

London Borough of Hammersmith & Fulham

Report to: Cabinet

Date: 01/02/2021

SUBJECT: Revenue Budget And Council Tax Levels 2021/22

Report of: Leader of the Council – Councillor Stephen Cowan

Responsible Director: Director of Finance – Emily Hill

Summary

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

The 2021/22 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, agrees:

1. To increase the Hammersmith & Fulham element of council tax by 1.99% for 2021/22, as modelled by the government in their spending power calculations for local government.
2. To apply the “adult social care precept” levy of 3% for 2021/22, as modelled by the government in their spending power calculations for local government.
3. To set the Council’s own total net expenditure budget for 2021/22 at £124.458m.
4. To approve £7.885m of new investment on key services for residents.
5. To approve fees and charges as set out in paragraph 13 below including freezing charges in adult social care, children’s services and general fund housing.
6. To note the budget projections to 2024/25 made by the Director of Finance in consultation with the Strategic Leadership Team.

7. To note the statement of the Director of Finance, under Section 25 of the Local Government Act 2003, regarding the adequacy of reserves and robustness of estimates (paragraph 48).
8. To approve the reserves strategy and realignment of reserves as set out in Appendix J and Appendix K.
9. 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.
10. To authorise Directors to implement their service spending plans for 2021/22 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.
11. Set the Council's element of council tax for 2021/22 for each category of dwelling, as outlined in the table below and in full in Appendix A and calculated in accordance with Sections 31A to 49B of the Localism Act 2011.

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	554.64	647.08	739.52	831.96	1,016.84	1,201.72	1,386.60	1,663.92

12. To note the element of council tax to be charged by the Greater London Authority in accordance with Section 40 of the Local Government Finance Act 1992 for each of the categories of dwellings as shown in the table below

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 £
b) GLA	242.44	282.85	323.25	363.66	444.47	525.29	606.10	727.32

13. That the overall Council Tax to be set at £1,195.62 per Band D property 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	554.64	647.08	739.52	831.96	1,016.84	1,201.72	1,386.60	1,663.92
b) GLA	242.44	282.85	323.25	363.66	444.47	525.29	606.10	727.32
c) Total	797.08	929.93	1,062.77	1,195.62	1,461.31	1,727.01	1,992.70	2,391.24

14. To authorise the Director of Finance 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.

Wards Affected: All

H&F values	Summary of how this report aligns to the H&F Priorities
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.
Creating a compassionate council	The Council intends to apply 3% 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 wholly 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 30 of the Local Government Finance Act 1992 provides that no amount of council tax may be set before the earlier of the following— (a) 1st March in the financial year preceding that for which the amount is set; (b) the date of the issue to the authority of the last precept capable of being issued to it (otherwise than by way of substitute) by a major precepting authority for the financial year for which the amount is set. The GLA precept is due to be agreed at its meeting of 25 February 2021 in advance of the Hammersmith & Fulham council tax setting meeting.
4. Section 25 of the Local Government Act 2003 requires the Director of Finance 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.
5. 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.
6. 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.
7. 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.*

(3) 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.

(4) 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.

(5) 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.

8. 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.

9. 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.

10. 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.

11. 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.

12. 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.

Contact Officers:

Name: Emily Hill
Position: Director of Finance
Telephone: 020 8753 3145
Email: emily.hill@lbhf.gov.uk

Name: Andrew Lord
Position: Head of Strategic Planning and Monitoring
Telephone: 020 8753 2531
Email: andrew.lord@lbhf.gov.uk

Name: Adesuwa Omoregie
Position: Head of Law
Telephone: 0208 753 2297
Email: adesuwa.omoregie@lbhf.gov.uk

Background Papers Used in Preparing This Report – none

BUDGET OVERVIEW

1. The Council's budget proposals are brought forward during a period of national crisis. The Covid-19 pandemic and health emergency has been accompanied by unprecedented economic uncertainty and the deepest recession on record. The direct impact of the crisis continues to impact on the council as it responds to the pandemic with an increased demand for services and loss of income. Longer-term the expected economic downturn and need to reset public finances, whilst at the same time increasing demand on services, will place a further strain on local government. The 2021/22 budget is mindful of the need for future financial resilience as the council plays an important role in the local recovery from the pandemic.
2. **A 1.99% increase in Hammersmith & Fulham council tax is recommended** which will raise income of £1.28m in 2021/22. This level of council tax increase is modelled by the government in their funding settlement for local government. The additional income will fund increasing costs and support investment in, and protect, key services for residents and strengthen future financial resilience. The Band D council tax charge for Hammersmith & Fulham is the third lowest in the country and 35% below the London average charge.

3. **A 3% adult social care precept** is proposed to generate additional income of £1.92m. In the absence of a promised national review of the funding of adult social care, the government has modelled an adult social care precept since 2016/17. In the first years of the levy, Hammersmith & Fulham were determined not to apply the levy despite the fact the Council's funding from government was modelled on the assumption that it would. Due to the continued high levels of inflation and instability in the social care market, the impact of the Covid-19 pandemic and the government's continued failure to propose a long-term funding solution to social care funding, the Council proposes to accept the need for the 3% government's adult social care levy for 2021/22. The total levy increase for Hammersmith & Fulham over the 6 years to 2021/22 will be 7% compared to the 13% increase assumed by the government. Hammersmith & Fulham is using such funding to support adult social care.
4. **General government grant funding** has increased by an estimated £3.3m from 2020/21 to 2021/22. This is well below the increase in the Council's costs due to inflation, demographic pressures and the Covid-19 health and economic crisis. Overall government funding has reduced by £64m from 2010/11 to 2021/22 - a real terms funding cut of 53%.
5. **Investment of £7.9m** has been provided to meet the costs of statutory obligations, demographic, service and demand pressures and key resident priorities. Budget provision is also made regarding the ongoing consequences of Covid-19.
6. **Savings of £6.9m** have been put forward to balance the 2021/22 budget.
7. The budget proposals include measures to strengthen the Council's future financial resilience by **contributing one-off resources of £1.1m to general balances**. In addition a one-off contingency of £1.1m is set aside regarding Covid-19 financial pressures The Council faces significant future financial risk with particular uncertainty regarding the impact of the Covid-19 pandemic, future government funding allocations, the potential impact of Brexit and increasing demand for services.

THE COUNCIL TAX REQUIREMENT

8. The Council's current gross General Fund budget rolled forward to 2021/22 is £528m, of which £156.9m (the budget requirement) is funded from Council resources (such as council tax and business rates) and general government grant.

Table 1 : 2021/22 budget requirement

Budgeted expenditure (2020/21)	£m
Housing benefit payments	111
Departmental budgets	417
Gross budgeted expenditure	528
Less:	
Specific government grant (including housing benefits and dedicated schools grant)	(243)
Fees and charges	(67)

Contributions (e.g. health)	(44)
Other income (e.g. investment interest, rentals, recharges)	(17.1)
Base budget requirement rolled forward to 2021/22	156.9

9. The Band D council tax charge is calculated by dividing the council tax requirement by the council tax base¹. The determination of the 2021/22 council tax requirement is set out in Table 2. The medium-term forecast, to 2024/25 is set out in Appendix B.

Table 2: The council tax requirement

	£000s
Base gross budget rolled forward from 2020/21	156,902
Plus/minus:	
Inflation	4,132
Investment and impact of Covid-19	7,885
Increase in the net cost of borrowing	800
Savings and change proposals	(6,689)
Adjustment for one off items	(1,100)
One-off Covid-19 contingency	1,096
Contribution to general balances (one-off items)	1,100
Gross budget requirement	164,126
Revenue Support Grant	(17,506)
Other general grants	(20,772)
Use of developer contributions	(1,700)
Collection Fund deficit	400
Net budget requirement for 2021/22	124,458
Less:	
Locally retained business rates (section 8)	(57,217)
2021/22 council tax requirement (including the adult social care precept)	67,331

INFLATION AND INVESTMENT

Inflation

10. **Provision for contract inflation** of £4.1m has been made. £2.4m relates to social care with the Covid-19 pandemic increasing costs, and causing staff shortages, for residential and nursing care providers.
11. Further to the government Spending Review 2020 (SR20) announcement a pay freeze is modelled – there is a risk that, as local government nationally has separate

¹ 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.

pay negotiations and agreements to central government, the council may need to award pay inflation in 2021/22 in line with any national agreement.

12. For non-statutory fees and charges, it is recommended that:

- they are frozen for Adult Social Care, Children’s Services and Housing.
- a standard uplift of 1.7%, based on the July 2020 Retail Price Index, is applied for other non-commercial and non-parking fees.
- commercial services that are charged on a for-profit basis, will be reviewed on an ongoing basis in response to market conditions and varied up and down as appropriate, with appropriate authorisations according to the Council constitution.
- parking charges and fines are set in line with transport policy objectives and are not considered as part of the budget process.

The current proposed exceptions to the standard 1.7% increase and policies above are set out in Appendix F.

Investment

- 13 Investment in services is provided through the budget process as necessary. This investment is required to fund increases in cost as a result of demographic growth and other increases in demand and to fund council priorities. In addition, for 2021/22 the budget makes time limited provision for increased costs or lost income expected as a result of Covid-19 pandemic and economic downturn. This is detailed in Appendix C and summarised in Tables 3 and 4.
- 14 As part of the budget review and challenge process departments have brought forward detailed proposals that have enabled spend pressures to be addressed directly. Such budget mitigations have partially offset the need for new investment.

Table 3: 2021/22 investment proposals

Department	£m
Children's Services	1.6
Social Care	2.4
The Economy	1.2
Environment	1.1
Finance	0.1
Resources	0.0
Council Wide	1.5
Total investment	7.9

Table 4: Categorisation of investment proposals

Growth categories	£m
Increase in demand/ demographic growth	2.4
Resident priority	0.5
Budget pressure / increase in contingency	2.3
Impact of Covid-19/ economic downturn	2.7
Total	7.9

SAVINGS AND INCOME GENERATION

- 15 The proposed savings are detailed in Appendix C and summarised in Tables 5 and 6. In addition a further short-term saving of £1.1m (for 2021/22 and possibly to a lesser extent 2022/23) will arise regarding the cost of the concessionary fares scheme (freedom pass). This is due to lower usage during lockdown and impact on passenger usage of public transport in response to the Covid-19 pandemic. As a short-term saving this sum will be added to general balances in line with the council's reserves strategy.

Table 5: 2021/22 savings proposals

Department	£m
Children's Services	0.7
Social Care	2.0
Reinvestment of public health	0.9
The Economy	1.1
Environment	1.1
Finance	0.4
Resources	0.5
Total savings	6.7

Table 6: Categorisation of 2021/22 savings

Savings categories	£m
Commercialisation / income	0.5
Prevention	1.0
Procurement / commissioning	1.4
Service rationalisation / budget reduced in line with spend	1.1
Service reconfiguration	1.1
Staffing / productivity	1.6
Total	6.7

GOVERNMENT GRANT, DEVELOPER AND BUSINESS RATES FUNDING

- 16 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 £3.3m compared to 2020/21. This includes additional one-off local council tax support grant of £1.4m in recognition of the loss of income arising from providing increased levels of local council tax support due to the Covid-19 pandemic. The Hammersmith & Fulham budget proposals allow for £0.6m of this grant to be held as a contingency against Covid-19 budget pressures. All grant allocations are provisional, based on the draft local government settlement and other grant notifications and will not be confirmed until the final settlement is published in the new year.
- 17 Ringfenced grants, which can only be used for a specific purpose, are currently forecast to have increased by £0.404m from 2020/21 to 2021/22. This forecast will be updated as more announcements are confirmed. It is assumed that such grants will have a neutral impact on the budget requirement as they will be matched against spend commitments.
- 18 The business rates forecast is summarised in Appendix H. The impact of Covid-19 on future business rates income is unknown but experience of collection to date and concerns around revised business rate valuations suggests it likely to be negative in the short and medium term. The budget assumes that Hammersmith & Fulham will receive the minimum amount guaranteed, the safety net threshold, by government. This is £57.2m for 2021/22. For years beyond 2021/22 a 2% inflationary increase to the safety net is modelled.
- 19 Hammersmith & Fulham currently participates in the pan-London business rates pool which enables more business rates growth to be retained within London. The latest estimated pool benefit for Hammersmith & Fulham is £580,000 for 2020/21. An updated forecast is due in January and the final benefit will be known next September. This sum is not included within the Hammersmith & Fulham financial forecast and will be added, if confirmed, as a one-off contribution to reserves. Due to the impact of Covid-19 on businesses it is expected that the final pool benefit will be lower than previously estimated. Due to concerns regarding the impact of Covid-19 on future business rates income, and no assurance/guarantee from government on future support, the financial case for pooling in 2021/22 is not strong and there has been a collective withdrawal. Future review will be undertaken to see if the pool can be relaunched in 2022/23.
- 20 Planning obligations under section 106 of the Town and Country Planning Act 1990 (as amended), known as section 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.
- 21 The Council has determined that a key priority area for the investment of available section 106 funds with general purposes is the provision of enhanced community

enforcement and safety arrangements. The 2021/22 budget assumes that annual contributions of £1.7m are invested to fund enhanced arrangements in this area and this can be met from receipts currently in hand. Additional funds have been committed in 2021/22 to fund the additional costs of the new Integrated Enforcement team and the Gangs, Violence and Exploitation Unit.

- 22 A number of section 106 agreements have been negotiated which will result in the receipt of additional funds in the future. There is a level of uncertainty and risk around the receipt of future section 106 funds as this relies on developments commencing and achieving specified trigger points which may be delayed or not progressed due to the impact of Covid-19 and the economic downturn. The Council will continue to monitor the receipt of section 106 funds expected in the short and medium term, where the level of uncertainty around trigger points increases.

HAMMERSMITH AND FULHAM'S COUNCIL TAX REQUIREMENT

- 23 On 20 January 2021 Council agreed a Council Tax Base of 80,930 equivalent Band D properties for 2021/22. Therefore, the Council's element of the council tax for Band D properties can be calculated as followed:

<u>Total Council Tax Requirement</u>	=	<u>£67,330,523</u>	=	£831.96	Band
D					
Tax Base (Band D equivalent)		80 930			

- 24 This represents an increase in the Hammersmith & Fulham element of the council tax charge of 1.99% and a 3% levy for the adult social care precept.
- 25 A 1.99% increase in the Hammersmith % Fulham, element of council tax will generate additional income of £5.2m over 4 years and £1.28m in the first year. This will add £15.77 per annum (4.3p per day) to the Band D council tax charge. As set out below just over half of dwellings in Hammersmith & Fulham 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	91,550
Reductions:	
Exemptions (mainly students, includes care leavers)	(4,161)
Council tax support claimants (elderly people & working age on low income)	(12,009)
Single person discount (25% discount)	(28,180)
Dwellings liable for 100% of council tax	47,200
	52%

- 26 The government's modelled adult social care precept of 3% will generate additional income of £7.7m over 4 years and £1.92m in 2021/22. This will increase the Band D council tax charge by £23.77 per annum (6.5p per day).

- 27 The overall increase in the London Borough of Hammersmith & Fulham element of the Band D charge, including the government’s modelled 3% adult social care precept, is £39.54 (10.8p per day).

PRECEPTOR’S COUNCIL TAX REQUIREMENTS

- 28 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 proposed overall Band D council tax level. The Mayor has proposed a Band D charge of £363.66. This is subject to formal approval by the Mayor following the London Assembly meeting of 25 February. The preceptors budget requirement will be amended should there be a change to the Mayor’s proposed Band D charge.

Preceptor’s Budget Requirement	=	£29,431,004	=	£363.66 Band D
Tax Base (Band D equivalent)		80,930		

- 29 The proposed charge represents an increase of £31.59, or 9.5%, compared to 2020/21.

OVERALL COUNCIL TAX REQUIREMENT 2021/22

- 30 The overall amount to be met from the council tax, subject to confirmation of the GLA precept, is £96.762m. This will provide a balanced budget with £1.1m added to General Fund balances.

Table 10: Overall 2021/22 council tax requirement

London Borough of Hammersmith & Fulham	£67,330,523
Greater London Authority (proposed)	£29,431,004
Total requirement for council tax	£96,761,527

- 31 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.
- 32 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. The amount per Band D equivalent property is calculated as follows:

<u>Total Council Tax Requirement</u>	= <u>£96,761,527</u> = £1,195.62 Band D
<u>Tax Base (Band D equivalent)</u>	80,930

CONSULTATION

Non-Domestic Ratepayers

- 33 In accordance with the Local Government Finance Act 1992, the Council has consulted with non-domestic ratepayers on the budget proposals. The consultation can have no effect on the business rate, which is set by the Government.

Policy and Accountability (PAC) Committees

- 34 As part of the consultation process the budget proposals have been reviewed by the relevant PAC Committees.

VIEWS OF THE DIRECTOR OF FINANCE

The robustness of the budget estimates

- 35 Under Section 25 of the Local Government Act 2003, the Director of Finance is required to include, in the budget report, her view of the robustness of the 2021/22 estimates.
- 36 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 Director of Finance, is satisfied with the accuracy and robustness of the estimates included in this report:
- The budget proposals have been developed following guidance from the Director of Finance and have been through a robust process of development and challenge with the Strategic Leadership Team, service directors and managers and cabinet members.
 - Contract inflation is provided for.
 - The revenue budget proposals provide for the council to hold an unallocated contingency of £3m to meet unforeseen budget pressures and a new contingency of £1.096m regarding Covid-19.
 - The budget acknowledges that government funding will continue to be receivable regarding the impact of Covid-19 in the first quarter of 2021/22. There is risk that such funding will be insufficient and may be needed for a significantly longer period.
 - 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 which, where not manageable within current budgets have resulted in additional investment.
- 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 the impact of the Covid-19 pandemic, government grant funding cuts of £64m over the past 11 years, 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 £5.7m which will reduce to £1.5m 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 2020/21 to re-align budgets where required with mitigating actions identified to meet budget pressures and growth provided when needed.
- 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 £0.8m in the revenue net cost of borrowing.
- The recommendations regarding fees and charges are in line with the assumptions in the budget.
- A review with the Strategic Leadership Team of proposed savings and their achievability has taken place.
- Cabinet Members have reviewed and challenged all budget proposals. In addition, the relevant Policy and Accountability Committees have scrutinised the budget proposals.
- There are appropriate management and monitoring arrangements for the delivery of savings programmes.
- A prudent approach has been adopted on the local share of income receivable, particularly in light of the impact of Covid-19, budgeting at the safety net.
- Developer contributions to fund enhanced community safety and enhancement arrangements of £1.7m are included in the budget with further additional contributions agreed. 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.

Risk, revenue balances and earmarked reserves

- 37 Under Section 25 of the Local Government Act 2003, the Director of Finance is required to include, in budget reports, her view of the adequacy of the balances and reserves the budget provides for in light of the medium-term risks facing the authority.
- 38 The key financial risks that face the Council have been identified and quantified (Appendix D). They total £13.9m. Other substantive risks include:

- The direct impact of the Covid-19 pandemic on council expenditure and income. To date the government has not fully funded the council with an in-year shortfall of £2.5m (month 6 Corporate Revenue Monitor) forecast. The government have announced that the fees and charges grant compensation scheme² will continue in the first quarter of 2021/22 and that a new un-ringfenced emergency Covid-19 pressures grant of £6.2m will be receivable in 2021/22. There is a risk that such funding will be insufficient to fully compensate the council for the extra costs incurred and income lost and/ or that the financial impact of the Covid-19 measures will extend beyond the first quarter of the new financial year.
- The indirect impact of the Covid-19 pandemic on the wider economy. An economic downturn will likely increase demand for needs-based council services whilst exerting downwards pressure on income streams and increased costs.
- An increase in the number of residents awarded council tax support scheme discounts due to the economic downturn.
- Government reform of the local government finance system. 'Fair funding', business rates, the New Homes Bonus grant and the system for social care funding are all potentially subject to reform by 2022/23. These reforms will be influenced by the government's 'levelling-up' agenda. It is expected that significant resources may be distributed away from London. For modelling purposes, the council's financial plan assumes a grant reduction of approximately 5% per annum from 2022/23 onwards.
- The strain on public finances more generally with the Chancellor of the Exchequer stating that the Covid-19 economic crisis has just begun; from past experience any future fiscal and spend measures that seek to reset the public finances may be borne disproportionately by local government.
- Brexit poses a further risk to public finances, price inflation and economic growth.
- Lack of clarity on future government or TfL support for Hammersmith Bridge and other essential capital investment.
- The impact of an economic downturn on major council projects, such as the Civic Campus, Education City and other affordable housing developments, and risk to future contributions from developers.

39 Reserves are also a key enabler for future service transformation. The financial challenge facing the council will require investment to deliver future efficiencies to enable the council to balance the budget in future years.

40 As part of the Audit Findings Report for the year ended 31 March 2020 the Council's external auditors (Grant Thornton) commented on the level of the Council's reserves:

'the Council's reserve position is reasonable but allows no room for complacency or further diminution of those reserves. We would urge that members fully digest the lessons from recent Public Interest Reports and other commentary from sector financial experts as they approach the 2021/22 budget setting round.'

² The scheme compensates local authority for 75% of income lost, above a 5% budget threshold, from sales fees and charges. It excludes commercial income.

- 41 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 strategy and action plan, the 2021/22 budget includes new one-off contributions to general fund balances of £1.1m arising from one-off benefits.

General fund balances

- 42 The Council's general balance stood at £19m as at 1 April 2020 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 £528m.
- 43 The Covid-19 pandemic has emphasised the need for reserves to be maintained at an adequate level. The lack of an adequate safety net has resulted in several councils, including Croydon and Bexley in London, across the country running into difficulties. Given the heightened financial risks facing Hammersmith & Fulham it is proposed that, over the medium-term, the council seek to increase the optimal range for general from the current £14m-£20m to £19m-£25m. The 2021/22 budget proposals include a contribution to general balances of £1.1m which takes them to £20.1m. The Director of Finance considers that the optimal range for general fund balances will be sufficient to allow for the risks identified and to support effective medium-term financial planning.

Earmarked reserves

- 44 The Council holds a number of one-off earmarked reserves. The latest forecast to 2024/25 is summarised in Table 11. It is the view of the Director of Finance that such reserves are adequate to deal with anticipated risks and liabilities.

Table 11: Reserves and general balances - cash flow forecast to 2024/25

Three-and-a-half-year Civic Campus relocation	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Opening balance	63.5	47.7	39.5	50.2	48.0
Forecast movement	(6.6)	(7.1)	12.9	(0.1)	(0.1)
Budgeted 2021/22 contribution		1.1			
Closing balance	56.9	41.6	52.3	50.1	47.9
Risks and other potential uses	(9.3)	(2.1)	(2.1)	(2.1)	0
Revised balance	47.7	39.5	50.2	48.0	47.9
Outside the forecast					
Developer contributions	16.6				

- 45 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 resident access programme). Allowance is made within the reserves

forecast for the estimated 2020/21 revenue budget overspend which includes the unfunded impact of Covid-19 (£5.7m at month 6) and further increases in the cumulative High-Needs DSG deficit.

- 46 The reserves brought forward to 2020/21 are net of £19m set aside regarding the historic deficit in Dedicated Schools Grant (DSG) funding. Discussions are ongoing with the Department for Education on potential financial support regarding this shortfall. Any additional funding made available will improve the current forecast.
- 47 The Director of Finance considers that current reserves are adequate to deal with anticipated risks and liabilities. Reserves can only be spent once and the forecast to 2024/25 identifies a further 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

- 48 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 2021/22 local authorities "will be required to seek the approval of their local electorate in a referendum if, compared with 2020/21, 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.
- 49 In addition, the Government has modelled setting a precept to fund Social Care for Adults of 3% in 2021/22. This sum is included in the Council's budget proposals.

Prior year Collection Fund deficit

- 50 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.
- 51 For 2020/21 council tax collection and income has been adversely impacted by the Covid-19 pandemic. An estimated in-year loss of £6m is currently forecast (of which the council share is £4.228m). The government have announced that this loss (**collection fund deficit**) can be spread over 3 years from 2021/22 onwards and SR20 further announced that 75% of 'irrecoverable losses' will be funded by government. The estimated net charge to Hammersmith and Fulham is £0.4m per annum from 2021/22 to 2023/24. This estimate is included in the Council's budget proposals and is subject to further review and confirmation of the government compensation scheme.

EQUALITY IMPLICATIONS

52. Published with this report are the Equalities Impact Assessments (EIAs) for each service area which is proposing savings. Additionally, there is a general budget 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.

RISK MANAGEMENT IMPLICATIONS

53. 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, in addition to the ongoing financial pressures relating to the Covid-19 pandemic, further, as yet unidentified and therefore unquantified, budget pressures will manifest over the term of the current Medium Term Financial Strategy (MTFS), both in terms of additional/unplanned expenditure and reductions in sources of funding and income. 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. Continued robust management of the Council's contracts is essential to ensure that they remain resilient during the challenges posed by changes resulting from the trade deal agreed with the European Union in December 2020 and any changes made to UK legislation arising from the UK's exit from the European Union.

- 54 The economic climate in which the Council has to operate continues to be extremely challenging. Cost overspends 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 real terms 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.
- 55 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, Education City and other affordable housing developments. Strong programme governance and oversight is in place and will be important to ensure that key objectives and outcomes are being delivered within approved budgets.
- 56 Appendix D sets out the financial risks against which the 2021/22 budget and MTFS are being proposed for approval. There are significant financial risks around ongoing demand for High Needs Block 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. Appendix D 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.
- 57 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.

PROCUREMENT IMPLICATIONS

- 58 There are no direct implications resulting from this report.
- a. It is recommended that further emphasis is established to ensure that we achieve best value for money through the council's procurement processes.

- b. It is important the Council's Contracts Register is maintained and up to date at all times which will help planning, modelling and ultimately deliver savings for the Council through procurement.

Implications completed by: Andra Ulianov, Procurement Consultant, x2284

List of Appendices:

Appendix A – The requisite council tax calculations for Hammersmith & Fulham

Appendix B – Medium term financial forecast

Appendix C – Investment and savings proposals

Appendix D – Budget risks (to follow for Cabinet Report)

Appendix E – Government grant funding

Appendix F – Fees and charges – exceptions to the standard increase

Appendix G – Equalities Impact Assessment

Appendix H – The business rates retention scheme for Hammersmith & Fulham

Appendix I – Spending power calculation

Appendix J – Reserves strategy

Appendix K – Reserves realignment

Appendix L – Reserves cashflow

APPENDIX A

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

		£	
(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.	584,200,027	
(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.	487,338,500	
(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.	96,761,527	
(d)	Being the amount formally agreed by Council as the council tax base for 2021/22.	80,930	
(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.	1,195.62	
(f)	Hammersmith & Fulham proportion of the Basic amount of its Council Tax (Band D)	831.96	
(g) Valuation Bands – Hammersmith & Fulham Council:			
Band A	Band B	Band C	Band D
554.64	647.08	739.52	831.96
Band E	Band F	Band G	Band H
1,016.84	1,201.72	1,386.60	1,663.92
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
242.44	282.85	323.25	363.66
Band E	Band F	Band G	Band H
444.47	525.29	606.10	727.32
(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 2021/22 for each of the categories of dwellings shown below:			
Band A	Band B	Band C	Band D
797.08	929.93	1,062.77	1,195.62
Band E	Band F	Band G	Band H
1,461.31	1,727.01	1,992.70	2,391.24