London Borough of Hammersmith & Fulham

Report to: Economy, Housing and the Arts Policy & Accountability Committee

Date: 25 January 2022

Subject: 2022 Medium Term Financial Strategy (MTFS)

Report author: Andy Lord – Head of Strategic Planning and Monitoring
Danny Rochford – Head of Finance, Economy

Responsible Director: Strategic Director of Economy – Jonathan Pickstone
Director of Finance – Emily Hill

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 £7.4m in increased investment in services, including over £5m 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.

Wards Affected: All

Our values	Summary of how this report aligns to the H&F values
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.

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: Danny Rochford
Position: Head of Finance – Economy
Telephone: 020 8753 4023
Email: danny.rochford@lbhf.gov.uk

Background Papers Used in Preparing This Report

Not applicable

PROPOSALS AND DETAILED ANALYSIS

The budget requirement and gap

1. The gross General Fund budget[1] 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 government[2] 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 fundin**g 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 £6.1m 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 for The Economy on the budget proposals

24. The Economy Department provides a diverse range of services including housing solutions and management, planning, economic and physical regeneration, land and asset management. The majority of what is provided are statutory services although all services are vital to delivering the Council's priorities for residents particularly building shared prosperity, creating a compassionate council, and taking pride in Hammersmith & Fulham. The Department has a leading role in the partnering work required to deliver the Council's ambitions for climate and bio-diversity change. Co-production arrangements with residents and businesses are strong, supported by well-established systems across the management of estates, major developments and our Industrial Strategy.

25. Services are funded by both the Housing Revenue Account (HRA) and the General Fund. Demands on the General Fund are minimised by the high levels of income secured across service areas, strategic management of the Council's land and asset portfolio and associated capital investment. There is a strong track record of financial efficiency to deliver savings and a balanced budget.

26. This report considers those services provided from General Fund budgets. The gross general fund expenditure budget is £48m of which £41m (excluding internal recharges and adjustments) is controllable. After allowance for income of £30m the net controllable budget is £11m. The Economy Department plans to deliver General Fund revenue savings of £0.235m in line with its proportion of wider corporate revenue savings. The report also describes where areas of temporary permanent and growth are necessary within a balanced budget for 2022/23 and the key financial risks for each service area in delivering continuing services and new priorities for residents.

27. The main area of General Fund spend is associated with Housing Solutions and reflects the important services delivered to residents. In 2019 ambitious plans were committed to, resulting in the delivery of over £2.8m of savings through the 2019-23 medium term representing more than 11% of the base General Fund controllable budget. This is being delivered to plan. It is important to note that savings have been delivered through careful service review and re-design, income maximisation and policy development. In line with administration policy, there have been no reductions in services.

28. Careful financial management linked to wider strategic planning and efforts to support local recovery from the pandemic will help the Economy Department to continue to deliver all its services and its performance and improvement priorities in 2022/23. These include:

Housing Solutions

- Reducing expenditure on temporary accommodation by providing better, more settled accommodation for our residents
- Continuing to work toward eliminating rough sleeping by providing supported accommodation and associated services

- Continuing to prevent homelessness by implementing innovative resident-focused support and systemic action planning at the right time.

Planning

- Maximising contributions negotiated from developers, including s106 receipts
- Supporting the delivery of economic recovery, new housing, and our response to climate and biodiversity change through new developments, wider masterplans, and planning policy

Operations

- Facilities Management will continue to ensure Covid safety across multiple sites and work with colleagues to implement Hello Hybrid Futures.
- The Commercial Property team will review the estate to maximise commercial returns, transform our office accommodation solution and develop plans to deliver carbon net zero by 2030.
- Continuing to deliver the Civic Campus programme in collaboration with colleagues across the Council.

29. S106 and wider government grants will also contribute to delivering benefits under regeneration and economic development services:

- Delivery of new homes, public and community infrastructure in 2022/23, under the Building Homes and Communities Strategy:
    - Schemes designed and built directly by the Council and co-produced with the local community.
    - Planning secured for over 900 new homes (65% affordable), as well as new schools and education facilities, community space, public realm, office and commercial.
    - Construction started on the Hartopp and Lannoy site delivering 134 (112 affordable) operationally net zero carbon homes.
    - Ongoing construction of phase 1 of Education City, which will deliver 30 affordable homes, a new primary school, youth zone and office.
- Greater support for businesses, local workforces and residents through a refreshed Industrial Strategy and delivery plan that advances Hammersmith & Fulham as a world-class destination to do business, and which ensures opportunities for all, including via enhanced training and employment opportunities for local residents and stronger links between anchor institutions and our communities.
- Continued delivery and development of the borough’s arts and culture offer. This builds on our partnering approach and 10 year programme established following our London Borough of Culture award in 2020. It is delivered at no cost to the general fund with a budget of £0.285m secured for 2022/23 made up of S106, GLA and other grant income.

Economy Savings Proposals

30. Considering the continuing drive for greater efficiencies, the Economy Department plans to deliver further General Fund revenue savings of £0.235m in 2022/23:

    - **Consolidation of management & workforce and reduction in the use of agency staff (£200,000)** – the final year of implementation of a three-year phased delivery programme to enable overall staffing that has produced total annual savings of £400,000 and is closely associated with the plans set out in 2019 noted in paragraph 28.
    - **Review of senior management funding (£35,000)** – this relates to a review of Section 106 funding of senior management posts. Reductions in senior management posts have been key to delivering savings to date within the Department.

Key Service Area - Housing Solutions

31. The proposed budget for the Economy department in 2022/23 reflects the significant and continued challenge of delivering and enhancing front-line services in the face of demand and cost pressures and constraints on income generation. The Housing Solutions Service continues to actively address homelessness by providing a range of housing options to enable an informed decision. Whilst delivering savings, the service has a significant track record of preventing homelessness, maximising income and providing suitable temporary accommodation to enable sustainable opportunities. Working collaboratively with both internal and external partners has enabled a strategic focus and tangible outcomes for residents.

32. Responding to major changes and constraints on income collection continues to be impacted by the Government's programme of Welfare Reform and the Homelessness Reduction Act. While facing this challenge, the service has continued to maximise Temporary Accommodation (TA) income collection to relieve pressure on the bad debt provision. The ongoing uncertainties – continued welfare reform, legislative changes as well as the financial impact of the pandemic – presents a risk in this area.

33. Embedding a long-term model for delivering temporary accommodation that prevents and relieves homelessness whilst protecting the Council's financial position.

34. A separate report that sets out the 2022/23 HRA budget is also included within February's Cabinet agenda. The HRA budget enables the Council to deliver services to resident tenants and leaseholders, maintain safe and secure homes, invest in its stock, and develop new affordable homes.

Housing Solutions: Risks and Mitigation – Welfare Reform

35. The main risks affecting the Economy Department relate to managing the impact of the Government's programme of Welfare Reform:

- the loss of tenancies in the private sector, leading to a risk of increased homelessness and the greater use of expensive temporary accommodation;
- changes in the TA subsidy system, leading to the loss of existing Council-managed temporary accommodation;
- reduced viability for temporary accommodation supplied and managed by Housing Associations (HAs), and potential knock-on effects for the authority in providing replacement temporary accommodation;
- loss of tenancies in the private sector and/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;
- inflationary pressures on costs due to increased demand for temporary accommodation across London;
- 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.

36. Risks are being mitigated through close and continued monitoring, scenario planning, continuing efforts to better prevent homelessness and management of the local housing market. The potential financial impact can be summarised in the following main areas for Housing Solutions.

Overall benefit cap, Universal Credit and bad debts

37. It is anticipated that the risk relating to the Overall Benefit Cap will be up to £0.108m from 2022/23 onwards because of the Government's reduction of the Overall Benefit Cap from a maximum of £23,000 per annum for single parents with children and couples to £15,410 per annum for single adults.

38. Since 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. This reduces the Council's risk of not being able to collect rental income.

39. However, reductions in personal income due to Covid-19 place a further risk on income collection and based on reductions in income of 5%, this could result in an income loss of £0.595m next year.

40. There is also a risk that following the end of the Government eviction ban provisions, homelessness applications increase, putting further pressure on budgets of £0.164m.

Increase in client volumes and homelessness acceptances

41. 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) accommodation are expected to increase in future years. The forecast

number of clients in TA set out below means there is a risk of further net costs of £0.550m in 2022/23 and £1.1m in 2023/24.

Risk	March 2022	March 2023	March 2024	March 2025
Forecast number of clients with TA	1,145	1,205	1,265	1,325

42. Hammersmith & Fulham's implementation of the Homeless Reduction Bill in April 2018 saw a 137% increase in households approaching the service for housing assistance. Increased staffing resources on prevention meant that the increased volume did not result in increased TA placements. While the TA reduction programme has contributed towards reducing TA households, this is becoming more challenging with numbers stabilising instead of reducing. The full impact of the Homelessness Reduction Act and the subsequent `Duty to Refer` that was implemented in October 2018 has significantly impacted service delivery, however, current data shows that approaches have plateaued since the highest volume in December 2018. Since August 2019, the restructure has enabled the service to manage the consistent high volume of approaches using robust supportive, preventative measures to prevent and facilitate homelessness.

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

43. 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 potentially diminish and disappear from 2023/24 as Government has not confirmed allocations beyond next year. Two options, a 20% reduction or 100% cut, are modelled regarding the potential risk of income loss from April 2023 as follows:

Risk	2022/23 £m	2023/24 £m	2024/25 £m
Loss of grant (20%)	0	0.945	0.945
Loss of grant (100%)	0	4.771	4.771

Increases in temporary accommodation procurement costs

44. 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 2022/23 and the impact of this additional cost each year is set out below.

Risk	2022/23 £m	2023/24 £m	2024/25 £m
Increase in TA costs	0.3	0.6	0.9

Keeping families out of Bed & Breakfast accommodation

45. Since 2015, the Council has successfully managed to protect families from being housed in B&B accommodation. The increasing demand pressures arising from the Government's programme of Welfare Reform mean that there is a risk that the cost of maintaining this policy will increase.

Risk	2022/23 £m	2023/24 £m	2024/25 £m
Increase in housing families' costs	0.1	0.1	0.2

Homelessness Reduction Act – potential increase in costs

46. This is anticipated to result in the need to place additional households in temporary accommodation. The risk table below shows the extra costs if we have an extra 70 homelessness acceptances each year.

Risk	2022/23 £m	2023/24 £m	2024/25 £m
Cost of additional homelessness acceptances	0.4	0.8	1.2

Domestic Abuse Act – potential increase in costs

47. This is anticipated to result in the need to place additional households in temporary accommodation. The risk table below shows the extra costs if we have an extra 70 homelessness acceptances each year.

Risk	2022/23 £m	2023/24 £m	2024/25 £m
Cost of additional homelessness acceptances	0.4	0.8	1.2

Rough sleepers and clients needing to self-isolate

48. As part of the Council's response to the Covid-19 pandemic, there is a risk that costs to place clients in temporary accommodation will continue in future years. Although these costs are partially offset by Housing Benefits and

central Government grant, there is a risk that further costs in excess of budgets will arise next year.

Risk	2022/23 £m	2023/24 £m	2024/25 £m
Additional costs	0.1	0.1	0.1

Homelessness prevention and risk mitigation

49. The following activities, that will help mitigate these significant risks, are taking place:

- The service structure now in place was implemented to prepare for the Homelessness Reduction 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 2022/23, 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 are being progressed.

- The Property Procurement Service 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.

- 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 housing associations, and working with developers through the planning process.

Key Service Areas - Planning, Regeneration and Economic Development

50. The service is operating within a very challenging market and budget growth is required as follows:

51. **Planning fees income (£350,000 permanent plus £300,000 temporary)** - Planning income in recent years has fallen from £3.4m (2018/19) to £2.3m (2019/20) and £2.2m (2020/21). Some of this is due to the impact of Covid-19 but planning activity is also highly sensitive to wider economic cycles, investor confidence, the operation of the development and construction

industries, and in recent years income uncertainty over the economic impact of Brexit and imminent new Planning Act. In addition to this permanent increase of £350,000 to the base budget, temporary growth of £300,000 will be made available to mitigate ongoing service disruption due to Covid-19. These provisions have been made within the context of the wider plan for managing risks set out in paras 56-63.

52. Estimated funding of £150,000 is required regarding **regeneration and development**. The Council's direct delivery programme is expected to deliver 1,094 new homes across 16 sites with a gross development value of £685m. In addition, the partnership development programme is on track to deliver 642 new homes on 6 sites. Completed development schemes are expected to secure significant revenue streams for the General Fund in future years and support transformation priorities across adults and children's social care. Feasibility costs (which cannot be capitalised) are estimated at £150,000.

53. In line with the council's reserves strategy it is proposed to fund these costs from the corporate property reserve.

Planning, Regeneration and Economic Development Risks – Planning

54. 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 impact of economic recession, local and wider market conditions
    - Changes in legislation e.g. permitted development rights, use classes order, Planning Performance Agreement regulation. Continued government changes to the planning system creating uncertainty. Continued delays to the publication of the draft Planning Act
    - Availability of development sites in the borough
    - Developers' behaviour such as by-passing the pre-application process and responding to housing supply
    - Cost and supply pressures impacting adversely on the delivery of planning schemes
    - Government schemes to encourage house building
    - Adverse weather conditions.
    - The impact of the Covid-19 pandemic
    - Availability of investor finance, developer/investor confidence.

55. The fall in the total number of applications in recent years appears to be levelling off although the complexity of applications has grown, and this is also impacting adversely on projected fee income. This is understood to be most recently due to the impact of Covid-19 but also trends in the wider economy and a deterioration in the buoyancy of the development industry. This trend is likely to continue, resulting in shortfalls in income from planning

fees. The risk based on the latest forecast, after taking account of growth of £0.650m, is £0.810m.

56. Other risks include costs producing Supplementary Planning Documents will exceed the budgets and funding available. In addition, there is a risk of unbudgeted costs arising from future public enquiries and judicial reviews. In recent years, the cost of judicial reviews and major planning appeals and therefore, there is a risk of an overspend against the budget of £0.2m based on the latest forecast.

Risk mitigation – Planning

57. The following activities that will help mitigate the risks to Planning, in addition to the £0.65m permanent and temporary growth, have been implemented:

- A full review of planning advice charges has been undertaken and informed by benchmarking across London. Revised and simplified charging rates came into effect in April 2021.
- Large schemes are subject to Planning Performance Agreements negotiated with developers. These are billed in advance on a milestone instalment basis and we have tightened up the debt recovery system. Whilst this has not generated additional income, it has reduced the pressure to increase the bad debt provision in future years and will virtually eliminate bad debt risk.
- Mayoral CIL - under Regulation 61 of the Community Infrastructure Levy (CIL) Regulations 2010 (as amended), the Council as a collecting authority can and is using 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.
- developing a commercial approach to non-statutory planning fees and maximising cost recovery and alternative income sources from developers to help mitigate against reductions in income.

Planning, Regeneration and Economic Development Risks – Economic Development and Adult Learning

58. The Economic Development service is responsible for the delivery of key elements of the Council's Economic Growth priorities. Following a staffing restructure implemented last year, further efficiencies (£35,000) have been identified for next year as part of a continuing review of staffing requirements and funding opportunities.

59. The Adult Learning & Skills Service (ALSS) income projection this year has been adversely impacted by Covid-19. The service has managed this reduction through successfully moving to online delivery of a significant number of courses and flexing the use of sessional staff. From 2022/23 onwards, the budget risk, after taking account of mitigations, is expected to be £0.2m.

60. A review of GLA grant funding is expected to impact from the beginning of the 2022/23 academic year. Including a potential clawback relating to course under-delivery in the current academic year, ALSS faces a risk of c£1.0m in 2022/23.

Risk mitigation - Economic Development and Adult Learning

61. Economic Development and Adult Learning Services are proactively working to ensure the services offered match available resources. Contingency plans are in place to continue to manage the risks set out.

Risks and Mitigation – Regeneration & Development

62. The Development team leads a complex programme of regeneration and development schemes across the borough that aims to build 1,800 homes over the next 10 years. The schemes will provide much needed new housing supply, new community assets, and support long term income to the General Fund and HRA. The assumption is that a significant proportion of the team's staff costs will be capitalised but there is a risk that some costs intended to be funded from capital may fall to revenue where schemes do not proceed or where schemes are still at an early feasibility stage.

63. There is a risk of a potential revenue impact from the Council's strategic regeneration and housing development initiatives, where significant spend has been incurred but schemes are yet to physically start on site. Officers are currently developing approaches to mitigate the risk to minimise any potential abortive costs. One key approach is continued engagement with residents and key interest groups in the borough to ensure they are well informed of proposals and able to co-produce schemes with the Council. Each scheme is subject to pre-application planning advice throughout the design evolution to reduce the risk of non-compliant schemes and all are managed through the development gateway process which ensures projects remain viable and deliverable.

Key Service Area – Operations

64. The Civic Campus will be a key area of delivery over the next 12 months. The building work is progressing well on site and activity will focus on maximising the commercial opportunities presented by the Civic Campus and aligning the operational support functions required to deliver these and also how the space at the Town Hall matches the vision of Hello Hybrid Futures and the new ways of working for staff.

65. The General Fund budget for Operations is mainly made up of Facilities Management (FM) and the Commercial Property team. The FM net controllable budget is a fixed at £3m with some internal recharges for specific service requests made across the organisation for often extra cleaning or security services. Throughout the pandemic the FM team have ensured that all corporate buildings are Covid safe and regularly undertaken deep cleans

of buildings following outbreaks, this activity is charged to the Council's Covid-19 costs.

66. The Commercial Property team has income targets at £0.4m to achieve across the commercial portfolio. Additional capacity has been built into the team to review the organisation's property needs and ensure that the estate operates in the most Ruthlessly Financially Efficient way possible and that we have appropriate plans in place to achieve the Council's carbon net zero targets across the estate by 2030.

Operations – risks and mitigation

67. The impact of Covid-19 is expected to continue to affect revenue generation within the commercial property portfolio (retail and business estates). The annual income target of £1.8m includes £367,000 from the business units at Sullivan & Townmead estates. So far impact has been limited and managed through the robust management arrangements in place. However, a combination of an ending to government support, new national provisions for pandemic arrears arbitration and continuing impact of the pandemic on the viability of some local businesses means this is an area of high risk.

68. There is a potential additional cost of cleaning should Covid-19 infection rates continue to cause risks to public and staff health. This includes the need for touch point cleaning during office hours, full sanitisation cleans following outbreaks, the cost of disengaging physical controls as the disease recedes and the potential ongoing cost of PPE. The risk is estimated at £500,000 and is factored into our ongoing corporate review and management of pandemic related costs.

69. Funding of the staffing costs relating to the Property Transformation Programme of £214,000 are dependent on the generation of additional rental income from properties within the General Fund property portfolio.

Equality Implications

70. 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		

List of Appendices:

Appendix 1 – Savings and investment proposals

Appendix 2 – Risks

Appendix 3 – Draft Equality Impact Assessment