

	<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">Health, Adult Social Care and Social Inclusion Policy and Accountability Committee</p> <p style="text-align: center;">7th October 2014</p>
<p>2015 MEDIUM TERM FINANCIAL STRATEGY (MTFS) - UPDATE</p>	
<p>Report of the Cabinet Member for Community Care</p>	
<p>Report Status: Open</p>	
<p>Classification: For review and comment.</p>	
<p>Key Decision: No</p>	
<p>Wards Affected: All</p>	
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1. EXECUTIVE SUMMARY

- 1.1. Due to significant and ongoing reductions in funding received by Hammersmith and Fulham Council from central government, in the next financial year there is a budget gap, before savings, of £24.9m. This gap rises to £67.1m by 2018/19. Cabinet will present their revenue budget and council tax proposals to Budget Council on 25 February 2015 for the next financial year. A report on the financial background to the budget was presented to the Finance and Delivery Policy and Accountability Committee (PAC) in July. An update on the overall position is now reported. The context for the departmental budgets that relate to this PAC are also put forward for comment.

2. RECOMMENDATIONS

- 2.1. That the PAC considers the update and makes recommendations to Cabinet as appropriate.

3. INTRODUCTION AND BACKGROUND

- 3.1. The current Medium Term Financial Strategy (MTFS) forecast¹ is set out in Table 1. The 2015/16 budget gap, before savings, is £24.9m, rising to £67.1m by 2018/19.

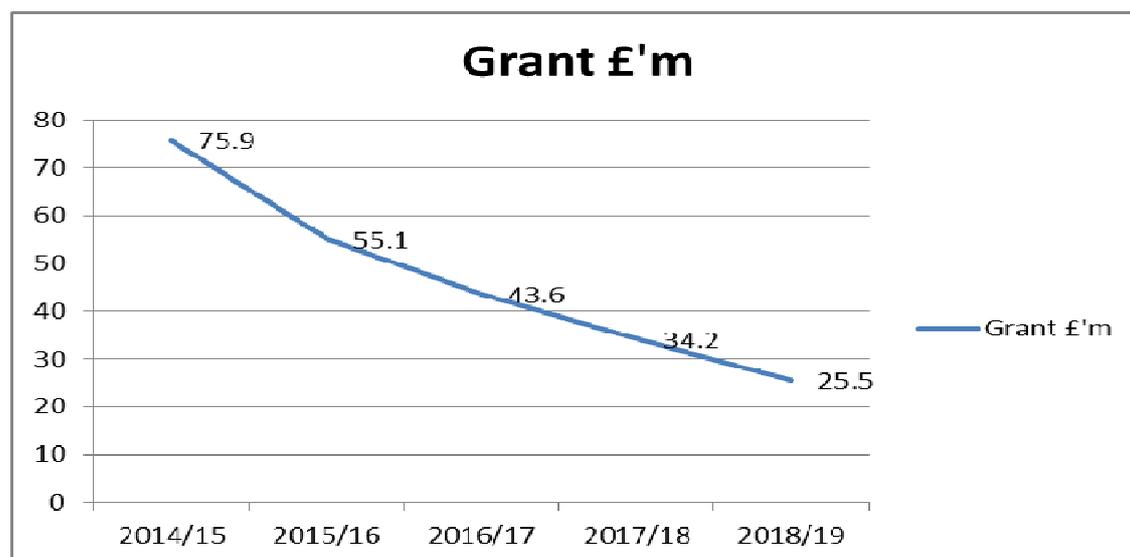
Table 1 – Budget Gap Before Savings

	£'m	£'m	£'m	£'m
	2015/16	2016/17	2017/18	2018/19
Base Budget	181.5	181.6	181.7	181.7
Add:				
- Inflation	2.8	5.6	8.4	11.2
- Contingency (Pay)	0.9	3.2	5.4	7.7
- Contingency (CCTV Parking)	1.0	1.0	1.0	1.0
- Headroom	0.2	1.4	2.6	3.8
- Growth	3.5	5.7	6.3	6.3
Budgeted Expenditure	189.9	198.5	205.4	211.7
Less:				
- Government Resources	(55.1)	(43.6)	(34.2)	(25.5)
- LBHF Resources	(109.9)	(112.4)	(115.7)	(119.1)
Budgeted Resources	(165.0)	(156.0)	(149.9)	(144.6)
Budget Gap	24.9	42.5	55.5	67.1

- 3.2. Money received by Hammersmith and Fulham Council from central government is reducing significantly every year. The latest forecast is shown in Graph 1. The cut in funding, from 2014/15 to 2018/19, is expected to be more than £50m.
- 3.3. Indicative 2015/16 grant allocations were announced in the most recent Local Government Finance Settlement and are incorporated in the forecast. Beyond 2015/16, the 2013 Autumn Statement set out projected government spending to 2018/19. These plans see a continued, and significant, fall in grant from Government.
- 3.4. The forecast set out in Table 1, projects that government funding will reduce in line with the Treasury spending plans beyond 2015/16. This forecast accords with broader financial modelling across London. There is a risk that the actual Government funding cut could be greater.

¹ A 4 year forecast is provided as this is the time frame within which the government resource spending envelope was identified as part of the 2013 Autumn Statement.

Graph 1 – Government Resource Forecast Assumed in the MTFS



- 3.5. Locally generated LBHF resources are council tax and the local share of business rates. Business rates are projected to increase in line with economic growth in future years.
- 3.6. Future resources are uncertain. Government funding reductions could be more or less than currently modelled. Likewise council tax and business rates income may vary. Sensitivity analysis has been undertaken to test the resource forecast against more optimistic or pessimistic assumptions. For example, should annual government funding reductions be 5% more than currently modelled, for 2016/17 to 2018/19, the budget gap would increase by £12m. Against this risk it is worth noting that the general fund reserve now stand at £20m. These and other general fund earmarked reserves have increased by nearly £30m over the past 2 years.

4. Closing the Budget Gap

- 4.1. Due to the funding pressures coming from central Government, as outlined above, the council faces a continuing financial challenge. The budget gap will increase in each of the next four years if no action is taken to reduce expenditure or generate more income.
- 4.2. In order to close the budget gap for 2015/16:
- Corporate budgets have been subject to initial review and savings of £3.6m have been identified for 2015/16.
 - Departments were set savings targets based on their controllable budgets.

The 2015/16 savings targets are summarised in Table 2.

Table 2 – Current Savings Targets by Department

Department	Savings Target £'000s
Adult Social Care	(6,568)
Children's Services	(4,596)
Environment, Leisure and Resident's Services	(1,970)
Libraries and Archives	(162)
Finance and Corporate Services	(3,124)
Housing and Regeneration	(982)
Transport and Technical Services	(3,887)
Total Departmental Savings	(21,289)
Corporate Savings	(3,589)
Total All savings	(24,878)

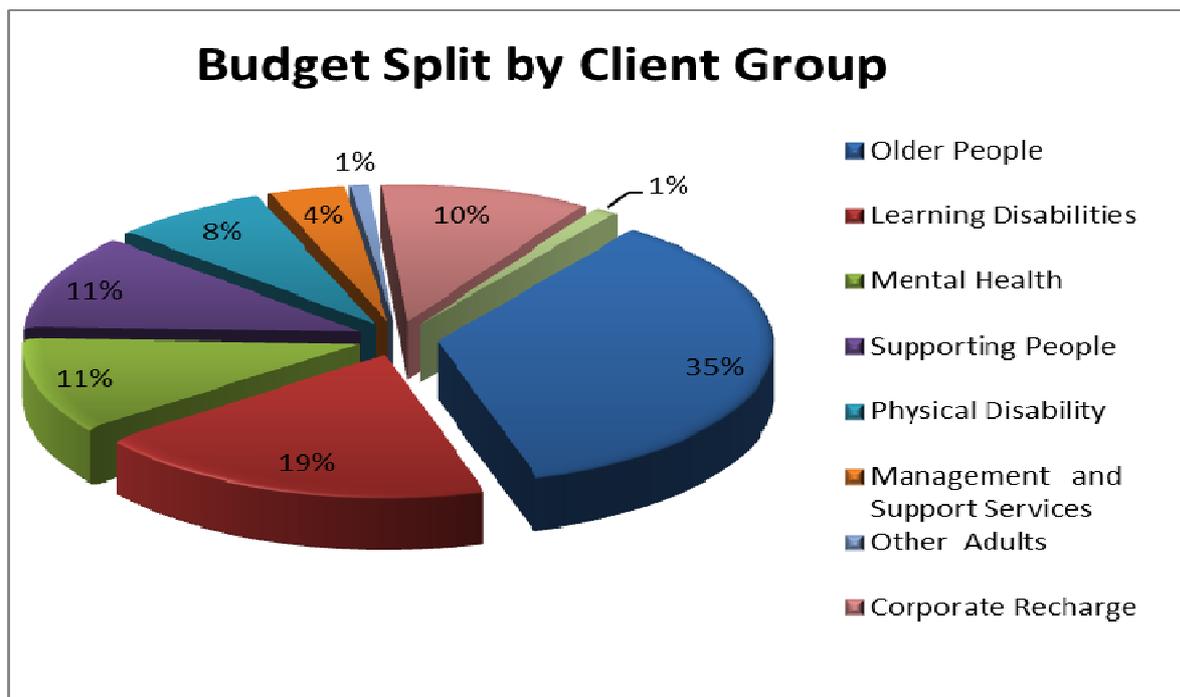
- 4.3. In order to address the council's projected budget gap for 2015/16, all departments have significant savings to find for 2015/16 (generally 9% of their controllable budget). The departments are currently developing their detailed savings proposals in consultation with Cabinet Members and are considering the level of risk associated with each proposal. It is anticipated that the proposals will be firmed up over the autumn, and areas with high risk are being prioritised for discussions in PAC meetings.
- 4.4. The extent of the financial savings required across the council due to central government cuts means that delivery of the MTFS will be challenging and will need to be closely monitored. It is inevitable that difficult choices will need to be made. The following section of the report outlines the context for these difficult deliberations in relation to the departments covered by this Policy and Accountability Committee.

5. Comments of the Executive Director for Adult Social Care on the Budget Proposals

- 5.1 The Adult Social Care Department in LBHF has a gross expenditure budget for 2014/15 of £86.9m. The department is budgeted to collect income of £22.5m from health funding, contributions from customers and government grants to arrive at a net general fund budget of £64.4m. Within this amount, £7.2m of it is referred to as non-controllable budgets as they are controlled by Corporate services. These include capital charges and Service Level Agreements (SLAs). The total controllable budget held within the department is £57.1m.
- 5.2 The table below shows the gross and net expenditure budget across the department. This shows that the majority of the net controllable expenditure (£54m) is on providing Social Care services for various client groups. This accounts for 95% of the total net controllable budget within the department.

Table 3

ASC Client Budgets	Gross Budget (£'000)	Income (£'000)	2014/15 Net Controllable Budget (£'000)
Older People	37,944	(15,204)	22,740
Learning Disability	18,156	(5,670)	12,486
Mental Health	7,588	(589)	6,999
Supporting People	7,400	(269)	7,131
Physical Disabilities	5,322	(453)	4,869
Management & Support Services	2,531	(159)	2,372
Other Adults	761	(192)	569
Total Controllable Budget	79,702	(22,536)	57,166
Non Controllable			
Corporate Recharge	6,527	0	6,527
Capital Recharge	710	0	710
Total Non-Controllable	7,237	0	7,237
Total Departmental	86,939	(22,536)	64,403



5.3 The client budgets provide services such as residential and nursing placements, of which the gross budget for 2014/15 is £35.8m with an average of 555 customers.

Homecare has a gross budget of £7m with 971 customers and Direct Payments has a gross budget of £5.8m with 378 customers. £12.3m is spent on other adult services which includes services such as extra care sheltered accommodation, day care, equipment and adaptations and third sector budgets.

£11.4m is spent on salaries and running costs.

- 5.4 The supporting people budget of £7.4m provides funding for 24 contracts of which 18 provide accommodation related services and the remaining 6 provide floating support services.
- 5.5 In setting a medium term financial plan, savings targets were allocated to departments in proportion to their Net Direct Expenditure. This means that ASC was set a savings target of £6.568m in 2015/16 rising to £14.7m in 2017/18. The £6.568m saving is an 11% reduction of the department's net controllable budget for 2014/15, rising to 25% by 2017/18. The department is currently expected to deliver 32% of the Council's overall savings target for 2017/18.
- 5.6 The department has been concentrating on developing areas of potential savings for the next three years up to 2017/18 and to deliver the £6.568m departmental savings target for 2015/16.
- 5.7 The scale of reduction now required is a reflection of the challenge facing the administration in setting a budget for 2015/16 and the difficulties involved in establishing expenditure priorities.
- 5.8 The savings proposals being worked up are aimed at protecting the core services provided to our customers. This is being achieved through better alignment of services, enhancing prevention strategies, closer working with Health and more efficient procurement.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

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