	<p align="center"><b>London Borough of Hammersmith &amp; Fulham</b></p> <p align="center"><b>CHILDREN AND EDUCATION POLICY AND ACCOUNTABILITY COMMITTEE</b></p> <p align="center"><b>19 JANUARY 2015</b></p>
<p><b>2015 MEDIUM TERM FINANCIAL STRATEGY</b></p>	
<p><b>Report of the Cabinet Member for Children and Education</b></p>	
<p><b>Report Status:</b> Open</p>	
<p><b>Classification:</b> For review and comment</p>	
<p><b>Key Decision:</b> No</p>	
<p><b>Wards Affected:</b> All</p>	
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## 1. EXECUTIVE SUMMARY

- 1.1 The Council is obliged to set a balanced budget and council tax charge in accordance with the Local Government Finance Act 1992. Cabinet will present their revenue budget and council tax proposals to Budget Council on 25 February 2015.
- 1.2 This report sets out the budget proposals for the services covered by this Policy and Accountability Committee (PAC). An update is also provided on any changes in fees and charges.

## 2. RECOMMENDATIONS

- 2.1. That the PAC considers the budget proposals and makes recommendations to Cabinet as appropriate.
- 2.2. That the PAC considers the non-standard increases in fees and charges and makes recommendations as appropriate.

### 3. INTRODUCTION AND BACKGROUND

3.1 The context for the departmental budgets that relate to this PAC, and financial background to the MTFs, were reported to this Committee in October. An updated Medium Term Financial Strategy (MTFS) forecast<sup>1</sup> is set out in Table 1. The 2015/16 budget gap, before savings, is £23.8m, rising to £69.7m by 2018/19.

**Table 1 –Budget Gap Before Savings**

	£'m	£'m	£'m	£'m
	2015/16	2016/17	2017/18	2018/19
<b>Base Budget</b>	<b>181.5</b>	<b>181.6</b>	<b>181.6</b>	<b>181.7</b>
Add:				
- New Burdens	0.8	0.8	0.8	0.8
- Inflation	2.5	5.3	8.1	10.9
- Contingency (Pay etc)	1.3	3.0	5.3	7.5
- Contingency (CCTV Parking)	1.0	1.0	1.0	1.0
- Current Headroom	1.3	1.2	2.4	3.6
- Growth	4.0	6.2	6.8	6.8
<b>Budgeted Expenditure</b>	<b>192.5</b>	<b>199.1</b>	<b>206.0</b>	<b>212.3</b>
Less:				
- Government Resources	(56.6)	(45.9)	(35.8)	(26.5)
- LBHF Resources	(112.0)	(112.4)	(114.2)	(116.1)
<b>Budgeted Resources</b>	<b>(168.7)</b>	<b>(158.3)</b>	<b>(150.0)</b>	<b>(142.7)</b>
<b>Budget Gap Before Savings</b>	<b>23.8</b>	<b>40.9</b>	<b>56.1</b>	<b>69.7</b>
<b>Risks</b>	<b>12.6</b>	<b>20.4</b>	<b>21.1</b>	<b>21.1</b>

3.2 Money received by Hammersmith and Fulham Council from central government is reducing significantly every year. From 2010/11 to 2014/15 government funding was cut by £46m. Funding is forecast to reduce by a further £30.1m from 2016/17 to 2019/20. A fuller explanation of the funding forecast and spending power calculation is set out in Appendix 5.

3.3 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. The council tax forecast assumes a 1% cut in 2015/16. The 1% cut has reduced the income forecast by £0.5m per annum. Figures for 2015/16 business rates, due to the timing of government guidance, will not be confirmed until late January. There remains a risk (a maximum of £3m) that the current budget forecast may need to be reduced.

<sup>1</sup> 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.

3.4 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 (on going annual reduction of 10%), 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 would stand at £20m following the draft proposals in the upcoming budget.

#### 4. GROWTH, SAVINGS AND RISK

4.1 The growth and savings proposals for the services covered by this PAC are set out in Appendix 1 with budget risks set out in Appendix 2.

##### Growth

4.2 Budget growth is proposed in a number of areas. The growth proposals for 2015/16 are summarised by Department in in Table 2.

**Table 2 2015/16 Growth Proposals**

	£'000s
Adult Social Care	599
Children's Services	1,392
Environment, Leisure and Residents Services	671
Finance & Corporate Services	300
Housing and Regeneration Department	130
<b>Budget Growth</b>	<b>3,092</b>
Transport and Technical Services Growth offset against additional savings found within department	925
<b>Total Growth</b>	<b>4,017</b>

4.3 Table 3 summarises why budget growth is proposed:.

**Table 3 – Reasons for 2015/16 Budget Growth**

	£'000s
Government related	900
Other public bodies	375
Increase in demand/demographic growth	489
Council Priority	511
Existing Budget Pressures	1,742
<b>Total Growth</b>	<b>4,017</b>

## Savings

- 4.4 Due to the funding cuts from Central Government, and the need to meet inflation and growth pressures, 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.
- 4.5 In order to close the budget gap for 2015/16:
- Corporate budgets have been subject to initial review and savings of £3.3m have been identified for 2015/16.
  - Savings of £20.5m are proposed for Departments.

The 2015/16 savings proposals are summarised in Table 4.

**Table 4 – 2015/16 Savings Proposals by Department**

<b>Department</b>	<b>Savings £'000s</b>
Adult Social Care	(6,514)
Children's Services	(4,071)
Environment, Leisure and Residents' Services	(1,395)
Libraries and Archives	(162)
Finance and Corporate Services	(2,762)
Housing and Regeneration	(982)
Transport and Technical Services	(4,307)
Public Health	(350)
<b>Total Departmental Savings</b>	<b>(20,543)</b>
Corporate Savings	(3,273)
<b>Total All savings</b>	<b>(23,816)</b>

## Budget Risk

- 4.6 The Council's budget requirement for 2015/16 is in the order of £168.7m. Within a budget of this magnitude there are inevitably areas of risk and uncertainty particularly within the current challenging financial environment. The key financial risks that face the council have been identified and quantified. They total £12.6m. Those that relate to this PAC are set out in Appendix 2.

## 5 FEES AND CHARGES

- 5.1 The budget strategy assumes that there will be no real terms increases in any fees and charges, unless set by outside Statute or Regulation. In line with council policy, this is calculated using the Retail Price Index for inflation in the August of the year preceding the budget. Many fees and charges will be frozen in absolute terms, including charges for parking, school lunches and adult education. Some charges, such as Meals on Wheels, have been reduced. Other charges, most notably Home Care Charges, have been scrapped altogether.

5.2 All charges in the area of Children’s Services will be frozen, including school meals.

## 6 2015/16 COUNCIL TAX LEVELS

6.1 Cabinet propose to cut the Hammersmith and Fulham’s element of 2015/16 Council Tax by 1%. This will provide a balanced budget whilst reducing the burden on local taxpayers at a time of rising living costs.

6.2 The Mayor of London has announced his intention to set the Greater London Authority precept at £295 a year (Band D household) for 2015/16. The draft budget is currently out for consultation and is due to be presented to the London Assembly on 28 January for final confirmation of precepts on 23 February.

6.3 The impact on the Council’s overall Council Tax is set out in Table 5.

**Table 5 – Council Tax Levels**

	<b>2014/15 Band D</b>	<b>2015/16 Band D</b>	<b>Change From 2014/15</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Hammersmith and Fulham	735.16	727.81	(7.35)
Greater London Authority	299.0	295.0	(4.0)
<b>Total</b>	<b>1,034.16</b>	<b>1,022.81</b>	<b>(11.35)</b>

6.4 The current Band D Council Tax charge is the 3<sup>rd</sup> lowest in England<sup>2</sup>.

## 7 Comments of the Tri-Borough Executive Director for Children’s Services on the Budget Proposals

7.1 The Department’s Net Expenditure budget for 2014/15 is £49.75m. Within this sum are a number of areas over which the department has no control, these are defined as indirect expenditure and include contributions to corporate services and capital charges. In total these add up to £13.1m. This means that the net direct expenditure that the department is in control of is £36.65m. Table 6, and Graph 1, set out how expenditure is incurred across the various activities within the department showing that the majority of expenditure is on Social Care, £27.96m of net direct expenditure.

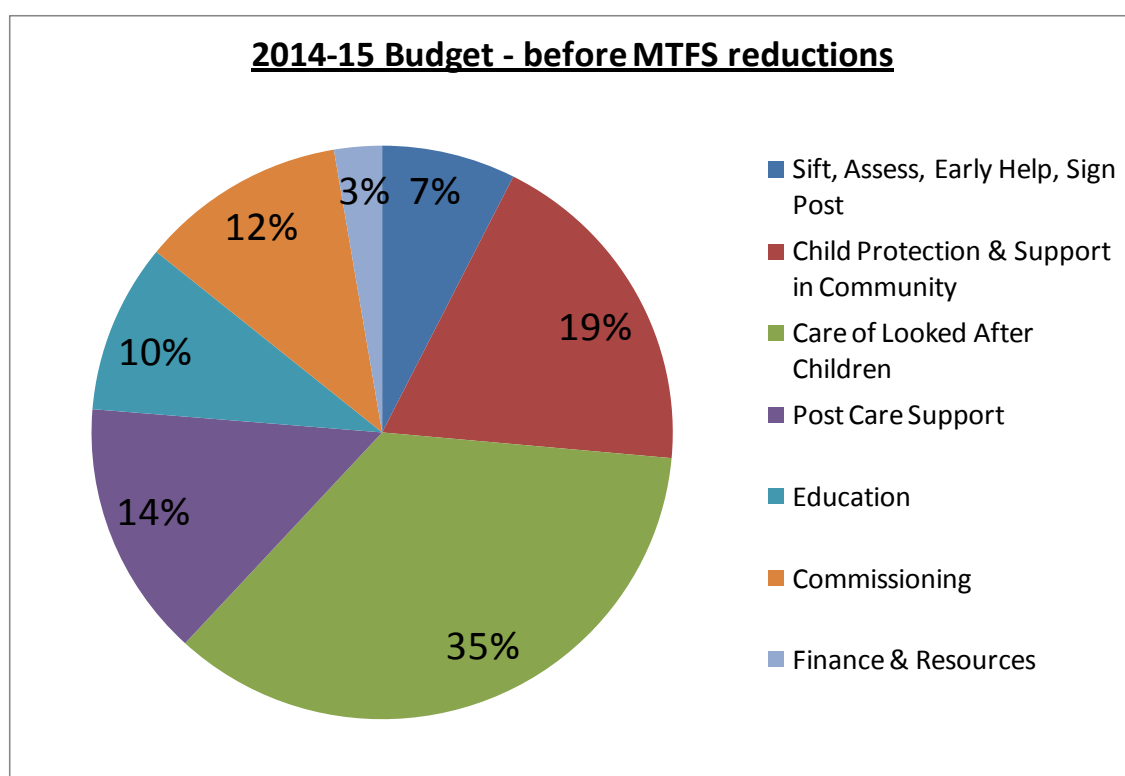
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<sup>2</sup> Excluding the Corporation of London

**Table 6 – Children’s Services (CHS) Controllable budget**

CHS Spend Categories	2014-15 Net Direct Budget (£'000s)
Triage, Assess, Early Help, Sign Post	2,732
Child Protection & Support in Community	6,954
Care of Looked After Children	12,983
Post Care Support	5,292
Education	3,500
Commissioning	4,215
Finance & Resources	974
<b>Total</b>	<b>36,650</b>

**Graph 1 – Children’s Services Budgets**



- 7.2 The Commissioning budget of £4.2m includes £2.1m spend on Children’s Centres and £0.96m on Youth Services.
- 7.3 The Education budget of £3.5m includes £1.3m spend on School Standards and £2m on Special Educational Needs and Vulnerable Children.
- 7.4 In setting a medium term financial plan, savings targets were allocated to departments in proportion to their Net Direct Expenditure. This means that Children’s Services (CHS) were set a savings target of £12.4m by 2018/19. This is equivalent to 20% of the entire savings required by the Council and approximately 34% of the department’s net direct expenditure.

- 7.5 The department has been concentrating on developing areas of potential savings for the next three years up to 2017/18 and to deliver £4.6m departmental savings target for 2015/16. The change of administration allowed a review of a number of proposals and found greater efficiencies in other areas and as a consequence the departmental savings target has been reduced to £4.071m, the details of which are set out in Appendix 1.
- 7.6 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.
- 7.7 The department's approach to identifying potential savings has been consistent with the vision for Children's Services which is :

'To improve the lives and life chances of our children and young people; intervene early to give the best start in life and promote wellbeing; ensure children and young people are protected from harm; and that all children have access to an excellent education and achieve their potential. All of this will be done whilst reducing costs and improving service effectiveness.'

This has been key to developing a number of lines of enquiry that seeks to protect services to the most vulnerable members of the community within the statutory provisions required of the department.

- 7.8 The savings proposals for Children's Services will seek not only to protect front-line services and to continue to offer a service appropriate to local need, but to improve our offer to residents facing difficult circumstances such as poverty and higher levels of need. The proposals will reduce spending on overhead costs, reduce spending on management and reduce duplication.
- 7.9 At the core of all savings proposals will be services that encourage families to be less reliant on the help provided by the Council and to strengthen parents' involvement in their children's lives, whilst steadfastly remaining vigilant with regards to our duty of safeguarding vulnerable children and young people.

### **CHS Growth Pressures**

- 7.10 CHS have been experiencing revenue pressures throughout 2014/15. The majority of these pressures relate to changes in practice forced by legislation and regulation changes introduced by the Coalition Government for which inadequate funding has been distributed to local authorities to meet the additional liability. Some pressures have been present for a number of years such as Southwark Judgement costs which have been appropriately identified as demand-growth and have been fully funded from corporate contingency. However the department has sought to contain other pressures, which had not been identified as growth, within Children's Services budgets through underspends elsewhere in the department or use of specific provisions. Provisions had been made on the balance sheet for Secure Remand and Leaving Care pressures. Expenditure on children who

have No Recourse to Public Funds (NRPF) has previously been covered by prior years' asylum balances which was considered appropriate given the overlap of the client base, however this is being exhausted and the pressure is now being felt in-year.

- 7.11 In respect of other pressures:
- 7.12 Permanency was an overspend last year offset by use of Adoption Reform Grant for new support packages, underspends in localities and elsewhere in CHS, mainly education;
- 7.13 Staying Put is a new pressure this year, as is the rise of Remand Children presenting for Leaving Care services. There are also pressures relating to staffing levels in the LAC team. The following table (Table 7) sets out the impact that the above pressures have had on the department's finances.

**Table 7: Budget Pressures**

Service Area	2015/16 Growth £'000s	2015/16 Risk £'000s
Leaving Care -		
Southwark Judgement	375	
No Recourse to Public Funds	200	16
21+ increase in education	70	18
Staying Put	71	44
Staying Put (Consequential Costs)	25	
18+ Children With Disabilities (CWD) not meeting ASC criteria	80	
Impact of Secure Remand on Leaving Care (LC)	36	44
Looked After Children -		
Secure Remand	164	
Permanency		
Increasing Adoption arrangements	117	169
Increasing Special Guardian Order (SGO) arrangements	254	146
	<b>1,392</b>	<b>437</b>

## **8 Equality Implications**

- 8.1 Published with this report is a draft Equality Impact Analysis ('EIA'). The EIA assesses the impacts on equality of the main items in the budget proposals relevant to this PAC. The draft EIA is attached, in Appendix 4. A final EIA will be reported to Budget Council.

## **9 Legal Implications**

- 9.1 The legal implications regarding the budget proposals will be set out in the report to Budget Council on 25 February 2015.



**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		

Appendix 1 – Savings and Growth Proposals

Appendix 2 – Risks

Appendix 3 - Fees and Charges Not Increasing at the Standard Rate

Appendix 4 – Draft Equality Impact Assessment

Appendix 5 - Spending Power Reduction