SUBJECT: BUDGET PROPOSALS 2013-14

1 INTRODUCTION

1.1 The 2013-14 budget, and the medium term financial strategy (MTFS) for the planning period to 2016-17, is being considered in the midst of the biggest cut in the funding of local government that the Council has ever faced. The Spending Review Period to 2014-15 sees the biggest ever post-war cut in local government funding and a significant shrinking of the sector. The one-year Spending Review, to be finalised in 2013, for 2015-16 is likely to announce further significant cuts to non-protected Government departments such as Communities and Local Government. The Autumn Statement announced by the Chancellor on 6th December 2012 revealed a further 2% cut to local government spending in 2014-15, over and above the existing Spending Review reductions, and before the further expected cuts in 2015-16.

1.2 The budget report is a strategic, financial document which encapsulates the Council’s priorities in an overall budget package for the planning period 2013-14 to 2016-17. The principal purpose of this report is for the Executive to recommend proposals in respect of the 2013-14 budget, as the basis for setting the 2013-14 budget and council tax. Policy and Performance Scrutiny Committee will review the budget at their meeting on 31st January 2013 and their comments on it will be taken in to account in setting the final budget and level of council tax at Council on 28th February 2013.
1.3 The contents of this report are summarised below:

Section 2 sets out the key recommendations

Section 3 sets out the 2013-14 to 2016-17 General Fund revenue budget and medium term financial strategy (MTFS)

Section 4 details the Housing Revenue Account (HRA) proposals for 2013-14 to 2016-17

Section 5 shows the 2013-14 to 2016-17 Capital Programme

Section 6 will set out the Treasury Management Strategy in the final version of the budget report to be considered by Executive on 7th February 2013 and Council on 28th February 2013

Section 7 includes details of the new council tax support scheme, to be considered by Council on 24th January 2013, and the proposed removal of council tax exemptions on empty properties and second homes, arising from the changes to the Local Government Finance Act 1992 and effective from 1st April 2013. This section will additionally set out the detailed, statutory council tax calculations in the final version of the budget report to be considered by Executive on 7th February 2013 and Council on 28th February 2013.

Section 8 details the matters to consider in setting the budget

List of Appendices

Appendix A MTFS 2013-14 to 2016-17

Appendix B New Savings Proposals 2013-14 to 2014-15 (B1)
Adjustments to Savings Shown in 2012-13 Budget Report (B2)

Appendix C Unavoidable Costs, Funding Reductions and Growth 2013-14 to 2014-15

Appendix D Fees and Charges 2013-14

Appendix E Reserves and General Balances 2013-14 to 2016-17

Appendix F HRA MTFS 2013-14 to 2016-17 (F1)
HRA Budget Assumptions 2013-14 to 2016-17 (F2)
HRA Savings (F3)
HRA Illustrations of Weekly Charges for 2013-14 (F4)

Appendix G Capital Programme 2013-14 to 2016-17 (G1)
New Allocations of Section 106 Funding (G2)

Appendix H Equality Impact Assessment
2 RECOMMENDATIONS

The General Fund Budget 2013-14 to 2016-17 (Section 3)

2.1 To agree the 2013-14 net Council cash limits as set out in Table 4 (paragraph 3.2.17) and the MTFS at Appendix A, which include the savings proposals (paragraphs 3.2.5 to 3.2.7) and unavoidable costs/growth proposals (paragraphs 3.2.8 to 3.2.15) as set out in Appendices B1, B2 and C.

2.2 To note that the budget has been prepared on the basis of a council tax freeze in 2013-14. (Paragraph 3.2.4)

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

2.4 To agree the fees and charges policy and schedule of 2013-14 fees and charges. (Paragraphs 3.3.24 to 3.3.31 and Appendix D)

2.5 To agree the estimated use of the Council’s earmarked reserves, and the Council’s policy on the level of general fund balances. (Paragraphs 3.4.11 to 3.4.16 and Appendix E)

The HRA Budget 2013-14 to 2016-17 (Section 4)

2.6 To agree the balanced HRA 2013-14 budget within the HRA MTFS at Appendix F1, including the savings as set out in Appendix F3. (Paragraph 4.5)

2.7 To agree the proposed increases in 2013-14 for HRA rents, tenants’ service charges and other fees and charges (paragraphs 4.16 to 4.25) and as detailed in Appendix F4, with effect from Monday 1st April 2013.

The Capital Programme 2013-14 to 2016-17 (Section 5)

2.8 To agree the 2013-14 capital programme, including the slippage from 2012-13 (Paragraph 5.2), and note the provisional programmes for 2014-15 to 2016-17. (Paragraph 5.1, Table 10 and Appendix G1)

2.9 To agree that the Corporate Director of Finance applies capital resources to fund the capital programme in the most cost effective way for the Council. (Paragraph 5.7)

2.10 To note the schemes that comprise the Capital Allowance pot of eligible affordable housing and regeneration schemes. (Paragraph 5.9 and Appendix G1)

2.11 To note the schedule of new Section 106 funding allocations. (Paragraph 5.10 and Appendix G2)

Treasury Management Strategy (Section 6)

2.12 To note that the Treasury Management Strategy will initially be considered by Audit Committee on 29th January 2013, and then included for agreement within the final budget report to Executive on 7th February 2013 and Council on 28th February 2013.

Council Tax 2013-14, Including Statutory Calculations (Section 7)

2.13 To note that the detailed, statutory council tax calculations and the recommendations for the final level of the 2013-14 council tax, including the final GLA precept, will form part of the budget report to Executive on 7th February 2013, for onward recommendation to Council on 28th February 2013.

2.14 To remove council tax exemptions for empty properties and second homes in line with the changes to the Local Government Finance Act 1992 effective from 1st April 2013 (paragraphs 7.13 to 7.15):

1) Replace the Council Tax exemption classes A and C with a discount of 0% for all cases

2) Replace the Council Tax discount of 10% for second homes with a discount of 0% in all cases
3) Replace the Council Tax discount of 10% for empty furnished lets with a discount of 0% in all cases

4) Charge a premium of 50% to the council tax of all properties that have remained empty for over 2 years in all cases

Matters to Consider in Setting the Budget (Section 8)

2.15 To note the Section 151 Officer’s and the Monitoring Officer’s comments in their determination of the revenue and capital budgets for 2013-14 and the basis for the level of council tax, including the Section 151 Officer’s report in relation to his responsibilities under section 25 (2) of the Local Government Act 2003.

2.16 To note the Equality Impact Assessment (EIA) on the 2013-14 budget package at Appendix H.
3 GENERAL FUND BUDGET 2013-14 TO 2016-17

3.1 MEDIUM-TERM OUTLOOK AND KEY RISKS

Medium-Term Financial Outlook

National Picture

3.1.1 The national economic outlook remains uncertain over the medium-term, given the continued contractionary impact of
- the Government’s continued fiscal consolidation and austerity measures
- increases in the cost of key items such as food, fuel and housing costs
- continued political and economic uncertainty in the Eurozone

3.1.2 Increases in gross domestic product (GDP, essentially the value of all goods and services produced nationally) are forecast to be negative 0.1% in 2012 and only positive 1.2% in 2013, increasing to 2.8% by 2017. This is based on the 2012 Autumn Statement analysis by the Office for Budget Responsibility (OBR). These forecasts are subject to uncertainty and may be optimistic in the longer-term.

3.1.3 Unemployment is likely to remain relatively high at around 8% of the labour force nationally until 2015 and remaining above 7% until 2017. Although private sector employment is expected to increase by 1.6 million over the next five years, there is an implied reduction of at least 600,000 jobs elsewhere, principally in the public sector, leading to an overall employment increase of about 1 million. The rise in private sector employment masks the impact of ‘under-employment’, with estimates that as many as one in ten of the workforce are willing to work more hours.

3.1.4 The inflation outlook (Consumer Price Index) is very uncertain although forecast to be at around 2.8% in 2012 and falling to 2% by 2015 and beyond.

3.1.5 The forecasts from the OBR include an expected reduction in Government in-year borrowing (i.e. the deficit) from 7.9% of GDP currently to about 1.6% by 2017-18. However, this represents an increase in Government debt of £64bn over the next four years compared to the previous OBR forecast in March 2012, and this, along with slower growth, means that the structural deficit (the deficit that exists regardless of the level of economic activity and regardless of where the economy is in its business cycle) will not now be eliminated until after 2017-18.

3.1.6 Reduced tax receipts and the need to reduce borrowing will increase the pressure for further spending cuts and efficiencies in the longer term. The Government is continuing to expect real-terms reductions in total managed expenditure of 0.9% in both 2015-16 and 2016-17, in line with the overall trend of reductions in the current spending review, along with a similar reduction in 2017-18.

Local Outlook

3.1.7 It is not clear how further reductions in total managed expenditure (at a national level) will affect local government and the wider public sector but there is a risk of further significant cuts in the next spending review from 2015-16 (with an estimated £10bn black-hole in the national budget in 2015-16, unaffected by the further tax rises and spending cuts announced in the Autumn Statement). This is in addition to further cuts to our funding in 2013-14 and 2014-15 announced as part of the recent Local Government Finance Settlement.

3.1.8 Looking further forward, there is little information available about the funding levels in 2015-16 and 2016-17. We have modelled scenarios in Table 1 below ranging from an optimistic Baseline core funding cut of 4% in 2015-16 and 2% in 2016-17 to a more pessimistic Prudent cut of 14% in 2015-16 and 9% in 2016-17. This analysis is based on the departmental control totals in the March 2012 National Budget, which are now considered somewhat out-of-date following the further cuts announced in the Autumn.
Statement and the specific grants rolling into our general revenue support grant funding in 2013-14. These control totals will be updated as part of the next spending review, at which point we will be able to better model the different funding scenarios beyond 2014-15.

Table 1 – Summary Central Government Funding Scenarios

<table>
<thead>
<tr>
<th></th>
<th>2015-16</th>
<th>2016-17</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Funding Reduction</td>
<td>£6.2bn</td>
<td>£3.3bn</td>
<td>As outlined in the March 2012 National Budget</td>
</tr>
<tr>
<td></td>
<td>(1.9%)</td>
<td>(1.0%)</td>
<td></td>
</tr>
<tr>
<td>Baseline Funding Reduction Scenario</td>
<td>£5.3m</td>
<td>£2.8m</td>
<td>Health and Education protected</td>
</tr>
<tr>
<td></td>
<td>(3.8%)</td>
<td>(2.1%)</td>
<td></td>
</tr>
<tr>
<td>Prudent Funding Reduction Scenario</td>
<td>£19.7m</td>
<td>£10.5m</td>
<td>Local Government receives 50% of national cut</td>
</tr>
<tr>
<td></td>
<td>(14.0%)</td>
<td>(8.6%)</td>
<td></td>
</tr>
</tbody>
</table>

Key Budget Risks

3.1.9 Although the budget position presented in this paper shows a balanced budget position for 2013-14, considerable risks still remain over the planning period, including those mentioned below.

a) There is significant uncertainty around the implementation of the business rates retention system and the resultant level of our retained business rates in 2013-14 and beyond. Our funding levels are linked to a two-year average of our prior business rates yield. If our business rates yield falls significantly below this average level in future then our retained funding will be adversely affected.

b) There is a risk that the unconfirmed New Homes Bonus funding tranches are less than the amounts assumed in the MTFS, that there will be more net top-slices (than assumed in the MTFS) to fund the New Homes Bonus or that the commitment to this funding will cease in future spending reviews.

c) There is a risk that, with the localisation of council tax support, the Council will bear the financial burden of any increase in the number of residents claiming council tax support in the borough. In addition, there is a risk that collection levels will be lower than estimated with a subsequent impact on the future financial position of the Collection Fund.

d) There is no provision in the MTFS for the impact of the 2013 Triennial Pension Fund Revaluation. The interim revaluation has indicated that an additional contribution will be required from 2014-15, although there is a wide range of potential costs depending on the recovery period. The precise level will not be known until after the actual triennial pension fund revaluation undertaken on 31st March 2013.

e) There are no planned ongoing contributions to the Council’s Insurance Fund or Corporate Bad Debt Provision over the planning period. In the case of the Insurance Fund, a future opinion of our actuary could mean that the previous c£1m annual top-up has to be resumed sooner rather than later.
3.2 **KEY REVENUE BUDGET PROPOSALS**

**Balancing the 2011-12 to 2014-15 Budget**

3.2.1 Following the unprecedented cut in Government funding (both general and specific grant funding) since 2010-11 (following the 2010 Spending Review), the provisional local government settlement published on 19th December 2012 confirms that further deep cuts in government grant to Islington Council will be implemented in 2013-14 and 2014-15. As a result of this, Islington now has to reduce its spending by over £121m (38% of the 2010-11 net revenue budget) in the spending review period (April 2011 to March 2015). The spending reduction we are required to make over the spending review period has increased by £18m since our 2012-13 budget. Although we have identified additional savings totalling £13m in 2013-14 and 2014-15, the budget gap for 2014-15 has widened to £12.8m. The total reduction in net funding required over the period 2011-12 to 2014-15 is shown in Table 2 below.

**Table 2 – Revenue Budget Gap Analysis 2011-12 to 2014-15**

<table>
<thead>
<tr>
<th>Category</th>
<th>2011-15 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cut in Government Grants</strong></td>
<td></td>
</tr>
<tr>
<td>Formula / General Funding</td>
<td>52.5</td>
</tr>
<tr>
<td>Specific Grants</td>
<td>21.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>74.2</td>
</tr>
<tr>
<td><strong>Pressures</strong></td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td>9.4</td>
</tr>
<tr>
<td>Levies</td>
<td>4.7</td>
</tr>
<tr>
<td>Other Pressures including Demographics</td>
<td>33.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>47.2</td>
</tr>
<tr>
<td><strong>Gross Reduction in Net Funding Required</strong></td>
<td>121.4</td>
</tr>
<tr>
<td>Savings Delivered in 2011-12 and 2012-13</td>
<td>70.3</td>
</tr>
<tr>
<td>Identified Savings 2013-14 to 2014-15</td>
<td>25.3</td>
</tr>
<tr>
<td>New Homes Bonus Tranches 2 to 4</td>
<td>7.5</td>
</tr>
<tr>
<td>2013-14 Council Tax Freeze Grant (Estimate)</td>
<td>0.7</td>
</tr>
<tr>
<td>Increase in Council Tax / Taxbase</td>
<td>4.8</td>
</tr>
<tr>
<td>Further Budget Gap to be Closed by 2014-15</td>
<td>12.8</td>
</tr>
<tr>
<td><strong>Gross Reduction in Net Funding</strong></td>
<td>121.4</td>
</tr>
</tbody>
</table>
3.2.2 In response to this reduction in funding, and taking into account the revenue savings proposals in this report and the remaining budget gap to close in 2014-15, the Council will have made over £108m in savings over the period 2011-12 to 2014-15, with 77% of these savings achieved through efficiencies. The emphasis on making efficiency savings enables the Council to maintain front-line services.

3.2.3 The Council’s overriding priority is to make Islington a fairer place, cutting the number of Islington residents living in poverty and reducing the outcomes gap between Islington’s least and most affluent. In formulating the budget for 2013-14 and over the medium-term planning period, the key objective has been to deliver a budget that will meet the Council’s commitments to the fairness agenda, maintain good, basic everyday front-line services and target resources where they are most needed, in the main through a combination of:

- efficiency savings
- collaboration
- procurement, and
- increased income

**Council Tax Freeze 2013-14**

3.2.4 The Government has made £450m available to local authorities who decide to freeze or reduce their council tax in 2013-14. For Councils that freeze or reduce council tax in 2013-14, £225 million of funding will be made available nationally in 2013-14 and a further £225m in 2014-15. This grant is equivalent to raising council tax by 1%, estimated at £650k for Islington in each of the next two financial years. The 2013-14 budget has been prepared on the basis of a council tax freeze in 2013-14, with £650k of council tax freeze grant assumed to be received in the financial years 2013-14 and 2014-15. After the freeze grant ends from 2015-16, the Council will have an ongoing income shortfall equivalent to any foregone council tax increase from 2013-14 up to the level of the council tax cap of 2% (approximately £1.3m).

**Revenue Savings Proposals 2013-14 to 2014-15**

3.2.5 Revenue savings proposals for the three-year period 2012-13 to 2014-15 were agreed within the 2012-13 budget report. A reconciliation of changes to the savings agreed as part of the 2012-13 budget report is provided at Appendix B2 (including any replacement savings where necessary), with the new Islington Savings Plan proposals included at Appendix B1.

3.2.6 The Council has established an efficiency programme called the Islington Savings Plan. This has already identified £8.9m of new cashable savings that have contributed towards the balanced budget position in 2013-14 including:

- Relocation of the Financial Operations Team from 4-10 North Road to Newington Barrow Way (£0.5m)
- Procurement of the corporate management contract for agency staff (£0.6m)
- Invest to Save projects within Adult Social Services (£1.5m)
- Repayment of debt, saving on the principal repayment and interest costs (£1m)
- Review of the 2011-12 financial outturn position, identifying additional efficiencies (£2.8m)

3.2.7 A breakdown of the savings proposals, by saving type, is shown in Table 3 below. The analysis shows that of every £100 saved, £99 has been saved from an efficiency measure or better procurement/collaboration. Only £1 of every £100 saved is from a service cut.
### Table 3 – Classification of Savings 2013-14 to 2014-15

<table>
<thead>
<tr>
<th>SAVING TYPE</th>
<th>£'000</th>
<th>% Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiencies</td>
<td>16,147</td>
<td>63%</td>
</tr>
<tr>
<td>Procurement/Collaboration</td>
<td>6,748</td>
<td>26%</td>
</tr>
<tr>
<td>Income</td>
<td>2,532</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>25,427</td>
<td>99%</td>
</tr>
<tr>
<td>Service Cut</td>
<td>191</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total Savings (App B)</strong></td>
<td>25,618</td>
<td>100%</td>
</tr>
</tbody>
</table>

### Cost Pressures 2013-14 to 2014-15

#### 3.2.8
There is limited scope for any discretionary revenue growth in 2013-14 given the reduction in our core funding. The bulk of the revenue growth proposals in this budget report are unavoidable cost increases; for example, replacing government grant cuts in respect of Children’s Services. This is in addition to providing for £1.6m of inflationary pressures in 2013-14. The complete list of unavoidable cost increases and growth proposals for 2013-14 to 2014-15 are included for agreement at Appendix C. Of these, the key proposals contained within the 2013-14 budget are as follows, set out against the Council’s key priorities:

#### The Best Start in Life for all Children

**Core Early Intervention (£3.2m in 2013-14 with a further £0.7m in 2014-15)**

#### 3.2.9
Growth to replace the cut in Early Intervention Grant from central government and maintain the Council’s investment in the early intervention programme will ensure successful provision of support to families with multiple needs. A reduction in funding would have a detrimental effect on the progress made over the last two years and be a setback to such families. A reduction in funding would also significantly impact on the volume of preventative work undertaken. A reduction in preventative work would result in an increase the number children referred to social care and those who need to be taken into care or protected from significant harm.

**Free Early Years for 2-Year Olds (£1.4m, to fund from Dedicated Support Grant)**

#### 3.2.10
From 2013-14 there is a statutory requirement to offer 15 hours of free Early Years provision to the top 20% of most deprived two-year olds nationally (from 2014-15 this rises to 40%). The Department for Education estimates that between 1,100 and 1,500 children will be eligible within Islington. It is likely that the available funding pot (from cutting core Early Intervention funding) will be inadequate and the annual pressure is estimated to be in the region of £1.4m over the medium-term.

**Youth Remand £0.4m**

#### 3.2.11
The transfer of the full costs for remand and custody of young people under the age of 18 is being transferred to local authorities from the Youth Justice Board (YJB) from 1st April 2013. In addition all young people remanded to custody will be granted ‘looked after’ status and for those remanded to custody for 13 weeks or more will be granted ‘leaving care status’. New burdens funding will transfer from the YJB (provisionally £277k) but is insufficient to meet the estimated costs of the new framework.
**Bursary Scheme for Islington's Young People £0.3m**

3.2.12 A bursary scheme launched in 2012-13 to support young people continuing in education post-16 following the changes to the Education Maintenance Allowance and other grants and benefits by the Government, which have meant that for some young people a good start in life has become increasingly challenging. The scheme awards resident young people who were eligible for Free School meals in Year 11, who remain in full-time education or training post 16, a one-off £300 bursary to support them in their studies.

**Healthy, Active and Independent Lives**

**Energy Doctors and Switchers £0.3m**

3.2.13 Growth to continue the Energy Doctor in the Home service (previously funded from one-off grants and external contributions), which involves providing energy saving advice to residents in fuel poverty, implementing small energy saving measures in their homes and if necessary referring them to other services (such as health and social care).

**Plus Bus £0.1m**

3.2.14 The 812 (Plus Bus) service provides a local accessible community bus service to fill a gap in the mainstream London bus network in the south of the borough. This service is largely used by older and mobility-impaired people. As a result of severe budget constraints in 2011-12, it was agreed between the Council, Transport for London (TfL) and the service providers Hackney Community Transport (HCT) that the Council could use its annual TfL grant funding to pay £100k of the running costs in 2011-12 and 2012-13, with the shortfall of £53k met by HCT. TfL permitted this on the condition that the Council provided funding of £100k per annum from its own budgets in 2013-14 and 2014-15, and that HCT continue to provide annual funding of £53k.

**Lower Crime and Anti-Social Behaviour**

**CCTV Expansion £0.2m**

3.2.15 As part of the expansion of the CCTV Service to prevent and tackle Anti-Social Behaviour, it is estimated there will be additional ongoing revenue costs of £240k and one-off capital costs of £2,035k (with the latter reflected in the proposed capital programme at Section 5). The current monitoring platform will be updated to enable all of Islington’s CCTV cameras, including those operated by Housing, to be viewable from the main CCTV control room. In addition, this revenue growth supports the deployment of ten new cameras in Anti-Social Behaviour hotspots across the borough.

**Summary General Fund Revenue Budget 2013-14**

3.2.16 The proposed General Fund revenue budget and net revenue cash limits for 2013-14 are shown within the MTFS at Appendix A. The MTFS also details the forecast expenditure over the medium term, based on current knowledge and expectations. These forecasts will be subject to further examination and review through the annual roll forward of the budget process in Spring 2013 as planning for the 2014-15 budget begins.

3.2.17 Table 4 below shows the net budget figures for 2013-14 that are included within the MTFS at Appendix A, for approval as part of the recommendations of this report. The budget and cash limits are based on the original 2012-13 departmental structure. Changes to the departmental structure in 2013-14 will be adjusted for and reflected in budgets in-year.
### Table 4 – Council Budget Requirement and Departmental Cash Limits 2013-14

<table>
<thead>
<tr>
<th>Departments</th>
<th>£000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children’s Services</td>
<td>81,148</td>
</tr>
<tr>
<td>Corporate Resources</td>
<td>7,359</td>
</tr>
<tr>
<td>Environment and Regeneration</td>
<td>41,648</td>
</tr>
<tr>
<td>Finance</td>
<td>5,453</td>
</tr>
<tr>
<td>Housing and Adult Social Services</td>
<td>90,769</td>
</tr>
<tr>
<td>Corporate and Democratic Core (CDC)/Unapportionable Central Overheads (UCO)</td>
<td>18,403</td>
</tr>
</tbody>
</table>

**NET COST OF SERVICES** 244,780

**Net Corporate items** 13,001

**NET OPERATING EXPENDITURE** 257,781

**Other Budget Items:**

<table>
<thead>
<tr>
<th>Insurance Fund</th>
<th>(300)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contingencies</td>
<td>1,000</td>
</tr>
<tr>
<td>Transfer to/(from) Earmarked Reserves</td>
<td>10,700</td>
</tr>
<tr>
<td>Transfer to/(from) General Reserve</td>
<td>(2,882)</td>
</tr>
<tr>
<td>New Homes Bonus Tranches 1-3</td>
<td>(9,194)</td>
</tr>
<tr>
<td>2013-14 Council Tax Freeze Grant (Estimate)</td>
<td>(650)</td>
</tr>
</tbody>
</table>

**AMOUNT TO BE MET FROM GENERAL GOVERNMENT GRANTS AND COUNCIL TAX** 256,455
3.3 **GENERAL FUND BUDGET – INCOME**

*Local Government Finance Settlement 2013-14*

**Overview**

3.3.1 The Local Government Finance Settlement, announced on 19th December 2012, detailed our funding allocations for 2013-14 and 2014-15 (indicative).

3.3.2 The breakdown of our funding is different to that in previous years with funding from general formula grant and specific grants replaced by retention of 30% of our business rates income, top-up grant, general formula-based revenue support grant (RSG) and some other new funding streams. In addition, a number of previous specific funding streams including early intervention, learning disabilities, homelessness prevention and council tax support have been rolled into RSG. The breakdown of our core funding under the new system is shown in Table 5 below.

<table>
<thead>
<tr>
<th>Table 5 – Core Funding Breakdown 2013-14 and 2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue Support Grant</strong></td>
</tr>
<tr>
<td>Early Intervention</td>
</tr>
<tr>
<td>Homelessness Prevention</td>
</tr>
<tr>
<td>Lead Local Flood Authority</td>
</tr>
<tr>
<td>Learning Disability and Public Health Reform</td>
</tr>
<tr>
<td><strong>TOTAL CORE FUNDING</strong></td>
</tr>
</tbody>
</table>

**Funding Streams Rolling into RSG**

3.3.3 The former specific funding grants in Table 6 below have been rolled into the Council’s general RSG funding in 2013-14.

<table>
<thead>
<tr>
<th>Table 6 – Former Specific Grants Rolling into RSG</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2012-13 £000</strong></td>
</tr>
<tr>
<td>Early Intervention</td>
</tr>
<tr>
<td>Homelessness Prevention</td>
</tr>
<tr>
<td>Lead Local Flood Authority</td>
</tr>
<tr>
<td>Learning Disability and Public Health Reform</td>
</tr>
</tbody>
</table>

3.3.4 Early intervention funding has been cut by £4.3m in 2013-14 and by a further £0.7m in 2014-15. Of the £4.2m total reduction in 2013-14, approximately £1.1m relates to our existing funding for two-year-old places (which will now be funded from DSG as part of the new 2-year-olds funding pot), with the balance of £3.2m being the net cut to our core early intervention funding in 2013-14 with a further cut of £0.7m in 2014-15.
3.3.5 The Council’s general RSG funding in 2013-14 also includes £19.8m council tax support funding as a result of the government’s abolition of council tax benefit. This is a new funding stream which is equivalent to 90% of our receipts from council tax benefit and will be offset by a reduction in the taxbase, reflecting the estimated cost of our local council tax support scheme which will replace council tax benefit.

**Education Services Grant**

3.3.6 £3.2m for education functions included in Local Authority Central Spend Equivalent Grant (previously part of formula grant) has been deducted from our funding and will be redistributed as a new unringfenced Education Services Grant to the Council and academies in the borough proportionate to the number of pupils for which they are responsible. Based on latest academies pupil numbers in Islington, we estimate that we will receive £2.9m for this grant in 2013-14 (to be confirmed early in the New Year). Future allocations will move in line with changes in pupil numbers in the borough and the conversion of any further schools to academies. The ESG is considered in further detail in paragraphs 3.3.21 to 3.3.22 of this report.

**Retained Business Rates**

3.3.7 The Government has calculated that it expects the Council to collect £182.9m in business rates in 2013-14 (based on a 2-year average of our contribution to the national pool and which will increase each year by RPI). Of this, we will retain £54.9m (30%) towards our overall funding, with 20% and 50% going to the GLA and Central Government respectively. Overall, the risk appears considerably less than previously anticipated (mainly because the Government have made an adjustment to factor in the risk of appeals) and most of our total core funding (more than 70%) still comes from needs-based grants. The most significant risk to our funding remains the risk of further Government cuts (rather than the reforms themselves).

3.3.8 The Council will receive a safety net payment if our retained business rates income falls by more than £5.6m (10.2%) below our business rates baseline of £54.9m.

3.3.9 Our 2013-14 funding also includes a £19.6m top-up grant (which will increase each year by RPI) because our business rates income is less than our equivalent funding need.

**Settlement Analysis**

3.3.10 The Government’s assessment of the impact of the settlement is a reduction in the Council’s spending power of 0.6% in 2013-14 and 5% in 2014-15. In 2013-14, this compares favourably with the London and England averages (1.3% and 1.7% respectively), although we suffer a significantly higher than average reduction in 2014-15 (compared to a 3.8% average in London and England).

3.3.11 £500m has been top-sliced from local government funding in 2013-14 (rising to £800m in 2014-15) to fund the New Homes Bonus. It is estimated that for Islington this equates to a loss of £3.5m in 2013-14. There is a loss of £5.6m in 2014-15.

3.3.12 £125m has been top-sliced from local government funding as extra provision for the safety net element of the new system (in case the excess gains levy collected from tariff authorities is insufficient to fund the safety net payments paid out) and capitalisation measures (where the Government exceptionally permits revenue expenditure to be treated as capital). It is estimated that this equates to a loss of £0.9m for Islington.

3.3.13 There have also been some technical changes to the funding formula in 2013-14. Whilst it is difficult to assess the exact impact of these changes on our overall funding (particularly after formula damping), in general terms we expect the increased weighting for sparsity and tax-raising power to have had a negative impact and the use of updated data such as population estimates to have had a positive impact.

**Other Grants**

3.3.14 The Council will receive £9.2m New Homes Bonus income in 2013-14, including the new Tranche 3 allocation of £3.5m. Islington is the third highest recipient of New Homes
Bonus in England, directly attributable to the number of new homes in the borough over the past three years.

3.3.15 The Council will receive £3.0m in Housing Benefit Admin Grant in 2013-14, a reduction of £0.4m compared to 2012-13.

3.3.16 The Government has provided non-recurrent funding of £4.6m (for 2013-14) to the NHS Commissioning Board to be used to support adult social care within the Islington area, which also has a health benefit. Local health partners have been tasked with working together with the Council to agree how the funding is best used within social care. Decisions on spend are expected (by Government) to take into account the Joint Strategic Needs Assessment for the borough and existing commissioning plans for both health and social care.

Children’s Services Funding 2013-14

3.3.17 The Dedicated Schools Grant (DSG) is ring-fenced for spending on schools. The DSG is the Government funding allocated to Islington for the purpose of educating Islington pupils. The Schools Forum makes recommendations about how the grant should be allocated to schools and the Council (including the Early Years Service) as appropriate.

3.3.18 There is a DSG floor of 0% per pupil being applied in 2013-14, to ensure DSG allocations fall by no more than 1.5%. The pupil premium is £900 per head for all pupils that are entitled to or ever have been entitled to free school meals in the last 6 years. The DSG priorities for 2013-14 are being developed in conjunction with the Schools Forum.

3.3.19 There are a number of other funding changes over the two years to 2014-15 specifically affecting Children’s Services, relating to the pupil premium and the Education Services Grant.

3.3.20 Pupil Premium - this specific grant will be allocated at an annual rate of £900 for every pupil in Reception to Year 11 that is or ever has been eligible for Free School Meals in the last six years. The premium will cover pupils in mainstream and special schools, Pupil Referral Units, and 14-15 year olds in Further Education colleges. Total Pupil Premium is expected to be £12.081m for Islington, including Academies, in 2013-14.

3.3.21 Education Services Grant (ESG) - this replaces the previous academies top slice from Formula Grant. Instead a new top slice is being applied and being reallocated to the local authority and academies in each local authority area on a per pupil basis. The allocations are due to be provided by the Department for Education in January 2013 and the Council will be funded on the following basis:

   a. ESG general funding rate for local authorities of £116.46, £436.73 and £494.96 per pupil in mainstream, PRUs and special schools respectively.

   b. ESG retained duties funding rate for local authorities of a flat rate of £15 per pupil for all pupils attending state-funded schools in the local authority area regardless of status.

3.3.22 The ESG is an unringfenced grant but is intended to fund education services. The new funding regime is estimated to cost the Council £350k in 2013-14, being the difference between the Council’s top-slice and the estimated funding that will come back.

Statement of Assurance on Schools

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

**Fees and Charges 2013-14**

3.3.24 Some fees and charges are laid down by statute and are not within the Council’s power to vary locally; others are discretionary and are set with Council’s approval. The Council’s proposed discretionary fees and charges for 2013-14 are set out in schedule included at Appendix D. These are incorporated in the revenue budget position for 2013-14 presented in this report.

3.3.25 It is the Council’s policy to increase its discretionary fees and charges in line with inflation (2.9% at Quarter 3 2012, this being the quarter average) unless a variation is approved by Council or Executive. The relevant extract of the Council’s fees and charges policy is set out below:

3.3.26 “There will be an overall annual increase in fees and charges in line with RPI, subject to the following:

(i) use of the Quarter 3 RPI (All Items) Index
(ii) appropriate rounding of charges for the purposes of administration and collection
(iii) statutory changes to fees and charges being excluded
(iv) fees and charges on which the Council has or decides to have a specific policy may be varied by report to the Executive

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

3.3.28 The schedule at Appendix D sets out each 2012-13 base fee or charge, the proposed 2013-14 fee or charge, the percentage change and a summary description of the reason for any proposed variation falling under (iv) above.

3.3.29 Fees and charges in relation to Leisure Services and Cemeteries have been agreed separately by Executive on 22nd November 2012 and will take effect from 1st January 2013.

3.3.30 Audit Commission analysis shows that Islington Council raised the equivalent of 12% of its total expenditure from sales, fees and charges income in 2010-11 (the latest year for which information has been published). This was slightly above the London average of 11%.

3.3.31 Internal forecasts show that the Council is expecting a slight decrease in actual income raised from fees and charges in 2012-13 compared to that raised in 2011-12. This is due, in part, to the impact of the recession, with planning and building control fees particularly hard hit by the decline in the housing market.
3.4 **GENERAL FUND BUDGET – EXPENDITURE**

**Pay and Prices**

3.4.1 It is assumed that pay will rise, in line with Government policy, by 1% per annum over the medium-term, with no additional budget provision for incremental drift. Non-pay inflation (including fees and charges, and other income) will be frozen over the planning period. Major contract inflation is assessed, and provided for, annually on the basis of contract-based inflation rises.

**Central Support Service Recharges**

3.4.2 Budgeted recharges for 2013-14 have been included within departmental cash limits based on 2012-13 budget figures. The basis for distributing central support service recharges to appropriate service areas is reviewed annually and any change will be incorporated to departmental cash limits during 2013-14.

**Capital Charges and Corporate Financing Account**

3.4.3 Capital charges consist of a depreciation charge, charged to services for the use of assets, based on the type and value of assets employed. Capital charges are required to be reflected within the net cost of services.

3.4.4 Capital charges do not represent a charge to the council taxpayer as the value of the capital charges is credited to the General Fund via the Corporate Financing Account (CFA). This is included within the CFA adjustment shown in the proposed 2013-14 revenue budget at Appendix A.

**PFI Smoothing Reserve**

3.4.5 The appropriation from the PFI smoothing reserve in 2013-14, and over the medium-term, ensures that variations to the level of PFI contract payments and PFI credits (within service budgets) are revenue neutral and do not give rise to a service pressure in the MTFS.

**Bad Debt Provision**

3.4.6 The bad debt provision is set aside to meet the cost of monies owed to the Council, which are not expected to be repaid. There is no budgeted central contribution to the corporate bad debt provision in 2013-14 and over the planning period, reflecting a sustained improvement in Islington’s debt recovery.

**Insurance Fund**

3.4.7 The Council continues to procure insurance through a consortium of nine London boroughs. The main covers were re-tendered on 1st April 2012 and while the terms showed a slight deterioration on the previous contract, the Council continues to save £0.2m per annum compared to the pre-Consortium position. The next main tender exercise is due from 1st April 2014.

3.4.8 A review of departmental insurance charging has been undertaken as part of the 2013-14 revenue budget process to take into account factors such as external premium costs, present year claim settlement estimates and actuary recommended reserves. Departmental insurance charges have been frozen in 2013-14.

3.4.9 The corporate insurance contribution will be frozen in 2013-14, and over the medium-term. Analysis shows that there is sufficient existing provision in the Insurance Fund to allow for a freezing of the central contribution. This will be reviewed over the four years of the MTFS, based on actuarial advice.
**Local Initiatives Fund**

3.4.10 The Local Initiatives Fund remains at £320k and will be shared equally, with £20k being allocated to each ward. Members will decide on allocations locally and formal decisions will be taken by the Voluntary and Community Sector Committee. The £320k budget is included within the Corporate Resources departmental budget for financial management purposes.

**General Balances and Reserves**

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

3.4.12 The Section 151 Officer is required to report to the authority, when it is making the statutory calculations required to determine its council tax, on the estimates included in the budget and the adequacy of the reserves the budget provides for. The report of the Section 151 Officer is included within Section 8 of this report.

3.4.13 The estimated level of general balances and earmarked reserves over the medium-term (including known movements) is detailed in Appendix E.

3.4.14 The Council’s policy on the level of general balances is as follows; it is recommended that this is agreed for the 2013-14 budget:

“The policy of the Council is to set a target level of general fund balances (excluding schools balances) at 5% of our net budget requirement (excluding schools expenditure) over the course of the medium-term financial strategy.

The rationale for this level is based upon an assessment of the level of risk inherent within the Council budget over the medium-term financial planning period. The level of general fund balances should be adequate to meet working balance requirements and to provide a reasonable allowance for unquantifiable risks that are not already covered within the Council’s budgets and contingency sums.

The risk assessment and policy is reviewed annually, as part of the budget process, to ensure that it appropriately reflects service pressures and financial risks faced by the Council in delivering its priorities, and improvements in the authority's financial management.

The Chief Finance Officer (Section 151 officer) shall be responsible for reporting to the Council on the adequacy of the reserves and balances.”

3.4.15 The level of general balances is set in the context of the prevailing financial climate within local government, the level of risk facing the authority and also the sustained improvement in our financial standing in recent years.

3.4.16 As part of the 2013-14 budget process we continue to undertake a quantitative analysis of our significant risk areas (this is not included with this report but has been formulated as a supporting working paper to the budget). This confirms that the target level of general balances for the end of the planning period should remain at 5% of the Council’s budget requirement, in line with the Council’s policy.

**Corporate Levies**

3.4.17 The Council is required to pay levies to a number of other bodies, which must be met from within the overall budget requirement. The latest 2013-14 levy estimates are detailed in Table 7 below.
### Table 7 – Levy Estimates 2013-14

<table>
<thead>
<tr>
<th>Levies by Body</th>
<th>2012-13 Budget £m</th>
<th>2013-14 Budget £m</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concessionary Fares (Freedom Pass)</td>
<td>10.184</td>
<td>11.509</td>
<td>13.1%</td>
</tr>
<tr>
<td>North London Waste Authority</td>
<td>6.618</td>
<td>7.000</td>
<td>5.8%</td>
</tr>
<tr>
<td>Lee Valley Regional Park Authority</td>
<td>0.255</td>
<td>0.266</td>
<td>4.4%</td>
</tr>
<tr>
<td>Traffic and Control Liaison Committee</td>
<td>0.289</td>
<td>0.298</td>
<td>3.2%</td>
</tr>
<tr>
<td>Inner London North Coroners Court</td>
<td>0.266</td>
<td>0.274</td>
<td>3.0%</td>
</tr>
<tr>
<td>London Pensions Fund Authority</td>
<td>1.300</td>
<td>1.337</td>
<td>2.9%</td>
</tr>
<tr>
<td>Environment Agency (Thames Region)</td>
<td>0.178</td>
<td>0.180</td>
<td>1.2%</td>
</tr>
<tr>
<td>London Boroughs Grants Scheme</td>
<td>0.285</td>
<td>0.226</td>
<td>(20.7%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19.375</strong></td>
<td><strong>21.090</strong></td>
<td><strong>8.9%</strong></td>
</tr>
</tbody>
</table>

### Contingency Budget

3.4.18 Within the overall budget for 2013-14, £1m is included as a general, unallocated contingency. The level of the corporate contingency is reduced by £1.5m compared to 2012-13. However, it is anticipated that a further £2m of one-off resources from the forecast 2012-13 General Fund revenue underspend will be set aside in a contingency reserve at year-end, to be used as contingency funding over the medium-term.

3.4.19 The contingency budget is intended to provide some flexibility and resilience within the budget over the coming year to meet unanticipated events, events of an uncertain financial consequence (where a risk has been identified) or adverse financial developments. To the extent that the provision is not drawn on in 2013-14, it will fall into general balances and further strengthen the Council’s financial position for future years.

### GREATER LONDON AUTHORITY (GLA) PRECEPT AND OLYMPIC LEVY

3.5.1 The GLA issues an overall precept that includes the Core GLA services, the Metropolitan Police Authority, the London Fire and Civil Defence Authority, the London Development Agency and TfL. The total council tax paid by Islington’s residents includes both the Islington council tax and the GLA precept (which the Councils collects on behalf of the GLA). The Council then pays over the element relating to the GLA precept through the Collection Fund.

3.5.2 The 2013-14 GLA precept is expected to be confirmed on 25th February 2013 and will be included within the final budget report to Council on 28th February 2013.
THE HOUSING REVENUE ACCOUNT

Purpose and Introduction

4.1 This section of the report presents the proposed HRA budget for 2013-14 and sets out the medium term financial outlook. In particular it:

- Presents the HRA’s financial strategy, outlines the Housing Investment Plan, sets out the financial outlook for the next four years, and presents the key HRA budget components including proposed efficiencies.
- Presents the proposed budget for 2013-14 and the recommended changes to rents, tenants’ service charges, and other fees and charges.

Financial Strategy

4.2 The Council’s objective is to effectively manage, maintain and expand its affordable housing portfolio with due regard to the needs and expectations of tenants and leaseholders and in accordance with the Council’s objective of making Islington a fairer place. More specifically, it:

- Keeps the financial position of the HRA in a strong and robust state through sound financial planning and management.
- Implements the practice of capping and limits to rent increases each year to lessen pressure on the household budget as the rent for every tenancy moves towards its target level.
- Assists the Council in maintaining the Decent Homes Standard, reducing overcrowding and achieving its new build objectives.
- Expands the level of affordable housing within Islington through the Council’s new build capital programme.
- Develops and maintains partnerships with external contractors and internal parties assisting in the provision of housing services in an economical and efficient manner.
- Maximises financial support from Central Government or the Greater London Authority or other providers through successful lobbying on consultations or successful bid submissions.

Overview of the HRA

4.3 The HRA Housing Investment Plan (HIP) sets out the long term financial outlook. It concludes that the HRA is a viable business based on current assumptions. It would be able to finance the housing management and maintenance functions, the long-term investment needs of its housing stock, and make a significant contribution to the new build programme.

4.4 In terms of stock investment, the plan includes:

- Maintaining the decent homes standard and implementing improvements by investing £1.7 billion over a 30-year period through the capital programme and its Major Repairs and Improvements budget, equivalent to an average investment of £42m a year for the next ten years.
- Providing 2,200 new homes for social renting by investing £1 billion over a 30-year period through the capital programme and its new build budget. It is estimated that the number of new build units would be completed at a rate of 50 units a year for the next ten years; increasing to 75 units a year for the following ten years; and increasing to 100 units a year for the last ten years. To deliver this level of investment, expenditure on the new build programme would average £15m a year for the next ten years.

4.5 The HRA MTFS (Appendix F1) presents the financial outlook for the next four years. It takes the agreed budget for 2012-13 and rolls it forward into future years and takes into
consideration foreseen changes including inflation, budget savings and extra investment. It sets out the main income and expenditure budgets for that period. Critical assumptions about stock numbers, weekly rents and inflation are set out in Appendix F2.

**HRA Savings**

4.6 Key to the robust financial management of the HRA over the medium-term is the delivery of £3.7m of budget savings that are planned for the period 2013-14 to 2014-15 (Appendix F3).

4.7 Included in this target are £2m of new savings to be delivered in 2014-15. Protecting services and providing them in a more cost effective way is the main focus of this budget scrutiny exercise. The budget savings will be required to contribute towards financing the forthcoming welfare reforms (see budget risk below).

4.8 The HRA is estimated to be in balance in 2015-16 and no specific savings targets are set for 2015-16 onwards. Therefore, any additional savings could be invested in the New Build capital programme or other service improvements.

**Unavoidable Cost Increases and Growth**

4.9 Growth pressures include inflation, the demands for funding the housing capital programme, the budget risk from the welfare reforms and the cost of debt management.

4.10 Investment in the housing capital programme relies on significant HRA surpluses being generated over the next thirty years. Reductions in income or increases in revenue expenditure could risk this investment.

4.11 Over the first four years of the HRA self-financing system (2012-13 to 2015-16) the Council is faced with an underlying budget deficit position. The HRA debt settlement on 28th March 2012 of £367m was comparatively good but it left the HRA with an underlying budget deficit of £10.6m for 2012-13. This is due to the cost of managing debt charged to the HRA. Previously this had been 100% covered by HRA subsidy income from the government which is not the case with HRA self-financing. For 2012-13, a balanced budget was set after reducing the underlying deficit of £10.6m by £2.9m of planned savings and by £7.7m from not putting aside the full amount of resources to repay debt. The annual target for setting aside resources to repay debt was £14.4m but the HRA could only afford £6.7m (£7.7m under target).

4.12 The underlying deficit for 2013-14, 2014-15 and 2015-16 is estimated to be £11.4m, £9.1m and £2m each year respectively. The use of budgeted savings and not fully putting aside the resources required to repay the debt over these years results in a balanced budget.

4.13 Over the period 2016-20, the HRA moves to an annual underlying surplus position. It is envisaged that the surplus would first of all make good the provision for debt repayment (£9.8m short at end of 2013-14, £7.1m short at the end of 2014-15, and £2m short at the end of 2015-16) and then invest the surplus into the new build reserve (or in other service improvements). In the financial year 2017-18, the cumulative shortfall since 2012-13 of not setting aside resources to repay debt would been made good and £10.9m of HRA revenue resources would be available to finance the new build capital programme.

**HRA Budget Risks**

4.14 A significant budget pressure is the expected implementation of the welfare reforms over the period 2013-17. The financial implications of a series of scenarios have been analysed. It is estimated that the cost to the HRA could be in the region of £5m. Some of these costs are foreseen as being one-off expenditure (e.g. cost of downsizing existing tenancies) whilst others could be on-going (e.g. effect of increased rent arrears).

4.15 In the summer of 2013 the Council should be in a better position to evaluate the financial implications of the changes in the welfare reforms. In the meantime, it is planned to meet some of the budget pressure on the HRA through the use of surplus balances in 2013-14 and the implementation of £2m of budget savings in 2014-15.
Rental and Other Income Sources

4.16 **Rental income** from tenants is the main source of income for financing the management and maintenance functions in the HRA and funding its capital programme. It is the Council’s policy to implement the rent restructuring system. This approach encourages local authorities to set rents at a prescribed level each year in order to make them more comparable with rents set by housing associations and other local authorities. Each property has a ‘target rent’ towards which the rent is moved over time.

4.17 The steps towards rent convergence will be limited by rent ceilings on each type of dwelling and a rent increase limit of a maximum rise of RPI in September plus 0.5% plus £2 a week. It is expected that due to these ceilings and limits, only 21% of tenancies will actually have rents set at the target by 2015-16 (when convergence is meant to have occurred). The estimated average weekly rents and year-on-year increase are shown in Table 8 below:

### Table 8 – Weekly Rents 2013-14 to 2016-17

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Weekly Rent</td>
<td>£104.78</td>
<td>£110.00</td>
<td>£115.09</td>
<td>£119.86</td>
</tr>
<tr>
<td>Increase £s</td>
<td>£4.87</td>
<td>£5.22</td>
<td>£5.09</td>
<td>£4.77</td>
</tr>
<tr>
<td>Increase %</td>
<td>4.87%</td>
<td>4.98%</td>
<td>4.63%</td>
<td>4.14%</td>
</tr>
<tr>
<td>RPI in preceding</td>
<td>2.6%</td>
<td>2.8%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>September</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Target Rent</td>
<td>£115.63</td>
<td>£119.55</td>
<td>£123.14</td>
<td>£126.83</td>
</tr>
</tbody>
</table>

4.18 Setting the rent for next year in line with the national rent policy using the ‘target rent’ formula means that the average weekly rent will increase by £4.87 from £99.91 to £104.78 (or 4.87%). Inflation (RPI) at 2.6% in September 2012 is the main reason for this increase. But some rent increases will be more than this average and some will be less depending on how close the existing rents are to the ‘target’ rent.

4.19 It is proposed to increase HRA Income from Fees and Charges (**Appendix F4**) in line with inflation (RPI September 2012 at 2.6%) unless there are agreed reasons for doing otherwise. These exceptions are outlined below.

**Tenants’ Service Charge**

4.20 This charge is based upon the estimated cost of providing caretaking, cleaning, communal lighting and communal grounds maintenance services. It is currently £9.73 a week.

4.21 The effect of reducing the cost of the caretaking and estate services by £0.6m a year has enabled the tenants’ service charge to be reduced in 2013-14 by 50 pence a week. The estimated weekly charges and year-on-year change are set out in Table 9 below:

### Table 9 – Weekly Tenants Service Charges 2013-14 to 2016-17

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly Charge</td>
<td>£9.23</td>
<td>£9.49</td>
<td>£9.73</td>
<td>£9.97</td>
</tr>
<tr>
<td>Increase / (Decrease) £s</td>
<td>(£0.50)</td>
<td>£0.26</td>
<td>£0.24</td>
<td>£0.24</td>
</tr>
<tr>
<td>Increase / (Decrease) %</td>
<td>(5.1%)</td>
<td>2.8%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

**Communal Heating and Hot Water**

4.22 For 2013-14, it is expected that the cost of purchasing fuel for tenants will be £1.650m. This is a decrease of £514k or 24% on the forecast for this year. The cost reduction is due to the Council securing good value for money deals on the supply of gas through the
new flexible priced contracts. The charges were calculated to recoup the cost of gas thus decreasing the individual heating charges by 24%.

4.23 There are nine blocks that receive heating but no hot water from the communal heating system. These blocks will continue to receive a 40% discount.

**Parking Charge Notices**

4.24 The previous Council policy was to charge parking penalty charges on estates with due consideration given to those made borough-wide. This practice has been replaced during the current financial year with fixed parking charge notices. £100 is the maximum currently allowed by the British Parking Association (BPA) who are authorised to act in this capacity on behalf of the Home Office.

4.25 The charge will remain at £100 for 2013-14 and will decrease to £60 for notices paid within 14 days of issue.
5 THE CAPITAL PROGRAMME 2013-14 TO 2016-17

Base Capital Programme

5.1 The 2013-14 to 2016-17 base capital programme is summarised in Table 10 below and shown in more detail at Appendix G1. This will deliver projects of £353m over the next four years, delivering vital service improvements, and significantly contributing to the regeneration of the borough. As well as the new capital projects detailed below, this includes the continuation of existing programmes of investment in new homes (£109m), housing major works and improvements (£155m), schools infrastructure (£21m) and home energy efficiency (£2.9m). This is a significant level of investment at a time when Government capital grants have been substantially scaled back.

Table 10 – Capital Programme 2013-14 to 2016-17

<table>
<thead>
<tr>
<th></th>
<th>2013-14 £000</th>
<th>2014-15 £000</th>
<th>2015-16 £000</th>
<th>2016-17 £000</th>
<th>Total £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing and Adults</td>
<td>56,658</td>
<td>68,951</td>
<td>78,766</td>
<td>70,538</td>
<td>274,913</td>
</tr>
<tr>
<td>Children’s Services</td>
<td>12,386</td>
<td>6,950</td>
<td>2,750</td>
<td>0</td>
<td>22,086</td>
</tr>
<tr>
<td>Environment and Regeneration</td>
<td>14,579</td>
<td>13,806</td>
<td>11,709</td>
<td>9,351</td>
<td>49,445</td>
</tr>
<tr>
<td>Corporate Resources</td>
<td>2,500</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>7,000</td>
</tr>
<tr>
<td><strong>Total Capital Programme</strong></td>
<td><strong>86,123</strong></td>
<td><strong>91,207</strong></td>
<td><strong>94,725</strong></td>
<td><strong>81,389</strong></td>
<td><strong>353,444</strong></td>
</tr>
</tbody>
</table>

5.2 The capital programme includes £5.94m of slippage from 2012-13, to be approved as part of the recommendations of this report.

New Capital Projects

5.3 A total of £6.8m new corporate funding has been identified to invest in the 2013-14 to 2016-17 capital programme from the following sources:

- £4m anticipated forecast 2012-13 General Fund revenue underspend to be transferred to the capital reserve (to be approved as part of the 2012-13 outturn report)
- £1m 2012-13 Aids and Adaptations capital underspend
- £1m contingency previously set aside in the capital reserve
- £0.8m increase in the capital receipts forecast over the medium-term

5.4 Table 11 summarises the new capital projects that will be funded from this new funding. These projects are included in the base capital programme at Appendix G1.

Table 11: New Capital Projects 2013-14 to 2016-17

<table>
<thead>
<tr>
<th>Capital Project</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bunhill Heat and Power Phase 2</td>
<td>2,700</td>
</tr>
<tr>
<td>CCTV Expansion</td>
<td>2,000</td>
</tr>
<tr>
<td>One-off Increase in the Corporate ICT Programme</td>
<td>1,000</td>
</tr>
<tr>
<td>Finsbury Park Town Centre</td>
<td>600</td>
</tr>
<tr>
<td>Archway Park Improvements</td>
<td>500</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>6,800</strong></td>
</tr>
</tbody>
</table>

- **Bunhill Heat and Power Phase 2 (£2.7m)** – The expansion of the Bunhill Heat and Power heat network will provide cheaper greener heat to over 500 homes. In addition to the £2.7m corporate capital funding, the scheme includes £1m European Commission funding and £200k Section 106 funding.
CCTV Expansion (£2m) – As part of the expansion of the CCTV Service to prevent and tackle Anti-Social Behaviour, it is estimated there will be additional ongoing revenue costs of £240k and one-off capital costs of £2m. The current monitoring platform will be updated to enable all of Islington’s CCTV cameras, including those operated by Housing, to be viewable from the main CCTV control room. In addition, this revenue growth supports the deployment of ten new cameras in Anti-Social Behaviour hotspots across the borough.

One-off Increase in the Corporate ICT Programme (£1m) – In addition to the ongoing investment of £1.5m per annum in the corporate ICT programme, £1m one-off resources will be made available in 2013-14 for various ICT efficiency projects. This extra allocation will allow the Council to pilot the use of tablets; for example by social workers, which will be more efficient and secure as staff will avoid having to carry case files and will be able to spend more time with clients by completing paperwork in a client's home without having to return to the office. It will also cover the updating of the underlying infrastructure for home and remote working which will enable the next stage of SMART working.

Finsbury Park Town Centre (£600k) – This project will support the work of the Finsbury Park Regeneration Board and fund the physical improvement of the town centre, making it a safer, more secure and pleasant place to shop, trade and visit. The allocation of the funding will be determined by the Board but is likely to include: shop front improvements (to be funded jointly by the business owners); improvements to the areas under the two rail bridges; public realm improvements; and other improvements to be established by the town centre manager in conjunction with local businesses and town centre users.

Archway Park Improvements (£500k) – The current park is poorly designed and has low quality facilities, and as a result is poorly used. It has been identified as a medium priority in the Hillrise Ward Improvement Plan. Such is the nature of the park that to make any meaningful changes requires significant investment. Whilst there would be no revenue savings, the improved park would cost no more to maintain and provide better and more sustainable facilities.

Funding of the 2013-14 to 2016-17 Capital Programme

The planned funding of the 2013-14 to 2016-17 capital programme is summarised in Table 12 below and includes internally generated capital resources, Government grants and other third-party contributions and revenue contributions.
Table 12 – Planned Funding of the 2013-14 to 2016-17 Capital Programme

<table>
<thead>
<tr>
<th>Funding Classification</th>
<th>General Fund Programme £000</th>
<th>Housing Programme £000</th>
<th>Total £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council Resources:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Receipts (including £44m New Build Receipts)</td>
<td>522</td>
<td>60,574</td>
<td>61,096</td>
</tr>
<tr>
<td>Unsupported Borrowing</td>
<td>0</td>
<td>17,952</td>
<td>17,952</td>
</tr>
<tr>
<td>Capital Reserve</td>
<td>42,457</td>
<td>0</td>
<td>42,457</td>
</tr>
<tr>
<td>Total Council Resources</td>
<td>42,979</td>
<td>78,526</td>
<td>121,505</td>
</tr>
<tr>
<td>Supported Borrowing</td>
<td>7,695</td>
<td>0</td>
<td>7,695</td>
</tr>
<tr>
<td>Other External Funding &amp; Revenue Contributions (including £196m HRA internal resources)</td>
<td>38,405</td>
<td>185,839</td>
<td>224,244</td>
</tr>
<tr>
<td>Total Funding</td>
<td>89,079</td>
<td>264,365</td>
<td>353,444</td>
</tr>
</tbody>
</table>

5.6 Whilst uncertainty surrounds the level and timing of capital receipts likely to be available over the medium-term, the Council is forecasting that there will be sufficient resources to fund the 2013-14 programme and the provisional programmes for 2014-15 to 2016-17. Any reduction in the capital receipts forecast by, for example, selling for less than market value, will create a funding gap in the planned capital programme at Appendix G1. This would require a compensatory increase in unplanned borrowing (with consequent increase in the revenue budget gap), the identification of alternative resources or the reduction in capital expenditure.

5.7 The capital receipts forecast and Capital MTFS will be regularly reviewed and updated to ensure that the Council has sufficient resources to fund the capital programme over the planning period. The Corporate Director of Finance will continue to apply capital resources to fund the ongoing capital programme in the most cost effective way for the Council.

5.8 The Government requires that a percentage (75% or 50% depending on the type of property) of capital receipts from the disposal of properties held under housing powers be paid into a national pool. However, local authorities do not have to pool these receipts where they are reinvested in either affordable housing or regeneration projects within the capital programme. This dispensation (which does not apply to the pooling of Right to Buy receipts) is known as the ‘Capital Allowance’.

5.9 A key element of the Capital MTFS is that the Council maximises the capital resources it has available for investment. This includes ensuring that the Council has a sufficient Capital Allowance pot of regeneration and affordable housing schemes to offset any pooling requirements. The schemes included in the Capital Allowance pot of eligible affordable housing and regeneration schemes are designated at Appendix G1.

5.10 A schedule of new Section 106 funding allocations is provided at Appendix G2.
6.1 The Council's 2013-14 annual treasury management and investment strategy will initially be considered by Audit Committee on 29th January 2013, and then included for agreement within the final budget report to Executive on 7th February 2013 and Council on 28th February 2013.
7 COUNCIL TAX 2013-14 (INCL. STATUTORY CALCULATIONS)

Statutory Calculations

7.1 The detailed, statutory council tax calculations and the recommendations for the final level of the 2013-14 council tax, including the final GLA precept, will form part of the budget report to Executive on 7th February 2013, for onward recommendation to Council on 28th February 2013.

Council Tax Technical Changes

7.2 As a result of an amendment to Section 11A of the Local Government Finance Act 1992 (“the 1992 Act”), the introduction of section 11B of the 1992 Act, new regulations concerning the Prescribed Classes of Dwellings (2012/2964), and by reason of an order of the Secretary of State (2012/2965), changes are being made to certain council tax exemptions and we will be able to make changes to discounts from 1st April 2013.

7.3 There have been two classes that exempt a liable person from paying council tax. These are as follows and referred to here as ‘exemption classes’:

Class A

7.4 A dwelling which is unoccupied and requires or is undergoing major repair work to make it habitable, or is undergoing structural alteration, or has undergone major repair work to make it habitable (exempt for up to 12 months which will include a maximum of up to 6 months after completion of the repair work).

Class C

7.5 An unoccupied dwelling substantially unfurnished, this exemption can apply for a period of up to 6 months.

7.6 The change to legislation removes the exemptions for these exemption classes, and enables us to award a discount of between 0% and 50% for all applicable cases.

7.7 There are also some changes to discounts:

7.8 Currently 10% is allowed for properties that are second homes. 10% is allowed where a property is not being lived in and is furnished between tenancies. The change to legislation will enable us to award a discount of between 0% and 50% for all applicable cases.

7.9 Finally the change to legislation will enable us to charge a premium of 50% to the existing Council Tax of a property that has remained empty, and has been substantially unfurnished, for more than 2 years.

7.10 In addition to these changes the Government is reducing council tax benefit by 10% from 1st April 2013. As a result, we will have to collect council tax for the first time (or more council tax) from people who are currently entitled to full or partial council tax benefit. It leaves a budget gap of around £2.9 million shared with the GLA proportionate to the level of band D council tax (c75% Islington and c25% GLA)

7.11 The changes to council tax, as set out in paragraphs 7.3 to 7.9 above, can be used to reduce the impact on those affected by a loss in council tax benefit. By removing or changing the exemptions and discounts we can limit the reduction to people’s existing council tax benefit.

7.12 The loss in council tax benefit will directly affect the poorer members of our community. Therefore this paper recommends limiting this by making the following changes from 1st April 2013:

7.13 For exemption Classes A and C it is recommended that there is no discount. The exemptions would no longer apply.

7.14 For the discounts relating to second homes (currently 10%) and empty furnished lets (10%), it is recommended that these are removed. There would no longer be any discount in these circumstances.
7.15 It is recommended that a 50% premium is applied to council tax bills for properties that remain empty for over 2 years.

7.16 All other council tax discounts and exemptions would remain unchanged.

7.17 In the last full year of these exemptions and discounts (2011-12) the sum of these was £1.7m. Assuming that 85% of this extra council tax is charged and/or collected this would total £1.5m which would go some way to bridging the £2.9m deficit.

7.18 Council will be asked to agree the new Council Tax Support scheme on 24th January 2013. A scheme will be presented that takes account of the consultation responses and gives consideration to the supplementary council tax support grant offered to Councils by the government. This additional grant is £0.72m and can be claimed if we agree to limit the reduction to existing full council tax benefit to 8.5%. In the report to Council it will be recommended that this grant is accepted. The detail and rationale for this will be included in the specific Council report including a detailed analysis of the consultation response.

7.19 The 2013-14 budget report to be considered by Executive on 7th February 2013 will incorporate the decisions on the new council tax support scheme and council tax technical changes being considered by Council on 24th January 2013, and on the level of the overall council tax base to be agreed by Audit Committee on 29th January 2013.
MATTERS TO CONSIDER IN SETTING THE BUDGET

COMMENTS OF THE SECTION 151 OFFICER

8.1 The Council, when determining the budget and thereby the level of council tax, must take into account the report of its Section 151 Officer. The report must comment on the robustness of the estimates included in the budget and parallel consideration on the adequacy of the Council’s proposed reserves. This section of the report includes consideration of these specific areas and enables the authority to discharge its duty to take account of the statutory report under section 25(2).

8.2 The process for challenging, compiling and collating the budget begins in April prior to the year for which the council tax is being set. The process involves all of the spending departments, and assumptions are scrutinised throughout the year. It is the thoroughness of this process which provides the assurance that all strategic, operational and financial risks facing the authority have been taken into account, as far as they are reasonably anticipated to be incurred by the Council in the next financial year. It is the opinion of the Section 151 Officer that the estimates for 2013-14 have been prepared on a robust basis, and further that where there are uncertainties, for instance on the levels of service demand, that these can be covered by an adequate corporate contingency provision.

8.3 In setting the level of general reserves and balances, account has been taken of the key financial assumptions underpinning the budget, the views of the Council’s auditors, the level of earmarked reserves and provisions and the authority’s improvements in financial management arrangements. Risks facing the Council during the period have been fully considered.

8.4 The MTFS assumes contributions such that over the planning period the Council is again forecast to attain the target of general balances at 5% of the budget requirement.

COMMENTS OF THE MONITORING OFFICER

8.5 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 2013-14. It also outlines the Council’s current and anticipated financial circumstances, including matters relating to the General Fund budget and MTFS, the HRA, the capital programme, and borrowing and expenditure control.

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

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

8.8 The report sets out the relevant considerations for Members to consider during their deliberations and Members are reminded of the need to ignore irrelevant considerations. Members have a duty to seek to ensure that the Council acts lawfully. They are under an obligation to produce a balanced budget and must not knowingly budget for a deficit. Members must not come to a decision which no reasonable authority could come to; balancing the nature, quality and level of services which they consider should be provided, against the costs of providing such services.
8.9 Under the constitutional arrangements, the setting of the Council budget is a matter for the Council, having considered recommendations made by the Executive. Before the final recommendations are made to the Council on 28th February 2013, 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.

EQUALITY IMPACT ASSESSMENT

8.10 The Equality Act 2010 sets out the requirement for the Council to pay due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act
- Advance equality of opportunity between people who share a protected characteristic and those who do not
- Foster good relations between people who share a protected characteristic and those who do not

8.11 An Equality Impact Assessment (EIA) of the 2013-14 budget is set out at Appendix H. The purpose of the assessment is to refresh the EIA that was published with the 2012-13 Budget Report by taking account of new savings proposals, and the impact of Government announcements such as the Autumn Statement on 6th December 2012. It is supplemented by detailed EIAs of major proposals at departmental level. These demonstrate that the Council has met its duties under the Equality Act 2010 and the Child Poverty Act 2010.

8.12 While the majority of the 2013-14 budget proposals relate to efficiencies, it is difficult to make savings of the scale required without any impact on residents and there will inevitably be some impact on particular groups, including those protected by legislation. The Council is not legally obliged to remove savings with negative impacts but to take a proportionate view about the overall impact on particular groups and to seek to mitigate this where possible. In this context, the council’s proposals for achieving savings are considered to be reasonable overall and take adequate account of the three duties set out under the Equality Act.

8.13 Members are asked to note the Equality Impact Assessment and to agree the recommendations made within it.

Final Report Clearance

Signed by

[Signature]

9 January 2013

Executive Member for Finance Date

Received by

[Signature]

Head of Democratic Services Date

Responsible Officer : Mike Curtis, Corporate Director of Finance
Report Author : Tony Watts, Head of Financial Planning
E-mail : tony.watts@islington.gov.uk