ISLINGTON

Finance and Resources Department
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Report of : Executive Member for Finance and Performance

Meeting of		**Date**	**Agenda Item**	**Ward(s)**
Executive Council		12th February 2015 26th February 2015		All
Delete as appropriate	~~Exempt~~		Non-exempt	

BUDGET PROPOSALS 2015-16

1 INTRODUCTION

1.1 The budget report is a strategic financial document which encapsulates the Council's priorities in an overall budget package for the financial year 2015-16. The principal purpose of this report is for the Executive to recommend proposals in respect of the 2015-16 budget, as the basis for setting the 2015-16 budget and council tax. The Policy and Performance Scrutiny Committee reviewed the proposed budget at its meeting on 22nd January 2015 and its recommendations have been taken into account in this report, in advance of setting the final budget and level of council tax at Council on 26th February 2015.

1.2 The contents of this report are summarised below:

Section 2 sets out the recommendations.

Section 3 sets out the 2015-16 General Fund revenue budget and Medium Term Financial Strategy (MTFS).

Section 4 details the Housing Revenue Account (HRA) for 2015-16 and its MTFS.

Section 5 details the 2015-16 to 2017-18 Capital Programme.

Section 6 details the Treasury Management Strategy.

Section 7 sets out the statutory council tax calculations.

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2 RECOMMENDATIONS

The General Fund Budget 2015-16 and MTFS (Section 3)

2.1 To agree the 2015-16 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 in **Appendix B.**

2.2 To note the report of the Policy and Performance Scrutiny Committee on 22nd January 2015 in reviewing the 'Budget Proposals 2015-16' and to agree its recommendation for the addition of an invest-to-save scheme comprising the installation of photovoltaic (PV) plates on corporate Council properties (excluding leisure centres, schools and housing, which are subject to ongoing exploration). (**Paragraph 3.1.3 and Appendix B**)

2.3 To agree, within the 2015-16 revenue budget, £1.16m from general grant funding to continue to provide a Resident Support Scheme following the reduction in Local Welfare Provision (LWP) funding by the Government on being transferred from specific to general grant, and to note that we will review expenditure on the Resident Support Scheme in the first three months of 2015-16 and supplement this funding as required from the Housing Benefit Reserve up to the level of the LWP funding for 2014-15 (£1.44m). (**Paragraphs 3.2.5 to 3.2.6**)

2.4 To note the requirement to report on the number of maintained schools that have completed the Schools Value Financial Standard (SVFS) by 31st March to the Department for Education by 31st May each year. (**Paragraph 3.2.15**)

2.5 To agree the fees and charges policy and the schedule of 2015-16 fees and charges. (**Paragraph 3.2.16-17 and Appendix C**)

2.6 To agree the Council's policy on the level of General Fund balances and the estimated use of the Council's earmarked reserves. (**Paragraph 3.2.21-22 and Table 3**)

The HRA Budget and MTFS (Section 4)

2.7 To agree the balanced HRA 2015-16 budget within the HRA MTFS at **Appendix D1.**

2.8 To note the proposed increases in 2015-16 for HRA rents and other fees and charges. (**Paragraphs 4.4 to 4.9**, **Table 5 and Appendix D2**)

The Capital Programme 2015-16 to 2017-18 (Section 5)

2.9 To agree the 2015-16 capital programme and note the provisional programme for 2016-17 to 2017-18, which includes funding for an expanded Phase 2 Bunhill heat and power scheme (funded on the expectation that it will be a priority for planning gain from developments in Bunhill). (**Paragraph 5.1**, **Table 6 and Appendix E1**)

2.10 To agree that the Corporate Director of Finance and Resources applies capital resources to fund the capital programme in the most cost-effective way. (**Paragraph 5.3**)

2.11 To note the schemes that comprise the Capital Allowance pot of eligible affordable housing and regeneration schemes. (**Paragraph 5.4 and Appendix E1**)

2.12 To note the schedule of planned Traffic and Transportation schemes in 2015-16 and agree the related decision-making responsibilities for these schemes. (**Paragraph 5.5 and Appendix E2**)

Treasury Management Strategy (Section 6)

2.13 To agree the Treasury Management Strategy, Annual Investment Policy, Prudential and Treasury Management Indicators, Minimum Revenue Provision Policy Statement and investment criteria. (**Section 6 and Appendices F1 to F4**)

Council Tax 2015-16, including Statutory Calculations (Section 7)

2.14 To agree the calculations required for the determination of the 2015-16 council tax requirement and the level of council tax as detailed in **Section 7** and summarised below.

1) The 2015-16 council tax requirement of £70,648,601. (**Paragraph 7.4)**
2) The relevant (average) amount of Islington Band D council tax of £981.22, a 1.99% increase compared to 2014-15, and to determine that this is not ‘excessive’. (**Paragraphs 7.5 and 7.6**)
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 area) of £981.01 and total Band D council tax (including the GLA precept) of £1,276.01. (**Paragraphs 7.8 and 7.12**)
4) The amount of 2015-16 council tax (excluding the GLA precept) for each valuation band over each of the Council’s areas. (**Paragraph 7.10**)
5) The total amount of 2015-16 council tax (including the GLA precept) for each valuation band over each of the Council’s areas. (**Paragraph 7.12**)

Matters to consider in setting the Budget (Section 8)

2.15 To note the Section 151 Officer’s and the Monitoring Officer’s comments in their determination of the revenue and capital budgets for 2015-16 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.

2.16 To note the Resident Impact Assessment (RIA) on the 2015-16 budget. (**Appendix G**)

2.17 To agree the Pay Policy Statement for 2015-16 at **Appendix H**.

3 GENERAL FUND BUDGET 2015-16

3.1 GENERAL FUND BUDGET - OVERVIEW

3.1.1 Following the significant cut in national Government funding since 2010, Islington Council has had to close a net budget gap of £112m over the four years 2011-15. For the financial year 2015-16, there is a further budget gap of £37m to close, following the announcement of further Government cuts to the Council's general grant funding (£25m) and further inflationary and demographic cost pressures (£12m). There is significant financial uncertainty from 2016-17 onwards due in the main to the approaching General Election in May 2015 and the Spending Review that will follow.

3.1.2 The proposed General Fund revenue budget and net revenue cash limits for 2015-16 are shown within the MTFS at **Appendix A**. The MTFS includes the proposed 2015-16 General Fund savings, totalling £37m and included at **Appendix B**, and also details the forecast net expenditure over the medium term, based on current knowledge and expectations. Some savings are subject to the completion of consultation processes and detailed Resident Impact Assessments.

3.1.3 The savings proposals at **Appendix B** include the recommendation made by the Policy and Performance Scrutiny Committee on 22nd January 2015 in reviewing the 'Budget Proposals 2015-16' for the addition of an invest-to-save scheme comprising the installation of photovoltaic (PV) plates on corporate Council properties (excluding leisure centres, schools and housing, which are subject to ongoing exploration). This builds on the continuing work of the Task and Finish Group looking at Solar PV. The £1.1m invest to save requirement is included in the estimated use of the Council's earmarked reserves within **Table 3** of this report and reflected in the capital programme at **Appendix E1**. The ongoing saving will be £136k per annum from 2016-17 with a part-year saving of £68k in 2015-16 that forms part of the invest to save contribution.

3.1.4 **Table 1** below shows the net budget figures for 2015-16 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 2015-16

	£000s
Departments	
Children's Services	73,944
Chief Executive	6,870
Environment and Regeneration	30,564
Finance and Resources	467
Housing and Adult Social Services	81,619
Public Health	0
Corporate and Democratic Core (CDC)/Unapportionable Central Overheads (UCO)	16,675
NET COST OF SERVICES	**210,139**
Net Corporate items	6,372
NET OPERATING EXPENDITURE	**216,511**
Other Budget Items:	
Transfer to/(from) Reserves	14,361
New Homes Bonus (net of estimated top-slice to London Local Enterprise Partnership)	(9,884)
Education Services Grant (Estimate)	(2,322)
AMOUNT TO BE MET FROM CORE GOVERNMENT FUNDING, RETAINED BUSINESS RATES AND COUNCIL TAX	**218,666**

3.2 GENERAL FUND BUDGET – DETAIL

Local Government Finance Settlement 2015-16

3.2.1 The Local Government Finance Settlement details the Council's core Government funding allocation for 2015-16. An analysis is shown in **Table 2** below.

Table 2 – Core Government Funding 2015-16

	2015-16 £m
Revenue Support Grant	66.5
Retained Business Rates	57.0
Top-up Grant	20.4
Total Core Government Funding	**143.9**

3.2.2 Overall, total core Government funding will be cut by £24.5m (15%) in 2015-16.

3.2.3 The Government estimates that the Council will collect £190m in business rates in 2015-16. Of this, the Council is estimated to retain £57m (30%) towards core funding, with 20% and 50% going to the GLA and Central Government respectively.

3.2.4 2015-16 core Government funding also includes a £20.4m top-up grant because estimated business rates income is less than the Government determined funding need.

Local Welfare Provision Funding/Resident Support Scheme

3.2.5 Government funding for Local Welfare Provision (LWP) has been reduced from £1.44m in 2014-15 to £0.56m in 2015-16 (as announced in the final local government finance settlement), following the transfer in funding from specific to general grant. It is recommended that £1.16m is provided from general grant in 2015-16 to continue to provide a Resident Support Scheme. This can be provided for within the revenue budget due to the level of 2015-16 savings that have been found, including in particular £500k from reducing the number of refuse collection vehicles required by moving towards a communal kitchen waste and green waste collection service.

3.2.6 We are concerned, however, that this level of funding may not cover the demand for such support in 2015-16. As a result, we will review expenditure on the Resident Support Scheme in the first three months of 2015-16 and supplement this funding as required from the Housing Benefit Reserve up to the level of the specific government grant for 2014-15 (£1.44m). The Housing Benefit Reserve is being held to allow for the management of the transition from housing benefit to universal credit and for the ongoing requirement to run a council tax support scheme. The commencement of universal credit has continually been delayed by the Government and although our Islington start-date has not yet been fixed, we have recently been told that it will not be prior to October 2015 for new claimants and not until 2016-17 for current claimants. This delay should allow for the release of some temporary funding from the Housing Benefit Reserve as required in order to meet demand from some of the borough's most vulnerable residents through the Resident Support Scheme.

New Homes Bonus Scheme

3.2.7 The Council will receive £13.8m New Homes Bonus income in 2015-16. Islington is the sixth highest recipient of New Homes Bonus in England, directly attributable to the number of new homes built in the borough over the past five years.

3.2.8 In 2015-16, an estimated £3.9m of our New Homes Bonus income will be top-sliced to fund London Local Enterprise Partnership (LEP) projects.

Health/Social Care Funding

3.2.9 The Better Care Fund is a pooled budget to help improve the integration of health and care services that are currently commissioned by the NHS and local authorities. The revenue funding for Islington of £17m is from within Islington Clinical Commissioning Group budgets and will be pooled along with £1.4m of social care capital grants. The NHS and local authorities must agree locally through Health and Wellbeing Boards how the funding will be spent across health and care services. Not all of these funds are transferring to the Council and £8.6m is existing NHS funding to support social care with health benefits, carers and reablement plus a further allocation for new burdens arising from the Care Bill.

3.2.10 The Council will receive £25.4m Public Health Grant in 2015-16, ring-fenced for spending on public health services.

Children's Services Funding 2015-16

3.2.11 The Dedicated Schools Grant (DSG) is a ring-fenced grant for spending on education. The Schools Forum makes recommendations about how the grant awarded to Islington should be allocated to schools and the Council (including the Early Years Service) as appropriate.

3.2.12 The Department for Education has committed to a DSG cash floor of minus 2% per pupil for 2015-16, to ensure that a minimum funding guarantee of minus 1.5% per pupil at school level can be maintained (excluding sixth form funding) and before the Pupil Premium is added. The DSG priorities for 2015-16 are being developed in conjunction with the Schools Forum.

3.2.13 The Pupil Premium is a specific grant to support disadvantaged pupils in mainstream and special schools, Pupil Referral Units, and 14 to 15 year olds in Further Education colleges. It is being extended to disadvantaged 3 and 4 year olds in early years provision from 2015-16. It is estimated that total Pupil Premium funding for Islington (including Academies) will be around £15.6m in 2015-16, to be announced in early 2015.

3.2.14 Education Services Grant (ESG) – The Department for Education has announced indicative allocations of this grant for 2015-16, with the Council's allocation being provisionally reduced by £0.5m in 2015-16 to £2.3m in line with an overall reduction in this funding stream at a national level.

Statement of Assurance on Schools

3.2.15 The Council has a system of audit in place that provides adequate assurance over maintained schools' standards of financial management and the regularity and propriety of their spending. The Council is required to report on the number of maintained schools that have completed the Schools Value Financial Standard (SVFS) by 31st March to the Department for Education by 31st May each year. The SVFS returns are also used by the Council to inform its programme of financial assessment of maintained schools and audit.

Fees and Charges 2015-16

3.2.16 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 2015-16 are set out in the schedule included at **Appendix C** and incorporated in the overall revenue budget.

3.2.17 It is the Council's policy to increase its discretionary fees and charges in line with inflation (2.4% at Quarter 3 2014, 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."

3.2.18 Fees and charges in relation to Leisure Services and Cemeteries were agreed separately by the Executive on 27th November 2014 and took effect from 1st January 2015.

Local Initiatives Fund

3.2.19 The Local Initiatives Fund is £240k, with £15k being allocated to each ward. Members decide on allocations locally and formal decisions will continue to be taken in-year by the Voluntary and Community Sector Committee.

General Balances and Reserves

3.2.20 The Government has reserve powers under the Local Government Act 2003 to set a minimum level of reserves for which an authority must provide in setting its budget. These powers would only be used where there were grounds for serious concern about an authority and there is no intention to make permanent or blanket provision for minimum reserves under these provisions.

3.2.21 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 for use in 2015-16, after taking into account existing and estimated allocations against these reserves, are shown in **Table 3** below:

Table 3 – Estimated Reserve and General Balances 2015-16

	2015-16 £m
Redundancy Reserve	4.8
Invest to Save Reserve	1.1
Contingency Reserve	1.9
Housing Benefit Reserve	7.3
Levies Smoothing Reserve	0.8
General Fund Balances (excluding schools)	10.6
Schools Balances	10.9
Total	**37.4**

3.2.22 It is recommended that the Council agrees the same policy as previous years on the level of general balances for the 2015-16 budget. This is as follows:

> "The policy of the Council is to set a target level of General Fund balances (excluding schools balances) at 5% 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 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."

Corporate Levies

3.2.23 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 2015-16 levy estimates are detailed in **Table 4**.

Table 4 – Levy Estimates 2015-16

Levies by Body	2015-16 Budget £m
Concessionary Fares (Freedom Pass)	11.923
North London Waste Authority	7.881
Lee Valley Regional Park Authority	0.226
Traffic and Control Liaison Committee	0.324
Inner London North Coroners Court	0.295
London Pensions Fund Authority	1.204
Environment Agency (Thames Region)	0.163
London Boroughs Grants Scheme	0.231
Total	**22.247**

4 THE 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 tenant/leaseholder service charges.

4.2 The HRA MTFS is balanced over the medium term, accommodating the impact of inflation, the reintegration of the repairs service and the HRA's contribution towards the pension fund deficit. The proposed HRA budget for 2015-16 and the forecast budgets over the medium term, based on current knowledge and expectations, are shown within the HRA MTFS at **Appendix D1**.

4.3 A significant HRA budget risk over the medium term is the potential impact of the Government's welfare reforms. At this stage it is difficult to predict the financial impact with any degree of accuracy, but indicative modelling suggests costs in respect of additional staffing and rent arrears could be in the region of £5m.

Rental Income and Other HRA Fees and Charges

4.4 It is Council policy to continue to apply the principles of rent restructuring; this means that properties not currently at target rent will move to the 2015-16 target rent subject to the affordability cap of the prior year rent plus the Consumer Price Index (1.2% at September 2014) plus 1% plus £2. However, properties already at target rent will simply increase by the Consumer Price Index (1.2% at September 2014) plus 1%.

4.5 **Table 5** below sets out the proposed average rent increase for 2015-16.

Table 5 – Weekly Rent 2015-16

	Proposed 2015-16
Average Weekly Rent	£115.89
Increase (£)	£4.40
Increase (%)	3.95%
Average Weekly Target Rent	£122.72

4.6 All other HRA fees and charges are set out at **Appendix D2** and increased in line with inflation in 2015-16 (Retail Price Index at September 2014, 2.3%) unless there are agreed reasons for doing otherwise. These exceptions are outlined below.

4.7 **Heating and Hot Water Charges** will not be increased in 2015-16. In addition, depending on the actual cost of energy in 2015-16, an energy fund will be established to mitigate against future energy price increases.

4.8 **Estate Parking Charges** will be increased to more closely reflect market charges.

4.9 **Concierge Charges**: a new £1 charge will be introduced where coverage is provided by a small number of cameras to enable anti-social behaviour issues to be addressed.

5 CAPITAL PROGRAMME

5.1 The 2015-16 to 2017-18 capital programme is summarised in **Table 6** below and shown in full at **Appendix E1**. This will deliver projects of £327m over the next three years and includes the continuation of existing programmes of investment in new homes (£119m), housing major works and improvements (£122m) and school buildings (£19m). This is a significant level of investment at a time when Government capital grants have been substantially scaled back.

Table 6 – Capital Programme 2015-16 to 2017-18

	2015-16 £000	**2016-17 £000**	**2017-18 £000**	**Total £000**
Housing and Adult Social Services	84,508	81,860	83,104	**249,472**
Children's Services	16,165	4,000	0	**20,165**
Environment and Regeneration	29,446	15,425	8,326	**53,197**
Finance and Resources	1,500	1,500	1,500	**4,500**
Total Capital Programme	**131,619**	**102,785**	**92,930**	**327,334**

5.2 The capital programme includes funding for an expanded Phase 2 Bunhill Heat and Power scheme (£7.3m). This scheme is funded by external grant (£1m) and Council funding (£6.3m), on the expectation that the Council's contribution will be a priority for planning gain from developments in Bunhill.

5.3 Whilst uncertainty surrounds the level and timing of capital receipts estimated to be available over the medium-term, the Council is forecasting that there will be sufficient resources to fund the 2015-16 programme and the provisional programme for 2016-17 to 2017-18. The Corporate Director of Finance and Resources will continue to apply capital resources to fund the ongoing capital programme in the most cost-effective way.

5.4 A key element of the Capital Medium Term Strategy is that the Council maximises the capital resources it has available for investment. This includes ensuring that the Council has a sufficient 'Capital Allowance' pot for affordable housing and regeneration schemes to avoid having to pay over housing capital receipts (excluding Right to Buy receipts which are covered by separate regulations) into the national pool. The schemes included in the Capital Allowance pot of eligible affordable housing and regeneration schemes are designated at **Appendix E1**.

5.5 A schedule of planned Traffic and Transportation schemes in 2015-16 and related decision-making responsibilities is provided at **Appendix E2**.

6 THE TREASURY MANAGEMENT STRATEGY 2015-16

Background

6.1 The Council's Treasury Management and Investment Strategy for 2015-16 was considered by Audit Committee on 29th January 2015. The key points of the Strategy are:

- The balance sheet and treasury position
- Prospects for interest rates
- Borrowing requirement and strategy
- Debt rescheduling
- Investment strategy and policy
- HRA Self Financing

6.2 In summary it should be noted that:

- £61.2 million is estimated to be required to be borrowed over the next 3 years (£47.4 million to replace existing borrowing that matures and £13.8million of new borrowing to fund capital expenditure).
- The borrowing strategy is to minimise borrowing costs, through using surplus internal cash and borrowing at optimal times at either variable or fixed rates which can include borrowing in advance of need.
- It is expected that sums for investments will be minimal. Investment activity is restricted to institutions set in paragraph 6.25.
- The Council's investment priorities in order of importance are:
  - security of the invested capital
  - liquidity of the invested capital
  - an optimum yield which is commensurate with security and liquidity
- The Council's current contract with the Cooperative bank for banking services expires in 2015. Barclays PLC have been appointed following a tendering process and the arrangements will go live by spring 2015.

6.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) has defined treasury management as "the management of the organisations' investments and cashflow, its banking, money market and capital market transactions; the effective control of the risks associated with these activities and the pursuit of optimum performance consistent with those risks".

6.4 Treasury management activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). The Council adopted the Code of Practice on Treasury Management on 26th February 2002. In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year. The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies procedures and practices.

6.5 The treasury management function is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Prudential Code. The Council is required to set out an Annual Treasury Strategy outlining at the least the expected treasury activity for the forthcoming three years.

6.6 A key requirement of this report is to explain both the risks, and the management of the risks, associated with treasury management which include:

- Liquidity Risk (inadequate cash resources);
- Market or Interest Rate Risk (fluctuations in interest rate levels);
- Inflation Risk (exposure to inflation);
- Credit and Counterparty Risk (security of investments);
- Refinancing Risk (impact of debt maturing in future years); and
- Legal and Regulatory Risk.

Scope

6.7 The Treasury Management Strategy considers the impact of the Council's revenue budget and capital programme on its balance sheet, the prospects for interest rates, borrowing requirement and strategy, debt rescheduling, investment strategy and policy, monitoring, members training and the use of advisors.

Balance Sheet and Treasury Position

6.8 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR represents the level of borrowing needed for capital purposes. Revenue expenditure cannot be financed from borrowing. Net actual external borrowing should not exceed the CFR other than for short term cash flow requirements. It is permissible under the Prudential Code to borrow in advance of need, up to the level of the estimated CFR over the term of the Prudential Indicators. When this takes place the cash will form part of the invested sums until the related capital expenditure is incurred. This being the case net borrowing should not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years other than in the short term due to cash flow requirements.

6.9 The CFR together with balances and reserves are the core drivers of treasury management activity. The estimates, based on the current revenue budget and capital programmes and in advance of any changes to the 2015-16 budget to be considered in February, are set out in **Table 7** below:

Table 7 – Capital Financing, Balances and Reserves Forecasts

	31.3.15 Estimate £m	31.3.16 Estimate £m	31.3.17 Estimate £m	31.3.18 Estimate £m
General Fund CFR	127	122	118	114
HRA CFR	442	442	442	442
Long term liabilities - PFI	163	155	145	135
Total CFR	**732**	**719**	**705**	**691**
Less: Balances and Reserves	71	51	41	41
Net Balance Sheet Position	**661**	**668**	**664**	**650**

6.10 The Council's level of physical debt and investments is linked to these components of the balance sheet. The Council's approach to determining its borrowing and investment strategy for the underlying Balance Sheet position will be influenced by market conditions, affordability, interest rate expectations and credit risk considerations.

Prospects for Interest Rates

6.11 Treasury management activities such as borrowing and investment introduce the risk of unexpected adverse movements in interest rates. The Council employs Arlingclose Ltd, treasury consultants, to advise on the treasury strategy, provide economic data and interest rate forecasts, assist in planning and reduce the impact of unforeseen adverse movements. **Appendix F1** draws together a number of current forecasts for short-term and longer-term fixed interest rates. Following seven years of interest rates being at 0.5% the forecast is for official UK interest rates to rise in August 2015 and a gradual increase thereafter to give a 0.75% average rate for 2015-16. Gilts yields are expected to rise in the medium term to take the forecast average 10 year PWLB rate for 2015-16 to 3.25%. It is worth noting that for a number of the years the forecast for an upcoming rise in interest rates has not come to pass. The outlook for interest rates is monitored constantly.

Borrowing Requirement and Strategy

6.12 To ensure that borrowing will ultimately be financed or repaid, local authorities are required to set aside a sum from the General Fund budget each year to repay debt called the Minimum Revenue Provision (MRP).

6.13 Capital expenditure not financed from internal resources (i.e. capital receipts, capital grants and contributions, revenue or reserves) will produce an increase in the CFR (the underlying need to borrow) and in turn produce an increased MRP in the General Fund budget. The Council's borrowing requirement is shown in **Table 8** below.

Table 8 – Borrowing Requirement

	2014-15 Estimate £m	2015-16 Estimate £m	2016-17 Estimate £m	2017-18 Estimate £m
New Borrowing	3.9	-	-	-
Replacement Borrowing	38.9	21.9	11.1	14.4
TOTAL	**42.8**	**21.9**	**11.1**	**14.4**

6.14 In conjunction with advice from Arlingclose, the Council will keep under review the options it has in borrowing from the Public Works Loan Board (PWLB) or its successor body, other local authorities, the market and other sources up to the available capacity within the Authorised Limit (contained within the Prudential and Treasury Management Indicators in **Appendix F2** to be adopted in the 2015-16 budget). The types of borrowing still appropriate for a low interest rate environment from the PWLB are:

- Variable rate borrowing;
- Medium term equal instalments of principal (EIP) or annuity loans; and
- Long term maturity loans where affordable.

6.15 The chief objective when borrowing is to have an appropriate balance between securing low interest rates and cost certainty over the periods for which funds are required. The Council's strategy is to minimise its borrowing costs over the medium to longer term and maintain maximum control over its borrowing activities as well as flexibility on its loans' portfolio. Given the significant cuts to public expenditure and in particular local government funding, the strategy also looks to minimise the medium term cost to the budget without compromising the longer term stability of the debt portfolio. The use of internal resources in lieu of borrowing and short to medium term borrowing will continue because of the "cost of carry" (that is the differential between debt costs and investment earnings.). While variable rate loans are not currently utilised this option will be kept under regular review. Capital expenditure levels, cash flow projections, market conditions and interest rate levels will be monitored in conjunction with Arlingclose, to determine the most appropriate borrowing options.

6.16 As at 17th December 2014, the Council had agreed long term loans of £56.5m. All these loans are from other local authorities over periods of 18 months to 6 years at an average rate of 1.5%.

6.17 The Council's borrowing requirement over the next three years is estimated to be £47.4m, all of which will be used to replace existing PWLB debt that matures over the next three years. If market rates were to fall considerably or future rates were expected to rise, then some borrowing could be taken ahead of spend. The borrowing strategy will continue to consider opportunities to borrow not only for 2015-16, but also for the next two financial years.

Minimum Revenue Provision (MRP) Policy Statement 2015-16

6.18 To ensure that capital expenditure funded by borrowing is ultimately financed, the Council is required to make a Minimum Revenue Provision (MRP) within the revenue budget each year for the repayment of debt. This is designed to ensure that the MRP is charged over a period that is commensurate with the period over which the capital expenditure that gave rise to the debt provides benefits.

6.19 In the case of supported borrowing, the Council will charge MRP over the period reasonably commensurate with the period implicit in the determination of the revenue support. The Council has determined that by following the Regulatory Method a reasonable estimate would be on a 4% reducing balance.

6.20 This method cannot be used in relation to capital expenditure financed by unsupported borrowing. For new unsupported borrowing, the MRP will be determined by the life of the asset for which the borrowing is undertaken and where appropriate the annuity method will be used.

6.21 The result is a total estimated MRP liability of £4.3m in 2015-16.

Debt Rescheduling

6.22 The factors affecting any decision on debt rescheduling will include, the generation of cash savings and / or discounted cash flow savings in interest cost, helping to fulfil the strategy outlined in the paragraphs above; enhancing the balance of the fixed to variable rate debt in the portfolio and, amending the maturity profile. All rescheduling activity will comply with the accounting requirements of the local authority Statement Of Recommended Practice (SORP) and regulatory requirements of the Capital Finance and Accounting Regulations (SI 2007 No. 573 as amended by SI 2008/414).

Investment Strategy and Policy

6.23 To comply with the Government's guidance, the Council's general policy objective is to invest its surplus funds prudently.

6.24 The Council's investment priorities, in order of importance, are:

- security of the invested capital;
- liquidity of the invested capital; and
- an optimum yield which is commensurate with security and liquidity.

6.25 The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

6.26 Investment instruments identified for use in the financial year are categorised under the 'Specified' and 'Non-Specified' Investments based on the CLG guidance.

Specified Investments

6.27 Specified investments are described in the guidance as those identified as offering high security and high liquidity, and can be relied on with minimal formalities. All must be in sterling and with a maturity of no more than one year. All such short-term investments with the UK Government, other local authorities, or Parish Councils will automatically be considered 'specified', for other deposit takers a 'high' credit rating is required which the authority defines. This Council's definition is included at the end of this report.

Non-Specified Investments

6.28 Non-specified investments carry a higher degree of potential risk, and the guidance requires the types of investments that can be used to be set out in the Strategy, and limits to be set on how much can be held in these investments at any time during the year. The guidance states that it is not the objective to discourage investment in any type of instrument, but to ensure that proper procedures are in place for undertaking risk assessments of investments made for longer periods or with bodies that are not highly credit rated.

6.29 Potential instruments for the Council's use within its investment strategy are listed in the specified and non-specified investment schedule attached as **Appendix F3**.

6.30 The Council has reviewed the way it formulates its counterparty criteria. The lending list criteria is devised from the use of a range of rating agencies which will include Fitch, Moody's Investor Services, Standard & Poor's (or other rating agency where necessary) as well as other factors. The main sovereign states whose banks are to be included are Australia, Canada, Finland, France, Denmark, Germany, Netherlands, Switzerland and the US. These countries and the Banks within them have been selected after analysis and careful monitoring of:

- Credit Ratings (minimum long-term A+ minimum short term F1);
- Credit Default Swaps;
- GDP, Net Debt as a Percentage of GDP;
- Sovereign Support Mechanisms/potential support from a well-resourced parent institution; and
- Share Price.

6.31 The Council will also take into account information on corporate developments, market sentiment towards counterparties and changes in banking regulations. The Council and Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and the Council will respond as necessary to ensure security of the capital sums invested.

6.32 The Council's internally managed investment as at 17th December 2014 totalled £81million and the forecast position for the end of March through 2015-16 will average £50million.

6.33 In this current environment the Council has restricted its investment activity to the following categories:

- The Debt Management Agency Deposit Facility;
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV);
- Deposits with other local authorities; and
- Business reserve accounts and term deposits.

6.34 If the cash flow positions were to increase because of forward borrowing then investments criteria will revert to credit ratings as stated in paragraph 6.26.

6.35 A copy of the Council's current lending list and the institutions actually lent to as at December 2014 is attached as **Appendix F4**.

6.36 Currently the Council has borrowed £74m short term (under one year) for cashflow purposes, from other Local Authorities and Public Bodies. This has proved to be a cheaper alternative to variable rate PWLB borrowing.

6.37 The Council will constantly reappraise its strategy as market conditions and expectations for future interest rates evolve.

6.38 The Corporate Director of Finance and Resources under delegated powers will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. All investments will be made in accordance with the Council's investment policies and prevailing legislation and regulations.

Housing Revenue Account Policy on Apportioning Interest

6.39 Local authorities are required to recharge interest expenditure and income attributable to the HRA in accordance with determinations issued by the Department for Communities and Local Government. The CIPFA Code recommends that authorities present this policy in their Treasury Management and Investment Strategy.

6.40 On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. New long-term loans borrowed are assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) are charged/ credited to the respective revenue account.

Internal Borrowing

6.41 Where the HRA or General Fund has surplus cash balances which allow either account to have external borrowing below the level of the Capital Financing Requirement by borrowing internally, the Corporate Director of Finance and Resources will agree an appropriate and evidenced interest rate, determined and applied at the beginning of each financial year, to reflect the assumed opportunity cost forgone.

Monitoring

6.42 The treasury position is included in the regular Executive financial monitoring reports. The Executive Member for Finance and Performance is briefed on treasury activities. At the end of the financial year, an annual treasury report on the Council's investment activity is included in the financial outturn report to the Executive. The Audit Committees annually scrutinises the Annual Treasury Strategy Statement before Council approval at its February budget and council tax setting meeting.

Members Training

6.43 CIPFA's revised Code requires the Corporate Director of Finance and Resources to ensure that all Members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Advisors

6.44 Arlingclose, our appointed Treasury Advisors, undertake their role as advisors to enable the Council to make informed decisions.

Current Account Bank

6.45 The council's current account is currently held with Cooperative Bank. The contract will expire in 2015 when the Cooperative Bank ceases its commercial banking activity. A full banking service tender has been undertaken and Barclays PLC has been appointed. The target date to transfer all banking services and go live with Barclays is spring 2015.

7 COUNCIL TAX 2015-16 (INCLUDING STATUTORY CALCULATIONS)

Islington Tax Base 2015-16 and Collection Fund Forecast

7.1 On 29th January 2015, the Audit Committee agreed a 2015-16 tax base of 72,001.07 Band D properties for the Council's whole area, and 44.34 Band D properties for the Lloyd Square Garden area. The tax base figures assume a collection rate of 94.5% for the Council's whole area and 96.8% for Lloyd Square Garden Area.

7.2 This tax base incorporates the Council decision on 4th December 2014 to leave unchanged for 2015-16 the existing Council Tax Support Scheme

7.3 Under the regulations prescribed under Section 99 of the Local Government Finance Act 1988, a billing authority must calculate the amount of any deficit or surplus on the Collection Fund (excluding those items relating to community charges and non-domestic rates) on the 15th January each year, and notify the precepting authorities of the amount to be added or refunded to their 2015-16 precepts within seven days of the calculation. At 15th January 2015, it was forecast that at 31st March 2015 the council tax account in the Collection Fund will be £5,037,000 in surplus, of which £3,842,537 is the Council's and £1,194,463 is the Greater London Authority's (GLA) share.

Islington Council Tax 2015-16

7.4 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 2015-16 council tax requirement is set out in **Table 9** below.

Table 9 – Section 31A (amended LGFA 1992) Calculation 2015-16

	£
Aggregate of the amounts which the Council estimates for items set out in Section 31A (2) (a) to (f) of the LGFA 1992 **(A)**	963,762,900
Aggregate of the amounts which the Council estimates for items set out on Section 31A (3) (a) to (d) of the LGFA 1992 **(B)**	(893,114,299)
Calculation of the council tax requirement under Section 31A (4), being the amount by which the sum aggregated at **(A)** above exceeds the aggregate at **(B)** above	**70,648,601**

7.5 The calculation of the relevant (average) 2015-16 council tax per Band D property is set out in **Table 10** below.

Table 10 – Section 31B (amended LGFA 1992) Calculation 2015-16

Council Tax Requirement	£70,648,601
Council Tax Base	72,001.1
2015-16 Relevant Band D Council Tax	**£981.22**
Increase Compared to 2014-15	**1.99%**

7.6 The Localism Act 2011 abolished council tax capping but instead provides for council tax rises above a certain threshold (2% in 2015-16) to be subject to a local referendum giving local residents a power to approve or veto an 'excessive' increase. The proposed 1.99% increase in the relevant amount of Band D council tax in 2015-16 is not 'excessive' in terms of the Localism Act. The Council must formally determine this at the time of setting its council tax for 2015-16 and a recommendation to that effect is included in this report.

7.7 A grant has been made available by the Government for freezing the relevant amount of council tax in 2015-16, worth the equivalent value of a 1% increase in the relevant amount of Band D council tax (before taking into account deductions for the cost of council tax support). However, the freeze grant is one-off funding only and would not compensate for the permanent loss in additional council tax income that a council tax freeze would represent. An increase of 1.99% on Islington's council tax will cost a Band D (average) council tax payer around an extra 40p per week.

7.8 Section 34 of the LGFA 1992 requires additional calculations 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 basic amount of council tax for dwellings in Islington to which no special item relates (i.e. outside of the Lloyd Square Garden area) is shown in **Table 11** below.

Table 11 – 2015-16 Basic Council Tax for All Other Parts of the Council's Area

Council Tax Requirement (including Lloyd Square Garden Committee special expense)	£70,648,601
Less Lloyd Square Garden Committee special expense	(£14,601)
Council Tax Requirement (excluding special expenses)	**£70,634,000**
Council Tax Base	72,001.1
2015-16 Basic Band D Council Tax for All Other Parts of the Council's Area	**£981.01**
Increase Compared to 2014-15	**1.99%**

7.9 The Lloyd Square Garden Committee special expense is £14,601 in 2015-16, an increase of 10% compared to 2014-15. When this is divided by the Lloyd Square Garden area Band D taxbase (44.34), it gives a charge of £329.30 per Band D property for 2015-16. This will be charged to Lloyd Square Garden area dwellings in addition to the basic Islington Band D council tax of £981.01 for all other parts of the Council's area.

7.10 The basic 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 12** below. These amounts are calculated by multiplying the relevant Band D council tax amount per property by the proportions set out in Section 5(1) of the LGFA 1992.

Table 12 – Basic Islington Council Tax 2015-16

Valuation Bands	Lloyd Square Garden Area (£)	All Other Parts of the Council's Area (£)
A	873.54	654.01
B	1,019.13	763.01
C	1,164.72	872.01
D	**1,310.31**	**981.01**
E	1,601.48	1,199.01
F	1,892.66	1,417.01
G	2,183.85	1,635.02
H	2,620.61	1,962.02

7.11 The 2015-16 GLA precept for each valuation band is shown in **Table 13** below.

Table 13 – GLA Precept 2015-16

Valuation Bands	GLA (£)
A	196.67
B	229.44
C	262.22
D	**295.00**
E	360.56
F	426.11
G	491.67
H	590.00

7.12 In accordance with Section 30(2) of the LGFA 1992, **Table 14** below shows the total amount of 2015-16 council tax (including GLA precept) for each valuation band over each of the Council's areas.

Table 14 – Total Islington and GLA Council Tax 2015-16

Valuation Bands	Lloyd Square Garden Area (£)	All Other Parts of the Council's Area (£)
A	1,070.21	850.68
B	1,248.57	992.45
C	1,426.94	1,134.23
D	**1,605.31**	**1,276.01**
E	1,962.04	1,559.57
F	2,318.77	1,843.12
G	2,675.52	2,126.69
H	3,210.61	2,552.02

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. It is the opinion of the Section 151 Officer that the estimates for 2015-16 have been prepared on a robust basis, and further that where there are uncertainties, for instance on the levels of service demand, that these can be covered by an adequate corporate contingency provision.

8.3 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 the target of general balances at 5% of the budget requirement.

COMMENTS OF THE MONITORING OFFICER

8.4 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 2015-16. 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.

8.5 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.

8.6 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.

8.7 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.

8.8 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 26th February 2015, Policy and Performance Scrutiny Committee has been given the opportunity to scrutinise these proposals and the Executive should take into account its comments when making those recommendations.

RESIDENT IMPACT ASSESSMENT

8.9 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.

8.10 A Resident Impact Assessment (RIA) of the 2015-16 budget proposals is set out at **Appendix G**. 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.

8.11 While the majority of the 2015-16 savings proposals relate to efficiencies, 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 obliged 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.

8.12 Members are asked to note the Resident Impact Assessment.

PAY POLICY STATEMENT 2015-16

8.13 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.

8.14 The Council's proposed Pay Policy Statement for 2015-16 is provided at **Appendix H**.

8.15 The Pay Policy Statement has been revised to reflect the market supplement policy agreed by the Audit Committee on 29th January 2015, arising out of the Policy and Performance Scrutiny Committee's review of the use of agency staff by the Council. Changes to the categories of remuneration, which require the approval by the Audit Committee or its Personnel sub-committee, have been amended to reflect this policy and also the funding of shared posts. The Pay Policy Statement has also been revised for updated job titles and remuneration levels, including reflecting that a number of Public Health staff in the Council are on NHS terms and conditions.

Final report clearance

Signed by

Executive Member for Finance and Performance Date

Received by

Head of Democratic Services Date

Responsible Officer : Mike Curtis, Corporate Director of Finance and Resources
Report Author : Tony Watts, Head of Financial Planning