



**Report of:** Executive Member for Finance, Performance and Community Safety

Meeting of	Date	Ward(s)
Council	22 February 2018	All

Delete as appropriate	Exempt	Non-exempt
-----------------------	--------	------------

## **BUDGET PROPOSALS 2018-19**

### **1 INTRODUCTION**

- 1.1 The principal purpose of this report is for the Executive to recommend proposals in respect of the Council's 2018-19 budget, as the basis for setting the 2018-19 budget and council tax. The Policy and Performance Scrutiny Committee have reviewed the proposed budget at its meeting on 18<sup>th</sup> January 2018.
- 1.2 The contents of this report are summarised below:
- Section 2** sets out the recommendations.
- Section 3** sets out the 2018-19 General Fund revenue budget and Medium Term Financial Strategy (MTFS).
- Section 4** details the Housing Revenue Account (HRA) for 2018-19 and its MTFS.
- Section 5** sets out the 2018-21 Capital Programme.
- Section 6** sets out the Annual Treasury Management and Investment Strategy, the Prudential Indicators and the Minimum Revenue Provision Policy.
- Section 7** shows the detailed, statutory council tax calculations including a new Foster Carer Relief council tax scheme for 2018-19 and an amendment to the existing Care Leavers Relief scheme. It also seeks approval for the Council to participate in the London Business Rates Pilot Pool in 2018-19.
- Section 8** details matters to consider in setting the budget.

## List of Appendices

<b>Appendix A</b>	General Fund MTFS 2018-21
<b>Appendix B</b>	General Fund Revenue Savings 2018-19
<b>Appendix C</b>	General Fund Fees and Charges 2018-19 <b>(C1)</b> GLL Leisure Fees and Charges 2018-19 <b>(C2)</b> Islington and Camden Cemetery Fees and Charges 2018-19 <b>(C3)</b>
<b>Appendix D</b>	HRA MTFS <b>(D1)</b> HRA Fees and Charges 2018-19 <b>(D2)</b>
<b>Appendix E</b>	Capital Programme 2018-21 <b>(E1)</b> Traffic and Transportation Schemes <b>(E2)</b>
<b>Appendix F</b>	Annual Treasury Management and Investment Strategy 2018-19, including External Debt and Treasury Management Prudential Indicators <b>(F1)</b> Additional Capital Prudential Indicators <b>(F2)</b>
<b>Appendix G</b>	London Business Rates Pilot Pool - Memorandum of Understanding
<b>Appendix H</b>	Resident Impact Assessment 2018-19
<b>Appendix I</b>	Pay Policy 2018-19

## **2 RECOMMENDATIONS**

### **General Fund Budget 2018-19 and MTFS (Section 3)**

- 2.1 To agree the 2018-19 net Council cash limits as set out in **Table 1 (Paragraph 3.1.4)** and the MTFS at **Appendix A**, which include the revenue savings at **Appendix B**.
- 2.2 To agree growth of £0.8m on supporting over-5s childcare, after-school childcare and holiday childcare, plus tackling holiday hunger. (**Paragraph 3.1.5-3.1.7**)
- 2.3 To note the fees and charges policy and agree the 2018-19 fees and charges. (**Paragraphs 3.2.4-3.2.5 and Appendices C1-C3**)
- 2.4 To agree the Council's policy on the level of General Fund balances and note the estimated level of earmarked reserves and general balance available for use in 2018-19. (**Paragraphs 3.2.6-3.2.8 and Table 3**)

### **HRA Budget 2018-19 and MTFS (Section 4)**

- 2.5 To agree the balanced HRA 2018-19 budget within the HRA MTFS at **Appendix D1**.
- 2.6 To note the 2018-19 HRA rents and other fees and charges. (**Tables 5-8 and Appendix D2**)

### **Capital Programme 2018-21 (Section 5)**

- 2.7 To agree the 2018-19 capital programme and note the provisional programme for 2019-21. (**Paragraph 5.1, Table 9 and Appendix E1**)
- 2.8 To agree that the Corporate Director Resources applies capital resources to fund the capital programme in the most cost-effective way. (**Paragraph 5.2**)
- 2.9 To note the schedule of planned Traffic and Transportation schemes in 2018-19 and agree the related decision-making responsibilities for these schemes. (**Paragraph 5.3 and Appendix E2**)

## **Treasury Management Strategy (Section 6)**

- 2.10 To agree the Annual Treasury Management and Investment Strategy 2018-19 (including external debt and treasury management Prudential Indicators), as considered by Audit Committee on 23<sup>rd</sup> January 2018. (**Paragraph 6.1** and **Appendix F1**)
- 2.11 To agree the additional capital Prudential Indicators. (**Paragraph 6.1** and **Appendix F2**)
- 2.12 To agree the minimum revenue provision (MRP) policy. (**Paragraphs 6.2** to **6.7**)

## **Council Tax and Retained Business Rates 2018-19 (Section 7)**

- 2.13 To agree the calculations required for the determination of the 2018-19 council tax requirement and the level of council tax as detailed in **Section 7** and summarised below.
  - 1) The 2018-19 council tax requirement of £88,763,542.91. (**Paragraph 7.9** and **Table 10**)
  - 2) The relevant basic amount of Islington Band D council tax of £1,135.44, a 5.99% increase (comprising a 3.00% adult social care precept and a 2.99% core council tax increase) compared to 2017-18, and to determine that this is not 'excessive'. (**Paragraphs 7.10** and **7.11**, **Table 11**)
  - 3) The basic amount of Islington Band D council tax for dwellings to which no special item relates (i.e. outside of the Lloyd Square Garden Committee area) of £1,135.22 and total Band D council tax (including the GLA precept) of £1,429.45. (**Paragraphs 7.12** and **7.16**, **Tables 12** and **15**)
  - 4) The amount of 2018-19 council tax (excluding the GLA precept) for each valuation band over each of the Council's areas. (**Paragraph 7.14** and **Table 13**)
  - 5) The total amount of 2018-19 council tax (including the GLA precept) for each valuation band over each of the Council's areas. (**Paragraph 7.16** and **Table 15**)
- 2.14 To agree a new class of council tax charge payer known as foster carer and implement a new Foster Carer Relief scheme from 1<sup>st</sup> April 2018 to reduce the full council tax liability to nil of every Islington household for the period where the household includes an approved foster carer (including foster carers living in Islington who are registered with other local authorities or approved agencies). (**Paragraphs 7.4-7.6**)
- 2.15 To agree that Shared Lives carers living in Islington be included within the new Foster Carer Relief Scheme. (**Paragraph 7.7**)
- 2.16 To amend the existing council tax relief scheme for care leavers to cover the full council tax liability from 1<sup>st</sup> April 2018. (**Paragraph 7.8**)
- 2.17 To agree to the following in relation to the Council's proposed participation in the London Business Rates Pilot Pool: (**Paragraphs 7.17** to **7.22**)
- 2.18 To approve and accept the designation by the Secretary of State as an authority within the London Business Rates Pilot Pool pursuant to 34(7)(1) of Schedule 7B Local Government Finance Act 1988.
- 2.19 To participate in the London Business Rates Pilot Pool with effect from 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019.
- 2.20 Delegate the authority's administrative functions as a billing authority pursuant to the Non-Domestic Rating (Rates Retention) Regulations 2013 to the City of London Corporation ("COLC") acting as the Lead Authority.
- 2.21 To authorise the Lead Authority to sub-contract certain ancillary administrative functions regarding the financial transactions (payment of tariffs and top-ups) within the Pool to the GLA as it considers expedient.
- 2.22 To delegate authority to the Corporate Director Resources, in consultation with the Executive Member for Finance, Performance and Community Safety, to agree the operational details of the pooling arrangements with the participating authorities.

- 2.23 To authorise the Corporate Director Resources, in consultation with the Acting Director of Law and Governance, to make any amendments to the Memorandum of Understanding, attached at **Appendix G** to the report, as may be required by the Secretary of State, and to enter into the final Memorandum of Understanding on behalf of the authority.
- 2.24 To authorise the Leader of the Council to represent the authority in relation to consultations regarding the London Business Rates Pilot Pool as may be undertaken by the Lead Authority pursuant to the Memorandum of Understanding.
- 2.25 To delegate to the Corporate Director Resources, in consultation with the Executive Member for Finance, Performance and Community Safety, the authority to consider such consultative reports as the Lead Authority may circulate and to respond on behalf of the authority with regard to any recommendations and in particular, proposals for projects to be approved for funding from the Strategic Investment Pot.
- 2.26 To delegate to the Lead Authority the functions of assessment, due consultation and approval of projects eligible for funding from the Pool's Strategic Investment Pot following consultation with the participating authorities (provided that at least two thirds of such participating London Boroughs are (including the City of London Corporation) in favour of the relevant recommendation as well as the Mayor of London, and that no entire sub-region is in disagreement with the decision) on such terms and conditions as shall ensure value for money and compliance with the law.
- 2.27 To delegate to the Corporate Director Resources the authority to finalise the Council's estimated retained business rates income in 2018-19 based on the final Pool model that will determine the amounts to be distributed by the pool in 2018-19, and to transfer any additional estimated retained business rates income in 2018-19 to a new, earmarked 'NNDR Smoothing Reserve' until it is more certain for budgeting purposes.

#### **Matters to Consider in Setting the Budget (Section 8)**

- 2.28 To note the Section 151 Officer's and the Monitoring Officer's comments in their determination of the revenue and capital budgets for 2018-19 and the basis for the level of council tax, including the Section 151 Officer's report in relation to his responsibilities under Section 25 (2) of the Local Government Act 2003.
- 2.29 To delegate authority to the Corporate Director Resources, in consultation with the Executive Member for Finance, Performance and Community Safety, to make any changes to the budget proposals contained within the report necessitated by the final Local Government Finance Settlement, confirmation of Levies and the GLA precept.
- 2.30 To note the Resident Impact Assessment (RIA) on the 2018-19 budget. (**Appendix H**)
- 2.31 To note the Pay Policy Statement for 2018-19, for onward agreement by Council. (**Appendix I**)

### **3 GENERAL FUND BUDGET 2018-19**

#### **3.1 GENERAL FUND BUDGET**

##### **Overview**

- 3.1.1 Significant Government funding cuts since 2010, coupled with unavoidable demographic and inflationary cost pressures, have meant that Islington has had to find £194m of savings up to and including 2017-18. There is an expected further 10% cash reduction in our core settlement funding over the next two years (the last 2 years of the Government's 4-year funding settlement), combined with further inflationary, demographic and structural funding pressures (particularly relating to Children's Services). As a result, a further estimated £51m of ongoing savings need to be found over the next 2 years, comprising £32m in 2018-19 and £19m in 2019-20. The 2019-20 savings requirement will increase accordingly for any 2018-19 savings that are one-off rather than ongoing in nature.

- 3.1.2 Over the period 2010 to 2020, Islington will have faced a like-for-like reduction in core unringfenced government funding of revenue support grant, business rates and top-up grant of approximately 70%.

### **Proposed MTFS and Revenue Savings**

- 3.1.3 The proposed General Fund revenue budget and net revenue budgets for 2018-19 are shown within the MTFS at **Appendix A**. The MTFS includes the proposed 2018-19 General Fund savings at **Appendix B** and also details the forecast net expenditure over the medium term, based on current knowledge and expectations.
- 3.1.4 **Table 1** below summarises the net revenue budgets for 2018-19 that are included within the MTFS at **Appendix A**, for agreement as part of the recommendations of this report.

**Table 1 – Council Budget Requirement and Departmental Cash Limits 2018-19**

	<b>£000</b>
<b>Departments</b>	
Chief Executive's Department	2,075
Children's Services	81,720
Environment and Regeneration	13,959
Housing and Adult Social Services	78,375
Public Health	0
Resources	48,595
<b>NET COST OF SERVICES</b>	<b>224,724</b>
<b>Net Corporate items</b>	<b>283</b>
<b>NET OPERATING EXPENDITURE</b>	<b>225,007</b>
<b>Other Budget Items:</b>	
Contingency	2,000
Transfer to/(from) Reserves	(7,219)
New Homes Bonus	(6,176)
Other Corporate Grants (estimate)	(600)
<b>AMOUNT TO BE MET FROM BUSINESS RATES RETENTION AND COUNCIL TAX</b>	<b>213,012</b>

### **Proposed Growth - Over-5s Childcare, After-School Childcare and Holiday Childcare, and Tackling Holiday Hunger**

- 3.1.5 It is recommended that £800k, equivalent to a 1% increase in council tax, is allocated to supporting over-5s childcare, after-school childcare and holiday childcare, and tackling holiday hunger.

### ***After School Clubs and Holiday Childcare***

3.1.6 The Council currently funds 27 settings (23 schools, 4 VCS) to provide 770 places for after school care. We fund 7 settings (2 schools and 5 VCS) to provide 190 holiday care places. The total funding for these services is £640k. Some discounts are offered for low income families, siblings, SEND children and free places to vulnerable families to help them work. The actual cost of providing the places is between £6 - £14 for after school clubs and £23 - £35 per day for holiday care. Take-up is very good, especially of summer holiday schemes, with occupancy over 85% at all schemes. Whilst it is unusual for a local authority to subsidise out of school care for over 5s, it is clearly a crucial part of the financial planning for at least 600 of our families. The Council has extended the funding as a cost pressure, but providers had been told that funding would end in August 2018. This proposal extends the funding on an ongoing basis.

### ***Holiday Hunger***

3.1.7 There is increasing awareness that many of our poorest children do not get a hot meal when they are not at school, in the school holidays. 'Holiday hunger' is likely to become more of a problem with changes to the benefits system. It is proposed that the balance of £160k is spent on an ongoing basis to initiate work to tackle holiday hunger.

## **3.2 GENERAL FUND BUDGET – DETAIL**

### **Local Government Finance Settlement and Funding 2018-19**

3.2.1 The Local Government Finance Settlement detailed the Council's core Government funding allocation for 2018-19. Islington's final core settlement funding allocation for 2018-19 is summarised in **Table 2** below.

**Table 2 – Core Settlement Funding Assessment 2018-19**

	<b>£m</b>
Retained Business Rates	169.232
Tariff Payment	(54.668)
<b>Total Core Settlement Funding</b>	<b>114.564</b>
<b>Year-on-Year Cut</b>	<b>5.870</b>

3.2.2 The Council will receive £6.2m New Homes Bonus grant in 2018-19, directly attributable to the number of new homes built in the borough over the past four years.

3.2.3 The Council will also receive £25.9m Public Health grant, £10.2m Improved Better Care Fund grant and £0.8m one-off Adult Social Care grant in 2018-19.

### **Fees and Charges**

3.2.4 Some fees and charges are laid down by statute and are not within the Council's power to vary locally; others are discretionary and are set with Council's approval. The Council's proposed discretionary fees and charges for 2018-19 are set out at **Appendices C1-C3**.

3.2.5 It is the Council's policy to increase its discretionary fees and charges broadly in line with inflation (3.8% at Quarter 3 2017, this being the quarter average) unless a variation is approved by Council or Executive. The relevant extract of the Council's fees and charges policy is set out below:

*“There will be an overall annual increase in fees and charges in line with the Retail Price Index (RPI), subject to the following:*

*(i) use of the Quarter 3 RPI (All Items)*

*(ii) appropriate rounding of charges for the purposes of administration and collection*

*(iii) statutory changes to fees and charges being excluded*

(iv) fees and charges on which the Council has or decides to have a specific policy may be varied by report to the Executive

Where the Quarter 3 RPI (All Items) is negative all fees and charges will be frozen, subject to provisions (ii) to (iv) above.”

### **General Balances and Reserves**

3.2.6 The Section 151 Officer is required to report to the authority, when it is making the statutory calculations required to determine its council tax, on the estimates included in the budget and the adequacy of reserves. The report of the Section 151 Officer is included within **Section 8** of this report. The estimated level of earmarked reserves and general balances available for use in 2018-19, after taking into account current estimated drawdowns in 2017-18 and 2018-19, is shown in **Table 3** below.

**Table 3 – Estimated Reserves and General Balances 2018-19**

	<b>£m</b>
Contingency Reserve	3.8
Housing Benefit Reserve	0.4
Services Specific Reserve – Adult Social Care	0.8
General Fund Balances (excluding schools)	8.7
Schools Balances	9.0
<b>Total</b>	<b>22.7</b>

3.2.7 The 2018-19 level of the Council’s general balances will be just over 4% of the net budget requirement, which is in line with the Council’s policy on the level of general balances:

“The policy of the Council is to set a target level of General Fund balances (excluding schools balances) at **4%** of the net budget requirement (excluding schools expenditure) over the course of the medium-term financial strategy. The rationale for this level is based upon an assessment of the level of risk inherent within the Council budget over the medium-term financial planning period. The level of General Fund balances should be adequate to meet working balance requirements and to provide a reasonable allowance for unquantifiable risks that are not already covered within the Council’s budgets and any contingency sums. The Chief Finance Officer (Section 151 officer) shall be responsible for reporting to the Council on the adequacy of the reserves and balances.”

3.2.8 In addition to the one-off contingency reserve, detailed in **Table 3**, the 2018-19 General Fund budget includes an ongoing, unallocated contingency budget of £2m. The ongoing contingency budget is intended to provide some flexibility within the budget over the coming year.

### **Corporate Levies**

3.2.9 The Council is required to pay levies to a number of other bodies, which must be met from within the overall budget requirement. The latest estimated levies for 2018-19 are detailed in **Table 4**.

**Table 4 – Levy Estimates 2018-19**

	<b>2018-19 Estimate £000</b>
Concessionary Fares ('Freedom Pass')	11,478
North London Waste Authority	8,463
Lee Valley Regional Park Authority	189
Traffic and Control Liaison Committee	293
Inner London North Coroners Court	319
London Pensions Fund Authority	1,181
Environment Agency (Thames Region)	177
London Boroughs Grants Scheme	177
<b>Total</b>	<b>22,277</b>

## **4 HOUSING REVENUE ACCOUNT**

### **Housing Revenue Account (HRA) Overview**

- 4.1 The HRA MTFS covers the cost of managing and maintaining council owned housing stock, servicing debt and contributing towards the long-term investment in the stock, all of which is funded primarily from rents and tenants' and leaseholders' service charges.
- 4.2 Since 2015, Central Government has passed two pieces of legislation which have had/could have a significant impact on Housing and the HRA in Islington.
- 4.2.1 The Housing and Planning Act 2016 received Royal Assent on 12<sup>th</sup> May 2016.
- 4.2.2 The Welfare Reform and Work Act 2016 received Royal Assent on 16<sup>th</sup> March 2016.

### **The Housing and Planning Act 2016**

- 4.3 The main element of the Housing and Planning Act that affects Housing and the HRA is the requirement for local authorities to dispose of high-value vacant council houses, in order to fund both the increase in discounts arising from the extension of the Right to Buy to housing association tenants and the building of more affordable homes. The indications are that this policy has been put on hold by Central Government.

### **The Welfare Reform and Work Act 2016**

- 4.4 The main elements of the Welfare Reform and Work Act 2016 that will affect Housing and the HRA are:
- 4.4.1 Rents for social housing will be reduced by 1% a year for 4 years from 2016-17; and
- 4.4.2 Registered providers of social housing must ensure that the amount of rent payable in a relevant year by a tenant of their social housing in England is 1% less than the amount that was payable by the tenant in the preceding 12 months.
- 4.4.3 As Islington's HRA business plan had been predicated on reaching target rent, the business plan had an annual increase of Consumer Prices Index (CPI) +1% + £2 built in. The result of this is an effective reduction of rent income of approximately 5% incrementally or £7m per annum equating to a loss of approximately 20% or £28m over the 4-year period.
- 4.5 The HRA Business Plan is currently balanced over the medium term, accommodating the impact of the Housing Bill and the Welfare Reform and Work Bill. The proposed budget for 2018-19 and the forecast budgets over the medium-term, based on current knowledge and assumptions, are shown at **Appendix D1**.

- 4.6 In order to mitigate the financial impact of the Government's proposals, the following key measures have been taken:
- 4.6.1 Rescheduling current HRA borrowing over the term of the 30-year Business Plan.
- 4.6.2 The New Build capital programme will not be subsidised from significant HRA revenue contributions. Instead, funding will be limited primarily to open market sale receipts, Right-to-Buy receipts and other receipts from disposals.
- 4.6.3 A programme of agreed HRA savings have been incorporated into the HRA's MTFs, covering the period 2016-20.

**Rental Income and Other HRA Fees and Charges**

- 4.7 HRA 2018-19 rents will be set in accordance with the proposals as set out in the Welfare Reform and Work Bill:

**LBI managed general needs properties (excluding new build properties):**

- 4.8 **Table 5** below sets out proposed rent changes for existing tenancies – 2017-18 actual rents less 1%.

**Table 5 – Existing Tenancies Weekly Rent 2018-19**

	<b>Proposed 2018-19</b>
Average Weekly Rent 2017-18	£109.90
Decrease (£)	-£1.10
Decrease (%)	-1%
Average Weekly Proposed Rent	£108.80

- 4.9 **Table 6** below sets out proposed rent changes for properties re-let during 2018-19. The 2018-19 rent will be the higher of 2017-18 target rent less 1% or the 2017-18 actual rent less 1%.

**Table 6 – Re-Let Properties Weekly Rent 2018-19**

	<b>Proposed 2018-19</b>
Average Weekly Target Rent 2017-18	£115.48
Decrease (£)	-£1.15
Decrease (%)	-1%
Average Weekly Proposed Target Rent	£114.33

**LBI managed general needs new build properties:**

- 4.10 Existing tenancies – 2017-18 rents will reduce by 1%.
- 4.11 Re-lets and new-lets in 2018-19 - rents will be set at 2018-19 target rent (i.e. 2017-18 target plus Consumer Prices Index (CPI), which is +3% at September 2017 plus 1%).

**LBI managed non-general needs properties:**

- 4.12 Properties used for temporary accommodation (including reception centres) – existing tenancies and re-lets set at 2017-18 actual rents minus 1%.
- 4.13 Specialised supported housing is exempt from the 1% rent reduction hence 2018-19 rents will be set in line with current Council policy and increase by CPI (+3% at September 2017) plus 1%.

## Partners for Islington managed properties:

- 4.14 The Welfare Reform and Work Act exempts properties managed under a Private Finance Initiative (PFI) scheme from the 1% rent reduction. It is proposed that existing Council policy continues to apply to all PFI properties managed by Partners for Islington.
- 4.15 This means that the principles of rent restructuring will continue to apply and that PFI properties not currently at target rent will move to the 2018-19 target rent subject to the affordability cap of the 2017-18 actual rent plus CPI (+3% at September 2017) plus 1% plus £2.
- 4.16 However, PFI properties already at target rent will simply increase by CPI (+3% at September 2017) plus 1%.
- 4.17 PFI property re-lets will be set at 2018-19 target rents (i.e. the 2017-18 target rent plus CPI (+3% at September 2017) plus 1%).
- 4.18 **Table 7** below sets out proposed rent changes for PFI properties (existing tenancies not yet at target rent).

**Table 7 – Existing Tenancies (not at target rent in 2017-18)**  
**PFI Properties Weekly Rent 2018-19**

	<b>Proposed 2018-19</b>
Average Weekly Rent 2017-18	£139.23
Increase (£)	£6.44
Increase (%)	4.6%
Average Weekly Proposed Rent	£145.67

- 4.19 **Table 8** below sets out proposed rent changes for PFI properties (Re-Lets and existing tenancies already at target rent).

**Table 8 – Re-Lets and Existing Tenancies (at target rent in 2017-18)**  
**PFI Properties Weekly Rent 2018-19**

	<b>Proposed 2018-19</b>
Average Weekly Target Rent 2017-18	£151.29
Increase (£)	£6.05
Increase (%)	4.0%
Average Weekly Proposed Target Rent	£157.34

## Other HRA Fees & Charges

- 4.20 These are set out at **Appendix D2**. Explanations as to the increases and reductions are set out in the appendix notes pertaining to the individual charges.

## **5 CAPITAL PROGRAMME**

- 5.1 The 2018-19 to 2020-21 capital programme is summarised in **Table 9** below and detailed at **Appendix E**. This will deliver projects of £376m over the next three years and includes the continuation of existing programmes of investment in new homes (£225m), housing major works and improvements (£101m) and education facilities (£24m).

**Table 9 – Capital Programme 2018-19 to 2020-21**

	<b>2018-19 £000</b>	<b>2019-20 £000</b>	<b>2020-21 £000</b>	<b>Total £000</b>
Housing and Adult Social Services	116,702	121,101	88,181	325,984
Children's Services	23,960	0	0	23,960
Environment and Regeneration	11,526	7,775	6,375	25,676
<b>Total Capital Programme</b>	<b>152,188</b>	<b>128,876</b>	<b>94,556</b>	<b>375,620</b>

- 5.2 While uncertainty surrounds the level and timing of capital resources estimated to be available over the medium-term, the Council is forecasting that there will be sufficient resources to fund the 2018-19 programme and the provisional programme for 2019-20 to 2020-21. The Corporate Director Resources will continue to apply capital resources to fund the ongoing capital programme in the most cost-effective way.
- 5.3 A schedule of planned Traffic and Transportation schemes in 2018-19 and related decision-making responsibilities is provided at **Appendix E2**.

## **6 TREASURY MANAGEMENT STRATEGY 2018-19**

- 6.1 The Annual Treasury Management and Investment Strategy 2018-19 (including external debt and treasury management Prudential Indicators) was considered by Audit Committee on 23<sup>rd</sup> January 2018. This is included at **Appendix F1** with additional capital Prudential Indicators at **Appendix F2**.
- 6.2 The Council is required to make a minimum revenue provision (MRP) for the annual repayment of debt associated with the financing of capital expenditure. The provision needs to be determined and approved by the Council each year, based on guidance issued by the Department of Communities and Local Government (DCLG) on 15<sup>th</sup> February 2012. The DCLG issued The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 that became effective on 31<sup>st</sup> March 2008. These regulations require a local authority to determine each financial year the MRP which it considers to be prudent. The current regulations mean that local authorities have discretion in determining the level of the MRP policy, with the guiding principle that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits.
- 6.3 The Council has adopted (since 2017-18) the asset life (annuity) method, which is applied to both 'supported' and 'unsupported' borrowing, and results in more even payments linked to average asset life. The average life of the Council's assets funded by 'supported' borrowing is 67 years. However, the DCLG guidance recommends using asset life over a shorter period; therefore, it is recommended that a shorter 50-year asset life is used. Similarly, for 'unsupported' borrowing, the average asset life is 27 years. In line with the guidance, where prudence is encouraged, the asset life has been rounded down to 25 years. In calculating the asset life (annuity) MRP, the average interest rates published by the Public Works Loans Board in the relevant financial year for new annuity loans would be used.
- 6.4 The Council's current MRP policy in relation to Private Finance Initiative (PFI) contracts and assets acquired by finance is calculated in line with the repayment life method, resulting in a charge equal to the element of the PFI/lease payment that goes to write down the balance sheet liability. While this method is appropriate for assets with short lives (up to 20 years) , it is not appropriate for long term or high value contracts where the benefit derived from the assets is not evenly spread over the useful life of the asset.

- 6.5 Consequently, the Council is proposing to adopt a new MRP policy for PFI contracts and assets acquired by finance where MRP for short life assets and low value contracts is equal to the element of the charge that goes to write down the balance sheet liability. Similarly for long life or high value PFI contracts, MRP is spread across the expected life of the asset, in equal instalments.
- 6.6 This policy is to apply from 2017-18 (the current financial year) onwards. Based on the proposed policy, the Council has identified two schemes (Building for Schools PFI 1 and 2) that meet the criteria of MRP being spread across the expected life of the asset in equal instalments.
- 6.7 By adopting this method, it ensures a constant impact on the revenue account over the useful life of the asset being financed and is a prudent basis for providing for assets that produce a steady flow of benefits over their useful life as is the case for council assets.

## **7 COUNCIL TAX AND RETAINED BUSINESS RATES 2018-19**

- 7.1 The local government finance settlement allows local authorities to raise an additional 3.00% council tax precept specifically to cover additional social care costs. In addition to a proposed 2.99% increase in core council tax, the 2018-19 budget includes a further 3.00% increase as a result of applying this adult social care precept. The overall increase (5.99%) equates to an additional £1.23 per week for the average Band D property.

### **Islington Council Tax Base 2018-19**

- 7.2 On 23<sup>rd</sup> January 2018, the Audit Committee agreed for 2018-19 a council tax base of 78,175.8 Band D properties for the Council's whole area, and 44.9 Band D properties for the Lloyd Square Garden Committee area. The council tax base figures assume a collection rate of 98.0% for the Council's whole area and 98.0% for the Lloyd Square Garden Committee Area.
- 7.3 This tax base incorporates the Council Tax Support Scheme agreed by the Council on 7<sup>th</sup> December 2017 as well as the Foster Carer (including Shared Lives) and Care Leavers Council Tax Relief Schemes.

### **Fosters Carer (including Shared Lives) and Care Leavers Council Tax Relief Schemes**

- 7.4 The Council regularly promotes the benefits and personal rewards of becoming a foster carer and encourages residents to apply. Being a foster carer can be challenging but hugely rewarding and satisfying, providing care and support to a young person when they need it most, but does come with additional financial costs.
- 7.5 The Council accepts its role as a responsible corporate parent and wants to further support foster carers, who take on the parenting responsibility for the Council. Following the Council's successful implementation of the Carer Leavers Relief scheme from 1<sup>st</sup> April 2017, the Council now plans to create a new class of council tax charge payer known as foster carer and implement a Foster Carer Relief scheme from 1<sup>st</sup> April 2018. The Foster Carer Relief scheme will reduce the full council tax liability to nil of every Islington household for the period where the household includes an approved foster carer (including foster carers living in Islington who are registered with other local authorities or approved agencies). This will help to ease the financial pressures of fostering and allow fosters carers to direct their focus on providing care and support to the young people in their care.
- 7.6 Based on the current number of approved foster carers living in Islington, it is estimated that the net cost of providing council tax relief to foster carers will be approximately £61k in 2018-19, shared with the GLA via the Collection Fund.

- 7.7 Within the new Foster Carer Relief Scheme, the Council plans to include Shared Lives carers living in Islington, who share their lives with vulnerable adults with a disability (sometimes compared to ‘fostering for adults’). It is estimated that the net cost of providing council tax relief to Shared Lives carers will be approximately £12k in 2018-19, shared with the GLA via the Collection Fund.
- 7.8 The Council also plans to amend the existing Care Leavers Relief scheme to cover the full, rather than the net, council tax liability. This amendment will have a neutral financial impact for the Council, because the increase in the amount of Care Leavers Relief awarded will be offset by a corresponding decrease in other council tax exemptions, discounts and reductions.

### **Council Tax 2018-19**

- 7.9 Sections 31A and 31B of the amended Local Government Finance Act (LGFA) 1992 require the Council to calculate its gross expenditure, gross income and council tax requirement. For these purposes, HRA expenditure and income is included even though it has no effect on council tax, and the gross expenditure figure includes special expenses relating to part only of the Council’s area. The calculation of the 2018-19 council tax requirement is set out in **Table 10** below.

**Table 10 – Section 31A (amended LGFA 1992) Calculation 2018-19**

	£
Aggregate of the amounts which the Council estimates for items set out in Section 31A (2) (a) to (f) of the LGFA 1992 <b>(A)</b>	£973,282,100.00
Aggregate of the amounts which the Council estimates for items set out on Section 31A (3) (a) to (d) of the LGFA 1992 <b>(B)</b>	(884,518,557.09)
Calculation of the council tax requirement under Section 31A (4), being the amount by which the sum aggregated at <b>(A)</b> above exceeds the aggregate at <b>(B)</b> above	<b>£88,763,542.91</b>

- 7.10 The calculation of the relevant (average) 2018-19 council tax per Band D property is set out in **Table 11** below.

**Table 11 – Section 31B (amended LGFA 1992) Calculation 2018-19**

Council Tax Requirement	£88,763,542.91
Council Tax Base	78,175.8
<b>2018-19 Relevant Band D Council Tax</b>	<b>£1,135.44</b>
<b>Increase Compared to 2017-18</b>	<b>5.99%</b>

- 7.11 Each billing authority and precepting authority must determine whether its relevant basic amount of council tax for a financial year is excessive. If an authority’s relevant basic amount of council tax is excessive, a referendum must be held in relation to that amount. For 2018-19, the relevant basic amount of council tax for Islington would be excessive if it is 6% (comprising 3% for expenditure on adult social care and 3% for other expenditure) or more than its relevant basic amount of council tax for 2017-18. Therefore, the proposed 5.99% increase (including the 3% social care precept) in the relevant basic amount of Band D Islington council tax is not excessive.

- 7.12 Additional council tax calculations are required where special items relate to part only of the Council's area (for Islington, the Lloyd Square Garden Committee special expense). The calculation of the 2018-19 basic amount of council tax for dwellings in Islington to which no special item relates (i.e. outside the Lloyd Square Garden Committee area) is shown in **Table 12** below.

**Table 12 – 2018-19 Basic Council Tax for All Other Parts of the Council's Area**

Council Tax Requirement (including Lloyd Square Garden Committee special expense)	£88,763,542.91
Less Lloyd Square Garden Committee special expense	(£17,201.91)
<b>Council Tax Requirement (excluding special expenses)</b>	<b>£88,746,341.00</b>
Council Tax Base	78,175.8
<b>2018-19 Basic Band D Council Tax for All Other Parts of the Council's Area</b>	<b>£1,135.22</b>
<b>Increase Compared to 2017-18</b>	<b>5.99%</b>

- 7.13 The Lloyd Square Garden Committee special expense is £17,201.91 in 2018-19, an increase of 2% compared to 2017-18. When this is divided by the Lloyd Square Garden Committee Band D taxbase (44.9), it gives a charge of £383.12 per Band D property for 2018-19. This will be charged to Lloyd Square Garden area dwellings in addition to the basic Islington Band D council tax of £1,135.22 for all other parts of the Council's area.
- 7.14 The 2018-19 basic amount of Islington council tax for each valuation band for the Lloyd Square Garden area and all other parts of the Council's area are shown in **Table 13** below. These amounts are calculated by multiplying the Band D council tax amount per property by the proportions set out in Section 5(1) of the LGFA 1992.

**Table 13 – Basic Islington Council Tax 2018-19**

Valuation Bands	Lloyd Square Garden Area (£)	All Other Parts of the Council's Area (£)
A	1,012.22	756.81
B	1,180.93	882.95
C	1,349.63	1,009.08
<b>D</b>	<b>1,518.34</b>	<b>1,135.22</b>
E	1,855.74	1,387.49
F	2,193.15	1,639.76
G	2,530.56	1,892.03
H	3,036.67	2,270.44

- 7.15 The 2018-19 GLA precept for each valuation band is shown in **Table 14** below.

**Table 14 – GLA Precept 2018-19**

<b>Valuation Bands</b>	<b>GLA (£)</b>
A	196.15
B	228.85
C	261.54
<b>D</b>	<b>294.23</b>
E	359.61
F	425.00
G	490.38
H	588.46

7.16 **Table 15** below shows the total amount of 2018-19 council tax (including GLA precept) for each valuation band over each of the Council's areas.

**Table 15 – Total Islington and GLA Council Tax 2018-19**

<b>Valuation Bands</b>	<b>Lloyd Square Garden Area (£)</b>	<b>All Other Parts of the Council's Area (£)</b>
A	1,208.37	952.96
B	1,409.78	1,111.80
C	1,611.17	1,270.62
<b>D</b>	<b>1,812.57</b>	<b>1,429.45</b>
E	2,215.35	1,747.10
F	2,618.15	2,064.76
G	3,020.94	2,382.41
H	3,625.13	2,858.90

## **London Business Rates Pilot Pool**

- 7.17 Approval is sought in the recommendations of this report for the Council to participate in the proposed London Business Rates Retention Pilot Pool in 2018-19. The pilot pool has been developed by London Councils and will require London Boroughs, the City of London and the Greater London Authority (GLA) to pool all business rates received in 2018-19. Pooling is voluntary and all pool members must formally agree to join for it to happen but are free to leave after a year. The Memorandum of Understanding is attached at **Appendix G**.
- 7.18 The Council's overall level of core settlement funding in 2018-19 will be the same inside the pool as it would be outside it. However, the composition of core settlement funding will change from being part of the pool with Revenue Support Grant and Top-up Grant replaced by a greater retained share of business rates income and a tariff payment to the Government (to be confirmed in the local government finance settlement).
- 7.19 All pool members will share the benefits of future growth, and there is a guarantee that no member will be worse off inside the pool than they would be outside it. 15% of growth proceeds will be allocated to an investment pot, with the remaining 85% distributed to members (15% based on local growth, 35% based on core funding and 35% based on population).
- 7.20 There will be no upper levy (ceiling) on growth proceeds that can be retained by the pool, and a safety net (floor) will protect 97% of income.
- 7.21 No new burdens will be imposed by the Government and participation will not prejudice the outcome of the Fair Funding Review for London boroughs.
- 7.22 The Council's estimated retained business rates income in 2018-19 will be based on the final pool model that will determine the amounts to be distributed by the pool in 2018-19. However, the actual level of growth achieved by the pool will not be known until the summer of 2019 once the business rates outturn for 2018-19 is confirmed. A 1% variation in business rates income in London equates to almost £80m. It would not be prudent to apply business rates growth from the pool based on estimates at this stage. Therefore, it is recommended that any additional estimated retained business rates income in 2018-19, compared to the current estimate in the budget, is transferred to a new, earmarked 'NNDR Smoothing Reserve' until it is more certain for budgeting purposes.

## **8 MATTERS TO CONSIDER IN SETTING THE BUDGET**

### **COMMENTS OF THE SECTION 151 OFFICER**

- 8.1 The Council, when determining the budget and thereby the level of council tax, must take into account the report of its Section 151 Officer. The report must comment on the robustness of the estimates included in the budget and parallel consideration of the adequacy of the Council's proposed reserves. This section of the report includes consideration of these specific areas and enables the authority to discharge its duty to take account of the statutory report under Section 25(2) of the Local Government Act 2003.
- 8.2 The process for challenging, compiling and collating the budget begins in April prior to the year for which the council tax is being set. The process involves all of the spending departments, and assumptions are scrutinised throughout the year. It is the thoroughness of this process, which provides the assurance that all strategic, operational and financial risks facing the authority have been taken into account, as far as they are reasonably anticipated to be incurred by the Council in the next financial year.

- 8.3 The scale of the budget gap in 2018-19 has been challenging for the organisation to close, with one-quarter of the £32m budget gap having to be found from one-off resources. This is not the ideal solution to closing a significant budget gap but is hard to avoid in the current financial climate. The Council has delivered £194m of savings since 2010, has significant cash cuts to Central Government funding in every budget year (continuing at least until 2020) and has inflationary and demographic pressures that are rising at a trajectory even beyond that which we attempt to budget for. The Council has an ever-reducing cost base from which to find savings, so the use of some one-off savings is unavoidable and provides time to work-up more sustainable savings options for future budget years. It should be highlighted that the £8m of one-off savings to close the 2018-19 gap adds to the budget gap for future years. In this context, it is imperative that the 2018-19 budget is delivered in-year, with no further drain on one-off resources, and that the 2019-20 budget process is started early in the new financial year to deliver a balanced budget for 2019-20 funded by ongoing revenue streams. The future years' budgets for 2019 through to 2022 look extremely challenging for the Council and will result in the need to take tough decisions to ensure the budget is balanced.
- 8.4 Subject to the concerns raised in **paragraph 8.3** above, it is the opinion of the Section 151 Officer that the estimates for 2018-19 have been prepared on a robust basis. The contingency provision for 2018-19 is low and means that successfully delivering the 2018-19 budget in-year is imperative to the future financial health of the Council.
- 8.5 In setting the level of general reserves and balances, account has been taken of the key financial assumptions underpinning the budget, the views of the Council's auditors, the level of earmarked reserves and provisions, and the risks facing the Council over the medium-term. The MTFS assumes contributions such that over the planning period the Council is forecast to attain a target of general balances at 4% of the budget requirement. Maintaining general balances at 4% of the budget requirement is considered a minimum position in the short-term but, given the level of risk facing the Council's finances, steps should be taken by the Council to increase the level of general balances to 5% of the budget requirement over the medium-term.
- 8.6 It is recommended that authority is delegated to the Corporate Director Resources, in consultation with the Executive Member for Finance, Performance and Community Safety, to make any changes to the budget proposals contained within the report necessitated by the final Local Government Finance Settlement, confirmation of Levies and the GLA precept.

### **COMMENTS OF THE MONITORING OFFICER**

#### **Overall**

- 8.7 This report sets out the basis upon which a recommendation will be made for the adoption of a lawful budget and the basis for the level of the council tax for 2018-19. It also outlines the Council's current and anticipated financial circumstances, including matters relating to the General Fund budget and MTFS, the HRA, the capital programme, and borrowing and expenditure control.
- 8.8 The setting of the budget and council tax by Members involves their consideration of choices. No genuine and reasonable options should be dismissed out-of-hand and Members must bear in mind their fiduciary duty to the council taxpayers of Islington.
- 8.9 Members must have adequate evidence on which to base their decisions on the level of quality at which services should be provided. Where a service is provided pursuant to a statutory duty, it would not be lawful to fail to discharge it properly or abandon it, and where there is discretion as to how it is to be discharged, that discretion should be exercised reasonably. Where a service is derived from a statutory power and is in itself discretionary that discretion should be exercised reasonably.

- 8.10 The report sets out the relevant considerations for Members to consider during their deliberations and Members are reminded of the need to ignore irrelevant considerations. Members have a duty to seek to ensure that the Council acts lawfully. They are under an obligation to produce a balanced budget and must not knowingly budget for a deficit. Members must not come to a decision which no reasonable authority could come to; balancing the nature, quality and level of services which they consider should be provided against the costs of providing such services.
- 8.11 Under the constitutional arrangements, the setting of the Council budget is a matter for the Council, having considered recommendations made by the Executive. Before the final recommendations are made to the Council on 22<sup>nd</sup> February 2018, the Policy and Performance Scrutiny Committee must have been given the opportunity to scrutinise these proposals and the Executive should take into account its comments when making those recommendations.

#### **Foster Carer and Care Leavers Council Tax Relief**

- 8.12 The Council has discretion to reduce council tax under section 13A(1)(c) of the Local Government Finance Act 1992. A scheme which exempts Shared Lives carers, care leavers and approved foster carers who are living in Islington is lawful and reasonable as it supports the Council's responsibilities towards vulnerable adults with disabilities and its corporate parenting role in caring for children and young people up to the age of 21, and 24 for those in education and training.

#### **London Business Rates Pilot Pool**

- 8.13 The Council has power to participate in the London Business Rates Retention Pilot Pool for 2018-19, and participation would be reasonable, lawful and for a proper purpose.
- 8.14 Two or more relevant authorities can be designated by the Secretary of State for the purposes of pooling their business rates, with the effect that business rates can be retained by those authorities: Part IX of Schedule 7B to the Local Government Finance Act 1988. The authorities that can be designated include the London Boroughs and the Greater London Authority. The Council has billing functions and can participate in the pooling arrangement that will be subject to the Secretary of State's designation by virtue of section 111 of the Local Government Act 1972 (the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions). The Council's participation in the pooling arrangement appears to have a number of advantages: in particular, the ability to receive additional business rate with a no detriment guarantee. Obtaining this additional income would be a proper and lawful purpose for entering into the pooling arrangement, and the no detriment guarantee should ensure that the interests of local Council taxpayers are not prejudiced. The reasonableness of the proposed arrangement is also supported by the fact that the arrangement is a pilot for 2018-19 only. This will afford the Council the opportunity to monitor the operation of the arrangement and then review its position before any longer-term commitments are entered into.

- 8.15 There are a variety of mechanisms that could be established for pooling, and discussions have taken place under the auspices of London Councils as to which mechanism to put forward. The preferred mechanism is for the London Boroughs and the GLA to enter into a Memorandum of Understanding (rather than a more formal contractual arrangement), with delegation to the Lead Authority (there has to be a Lead Authority in accordance with the Schedule 7B framework: in this case, that would be the City of London Corporation) and a degree of consultation before decisions are made. The Council has power to delegate decision-making and administrative functions to another local authority. It would be lawful for the Council to adopt this mechanism on the basis that it provides for a degree of flexibility and allows for an appropriate level of participation in the decision-making through the consultative process. The Council will not have a veto on decision-making for the Pool's Strategic Investment Pot: however, it does have a role in the decision-making process, and should take some reassurance from the fact that (i) decisions will only be taken if two-thirds of participating boroughs agree; and (ii) no entire sub-region is in disagreement with the decision.
- 8.16 It is not necessary for the Council to engage in consultation with respect to participating in the business rates pilot pool: there is no statutory obligation to do so, and no common law obligation either. There are no obvious equality implications that would require a residents' impact assessment.

### **RESIDENT IMPACT ASSESSMENT**

- 8.17 The Equality Act 2010 sets out the requirement for the Council to pay due regard in the exercise of its functions to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act;
  - Advance equality of opportunity between people who share a protected characteristic and those who do not;
  - Foster good relations between people who share a protected characteristic and those who do not.
- 8.18 A Resident Impact Assessment (RIA) of the 2018-19 budget proposals is set out at **Appendix H**. It is supplemented at a departmental level by detailed RIAs of major proposals. These demonstrate that the Council has met its duties under the Equality Act 2010 and has taken account of its duties under the Child Poverty Act 2010.
- 8.19 It is difficult to make savings on the scale required without any impact on residents, and there will inevitably be some impact on particular groups, including those with protected characteristics as defined by the Equality Act. The Council is not legally obligated to reject savings with negative impacts on any particular groups but must consider carefully and with rigour the impact of its proposals on the Public Sector Equality Duty (as set out above), take a reasonable and proportionate view about the overall impact on particular groups and seek to mitigate negative impacts where possible. In this context, the Council's proposals for achieving savings are considered to be reasonable overall and take adequate account of the three duties set out under the Equality Act.

## **PAY POLICY STATEMENT 2018-19**

8.20 Section 38 of the Localism Act 2011 requires local authorities to publish an annual 'Pay Policy Statement', setting out their policies in respect of chief officer remuneration and other specified matters. Regard must be had to guidance to be published by the Secretary of State in preparing the statement, which must be approved by full Council. The Council is then constrained by its pay policy statement when making determinations on chief officer pay, although the statement may be amended at any time by a further resolution of the full Council. The Council's Pay Policy Statement for 2018-19 is provided at **Appendix I**.

**Background papers:** None

**Appendices:** A to I, as listed.

### **Final Report Clearance**

Signed by



14 February 2018

-----  
Executive Member for Finance,  
Performance and Community Safety

-----  
Date

Responsible Officer : Mike Curtis, Corporate Director Resources

Report Authors: Tony Watts, Head of Financial Planning  
Martin Houston, Strategic Financial Advisor

Monitoring Officer Comments: Peter Fehler  
Acting Director of Law and Governance