

## London Borough of Hammersmith & Fulham

**Report to:** Health, Inclusion and Social Care Policy & Accountability Committee

**Date:** 26 January 2022

**Subject:** 2022 Medium Term Financial Strategy (MTFS)

**Report author:** Head of Strategic Planning & Monitoring – Andrew Lord  
Head of Finance (Social Care) – Prakash Daryanani

**Responsible Director:** Director of Finance – Emily Hill  
Strategic Director of Social Care – Lisa Redfern

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### SUMMARY

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

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

The 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.

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### RECOMMENDATIONS

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

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**Wards Affected:** All

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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.

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### Contact Officers

Name: Emily Hill  
Position: Director of Finance  
Telephone: 020 8753 3145  
Email: [emily.hill@lbhf.gov.uk](mailto: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](mailto:andrew.lord@lbhf.gov.uk)

Name: Prakash Daryanani  
Position: Head of Finance (Social Care)  
Telephone: 020 8753 2523  
Email: [prakash.daryanani@lbhf.gov.uk](mailto:prakash.daryanani@lbhf.gov.uk)

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### Background Papers Used in Preparing This Report

Not Applicable

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## PROPOSALS AND DETAILED ANALYSIS

### The budget requirement and gap

1. The gross General Fund budget<sup>1</sup> 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**

<b>2021/22 budgeted expenditure</b>	<b>£m</b>
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
<b>Gross budgeted expenditure</b>	<b>533.5</b>
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)
<b>Budget requirement rolled forward to 2022/23</b>	<b>160.4</b>

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.

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<sup>1</sup> 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
<b>Base budget rolled forward</b>	<b>160.4</b>	<b>160.4</b>	<b>160.4</b>	<b>160.4</b>
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 income projection	(3.4)	(3.4)	(3.4)	(3.4)
Contribution to reserves and balances	2.1			
<b>Budgeted expenditure</b>	<b>171.8</b>	<b>180.7</b>	<b>192.9</b>	<b>204.8</b>
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)
<b>Budgeted resources</b>	<b>(171.8)</b>	<b>(171.0)</b>	<b>(173.0)</b>	<b>(174.8)</b>
<b>Budget gap</b>	<b>0</b>	<b>9.7</b>	<b>20.1</b>	<b>30.2</b>

### **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<sup>2</sup> 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.

<sup>2</sup> 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.

The exceptions to these assumptions for this Committee are attached in Appendix 4.

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

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

7. **General government grant funding** of £44.45m is forecast for 2022/23. This is an increase of £6.2m from 2021/22. £1.8m of the grant increase is not new money but compensation for the government decision not to increase business rates in 2022/23. The extra grant is also meant to recompense local authorities for the extra costs that will arise from the Government's 1.25% increase in employer national insurance contributions (estimated at £1.25m for H&F staff costs). Historically, government funding has reduced by £58m from 2010/11 to 2022/23. The 2022/23 grant funding includes an extra £2.7m for Social Care support. This has part funded the new investment in Children's and Adult Social Care of £5.6m and contributed towards reducing inflationary pressures. The new investment is partly funded for the extra NI costs of Social Care contracted staff of £0.537m.

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)
<b>Dwellings liable for 100% of council tax</b>	<b>47,489</b>

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
<b>Total</b>	<b>7.434</b>

**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
<b>Total</b>	<b>7.434</b>

## 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**

<b>Department</b>	<b>£m</b>
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)
<b>Total savings</b>	<b>(4.851)</b>

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

**Table 8: Categorisation of 2022/23 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>

## 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 £97m 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
<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	(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			

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 £1.7m in 2022/23 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 on the budget proposals

24. The department funds Social Care support for 2,706 residents. 2,174 live in the community and 532 people live in residential and nursing care. This is a 9.5% increase in residents supported by Social Care since end of March 2020. Since 2016/17 the department has contributed savings of £17.6m. It has successfully balanced its budget since 2017/18 despite the huge pressures placed on Adult Social Care.
25. Due to the ongoing impact of Covid-19, increasing acuity of needs and the very high rate of hospital discharges, this year's budget is projecting a current overspend which we are working very hard to balance by year end. Covid-19 related activity has dominated the work of Social Care since March 2020. Since April 2021 people who have been eligible for support are presenting very high levels of need – effectively with nursing and hospital care at home.

### Key messages from the Strategic Director of Social Care

26. The Covid-19 pandemic has exposed the fragility of the national Adult Social Care system and the urgent need for reform. The White Paper 'People at the Heart of Care' sets out elements of the reform that is required over the ten year period. However, it does not include a resolution to the Social Care funding crisis.
27. Covid-19 has made an already volatile care market even more susceptible to market failure. The focus on even more rapid discharges from hospital has placed further pressure on the Social Care system.
28. Until a long-term funding solution is found, more short-term support is needed nationally to help manage the Adult Social Care response to the pandemic. There are increasing demographic pressures with a focus on support for working age adults. Social Care's future ability to make further savings is even more challenged due to the additional pressures placed on it by the pandemic.
29. A consistent Government approach is needed for funding Social Care and the NHS as two parts of an interlinked system, with any future NHS budget increases replicated for Social Care. Estimates<sup>3</sup> suggest that an extra £6-8 billion of funding (nationally) is required to support Social Care and put it on a more sustainable level to meet growth and demand for an ageing population.

### [Build Back Better: Our Plan for Health and Social Care – GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/build-back-better-our-plan-for-health-and-social-care)

30. The main funding implications are:
  - New Health and Social Care Levy added to the National Insurance contributions from April 2022 onwards. The funding from the levy will be allocated to the NHS for the next 3 years and there's no guarantee that the funds will be passed to Social Care.

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<sup>3</sup> ADASS budget survey 2020, The impact of Covid-19 on Social Care budgets, published June 2020

- From October 2023, there will be a cap on care costs of £86,000. This cap represents the maximum someone would pay towards the cost of care. The means-test for Social Care will change. People with assets over £100,000 will pay the full cost of care until they hit the cap (currently the figure is £23,500). Others will have the cost of care subsidised or fully met by Local Authorities. The Council policy is free home care and as a consequence the introduction of the cap would only be applicable for residents who receive services in care homes.

**[People at the Heart of Care – adult social care reform white paper \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)**

31. People at the Heart of Care sets out the elements of a 10 year vision for Social Care revolving around three objectives:
- People have choice, control and support to live independent lives
  - People can access outstanding quality and tailored care and support
  - People find Adult Social Care fair and accessible
- The vision does not however address the issues of long-term funding.

**Public Health**

32. Public Health is fully funded by the Department of Health’s ringfenced grant and will remain a net nil cost budget to the Council. The level of grant for 2022/23 is expected to rise by inflation, but allocations have not yet been confirmed. The Council’s base budget for Public Health investment in Council services is maintained at £6.8 million as the service looks at more compassionate, effective and ruthlessly financial efficient ways of delivering Public Health outcomes within the pandemic and the challenged financial environment.
33. In response to the Covid-19 outbreak, Public Health has played a central role in ensuring the safety of residents through its innovative infection control work, its implementation of a Track and Trace response and making Hammersmith & Fulham the first London Council to implement Lateral Flow testing. The Council was the first to implement PCR testing in care homes in England and ahead of Government policy.
34. The Community Aid Network (CAN) and Conversation Matters has remained an important part in our response to Covid-19. We are committed to maintaining our ‘one front door’ approach for Social Care to further enhance our coordination in helping to combat social isolation and loneliness.

**Key outcomes delivered in Social Care & Public Health**

35. Policy outcomes:
- The administration continues its commitment to making life more affordable for older and disabled residents by providing free home care, charging residents only £2 per Meal and a Chat service (replacing Meals on Wheels) which uses local providers and not increasing Careline charges.

- The Council continues to make life more affordable for staff by paying our contractors and sub-contractors the London Living Wage.
- Covid-19 outcomes include innovative infection control work with care homes on track and trace, on the early adoption of lateral flow testing and the Council was the first to implement PCR testing in care homes in England and ahead of Government policy.
- Excellent performance on discharges from hospital and hospital admission prevention despite the impact of the pandemic, which significantly saved costs for the NHS.
- We have received 196 unsolicited compliments since April 2021 from residents (this is continuing from the high number of compliments from last year).

36. Managing the budget and performance:

- Greater leadership 'grip' and management support with all care providers.
- Reviewing sensitively all care support in accordance with the Care Act.
- Managing the budget in an integrated way with operational managers, commissioning and finance.
- Greater use of dashboards to manage performance during Covid-19.

### **Market management**

37. Both the supply of carers to deliver homecare and the supply of beds in residential homes available at an affordable price have become very limited across London. We will continue to implement business continuity plans locally so that we can continue to meet our statutory requirements under the Care Act to provide appropriate care and support following Social Care assessment. It is also proposed that a joint cross London approach is agreed via the London Association of Directors of Adult Social Services for action if the situation continues to worsen.
38. Both nursing and care homes are asking for higher rates. Some homes are seeking to move away from making a distinction between health, Social Care and self-funder rates. The national body representing care homes is arguing for full cost of recovery for all placements rather than a business model which is balanced between a mix of private and public funded placements. We are looking to continue to secure competitive rates as a west London region in this changing context.
39. In 2021/22, there has been a significant increase in the demand for homecare. The level of acuity has grown. For example, at the time of writing, there are 186 residents requiring two carers, per home care visit four to five times per day. In addition, some residents require live-in and night-time care. Earlier hospital discharge is driving up this demand.

### **Investment, Covid-19 proposals and Savings strategy - Appendix 1A and 1B**

40. Given the significant pressures in Social Care there are a number of investments proposed for 2022/23 which represents 5% of the revised gross expenditure for

Social Care. The department proposes a number of efficiencies which total £1.7m in 2022/23. Further details of these are in appendix 1A and 1B.

### **Fees and charges**

41. The administration continues its commitment to making life more affordable for older and disabled residents by providing free home care, £2 per Meal and a Chat service and not increasing Careline charges, despite the inflationary pressures on the Council's costs.

### **Equality Implications**

42. 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**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext. of holder of file/copy</b>	<b>Department/ Location</b>
1.	None		

**List of Appendices:**

Appendix 1 – Savings and investment proposals

Appendix 2 – Risks

Appendix 3 – Draft Equality Impact Assessment

Appendix 4 – Fees & charges not increasing at the standard rate