LONDON BOROUGH OF CAMDEN	WARDS: All

REPORT TITLE

Review of Camden Medium Term Financial Strategy (CS/2017/07)

REPORT OF

Cabinet Member for Finance, Technology and Growth

FOR SUBMISSION TO	DATE
Children Schools and Families Scrutiny Committee	20 July 2017
Culture and Environment Scrutiny Committee	24 July 2017
Resources and Corporate Performance Scrutiny Committee	25 July 2017
Cabinet	26 July 2017

SUMMARY OF REPORT

This report:

- Provides an overview of the council's financial position and sets out progress towards the implementation of the council's £78m budget reduction strategy. Now in its third year, the outcomes-based strategy has meant that our increasingly limited resources are deployed explicitly towards activities that are demonstrated to have the biggest impact on achieving our Camden Plan aspirations.
- Explains how the council is preparing for the likelihood that further cuts will create a deficit in the years beyond the current financial strategy, and describes how the council is preparing to respond to this challenge.
- Notes there are pressures on education funding.
- Provides detail on the 2016/17 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.
- Provides a high level overview of the current and potential financial implications of the emergency evacuations on the Chalcots estate.

Local Government Act 1972 – Access to Information

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

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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 and uncertain funding outlook for councils following the outcome of the General Election and pending the outcome of Brexit negotiations, and the forecast medium-term deficit projections set out in sections 4.1 – 4.16.
(b) Note plans for the development of a new financial strategy to close the projected deficit as set out in section 4.17.
(c) Note the progress towards implementing the financial strategy and associated risks as set out in section 4.18 – 4.28.
(d) Note the 2016/17 revenue and capital outturn positions set out in sections 4.36 – 4.39 and 4.43 – 4.45 respectively.
(e) Agree the allocations to and movements in earmarked reserves and the allocation of the final 2016/17 underspend as set out in sections 4.40 – 4.42 for inclusion in the Statement of Accounts.
(f) Agree the revised Capital Programme, funding and capital receipts targets summarised sections 4.46 – 4.54 and presented in appendices A - C.
(g) In relation to fees and charges discussed in 4.29 – 4.31, agree increases in fees as set out in Appendix E table E1.
(h) Note the overview of the financial implications arising from the emergency Chalcots evacuations as set out in paragraphs 5.2 – 5.6.

Agreed by Mike O'Donnell, Executive Director Corporate Services

Date: 17th July 2017

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
- The outlook for council funding and spending, which is very uncertain in the medium term
- Plans to develop a new financial strategy for years 2019/20 to 2021/22 to close the expected funding gap
- 2016/17 revenue outturn and proposed allocations to reserves
- 2016/17 capital outturn and the shape of the revised capital programme following a review of expenditure and income profiles

1.3 Thanks to our approach to medium term financial planning, we were able to set a balanced budget for 2017/18 and, subject to a number of decisions and our ability to deliver agreed budget reductions, we expect to be able to balance our budgets in 2018/19.

1.4 The results of the General Election and continuing economic uncertainty relating to Brexit could have potential consequences for council funding, and the report seeks to highlight these as appropriate.

1.5 Following an inspection of the Chalcots Estate, the Council was required to undertake an emergency evacuation of four of the towers after unequivocal advice from the London Fire Brigade that the blocks were not safe. The full impact of this operation is not yet known, but an overview of the financial risks identified at this is set out in section 5.

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 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 2017/18 is the third year of the implementation of the council’s outcomes-based financial strategy; some of the most challenging projects are to be delivered over the next two years. The council has a monitoring process in place to ensure early sight of any risks and issues.

2.4 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 2016/17 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?

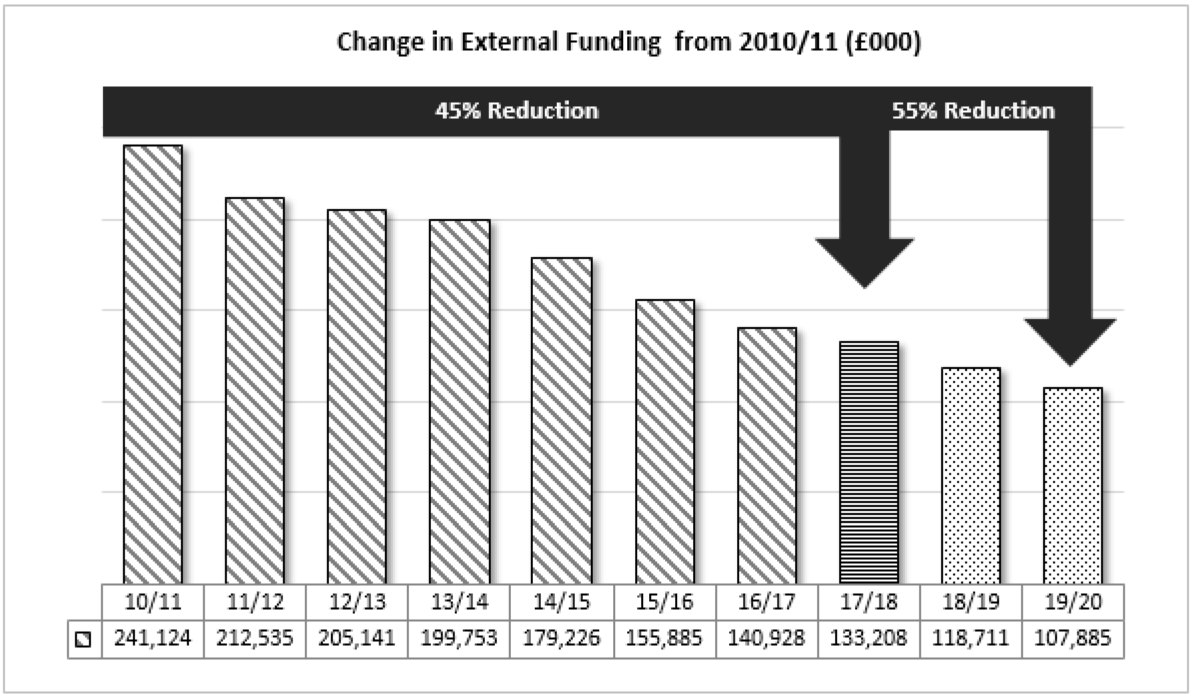
4.1 Although the council has agreed a balanced budget for 2017/18, it is facing a large degree of uncertainty in the medium term. Our funding is uncertain, as the impact of Brexit negotiations and General Election is difficult to forecast. The lack of clarity around the potential introduction of a reformed business rate retention system and the review of the local government funding formula following the election adds to the funding uncertainty. Additionally, our spending projections are based on a set of assumptions about inflation allowances, which will be influenced by the outcome of Brexit negotiations and could change significantly. This makes forecasting of the deficit that is expected to open after 2018/19 very difficult and the following sections discuss a number of issues and set out their potential impact and our response.

The Outlook for Council Funding

4.2 The local government finance Settlement for 2017/18 confirmed the multi-year settlement set out by the government in December 2015, which covered the main elements of funding (Revenue Support Grant and the tariffs and top-ups associated with the current business rates retention model) from 2016/17 to 2019/20. The Settlement confirmed that annual cuts to core government funding will continue year on year up to 2019/20.

4.3 Chart 1 below shows our like-for-like funding has been decreasing since 2010/11; it fell by 45% by 2017/18, and this will increase further - to 55% by 2019/20. This reduction in our like for like external funding represents a slightly lower level of decline compared to previously reported position. This is due to (1) the new funding that was announced by the Chancellor in the March budget in response to recognised challenges in adult social care – Improved Better Care Fund – from which Camden will receive £5.8m in 2017/18 reducing to £1.8m in 2019/20, and (2) an uplift in expected retained business rates to allow for inflation and growth.

Chart 1 – reduction in Council's External Funding 2010/11 – 2019/20



**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 2018/19.*

4.4 Due to the decision to set a comprehensive medium-term financial strategy, the council was able to set a balanced budget for 2017/18. We are also well placed to be able to present a balanced budget in 2018/19, subject to council tax decisions and dependent on the delivery of all remaining MTFS budget reduction projects discussed later in the report. After this, a new deficit is expected to open up as costs increase while government funding continues to fall.

4.5 However, in the medium term, the council is facing a large level of uncertainty in its funding outlook. It remains unclear what the impact of the outcome of the General Election will be. The previous government agreed a multi-year settlement to 2019/20, which set out the main elements of our funding. Even if councils' funding plans remain unchanged, the detail of the latter years of the settlement remain uncertain, as material elements of our funding were not subject to the multi-year offer and planned changes to the business rate retention are now in question.

4.6 The outlook for Brexit negotiations remains uncertain after the General Election and there is a risk that the UK's decision to leave the European Union will impact on the council's finances. If the predictions of an economic slowdown resulting from Brexit prove correct, the government could choose to increase borrowing, raise taxes, or reduce public spending more significantly than already planned.

4.7 Another large source of uncertainty for our medium term funding is the previously announced business rates retention reform, under which local government would be allowed to retain 100% of business rates from 2019/20.

The Queen's speech that followed the General Election and outlined the legislative programme for the government for the next two years omitted to include the Local Government Finance Bill, which had been progressing through Parliament until the General Election was called and which provided the legislative framework for the introduction of 100% Business Rates Retention. It is not known whether the government will look to reintroduce aspects of the 100% business rate retention system through a different route (other than primary legislation). There are a number of local authorities that are piloting 100% business rate retention and it is unclear whether these will be terminated or extended, and whether the potential for a London-wide pool still exists.

4.8 Before the Election it was intended that, alongside the move to 100% business rate retention, the government would introduce a review of the distribution of resources between councils through the Fair Funding Review. This change would not require primary legislation and the government did not confirm whether it will pursue the review. London Councils have however stated that it is likely that the proposed review of the needs assessment will continue. There is a risk that this could have a negative impact on the level of resources allocated to Camden. By the time the new allocations are implemented, the relative need amounts used will have been frozen for seven or eight years, and it is impossible to know whether the changes in the borough’s funding need since then will, under the revised distribution methodology, benefit or disadvantage us relative to other Authorities. In addition, the amounts used since 2013/14 do not reflect the actual relative need amounts calculated for that year, as damping to prevent large movements in any single year, which benefited Camden, has never been unwound.

Economic Environment and Medium-Term Financial Forecasts

4.9 In addition to funding reductions and uncertainty, the council is also managing a range of spending pressures.

4.10 The result of the referendum on the membership of the European Union has resulted in the fall in the value of Sterling, which has resulted in upward pressures on inflation. The longer-term impact of Brexit on inflation is very uncertain and depends partly on the final exit deal between the UK and the European Union. The outcome of the General Election has also weighed on Sterling and seen a fall in value against major currencies and this will also impact on future inflation.

4.11 The Office for Budget Responsibility forecasts that UK inflation, as measured by the Consumer Price Index, will exceed 2% in 2017/18 and 2018/19 and will settle at 2%, the government target inflation, in the years beyond. The Retail Price Index is forecast to be 3.9% in 2017/18 and then settle at 3.1% or 3.2% after 2018/19.

4.12 This expected higher level of inflation and high level of uncertainty present a risk to the council’s medium term financial position. Over the last few years the council has deliberately set challenging below-CPI/RPI budget allowances as a means to drive efficiencies and reduce the scale of savings needed through MTFS projects. While this has proven effective, this becomes increasingly unsustainable over time, and this is particularly so in a period when inflation is rising significantly. Therefore it is proposed to revise the inflation rates in our medium-term forecasts as set out in the online document online document Wider Economic Environment & Medium-term Financial Forecasts: July 2017.

4.13 If the council's budgets do not reflect the inflationary environment in which services operate, the council may be unable to manage within its budgets and face overspends. The majority of our inflation indices have been revised upwards to 2% to reflect the government's CPI inflation target. Increasing inflation allowances has a significant effect on anticipated costs, and therefore the deficit. For example, 1% of general fund contract costs is around £2m per annum, and allowing 2.5% for the period 2019/20 – 2021/22 leads to an increased cumulative budget requirement of approximately £11m. Further detail in respect of inflation rates used can be found in the online document online document Wider Economic Environment & Medium-term Financial Forecasts: July 2017.

4.14 We have allowed higher inflation on contract costs, which are prevalent in areas such as adult social care, to reflect the council's commitment to London Living Wage (LLW) and promoting positive and fair working conditions with its supplier organisations. This helps us to improve outcomes for our service users as well as supporting our objectives of tackling inequality. We are doing more detailed work to determine at a more granular level the potential impact of LLW increases in specific areas, and this will take into account the high level of complexity inherent in renewing contracts. However, in recent years London Living Wage increases have typically been substantially higher than CPI, and there is a residual risk that our revised allowance of 2.5% from 1% may not be sufficient in all areas. The current expectation is that should any budget be required in excess of the stated inflationary allowance, this will be funded from the council's budget for unavoidable pressures, which is set at £5m per annum in our medium-term plans.

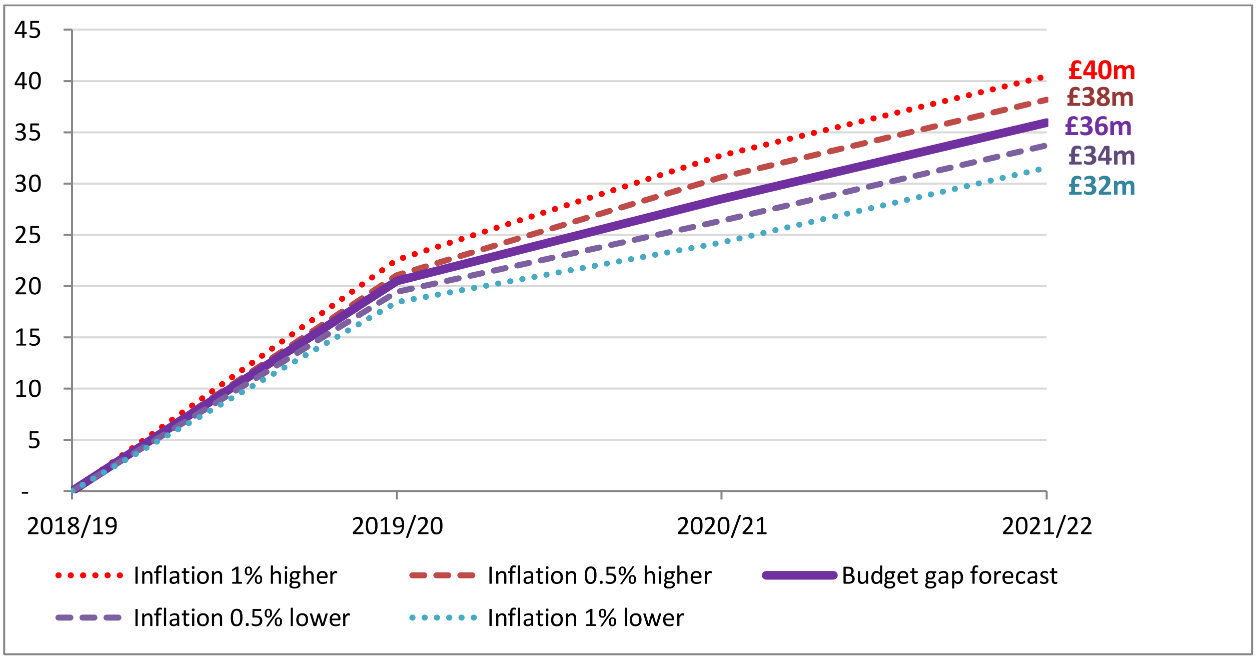
4.15 The impact of the revised inflation allowances, alongside other changes mean that the forecast deficit – the gap between council expenditure and council income - is forecast to reach £36m by 2021/22. Primary among the non-inflationary cost increases are increased investment in early years provision, as set out in section 4.34, and revised projections for the council's Minimum Revenue Provision - the amount we are required to set aside to finance borrowing for the capital programme, which is set to rise as capital receipts generated in previous years are utilised to fund the regeneration programme. Table 1 below outlines how these items have impacted upon the deficit forecast. Where extra funding is expected in future years – primarily for Adult Social Care in respect of the Improved Better Care Fund plus top-ups announced in the Budget, and the ASC precept - it is assumed these will be allocated to the relevant service with no effect on the deficit.

Table 1 –Changes to Medium-Term Projections

Deficit Forecast	£m	Reason
Feb 2017	**25**	
Inflation	13	Higher inflation assumptions to reflect CPI and LLW
Early Years	2	Ongoing contribution to fund new plan for provision of childcare
Minimum Revenue Provision	2	The amount the council is required to set aside from revenue to fund capital expenditure funded from borrowing will increase as receipts are used to fund the capital programme
Business Rates	(5)	Uplift to allow for growth and inflation
Other	(1)	Minor adjustments such as updated grants and council tax forecasts
July 2017	**36**	

4.16 In the context of uncertain inflationary environment, the chart below demonstrates how this forecast can change subject to changes in the council's external environment, which are out of our control. An additional 0.5% inflation increase would mean that the budget gap reaches £38m in in 2021/22 and additional 1% inflation would increase the gap to £40m. Should the inflationary allowances be 0.5% lower than currently modelled, the budget gap would be £34m; at 1% lower the gap would be £32m. The impact of inflation on individual spend categories, as well as other information on the council's economic environment are presented with a summary of how the changes have led to the increased deficit projections in the online document Wider Economic Environment & Medium-term Financial Forecasts: July 2017.

Chart 2 – Forecast budget deficit to 2020/21 and impact of different inflation allowances (£m)



New Financial Strategy

4.17 Work is already underway to develop the next financial strategy, which will continue to focus on taking evidence-based decisions to ensure that we can close the funding gap whilst delivering our organisational priorities. The financial strategy is therefore being developed alongside and in alignment with the new organisational strategy to be delivered by the end of the year. One strand of work in the development of the new Camden Plan is the Camden Commission, which is engaging experts, residents and members and providing evidence and thinking to build on the successes of the Camden Plan. The new financial strategy will develop over the course of 2017 and will result in investment plans and business cases on how and where we can reduce costs and increase income and most effectively deliver outcomes.

Update on the Delivery of the Medium Term Financial Strategy 2015/16 – 2018/19

4.18 Since the council's £78m budget reduction programme was agreed, the council has made a strong progress towards implementing the projects. We have now completed the second year of the programme. £44.09m, 58% of the total savings target has been achieved to date. The sum achieved includes projects that have already achieved their total savings targets and those that have achieved part of their target.

4.19 Despite the good progress made, there remains significant challenges ahead and the projects to be delivered in the next two years are some of the most challenging. It is important that these challenges are managed and projects deliver their savings, as full delivery of the programme is crucial to the successful balancing of the budget in 2018/19 and staying within budget this year.

4.20 Adult social care is due to deliver significant savings in the next two years. The external environment in which the directorate operates continues to be challenging, with changing legislation, demographic and demand pressures and increases in the cost of care. This is reflected in the financial strategy, where the majority of high-risk projects are in adult social care services. The various pressures in social care are recognised nationally, and the government allocated additional Improved Better Care Fund funding to councils in the March Budget. This funding is in addition to the social care precept on council tax the council is collecting. This however does not remove the need for budget reductions and transformational change in the services.

4.21 In December 2016, following an extensive review of pressures and savings delivery in social care, Cabinet took a decision to refocus the 2015/16 – 2017/18 adult social care savings programme and defer £2.69m to 2018/19. It was identified that further delivery of savings would require significant service transformation and cultural change. Although work has been undertaken to frame the development of an approach to transformation, further work is required to develop firm proposals and activities that will deliver all the requisite savings. A further progress report will be brought to Cabinet in October or December 2017.

4.22 One of the main projects that are due to deliver budget reductions in the next two years is income from digital advertising, which faces challenges as the council is working to ensure that digital advertising screens have no adverse impact on amenity and public safety and there are potential market fluctuations in advertising revenues which may also be impacted by Brexit.

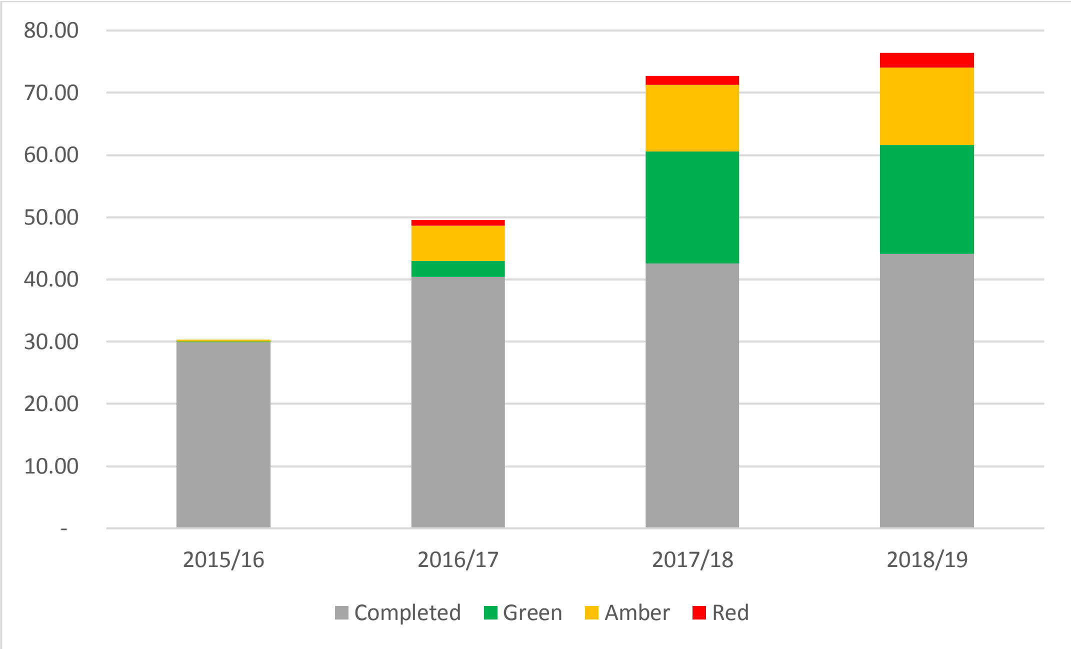
4.23 The generation of income from arts and events had its target reduced from to £792k to £690k in February 2016 in recognition of the policy decision to continue to not charge for community events and festivals, and challenges around the hire of public spaces. There remains a residual pressure of £400k for this project to be addressed in 2017/18 that will need to be considered in the light of future changes to the way that arts, tourism and libraries are managed within the authority. There are potential impacts that may result from future changes to buildings and sites in which events are held in Camden that could further affect income targets. Work is currently being undertaken to identify ways to achieve this remaining pressure, and an update on the progress of this will be reported in the next MTFS report in December 2017.

4.24 The implementation of new HR and Finance system is due to deliver savings of £1.1m in 2018/19 and is currently scheduled for implementation in April 2018. While introducing a new integrated system will have profound benefits such as real-time information for decision makers and reduced duplication of records, it is obviously vital that business continuity is maintained throughout the changeover period and as such there may be transitionary costs during the implementation period that delay the delivery of the full savings.

4.25 As set out above, the council is well placed to set a balanced budget in 2018/19 if these projects are fully delivered on time. If there are further delays or underachievement in these projects, further savings will need to be found.

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

Chart 2 – Delivery progress of the financial strategy – agreed savings per year and risk rating (£m)



4.27 In January, the Cabinet approved a medium term savings and income generation strategy for the Housing Revenue Account for 2017/18 to 2019/20 to meet the anticipated budget pressures for the next three years and bring the HRA in line with the General Fund financial strategy. This was mainly in response to the revenue pressures largely driven by the government mandated 1% reduction in rents for each year from 2016/17 to 2019/20 contained in the Welfare and Work Reform Act (2016), combined with ongoing cost pressures such as inflation on salaries, supplies and services budgets and particularly on repair costs.

4.28 The savings programme in the HRA is a mixture of a reduction in expenditure as a result of projects to improve efficiency, and an increase in income from service charges and from non-dwelling assets. The projects are in their initial stage of implementation and are on track to deliver the planned budget reductions. More information on delivery of HRA savings can be found in the online document Financial Strategy Update: July 2017. It is too early to say what, if any impact the costs associated with the emergency on the Chalcots estate will have in the immediate or longer-term. Further information on this is set out in section 5.

Fees and Charges

4.29 In December 2011, a comprehensive fees and charges policy was approved by Cabinet. Its core principle was to ensure a transparent fee setting process in which costs are recovered where possible and the reasons for any discounts or concessions are made clear.

4.30 Fees and charges are proposed by officers and approved by Cabinet and, where required, by Council, on an annual basis. Fees requiring approval by Council are presented in full in the budget setting report in February. Reporting to Cabinet is on an exception basis, with new fees or those fees or charges with proposed increases above the 2017/18 threshold of 5%.

4.31 As a result of a review of fees and charges, this report proposes increases to fees and charges in Sports and Registrars, detailed in the Appendix E.

Schools Financial Challenge and National Funding Formula

4.32 Stage 2 of the national fairer funding consultation was published in December 2016 along with the publication of the government's response to the phase 1 consultation. The consultation suggested that in the schools block, the maximum cash reduction per pupil will be 3%. It is unclear if and how the new government will deliver on its manifesto commitment that no school will have its budget cut as a result of the new formula.

4.33 In either case, schools will continue to face large-scale spending power pressures. Officers' calculations indicate that since per pupil funding was frozen from 2010/2011, schools have suffered real terms spending pressures from rising inflation of 16%, equivalent to £18m based on the current level of schools DSG income (measured on the Consumer Price Index of inflation, the government's preferred measure). Based on the Office for Budget Responsibility's inflation forecasts, this will rise to 21% or £24m by 2020. The new government reconfirmed their intention to allow selective schools and encourage free schools in their manifesto and the impact of this on Camden remains unclear.

4.34 There are important developments in the early years' block impacting on Camden's current and future early education arrangements, which are significantly above the statutory minimum. Implementing the new funding formula and new entitlements for working parents whilst maintaining Camden's current locally enhanced offer in any form would result in a significant pressure on the council's General Fund budgets. A new plan for the provision of childcare was approved by Cabinet in April which will continue to ensure Camden provides an enhanced local offer focussing on the most disadvantaged children. This will require an ongoing contribution from the council's General Fund of £2.7m in 2018/19 and £1.7m thereafter, and this will require funding as part of the next financial strategy (and is included in the projected deficit outlined in 4.16). The increase in funding will help deliver a socially mixed provision and work to continue improvement in closing the attainment gap between disadvantaged children and their peers in readiness for school.

4.35 While the government has announced funding for high needs has been frozen, pressures in SEN will result from increasing demand and rising costs and from our extended responsibility for young adults up to age 25.

2016/17 Revenue Outturn and Allocation of Surplus

4.36 In 2016/17, the final revenue outturn after recommended transfers to reserves is an underspend of £(0.307)m, which is 0.14% of the final budget. The final underspend prior to transfers to reserves (as set out in Table 2) is £(2.008)m – 0.90% of the final budget.

4.37 Whilst the final outturn position of £(0.307)m seems favourable, there were a number of year end drawdowns from reserves that were required towards the end of the year to absorb overspends in certain areas. This was a result of various pressures – both structural and one-off. Given that our reserves are limited and can only be used once, budgetary pressures will have to be addressed to ensure a sustainable position for the financial year 2017/18 and future years. Officers are undertaking a more detailed risk assessment to inform mitigations.

Table 2 – 2016/17 Final General Fund Revenue Outturn

	Full Year Budget £m	Outturn Pre-Reserves £m	Variance to Budget Pre-Reserves £m	Agreed Year End Transfers to Reserves & Allocation £m	Variance to Budget Post-Reserves £m
Directorates:					
Supporting People	189.203	190.324	1.121	0.842	1.963
Supporting Communities	51.372	52.633	1.262	0.717	1.979
Corporate Services	(9.084)	(12.030)	(2.946)	0.142	(2.804)
Public Health	26.085	25.593	(0.492)	-	(0.492)
Cross-Cutting Budgets:					
Financing and Interest	1.754	2.020	0.266	-	0.266
Government Grants	(44.775)	(45.020)	(0.245)	-	(0.245)
Pensions	16.329	15.823	(0.506)	-	(0.506)
HRA share of corporate support costs	0.267	-	(0.267)	-	(0.267)
Other Items	(7.147)	(7.348)	(0.201)	-	(0.201)
	224.004	**221.996**	**(2.008)**	**1.701**	**(0.307)**

4.38 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. The main contributor to the overall underspend is Corporate Services (Customer Services), offset by overspends in Supporting People (mainly in Adult Social Care and Children's Safeguarding and Social Work) and Supporting Communities. More detailed analysis of the outturn position can be found in the online report 2016/17 Outturn Report: July 2017.

4.39 The year-end outturn means that there are surplus resources of £(0.307)m to be allocated. It is proposed that the underspend is allocated to the Cost of

Change reserve, to support the high level of change taking place at the council in the near future.

Earmarked Reserves

4.40 The council holds one-off balances in earmarked reserves to finance known future costs and to manage corporate risks. The opening 2016/17 earmarked reserves balance was £96.1m. A net movement out of earmarked reserves of £(23.2)m took place during 2016/17, largely as planned. With the proposed reserve transfers (as set out in table 3), there will be revised earmarked reserves of £75.8m as at 31st March 2017. Earmarked reserves will continue to decrease in future years as projects are delivered.

4.41 The most significant movements between reserves for 2016/17 related to reserve drawdowns to fund planned project expenditure, drawdowns from reserves to Supporting People directorate to support various spending pressures in adult social care and drawdown from Dedicated Schools Grant reserve to mitigate spending pressures in schools. Further detail regarding reserves is provided in appendix D.

Table 3 - Summary of 2016/17 Changes to Earmarked Reserves

Earmarked Reserves	Actual Reserves 31/03/16	Movement Out of Reserves	Transfer Into Reserves	2016/17 Outturn Adjustments	Reserves 31/03/17
	£m	£m	£m	£m	£m
To Support Key Revenue Outcomes	32.065	(14.467)	0.588	1.431	19.617
To Support the Council's Remodelling Programmes	13.585	(8.168)	2.010	0.307	7.734
Ongoing Capital Activity and Asset Management	28.528	(12.762)	16.512	0.270	32.548
Mitigation of Future Corporate Risk	21.891	(13.165)	6.280	0.863*	15.869
Charitable Activity	0.034	(0.034)	-	-	-
Total Earmarked Reserves	**96.103**	**(48.596)**	**25.390**	**2.871**	**75.768**

** Business rates levy underspend resulting from lower collection at year end. This will be allocated to the Business Rates Safety Net Reserve. As this is not part of council funding it is not in Table 2*

Other Specific and General Reserve Balances

4.42 The council also holds one-off money for the specific purposes detailed below. These totalled £69.2m at the start of 2016/17 and decreased by £(1.1)m during 2016/17, leaving a closing balance of £68.1m. Table 4 summarises the movement. It is not proposed to change the council's main General Balances.

Table 4 – Summary of Movements to Other Reserves and General Balances

Earmarked Reserves	Actual Reserves 31/03/16 £m	Reserves Adjustment £m	Reserves 31/03/17 £m
General Balances	13.624	0.000	13.624
Housing Revenue Account	39.166	-0.779	38.387
Schools Balances	16.370	-0.316	16.054
Total General Reserves	**69.160**	**-1.095**	**68.065**

Capital Outturn 2016/17

4.43 The council's capital programme outturn position for 2016/17 is expenditure of £176.1m, against a budget of £223.6m. This is a £(47.5)m underspend against the 2016/17 budget, as set out in Table 5 below, and in the main represents slippage of expenditure to future years rather than reduced costs overall.

Table 5 - 2016/17 Capital Outturn

Directorate/ Service	Budget £m	Outturn £m	Variance to Budget £m
Corporate services - ICT	**4.823**	**3.045**	**(1.778)**
Supporting communities			
Property Management	74.055	60.352	(13.703)
Community Services	3.899	1.887	(2.012)
Development	109.300	84.751	(24.549)
Place Management	20.951	19.972	(0.979)
Regeneration and Planning	10.577	6.119	(4.458)
Sub-total	**218.782**	**173.081**	**(45.701)**
Total	**223.605**	**176.126**	**(47.479)**

4.44 To finance the capital programme the council has a significant receipts target. £(61)m of receipts were received in 2016/17, which represents an under-achievement of £31m. This underachievement has correlation with the slippage on CIP expenditure, since some projects were not completed as anticipated in order to sell. More detailed analysis of the outturn position can be found in 2016/17 Outturn Report: July 2017.

4.45 The slippage seen in 2016/17 reflects both the complexity inherent in the type of regeneration projects the council is undertaking, and the particularly challenging environment in the construction industry, which inevitably leads to risks which must be managed. Officers are reviewing the capital monitoring process to make enhancements for 2017/18 and assist in improving the quality of budget forecasting. As part of the review of the capital programme in April and May 2017, officers worked to ensure that capital budgets are re-profiled to reflect revised delivery expectations. Further detail on risks in the capital programme and how these are managed is set out in section 5.

Review of the Capital Programme 2017/18

4.46 The Capital Review is an important process as it re-profiles future project expenditure plans in light of the 2016/17 outturn and schemes' progress, reviews cost estimates on major projects in the context of the latest economic projections, and adds new projects to deliver Camden Plan outcomes where resources are available.

4.47 The council's capital programme has plans to spend over £1,481m 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 programmes such as the Homes for Older People Strategy and the Community Investment Programme (CIP) regeneration programme.

4.48 This revised budget represents an increase of £9.377m from the previously agreed value of the capital programme. The main budget increases are with respect to:

- The West End Project (Tottenham Court Road two-way traffic) to include 3rd part contributions totalling around £12m.
- Increases in the Better Homes and other housing works such as Fire and Risk Assessments totalling around £24m to be funded from the major repairs reserve and leaseholder contributions.
- A range of increases in specific CIP projects such as extra costs of £4.8m for the second phase of Bacton Low Rise to enable an increased volume of private sale housing to increase the project surplus, and more minor changes in other schemes including further remedial works at Chester Balmore, increased costs at Holly Lodge phase 2b and Agar phases 1a and 1b associated with delays on site, and also non-contractual increases in client-side costs at Holmes Road hostel.

4.49 This has been partly offset by reductions in CIP/Development budgets in latter years caused by:

- The removal of £31.9m of budget for the Tybalds scheme to allow for re-evaluation and redesign of the proposals to achieve affordable and viable scheme.
- A reduction in long-term inflation assumptions for schemes which are not yet in contract (with a corresponding and more prudent assumption regarding expected receipts).

Table 6 – Capital Programme Changes since Last Approved Budget

Summary of Revised Budget	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22 to 26/27	Total
	£000	£000	£000	£000	£000	£000	£000
Total Revised Budget	176,128	203,722	252,538	240,552	179,112	428,677	1,480,729
Last Approved Budget	223,605	269,113	264,222	220,181	143,587	350,644	1,471,352
CHANGE in £000	(47,477)	(65,391)	(11,684)	20,371	35,525	78,033	9,377
Change in %	**(21)%**	**(24)%**	**(4)%**	**9%**	**25%**	**22%**	**1%**

4.50 Due to the capital expenditure slippage in 2016/17 against budget, revised expenditure budgets have been profiled to account for this slippage and to align with latest plans of works, which resulted in moving some costs and uncommitted budgets further into future years.

Table 7 – Revised Capital Programme 2016/17-2025/26

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22 to 26/27	Total
	£000	£000	£000	£000	£000	£000	£000
Community Services	1,887	3,641	5,681	2,607	1,777	1,714	**17,307**
Development - CIP & Major Projects	84,986	109,777	146,379	119,180	84,331	183,549	**728,202**
ICT	3,045	4,000	1,630	1,100	0	0	**9,775**
Place Management	19,971	9,379	8,056	7,900	255	6,904	**52,465**
Property Management	60,120	68,439	81,345	98,965	86,749	234,807	**630,425**
Regen & Planning	6,119	8,486	9,447	10,800	6,000	1,703	**42,555**
Total Capital Expenditure	176,128	203,722	252,538	240,552	179,112	428,677	**1,480,729**

4.51 The capital review has confirmed allocations totalling £20.9m of the £22.2m available in the schools backlog maintenance budget to a range of schools and childrens centre projects. This funding demonstrates our continuing commitment to ensuring young people in the borough receive the best start in life in a quality learning environment. The committed works include a range of activities such as repairs to walls, water hygiene, electrical services, roof repairs, and sustainability enhancements including heating improvements and window replacement. Parliament Hill/William Ellis is to receive £7m of the available balance for the CIP project that will deliver a comprehensive range of new buildings and facilities onsite, taking the total budget for that scheme to £36.2m. Of the remaining schools balance it is proposed that a further £1m be allocated for condition works in the William Ellis school.

4.52 Further details on the main proposed changes to the programme are set out in appendix A.

Capital Receipts and Disposal Programme

4.53 The revised programme remains predicated on challenging CIP receipts targets, with capital receipts funding 55% of the total anticipated capital spend from 2017/18 to 2026/27.

4.54 For the ten years from 2016/17 to 2026/27, capital receipts are forecast to be £1,005m - £6.782m below the previously approved targets of £1,012m. This is the impact of a number of changes including:

- Lower inflation rates used reducing receipts expectation in longer-term and uncontracted projects and phases.
- Removal of receipts for Tybalds pending a business case review.
- Removal of income for Central Somerstown phase 2 pending a business case review of that phase of the project.
- Increases in receipts expected from Bacton Low Rise phase 2 in the expectation that project will deliver further homes for sale than originally expected.

Table 8 – Projected Capital Receipt Changes since Last Approved Budget

Capital Receipts	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22 to 26/27	Total
	£000	£000	£000	£000	£000	£000	£000
Revised Targets	61,603	185,438	116,061	117,338	94,489	430,120	1,005,048
Last Approved Targets	92,327	225,132	130,605	132,142	126,908	304,716	1,011,829
Change:	(30,724)	(39,695)	(14,544)	(14,804)	(32,419)	125,404	(6,782)

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

Impact of the Council's Medium Term Financial Strategy

5.1 The council continues the challenging process of reducing its budget while achieving transformational service change. The organisation will need to deliver further budget reductions estimated as in excess of £23m in the next two years. This includes a number transformative projects which are yet to be delivered. 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.

Chalcots Estate Evacuation

5.2 Following the tragic events at Grenfell Tower, the council undertook precautionary investigations at its Chalcots Estate, during which it was discovered that the cladding contained combustible elements and was therefore unsafe. Further investigations on site revealed a range of other fire safety issues, and on 23rd June the London Fire Brigade issued advice that it was not safe for residents to stay overnight. Although the council sought to respond pragmatically to quickly deal with the most serious issues raised, the Fire Brigade were unequivocal in their recommendation that the council begin immediate decant of all flats.

5.3 The resulting evacuation beginning the same day was unprecedented in scale, affecting 3,000 residents from 641 flats. The clear priority from the council from the outset has been firstly to ensure resident safety, and secondly to accommodate affected residents suitably as quickly as possible while remedial works are undertaken.

5.4 Clearly the costs of an operation of this scale are varied and considerable, and in many areas not yet quantifiable. The council quickly determined that it was right to assure residents that not only would their temporary accommodation be paid for (in the first instance hotels but latterly increasingly more appropriate living areas like flats built through CIP). Residents have also received a one-off and ongoing subsistence allowance, and assurances that they will not need to pay for rent, Council Tax and service charges for the period their properties will be unavailable. In addition, the capital costs of carrying out the remedial works to the blocks affected are likely to costs many millions of pounds.

5.5 Due to the nature of the issues, it is likely that much of the costs incurred will inherently fall on the HRA. However, there will also be material implications for the General Fund, such as the loss in Council Tax. Due the successful financial management of the council through the recent period of unprecedented austerity, the council has the reserves in place to manage this large spike in short-term costs without any requirement to slash service provision or increase rents. However, clearly incurring costs of this scale are not without consequence, and the council is investigating all available routes to try and assuage the impact – including legal liability issues and speaking to the government to explore opportunities for financial aid. As such a small portion of our overall capital programme is funded by government grant – approximately 2% - we feel its right that the government steps in to help ameliorate the financial impact.

5.6 Nevertheless, it its important to consider the consequences should some or all of our expenses not be reimbursed. In this event the council will need to take a view on how it can make good any deficit in the capital programme caused by the remedial works, for example by re-prioritising the repairs programme. There may also be impacts on the affordability of non-contracted CIP schemes. In terms of revenue spend, the council will need to consider what is an appropriate reserves balance to manage risk on an ongoing basis, and if the current spend means these balances are depleted, devise a plan to build these back up over time. This may mean increased savings requirements in the future.

Government Funding Reductions and Impact of the General Election and the Referendum on the European Union

5.7 As set out in sections 4.2 – 4.8, the council continues to face a challenging financial outlook with significant uncertainty around the health of the UK's economy and the impact that this could have on the government's future plans for public finances, including the funding of local public services.

5.8 It remains unclear how the result of the General Election will impact on the council's funding in the longer-term or on the multi-year financial settlement which, under the previous government, secured the bulk of government grants up to 2019/20.

5.9 There remains huge uncertainty regarding the reaction of the economy to the eventual terms of any Brexit deal. Clearly, should there be a significant economic downturn, this will further impact on public finances and the government may seek to revisit existing funding commitments. As previously set out, the weakening of sterling is helping to drive inflation, with corresponding increases in both revenue and capital costs. This could have particular impacts in some sectors, with ICT for example seeing especially significant increases in costs in recent months. Since the Brexit announcement almost all major IT vendors increased their prices by between 10-20%. Notable increases include Dell (increased pricing by 15%) and Microsoft (increased pricing by 13%).

Business Rates

5.10 The existing business rates retention scheme continues to be a large source of uncertainty for the council. This is largely due to the impact of appeals. Camden, like other councils, has found it extremely difficult to forecast the number of appeals and their impact. This is due to a large volume of appeals and the length of time it takes the VOA to process them.

5.11 Looking ahead, in addition to existing appeals, there are two further sources of risk in the business rate system – the revaluation implemented in April and the lack of clarity around the previously announced new business rate system which would see 100% retention of rates by councils nationally.

5.12 The recent 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 (VOA).

5.13 The previous government announced that it plans to allow local government to retain 100% of business rates by 2020. These proposals would mean that local authorities collect an increasing proportion of their funding from local taxation. A system of redistribution of resources between councils would continue, meaning that Camden would not retain all the rates generated in the borough.

5.14 However, the Queen's speech that followed the General Election and that outlined the legislative program for the government did not include the Local Government Finance Bill which would provide the legislative framework for the introduction of 100% Business Rates Retention. It is not known whether the government will look to reintroduce aspects of the 100% business rate retention system through a different route.

5.15 The plans to implement 100% Business Rates Retention by 2020 were accompanied by planned update of the relative needs formulae (determining how resources are initially distributed between councils), phasing out of the

Revenue Support Grant, and a transfer of new responsibilities to local authorities. It is not known if these changes will be introduced.

Collection Fund

5.16 The final business rates outturn position for 2016/17 was worse than expected, resulting in a deficit carried forward to 2017/18. There is a possibility that the deficit will be balanced off by higher than expected receipts in 2017/18, but it is difficult to forecast at this stage. If the receipts in this financial year are not sufficient to cover the deficit, this will have to be addressed in the budget setting for 2018/19.

5.17 The council tax base contains a number of assumptions regarding new developments and discounts and whilst collection rate is holding steady at the end of May, the collection fund outturn target will be a challenging one.

Risks within the Capital Strategy

5.18 The council's current capital programme stands at £1.48bn. Only 2% of the expenditure is set to be funded from government grant, with the programme heavily reliant on the generation of future receipts. These factors mean 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. The risks are particularly prevalent in the CIP programme, which is delivering an ambitious scale of social and intermediate housing and community assets, funded largely from the construction and sale of private units.

<u>Construction industry & housing in London</u>

5.19 The state of the London construction market is a function of a complex mix of factors. The outlook for the construction sector in the wake of Brexit continues to be uncertain, with reports offering an often ambiguous or contradictory mix of views. While some commentators suggest the weakened pound could see increased activity from foreign investors, it will similarly increase import costs with the possible effect of escalating contract prices.

5.20 Challenges in the market meant that the Tybalds scheme has become unviable in its current form, with the final bid received far in excess of budget and what could be considered value for money. Officers are beginning to work on a revised and affordable business case that will look to make use of as much of the work undertaken to date as possible. At Central Somerstown bids were received over expected tender prices, partly due to delays caused by the Judicial Review, while land disposal values decreased due to uncertainty caused by Brexit. This has meant that while the council has been able to commit to phase 1 (including the new school), there is insufficient residual budget at present to commit to phase 2. Similarly, while the council has committed to phase 1 of the large Abbey Road regeneration, the latest viability assessment for phase 2/3 budgets suggests that costs will exceed current budgets. For these project phases work will continue to attempt to resolve these issues and progress with the schemes.

Project delays

5.21 The council is seeing lower resourcing of some schemes that are on site, and significant delays in a number of projects. This is particularly true for schemes that were procured prior to the construction industry boom seen in recent years. Contractors face difficulty in retaining subcontractors at agreed prices that are relatively lower than prices subcontractors could get elsewhere on other contracts. Where appropriate the council will invoke financial penalties on the contractor for these delays (LADs).

5.22 Delays have meant that several schemes, including Maiden Lane, Bourne, and Holmes Road hostel are all to complete significantly later than originally intended. While delays can sometimes actually prove financially beneficial in schemes funded by receipts in a market in which house prices are rising, we are currently entering a more turbulent market in which generating expected receipts may prove more difficult, while project delays also cause corresponding cost increases such as financing (borrowing) and client-side fees such as surveyors and marketing.

Reliance on receipts

5.23 The capital programme is increasingly funded from capital receipts as demonstrated by the table below. The council's ability to fund the capital programme will in turn become increasingly reliant on the timely delivery of receipts and house prices maintaining targeted levels.

	2017/18	2018/19	2019/20	2020/21
Percentage of capital expenditure funded from capital receipts	51.31%	56.90%	57.49%	58.78%

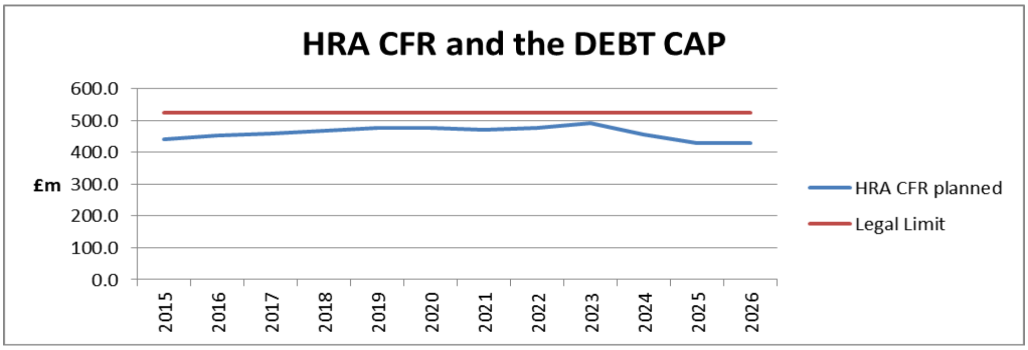
5.24 There is the potential that economic uncertainty may come to bear on demand in central London markets at the same as a significant number of pipeline schemes (including CIP) increase supply, with the potential effect of depressing sales volumes and prices. Further work will take place in the coming period to assess potential developments in the local housing markets, and the council's exposure to house price risk.

5.25 Where the viability of approved schemes is directly threatened by falling sales prices, mitigation options will be explored. This could include difficult decisions for the council, for example reviewing the tenure mix of developments or the level of community assets provided by a scheme.

HRA debt cap

5.26 The maximum amount the HRA can borrow is restricted by the government set HRA borrowing cap. It is only through stringent monitoring of both expenditure and use of resources that enables us to manage the risks of breaching our legal debt cap limit. Based on the revised programme there will be around £60m-£45m of HRA borrowing headroom over the next 5 years before a pinch point of £32m in 2022/23. It is crucial that we retain some flexibility within the programme, both in expenditure and resources planning and that we continue to consider the phasing of projects and/or alternative delivery models to mitigate some of the inherent risks of a capital programme of this size and ambition. This level of headroom is considered prudent and manageable given the risks highlighted above, but leaves the council little scope to consider expanding the programme through borrowing in the immediate future.

Chart 3 – Projected HRA Debt Cap Capacity



5.27 If the programme were to deliver according to the revised plans, there would be a balance of income generated in future years that could be utilised, for example to pay down debt, increase the volume of social housing on schemes in development, or to fund new schemes. However, it should be emphasised that this is dependent on the delivery of the challenging receipts targets set out in appendix C, which includes expected receipts of £185m in 2017/18 alone, and failure to deliver the bulk of these targets on time will apply further pressure on the debt cap.

<u>Risk mitigations</u>

5.28 The council has a number of mechanisms and processes to respond to this range of risks:

- Prudent receipts estimation: for all schemes delivering in the next two years, prudent assumptions have been made for sales receipt values.
- Alternative Delivery Vehicles: the council has been investigating whether there may be potential benefits to seeking a development partner to help achieve its ambitions while sharing risk. While our preferred option is to seek avenues to enable to expand our current in-house model, if these fail we would consider setting up a wholly-owned company at a future date, which could enable us to access potential benefits such as sharing risk and greater access to external expertise.
- Gateway Review Panel: the council operates a robust project review process in which key officers review projects at critical decision points and provide a further level of scrutiny and challenge.
- Uncommitted schemes: Approximately 49% of CIP schemes are uncommitted (pre-contract), of which 16% are in PCSA. Where schemes are not yet contractually committed, there is more flexibility to review the scope, contents and delivery profile to achieve appropriate levels of affordability and mitigate risks.

Impact of the ‘Higher Value Voids’ Levy

5.29 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. There remains a lack of information from the government regarding the scale and timing of the levy. This levy payment will not be required in 2017/18.

Risks in Adult Social Care

5.30 London Councils analysis suggests there will be a cumulative funding shortfall in adult social care across London of at least £800 million by the end of this Parliament as councils deal with inflation, new burdens and the growing number of people qualifying for state-funded care. This pressure for Camden will be partially mitigated through extra funding raised from adult social care precept, which was agreed for 2017/18 and is also expected to be raised next year.

5.31 Adult Social Care and the NHS are interdependent systems and pressures in the whole system are manifesting in both social care and health. In particular there are emergent risks arising from Transforming Care programme which is the planned closure of long stay NHS establishments supporting people with complex needs and transferring patients to community based settings. This is a potential transfer of significant and ongoing costs from the NHS to adult social care. The increasing financial pressures in the NHS, which are being addressed locally through the North Central London Sustainability and Transformation Plan, has the potential to cause further pressure on community based ASC services. Although the Government has partially recognised the financial pressures facing social care by announcing additional resources for social care via the improved Better Care Fund, there is also an expectation that improvements are made to services which prevent hospital admissions and prevent delays in hospital discharges which has the potential to increase social care costs.

5.32 The service is also facing longer-term employment cost pressures in the external care market arising from legislative changes which increase employment costs (NI and pension enhancements) as well as employment tribunal judgements which will increase the costs of commissioned services which rely on “sleep in” staff. The annual increase in employee costs from the increases in London Living Wage, which is to increase by 3.7% in 2017/18 alone, will also cause pressure on care costs. As set out in 4.20 – 4.21, the ability of the council to balance the budget next year is partly predicated on the agreement and implementation of £2.39m of transformational ASC savings next year.

Homelessness Reduction Act

5.33 The new Homeless Reduction Act will place additional responsibilities on the council in relation to the volume and scope of work associated with homeless approaches and the need to provide emergency accommodation.

5.34 It was announced that the Government will provide £61m to local government to meet the new burdens costs associated with the Bill. However, this funding will only be given for two years.

5.35 Although it is not yet known what Camden's allocation will be, there is a risk that such support may be insufficient to cover the potential increased financial costs, initially estimated to be around £1m-£2m per year. We are waiting detailed legislation and a start date for the new responsibilities.

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 our 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:

- Wider Economic Environment & Medium-term Financial Forecasts: July 2017
- 2016/17 Outturn Report: July 2017
- Capital Projections 2016/17 to 2026/27: July 2017
- Financial Strategy Update: July 2017

11.2 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
E. Fees and Charges

REPORT ENDS

APPENDIX A – FURTHER DETAIL ON THE CAPITAL PROGRAMME

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

Division	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22 to 26/27	Total
	£000	£000	£000	£000	£000	£000	£000
Community Services	1,887	3,641	5,681	2,607	1,777	1,714	**17,307**
Development - CIP & Major Projects	84,986	109,777	146,379	119,180	84,331	183,549	**728,202**
ICT	3,045	4,000	1,630	1,100	0	0	**9,775**
Place Management	19,971	9,379	8,056	7,900	255	6,904	**52,465**
Property Management	60,120	68,439	81,345	98,965	86,749	234,807	**630,425**
Regen & Planning	6,119	8,486	9,447	10,800	6,000	1,703	**42,555**
Total Capital Expenditure	176,128	203,722	252,538	240,552	179,112	428,677	**1,480,729**

A2. The table below sets out the changes to the expenditure 2016/17 onwards and the associated funding.

Expenditure category	Total Exp. £000	Changes £000	Reasons
ICT Investment	9,775	(293)	De-capitalisation of costs.
Community Investment Programme (CIP)	170,848	24,110	Transfer of Charlie Ratchford and from schools block budgets to Parliament Hill; increase in Holmes Rd. Depot funded by corporate reserves
Estate Regeneration	510,752	(36,844)	Removal of Tybalds, reductions in inflationary assumptions in later years
HRA Hostels	1,417	600	Holmes Rd. hostel increased costs
Accommodation Strategy	45,185	0	No change
Better Homes	551,695	25,754	Increase in future years funded from major repairs reserve and leaseholder contributions
Education Property Maint & Improvement	20,392	(960)	Virements within approved budget limits
Corporate Props Maint & Improvement	20,954	(664)	Virements within approved budget limits to other areas of the programme
Other HRA capital expenditure	941	0	No change
Homes for Older People	173	(14,204)	Transfer of Charlie Ratchford project to CIP
Schools projects	25,829	(7,483)	Virement from block provisions to Parliament Hill & other individual projects
Other General Fund capital schemes	10,441	353	Increase in Better Care grant
Cemeteries	2,956	0	No change
Green Spaces	5,441	782	S106 contributions
Sports Centres	3,574	895	Sports grants
Euston Road CHP (Combined Heat and Power)	2,663	1,051	Energy grant
Sustainability	2,464	(54)	Interdepartmental virement to individual project
Libraries Open Plus	209	0	No change
West End Project	33,488	13,950	TfL grant and third party contributions
TfL Funded Schemes	8,367	1,405	TfL grant
Parking	700	85	Increase in departmental contribution
Planned Highways Maintenance	30,447	374	TfL grant re Kilburn High Rd.
Environment Service	19,167	0	No change
Developer Contribution funded schemes	2,851	520	S106 contributions towards local improvements
Total	**1,480,729**	**9,377**	

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

Expenditure category	Total Exp. £0	Changes £0	Reasons
CIP - HRA			
Abbey Road regeneration	117,667	0	
Agar	206,286	(12,975)	Reduction in inflationary assumptions in later phases offsetting some increased costs in phases 1a and 1b
Bacton Low Rise	117,117	4,739	Increase in costs & additional units for phase 2, to be offset by increased receipts
Bourne Estate	25,623	0	
Chester Balmore	18,600	932	Increase in costs
Gospel Oak Infill	48,551	0	
Holly Lodge	18,152	569	Increase in costs
Holmes Road hostel	13,810	600	Increase in costs
Maiden Lane	72,801	1,805	Increase in costs (offset by increased receipts)
Regents Park (HS2)	51,770	0	
Tybalds	5,506	(31,914)	Project on hold pending viable case (receipts also removed)
Estate Regeneration - other	9,912	0	
CIP - GF			
Camden/Plender St.	15,200	0	
Greenwood	21,705	0	
Surma	7,920	0	
Highgate redevelopment (CIP)	22,632	(1,045)	Inflationary reduction in future years, with corresponding reduction in receipts expectations
Parliament Hill Secondary School	36,197	7,060	Increased costs funded from schools block. A further £1m is proposed for William Ellis condition works to take total budget to be spent through project to £37.2m.
Edith Neville / CST	35,600	0	Overall budget static but following agreement of phase 1 the remaining budget is currently insufficient to deliver phase 2
Liddell Rd (Kingsgate School)	25,806	0	
Netley	35,178	0	
Holmes Rd. Depot reconfiguration	10,218	3,718	Increase in costs at detail design
Charlie Ratchford	14,865	14,377	Transfer of Project to CIP - no change in overall budget
Property - Other	2,250	0	
	933,366	**(12,134)**	

APPENDIX B – FURTHER DETAIL ON CAPITAL FUNDING

Table 1 – Total Capital Funding

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 - 2025/26 £000	Total £000
Government Grants	6,714	5,480	2,971	2,266	0	0	17,431
GLA/TfL grants	6,358	7,327	5,715	0	0	0	19,400
S106 contributions	6,929	8,184	5,430	9,863	5,000	505	35,911
Community Infrastructure Levy	3,268	5,725	6,000	6,000	1,555	0	22,548
Other Grants and Contributions	737	1,977	1,473	1,000	0	0	5,187
Prudential borrowing	19,353	14,697	33,891	40,767	22,838	28,382	159,928
Councils Reserves	83,777	55,812	53,357	42,369	44,439	175,531	455,285
Capital receipts	48,992	104,520	143,701	138,287	105,280	224,259	765,039
Total	**176,128**	**203,722**	**252,538**	**240,552**	**179,112**	**428,677**	**1,480,729**

*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	18,189	(2,127)	Loss of some Housing grant partially offset by new energy grant
GLA/TfL grants	18,642	12,843	Future years allocation approved mainly for West End Project and Highways/Corridors etc
S106 contributions	35,911	(2,924)	Net reduction in S106 due to removal of Tybalds - no longer eligible for Affordable Housing fund until viable business case and eligible costs
Community Infrastructure Levy	22,548	0	No change
GF revenue contribution	45,617	2,433	Additional contributions to fund Holmes Road Depot refurbishment
HRA (MRR, RCCO, Leaseholders' capital)	409,591	25,857	Increase in Major Repairs Reserve (MRR)
Capital Receipts	765,039	(30,710)	Reduction in use of HRA capital receipts mainly due to removal of Tybalds and inflationary cost assumptions for latter phases of Abbey/Agar
Prudential Borrowing - HRA	100,776	0	No change
Prudential Borrowing - GF	59,152	504	Additional borrowing to fund Schools IT equipment
Other	5,187	3,501	New non-government grants and contributions from third parties mainly in respect of West End Project and sports developments
Total	**1,480,652**	**9,377**	

APPENDIX C – FURTHER DETAIL ON CAPITAL RECEIPTS

Capital Receipts	2016/17 Actual £000	2017/18 Target £000	2018/19 Target £000	2019/20 Target £000	2020/21 Target £000	2021/22 Target £000	2022/23 onwards Target £000	TOTAL Target £000
General Fund								
GF Disposals Programme	800	3,430	0	0	0	11,000	0	**15,230**
Homes for Older People	10,825	9,760	0	18,300	0	0	0	**38,885**
Greenwood redevelopment	0	0	0	14,700	0	0	3,432	**18,132**
Netley redevelopment	0	0	0	0	0	0	0	**0**
Surma redevelopment	0	0	0	0	0	0	8,900	**8,900**
Edith Neville School/ Somers Town redevelopment	0	0	0	9,915	1,340	0	10,603	**21,858**
Kingsgate expansion (Liddell Rd.)	0	0	26,800	0	0	0	0	**26,800**
Highgate New Town	0	0	0	0	0	23,286	0	**23,286**
Kings Cross Accomm.Strategy - disposals	0	22,500	2,000	0	14,039	0	0	**38,539**
General Fund sub-total	**11,625**	**35,690**	**28,800**	**42,915**	**15,379**	**34,286**	**22,935**	**191,630**
Housing Revenue Account								
HRA Small Sites	679	4,768	3,400	519	0	0	0	**9,366**
Right to Buy (Camden's share)	4,754	3,566	1,922	1,922	1,922	1,922	0	**16,008**
Right to Buy (retained receipts)	15,285	8,008	4,504	2,252	1,810	1,372	0	**33,230**
Estate Regen. - Holly Lodge	2,128	10,170	0	0	0	0	0	**12,298**
Estate Regen. - Chester/ Balmore	0	680	0	0	0	0	0	**680**
Estate Regen. - Maiden Lane	0	62,409	28,593	0	0	0	0	**91,002**
Estate Regen. - Bacton Low Rise	0	10,000	0	4,020	40,772	53,077	21,525	**129,394**
Estate Regen. - Tybalds	0	0	0	0	0	0	0	**0**
Estate Regen. - Abbey	0	0	0	47,457	20,000	0	59,435	**126,892**
Estate Regen. - Bourne	0	3,000	31,500	0	0	0	0	**34,500**
Estate Regen. - Agar	0	0	0	0	14,606	12,193	192,986	**219,785**
Estate Regen. - Gospel Oak Infill	0	1,000	8,298	10,735	0	30,389	0	**50,422**
HS2 - Regents Park	235	45,120	9,044	7,518	0	0	0	**61,917**
Camden/Plender St. - GF/HRA	15,743	1,027	0	0	0	0	0	**16,770**
Wells Court	11,154	0	0	0	0	0	0	**11,154**
HRA sub-total	**49,978**	**149,748**	**87,261**	**74,423**	**79,110**	**98,953**	**273,946**	**813,418**
Total capital receipts generated in year	**61,603**	**185,438**	**116,061**	**117,338**	**94,489**	**133,239**	**296,881**	**1,005,048**

APPENDIX D – 2016/17 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 2016/17

	Future Pressures £m	Trust Funding £m	Grants Underspent / Received in Advance £m	On-going Projects £m	Total Allocations £m
Supporting People	-	-	0.842	0.270	1.112
Supporting Communities	-	0.031	-	0.416	0.447
Corporate Services	0.142	-	-	-	0.142
Public Health	-	-	-	-	-
Cross-Cutting Budgets	-	-	-	-	-
Council Funding	0.863	-	-	-	0.863
	1.005	**0.031**	**0.842**	**0.686**	**2.564**

D4. Council funding consists of business rates, revenue support grant and council tax. The underspend is due to the business rates levy to government as the business rates outturn was lower than expected. This balance be transferred to the business rates safety net reserve to help manage the corresponding deficit on the collection fund in future years. The total allocations excluding this sum is £1.701m, set out by department in table 2 of the main report.

D5. 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 2017'*.

D6. The remaining year-end surplus of £(0.307)m will be allocated to the Cost of Change reserve, to support the Council's remodelling work.

Table B – Proposed Allocation of 2016/17 Surplus Resources

Earmarked Reserves	Actual Reserves 31/03/16 £m	Movement Out of Reserves £m	Transfer Into Reserves £m	2016/17 Year End Requested Allocations to Reserves £m	Outturn Surplus Allocations £m	Reserves 31/03/17 £m
Earmarked Reserves						
To Support Key Revenue Outcomes	32.065	(14.467)	0.588	1.431	-	19.617
To Support the Council's Remodelling Programmes	13.585	(8.168)	2.010	-	0.307	7.734
Ongoing Capital Activity and Asset Management	28.528	(12.762)	16.512	0.270	-	32.548
Mitigation of Future Corporate Risk	21.891	(13.165)	6.280	0.863	-	15.869
Charitable Activity	0.034	(0.034)	-	-	-	-
Total Earmarked Reserves	**96.103**	**(48.596)**	**25.390**	**2.564**	**0.307**	**75.768**

D7. 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 2016/17 Surplus Resources

Earmarked Reserves	Actual Reserve 31/03/16 £m	Total Planned Usage £m	Forecast Reserves 31/03/17 £m	Proposed Movement to Reserve £m	Proposed Reserve Balance 31/03/17 £m
Reserves to support key revenue budget outcomes					
Dedicated Schools Grant	9.780	(2.441)	7.339	-	7.339
Support for Schools in Difficulty	0.434	(0.434)	-	-	-
Homes for Older People	1.240	(1.240)	-	-	-
Multi Year Budget Reserve	*12.864*	*(5.535)*	*7.329*	*1.431*	*8.760*
Education Commission	1.181	(0.233)	0.948	-	0.948
HASC Specific Grants	*6.566*	*(3.996)*	*2.570*	-	2.570
	32.065	**(13.879)**	**18.186**	**1.431**	**19.617**
Reserves to support the councils service remodelling programme					
Workforce Remodelling/Cost of Change	11.198	(5.827)	5.371	0.307	5.678
Camden Plan	2.387	(0.331)	2.056	-	2.056
	13.585	**(6.158)**	**7.427**	**0.307**	**7.734**

Earmarked Reserves	Actual Reserve 31/03/16 £m	Total Planned Usage £m	Forecast Reserves 31/03/17 £m	Proposed Movement to Reserve £m	Proposed Reserve Balance 31/03/17 £m
Reserves to support on-going capital activity and asset management					
Future Capital Schemes	20.602	3.897	24.499	-	24.499
Commercial and other property	0.776	-	0.776	-	0.776
Haverstock PFI Funding Reserve	1.889	(0.130)	1.759	-	1.759
Schools PFI Equalisation Reserve	1.063	0.167	1.230	0.270	1.500
Building Schools for the Future	0.488	(0.024)	0.464	-	0.464
Accommodation Strategy	3.710	(0.160)	3.550	-	3.550
	28.528	**3.750**	**32.278**	**0.270**	**32.548**
Reserves to mitigate future corporate risk					
Self-Insurance Reserve	6.977	(1.500)	5.477	-	5.477
Contingency Reserve	1.512	-	1.512	-	1.512
Business Rates Safety Net	13.402	(5.385)	8.017	0.863	8.880
	21.891	**(6.885)**	**15.006**	**0.863**	**15.869**
Reserves to support the Mayors charity					
Mayor’s Charity Reserve	0.034	(0.034)	-	-	-
	0.034	**(0.034)**	**-**	**-**	**-**
Total Earmarked Reserves	**96.103**	**(23.206)**	**72.897**	**2.871**	**75.768**

APPENDIX E – FEES AND CHARGES

E1. Sports

Increase above 5%

Camden Sport and Physical Activity (SPA) service provide a girls football programme, which includes participation in local competitions and leagues. As part of a plan to create a community led, financially sustainable programme, an enhanced membership fee is being proposed. It will be introduced in September for the start of 2017/18 season.

The current fee only includes competition in one league. From September 2017 we propose that players will pay an £30 annual membership fee. This will include the costs of participation in an additional league and district competitions.

We have benchmarked against football clubs and Islington council who provide similar opportunities and can confirm that an annual fee of £30 is reasonable and affordable.

E2. Registrars

Increase above 5%

Based on benchmarking and cost recovery analysis, the income maximisation project team has identified £78k of potential increased income from fee increases to nationality checking. However, the team also identified a need for VAT charges to be applied to nationality checking.

It is proposed that the fees for Nationality Checking Services are increased based on the benchmarking data and VAT applied to these charges.

Table E1 - Fees and charges increase over 5% July 2017/18

Directorate	Division	Service	Description of fee / charge	2017/18 fees / charges (inc VAT) £	% increase	Proposed Fee (inc VAT)	Effective Date
Supporting Communities	Community Services	Sports	Junior football team subscription - including league and district competitions	£23.78	26%	£30.00	01/09/2017
Corporate Services	Customer Services	Registrars	Nationality Checking Service (Children application): Monday to Friday	£40.00	80%	£72.00	01/08/2017
Corporate Services	Customer Services	Registrars	Nationality Checking Service (Single application Return Visit): Monday to Friday	£40.00	50%	£60.00	01/08/2017
Corporate Services	Customer Services	Registrars	Nationality Checking Service (Children application - Return Visit): Monday to Friday	£25.00	48%	£37.00	01/08/2017
Corporate Services	Customer Services	Registrars	Nationality Checking Service (Single application - Return Visit): After 5pm weekday or Saturday	£45.00	47%	£66.00	01/08/2017
Corporate Services	Customer Services	Registrars	Nationality Checking Service (Children application - Return Visit): After 5pm weekday or Saturday	£30.00	67%	£50.00	01/08/2017
Corporate Services	Customer Services	Registrars	Settlement Checking Service - PEO Croydon (single adult appl'n): Weekdays before 5pm	£80.00	31%	£105.00	01/08/2017