ISLINGTON
For a more equal future

Meeting of: Executive
Meeting Date: 18 July 2024
Publication: Open
Council Priority: All
Wards: All
Report of: Executive Member for Finance and Performance
Report No: No Key Decisions – Not Required for Executive Meeting

Medium-Term Financial Strategy 2025/26 Summer Update Report

1. Recommendations

The Executive are asked to:

1.1. To note the latest Medium-Term Financial Strategy (MTFS) contained in Section 3 of this report and the changes to the medium-term budget gap compared to the forecast in the 2024/25 budget report, as summarised in Table 2. To note the following for onward consideration by the Executive:

- 2% pay inflation per annum pay inflation over the entire forecast period. The previous assumption was 3% per annum in years one and two, followed by 2%.
- £4.000m being added to the 2025/26 MTFS pay inflation to provide some headroom for the possibility of some pay 'catch-up' being required over and above the 3% 2024/25 final budget report pay estimate.
- Updated demography estimates for the five-year forecast period to reflect current best estimates, to be reviewed and updated throughout the budget process.
- Revised directorate non-pay inflation estimates for the forecast period, to be reviewed and updated throughout the budget process.
- An additional £3.000m Inflation, Energy and Demand risk buffer in 2025/26 and over the medium term. Together with the restoration of the base Inflation, Energy and Demand contingency to 2023/24 levels in the 2025/26 budget, this brings the total Inflation, Energy and Demand contingency to £8.000m over the forecast period.
- In recognition of the Second Homes Premium planned to be introduced for Council Taxpayers from 2025/26, an extra ~0.3% taxbase increase has been included in the MTFS, representing an estimated additional £0.388m income.
- An estimated additional £2.678m of social care funding being made available to Islington in 2025/26. This is based on forecasts provided by the council's external financial advisors and is in line with the £0.500bn additional, national allocation announced by the government between the provisional and final 2024/25 local government finance settlements. This will be reviewed in the Autumn MTFS Update Report, as 2025/26 core funding projections become clearer.

- In addition to the social care funding assumed above, a continuation of Adult Social Care council tax precept flexibilities is considered probable for 2025/26 and is assumed, for financial planning purposes, at 2% in the latest budget forecast.

1.2. To note the high-level context, objectives and timeline for the 2025/26 budget setting process. (Section 4)

1.3. To note the latest position in relation to the earmarked reserves and balances and that reserves forecasts do not assume use of the Flexible Use of Capital Receipts Strategy in the financial year 2024/25. (Section 5)

1.4. To note the Housing Revenue Account (HRA) update. (Section 6)

1.5. To note the capital programme update. (Section 7)

2. Report Summary

1.6. The main purpose of this MTFS update report is to consider on a quarterly basis the medium- and longer-term considerations arising from the in-year budget monitoring process, emerging risks and issues and the ongoing medium-term budget process.

1.7. The estimated outturn position for the current financial year is reported to the Executive at quarterly intervals throughout the financial year and on to the Corporate Resources and Economy Scrutiny Committee. The ongoing impact of any significant variances to the financial position are considered within the budget planning process for the forthcoming financial year and over the medium term. The quarterly MTFS updates provide an opportunity to bring such pressures, or opportunities, into the budget process at an early stage.

1.8. This report sets out the following for onward consideration by the Executive:

- Recommended changes to the underlying budget assumptions and gap, which formed the basis of the 2024/25 budget report agreed by Full Council on 29 February 2024, and the medium-term estimates at this early stage of the 2025/26 budget process. This is incorporating the national Spring Budget Statement of 6 March 2024 and arising risks and pressures in the 2024/25 financial year.
- The approach to closing the medium-to longer-term budget gap, whilst still meeting council's five missions to create a more equal future for Islington by 2030.
- The latest position in respect of the council's reserves and balance sheet strategy, with particular attention to the direction of travel compared to the council's Minimum General Fund (GF) Balance and Earmarked Reserves Level of £80m.
- Consideration of the council's capital programme and Housing Revenue Account over the medium to longer term.

1.9. The budget setting process for the 2024/25 financial year was particularly challenging due to the national cost-of-living and energy crisis, and the ongoing economic and political uncertainty. There has been some easing of the cost-of-living crisis, with the latest Consumer Prices Index (CPI) falling to the Bank of England's target level of 2% in May 2024. There remains a considerable level of economic uncertainty, with the latest quarterly GDP figures in Quarter 1 (January to March 2024) showing that the UK economy was estimated to have grown by 0.6%, but after two quarters of declines. The outcome of the General Election is likely to have a significant impact on the external economic environment and government funding. As a result, the 2025/26 budget process represents a very difficult and uncertain budget process to navigate. Coupled with the difficulty in forecasting how macro-economic factors will affect the council's budgets, the elevated level of savings brings an increased risk of some of those not being delivered to the level anticipated.

3. The Medium-Term Financial Strategy

Context

1.10. 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 by 2030. These are:

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

1.11. 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 available funding.

1.12. Full Council agreed the council's budget for 2024/25 and MTFS on 29 February 2024. The 2024/25 budget report and MTFS was compiled against a backdrop of continued and significant macro-economic uncertainty with the national cost-of-living crisis continuing to impact residents and the council. High inflation has impacted council pay settlements, contract uplifts and other costs of service provision. Alongside this, there has been an unprecedented level of service demand in key services such as Adult Social Care and Children and Young People. There have also been significant challenges in income budgets partly due to the sustained economic downturn, with parking income particularly negatively impacting the 2023/24 outturn financial position.

1.13. The 2024/25 final budget report made greater than desired use of the council's financial sustainability mechanisms, such as contingency and similar budgets, to deliver a balanced budget for the financial year. In total, £7.404m is factored into the 2025/26 budget to restore previously held contingency budgets, annual financial resilience contribution to reserves, and capital financing budgets. It is imperative that these financial sustainability mechanisms are restored in the 2025/26 budget process.

1.14. The Provisional Outturn (Quarter 4) monitoring report for 2023/24 presented an overall break-even financial position. However, there was a £19.930m 2023/24 underlying gross directorate overspend at outturn. Within this position, the Environment and Climate Change directorate's outturn position was a £12.790m overall overspend, mostly in respect of parking income which remains impacted post-Covid and from the effect of council policies. In addition, the Adult Social Care budget was overspent by £5.183m, reflecting mainly the continued, significant demographic pressures experienced by the service and costs relating to the unavailability of care home beds in the borough. The scale of the underlying overspend in 2023/24 highlights the importance of maintaining ongoing and adequate levels of centrally held contingency budgets for application in year.

Revised Medium-Term Budget Position 2025/26 to 2029/30

1.15. The latest, estimated budget position for 2025/26 and over the medium term is summarised in Table 1 below. This shows a significant budget gap of £23.098m in 2025/26 to close over the remainder of the 2025/26 budget process to set a legally balanced budget, with a gap of £107.181m over the forecast period to 2029/30.

Table 1 – Latest Summary Medium-Term Budget Gap 2025/26 to 2029/30

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Pay and Pension Inflation	8.200	4.000	4.000	4.000	4.000	**24.200**
Non-Pay Inflation	7.063	6.276	7.075	7.339	7.794	**35.547**
Demographic Growth	6.849	6.972	7.069	7.280	7.454	**35.624**
Service Base Budget Growth	(0.158)	0.081	0.000	0.000	0.000	**(0.077)**
Corporate Base Budget Adjs.	0.600	0.679	0.000	0.000	0.000	**1.279**
Corporate Levies (e.g. NLWA)	2.282	1.511	1.551	1.397	1.369	**8.109**
Capital Financing	3.856	1.910	2.138	1.880	2.000	**11.784**
Transfer to(from) Reserves	4.000	0.000	0.000	0.000	0.000	**4.000**
Inflation-Energy-Demand Contingency Increase	4.404	3.000	3.000	3.000	3.000	**16.404**
Social Care Grant	(2.678)	0.000	0.000	0.000	0.000	**(2.678)**
Other Government Grant Funding	1.292	0.000	0.000	0.000	0.000	**1.292**
Gross Budget Gap	**35.710**	**24.429**	**24.832**	**24.896**	**25.617**	**135.483**
Agreed Savings Proposals	(5.457)	(1.604)	0.000	0.000	0.000	**(7.061)**
Service Management Actions	(1.439)	(1.224)	0.000	0.000	0.000	**(2.663)**
Assumed Tax Base Increase	(0.960)	(0.620)	(0.635)	(0.651)	(0.667)	**(3.533)**
Net Budget Gap (Before C-Tax)	**27.853**	**20.981**	**24.197**	**24.245**	**24.949**	**122.226**
Core Council Tax Increase (1.99%)	(2.372)	(2.478)	(2.540)	(2.604)	(2.669)	**(12.662)**
Adult Social Care Precept (2%)	(2.383)	0.000	0.000	0.000	0.000	**(2.383)**
Net Budget Gap (After C-Tax)	**23.098**	**18.503**	**21.657**	**21.641**	**22.281**	**107.181**

1.16. The changes to the medium-term budget gap since agreement of the 2024/25 budget report are summarised in Table 2 below. Some of these changes are a result of the additional years three-to-five being added to the medium-term financial strategy period. Other changes, and opportunities, are explored in this section of the report.

Table 2 – Changes to the Medium-Term Budget Gap since the 2024/25 Budget Report

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	Total £m
Net Budget Gap 2024/25 Budget Report	**31.148**	**24.655**	**0.000**	**0.000**	**0.000**	**55.803**
Additional Assumed Adult Social Care Funding	(2.678)	0.000	0.000	0.000	0.000	**(2.678)**
Additional Assumed Adult Social Care Precept (2%)	(2.383)	0.000	0.000	0.000	0.000	**(2.383)**
Revisions to Demographic Growth Estimates	(4.619)	(5.630)	7.069	7.280	7.454	**11.554**
Revisions to Corporate Budget Estimates (mainly levies)	(1.902)	(2.517)	1.551	1.397	1.369	**(0.102)**
Revenue Cost of Capital Programme	(1.334)	(0.066)	2.138	1.880	2.000	**4.618**
Inflation, Energy and Demand Contingency	3.000	3.000	3.000	3.000	3.000	**15.000**
Pay Inflation	2.000	(2.000)	4.000	4.000	4.000	**12.000**
Revisions to Non-Pay Inflation Estimates	0.244	1.129	7.075	7.339	7.794	**23.581**
Council Tax Base Growth (0.5% increase assumed in all years)	0.000	(0.035)	(0.635)	(0.651)	(0.667)	**(1.988)**
Assumed Council Tax Increase (1.99% increase assumed in all years)	0.011	(0.034)	(2.540)	(2.604)	(2.669)	**(7.835)**
Council Tax Base Growth - Second Homes Premium	(0.388)	0.000	0.000	0.000	0.000	**(0.388)**
Net Budget Gap Summer 2024 MTFS Update	**23.099**	**18.504**	**21.657**	**21.641**	**22.280**	**107.180**

Pay Inflation

1.17. The 2025/26 budget and medium-term budget gap now assumes 2% pay inflation per annum over the entire forecast period. At 2024/25 budget setting, the forecasts for 2025/26 and 2026/27 were for 3% per annum pay inflation and 2% over the remainder of the forecast period. Given inflation has now fallen to the Bank of England 2% target, it is prudent to reduce pay inflation estimates for the next two years to 2% and to maintain at that level for years three-to-five. This reduces the 2025/26 and 2026/27 pay estimates by around £2.000m per annum (1% broadly costs £2.000m for the council's General Fund).

1.18. The pay award for the 2024/25 financial year has yet to be agreed and any pay increase over and above the MTFS 3% average increase assumption will need to be factored into the 2025/26 MTFS as pay 'catch-up'. At the most recent Office for National Statistics (ONS) release, annual average regular earnings growth for the public sector was 6.4% for the period February to April 2024, still a significant amount above the council's budgeted pay inflation rate for 2024/25.

1.19. The Local Government Employer's pay offer was put forward on 16 May 2024 for the financial year 2024/25. In summary this is for an increase of £1,575 to be paid as a permanent addition on all NJC pay points 2 to 50 inclusive and an increase of 2.5 per cent on all pay points above this level for Inner London boroughs. This level of pay offer is estimated to cost significantly more than the base budget increase of £6.000m included within the 2024/25 budget and has not, at this stage, been accepted by the NJC Trade Unions.

1.20. At this time, it is prudent to add £4.000m to the 2025/26 budget gap to provide for the possibility of pay 'catch-up' budget being required for 2024/25 over and above the £6.000m (3%) assumed in the 2024/25 budget.

Demography and Non-Pay (Contract/Energy) Inflation

1.21. With regard to Adult Social Care, the demographic growth forecasts for the future years are subject to revision, this is due to the continued impact of the following:

- Increase in demand for complex Learning Disability and Older People Placements.
- Increase in the acuity of need of existing service users.
- Impact of Health on Social Care including increased pressure from hospital discharges and delays in Health interventions.
- Impact of Covid on both service users and the data.

1.22. Directorates have submitted updated budget forecasts for the five-year forecast period for both non-pay inflation and demography. These are reflected in the medium-term budget gap.

1.23. The demography estimates previously included an additional £5.000m specific, demography buffer in each of 2025/26 and 2026/27 financial years and £10.000m estimates for the remainder of the forecast period at the time of finalising the 2024/25 budget. These are now replaced by updated directorate submissions. Any changes to forecast estimates will be reflected in future quarterly budget updates and will be reviewed following the quarterly budget monitoring process.

1.24. Similarly, non-pay inflation estimates have been updated compared to the 2024/25 budget report forecasts. These are now reflected in the latest medium-term budget gap. The medium-term estimates show a significant drop-off in non-pay inflation budgets compared to 2024/25, but this is reflective of a fall in inflation over the past year to the 2% Bank of England target. However, there remains a risk of estimates being revised upwards with service contracts linked to National Living Wage uplifts. Any changes to forecast estimates will be reflected in future quarterly budget updates.

1.25. There remains an ongoing, elevated risk to the council's budget in relation to inflation, energy and demand pressures over the medium term, especially given the linkages of non-pay inflation to National Living Wage uplifts. It is considered prudent to add an additional £3.000m Inflation, Energy and Demand risk buffer in 2025/26 and over the medium term. Together with the restoration of the base Inflation, Energy and Demand contingency to £5.000m in the 2025/26 budget, this brings this contingency to £8.000m per annum over the forecast period. This additional risk buffer will be reviewed as part of the Autumn MTFS Update Report.

Revisions to Corporate Budget Estimates (Mainly Levies)

1.26. The revisions to levies forecasts are in line with recent updates from levying bodies and their forecasts, which are likely to change. Where there is an absence of forecast from the levying body, the medium-term budget gap includes a forecast increase of 2% per levy per annum which is in line with the Bank of England target inflation rate.

1.27. The largest revision is regarding the concessionary fares levy (the Freedom Pass) which gives free travel concessions to eligible older and disabled residents on Transport for London (TfL) services, independently operated bus services in Greater London and after 9.30am on most National Rail services. In January 2024, TfL announced a freeze of fares which resulted in a downwards revision in the 2025/26 (£1.324m) and 2026/27 (£0.448m) estimated levy. The estimated levy for 2027/28 onwards has increased compared to previous MTFS estimates as it is predicted that demand will recover to pre-pandemic levels by 2029/30.

Revenue Cost of Capital Programme

1.28. At the time of setting the budget, tree planting was budgeted as a revenue cost to the General Fund. This resulted in growth of £1.330m in 2024/25, a further £0.371m in 2025/26 and £0.250m in 2026/27. However, following a review of accounting treatment at the end of 2023/24, tree planting can be capitalised. This means that the revenue budgets in the MTFS for tree planting will no longer be required. This is partially offset by a marginal increase in the revenue cost of borrowing for tree planting.

1.29. Furthermore, it has been assumed across the MTFS period that an additional £2.000m ongoing budget in each year will be required to finance the borrowing costs of the existing capital programme. This will be reviewed at the next MTFS update based on the estimated revenue costs of funding the revised capital programme.

Council Taxbase

1.30. It is assumed that the council taxbase will grow by 0.5% per annum over the forecast period. This will be reviewed throughout the budget process.

1.31. As part of Levelling Up and Regeneration Act for England, the council now has the legal power to charge premiums on empty properties and second homes (also known as dwellings occupied periodically). The Act enables local authority to charge a 100% premium on second homes and a 100% premium for properties empty and unfurnished for a period of between one and two years. Full Council gave notice to do this on 14 December 2023. An extra ~0.3% taxbase increase has been factored in from 2025/26 which represents the percentage equivalent of the estimated £0.388m income from the planned implementation of the second homes premium.

Social Care Funding

1.32. An additional £0.500bn social care funding was made available to local authorities, nationally in the 2024/25 final local government finance settlement, following representations made by local government following the provisional settlement. This was on top of the additional social care funding of £1.380bn nationally in the provisional settlement. The Summer MTFS update assumes that this additional £0.500bn national funding will be baselined from 2025/26, in line with 2024/25 Budget Report assumptions. This is subject to confirmation in the next Spending review.

1.33. The Summer MTFS Update Report assumes a potential further £2.678m of social care funding being made available to Islington in 2025/26. This is based on forecasts provided by the council’s external financial advisors and is in line with the £0.500bn additional, national allocation announced by the government as part of the final 2024/25 local government finance settlement. The estimated 2025/26 allocation will be reviewed in the Autumn MTFS Update Report, as future core funding estimates become clearer.

1.34. This level of assumed social care funding is significantly below the overall, additional social care funding provided by the government in the totality of the 2024/25 budget yet pressures in the sector continue to grow. Given the limited fiscal headroom that any government will have after the election it is considered likely that further social care funding may come in the form of a continuation of the Adult Social Care Precept for another year. At the current level of 2%, this would provide £2.383m. Whilst there is the risk that this flexibility is not allowed, the overall quantum of social care funding, be through grant of precept, is consistent with prior years so is considered reasonable by the Section 151 Officer.

Other Opportunities and Risks (Not Included in the Medium-Term Budget Gap)

1.35. There is significant uncertainty in respect of the level of government funding and council tax flexibilities from 2025/26 as this will be the first year of the next Spending Review, with the added complication that it will be announced after the General Election. These key assumptions will be explored further in the Autumn MTFS Update Report, but at this stage it is flagged that the following scenarios are considered realistic, but not firm enough to update the MTFS:

- Flexibility to propose a 4.99% council tax increase from 2025/26, consisting of a 2.99% core increase and an additional 2% Adult Social Care (ASC) precept. The 2024/25 MTFS agreed as part of the 2024/25 budget report assumed council tax increases of 1.99% (core only) from 2025/26 and over the forecast period. An additional 2% as Adult Social Care Precept is assumed within this update which leaves an additional 1% which could materialise. This would be worth approximately £1.2m per annum.
- Further social care funding over and above the additional funding forecast as part of this Summer MTFS Update Report.

Restoration of Financial Resilience Mechanisms

1.36. Unchanged from the MTFS set out in the 2024/25 budget report, £7.404m is factored into the 2025/26 budget gap to restore previously held contingency (£1.404m), financial resilience (£4.000m), and capital financing (£2.000m) budgets which were recurrent budgets used on a one-off basis to balance the 2024/25 budget position. These must be restored in the 2025/26 budget setting round in order that:

- The £3.596m Inflation, Energy and Demand contingency budget be restored to the £5.000m base level of the 2023/24 budget – this is essential given the ongoing risk around energy prices and the levels of pay and service inflation that remain above national target levels. In addition, a further £3.000m buffer is added for prevailing risks over the medium term as set out at paragraph 3.16.
- The council can revert to having an annual £4.000m financial resilience budget to replenish earmarked reserves and/or provisions for known future liabilities.
- The capital financing budget covers the annual revenue costs of funding the existing capital programme over the medium term. This will subject to further review as part of the review of the capital programme outlined in Section 6.

2. 2025/26 Budget Setting Process

2.1. The 2025/26 and medium-term budget setting process starts with a very significant funding gap to close for the immediate budget setting year of 2025/26 and over the forecast period. To set a balanced budget in 2025/26, the council must deliver estimated, additional savings of £23.098m in 2025/26 and £107.428m over the whole five-year forecast period. This is on top of the planned £7.061m of savings for 2025/26 to 2026/27 agreed as part of the 2024/25 budget report.

2.2. More favourable local government finance settlements announced in the 2024 Spending Review would potentially reduce the savings burden, as would sustained reductions in forecast service specific demand and inflation. However, at this stage there is no indication that these key budget assumptions will significantly improve compared to current forecasts. If financial conditions do not improve, difficult decisions are required with regard to expenditure control and savings proposals for the council to maintain a sustainable and robust financial position going forward.

2.3. Despite the very challenging financial position faced in recent years, the council has managed to protect and enhance the vital council services that residents rely on. The 2025/26 budget will prioritise enabling the delivery of the principles and priorities set out in the council's Strategic Plan – Islington Together 2030. Budget proposals will include measures to support manifesto commitments and continued transformation funding to put strategic principles into practice, whilst at the same time delivering efficiencies and service reconfigurations so that the council can ultimately live within its means.

2.4. Table 3 below shows a high-level timeline of the budget setting process:

Table 3 – 2025/26 Budget Setting Process High Level Timeline

September 2024	▪ Q1 2024/25 Budget Monitoring Report considered by the Executive
October 2024	▪ CPI for September published by ONS – used to inform the council's fees and charges uplift and by central government for business rates multiplier
November 2024	▪ Sales, Fees and Charges report considered by the Executive ▪ Autumn MTFS Update considered by the Executive ▪ Q2 2024/25 Budget Monitoring Report considered by the Executive ▪ Government Spending Review 2024/ Autumn Statement
December 2024	▪ Provisional 2025/26 Local Government Finance Settlement
January 2025	▪ Draft 2025/26 Budget Proposals published and considered by the Executive ▪ Let's Talk Budget Consultation ▪ Draft 2025/26 Budget Proposals considered by the Corporate Resources and Economy Scrutiny Committee ▪ Council Taxbase Set by Audit Committee
February 2025	▪ Final 2025/26 Local Government Finance Settlement ▪ Final 2025/26 Budget Proposals considered by the Executive and Full Council
March 2025	▪ Q3 2024/25 Budget Monitoring Report considered by the Executive

Savings Proposals and Service Management Actions

2.5. The savings proposals included within the medium-term budget gap were agreed as part of prior year budget setting processes. The MTFS relies upon savings proposals and successful delivery of these. In the 2024/25 final budget report, £10.770m of savings were agreed for 2024/25 and an additional £7.061m over the medium term.

2.6. It is an MTFS principle that savings which are not deliverable should be met from other underspends and management actions within a service. Deliverability will be kept under review and any emerging risks reports as part of the quarterly monitoring updates.

2.7. Service management actions are instances where services can take action to minimise cost pressures and growth through measures such as sourcing new funding, contract efficiencies with no service impact and realigning budgets with demand. These actions are agreed by Corporate Directors and the Section 151 Officer and form part of the overall budget package, albeit outwith the formal Member savings process.

3. Earmarked Reserves and Balances

3.1. Decreasing reserve levels are a key indicator of financial distress in councils. It is important that the medium-term budget makes provision to enhance reserve levels. The 2024/25 budget report and provisional outturn (Q4) budget monitoring report set out a decreasing reserves direction of travel over the medium-term forecast period.

3.2. The 2024/25 budget report set a recommended Minimum GF Balance and Earmarked Reserves Level of £80.000m over the medium term. 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 is to restore the earmarked reserves to a level well in excess of the 2023/24 opening position, and to increase the GF balance over time.

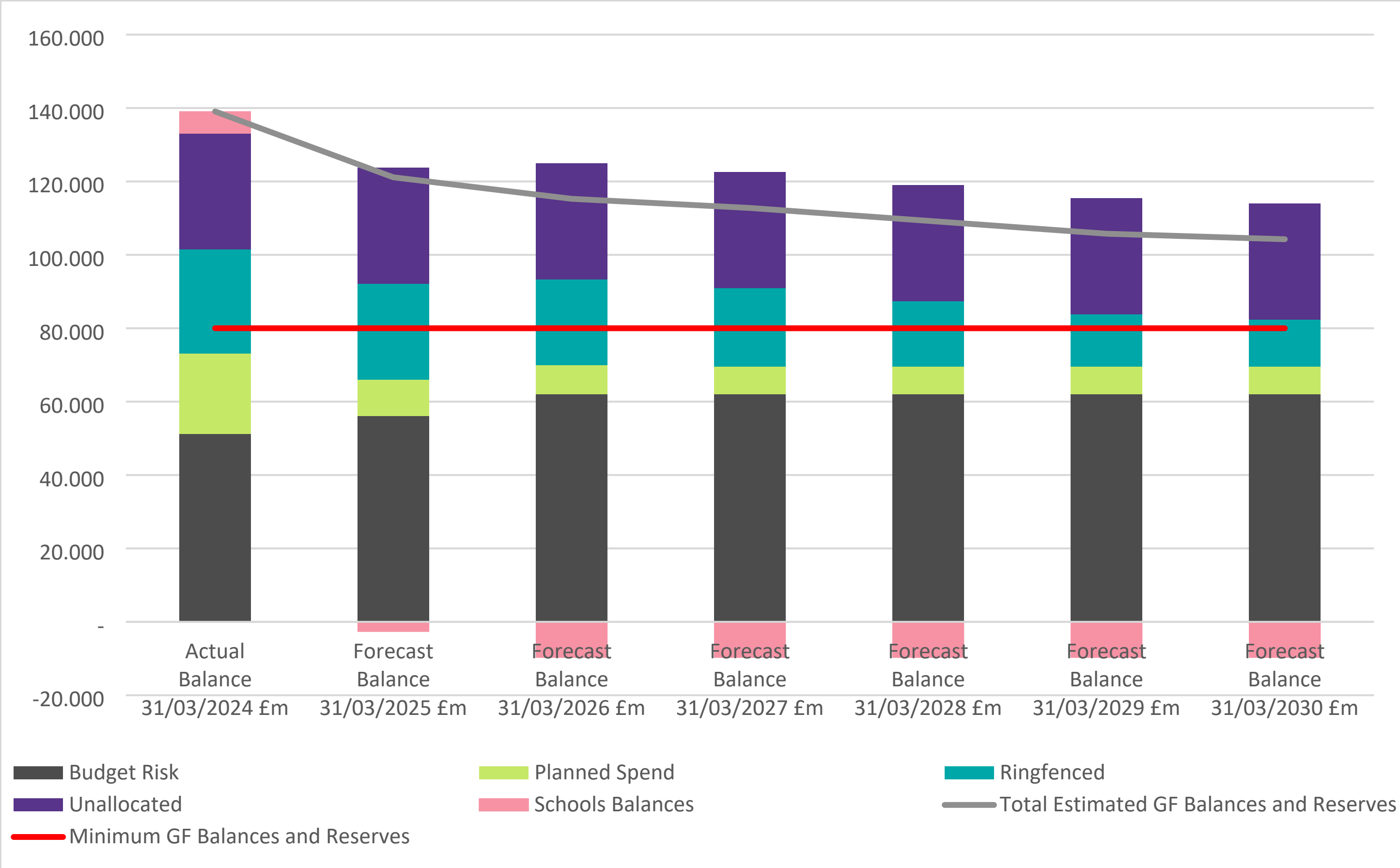
3.3. The total level of the GF Balance and Earmarked Reserves is forecast to fall over the forecast period to 2029/30. This direction of travel would be exacerbated by:

- A net overspend on the in-year 2024/25 budget, which would increase the call on earmarked reserves to balance the financial position at year-end.
- Not restoring the annual £4.000m financial resilience transfer to earmarked reserves which was used on a one-off basis to balance the 2024/25 budget. The reserves forecast assumes that the £4.000m annual contribution is fully restored in 2025/26.
- New commitments to spend council reserves not yet factored into the forecast.

3.4. Full Council agreed on 29 February 2024 to the Flexible Use of Capital Receipts Strategy for 2024/25, up to a maximum of £20.000m with delegated responsibility for the adoption of the Flexible Use of Capital Receipts Strategy granted to the Section 151 Officer to determine if it is considered appropriate to use the flexibility at the end of the financial year in the context of the council’s overall financial position. The Strategy makes use of the government flexibility 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. Utilising the capital receipts flexibility would mean that the council’s reserves would not decrease for the cost of the qualifying transformation schemes. However, it would also lead to an increase in the council’s underlying need to borrow for the capital programme. Reserves forecasts do not currently assume use of the flexibility in the financial year 2024/25.

3.5. **Figure 1** below illustrates the latest forecast path of GF reserves over the medium term. This will be subject to change over time as reserve commitments naturally increase.

Figure 1 – GF Earmarked Reserves and Balances Forecast



4. Housing Revenue Account

4.1. The HRA is experiencing unprecedented financial pressures. Recent inflation on the cost of repairs has increased at a far greater rate than rental inflation, due to several caps imposed by Central Government. This is restricting the ability of HRA's across the country to use rent collection, the main form of income, to fully cover the costs of providing services to current and future tenants. In recent years there have also been several legislative changes around building and fire safety, affecting the ability to fulfil decent homes standards. The cost of borrowing increased from 2% in 2021 to nearly 6% in 2023, impacting the viability of new build developments. These pressures mean local authorities must now make difficult decisions between investing limited resources in maintaining and improving existing council homes and building new homes.

4.2. The 2023/24 financial outturn saw the impact of emerging pressures coming to fruition. These were in line with the wider national housing sector and included ~£3.000m pressure on Damp and Mould, ~£4.000m on repairs and maintenance, ~£2.000m on Building Safety requirements, and £3.500m from Housing disrepair claims, which remain at elevated levels. Whilst the ongoing impact of these was reflected in the 2024/25 approved HRA business plan, the housing sector remains a challenging environment for landlords.

4.3. These factors will be reviewed and managed throughout this financial year. The first quarter will provide a clearer indication of the medium-term impact on HRA reserves. Savings across the service and potential mitigation plans are currently being discussed and developed.

4.4. The ONS published a reduction in CPI to 2.0% for May 2024, after the Office for Budget Responsibility had previously targeted inflation to fall to 2.2% by the end of 2024. Lower, more stable inflation rates will help manage rising repairs costs. Moreover, local authorities across the country have lobbied for a more sustainable rent settlement, which alongside stable inflation, will enable greater certainty over long-term financial planning and investment in our housing stock. For example, if a rent policy of CPI +1% was guaranteed by Central Government for the next 10 years, this could increase rent within the HRA Business Plan by £205.000m. This additional income could then be used to improve the standard of existing council homes.

4.5. There has been a marginal reduction in the cost of borrowing over recent months. From this financial year (2024/25), the council has been utilising a rolling three-month average for Public Works Loans Board (PWLB) interest rates within viability modelling. This has reduced rates within our pipeline New Build schemes from ~6% during 2023/24, to 5.16%, increasing capital scheme viability. There is currently a 0.5% HRA interest rate concession on PWLB borrowing for housing investment, but this will end in June 2026. London Councils is working with local authorities to lobby for a medium-to-long-term discount on PWLB borrowing rates, which would further aid capital investment decisions.

4.6. The council recently lobbied the government to empower authorities to build more council homes by enabling them to use receipts more flexibly. As part of the Spring Budget, the government granted local authorities some additional flexibility, by increasing the funding cap on using Right to Buy (RTB) to build new social housing from 40% to 50%. This will help reduce the level of unaffordable HRA borrowing required on capital schemes. It could also improve the viability of pipeline schemes over the medium term, as the Department for Levelling up, Homes and Communities (DLUHC) has advised that the higher cap of 50% will remain in place indefinitely.

4.7. There are however several restrictions that remain on the collection and use of RTB receipts. The Government currently claws back 20 to 25% of Islington's RTB sales receipts, and local authorities are unable to combine the use of RTB receipts with other public subsidy, such as grants from the Greater London Authority. The properties are also sold at generous discounts (up to £125,000 per unit). Local Government is working with London Councils to lobby Central Government for greater flexibilities.

4.8. The outcome of July's general election will have a profound impact on several factors influencing HRA finances. That is, the appetite to build new homes, rent policy, the macro-economy, and many of the factors discussed in the above sections.

5. Capital Programme

5.1. In 2023/24 the council incurred capital expenditure totalling £185.803m. As part of the outturn report agreed by the Executive, £7.387m was accelerated from 2024/25 to the 2023/24 capital budget, and £16.599m was slipped from 2023/24 to the 2024/25 capital budget (an overall net increase of £9.212m to the 2024/25 capital budget). The revised capital budget for 2024/25 to 206/27 is shown in Table 4 split between General Fund and HRA.

Table 4 – Revised Capital Programme 2024/25 to 2026/27

	2024/25 £m	2025/26 £m	2026/27 £m
General Fund	114.821	75.045	78.452
HRA	267.806	108.544	97.336
Total	**382.627**	**183.589**	**175.788**

5.2. Table 5 summarises the latest financing of the revised capital programme.

Table 5 – Financing of the Revised Capital Programme 2024/25 to 2026/27

	2024/25 £m	2025/26 £m	2026/27 £m
Grants and Third-Party Contributions	(99.547)	(4.142)	(4.141)
Developer Contributions	(18.267)	(3.200)	(1.276)
Capital Receipts	(39.143)	(91.032)	(65.964)
General Fund Revenue Contributions	(5.827)	(0.560)	-
HRA Revenue and Major Repairs Reserve Contributions	(18.884)	(28.125)	(32.326)
General Fund Borrowing	(61.116)	(25.714)	(32.494)
HRA Borrowing	(139.843)	(30.816)	(39.587)
Total Capital Programme Financing	**(382.627)**	**(183.589)**	**(175.788)**

5.3. The capital programme will continue to be reviewed over the course of Summer 2024, including to:

- Update the profiling of budgets by financial year based on 2024/25 in-year capital budget monitoring.
- Remove any capital budgets that are no longer required and add any new capital schemes such as tree planting referenced in paragraph 3.21. In addition to tree planting, it is anticipated that there are other projects currently assumed to be funded in revenue (e.g. Future Work and finance systems replacement) that can be capitalised and will be added to the capital programme following the review.
- Update the revenue cost of borrowing to fund the capital programme (based on latest interest rates) and compare with the revenue budget available within the wider context of the significant revenue budget gap to close over the medium term.
- Prioritise current agreed schemes based on the council’s priorities.
- Explore opportunities to substitute expensive council borrowing with available grants and contributions (including Section 106 and Community Infrastructure Levy contributions).

6. Implications

Finance Implications

6.1. These are contained within the body of the report.

Legal Implications

6.2. 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 2025/26. It also outlines the council's current and anticipated financial circumstances, including matters relating to the General Fund budget and MTFS, the HRA, the capital programme and borrowing and expenditure control.

6.3. The setting of the budget and council tax by Members involves their consideration of choices. No genuine and reasonable options should be dismissed out-of-hand and Members must bear in mind their fiduciary duty to the council taxpayers of Islington.

6.4. Members must have adequate evidence on which to base their decisions on the level and quality at which services should be provided. Where a service is provided pursuant to a statutory duty, it would not be lawful to fail to discharge it properly or abandon it, and where there is discretion as to how it is to be discharged, that discretion should be exercised reasonably.

6.5. The report sets out the relevant considerations for Members to consider during their deliberations and Members are reminded of the need to ignore irrelevant considerations. Members have a duty to seek to ensure that the council acts lawfully. They are under an obligation to produce a balanced budget and must not knowingly budget for a deficit. Members must not come to a decision which no reasonable authority could come to; balancing the nature, quality, and level of services which they consider should be provided against the costs of providing such services.

6.6. 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 consider its comments when making those recommendations.

Climate Change and Environmental Implications

6.7. 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. The council's budget can influence behaviour of residents and businesses which can result in both positive and negative environmental implications. Environmental implications of budget proposals are considered as part of the budget setting process and will be reported in the Full Budget Report. This report provides information on updated assumptions and estimates regarding the 2025/26 budget and does not seek any decisions which would have an impact on the environment or climate change.

Equalities Impact Assessment

6.8. 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.

6.9. A full Equalities Impact Assessment was carried out for the 2024/25 budget agreed by Full Council in February 2024. The 2025/26 budget will be agreed in February 2025 and will be subject to a full Equalities Impact Assessment. This report does not seek any decisions which would have an impact on residents.

Appendices

Appendix A: Forecast MTFS 2025/26 to 2029/30

Background papers: None

Authorised by:		
	Executive Member for Finance and Performance	Date 9 July 2024

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