty has been considered where appropriate. These will need to be carefully read and taken into account by the Council, together with the requirements of the PSED itself set out above, in reaching a decision on the recommendations in this report.
10. Section 106, Local Government Finance Act 1992, applies to Members where:
 - they are present at a meeting of the Council, the Cabinet or a Committee and at the time of the meeting an amount of Council Tax is payable by them and has remained unpaid for at least two months; and
 - any budget or Council Tax calculation, or recommendation or decision which might affect the making of any such calculation, is the subject of consideration at the meeting.
11. In these circumstances, any such Members shall at the meeting and as soon as practicable after its commencement disclose the fact that Section 106 applies to them and shall not vote on any question concerning the matter. Such Members are not debarred from speaking. Failure to comply with these requirements constitutes a criminal offence, unless any such members can prove they did not know that Section 106 applied to them at the time of the meeting or that the matter in question was the subject of consideration at the meeting.

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Background Papers Used in Preparing This Report

Not Applicable

1 BUDGET OVERVIEW

- 1.1 **A 1.99% increase in LBHF Council Tax is recommended.** This will result in a net cash terms increase of 3.7% since 2014/15 and compares to real terms inflation¹ of 15% over the same period. 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 £4.9m over a four-year period of which £1.2m will be in 2020/21. This will support investment in, and protect, key services for residents and strengthen future financial resilience. This increase is below the July 2019 Retail Price Index inflation level used in planning for this budget (2.8%) or the most recent December 2019 rate (2.2%).
- 1.2 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, including the Council's commitment to the London Living Wage and the Government's continued failure to propose a long-term funding solution to social care funding, the Council intends to apply 2% of the government's adult social care levy for 2020/21. The total levy increase for LBHF over the 5 years to 2020/21 will be 4% compared to the 10% increase assumed by the government.
- 1.3 **The LBHF Band D Council Tax charge** is the third lowest in the country and 35% below the London average.
- 1.4 **General 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%.
- 1.5 **Investment of £8.3m** has been provided to meet the costs of statutory obligations, demographic, service and demand pressures and key resident priorities.
- 1.6 **Savings of £12.9m** have been put forward to balance the 2020/21 budget.
- 1.7 The budget proposals include measures to strengthen the Council's future financial resilience by **contributing one-off resources of £7.2m to reserves and increasing the annual unallocated contingency from £2.1m to £3.0m**. The Council faces significant future financial risk with particular uncertainty regarding future government funding allocations, potential impact of Brexit and increasing demand for services.

¹ As measured by movement in the Retail Price Index

2 THE COUNCIL TAX REQUIREMENT

- 2.1 The Council's current gross General Fund budget is £525m, of which £154.3m (the budget requirement) 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 grant (including housing benefits and dedicated schools grant)	(234.5)
Fees and charges	(65)
Contributions (e.g. health)	(49)
Other income (e.g. investment interest, rentals, recharges.	(22.2)
Budget requirement rolled forward to 2020/21	154.3

- 2.2 The Band D council tax charge is calculated by dividing the council tax requirement by the council tax base². The determination of the 2020/21 council tax requirement is set out in Table 2. The medium-term forecast, to 2023/24 is set out in Appendix B.

Table 2: The council tax requirement

	£'000s
Base gross budget rolled forward from 2019/20	154,280
Plus/minus:	
Inflation (section 5)	4,283
Investment (section 5)	8,332
Savings and additional income (section 6)	-12,853
Adjustment for one off items	100
Increase in the unallocated contingency	860
Contribution to reserves (one-off items)	7,167
Gross budget requirement	162,169
Revenue Support Grant	-17,410
Other general grants	-16,789
Use of developer contributions (section 8)	-1,700
One-off funding	-5,267
Net budget requirement for 2020/21	121,003
Less:	
Locally retained business rates (section 8)	-57,217
2020/21 council tax requirement (includes 2% adult social care precept)	63,786

² The council tax requirement is the expenditure that is to be funded from council tax. The council tax base is the income that will be generated from a council tax charge of £1.

3 INFLATION AND INVESTMENT

Inflation

3.1 The wider economy remains under inflationary pressure with the July Retail Price Index at 2.8%. For 2020/21, the sum provided for overall inflation is £4.2m. This consists of:

- **Price inflation** of £2.6m for external contracts.
- **Pay award contingency** of £1.7m. A national pay award has yet to be agreed for 2020/21. The pay contingency will fund an increase of up to 2% and will be held corporately until a national agreement is reached.
- **Fees and charges (non-statutory)**
 - Frozen for Adult Social Care, Children's Services and Housing.
 - A standard uplift of 2.8% based on the July 2019 Retail Price Index 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.

3.2 Current proposed exceptions to the standard 2.8% increase and policies above are set out in Appendix F.

Investment

3.3 Investment in services is provided through the budget process as necessary. This is detailed in Appendix C and summarised in Tables 3 and 4.

Table 3: 2020/21 investment proposals

Service Area	£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 4: Categorisation of Investment Proposals

Growth Categories	£m
Increase in demand/demographic growth	6.4
Resident priority	1.9
Total	8.3

4 SAVINGS AND INCOME GENERATION

- 4.1 The proposed savings are detailed in Appendix C and summarised in Tables 5 and 6.

Table 5 – 2020/21 savings proposals

Service Area	£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)

Table 6: Categorisation of 2020/21 savings

Savings Categories	£m
Commercialisation / income	(2.0)
Debt reduction and restructuring	(0.3)
Prevention	(1.5)
Procurement / commissioning	(0.8)
Service rationalisation / budget reduced in line with spend	(3.0)
Service reconfiguration	(0.9)
Triennial valuation of pension fund	(2.1)
Staffing / productivity	(2.2)
Total	(12.8)

5 EXTERNAL, DEVELOPER AND BUSINESS RATES FUNDING

- 5.1 The government funding receivable is detailed in Appendix E. On a like-for-like basis, there is expected to be a net increase in the general grant funding (in cash terms) of £3.6m compared to 2019/20. This includes new grant funding of £4.4m to meet demand pressures within Social Care.

- 5.2 Ringfenced grants, which can only be used for a specific purpose, have increased by £0.6m from 2019/20 to 2020/21. The current estimated increase relates to public health grant which will be invested to deliver public health outcomes.
- 5.3 The business rates forecast is summarised in Appendix H. As set out in Table 7, the business rates system 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 7 – 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
LBHF income (net of tariffs and adjusted on a like for like basis)				
LBHF share of business rates	£59.5m	£56.5m	£57.0m	£57.2m
Pilot 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

- 5.4 London Local Government worked to take forward a 100% business rates retention pilot for London from April 2018. This allowed business rates to be pooled 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 the pilot will cease for 2020/21.
- 5.5 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 benefit is a one-off sum and therefore will be placed in reserves. The actual benefit will not be confirmed until September 2020.
- 5.6 London Local Government is considering 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.

- 5.7 Table 8 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) and is therefore lower than in previous years.

Table 8: 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 rate income	57.0	57.2

- 5.8 An updated forecast for business rates will be undertaken by all Boroughs in January 2020. This will confirm the LBHF estimate and provide more clarity on the potential benefit from the 2019/20 pilot pool arrangements.
- 5.9 The on-going instability in the government's approach to business rates makes medium-term financial planning difficult.
- 5.10 Property developments – 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.
- 5.11 Local planning authorities are required to use s.106 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 (for example 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 (for example economic development, education purposes, community safety initiatives, etc).

5.12 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.

5.13 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.

6 HAMMERSMITH AND FULHAM'S COUNCIL TAX REQUIREMENT

6.1 On 22 January 2020, Council agreed a Council Tax Base of 80,495 equivalent Band D properties for 2020/21. Therefore, the Council's element of the Council Tax for B and D properties can be calculated as followed:

<u>Total Council Tax Requirement</u>	=	<u>£63.786m</u>	=	£792.42 Band D
Tax Base (Band D equivalent)		80,495		

6.2 This represents an increase in the Hammersmith and Fulham element of the council tax charge of 1.99% and a 2% levy for the adult social care precept.

6.3 A 1.99% increase in the Hammersmith and Fulham element of council tax will generate additional income of £4.9m over 4 years and £1.22m in the first year. This is significantly below the July 2019 Retail Price Index inflation used for the council's financial planning. This will add £15.16 per annum (4.2p per day) to the Band D council tax charge. 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
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Reductions:	
Exemptions (mainly students, includes care leavers)	(4,000)
Council tax support claimants (elderly people & working age on low income)	(11,400)
Single person discount (25% discount)	(27,500)
Dwellings liable for 100% of council tax	47,600 53%

- 6.4 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).
- 6.5 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).

7 PRECEPTOR'S COUNCIL TAX REQUIREMENTS

- 7.1 The Greater London Authority's precept is also funded from council tax. The following table analyses the total amount to be funded and the resulting overall Band D council tax level.

<u>Preceptors Budget Requirement</u>	=	<u>£26.730m</u>	=	£332.07
Band D				
Tax Base		80,495		

- 7.2 This represents an increase of £11.56.

8 OVERALL COUNCIL TAX REQUIREMENT 2020/21

- 8.1 The overall amount to be met from the council tax is £63.8m. This will provide a balanced budget with £19m in General Fund balances (see section 14).

Table 10 – Overall 2020/21 council tax requirement

London Borough of Hammersmith & Fulham	£000s 63,786
Greater London Authority	26,730
Total requirement for council tax	90,516

- 8.2 In accordance with the Local Government Finance Act 1992, the Council is required to calculate and approve a council tax requirement for its own budgetary purposes (section 9) and then add the separate council tax requirements for each of the preceptors (section 10). The requisite calculation is set out in Appendix A.
- 8.3 The Council must then set the overall council tax for the Borough. These calculations must 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 Council Tax Requirement</u>	= <u>£90.516m</u>	= £1,124.49
Tax Base	80,495	

9 CONSULTATION

Non-Domestic Ratepayers

- 9.1 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.
- 9.2 As with previous years, the Council has discharged this responsibility by writing to the twenty largest payers and the local Chamber of Commerce together with a copy of this report.

Policy and Accountability (PAC) Committees

- 9.3 As part of the consultation process the budget proposals have been reviewed by all six PAC Committees.

10 VIEWS OF THE STRATEGIC DIRECTOR OF FINANCE AND GOVERNANCE

The robustness of the budget estimates

- 10.1 Under Section 25 of the Local Government Act 2003, the Strategic Director of Finance and Governance is required to include, in the budget report, his view of the robustness of the 2020/21 estimates.
- 10.2 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 Strategic Director of Finance and Governance, is satisfied with the accuracy and robustness of the estimates included in this report:
- The budget proposals have been developed following guidance from the Strategic Director of Finance and Governance and have been through a

robust process of development and challenge with service directors and Cabinet members.

- Contract inflation is provided for.
- Adequate allowance is made for pension costs with budgeted contributions in line with the recommendations from the 2019 triennial pension review.
- Service managers have made reasonable assumptions about growth pressures.
- Rigorous mechanisms will be in place to monitor sensitive areas of expenditure and the delivery of savings. The Council recognises that it faces an increasing financial challenge due to the combination of declining government grant, new burdens from government, demographic trends including increasing demand and complexity and cost of that demand. The latest current year Corporate Revenue Monitoring Report (month 6) forecasts a gross overspend of £12.1m which will reduce to £9.5m should current mitigating actions be delivered. Officers are developing further mitigating measures to reduce the overspend and prevent future overspends.
- The use of budget monitoring in 2019/20 to re-align budgets where required with growth provided for 2020/21 to meet budget pressures. In particular £5.5m is set aside regarding pressures within Children's Services.
- Key risks have been identified and considered.
- Prudent assumptions have been made about interest rates payable 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 are reflected in the budget with an increase of £1.5m in the revenue net cost of borrowing due to reduced levels of cash the Council holds for investment.
- The recommendations regarding fees and charges are in line with the assumptions in the budget.
- The provision for redundancy is reasonable to meet future restructuring and downsizing.
- A review via the Strategic Leadership Team of proposed savings and their achievability has taken place.
- Cabinet Members have reviewed and challenged all budget proposals. In addition all six Policy and Accountability Committees have scrutinised the budget proposals.
- The establishment of appropriate management and monitoring arrangements for the delivery of savings programmes.
- A prudent approach has been adopted on the local share of income receivable through the updated 2020/21 business rates retention scheme.
- Developer contributions fund enhanced community safety arrangements included in the budget. Such contributions can only be used once. Monitoring arrangements are in place to ensure that sufficient contributions are set aside to meet the budget assumptions.
- A process is in place for 2021/22, and beyond, to tackle underlying budget pressures.

Risk, revenue balances and earmarked reserves

- 10.3 Under Section 25 of the Local Government Act 2003, the Strategic Director, Finance and Governance is required to include, in budget reports, his 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.
- 10.4 The key financial risks that face the Council have been identified and quantified (Appendix D). They total £18.5m. Financial risks of £24m were identified when the 2019/20 budget was set.
- 10.5 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.
- 10.6 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.'

- 10.7 The Council continues to take robust action to ensure reserves are maintained at sufficient levels. It has put in place a reserves strategy (Appendix J) to ensure effective oversight regarding the level and use of reserves and has established an action plan to maintain reserves at an appropriate level. In accordance with the action plan, the 2020/21 budget includes new one-off contributions to reserves of £7.2m.

General fund balances

- 10.8 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.
- 10.9 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 view of the Strategic Director, Finance and Governance, sufficient to allow for the risks identified and to support effective medium-term financial planning.

Earmarked reserves

- 10.10 The Council holds a number of one-off earmarked reserves. The latest forecast to 2023/24 is set in Table 11. It is the view of the Strategic Director of Finance and Governance that such reserves are adequate to deal with anticipated risks and liabilities.

Table 11: Reserves forecast to 2023/24

	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

- 10.11 The existing commitments are detailed in Appendix J and include the planned investment of earmarked reserves on council priorities (for example implementing the IT strategy and incentive payments to landlords). For financial planning purposes a number of other potential uses, including allowance for the current year forecast overspend of £9.5m, of reserves are set out in Appendix J.
- 10.12 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.

- 10.13 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 allowance be made within the resource forecast for a further **£15m** 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. The Council is not funding the DSG deficit at this point but is allowing for the possibility that it may need to in the future in line with good financial practice.
- 10.14 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.

Council tax setting

- 10.15 As part of the Localism Act 2011, the Government replaced the power to cap excessive budgets and council tax increases with compulsory referenda on council tax increases above limits it sets. For 2020/21 local authorities "will be required to seek the approval of their local electorate in a referendum if, compared with 2019/20, they set an increase in the relevant basic amount of council tax that is 2% or higher". As the proposed Council tax increase for this Council is 1.99% no such referendum is required.
- 10.16 In addition, the Government has modelled setting a precept to fund Social Care for Adults of 2% in 2020/21. This sum is included in the Council's budget proposals.

Prior Year Collection Fund Surplus

- 10.17 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 business rates retention scheme and a contribution towards a Council's own General Fund. As at the close of 2018/19, due to the receipt of higher than expected income, the Collection Fund was in surplus by £2.583m. The Hammersmith and Fulham

share of this surplus is £1.818m and this is included within the 2020/21 budget proposals as a contribution to reserves as it is a one-off surplus. The balance is payable to the Greater London Authority.

- 10.18 During 2019/20 the Finance Service have worked closely with the Revenues and Benefits Service to review Collection Fund historic balance sheet items. As a result of the review officers expect the collection fund surplus to increase, the benefit to Hammersmith and Fulham being £3.449m. This is included within the 2020/21 budget proposals as a contribution to reserves as it is a one-off surplus due to the balance sheet review of historic balances and will not be a continuing benefit. In addition to the Hammersmith and Fulham benefit, £1.457m will be payable to the Greater London Authority

11 EQUALITY IMPLICATIONS

- 11.14 Published with this report are the EIAs for each service area which is proposing savings. Additionally, there is a general EIA which assesses the impacts on equality of the main items in the budget proposed to Full Council, the decision to increase council tax and to apply the social care precept. The full EIA (draft) is attached at Appendix G together with individual EIAs for service areas.

12 RISK MANAGEMENT IMPLICATIONS

- 12.14 In line with the Council's priorities of Being Ruthlessly Financially Efficient and Being a Compassionate Council, Members and officers will need to be mindful of the following factors faced by the Council, in common with other local authorities, in approving the proposed budget, including savings and growth proposals:
- Future Pressures: It is inevitable that further, as yet unidentified and therefore unquantified, budget pressures will manifest over the term of the current MTFs and the Council must be prepared for such eventualities and maintain the progress for further savings, efficiencies and income generating initiatives and retain sufficient reserves to manage unexpected costs.
 - Demand Pressures: There is a real risk of increased demand for children's services, adult social care and homelessness services over the coming years. These are difficult areas in which to accurately quantify future demand, particularly given economic uncertainty. However, recent years have demonstrated that cost pressures are appearing as a result of diminishing resources, growing demand and new duties placed upon local authorities by central government. Current demand pressures exist in a number of areas including Children's Services and Temporary Accommodation.
 - Use of Balances: The risk associated with drawing on balances is that they are one-off non-sustainable options rather than permanent efficiencies. Prudent levels of balances should be maintained for later years where grant losses continue.

- *Procurement and Contracts*: The Council will continue to review and develop forward planning for Commissioning and Procurement activities to identify new efficiencies and opportunities, increasing value to its residents. A zero-based budgeting review of the function is underway and will inform the future operating model. Continued robust management of the Council's contracts is essential to ensure that they remain resilient during the challenges posed by Brexit.

- 12.15 The economic climate in which the Council has to operate continues to be extremely challenging. Cost overspend on significant projects can pose a risk for financing, particularly in the current economic climate when funding is limited. Project and budget management processes are currently in place to limit the risk of overspend or slippage whilst accounting advice is sought to mitigate against any such risk should it occur. Continuing cuts to local government funding, external cost pressures and the need to fund local priorities mean that the Council has to continue with its significant savings and transformation programmes.
- 12.16 The report sets out a number of risks facing the Council, along with other local authorities in terms of previous reductions in local government funding and future prospects for funding, increases in demand for key services and the need to maintain adequate levels of reserves in the face of these pressures and the significant investment which the Council is applying or seeking to apply to a range of key programmes. The report clearly sets out the increased level of financial risk and the known and planned reductions in the level of reserves, which include the significant investment proposed in respect of the regeneration of Civic Campus programme. Strong programme governance and oversight is important to ensure that key objectives and outcomes are being delivered within approved budgets.
- 12.17 Appendix D sets out the financial risks against which the 2020/21 budget and MTFs are being proposed for approval. There are significant financial risks around ongoing demand for High Needs Block and Dedicated Schools Grant funding, funding for social care services, increases in the demand for and cost of temporary accommodation, the reliability of a range of income and funding streams needed to support the delivery of front-line services, along with inflationary pressures on staffing costs and contracts. The appendix contains high level mitigating actions in many cases. It is vital that clear mitigation plans are developed for all risks identified, which will then be implemented, monitored and reported on to ensure that the Council is able to deliver vital services within its overall cost envelope.
- 12.18 Similarly, Appendix C sets out a range of growth and savings proposals which will need to be appropriately planned, implemented, managed, monitored and reported on. Robust controls and governance will need to be applied to ensure that key activities support the delivery of the Council's objectives while ensuring that costs are appropriately controlled, savings delivered and growth investment achieves the required outcomes. Where actions are not delivering savings or mitigating financial pressures, prompt and appropriate action will need to be identified and taken.

Implications completed by: David Hughes, Director of Audit, Fraud, Risk and Insurance.

13 COMMERCIAL IMPLICATIONS

- 13.14 There are no direct implications resulting from this report.
- 13.15 It is recommended that further emphasis is established on forward planning to avoid direct awards and overspending due to lack of planning and identify new efficiencies and opportunities, delivering best value for residents.
- 13.16 It is important the Council's Contracts Register is used by officers to keep records of their contracts. Having a Council overview of all contracts will help planning, modelling and ultimately deliver savings for the Council through procurement.
- 13.17 It is recommended that Social Value is sought as part of the delivery of contracts the Council is procuring.

Implications completed by: Andra Ulianov, Procurement Consultant, x2284

List of Appendices:

- Appendix A – The requisite council tax calculations for Hammersmith and Fulham
- Appendix B – Medium term financial forecast
- Appendix C – Growth and savings proposals
- Appendix D – Budget risks
- Appendix E – Government grant funding
- Appendix F – Fees and charges – exceptions to the standard increase
- Appendix G – Draft Equalities impact assessment
- Appendix H – The business rates retention scheme for Hammersmith and Fulham
- Appendix I – Reduction in spending power
- Appendix J – Reserves Strategy
- Appendix K – Reserves Realignment
- Appendix L – Reserves Cash Flow

APPENDIX A

The Requisite Calculations for Hammersmith & Fulham (as set out in Section 31A to 49B in the Localism Act 2011)

		<u>£'s</u>	
(a)	Being the aggregate of the amounts which the Council estimates for the items set out in section 31A (2) (a) to (f) of the Act.	685,782,400	
(b)	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A (3) (a) to (d) of the Act.	595,266,400	
(c)	Being the aggregate difference of (a) and (b) above calculated by the Council in accordance with Section 31A (4) of the Act, as its council tax requirement for the year.	90,516,000	
(d)	Being the amount formally agreed by Council as the council tax base for 2020/21.	80,495	
(e)	Being the amount at (c) divided by the amount at (d) above, calculated by the Council in accordance with Section 31B of the Act as the Basic amount of council tax (Band D) for the year.	1,124.49	
(f)	Hammersmith and Fulham proportion of the Basic amount of its Council Tax (Band D)	792.42	
(g) Valuation Bands – Hammersmith & Fulham Council:			
Band A	Band B	Band C	Band D
528.28	616.33	704.37	792.42
Band E	Band F	Band G	Band H
968.51	1,144.61	1,320.70	1,584.84
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 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
221.38	258.28	295.17	332.07
Band E	Band F	Band G	Band H
405.86	479.66	553.45	664.14

(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 2020/21 for each of the categories of dwellings shown below:

Band A	Band B	Band C	Band D
749.66	874.61	999.54	1,124.49
Band E	Band F	Band G	Band H
1,374.37	1,624.27	1,874.15	2,248.98