

London Borough of Camden – Wider Economic Environment and Medium-term Financial Forecasts

15th February 2016

Summary of the Report:

This report provides an update on the government deficit reduction programme and the national economic climate.

The current levels of earmarked reserves are set out alongside future projections for their usage.

Finally, there is a summary of the Council's inflationary assumptions for 2016/17 onwards.

Contact Officer:

Adam Staines
Strategic Finance

Telephone: 020 7974 6014

Email: adam.staines@camden.gov.uk

1 WIDER ECONOMIC ENVIRONMENT

- 1.1 The Council is heavily reliant on government grant to fund its services. Since 2011/12 core government grant funding has been reducing each year. The decrease in funding, combined with unavoidable cost increases such as demographic changes resulting from an ageing population, have meant that the Council has had to save £93m over the last four years up to 2014/15.
- 1.2 In response to further expected cuts to the government funding, and various inflationary, demographic and other pressures on the Council, Cabinet has agreed a £78m savings strategy to be delivered between 2015/16 and 2017/18. The Finance Settlement has confirmed that the will continue to face funding reductions in the years beyond the current financial strategy, at least until the end of the parliament in 2019/20.

Government Spending Plans

- 1.3 The November Spending Review confirmed the government's intention to achieve a national budget surplus in 2019/20, and that Council funding reductions will continue to play a key role in reducing government expenditure.
- 1.4 In the July 2015 Budget, the Chancellor stated the government will make significant savings over this parliament. A total of £12bn will come from welfare cuts and £5bn will come from tackling tax avoidance and tax planning, evasion and compliance, and imbalances in the tax system. Spending Review 2015 presented £12bn of savings to overall departmental (RDEL) spending. The government is also introducing the apprenticeship levy which will bring £3bn per annum. Lastly, £3bn is to be delivered through additional measures aimed at tackling tax avoidance.
- 1.5 The cut of £12bn to total departmental resource spending by 2019/20 is made up of £21.5bn of savings from unprotected departments, of which £9.5bn will be reinvested in the government's priorities which include:
- spend 2% of Gross Domestic Product (GDP) on defence for the rest of this decade,
 - spend 0.7% of Gross National Income on overseas aid,
 - provide the NHS in England £10bn per year more in real terms by 2020/21 than in 2014/15,
 - increase the basic State Pension by the triple lock in April 2016, so that it rises to £119.30 a week and
 - protect overall police spending in real terms over the Spending Review period.
- 1.6 The scale of protection afforded to these departments and budgets means local government will continue to bear a larger proportion of funding cuts.
- 1.7 The Spending Review confirmed that Public Health will be expected to deliver further cuts of 3.9% per annum over the next 5 years in real terms. The ring-fence on public health spending will be maintained in 2016/17 and 2017/18.

The future of funding after this is unclear, and will be considered as part of the exchange for 100% Business Rate retention.

- 1.8 The final local government finance settlement for 2016/17 was announced on 8th February 2016. Unlike previous years the settlement includes figures for four years (2016/17 to 2019/20), allowing councils to have more certainty for future years. However, the Government presented this as an 'offer' to local government with the only clear proviso being that any council accepting the offer will have to publish an efficiency plan, and must accept the offer by 14th October 2016.
- 1.9 While the Settlement confirmed that annual cuts to core government funding will continue year on year for the duration of the parliament, the overall funding outlook for the borough appears improved in comparison to forecasts based on spending projections following the July 2015 Budget. However, there remains significant uncertainty regarding the latter years of the Settlement.
- 1.10 It is important to note that the figures set out are estimates and will change depending on a number of factors. The government noted that they "will need to take account of future events such as the transfer of functions to local government, transfers of responsibility for functions between local authorities, mergers between authorities and any other unforeseen events". Therefore, the figures set out must be treated with caution.
- 1.11 The chancellor repeated his intention to phase out the core grant by the end of the parliament, and replace it with 100% business rate retention. There was no mention of this proposal in the published figures. There remains the potential that unannounced new burdens will be rolled into this funding over the course of the parliament.
- 1.12 The Settlement is also dependant on whether the Government's improved economic outlook will become a reality. If the economy doesn't perform as well as expected at the time of the Spending Review, the government may have to revise its growth forecasts and borrowing forecasts, with the implication that funding for services could be squeezed even further.
- 1.13 Based on our current projections and the continuing delivery of the Council's 3 year financial strategy, which is set to deliver £78m budget reductions by 2017/18, the council will be in a strong position to balance its budget in 2016/17 and 2017/18 subject to decisions regarding council tax. However, the continuing annual cuts announced for the duration of the parliament means that we expect a further funding gap beyond the delivery of the current strategy of approximately £20m by 2020/21 and we have already started to think about how to address this.

Growth, Inflation and Employment

- 1.14 The Office for National Statistics preliminary estimates show that Gross Domestic Product (GDP) has increased by 0.5% in Quarter 4 (October to December) 2015 compared with growth of 0.4% in Quarter 3 (July to September) 2015. GDP in 2015 as a whole increased by 2.2% on 2014.

- 1.15 The CPI 12-month rate (the amount prices change over a year) between December 2014 and December 2015 stood at 0.2%, a small increase compared with November 2015, when the rate was 0.1%. The only substantial upward push on inflation between November and December 2015 came from price movements for transport costs, particularly air fares and to a lesser extent motor fuels.
- 1.16 Comparing September to November 2015 with June to August 2015, employment continued to rise and unemployment continued to fall. There was a further fall in the number of economically inactive people aged from 16 to 64. These changes continue the general direction of movement over the past two years. The unemployment rate was 5.1% of the economically active population (those in work plus those seeking and available to work).

2 EARMARKED RESERVES

- 2.1 The Council currently has 18 separate earmarked reserves to support key revenue budget outcomes, the Council's service remodelling programme, on-going capital activity, to mitigate future corporate risk, and to support charitable activities. The opening 2015/16 earmarked reserves balance was £110.660m. We are currently forecasting a net movement out of earmarked reserves of **£(33.981)m** during 2015/16.
- 2.2 A summary of the impact of these movements is presented in [Table 1](#). A forecast of future year balances can be found at the end of this report in [Appendix B](#).

Table 1 – Earmarked Reserves Projected in Year Movements 2015/16

Earmarked Reserves	Actual Reserves 31/03/15 £m	Forecast Out of Reserves £m	Forecast Into Reserves £m	Forecast Reserves 31/03/16 £m	2015/16 Net Movement £m
To Support Key Revenue Outcomes	34.355	(10.548)	1.068	24.875	(9.480)
To Support Council's Remodelling Programmes	21.131	(9.135)	0.288	12.284	(8.847)
On-going Capital Activity and asset Management	29.333	(20.973)	10.839	19.199	(10.134)
Mitigation of Future Corporate Risk	25.809	(10.108)	4.588	20.289	(5.520)
Charitable Activity	0.032	-	-	0.032	-
Total Earmarked Reserves	110.660	(50.764)	16.783	76.679	(33.981)

- 2.3 The Council also holds General Reserve Balances, Schools Balances and the Housing Revenue Account Reserve, for which forecast in year movements are detailed in [Table 2](#).

Table 2 – Summary of General Reserves 2015/16

General Reserves	Actual Reserves 31/03/15 £m	Forecast Out of Reserves £m	Forecast Into Reserves £m	Forecast Reserves 31/03/16 £m	2015/16 Net Movement £m
General Balances	13.624	-	-	13.624	-
Housing Revenue Account	40.966	(1.463)	-	39.503	(1.463)
Schools Balances	16.600	-	-	16.600	-
Total Earmarked reserves	71.190	(1.463)	-	69.727	(1.463)

3 INFLATION

- 3.1 Following the contraction of council funding from 2011, the Council has taken active steps to reduce costs by minimising inflation requirements in budget setting.
- 3.2 The standard indices applied from 2011/12 onwards are set out in [Table 3](#).

Table 3 – Standard Inflation Rates 2011/12 to 2018/19

Description		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Expenditure	Employees	0.00%	0.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
	Premises	0.00%	0.00%	3.00%	1.00%	1.00%	1.00%	1.00%	1.00%
	Supplies & Services	0.00%	0.00%	3.00%	0.00%	0.00%	1.00%	1.00%	1.00%
	Transport	0.00%	0.00%	3.00%	0.00%	1.00%	1.00%	1.00%	1.00%
	Contracts	3.00%	3.00%	3.00%	1.00%	1.00%	1.00%	1.50%	1.50%
Income	Fees & Charges	1.30%	1.30%	3.00%	3.00%	3.00%	1.50%	1.50%	1.50%
	Sales	1.30%	1.30%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
	Rents	1.30%	1.30%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

- 3.3 Significant exceptions to the standard indices listed above are summarised in [Table 4](#), along with the reasons for the adjustment and the resulting additional pressure in 2015/16. In our medium-term modelling, we have continued to apply inflation to the below exceptions at the level stated up to 2017/18, whilst continuing to review regularly with procurement and the relevant services.

Table 4 – Exceptions to Standard Inflation Rates Applied

Description	Reason	Original Category	Standard Inflation 2016/17	Revised Inflation 2016/17	
Expenditure	Grounds maintenance	Contract increase linked to March RPI	1.00%	2.25%	
	Waste	Waste Contract uplift	1.00%	2.50%	
	Highways	Highways Contract Uplift	1.00%	3.30%	
	Business Rates	Expected to increase in line with RPI	Premises	1.00%	2.00%
	Arboriculture	Contract increase linked to Feb RPI	Premises	1.00%	2.50%
	Electricity	Forecast that energy costs are due to increase	Premises	1.00%	2.50%
	Gas	Gas prices are not forecast to increase	Premises	1.00%	0.00%

	Description	Reason	Original Category	Standard Inflation 2016/17	Revised Inflation 2016/17
Income	Various Statutory Fees	Set by statute	Fees & Charges	1.50%	0.00%
	Commercial Waste	Various pressures on income collection	Fees & Charges	1.50%	0.00%
	Development Management	Various pressures on income collection	Fees & Charges	1.50%	0.00%
	Building Control	The hourly rate is reducing due to falling costs	Fees & Charges	1.50%	0.00%
	Pest Control	Various pressures on income collection	Fees & Charges	1.50%	0.00%
	Registrars	Changes by Home Office on charges.	Fees & Charges	1.50%	0.00%
	Library Income	Various pressures on income collection	Fees & Charges	1.50%	0.00%
	Library Income	Various pressures on income collection	Sales	3.00%	0.00%
	Design & Print	Various pressures on income collection	Sales	3.00%	0.00%
	HASC Rent income	Increase in line with the Local Housing Allowance	Rents	2.00%	1.00%

Appendix A – London Borough of Camden – Medium Term Financial Forecast as at February 2016

	2015/16 Budget £m	2016/17 Budget £m	2017/18 Projection £m	2018/19 Projection £m
Departmental Expenditure:				
LAW & GOVERNANCE	4.282	4.289	4.314	4.360
STRATEGY & ORGANISATION DEVELOPMENT	9.791	9.179	6.809	6.899
FINANCE	47.730	42.979	40.908	39.744
CULTURE & ENVIRONMENT	31.335	22.733	13.740	14.508
CHILDREN, SCHOOLS & FAMILIES	63.000	64.010	61.050	61.737
HOUSING & ADULT SOCIAL CARE	102.286	97.038	90.653	91.603
PUBLIC HEALTH	25.575	19.125	17.797	17.082
DEPARTMENTAL EXPENDITURE	283.999	259.353	235.271	235.933
Non Departmental Expenditure:				
Corporate Growth	-	-	5.000	10.000
Pressures & Priority Funding	0.785	4.573	7.334	11.923
HRA Recharge	(8.581)	(8.876)	(8.510)	(8.276)
Revenue Contribution to Capital from Reserves	(6.632)	(18.463)	(9.758)	(10.600)
Transfers to Reserves	16.017	25.671	29.773	22.573
Transfers from Reserves	(37.271)	(16.105)	(14.524)	(9.703)
Contribution to Pensions	16.304	16.329	15.729	15.729
Interest Receivable/Payable	0.859	(0.246)	(0.596)	(0.596)
Minimum Revenue Provision	4.168	2.000	2.450	2.450
Levies	1.932	1.859	1.859	1.859
Net Other Items	20.250	2.478	16.147	11.326
Depreciation	(22.411)	(18.266)	(18.266)	(18.266)
Direct Revenue Financing	6.632	18.463	9.758	10.600
Government Grants	(44.244)	(44.765)	(44.227)	(48.483)
NON DEPARTMENTAL EXPENDITURE	(52.192)	(35.348)	(7.831)	(9.464)
TOTAL EXPENDITURE	231.807	224.005	227.440	226.469
Funded by:				
RSG	(70.326)	(54.814)	(41.114)	(31.874)
Business Rates Retained	(88.457)	(87.929)	(87.918)	(87.918)
Garden Squares	(0.025)	(0.025)	(0.025)	(0.025)
Collection Fund (Surplus)/Deficit	(2.196)	0.096	-	-
Business Rates (Surplus)/Deficit	17.928	14.004	-	-
Proposed Council Tax	(88.731)	(95.337)	(98.383)	(101.652)
TOTAL FUNDING	(231.807)	(224.005)	(227.440)	(221.469)
Shortfall/(Surplus)	0.000	0.000	0.000	5.000
Tax Base	85,170	88,000	89,031	90,185
Collection Rate (%)	97.70%	97.80%	97.80%	97.80%
Council Tax (Camden Element)	£1,041.81	£1,083.38	£1,105.05	£1,127.15
Modelled Percentage Increase	1.99%	3.99%	2.00%	2.00%

Appendix B - London Borough of Camden – Earmarked Reserves Forecast Balances 2015 to 2019

Earmarked Reserves	Actual Reserves 31/03/2015 £m	Forecast Reserves 31/03/2016 £m	Forecast Reserves 31/03/2017 £m	Forecast Reserves 31/03/2018 £m	Forecast Reserves 31/03/2019 £m
Reserves to support key revenue budget outcomes					
Dedicated Schools Grant	11.275	9.203	6.437	3.546	1.380
Support for Schools in Difficulty	0.442	0.392	0.292	0.192	0.092
Homes for Older People	4.286	2.006	1.756	1.506	0.000
Multi Year Budget Reserve	10.895	6.767	4.378	2.864	2.002
Education Commission	1.181	0.781	0.295	-	-
HASC Specific Grants	6.276	5.726	4.476	2.444	1.194
Sub Total	34.355	24.875	17.634	10.552	4.668
Reserves to support the councils service remodelling programme					
Workforce Remodelling/Cost of Change	18.340	10.281	6.339	1.351	0.351
Camden Plan	2.791	2.003	1.003	0.003	-
Sub Total	21.131	12.284	7.342	1.354	0.351
Reserves to support on-going capital activity and asset management					
Future Capital Schemes	21.418	12.721	11.472	15.043	18.610
Commercial and other property	0.776	0.776	0.776	0.776	0.776
Haverstock PFI Funding Reserve	2.019	1.889	1.759	1.629	1.499
Schools PFI Equalisation Reserve	0.501	0.668	0.835	1.002	1.169
Building Schools for the Future	0.488	0.488	0.338	0.188	0.188
Accommodation Strategy	4.131	2.657	1.985	1.985	1.985
Sub Total	29.333	19.199	17.165	20.623	24.227
Reserves to mitigate future corporate risk					
Self-Insurance Reserve	7.600	7.112	6.612	6.112	5.612
Contingency Reserve	1.512	1.512	1.512	1.512	1.512
Business Rates Safety Net	16.697	11.665	6.280	6.280	6.280
Sub Total	25.809	20.289	14.404	13.904	13.404
Reserves to support the Mayors charity					
Mayor's Charity Reserve	0.032	0.032	0.032	0.032	0.032
Total Earmarked Reserves	110.660	76.679	56.577	46.465	42.682
General Balances	13.624	13.624	13.624	13.624	13.624
Housing Revenue Account	40.966	39.503	39.503	39.503	39.503
Schools Balances	16.600	16.600	14.600	11.600	7.600
Total Reserves	181.850	146.406	124.304	111.192	103.410

Appendix C – Purpose of Reserves

Reserve	Purpose of Reserve
Dedicated Schools Grant	To hold unspent Dedicated Schools Grant which is reserved for the schools budget and which may be carried forward over to future years.
Support for Schools in Difficulty	To provide funding to schools should they find themselves in financial difficulties
Homes for Older People	To fund preparatory work on the Homes for Older People programme
Multi Year Budget Reserve	To fund allocations in future years as part of multi-year budgeting.
Education Commission	To provide funding to help implement proposals to guide education in the borough
HASC Specific Grants	Hold various unspent grant monies that do not have conditions on its use.
Workforce Remodelling/Cost of Change	To fund costs that may arise from workforce remodelling and efficiency projects under the Councils Better and Cheaper agenda.
Camden Plan	To provide funding to implement projects that support the plan's key priorities.
Future Capital Schemes	To provide funding to support the Councils costs associated with various capital schemes.
Commercial and other property	To provide funding to meet the cost associated with dilapidations and other payments in respect of commercial and other property.
Haverstock PFI Funding Reserve	To hold the balance of funding in respect of the Haverstock School PFI project.
Schools PFI Equalisation Reserve	Reserve for the amortisation of the initial payment.
Building Schools for the Future	To provide funding for the preparatory work on the Building Schools for the Future Programme
Accommodation Strategy	To provide funding to facilitate the office accommodation strategy.
Self-Insurance Reserve	To provide funding to cover insurance risks, this keeps insurance costs to a minimum.
Business Rates Safety Net	To provide funding to cover reduction in retained business rates.
Mayor's Charity Reserve	To hold donations from businesses to be allocated to charity.
General Balances	Unallocated reserves held to resource unpredictable expenditure demands.
Housing Revenue Account	Reserve budgets held by the Council on behalf of the HRA – can only be spent on HRA activities
Schools Balances	Reserve budgets held by the Council on behalf of its schools – can only be spent on Schools