


<p align="center">London Borough of Hammersmith & Fulham</p> <p align="center">COMMUNITY SAFETY, ENVIRONMENT & RESIDENTS SERVICES POLICY AND ACCOUNTABILITY COMMITTEE</p> <p align="center">29 January 2018</p>		
<p>2018 Medium Term Financial Strategy (MTFS)</p>		
<p>Report of the Cabinet Member for Finance – Councillor Max Schmid</p>		
<p>Report Status: Open</p>		
<p>Classification: For review and comment. Key Decision: No</p>		
<p>Wards Affected: All</p>		
<p>Accountable Director: Hitesh Jolapara</p>		
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1. EXECUTIVE SUMMARY

- 1.1. Cabinet will present their revenue budget and council tax proposals to Budget Council on 21st February 2018. 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 changes in fees and charges.
- 1.3. Government resource assumptions, that are used to calculate LBHF's Government grant, model the council increasing council tax by 6% in 2018/19. However, in line with the administration's policy of lowering the cost of the council to residents, this increase has not been proposed. Instead, the budget proposes to freeze council tax for the year.

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 budget gap, before savings, is £14.6m, rising to £55.1m by 2021/22. The budget is based on several key assumptions regarding resources and expenditure.

Table 1: Budget Gap Before Savings

	2018/19	2019/20	2020/21	2021/22
	£'m	£'m	£'m	£'m
Base Budget	155.0	155.0	155.0	155.0
Add:				
- Inflation (includes pay)	5.2	10.6	15.8	21.1
- headroom	0.0	6.0	12.0	18.0
- Growth	6.8	7.2	7.2	6.9
Budgeted Expenditure	167.0	178.8	190.0	201.0
Less:				
- Government Resources	-10.1	-28.5	-25.4	-23.5
- LBHF Resources	-139.0	-115.3	-117.2	-119.1
- Use of Developer Contributions	-3.3	-3.3	-3.3	-3.3
Budgeted Resources	-152.4	-147.1	-145.9	-145.9
Cumulative Budget Gap Before Savings	14.6	31.7	44.1	55.1
Risks	19.3	25.0	28.3	31.2

Budget Assumptions

- 3.2. A continued reduction in the general grant receivable by Hammersmith and Fulham from **Central Government**. Grant funding¹ has been cut in each year since 2010/11. The total reduction since April 2010 to March 2018 has been £70m. In addition, there will be a further reduction in 2018/19 of £8.6m and further £5.2m cut is forecast by 2021/22.

¹ After allowance for changes in funding between grant and business rates.

- 3.3. **A Council Tax freeze** is modelled with no use of the adult social care precept. Authorities can opt to levy a maximum adult social care precept of 3% in 2018/19 and up to 6% by 2019/20. A 3% precept would raise £1.7m for LBHF. Central Government grant assumptions are based on LBHF raising council tax and the precept by a combined 6% per year to 2019/20. 2018/19 is the third year of a four-year local government finance settlement that started in 2016/17. From 2016/17 to 2018/19 Government modelling has assumed an overall council tax increase of 13.3% of which 7% relates to use of the social care precept. The administration, however, has a commitment to reduce the cost of the council to residents and will not be increasing tax.
- 3.4. **Business rates** are modelled to increase with inflation with allowance made for an extra £2.2m from the opening of the Westfield extension in March 2018.
- 3.5. London Local Government has been working to take forward a **100% business rates retention** pilot for London from April 2018.
- 3.6. The pilot will pool business rates across the 33 London Boroughs and Greater London Authority (GLA).
- 3.7. Under such an arrangement London will keep 100% of any growth in business rates, though business rates valuations and levels would still be set by Government. Indicative modelling has suggested this may benefit Hammersmith and Fulham by £2.6m. In addition, £110m would be generated for a London wide investment pot.
- 3.8. At present Hammersmith and Fulham retains 30% of the business rates it collects with the balance paid to the Government and GLA. Under the proposed pilot the share retained by Hammersmith and Fulham would increase to 67% with the balance going to the GLA. The Council would not initially benefit from the increased share as there would be compensating reductions (through grant cuts and payment of a tariff to Government). These adjustments are shown in Table 2. The benefit to Hammersmith and Fulham would be receiving a share of London's future business rates growth.

Table 2 – Changes to Funding Streams from the Business Rates Pilot

	No-Pilot	With Pilot
Business Rates Baseline	77.9	157.8
Tariff payable to the Government	-18.8	-74.8
Funding Baseline	59.1	83
Revenue Support Grant	23.9	0
Total LBHF Funding	83	83

- 3.9. Table 2 sets out the sums assumed by the Government in the 2018 Local Government Finance Settlement. The current LBHF forecast, which will be

updated in January, for business rates income is £80.4m. Under the pilot scheme there is a guarantee that no authority will be worse off than under the present scheme.

- 3.10. The 100% business rates retention pool:
- Is a pilot and may not continue after 2018/19.
 - Uses modelling based on an aggregation of high level estimates.
 - Will not confirm final income until October 2019 in relation to 2018/19
- 3.11. Greater clarity, after each Borough updates their 2018/19 business rates forecast, on the potential benefits from the pilot 100% business rates retention pool will be available in mid-February. No benefit is allowed for within the current LBHF resource forecast. Once confirmed the sum receivable will be added to Reserves.
- 3.12. **Property developments** have placed increased pressure on council services in recent years.
- 3.13. Section 106 agreements containing planning obligations are entered between developers and the Council as the Local Planning Authority. Legislation controls the use of such obligations, including regulation 122 of the Community Infrastructure Regulations 2010 which requires planning obligations to be:
- 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.
- 3.14. The Council has entered into a significant number of s106 agreements. Whilst S106 funds can only lawfully be applied in accordance with the terms of each specific agreement, as approved by the Planning Applications Committee, some approved funds are identified generally as being for expenditure on as yet unspecified "Social and Physical Infrastructure" or "Environmental Improvements" (although the agreements identify the types of projects/items the funds can be used for).
- 3.15. Provided the Council respects the obligation to maintain a reasonable relationship with the developments and complies with the specific terms of each of the s106 agreements giving rise to the funds, the Council has a degree of flexibility and discretion as to how it spends some of these funds. The council has analysed all its s106 agreements that may give a financial benefit to determine which should be relied upon for budgeting purposes and which have flexibility in how they may be applied. 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 s106 funds which can therefore be lawfully used to finance such activities.
- 3.16. The Council currently has section 106 receipts of £50.1m in hand with agreements in place for the receipt of future financial obligations of £201m. £72.4m of the future obligations are assessed as highly likely to

be received by the close of 2021/22. The total amount of flexible funding in-hand, or highly likely to be received, is estimated to be a minimum of £72m by the close of 2021/22.

- 3.17. The 2018/19 budget assumes that £3.3m (an additional £0.7m compared to previous years) of expenditure will be funded from section 106 resources with such funding on-going over the MTFs period. In addition, contributions of £1.7m per annum are assumed towards the provision of policing.
- 3.18. **Inflation.** A pay award of 2% per annum is modelled compared to 1% in 2017/18. Inflation has also been provided, on a case by case basis, to meet external contractual requirements. Inflationary pressures have increased in the wider economy with the August Retail Price Index showing an increase of 3.9% compared to 1.8% last year. For 2018/19, the sum provided for overall inflation is £5.2m (£1.8m pay and £3.4m non-pay) compared to £2.9m in 2017/18.

4. 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 3.

Table 3: 2018/19 Growth Proposals

Service Area	£'m
Adult Social Care	1.3
Childrens Services	1.8
Environmental Services	0.6
Corporate Services	0.3
Regeneration, Planning & Housing Services	1.4
Centrally Managed Budgets	1.4
Total Growth	6.8

Savings

- 4.3. The Council faces a continuing financial challenge due to overall Central Government funding cuts, unfunded burdens, inflation, 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 businesses in the borough.
- 4.4. To close the budget gap for 2018/19 savings (including additional income) of £15.4m are proposed (Table 4).

Table 4: 2018/19 Savings Proposals

Service Area	£'m
Adult Social Care	(2.9)
Children's Services	(2.1)
Environmental Services	(1.9)
Library Services	(0.1)
Corporate Services	(2.7)
Public Health	(2.0)
Regeneration, Planning & Housing Services	(0.2)
Commercial and Cross-Cutting	(3.5)
Savings	(15.4)

4.5. The Council will receive Public Health Grant of £21.8m in 2018/19. The savings of £2m in existing services will enable investment in Council services that deliver public health outcomes.

4.6. The saving proposals are categorised by savings area in Table 5.

Table 5: Categorisation of Savings and Additional Income

	2017/18 £'m	2018/19 £'m
Business Intelligence	(0.6)	(0.4)
Budget reduced in line with spend	(0.3)	(0.2)
Commercialisation	(2.9)	(3.4)
Estate Rationalisation	0	(0.1)
Income	(0.3)	(0.5)
Outside investment secured	(0.2)	(0.1)
Prevention	(0.6)	(1.6)
Procurement / Commissioning	(5.0)	(5.1)
Service reconfiguration	(2.7)	(3.1)
Staffing / Productivity	(2.2)	(0.9)
Total All Savings	(15.0)	(15.4)

Budget Risk and Reserves

4.7. The Council's budget requirement for 2018/19 is £152.4m. 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 £19.5m. Financial risks of £20.6m were identified when the 2017/18 Budget was set.

4.8. The level of balances and reserves are examined each year in light of the risks facing the Authority in the medium term. The latest position is set out in Table 6.

- 4.9. The Council has used reserves to fund investment in transformation and efficiency and other significant one-off costs pressures. Examples in 2016/17 included investments in ICT, Invest to Save schemes such as LED street-lighting and mitigating the impact of the Managed Services project.
- 4.10. The 2018/19 base budget includes planned contributions of £0.75m to the Efficiency Projects Reserve and £0.8m to the IT Enablers Reserve. In addition, the proposed savings for 2018/19 (£15.4m) currently exceed the budget gap (£14.8m). This will enable a further contribution to Reserves of £0.6m. The sum due from the London 100% Business Rates retention pilot (estimated at £2.6m) will also be put to Reserves. **In total, the estimated contribution to Reserves for 2018/19 is £4.75m.** Uses of Reserves in 2018/19 will include taking forward the Integrated Family Support Service, taking forward new arrangements for the outsourced managed services programme and funding the Landlord Incentive scheme to support the provision of temporary accommodation.

Table 6 – General Fund Balances and Earmarked Reserves

	31/03/14 actual	31/03/15 actual	31/03/16 actual	31/03/17 actual	31/03/18 forecast
	£'m	£'m	£'m	£'m	£'m
General Balances	19.0	19.0	19.0	19.0	19.0
Earmarked Reserves	81.6	89.5	90.0	82.7	75.0
	100.6	108.5	109.0	101.7	94.0

5. FEES AND CHARGES

5.1. The budget strategy assumes:

- Adult Social Care, Children's Services, Market, Parking, Libraries and Housing charges frozen
- A standard uplift of 3.9% based on the August 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. A number of charges are being frozen for 2018/19, as set out in Appendix 3:

- Parking charges, including residents permits, bay suspensions and pay and display charges
- Community Safety, including stray dog fees (set in statute), Neighbourhood Warden patrols (main customer base is Registered Social Landlords), Antisocial behaviour investigations and camera hire (LBHF is new to the market and wishes to remain competitive),

and CCTV camera hire and footage analysis (new service being tested).

- Registrars – a number of fees are set by statute and remain unchanged.
- Transport service – the current charging methodology of cost plus mark up is competitive.

5.3. The remaining fees and charges within the Environmental Services Group are proposed at a standard 3.9% inflationary uplift for 2018/19.

6. 2018/19 COUNCIL TAX LEVELS

6.1. The administration proposes to freeze Hammersmith and Fulham's element of 2018/19 Council Tax at £727.81. This will provide a balanced budget whilst recognising the burden on local taxpayers.

6.2. The Mayor of London's draft budget is currently out for consultation and is due to be presented to the London Assembly on 25th January 2018, with final confirmation of precepts on 22nd of February

6.3. As part of the Provisional Local Government Finance Settlement the government announced that authorities can charge a 3% adult social care precept. Council does not wish to apply this tax to residents, so it does not form part of the 2018/19 budget proposals.

6.4. Following last year's council tax freeze, the current Band D Council Tax charge of £1,007.83 (LBHF element £727.81 and GLA £280.02) is the 3rd lowest in England. In cash terms, the Band D charge for the Hammersmith and Fulham element is at its lowest since it was £706.83 in 1999/2000.

7. Comments of the Lead Director for Environmental Services on the Budget Proposals

7.1. The Environmental Services Group (ESG) is proposing a total controllable expenditure budget of £64.0m for 2018/19, of which £59.9m is expected to be recovered through income. The total controllable net budget is therefore £4.1m. 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 4, below.

7.2. Savings proposals (including income and outside investment) totalling £1.9m are included in the proposed budget for 2018/19. These are also summarised in Table 7 (and detailed in Appendix 1).

Table 7 – Environmental Services Budget 2018/19

Directorate	Expend- iture	Income	Net Budget	Savings 2018/19*
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			2018/19	
	£000	£000	£000	£000
Transport & Highways and Parks & Leisure	12,881	(9,047)	3,834	(306)
Parking	10,005	(36,445)	(26,450)	(565)
Building and Property Management	11,296	(5,670)	5,626	(430)
Environmental Health, Community Safety & Emergency Services	9,732	(6,482)	3,250	(168)
Cleaner, Greener and Cultural Services	11,626	(4,762)	6,864	(201)
Commercial Services	11,872	(482)	11,389	(164)
Markets and Street Trading	482	(372)	110	0
Executive Support and Finance	1,579	(596)	983	(30)
Total Controllable Budgets	69,472	(63,865)	5,607	(1,863)
Capital Charges	13,760	0	13,760	0
Corporate & Departmental Overheads	11,651	(8,976)	2,676	0
Total Corporately Managed Budgets	25,411	(8,976)	16,435	0
Total Environmental Services Budgets	94,883	(73,140)	21,742	(1,863)

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

Transport & Highways and Parks & Leisure

- 7.3. The Transport and Highways directorate is targeting efficiencies of £306k in 2018/19. The majority (£164k) of these planned savings originate from the rollout of LED (light emitting diode) lighting across the borough, which will reduce costs through energy efficiency over standard lighting. An additional income (£50k) is expected to be generated via a new cycle storage initiative. New commercial income is targeted (£82k), mostly from making better use of our assets. Back office savings of £10k are sought from replacing temporary staff with permanent staff.

Parking

- 7.4. The Parking directorate is expecting to generate an additional £520k from 2018/19 to support transport and environmental spending. The majority (£500k) arises from changes to the Pay and display infrastructure, and moving towards more cashless parking which is expected to increase income by making parking easier while lowering operating costs. It is expected that the introduction of new pay & display machines will lower the costs of maintenance and cash collection. Changes in the handling of correspondence is expected to reduce demand. Other changes are designed to improve overall debt management and collection.

Environmental Health, Community Safety & Emergency Services

- 7.5. New external funding has been identified to fund Air Quality initiatives, saving the council £60k. The Environmental Health service is targeting income growth of £13k from noise and nuisance, pest control and licensing. This is expected to be delivered through a combination of fully recovering administration costs and increasing the number of chargeable jobs. Budget growth of £115k is included from 2018/19 to strengthen emergency planning (£15k) and corporate health and safety arrangements (£100k). This funding is intended to reassure the public and staff that the

Council provides legally compliant and safe services. New external funding for the Neighbourhood Watch scheme will provide £5k. Moving to a new framework agreement for the provision of the stray dog service will save £4k.

Building and Property Management

- 7.6. MTFS growth of £525k has been requested to provide for a likely increase in rent for 145 King Street arising from the rent review under the terms of the lease. Efficiencies of £430k have been identified from 2018/19. This includes a review of major contracts and changes in planned specifications which are expected to generate savings of £203k. Additional proposed savings originate from the maximisation of commercial rent income (£180k) through improved use of our property assets. Changes to our in-house client team overseeing our facilities management contract is expected to save approximately £40k.

Cleaner, Greener and Cultural Services (CGCS)

- 7.7. A review of the major event contracts in the borough is expected to save £27k from 2018/19. A proposed inflationary uplift on commercial waste fees and charges is expected to deliver an additional £49k in income, although this is not guaranteed and so is shown as medium risk in terms of delivery. The introduction of a new private land and street cleansing service in 2017/18 is proving to be a success. As such, new income of £5k is targeted in this area for 2018/19.

Commercial Services

- 7.8. This includes the waste and street cleansing contract and street scene enforcement, both of which are now managed by the Commercial Directorate. The end of the previous bi-borough management arrangements in waste contract management has saved £5k. An external review of the waste and street cleansing contract has identified potential savings. The proposals are not yet fully developed or agreed – as such, the £159k saving included in the savings plans is rated as high risk. Plans will continue to be developed.

Markets and Street Trading

- 7.9. This service is now managed by the Regeneration, Planning and Housing Services department. Budgets will be moved in year in 2018/19.

Executive Support and Finance

- 7.10. A review of management and support costs will save the Council £110k from 2018/19; The service portfolios within the Environmental Service Group have been reorganised, enabling a reduction in the number of senior managers, saving £80k. A review of the Departmental Finance Team, centred around the newly organised Environmental Services Group, will save £10k. A review of Business and Executive Support will also save £20k.

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 4. A final EIA will be reported to Budget Council.

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

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

Appendix 1 – Savings and Growth Proposals

Appendix 2 – Risks

Appendix 3 – Fees and Charges Not Increasing at the Standard Rate

Appendix 4 – Draft Equality Impact Assessment