	London Borough of Hammersmith & Fulham **THE ECONOMY, HOUSING AND THE ARTS POLICY AND ACCOUNTABILITY COMMITTEE** **28th JANUARY 2019**
2019 Medium Term Financial Strategy (MTFS)	
Report of the Cabinet Member for Finance and Commercial Services	
Report Status: Open	
Classification: For review and comment. **Key Decision:** No	
Wards Affected: All	
Accountable Director: Jo Rowlands – Strategic Director for Growth and Place Mike Clarke – Tri Borough Director for Libraries and Archives	
Report Authors: <u>Corporate Overview</u> Hitesh Jolapara – Strategic Director, Finance and Governance Emily Hill – Assistant Director, Corporate Finance <u>Department Comments</u> Danny Rochford – Head of Finance, Finance and Governance, responsible for Growth and Place Ian Thomas – Finance Manager, Tri Borough Libraries and Archives	**Contact Details:** Tel: 020 8753 3145 E-mail: emily.hill@lbhf.gov.uk Tel: 0208 753 4023 E-mail: danny.rochford@lbhf.gov.uk Tel: 0207 641 1130 E-mail: ithomas@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. Cabinet will present their revenue budget and council tax proposals to Budget Council on 27th February 2019. A balanced budget will be set in accordance with the Local Government Finance Act 1992.

1.2. This report sets out the budget proposals for the services covered by this Policy and Accountability Committee (PAC). An update is also provided on any proposed changes in fees and charges.

1.3. The Council is entering into the 10th year of government-imposed austerity. This year's reduction in government investment is £3.5m, meaning a total reduction of £73m (a real terms reduction of 59% from government).

1.4. Government resource assumptions, that are used to calculate Government grant for the London Borough of Hammersmith & Fulham (LBHF), model the Council increasing council tax by 3% in 2019/20. Council Tax has not increased in LBHF in recent years and was last reduced in 2015/16, bringing it to its lowest level since 2002/03. Over the last four years the Band D charge of £727.81 has reduced by 8.4% in real terms and is 34% lower than the London average of £1,112.

1.5. The government has modelled an adult social care precept since 2016/17. Government funding modelling assumes that this has been applied despite LBHF choosing not to apply it over recent budgets. Due to the continued high levels of inflation in the social care market and the Government's continued failure to propose a long-term funding solution to social care funding, for the first time the Council proposes to allow 2% of the government's adult social care levy for 2019/20. This compares to the 8% precept assumed, by the government, over the four years to 2019/20.

1.6. In accordance with the administration's policy of keeping the council tax low while protecting and improving services, the Council's budgeted council tax increase is restricted to an inflationary increase of 2.7%. This is pegged to the August 2018 increase in the Consumer Price Index and below the August Retail Price Index increase of 3.5%.

2. RECOMMENDATIONS

2.1. That the Policy and Accountability Committee (PAC) considers the budget proposals and makes recommendations to Cabinet as appropriate.

2.2. That the PAC considers the proposed changes to fees and charges and makes recommendations as appropriate.

3. THE BUDGET GAP

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

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

Table 1 - 2018/19 Budget requirement

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

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

Table 2 - Budget Gap Before Savings

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

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

Budget Assumptions

3.3. Grant funding has been cut in each year since 2010/11. The total reduction since April 2010 to April 2019 has been £73m. This is a cash terms reduction of 47% and real terms reduction of 59%. Funding is forecast to reduce by a further 5% per annum from 2020/21 onwards with no continuation of new one-off funding of £4m received in 2019/20.

3.4. **An adult social care precept** of 2% is modelled for 2019/20. This will generate additional income of £4.6m over 4 years and £1.15m in the first year. The Council is committed to use such funding to support adult social care. The 2019/20 budget proposals include provision of £4.1m for adult social care spend pressures and inflation. Part of these pressures will be met from increased better care funding grant of £1.8m and winter pressures grant of £0.9m.

3.5. **An inflationary Council Tax** increase of 2.7% is modelled for 2019/20. A 2.7% increase will generate additional income of £6.3m over 4 years and £1.56m in the first year. This will add £19.65 per annum (5.4p per day) to the Band D Council tax charge. Council tax will remain the third lowest in the country.

3.6. **The business rates system will change** for a third successive year. A rates revaluation in 2017/18 was followed by a pilot 100% rates retention scheme (for any growth in business) for London in 2018/19. Government has decided to reduce this to a 75% retention pilot in 2019/20.

Table 3 – Business Rates Retention Scheme

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

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

3.8 For 2019/20 the government has ended the 100% pilot. London Local Government has negotiated a new pilot, however the imposition by Central government of a 75% pilot will reduce the benefits to the London Boroughs and GLA. Indicative modelling suggests a one-off benefit for LBHF of £1.2m. This modelling is based on an aggregation of high level estimates and before Boroughs have submitted detailed 2019/20 figures. The actual benefit will not be confirmed until September 2020. This sum is not taken account of within the 2019/20 budgeted resources.

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

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

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

3.10 Table 4 sets out the sum assumed (£78.0m) by the Government in the 2019 Local Government Finance Settlement. In recent years the Council has received less than the assumed sum of business rates due to the impact of rating appeals. A safety net threshold is set which guarantees a minimum income to the Council. A further advantage of the pilot is that this threshold is set at a higher level (by £0.7m).

3.11 An updated forecast for business rates will be updated by all boroughs in January 2019. This will provide greater clarity on the LBHF estimate and the potential benefits from the pilot pool arrangements.

3.12 The Government are undertaking a '**fair funding'** review which will inform the 2020/21 Local Government Finance Settlement. This will impact on how grant and business rates are distributed between authorities. A Green paper is also due on the longer-term funding for adult social care. These changes, combined with current economic uncertainty, add significant risk to the funding forecast beyond 2019/20.

3.11 Planning obligations under s.106 of the Town and Country Planning Act 1990 (as amended), known as s.106 agreements, are a mechanism which make a development proposal acceptable in planning terms, that would not otherwise be acceptable. They are focused on site specific mitigation of the impact of development. Property developments have placed increased pressure on council services in recent years.

3.14 Legal tests governing the use of s.106 agreements are set out in regulation 122 and 123 of the CIL Regulations 2010 as amended. The tests are:
- Necessary to make the development acceptable in planning terms;
- Directly related to the development; and
- Fairly and reasonably related in scale and kind to the development.

3.15 Local planning authorities are required to use the funding in accordance with the terms of the individual planning obligation legal agreement. This will ensure new developments are acceptable; benefit local communities and support the provision of local infrastructure. In LBHF there are three broad categories of s.106 contributions received:
- for a specific purpose defined and described in the s106 agreement (such as specific highway works)
- for a general functional purpose defined and described in the s.106 agreement but with geographical constraints (such as provision of community infrastructure in the White City area)
- for a general purpose defined and described in the s.106 agreement but with no borough geographical constraints (such as economic development, education purposes, community safety initiatives etc).

3.16 Provided the Council respects the obligation to maintain a reasonable relationship with the developments and complies with the specific terms of each of the s.106 agreements giving rise to the funds, the Council has a degree of discretion as to how it allocates and spends some of the general purpose funds. The council has analysed all its s.106 agreements to determine funds with general purposes that can be considered for budgeting purposes. As is usual in these circumstances, many areas of Council activity that have faced increased demand following new developments offer a good fit with the purposes of some of the uncommitted s.106 funds which can therefore be lawfully used to finance such activities.

3.17 The 2019/20 budget assumes that £3.3m of expenditure will be funded from s.106 resources. In addition, contributions of £1.7m per annum are assumed towards the provision of enhanced policing. The Council has considered the level of general purposes funds available and has forecast s.106 receipts in hand at the end of 2018/19 of £11m. After estimating future receipts and commitments, including 2019/20 budget commitments, £9.6m is forecast to be in hand at the end of 2019/20. The forecasts are based on assumptions around implementation and completion of planning applications, as approved, the expected time of developments commencing and reaching trigger points. Looking further ahead, the level of uncertainty around trigger points increases and forecasts are less certain.

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

GROWTH, SAVINGS AND RISKS

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

Growth

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

Table 5: 2019/20 Growth Proposals

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

Savings

4.3 The Council faces a continuing financial challenge due to overall Central Government funding cuts, unfunded burdens, inflation, and demand and growth pressures. The budget gap will increase in each of the next three years if no action is taken to reduce expenditure, generate more income through commercial revenue or continue to grow the number of dwellings and businesses in the borough.

4.4 To close the budget gap for 2019/20, savings (including additional income) of £10.3m are proposed.

Table 6: 2019/20 Savings and Additional Income

Service Area	£'m
Children's Services	(1.3)
Corporate Services	(0.3)
Finance & Governance	(1.6)

Service Area	£'m
Growth & Place	(0.8)
Public Services Reform	(0.8)
Residents' Services	(2.4)
Social Care	(3.1)
Savings	**(10.3)**

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

Table 7: Categorisation of Savings and Additional Income

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

Budget Risk and Reserves

4.7 The Council's General Fund gross budget is £560m. Within a budget of this magnitude there are inevitably areas of risk and uncertainty particularly within the current challenging financial environment. The key financial risks that face the Council have been identified and quantified. They total £25m. Financial risks of £19.5m were identified when the 2018/19 Budget was set.

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

Table 8: Reserves Forecast to 2021/22

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

4.9 The existing commitments include:

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

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

4.11 Looking to the future an anticipated use of reserves is a planned investment of £27.3m in the King Street West Regeneration project with a forecast profit of £11.1m coming back to the Council from the proposed Joint Venture profits. This scheme will be considered at Full Council on 23 January 2019. The Council will benefit from efficiencies in delivering modern, inclusively designed and fit-for-purpose office and civic accommodation for its staff and visitors, as well as for small and start-up businesses. It also avoids the need for significant capital investment in the existing Town Hall and Town Hall Extension, which in 2017 was estimated at between £29.2 million and £53.5 million for both buildings, depending on the extent of refurbishment works undertaken. These figures exclude professional fees (estimated to be at least £2million to tender stage) and the cost of decanting staff to allow works to take place.

4.12 Maintaining reserves and balances at an adequate level is essential to the future financial resilience of the Council. For example, an overspend of £4.5m is forecast in the month 5 Corporate Revenue Monitor. This will be a further call on reserves unless the overspend is tackled by year-end.

4.13 Reserves can only be spent once. The forecast to 2021/22 identifies a tightening in the Council's finances that will need careful management and review. Continued focus will be required on keeping spend within budget and avoiding the use reserves to balance future budgets and rebuilding reserves for future investments.

5 FEES AND CHARGES

5.1 The budget strategy assumes:

- Social Care charges frozen
- A standard uplift of 3.5% based on the August 2018 Retail Price Index for other charges
- Case by case review for commercial services that are charged on a for-profit basis. These will be varied up and down in response to market conditions, with relevant Member approval.

5.2 The exceptions for this Committee are set out in Appendix 4.

6 2019/20 COUNCIL TAX LEVELS

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

Table 9: Liability for Council Tax

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

6.2 **An adult social care precept** levy of 2% is budgeted for 2019/20 with a freeze in future years. This will generate additional income of £4.6m over 4 years and £1.15m in 2019/20. This will increase the Band D Council Tax charge by £14.55 (4p per day).

6.3 The Mayor of London's draft budget is currently out for consultation and is due to be presented to the London Assembly on 24 January 2019, with final confirmation of precepts on 25 February. The current Band D precept is £294.23.

6.4 The change to the LBHF Band D charge is set out in Table 10. The current LBHF Band D charge of £727.81 is 34% lower than the London average of £1,112. The overall Band D charge, including the GLA precept, is the third lowest in the country.

Table 10: LBHF Band D Council Tax Charge

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

7. Comments of the Strategic Director for Growth & Place

7.1 The Growth & Place department provides services funded by both the Housing Revenue Account and by the General Fund. This report only considers those services provided from General Fund budgets.

Housing Revenue Account Budgets

7.2 A separate report on the Financial Plan for Council Homes that set out the 2019/20 Housing Revenue Account budget is also included in this agenda.

7.3 The HRA budget enables the Council to deliver services to residents, maintain safe and secure homes, invest in its stock, and develop new affordable homes.

7.4 The Financial Plan for Council Homes report is scheduled to go before Cabinet on 4th February 2019.

General Fund Budgets

7.5 Resources have been focused on:

- the significant challenge of delivering and enhancing front-line services in the face of increasing demand,
- responding to major changes and constraints on income collection brought about by the Government's programme of Welfare Reform and the Homelessness Reduction Act,
- establishing a long-term model for delivering temporary accommodation which prevents and relieves homelessness whilst protecting the Council's financial position.

Growth

7.6 The Council owns pockets of land which have the potential to be developed for affordable housing. A budget of £100,000 will be made available to fund feasibility studies for one year only.

Savings Proposals

7.7 Growth & Place plan to deliver a savings target of £0.779m primarily from the Housing Solutions and Planning divisions:

- **Temporary Accommodation reduction programme and investment in private rented sector properties (£250,000)** – extending the practice of brokering private rented sector accommodation for households faced with homelessness to 300 households over the next two years, reducing temporary accommodation costs.
- **Housing Solutions staff savings (£141,000)** – realigning resources within the team.
- **Planning staffing efficiencies (£328,000)** – realigning resources within the team.
- **Restructure of the Work Matters service and Section 106 substitution (£60,000)** - enabling the delivery of key outcomes for the Council's Industrial Strategy including community outreach to connect residents and school students with the new opportunities arising from the Council's partnership with Imperial College.

Risks: Housing Solutions

7.8 The main risks affecting Growth & Place relate to managing the impact of the Government's programme of Welfare Reform:

- the loss of suitable tenancies in the private sector, leading to a risk of increased homelessness and the greater use of expensive temporary accommodation such as Bed & Breakfast (B&B);
- changes in the temporary accommodation subsidy system, leading to the loss of existing Council-managed temporary accommodation and increased B&B usage;
- reduced viability for temporary accommodation managed by Housing Associations (HAs), and potential knock-on effects for the authority in providing alternative temporary accommodation;
- loss of tenancies in the private sector or loss of income in Council managed temporary accommodation arising from the direct payment of benefits to claimants under Universal Credit and the potential risk of increased homelessness and the use of B&B;
- inflationary pressures on costs due to increased demand for temporary accommodation across London;
- loss of income for the Council due to the removal of the temporary accommodation management fee from housing benefit subsidy entitlement from April 2017;
- increase in staffing and procurement costs due to the implementation of the Homeless Reduction Bill which places additional duties on the Council to prevent homelessness.

7.9 The potential financial impact can be summarised in the following main areas for Housing Solutions:

Direct Lettings Incentive Payments

7.10 To procure accommodation below market rents, the Council must incentivise landlords to let properties to homeless households. Historically the funding of these incentives has been enabled by underspend carry forward requests. The minimum annual cost of £0.6m will need to be funded from the Temporary Accommodation (TA) earmarked reserve. The Homeless Reduction Act places a duty on Councils to provide TA to a previously ineligible client group, placing pressure on the incentive provision. The current incentive amounts are lower than some of the other London boroughs. As a result, landlords are requesting higher incentives and if not agreed, properties are being made available to higher paying authorities.

Overall Benefit Cap

7.11 It is anticipated that the risk relating to the Overall Benefit Cap will be up to £0.1m from 2019/20 onwards because of the Government's reduction of the Overall Benefit Cap from a maximum of £26,000 per annum to £23,000 per annum for single parents and couples with children.

Universal Credit (UC) and Bad Debts

7.12 The Government's programme of Welfare Reform is expected to have a significant impact on the Council's ability to collect rental income and may result in increased bad debt charges. However, from April 2018, new TA benefit claims are no longer subject to Universal Credit and instead, claimants are subject to Housing Benefit subsidy which is paid directly to the Council.

7.13 This means that there is a smaller risk that the budgeted bad debt provision will be insufficient from 2019/20. Based on current client numbers in receipt of UC, the predicted risk is £35,000 from 2019/20 onwards.

7.14 The financial impact of the remaining tenants on Universal Credit will be in part dependent on the efficacy of DWP in providing accurate and timely electronic information to Housing Solutions.

7.15 The Council awaits the Government's determination on the consultation over any new TA subsidy regime.

Increase in client volumes and homelessness acceptances

7.16 Recent years have seen increases in client numbers in TA and this trend is expected to continue. After taking account of the mitigating impact of homelessness prevention activities, numbers in Private Sector Leased (PSL) and Bed & Breakfast (B&B) accommodation re expected to drop next year but then increase in future years. The forecast number of clients in TA set out below means there is a risk of further net costs of £0.1m in 21/22 and £0.3m in 22/23.

Risk	March 2019	March 2020	March 2021	March 2022
Forecast number of clients in TA	1,449	1,250	1,300	1,350

7.17 There is also a risk that homelessness acceptances will increase in future years due to Government policy. On the assumption that the number of new homelessness acceptances increases by 100 per annum on an ongoing basis is set out below.

Risk	2020/21 £m	2021/22 £m	2022/23 £m
Number of new homelessness acceptances	0.6	1.2	1.8

7.18 This risk does not consider the impact on client volumes arising from the Homelessness Reduction Act. LBHF implementation in April 2018 has seen a 137% increase in households approaching the service for housing assistance. Increased staffing resources on prevention has meant that the increases volumes have not resulted in increased TA placements to date with the TA reduction programme contributing to the reduction in TA households. The full impact of the Homelessness Reduction Act and the subsequent `Duty to Refer` in October 2018 has not been felt, however this resulted in the highest number of referrals received in December since the implementation of the Act in April 2018.

Loss of Temporary Accommodation (TA) management fee on housing benefit subsidy

7.19 The Flexible Homelessness Support Grant provided by central Government is currently cushioning the impact of the removal of the management fee for Temporary Accommodation. This, and other related government grants, will diminish and potentially disappear from 2020/21 as Government has not confirmed allocations beyond next year. There is therefore a risk of a loss of income from April 2020 as follows.

Risk	2020/21 £m	2021/22 £m	2022/23 £m
Loss of grant	1.8	1.9	2.0

Increases in temporary accommodation procurement costs

7.20 There is a risk of inflationary pressures on costs because of increased demand for temporary accommodation across London. The risk is based on an additional 1.5% increase in costs over and above the inflation already budgeted for in 2019/20 and the impact of a further 1.5% increase for each year is set out below.

Risk	2019/20 £m	2020/21 £m	2021/22 £m
Increase in TA costs	0.3	0.5	0.8

Keeping families out of Bed & Breakfast accommodation

7.21 The Council has successfully managed to protect families from being temporarily housed in B&B accommodation for longer than six weeks since October 2015. The increasing demand pressures arising from the Government's programme of Welfare Reform mean that there is a risk that the Council may face increasing costs to house families at set out below.

Risk	2019/20 £m	2020/21 £m	2021/22 £m
Increase housing families costs	0.2	0.2	0.3

Homelessness Reduction Act – potential increase in costs

7.22 This is anticipated to result in the need to place additional households in temporary accommodation. The risk register shows the extra costs if we have an extra 70 homelessness acceptances each year: £0.5m in 2019/20, £0.9m in 2020/21 and £1.4m in 2021/22. However, the numbers may significantly exceed this and the risk may be as high as

£3m a year. The £0.6m the Council has been receiving over a three-year period (the last year is 2019/20) from Government this is unlikely to cover the additional costs.

Homelessness prevention and risk mitigation

7.25 The following activities that will help mitigate these risks are planned:

- An interim structure was implemented to prepare for the Homelessness Reduction Act 2017 to ensure a robust response to the new legislation, ensure legal compliance and greater emphasis on preventing and relieving homelessness. Government New Burdens funding will mitigate against a negative impact on current budgets.
- In light of the current budget pressures in 2018/19, a review of temporary accommodation provision has been carried out looking at opportunities to invest in a private rented sector portfolio and looking at changing the mix of the current temporary accommodation portfolio away from short term monthly to look for longer term ways to mitigate the cost pressures.
- The Social Lettings Agency has delivered increased numbers of private rented accommodation as well as more cost-effective TA. The service offers a tenancy relations service to private landlords as well as other landlord services e.g. Energy Performance Certificates (EPC) to generate income.
- Continuing to use buybacks in the Earl's Court regeneration area for use as affordable in-borough TA.
- Increasing the supply of social and affordable housing is crucial to the success of any strategic approach to managing the TA process. Low turnover in social housing (in common with all of London) has slowed the TA move on process and resulted in more households in TA for longer period – compounding the need for additional TA units. The Council plans to increase affordable housing, reducing pressure on TA budgets by providing permanent lower cost homes through direct delivery, partnership with HAs and working with developers through the planning process.

Risks: Planning

7.26 The inherent volatility of planning income means it is difficult to predict future income due to several factors including:

- Changes to the statutory charging schedule, pre-application fees and Planning Performance Agreement templates
- Economic factors such as Brexit and local and wider market conditions
- Changes in legislation e.g. permitted development rights, Planning Performance Agreement regulation
- Availability of development sites in the borough

- Developers behaviour such as by-passing the pre-application process and responding to housing supply
- Government schemes to encourage house building
- Adverse weather conditions.

7.27 Formal consultation with staff on the reorganisation which is expected to deliver the Planning staffing efficiencies saving has commenced and is scheduled to be completed by the end of March. The delivery of these savings depends on the successful outcome of this consultation and implementation of the restructure. The new arrangement will be reliant on an increase in the drawdown from Section 106/CIL funds for management and administration costs.

7.28 The current practice of invoicing in arrears for Planning Performance Agreements can result in a higher bad debt charge as companies can cease trading after developments complete, making it harder to recover monies owed. The current provision for bad debts is £0.15m compared to a total annual income of circa £3.6m.

7.29 There has been a fall in the total number of applications over the course of 2018/19 and this is impacting adversely on projected fee income. This is understood to be due to trends in the wider economy including Brexit and a deterioration in the buoyancy of the housing market. This trend is likely to continue, resulting in shortfalls in income from planning fees. The risk based on the latest forecast is £0.3m.

7.30 Other risks include costs producing Supplementary Planning Documents will exceed the budgets and funding available additional. In addition, unbudgeted costs arising from future public enquiries and judicial reviews. In recent years, the cost of judicial reviews and major planning appeals has been met from earmarked reserves but these funds are now exhausted and therefore, there is a risk of an overspend against the budget of £0.3m base on the latest forecast.

Risk mitigation: Planning

7.31 The following activities that will help mitigate the risks to Planning are planned:

- changing our approach to invoicing for large schemes to bill in advance on a milestone instalment basis, together with the introduction of an improved debt recovery system. Whilst this change is not expected to generate additional income, it will reduce the debt position and bad debt risk;
- Mayoral CIL - under Regulation 61 of the Community Infrastructure Levy Regulations 2010 (as amended), the Council as a collecting authority can use CIL proceeds to cover administrative expenses incurred in collecting CIL up to specified

limits, currently this is 4% of CIL collected in each year by collecting authorities.

Risks: Economic Development and Adult Learning

7.32 The Economic Development service is responsible for the delivery of key elements of the Council's Economic Growth priorities. The service is dependent upon securing Section 106 funding. A paper has been submitted for approval by Cabinet. Should funding not be approved, the risk is £1.2m for each year from 2019/20 onwards.

7.33 The Adult Education Budget (AEB) is due to be devolved to the London Mayor in 2019/20 to distribute more equitably to sub-regions across London. There is a risk that the Council will receive less of the AEB allocation following the proposed devolution in 2019/20. The Learner Fees income target in 2019/20 for ALSS is now set at £775,000. However, ALSS income projection from learner fees has been £690,000 for several years so the increase in the target income of £85,000 represents a risk. In 2017/18 and 2018/19, this £85,000 shortfall was covered by the delivery of NHB training programmes. If there is no further NHB funding available in 2019/20 and no other sources of income generation for ALSS then this represents a significant risk.

Risks: Growth

7.34 The Council is developing an assets and growth strategy, which will enable the redevelopment of existing non-residential assets to provide new community assets and affordable housing. Each specific scheme will be the subject of separate approvals at Cabinet and Full Council where necessary. If a scheme progresses to development then costs associated with it are capital costs. However, there will be instances of affordable housing related feasibility studies on General Fund land where there is a risk of abortive costs should schemes not be progressed.

Risks: Building & Property Management

7.35 The main risk affecting Building & Property Management relates to the potential for repairs and maintenance costs at the Lyric Theatre. This risk is currently estimated at £100,000.

8. Comments of the Director of Libraries and Archives

8.1. The Council is committed to keeping its four libraries open for long hours and supporting the community-run libraries. The financial position for 2018/19 has been challenging with difficulties meeting the income target and a reconsideration of the Smart Open programme. The service has mitigated this as much as possible with in-year savings. There has been a focus on commercialisation with Fulham Library now being marketed as a venue for weddings, and space has been leased to Hammersmith

& Fulham law centre at Hammersmith library. Other projects include making the basement of Fulham library available for commercial rent and introducing a fee-generating visa-checking service, both of which are expected to start in early 2019.

Growth

8.2. No growth has been requested for Libraries for 2019/20.

Savings

8.3. No savings have been put forward for Libraries for 2019/20.

9. Equality Implications

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

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

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 – Draft Equality Impact Assessment

Appendix 4 – Fees & Charges