LONDON BOROUGH OF CAMDEN	WARDS: All

REPORT TITLE

Review of Camden Medium Term Financial Strategy (CS/2016/04)

REPORT OF

Cabinet Member for Finance, Technology and Growth

FOR SUBMISSION TO	DATE
Resources and Corporate Performance Scrutiny Committee	11 July 2016
Culture and Environment Scrutiny Committee	18 July 2016
Children Schools and Families Scrutiny Committee	19 July 2016
Cabinet	20 July 2016

SUMMARY OF REPORT

This report:

- Provides an overview of the Council's financial position and the deployment of its resources towards the achievement of the Camden Plan outcomes.
- Provides a progress report on the implementation of the 3 year, £78m financial strategy.
- Sets out the outlook for council funding, and notes that the Council should prepare for the likelihood of further cuts after the delivery of the current strategy.
- Sets out the latest position on the government's 'four year settlement offer'.
- Notes there are more imminent pressures in the Housing Revenue Account and in education funding.
- Provides detail on the 2015/16 outturn and proposes allocations to reserves.
- Provides an update on the Capital Programme and asks Cabinet to agree re-profiling projections and areas for increased investment in the revised Programme.

This report should be considered in the context of the recent referendum result regarding the UK's membership of the European Union, which will lead to a sustained period of economic uncertainty and potential turbulence. The report has sought to highlight the areas that are likely to be affected, including a potential adverse impact on Council's revenue and funding, and the potential disruption to the introduction of a number of government policies.

Local Government Act 1972 – Access to Information

No documents required to be listed were used in the writing of this report.

Contact Officer	Neil Simcock Head of Strategic Finance Strategic Finance 5th Floor 5 Pancras Square London N1C 4AG
Telephone	020 7974 6740
Email	Neil.Simcock@camden.gov.uk

WHAT DECISIONS ARE BEING ASKED FOR?

The Scrutiny Committees are asked to consider the report and forward any comments to the Cabinet.

The Cabinet is recommended to:

(a) Note the continued challenging funding outlook for councils and an early assessment of the potential impacts of the result of the referendum regarding membership of the European Union.
(b) Note the progress towards implementing the financial strategy as set out in section 4.14 - 4.19.
(c) Delegate authority to the Executive Director Corporate Services, in consultation with the Cabinet Member for Finance, Technology and Growth, to agree and submit an Efficiency Plan to secure the government's four year funding settlement, as set out in section 4.9 - 4.20.
(d) Note the 2015/16 revenue and capital outturn positions set out in sections 4.35 and 4.41 respectively.
(e) Agree the allocations to and movements in earmarked reserves and the allocation of the final underspend as set out in sections 4.35 – 4.39 for inclusion in the Statement of Accounts.
(f) Agree the revised Capital Programme, funding and capital receipts targets summarised sections 4.45 - 4.60 and presented in appendices A, B and C.

Agreed by Mike O'Donnell, Executive Director Corporate Services

Date: 7th July 2016

1.0 WHAT IS THIS REPORT ABOUT?

1.1 The Cabinet receives regular financial updates throughout the year. These allow the Cabinet and residents to understand the financial position of the Council and the decisions required to ensure that the Council makes the most of its investments.

1.2 This report provides an update on a number of financial matters:

- Progress towards implementing the Medium Term Financial Strategy
- Outlook for council funding including challenges and risks in the Housing Revenue Account (HRA) and schools
- 2015/16 revenue outturn and proposed allocations to reserves
- Capital outturn and the shape of the agreed Capital Programme following a review of expenditure and income profiles

1.3 The results of the EU referendum have far-ranging potential consequences for Council funding, and the report seeks to highlight these as appropriate.

2.0 WHY IS THIS REPORT NECESSARY?

2.1 Effective financial strategy and governance are necessary to ensure that an organisation functions well. It is important that Members and the public are aware of the major financial issues facing the Council and are able to make informed financial decisions.

2.2 2016/17 is the second year of the implementation of the Council's outcomes-based financial strategy, and a comprehensive monitoring framework is in place to ensure early sight of any issues or risks in delivery. The Council regularly reviews its underlying medium-term financial assumptions, and this report updates Members and the public on changes to cost and income profiles and the funding outlook.

2.3 The Council is now in a critical phase in the delivery of its large-scale capital strategy, with many major projects now on site. The report provides an update of changes within the Community Investment Programme (CIP) and the wider capital programme and the steps that the Council is taking to manage risks across the programme.

3.0 OPTIONS

3.1 The report proposes the allocation of 2015/16 year end revenue balances to earmarked reserves. The Cabinet could make allocations to other reserves to finance alternative future spend.

3.2 The report also presents information on the capital outturn position and provides an update on spending profiles following the first capital review. Cabinet could choose to make adjustments to spending profiles or choose alternative priorities for capital expenditure.

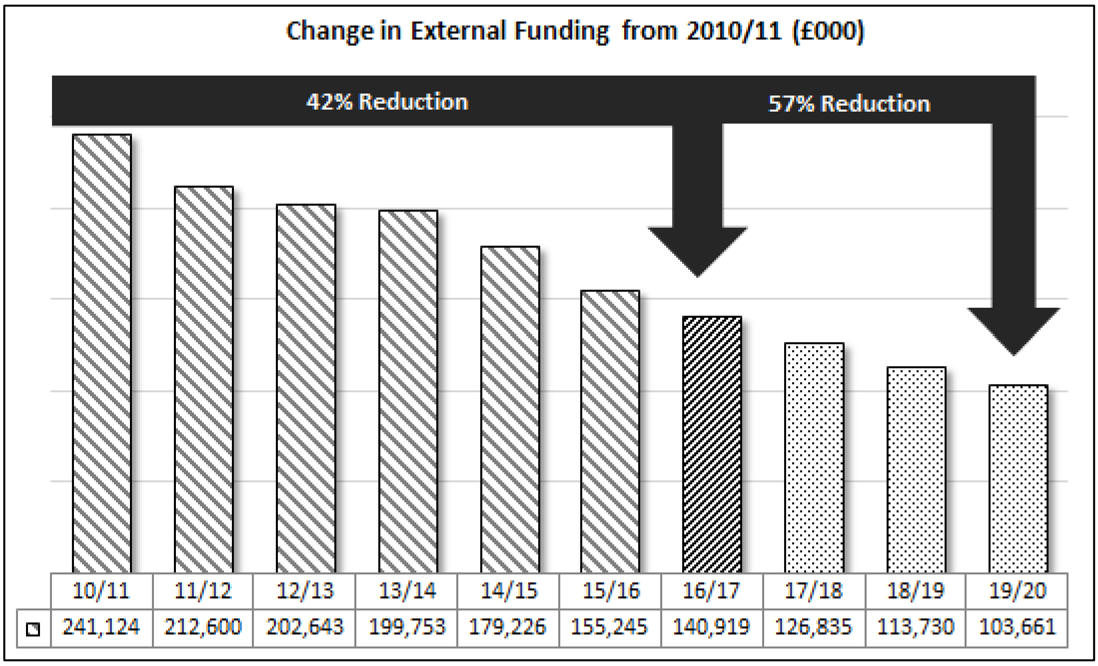
4.0 WHAT ARE THE REASONS FOR THE RECOMMENDED DECISIONS?

The Outlook for Council Funding

4.1 Camden is heavily dependent on grants from central government, which have been cut year on year since 2010. As grant funding used to be linked to levels of deprivation, areas of high historical need like Camden have seen more significant cuts to their grant funding and overall spending power.

4.2 Chart 1 shows how government funding to the Council decreased since 2010/11. By 2018/19, our like-for-like funding from the government will have been cut by more than a half, and this will increase to 57% by 2019/20.

Chart 1 - Percentage Decrease in like-for-like Government Funding to Camden since 2010/11*



**Change in like for like external General Fund funding: e.g. excludes funding for new services like Public Health Grant for new service from 2013/14, and ring-fenced schools funding. Figures are projected from 2017/18.*

4.3 The local government finance Settlement for 2016/17 confirmed that annual cuts to core government funding will continue year on year for the duration of the parliament up to 2019/20. Our analysis of government-defined ‘spending power’ shows that between 2010/11 and 2019/20 Camden will suffer the 7th highest cut in funding in the country (measured as £ decrease per household).

4.4 Due to the Council’s decision to set a comprehensive medium-term financial strategy, we forecast that, subject to council tax decisions and the successful delivery of the current programme, the Council is in a strong position to deliver a balanced budget in 2017/18 and 2018/19. We do however expect to have a funding gap beyond 2018/19 – we currently forecast we will have to deliver a further £20m of budget reductions in the two years to 2020/21. Additionally, there remains significant uncertainty regarding the detail of the latter years of the Settlement and we remain mindful of the range of cost pressures facing the Council, as outlined in section 5. The combination of these risks could mean that additional budget reductions above the current programme are required in 2018/19.

4.5 This is because the details of some announced new policies, such as the 100% business rate retention system, are yet to be determined. There also remains the potential that the government will look to roll-in existing grants into core funding (e.g. public health) or need to re-open the Settlement should the national economic projections underpinning the Spending Review not be borne out. The result of the European Union referendum could also have a significant impact on our funding outlook.

4.6 The level of funding is also dependent on the Council accepting the four year offer, as set out in the section below.

4.7 It is too early to say with any confidence what the result of the referendum will mean for Council funding and wider policy making processes. A fuller report on this issue is covered elsewhere on this agenda. However, there is the potential that the turbulence seen in the markets after the referendum will continue and there will be a sustained period of uncertainty regarding how and when Britain will leave the EU, and what agreements will be signed it its place.

4.8 If the predictions of an economic slowdown prove correct, the government could choose to increase borrowing, raise taxes, or reduce public spending more significantly than already planned. The chancellor has abandoned the government target of eliminating the fiscal deficit by 2019/20, potentially meaning an extended period of austerity. An economic downturn could also impact on the housing and property market, which could affect the ability of the Council to deliver its CIP Programme if residential sales values decrease. Given the level of uncertainty, further work is being undertaken to explore what the potential impact may be on the financial position, but no assumptions have yet been built into the figures above.

Four Year Settlement Offer and Efficiency Plan

4.9 In the 2016/17 Settlement, the government set out grant figures for 2016/17 and the following three years and stated that Councils could choose to take up an ‘offer’ to fix elements of grant funding (and therefore the scale of annual cuts). The Secretary of State has said that Councils wishing to apply to accept the offer must do so by 14th October with a link to a published efficiency plan setting out how the government’s multi-year offer will help deliver efficiencies. Little information was provided as to the type and detail of information expected in such a plan, though the government has said that the process will be ‘as simple and straightforward as possible’. Those Councils that choose not to apply to take up the offer will remain subject to an annual settlement process.

4.10 The bulk of core grant funding is in scope of the offer – that is, Revenue Support Grant and the tariffs and top-ups associated with the current business rates retention model. However, significant elements of other grant funding are excluded: principally Public Health grant and the Improved Care Fund.

4.11 While the Council does not in any way accept the fairness of the government's cuts on either local government generally, or the disproportionate cuts suffered by areas of high need such as Camden, it is proposed that this offer is accepted.

4.12 It seems unlikely that those authorities that elect not to will fare better under the annual settlement process. In accepting the offer, there is a risk that the government could subsequently seek to alter or change the terms of the agreement, as has been the case for the HRA self-financing settlement. Indeed, the offer is caveated by allowing the government to change even agreed settlements due to "unforeseen circumstances".

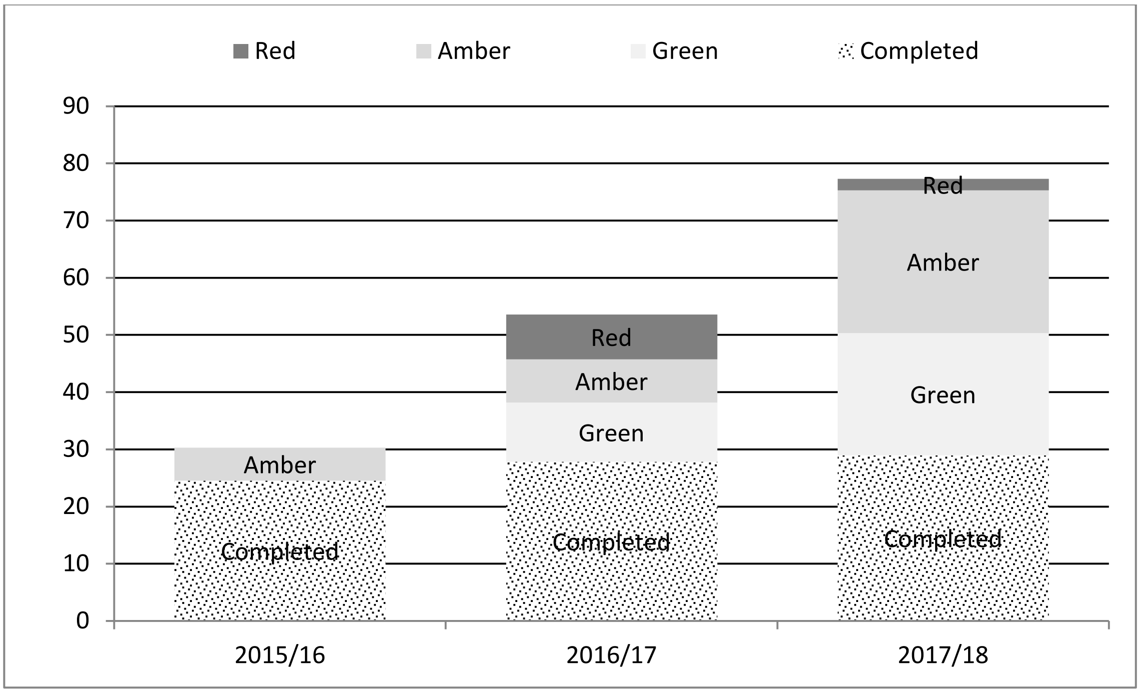
4.13 Clearly, the Government could classify the referendum result and likely economic downturn as an unforeseen circumstance, which would allow a revisiting of these funding allocations. Furthermore, it remains to be seen how the government will deliver the £3.5bn of 'efficiencies' to be delivered from non-protected departments in 2019/20 announced in the March Budget. Nevertheless, replacing one year settlements with multi-year funding settlements has been a longstanding request by local authorities and accepting the offer will provide a degree of certainty over key income streams that will leave the Council in a stronger position to plan for the medium-term challenges.

4.14 The Council is in a strong position to demonstrate the advantages of a long-term, strategic approach to financial planning. We are now in the second year of our three year strategy. This features over 100 projects to be delivered between 2015/16 and 2017/18. Actual savings achieved to date is £28.95m, 37% of the total savings target. This includes projects that have already achieved their total savings targets (44 projects have delivered their total savings target worth £20.06m) and those that have achieved part of their target.

4.15 Despite the good progress made, there still remain significant challenges ahead. 2016/17 remains the high risk delivery year with a number of projects flagged as at risk (rated as Red in the monitoring process), with the amount of savings at risk at £7.83m. This is 10% of the agreed total. The savings at risk drop down significantly to £1.99m by 2017/18. Further detail can be found online at in the report 'Financial Strategy Update – July 2016' online.

4.16 Chart 2 below provides a summary of delivery progress for each year of the financial strategy.

Chart 2 – Savings per Year and RAG Rating (£m)



	2015/16 £m	2016/17 £m	2017/18 £m
Completed	24.51	27.80	28.95
Green	0.00	10.34	21.38
Amber	5.77	7.59	24.93
Red	0.00	7.83	1.99

4.17 Despite a challenging environment the current savings programme in Adult Social Care has broadly delivered to plan in 2015/16. There are however a number of emerging issues and risks (see section 5.21 below) that are challenging the service's ability to deliver the required savings in 2016/17 and 2017/18. As a consequence the Council is undertaking a detailed review of the current financial position in Adult Social Care.

4.18 Delays to the implementation of savings also have caused pressures in the Community Safety service. The savings are dependent on a service transformation, and this has been delayed due to mayoral elections and the requirement to carry out a public consultation.

4.19 As previously noted, the delivery of the strategy will leave the Council in a strong position to balance 2017/18 and 2018/19 subject to decisions around Council Tax. Nevertheless, work is already underway to develop our current approach to ensure that we continue to take an evidence-based outcomes approach to our current investments, and to ensure we are well prepared for the challenges ahead. Our financial strategy will continue to be closely linked with the organisational strategy and the Camden Plan to ensure investment is made that best enables us the achievement of organisational priorities.

4.20 Cabinet is asked to delegate authority to the Executive Director for Corporate Services, in consultation with the Cabinet Member for Finance and Technology

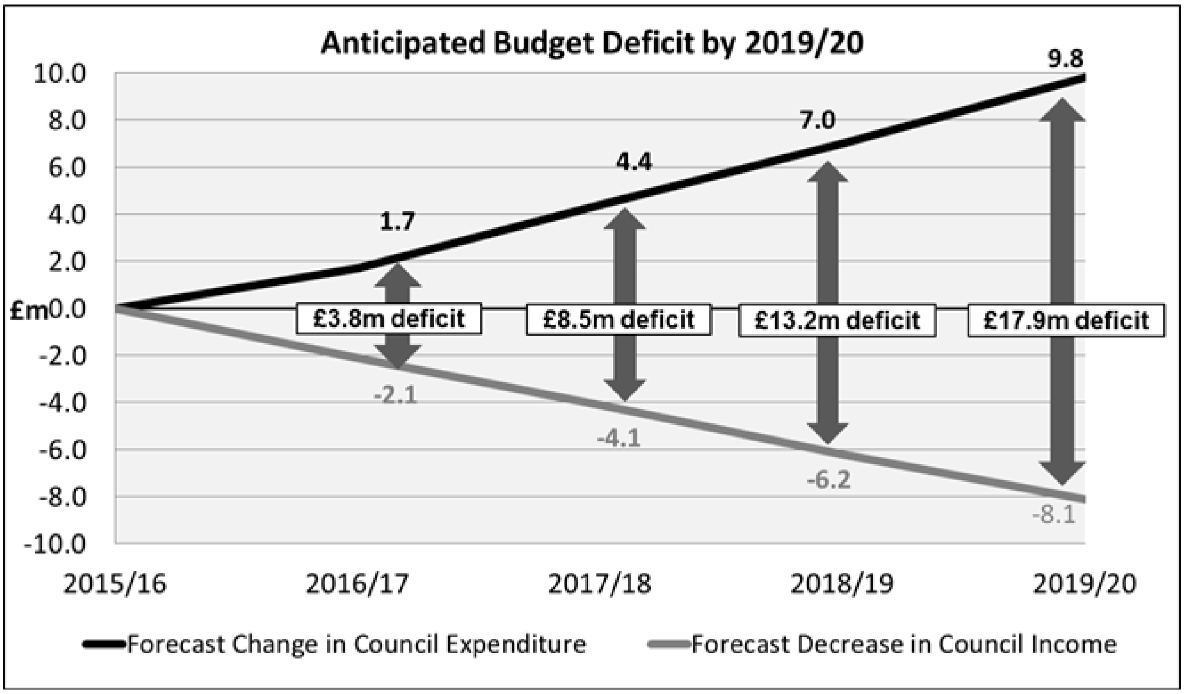
Policy, to agree and submit an Efficiency Plan ahead of the government's deadline. This will be published on the internet.

HRA Financial Challenge

4.21 There are more immediate pressures within the Housing Revenue Account. The main revenue pressure is being driven by a government mandated 1% reduction in rents for each year from 2016/17 to 2019/20 contained in the Welfare and Work Reform Act (2016). This rent reduction, along with the impact of the 'right to buy' policy, is estimated to result in approximately £2million reduction in income each year.

4.22 In addition to the loss of income the HRA is facing ongoing cost pressures such as inflation on salaries, supplies and services budgets and particularly on repair costs. A budgetary pressure of £17.9m has been estimated over the next four years if no action is taken.

Chart 3 – Anticipated HRA Budget Deficit by 2019/20



4.23 There are a number of issues that could make the projected deficit even more challenging. It is unclear whether the result of the referendum on the EU will mean any delay or changes to the detail of these policies or their intended implementation dates.

- The planned <u>introduction of universal credit</u> as part of the Government's welfare changes is unlikely to fully impact in Camden before 2017/18; however there are potentially two significant costs: firstly an increase in rent arrears and secondly the need to invest in more financial inclusion advice and welfare advice as tenants who currently receive 100% housing benefit will be paying rent for the first time and may need to be supported through this change.

- Pay to Stay - The Housing and Planning Act contains powers to allow the government to compel councils to charge additional rent to households with an income in excess of £40,000 per annum. Any additional income received from higher rents will have to be paid over to the government. It is unclear how these additional rents will be collected and how any additional pressure on rent arrears will be dealt with, but it is possible that this could result in additional costs for the HRA to administer the scheme above any grant from the government for administration costs. Pay to Stay is expected to come into force in April 2017.

4.24 In January 2016, the Cabinet agreed a number of budget changes in order to produce a balanced HRA budget for 2016/17. Work is being undertaken to produce a range of options for members to consider as part of a medium term financial strategy for the HRA, in order to ensure that the Council can produce a balanced budget up to 2019/20.

4.25 As part of the process of developing a medium term financial strategy, officers consulted with individual tenants and leaseholders as well as each of the District Management Committees during January and February 2016. Further consultation with the District Management Committees will be carried out during November/December 2016 as individual work streams are developed. Officers will present detailed savings proposals to Cabinet in January 2017 as part of the Housing Revenue Account budget setting report.

Impact of the 'Higher Value Voids' Levy

4.26 The Housing and Planning Act (2016) contained powers that will allow the government to charge a levy to Councils in order to fund the extension of right to buy to housing association tenants and replacement housing for those sold. The levy is expected to be calculated based on the value of the Council's higher value housing stock that is estimated to become void during each year. While the Council will have a degree of freedom about how it funds the levy payment, it is likely that the Council will be forced to sell a number of social housing units currently accounted for within the Housing Revenue Account. In addition to the loss of stock this will also result in a loss of rental income of between £1m and £2m per year.

Schools Financial Challenge and National Funding Formula

4.27 There are immediate pressures in schools funding resulting from on-going cash freezes across most of the dedicated schools grant, while the outlook for education in Camden in the longer-term is likely to be even more challenging following the introduction of the National Funding Formula from 2017/18.

4.28 The current cash freeze means that schools have already suffered reductions in spending power from rising costs of around 13% since 2011/12, while a further freeze up to the end of the parliament would entail further spending pressures of around 10%.

4.29 The government confirmed its plans for a national funding formula for schools in the 2015 autumn statement. ‘Stage 1’ of the consultation process – establishing the principles for schools and high needs formulas – is now complete. Schools Forum and the Council agreed to submit a joint consultation response to stage one but the exact impact on Camden schools will not be clear until after ‘stage 2’. The joint Council and Schools Forum response to the consultation set out our concerns regarding the potential impact of the proposal on Camden schools. Currently 96% of pupils in Camden schools attend Ofsted-rated good or outstanding schools, reflecting the high priority and investment Camden has historically made in education. The Council is currently awaiting the launch of stage 2 of the consultation, and it is unclear whether the referendum result will affect the government’s intention to introduce the new formula in April 2017.

4.30 The national formula is expected to have a significant impact on funding across all three blocks of the Dedicated Schools Grant - schools, high needs and early years - as it is likely to lead to redistribution from areas that are better funded due to historical reasons such as Camden, to lesser funded areas. While it is difficult to estimate with any confidence the precise financial impact on funding until after stage 2 of the consultation, the following is a summary of the potential scale of the challenge:

- Schools block: London Councils estimated the potential cash impact on the Camden schools block could be in the region of 5.2%, or £6m, and would be in addition to the impacts on spending power of the existing cash freeze. The next two years will see a ‘soft’ national formula, under which the government will aggregate per-school funding from its new formula up to a total borough level and then allow Councils to distribute this total sum – which may be lower than current funding levels - under its local formula.

- High needs block could lose £5m out of its current £32m total (16%).

- Early years block: 3/4 year olds element could lose £6m out of its total of £18m (33%), while the 2 year olds element could face a pressure of £1m from the difference between the local cost of provision and value of the grant, based on estimated take-up.

- There is also likely to be a reduction in the Education Services Grant the Council receives for statutory schools services.

4.31 The pace of change – the speed at which the government wants schools to move towards the national formula – will be an important consideration in the scale of impact, and Camden will lobby in stage 2 of the consultation for any significant funding movements to be applied through top-ups to low funded areas while they catch up, rather than seeing cash reductions in areas that are determined to be over-funded.

4.32 Camden has been supporting schools to prepare for the potential funding challenges. The Council and Schools Forum commissioned a mainstream funding review which has now assessed and outlined the likely impact of the financial challenge ahead for Camden schools. Schools have been provided with benchmarking information setting out any types of spend in which costs appear high compared to similarly achieving schools in other councils. They have been offered professional consultative support on a bespoke school by school basis to help prepare practical steps to reduce costs should this be required. Simultaneously, a high needs funding review steered by head teachers, schools governors and Council officers has taken an in-depth funding review to attempt to find potential savings across the system that supports pupils with additional needs. This considered the resources in all types of provision, including mainstream, special and independent schools. The review has compared Camden's spend and system with those in other, similar, areas and has made recommendations for potential savings and changes in working arrangements.

4.33 The government partially reversed its Budget 2016 proposals to force all schools to either become academies or have academy orders in place by 2020 in response to significant opposition. However, the Queen's Speech confirmed that the government is keen to press ahead with its plans for academisation, with a stated purpose of the bill 'Education for All' to "move towards a system where all schools are academies".

4.34 The government said it would push forward with compelling academy conversions where it is clear that the local authority can no longer viably support its remaining schools because too many schools have already become academies, or where the local education authority consistently fails to meet a minimum performance threshold across its schools. The precise thresholds under which the government would seek to force academisation on all schools in an area through either of these methods is yet to be defined but could leave it with significant scope to achieve its academisation agenda.

2015/16 Revenue Outturn and Allocations of Surplus

4.35 In 2015/16, some areas of the Council spent less than originally budgeted. The final revenue outturn after recommended transfers to reserves is an underspend of £(7.062)m, which is 3% of the net budget and 0.8% of total expenditure.

Table 1– 2015/16 Final General Fund Revenue Outturn

	Full Year Budget £m	Outturn Pre-Reserves £m	Variance to Budget Pre-Reserves £m	Planned Year End Transfers to Reserves £m	Variance to Budget Post-Reserves £m
Directorates:					
Law & Governance	2.132	2.176	0.044	0.002	0.046
Finance	0.870	0.431	(0.439)	-	(0.439)
Culture & Environment	52.453	51.369	(1.085)	2.026	0.941
Children, Schools & Families	84.490	83.447	(1.043)	0.425	(0.618)
Housing & Adult Social Care	119.588	115.840	(3.748)	1.848	(1.901)
Strategy & Organisation Development	3.685	4.021	0.336	-	0.336
Public Health	23.925	20.529	(3.396)	2.395	(1.001)

	Full Year Budget £m	Outturn Pre-Reserves £m	Variance to Budget Pre-Reserves £m	Planned Year End Transfers to Reserves £m	Variance to Budget Post-Reserves £m
Cross-Cutting Budgets:					
Financing and Interest	5.027	1.443	(3.584)	-	(3.584)
Government Grants	(44.245)	(44.325)	(0.080)	-	(0.080)
Pensions	16.304	15.955	(0.349)	-	(0.349)
Over-recovery from HRA Recharge	0.869	-	(0.869)	-	(0.869)
Other Items	(31.552)	(32.101)	(0.549)	0.503	(0.046)
	233.545	**218.783**	**(14.762)**	**7.198**	**(7.564)**
Allocations agreed in December Cabinet:					
High Speed 2 Reserve		0.502	0.502	-	0.502
	233.545	**219.285**	**(14.259)**	**7.198**	**(7.062)**

4.36 After taking into account largely anticipated planned reserve transfers, which are set out by type and nature in Appendix D, there are a number of departments with notable year-end variances, which are mainly one-off in nature. The main contributor is Medium Revenue Provision of £(2.678)m, due to lower than anticipated borrowing to fund capital expenditure. An additional £(0.915)m related to interest payable and receivable, a result of favourable rates and no additional borrowing being needed in-year. General Fund Housing was underspent by £(2.040)m which was partly due to early delivery of savings. Underspends across Public Health, in particular Sexual Health contributed a further £(1.001)m.

4.37 The year-end outturn means that there are now surplus resources to be allocated for the financial year 2015/16. Following the allocations listed in table 1, there remains a final revenue underspend of £(7.062)m. It is proposed that the underspend is allocated towards the delivery of the Council's strategic priorities as follows;

- **High Speed 2 -** In December 2015, the Cabinet agreed to allocate £502k for the delivery of the HS2 programme in 2016/17. It is proposed additional £301k is allocated to the project - this will allow the development of a robust case on compensation for Camden community and businesses for submission to the House of Lords Select Committee and provide additional capacity to hold HS2 to account on the delivery of transport assurances, such as Euston Station design and alternative pedestrian and cycling routes.

- **Alternative Delivery Vehicle: Proposal Development** - In response to challenges to funding and delivering further schemes within the Community Investment Programme where the Council acts as the developer and to help mitigate the risks in the capital programme, the Cabinet in April agreed that further work is done with external advisors to develop options for alternative delivery vehicles to deliver our investment priorities. An investment of up to £100k split equally between the General Fund and HRA is proposed to fund the thorough investigation and analysis of the various models and structures available, before returning to the Cabinet in autumn 2016 with a recommended approach.

- **Housing Company** - It is proposed that the remaining balance of £6.711m is allocated to funding the Council's housing company, Camden Living, which the council has agreed in principle to set up. A key objective of the company will be to provide housing at intermediate rents, thereby helping to achieve Camden Plan objectives of enabling supply to a segment of residents between social tenants and those who can afford market rents, and who lack the deposits to afford traditional shared ownership properties. The intention is that the company will be fully funded by the Council through a mix of loan and equity. The required funding will be determined by the acquisition price, which in turn depends on the valuation of the properties that the company will acquire. On the current estimated valuation this balance will be sufficient to cover the acquisition costs of the initial 52 units. This investment will ensure that there is no requirement to provide Minimum Revenue Provision to cover the cost of the investment. This provides greater assurance over the financial viability of the enterprise from the Council's perspective.

Earmarked Reserves

4.38 The Council holds one-off balances in earmarked reserves to finance known future costs and to manage corporate risks. The opening 2015/16 earmarked reserves balance was £110.7m. A net movement out of earmarked reserves of £(28.8)m took place during 2015/16. With the proposed reserve transfers (as set out in table 1 and paragraph 4.37), there will be revised earmarked reserves of £96.1m as at 31st March 2016. Earmarked reserves will continue to decrease in future years as projects are delivered.

4.39 The most significant movements between reserves for 2015/16 related to on-going capital activity and asset management. Further detail regarding reserves is provided in appendix D.

Table 2 - Summary of 2015/16 Changes to Earmarked Reserves

Earmarked Reserves	Reserves 31.03.15 £m	Movement Out of Reserves £m	Transfer Into Reserves £m	2015/16 Outturn Adjustment £m	Reserves 31.03.16 £m
To Support Key Revenue Outcomes	34.355	(9.860)	1.068	6.502	32.065
To Support Council's Remodelling Programmes	21.131	(7.833)	0.288	0.000	13.586
On-going Capital Activity and asset Management	29.333	(18.688)	10.127	7.756	28.528
Mitigation of Future Corporate Risk	25.809	(10.243)	6.325	0.000	21.891
Charitable Activity	0.032	0.000	0.000	0.002	0.034
Total Earmarked Reserves	**110.660**	**(46.624)**	**17.808**	**14.260**	**96.104**

Other Specific and General Reserve Balances

4.40 The Council also holds one-off money for the specific purposes detailed below. These totalled £71.2m at the start of 2015/16 and decreased by £(2.0)m during 2015/16, leaving a closing balance of £69.2m. Table 3 summarises the movement. It is not proposed to change the Council's main General Balances.

Table 3 – Summary of Movements to General Balances

General Reserves	Actual Reserves 31.03.15 £m	Reserves Adjustment £m	Reserves 31.03.16 £m
General Balances	13.624	0.000	13.624
Housing Revenue Account	40.966	(1.800)	39.166
Schools Balances	16.600	(0.230)	16.370
Total General Reserves	**71.190**	**(2.030)**	**69.160**

Capital Outturn 2015/16

4.41 The Council's overall capital programme outturn position for 2015/16 is £215.2m, against a budget of £209.7m - £5.5m variance from budget. As set out in table 3, the former Housing and Adult Social Care directorate had a higher level of anticipated spend. The majority of the £18.0m spend relates to acceleration of works on site on Community Investment Programme projects, and increased expenditure on the Better Homes and mechanical and electrical (M&E) works rolling programmes. In the case of CIP the spend represents faster than expected delivery rather than project overspends. Better Homes and M&E planned expenditure in future years has been re-prioritised to utilise remaining resources, with some increases in budget financed by new funding sources as set out below.

Table 4 - 2015/16 Capital Outturn

Directorate	2015/16 Budget £m	Outturn £m	Variance £m	Variance %
Culture & Environment	23.175	22.279	(0.896)	-4%
Property Services	14.205	8.759	(5.446)	-38%
ICT	5.736	2.858	(2.878)	-50%
Children Schools & Families	29.855	26.508	(3.347)	-11%
Housing & Adult Social Care	136.767	154.793	18.026	13%
Total	**209.738**	**215.197**	**5.458**	**3%**

4.42 To finance the agreed capital programme, the Council has a substantial receipts target in 2015/16 and future years. The 2015/16 target was £66m; the total amount of sales proceeds in 2015/16 was £53.2m - a variance of £(12.8)m. The majority of capital receipts were forecast to come in towards the end of 2015/16. Delays in schemes completion dates, namely Maiden Lane and the site at West End Lane, have meant that receipts for these projects have slipped in to future years. Further information is provided online.

Capital investment strategy

4.43 In April, the Cabinet agreed to set up a Council Owned Company to improve the housing offer in Camden. The company will help us achieve a dual goal – helping to address the Council's equality task force recommendations regarding the significant gap in affordability the Camden housing market, and generating a surplus that can be reinvested into services. The Company will initially acquire a number of assets that have been earmarked for private sale in the Community Investment Programme and let them as homes for intermediate rent to widen the housing offer in the Borough. Any rise in the value of capital assets in Camden will be reflected in the value of the assets held by the company and hence will indirectly benefit the Borough.

4.44 To build on this approach, officers are exploring the potential to expand the approach to include proactive investment in assets that will generate ongoing revenues that could be invested in to services. It is intended that firm proposals will be brought to Cabinet as part of 2017/18 budget setting.

Review of the Capital Programme 2016/17

4.45 The Council has plans to spend over £1.4bn from 2016/17 to 2025/26. This consists of maintaining and enhancing its assets including schools, roads and council housing, as well as a number of large self-contained projects such as the Homes for Older People Strategy and the Community Investment Programme (CIP) regeneration programme.

4.46 As a result of the capital review, the 2015/16 to 2025/26 programme has increased by £62.9m to £1,636m. The main reasons behind this are:

- An overall increase across Estate Regeneration projects of £34.4m which relate almost entirely to inflation assumptions - with the bulk of the increase in respect of long-term allowances for the Agar Grove project of around £27m.
- The addition of Highgate Newtown project **-** £23m as agreed by Cabinet in February.
- Increases across the Better Homes, Major Planned Works, and Energy Efficiency programmes totalling £12m over the three years from 2020/21 to be funded from leaseholder contributions.

4.47 Further changes to capital budgets are expected later this year as tender returns are expected for significant phases of a number of CIP schemes over the next few months. This is not without associated risk, as initial tender returns and updated cost plans received prior to the referendum result suggest that final contract prices may significantly exceed current budgets. In these cases, profiled spend and income has been changed to reflect the likely years of incurrence should the projects proceed, but due to the uncertainty regarding the final tender returns, and the need to undergo a thorough financial evaluation – including testing, challenge, value engineering and viability assessment – budgets have not been updated at this point. These projects include Tybalds, Parliament Hill, Abbey phase 1, Liddell Road, and Bacton Low Rise phase 2. Once the tender process is complete, these schemes will be considered in the context of the economic outlook following the referendum. A revised programme will be provided as part of the December MTFS update. The risks and mitigations regarding the current construction market are set out in more detail in section 5.26 – 5.29.

4.48 The Council is awaiting the final tender returns for the Parliament Hill school project, but recent cost estimates have suggested that the current budget will be insufficient. Officers have been exploring options to reallocate further resources from the backlog maintenance block provision, which is currently not committed to specific schemes and sites, if the final tender price, after value engineering, presents a viable scheme. Any decisions to uplift the budget following the presentation of a revised business case will be taken by the Executive Director for Corporate Services in consultation with relevant members and in line with the CIP governance process.

4.49 Details of the increases and profiled movements in the capital programme can be seen in table 5 below, and further details of these are contained in appendices A, B and C.

Table 5 – Capital Programme Changes since Last Approved Budget

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 to 2025/26 £m	Total £m
Last Approved Budget	209.738	299.365	246.680	190.953	180.863	127.802	317.913	**1,573.313**
Revised Capital Programme	215.197	213.154	267.195	256.499	204.630	132.648	346.920	**1,636.243**
Change	**5.461**	**(86.211)**	**20.515**	**65.546**	**23.767**	**4.846**	**29.007**	**62.930**

4.50 Table 6 sets out the revised capital programme under the new organisational structure with further details provided in appendix A.

Table 6 – Revised Capital Programme 2015/16-2025/26

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 to 2025/26 £m	Total £m
Public Health	**0.164**	-	-	-	-	-	-	**0.164**
Corporate Services – ICT	**2.859**	**4.988**	**4.285**	**0.803**	**1.063**	-	-	**13.998**
Supporting Communities								
Property Management	100.514	71.817	99.403	100.341	89.106	56.040	208.784	**728.005**
Community Services	4.991	6.985	8.052	3.272	1.692	0.858	2.032	**27.882**

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 to 2025/26 £m	Total £m
CIP and Major Projects	89.378	108.377	143.804	136.224	101.743	75.750	136.104	**791.380**
Regeneration and Planning	17.291	18.987	11.651	15.859	11.026	-	-	**74.814**
Total Supporting Communities	**212.174**	**208.166**	**262.910**	**255.696**	**203.567**	**132.648**	**346.920**	**1,622.081**
Total Capital Programme	**215.197**	**213.154**	**267.195**	**256.499**	**204.630**	**132.648**	**356.920**	**1,636.243**

4.51 The capital programme will continue to be updated during the year as appropriate to reflect the changes in budget and resourcing requirements providing necessary approvals are secured. As well as the anticipated adjustments for the CIP projects outlined in 4.47 above, it is expected that two significant schemes will be added later in the year - the Town Hall project and the setting up of the housing company. In February 2016, Cabinet selected the employment partnership scheme as the preferred option in the outline business case for the refurbishment of the Town Hall, subject to approval of a full business case to be presented to a future Cabinet meeting. It is currently anticipated that the full business case will be presented to Cabinet in September.

Capital Receipts and Disposal Programme

4.52 The overall forecast for capital receipts over the period 2015/16 to 2025/26 has risen from £1,041.7m to £1,065.1m - an increase of £23.4m. This is mainly due to inflation of sales prices expected in later years.

Table 7 – Projected Capital Receipt Changes since Last Approved Budget

Total Capital Receipts	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22+ £m	TOTAL £m
Last Approved Targets	66.0	214.0	140.9	148.3	104.2	117.2	251.0	**1,041.7**
First Review Targets	53.2	92.3	225.1	130.6	132.1	126.9	304.7	**1,065.1**
Change	**(12.8)**	**(121.7)**	**84.2**	**(17.7)**	**27.9**	**9.7**	**53.7**	**23.4**

4.53 There has been significant slippage in expected receipts from 2016/17 to 2017/18. The main contributor is Maiden Lane, where receipts are expected to begin towards the end of 2016/17 with a prudent approach taken in the revised programme.

4.54 The disposals planned with the highest changes are listed in table 8.

Table 8 – Change in Projected Capital Receipts – Main Areas of change

Change in Capital Receipts 2015/16+	Approved £m	Revised £m	Increase £m
General Fund disposals	40.4	**15.3**	(25.1)
Greenwood redevelopment	29.3	**18.1**	(11.2)

Change in Capital Receipts 2015/16+	Approved £m	Revised £m	Increase £m
Highgate Newtown	0.0	**24.6**	24.6
Agar	209.8	**241.1**	31.3
Bacton Low Rise	113.2	**111.3**	(1.9)
Gospel Oak	53.1	**50.4**	(2.7)
HS2 – Regents Park	58.2	**61.0**	2.8
Wells Court	6.1	**11.3**	5.2

4.55 The increased income expectations at Agar Grove are the result of revised long-term inflation assumptions affecting mainly the later and un-contracted phases of the project, which if achieved would more than offset the increase in expenditure inflation. The general fund disposals target has been lowered due to the expectation that a number of previously-anticipated sales will now not occur in the medium-term or will be reconsidered in the light of maximising opportunities for income generation. These include the Crowndale Centre, which is likely to be the primary office decant while the town hall is developed. The sale of Wells Court has now been completed, realising receipts 85% in excess of target.

4.56 The budget for Greenwood phase 1 – a day centre and centre for independent living - has been increased by £4.8m to reflect the most recent cost information from the contractor. This increase is primarily construction industry inflation. The scheme is in PCSA and although the budget has been inflated to reflect anticipated construction inflation to 2018, there is a strong possibility that there may be further cost increases once sub-contractor packages are priced. As the design of the building is finalised, Adult Social Care is considering the most effective use of this new facility to ensure that maximum value is realised. In particular the commissioning strategy for the Centre for Independent Living will need to minimise revenue pressures.

4.57 A development agreement has been completed with a partner for the delivery of Greenwood phase 2 (housing element). Consequently the phase 2 capital expenditure budget of £13.75m has been removed as the Council will no longer be the developer for phase 2, and the associated sales receipts forecast has been lowered by £11.2m.

4.58 In the first review, assumptions are made that the overall increase in costs, with a few exceptions where new external grants have been awarded, will be funded from increases in capital receipts.

4.59 Although the increase in estimated receipts in table 7 may look reassuring, there are inherent risks within this. These are vulnerable to changes in the market that could affect both the level of resource anticipated and the timing of any receipt. In the event of this happening, any funding shortfall will need to be resourced by other means.

4.60 This review is proposing to utilise £850m of capital receipts still to be generated to fund the programme, as demonstrated in table 9 below, with a large expectation over the coming years. Further details on the estimated capital receipts to be generated over the next 10 years are provided in Appendix C.

Table 9 – Planned use of Capital Receipts to fund the Capital Programme

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22+ £m	TOTAL £m
Revised Capital Programme	215.197	213.154	267.195	256.499	204.630	132.648	346.920	**1,636.243**
Receipts Utilisation	63.630	105.522	166.339	175.427	102.305	78.581	158.359	**850.163**
Percentage of Programme funded by receipts	**29.6%**	**49.5%**	**62.3%**	**68.4%**	**50.0%**	**59.2%**	**45.6%**	**52.0%**

5.0 WHAT ARE THE KEY IMPACTS / RISKS? HOW WILL THEY BE ADDRESSED?

Impact of the Referendum on the Membership of the European Union

5.1 It is not clear what the result of the referendum on the European Union will mean and over the coming months ministers and officials will be in negotiations over what happens next. The future economy of the country will depend on the deal reached with the EU, and this will take years to negotiate.

5.2 If, as the result of Brexit, the UK economy suffers a set-back, this could mean increased pressures on public funding. This could have a twofold impact; firstly, reducing grant funding to local government even further than currently expected and a negative impact on businesses and consequent lower receipts from business rates. Secondly, a weaker economy could mean increasing or extending austerity and increased demand on council services and further reductions in benefits. Shortly after the referendum, the Chancellor announced that the government would abandon the target to eliminate the fiscal deficit by 2019/20. It was stated this is due to expected significant negative shocks to the UK economy following the vote to leave he EU. This could imply that the years of austerity may be extended beyond 2020.

5.3 It is expected that inflation will increase as a direct result of the decline in sterling. The current medium term financial forecasts are based on moderate inflation rates. Should there be any dramatic changes in inflation, it could cause pressures on the council's medium term financial position. For example, we currently apply 1% inflation to most contract budgets, should this increase to, say, 4%, we could see additional pressures of £4.6m in 2017/18, increasing to £9.4m in 2018/19, and £14.5m in 2019/20. These figures are provided to illustrate the impact of movements in inflation, not as a predictor of what may happen.

Government Funding Reductions

5.4 The Government's austerity programme is set to continue and there will be further funding cuts beyond the current financial strategy. Current modelling suggests that the budget reductions planned in the current financial strategy will provide a strong foundation to deliver a balanced budget in 2017/18 and 2018/19. This is subject to the current programme being implemented in full and on time, on the assumption that current government funding offer does not change, and subject to decisions regarding Council Tax. However, even if the Council decides to accept the funding offer and the funding outlook does not deteriorate, there is significant uncertainty around some of the figures provided in the Settlement. The risks will increase towards the latter years of the parliament as reforms are made to the local government finance system, particularly around New Homes Bonus, the Improved Care Fund and Public Health.

5.5 The Government's fiscal plan is also partly dependent on the success of revenue generation plans, such as reducing tax avoidance, increased revenue from Council Tax and income from the apprenticeship levy. If these do not generate the required revenue, the government may seek to make up the shortfall with further cuts. Due to revised economic forecasts, in the March budget the Chancellor announced that the government will have to deliver a further £3.5bn in efficiency savings in 2019/20.

5.6 The Council must be mindful that in recent years the government has on numerous occasions made unexpected cuts to funding levels on top of those previously set out, and if cuts to funding prove higher than currently expected we may have to find additional reductions quickly.

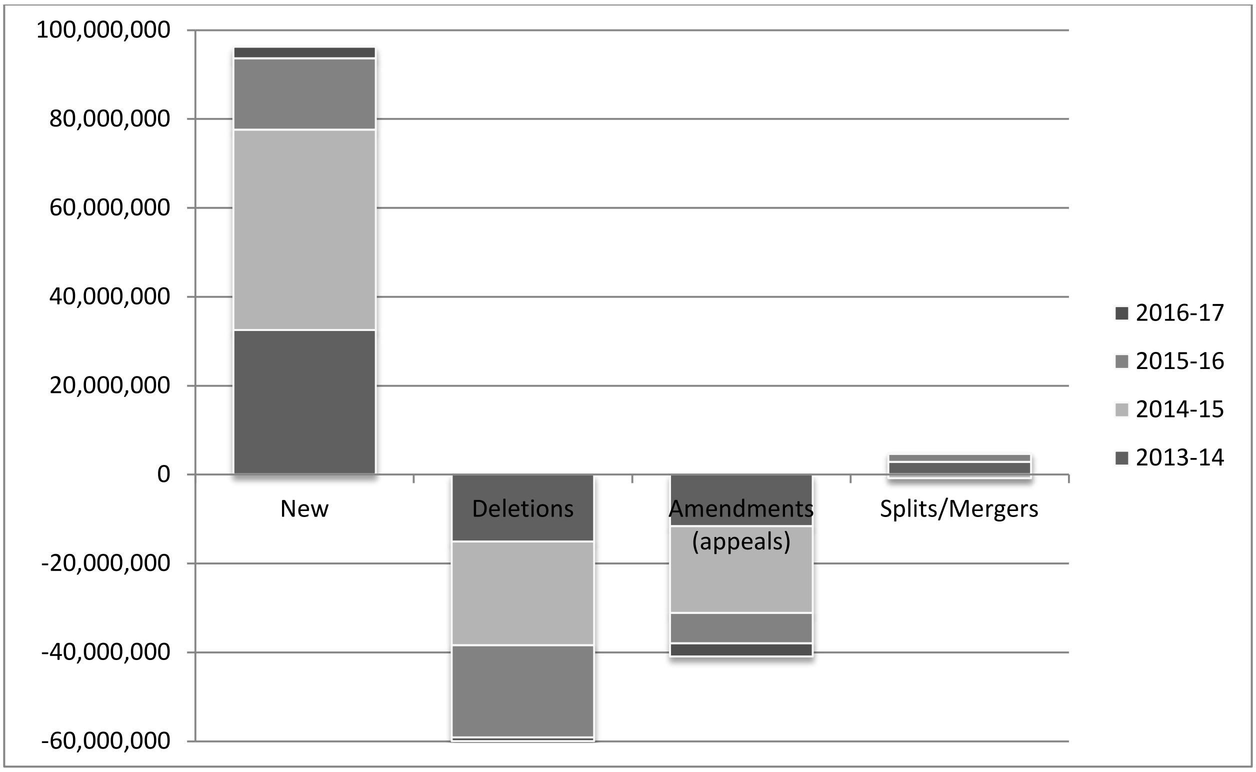
5.7 The pressures on the Housing Revenue Account (sections 4.21-4.25) and on Education funding (sections 4.27-4.34) have been captured earlier in the report.

Business Rates Retention

Issues with Current System

5.8 Camden continues to face continuing pressure under the existing business rates retention scheme. Despite the high level of development in Camden in recent years, the current rateable value of £1,239m (as at 25/05/2016) is lower (by 0.03%) than the rateable value when the system started in 2013. However, if the impact of appeals is ignored, the rateable value would be over 3% higher than the starting position. This shows that any benefit from the business rate retention system is largely outweighed by the effect of appeals. Chart 4 below shows the changes in rateable value since the implementation of the business rate retention system split by year, including the effect of appeals.

Chart 4 – Change in rateable value since 1st April 2013 (£m)



5.9 Nevertheless, retained business rates are a significant source of income for the Council. In 2015/16, total retained business rate income was £90.2m. However, due to the continuing difficulties with appeals, the closing position for the business rates Collection Fund, which accounts for all transactions on business rates and the redistribution of some of that money to the Greater London Authority (GLA) and central government, was a deficit of £46.9m. This continues the trend of large closing Collection Fund deficits since the implementation of the new system. This deficit had been forecast in 2016/17 budget setting and therefore the deficit will be fully covered in 2016/17.

5.10 Looking ahead, there are three further sources of risk and uncertainty in the business rate system – revaluation in 2017, the potential impact on the economy of the decision to leave the European Union and the implementation of new business rate system with 100% retention of the rates by councils nationally.

5.11 There will be a revaluation in 2017 and this is likely to impact on the Council's business rates income. The revaluation is likely to result in another surge of appeals, especially if the starting position for Camden is overstated, as it was in the previous valuation round. Any new appeals would be additional to the backlog of historic appeals that are awaiting settlement by the Valuation Office. Appeals are the main source of uncertainty and volatility in the system and the effect of new appeals will be even more difficult to forecast, as we will have no data to base our forecast on.

Transition to 100% Business Rates Retention

5.12 The Spending Review in November 2015 confirmed that the government would move towards full retention of business rates by councils nationally. A consultation was launched on 5th July that seeks to identify the issues that should be considered in implementing the move to 100% local retention. Alongside this, the government launched a ‘call for evidence’ on needs and redistribution to inform the work on reforming the needs assessment formula. Camden will consider and respond to these consultations ahead of the deadline on 26th September.

5.13 Although 100% retention is a positive development, the details of the new system are yet to be worked out and therefore we cannot evaluate the impact of this reform on Camden. DCLG is currently working with the Local Government Association and representatives of local government to develop how the system should work.

5.14 It is important that the government addresses a range of issues before the new system is implemented. This view was supported by the Communities and Local Government Select Committee which published a report setting out the interim results of its inquiry into 100% retention of business rates. The report shared many of our concerns, especially around the issue of appeals, and stated that it is essential that this is resolved before the Government pushes ahead with business rates changes. The Committee found the impact of appeals by ratepayers is dwarfing increases in business rates revenue and affecting growth incentives, with local authorities setting aside substantial sums of money, often for long periods of time, in case an appeal is successful.

5.15 The Chancellor stated that the reform will be fiscally neutral, which also means the continuing contribution of local authorities to deficit reduction. The government is now consulting on the range of responsibilities they will pass on in exchange for increasing rate retention. The consultation document indicates that these could include administration of Housing Benefits for Pensioners, Public Health, Attendance Allowance, Early Years, Improved Better Care Fund and Youth Justice. It is possible that any potential financial benefit the Council could get from the reform of business rate could be outweighed by spending on these new responsibilities. These new responsibilities may be the way the government is able to continue to pass on cuts to local authorities while allowing them to retain all rates on an ongoing basis.

5.16 The Chancellor has also confirmed there will remain a national 'equalisation system' in place (such as the tariff we pay under the current system). Under the current ‘50% retention’ system introduced in 2013, Camden retains around 17% of the rates collected in the borough due to redistribution to other areas. Some form of redistribution will continue in the new system which will mean Camden will not retain all the rates it collects. It is yet to be determined how the risk that a council may suffer a significant fall in rates will be managed centrally, although it was stated the current 'safety net payment' system, which ensures no council falls too far below the government set target for retained business rates, will stay in place.

5.17 The Government has now published a call for evidence on needs and redistribution to enable them to determine how the new system will take into account the various levels of population and need across local authorities. The consultation on the principles for the needs assessment is expected in autumn 2016 with the intention of using a revised metrics to establish baseline need when the new funding system is implemented.

5.18 The government has stated that it will also explore the possibility with London boroughs of options for moving to 100% business rates retention ahead of the national roll-out expected by 2020, and the GLA will take responsibility for TfL capital projects from April 2017. This could provide the opportunity for a London wide business rate pool – though the benefit (or otherwise) of this pool would depend on the detailed arrangements.

Impact of the Council's Medium Term Financial Strategy

5.19 Despite the sound progress on the Council's financial strategy to date, it is recognised that the Council continues the challenging process of reducing its budget while achieving transformational service change over the next two years. If proposals need to be changed in a way that materially reduces the budget reductions derivable from them, there will be a need to make up for the shortfall from other additional reductions elsewhere.

5.20 There will be few, if any, services not affected by the changes, and in some cases the resulting services may be quite different from that previously offered. Although the Council will maintain its policy of minimising redundancies where possible, for example through redeployment, it remains the case that the scale of cuts means that significant job losses will occur.

Pressure: Adult Social Care

5.21 Camden, in common with all other Councils with social care responsibilities is facing a number of high impact issues. In particular:

- Demographic pressures
- Significant underfunded legislative pressures – Deprivation of Liberty Safeguards
- Impact of costs transferred to Councils with diminishing funding (Independent Living Fund)
- Provider risk – despite Camden committing to paying LLW, both the local and national social care markets are fragile with providers struggling to remain financially viable whilst delivering good quality care

5.22 The NHS is also under increasing financial pressure with a nationally mandated requirement to deliver significant savings. A local Sustainable Transformation Plan is being developed in North Central London which will need to be delivered in partnership with local authorities. This challenge, with the range of system changes being considered, together with the requirement for Health and Social Care to deliver further integration, has resulted in an increasingly complex and rapidly moving local environment which is adding to the challenge of delivering adult social care services.

5.23 In recognition of the challenging environment, the Communities and Local Government Committee has launched an inquiry into the financial sustainability of local authority adult social care. The Committee will examine whether the funding available for adult social care is sufficient for local authorities to fulfil their statutory obligations to assess and meet the needs of people requiring care and support. This includes an assessment of the impact of policies such as the National Living Wage and the two per cent council tax precept. The inquiry will also consider alternative funding models for financing and providing care.

Apprenticeship Levy Pressure

5.24 The government is planning to introduce an apprenticeship levy which is likely to result in a new pressure in the Council's budgets. The levy, which will collected from larger employers (including the Council), will be introduced in April 2017. It will be set at a rate of 0.5% of an employer's paybill. On broad initial estimates, this could amount to £1.4m in levy per annum across the General Fund, HRA and in schools. While we can theoretically recoup the tax by employing a large number of apprentices, the tax will be an additional cost to the Council. This is because currently, nearly all our apprentice training costs are covered by central government. In addition to the Apprenticeship Levy, the government is also introducing a new target which requires all councils to have 2.3% of their workforce (including community schools) starting apprenticeships each year. This will create budget pressures as it will either require the council to recruit more staff or to convert existing staff/posts into apprenticeships through major workforce planning changes.

Risks within the Capital Strategy and Community Investment Programme

5.25 Following the review of the capital programme, the Cabinet is presented with a fully funded capital programme that is set to invest more than £1.4bn in the next decade. However, there are a number of significant and often interlinked risks in the capital programme that could impinge on the ability of the Council to deliver its plans in full.

London Construction Market and Project Delays

5.26 Prior the referendum, the construction industry and its supply chain were presented with increasing volumes of work, particularly office construction in London. This is having a tangible impact on the CIP programme. The Council is seeing lower resourcing of some schemes that are on site, and significant delays in some schemes. Tender returns (in particular stage 2, i.e. final tenders) are being returned significantly higher than anticipated.

5.27 There are six CIP schemes included in the capital programme which are in stage one of a two stage tender process known as 'Pre-Construction Service Agreement' (PCSA). The main projects/phases in question are: Tybalds, Abbey phase 1; Bacton Low Rise phase 2; Liddell Road; Parliament Hill school; and Greenwood. Subject to viability, these contracts will enter into main works contracts within the next 6 months. Because cost certainty will not be available until these tenders are complete, the scheme budgets have not been updated in the review. Early indications suggest that once returned tender responses could be significantly above the current budget allowances.

5.28 The Council is not contracted to construct these projects/phases, though will have invested significantly in design and consultation during the PCSA phase. Final bids and tenders must now be reviewed in the context of the referendum result. We must now consider whether it is appropriate and efficient to proceed with each scheme at this stage. If there is an economic contraction and possibly recession, construction demand may decrease. This could mean that it is possible to procure projects more cheaply. On the other hand, the Council must be diligent that it is procuring with organisations able to withstand the economic shock, and will have to take a view on the long-term prospects for residential sales that often underpin the construction cost.

5.29 Programme delays have caused potential spikes in expenditure around 2018-2020. The bunching of schemes in this way is considered risky, as it could create ‘bulges’ of high expenditure and place the debt cap at risk if corresponding income is not generated sufficiently quickly. A key test as the tenders for projects under PCSA are returned will be whether the Council can afford to incur the costs in the planned timeframe, even if any increase will be matched by increased income later on.

Reliance on Receipts

5.30 The percentage of the capital programme funded from capital receipts is planned to increase significantly as demonstrated by the table below. Such a reliance on sales receipts means that the programme of expenditure could be threatened by a fall in house price sales values and / or slippage in delivery of sales receipts.

5.31 The UK’s house price boom could come to an end after the vote to leave the EU - there has been immediate talk of reduction in house prices and FTSE listed house builders have seen some of the biggest initial losses since the referendum result. However, it is important to note that this is speculative at this stage.

5.32 The timing of income received and the need to use that income is a key risk, and receipts projections will be monitored closely.

	2015/16	2016/17	2017/18	2018/19
% of total capital expenditure funded from capital receipts	29.6%	49.5%	62.3%	68.4%

The Effect of Government Policies

5.33 No allowance has been made for the potential impact of the high value voids levy due to the ongoing uncertainty about how this will work. However, a significant annual levy would obviously impact on the Council's planned capital programme.

Risk Mitigations

5.34 The Council has a number of mechanisms and processes to respond to this range of risks:

- Prudent receipts estimation: Savills house price forecasts have improved slightly with growth predicted in 2016 in all sectors except London Prime, with expansion through 2017-2020. For all schemes delivering in the next two years, prudent assumptions have been made for sales receipt values, for example at or below todays valuation.

- Un-contracted schemes / phases: Only 18% of the CIP budgets in the capital programme for 2016/17 onwards are contractually committed. 48% is not contracted, while a further 34% is in PCSA – meaning that the Council is committed to proceeding with design and enabling works but could choose not to proceed with the substantive construction. There is therefore opportunity to review the scope, contents and delivery profile of the bulk of programme to achieve appropriate levels of affordability and risk.

- Alternative Delivery Vehicles: as approved by Cabinet in April, the Council is currently investigating whether there may be potential benefits to seeking a development partner to help achieve its ambitions while sharing risk.

- Gateway Review Process: The Council operates a robust project review process, and this is being further enhanced with a comprehensive development gateway review process through which each phase of each scheme is considered at key decision points. This will provide a further level of scrutiny and challenge and will be complemented by a range of sensitivity analysis and risk testing.

6.0 WHAT ACTIONS WILL BE TAKEN AND WHEN FOLLOWING THE DECISION AND HOW WILL THIS BE MONITORED?

6.1 The Council operates robust financial governance and monitoring processes. Chief Officers receive regular reports on the financial position, and regularly review the Capital Programme and the medium term assumptions that underline the Council's modelling.

7.0 LINKS TO THE CAMDEN PLAN OBJECTIVES

7.1 The outcomes-based Financial Strategy exists to allow the organisation to maximise the deployment of its increasingly limited resources towards the achievement of Camden Plan outcomes.

7.2 Should further savings be necessary in the course of the current MTFS, we will continue to use this approach to implementing savings and deciding investment priorities to ensure the limited resources are used in line with the Camden Plan.

8.0 CONSULTATION

8.1 There has been no formal public consultation.

9.0 LEGAL IMPLICATIONS (Comments of the Borough Solicitor)

9.1 The comments of the Borough Solicitor are included within the report.

10.0 RESOURCE IMPLICATIONS (Finance comments of the Executive Director Corporate Services)

10.1 The comments of the Executive Director Corporate Services are included within this report.

11.0 RESOURCES USED IN THE PREPARATION OF THIS REPORT

11.1 The following resources have been used in the preparation of this report and are available online through the hyperlink below or via the web address www.camden.gov.uk/MTFS:

- 2015/16 Outturn Report: July 2016
- Wider Economic Environment & Medium-term Financial Forecasts: July 2016
- Capital Projections 2016/17 to 2024/25: July 2016
- Financial Strategy Update: July 2016
- 2016/17 Budget Book (reflecting organisational restructure and proposed capital budgets)

11.2 Paragraph 4.29 deals with the joint response the Council and Schools Forum submitted to the 'stage 1' consultation on implementing a national funding formula for schools. The response can be found here http://www.camden.gov.uk/ccm/content/education/school-notices/

11.3 The report referenced in paragraph 5.14 by the Communities and Local Government Select Committee on the interim results of its inquiry into 100 per cent retention of business rates can be found here http://www.publications.parliament.uk/pa/cm201617/cmselect/cmcomloc/241/241.pdf.

11.4 Further information is provided in the attached appendices.

Appendices:

A. Further Detail on the Capital Programme
B. Further Detail on Capital Funding
C. Further Detail on Capital Receipts
D. Reserves Allocations

REPORT ENDS

APPENDIX A – FURTHER DETAIL ON THE CAPITAL PROGRAMME

A1. The table below shows the proposed departmental budgets for each year.

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 to 2025/26 £000	Total £000
Public Health	**164**	**-**	**-**	**-**	**-**	**-**	**-**	**164**
Corporate Services – ICT	**2,859**	**4,988**	**4,285**	**803**	**1,063**	**-**	**-**	**13,998**
Supporting Communities								
Property Management	100,514	73,817	99,403	100,341	89,106	56,040	208,784	**728,005**
Community Services	4,991	6,985	8,052	3,272	1,692	858	2,032	**27,882**
CIP and Major Projects	89,378	108,377	143,804	136,224	101,743	75,750	136,104	**791,380**
Regeneration and Planning	17,291	18,987	11,651	15,859	11,026	-	-	**74,814**
Total Supporting Communities	**212,174**	**208,166**	**262,910**	**255,696**	**203,567**	**132,648**	**346,920**	**1,622,081**
Total Capital Programme	**215,197**	**213,154**	**267,195**	**256,499**	**204,630**	**132,648**	**346,920**	**1,636,243**

A2. The table below sets out the changes to the expenditure and the associated funding.

Expenditure category	Total Exp. £000	Changes £000	Reasons
ICT	13,998	(3,508)	De-capitalisation of costs.
CIP – Greenwood, Camden/Plender St, Highgate	55,210	15,742	Greenwood £(8,755)k, Camden/Plender St £1,200k, Highgate £23,297. Additional borrowing and less capital receipts.
Planned Highways Maintenance	37,280	647	TfL funding £550k, virement from sustainability, reduction in Westminster contribution
Green Spaces	5,996	1,006	S106 contributions
Corridors & Neighbourhoods	5,877	2,572	Virement from other schemes; TfL grant funding, £1,720k
Other Regen & Planning schemes	51,341	(700)	S106 contributions, £434k; virements to other schemes
CIP – Schools schemes	100,079	2,595	Virement from other schools schemes.
Other Schools schemes	60,725	(1,893)	Virement to CIP schemes £(2,595)k, additional grant £702k.
CIP – Estate Regeneration	623,920	34,386	Increased use of 1-4-1 retained receipts, and General Fund capital receipts
Hostels	3,418	374	Increase in Major Repairs Reserve
Better Homes	599,927	12,150	Future years Leaseholder contributions; RCCO; Increase in MRR.

Expenditure category	Total Exp. £000	Changes £000	Reasons
Homes for Older People	16,435	540	Additional capital receipts; virement from other schemes.
Housing Renovation & Disabled facilities grants, Adult Social Care	9,620	(981)	Community Capacity Grant used elsewhere in programme.
Total		**62,930**	

A3. The table below shows the changes within the Community Investment Programme (CIP) – Estate Regeneration programme.

CIP – Estate Regeneration	Changes £000
Higher costs funded from higher use of 1-4-1 retained capital receipts, and extra general fund and HRA capital receipts	
Agar Grove	27,108
Gospel Oak	(2,286)
Maiden Lane	4,608
Bacton Low Rise	2,660
Chester Balmore	867
Holly Lodge	(232)
HS2	1,604
Other	57
Total	**34,386**

APPENDIX B – FURTHER DETAIL ON CAPITAL FUNDING

Table 1 – Total Capital Funding

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 - 2025/26 £000	Total £000
Government grants	11,658	7,730	3,620	2,266	2,266	0	0	**27,540**
GLA/TfL grants	35,665	7,138	2,232	537	0	0	0	**45,572**
S106 contributions	5,998	11,474	14,592	4,703	6,000	0	0	**42,767**
Community Infrastructure Levy	1,007	2,993	7,555	6,000	6,000	0	0	**23,555**
GF revenue contribution	17,720	13,164	13,408	9,521	5,043	858	1,403	**61,117**
HRA	61,566	46,061	48,173	45,510	41,990	42,000	160,000	**445,300**
Capital Receipts*	63,630	105,522	166,339	175,427	102,305	78,581	158,359	**850,163**
Prudential Borrowing – HRA	12,932	16,158	6,971	3,035	36,245	11,209	27,158	**113,708**
Prudential Borrowing - GF	2,851	1,630	3,915	9,500	4,781	0	0	**22,677**
Other	2,172	1,283	391	0	0	0	0	**3,846**
Total	**215,198**	**213,153**	**267,196**	**256,499**	**204,630**	**132,648**	**346,920**	**1,636,244**

*Capital Receipts figures shown are utilisation of resources, and don't necessarily reconcile to when receipts are generated.
Note: totals may not agree due to rounding

Table 2 – Reasons for Funding Changes since Last Approved Budget

FUNDING	Total Funding £000	Changes £000	Reasons
Government grants	27,540	724	£702k EFA Grant
GLA/TfL grants	45,572	2,163	Future years allocation approved
S106 contributions	42,767	1,450	Additional contributions for Highways and Green Spaces
Community Infrastructure Levy	23,555	0	
GF revenue contribution	61,117	(3,508)	De-capitalisation of ICT expenditure
HRA (MRR, RCCO, Leaseholders' capital)	445,300	24,406	Increase in MRR to fund overspend, future years Leaseholder contributions built in, additional RCCO to fund overspend.
Capital Receipts	850,163	18,315	Reduction in HRA capital receipts, increase in use of 1-4-1 retained receipts, and General Fund capital receipts
Prudential Borrowing - HRA	113,708	0	
Prudential Borrowing - GF	22,677	19,509	Additional borrowing for Highgate Newtown
Other	3,846	(127)	Reductions to additional contributions
Total	**1,636,244**	**62,931**	

APPENDIX C – FURTHER DETAIL ON CAPITAL RECEIPTS

Capital Receipts	2015/16 Actual £000	2016/17 Target £000	2017/18 Target £000	2018/19 Target £000	2019/20 Target £000	2020/21 Target £000	2021/22 onwards Target £000	TOTAL Target £000
General Fund								
GF Disposals Programme	1,093	4,230	0	10,000	0	0	0	**15,323**
Homes for Older People	0	10,500	9,760	390	0	0	0	**20,650**
Greenwood redevelopment	0	0	0	12,350	3,975	1,807	0	**18,132**
Surma redevelopment	0	0	0	0	8,900	0	0	**8,900**
Edith Neville School/ Somers Town redevelopment	0	0	19,160	13,495	1,089	0	0	**33,744**
Kingsgate School expansion/ Liddell Road development	0	0	26,800	0	0	0	0	**26,800**
Camden/Plender St: GF/HRA	1,830	8,316	0	0	0	0	0	**10,146**
Parker House	24,130	0	0	0	0	0	0	**24,130**
Highgate Newtown		0	0	0	0	24,591	0	**24,591**
Kings Cross Accomm.Strategy - disposals	0	23,000	7,200	5,780	0	0	0	**35,980**
General Fund sub-total	**27,053**	**46,046**	**62,920**	**42,015**	**13,964**	**26,398**	**0**	**218,396**
Housing Revenue Account								
HRA Small Sites	113	679	4,768	0	0	0	0	**5,560**
Right to Buy (Camden's share)	1,903	1,922	1,922	1,922	1,922	1,922	1,922	**13,435**
Right to Buy (Retained receipts)	20,180	10,677	8,008	4,504	2,252	1,810	1,372	**48,802**
Estate Regen. - Holly Lodge	1,991	7,109	5,000	0	0	0	0	**14,100**
Estate Regen. - Chester/ Balmore	360	680	0	0	0	0	0	**1,040**
Estate Regen. - Maiden Lane	0	0	88,400	0	0	0	0	**88,400**
Estate Regen. - Bacton Low Rise	0	5,000	5,000	10,396	31,836	31,836	27,244	**111,312**
Estate Regen. - Tybalds	0	0	0	0	13,352	3,400	13,438	**30,390**
Estate Regen. - Abbey	0	0	0	15,000	47,457	9,859	54,576	**126,892**
Estate Regen. - Bourne	0	0	3,000	31,500	0	0	0	**34,500**
Estate Regen. – Agar Grove	0	0	0	5,841	7,789	27,294	200,164	**241,088**
Estate Regen. – Gospel Oak Infill	0	0	1,000	10,219	8,814	24,389	6,000	**50,422**
HS2	1,648	485	45,114	9,208	4,556	0	0	**61,011**
Camden/Plender St. - GF/HRA	0	8,454	0	0	0	0	0	**8,454**
Wells Court	0	11,275	0	0	0	0	0	**11,275**
HRA sub-total	**26,195**	**46,281**	**162,212**	**88,590**	**118,178**	**100,510**	**304,716**	**846,681**
Total capital receipts generated in year	**53,248**	**92,327**	**225,132**	**130,605**	**132,142**	**126,908**	**304,716**	**1,065,077**

APPENDIX D – 2015/16 OUTTURN RESERVES ALLOCATIONS

D1. There have been a number of requests for transfers to earmarked reserves from the year-end underspend that are recommended for approval.

D2. Requests were made on the basis that the transfer supported the Council's priorities and where the investment would make an effective return.

D3. The following table presents the proposed reserve allocations by Directorate and type.

Table A – Year End Requested Allocations to Reserves 2015/16

	Future Pressures £m	Trust Funding £m	Grants unspent / Received in Advance £m	On-going Projects £m	Total Allocations £m
Law & Governance	-	0.002	-	-	0.002
Culture & Environment	0.030	0.037	0.912	1.047	2.026
Housing & Adult Social Care	0.290	-	1.267	0.290	1.847
Cross-Cutting Budgets	0.503	-	-	-	0.503
Children, Schools & Families	-	-	0.030	0.395	0.425
Public Health	-	-	2.395	-	2.395
	0.823	**0.039**	**4.604**	**1.732**	**7.198**

D4. A detailed list of the reserve transfers requested and how they support the Council's priorities can found in the online document: *'Wider Economic Environment and Medium-term Financial Forecasts: July 2016'*.

D5. The remaining year-end surplus of £(7.062)m will mainly be allocated to Capital to fund the proposed housing company, Camden Living (£6.711m). It is also proposed to allocate £0.301m to the High Speed 2 Programme (in addition to the £0.501m agreed in December Cabinet), and £0.050m to carry out work on developing options for alternative delivery vehicles to deliver our investment priorities.

Table B – Proposed Allocation of 2015/16 Surplus Resources

Earmarked Reserves	Reserves as at 31.03.15 £m	In-Year Movement Out of Reserves £m	In-Year Transfer Into Reserves £m	2015/16 Year End Requested Allocations to Reserves £m	2015/16 Outturn Surplus Allocations to Reserves £m	Reserves as at 31.03.16 £m
To Support Key Revenue Outcomes	34.355	(9.860)	1.068	6.151	0.351	32.065
To Support Council's Remodelling Programmes	21.131	(7.833)	0.288	-	-	13.586
On-going Capital Activity and asset Management	29.333	(18.688)	10.127	1.045	6.711	28.528
Mitigation of Future Corporate Risk	25.809	(10.243)	6.325	-	-	21.891
Charitable Activity	0.032	-	-	-	-	0.034
Total Earmarked Reserves	**110.660**	**(46.624)**	**17.808**	**7.198**	**7.062**	**96.104**

D6. The impact of these adjustments to individual reserve balances is detailed in the following table alongside the net in year movements for each earmarked reserve.

Table C – Proposed Allocations of 2015/16 Surplus Resources

Earmarked Reserves	Actual Reserve 31.03.15 £m	In-year Net Movement in 2015/16 £m	Forecast Reserves 31.03.16 £m	Proposed Movement to Reserve £m	Proposed Reserve Balance 31.03.16 £m
Reserves to support key revenue budget outcomes					
Dedicated Schools Grant	11.275	(1.495)	9.780	-	9.780
Support for Schools in Difficulty	0.442	(0.008)	0.434	-	0.434
Homes for Older People	4.286	(3.046)	1.240	-	1.240
Multi Year Budget Reserve	*10.895*	*(4.243)*	*6.652*	*6.212*	*12.864*
Education Commission	1.181	-	1.181	-	1.181
HASC Specific Grants	*6.276*	*-*	*6.276*	*0.290*	*6.566*
	34.355	**(8.792)**	**25.563**	**6.502**	**32.065**
Reserves to support the councils service remodelling programme					
Workforce Remodelling/Cost of Change	18.340	(7.141)	11.199	-	11.199
Camden Plan	2.791	(0.404)	2.387	-	2.387
	21.131	**(7.545)**	**13.586**	**-**	**13.586**
Reserves to support on-going capital activity and asset management					
Future Capital Schemes	21.418	(8.177)	13.241	7.361	20.602
Commercial and other property	0.776	-	0.776	-	0.776
Haverstock PFI Funding Reserve	2.019	(0.130)	1.889	-	1.889
Schools PFI Equalisation Reserve	0.501	0.167	0.668	0.395	1.063
Building Schools for the Future	0.488	-	0.488	-	0.488
Accommodation Strategy	4.131	(0.421)	3.710	-	3.710
	29.333	**(8.561)**	**20.772**	**7.756**	**28.528**
Reserves to mitigate future corporate risk					
Self-Insurance Reserve	7.600	(0.623)	6.977	-	6.977
Contingency Reserve	1.512	-	1.512	-	1.512
Business Rates Safety Net	16.697	(3.295)	13.402	-	13.402
	25.809	**(3.918)**	**21.891**	**-**	**21.891**
Reserves to support the Mayors charity					
Mayor’s Charity Reserve	0.032	-	0.032	0.002	0.034
	0.032	**-**	**0.032**	**0.002**	**0.034**
Total Earmarked Reserves	**110.660**	**(28.816)**	**81.844**	**14.260**	**96.104**