Report of: Member for Finance, Planning and Performance

Meeting of: Council

Dates: 29 February 2024

Ward(s): All

Budget Proposals 2024/25 and Medium-Term Financial Strategy

1. Synopsis

1.1. The principal purpose of this report is for Full Council to agree budget proposals in respect of the council's 2024/25 budget, the level of council tax and the latest assumed medium-term financial position. The proposals have been reviewed and recommended for approval by Executive on 8 February 2024.

1.2. The budget setting process for the 2024/25 financial year has been particularly challenging due to the national cost-of-living and energy crisis, and the ongoing economic and political uncertainty. The long-term economic impact of COVID-19 and global conflicts, have contributed towards the current cost-of-living crisis with inflation, as measured by the Consumer Prices Index (CPI), high throughout 2023 and only recently falling, with the latest figure 4.0% in January 2024.

1.3. The cost-of-living crisis is still having a significant impact on Islington residents and businesses, and the council. High, prevailing inflation has resulted in significant budget pressures in respect of energy and fuel costs, pay inflation and significant levels of contract inflation for key service areas.

1.4. Very high demand pressures have been evident in the 2023/24 quarterly budget monitoring reports, including significant demographic pressures within key services such as Adult Social Care and Children's Services. These pressures are anticipated to continue into the 2024/25 financial year and to grow further over the medium term.

1.5. The scale of the current demographic pressures are unprecedented over recent times, and when added to the huge challenge of persistently high inflation, the result is council financial health that is very delicately positioned. Local government finance settlements, although slightly improved in recent years, are still not keeping pace with inflation and do nothing to address the historic under funding of the local government sector since the austerity budgets commenced in 2010.

1.6. The 2024/25 and medium-term budget setting process started with a very significant funding gap to close. To set a balanced budget in 2024/25, the council is proposing savings of £10.820m in 2024/25. A further £7.061m of savings are planned over 2025/26 to 2026/27 towards the medium-term gap. The underlying, structural financial position is extremely challenging, exacerbated by the in-year financial position in 2023/24, with a gross General Fund (GF) overspend at Quarter 2 (Q2) of £17.729m. The estimate of the net budget gap for 2025/26 is approximately £31m at this stage in the medium-term planning cycle and around £25m for 2026/27. Over a 5-year financial planning cycle, the level of the budget gap stretches to £97m. If there is not a significant increase in local government funding settlements, other revenue sources or a reduction in assumed budget pressures, then the savings requirement in 2025/26 alone will be over three-times the level of GF savings being proposed for 2024/25 in this budget report. This will require very difficult decisions as regards expenditure in order for the council to maintain a sustainable and robust financial position going forward.

1.7. Despite the very challenging financial position, the Council continues to protect and enhance the vital council services that residents rely on. The 2024/25 budget enables the delivery of the principles and priorities set out in the council's Strategic Plan – *Islington Together 2030*. Budget proposals include growth to support manifesto commitments and continued transformation funding to put strategic principles into practice.

1.8. The 2024/25 budget recommends an increase of core council tax by the maximum amount (2.99%) and a further 2% Adult Social Care (ASC) precept. For the average (Band D) property, the recommended 4.99% increase in the basic 2024/25 Islington council tax (excluding the GLA precept) equates to an increase of around £1.32 per week for full council taxpayers.

1.9. The Mayor published the Greater London Authority (GLA) final draft consolidated budget, capital spending plan and proposed council tax precept for 2024/25 on 14 February 2024. The final precept (at the time of drafting) was set to be approved formally at the London Assembly budget meeting on 22 February 2024.

1.10. The Policy and Performance Scrutiny Committee reviewed the budget proposals on 18 January 2024 and its comments have been considered in finalising the budget proposals and proposed level of council tax.

1.11. The Council invited comments from residents and business rates payers (and representatives) in Islington on the draft 2024/25 budget proposals set out in this report. The consultation period ran from 4 January 2024 to 24 January 2024 and 15 responses were received. A summary of these responses can be found in **Section 9**.

1.12. The contents of the report are summarised below:

- **Section 2** sets out the recommendations.
- **Section 3** summarises the assumptions within the GF Medium-Term Financial Strategy (MTFS) and sets out the 2024/25 net revenue budget, fees and charges.
- **Section 4** sets out the reserves and balance sheet strategy, reserves analysis including key risks and mitigations, and the CIPFA Financial Management (FM) Code assessment.
- **Section 5** covers the Housing Revenue Account (HRA) and includes HRA savings, rents, service charges and other fees and charges.
- **Section 6** summarises the 2024/25 to 2026/27 capital programme and funding, and the latest indicative programme up until 2032/33. This also includes the Capital Strategy, Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy Statement and Investment Strategy.
- **Section 7** provides an overview of work the council is doing in respect of climate action and its Greener, Healthier Islington mission.
- **Section 8** includes the detailed, statutory council tax calculations and matters relating to retained business rates.

- **Section 9** details the matters to formally consider in setting the final budget, namely the comments of the Section 151 Officer and the Monitoring Officer, a cumulative Equality Impact Assessment (EQIA) of the budget proposals, budget consultation summary, the Annual Pay Policy Statement and the Retail Relief Scheme.

2. Recommendations

The General Fund Budget 2024/25 and MTFS (Section 3)

2.1. To agree the latest assumed MTFS and 2024/25 budget, including the underlying MTFS principles, latest in-year monitoring position and the budget assumptions (paragraphs 3.7-3.8, Table 1, and Appendix A).

2.2. To agree the proposed 2024/25 net budgets by directorate (paragraph 3.9, Table 2, and Appendix A)

2.3. To agree the 2024/25 savings and note that individual savings may be subject to individual consultation before they can be implemented (paragraphs 3.28-3.31, Table 4, and Appendix B).

2.4. To note the funding assumptions following the announcement of the Final Local Government Settlement (paragraphs 3.37-3.47, Table 5 and 6).

2.5. To note the fees and charges policy and the GF fees and charges from 1 January 2024 and 1 April 2024, agreed by the Executive (paragraph 3.57-3.62).

2.6. To agree that the Section 151 Officer is delegated responsibility for any technical adjustments required for the 2024/25 budget (in line with the council's Financial Regulations).

2.7. To agree that centrally held demographic growth be allocated to service budgets in-year once a more evidenced assessment is available and has been approved by the Section 151 Officer (paragraph 3.19).

Reserves and Balance Sheet Strategy and CIPFA FM Code Assessment (Section 4)

2.8. To agree the Reserves and Balance Sheet Strategy, including proposed minimum reserves levels, and agree the movements to/from earmarked reserves assumed as part of the 2024/25 revenue budget (paragraphs 4.1-4.14 and Table 8).

2.9. To note the assessment of compliance against the CIPFA FM Code and that this will be re-visited annually as part of the budget process, with any actions or recommendations implemented on an ongoing basis (paragraphs 4.15-4.17 and Appendix E1).

2.10. To note the balance sheet analysis, which provides a snapshot of the council's financial position detailing assets, liabilities, and reserves, and aids understanding of the underlying financial position of the council (paragraphs 4.18-4.20 and Appendix E2).

The HRA Budget and MTFS (Section 5)

2.11. To agree the balanced HRA 2024/25 budget and note the latest estimates over the 3-year MTFS period (paragraphs 5.1-5.9, Table 9, and Appendix D1).

2.12. To note the final HRA rents and other HRA fees and charges for 2024/25, agreed by the Executive (paragraphs 5.10-5.44, Tables 11-13, and Appendix D2).

2.13. To agree the 2024/25 savings and note that individual savings may be subject to individual consultation before they can be implemented (Table 9, and Appendix D3).

2.14. To agree the updated HRA 30-year business plan (Section 5 and Appendix D4).

Capital Investment and Treasury and Investment Management (Section 6)

2.15. To agree the proposed 2024/25 to 2026/27 capital programme and latest indicative capital programme for 2027/28 to 2033/34, noting the changes since the previous version (paragraphs 6.1-6.6, Tables 14-15, Appendix F1 and Appendix F7).

2.16. To agree the funding of the 2024/25 to 2033/34 capital programme and to delegate authority to the Section 151 Officer, where necessary, to apply capital resources to fund the capital programme in the most cost-effective way for the council (paragraphs 6.7-6.9 and Table 16).

2.17. To agree the Capital Strategy, Minimum Revenue Provision (MRP) Policy Statement, Treasury Management Strategy, Investment Strategy and Flexible Use of Capital Receipts Strategy (paragraph 6.2 and Appendices F2-F6).

2.18. To agree the Flexible Use of Capital Receipts Strategy for 2024/25 (Appendix F6), up to a maximum of £20m, and note that approving the strategy does not commit the council to using it (paragraph 6.3 and Appendix F6).

2.19. To agree to delegate responsibility for the adoption of the Flexible Use of Capital Receipts Strategy to the Section 151 Officer, if it is considered appropriate to do so at the end of the financial year in the context of the council's overall financial position (paragraph 6.3 and Appendix F6).

2.20. To note that inclusion of a scheme in the capital programme does not in itself necessarily grant permission to commit expenditure against the approved capital budget. This remains subject to any additional approval requirements of the council's constitution, financial regulations and procurement rules.

2.21. To note that the Executive delegated responsibility to the Section 151 Officer to approve the business case to accept grant funding offers for decarbonisation requiring match funding. If grant funding offers are not received or accepted, the budget will be subject to review as part of the quarterly updates to the Executive.

Council Tax and Retained Business Rates (Section 8)

2.22. To agree the calculations required for the determination of the 2024/25 council tax requirement and the level of council tax as detailed in Section 8 and summarised below:

- The 2024/25 council tax requirement of £118,220,685.65 (paragraph 8.6 and Table 22)
- The relevant basic amount of Islington Band D council tax of £1,449.41, a 4.99% increase compared to 2023/24 (comprising 2% specifically for expenditure on adult social care and 2.99% for all expenditure), and that this is not 'excessive' in

accordance with the council tax referendum principles for 2024/25 (paragraph 8.7 and Table 23)

- 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 £1,449.13 (paragraph 8.9 and Table 24).
- The amount of 2024/25 council tax (excluding the GLA precept) for each valuation band over each of the council's areas (paragraph 8.11 and Tables 25 and 26).
- The total amount of 2024/25 council tax (including the GLA precept) for each valuation band over each of the council's areas (paragraph 8.13 and Tables 28 and 29).

2.23. To note the council's estimated retained business rates funding in 2024/25, as per the 2023/24 NNDR1 return estimate (paragraph 8.15 and Table 30).

2.24. To note the council's forecast NNDR surplus/(deficit) for 2023/24 (paragraph 8.16 and Table 31)

Matter to Consider in Setting the Budget (Section 9)

2.25. To have regard to the Section 151 Officer's report on the robustness of the estimates included in the budget and the adequacy of the proposed financial reserves when making decisions about the budget and the level of council tax, as required under Section 25(2) of the Local Government Act 2003 (paragraphs 9.1-9.14).

2.26. To note the Monitoring Officer comments (paragraphs 9.15-9.20).

2.27. To note the Equality Impact Assessment (paragraphs 9.27-9.29 and Appendix G) and to take fully account of it in approving the overall budget and related proposals.

2.28. To note that the council invited residents and business rate payers (or representatives of business rate payers) in Islington to comment on the draft 2024/25 budget proposals in this report, as required under Section 65 of the Local Government Finance Act 1992 and to note the summary of responses received (paragraphs 9.30-9.35).

2.29. To agree the Retail Relief Scheme for 2024/25 (Appendix H and paragraph 9.36).

2.30. To agree the Annual Pay Policy Statement for 2024/25 (Appendix I and paragraph 9.37).

3. General Fund MTFS and 2024/25 Revenue Budget

The Budget and Islington Together 2030 Plan

3.1. In the 2030 Plan, Islington Together, the ambition was set to create a more equal Islington where everyone is able to thrive. The council has set five missions to create a more equal future for Islington in 2030. These are:

- Child-friendly Islington
- Fairer Together
- A Safe Place to Call Home
- Community Wealth Building
- Greener, Healthier Islington

3.2. Islington is a unique borough with specific demographic requirements:

- Islington is the most densely populated local authority area in England and Wales.
- There has been a population increase of approximately 19% since 2011.
- Socially rented properties make up 35% of the borough.
- The pattern of deprivation differs to other London boroughs with affluent areas being immediately next to deprived areas.

3.3. To deliver on these missions, we are committed to put communities at the heart of everything we do. This includes how we manage and spend our finances.

3.4. The council's funding will drive these five missions, with new investment already in place to ensure we achieve our objectives. Budgets will be set with a strong focus on mission delivery. Examples of this include:

- A safe place to call home: Continuing to deliver new genuinely affordable homes as part of the council's commitment to build 750 new council homes by 2027.
- Greener, healthier borough: Continued investment of more than £10m for School Streets and Liveable Neighbourhoods to reduce air pollution, and make it easier to walk, cycle and scoot. This includes work on Liveable Neighbourhoods for Mildmay, The Cally, Barnsbury and Laycock, Bunhill and Dartmouth Park, and school streets across Islington including secondary schools. Almost £6m investment in electric vehicles for council services, and £1.8m to create more electric charging points.
- A fairer local economy: Continuing to support thousands of residents into work by protecting investment in our pioneering iWork services and investing in affordable workspaces.
- Child-friendly Islington: Protecting an extra £500,000 investment, first begun in 2019, to tackle serious youth violence and opening our third Family Hub.
- Help and support where and when people need it: Continuing to fund new Access Islington hubs that bring together help and support under one roof and maintain funding support key voluntary sector partners.

3.5. The council can put residents at the heart of our work in lots of different ways, including by changing the way we do things. For example *Let's Talk* Islington aims to work with communities to fundamentally change the way we work to tackle inequality over the next decade.

3.6. In the context of the challenges we face, providing genuine power for residents and local businesses to influence decisions and deliver on key issues impacting their lives can fundamentally change and transform the relationship between state and citizen. It is an essential component to enable us to realise our ambition of a more equal Islington. This includes developing initiatives such as participatory budgeting pilots allowing residents to decide how money is spent in their local area.

Summary of MTFS 2024/25 to 2026/27

3.7. The latest assumed budget position for 2024/25 and over the medium term is summarised in **Table 1** and detailed at **Appendix A**, with a balanced budget position in 2024/25. There is a remaining estimated £31.1m gap in 2025/26 and £24.7m in 2026/27, as set out below.

Table 1 – Summary Budget Gap 2024/25 to 2026/27

	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Pay and pension inflation	5.695	6.200	6.000	**17.895**
Non-pay/contract inflation	13.070	6.819	5.146	**25.036**
Demographic growth	8.814	11.468	12.602	**32.884**
Base budget adjustments/growth	4.297	0.928	0.286	**5.511**
Corporate levies/capital financing costs	5.201	7.448	5.253	**17.902**
Transfer to/(from) reserves movement	(0.991)	4.000	0.000	**3.009**
Inflation, energy & demand contingency	(1.404)	1.404	0.000	**0.000**
Government funding	(15.402)	1.292	0.000	**(14.110)**
Gross Budget Gap	**19.280**	**39.559**	**29.288**	**88.127**
Proposed savings	(10.770)	(5.457)	(1.604)	**(17.831)**
Business rates inflation funding	(3.330)	0.000	0.000	**(3.330)**
Assumed council tax base decrease/ (increase)	0.487	(0.570)	(0.584)	**(0.666)**
Budget Gap (Before Council Tax Increases)	**5.667**	**33.533**	**27.100**	**66.300**
Assumed Council Tax Increase	(3.396)	(2.385)	(2.445)	**(8.226)**
Assumed ASC precept increase	(2.272)	0.000	0.000	**(2.272)**
Remaining Budget Gap to Close	**0.000**	**31.148**	**24.655**	**55.802**

MTFS Principles

3.8. The proposed 2024/25 budget is under-pinned by the following key principles.

- Compliance with the CIPFA FM Code.
- Setting a balanced budget for the year ahead and working up robust estimates and funding scenarios over a 3-year period, as well as longer-term horizon scanning.
- Fully budgeting for ongoing budget pressures, and not applying one-off funding to bridge ongoing funding gaps. If one-off funding is used, to ensure that any residual, ongoing budget gap is resolved using ongoing savings over the medium term and that one-off funds are restored.

- Reflecting the ongoing revenue cost of the capital programme (both the cost of interest and prudently setting aside enough to repay debt principal) in the revenue budget, in particular considering the potential for interest rate volatility.
- Not assuming additional funding from central government until it is confirmed and developing exit plans for specific funding streams that are due to come to an end.
- Increasing the level of council tax in line with the government's expectations in local government finance settlements to avoid an ongoing shortfall in the base budget.
- Budgeting for sufficient contingency provision for in-year budget risks and using available one-off funding to strengthen financial resilience in reserves for hardening budget risks over the medium term.
- Maintaining a minimum balance in the Core Funding Reserve to mitigate against a potential fall in retained business rates funding to the government safety net level.

Summary Net Revenue Budget 2024/25

3.9. **Table 2** summarises the 2024/25 net revenue budget by directorate (cash-limited budgets). The table is subject to change based on the final local government final settlement.

3.10. A breakdown of the movement between the 2023/24 and 2024/25 budget is shown in **Appendix A**. Movement in the table below is broken down by:

- Inter-Directorate Changes - Representing virements and structural adjustments between council directorates (e.g., due to restructures that transfer responsibilities between directorates). These inter-directorate changes net off to nil across the council.
- Growth and Base Budget Adjustments – Representing any agreed growth, management actions such as contract efficiencies or new funding allocations as a result of specific grant funding or additional forecast income.
- Savings – Representing the total of savings proposed as part of the 2024/25 process. A further breakdown can be found at **Table 4.**

Table 2 – Net Revenue Budget 2024/25

	2023/24 Net Budget £m	Inter-Dept. Changes £m	Growth/ Base Budget Adjs. £m	Savings £m	2024/25 Net Budget £m
Adult Social Care	52.232	8.143	(1.343)	(1.965)	57.067
Chief Executive's Directorate	1.327	(1.275)	0.000	0.000	0.052
Children and Young People	87.594	(7.809)	2.646	(0.577)	81.854
Community Engagement and Wellbeing	8.563	5.757	0.539	(0.999)	13.860
Community Wealth Building	21.312	(2.379)	0.185	(1.463)	17.655
Environment and Climate Change	0.496	(12.850)	5.279	(2.967)	(10.042)
Homes and Neighbourhoods	7.888	4.750	1.130	(0.687)	13.081
Public Health (fully grant funded)	0.000	0.000	0.000	0.000	0.000
Resources	35.146	(0.414)	0.387	(2.112)	33.007
Central Costs	29.944	6.077	17.151	0.000	53.172
Net Cost of Services	**244.502**	**0.000**	**25.973**	**(10.770)**	**259.705**
General Contingency	5.000	0.000	0.000	0.000	5.000
Inflation, Energy and Demand Contingency	5.000	0.000	(1.404)	0.000	3.596
Transfer to/(from) Earmarked Reserves	13.518	0.000	(5.866)	0.000	7.652
Non-Specific Grants	(3.530)	0.000	2.238	0.000	(1.292)
Net Budget Requirement	**264.490**	**0.000**	**20.941**	**(10.770)**	**274.661**
Settlement Funding Assessment	(116.967)	0.000	(6.534)	0.000	(123.501)
Business Rates Growth	(24.770)	0.000	(3.330)	0.000	(28.100)
Collection Fund (Surplus)/Deficit	(9.714)	0.000	4.875	0.000	(4.839)
Council Tax Requirement	**113.039**	**0.000**	**15.952**	**(10.770)**	**118.221**

Budget Monitoring Position 2023/24 – Q2 Budget Monitoring

3.11. The estimated outturn position for the current financial year (2023/24) is reported to the Executive at quarterly intervals throughout the financial year and on to the Policy and Performance Scrutiny Committee. Where there are significant variances to the financial position, management actions are identified and detailed within the report, with the intention of bringing the anticipated year-end position back to target. Any ongoing impact on budgets beyond the current financial year, that would remain even after management actions have been implemented, is considered within the budget planning process for the forthcoming financial year and over the medium term. Where such ongoing variances are identified late in the budget process, then there can be a knock-on impact to future financial year budget gaps if the pressures are not fully closed by ongoing savings.

3.12. High inflation and low economic growth have created a very uncertain backdrop to the 2023/24 financial year. When combined with significant demand pressures within services and the ongoing effect of central government under-funding of council services since 2010, the 2023/24 financial position presents a challenge to keep in balance. This is even after using available inflation energy and demand and general contingencies, as at the Q2 2023/24 financial position reported to the Executive on 30 November 2023.

3.13. The Q2 2023/24 financial position estimates significant, adverse outturn variances in the three main spending directorates of Adult Social Care (£4.911m), Children and Young People (£2.480m), and Environment and Climate Change (£9.084m). In total at Q2 the financial position shows a £17.729m gross GF overspend. This is partly mitigated by applying the inflation, energy and demand, and general contingencies. It is possible that there will be a further erosion of earmarked reserves at year end as a result of the estimated outturn GF overspend. This follows a £37m reduction in earmarked reserves in the 2022/23 financial year. A significant proportion of the 2023/24 GF overspend has been factored into the ongoing GF budget in 2024/25 and over the medium term. This is reflected in the MTFS at **Appendix A** and the significant budget gaps presented in this budget report for the financial years 2025/26 (£33.6m) and 2026/27 (£24.7m).

3.14. Maintaining sufficient earmarked reserves and contingencies for future budgetary pressures and risks is a key component of a council's overall financial resilience. Earmarked reserves can only be used once. They cannot sustainably be used to fund recurrent expenditure. Persistent and significant in-year overspends are very damaging to the council's ongoing financial health and when coupled with significant budget gaps over the medium term bring into question financial sustainability over a medium to longer term forecast period if not addressed.

3.15. Taking forward the strategic implications of the in-year budget monitoring position into the medium-term budget planning process is a crucial aspect of the overall budget monitoring process. This can take the form of:

- Ensuring that ongoing budget implications of in-year gross and net expenditure are fully reflected in base budgets, informing future budget processes.
- Reviewing base savings proposals for deliverability in-year and over the medium term and assessing overall savings requirements for future budget processes as far in advance of the next budget setting cycle as possible.
- Working up new savings proposals in the context of financial and performance monitoring data analysed within the in-year budget monitoring process.
- Reviewing reserve positions in light of any drawdown in-year to ensure that there are sufficient reserves to provide financial resilience going forward, and measures to replenish earmarked reserves and contingency budgets over the medium term.

Key Revenue Budget Cost Pressures

3.16. The MTFS assumes a 3% pay award in 2024/25 (and budget provision for the final 2023/24 pay settlement) and 3% over the remainder of the medium term.

3.17. The MTFS provides for contract and non-pay inflation that cannot be managed within existing budgets. Where it is possible to do so, management actions are taken to reduce contract inflation additions to the budget. This includes:

- Adults Social Care Pay Contracts – The council contracts staff to provide social care provision across the borough and is required to pay National and London Living Wages as part of these contracts. This is set by Living Wage foundation annually and the council bears the additional cost.
- Temporary Accommodation (TA) and No-Recourse to Public Funds (NRPF) – The combination of high inflation on private sector rents and energy bills impacts the Council's expenditure on TA and NRPF. Attempts are made to control this through representation in the London council Inter-Borough Temporary Accommodation agreement.

- Parking NSL Staffing Contract – Inflationary growth is required to meet pressures existing from 2023/24 and forecast in 2024/25 as a result of high inflation levels, London Living Wage announcement and Cost-of-Living pay claims contributions.
- Children Looked After Placements – Inflationary growth for Residential and Independent Fostering Agency Placements. There is a programme of management actions in place to reduce placement cost pressures.

3.18. A further, significant cost pressure for the council is the increasing quantum and complexity of demand for council services. Based on latest estimates, the MTFS assumes demographic budget growth of £11m in 2024/25 and on average £12m per annum over the remainder of the medium term. This is the net growth requirement after planned management actions to mitigate cost increases. There is considerable uncertainty around these estimates, mainly due to the unknown enduring impact of the pandemic on demand.

3.19. It is recommended that demographic growth, as in previous financial years, is held centrally and allocated to service budgets in-year once a more evidenced assessment is available and has been approved by the Section 151 Officer.

3.20. The number of residents requiring adult social care has risen over the past number of years. This demand is driven by:

- An ageing population with people living longer with multiple of complex needs requiring social care.
- Increased prevalence of learning disabilities or physical or mental illness among working-age adults over recent years.
- Significant backlogs and longer waits in the NHS have exacerbated demand.

3.21. The demographic growth for Adult Social Services is split into the following client groups:

- Mental Health Service Users
- Learning Disability Service Users
- Memory, Cognition and Physical Support Service Users

3.22. The demographic growth for Children's Services relates to the following service areas:

- Children Looked After (Under 18/18+)
- SEND Transport
- Short Breaks and Personal Budgets

Levies

3.23. The council is required to pay levies to various external organisations, estimated to total £21m in 2024/25. The most significant levies are the council's contribution to Transport for London (TfL) for the cost of concessionary fares (London Freedom Pass) and the North London Waste Authority (NLWA) levy towards the disposal of household waste in partnership with six other north London boroughs.

3.24. The estimated levies for 2024/25 are shown in **Table 3**.

Table 3 – Levies 2024/25

	2023/24 Budget £m	2024/25 Estimate £m	Increase/ (Decrease) £m
Concessionary Fares	8.341	10.475	**2.134**
NLWA Household Levy	5.497	8.288	**2.791**
Inner North London Coroner's Court	0.510	0.520	**0.010**
London Pensions Fund Authority (LPFA)	0.493	0.493	**0.000**
Traffic and Control Liaison Committee	0.296	0.243	**(0.053)**
Lee Valley Regional Park Authority	0.208	0.212	**0.004**
Environment Agency (Thames Region)	0.194	0.198	**0.004**
London Boroughs Grants Scheme	0.184	0.164	**(0.020)**
Total Levies	**15.723**	**20.593**	**4.870**

3.25. Islington's two largest levies are forecast to increase by 36% in 2024/25. The North London Waste Authority (NLWA) is reporting increased charges relating to operating costs and interest charge increases. Costs are forecast to increase over the medium term but likely to remain moderate compared to other waste authorities.

3.26. The London Boroughs Grants Committee contributes towards the funding of many London-wide organisations providing a wide range of services. These services are accessible by Islington residents and contribute towards the council's priorities including tackling homelessness, dealing with violence against women and girls and support people with no recourse to public funds.

3.27. The London Councils Grant Committee report was considered by the London Councils Leaders' Committee on 12 December 2023. The report proposes an overall level of expenditure in 2024/25 of £6.732 million, which requires borough contributions of £6.668m, the same level of contribution as for 2023/24, and a transfer from the Premises Transition Reserve of £64,000. Two-thirds of boroughs were required to agree the grants budget by the third Friday in January. Islington's contribution in 2024/25 will be £164,317 compared to £183,779 in 2023/24, a reduction of £19,462. This contribution was agreed by the Executive on 11 January 2024.

Revenue Savings

3.28. The 2024/25 revenue budget assumes the delivery of savings totalling £17.881m in 2024/25 (**Appendix B**). This is summarised by directorate in **Table 4**.

Table 4 – General Fund Budget Savings Proposals by Directorate

Directorate	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Adult Social Care	1.965	1.601	-	**3.566**
Children & Young People	0.577	0.212	0.165	**0.954**
Cross-Cutting	0.764	0.504	-	**1.268**
Community Wealth Building	1.463	0.469	-	**1.932**
Community Engagement & Wellbeing	2.197	1.112	1.358	**4.667**
Environment & Climate Change	2.867	0.498	0.081	**3.446**
Homes and Neighbourhoods	0.787	0.601	-	**1.388**
Public Health	-	0.060	-	**0.060**
Resources	0.150	0.400	-	**0.550**
Total	**10.770**	**5.457**	**1.604**	**17.831**

3.29. It should be noted that some savings may be subject to individual consultation before they can be implemented. In the event that any savings do not proceed as planned following consultation, any in-year pressure would need to be funded from the corporate contingency budget and the ongoing implications considered as part of the next budget process.

3.30. The identification and delivery of savings gets more challenging every year. This is particularly the case for cross-cutting savings. In order to enhance delivery of cross cutting savings in the 2024/25 budget it is imperative that all cross-cutting savings are applied to directorate cash limited budgets at the earliest opportunity post budget setting and in advance of the 2024/25 financial year.

3.31. Updates on the delivery of the 2024/25 budget savings will be provided as part of the budget monitoring process, reported up through the Executive and scrutinised by the Policy and Performance Committee.

Economic Forecasts

3.32. The Chancellor of the Exchequer announced the Autumn Statement ('the Statement') on 22 November 2023. The Office for Budget Responsibility's (OBR) economic forecasts were published alongside the Statement.

3.33. Looking further ahead over the medium term, prospects for local government finance settlements look very bleak with expected real-terms funding cuts for unprotected departmental spending, including most of local government. This could equate to cash flat local government funding settlements, or even cash cuts given that inflation is estimated to fall over the government's forecast period. Islington's core spending power has been cut by 45% since 2010 and is highly likely to be cut further. The Resolution Foundation has estimated that unprotected departments' core spending power is set to be cut by 16% between 2022/23 and 2027/28.

3.34. The negative local government funding outlook is reinforced by the Chancellor setting out his aim in the Statement that growth in public sector spending should be lower than the growth in the wider economy (in theory to indicate an improvement in public sector productivity) over the forecast period.

3.35. Living standards, as measured by real household disposable income (RHDI) per person, are forecast to be 3.5% lower in 2024/25 than their pre-pandemic level and are not forecast to recover to the pre-pandemic level until 2027/28. This represents the largest reduction in real living standards since Office for National Statistics began in the 1950s.

3.36. The fiscal forecasts by 2027/28 improved by £27bn since the Spring Budget in March 2023 due to higher tax receipts offset by higher interest rates and inflation. However, the Autumn Statement spends nearly all of this net fiscal improvement on a 2% cut in employee National Insurance Contributions (NICs), permanent corporation tax write-offs for business investment, and welfare and health reforms aimed at boosting employment.

Funding Announcements (Final Local Government Finance Settlement)

3.37. The final settlement for 2024/25 was announced on 5 February 2024.

3.38. The settlement was broadly in line with expectations following the Autumn Statement 2023 announcement in November, except for the scale of the cut to the Services Grant. The Services Grant is an unringfenced (general) grant first introduced in the 2022/23 settlement, cut in 2023/24 and now being further cut in 2024/25. This will further reduce the council's capacity in the 2024/25 budget to absorb additional budget pressures or risks and makes a further call on reserves over the next financial year more likely.

3.39. This settlement is for one-year only, representing the final year of the current spending review period. The next spending review announcement is expected in Autumn 2024 which will set out government spending forecasts for the financial planning period from 2025/26. It is conceivable however that the next spending review and the 2025/26 settlement could subsequently be amended by the outcome of the next General Election.

3.40. Based on the government's methodology, Islington's Core Spending Power (CSP) will increase by 7.5% in 2024/25, broadly in line with the England average. CSP is the government's measure of a local authority's resources available to fund service delivery. It mainly consists of income from retained business rates, grants, and council tax (assuming that council tax is increased by the maximum allowed without a referendum).

3.41. In calculating Islington's CSP the government has applied the council's average annual growth in taxbase between 2019/20 and 2023/24 to project growth in taxbase for 2024/25. However, based on local knowledge, Islington's taxbase is currently estimated to fall by 0.39% in 2024/25. This means that the government is over-estimating Islington's council tax raising ability in 2024/25 by approximately £1.4m.

3.42. Islington's Settlement Funding Assessment (SFA) is made up of a Baseline Funding Level under the partial (30%) business rates retention system (comprising a business rates baseline amount and a 'top-up' grant) and Revenue Support Grant. This is summarised in **Table 5** below.

3.43. The increase in SFA announced in the 2024/25 settlement does not fully keep pace with the inflationary pressures underpinning the 2024/25 budget and headline increase in CSP, and so represents a real-terms funding cut. Furthermore, it does not address the historical funding shortfalls since 2010 whereby Islington's spending power decreased by 45% in real terms between 2010/11 and 2023/24.

Table 5 – Settlement Funding Assessment

	2023/24 £m	2024/25 £m	Change £m	Change %
Business Rates Baseline	79.160	82.453	3.293	4.2%
Top-Up Grant	9.284	10.636	1.352	14.6%
Baseline Funding Level	**88.444**	**93.089**	**4.645**	**5.3%**
Revenue Support Grant	28.523	30.412	1.890	6.6%
Settlement Funding Assessment	**116.967**	**123.501**	**6.534**	**5.6%**

3.44. Islington does not benefit from the government's minimum funding guarantee because the council's CSP increase is already higher than 3%.

3.45. Previous announcements of additional social care grant funding in 2024/25 were confirmed at authority level, as shown in **Table 6** below.

Table 6 – Social Care Funding (Ringfenced)

	2023/24 £m	2024/25 £m	Change £m
Improved Better Care Fund	14.501	14.501	-
Social Care Grant	23.690	30.826	7.136
Adult Social Care Discharge Fund	2.033	3.388	1.355
Market Sustainability and Improvement Fund	4.967	5.626	0.659
Total Social Care Funding	**45.191**	**51.662**	**9.151**

3.46. The Services Grant is an unringfenced (general) grant first introduced in the 2022/23 settlement, cut in 2023/24 and now being further cut in 2024/25 to £0.595m. For Islington, this equates to a £2.853m funding cut on the 2023/24 allocation of £3.448m. Whilst a cut in this grant was anticipated after the Autumn Statement, the cut is significantly higher than expected.

3.47. The settlement confirmed that the New Homes Bonus grant will continue for an additional year. Islington's allocation, based on housing growth in the borough over the past year, is £0.697m (£0.615m higher than the 2023/24 allocation of £0.082m).

Dedicated Schools Grant (DSG) Funding and Schools Balances

3.48. The following analysis is based on funding announcements from the Department for Education (DfE) following the settlement.

3.49. The table below shows a summary of the DSG funding by various blocks. The total DSG funding for 2024/25 of £177.748m is an increase of £12.304m (7.4%) as compared to the 2023/24 position.

Table 7 – DSG Funding by Block

Blocks	2024/25 (£m)	2023/24 (£m)	Variance (£m)	Variance (%)
Schools	107.626	102.643	4.983	4.9%
Central	1.319	1.379	-0.060	-4.3%
High Needs	43.902	42.429	1.473	3.5%
Early Years	24.900	18.992	5.909	31.1%
Total	**177.748**	**165.443**	**12.304**	**7.44%**

3.50. An increase of per-pupil funding for primary and secondary schools is being provided for in the Schools Block in 2024/25 of 5.5% and 5.8% respectively when compared to the 2023/24 funding rates. This is expected to be equivalent to an increase in funding of £4.983m (4.9%) after allowing for the 2.2% reduction in pupil numbers from October 2022 to October 2023. Had pupil numbers not reduced, then a further £2.533m in funding would have been received for schools. The School's Block is the main source of funding for mainstream schools, over 96% of which is based on pupil numbers.

3.51. There will be a further reduction in the historic duties' element of Central Schools Services Block funding for Council services provided to mainstream schools of £0.067m (20%) in 2024/25. This follows a 20% reduction in each of the last four years, in line with the DfE's plans to phase out this funding for local authorities by 2026/27. Funding for ongoing duties is increasing by £0.008m (0.7%). The net reduction in funding is £0.059m (4.3%).

3.52. There is a year-on-year increase of £1.473m (3.5%) in the High Needs Block after recoupment following the provision of additional funding for high needs nationally. The High Needs Block provides funding for special schools, funding for children and young people with Special Educational Needs and Disabilities in other settings, and related local authority services. Demand for education health and care plans is increasing by an average of 8% per annum, therefore funding is not keeping pace with demand.

3.53. Early Years Block funding is provided for the statutory entitlements to early education and childcare. Funding is has increased by £5.909m (31.1%) in 2024/25. This is an initial position based on the January 2023 headcount. It will be updated by the DfE for the January 2024 headcount when they become available and will form part of the June / July DSG updated allocations from the DfE. The hourly funding provided to local authorities for 2-year-olds provision has increased by 47.1%, while the 3- and 4-year-old rate has increased by 1.0%. There will be further growth in the provisional settlement for the new entitlements for free early education and childcare that come in from April and September 2024.

3.54. A recent survey by London Councils that was responded to by 31 boroughs (including Islington) showed forecast accumulated surplus / deficits as a percentage of their DSG allocation range from -17% to +5% in 2023/24 (Islington +2.3%). The London average stood at -3%. Islington is forecast to enter into an accumulated DSG deficit in 2025/26 across all spending blocks due to High Needs funding allocations from the DfE not keeping pace with demand and falling pupil numbers. This is being addressed through the Council's SEND strategy.

3.55. Schools Balances are forecast to enter a net accumulated deficit overall in 2024/25 based on current spending plans from schools due to falling pupil numbers and increasing cost pressures. 23% of maintained schools in London are forecast to be in deficit by the end of 2023/24, just below the forecast percentage in Islington of 25%.

3.56. A school organisation plan is being put in place to reduce surplus capacity in schools and bring schools back onto a more sustainable financial footing. The first two phases of this plan have been agreed by the Executive that will reduce the forecast deficit, but further significant actions are required to eliminate the forecast deficit and bring balances back into surplus overall.

Fees and Charges

3.57. Some fees and charges are prescribed by statute and are not within the council's power to vary locally, others are discretionary and set as part of the annual budget suite of papers, including the fees and charges report. The fees and charges policy considers the current level of inflation in the economy as well as the level of inflation expected to prevail over the forthcoming financial year.

3.58. It was agreed by the Executive on 30 November 2023 that all discretionary fees and charges be increased by an average 6.7% (based on CPI) from 1 January 2024, unless a variation was otherwise stated.

3.59. Any increase in fees and charges income that has not already been included separately as part of the budget savings proposals is fully factored into the overall budget planning assumptions for the relevant services to cover corresponding inflation in costs incurred by the council.

3.60. As agreed by the Executive on 11 January 2024, a chargeable green garden waste fortnightly recycling service will be introduced from 1 April 2024. The current free green garden waste weekly recycling service would no longer be offered to residents after 31 March 2024. A separate green garden waste collection schedule will be implemented to collect from subscribed customers. The weekly charge would be set at an initial charge equivalent to £1.44 per week, or £2.88 per collection, payable as an annual fee.

In consideration of our residents, it was agreed by the Executive on 8 February 2024, that the flat rate of £75 per annum be amended to provide for a concessionary rate for residents in receipt of Council Tax Support, to be charged at 50% of the full rate.

This will make the service more affordable to residents on lower incomes, helping to ensure that all of our residents can make the right environmental choice relating to any garden waste they may need to dispose of.

3.61. As agreed by the Executive on 8 February 2024, GLL's price proposal will be implemented from 1 April 2024. A 6.7% increase on activity prices membership prices and tennis prices is recommended. Charges for the Sobell Leisure Centre Ice Rink, Soft play charges and Trampoline charges have not been included due to the ongoing design of the Active Zone.

3.62. HRA fees and charges are considered in the **Section 5** of this report.

4. Reserves and Balance Sheet Strategy & CIPFA Financial Management Code Assessment

Reserves and Balance Sheet Strategy

4.1. A fundamental element in assessing the robustness of the council's annual budget and MTFS is the level of contingency budget(s), earmarked reserves, and GF balance, as determined by the Section 151 Officer. The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, there is no specified minimum level of reserves that an authority should hold. It is the responsibility of the Section 151 Officer and the Members of the Council to determine the level of reserves and to ensure that there are procedures for their initial formation and use.

4.2. Historically Islington has had comparatively low reserves with similar authorities. There was also a higher-than-average decrease in reserves at 2022/23 outturn. In addition, the significant expenditure pressures and income shortfalls incurred as a result of COVID-19, the high levels of inflation and the sustained economic downturn have highlighted the underlying level of risk inherent in the council's budget position.

4.3. There are different types of reserve held across the Council which are split between usable and unusable reserves. Unusable Reserves are used to hold unrealised gains or losses for assets not yet disposed of and accounting adjustments, which are required by statute. These reserves cannot be used to fund capital or revenue expenditure.

4.4. The different categories of usable reserves are broken down below:

- General Balances (GF or HRA) are unallocated funds which do not have any restrictions on their use. They cushion the impact of uneven cash flows, offset budget requirements, if necessary, or can be held in case of unexpected events or emergencies. These are split between GF and HRA.
- Earmarked Reserves - these must be held for genuine and intended purposes. Earmarked funds within the GF are categorised into:
  - **Budget Risk –** These are held to protect the council against the significant and wide-ranging budget risk within the MTFS. This includes to:
    - Mitigate specific budget risks, particularly the impact of delayed savings delivery.
    - Protect against wider, external events and the impact of this on the council's budget e.g., Economic events and forecasts such as inflation and interest rate announcements and future Local Government Funding Settlements and announcements.
    - Mitigate the impact of business rates and council tax income fluctuations and timing differences.
    - Provide resilience for business continuity in the event of exceptional circumstances such as a cyber-attack.
  - **Planned Spend –** This comprises reserves that are earmarked to fund one-off expenditure. This includes to:
    - Provide for agreed Transformation projects and other agreed one-off budget growth.
    - Set aside funds for specific projects such as the potential direct and indirect costs of the non-recent child abuse support payment scheme.
  - **Ringfenced –** This comprises ring-fenced grants and contributions such as Dedicated Schools Grant (DSG) and Public Health grant where the funds cannot

be used to resource anything other than the specified purpose due to funding or legal restrictions.

  - The HRA also holds earmarked reserves.

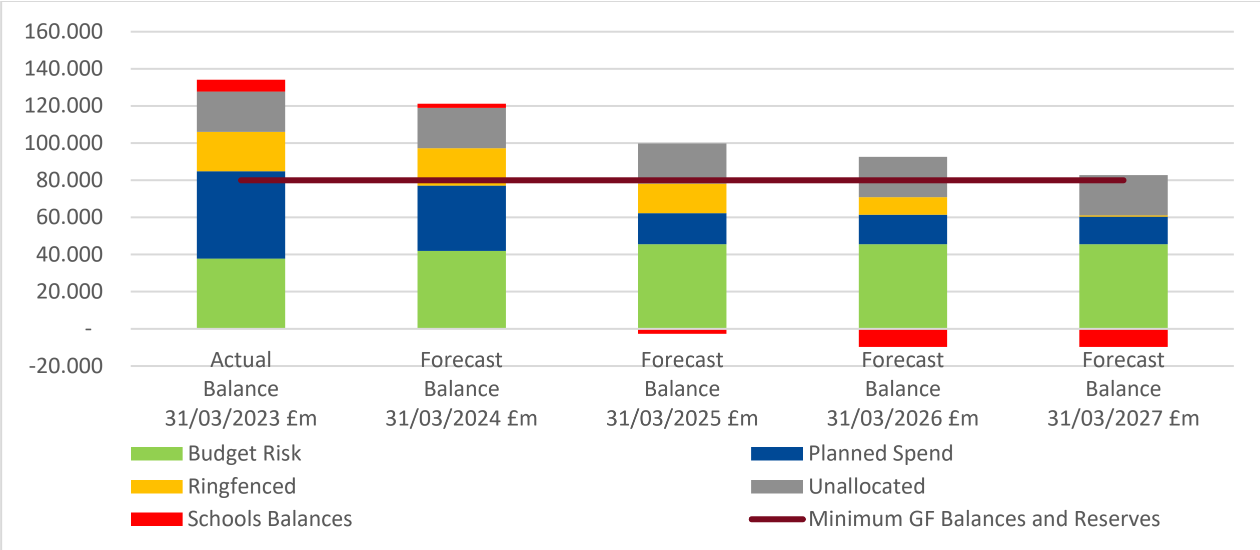
- Other Capital Reserves – these are broken down between:
  - Major Repairs Reserve – Applies to the HRA only and is used to build up capital sums that can be used to finance the capital programme and repayment of housing debt.
  - Capital Receipts Reserve – Holds funds received from sales of non-current assets (primarily receipts from the sale of property). The use of receipts is normally restricted to funding other capital expenditure or paying off debt.
  - Capital Grants Unapplied – Holds capital grants that have been received in advance of the associated expenditure being incurred. They are not available for revenue purposes.

4.5. Islington's current GF balance (£21.7m, excluding balances held on behalf of schools) equates to just over one week of gross expenditure. It is recommended that a minimum GF balance is set at £20m, broadly in line with the current GF balance, which is widely viewed as being low, it representing just one week of the council's gross annual GF expenditure in the current financial year, and is still at only half of the level of the MTFS GF balance target of £40m.

4.6. It is proposed that any underspend on the GF and contingency budget at the end of each financial year is used to increase the GF balance (excluding schools balances) from the current level towards the target level of £40m GF balance over the medium term. It is the view of the Section 151 Officer that this remains a reasonable proxy, subject to annual review, for the level of unquantifiable risk in the council's budget, and therefore the target GF balance needed to deal with economic shocks and insulate the council from potential compensating cuts to key services that could arise in a given financial year.

4.7. Decreasing reserve levels are a key indicator of financial distress in councils. It is important that the medium-term budget makes provision to sustain reserve levels. It is recommended that an absolute Minimum GF Earmarked Reserves Level is set at £60m (combined with the proposed £20m General Balances minimum level). This is set out in **Figure 1** below, which illustrates that GF reserves are currently forecast to fall significantly over the medium term.

Figure 1 – General Fund Earmarked Reserves and Balances Forecast



4.8. The above graph shows that the 2025/26 and 2026/27 forecast reserves balances are close to breaching the recommended absolute minimum of £80m GF Balances and Earmarked Reserves Level. Remaining above the minimum level and replenishing reserves over the forecast period will require the following:

- Delivering balanced in-year budget positions. A repeat of the £17.729m Q2 gross GF overspend in 2024/25 and over the medium term would deplete reserves further to balance the year-end position.
- Fully closing the forecast, significant GF budget gaps over the medium term, as set out in this budget report, with ongoing savings. Use of any reserves to close an ongoing budget gap will further push the council towards breaching the Minimum GF Balances and Earmarked Reserves Level, and simply push the budget gap to later financial years, potentially unsustainably.
- Receiving adequate, above inflation funding settlements from central government over the next Spending Review period commencing 2025/26, which would enable the council to meet the unprecedented inflationary, demographic and demand pressures faced over recent financial years and forecast to continue over the financial planning period. Adequate funding settlements would assist the council in restoring reserves to more sustainable levels.

4.9. Ongoing and significant budget savings of a level not seen in recent budget processes will need to be delivered over the medium term to ensure the adequacy and robustness of reserves is at least maintained and, as an objective, significantly strengthened.

Reserve Movements, Budget Risks and Contingencies

4.10. The pressures across councils have resulted in increasing numbers of local authorities issuing Section 114 (S114) notices. A S114 notice puts spending controls in place and prohibits all new expenditure by a council, other than that required to provide statutory services. A council’s Chief Financial Officer (CFO) has a statutory duty to issue a S114 notice if they believe the council will be unable to meet its expenditure commitments from its income. The CFO does not need councillors’ consent to issue this notice. The rising numbers of S114 notices highlight how difficult it is becoming for all councils to set a balanced budget and this is going to become even more challenging if service demands increase further and funding continues to be outstripped by inflation.

4.11. Use of reserves to balance ongoing budget gaps is not advised for a number of significant reasons:

- The level of the medium-term budget gap would stay the same, with the relevant budget gap merely pushed to the following financial year.
- Future budget gaps tend to widen as the budget process for that financial year is approached – a combination of an expanding prior year budget gap and an underlying gap to close for the following financial year would be extremely difficult to balance in a single budget year.
- It would reduce flexibility to use reserves in-year for any unforeseen events (e.g., to fund local risks such as a cyber-attack that would be unlikely to be funded by the government) or to resource one-off requests such as transformational costs.
- It would essentially be a 'sticking plaster' to deal with a long-term budget problem – potentially leading to much bigger problems down the line, as evidenced with recent high profile council failures.

4.12. There have been GF savings made consistently in recent years, including those proposed as part of this budget. However, sources of savings become harder to find each year without impact local services. Furthermore, when savings are identified, the delivery of savings is more difficult to manage.

4.13. The 2024/25 budget includes an ongoing, general corporate contingency budget of £5m per annum, unchanged from 2023/24. A contingency budget is an ongoing budget intended to be applied on a one-off basis only against unforeseen expenditure in-year. If it were to be applied on an ongoing basis against ongoing expenditure pressures, then the budget would not be available for future financial years. The contingency budget is viewed as a last resort for in-year budget pressures that cannot be funded from compensating underspends elsewhere and is subject to approval in line with the council's Financial Regulations. Directorates agree cash limited budget allocations and take responsibility for delivering a balanced budget unless a business case, presenting an exceptional circumstance, for contingency or reserve funding is agreed. Given the level of gross in-year overspends in recent financial years, a £5m contingency budget is at the very low end of acceptability in terms of providing assurance against unanticipated or unexpected expenditure over and above budget. The Inflation, Energy and Demand contingency budget available in the 2023/24 budget has been reduced from £5m to £3.6m in the 2024/25 budget as part of the measures to set a balanced budget. The MTFS assumes that this additional Inflation, Energy and Demand contingency budget is restored to £5m at the earliest opportunity, given the risk in removing from the 2024/25 budget on a one-off basis. It forms part of the estimated budget gap for 2025/26.

4.14. The estimated level of usable reserves, reflecting current known movements is shown in **Table 8** and detailed by individual reserve at **Appendix C**. This reflects known reserves movements including:

- Previous budget reports have made provision of £4m earmarked to be transferred to GF Earmarked Reserves. Due to the pressures faced in 2024/25 this has been removed for one year only to resource the pressures and growth required to set a balanced budget. As a result, it is forecast that Earmarked Reserves will fall further in 2024/25, reducing the council's financial resilience.

- It is expected that additional movements to/from reserves will be brought forward for agreement once there is greater clarity on their timing and amount. This includes reserves movements related to the finalisation of the 2023/24 financial outturn after the end of the current financial year.

Table 8 – Forecast Usable Reserves

Reserve Category	31/03/23 Actuals £m	31/03/24 Estimate £m	31/03/25 Estimate £m	31/03/26 Estimate £m	31/03/27 Estimate £m
Budget Risk	37.851	42.283	47.122	47.122	47.122
Planned Spend	47.076	33.998	13.946	15.871	19.371
Ringfenced	21.145	20.002	15.843	9.497	0.819
Total GF Earmarked Reserves*	**106.072**	**96.283**	**76.911**	**72.489**	**67.312**
General Fund	21.718	21.718	21.718	21.718	21.718
Schools Balances	6.292	3.430	(2.677)	(9.745)	(9.745)
Total General Balances	**28.010**	**25.148**	**19.041**	**11.973**	**11.973**
HRA Earmarked Reserves	31.504	33.824	43.224	54.424	64.705
HRA Balances	17.521	17.521	17.521	17.521	17.521
Total HRA Earmarked Reserve and Balances	**49.025**	**51.345**	**60.745**	**71.945**	**82.226**
Major Repairs Reserve	0.921	11.872	4.290	12.111	17.370
Capital Grants Unapplied	24.807	0.000	0.000	0.000	0.000
Capital Receipts	49.988	45.171	44.354	31.092	20.680
Total Capital Reserves	**75.716**	**57.043**	**48.644**	**43.203**	**38.050**
Total Usable Reserves	**258.824**	**229.819**	**205.341**	**199.610**	**199.561**

*These reserve forecasts do not assume use of the approved Flexible Use of Capital Receipts policy, which will be determined by the Section 151 Officer based on the overall reserves position at the end of the financial year. Utilising the flexibility would result in a reduced fall in GF earmarked reserves, but higher borrowing and revenue costs of borrowing.

CIPFA Financial Management Code Compliance Assessment

4.15. An initial compliance analysis against the CIPFA FM Code has been undertaken as part of the 2024/25 budget assurance work. The CIPFA FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, the Code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities, and circumstances. Each local authority should demonstrate that the requirements of the CIPFA FM Code are being satisfied.

4.16. Demonstrating this compliance with the CIPFA FM Code is a collective responsibility of elected members, the Section 151 Officer, and professional colleagues in the leadership team.

4.17. The annual compliance analysis is included at **Appendix E1** and shows that the council achieves a high level of compliance against the vast majority of the CIPFA FM Code statements of standard (or best) practice. Where there is only a medium level of compliance, actions are suggested that would take the council to high level. The compliance analysis should be seen as an organic piece of work, re-visited at least annually as part of the budget process, with any actions or recommendations implemented on an ongoing basis.

Balance Sheet Analysis

4.18. The balance sheet provides a snapshot of the council's financial position detailing assets, liabilities, and reserves. The balance sheet shows the complex and closely interlinked relationship between revenue, capital, borrowing and other existing and emerging risks. Analysing the council's balance sheet on a regular and ongoing basis (and not just at financial year-end) is key to understanding the underlying financial position of the council. Effective balance sheet analysis is very useful as a measure to indicate whether or not a local authority is showing signs of financial stress currently and over time within an overall direction of travel.

4.19. To be effective, balance sheet analysis needs to look at a wide range of measures to enhance overall understanding of financial resilience and direction of travel.

4.20. Detailed balance sheet analysis can be found at **Appendix E2**. In summary, the analysis has found that:

- The council has been able to build reserves, and therefore financial resilience, over the previous 6 years, partly due to additional transitory income received during the COVID-19 pandemic. However, the recent significant decrease in reserves demonstrates the importance of strengthening and maintaining sufficient levels of the reserves where the council is able to do so.
- Furthermore, the council has been able to defer external borrowing, despite the increasing need to borrow, by using its own resources to finance capital expenditure. However, if reserves continue to decline and the need to borrow continues to rise, the council will be required to externally borrow and will risk paying high interest rates.

5. Housing Revenue Account

5.1. The HRA is a ringfenced account covering the cost of managing and maintaining council-owned housing stock, servicing both existing debts taken on as part of self-financing, and new debt taken on to support the delivery of the new build and property acquisitions programmes; the funding of which comes primarily from rents, and tenants' and leaseholders' service charges.

5.2. The council has a statutory duty to set a balanced HRA budget each financial year. To ensure financial viability and sustainability, and in-line with best practice across the sector, the council maintains a 30-year business plan. The proposed updated HRA 30-year business plan is detailed in **Appendix D4**.

5.3. The proposed 2024/25 HRA budget includes the balance of the savings package identified as part of the 2023/24 budget process and the continuation of these savings in 2026/27 totalling £3.646m (detailed at **Table 10** and **Appendix D3**). In addition, the proposed HRA 30-year business plan assumes that the new build programme will continue towards attempting to meet the council's Islington Together 2030 commitment of delivering an additional 750 social rented homes (with a start on site by December 2027).

5.4. Balancing the Business Plan has become more challenging over recent years due to various factors:

- Legislative requirements, such as building and fire safety, and a drive towards more energy efficient homes.
- Ongoing impact of damp and mould and the cost of legal disrepair claims.
- Prevailing economic conditions, including the impact of higher interest rates on capital scheme delivery, that require borrowing to balance new schemes. This includes subsidised new build borrowing of £34.2m to take 180 new council homes through to completion and a further provision of £20.2m to continue developing a pipeline programme of 570 new council homes through to Planning stage. This new build programme budget pressure has been met by reducing the budget provision available to the major works and improvement capital programme for investment in existing council homes, by 5% (or £2.8m) per year over 30 years.
- High-cost inflation on repairs and maintenance, alongside Government interventions in relation to Local Authority rent setting. There was a 7% rent cap in 2023/24 and a 1% reduction each year between 2016/17 – 19/20, taking £1.7bn income out of the Business Plan.

5.5. It should also be noted that whilst the HRA 30-year business plan balances this is achieved by limiting the budget provision for the investment in existing council homes. There remains an investment gap of; £933m (over 30 years) when comparing this budget limited provision to a "replacement of life expired components" investment model and £1.829bn (over 30 years) when comparing this budget limited provision to a "traditional" investment model. This means our investment programme will meet statutory Health and Safety requirements, but due to the factors listed above, will result in the inability of the council to meet the Decent Homes Standard for all properties within the next 10 years.

5.6. There is limited scope to meet the significant shortfall in investment need, with rental increases, the largest source of income, restricted by government policy. As such the council recommends working alongside other social landlords to seek a more sustainable rent settlement from Central Government, which will enable greater certainty over long-term financial planning and investment in our housing stock.

5.7. The Business Plan is susceptible to changes in macro-economic conditions, and we also require a more informed view on the long-term trend of emerging costly, resource intensive issues such as damp and mould. Hence these factors and their impact will be extensively reassessed into next year. Consideration of options and measures to bridge the investment gap is currently underway, as we prepare the 2025/26 Business Plan.

5.8. The proposed HRA budget for 2024/25 and latest estimates for the medium term, including HRA reserves estimates, is set out at **Appendix D1**. The movement between the approved 2023/24 budget and the proposed 2024/25 budget is summarised in **Table 9**.

Table 9 – Summary of HRA Budget Changes 2023/24 to 2024/25

Expenditure	**£m**
Pay and pensions inflation	6.213
HRA savings proposals (See **Table 10**)	(1.443)
Increase in contributions to HRA reserves	8.181
Contractual inflationary increases and other budgetary changes	4.955
Reduction in the cost of communal gas and electricity	(4.062)
Increase in Leaseholder property insurance costs	3.171
Increased funding for New Build Pipeline programme	14.412
Decrease in bad debt provision resulting from a reduction in energy prices	(0.997)
Capital related items (borrowing, RCCO and depreciation charges)	(0.201)
Total Expenditure Increase	**30.229**
Income	**£m**
Rent and Tenant charges	(26.775)
Heating charges (Tenants and Leaseholders)	1.010
Leaseholder annual service charges	(3.073)
Other income net increases	0.227
Change in interest receivable on HRA balances	(1.618)
Total Income Increase	**(30.229)**

Table 10 – Summary of HRA Savings 2024/25 to 2026/27

Savings type	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**Total £m**
Efficiency	0.530	0.150	0.220	**0.900**
Service reconfiguration	0.853	0.500	1.038	**2.391**
Income generation	0.000	0.295	0.000	**0.295**
Budget Realignment	0.060	0.000	0.000	**0.060**
Total	**1.443**	**0.945**	**1.258**	**3.646**

Rental Income and Other HRA Fees and Charges

5.9. The Welfare Reform and Work Act 2016 required local authorities to reduce the rents, in respect of all properties (excluding PFI managed properties) held in the HRA, by 1% each year for four consecutive years between 2016/17 and 2019/20.

5.10. In February 2019, the Government issued a policy statement on rents for social housing effective from April 2020.

5.11. Compliance with this policy is effectively mandatory, for the first time the government has included local authority social housing within the remit of the Social Housing Regulator (previously the Regulator's remit was limited to private registered providers of social housing only (i.e., housing associations). The Regulator is required by "direction" from the secretary of state for the Dept. of Levelling-Up Housing & Communities (DLUHC) to have regard to the government's policy statement referred to above and as such, the Regulator issued the first rent standard effective from April 2020. The rent standard was subsequently updated with effect from April 2023 to reflect the Government's "direction" which capped existing tenant rent increases to a maximum of +7% in 2023/24.

5.12. The rent standard has not yet been updated in respect of 2024/25 rent setting. However, the Council has been advised by DLUHC that 2024/25 rent setting policy will revert to previous long-term Government rent setting policy i.e., a maximum increase of September 2023 CPI + 1% which equates to +7.7%.

5.13. A review of new build rent setting policies has been carried out to align existing tenant and re-let rents over a period of three years from 2023/24 to 2025/26 to ensure a consistent approach across all new build rents.

5.14. The Social Housing Regulator has advised that all properties that are currently or that were previously managed under a private finance initiative (PFI) arrangement are exempt from the rent standard.

5.15. To clarify the definition of Rent & Service Charge payers and Non-Rent & Service Charge Payers in respect of Estate parking charges, found in Appendix C, please see below definitions:

- By Rent & Service Charge payers, we mean Standard Charges for Tenants and Resident Service Charge Payers. This includes all Islington council tenants, members of their household and leaseholders/freeholders who pay service charges to Islington council for the home that they live in.
- By Non-Rent & Service Charge Payers, we mean Islington Borough Residents and Non-Residents. This includes any Islington borough residents who do not qualify for the standard charge rate for tenants and resident service charge payers, and out of borough residents.

Islington Council Managed General Needs Properties (excluding New Build and current plus ex PFI properties)

5.16. **Table 11** sets out the average rent in 2024/25 for existing tenancies. The maximum 2024/25 permitted rent is the prior year (2023/24) actual rent plus 7.7% (Sept.23 CPI +1%)

5.17. However, if the maximum rent exceeds the lower of the 2024/25 national rent cap (for the relevant bed size) or the property's 2024/25 national target rent then the 2024/25 rent will be the higher of A or B:

A. The lower of 2024/25 national target rent or the 2024/25 national rent cap or

B. The 2023/24 actual rent plus 7.7%

5.18. All the council's general needs properties will be subject to the maximum rent increase in 2024/25 of plus 7.7% as their maximum rents in 2024/25 do not exceed the lower of the 2024/25 national target rents or the 2024/25 national rent caps.

5.19. 1% (215) of the council's general needs properties have a national target rent greater than the national rent cap.

Table 11 – Existing Tenancies Average Weekly Rent 2024/25

Average Weekly Rent 2023/24	£126.13
Increase (£)	£9.71
Increase (%)	7.70%
Average Weekly Rent 2024/25	£135.84

5.20. General needs properties will be re-let at the lower of the 2024-25 national rent cap (for the relevant bed size) or their 2024-25 national target rent. As 99% of Islington Council general needs properties have a national target rent below the national rent cap, it is likely that re-lets will be at national target rent.

5.21. In accordance with DLUHC advice 2024/25 national target rents will reflect an increase of CPI (Sept. 2023) plus 1% and the 2024/25 national rent caps will reflect an increase of CPI 6.7% (Sept. 2023) plus 1.5%.

5.22. **Table 12** sets out the likely average rent in 2024/25 for re-let properties.

Table 12 – Re-Let Properties Likely Average Weekly Rent 2024/25

Average Weekly National Target Rent 2023/24	£136.85
Increase (£)	£10.53
Increase (%)	7.70%
Average Weekly National Target Rent 2024/25	£147.38

Islington Council Managed General Needs New Build Properties

5.23. 2024/25 new build existing tenants' rents will increase by an average of 5.5% as compared to revised 2023/24 rents. This reflects the proposal referred to above which seeks align all new build rents, over three years commencing in 2023/24, to ensure a consistent approach.

5.24. 2024/25 re-let and first-let new build rents will, like the LBI managed general needs stock, be based on the lower of the 2024/25 national rent cap or the 2024/25 national target rent.

5.25. 27% of existing new build national target rents are greater than the national rent cap (for the relevant bed size), hence these re-let rents will be set at the national rent cap.

LBI Managed Property Acquisitions used for Temporary Accommodation (TA) (including reception centres and general needs properties assigned to TA clients)

5.26. Existing tenancies and re-let rents in 2024/25 will be set on the same basis as general needs properties referred to above, with the exception that for reception centres the plus 5% flexibility has been applied to the national target rent calculation.

LBI Managed Property Acquisitions - purchased using right to buy 141 receipts or GLA Grant

5.27. Existing Tenancies – 2024/25 rents will be set at the lower of:

A) The 2023/24 rent plus 7.7% or

B) The lower of; Bi) the relevant 2024/25 local housing allowance rate (noting that the Chancellor's 2023 Autumn Statement indicates that LHA rates will be updated to reflect the 30th percentile of local market rents to be effective from April 2024) or Bii) 80% of the relevant market rent.

5.28. Re-lets and first-lets in 2024/25 will be set at the lower of:

A) The relevant 2024/25 local housing allowance rate (noting that the Chancellor's 2023 Autumn Statement indicates that LHA rates will be updated to reflect the 30th percentile of local market rents to be effective from April 2024) or

B) 80% of the relevant market rent

LBI Managed Property Acquisitions - purchased using DLUHC grant

5.29. Existing Tenancies – 2024/25 rents will be set at the lower of:

A) The 2023/24 rent plus 7.7% or

B) 80% of relevant market rent

5.30. Re-lets and first-lets in 2024/25 will be set at 80% of the relevant market rent

Properties Currently Managed (PF1) and Properties Previously (Until April 2022) Managed (PFI2) under a Private Finance Initiative (PFI) Contract by Partners for Islington

5.31. Properties that were previously or are currently managed under a PFI contract are exempt from the government rent setting policy and as such the 1% rent reduction relating to the period 2016/17 to 2019/20 was not applied to these property rents. The council is now seeking to align PFI rents, over time, with standard social rents as they apply to the rest of the housing stock.

5.32. To move towards achieving this alignment, existing tenants 2024/25 rents for properties that continue to be managed by Partners for Islington under the PFI (1) contract and properties that returned to Council management from 4th April 2022, that were previously managed by Partners for Islington under the PFI (2) contract will be based upon the prior year 2023/24 rent plus 7.7% minus 50p per week towards convergence with standard social rents.

5.33. Re-Lets will be based on the outgoing tenants' rent as set out above.

5.34. **Table 13** sets out the average rent in 2024/25 for existing tenancies and likely average rent in 2024/25 for re-lets for current PFI (1) properties and ex PFI (2) properties.

Table 13 – Existing Tenancies + Re-Lets – PFI (1) current contract and PFI (2) returned to Council management - Average Weekly Rent 2024/25

Average Weekly Rent 2023/24	£177.30
Increase (£)	£13.18
Increase (%)	7.43%
Average Weekly Rent 2024/25	£190.48

Shared Ownership Rents

5.35. Rent charged with effect from 1 April 2024 in respect of the unsold equity in relation to shared ownership properties will be based on the prior year rent plus the lower of:

A) CPI (2 months before the rent increase review date) +1% or

B) RPI (2 months before the rent increase review date) +0.5%

Other HRA Fees and Charges

5.36. Other HRA fees and charges are set out at **Appendix D2** and summarised below.

5.37. Caretaking/Cleaning and Estate Services - Caretaking and Estate Service Charges will reduce by £0.84 (-4.2%) per week as compared to the 2023/24 Charges. This £0.84 reduction per week primarily reflects the net impact of; the reduction in the weekly charge for communal electricity that has come down because of fall in energy prices in 2024/25 as compared to 2023/24, and the increase in staffing related costs covering the increase in the 2023/24 pay award, and the estimated 2024/25 pay award.

5.38. Digital TV Maintenance - Charges have remains unchanged at 22p per week in 2024/25 reflecting the cost of the provision of this service.

5.39. Heating and Hot Water - Gas prices are forecast to reduce in 2024/25, together with a forecast reduction in consumption, weekly heating charge have come down by 41% as compared to 2023/24 charges. The average weekly heating and Hot Water charge in 2024/25 will be £17.28 per week. Unlike, Caretaking, Estate Service and Concierge charges, Heating and Hot Water charges are not covered by housing benefit or universal credit.

5.40. Concierge Service Charges - These have increased by 6.3% this increase relates primarily to the increase in staffing costs.

5.41. Estate based Parking and Storage Charges - Charges in respect of facilities used for vehicles i.e., Garages, parking spaces and car cages increase by 6.7% in line with September 2023 CPI.

5.42. Diesel Surcharge (Off Street) - This charge has increased by £10 per year in 2024/25 in line with September 2023 CPI Sept.

5.43. Home Ownership Administration costs - Increase by 6.7% in line with September 2023 CPI to reflect inflationary cost pressures whilst also acknowledging the cost-of-living pressures facing leaseholders.

5.44. Carpet Charges - Increase by 2% in line with the agreed annual contractual uplift.

6. Capital Programme

6.1. The council takes a strategic, long-term approach to managing and enhancing our community asset base through the planning of a 10-year capital programme. The 10-year programme comprises a proposed 3-year programme 2024/25 to 2026/27 for approval, and an indicative programme for the subsequent 7 years.

6.2. The Capital Strategy that underpins the capital programme, together with the inter-linked Treasury Management Strategy, MRP Statement and Investment Strategy are included at **Appendix F2-F5**.

6.3. The Flexible Use of Capital Receipts Strategy is included at **Appendix F6**. The recommended strategy for 2024/25 is allowable under the government's capital receipts flexibility programme, which grants local authorities the freedom to use capital receipts generated from the sale of assets (except for Right to Buy disposals) to fund revenue costs arising from transformational revenue projects that deliver savings. The current flexibility direction runs until 31 March 2025. Full Council agreed the power to use this flexibility in 2023/24 at the 28 September 2023 Council meeting. The Executive is asked to approve and onward recommend that Full Council agree the Flexible Use of Capital Receipts strategy for 2024/25, up to a maximum of £20m, and note that approving the strategy does not commit the council to using it. In addition, to approve and onward recommend that Full Council delegate responsibility for the adoption of the Flexible Use of Capital Receipts strategy to the Section 151 Officer if it is considered appropriate to do so at the end of the financial year in the context of the council's overall financial position.

6.4. The proposed 2024/25 to 2026/27 Capital Programme as well as indicative estimates for 2027/28 to 2033/34, totalling £1,157.746m of capital investment in the Borough, are summarised by directorate and council priority in **Tables 14 and 15** below and detailed by scheme at **Appendix F1.**

Table 14 - Capital Programme 2024/25 to 2033/34 Summarised by Directorate

Directorate	2024/25 £m	2025/26 £m	2026/27 £m	2024/25-2026/27 Total £m	2027/28-2033/34 £m	Total Future Years £m
Community Wealth Building	32.062	20.052	24.784	76.898	18.986	95.884
Environment	39.536	10.364	13.127	63.027	61.204	124.231
Housing General Fund	20.081	44.629	40.541	105.251	5.416	110.667
General Fund Total	91.679	75.045	78.452	245.176	85.606	330.782
HRA Total	238.741	109.637	97.336	445.714	381.250	826.964
Total Capital Programme	**330.419**	**184.682**	**175.788**	**690.890**	**466.857**	**1157.746**

Table 15 - Capital Programme 2024/25 to 2033/34 by Strategic Priority

Strategic Priority	2024/25 £m	2025/26 £m	2026/27 £ m	2024/25-2026/27 Total £m	2027/28-2033/34 £m	Total Future Years £m
A Safe Place to Call Home	260.375	154.266	137.878	552.519	388.067	940.585
Child-Friendly Islington	11.573	3.862	3.628	19.063	8.400	27.463
Community Wealth Building	15.953	16.703	21.519	54.175	21.690	75.865
Fairer Together	1.000	1.000	1.150	3.150	0.000	3.150
Greener, Healthier Islington	41.518	8.851	11.614	61.983	48.700	110.683
Total	**330.419**	**184.682**	**175.788**	**690.890**	**466.857**	**1157.746**

6.5. Ongoing work has led to revisions to the capital programme since the previous version presented to the Executive. **Appendix F7** presents these changes at a capital scheme level by financial year and funding source. These changes include budget additions and changes in external funding and impact the General Fund only. Key changes are summarised below:

- A net increase to the current year and 3-year capital programme of £36.330m supported by an additional £23.579m of external funding and an increase in borrowing of £12.751m. The additional borrowing requirement is considered affordable within the overall MTFS assumptions, which will be reviewed on a quarterly basis.
- £7.000m included for works to Sobell Leisure Centre following a flood at the site which will be covered by insurance. These works are expected to be completed in 2024/25.
- £7.000m included for works to Ironmonger Row Baths following a fire at the site which is expected to be largely covered by insurance funding. These works are expected to be completed in 2023/24.
- £12.852m council match funding (funded by borrowing) if decarbonisation grant funding offers were to materialise. Delegated authority to the Section 151 Officer is being sought in this report to approve the business case to accept any such decarbonisation grant funding offers as an Officer Key Decision due to urgency. This is required due to the short window (e.g. 10 days) to accept these grant funding offers. If grant funding offers are not received or accepted, the budget will be subject to review.

6.6. The council's capital investment plans recommended in this report have been drawn up in accordance with the CIPFA Prudential Code framework and have been demonstrated to be prudent, affordable and sustainable. The proposed programme is currently set at an overall affordable level and the increased revenue costs associated with additional borrowing are considered manageable within the MTFS. However, it is important to note that there are significant budgetary risks around the funding of this ambitious capital programme, including:

- Inflation rates provide a risk to the delivery of the capital programme to budget. If inflation rises, the cost of materials and labour will increase which can lead to overspends within the capital programme. This risk will be mitigated to some extent by contingency built into scheme budgets.
- Increasing interest rates in turn increase the revenue impact of borrowing to fund the capital programme. **Table 18** provides sensitivity analysis to model the impact of a 1% change in interest rates.
- The funding of some capital schemes is linked to delivery of the scheme's asset. There are risks in the assumptions made around this funding. There may be timing differences between expenditure being incurred and receipt of the funding, particularly regarding housing open market sale properties. In these instances, alternative interim funding will be applied such as short-term borrowing, with additional short-term revenue cost implications to cover interest costs and MRP, or the use of HRA reserves. There may also be differences in the value of receipt assumed and actual receipt. Receipts in excess of the assumed amount can be applied elsewhere by the council, including to reduce external borrowing requirements. Receipts less than the assumed amount will increase the borrowing requirement and the associated revenue costs. Over the next 10 years, £118.609m of General Fund capital financing is assumed to come from the open market sales of completed housing projects.

6.7. **Table 16** summarises the funding of the capital programme by funding source, with this detailed at scheme level at **Appendix F1**.

Table 16 - Capital Financing 2024/25 to 2033/34

	2024/25 £m	2025/26 £m	2026/27 £m	2024/25-2026/27 Total £m	2027/28-2033/34 £m	Total Future Years £m
Grants	13.150	4.142	4.141	**21.433**	11.104	**32.537**
S106/ CIL	3.542	0.000	1.276	**4.818**	0.600	**5.418**
Capital Receipts	20.081	44.629	40.541	**105.251**	5.416	**110.667**
Revenue Contributions and Other	5.470	0.560	0.000	**6.030**	1.500	**7.530**
Borrowing	49.436	25.714	32.494	**107.644**	66.986	**174.630**
Total General Fund Financing	**91.679**	**75.045**	**78.452**	**245.176**	**85.606**	**330.782**
Grants	57.801	0.000	0.000	**57.801**	0.000	**57.801**
S106/ CIL	7.652	3.200	0.000	**10.852**	0.000	**10.852**
Capital Receipts	26.060	46.588	25.423	**98.071**	21.315	**119.386**
Revenue Contributions and Other	18.590	29.033	32.326	**79.949**	334.056	**414.005**
Borrowing	128.638	30.816	39.587	**199.041**	25.880	**224.921**
Total HRA Financing	**238.741**	**109.637**	**97.336**	**445.714**	**381.250**	**826.964**
Total Capital Financing	**330.420**	**184.682**	**175.788**	**690.890**	**466.856**	**1157.746**

6.8. Over the life of the proposed and indicative capital programme, there is a total borrowing requirement of £399.551m, of which £174.630m relates to the General Fund. There will be General Fund revenue implications from this borrowing in the form of interest costs and the statutory Minimum Revenue Provision (MRP) that the General Fund is required to make towards the repayment of debt. These revenue costs need to be provided for and managed within the MTFS, in addition to the borrowing costs associated with the council's current and prior year capital programme. **Table 17** shows the estimated General Fund revenue impact of the proposed new borrowing. The MRP Policy Statement in **Appendix F5** provides the detailed basis for the MRP calculations. Interest costs have been prudently modelled for budget setting purposes at 5.72% for the General Fund and 5.32% for the HRA, which were the respective average 50-year maturity loan rates from the Public Works Loan Board in the 90 days to 31/12/2023 plus 50 basis points.

Table 17 – General Fund Revenue Borrowing Implications of the Proposed 3-Year Capital Programme

	2024/25 £m	2025/26 £m	2026/27 £m	2024/25 - 2026/27 Total £m	2027/28 -2033/34 £m	Total 10 Year Plan £m
New Interest Charge (5.72%)	3.136	2.149	1.665	**6.950**	2.845	**9.796**
New MRP Charge	1.349	2.316	0.634	**4.299**	5.818	**10.117**
Total Additional Revenue Charge	**4.485**	**4.465**	**2.299**	**11.249**	**8.663**	**19.913**

6.9. The capital programme and financial implications are based on several assumptions. These include the profile of spend to be incurred, and the interest rate charged on borrowing.

6.10. As referenced above, interest costs have been prudently modelled for budget setting purposes however interest costs are subject to change.

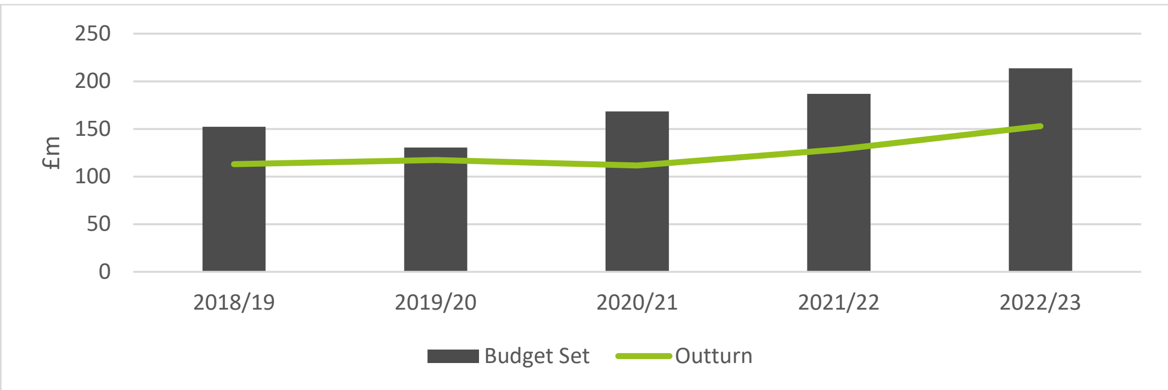
6.11. A 1% change in interest charged from the rate modelled would have the following impact on the revenue budget, based on the capital programme as profiled. This would be a benefit to the Council if interest rates fell, and an additional cost if they rose.

Table 18 - Impact of 1% Interest Rate Change

1% Interest Rate Change	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 – 2033/24 £m	Total £m
General Fund	0.552	0.376	0.291	0.497	**1.716**
HRA	1.420	0.797	0.352	0.327	**2.897**
Total	**1.972**	**1.173**	**0.643**	**0.825**	**4.613**

6.12. To set the capital programme, budget holders and project managers have informed the profiling of budgets based on their expectation of project delivery timescales. It is typical for there to be slippage in the capital programme where works delivered, and so spend incurred, fall below what is expected at budget setting. Capital spend has been increasing in recent years at the Council, by 35% since 2018/19, however the average delivery on the programme set in the budget is 74%. **Figure 2** below shows historic trends of outturn compared to the set budget. Robust budget monitoring in-year will identify where these slippages are occurring and with timely raising and reporting, management actions can be taken to manage capital financing, including adjusting the borrowing requirements and associated revenue charges.

Figure 2 – Analysis of Capital Budgets to Outturn



6.13. The table below models sensitivity analysis of the impact on revenue budgets of 10% slippage in projects funded by borrowing, at 5.72% interest rates.

Table 19 - Capital Slippage Impact on General Fund Borrowing

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 – 2033/34 £m	Total £m
Capital Programme as Profiled					
General Fund Borrowing Requirement	49.436	25.714	32.494	66.986	**174.630**
New Interest Charge (5.72%)	3.136	2.149	1.665	2.845	**9.796**
New MRP Charge	1.349	2.316	0.634	5.818	**10.117**
Total Revenue Charge	**4.485**	**4.465**	**2.299**	**8.663**	**19.913**
Capital Programme after 10% Slippage Annually					
General Fund Borrowing Requirement	47.504	28.086	31.816	70.235	**177.642**
New Interest Charge (5.72%)	2.909	2.162	1.713	2.919	**9.703**
New MRP Charge	1.045	1.974	1.217	5.882	**10.117**
Total Revenue Charge	**3.954**	**4.136**	**2.930**	**8.800**	**19.820**
Change in Total Revenue Charge	**(0.531)**	**(0.330)**	**0.631**	**0.137**	**(0.093)**

6.14. Slippage of capital schemes to be funded by borrowing has revenue budget implications as it will delay the associated revenue cost for interest being incurred. Delays on borrowing funded schemes also have a revenue impact on the charging of MRP. MRP charges begin the year after an asset becomes operational and so a delay on completion delays the timing of this charge.

6.15. Whilst **Table 19** makes the impact of slippage in borrowing look positive in the early years, this is dependent on timely and realistic reporting of slippage to update the borrowing requirement. There is also the impact of slippage on other financing sources to factor in.

6.16. Grants, S106 and CIL funding often have restrictions, conditions and expiry dates attached. Slipping of capital schemes to be funded in these ways may result in the funding no longer being applicable due to expiry dates passing. In these instances, expenditure would need to be alternatively funded with borrowing a likely option. Due to the restrictions and conditions, there may be limitations over the ability to divert these funds to other existing capital projects.

6.17. In year monitoring and reporting of the capital programme will cover both expenditure and financing to highlight and manage any funding changes and/or risks.

7. Climate Action

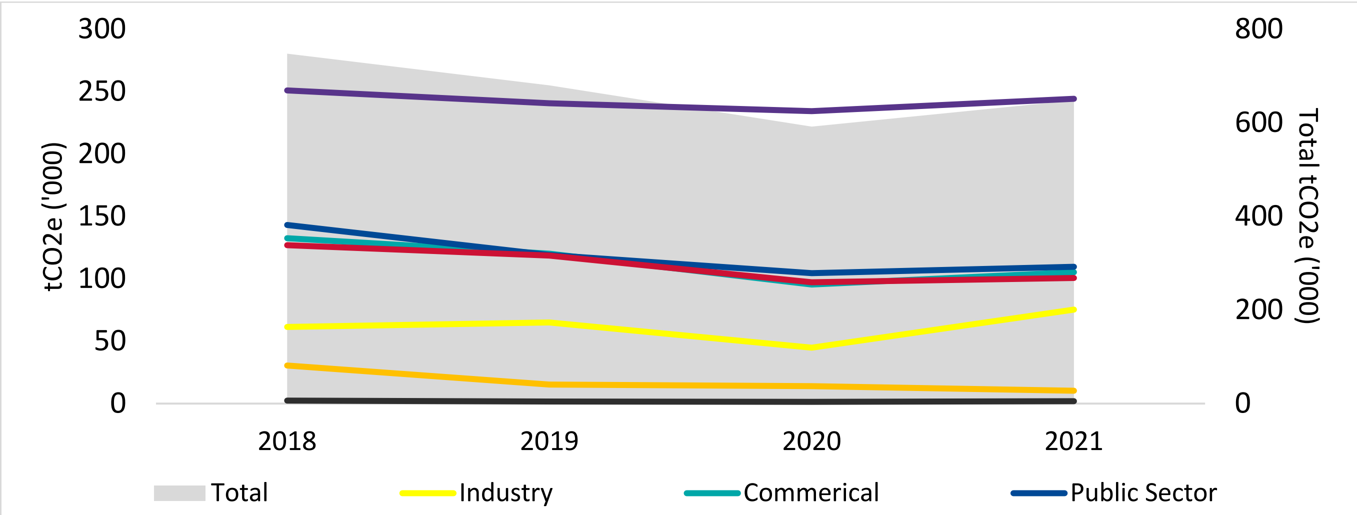
7.1. The council first declared a climate emergency in June 2019, and it set out its approach to achieving a net zero borough in ‘Vision 2030 Building a Net Zero Carbon Islington by 2030’. In this strategy we established our Net Zero Carbon (NZC) programme which coordinates and delivers our commitments to deliver change with eight multi-disciplinary workstreams

7.2. Recent polling from London Councils (September 2022) states that 84% of Londoners are concerned about climate change and 62% believe their day-to-day life in London has been impacted by the changing climate. Current projections suggest that by 2070 summers in the UK could be anywhere up to 6°C warmer and up to 60% drier (Met Office). Islington is one of the six London boroughs most at risk to climate change (Bloomberg) affecting the health and wellbeing of our residents including for example from flooding and heat deaths. We are increasingly looking at what we can do to adapt and improve our resilience to the impacts of climate change (subject to council resources) and in October 2023 we renamed (and repurposed) our Net Zero Carbon Programme Team to a new 'Climate Action Team'.

7.3. Performance against all our commitments is monitored through the Climate Action Steering Board and Climate Action Executive Board together with Environment and Regeneration Scrutiny Committee which is a public meeting. The council also holds an annual scrutiny meeting on engaging local stakeholders on the climate emergency.

7.4. Our boroughwide greenhouse gas emissions (tCO2e) (at July 2023) shows an overall 10% increase from 2020 to 2021 which is mainly attributable to the easing of the nationwide lockdowns post COVID-19. Our emissions in 2021 are still approx. 13% lower in Islington compared to our baseline of 2018 (648,000 tCO2e vs 748,000 tCO2e).

Figure 3 – Islington Greenhouse Gas Emissions 2018-2021 (UK local authority and regional greenhouse gas emissions national statistics (BEIS and DESNZ))



7.5. We continue to invest in our buildings including a new heat pump installation at Bevin Court (commencing 2024) and solar PVs at a number of sites including Islington Ecology Centre. We are on track to deliver our 600th Electric Vehicle Charging Point before March 2024 and in November 2023 we chaired a discussion panel at the Net Zero Festival in Angel.

7.6. We have also cut direct emissions from our pension fund by 40% between 2021 and 2023 as we continue to strive to make our £1.7 billion pension fund net zero by 2050 (or earlier).

7.7. The council has been working closely with partners and stakeholders including the Anchor Institutions Network and is committed to continued local government collaboration through the London Councils' climate programme. We have also been working on a new 'Net Zero Neighbourhood' proposal for Arsenal and Finsbury Park Wards with Arsenal Football Club and London Metropolitan University to help stimulate both public and private investment in Islington. 3Ci (Cities Commission for Climate Investment) included our proposal in their prospectus which was showcased at COP28 (United Arab Emirates) in November 2023.

7.8. In 2024/25 we will further engage with our residents and businesses on climate action. We have direct control over only 4% of the carbon emissions in the borough (and a further 5% as a landlord) so we must lead the way in supporting others to reduce their impact.

7.9. For the first time in 2024/25 the Climate Action Team worked with officers from Finance to complete a qualitative assessment of the NZC Impact of each new savings proposal in this budget report from ‘Very Positive’ to ‘Very Negative’. A number of proposals are expected to have a ‘Positive’ or a ‘Very Positive’ NZC Impact (see Environmental Implications) and these assessments help to ensure both members and officers consider the environmental implications of their decision making.

7.10. The council is now an active member of a new Climate Budgeting Working Group with The Mayor (GLA), London Councils and select London Boroughs and is committed to reporting on how the organisation plans to achieve net zero carbon across our operations including both the funded and unfunded measures required to meet these commitments. This is work in progress but for 2025/26 the council endeavours to complete a quantitative assessment of the capital programme incorporating estimates of annual and lifetime greenhouse gas emissions savings.

7.11. Further ahead our ambition is to track our greenhouse gas emissions alongside the budget setting process to ensure spending plans are consistent with our climate goals. Oslo has published a climate budget since 2017 and it supported The Mayor (GLA) on proposals for @2023/24. Our work with The Mayor (GLA) on Local Area Energy Planning (LAEP) will help us identify the unfunded measures required between now and 2030 and we are part of a new Subregional LAEP to help develop data-driven, collaborative and cost-effective action plans. Islington is also part of the Advanced Zoning Pilot (AZP) and North London Heat Study. The AZP has produced a Heat Network Zone for London which will mandate most new and existing developments to connect to a network as part of the Energy Act 2023.

7.12. The council’s budget proposes continued investment in the Climate Action Team over the current MTFS period and the capital programme proposes investment of £44.724m (including grants and income) as part of its Greener, Healthier Islington Mission. This includes a further £12.852m of match funding for a grant for the decarbonisation of council buildings. This is subject to the business case to accept the grant funding being agreed. If grant funding offers are not received or accepted, the budget will be subject to review as part of the quarterly updates to the Executive. The Finance & Investment workstream continues to investigate green finance opportunities including from The GLA (Mayor) and UKIB as well as alternative delivery models.

Table 20 – Proposed Revenue and Capital Investment in Climate Action

	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Revenue Investment	0.740	0.740	0.740	2.220
Capital Investments	27.835	7.451	9.438	44.724

7.13. Nationally there has been recent relaxation of net zero targets (September 2023) including on the ban of the sale of new petrol and diesel cars and vans (was 2030, now 2035) and on the phasing out of gas boilers (was 100% by 2035, now 80% by 2035). UK Government is also committed to expansion of fossil fuel production. Combined with the latest Climate Change Committee (CCC) Progress Report (June 2023) indicating a ‘lack of urgency’ in the policy framework for net zero and climate action this is concerning.

7.14. One of the key recommendations from the CCC is ‘clearer, simpler and longer-term funding and resourcing of local authority delivery of net zero.’ UK Government acknowledges that ‘green and growth go hand in hand’ (Powering Up Britain Report, 2023) and ‘the costs of global inaction significantly outweigh the costs of action' (Net Zero Review Report, 2021). The climate emergency and health inequalities are intrinsically linked (Strategic Plan 2021) and the changes to our climate make it harder to create a more equal future for residents and businesses. The council campaigns at a local and national level for longer-term policy and funding certainty to adapt and improve our resilience to the impacts of climate change.

8. Council Tax and Retained Business Rates

Council Tax Forecast 2023/24

8.1. The latest 2023/24 Collection Fund forecast for council tax, which is subject to change between now and end of the financial year, is a +£3.086m deficit (Islington share +2.348m, GLA share +£0.738m). This is summarised at **Table 21** and comprises a +£1.652m in-year deficit and a +£1.434m deficit relating to prior years.

Table 21 – Distribution of Forecast 2023/24 Council Tax (Surplus)/Deficit

	Islington Council's Share £m	GLA's Share £m	Total £m
1/3 of 2020/21 Exceptional Balance (Final Year of 3-Year Deficit Spreading)	0.478	0.130	**0.608**
Remainder 2022/23 In-Year Forecast (Surplus)/Deficit	(3.811)	(1.147)	**(4.958)**
Forecast (Surplus)/Deficit in 2023/24 Budget: Transfer (To)/From Core Funding Reserve	**(3.333)**	**(1.017)**	**(4.350)**
Prior-Year (Surplus)/Deficit Variance 2022/23 In-Year Forecast to Actual 2022/23 Outturn Position	1.091	0.343	**1.434**
2023/24 In-Year Forecast (Surplus)/Deficit	1.257	0.395	**1.652**
Total (Surplus)/Deficit in 2024/25 Budget: Transfer (To)/From Core Funding Reserve	**2.348**	**0.738**	**3.086**

8.2. In January 2023, a -£4.350m surplus for 2022/23 was estimated. However, at the end of 2022/23 the actual surplus was -£2.916m, giving the +£1.434m deficit relating to prior years.

8.3. The forecast in-year council tax deficit of £1.652m is due to the following variances:

- Additional gross council tax income of -£1.114m, mainly due to new dwellings in the borough.
- Higher than budgeted council tax exemptions which has adversely impacted the forecast by +£5.133m, mainly because the council had to retrospectively award exemptions for student accommodations, as set out earlier in this report.
- Higher than budgeted council tax discounts (mainly Single Person Discounts) adversely impacting the forecast by +£0.737m.
- Lower than budgeted costs of the council tax support scheme, -£0.512m
- A -£2.592m improvement in forecast collection compared to assumptions around collection losses when setting the 2023/24 taxbase.

Council Tax Base 2024/25

8.4. The council is required to calculate its council taxbase for the next financial year and notify precepting authorities by 31 January each year (31 January 2024 for this budget process). The council has delegated responsibility for determining the council taxbase to its Audit and Risk Committee. The Lloyd Square Garden Management Committee issues a special levy on the council to meet the expenditure involved in the maintenance of the private garden in Lloyd Square. The council separately calculates the taxbase for the Lloyd Square Garden area.

8.5. On 29 January 2024, the Audit and Risk Committee agreed a Band D equivalent council taxbase for 2024/25 of 81,564.7 properties for the council's whole area and 43.4 properties for the Lloyd Square Garden Committee area. The number of Band D equivalent properties is after taking into account the estimated collection rate for 2024/25 which continues to be forecast at 97%. This is the percentage of 2024/25 council tax bills that the council is budgeting to receive over time (as opposed to cash collection in-year).

Level of Council Tax 2024/25

8.6. 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 of the council's area. **Table 22** shows the council's net budget split between gross expenditure and gross income.

Table 22 – Section 31 (Amended LGFA 1992) Calculation 2024/25

	£
Aggregate of the amounts which the council estimates for items set out in Section 31A (2) (a) to (f) of the LGFA 1992 **(A)**	1,179,962,753.98
Aggregate of the amounts which the council estimates for items set out in Section 31A (3) (a) to (d) of the LGFA 1992 **(B)**	(1,061,742,068.35)
Calculation of the council tax requirement under Section 31A (4), being the amount by which the sum aggregated at **(A)** above exceeds aggregate at **(B)** above	118,220,685.63

8.7. The calculation of the relevant (average) 2024/25 council tax per Band D property is set out in **Table 23**.

Table 23 – Section 31B (amended LGFA) Calculation 2024/25

Council Tax Requirement	£118,220,685.63
Council Tax Base	81,564.7
2024/25 Relevant Basic Band D Council Tax	**£1,449.41**
Increase Compared to 2023/24 (%)	4.99%

8.8. 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 2024/25, the relevant basic amount of council tax for Islington would be excessive if it is 5% or more greater than 2023/24 (comprising 2% specifically for expenditure on adult social care, and 3% for all expenditure). Therefore, the proposed 4.99% increase in the relevant basic amount of Band D Islington council tax, which comprises 2% specifically for expenditure on adult social care and 2.99% for all expenditure, is not excessive.

8.9. 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 2024/25 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 24**.

Table 24 – 2024/25 Basic Council Tax for All Other Parts of the Council's Area

Council Tax Requirement (Including Special Expense)	£118,220,685.63
Less Lloyd Square Garden Committee Special Expense	£22,947.78
Council Tax Requirement (Excluding Special Expense)	**£118,197,737.85**
Council Tax Base	81,564.7
2024/25 Basic Band D Council Tax for All Other Parts of the Council's Area	**£1,449.13**
Increase Compared to 2023/24 (%)	4.99%

8.10. The Lloyd Square Garden Committee has agreed a special expense of £22,947.78 for 2024/25, an increase of 5% since 2023/24. When this is divided by the Lloyd Square Garden Committee Band D tax base (43.4), it gives a charge of £528.75 per Band D equivalent property for 2024/25. This will be charged to Lloyd Square Garden area dwellings in addition to the basic Islington Band D council tax for all other parts of the council's area.

8.11. The 2024/23 basic amount of Islington council tax for each valuation band for the Lloyd Square area (**Table 25**) and all other parts of the council's area (**Table 26**) are shown 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 25 – Lloyd Square Garden Area Basic Islington Council Tax 2024/25

Valuation Band	Lloyd Square Garden Area 2023/24 (£)	Lloyd Square Garden Area 2024/25 (£)	Lloyd Square Garden Area Increase (£)
A	330.39	352.50	22.11
B	385.45	411.25	25.80
C	440.52	470.00	29.48
D	**495.58**	**528.75**	**33.17**
E	605.71	646.25	40.54
F	715.84	763.75	47.91
G	825.97	881.25	55.28
H	991.16	1,057.50	66.34

Table 26 – All Other Parts of the Council's Area Basic Islington Council Tax 2024/25

Valuation Band	All Other Parts of the Council's Area 2023/24 (£)	All Other Parts of the Council's Area 2024/25 (£)	All Other Parts of the Council's Area Increase (£)
A	920.17	966.08	45.91
B	1,073.53	1,127.10	53.57
C	1,226.89	1,288.11	61.22
D	**1,380.25**	**1,449.13**	**68.88**
E	1,686.97	1,771.16	84.19
F	1,993.70	2,093.19	99.49
G	2,300.42	2,415.21	114.79
H	2,760.50	2,898.26	137.76

8.12. The proposed 2024/25 GLA precept for each valuation band is shown in **Table 27**. The proposed Band D precept for council taxpayers in the 32 London boroughs is £471.40 – a £37.26 or 8.6% increase compared to this year. This increase comprises £20 for Transport for London, £13 for the Metropolitan Police and £4.26 for the London Fire Brigade. This is in line with the maximum increase permitted under the GLA's referendum limit – which is a monetary one – confirmed in the settlement.

Table 27 - GLA Precept 2024/25

Valuation Band	GLA Precept 2023/24 (£)	GLA Precept 2024/25 (£)	GLA Precept Increase (£)
A	289.43	314.27	24.84
B	337.66	366.64	28.98
C	385.90	419.02	33.12
D	**434.14**	**471.40**	**37.26**
E	530.62	576.16	45.54
F	627.09	680.91	53.82
G	723.57	785.67	62.10
H	868.28	942.80	74.52

8.13. The 2024/25 total amount of Islington council tax (including GLA precept) for each valuation band for the Lloyd Square area (**Table 28**) and all other parts of the council's area (**Table 29**)

Table 28 – Total Islington and GLA Council Tax for the Lloyd Square Garden Area 2024/25

Valuation Band	Total Lloyd Square Garden Area 2023/24 (£)	Total Lloyd Square Garden Area 2024/25 (£)	Total Lloyd Square Garden Area Increase (£)
A	1,539.99	1,632.85	92.86
B	1,796.64	1,904.99	108.35
C	2,053.31	2,177.13	123.82
D	**2,309.97**	**2,449.28**	**139.31**
E	2,823.30	2,993.57	170.27
F	3,336.63	3,537.85	201.22
G	3,849.96	4,082.13	232.17
H	4,619.94	4,898.56	278.62

Table 29 – Total Islington and GLA Council Tax for All Other Parts of the Council's Area 2024/25

Valuation Band	Total All Other Parts of the Council's Area 2023/24 (£)	Total All Other Parts of the Council's Area 2024/25 (£)	Total All Other Parts of the Council's Area Increase (£)
A	1,209.60	1,280.35	70.75
B	1,411.19	1,493.74	82.55
C	1,612.79	1,707.13	94.34
D	**1,814.39**	**1,920.53**	**106.14**
G	2,217.59	2,347.32	129.73
H	2,620.79	2,774.10	153.31
G	3,023.99	3,200.88	176.89
H	3,628.78	3,841.06	212.28

Retained Business Rates

8.14. Under the existing business rates retention system, the council retains 30% of business rates income in the borough and receives Section 31 grant to compensate for the impact of government policy (e.g. new reliefs, freezing of business rates) on its retained business rates income.

8.15. The council's NNDR1 return (detailed business rates estimate) for 2024/25 has now been submitted following the 31 January 2024 statutory submission deadline. The financial implications of this return are fully incorporated in the proposed budget. **Table 30** summarises the NNDR1 return estimate in terms of the council's total retained business rates income.

Table 30 – Estimated Business Rates Income 2024/25 (£)

	2023/24	2024/25
Gross Business Rates	344,649,330.00	375,642,647.00
Small Business Rate Relief (net of additional yield from small business supplement)	103,794.00	(7,711,335.00)
Charitable Occupation	(25,190,312.00)	(27,887,128.00)
Unoccupied Property	(17,072,450.00)	(18,251,211.00)
Discretionary Reliefs	(1,238,254.00)	(1,235,622.00)
Discretionary Reliefs Funded by S31 Grant	(35,641,113.00)	(28,043,836.00)
Net Business Rates Payable	**265,610,995.00**	**292,513,515.00**
Estimated Bad Debts and Appeals	(15,426,345.00)	(20,321,137.00)
Net Business Rates Less Reliefs and Losses	**250,184,650.00**	**272,192,378.00**
Cost of Collection Allowance	(689,267.00)	(684,130.00)
Amount Retained for Renewable Energy Schemes	(103,293.00)	0.000
NDR Income – Total	**249,392,090.00**	**271,508,248.00**
NDR Income – Islington (30% share)	**74,817,627.00**	**81,452,474.00**
Section 31 Grant	28,982,720.00	28,969,299.34
Cost of Collection Allowance	689,267.00	684,130.00
Amount Retained for Renewable Energy Schemes	103,293.00	0.00
Total Retained Income – Islington	**104,592,907.00**	**111,105,903.34**

8.16. The 2024/25 NNDR1 return also includes a forecast 2023/24 surplus on business rates income to be incorporated in the 2024/25 budget. This is summarised in **Table 31**. The 2024/25 budgetary impact of the council's share of this surplus will be fully offset by a transfer to the Core Funding reserve that has been earmarked for this purpose.

Table 31 – 2023/24 Forecast NNDR Surplus/(Deficit) (£)

	Total	Islington 30% Share
Net Business Rates Income	270,725,357.00	81,217,607.10
Allowance for Non-Collection	(6,562,891.00)	(1,968,867.30)
Appeals Refunds and Provisions	(2,733,747.00)	(820,124.10)
Budgeted Demand based on Agreed Budget	(249,392,088.00)	(74,817,626.40)
Other Charges (e.g. cost of collection)	(689,267.00)	(206,780.10)
Total Surplus/(Deficit)	**11,347,364.00**	**3,404,209.20**
Opening Surplus/(Deficit)	33,877,189.00	10,163,156.70
Contribution towards Prior Year Deficit	(21,269,127.00)	(6,380,738.10)
Total Surplus/(Deficit) in Budget	**23,955,426.00**	**7,186,627.80**

9. Matters to Consider in Setting the Budget

Comments of the S151 Officer

9.1. This section contains the Section 151 Officer's comments on the robustness of the estimates included in the budget and the adequacy of the proposed financial reserves, as required under Section 25(1) of the Local Government Act 2003. Section 25(2) of the same Act requires the authority to have regard to this report of the Section 151 Officer when making decisions about the budget and the level of council tax.

9.2. Developing the budget estimates for a given financial year is an ongoing, iterative process within the medium-term financial planning cycle. This is a council-wide process involving all spending departments whereby estimates are worked up, challenged, and refined as further information becomes available. It considers the most recently available budget monitoring information and the latest assumptions for the forthcoming financial year. In particular, the proposed savings have been reviewed and signed off as deliverable by key stakeholders across the organisation. The thoroughness of this process is a source of assurance in determining that overall estimates in the budget are robust and that financial reserves, whilst needing to be significantly strengthened over the medium term, are adequate for the 2024/25 budget.

9.3. The 2024/25 budget report and MTFS has been compiled against a backdrop of continued and significant macro-economic uncertainty with the national cost-of-living crisis continuing to severely impact residents and the council. High inflation has remained for a period way beyond initial government forecasts. This has impacted council pay settlements, major contract inflation costs and other costs of service provision. Alongside this has been an unprecedented level of service demand in key services such as Adult Social Care and Children and Young People. Further, there have been significant challenges in income budgets partly due to the sustained economic downturn, with parking income particularly badly impacted in the 2023/24 in-year financial position. The latest (Q2) forecast is a £17m gross GF overspend in 2023/24. Any residual, ongoing impact of this forecast gross GF overspend for 2023/24 will impact the council's budget in 2024/25 and over the medium term. In addition, any residual overspend at the end of 2023/24 will be a further drain on the council's earmarked reserves.

9.4. The significant recurrent budget impact of the in-year financial position has meant that there has been greater use made of the council's financial sustainability mechanisms, such as contingency budgets, in delivering a balanced budget for 2024/25. These financial sustainability mechanisms must be restored at the very earliest opportunity, in the 2025/26 budget round. In total, £7.4m is factored into the 2025/26 budget forecast to restore previously held contingency, financial resilience, and capital financing budgets. As it stands the MTFS only contains a £5m ongoing, general contingency budget and a reduced (compared to 2023/24) £3.6m Inflation, Energy and Demand contingency budget in 2024/25 to be applied against unforeseen expenditure in-year and on a one-off basis. This level of contingency cover is only barely adequate against a £275m 2024/25 net budget requirement on the GF and given the level of unforeseen service pressures in the current financial year.

9.5. The medium-term local government funding outlook is very negative following the Autumn Statement and settlement, with expected real-terms funding cuts (and potentially cash cuts) for unprotected departmental spending, including most of local government. Added to this are potential government funding reforms (including 'fair funding' and a business rates reset) on the horizon that could have a significant, negative impact on funding levels in the next Spending Review period (commencing 2025/26). All of this means that additional government funding is highly unlikely to be a route to restoring the council to a sustainable financial footing.

9.6. The capital programme has been built on a prudent, affordable, and sustainable basis in accordance with the CIPFA Prudential Code framework. Approval is sought for the 3-year capital programme 2024/25 to 2026/27 only with an indicative programme of known/pipeline capital investment over the subsequent seven years.

9.7. When appraising new projects, the objectives of the scheme are checked against the council's priorities, and assumptions are built in for contingencies (e.g. impact of inflation on the cost of materials), optimism bias and interest rate risk. This ensures that sufficient funding is allocated as early as possible in the council's revenue and capital budget planning processes, and that the council only progresses with schemes that are affordable and fit with the vision for the organisation.

9.8. The capital programme is funded from a combination of capital receipts, grants and third-party contributions, HRA funding and borrowing. Grant funding is only factored into the programme once reasonably certain. Prudent provision for the revenue cost of borrowing is factored into the budget assumptions for both the General Fund (including Minimum Revenue Provision for the repayment of debt) and HRA.

9.9. The level of future capital receipts assumed as financing for the capital programme brings with it significant budgetary risk to both the General Fund and HRA. There may be timing differences between expenditure being incurred and receipt of the funding, particularly regarding housing open market sale properties. In these instances, alternative interim funding will be applied such as short-term borrowing, with additional short-term revenue cost implications to cover interest costs and MRP, or the use of HRA reserves. There may also be differences in the value of receipt assumed and actual receipt. Receipts less than the assumed amount will increase the borrowing requirement and the associated revenue costs.

9.10. An additional budgetary risk around the capital programme is expenditure being incurred against approved capital budgets which ultimately does not meet the accounting definition of capital. This means that the expenditure needs to be charged to revenue, creating a revenue budget pressure. The council has previously mitigated this risk by earmarking funding in reserves to fund the associated revenue costs of capital schemes. Given the need to protect the council's reserves, the 2024/25 budget also sets aside revenue budget provision of £1m per annum for the associated revenue costs of capital schemes. Moreover, there will be an emphasis going forward of on identifying such revenue costs from the outset of scheme development.

9.11. The budget report includes a commentary and analysis on the financial health of the council's balance sheet and the level of the council's earmarked reserves. A recommended Minimum GF Balance and Earmarked Reserves Level of £80m is proposed within this budget report. This is the absolute minimum level of GF balance and reserves that the council cannot sustainably breach and is strictly not a target. The target, albeit extremely challenging in the current environment, should be to restore earmarked reserves to a level well in excess of the 2023/24 opening position, and to increase the GF balance over time. In order to take steps towards this target, the council will need to return to delivering on or under budget and to fully close future year budget gaps with robust ongoing savings. This will require early and sustained engagement from all stakeholders to make the difficult service and financial decisions critical to the financial resilience of the council.

9.12. Schools' budget plans submitted in the summer term indicated that schools would have a significant and widening medium-term deficit due to falling pupil numbers and increasing cost pressures. This represents a significant risk, as even with current plans to reduce surplus capacity agreed by the Executive, further proposals are required to bring school budgets onto a more sustainable financial footing and bring forecast balances back into surplus overall.

9.13. The 2024/25 Housing Revenue Account (HRA) budget has been prepared based on robust estimates and adequate reserves for next financial year. The HRA Business Plan presents a balanced position over the next 30 years, which is an essential framework in safeguarding the HRA from on-going pressures. Balancing the HRA budget has become more challenging due to the turbulent macro-economic environment, changing legislative requirements, government restrictions on the council's ability to increase rents, and the growing demand for increasingly costly resources. This has resulted in the proposed reduced investment in Major Works improvements to existing council dwellings from 2024/25, which is a risk to the Decent Homes commitment, as we balance corporate priorities by subsidising New Build schemes with external borrowing. The medium-term impact of these risks is under continual review. Measures to bridge the investment gap are being considered through quarterly budget monitoring and financial challenge. Understanding the changing economic and service-specific environments, adopting best practice, and lobbying central government on key issues are essential in maintaining a balanced and viable HRA Business Plan in future.

9.14. It is concluded that the estimates are sufficiently robust for the purposes of the calculation and setting of the 2024/25 budget and to ensure the adequacy of the proposed financial balances and reserves in 2024/25. It should be highlighted, as stated in this report, that recent years' budgets have made provision of £4m annually to be transferred to GF earmarked reserves. Due to the significant expenditure pressures and income shortfalls encountered in setting a balanced 2024/25 budget, this has been removed for one year. As a result, it is forecast that earmarked reserves will fall further in 2024/25 than they otherwise would have. In addition, there is a real risk of spending pressures coupled with real-terms government funding cuts over the medium term causing a further, significant depletion of reserves. This trend will need to be reversed, with a commitment from all stakeholders to agree to a course of action in the 2025/26 and medium-term budget setting process. This will be necessary for the council to remain on a sound financial footing going forward.

Comments of the Monitoring Officer

9.15. Local authorities are under an explicit statutory duty to ensure that their financial management is adequate and effective and that they have a sound system of internal control and management of financial risk. 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 2024/25. s25 Local Government Act 2003 sets a specific duty on an Authority's Chief Financial Officer to make a report to the authority for it to take into account when it is considering its budget and funding for the forthcoming year. This report outlines the council's current and anticipated financial circumstances, including matters relating to the GF budget and MTFS, the HRA, the capital programme and borrowing and expenditure control.

9.16. Section 26 of the Act gives the Secretary of State power to set a minimum level of reserves for which an authority must provide in setting its budget. There is an ongoing need to prepare for contingencies including maintaining sound risk management and level of reserves which enables the authority to be prepared to deal with risks, contingencies, and its future strategic vision.

9.17. By law a local authority is required under the Local Government Finance Act 1992 to produce a 'balanced budget'. The setting of the budget and council tax by Members involves their consideration of choices through the provision of adequate evidence on which to base their decisions on the level and quality at which services should be provided. No genuine and reasonable options should be dismissed without robust consideration and Members must consider their fiduciary duty to the council taxpayers of Islington.

9.18. 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. Whenever there are proposals for the closure or discontinuance of a service or services, there will be a need for appropriate consultation, with consideration of the Equality Act 2010 and the Public Sector equality duty.

9.19. All decisions must be lawfully exercised, and the council 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.

9.20. 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, 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.

Environmental Implications and Contribution to Achieving a Net Zero Carbon (NZC) Islington by 2030

9.21. The council's budget can influence the behaviour of residents and businesses which can result in both positive and negative environmental implications. The budget proposals and MTFS affects various services across the council and have been developed in line with our new Islington Together 2030 Plan to create a more equal future for our borough in tandem with Vision 2030 - Building a Net Zero Carbon Islington by 2030.

9.22. For 2024/25 the Climate Action Team worked with officers from Finance to complete a new qualitative assessment of the NZC Impact of each new saving proposal from 'Very Positive' to 'Very Negative'. A number of proposals for Parking are expected to have a 'Very Positive' NZC Impact and should increase levels of active travel and/or use of public transport. Only one proposal could have a marginally 'Negative' NZC Impact (new green garden waste collection subscription charge further to the Executive decision taken on 11 January 2024) as residents may send more green waste to landfill. These assessments help to ensure both members and officers consider the environmental implications of their decision making.

9.23. For 2025/26 the council endeavours to complete a quantitative assessment of the capital programme (see Climate Action section) which will incorporate estimates of annual and lifetime greenhouse gas emissions (tCO_2e) savings.

9.24. Services were also asked to consider environmental implications on all GF fees and charges. These were included in a report to the Executive dated 30 November 2023 and all the proposed fees and charges were approved by the Executive.

9.25. The council's budget proposes continued investment in the Climate Action Team and the capital programme as part of its Greener, Healthier Islington Mission.

9.26. The council is committed to considering the environmental impact of all its decision making to align with our climate action commitments and improve our resilience to the impacts of climate change.

Equalities Impact Assessment

9.27. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

9.28. After more than a decade of significant budget savings, it is difficult to make new savings without any impact on residents. 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, take a reasonable and proportionate view about the overall impact on particular groups and seek to mitigate negative impacts where possible.

9.29. The cumulative EQIA assessment of the budget proposals was completed on 9 November 2023. The main findings are that there is a potential neutral impact as a result of the budget proposals. The cumulative EQIA is set out at **Appendix G**. It is supplemented at a departmental level by detailed EQIAs 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.

Budget Consultation

9.30. Section 65 of the Local Government Finance Act 1992 requires the council each financial year to consult persons or bodies representative of business ratepayers about expenditure proposals.

9.31. The council must make available the information described in the Non-Domestic Ratepayers (Consultation) Regulations 1992/3171, including:

- Details of proposals for expenditure in the financial year to which the consultation relates.
- Estimates of expenditure in the preceding financing year.
- Particulars of significant changes in the level of proposed expenditure between the two years.

9.32. The council invited comments from residents, business rates payers and representatives of business rates payers in Islington on the draft 2024/25 budget proposals set out in this report. The consultation period ran 21 days from 4 January 2024 to 24 January 2024.

9.33. In total, there were 15 responses received. These responses were split between residents (14) and ‘Other’ (1) with no specific responses from business ratepayers/representative.

9.34. A series of questions were surveyed as illustrated in the table below. The results demonstrate that the is some support for our budget proposals in 2024/25 including the option to increase council tax.

Question	Response Option	Total Responses
To what extent do you agree or disagree with our proposed budget for 2024/25?	Agree	6
	Disagree	4
	Neither Agree or Disagree	5
Do you support our proposal to increase core council tax in line with the maximum amount permitted by central government to help protect council services?	Agree	7
	Disagree	3
	Neither Agree or Disagree	5
Do you support our proposal to increase the adult social care precept element of council tax in line with the maximum amount permitted by central government to mitigate the impact of the national adult social care funding crisis?	Agree	10
	Disagree	4
	Neither Agree or Disagree	1

9.35. A number of further comments were received on the budget which have been reviewed and considered as part of the final budget papers for 2024/25 and will be considered throughout future Budget Setting processes.

Retail Relief Policy

9.36. In the 2018 Budget, the Government introduced a new relief scheme for retail properties and these 'retail relief' schemes have existed, albeit with some variations, since the 2019/20 financial year. **Appendix H** addresses the need to adopt the government's scheme variation, for the financial year 2024/25. The adoption of the local policy described in Appendix H is recommended, which will award Retail Relief in accordance with the Discretionary Rate Relief powers as contained within Section 47 of the Local Government Finance Act 1988 (as amended), for the year 2024/25. The Islington Retail Relief Scheme proposed reflects the Government's guidance.

Annual Pay Policy Statement

9.37. 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 Full Council. The council's Annual Pay Policy Statement for 2024/25 is provided at **Appendix I.**

Appendices

Appendix A: General Fund Medium-Term Financial Strategy 2024/25 to 2026/27

Appendix B: General Fund Proposed Savings 2024/25 to 2026/27

Appendix C: Earmarked Reserves Balances

Appendix D1: HRA MTFS 2024/25 to 2026/27

Appendix D2: HRA Fees and Charges 2024/25

Appendix D3: HRA Proposed Savings 2024/25 to 2026/27

Appendix D4: HRA Business Plan

Appendix E1: CIPFA Financial Management Code Compliance Assessment

Appendix E2: Balance Sheet Analysis

Appendix F1: Capital Programme 2024/25 to 2033/34

Appendix F2: Capital Strategy 2024/25

Appendix F3: Investment Strategy 2024/25

Appendix F4: Treasury Management Strategy 2024/25

Appendix F5: MRP Policy Statement 2024/25

Appendix F6: Flexible Use of Capital Receipts Policy 2024/25

Appendix F7: Capital Budget Changes from Previous Position

Appendix G: Budget Cumulative Equality Impact Assessment 2024/25

Appendix H: Retail Relief Policy 2024/25

Appendix I: Annual Pay Policy Statement 2024/25

Background papers: None

Signed by:		
	Executive Member for Finance, Planning and Performance	Date

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