LONDON BOROUGH OF CAMDEN	**WARDS:** All
REPORT TITLE Review of the Camden Medium Term Financial Strategy (CS/2023/17)	
REPORT OF Cabinet Member for Finance and Cost of Living	
FOR SUBMISSION TO Resources and Corporate Performance Scrutiny Committee Cabinet	**DATE** 19th December 2023 20th December 2023

STRATEGIC CONTEXT

Camden has a strong track record of delivering for residents and protecting services despite over a decade of reductions in central Government funding for local government. Like households in our Borough, and local authorities around the country, we are facing an unstable financial environment. A key component of our work to protect our services and support our residents is robust financial planning that is designed to ensure that we make the best use of our resources.

Camden is a financially resilient organisation because of our robust medium-term planning for services and investment aligned with our resources. In January 2023 Cabinet agreed a new financial strategy, building on the work of previous financial strategies, that is aligned with our community vision for the Borough outlined in We Make Camden and the Way We Work. Our financial planning process is a stimulant to long-term change in the direction we believe we need to move to deliver the best public services in a complex and challenging environment.

SUMMARY OF THE REPORT

This report also provides an update on:

- The Council's current financial position and the risks, issues and uncertainties facing the Council over the medium term.
- The financial position of the Council's Housing Revenue Account
- Financial resilience and sustainability of the Council
- The latest outlook for the Council's funding and spending
- Spending Review – Autumn Budget update
- Economic Outlook
- Reserves and balances position including planned use

- Forecast outturn position for 2023/24
- Recommended Fees & Charges for 2024/25

Local Government Act 1972 – Access to Information

No documents that require listing were used in the preparation of this report.

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RECOMMENDATIONS

The Resources and Corporate Performance Scrutiny Committee is asked to consider the report and make any recommendations to Cabinet.

Cabinet is recommended to:

a) Note the continued challenging and uncertain funding and economic outlook for the Council, including the in year forecast outturn position set out in section two of the report.

b) Note the financial position of the Housing Revenue Account along with proposals to improve its financial sustainability detailed in paragraphs 2.31 to 2.40.

c) Agree the rent policy for Highgate Newtown Housing detailed in paragraphs 2.14 to 2.16.

d) In relation to fees and charges discussed in section 2.24 and Appendix A:

    i. Delegate authority to the relevant Executive Director to decide increases to existing fees and charges up to a maximum of 7%, in consultation with the relevant portfolio holders.

    ii. Note the particular content in Appendix A setting out supporting information for the new fees and charges and the fees and charges where the proposed increase is over 7%.

    iii. Agree the new fees and charges, and the increase in fees and charges where the proposed increase is over 7%, as shown in Appendix A delegating authority to the relevant Executive Director to introduce those changes.

    iv. Delegate authority to the Executive Director Corporate Services to reduce specific fees and charges in exceptional cases as outlined in paragraph 2.25

e) Agree the Council's planned use of reserves summarised in Appendix B.

f) Note the Council's forecast finance position at Quarter Two of 2023/24 as outlined in paragraphs 2.41 to 2.44 and Appendix C.

g) Note the risks outlined in section four of the report.

Signed: Agreed by the Director of Finance

Date: 8th December 2023

1. CONTEXT AND BACKGROUND

1.1 Camden continues to operate in a challenging financial environment. Recent analysis from London Councils shows that London boroughs face a perfect storm of prolonged high inflation, fast-increasing demand for services, and insufficient government funding, leading to a growing risk of financial and service failures. London boroughs are facing a growing pressure on adult and children's social care, as well financial pressure due to the capital's worsening homelessness crisis. Significant financial pressure on social housing services across the capital from inflationary pressures on repair and maintenance along with high interest rates means Housing Revenue Accounts are undergoing an unprecedented financial challenge.

1.2 Despite these challenges Camden has remained financially resilient and has agreed a Medium-Term Financial Strategy to ensure it is able to deliver the Council's key service commitments.

1.3 We Make Camden sets out the Council's commitment to investing in our communities, our organisation and our staff to achieve our ambitions of a fairer, more equal and more sustainable Borough. A robust Medium Term Financial Strategy (MTFS) is a vital component to ensure the Council can effectively plan and prioritise the use of its resources to invest in the delivery of the We Make Camden missions. The Council continues to operate in a considerably challenging environment for local government finances, compounded by significant inflationary pressures in recent years and on-going uncertainty around government funding reforms. Despite these challenges, this MTFS sets out our intention to budget for near-term high-quality services and long-term transformational investment where we can make the greatest difference to our residents.

1.4 The Council has faced significant government funding reductions since 2010 and we have been forced to cut close to £210m from our budgets over this period. In 2010 the Council received £241m in government funding. If this funding had kept pace with inflation the like for like funding in 2023/24 would be £341m. The actual like for like government funding in 2023/24 is £149m, a difference of £192m. London Council's estimate that resources for London boroughs' remains 18% lower than 2010-11 in real terms. The local government financial settlement for 2024/25 is likely to be confirmed in January 2024.

1.5 As our resources have reduced, the pandemic and cost of living crisis have meant more and more of our citizens and communities are turning to us for help. In support of them, we have continued to evolve and shape the role of a local council and have become a vital safety net for those most vulnerable in our communities. We have developed a highly responsive welfare and cost of living support offer; we continue to develop our Good Work Employment offer; we are stepping in to provide much needed support for our refugee community. Unfortunately, our resources are limited and the gap between need and resources will continue to grow unless a sustainable strategy for funding local government is delivered by Government – one which recognises the expanded and vital role that local government plays. Without further funding and government support, there will be further difficult choices in the future and the Council must continue to plan its resources in a way that is aligned with its values and priorities.

1.6 2023/24 is the first year of the Council's new three-year MTFS agreed by Cabinet in January 2023, this includes £27m of savings to address the Council's medium term budget gaps across the General Fund and Housing Revenue Account. Based on our current assessment, it is estimated the Council will need to identify a further £10-15m of savings for 2025/26 to manage its financial resilience over the medium term. There are a number of uncertainties regarding the council's medium term financial forecast including significant inflationary and demographic pressures across services, along with the ongoing uncertainties regarding government funding. This means that there is a risk that the actual medium term budget gap could be significantly higher than £10m-£15m. The successful delivery of the new MTFS will be vital to ensure the Council remains in a strong financial position over the medium term.

1.7 Some of the investment we have undertaken as part of delivering on our previous financial strategy and our organisational ambitions has included:

- Investing in preventing homelessness with our ambitious Temporary Accommodation Purchase Programme (TAPP). In 2019 we launched TAPP to buy back a limited number of ex Right to Buy 1, 2 & 3 bedroom properties. Due to the success of the initial programme the Council launched TAPP2 and the Council has now purchased 109 properties to use as good quality in borough temporary accommodation meaning more families can stay in Camden close to their support networks and saving the Council money on purchasing expensive nightly temporary accommodation. By the end of the programme the Council aims to purchase 140 properties as part of the programme.

- Increasing our investment in crisis funding and advice support for those experiencing the cost of living crisis this winter – we have increased our crisis and hardship fund from £1m to £2m and we continue to invest over £1m per year in our advice and advocacy community partnership.

- Providing support and grants worth up to £2,000 via the Council's We Make Camden Kit to help groups of people or community organisations start projects or initiatives that will help their local community. This includes funding projects to help people eat nutritious, affordable and sustainable food.

- Investing over £29m in the Council Tax Support scheme. Camden's current scheme, launched in 2020/21, remains one of the most generous Council Tax Support schemes in the country with income bands based on the London Living Wage, ensuring that around 16,000 households (including pensioners) in Camden currently receive 100% support and do not pay any Council Tax.

- Continue to invest in the delivery of the Camden Transport Strategy Delivery Plan for 2023/24 and 2024/25 with an additional £8m of capital investment in the boroughs infrastructure to supplement external funding. The investment aims to address the significant health impacts of traffic such as poor air quality and road danger, and to create safe streets that support healthy lifestyles through enabling active travel (walking and cycling).

2. PROPOSAL AND REASONS

We Make Camden

2.1 Camden continues to focus on becoming a more dynamic, relational organisation focused on building strong relationships and partnerships, and creating the conditions for community-driven approaches to solving complex problems. To this end, Camden has built capacity in vital areas, such as digital, data, insight, participation, and design, to enable a missions-oriented approach. Together with residents, we have agreed four Missions, which are set out in our corporate strategy ‘We Make Camden’:

- By 2025, every young person has access to economic opportunity that enables them to be safe and secure.
- By 2030, Camden’s estates and their neighbourhoods are healthy, sustainable, and unlock creativity.
- By 2030, everyone eats well every day with nutritious, affordable, sustainable food.
- By 2030, those holding positions of power in Camden are as diverse as its community – and the next generation are ready to follow.

For Camden, a mission-oriented approach is a strategic framework that:

- Focuses activity on a small number of transformational goals that are impossible to reach within our current approaches and thus necessitate collaboration and innovation.
- Aligns the organisation’s people, finances, time, effort, skills, and expertise towards determining how to achieve those goals.
- Thrives on experimentation and learning to promote proactive problem solve and to guide innovation.

2.2 Camden’s missions require cross-discipline and cross-sector collaboration, built on deep partnership and participation. Delivery of the missions through a portfolio of complementary projects and initiatives over a long-term time horizon requires investment in new capabilities, experimentation, and learning, in order to collectively work towards a more ambitious future for the borough.

General Fund Medium Term Financial Forecast

2.3 A sound understanding of our financial position is crucial to our Medium Term Financial Strategy. This requires a detailed assessment of our future income and expenditure levels over the medium term. This involves making early estimates of the medium term financial impact of economic factors, future demographic pressures and local and national policy directions that are not yet fully known. The Council faces a significant level of uncertainty about both the future cost of services and the level of funding it will receive from the government and through local taxation over the medium term. The current Medium Term Financial Strategy also coincides with a General Election in 2024 or early 2025, which adds an additional level of uncertainty.

2.4 This uncertainty applies when calculating the medium-term budget gap for both the General Fund and the Housing Revenue Account. The Government has given the Council little information or certainty about the level of government funding over the medium term and the timing of reforms to government funding remains unconfirmed.

2.5 Covid has had a lasting effect on the Council's finances, in particular a reduction in the Council's income streams derived from rents and fees and charges due to permanent 'scarring' of the economy and changes in people's economic behaviour. While some of these income streams including business rates may, in part, recover over the medium term it is unclear to what extent or how quickly this will take place.

2.6 The Council is currently forecasting a further medium term budget gap c.£10-15m by 2025/26. The significant inflationary and demographic pressures facing the Council along with the ongoing uncertainties regarding government funding means that there is significant uncertainty regarding the actual medium term budget position.

Climate Budgeting

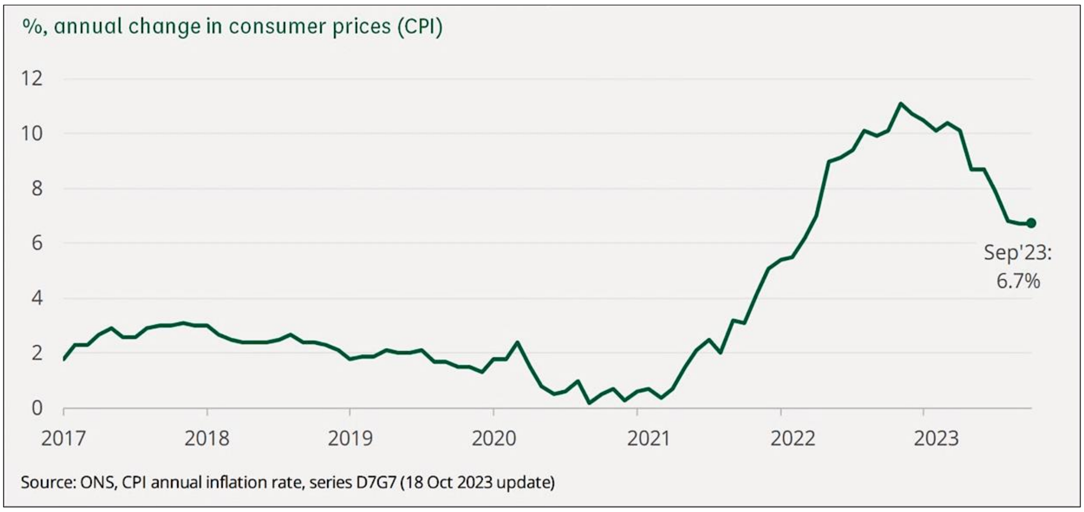
2.7 The Council has committed to do everything it can to radically cut its carbon emissions by 2030. To support this aim, a Climate Budget is being developed to show how much Council budget is allocated to our carbon reduction programme and how much additional funding will be required to meet our ambitious 2030 decarbonisation target. The Climate Budget will help to ensure that the Council's financial planning is geared to support our carbon reduction programme. The Climate Budget will also provide greater transparency about the extent to which our investment is sufficient to achieve our radical decarbonisation of Camden's estate. The Climate Budget scope will initially cover our corporate estate, schools and fleet. We will report our

Climate Budget annually as part of our Council Tax setting report to full Council, so that we can plan ahead and adjust our investment strategy as new funding streams, including Government grants, become available.

Impact of Inflation

2.8 Brexit, Covid and the war in Ukraine have contributed to inflation reaching a 40 year high with the Consumer Price Index (CPI) peaking at 11.1% in October 2022. In October 2023 CPI was 4.6%, and core CPI 5.7%, meaning the annual price increase of goods and services remains significantly above the government's 2% target. Inflation at present is driven mostly by tightness in the labour market and cost of services. The Bank of England's latest forecast is that CPI inflation will return to 2% by the end of 2025[1]. However, there is a risk that inflation may take longer to return to 2%.

Chart Two – CPI inflation rate



2.9 Inflation is a key consideration of our medium term financial modelling to ensure the Council is able to fund the increased cost of services and remain financially resilient. The impact of inflation on the Council's budgets over the past two years is illustrated in the table below.

	2021/22 £'m	**2022/23 £'m**	**2023/24 £'m**	**2024/25 £'m**
Net budgeted cost for inflation	6.189	8.816	16.173	17.111

2.10 When setting the budget for 2024/25 an uplift of 4% was applied to budgets for contracts and third party payments, with additional inflation adjustments

[1] Bank of England Monetary Policy Report November 2023

applied to budgets on an exception basis. The cost of inflation to the Council's budget almost doubled in 2023/24 and represents a significant cost pressure for 2024/25 too. It is uncertain if and how quickly inflation will return to the government's target of 2% over the medium term. For this reason, an additional contingency of £2m has been budgeted over the medium term, to ensure that the Councils financial plans reflect likely future inflationary pressures.

2.11 Consideration also needs to be given to the impact on the Council's capital programme. The Bank of England raised its interest rate to 5.25% in August 2023, which will have a significant impact on the cost of borrowing for the Council. The increase in cost of materials and labour will also have a significant impact on the cost of the Council's capital programme and borrowing requirement.

2.12 Sustained high inflation and the resulting cost of living crisis have had a detrimental impact on our communities. The impact of inflation is not felt equally and varies significantly across our communities, exacerbating existing structural inequalities highlighted by the pandemic. Many residents already struggling have fallen deeper into poverty. Office of National Statistics data shows that households with the lowest incomes experience a higher than average inflation rate, while the highest-income households experienced lower than average inflation[2]. This is because the main items that have risen in price are essentials such as food, heating and travel, which represent a greater proportion of lower income budgets. Over the two years from August 2021 to August 2023 food prices rose by 28.4%, resulting in a significant increase in the demand for food banks[3]. We are also experiencing increased demand for the council's services, such as temporary accommodation and the use of the Council's Cost of Living Crisis Fund. Alongside these pressures Government funding has decreased since 2010.

2.13 Financial inequality is not new to Camden and is a core priority central to our We Make Camden goals. The Council is working to support those most at risk this winter from the sharp increase in inflation as well as long term interventions to prevent people getting into financial crisis as far as possible. Key interventions include:

- continuing to invest in our generous Council Tax Reduction Scheme;
- continuing our holiday hunger voucher scheme to ensure children in receipt of free meals at school can eat during the holidays; and
- investing £2m in our Cost of Living Crisis fund and working with advice partners, community groups, front line staff to get money to those who need it most.

Highgate Newtown Refugee Housing

[2] Provisional CPIH and CPI-consistent inflation rate estimates for UK household groups: January to June 2023 - Office for National Statistics

[3] Rising cost of living in the UK - House of Commons Library (parliament.uk)

2.14 Camden stands ready to welcome refugees, and always has. We have a long and proud history of welcoming people who are displaced from all around the world as they flee conflict, disaster, and persecution.

2.15 The Council has secured funding from the Greater London Authority through its Refugee Housing Programme which has enabled it to convert two housing blocks originally intended for private sale at the Highgate Newtown Community Centre (HNCC) redevelopment to 36 units of housing. This allows the housing to remain in public ownership and in the short-term, provides much needed housing for refugees which have been living in hotels in our borough for over 2 years. In the longer term these houses will remain as social/affordable housing controlled by the Council.

2.16 HNCC is a General Fund site rather than on housing land. The Cabinet must set the rents for any type of housing. The units are classed as temporary accommodation rather than social housing. The proposed rents are set at a level which will be affordable for households in receipt of benefits i.e the maximum rent that can be claimed under the Local Housing Allowance (LHA) for temporary accommodation. The Cabinet are asked to agree proposed rents as set out in the table below and any future increases in line with changes to government policy. The rents include all service charges except energy.

Bed size	1 bed	2 bed	3 bed	4+ bed
Weekly rent £	234	306	405	500

London Living Wage

2.17 The London Living Wage has recently increased from £11.95 to £13.15 per hour. The Council fully supports the implementation of the London Living wage and is committed to investing in services to ensure that people are paid a real living wage. We are accredited with the Living Wage Foundation and our suppliers/contractors are expected to pay the real Living Wage rate (across the UK or London) as a minimum to employees working on our contracts.

Fair Funding Review

2.18 The ‘fair funding’ review was initiated by the government in 2016 with the aim of resetting how funding is allocated to individual local authorities through an updated assessment of relative needs and resources. The current methodology is overly complex with several out-dated relative needs formulae that have not been updated since 2013 and that include multiple indicators of ‘need’ and tailored distribution for services previously funded by grant. The stated aim of the review was to simplify the funding formulae, increase transparency, and provide stability. Despite the review beginning in 2016 it is yet to be concluded and there is a growing lack certainty from government on the timing and impact of any eventual change to local authority funding.

2.19 There have been significant changes since the review first commenced: including government policy change and the levelling up agenda, population and demographic changes, Covid-19 pandemic, cost of living crisis, growing inequalities and increased demand for services. London Councils have highlighted the emergence of higher spending on working age adults in adult social care and that nearly a quarter of Core Spending Power across all boroughs is estimated to be ring-fenced to Adult Social Care by 2024/25. The Census 2021 has highlighted a widening gap between London and other regions on extreme deprivation. One of the agreed core priorities of the review is that any measures of deprivation reflect the higher housing and living costs of London.

Autumn Statement and Draft Financial Settlement

2.20 The Chancellor of the Exchequer delivered the 2023 Autumn Statement on 22nd November 2023. The statement did not include any new funding for local authorities to meet ongoing pressures. The statement also confirmed Resource Departmental Expenditure Limit (DEL) budgets will increase by 1.0% in real terms over the medium term to 2028-29. London Councils have reported that this actually implies real-terms cuts for ‘unprotected departments’ like Local Government, in order to fund expected above inflation rises in other departments.

2.21 The draft local government finance settlement, that details the specific funding to each local authority, is expected to be published before Parliament recess of 19th December 2023. The final settlement will be published in early 2024.

Council Tax and Adult Social Care Precept

2.22 Increasing demand for adult social care is one of the major pressures on the Council’s budget over the medium term. The Government’s Plan for Health and Social Care announced in September 2021 made it clear that it sees the Adult Social Care precept as one of the main funding sources for demographic and unit cost pressures in the sector. The 2022 Spending Review indicated that a social care precept of 2% would be available to Councils to meet demographic pressures on social care budgets for 2023/24 and 2024/25. A precept of 2% in 2024/25 would go some way to addressing the pressures in the service and help close the Council’s expected medium term budget shortfall in adult social care.

2.23 More broadly the government funding strategy for local authorities is based on the governments assessment of a local authorities ‘core spending power’. The estimate of core spending power includes an assumption that local authorities will increase Council Tax by the maximum amount allowable as set out in the local government funding settlement. Each 1% of Council Tax increase provides c£1.2m for the Council to invest in the delivery of services.

Recommended Fees & Charges for 2024/25

2.24 Fees and charges are proposed by officers and approved by Cabinet and, where required, by Council, on an annual basis. Reporting to Cabinet is on an exception basis, with new fees or those fees or charges with proposed increases above the threshold of 7% listed individually. These are listed in Appendix A, together with detail on the reasons for the charges. Cabinet is recommended to agree the fees as presented and to delegate authority to the relevant Executive Director to increase existing fees and charges by up to 7%.

2.25 It is also recommended to delegate authority to the Executive Director Corporate Services to reduce individual fees and charges in exceptional circumstances to support the financial well-being of individual residents.

Planned use of reserves

2.26 The Council sets aside specific resources in our reserves as part of our wider approach to prudent financial management. Reserves are treated like long-term savings held for specific purposes and the Council will use them only when strictly necessary. With the on-going financial pressures still being felt by the Council it has been increasingly difficult to transfer unspent income into our reserves. When money is drawn down from reserves and not replenished in equal or greater proportion reserves start to deplete increasing the risk to the Council's financial resilience.

2.27 In accordance with CIPFA guidance, we have a number of both general balances and earmarked reserves. General balances are held as a wider financial contingency against unexpected financial shocks while the latter are held for several specific purposes. This includes, but is not limited to, the support to the delivery of our key strategic outcomes within We Make Camden, to contribute to our Capital Programme, to mitigate future known financial risks (such as insurance liability or a decline in business rates) and to provide investment and pump prime initiatives that will deliver future financial benefit and longer-term savings. In managing our reserves over the medium term, we have recognised that they are a one-off resource and not a sustainable solution to the financial challenges that we face over the medium term.

2.28 As part of our prudent financial management, all reserves are regularly reviewed to ensure that they remain at appropriate levels and are relevant. If they are no longer required for the purposes originally intended, they are reallocated to best support our strategic priorities. A summary of the current and forecast balances of reserves is presented in Appendix B. The Council has started to adopt a strategy of increasing where possible reserve levels historically held at a low level. Our general fund balances stand at £15.9m or roughly 5% of our core spending power and our earmarked reserves stand at £155m or 49% of our core spending power.

2.29 The Housing Revenue Account reserve balance at the beginning of this financial year was £23m. This is low based on the level of pressure that the HRA is facing over the medium term. Officers are developing plans to address the long-term sustainability of the Housing Revenue Account as part of the Council's Medium Term Financial Strategy. A key element of this work will be looking to increase the level of reserves to help mitigate the financial risks across the HRA.

2.30 To maintain its financial resilience and flexibility the Council also needs to increase its unallocated reserves to ensure it has resources in place to meet any immediate financial pressures the Council may face in supporting residents. The need to develop new savings projects to help deliver the Council's MTFS will also require additional investment from reserves.

Housing Revenue Account (HRA)

Background

2.31 In 2012, following the ending of the HRA subsidy system and the adoption of the widely anticipated "self-financing" model, local housing authorities across the country were offered the once in a generation opportunity to fully retain all the money generated from housing rents in order to plan and provide services to current and future tenants. It gave councils full control over their own stock and provided an opportunity to manage housing assets locally for the on-going benefit of local people.

2.32 The self-financing system involved councils paying a considerable "exit payment" to Treasury to be allowed to retain their local HRA rental streams for the next 30 years. The idea was to provide resource certainty and address the perceived decline in the standard of local authority social housing. The amount paid in total across all housing authorities was c £9bn while Camden inherited £516m in HRA debt as part of the transition. The level of debt inherited by each local authority was based on a valuation that relied on a series of Government assumptions about the rental income and expenditure required to maintain each council's council housing stock over 30 years.

2.33 At the time, it was promised that, if any of the components that were used to calculate the exit payment price changed, then this once-and-for-all settlement would be reopened. However since then, there has been a series of austerity-driven policy changes that have made HRAs more difficult to operate: bedroom tax; rent increases guidelines changed from the Retail Price Index (RPI) measure of inflation to the Consumer Price Index (CPI) measure; removal of rent convergence; increased discounts on Right to Buys; Universal Credit, enforced rent reductions in the period 2016-2020 – to name but a few. Projections over the remaining life of the 30-year settlement show that in excess of £100m has been lost to Camden's Housing Revenue Account as a result of these changes, with annual income in 2023/24 being £30m lower than it would have been had the enforced rent reductions not been imposed.

2.34 Despite this, the government has not revisited the assumptions behind the settlement, nor offered additional HRA funding, meaning that all councils are carrying excess debt in the HRA causing revenue pressures and constraining the capacity to build new affordable homes and invest in existing stock as was originally intended.

2.35 At the same time, the evacuation of the Chalcots Estate in the summer of 2017 and subsequent fire safety works, removal of cladding and remedial works resulted in an extremely large budget pressure for the Council. While the Council has received substantial government grant and more recently a £19m payment in settlement of its claim against the contractors responsible for the refurbishment and maintenance of the Estate, the net cost to the HRA is currently estimated (as of December 2022) at £28.3m capital and £27.9m revenue, a total of £56.2m over a number of years.

2.36 Alongside this, the Council has had to find additional funding for fire and building safety works across the rest of its housing stock - £208m capital since 2017 and an annual revenue budget of £4.5m. None of this was funded by government. As a result, resources have had to be diverted away from the Council's Better Homes programme of capital investment in its stock. These resources were already lower than they needed to be because of the four years of enforced rent reduction. In January 2020, the Council estimated that the Better Homes programme had budgets of £334m to address the estimated investment need of £516m – a shortfall of £182m.

Housing Revenue Account 2020 and beyond

2.37 This meant that the HRA entered the current period of economic volatility with its finances in a weakened state. Brexit, Covid and the war in Ukraine all contributed to inflation reaching a 40 year high in October 2022 with the Consumer Price Index (CPI) at 11.1%, which has put unprecedented pressure on the costs of energy, repairs, maintenance, and housing services.

2.38 Without Government support and a longer term plan to properly fund social housing, the HRA faces a significant financial challenge. To help balance the HRA over the medium term, Cabinet agreed as part of 2023/24 budget and rent setting a Medium Term Financial Strategy to deliver cumulative savings of £2.86m in 2023/24, £6.03m by 2024/25 and £7.51m by 2025/26.

2.39 When the Cabinet set the budget and rent in February, they noted that the position was precarious and the outlook uncertain. Since the beginning of the financial year, the situation has intensified.

- Interest rates have continued to increase over the course of 2023/24. Much of the HRA's borrowing is from the General Fund at a floating rate (so called internal borrowing), so the HRA is exposed to the rapid rise in interest rates. The HRA's rate of internal borrowing is now 4.6% compared with 1.13% before the 2023 "mini budget". This has caused a forecast £3.6m overspend on the interest budget despite the increase in budget mentioned above.

- The cost of living crisis and very high energy costs have impacted rent and service charge arrears. The Council forecasts that it will have to add an additional £1m to its bad debt provision above what it has already budgeted for.
- In repairs, the Council is investing a further £2.7m on damp and mould. Disrepair cases – the cost of doing the work and legal costs associated with cases brought against the Council largely by “no win no fee” lawyers – are the cause of another £1m overspend. At the same time, inflation of contractor and materials costs remains high across repairs.
- Further regulation has been introduced through the Social Housing (Regulation) Act 2023 which gained Royal Assent earlier in the year, to add to the Fire Safety Act 2021 and the Building Safety Act 2022. While the Council supports the aims of this legislation, compliance with legislation will add to the HRA’s costs and comes with no funding support from Government.

2.40 In that challenging context, we are currently developing proposals for the 2024/25 budget and rent setting approach. This will be considered by Cabinet in January 2024.

2023/24 Budget Forecast

2.41 The Council operates a quarterly budget reporting system with a process to monitor significant movements between quarters. The following summary updates on the forecast outturn position for 2023/24 as at the end of Quarter Two. (30 September). Further detail on the forecast can be found in Appendix C.

2.42 The General Fund is showing a forecast gross revenue overspend of £5.9m. This is being driven by significant inflationary pressure across services as well as demographic pressures, felt most keenly across social care services.

2.43 The Council’s Capital programme is forecast to be £4.6m underspent at year end against an overall budget of £276m. This is as a result of slippage on capital schemes that will spend in later years.

2.44 The Housing Revenue Account is forecast to overspend by £4m. The Housing Revenue Account budget pressures are discussed in detail in paragraphs 2.31 to 2.40 of this report.

Medium Term Financial Strategy

2.45 We continue to develop our financial strategy so that the Council remains financially resilient, and the allocation of resources is aligned to deliver We Make Camden outcomes in an increasingly volatile and uncertain environment.

2.46 This strategy aims to support long-term and cross-cutting change so we can transform services and improve outcomes for our residents. A number of transformational programmes are being developed to deliver outcome based savings and change the way we deliver services to become relational, place based services. These are discussed in detail in the previous July 2023 Cabinet update.

2.47 2023/24 is the first year of our strategy that contains 58 projects set to deliver £13m savings in 2023/24 and £27m savings by 2025/26 across the General Fund and Housing Revenue Account. At the time Cabinet agreed the strategy, we anticipated a budget gap of between £35-£40m on the General Fund. Based on our current assessment, it is estimated that the Council will need to identify a further £10-15m of savings for 2025/26 to ensure its ability to balance the General Fund budget.

2.48 Good progress has been made in the first six months of 2023:

- 35 (of 58) projects have saving targets for 2023/24, of which 22 are expected to deliver the full saving by March 2024.
- Overall, roughly 80% of the £13m saving target for 2023/24 is 'on track' to be delivered in year.

2.49 Any delays in delivery and other challenges in meeting the full Year 1 savings targets have been captured in the 2023/24 forecast financial outturn position referred to in Appendix C.

3. OPTIONS APPRAISAL

3.1 The report asks the Cabinet to agree the introduction of new Fees and Charges, and individual Fees and Charges where the proposed increase is more than 7%, or where the charge is being levied for the first time. The Cabinet could decide not to agree these Fees and Charges for 2024/25 however this could impact on the ability for a service to recover its costs or result in additional budget pressures.

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

4.1 The main financial pressures and risks faced by the Council are the large-scale cuts in funding, uncertainty of future funding reforms and the growing gap between needs and resources outlined in the report. The following factors present additional pressures and risks to the Council's medium term financial position.

Economic uncertainty

4.2 The outlook for the UK economy remains uncertain and increasingly vulnerable to global shocks. The state of the national and local economy is critical to the Council's medium term financial position. It affects demand for Council services, its costs, income from sales, fees and charges and its ability to raise funding from business rates and council tax.

4.3 Inflation, cost pressures and reduced income from taxes, rents, fees and charges have implications for the budget gap set out in the report above and therefore for the need to make savings and/or raise council tax in future years. This is a very challenging time for financial forecasting and the Council will continue to closely monitor the economic environment and regularly update its assumptions to ensure its forecasting is as robust as possible.

4.4 The main economic factors and their implications for Camden are summarised below:

Economic Factor	**Details**	**Considerations/potential impact for Camden**
Gross domestic product (GDP)	UK GDP growth is expected to be broadly flat until 2025, this is lower than projected previously by the Bank of England in August[4]. This is reflected in weakening of employment growth, the housing market and global activity.	Camden is highly integrated into the national economy and so residents and businesses will be affected by changes to GDP.
Services Output	There was an increase of 0.4% in the Index of Services between July and August 2023. Services output increased by 0.1% in the three months to August compared with the three months to May. In the three months to August 2023, compared with the three months to August 2022, services output increased by 0.4%.	Camden's economy in common with much of the UK is highly reliant on services.
Unemployment	Unemployment in the borough gradually fell after peaking in September 2021 due to the pandemic. The Camden unemployment rate bottomed out at 3.2% in March 2023 (below pre-pandemic levels) but has since increased to 4.0% in June 2023 – it compares with the higher level in London of 4.6% and is marginally above the national (GB) average of 3.8%.	Increased unemployment impacts the welfare of Camden residents, may well increase demand for services and impact council tax and rent arrears.
Inflation	Inflation peaked at 11.1% in October 2022 and has fallen to 4.6% in October 2023. The Bank of England projects that inflation should return to 2% by the end of 2025.	Increased inflation has an impact on the Council's costs and those of its supply chain. Rising costs for local residents and businesses may affect their ability to pay local taxes.

[4] Monetary Policy Report - November 2023 | Bank of England

Cost of living	The Bank of England increased its interest rate to 5.25% to manage inflation. This has a direct impact on the cost of borrowing, such as mortgage rates. Inflation has also increased the cost of staples such as fuel and food which account for a significant proportion of overall inflation.	The cost of living crisis will exacerbate existing inequalities and increase poverty across the borough. Residents on low incomes will experience the greatest financial hardship. May result in increased demand for Council services and reduce the ability to raise income from taxes and fees.

SERVICE RISKS

4.5 The report on the Council's Medium Term Financial Strategy to the Council's Cabinet on 18 January 2023 set out in detail the service risks most of which remain or have been exacerbated.

5. CONSULTATION/ENGAGEMENT

5.1 There has been no formal public consultation.

6. LEGAL IMPLICATIONS

6.1 The Borough Solicitor has been consulted and has no further comments to add.

7. RESOURCE IMPLICATIONS

7.1 The outlook for local government finance is undoubtedly challenging. In recent years, several local authorities have issued section 114s (effectively a declaration of bankruptcy) with a number of other local authorities suggesting they may be in similar positions in the coming months. This is undoubtedly worrying for the sector and highlights the structural funding problem for local government.

7.2 While Camden may not be in the same extreme position as others in local government, our challenge should not be underestimated and we need to continue to build on our successful track record to date.

7.3 To support its financial resilience and stability the Council works within the Chartered Institute of Public Finance and Accountancy's (CIPFA) Financial Management Code (FM Code). The FM Code has been designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code is built on six broad principles that local authorities should consider when developing and maintaining their financial planning and governance arrangements. Officers consider the principles of the FM Code when managing financial planning and reporting and are satisfied that the Council's financial arrangements do comply with the FM Code. Officers also recognise the importance of continuing to test Council's financial management arrangements against the code and periodically review the Council's financial governance arrangements. This will allow the Executive Director Corporate Services to provide a level of assurance of the Council's financial resilience each year when the annual budget is set.

8. ENVIRONMENTAL IMPLICATIONS

8.1 The Council recognises the climate emergency as the most serious threat faced by the borough's residents. The Council's Climate Action Plan published in June 2020 sets out how our services will contribute to tackling the climate emergency with the aim of achieving a zero carbon Camden by 2030. To support this aim, the Council is developing a Climate Budget to show how much of the Council's resources is allocated to our carbon reduction programme and inform our medium term financial planning to help meet our ambitious 2030 decarbonisation target.

8.2 The March 2024 Council tax setting report to full Council will set out the full climate budget in more detail. Outlining the cost of moving our corporate and schools estate to net zero by 2030.

8.3 In the context of this report, it is worth noting that the fees and charges (Appendix A) include the following minor fees. Refill Station Camden are proposing a number of new fees and charges. They have expanded to four partnerships and are proposing to introduce new sustainable and locally made products alongside our local stakeholders. Refill Station Camden was established with the aim of creating local green jobs, supporting circular economy enterprise and eliminating single use products and unnecessary packaging. Environment Services are proposing to introduce an early repayment option for the Fixed Penalty Notice for depositing litter. The early repayment option would reduce the Fixed Penalty Notice from £150 to £80.

9. TIMETABLE FOR IMPLEMENTATION

9.1 Implementation of proposals will occur as outlined in the body of the report. Council will receive a council tax and budget setting report for the financial year 2024/25 for agreement at its meeting on 28 February 2024. The Fees and Charges agreed in this report will be in effect for the financial year 2024/25.

10. APPENDICES

10.1 Further information is provided in the attached appendices:

A. 2024/25 Fees & Charges
B. Council Reserves
C. Quarter Two Financial Forecast

REPORT ENDS