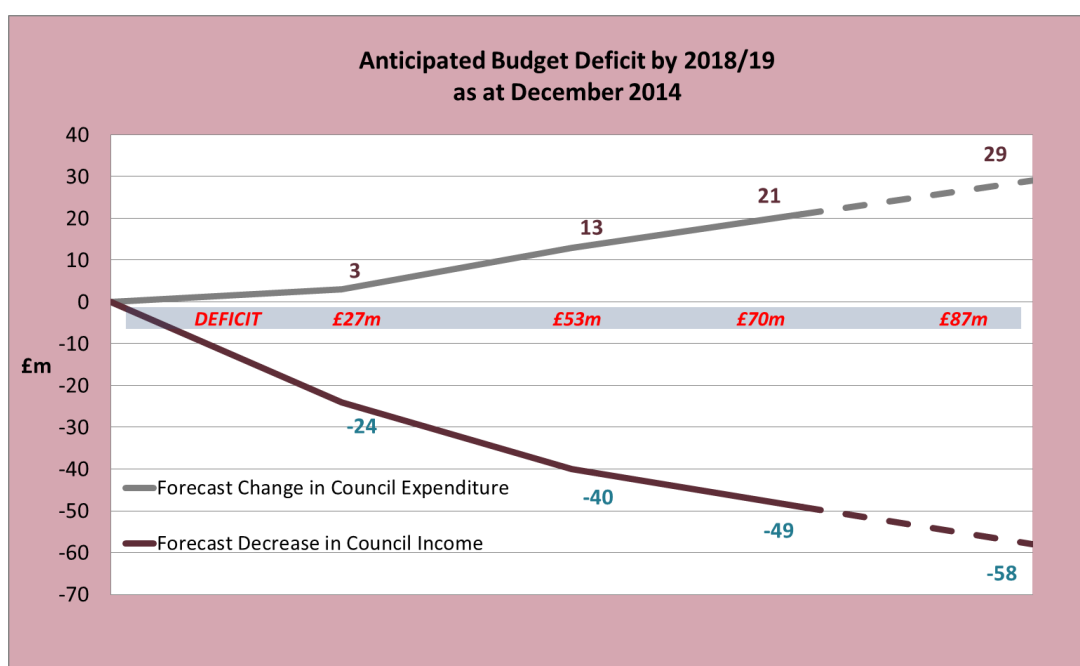


LONDON BOROUGH OF CAMDEN	WARDS: ALL
REPORT TITLE: Wider Economic Environment and Medium-term Financial Forecasts: Feb. 2015 (Ref: SFU/MTFF/Feb. 2015)	
REPORT OF: Director of Finance	
FOR SUBMISSION TO: Residents and Members via Camden website	DATE 17 February 2015
SUMMARY OF REPORT: This report provides an update on the national economic climate and goes on to highlight the forecast position for 2015/16, 2016/17 and 2017/18, as well as the forecast deficit for 2018/19. 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 2011/12 onwards. LOCAL GOVERNMENT ACT 1972 – ACCESS TO INFORMATION: Contact Officer: Adam Staines Strategic Finance Unit 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 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 4 years.
- 1.2 Government funding is expected to decrease further over the medium-term, and along with projected growth on expenditure and changes to other income sources, the Council is projecting a budget deficit (income to be lower than expenditure) of £70m by 2017/18, extending to £87m by 2018/19. The recent announcements in the 2014 Autumn Statement suggest that the 2018/19 deficit projected above is the minimum the Council is likely to face, with a risk that the deficit in that year will be significantly higher.

Deficit Reduction

- 1.3 In the Chancellor's Autumn Statement on 3 December 2014 the Public Sector net borrowing (PSNB) requirement for 2014/15 was forecast to be £91.3bn. This is £6.3bn below last year but the decline is only half that forecast in the March 2014 Budget in part caused by disappointing income tax revenue receipts. The deficit represents 5% of Gross Domestic product and is half the peak it reached in 2009/10. PSNB is forecast to fall to 4% of GDP in 2015-16, the final year for which the government has set departmental spending plans; and to reach a small surplus of 0.2% of GDP in 2018/19 and 1% of GDP in 2019/20.
- 1.4 Public sector net debt is forecast to peak at 81.1% of GDP in 2015/16 before falling each year and reaching 72.8% of GDP in 2019/20.
- 1.5 The Government has in two Spending Rounds (2010 and 2013) set out plans to reduce public expenditure as part of its strategy to eliminate the deficit and eventually reduce the debt. The Government's Spending Round 2013 set out public expenditure plans (including local government expenditure) up to and including 2015/16. This followed on from and was similar to the Spending Round 2010 and entailed cuts in expenditure in certain areas including local government and increases in other areas such as Health, Schools and Overseas Aid. The 2015/16 Local Government Funding Settlement confirmed in January 2015 showed Camden's Settlement Funding Assessment (SFA) as £153.4m comprising Revenue Support Grant of £70.3m and baseline funding (retained business rates) of £83.1m. This is a reduction of £27.7m (-15.3%) compared to 2014/15 and compares to an average reduction for London Boroughs of 14.8% and 13.6% for England as a whole. Whilst the new Spending Round that will cover the years 2016/17 onwards will be up to the next Government, the current Government has said that they expect public expenditure to continue to fall in real terms up to 2017/18 in roughly the same proportion as it fell in the period set out in the 2010 Spending Round. In the summer of 2014 London Councils forecast that if protection is again given to Health, Schools and Overseas Aid then local government expenditure SFA would be 29% lower in 2017/18 compared to 2014/15. The public expenditure figures contained in the

Autumn Statement 2014 suggest, however, that with continued ring-fencing of these services, the cuts to local government funding will be steeper in 2016/17 to 2019/20 than previously forecast.

- 1.6 **Gross Domestic Product** increased by 0.5% in Q4 2014, compared to 0.7% in Q3 bringing GDP growth in 2014 to 2.6% for the year compared to 1.7% in 2013.
- 1.7 The **Retail Prices Index** annual inflation for December 2014 was 1.6% (down from 2.0% in November). The Consumer Prices Index annual inflation for December 2014 was 0.5% (1.0% in November), this compares to the Bank of England's 2% target
- 1.8 Latest estimates for September to November 2014 show that employment numbers continued to increase and unemployment continued to fall. These changes continue the general direction of movement over the past two years. The unemployment rate was 5.8%, down from 6.0% in June to August 2014.

2 BUDGET SETTING 2015/16 AND MEDIUM TERM FINANCIAL FORECAST

Budget Setting 2015/16

- 2.1 Despite the fall in government revenue and other pressures, the Council has presented a balanced budget for 2015/16. In order to do this, the organisation has planned an extensive three year savings programme based upon three interlinked initiatives: efficiencies, outcomes based budgeting and right first time.

Medium Term Financial Forecast

- 2.2 Before the impact of the savings agreed in September and proposed in December were included, the Council was presenting a £27.249m in deficit from 2015/16, with a deficit of £69.790m by 2017/18. The new medium term financial projections for 2014-2018 are represented in Table 1 below, which assumes the savings proposals approved are successfully implemented, and that further cuts in Government funding, in addition to those already forecast, do not emerge. The current projection is for a balanced budget for the three years MTFs period. In 2018/19, there is a £16.890m deficit, for which work is ongoing on potential further savings as presented in the December MTFs. [Appendix A](#) of this document provides further detail around the deficit projections between 2014/15 - 2017/18.

Table 1

	2015/16 Projection £000	2016/17 Projection £000	2017/18 Projection £000	2018/19 Projection £000
Council Expenditure	231,807	226,183	217,115	223,184
Council Income	(231,807)	(226,183)	(217,115)	(206,294)
Shortfall / (Surplus)	0	0	0	16,890

3 EARMARKED RESERVES

3.1 The Council currently has 25 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 2014/15 earmarked reserves balance was £106.789m. We are currently forecasting a net movement out of earmarked reserves of £21.496m during 2014/15.

3.2 A summary of the impact of these movements is presented in Table 2 below. A forecast of future year balances can be found at the end of this report in [Appendix B](#).

Table 2 – Earmarked Reserves in Year Movements 2014/15

Earmarked Reserves	Actual Reserves 31/03/2014 £000	Out of Reserve £000	Into Reserves £000	Forecast Reserves 31/03/2015 £000	Net Movement £000
To Support Key Revenue Outcomes	34,479	(13,154)	1,036	22,361	(12,118)
To Support Council's Remodelling Programmes	22,695	(6,677)	2,660	18,678	(4,017)
On-going Capital Activity and asset Management	32,144	(18,841)	12,219	25,522	(6,622)
Mitigation of Future Corporate Risk	17,395	(2,715)	4,052	18,732	1,337
Charitable Activity	76	(76)	0	0	(76)
Total Earmarked reserves	106,789	(41,463)	19,967	85,293	(21,496)

3.3 The Council also holds General Reserve Balances, alongside Schools Balances and the Housing Revenue Account Reserve, for which forecast in year movements are detailed in Table 3 below.

Table 3 – Summary of General Reserves 2014/15

General Reserves	Actual Reserves 31/03/2014 £000	Out of Reserves £000	Into Reserves £000	Forecast Reserves 31/03/2015 £000	Net Movement 2014/15 £000
General Balances	13,624	0	0	13,624	0
Housing Revenue Account	34,915	0	1,956	36,871	1,956
Schools Balances	17,123	(730)	0	16,393	(730)
Total Earmarked reserves	65,662	(730)	1,956	66,888	1,226

4 INFLATION

- 4.1 The online document published in December 2014 gave detail on how the Council is taking active steps to manage levels of inflation following the contraction of Council funding from 2011. The standard indices applied from 2011/12 onwards are set out in Table 4 below.

Table 4 – 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%	2.00%	2.00%	2.00%
	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%	3.00%	3.00%	3.00%
	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%

- 4.2 The NJC announced a 2.2% pay increase from January 2015; a deal which runs through to the end of March 2016. Although the Council's pay structure is largely independent of the NJC, the decision was taken to apply the same increase. With a 1% set aside for 2014/15 and another 1% in 2015/16, an additional pressure of only £240k for 2015/16 is the only impact, which will be covered by the £4m allocated growth. The inflation assumptions modelled from 2016/17 onwards have been increased from 1.5% to 2%.
- 4.3 Exceptions to the standard indices listed above are summarised in Table 5 below, along with the reasons for the adjustment and the resulting additional pressure in 2015/16. These exceptions have been applied up to 2017/18 (with the exception of taxi contracts which is a one-off), but we will continue to review the provision made. There have been no changes since the December 2014 report.

Table 5 – Exceptions to Standard Inflation Rates Applied

	Description	Reason	Original Category	Standard Inflation 2015/16	Revised Inflation 2015/16	Agreed Additional Inflation at Dec Cabinet £000
Expenditure	Grounds maintenance	Contract increase linked to March RPI	Contracts	1.00%	2.50%	13
	Veolia	Waste Contract uplift	Contracts	1.00%	2.50%	342
	Volker / Conway	Highways Contract Uplift	Contracts	1.00%	3.50%	37
	Business Rates	Expected to increase in line with RPI	Premises	1.00%	2.00%	68
	Arboriculture	Contract increase linked to Feb RPI	Premises	1.00%	2.50%	11
	Electricity	LASER forecast that energy costs are due to increase by 5.51% however sustainability initiatives will reduce usage	Premises	1.00%	2.50%	37
	Gas	Gas prices are not forecast to increase.	Premises	1.00%	0.00%	(15)

	Description	Reason	Original Category	Standard Inflation 2015/16	Revised Inflation 2015/16	Agreed Additional Inflation at Dec Cabinet £000
	Special Educational Needs Transport	Contract Increases	Transport	1.00%	11.00%	224
Income	Statutory Fees	Set by statute	Fees and Charges	3.00%	0.00%	625
	Commercial Waste	Various pressures on income collection.	Fees and Charges	3.00%	0.00%	229
	Building Control	The hourly rate is reducing, standard inflation would make income targets unachievable	Fees and Charges	3.00%	0.00%	47
	Library Income	Various pressures on income collection.	Fees and Charges	3.00%	0.00%	8
	Library Income	Various pressures on income collection.	Sales	3.00%	0.00%	2
	HASC Rent income	Increase in line with the Local Housing Allowance, affected by uncertainties about the impact of welfare reform	Rents	2.00%	1.00%	74
	Camden PCT recharges	Inflation to be in line with that applied on expenditure codes	Contributions	3.00%	1.00%	343
TOTAL						2,045

*Procurement of transport is subject to annual review of pricing. The higher pricing reflects the latest round of tenders for the final year of the contract

Appendix A - London Borough of Camden - Medium Term Financial Forecast 2014/15 to 2018/19

	2014/15 Projection £000	2015/16 Projection £000	2016/17 Projection £000	2017/18 Projection £000	2018/19 Projection £000
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Departmental Expenditure:

LEGAL SERVICES	4,850	4,197	4,236	4,302	4,361
STRATEGY & ORGANISATION DEVELOPMENT	9,140	5,166	4,482	4,479	4,628
FINANCE	59,359	43,415	41,973	40,862	41,296
CULTURE AND ENVIRONMENT	33,684	26,135	23,742	16,852	17,525
CHILDREN, SCHOOLS AND FAMILIES	70,641	62,637	58,583	55,039	55,638
HOUSING AND ADULT SOCIAL CARE	108,522	101,261	94,571	89,387	90,484
PUBLIC HEALTH	25,618	27,812	27,786	27,172	26,997
DEPARTMENTAL EXPENDITURE	311,814	270,623	255,373	238,093	240,928

Non Departmental Expenditure:

Corporate Growth	0	0	3,216	7,216	11,216
Cross Cutting Savings Proposals	(10,233)	(4,640)	(1,991)	299	533
Revenue Contribution to Capital from Reserves	(2,906)	(4,719)	(18,115)	(13,623)	(8,083)
Transfers to Reserves	18,331	15,178	11,619	12,308	12,540
Transfers from Reserves	(38,112)	(29,345)	(12,389)	(8,755)	(1,330)
Contribution to Pensions	15,525	16,304	16,304	16,304	16,304
Interest Receivable/Payable	2,011	726	(246)	(596)	(596)
Minimum Revenue Provision	3,068	4,168	3,068	2,450	2,450
Levies	1,931	1,932	1,932	1,932	1,932
Net Other Items	22,296	19,280	14,771	14,004	5,579
Depreciation	(18,300)	(18,300)	(18,300)	(18,300)	(18,300)
Direct Revenue Financing	2,906	4,719	18,115	13,623	8,083
Government Grants	(42,512)	(44,119)	(47,174)	(47,840)	(48,072)
NON DEPARTMENTAL EXPENDITURE	(45,995)	(38,816)	(29,190)	(20,978)	(17,744)

TOTAL EXPENDITURE	265,819	231,807	226,183	217,115	223,184
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Funded by:

Revenue Support Grant	(97,548)	(70,327)	(47,955)	(33,717)	(21,000)
Business Rates Retained (net of Business Rates surplus)	(83,237)	(70,528)	(86,837)	(88,574)	(88,574)
Proposed Council Tax (Net of collection fund deficit)	(85,010)	(90,927)	(91,366)	(94,799)	(96,695)
Garden Squares	(24)	(25)	(25)	(25)	(25)
TOTAL FUNDING	(265,819)	(231,807)	(226,183)	(217,115)	(206,294)

Shortfall/(Surplus)	0	0	0	0	16,890
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Appendix B - London Borough of Camden – Earmarked Reserves Forecast Balances 2014/15 to 2017/18

Earmarked Reserves	ACTUAL Reserves 31/03/2014 £000	Forecast Reserves 31/03/2015 £000	Forecast Reserves 31/03/2016 £000	Forecast Reserves 31/03/2017 £000	Forecast Reserves 31/03/2018 £000
Reserves to support key revenue budget outcomes					
Mental Health Aftercare Reserve	0	0	0	0	0
Dedicated Schools Grant	11,178	8,282	5,243	1,743	0
Support for Schools in Difficulty	442	442	392	292	192
Parking Reserve	0	0	0	0	0
Homes for Older People	6,308	2,681	0	0	0
The Camden People's Fund	0	0	0	0	0
Multi Year Budget Reserve	8,939	5,094	3,539	2,904	2,861
Education Commission	1,336	886	486	0	0
HASC Specific Grants	6,276	4,976	3,976	2,726	1,476
Sub Total	34,479	22,361	13,636	7,665	4,529
Reserves to support the councils service remodelling programme					
Corporate Initiatives	0	0	0	0	0
Pay Modernisation	360	0	0	0	0
Workforce Remodelling/Cost of Change	15,524	14,684	10,184	6,684	3,184
Camden Plan	3,146	2,183	0	0	0
Recovery Fund	109	0	0	0	0
Invest To Save Reserve	3,557	1,811	1,011	125	125
Sub Total	22,696	18,678	11,195	6,809	3,309
Reserves to support on-going capital activity and asset management					
Future Capital Schemes	23,246	19,547	23,611	15,236	12,042
Commercial and other property	776	776	776	776	776
Haverstock PFI Funding Reserve - amortise initial payment to Kajima	2,149	2,019	1,889	1,759	1,629
Schools PFI Equalisation Reserve	334	601	701	801	968
Building Schools for the Future	488	188	0	0	0
Accommodation Strategy	5,151	2,391	830	0	0
Sub Total	32,144	25,522	27,807	18,572	15,415
Reserves to mitigate future corporate risk					
Self-Insurance Reserve	7,600	7,600	7,600	7,600	7,600
Contingency Reserve	1,512	1,512	1,512	1,512	1,512
Business Rates Safety Net	8,283	9,620	4,590	4,590	4,590
Sub Total	17,395	18,732	13,702	13,702	13,702
Reserves to support the Mayors charity					
Mayor's Charity Reserve	76	0	0	0	0
Total Earmarked Reserves	106,789	85,293	66,340	46,748	36,955
General Balances	13,624	13,624	13,624	13,624	13,624
Housing Revenue Account	34,915	36,871	36,871	35,408	35,408
Schools Balances	17,123	16,393	15,393	14,393	13,393
Total Reserves	172,451	152,181	132,228	110,173	99,380

*note: Future Capital Scheme funds from 2016/17 onwards are being generated to fund new capital expenditure which is yet to be approved and included in the Capital programme. This expenditure comprises principally the annual allocations for Backlog Planned Maintenance of our operational buildings, roads and parks and open spaces and ICT

Appendix C – Purpose of Reserves

Reserve	Purpose of Reserve
Mental Health Aftercare Reserve	To meet the repayment of mental health aftercare charges under Section 117 of the Mental Health Act 1983.
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
The Camden People's Fund	To soften the blow on Camden residents as the impact of the reductions in services and national changes to welfare start to take effect
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.
Corporate Initiatives	To provide funding for corporate initiatives.
Pay Modernisation	To provide funding for the ongoing pay modernisation review
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.
Recovery Fund	To provide funding to enable the Council to respond to effects of the recession within the community.
Invest To Save Reserve	Largely to provide funding to transform customer services
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.
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.
Contingency Reserve	Created with the unallocated contingency budget of £2.512m
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