

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

3<sup>rd</sup> December 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 2011/12 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 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 agreed a £75m savings strategy to be delivered between 2015/16 and 2017/18. This includes £2m savings from the Council's waste contract which was agreed by the Cabinet in June. However, the Council continues to face a high level of funding uncertainty and reductions, as announced in the Spending Review.

### **Government Spending Plans**

- 1.3 The November Spending Review has confirmed the government's intention to achieve a national budget surplus in 2019/20, and that the funding outlook for local authorities will therefore remain challenging into the medium-term. The Council is preparing for this and therefore we are asking the Cabinet to agree savings to be implemented in 2016/17. This is in addition to the £75m savings programme that is already in place. The report also sets out initial steps we are proposing to take to ensure we are able to balance our books beyond 2017/18.
- 1.4 In the July Budget, the Chancellor stated the government will make savings of £37bn over this parliament. Of this, 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. This left £20bn of savings to be identified in the Spending Review.
- 1.5 Since the July Budget, the Office for Budget Responsibility (OBR) forecast for public finances has improved. This is largely due to:
- Increased revenue - gross tax increases over the 5 year period (up to 2020/2021) total £28.5bn. These include the new apprenticeship levy (£11.6bn), higher council tax (£6.2bn), and the introduction of higher rates of stamp duty land tax for second homes and buy-to-let purchases (£3.8bn)
  - Lower interest on the government debt - Spending on debt interest is lower in all years, reflecting a further fall in market interest rates.
- 1.6 The improvements to the forecast since July Budget 2015 mean that the remaining reduction in spending now required is £18bn. Spending Review 2015 presents £12bn of savings to overall departmental (RDEL) spending. As announced at Summer Budget 2015, the government is introducing the apprenticeship levy which will be worth £3bn per annum by 2019/20. The remaining £3bn is to be delivered through measures aimed at tackling tax avoidance. The council must be mindful that following the revision to economic forecasts over the last parliament, cuts to councils were

subsequently increased from those announced at Spending Review 2010 to help meet deficit reduction targets.

- 1.7 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.
- 1.8 The scale of protection afforded to these departments and budgets means local government will continue to bear a larger proportion of funding cuts.
- 1.9 The announcements in the Spending Review confirmed that further savings will be required beyond 2017/18. The projections suggest that incremental increases in costs due to inflation and demographic pressures will combine with a decrease in income to produce a deficit of around £20m in 2018/19. This assumes that the Settlement for the next two years is as anticipated and that the current programme is delivered in full.
- 1.10 However, there remains a great deal of uncertainty in accurately projecting the Council's future funding. The grant allocation for 2016/17 will not be known until the Local Government Finance Settlement in December, and it is not clear whether this settlement will be for one or multiple years. The uncertainty around funding increases further in the medium term, as the government is expected to implement changes to the business rate retention system and transfer responsibility for funding functions that are currently funded by the central government.
- 1.11 While the decrease in overall departmental spending projections for local government appear to be less severe than set out in the Budget in July, it is important to note that, as set out above, these are predicated on significantly improved projections for national tax receipts, and lower forecasts on debt repayments. Should these prove optimistic, as was the case in 2010, the government may seek to increase cuts to unprotected departments such as local government in order to achieve their deficit eradication objectives.
- 1.12 In addition to the cuts announced in the Spending Review, on 4th June 2015 the Chancellor announced a package of savings to be made across government in-year for 2015/16. This included £200m in the Department of Health that will be targeted at Public Health budgets devolved to local authorities. As a result, Camden will see its Public Health grant reduced by £1.7m in this financial year alone. The service has identified a range of options as to how it can respond to the cuts, including holding vacancies, line

by line reviews of budgets, delaying/revising existing procurements and reviewing where contracted and project activity can be restrained. In addition, planned investment commitments from the Public Health grant or reserve have been reviewed for savings; the most significant of these is the previously agreed one-off investment of around £1.1m in Camden's outdoor gym programme which has been reduced by half. This review process has informed a more strategic assessment of options for addressing further expected grant reductions from 2016/17.

- 1.13 The Spending Review has confirmed that Public Health will be expected to deliver further cuts of 3.9% per annum over the next 5 years in real terms, an implied reduction to Camden's grant of around £2.4m per annum by the end of the period. 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.

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

- 1.14 The Office for National Statistics estimates that Gross Domestic Product (GDP) has increased by 0.5% in Quarter 3 (July to September) 2015 compared with growth of 0.7% in Quarter 2 (April to June) 2015. GDP was 2.3% higher in Quarter 3 2015 compared with the same quarter a year ago.
- 1.15 Inflation remains negligible. Prices faced by households as measured by CPI fell by 0.1% in the year to September 2015. While negative headline inflation rates are unusual, it is worth considering this latest figure in the broader context. Since the turn of 2015, the rate of inflation has been low, varying between a positive 0.3% and negative 0.1%. Calculating an average inflation rate for the year to date gives a figure of 0.0%. In other words, there has been little to no inflation during 2015.
- 1.16 Comparing the estimates for July to September 2015 with those for the three months to June 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 5.3% of the economically active population (those in work plus those seeking and available to work), down from 6.0% for a year earlier and the lowest since 2008.

## **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 **£(38.166)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	(10.608)	1.068	24.815	(9.540)
To Support Council's Remodelling Programmes	21.131	(11.138)	-	9.993	(11.138)
On-going Capital Activity and asset Management	29.333	(20.973)	9.017	17.377	(11.956)
Mitigation of Future Corporate Risk	25.809	(10.120)	4.588	20.277	(5.532)
Charitable Activity	0.032	-	-	0.032	-
<b>Total Earmarked Reserves</b>	<b>110.660</b>	<b>(52.839)</b>	<b>14.673</b>	<b>72.494</b>	<b>(38.166)</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	-	-	13.624	-
Housing Revenue Account	40.966	(1.463)	-	39.503	(1.463)
Schools Balances	16.600	-	-	16.600	-
<b>Total Earmarked reserves</b>	<b>71.190</b>	<b>(1.463)</b>	<b>-</b>	<b>69.727</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
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 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	Contracts	1.00%	<b>2.25%</b>
	Waste	Waste Contract uplift	Contracts	1.00%	<b>2.50%</b>
	Highways	Highways Contract Uplift	Contracts	1.00%	<b>3.30%</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>2.50%</b>
	Gas	Gas prices are not forecast to increase	Premises	1.00%	<b>0.00%</b>
Income	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>
	Development Management	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>
	Pest Control	Various pressures on income collection	Fees & Charges	1.50%	<b>0.00%</b>
	Registrars	Changes by Home Office on charges.	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>
	Design & Print	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>

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

	2015/16 Projection £m	2016/17 Projection £m	2017/18 Projection £m	2018/19 Projection £m
<b>Departmental Expenditure:</b>				
LAW & GOVERNANCE	4.282	4.290	4.315	4.361
STRATEGY & ORGANISATION DEVELOPMENT	9.600	8.709	6.429	6.519
FINANCE	47.791	42.946	40.875	39.711
CULTURE & ENVIRONMENT	31.329	23.042	14.099	14.867
CHILDREN, SCHOOLS & FAMILIES	63.589	64.023	61.063	61.750
HOUSING & ADULT SOCIAL CARE	102.182	95.107	88.722	89.672
PUBLIC HEALTH	25.677	21.467	20.854	20.854
<b>DEPARTMENTAL EXPENDITURE</b>	<b>284.450</b>	<b>259.584</b>	<b>236.357</b>	<b>237.734</b>
<b>Non Departmental Expenditure:</b>				
Corporate Growth	-	-	4.000	8.000
Pressures & Priority Funding	0.785	4.575	6.536	6.625
HRA Recharge	(8.581)	(7.979)	(7.631)	(7.397)
Revenue Contribution to Capital from Reserves	(4.810)	(18.463)	(9.758)	(10.600)
Transfers to Reserves	14.195	10.000	10.175	12.755
Transfers from Reserves	(35.900)	(31.350)	(13.799)	(8.978)
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	1.971	1.971	1.971
Net Other Items	20.250	26.583	26.852	11.326
Depreciation	(22.411)	(18.266)	(18.266)	(18.266)
Direct Revenue Financing	4.810	18.463	9.758	10.600
Government Grants	(44.244)	(46.852)	(46.927)	(47.765)
<b>NON DEPARTMENTAL EXPENDITURE</b>	<b>(52.643)</b>	<b>(43.235)</b>	<b>(19.506)</b>	<b>(24.146)</b>
<b>TOTAL EXPENDITURE</b>	<b>231.807</b>	<b>216.349</b>	<b>216.851</b>	<b>213.588</b>
<b>Funded by:</b>				
RSG	(70.326)	(47.954)	(31.868)	(5.400)
Business Rates Retained	(88.457)	(88.457)	(88.457)	(88.457)
Garden Squares	(0.025)	(0.025)	(0.025)	(0.025)
Collection Fund (Surplus)/Deficit	(2.196)	-	-	-
Business Rates (Surplus)/Deficit	17.928	13.600	-	-
Proposed Council Tax	(88.731)	(93.513)	(96.501)	(99.706)
<b>TOTAL FUNDING</b>	<b>(231.807)</b>	<b>(216.349)</b>	<b>(216.851)</b>	<b>(193.588)</b>
<b>Shortfall/(Surplus)</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>20.000</b>
<b>Tax Base**</b>	85,170	88,000	89,031	90,185
<b>Collection Rate (%)</b>	97.70%	97.80%	97.80%	97.80%
<b>Council Tax (Camden Element)</b>	£1,041.81	£1,062.65	£1,083.90	£1,105.58
<b>Modelled Percentage Increase</b>	1.99%	2.00%	2.00%	2.00%

\*£4m allocated for unavoidable pressures is provisionally allocated as per section 4 and Appendix B of the [Review of Camden Medium Term Financial Strategy - December 2015](#)

\*\*For officer planning purposes, % increase is based on previous council tax referendum threshold set by the government

Note: the above table includes the in-year reduction to Public Health Grant for 2015/16.

## 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	9.203	6.437	4.271	2.105
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	7.941	4.902	3.517	2.685
Education Commission	1.181	0.781	0.295	-	-
HASC Specific Grants	6.276	5.726	4.476	2.444	1.194
<b>Sub Total</b>	<b>34.355</b>	<b>25.648</b>	<b>18.007</b>	<b>12.029</b>	<b>7.681</b>
<b>Reserves to support the councils service remodelling programme</b>					
Workforce Remodelling/Cost of Change	18.340	9.993	3.145	-	-
Camden Plan	2.791	-	-	-	-
<b>Sub Total</b>	<b>21.131</b>	<b>9.993</b>	<b>3.145</b>	<b>-</b>	<b>-</b>
<b>Reserves to support on-going capital activity and asset management</b>					
Future Capital Schemes	21.418	10.899	2.269	2.519	2.765
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
<b>Sub Total</b>	<b>29.333</b>	<b>17.377</b>	<b>7.962</b>	<b>8.099</b>	<b>8.382</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	-	-	-
<b>Sub Total</b>	<b>25.809</b>	<b>20.277</b>	<b>8.112</b>	<b>7.612</b>	<b>7.112</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>110.660</b>	<b>73.327</b>	<b>37.258</b>	<b>27.772</b>	<b>23.207</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	14.600	11.600	7.600
<b>Total Reserves</b>	<b>181.850</b>	<b>143.054</b>	<b>104.985</b>	<b>92.499</b>	<b>83.934</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