

London Borough of Hammersmith & Fulham

Report to: Community Safety and Environment Policy and Accountability Committee

Date: 24 January 2022

Subject: 2022 Medium Term Financial Strategy (MTFS)

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SUMMARY

Cabinet will present their revenue budget and council tax proposals to Budget Council on 24 February 2022. A balanced budget will be set in accordance with the Local Government Finance Act 1992.

In recognition of the significant increases in the cost of living of residents due to inflation and Government tax increases, the administration proposes to freeze council tax and not to apply the government modelled 1% adult social care precept increase. Despite this freeze, council savings and other areas of income will fund over £5m of increased investment in adult social care and public health.

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 in the budget.

RECOMMENDATIONS

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

Our values	Summary of how this report aligns to the H&F values
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Being ruthlessly financially efficient	We need to always confirm that spend fits our Council's priorities; challenge how much needs to be spent; and achieve results within agreed budgets. Finance is everyone's business and every penny counts.
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Background Papers Used in Preparing This Report

Not Applicable

PROPOSALS AND DETAILED ANALYSIS

The budget requirement and gap

1. The gross General Fund budget¹ rolled forward from 2021/22 to 2022/23 is £533.5m of which a **net budget requirement of £160.4m** is funded from council resources (such as council tax and business rates) and general government grant.

Table 1 – Budget rolled forward from 2021/22

2021/22 budgeted expenditure	£m
Housing benefit payments	98.0
Social care and public health	112.0
Children's services	113.0
Economy	48.0
Environment (includes parking)	110.0
Corporate (Finance, Resources and Council wide)	52.5
Gross budgeted expenditure	533.5
Less:	
Specific government grants (including housing benefits and dedicated schools grant)	(242.0)
Fees and charges	(67.0)
Contributions (e.g. health, other boroughs)	(47.0)
Other income (e.g. investment interest, rentals and recharges)	(17.1)
Budget requirement rolled forward to 2022/23	160.4

2. The budget proposals for 2022/23, and forecast to 2025/26, are summarised in Table 2. A balanced budget is projected for 2022/23 with a contribution to reserves and balances of £2.1m. A council tax freeze is modelled, and the Council will step in to fund significant social care growth rather than applying the Government's modelled increase in the adult social care precept.

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

Table 2 – Budget summary

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Base budget rolled forward	160.4	160.4	160.4	160.4
Provision for inflation	10.0	16.0	22.0	28.0
Investment	4.8	10.8	16.8	22.8
Covid-19 impact	2.7			
Net cost of borrowing	0.4	1.7	2.1	2.1
Savings and additional income	(4.9)	(5.3)	(5.3)	(5.4)
One-off Covid contingency	1.5			
Increase in the unallocated contingency	0.5	0.5	0.5	0.5
Covid-19 impact on concessionary fares	(2.3)			
Recognition of current year income projection	(3.4)	(3.4)	(3.4)	(3.4)
Contribution to reserves and balances	2.1			
Budgeted expenditure	171.8	180.7	192.9	204.8
Government resources	(44.45)	(40.9)	(40.9)	(40.9)
Business rates (net of tariff)	(57.2)	(59.3)	(60.7)	(61.9)
Council tax	(68.45)	(69.1)	(69.7)	(70.3)
Use of developer contributions for law enforcement team and gangs unit	(1.7)	(1.7)	(1.7)	(1.7)
Budgeted resources	(171.8)	(171.0)	(173.0)	(174.8)
Budget gap	0	9.7	20.1	30.2

Budget assumptions

3. Supply constraints, driven by Covid-19 and Brexit, have led to higher prices and pressure on wages. The Consumer Price Index has reached 5.1% in the 12 months to November 2021 and the government² forecast that it will still be 4.4% in the second quarter of 2022. The pressure on wages is compounded by the Government's introduction of the health and social care levy which will increase employer national insurance costs by 1.25%. This will impact on both Hammersmith & Fulham staff costs and suppliers. The 2022/23 budget includes a **£10m provision for inflation**. This allows for:
- contract inflation of £3.15m.
 - catch up inflation of £1.75m regarding 2021/22 pay - a wage freeze was assumed in the 2021/22 budget but the latest national pay offer is for a 1.75% increase.

² Autumn 2021 budget statement.

- £1.25m regarding the 1.25% increase in employer national insurance contributions (the health and social care levy).
- £2.35m provision for a 2022/23 pay award (this equates to a 2.3% pay award).
- A retained contingency of £1.5m as mitigation against additional inflationary risk.

Beyond 2022/23 headroom of £6m per annum is modelled for future inflation.

4. For **fees and charges**, levied by the Council, the inflation assumption is:

- Frozen for Adult Social Care, Children's Services and Housing.
- 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 proper authorisations according to the Council Constitution.
- Parking charges and fines are set in line with transport policy objectives and not considered as part of the budget process.
- A standard uplift of 3.8% to be applied, based on the July 2021 Retail Price Index, for other non-commercial and non-parking fees.

There are no exceptions to these assumptions for this Committee.

5. Allowance is made within the budget for an increase in the **net cost of borrowing** in line with the 2022/23 capital programme commitments. Whilst the current low interest rate environment enables Hammersmith & Fulham to borrow at low rates it also means that minimal returns are earned on the Council's cash balances.

6. The Council has determined that a key priority area for the investment of available **developer contributions**, with general purposes, is to support the Law Enforcement Team and Gangs Unit. An on-going investment of £1.7m per annum is included within the financial forecast **and** this can be met from receipts currently in hand.

7. **General government grant funding** of £44.45m is forecast for 2022/23. This is an increase of £6.2m from 2021/22. £1.8m of the grant increase is not new money but compensation for the government decision not to increase business rates in 2022/23. The extra grant is also meant to recompense local authorities for the extra costs that will arise from the Government's 1.25% increase in employer national insurance contributions (estimated at £1.25m for H&F staff costs). Historically, government funding has reduced by £58m from 2010/11 to 2022/23. The 2022/23 grant funding includes an extra £2.7m for social care support. This has part funded the new investment in children's and adult social care of £5.6m and contributed toward inflationary pressures.

8. No grant allocations are confirmed beyond 2022/23 following the government decision to announce a single year local government finance settlement (LGFS). The lack of future certainty continues to undermine effective medium-term financial planning and the risk of future funding reform and levelling up remains with the government making clear that the new 2022/23 'services grant' of £4.234m will be potentially subject to significant redistribution in 2023/24. The government have stressed that authorities should not assume that 2022/23 funding allocations will be fully protected in 2023/24.

9. As part of the LGFS, the government calculated that Hammersmith & Fulham spending power will increase by 6.3% in 2022/23. This is below the London average increase (6.7%) and national average increase (6.9%). The government spending power calculation assumes that authorities will increase council tax (including the adult social care precept) by 3%, which the Council is proposing to freeze, and that business rates collection is not adversely impacted by rating appeals or lower collection rates experienced during the Covid-19 pandemic. Should Budget Council confirm a council tax freeze the Hammersmith & Fulham calculation is that spending power will increase by 2.1%.

Council Tax and Business Rates

10. A freeze in the Hammersmith & Fulham element of **council tax** is proposed for 2022/23. This is proposed by the administration in recognition of the significant increases in costs faced by residents due to inflation and Government tax increases. This includes not levying a 1% 'adult social care precept' increase or increasing council tax by 2% as assumed by central government in their spending power calculations. A tax freeze will provide a balanced budget whilst not increasing the burden on local taxpayers. The council tax freeze has been delivered despite the upturn in inflation with the November 2021 Consumer Price Index standing at 5.1% causing significant pressure on Council costs.
11. Due to the anticipated impact of Covid-19 the budgeted council tax collection rate reduced from 97.5% in 2020/21 to 97% in 2021/22. A 97% collection rate continues to be modelled for 2022/23. For years beyond 2022/23 a tax freeze is modelled with the tax base increasing in line with trend data for increases in dwelling numbers. As set out below, only 52% of households are liable for 100% council tax, with the remainder receiving discounts or council tax support from the council.

Table 4: Liability for council tax

Total dwellings in the borough	92,148
Reductions:	
Exemptions (mainly students, includes care leavers)	(3,780)
Council tax support claimants (elderly & working age on low income)	(10,819)
Single person discount (25% discount)	(30,060)
Dwellings liable for 100% of council tax	47,489

12. As part of the Autumn 2021 Budget, the Chancellor of the Exchequer announced that a new temporary 50% **business rates** relief will apply for eligible retail, hospitality and leisure properties for 2022/23. In addition, a new 100% improvement relief will be available where eligible improvements increase rateable value. There will also be a business rates freeze in 2022/23 (no increase in line with the multiplier). Local authorities will be compensated by the government for the resultant loss of income from these measures.
13. The detail of the business rates changes has yet to be confirmed. For financial planning purposes the budget assumes that Hammersmith & Fulham will receive the minimum amount guaranteed, the safety net threshold, by government. This is £57.2m for

2022/23. The safety net threshold is £4.6m less than that assumed by the government in their spending power calculation. For years beyond 2022/23 a 2% inflationary increase to the safety net is modelled.

Investment, savings and risks

14. Investment in services (increasing the available budget) and savings proposals (reducing the available budget) for the services covered by this PAC are set out in Appendix 1 with budget risks set out in Appendix 2.

Investment

15. Investment is required to fund expenditure on priority areas and/ or to meet the costs associated with demographic or demand led pressures. Growth is also required to fund the new additional costs arising from government reform (such as the impact on suppliers of the increase in employer national insurance contributions). Investment in services is summarised by department in Table 4 and by category in Table 5. Beyond 2022/23 headroom of £6m per annum is modelled to fund new investment.

Table 5: 2022/23 investment proposals

Department	£m
Children's Services	0.534
Social Care and Public Health	5.031
Economy	0.650
Environment	0.878
Corporate (Finance, Resources and Council wide)	0.341
Total	7.434

Table 6: Categorisation of investment proposals

Investment categories	£m
Increase in demand / demographic growth	2.311
Resident priority	0.690
Budget pressure	0.655
New burden / government pressure	1.137
Impact of Covid-19 / economic downturn	2.641
Total	7.434

Savings and Income Generation

16. After ten years of austerity it is increasingly difficult to identify and deliver substantive savings. However, further savings are necessary if the financial challenge of real terms government funding cuts, unfunded burdens, inflation, and demand and growth pressures is to be met and the Council has to consider all available options to operate within the funding available to it.

17. The proposed savings (including additional income) for 2022/23 are set out in Table 7. London Councils have also indicated that a further short-term saving of £2.3m for 2022/23 will arise from the reduced cost of the concessionary fares scheme (freedom pass). This is due to lower usage of the pass during lockdown and more broadly in response to the Covid-19 pandemic. As a short-term saving the majority of this sum will be added to reserves and general balances in line with the Council's reserves strategy.

Table 7: 2022/23 firm savings and additional income

Department	£m
Children's Services	(0.533)
Social Care and reinvestment in Public Health	(1.670)
Economy	(0.235)
Environment	(1.184)
Corporate (Finance, Resources and Council wide)	(1.229)
Total savings	(4.851)

18. The saving proposals are categorised by type in Table 8.

Table 8: Categorisation of 2022/23 savings

Savings categories	£m
Commercialisation / income	(0.650)
Outside investment	(0.035)
Procurement / commissioning	(1.828)
Service reconfiguration	(0.892)
Staffing / productivity	(1.446)
Total savings	(4.851)

Risk and financial resilience

19. An updated reserves strategy and action plan will be included within the suite of finance reports presented to Budget Council.
20. The current reserves forecast is set out in Table 9 and models a fall in overall general fund reserves and balances to £97.0m by 2025/26. This assumes a balanced budget is set each year with no further call on reserves. Allowance is made for the forecast (month 6) 2021/22 underspend of £4.7m and a budgeted 2022/23 contribution of £2.1m.

Table 9 – Reserves and general balances - cash flow forecast to 2025/26

	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m
Opening balance					
General balances	19.3				
Earmarked reserves – unrestricted	63.7				
Covid-19 related	51.4				
Earmarked reserves – restricted	10.4				
Subtotal	144.8	93.1	85.0	84.4	97.0
Forecast movement	(56.4)	(10.2)	(0.6)	12.6	
Forecast 2021/22 underspend	4.7	0	0	0	
2022/23 new contribution	0	2.1	0	0	
Closing balance	93.1	85.0	84.4	97.0	
Revenue developer contributions	46.0	Subject to separate monitoring and approval			

21. The Covid-19 pandemic has emphasised that councils need an adequate safety net to manage increased levels of financial risk. The experience of several councils, including Croydon and Bexley in London, has shown the difficulties that can arise when reserves are not maintained at a sufficient level. The Council's reserve forecast includes a general balance of £20.4m which represents 3.8% (equivalent to 14 days spend) of the Council's gross spend of £533.5m. As part of the 2022/23 budget, consideration will be given to increasing the general balance by £0.6m to £21m. The Director of Finance has recommended that the optimal range for the general balance is between £19m and £25m.
22. The key financial risks that face the Council have been identified and quantified and total £13.4m. Other substantive risks include:
- The Covid-19 recovery and addressing pent-up demand
 - An upturn in inflation post Brexit and Covid-19
 - The future impact on London of the government's 'levelling-up' agenda and wider local government finance reform (such as business rates)
 - The impact of the wider economy on major Council development projects and future contributions from developers
 - The impact of, and costs of tackling, climate change
 - The challenge of identifying further significant future savings that balance the budget over the longer-term.

Departmental risks of £3.5m for the services covered by this PAC are set out in Appendix 2.

23. 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.

Comments of the Strategic Director of Environment on the budget proposals

Strategic Service Context

24. The Environment Department is responsible for the delivery of a wide range of universal services to the residents of Hammersmith & Fulham including:
- Public Realm - Highways, Transport, Parking, Waste Collections, Street Cleaning, Climate Change
 - Safer Neighbourhoods and Regulatory Services - Community Safety, Regulatory Services, Building Control
 - Leisure, Sport and Culture - Libraries, Parks, Leisure Centres, Events; and
 - Resident Services - Customer Services, Benefits and Revenues
25. The Environment Department has already implemented a number of major service changes to reflect the Council priorities and these are designed to ensure the effective and efficient delivery of services. Some notable examples are highlighted below:
- reviewing and re-organising some of our major external service contracts e.g. Waste Services (a saving of almost 9% per annum was secured for the duration of the contract extension to January 2023), Leisure Centres and Grounds Maintenance (providing enhanced service standards from February 2022 at reduced cost)
 - continuing our programmes to improve services e.g. Resident Experience and Access Programme, establishing the new Law Enforcement Team and Gangs Unit; and restructuring a number of other services such as Highways, Transport and Resident Services.
26. The Environment Department is actively working corporately with the Digitalisation Board and Commercial Board. This will continue to deliver and embed further changes that will make a major contribution to the significant medium-term financial challenges that the Council is facing.

Financial Performance

27. The Environment Department continues to have a strong financial management record including reacting to in-year spending pressures as necessary. The outturn for 2020/21 was a £1.3m underspend compared to the budget (excluding Parking Services), allowing for a positive contribution to reserves specifically earmarked for environmental initiatives (such as Climate Change). For 2021/22 the department is continuing to face financial challenges relating to the Covid-19 pandemic (particularly in the recovery of commercial services) and officers are working hard to balance the year-end outturn in line with budget (forecast overspend of less than 1% at month 6). It is expected that the pandemic will continue to have a major impact on both the demand for the department's services and its budget in 2022/23.

Budget 2022/23

28. The Environment Department budget for 2022/23 is summarised at directorate level in the table below.

Table 10 – Environment Department budget 2022/23

Service	Expenditure £000	Income £000	Net Budget £000
Public Realm	47,543	(11,051)	36,492
Safer Neighbourhoods and Regulatory Services	17,774	(7,441)	10,333
Leisure, Sport and Culture	10,889	(3,916)	6,973
Resident Services	18,855	(6,336)	12,520
Total	95,500	(29,182)	66,318

29. The net budget is £66.318m and will ensure the continued investment of resources in key services for residents. In particular, the following matters should be noted:
- additional investment of £0.878m will be made in services (details in Appendix 1) – the major elements include enhanced flood management and mitigation (£0.175m), winter maintenance (£0.100m), reducing violence against women and girls (£0.100m), ending modern slavery and exploitation (£0.085m) and temporary relief for loss of commercial income relating to the Covid-19 pandemic (£0.248m).
 - contractual inflation on externally provided services has been allowed for in the budget (£0.892m in total). It should be noted that inflation is continuing to rise at unprecedented levels, and so a significant budget risk exists in relation to this for 2022/23. The Council will continue to work with contractors and suppliers to minimise any adverse impact and secure agreement to temporarily vary contract conditions where possible.
 - savings of £1.184m will contribute to the setting of a balanced budget for the Council (details in Appendix 1). These are intended to preserve and improve front line services and will be delivered through the transformation and reconfiguration of services and increased income generation.

Fees and Charges

30. The Environment Department provides an extensive range of services to local businesses and residents that are chargeable e.g. Commercial Waste, Building Control, Licensing and Leisure Centres. In line with long-standing Council policy, the department is proposing an inflationary uplift of up to 3.8% on fees and charges from April 2022, with the exception of any statutory charges which the department cannot influence.

Parking Services

31. The Parking Service teams are fully focused on continuing to deliver a high-quality service that delivers the Council's priorities in relation to climate change and maintains the highway/transport infrastructure, as well as fulfils the statutory enforcement duties of the Council.

Table 11 – Controlled Parking Account budget 2022/23

Parking	Expenditure £000	Income £000	Net Budget £000
Controllable Budget	10,709	(43,749)	(33,040)
Non-Controllable Budget	3,001	0	3,001
Total	13,710	(43,749)	(30,039)

Equality Implications

32. A draft Equality Impact Analysis (EIA), which assesses the impacts on equality of the main items in the budget proposals relevant to this Committee, 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		

List of Appendices:

Appendix 1 – Savings and investment proposals

Appendix 2 – Risks

Appendix 3 – Draft Equality Impact Assessment