

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

10<sup>th</sup> July 2015

### **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.

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## 1 WIDER ECONOMIC ENVIRONMENT

- 1.1 The Council is heavily reliant on government grant to fund its services. Since 2011 core government grant funding has been reducing each year. The decrease in funding combined with some unavoidable cost increases due to demographic changes such as an ageing population have meant that the Council has had to save £93m over the last four years.
- 1.2 Government funding to local government is expected to decrease further over the medium-term, and along with expected growth on expenditure and changes to other income sources, the Council projected a budget deficit (income to be lower than expenditure) of £70m by 2017/18, with potentially additional £20m in the following year. A £73m savings programme was agreed to close this funding gap. However, the Council continues to face a high level of funding uncertainty due to the implications of 2015 General Election and the commitment of the Conservative party to reduce the national deficit.

### **Government Spending Plans**

- 1.3 The funding outlook for local Authorities following the General Election in May remains very challenging. The Chancellor set out his Summer Budget on 8th July 2015. The Budget announced several policies that have a potentially big impact on Camden and its priorities, but in many cases the detail is not yet clear. It is expected the exact impact on local government will not be known until the Comprehensive Spending Review in the autumn.
- 1.4 The expected return to a budget surplus was delayed by a year to 2019/20 and the Budget significantly lessens the squeeze to public services spending announced by the Coalition in March. This is being financed by welfare cuts, net tax increases and three years of higher government borrowing.
- 1.5 Accordingly, the updated high level spending plans indicate a significant increase in total spending across government departments compared to the figures presented in the March Budget, of 5% in 2016/17 and up to 10% in 2018/19, leading to total government departmental spending of £339.7bn that year. While this is a significant increase in spending over the last coalition Budget, the overall increase in spend is less than 1% over the four years. The allocations between departments will not be clear until the Comprehensive Spending Review, and there remain strong grounds to conclude that the increase in national spending will not translate into an improved position for local government and Camden and in fact further savings may still be required over and above those included in the Financial Strategy.
- 1.6 The Budget reaffirmed a range of spending commitments made in the manifesto, and announced new protections for certain departments. The NHS will receive an extra £10bn (£8bn in real terms) of funding by 2020/21, while the government has stated that Defence spending will increase by 0.5% in real terms up to the same date. This is a protection not previously afforded to the department and will increase the squeeze in non-protected areas like local government.

- 1.7 On 4th June the Chancellor announced in year budget reductions for 2015/16 of £3bn from government departments. Although the local government settlement is not being re-opened, some of the budget reductions in other departments will have a direct impact on the Council's funding. The reductions of £200m in the Department of Health will be targeted at Public Health budgets that are devolved to local authorities. The basis of apportionment is not yet clear, but if the reductions are applied on a pro-rata basis across all councils in 2015/16, Camden would see its Public Health grant reduced by £1.9m. However, if the formula applied seeks to apportion the cuts towards the councils deemed as over-resourced in the formula derived by the Advisory Council of Resource Allocation, the cut for Camden may be far more significant. It remains unclear whether cuts to other government departments such as the £450m reduction in Education funding, will be passed on to councils. It is also currently uncertain whether these cuts would be on top of savings to be delivered in 2016/17 and beyond or represent early implementation of forthcoming budget cuts.

### **Growth, Inflation and Employment**

- 1.8 The UK's economic recovery slowed sharply in the first quarter of the year with GDP growth of 0.3%. This marks a slowdown from the previous quarter's 0.6% growth and means GDP for the year is expected to come in at 2.4%. The ONS also confirmed that UK GDP grew by 2.8% in 2014.
- 1.9 Prices faced by households as measured by CPI have risen by 0.1% over the last year. This compares with a 0.1% fall in prices in the year to April. In understanding the current rate of inflation, it's worth taking a longer term view. Despite rises in the price of food and motor fuels between April and May, prices for these goods are still lower than a year ago, meaning that they are still pulling the rate of inflation down. Historically, these prices have had a large upward push on inflation but this has changed over the last year.
- 1.10 Comparing the estimates for February to April 2015 with those for the three months to January 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 5.5% of the economically active population (those in work plus those seeking and available to work), lower than for the three months to January 2015 (5.7%) and for a year earlier (6.6%).

## **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 £110.659m. We are currently forecasting a net movement out of earmarked reserves of **£(25.429)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	(11.710)	0.566	<b>23.211</b>	(11.144)
To Support Council's Remodelling Programmes	21.130	(11.125)	0.000	<b>10.005</b>	(11.125)
On-going Capital Activity and asset Management	29.333	(6.561)	8.933	<b>31.705</b>	2.372
Mitigation of Future Corporate Risk	25.809	(10.120)	4.588	<b>20.277</b>	(5.532)
Charitable Activity	0.032	0.000	0.000	<b>0.032</b>	0.000
<b>Total Earmarked Reserves</b>	<b>110.659</b>	<b>(39.516)</b>	<b>14.087</b>	<b>85.230</b>	<b>(25.429)</b>

- 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	0.000	0.000	<b>13.624</b>	0.000
Housing Revenue Account	34.915	(1.463)	0.000	<b>33.452</b>	(1.463)
Schools Balances	16.600	0.000	0.000	<b>16.600</b>	0.000
<b>Total Earmarked reserves</b>	<b>65.139</b>	<b>(1.463)</b>	<b>0.000</b>	<b>63.676</b>	<b>(1.463)</b>

### 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**

Type	Description	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
<b>Expenditure</b>	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%
<b>Income</b>	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 Inflation increases have remained a significant factor in rising service costs. The sensitivities around changes to inflation to 2016/17 budgets are as follows:

- Each 1% on pay, excluding teachers' pay, is equivalent to £1.469m across the General Fund.
- Each 1% on major contract prices is equivalent to £1.403m across the General Fund.

3.4 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. 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 services.

**Table 4 – Exceptions to Standard Inflation Rates Applied**

	Description	Reason	Original Category	Standard Inflation 2016/17	Revised Inflation 2016/17
<b>Expenditure</b>	Grounds maintenance	Contract increase linked to March RPI	Contracts	1.00%	<b>0.90%</b>
	Veolia	Waste Contract uplift	Contracts	1.00%	<b>2.50%</b>
	Volker / Conway	Highways Contract Uplift	Contracts	1.00%	<b>3.50%</b>
	Business Rates	Expected to increase in line with RPI	Premises	1.00%	<b>2.00%</b>
	Arboriculture	Contract increase linked to Feb RPI	Premises	1.00%	<b>2.50%</b>
	Electricity	Forecast that energy costs are due to increase	Premises	1.00%	<b>3.00%</b>
	Gas	Gas prices are not forecast to increase	Premises	1.00%	<b>0.00%</b>
<b>Income</b>	Statutory Fees	Set by statute	Fees & Charges	1.50%	<b>0.00%</b>
	Commercial Waste	Various pressures on income collection	Fees & Charges	1.50%	<b>0.00%</b>
	Building Control	The hourly rate is reducing due to falling costs	Fees & Charges	1.50%	<b>0.00%</b>
	Library Income	Various pressures on income collection	Fees & Charges	1.50%	<b>0.00%</b>
	Library Income	Various pressures on income collection	Sales	3.00%	<b>0.00%</b>
	HASC Rent income	Increase in line with the Local Housing Allowance	Rents	2.00%	<b>1.00%</b>
	Camden PCT recharges	Inflation to be in line with that applied on expenditure codes	Contributions	3.00%	<b>1.00%</b>

## Appendix A – London Borough of Camden – Medium Term Financial Forecast as at July 2015

	2015/16 Projection £m	2016/17 Projection £m	2017/18 Projection £m
<b>Departmental Expenditure:</b>			
LAW & GOVERNANCE	4.282	4.241	4.299
STRATEGY & ORGANISATION DEVELOPMENT	5.182	4.338	4.269
FINANCE	43.925	41.895	40.743
CULTURE AND ENVIRONMENT	29.228	24.592	15.665
CHILDREN, SCHOOLS AND FAMILIES	63.959	59.089	55.507
HOUSING AND ADULT SOCIAL CARE	102.090	94.808	89.589
PUBLIC HEALTH	26.704	26.538	25.924
<b>DEPARTMENTAL EXPENDITURE</b>	<b>275.370</b>	<b>255.501</b>	<b>235.996</b>
<b>Non Departmental Expenditure:</b>			
Corporate Growth	0.000	0.000	4.000
HRA Recharge	(8,581)	(8,139)	(7,791)
Pressures & Priority Funding	770	7,795	9,754
Transfers for capital schemes reserve	(4,769)	(18,115)	(13,623)
Transfers to Reserves	14.154	13.154	16.081
Transfers from Reserves	(28,794)	(10,139)	(0,130)
Contribution to Pensions	16.304	17.554	17.554
Interest Receivable/Payable	0.859	(0,246)	(0,596)
Minimum Revenue Provision	4.168	3.068	2.450
Levies	1.932	1.971	1.971
Net Other Items	20.180	2.394	2.394
Depreciation	(18,300)	(18,300)	(18,300)
Direct Revenue Financing (capital expenditure funded from revenue)	4.769	18.115	13.623
Government Grants	(46,255)	(46,878)	(46,953)
<b>NON DEPARTMENTAL EXPENDITURE</b>	<b>(43,563)</b>	<b>(37,766)</b>	<b>(19,566)</b>
<b>TOTAL EXPENDITURE</b>	<b>231.807</b>	<b>217.735</b>	<b>216.430</b>
<b>Funded by:</b>			
RSG	(70,326)	(47,954)	(33,716)
Business Rates Retained	(88,457)	(88,457)	(88,457)
Garden Squares	(0,025)	(0,025)	(0,025)
Collection Fund (Surplus)/Deficit	(2,196)	0.000	0.000
Business Rates (Surplus)/Deficit	17,928	10,009	0.000
Proposed Council Tax	(88,731)	(91,308)	(94,232)
<b>TOTAL FUNDING</b>	<b>(231,807)</b>	<b>(217,735)</b>	<b>(216,430)</b>
<b>Shortfall/(Surplus)</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>Tax Base</b>	85,170	85,925	86,938
<b>Collection Rate (%)</b>	97.70%	97.70%	97.70%
<b>Council Tax (Camden Element)</b>	£ 1,041.81	£ 1,062.65	£ 1,083.90
<b>Modelled Percentage Increase</b>	1.99%	2.00%	2.00%

Note: The above MTFE does not reflect any funding adjustments that may come out from The Budget on 8th July 2015 due to reporting processes.

## 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
<b>Reserves to support key revenue budget outcomes</b>					
Dedicated Schools Grant	11.275	8.013	5.213	3.513	1.813
Support for Schools in Difficulty	0.442	0.392	0.292	0.192	0.092
Homes for Older People	4.286	1.605	1.605	1.605	1.605
Multi Year Budget Reserve	10.895	7.144	5.056	4.083	3.238
Education Commission	1.181	0.781	0.295	0.295	0.295
HASC Specific Grants	6.276	5.276	4.026	2.776	1.526
<b>Sub Total</b>	<b>34.355</b>	<b>23.211</b>	<b>16.487</b>	<b>12.464</b>	<b>8.569</b>
<b>Reserves to support the councils service remodelling programme</b>					
Workforce Remodelling/Cost of Change	18.340	10.005	5.006	0.000	0.000
Camden Plan	2.790	0.000	0.000	0.000	0.000
<b>Sub Total</b>	<b>21.130</b>	<b>10.005</b>	<b>5.006</b>	<b>0.000</b>	<b>0.000</b>
<b>Reserves to support on-going capital activity and asset management</b>					
Future Capital Schemes	21.418	25.482	17.226	13.637	13.637
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	0.601	0.701	0.868	1.035
Building Schools for the Future	0.488	0.300	0.300	0.300	0.300
Accommodation Strategy	4.131	2.657	1.985	2.113	2.113
<b>Sub Total</b>	<b>29.333</b>	<b>31.705</b>	<b>22.747</b>	<b>19.323</b>	<b>19.360</b>
<b>Reserves to mitigate future corporate risk</b>					
Self-Insurance Reserve	7.600	7.100	6.600	6.100	5.600
Contingency Reserve	1.512	1.512	1.512	1.512	1.512
Business Rates Safety Net	16.697	11.665	1.656	1.656	1.656
<b>Sub Total</b>	<b>25.809</b>	<b>20.277</b>	<b>9.768</b>	<b>9.268</b>	<b>8.768</b>
<b>Reserves to support the Mayors charity</b>					
Mayor's Charity Reserve	0.032	0.032	0.032	0.032	0.032
<b>Total Earmarked Reserves</b>	<b>110.659</b>	<b>85.230</b>	<b>54.040</b>	<b>41.087</b>	<b>36.729</b>
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	15.600	14.600	14.600
<b>Total Reserves</b>	<b>181.849</b>	<b>154.957</b>	<b>122.767</b>	<b>108.814</b>	<b>104.456</b>

## Appendix C – Purpose of Reserves

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