


London Borough of Hammersmith & Fulham ECONOMIC REGENERATION, HOUSING & THE ARTS POLICY AND ACCOUNTABILITY COMMITTEE 19th JANUARY 2016		
2016 Medium Term Financial Strategy (MTFS)		
Report of the Cabinet Member for Finance		
Report Status: Open		
Classification: For review and comment.		
Key Decision: No		
Wards Affected: All		
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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 24th February 2016.
- 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 current Medium Term Financial Strategy (MTFS) forecast is set out in Table 1. The 2016/17 budget gap, before savings, is £15.4m, rising to £55.8m by 2019/20.

Table 1 – Budget Gap Before Savings

	£'m	£'m	£'m	£'m
	2016/17	2017/18	2018/19	2019/20
Base Budget	167.4	167.5	167.5	167.6
Add:				
- Inflation	2.3	4.8	7.3	9.8
- Contingency (includes pay)	2.0	4.0	6.1	8.1
- Growth	6.2	10.2	10.4	10.7
- New burden – Independent Living Fund	0.9	0.9	0.9	0.9
- Investment in efficiency projects to realise savings in future years	4.0	0	0	0
Budgeted Expenditure	182.8	187.4	192.2	197.1
Less:				
- Government Resources	(50.3)	(40.2)	(30.8)	(24.0)
- LBHF Resources	(115.1)	(113.9)	(114.5)	(115.3)
- Use of Developer Contributions	(2.0)	(2.0)	(2.0)	(2.0)
Budgeted Resources	(167.4)	(156.1)	(147.3)	(141.3)
Cumulative Budget Gap Before Savings	15.4	31.3	44.9	55.8
Risks	10.2	18.0	22.7	25.5

3.2 Money received by Hammersmith and Fulham Council from central government is reducing significantly every year. Funding reduced by £18m in 2015/16 (to £57.6m) and is forecast to further reduce by £33.6m from 2015/16 to 2019/20. Based on the Provisional Local Government Finance Settlement the 2016/17 grant reduction¹ is £8.2m. In addition, Government has imposed £2.885m of new responsibilities on LBHF without providing any funding.

3.3 As part of the Provisional Local Government Finance Settlement the government announced that authorities can charge a 2% social care precept. This would raise £1.1m for Hammersmith and Fulham and is

¹ On a like for like basis 2015./16 grant was £57.6m and will reduce by £8.2m to £49.4m in 2016/17. In addition grant of £0.9m will be receivable in 2016/17 for the new burden associated with the Independent Living Fund. Total 2016/17 grant is £50.3m.

included in Government projections of LBHF's spending power². The Council administration does not wish to apply this tax to residents, so it does not form part of the 2016/17 budget proposals.

- 3.4 Locally generated LBHF resources are council tax and the local share of business rates. The 2016/17 business rates taxbase will be confirmed in February. In future years business rates are projected to increase in line with inflation.
- 3.5 Property developments have placed increased pressure on council services in recent years. The budget strategy provides for use of £2m of developer contributions to support relevant expenditure.
- 3.6 Responsibility for supporting Independent Living Fund users transferred to local authorities, from government, in 2015/16. Estimated expenditure is £0.9m in 2016/17. It is anticipated that this will be funded by government grant for the next year, but there is no certainty over future funding following that.

4. GROWTH, SAVINGS AND RISK

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

- 4.1 Budget growth is summarised by Department in Table 2.

Table 2 2016/17 Growth Proposals

	£'000s
Adult Social Care	1,475
Children's Services	3,164
Environmental Services	269
Corporate Services	1,218
Libraries	65
Total Growth	6,191

- 4.2 Table 3 summarises why budget growth is proposed:

² As part of the settlement announcement the government state their view of the cut in local authority spending power. As well as government funding this includes their assumption on what local authorities will collect through council tax and business rates. For council tax the 2% social care precept is assumed and a 0.8% inflation increase.

Table 3 – Reasons for 2016/17 Budget Growth

	£'000s
Government related	2,884
Other public bodies	675
Increase in demand/demographic growth	463
Council Priority	1,774
Existing budget pressures funded by virements from budget underspends/savings	395
Total Growth	6,191

Savings

- 4.3 The council faces a continuing financial challenge due to Central Government funding cuts, inflation and growth pressures. The budget gap will increase in each of the next four years if no action is taken to reduce expenditure, generate more income through commercial revenue or continue to grow the number of businesses in the borough.
- 4.4 In order to close the budget gap for 2016/17 savings of £15.4m are proposed (Table 4).

Table 4 – 2016/17 Savings Proposals by Department

Department	Savings £'000s
Adult Social Care	5,321
Children's Services	3,227
Environmental Services	2,799
Libraries and Archives	20
Corporate Services	3,175
Housing	265
Council Wide Savings	1,050
Total All savings	15,857
Less savings accounted for in the grant/resource forecast ³	(455)
Net Savings	15,402

Budget Risk

- 4.5 The Council's budget requirement for 2016/17 is £167.4m. Within a budget of this magnitude there are inevitably areas of risk and uncertainty particularly within the current challenging financial environment. The key

³ The council has undertaken business intelligence projects that have generated extra grant and council tax income of £0.455m. These are shown within the resource forecast.

financial risks that face the council have been identified and quantified. They total £10.2m. Those that relate to this PAC are set out in Appendix 2.

5 FEES AND CHARGES

5.1 The budget strategy assumes:

- Adult Social Care, Children’s Services, Adult Learning and Skills, Libraries and Housing charges frozen
- A standard uplift of 1.1% based on the August Retail Price index for some fees in Environmental Services. All parking charges are frozen
- In the future, 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.

5.2 Current proposed exceptions to the standard 1.1% increase, for this PAC, are set out in Appendix 3.

6. 2016/17 COUNCIL TAX LEVELS

6.1 Cabinet propose to freeze the Hammersmith and Fulham’s element of 2016/17 Council Tax. This will provide a balanced budget whilst recognising the burden on local taxpayers.

6.2 The draft GLA budget is currently out for consultation and is due to be presented to the London Assembly on 27th January , for final confirmation of precepts on 22nd February. It proposes that the precept will reduce to £276 a year (Band D household). £12 of the £19 Band D reduction to achieve this relates to the end of the Olympic precept paid by London residents.

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

Table 5 – Council Tax Levels

	2015/16 Band D	2016/17 Band D	Change From 2015/16
	£	£	£
Hammersmith and Fulham	727.81	727.81	0
Greater London Authority	295.00	276.00	(19.00)
Total	1,022.81	1,003.81	(19.00)

6.4 As part of the Provisional Local Government Finance Settlement the government announced that authorities can charge a 2% social care precept. This would raise £1.1m for Hammersmith and Fulham and is included in Government projections of LBHF’s spending power. However,

the Council administration does not wish to apply this tax to residents, so it does not form part of the 2016/17 budget proposals.

- 6.5 Following last year's council tax cut, the current Band D Council Tax charge is the 3rd lowest in England⁴. The Band D charge for Hammersmith and Fulham is the lowest since 1999/2000.

7 Comments of the Lead Directors for Housing on the Budget Proposals

- 7.1 The Housing department provides services funded by both the Housing Revenue Account and by the General Fund. This report only considers those services provided from General Fund budgets.

Housing Revenue Account Budgets

- 7.2 A separate report on the Financial Plan for Council Homes that sets out the 2016/17 Housing Revenue Account budget was presented to the Economic Regeneration, Housing and The Arts Policy & Advisory Committee on 1st December 2015. This paper included the impact of a 1% decrease in rents for Council Homes which is being imposed by central Government for each of the next four years, and its effect on the ability of the Council to carry out repairs and improvements on Council homes and to develop its Council estates. The Financial Plan for Council Homes report, including the 2016/17 Housing Revenue Account budget is scheduled to go before Cabinet on 8th February 2016.

General Fund Budgets

- 7.3 Within Housing, General Fund resources have been allocated to focus on the dual aims of achieving the challenge of delivering Medium Term Financial Strategy (MTFS) savings proposals whilst ensuring front-line services are maintained and enhanced. Particular focus is on enabling the service to respond to the changes brought about by the Government's programme of Welfare Reform, including supporting residents into work, providing mitigating action to protect vulnerable people, responding to housing need and protecting the Council's financial interest and reputation.
- 7.4 The allocation of the approved General Fund Budget between key services is shown in table 6.

⁴ Excluding the Corporation of London

Table 6 – Housing 2015/16 General Fund Budget by Key Service

	Gross Expenditure	Gross Income	Net Expenditure
	£000s	£000s	£000s
Assessment & Advice	2,469	512	1,957
Allocations & Reviews	812	0	812
Temporary Accommodation (TA)	16,733	13,539	3,194
Housing Total⁵	20,014	14,051	5,963

NB – Of the gross expenditure budgets in Table 6, only £3.281m is considered to be controllable if temporary accommodation budgets are excluded. The main controllable budgets relate to staffing costs and non-grant funded activities.

7.5 A brief summary of the key services included in the table above is set out below:

- The **Advice & Assessment** service provides housing advice, works with partners to meet housing demand by assessing homelessness applications, promotes early interventions in order to reduce the likelihood of a person becoming homeless, manages applications to the housing register, provides services to applicants with no recourse to public funds, manages access to supported accommodation and promotes the Council's range of low cost home ownership products through the Home Buy service.
- The **Allocations & Reviews** service allocates properties to people on the Council's housing register. The function is responsible for facilitating permanent re-housing and temporary accommodation placements, making best use of the Council's housing stock and reducing the use of costly bed & breakfast accommodation for homeless households. The service also includes the Housing Benefit Assist team which works with households impacted by Welfare Reform.
- The **Temporary Accommodation** team are concerned with the procurement of accommodation to meet demand for temporary housing in accordance with the Council's statutory homelessness duty. The team manage tenancies in directly managed property and manage contracts and leases with a range of landlords and managing agents.
- Housing is also responsible for developing housing strategy, policy and initiatives (including managing the impact of the Government's Welfare Reform programme).

7.6 It is important to note that although the gross expenditure budget for Temporary Accommodation (TA) currently accounts for over 80% of HRD's

⁵ Support services costs have been apportioned to key services

total budgeted 2015/16 spend (£16.7m of £20.0m), there is limited potential for significant savings to be generated from TA budgets due to the inter-relationship between rental income from tenants and rental payments to landlords. Whilst it is possible to spend less on TA, this will have the effect of also reducing income in most instances and therefore will have a smaller or nil effect on net expenditure or indeed in some scenarios could increase it. Generally speaking, in securing TA the Council is trying to match the cost paid to the owner with the money recouped from or via the tenant, usually through Housing Benefit. Where this is achieved, the loss of the property will reduce payments out to the landlord but this reduction will be matched by the loss of income from the tenants through rent or Housing Benefit so the effect on net expenditure is nil. In some instances, usually where advantageous terms have been negotiated with landlords some years ago, income from Housing Benefit can exceed the cost. Where this property leaves the portfolio and the payments out disappear, the income is also lost, with the effect that net expenditure increases. Against this, where there is a large net cost associated with the use of particular properties, such as in the case of Bed & Breakfast accommodation for families, savings can be achieved by reducing or eliminating the use of this form of accommodation.

Savings Proposals

7.7 Housing has achieved the planned savings target of £265k via the following proposal:

- Saving in temporary accommodation (£265k). This efficiency relates to a reduction in temporary accommodation procurement costs associated with the Council's Housing Associations Leasing Scheme following the phased return to the landlord of a scheme at Hamlet Gardens following the end of a 20 year lease and the sale of the properties by the housing association. The council did not have the option to retain use of the properties but achieved a slower, phased exit from the lease. This is making it easier to place residents without paying a premium to a private landlord, producing this £265k saving.

7.8 There are no significant service delivery implications arising from the savings, indeed the savings emanating from temporary accommodation reflect the success of measures to avoid the use of unsuitable Bed & Breakfast and therefore reflect the provision of a better standard of accommodation for homeless households.

Risks

7.9 It is proposed to manage the on-going impact of the changes brought about by the Government's programme of Welfare Reform via the proactive management of risks.

7.10 The risks facing the department relate primarily to managing the impact of the changes brought about by the Government's programme of Welfare Reform, and are considered to be five-fold:

- the loss of tenancies in the private sector arising from welfare reform measures some of which are already fully in place leading to increased homelessness and the greater use of expensive temporary accommodation such as B&B;
- changes in the temporary accommodation subsidy system leading to the loss of existing Council-managed temporary accommodation and increased B&B usage;
- reduced viability for temporary accommodation currently managed by housing associations leading to loss of income for the associations and potential knock-on effects for the authority in the need to provide alternative temporary accommodation;
- loss of tenancies in the private sector or direct loss of income in Council-managed temporary accommodation arising from the direct payment of benefits to claimants under Universal Credit and again, with the potential risk of increased homelessness and the use of B&B;
- inflationary pressures on costs as a result of increased demand for B&B and other forms of temporary accommodation across London.

7.11 The potential financial impact can be distilled into three main areas:

Impact of Benefit Cap and Direct Payments:

7.12 Overall Benefit Cap: It is anticipated that the risk relating to the Overall Benefit Cap will be in the range £0.19m - £0.39m in 2016/17 and then increase to £0.26m - £0.53m from 2017/18 onwards as a result of the Government's plan to reduce the Overall Benefit Cap from a maximum of £26,000 per annum to £23,000 per annum for single parents and couples with children.

7.13 Direct Payments: the Council is one of the ten pathfinder areas for Universal Credit, the initial pilot implementation which commenced on 28 October 2013 was only for a limited number of claimants (newly unemployed single people) and excluded those who were previously in receipt of housing benefit. In June 2014, the Department for Work and Pensions (DWP) expanded the cohort of eligible claimants for Universal Credit to include couples without children and included some categories of claimants previously in receipt of housing benefit. Currently, all singles, couples with or without children, or lone parents making new claims for subsistence benefit or those who have had a break in their previous claim are eligible for Universal Credit. Although the programme set out by DWP is subject to regular change, it is anticipated that during 2016 all new benefit claimants across the country will claim Universal Credit instead of the legacy benefits it replaces. Further, the majority of the remaining legacy caseload is expected to be moved over to Universal Credit during 2016 and 2017.

7.14 This means that in 2016/17 some new claimants will be entitled to benefit to cover their housing costs which may potentially impact on rent collection

rates. Estimated 2016/17 rental income from B&B and PSL is £12.998m. The full year potential effect on the collection rate in 2016/17 is anticipated to be relatively insignificant (as the budgeted bad debt provision is expected to cover this) but based on the phased implementation outlined above, the predicted risk of an unbudgeted bad debt charge to the General Fund increases to £0.6m in 2017/18 and rises further to £1.8m in 2018/19.

Welfare Reform – potential impact on B&B costs:

7.15 Increased B&B costs: the budget assumption is that the number of households in B&B will be 100 by March 2016. On the assumption that the number of households in B&B reaches 130 by March 2017, and rises to 160 by March 2018 and 190 by March 2019, and that a third of all households in B&B are comprised of large families, the net cost will increase by £0.3m in 2016/17, £0.5m in 2017/18 and £0.6m in 2018/19.

Local Housing Allowance and Increases in PSL and B&B costs:

7.16 Additionally, there is a risk that current subsidy entitlements, which are calculated on the basis of the Local Housing Allowance (LHA) at January 2011, may be updated and there is a risk of inflationary pressures on costs as a result of increased demand for B&B and Temporary Accommodation across London. This risk is estimated to expose the General Fund to a further £0.7m in 2016/17, £1.6m in 2017/18, and £2.1m in 2018/19.

Increase number of homelessness acceptances

7.17 Further there is a risk that homelessness acceptances will increase in future years as a result of current and emerging Government policy. On the assumption that the number of new homelessness acceptances increases by 100 per annum on an ongoing basis, the net cost will increase by £0.3m in 2016/17, £0.7m in 2017/18 and £1.3m in 2018/19.

7.18 This represents a total overall exposure for risks of £1.7m in 2016/17 (rising to £3.9m in 2017/18, and £6.4m in 2018/19).

Comments of the Lead Directors for Libraries on the Budget Proposals

7.19 In reducing its spending, the Libraries and Archives Service aims to:

- Protect customer-facing service as far as possible and continue to provide a high quality of service
- Seek cost reductions and improve efficiency and affordability
- Explore alternatives to cuts such as increased income from commercial opportunities.

Libraries Growth (to be confirmed)

7.20 There is a requirement for up to £65k for rental for Lilla Huset where the LBHF archive collections are held. This has previously been a peppercorn rent which is coming to the end of its term in 2016/17. Alternatives have

been considered, but the most cost-effective option is to continue at the Lilla Huset facility.

Libraries Savings

- 7.21 There may be opportunities to increase income from utilisation of spaces for commercial activities, events and ceremonies. This is a modest proposal to generate £20k from further use, making more use of attractive heritage buildings such as Fulham and Hammersmith libraries.

Libraries Fees and Charges

- 7.22 It is proposed that there are no increases to fees within Libraries.

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.

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		

Appendix 1a –Housing Savings and Growth Proposals

Appendix 1b – Libraries Savings and Growth Proposals

Appendix 2 – Housing Departments Risks (Libraries risks nil)

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

Appendix 4 – Draft Equality Impact Assessment