

## London Borough of Hammersmith & Fulham

**Report to:** Policy and Oversight Board

**Date:** 24 January 2023

**Subject:** 2023 Medium Term Financial Strategy (MTFS)

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### SUMMARY

Cabinet will present their revenue budget and Council Tax proposals to Budget Council on 23 February 2023. In the face of worsening economic conditions and tightening financial constraints, the budget protects council services, particularly those that support the poorest and most vulnerable in society.

The London Borough of Hammersmith & Fulham (LBHF) is unique in providing free breakfasts to school children, abolishing home care charges, establishing a local Law Enforcement Team to keep our streets safe and clean, maintaining weekly bin collections across the borough, and stopping the use of bailiffs to collect Council Tax debt. Despite unprecedented levels of inflation eroding council spending power, the budget protects these key services.

The cost-of-living crisis is affecting residents across the borough. With rising inflation, energy bills, and food costs many residents will be struggling to get by, and in need of additional support. This is why the budget includes new provisions of nearly a million pounds to help tackle the increasing cost of living.

The Local Government Finance Act 1992 obliges the council to set a balanced budget, and this is what is proposed. Government resource assumptions that are used to calculate Government grant for LBHF, model the council increasing Council Tax by 2.99% in 2023/24. Over the last eight years, the council has cut or frozen Council Tax five times, with the Band D charge has reducing by 10% in real terms. As a result, Council Tax in LBHF is 35% lower than the London average. The council proposes to apply the 2.99% increase for 2023/24.

The government has modelled an adult social care precept since 2016/17. Government funding modelling assumes that this has been applied every year since its inception despite LBHF choosing to apply it for only two of the past eight years. Due to the continued high levels of demand and inflationary pressures in the social care market and the government's continued failure to propose a long-term funding solution to social care funding, the council proposes to apply the 2% adult social care levy for 2023/24.

This report sets out the budget proposals for the services covered by the Policy and Oversight Board. An update is also provided on any proposed changes in fees and charges in the budget.

## RECOMMENDATIONS

1. That the Policy and Oversight Board 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
Building shared prosperity	We need to always confirm that spend fits our council's priorities; challenge how much needs to be spent; and achieve results within agreed budgets. Finance is everyone's business and every penny counts.
Creating a compassionate council	As the council's resources have been reduced we have protected the services on which the most vulnerable residents rely. This budget continues all our previous policies to support residents and also proposes new spending on care packages for disabled children and additional resources to help residents through the cost of living crisis.
Doing things with local residents, not to them	A significant proportion of services are delivered in partnership with local and national companies, and this will continue to promote all business sectors to the benefit of residents. In addition, there will be increased investment in the Industrial Strategy delivery and the development and promotion of the STEAM sector strategy.
Being ruthlessly financially efficient	The use of co-production across the council is embedded and all service matters are developed with the engagement of residents. The council is continuing the REAP Programme to

	improve residents' access to the services.
Taking pride in H&F	The budget proposals include significant investment in public realm services especially waste collection, street cleaning and open/park spaces. Our new waste contract includes provisions to tackle fly-tipping and collection of food waste.
Rising to the challenge of the climate and ecological emergency	The council has established a Climate Change team and the team has developed a Climate and Ecology strategy (and is making a significant contribution to the international and national policy debates). It is also securing grants from national programmes to help with improvements of the thermal efficiency of council properties and homes).

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## Background Papers Used in Preparing This Report

None.

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## DETAILED ANALYSIS

### The Budget Requirement and Gap

1. The gross General Fund budget<sup>1</sup> rolled forward from 2022/23 to 2023/24 is £539.6m of which a **net budget requirement of £166.6m** is funded from council resources (such as Council Tax and business rates) and general government grant.

**Table 1 – Budget rolled forward from 2022/23**

<b>2022/23 Budgeted Expenditure</b>	<b>£m</b>
Housing benefit payments	91.2
Social care and public health	118.1
Children's services	123.6
Economy	49.4
Environment (includes parking)	108.1
Corporate (Finance, Resources and council wide)	49.2

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

<b>Gross budgeted expenditure</b>	<b>539.6</b>
Less:	
Specific government grants (including housing benefits and dedicated schools grant)	(239.8)
Fees and charges	(68.0)
Contributions (e.g. health)	(47.0)
Other income (e.g. investment interest, rentals, and recharges)	(18.2)
<b>Budget requirement rolled forward from 2022/23</b>	<b>166.6</b>

2. The budget proposals for 2023/24, and forecast to 2026/27, are summarised in Table 2. A balanced budget is projected for 2023/24 based on several key assumptions regarding resources and expenditure.

**Table 2 – Budget summary**

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Base budget</b>	<b>166.6</b>	<b>164.9</b>	<b>163.2</b>	<b>161.5</b>
Pay and price inflation	13.6	21.6	27.6	33.6
Additional pay inflation (on-going effect of award in 2022/23)	3.8	3.8	3.8	3.8
Additional investment in key services and priorities	10.7	16.7	22.7	28.7
Contribution to cost-of-Living support (one-off) / Council Tax support scheme	0.9	0	0	0
Increase in the net cost of borrowing	0.6	1.0	1.0	1.0
Concessionary fares demand	(2.2)	1.1	3.1	3.1
Recognition of current income projection	(2.0)	(2.0)	(2.0)	(2.0)
Income from investment of cash balances (one off in 23/24)	(5.0)	0	0	0
Employee budget management	(2.5)	(2.5)	(2.5)	(2.5)
Reversal of employers National Insurance Contributions (1.25%)	(1.3)	(1.3)	(1.3)	(1.3)
Efficiencies and Savings Proposals	(2.9)	(4.0)	(4.8)	(5.5)
Contribution to contingencies	5.3	5.3	5.3	5.3
<b>Gross budget requirement</b>	<b>185.6</b>	<b>204.7</b>	<b>216.2</b>	<b>225.8</b>
General grants	(53.0)	(54.1)	(54.7)	(55.2)
Locally retained business rates	(59.4)	(59.5)	(60.7)	(61.9)
Council Tax (4.99% increase in Year 1 assumed then freeze)	(73.3)	(73.9)	(74.6)	(75.2)
<b>Gross budget gap – cumulative</b>	<b>0.0</b>	<b>17.1</b>	<b>26.1</b>	<b>33.2</b>

## **Budget assumptions**

### **Inflation**

3. The Consumer Price Index (CPI) for October 2022 is 11.1%, its highest level for 40 years, in part due to the recovery from the pandemic, the impact of Brexit and recent global events such as the invasion of Ukraine. The Office of Budget Responsibility is forecasting inflation of 7.4% during 2023 which will impact both

Hammersmith and Fulham staff costs and suppliers. The 2023/24 budget includes a **£13.6m provision for inflation**. This allows for:

- Contract and external services inflation of £7.6m.
  - £6.0m provision for a 2023/24 pay award (this equates to a 5.0% pay award)
  - Beyond 2023/24, headroom of £8m per annum is modelled for future inflation in 2024/25 and a further £6m in 2025/26 and 2026/27.
4. The on-going impact of the pay award from April 2022 will cost £3.8m (this was funded from the one-off use of policy contingencies in 2022/23).
  5. In September 2022, a previously agreed 1.25% increase in employers' National Insurance Contributions was withdrawn by the Chancellor of the Exchequer, with effect from the 6th of November. The impact of this for the council is a reversal of the £1.3m set aside in the MTFS from 2023/24.
  6. A reduction of £2.5m is proposed on our employee spend (this is 2% of total estimated spend and represents about 40 posts). It is expected that this will be managed through natural turnover, management of recruitment and review of the use of agency staff. It is not expected that this will require any voluntary or compulsory redundancies.

### **Fees and Charges**

7. For **fees and charges** levied by the council, the inflation assumption is:
  - 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 changed as appropriate, with due authorisations according to the Council constitution.
  - Parking charges and fines are to be set in line with transport policy objectives and not considered as part of the budget process.
  - A standard uplift of 10% is applied for other non-commercial and non-parking fees. The RPI indication for October 2022 was 14.2%.

There are no exceptions to these assumptions for this Committee.

### **Other Measures**

8. In addition, further short-term contributions of £2.2m are expected to arise from lower than budgeted contributions to the concessionary fares (freedom pass) scheme. This is due to the impact of passenger usage on public transport in response to the pandemic and changes to ways of working. This is not expected to continue beyond 2023/24 as demand is forecast to return to pre pandemic levels and fares increase.
9. A further one-off saving £5.0m relating to income from investing cash balances as favourable interest rates is assumed (cash balances are expected to be a minimum

of £250m during 2023/24 and lower than current levels of more than £300m). This income will be used to balance the budget in 2023/24 and is not expected to continue beyond 2023/24.

## **Government Grant Funding**

10. **General government grant funding** of £53.0m is forecast for 2023/24. This is an increase of £7.8m from 2022/23, however historically, government funding has reduced by £48m from 2010/11 to 2023/24, which represents in real terms a cut of 56%. £5.1m of the increase is not new money but compensation for the government decision not to increase business rates. The level of compensation is linked to the standard CPI rate of inflation. The Revenue Support Grant has increased by £2.2m.
11. No grant allocations are confirmed beyond 2023/24 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.
12. Ringfenced grants, which can only be used for a specific purpose, are currently forecast to have increased by £3.245m from 2022/23 to 2023/24. 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.
13. The 'services grant' which was first allocated in 2022/23 has reduced by over 44% in 2023/24. For modelling purposes the future grant forecast assumes that the services grant will be reduced for future years also. The future of the new homes bonus grant scheme is also uncertain, and the council's allocation has reduced by 43% in 2023/24 compared to 2022/23 and by 77% compared to 2021/22.
14. As part of the LGFS, the government calculated that Hammersmith & Fulham spending power will increase by 9.5% in 2023/24. The government spending power calculation also assumes that authorities will increase Council Tax (including the adult social care precept) by 4.99% 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 2.5%

## **Council Tax**

15. The Council is proud to have the third lowest Council Tax in the country, and to have cut or frozen Council Tax in five of the last eight years. LBHF also has one of the most progressive Council Tax support schemes in the country, with almost half of residents not paying the full amount, and those least able to pay facing no charge at all.
16. The current major national fiscal conditions of high inflation and interest rates have made a Council Tax increase in 2023/24 unavoidable and a 2.99% increase in the LBHF element of Council Tax is proposed. This level of Council Tax increase

reflects the assumption that has been made by the government in the Autumn Statement on the 17 November by the Chancellor and assumed in the funding settlement for local authorities. The additional income will fund increasing costs and support investment in, and protect, key services for residents and strengthen future financial resilience. The increase is equivalent to £25 for 2023/24 (at Band D). The Council Tax charge for LBHF is the third lowest in the country and 35% below the London average charge.

17. The council is also proposing to levy a 2% adult social care precept (again in line with government funding assumptions). The increase is equivalent to £16 per annum for 2023/24 (at Band D) and will be used to support Adult Social Care services. The continued delay in the national review of the funding of adult social care is a major concern and the government is continuing with its strategy of using an adult social care precept (since 2016/17). In the first years of the levy, the council were determined not to apply the levy despite the fact the council's funding from the government was modelled on the assumption that it would. Due to the continued high levels of inflation and instability in the social care market, the impact of the Covid-19 pandemic and the government's continued failure to propose a long-term funding solution to social care funding, the council accepted the need for a 3% adult social care levy for 2021/22 but it was not applied in 2022/23.
18. As set out in table 4 below, it is estimated that 47% of residents will not be required to pay the full increase (as they will be supported through the single person household discounts, Council Tax support and exemptions).
19. 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 and 2022/23. A 97% collection rate is modelled for 2023/24. For years beyond 2023/24 a tax freeze is modelled with the tax base increasing in line with trend data for increases in dwelling numbers.

**Table 4: Liability for Council Tax at October 2022**

Total dwellings in the borough	93,165
Reductions:	
Exemptions (mainly students, includes care leavers and vacant properties)	(3,871)
Council Tax support claimants (elderly & working age on low income)	(10,143)
Single person discount (25% discount)	(29,505)
<b>Dwellings liable for 100% of Council Tax</b>	49,646
	53%

### **Business Rates**

20. The current estimate for business rates assumes that the business rates income will be the minimum guaranteed within the business rates retention system (the safety net threshold). The government have confirmed that they will compensate local authorities for all changes they make to the business rates system.



21. The forecast assumes that LBHF will receive the minimum amount guaranteed, the safety net threshold, by government. This is £59.4m for 2023/24. For years beyond 2023/24 a 2% inflationary increase to the safety net is modelled.
22. As part of the Autumn Statement the Chancellor of the Exchequer announced that a new temporary 50% business rates relief will apply for eligible retail, hospitality and leisure properties. 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 2023/24 (no increase in line with the multiplier). Local authorities will be compensated by the government for the resultant loss of income from these measures.

### Investment, savings and risks

23. 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. This PAC are also invited to comment on the wider budget proposals for all council departments. To assist this process a supplementary analysis of trend and cost data is provided in Appendix 4. This identifies:

- Investment, savings and inflation as a percentage of departmental budgets.
- A summary of the current year projection
- Trend unit cost data in key service areas.

### Investment

24. Additional investment of £10.7m is being provided following budget setting and review process. The investment proposals for this PAC are set out in Appendix 1 to this report and summarised in Tables 5 and 6.

**Table 5: 2023/24 Investment Proposals**

Proposal	£'m
Social Care (including hospital discharge and demographic growth)	4.1
Waste collection (fly tipping and food waste)	1.7
Free breakfasts (and extension for secondary schools)/Out of term support	1.7
Homelessness services (temporary accommodation)	0.9
Disabled children care packages/Care leavers and family hubs	0.5
Other policy priorities	1.3
Other unavoidable pressures (loss of advertising income, audit fees)	0.5
	<b>10.7</b>

**Table 6: Categorisation of investment proposals**

<b>Analysis of Investment</b>	<b>£m</b>
Increase in demand / demographic growth	6.9
Resident priority	2.4
Budget pressure	1.0
Government related/Other Public Bodies	0.4
<b>Total</b>	<b>10.7</b>

25. A provision of £0.9m has been set aside to support residents on the cost-of-living pressures and to consider further developing the Council Tax support scheme for those least able to afford Council Tax.

### **Savings and Income Generation**

26. 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 been able to find these. In the future, the council must consider all available options to operate within the funding available to it.
27. The proposed savings (including additional income) for 2023/24 are set out in Table 7. The savings proposals for this PAC are set out in Appendix 1 to this report.

**Table 7: 2023/24 firm savings and additional income**

<b>Proposal</b>	<b>£m</b>
Improving commissioning of children's services	(0.7)
Greater use of digital technologies to improve support and services in social care (e.g. timely return of equipment)	(0.5)
Working with NHS to improve hospital discharge and independent living)	(0.4)
Resident Engagement and Access Programme	(0.2)
Lower waste tonnages (impact of awareness programmes)	(0.2)
Joint commissioning of extra care services	(0.2)
Other (mainly social care procurement, Direct Payments)	(0.7)
<b>Total savings</b>	<b>(2.9)</b>

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

**Table 8: Categorisation of 2023/24 savings**

<b>Savings categories</b>	<b>£m</b>
Commercialisation / income	(0.1)
Procurement / commissioning	(0.9)
Service reconfiguration	(1.5)
Service rationalisation/budget reduced in line with spend	(0.2)
Prevention	(0.2)
<b>Total savings</b>	<b>(2.9)</b>

**Risk and financial resilience**

29. An updated reserves strategy and action plan will be included within the suite of finance reports presented to Budget Council.
30. The current reserves forecast is set out in Table 9 and models overall general fund reserves and balances to £76.1m by 2027/28. This assumes a balanced budget is set each year with no further call on reserves.

**Table 9 – Reserves and general balances - cash flow forecast to 2027/28**

	<b>April 2023 £m</b>	<b>April 2024 £m</b>	<b>April 2025 £m</b>	<b>April 2026 £m</b>	<b>April 2027 £m</b>
<b>Opening Balances</b>					
General balance (recommended range £19m - £25m)	23.3	23.3	23.3	23.3	23.3
Earmarked reserves – unrestricted	41.7	40.7	43.2	43.2	43.2
Earmarked reserves – restricted	7.5	7.5	7.5	7.5	7.5
<b>Sub-total</b>	<b>72.5</b>	<b>71.5</b>	<b>74.0</b>	<b>74.0</b>	<b>74.0</b>
Covid related	2.3	2.1	2.1	2.1	2.1
<b>Total</b>	<b>74.8</b>	<b>73.6</b>	<b>76.1</b>	<b>76.1</b>	<b>76.1</b>
<i>Developer contributions</i>	<i>46.0</i>				

31. 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 over recent years, including Thurrock, 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 £23.3m at the start of 2023/24 which represents 4.3% (equivalent to 16 days spend) of the Council's gross spend of £539.6m. The Director of Finance has recommended that the optimal range for the general balance is between £19m and £25m.

## Key Risks

32. The key financial risks that face the Council have been identified and are set out below:
- 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.
33. 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 Director of Finance and the Director of Resources on the budget proposals

### Budget Summary

34. Corporate services are proposing a net budget before capital and corporately managed budgets of £25.654m. Within the departments there are many services which support frontline Council business. As such £17.908m of the budget is expected to be recovered as corporately controlled income (Table 10).

**Table 10 – Corporate budgets 2023/24**

Directorate	Expenditure £000's	Income £000's	Net £000's
Digital Services	12,640	0	12,640
Democratic, Registration & Coroner's Services	4,976	-2,366	2,609
Finance	3,802	-442	3,361
Transformation, Talent and Inclusion	2,742	-277	2,464
Legal Services	2,704	-2,992	-289
Managed Services	2,132	0	2,132
Assurance, Programmes & Analytics	1,449	-15	1,433
Audit, Fraud, Risk and Insurance	1,128	-43	1,086
Comms and Communities	834	-60	774
Procurement and Commercial	698	-2,423	-1,725
Corporate Services	832	0	832
Members Support	336	0	336
<b>Total budget before capital and corporately Managed budgets</b>	<b>34,272</b>	<b>-8,618</b>	<b>25,654</b>
Corporately managed budgets <sup>2</sup>	4,856	-23,440	-18,584
Capital charges	676	0	676
<b>Total capital and corporately managed budgets</b>	<b>5,532</b>	<b>-23,440</b>	<b>-17,908</b>
<b>Total corporate budgets</b>	<b>39,804</b>	<b>-32,058</b>	<b>7,746</b>

### Work over the past year

35. The work over the past year in corporate services include the Hello Hybrid Future programme which is successfully transforming the way we work to better meet the needs of our residents.

<sup>2</sup> Corporately managed budgets include recharged income budgets for the distribution of corporate service costs to departments across the Council. Here they are shown as below the line service level agreement expenditure budgets to report the full cost of delivery in each front-line service

36. The restructure of the finance team was completed to deliver £0.450m of savings, embrace business intelligence developments to improve insights and productivity, and better align to and support services.
37. Corporate services provide a business intelligence team that continues to innovate and develop new products to improve use of data across the council as well as an elections service that delivered successfully and within budget. Furthermore, digital services have enabled the transformation in the way we work and the storage and safekeeping of our data within budget.
38. Through work in transformation, talent and inclusion, the council currently have 41 apprentices providing job opportunities with an accompanying assessment and skills development programme, as well as over 60 internal employees completing apprenticeships.

### **Savings and Investments**

39. Corporate is proposing savings of £0.020m in 2023/24 which is from a review of the current civic services operating model. Further pipeline savings are in development with £0.400m to be firmed up for delivery in 2024/25.
40. Investment of £0.691m is proposed for 2023/24. Included is funding to increase the budget for audit fees, democratic and governance costs, counter-fraud resources, and to realign the digital advertising income budgets following a post pandemic reduction in income

### **Future plans, risks and opportunities**

41. Digital advertising budgets have a £2.400m income target which generates income used to fund front line service priorities. This income has been affected by Covid restrictions and contracted site rental values are under pressure. Council officers are negotiating to re-let sites where contracts have expired and are exploring new opportunities to increase income.
42. There is a £2.100m budget in corporate services for the Managed services partnership. The budget covers the core Integrated Business Centre (IBC) services plus on-going system development, system licences as well as variable direct charges such as those for advertising and recruitment. This is being reviewed and opportunities for savings explored.
43. The digital services budget for IT systems, applications, storage, and support contracts is £7.500m. Inflation will be a key risk and cost increases will need to be kept to a minimum. The service will commence 'Tech-tonic 2', a project for a modern desktop service and device refresh and complete projects to migrate to a cloud-based hosting platform.

## **Equality Implications**

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 in February 2023.

## **LIST OF APPENDICES**

Appendix 1 – Savings and investment proposals

Appendix 2 – Risks

Appendix 3 – Draft Equality Impact Assessment

Appendix 4 – Trend data