

## London Borough of Hammersmith & Fulham

**Report to:** Cabinet

**Date:** 07/02/2022

**Subject:** Revenue Budget And Council Tax Levels 2022/23

**Report of:** Leader of the Council, Councillor Stephen Cowan

**Responsible Director:** Director of Finance, Emily Hill

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### SUMMARY

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

The 2022/23 revenue budget proposals are set out regarding:

- A Council Tax freeze
  - £7.434m of new investment in services
  - Savings proposals
  - Fees and charges
  - Budget risks, reserves and balances
  - Equalities Impact Assessments
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### RECOMMENDATIONS

That Cabinet recommend that Budget Council, for the reasons set out in this report and appendices, agree:

1. To freeze the Hammersmith & Fulham element of the council tax charge for 2022/23 and not apply the 2% increase modelled by the government for the coming year.
2. To not apply the government modelled "adult social care precept" levy of 1% for 2022/23, and to instead use council savings and income to fund growth in adult social care spending.
3. To set the Council's own total net expenditure budget for 2022/23 at £125.657m.
4. To approve £7.434m of new investment on key services for residents.
5. To approve fees and charges, as set out in paragraph 10, including freezing charges in adult social care, children's services and general fund housing.
6. To note the budget projections to 2025/26 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 37).
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 2022/23 in accordance with the recommendations within this report, 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 2022/23 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.

<b>Category of Dwelling</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>
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, based on the Mayor of London's draft consolidated budget, 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

<b>Category of Dwelling</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>
Ratio	6/9 £	7/9 £	8/9 £	1 £	11/9 £	13/9 £	15/9 £	18/9 £
b) GLA	263.73	307.68	351.63	395.59	483.50	571.41	659.32	791.18

13. That the overall Council Tax to be set at £1,227.55 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	263.73	307.68	351.63	395.59	483.50	571.41	659.32	791.18
<b>c) Total</b>	<b>818.37</b>	<b>954.76</b>	<b>1,091.15</b>	<b>1,227.55</b>	<b>1,500.34</b>	<b>1,773.13</b>	<b>2,045.92</b>	<b>2,455.10</b>

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.
15. That the Council opts-in to the sector led 'appointing person' regime operated by Public Sector Audit Appointments (PSAA) for the appointment of the external auditor (including Pension Fund) for the years 2023-28.

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**Wards Affected:** All

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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.

## Financial Impact

This report is wholly financial in nature and those implications are contained within.

## Legal Implications

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.

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 taxpayers 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.

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 24 February 2022 in advance of the Hammersmith & Fulham council tax setting meeting.

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.

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.

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.

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.*

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.

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.

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.

Section 106 of the 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.

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.

#### Public Sector Audit Appointment

Section 7 of the Local Audit and Accountability Act 2014 requires the Council to appoint a local auditor to audit its accounts by 31 December in the preceding year for a maximum period of five years.

The procedure for appointment of a local auditor is set out in Section 8 of the Act and requires the Council to consult and take account of the advice of its auditor panel on the selection and appointment of the auditor.

Section 17 of the Act gives the Secretary of State the power to make regulations in relation to an ‘appointing person’ specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 and gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person. This report proposes that the Council opts-in to the sector-led ‘appointing person’ regime.

As the Council operates executive arrangements, under section 8 of the Act, the correct decision maker is Full Council.

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## Background Papers Used in Preparing This Report – none

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### BUDGET OVERVIEW

1. The Council's budget proposals support the local recovery from the Covid-19 pandemic and delivery of resident priorities. The ongoing pandemic and health emergency has led to an increase in demand for services whilst the upturn in inflation and resetting of the public finances, at a national level, has placed a further strain on local government.
2. **A freeze in the Hammersmith and Fulham element of council tax is recommended.** This includes not levying the government modelled 1% 'adult social care precept' or increasing council tax by 2% as modelled by central government. This will provide a balanced budget whilst resulting in a reduced burden, in real terms, on local taxpayers. The council tax freeze has been delivered despite the upturn in inflation causing significant pressure on Council costs with the government forecasting<sup>1</sup> that the Consumer Price Index will be 4.4% in the second quarter of 2022.
3. **General government grant funding** has increased by an estimated £6.2m from 2021/22 to 2022/23. This is well below the increase in the Council's costs due to inflation, the costs associated with the government's increase in employer national insurance contributions, demographic pressures and the Covid-19 health and economic crisis. £1.8m of the grant increase is not new money but compensation for the government decision not to increase business rates. Historically, overall government funding has reduced by £58m from 2010/11 to 2022/23 – a real terms funding cut of 55%.

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<sup>1</sup> Autumn budget statement issued 21 October 2021

4. **Investment of £7.4m** is provided to meet the costs of statutory obligations, demographic, service and demand pressures and key resident priorities. This includes over £5m in investment in social care and public health. Budget provision is also made regarding the ongoing consequences of Covid-19.
5. **Savings of £4.9m** are put forward to balance the 2022/23 budget.
6. The budget proposals include measures to strengthen the Council's future financial resilience by **contributing one-off resources of £2.1m to reserves and general balances**. An additional one-off contingency of £1.5m is also set aside to meet potential Covid funding pressures with £0.5m added to the unallocated contingency. The Council faces significant future financial risk with particular uncertainty regarding the ongoing impact of the Covid-19 pandemic, future government funding allocations, the on-going adverse economic impact of Brexit, inflation and increasing demand for services.

## THE COUNCIL TAX REQUIREMENT

7. The Council's current gross General Fund budget rolled forward to 2022/23 is £533.5m, of which £160.4m (the budget requirement) is funded from Council resources (such as council tax and business rates) and general government grant.

**Table 1 : 2022/23 budget requirement**

<b>Budgeted expenditure 2021/22</b>	<b>£m</b>
Housing benefit payments	98.0
Departmental budgets	435.5
<b>Gross budgeted expenditure</b>	<b>533.5</b>
Less:	
Specific government grant (including housing benefits and dedicated schools grant)	(242.0)
Fees and charges	(67.0)
Contributions (e.g. health)	(47.0)
Other income (e.g. investment interest, rentals, recharges)	(17.1)
<b>Base budget requirement rolled forward to 2022/23</b>	<b>160.4</b>

8. The Band D council tax charge is calculated by dividing the council tax requirement by the council tax base<sup>2</sup>. The determination of the 2022/23 council tax requirement is set out in Table 2. The medium-term forecast, to 2025/26 is set out in Appendix B.

**Table 2: The council tax requirement**

	<b>£000s</b>
<b>Base gross budget rolled forward from 2021/22</b>	<b>160,416</b>
<b>Plus/minus:</b>	

<sup>2</sup> 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.



Inflation	10,000
Investment and impact of Covid-19	7,434
Increase in the net cost of borrowing	400
Savings and change proposals (includes collection fund surplus)	-4,851
Covid-19 impact on concessionary fares	-2,300
Increase in unallocated contingency	500
Covid-19 contingency	1,500
Recognition of current income projection	-3,400
Contribution to reserves and balances	2,106
<b>Gross budget requirement</b>	<b>171,805</b>
General grants	-44,448
Use of developer contributions	-1,700
<b>Net budget requirement for 2022/23</b>	<b>125,657</b>
<b>Less:</b>	
Locally retained business rates	-57,217
<b>2022/23 council tax requirement (including the adult social care precept)</b>	<b>68,440</b>

## INFLATION AND INVESTMENT

### Inflation

9. 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 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 contributions by 1.25%. This will impact on both Hammersmith & Fulham staff costs and suppliers. A provision of £10m is included in the 2022/23 budget for inflation. This allows for:
  - contract inflation of £3.15m.
  - catch up inflation for the 2021/22 pay award of £1.75m (a pay freeze was assumed in 2021/22 but the latest national pay offer is for a 1.75% increase).
  - £1.25m for the 1.25% increase in employer national insurance contributions (health and social care levy).
  - £2.35m provision for a 2022/23 pay increase (this equates to a 2.3% pay award).
  - A retained contingency of £1.5m as mitigation against additional inflationary risk.
10. For non-statutory fees and charges, levied by Hammersmith and Fulham, it is recommended that:
  - they are frozen for Adult Social Care, Children's Services and Housing in line with administration policy.
  - 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 not considered as part of the budget process.
  - a standard uplift of 3.8% is applied, based on the July 2021 Retail Price Index, for other non-commercial and non-parking fees.

The current proposed exceptions to the standard 3.8% increase and policies above are set out in Appendix F.

## Investment

11. Investment in services is provided through the budget process as necessary. Investment is required to fund increases in cost as a result of demographic growth and other increases in demand and to fund resident priorities. Almost 75% of this investment is in social care for adults and children. In addition, for 2022/23 the budget makes time limited provision for increased costs or lost income expected as a result of the Covid-19 pandemic and economic disruption. The investment proposals are detailed in Appendix C and summarised in Tables 3 and 4.
12. 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: 2022/23 investment proposals**

<b>Department</b>	<b>£m</b>
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
<b>Total investment</b>	<b>7.434</b>

**Table 4: Categorisation of investment proposals**

<b>Growth categories</b>	<b>£m</b>
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
<b>Total</b>	<b>7.434</b>

## SAVINGS AND INCOME GENERATION

13. The proposed savings are detailed in Appendix C and summarised in Tables 5 and 6. In addition a further short-term saving of £2.3m (for 2022/23 and possibly, to a lesser extent, 2023/24) 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 £2.1m of this sum will be added to reserves and general balances in line with the Council's reserves strategy. The balance will part fund the one-off Covid contingency.

**Table 5: 2022/23 savings proposals**

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

**Table 6: Categorisation of savings**

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

**GOVERNMENT GRANT, DEVELOPER AND BUSINESS RATES FUNDING**

- 16 The government funding receivable is detailed in Appendix E. The estimated cash increase in 2022/23 general grant is £6.2m of which £1.8m is compensation for the government decision not to increase business rates. The grant increase is also intended to compensate authorities for the extra costs associated with the increase in employer national insurance contributions required by government. There is a new 'market sustainability and fair cost of care' grant of £0.620m which the Council is fully investing in adult social care.
- 17 The 2022/23 local government finance settlement is a single year settlement with no grant allocations confirmed beyond next year. The lack of future certainty continues to undermine effective medium-term financial planning. 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. For modelling purposes the future grant forecast, included within Appendix B, assumes that the services grant reduces by 50%. The future of the new homes bonus grant scheme is also uncertain and is modelled to reduce by 50% following a significant reduction of £2.5m (48%) in 2022/23 compared to 2021/22 .
- 18 As set out in Appendix I the government calculate that Hammersmith & Fulham spending power has increased 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 also 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. Taking these into account the Hammersmith & Fulham calculation is that spending power has increased by 2.1%.

- 19 Ringfenced grants, which can only be used for a specific purpose, are currently forecast to have increased by £0.343 from 2021/22 to 2022/23. This forecast will be updated as further 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, particularly given the current inflation risks.
- 20 The business rates forecast is summarised in Appendix H. 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.
- 21 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. For years beyond 2022/23 a 2% inflationary increase to the safety net is modelled.
- 22 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.
- 23 The Council has determined that a key priority area for the investment of available section 106 funds is to support the law enforcement team and the gangs unit. The budget assumes that annual contributions of £1.7m are invested in this area and this can be met from receipts currently in hand. The budget assumes that further General Fund investment required in those areas will be met from increased developer contributions.
- 24 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 broader economic conditions. 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

- 25 On 19 January 2022, Council agreed a Council tax base of 82,263 equivalent Band D properties for 2022/23. 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>£68,439,525</u>	=	£831.96	Band
D					
Tax Base (Band D equivalent)		82,263			

- 26 This represents a freeze in the Hammersmith & Fulham element of the council tax charge and no additional levy for the adult social care precept.
- 27 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	92,148
Reductions:	
Exemptions (mainly students, includes care leavers)	(3,780)
Council tax support claimants (elderly people & working age on low income)	(10,819)
Single person discount (25% discount)	(30,060)
<b>Dwellings liable for 100% of council tax</b>	<b>47,489</b>
	<b>52%</b>

**PRECEPTOR’S (Greater London Authority) COUNCIL TAX REQUIREMENT**

- 28 The Greater London Authority's (GLA) 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 is consulting on budget proposals for a provisional Band D charge of £395.59. This is subject to formal approval by the Mayor following the London Assembly meeting of 24 February. The preceptors budget requirement will be amended should there be a change to the Mayor’s proposed Band D charge.

$\frac{\text{Preceptor's Budget Requirement}}{\text{Tax Base (Band D equivalent)}} = \frac{\pounds 32,542,420}{82,263} = \pounds 395.59 \text{ Band D}$
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- 29 The proposed GLA charge represents an increase of £31.93 (8.8%), compared to 2021/22. The precept proposal assumes that the government accedes to the Mayor’s request to adjust the council tax excessiveness principles for the GLA (i.e. referendum limits) to accommodate an additional £20 rise to fund transport services in the final local government settlement. If this is not agreed then the final precept figure may change.

**OVERALL COUNCIL TAX REQUIREMENT 2022/23**

- 30 The overall amount to be met from the council tax, subject to confirmation of the GLA precept, is £100.982m. This will provide a balanced budget with £2.1m added to General Fund balances and reserves.

**Table 10: Overall 2022/23 council tax requirement**

London Borough of Hammersmith & Fulham	£68,439,525
Greater London Authority (proposed)	£32,542,420
Total requirement for council tax	<b>£100,981,945</b>

- 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:

$\frac{\text{Total Council Tax Requirement}}{\text{Tax Base (Band D equivalent)}} = \frac{\text{£100,981,945}}{82,263} = \text{£1,227.55 Band D}$
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## **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 Policy and Accountability 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 2022/23 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.
- An increased provision of £10m is set aside for inflation and takes account of expected pay awards and the 1.25% increase in employers national insurance contribution.
- The revenue budget proposals provide for the council to hold an increase of £0.5m in the unallocated contingency to £3.5m to meet unforeseen budget pressures.
- The budget acknowledges the potential on-going impact of Covid-19 with one-off pressures of £2.6m funded. A further one-off contingency of £1.5m is also set aside. There is risk that such funding will be insufficient and may be needed for a significantly longer period and this will be monitored during the year and incorporated into the 2023/23 budget process.
- 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 £58m over the past 12 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 an underspend of £2.768m, increasing to £4.7m should current mitigating actions be delivered. The forecast includes a net improvement in expected parking income of £3.4m and this is recognised within the 2022/23 budget proposals.
- The use of budget monitoring in 2021/22 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 £0.4m 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 business rates income receivable, particularly in light of the impact of Covid-19, budgeting at the safety net.

- Developer contributions £1.7m are included in the budget to support the law enforcement team and gangs unit. 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 £14.1m. Other substantive risks include:
- The Covid-19 recovery and addressing pent-up demand
  - An upturn in inflation post Brexit and Covid-19
  - Higher pay inflation particularly given current labour shortages
  - The stabilisation and restoration of Hammersmith Bridge, with the Council incurring revenue and capital costs at risk until government funding is confirmed
  - 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.
- 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 most recent 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.'*
- 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 2022/23 budget includes new one-off contributions to general fund balances and reserves of £2.1m arising from one-off benefits. This follows cumulative new contributions of £8.3m agreed in the 2020/21 and 2021/22 budgets.



## General fund balances

- 42 The Council's general balance is budgeted to be £20.4m at the start of 2022/23. This equates to 3.8% (14 days spend) of the Council's gross budget of £533.5m. This is within the medium term optimal range of £19m to £25m set as part of the Council's reserves strategy (Appendix J). The Director of Finance considers that this optimal range is sufficient to allow for the risks identified and to support effective medium-term financial planning.
- 43 As part of the 2022/23 budget it is proposed that £0.6m, from the planned £2.1m new contribution to reserves and balances, be added to the general balance. This will increase the general balance to £21m.

## Earmarked reserves

- 44 The Council holds a number of earmarked reserves. The latest forecast to 2025/26 is summarised in Table 11 and detailed in Appendix K. It is the view of the Director of Finance that such reserves are adequate to deal with anticipated risks and liabilities. As part of the 2022/23 budget it is proposed that £1.5m, from the planned £2.1m new contribution to reserves and balances, be added to the corporate demands and pressures reserve.

**Table 11: Reserves and general balances - cash flow forecast to 2025/26**

	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m
<b>Opening balance</b>					
General balances	19.3				
Earmarked reserves – unrestricted	63.7				
Covid-19 related	51.4				
Earmarked reserves – restricted	10.4				
<b>Subtotal</b>	<b>144.8</b>	<b>93.1</b>	<b>85.0</b>	<b>84.4</b>	<b>97.0</b>
Forecast movement (largely relating to timing of Covid payments)	(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	
<b>Closing balance</b>	<b>93.1</b>	<b>85.0</b>	<b>84.4</b>	<b>97.0</b>	
Revenue developer contributions	46.0	Subject to separate monitoring and approval			

- 45 The existing commitments are detailed in Appendix J and include the planned investment of earmarked reserves on council priorities (for example the Civic Campus, implementing the IT strategy and resident experience access programme). Allowance is made within the reserves forecast for the estimated 2021/22 revenue budget underspend (after allowance for the delivery of in-year action plans) of £4.7m at month 6.
- 46 The Director of Finance considers that current reserves are adequate to deal with anticipated risks and liabilities. Reserves can only be spent once and need careful management and review to safeguard future financial resilience and deliver service transformation and key resident priorities. 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 investment.

### **Council tax setting**

- 47 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 2022/23 local authorities “will be required to seek the approval of their local electorate in a referendum if, compared with 2021/22, they set an increase in the relevant basic amount of council tax that is 2% or higher”. As there is no proposed council tax increase for this Council no such referendum is required.
- 48 In addition, the government has modelled setting a precept to fund Social Care for Adults of 1% in 2022/23. Hammersmith & Fulham do not propose to apply an increase in relation to this precept in 2022/23.

### **Prior year Collection Fund adjustments**

- 49 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. Adjustments are made to future years for the difference between the actual, and budgeted income collected.
- 50 For Hammersmith & Fulham a net collection fund surplus of £685,000 is estimated for 2021/22 (after allowance for the government regulation that allowed the 2020/21 estimated deficit due to the Impact of Covid-19 to be spread over three years). The Hammersmith & Fulham share is estimated at £450,000<sup>3</sup>.

### **APPOINTMENT OF EXTERNAL AUDITORS 2023-28**

- 51 Under the Local Audit and Accountability Act 2014 (the Act), local public bodies in England are required to appoint their own external auditors. Under the legislation, authorities can make an appointment via “an appointing person” to act as a sector-led joint procurement body for local audit. The government have appointed Public Sector Audit Appointments (PSAA) for this purpose.
- 52 On 22 September 2021 PSAA invited all eligible bodies to become opted-in authorities for the period 2023/24 to 2027/28 (the compulsory appointing period). A decision to become an opted-in authority must be taken by Full Council and the deadline to opt-in for the period 2023-28 is Friday 11 March 2022.
- 53 For the period 2018-23, 98% of relevant local bodies opted in to the PSAA arrangements (including Hammersmith & Fulham). It is recommended that the Council opt-in to PSAA sector-led appointing-person arrangements for the appointment of External Audit (including Pension Fund) for the years 2023-28.

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<sup>3</sup> For the purposes of this report this is shown as part of the corporate savings (balance sheet review)

- 54 The detailed report, including analysis of options, as presented to the December 2021 Audit Committee is included at Appendix L. The Audit Committee is supportive of the proposed recommendation.

## EQUALITY IMPLICATIONS

- 55 Published with this report are the Equalities Impact Assessments (EIAs) for each department proposing savings. Additionally, there is a corporate budget EIA which assesses the impacts on equality of the main items in the budget proposed to Full Council, the decision to freeze council tax and not to apply the social care precept increase. 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. In addition, councils have only received a one-year settlement for 2022/23 which creates further uncertainty over funding levels in the medium term. 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 Social Care 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 overspend 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 it is important that this is maintained to ensure that key objectives and outcomes are being delivered within approved budgets.
- 56 Appendix D sets out the financial risks against which the 2022/23 budget and MTFS are being proposed for approval. There are significant financial risks around ongoing demand for children and young people with Special Educational Needs funded by High Needs Block Dedicated Schools Grant, 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 (which have been particularly affected by the pandemic) 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 verified by: David Hughes, Director of Audit, Fraud, Risk and Insurance, 21 January 2022.

## **PROCUREMENT IMPLICATIONS**

- 58 There are no direct implications resulting from this report.

## **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

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 and forecast

Appendix L – Audit Committee Report: Appointment of External Auditors

## APPENDIX A

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

		<b>£</b>	
(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.	600,442,345	
(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.	499,460,400	
(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.	100,981,945	
(d)	Being the amount formally agreed by Council as the council tax base for 2022/23.	82,263	
(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.	1,227.55	
(f)	Hammersmith & Fulham proportion of the Basic amount of its Council Tax (Band D)	831.96	
(g) Valuation Bands – Hammersmith & Fulham Council:			
<b>Band A</b>	<b>Band B</b>	<b>Band C</b>	<b>Band D</b>
554.64	647.08	739.52	831.96
<b>Band E</b>	<b>Band F</b>	<b>Band G</b>	<b>Band H</b>
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:			
<b>Band A</b>	<b>Band B</b>	<b>Band C</b>	<b>Band D</b>
263.73	307.68	351.63	395.59
<b>Band E</b>	<b>Band F</b>	<b>Band G</b>	<b>Band H</b>
483.50	571.41	659.32	791.18

(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 2022/23 for each of the categories of dwellings shown below:

<b>Band A</b>	<b>Band B</b>	<b>Band C</b>	<b>Band D</b>
<b>818.37</b>	<b>954.76</b>	<b>1,091.15</b>	<b>1,227.55</b>
<b>Band E</b>	<b>Band F</b>	<b>Band G</b>	<b>Band H</b>
<b>1,500.34</b>	<b>1,773.13</b>	<b>2,045.92</b>	<b>2,455.10</b>