London Borough of Camden Summary Accounts for the Financial Year 2022–23

Executive Summary

This report summarises the London Borough of Camden's Statement of Financial Position for the financial year 2022-23. It seeks to provide a concise and digestible version of the final set of accounts for 2022-23 and explains key movements on the Council's balance sheet and reserves position. It also outlines the impact of challenges such as the pandemic and the cost-of-living crisis, along with the proactive measures being taken to address these issues and ensure effective management going forward. In a year shaped by wide-ranging economic pressures, particularly the cost-of-living crisis and recovery from the Covid-19 Pandemic; the authority focused on maintaining fiscal stability while meeting increased demand for services such as social services.

Balance Sheet Analysis

The balance sheet as of 31 March 2023, captures the authority's assets, liabilities, and reserves, providing a snapshot of financial health. Long-term assets represent assets the Council can use or realise over many years whilst current assets are those that can only be used or released within 12 months or less. Long Term liabilities represent liabilities that the Council will fulfil over many years whilst current liabilities represent liabilities that must be fulfilled in the next 12 months.

The following table highlights the authority's primary balance sheet categories, comparing them to the previous financial year to illustrate notable movements.

31/03/2022 £'000	Balance Sheet	31/03/2023 £'000	Movement £'000
4,520,964	Property, Plant & Equipment & Heritage Assets	4,590,433	69,469
143,010	Investment Property	136,439	(6,571)
5,828	Other long-term assets	4,841	(987)
37,250	Long Term Debtors	27,632	(9,618)
4,707,052	**Long Term Assets**	**4,759,345**	**52,293**
109,861	Short Term Investments	335,004	225,143
18,431	Other Current Assets	18,740	309
258,746	Short Term Debtors	112,225	(146,521)
193,870	Cash and Cash Equivalents	94,683	(99,187)
580,908	**Current Assets**	**560,652**	**(20,256)**
(82,524)	Other Current Liabilities	(84,977)	(2,453)
(369,389)	Short Term Creditors	(341,672)	27,717
(451,913)	**Current Liabilities**	**(426,649)**	**25,264**
(445,652)	Other Long-term Liabilities	(445,144)	508
(580,272)	Net Pensions Liability	(15,936)	564,336
(1,025,924)	**Long Term Liabilities**	**(461,080)**	**564,844**
3,810,123	**Net Assets**	**4,432,268**	**622,145**
(354,226)	Usable Reserves	(328,591)	25,635
(3,455,897)	Unusable Reserves	(4,103,677)	(647,780)
(3,810,123)	**Total Reserves**	**(4,432,269)**	**(622,146)**

Analysis of Net assets

The Council's net assets have increased by £622m, mainly due to a £52m increase in long term assets and £564m decrease in the Council's long-term liabilities. There has also been a £20m decrease in the Council's current assets which has mostly been offset by a £25m decrease in the Council's current liabilities.

Long term Assets (represents the value of assets held including PPE, Heritage assets, Investment Properties and Intangible Assets)

The Council's long-term assets have increased by £52.2m, primarily due to £69.5m increase in Property, Plant and Equipment which has been partially offset by £6.5m decrease in Investment Property and £9.6m decrease in long-term debtors. Property, Plant and Equipment increased because of investment from the Council's capital programme (additions), partially offset by depreciation, property disposal or derecognition, and downward revaluation.

The decrease in the value of Investment property was mainly driven by an £8m downward revaluation partially offset by £1.3m of expenditure to enhance investment property held by the council. The downward revaluation of investment properties has primarily impacted specific assets where rising construction costs driven by inflationary pressure, have coincided with static chargeable rents, leading to a decline in their value.

Current Assets (represents money owed to the council plus cash and investments held)

Current assets have decreased by £20.2m which has been primarily due to a £225.1m increase in short-term investments, offset by £146.5m decrease in short-term debtors and £99.187m decrease in cash and cash equivalents.

In 2022-23 cash balances in Camden increased. Rising interest rates made it more attractive for the council to invest a greater proportion of cash balances in 2022-23 into short term investments. This shift caused a notable rise in the value of short-term investments during 2022-23, partially offset by a corresponding reduction in Cash and Cash Equivalents.

Short term debtors fell due to Greater London Authority (GLA) and Department for Levelling up, Housing and Communities (DLUHC) repaying the Council for collection fund deficits resulting from the Covid-19 lockdown restrictions. Each year the Council must pay a share of the Business Rates received to the GLA and DLUHC as part of the collection fund.

Current Liabilities (represents money owed by the council)

Current liabilities have decreased by £25.3m largely driven by the £27.7m decrease in short term creditors, mainly driven by Section 31 grant being received ahead of time during the previous financial year (2021-22) for use in the current financial year (2022-23).

Section 31 grants are payments made by the UK government to local councils to help them manage specific financial challenges or policy changes. During the 2021-22 financial year, these grants were part of the collection fund, which is the pool of money local councils use to collect and distribute taxes like Council Tax and Business Rates.

During 2021-22 Section 31 grants were awarded to Local Authorities for the following:

1. **Business Rates Relief Compensation**: The government introduced various reliefs, such as discounts for businesses in retail, hospitality, and leisure, to support them during challenges like COVID-19 recovery. While this helped businesses, it meant councils collected less money from business rates. To cover the financial impact of business rates relief compensation, Section 31 grants were awarded in 2021-22 to compensate local authorities for measures affecting business rates in 2022-23.
2. **Government Compensation**: To ensure councils didn’t lose out, the government gave them Section 31 grants to cover the lost income. This money went into the Collection Fund, which councils use to manage taxes like business rates and council tax.

Section 31 grants received in 2021-22 intended for 2022-23 would be accounted for as follows:

1. The grants would not be recognised as income for 2021-22, as they relate to the 2022-23 financial year. Instead, the funds would be carried forward in the accounts as a receipt in advance (a creditor) on the balance sheet at the end of 2021-22.
2. In 2022-23, when the funding is due to be applied, the Section 31 grant would be recognised as income in that financial year. This ensures the grant is matched with the period in which it is intended to offset costs or shortfalls.

Long Term Liabilities (represents money owed by the council)

Long-term liabilities decreased by £564m in 2022-23, primarily due to a significant reduction in the net pension liability. This liability is calculated by actuaries based on several key assumptions:

1. **Demographic Changes:** Reflect shifts in the workforce, influencing the timing of benefit payments.
2. **Financial Assumptions:** Determine the value of benefits owed, incorporating factors such as pension and salary inflation rates.
3. **Investment Returns:** Depend on broader economic conditions, such as changes in interest rates, Covid -19 recovery and investor confidence which affect the performance of pension fund investments.

Actuaries review these assumptions annually, adjusting them to reflect changes in the economic environment and workforce dynamics.

In 2022-23, a sharp rise in market interest rates led to an increased discount rate for valuing pension obligations. This reduced the amount of upfront investment required to meet future liabilities, substantially lowering the council’s net pension liability and driving the overall reduction in long-term liabilities.

Analysis of Reserves

Local authorities have two types of reserves – useable reserves and unusable reserves. Camden has the following useable reserves – General Fund, Housing Revenue Account, Earmarked Reserves, Capital Receipts Reserve and the Capital Grants Unapplied Reserve. It is important to note that the Capital Receipts Reserve captures capital receipts from the disposal of long-term fixed assets. These can be used to finance capital expenditure or repay borrowings of the Council. The Capital Grants Unapplied reserve captures capital grants that Camden has received for which conditions have been met.

Earmarked Reserves

The Council has Earmarked reserves for the General fund and Housing Revenue Account. Earmarked Reserves are used for the following:

1. Managing external risks such as resource levels, interest rates risks, demand pressures and the likelihood of incidents such as flooding
2. Internal risks such as the ability to deliver savings, the overall financial standing of the authority and the financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments
3. Future investment needs, for example, in major transformation projects
4. To hold revenue grant funding to fund specific projects or schemes where conditions of use and application have been met and there is no risk of repayment to grant provider.

The use of general and earmarked revenue reserves cannot be regarded as a sustainable long-term strategy to fill the gap from core funding reductions and budget pressures. This is because a usable reserve is a finite cash balance, which can only be used once whereas the reduction in core funding and budget pressures is a permanent year-on-year loss to the Council's base budget.

Therefore, it is essential for a local authority to maintain a healthy balance of Earmarked Reserves to ensure it can maintain a stable and sustainable financial position over the long term and to establish strong resilience to external shocks, such as rising temporary accommodation costs due to the cost-of-living crisis.

In support of the Council's financial resilience Members agreed to increase the Council's general reserve balance by £1.5m a year over the medium term. This means that the general reserve balance is forecast to increase to £21.4m by 2027 which is estimated to be 4.5% of net service expenditure. The need to increase general reserve balances to support the Council's financial resilience has been driven by three compounding issues:

1. As a sector, local government has seen significant cuts to its funding over the past decade. This leads to additional pressure and if the Council doesn't build up resilience this could impact its ability to serve its residents and communities

2. The financial outlook also remains uncertain due to central government agreeing a one-year settlement and the outcome of local government funding reforms still being unknown
3. The long-term impact of Covid-19, the Cost-of-Living crisis and the war in Ukraine means the Council continues to experience an unprecedented level of uncertainty over the medium term

Comprehensive Income and Expenditure Statement (CIES) and Movement in Reserves Statement (MiRS)

In 2022-23 the General Fund and Housing Revenue Account revenue outturn positions were £244m and £12m respectively. This figure is different to comprehensive income and expenditure statement (CIES) due to local government requiring technical accounting adjustments.

Local government accounting requires the production of a CIES and movement in reserves statements (MiRS), using International Financial Accounting Standards (IFRS). The MiRS is designed to adjust for technical accounting adjustments transferring the impact of these transactions from the General Fund Reserve and the Housing Revenue Account to Unusable Reserves.

The technical accounting adjustments consist of movements for:

1. Neutralisation of depreciation
2. Revaluation gain/losses for the Council's property portfolio
3. Revenue expenditure funded from capital under statute
4. Adjustments to the pension reserve which neutralises the current service costs and ensures that the actuarial estimates are not charged to Council tax

The table below highlights the key contributors to the net movement in Usable Reserves during 2022-23. Usable Reserves decreased by approximately £25m. This includes increases of £1m in the General Fund Balance, £9m in the Housing Revenue Account, and £26m in the Capital Receipts Reserve, offset by a significant £63m reduction in Earmarked Reserves. The £63m of Earmarked Reserves applied in 2022-23 was to fund specific priorities within Camden and not to fund budget deficits in year.

Reserves	General Fund 2022-23 £'000	Housing Revenue Account 2022-23 £'000	Earmarked Reserves 2022-23 £'000	Capital Receipts Reserve 2022-23 £'000	Material Changes in Usable Reserves 2022-23 £'000
(Surplus)/Deficit on provision of services (CIES)	159,816	(28,643)			131,173

Technical Accounting Adjustments transferred to Unusable reserves	(105,440)	(43,858)			(149,298)
Transfer of capital Receipts Received in year to Capital Receipts Reserve	21,341	49,960		(71,301)	
Application of Capital Receipts to finance capital expenditure in year				44,875	44,875
Transfers (to)/from Earmarked Reserves	(76,717)	13,535	63,182		
(Increase) or decrease in Reserve Balance in year	**(1,000)**	**(9,006)**	**63,182**	**(26,456)**	**26,720**

Reserve balances	**General Fund 2022-23 £'000**	**Housing Revenue Account 2022-23 £'000**	**Earmarked Reserves 2022-23 £'000**	**Capital Receipts Reserve 2022-23 £'000**	**Oher Useable Reserves 2022-23 £'000**	**Material Changes in Usable Reserves 2022-23 £'000**
Opening Balance 1st April 2022	**(14,858)**	**(3,003)**	**(251,031)**	**(68,347)**	**(16,987)**	**(354,226)**
(Increase) or decrease in Reserve Balance in year	(1,000)	(9,006)	63,182	(26,456)	(1,085)	25,635
Closing Balance as at 31st March 2023	**(15,858)**	**(12,009)**	**(187,849)**	**(94,802)**	**(18,073)**	**(328,591)**

Housing Revenue Account Rent Arrears and Cost of Living Crisis

Rent arrears within the Housing Revenue Account have been impacted by Covid-19 crisis and the lockdown measures put in place. As a result of these restrictions, some residents lost their jobs as businesses struggled during the pandemic and the Council paused evictions during the period of pandemic restrictions. However, after the pandemic as restrictions eased and the economy started to recover court backlogs has made enforcement of rent arrears harder.

Furthermore, the cost-of-living crisis born out of rising living costs due to persistently high inflation has resulted in a larger volume of vulnerable residents struggling to pay rent owed. The table below summarises the rent arrears from 2020-21 through to 2022-23.

	31/03/2021 £'000	31/03/2022 £'000	31/03/2023 £'000
Rent Arrears	11,958	22,080	22,627
Total rent tenant service charges billed in year	156,078	158,384	166,551
Percentage of rent collected in year, %	**92%**	**86%**	**86%**

It is important to note that there has been a marked reduction in the rate at which rent arrears has grown between 31 March 2022 and 31 March 2023.

Actions taken to manage rent arrears going forward include setting up a dedicated income team as part of the Housing Transformation Programme and a new IT system to identify residents who are running into difficulty.

The higher cost of everyday essentials – such as food and utility bills – shrinks the income people have available to cover debt repayments, especially families living on lower incomes.

Inflation rates began rising in March 2021 and stayed above 9% between April 2022 and March 2023. Although rates have now started to fall – with October CPI at 2.1%. During this period the increase in prices has had the greatest impact on essentials – with prices of food increasing by 28% between October 2021 and October 2023 and prices of energy and housing increasing by more than 22%.

Everyday essentials are now unaffordable for many, with some households struggling to pay for food and other essential expenses. These struggles are unlikely to subside as we head towards the winter months.

This has been borne out in our accounts within our rent arrears in the Short Term Debtors Note 17 that supports the balance sheet. Total rent arrears for 2022-23 stands at £22.6m, an increase of £10.6m or 47% since 2021.

Much of this relates to housing rent arrears which was £17.65m at 31 March 2023 compared to £11.9m in March 2021.

The council recognises the profound impact the cost-of-living crisis is having on our residents and communities. There are a range of ways the council invests in services to support the least well off in the borough:

1. The £33m investment in our Council Tax Support Scheme (CTSS) which reduces the cost of Council Tax for over 22,000 households, with c16,000 households receiving 100% support and paying no Council Tax at all.
2. Household Support funding - £4m has been used to support families with children through school holidays over the course of the year and in addition providing financial help to pensioner households in partnership with Age UK Camden.
3. Families with secondary school aged children who are struggling could get help with from new £1.3 million fund to tackle child hunger and the cost of uniforms.

4. Continuing our commitment to £4m per year allocated grant funding for the voluntary sector

Alongside there is a wider piece of work ongoing to move the organisation to model ethical, modern, effective debt collection. Our underlying aim is to create a compassionate, consistent, and joined-up system of debt collection and early intervention, where staff:

1. take the time to understand people's circumstances and adapt their approach.
2. proactively assist those in need, and help all residents feel informed about their financial obligations, confident in reaching out, and supported when they do;

This approach will enable the Council to efficiently collect income from people who can afford to pay, while supporting those who need it before their situation escalates.

Conclusion and Outlook for 2023-24

In conclusion, the authority has demonstrated resilience in maintaining financial stability through a challenging year. Despite pressures on resources and rising costs, prudent reserve management and targeted budget adjustments have positioned the authority to respond to ongoing challenges.

The council has made progress in slowing the growth of rent arrears, which reached £22.6 million in 2022-23, driven by the cost-of-living crisis and rising essential costs, including food and energy.

Recognising the profound impact on residents, particularly those on lower incomes, the council has invested in targeted support, such as the £33 million Council Tax Support Scheme, £4 million in Household Support funding, a £1.3 million fund to tackle child hunger and uniform costs, and £4 million annually for voluntary sector grants.

Alongside these measures, the Council is implementing a more ethical and compassionate debt collection approach to balance effective income recovery with proactive support for those in financial difficulty. This holistic strategy aims to address immediate challenges while promoting long-term financial resilience in the community.

Looking ahead to 2023–24, the Council anticipates continued economic challenges and will prioritise fiscal sustainability to safeguard essential services for the community.