



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

Meeting of	Date	Ward(s)
Council	23 February 2017	All

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

BUDGET PROPOSALS 2017-18

1 INTRODUCTION

- 1.1 The principal purpose of this report is for the Executive to recommend proposals in respect of the Council's 2017-18 budget, as the basis for setting the 2017-18 budget and council tax. The Policy and Performance Scrutiny Committee have reviewed the proposed budget at its meeting on 26th January 2017.
- 1.2 The contents of this report are summarised below:
- Section 2** sets out the recommendations.
- Section 3** sets out the 2017-18 General Fund revenue budget and Medium Term Financial Strategy (MTFS).
- Section 4** details the Housing Revenue Account (HRA) for 2017-18 and its MTFS.
- Section 5** details the 2017-18 to 2019-20 Capital Programme.
- Section 6** sets out the Annual Treasury Management and Investment Strategy, the Prudential Indicators and the Minimum Revenue Provision Policy.
- Section 7** shows the detailed, statutory council tax calculations.
- Section 8** details matters to consider in setting the budget.

List of Appendices

Appendix A	General Fund MTFS 2017-18 to 2019-20
Appendix B	General Fund Revenue Savings 2017-18
Appendix C1	General Fund Fees and Charges 2017-18
Appendix C2	Leisure Fees and Charges 2017-18
Appendix D1	HRA MTFS 2017-18 to 2019-20
Appendix D2	HRA Savings 2017-18

Appendix D3	HRA Fees and Charges 2017-18
Appendix E	Capital Programme 2017-18 to 2019-20 (E1) Traffic and Transportation Schemes (E2)
Appendix F	Annual Treasury Management and Investment Strategy 2017-18, including External Debt and Treasury Management Prudential Indicators (F1) Additional Capital Prudential Indicators (F2)
Appendix G	Resident Impact Assessment 2017-18
Appendix H	Pay Policy Statement 2017-18

2 RECOMMENDATIONS

The General Fund Budget 2017-18 and MTFS (Section 3)

- 2.1 To agree the 2017-18 net Council cash limits as set out in **Table 1 (Paragraph 3.1.3)** and the MTFS at **Appendix A**, which include the revenue savings in **Appendix B**.
- 2.2 That, in the event that the final local government settlement differs from the provisional settlement already notified by the Government, to delegate authority to the Corporate Director of Finance and Resources to make any adjustments necessary to balance the Council's Budget for 2017-18, in consultation with the Executive Member for Finance, Performance and Community Safety.
- 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. (**Paragraph 3.2.17**)
- 2.4 To agree the fees and charges policy and the schedule of 2017-18 fees and charges, and to delegate to the Corporate Director of Children's Services, in consultation with the Executive Member for Children and Families, the authority to agree new childcare charges following consultation in the summer term. (**Paragraphs 3.2.18-21 and Appendices C1 and C2**)
- 2.5 To agree the Council's policy on the level of General Fund balances and the estimated use of the Council's earmarked reserves. To note that the redundancy reserve is estimated to be fully spent by the end of 2016-17, and to agree that from 2017-18 redundancy costs are funded within departmental budgets. (**Paragraphs 3.2.23 to 3.2.26 and Table 3**)

The HRA Budget and MTFS (Section 4)

- 2.6 To agree the balanced HRA 2017-18 budget within the HRA MTFS at **Appendix D1** and the 2017-18 HRA savings at **Appendix D2**.
- 2.7 To note the 2017-18 HRA rents and other fees and charges. (**Tables 5 to 8 and Appendix D3**)

The Capital Programme 2017-18 to 2019-20 (Section 5)

- 2.8 To agree the 2017-18 capital programme and note the provisional programme for 2018-19 to 2019-20. (**Paragraph 5.1, Table 9 and Appendix E1**)
- 2.9 To agree that the Corporate Director of Finance and Resources applies capital resources to fund the capital programme in the most cost-effective way. (**Paragraph 5.2**)
- 2.10 To note the schedule of planned Traffic and Transportation schemes in 2017-18 and agree the related decision-making responsibilities for these schemes. (**Paragraph 5.3 and Appendix E2**)

Treasury Management Strategy (Section 6)

- 2.11 To agree the Annual Treasury Management and Investment Strategy 2017-18 (including external debt and treasury management Prudential Indicators), as considered by Audit Committee on 24th January 2017. (**Paragraph 6.1** and **Appendix F1**)
- 2.12 To agree the additional capital Prudential Indicators. (**Paragraph 6.1** and **Appendix F2**)
- 2.13 To agree the minimum revenue provision for 2017-18, adopting from 2017-18 the asset life (annuity) method for both 'supported' and 'unsupported' borrowing. (**Paragraphs 6.2 to 6.6**)

Council Tax 2017-18 and Statutory Calculations (Section 7)

- 2.14 To agree the calculations required for the determination of the 2017-18 council tax requirement and the level of council tax as detailed in **Section 7** and summarised below.
 - 1) The 2017-18 council tax requirement of £82,712,864.62. (**Paragraph 7.5**)
 - 2) The relevant (average) amount of Islington Band D council tax of £1,071.28, a 4.99% increase (comprising a 3% social care precept and a 1.99% local precept) compared to 2016-17, and to determine that this is not 'excessive'. (**Paragraphs 7.6 and 7.7**)
 - 3) The basic amount of Islington Band D council tax for dwellings to which no special item relates (i.e. outside of the Lloyd Square Garden area) of £1,071.06 and total Band D council tax (including the GLA precept) of £1,351.08. (**Paragraphs 7.8 and 7.12**)
 - 4) The amount of 2017-18 council tax (excluding the GLA precept) for each valuation band over each of the Council's areas. (**Paragraph 7.10**)
 - 5) The total amount of 2017-18 council tax (including the GLA precept) for each valuation band over each of the Council's areas. (**Paragraph 7.12**)
- 2.15 To note that the budget proposals include the decision to exempt all care leavers living in Islington under the age of 25 from council tax, recommended in a separate report to the Executive on 9th February 2017. The discount is available from 1st April 2017 and will cost £28k a year. The cost will be shared with the GLA, via the Collection Fund. (**Paragraph 7.3**)

Matters to Consider in Setting the Budget (Section 8)

- 2.16 To note the Section 151 Officer's and the Monitoring Officer's comments in their determination of the revenue and capital budgets for 2017-18 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.
- 2.17 To note the Resident Impact Assessment (RIA) on the 2017-18 budget. (**Appendix G**)
- 2.18 To note the Pay Policy Statement for 2017-18, for onward agreement by Council. (**Appendix H**)

3 GENERAL FUND BUDGET 2017-18

3.1 GENERAL FUND BUDGET

Overview

- 3.1.1 Significant Government funding cuts over the past seven years, coupled with unavoidable demographic and inflationary cost pressures, have meant that Islington has had to find over £170m of savings over this period. There is an expected further 17% reduction in our core settlement funding over the next three years, which will mean further savings to find over the period of £47m, including £21.4m in 2017-18. Over the period 2010 to 2020, Islington will have faced a like-for-like reduction in core unringfenced government funding of revenue support grant, business rates and top-up grant of approximately 70%.

Proposed MTFS and Revenue Savings

- 3.1.2 The proposed General Fund revenue budget and net revenue cash limits for 2017-18 are shown within the MTFS at **Appendix A**. The MTFS includes the proposed 2017-18 General Fund savings at **Appendix B** and also details the forecast net expenditure over the medium term, based on current knowledge and expectations. This includes the estimated impact of the triennial pension fund revaluation on departmental, employer superannuation contributions (rising from 12.5% to 13.2% in 2017-18) compensated by a net lower in-year lump-sum corporate contribution, meaning a neutral impact on the General Fund overall.
- 3.1.3 **Table 1** below shows the net budget figures for 2017-18 that are included within the MTFS at **Appendix A**, for agreement as part of the recommendations of this report.

Table 1 – Council Budget Requirement and Departmental Cash Limits 2017-18

	£000s
Departments	
Chief Executive's Department	462
Children's Services	87,666
Environment and Regeneration	27,188
Finance and Resources	7,439
Housing and Adult Social Services	88,065
Public Health	0
Corporate and Democratic Core (CDC) / Unapportionable Central Overheads (UCO)	14,545
NET COST OF SERVICES	225,365
Net Corporate items	(5,456)
NET OPERATING EXPENDITURE	219,909
Other Budget Items:	
Contingency	2,000
Transfer to/(from) Reserves	(855)
New Homes Bonus	(11,973)
Other Corporate Grants (estimate)	(600)
AMOUNT TO BE MET FROM CORE GOVERNMENT FUNDING AND COUNCIL TAX	208,481

3.2 GENERAL FUND BUDGET – DETAIL

Local Government Finance Settlement 2017-18

- 3.2.1 The Local Government Finance Settlement detailed the Council's core Government funding allocation for 2017-18. Islington's core settlement funding allocation for 2017-18 is summarised in **Table 2** below. Islington's total cash cut is £10.5m, or 8%, in 2017-18.

Table 2 – Local Government Settlement 2017-18

	2017-18 £m
Revenue Support Grant	40.8
Retained Business Rates	77.0
Top-up Grant	2.6
Total Core Settlement Funding	120.4
Year-on-Year Cash Cut	10.5

- 3.2.2 The Government expects the Council to collect at least £256m in business rates in 2017-18, of which Islington will retain £77m (30%, with the remainder going to the GLA and central government). The total business rates collected and the amount retained by the Council have increased in 2017-18, due to the impact of the business rates revaluation which has increased total rateable value in Islington by over 40%.
- 3.2.3 Our 2017-18 funding also includes a £2.6m top-up grant because our overall funding assessment is less than our Government determined funding need. The top-up grant has significantly reduced in 2017-18 due to the increase in retained business rates income, with a neutral overall impact on our core settlement funding.

New Homes Bonus Scheme

- 3.2.4 The Council will receive an estimated £12m New Homes Bonus income in 2017-18, directly attributable to the number of new homes built in the borough over the past five years. The Government consulted on changes to the New Homes Bonus scheme and decided to reduce the number of legacy years from 6 to 5 in 2017-18, and to 4 from 2018-19. There will also be a de-minimis housing growth baseline such that local authorities must achieve growth of at least 0.4% in housing stock each year to qualify for the bonus.

Health and Social Care Funding

- 3.2.5 Local authorities will be given the flexibility to levy a social care precept of 3% in 2017-18 and 2018-19, but a maximum of 6% over the three years 2017-18 to 2019-20. In addition, the Government savings from the reforms to the New Homes Bonus scheme will be used to fund a new one-off adult social care support grant in 2017-18 (£1.3m for Islington).
- 3.2.6 In addition to maintaining the Better Care Fund at current mandated levels, the Government will make additional funding available to local authorities from 2017, amounting to £1.5 billion by 2019-20, in an improved Better Care Fund.
- 3.2.7 As local authorities have varying capacity to raise council tax, the Government will allocate the additional funding for the improved Better Care Fund through a separate grant to local authorities, using a methodology which provides greater funding to those authorities which benefit less from the additional council tax flexibility for social care. It is estimated that this could be worth up to an extra £11m to Islington over the period 2017-18 to 2019-20.
- 3.2.8 The Government has acknowledged the need to address the crisis in social care funding but the amount brought forward for 2017-18 and funding for future years does not cover the social care cost pressures faced by Islington. It is estimated that Islington's gross demographic and living wage pressures alone will account for a £6.3m increase per annum going forward and this does not include the increase in the acuity of need of service users.
- 3.2.9 Public Health grant is used to promote the health of the population (health improvement), ensure that robust plans are in place to protect the local population (health protection)

and provide health advice to National Health Service commissioners (healthcare public health). The Council received a Public Health grant allocation of £27.3m in 2016-17 and will receive £26.6m in 2017-18, representing a £3m grant cut on the 2015-16 allocation of £29.6m. The public health savings in **Appendix B** will be used to offset the expected ongoing pressure on the public health budget. The Public Health grant is ring-fenced for spending on public health services.

Children's Services Funding 2017-18

- 3.2.10 The Dedicated Schools Grant (DSG) is a ring-fenced grant for spending on education. The Schools Forum makes recommendations about how the grant awarded to Islington should be allocated to schools and the Council (including the Early Years Service) as appropriate. The distribution of the DSG to local authorities will continue to be set out in three spending blocks: a schools block, a high needs block and an early years block.
- 3.2.11 The Department for Education (DfE) has committed to continuing a minimum funding guarantee in the schools block that ensures no school sees more than a 1.5% per pupil reduction in its 2017-18 budget (excluding sixth form funding and Education Services Grant) compared to 2015-16 and before the Pupil Premium is added. At local authority level, funding is guaranteed to be at least the same as in 2016-17 on a per pupil basis, adjusted to reflect authorities' most recent spending patterns. The DSG priorities for 2017-18 are being developed in conjunction with the Schools Forum.
- 3.2.12 The high needs block supports provision for pupils with Special Educational Needs and Disabilities (SEND) up to the age of 25 and alternative provision for pupils who cannot receive their education in schools. Local authority level funding is guaranteed to be at least the same as in 2016-17 on a cash basis adjusted to reflect authorities' most recent spending patterns.
- 3.2.13 The early years block comprises funding for the 15 hour entitlement for 3 and 4 year olds, the most disadvantaged 2 year olds and the early years pupil premium. Funding for 3 and 4 year olds is reducing by 5% per pupil in Islington (£780k) and increasing by 6.5% on a per pupil basis (170k). A new framework is being introduced by the DfE for distributing funding to providers and on how local authorities retain funding for central services and SEND. The Council is working with the Schools Forum on the implementation of these reforms and consulting with providers.
- 3.2.14 The Pupil Premium is a specific grant to support disadvantaged pupils in mainstream and special schools, Pupil Referral Units, and 14 to 15 year olds in Further Education colleges. It was extended to disadvantaged 3 and 4 year olds in early years provision in 2015-16. It is estimated that total Pupil Premium funding for Islington (including Academies) will be approximately £15.8m in 2017-18, to be announced in early 2017.
- 3.2.15 Education Services Grant (ESG) – The DfE has announced indicative allocations of this funding stream for 2017-18, with the Council's allocation being provisionally reduced by £1.74m to £360k in 2017-18 in line with an overall reduction at a national level. This funding stream will also be rolled into the DSG in 2017-18 rather than awarded as a separate General Fund grant as it is in 2016-17.
- 3.2.16 The 2017-18 General Fund budget provides for significant additional funding (c£3.2m) for demographic pressures in relation to the following areas in Children's Services:
- Children's Social Care – there are rising numbers of 16/17 year olds in the care system, a significant increase in the number of care leavers that the Council are obliged to offer a service to (including rising 18's) and an increase in the numbers of complex care, education and therapy placements;
 - Special Educational Needs and Disabilities (SEND) – increasing numbers and a higher complexity of need;
 - Childcare – increasing numbers; and

- Universal Free School Meals (UFSM) – increasing pupil numbers and reduced eligibility for Government-funded statutory free school meals.

Statement of Assurance on Schools

3.2.17 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 2017-18

3.2.18 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 2017-18 are set out at **Appendix C1** and incorporated in the overall revenue budget. Leisure fees and charges are shown separately at **Appendix C2**.

3.2.19 It is the Council's policy to increase its discretionary fees and charges broadly in line with inflation (1.9% at Quarter 3 2016, this being the quarter average) unless a variation is approved by Council or Executive. The relevant extract of the Council's fees and charges policy is set out below:

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

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

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

3.2.20 The Council will undertake a consultation in the summer term on new childcare charges to take effect from 1st September 2017. It is recommended that authority is delegated to the Corporate Director of Children's Services, in consultation with the Executive Member for Children and Families, to agree these new charges. The existing childcare charges at **Appendix C1** will remain in force until the new charges are implemented.

3.2.21 Fees and charges in relation to Cemeteries were agreed separately by the Executive on 24th November 2016.

Local Initiatives Fund

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

General Balances and Reserves

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

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

general balances for use in 2017-18, after taking into account existing and estimated allocations against these reserves, is shown in **Table 3** below. It should be noted that the redundancy reserve is estimated to be fully spent by the end of 2016-17, and as such it is recommended that from 2017-18 redundancy costs are funded within departmental budgets.

Table 3 – Estimated Reserve and General Balances 2017-18

	2017-18 £m
Contingency Reserve	2.4
Housing Benefit Reserve	5.9
Invest to Save Reserve	1.5
General Fund Balances (excluding schools)	8.6
Schools Balances	11.5
Total	29.9

3.2.25 The 2017-18 level of the Council's general balances will be just over 4% of the net budget requirement, which is in line with the Council's policy on the level of general balances:

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

3.2.26 In addition to the one-off contingency reserve, detailed in **Table 3**, the 2017-18 General Fund budget includes an ongoing, unallocated contingency budget of £2m. The ongoing contingency budget and the one-off contingency reserve is intended to provide some flexibility within the budget over the coming year, in the context of the gross departmental overspends in 2016-17 and the significant level of new savings being implemented in 2017-18, as well as providing some resilience going forward.

Corporate Levies

3.2.27 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 2017-18 levy estimates are detailed in **Table 4**.

Table 4 – Levy Estimates 2017-18

Levies by Body	2017-18 Budget £m
Concessionary Fares (Freedom Pass)	11.551
North London Waste Authority	7.956
Lee Valley Regional Park Authority	0.221
Traffic and Control Liaison Committee	0.273
Inner London North Coroners Court	0.313
London Pensions Fund Authority	1.220
Environment Agency (Thames Region)	0.174
London Boroughs Grants Scheme	0.201
Total	21.909

4 HOUSING REVENUE ACCOUNT

Housing Revenue Account (HRA) Overview

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

The Housing and Planning Act 2016

- 4.3 The main elements of the Housing and Planning Act which will affect housing and the HRA are:
- To enable the extension of Right-to-Buy to housing association tenants.
 - To require local authorities to dispose of high-value vacant council houses, which would help fund the Right-to-Buy extension discounts and the building of more affordable homes. This will apply from April 2018 at the earliest.

The Welfare Reform and Work Act 2016

- 4.4 The main elements of the Welfare Reform and Work Act 2016 which affect Housing and the HRA are:
- Rents for social housing will be reduced by 1% a year for 4 years from 2016-17.
 - Registered providers of social housing must ensure that the amount of rent payable in a relevant year by a tenant of their social housing in England is 1% less than the amount that was payable by the tenant in the preceding 12 months.
 - As Islington's HRA Business Plan had been predicated on reaching 'target rent' the Business Plan had an annual increase of the consumer price index (CPI) +1% + £2 built in. The result of this is an effective reduction of rent income of approximately 5% incrementally or £7m per annum equating to a loss of approximately 20% or £28m over the 4 year period.
 - The household benefit cap will be reduced to £23,000 in London.
- 4.5 The HRA Business Plan is estimated to be balanced over the medium-term, accommodating the impact of the Housing Act and the Welfare Reform and Work Act. The proposed HRA budget for 2017-18 and the forecast budgets over the medium term, based on current knowledge and assumptions, are shown at **Appendix D1**.
- 4.6 In order to mitigate the financial impact of the Government's proposals, the following key measures have been taken:
- Rescheduling current HRA borrowing over the term of the 30-year Business Plan.
 - The New Build Capital Programme will not be subsidised from significant HRA revenue contributions. Instead, funding will be limited primarily to open market sale receipts, Right-to-Buy receipts and other receipts from disposals.
 - A programme of HRA savings (**Appendix D2** details the 2017-18 HRA savings) have been incorporated into the HRA's Business Plan.

Rental Income and Other HRA Fees and Charges

- 4.7 The 2017-18 HRA rents will be set in accordance with the proposals as set out in the Welfare Reform and Work Act.

Islington Managed General Needs Properties (Excluding New Build Properties)

- 4.8 **Table 5** below sets out proposed rent changes for existing tenancies – 2016-17 actual rents less 1%.

Table 5 – Existing Tenancies Weekly Rent 2017-18

	Proposed 2017-18
Average Weekly Rent 2016-17	£110.67
Decrease (£)	-£1.11
Decrease (%)	-1%
Average Weekly Proposed Rent	£109.56

- 4.9 **Table 6** below sets out proposed rent changes for properties re-let during 2017-18 – the 2017-18 rent will be the higher of 2016-17 target rent minus 1%, or 2016-17 actual rent minus 1%.

Table 6 – Re-Let Properties Weekly Rent 2017-18

	Proposed 2017-18
Average Weekly Target Rent 2016-17	£116.61
Decrease (£)	-£1.16
Decrease (%)	-1%
Average Weekly Proposed Target Rent	£115.45

Islington Managed General Needs New Build Properties

- 4.10 Existing tenancies – 2016-17 rents will reduce by 1%.
- 4.11 Re-Lets and New-Lets in 2017-18 - Rents will be set at 2017-18 target rent (2016-17 target plus CPI, 1% at September 2016, plus 1%).

Islington Managed Non-General Needs Properties

- 4.12 Properties used for temporary accommodation (including reception centres) – for existing tenancies and re-lets, rents will be set at 2016-17 actual rents minus 1%.
- 4.13 Specialised supported housing is exempt from the 1% rent reduction and so 2017-18 rents will be set in line with current Council policy and increase by CPI (1% at September 2016) plus 1%.

Partners for Islington Managed Properties

- 4.14 The Welfare Reform and Work Act exempts properties managed under a Private Finance Initiative (PFI) scheme from the 1% rent reduction. It is proposed that existing Council policy continues to apply to all PFI properties managed by Partners for Islington. This means that the principles of rent restructuring will continue to apply and that PFI properties not currently at target rent will move to the 2017-18 target rent, subject to the affordability cap of the 2016-17 actual rent plus CPI (1% at September 2016) plus 1% plus £2.
- 4.15 PFI properties already at target rent will simply increase by CPI (1% at September 2016) plus 1%.
- 4.16 PFI property re-lets will be set at 2017-18 target rents; the 2016-17 target rent plus CPI (1% at September 16) plus 1%.
- 4.17 **Table 7** below sets out proposed rent changes for PFI properties (existing tenancies not yet at target rent).

Table 7 – Existing Tenancies (not at target rent in 2016-17)

PFI Properties Weekly Rent 2017-18

	Proposed 2017-18
Average Weekly Rent 2016-17	£135.13
Increase (£)	£3.70
Increase (%)	2.7%
Average Weekly Proposed Rent	£138.83

- 4.18 **Table 8** below sets out proposed rent changes for PFI properties (re-lets and existing tenancies already at target rent).

Table 8 – Re-Lets and Existing Tenancies (at target rent in 2016-17)

PFI Properties Weekly Rent 2017-18

	Proposed 2017-18
Average Weekly Target Rent 2016-17	£148.36
Increase (£)	£2.96
Increase (%)	2.0%
Average Weekly Proposed Target Rent	£151.32

- 4.19 **Other HRA Fees and Charges** are set out at **Appendix D3**. Explanations as to the increases and reductions are set out in the appendix notes pertaining to the individual charges.

5 CAPITAL PROGRAMME

- 5.1 The 2017-18 to 2019-20 capital programme is summarised in **Table 9** below and shown in full at **Appendix E**. This will deliver projects of £461m over the next three years and includes the continuation of existing programmes of investment in new homes (£264m), housing major works and improvements (£120m) and education facilities (£29m).

Table 9 – Capital Programme 2017-18 to 2019-20

	2017-18 £000	2018-19 £000	2019-20 £000	Total £000
Housing and Adult Social Services	89,900	147,200	147,200	384,300
Children's Services	16,371	12,500	0	28,871
Environment and Regeneration	24,308	13,616	10,126	48,050
Total Capital Programme	130,579	173,316	157,326	461,221

- 5.2 While uncertainty surrounds the level and timing of capital receipts estimated to be available over the medium-term, the Council is forecasting that there will be sufficient resources to fund the 2017-18 programme and the provisional programme for 2018-19 to 2019-20. The Corporate Director of Finance and Resources will continue to apply capital resources to fund the ongoing capital programme in the most cost-effective way.
- 5.3 A schedule of planned Traffic and Transportation schemes in 2017-18 and related decision-making responsibilities is provided at **Appendix E2**.

6 TREASURY MANAGEMENT AND INVESTMENT STRATEGY, PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION POLICY

- 6.1 The Annual Treasury Management and Investment Strategy 2017-18 (including external debt and treasury management Prudential Indicators) was considered by Audit

Committee on 24th January 2017. This is included at **Appendix F1** with additional capital Prudential Indicators at **Appendix F2**.

- 6.2 The Council is required to make a minimum revenue provision (MRP) for the annual repayment of debt associated with the financing of capital expenditure. The provision needs to be determined and approved by the Council each year, based on guidance issued by the Department of Communities and Local Government (DCLG) on 15th February 2012. The DCLG issued The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 that became effective on 31st March 2008. These regulations require a local authority to determine each financial year an amount of MRP which it considers to be prudent. The current regulations mean that local authorities have discretion in determining the level of the MRP policy, with the guiding principle that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits.
- 6.3 The drawback of the regulatory method currently used by the Council for both ‘supported’ and ‘unsupported’ borrowing (the distinction between supported and unsupported borrowing is largely notional, linked to when there was direct borrowing support within the Council’s government grant determination) is that the MRP charge of 4% on the outstanding balance would carry on indefinitely even after an asset is no longer providing any benefit to the Council. This would mean taxpayers in future years would keep paying for assets that are no longer in use. In addition, the regulatory method was derived from the way the Revenue Support Grant (RSG) used to be paid to local authorities for supported borrowing; the intention was to allow for an element of the RSG for debt repayment, but this link is no longer there.
- 6.4 The recommended asset life (annuity) option yields a more favourable MRP in early years, and maintains a constant impact on the revenue account over the useful life of the asset being financed. Furthermore, this method also takes into account time value of money, where £1 in 20 years’ time is worth less than £1 today. Therefore, while it is true that some of our debts fall on future generations, inflation lessens the impact, and conversely they will enjoy the benefits of assets paid for today. This method is a prudent basis for providing for assets that produce a steady flow of benefits over their useful life as is the case for council assets.
- 6.5 The asset life (annuity) method is applied to both ‘supported’ and ‘unsupported’ borrowing, and results in more even payments linked to average asset life. The average life of the Council’s assets funded by ‘supported’ borrowing is 67 years. However, the DCLG guidance recommends using asset life over a shorter period; therefore, it is recommended that a shorter 50-year asset life is used. Similarly, for ‘unsupported’ borrowing, the average asset life is 27 years. In line with the guidance, where prudence is encouraged, the asset life has been rounded down to 25 years. In calculating the asset life (annuity) MRP, the average interest rates published by the Public Works Loans Board in the relevant financial year for new annuity loans would be used.
- 6.6 For 2017-18, the proposed policy would require MRP of £1.2m, compared to the £3.2m that would have been required under the current policy.

7 COUNCIL TAX 2017-18 AND STATUTORY CALCULATIONS

- 7.1 The local government finance settlement allows local authorities to raise an additional 3.00% council tax precept specifically to cover additional social care costs. In addition to a proposed 1.99% increase in council tax, the 2017-18 budget includes a further 3.00% increase as a result of applying this social care precept. The overall increase (4.99%) equates to an extra 98p per week for the average Band D property.

Islington Tax Base 2017-18 and Collection Fund Forecast

- 7.2 On 24th January 2017, the Audit Committee agreed a 2017-18 tax base of 77,209.5 Band D properties for the Council's whole area, and 44.8 Band D properties for the Lloyd Square Garden area. The tax base figures assume a collection rate of 97.0% for the Council's whole area and 97.0% for Lloyd Square Garden Area.
- 7.3 This tax base incorporates the Council Tax Support Scheme agreed by the Council on 15th December 2016. The tax base also incorporates the proposal to exempt all care leavers under the age of 25 from council tax, recommended in a separate report to the Executive on 9th February 2017. The discount will be available from 1st April 2017 and is estimated to cost £28k a year. The cost will be shared with the GLA, via the Collection Fund.
- 7.4 Under the regulations prescribed under Section 99 of the Local Government Finance Act 1988, a billing authority must calculate the amount of any deficit or surplus on the Collection Fund (excluding those items relating to community charges and non-domestic rates) on the 15th January each year, and notify the precepting authorities of the amount to be added or refunded to their 2017-18 precepts. At 15th January 2017, it was forecast that at 31st March 2017 the council tax account in the Collection Fund will be £2,775k in surplus, of which £2,184k is the Council's share and £591k is the Greater London Authority's (GLA) share.

Islington Council Tax 2017-18

- 7.5 Sections 31A and 31B of the amended Local Government Finance Act (LGFA) 1992 require the Council to calculate its gross expenditure, gross income and council tax requirement. For these purposes, HRA expenditure and income is included even though it has no effect on council tax, and the gross expenditure figure includes special expenses relating to part only of the Council's area. The calculation of the 2017-18 council tax requirement is set out in **Table 10** below.

Table 10 – Section 31A (amended LGFA 1992) Calculation 2017-18

	£
Aggregate of the amounts which the Council estimates for items set out in Section 31A (2) (a) to (f) of the LGFA 1992 (A)	964,804,800.00
Aggregate of the amounts which the Council estimates for items set out on Section 31A (3) (a) to (d) of the LGFA 1992 (B)	(882,091,935.38)
Calculation of the council tax requirement under Section 31A (4), being the amount by which the sum aggregated at (A) above exceeds the aggregate at (B) above	82,712,864.62

- 7.6 The calculation of the relevant (average) 2017-18 council tax per Band D property is set out in **Table 11** below.

Table 11 – Section 31B (amended LGFA 1992) Calculation 2017-18

Council Tax Requirement	£82,712,864.62
Council Tax Base	77,209.5
2017-18 Relevant Band D Council Tax	£1,071.28
Increase Compared to 2016-17	4.99%

- 7.7 The Localism Act 2011 abolished council tax capping but instead provides for council tax rises at or above a certain threshold (5.00% in 2017-18, including the 3.00% social care precept) to be subject to a local referendum giving local residents a power to approve or

veto an 'excessive' increase. The proposed 4.99% increase (including the 3% social care precept) in the relevant amount of Band D council tax in 2017-18 is not 'excessive' in terms of the Localism Act. The Council must formally determine this at the time of setting its council tax for 2017-18 and a recommendation to that effect is included in this report.

- 7.8 Section 34 of the LGFA 1992 requires additional calculations where special items relate to part only of the Council's area (for Islington, the Lloyd Square Garden Committee special expense). The calculation of the basic amount of council tax for dwellings in Islington to which no special item relates (i.e. outside of the Lloyd Square Garden area) is shown in **Table 12** below

Table 12 – 2017-18 Basic Council Tax for All Other Parts of the Council's Area

Council Tax Requirement (including Lloyd Square Garden Committee special expense)	£82,712,864.62
Less Lloyd Square Garden Committee special expense	(£16,864.62)
Council Tax Requirement (excluding special expenses)	£82,696,000.00
Council Tax Base	77,209.5
2017-18 Basic Band D Council Tax for All Other Parts of the Council's Area	£1,071.06
Increase Compared to 2016-17	4.99%

- 7.9 The Lloyd Square Garden Committee special expense is £16,864.62 in 2017-18, an increase of 5% compared to 2016-17. When this is divided by the Lloyd Square Garden area Band D taxbase (44.8), it gives a charge of £376.44 per Band D property for 2017-18. This will be charged to Lloyd Square Garden area dwellings in addition to the basic Islington Band D council tax of £1,071.06 for all other parts of the Council's area.
- 7.10 The 2017-18 basic Islington council tax for each valuation band for the Lloyd Square Garden area and all other parts of the Council's area are shown in **Table 13** below. These amounts are calculated by multiplying the Band D council tax amount per property by the proportions set out in Section 5(1) of the LGFA 1992

Table 13 – Basic Islington Council Tax 2017-18

Valuation Bands	Lloyd Square Garden Area (£)	All Other Parts of the Council's Area (£)
A	965.00	714.04
B	1,125.84	833.05
C	1,286.67	952.05
D	1,447.50	1,071.06
E	1,769.17	1,309.07
F	2,090.84	1,547.09
G	2,412.50	1,785.10
H	2,895.00	2,142.12

7.11 The 2017-18 GLA precept for each valuation band is shown in **Table 14** below.

Table 14 – GLA Precept 2017-18

Valuation Bands	GLA (£)
A	186.68
B	217.79
C	248.91
D	280.02
E	342.25
F	404.47
G	466.70
H	560.04

7.12 In accordance with Section 30(2) of the LGFA 1992, **Table 15** below shows the total amount of 2017-18 council tax (including GLA precept) for each valuation band over each of the Council's areas.

Table 15 – Total Islington and GLA Council Tax 2017-18

Valuation Bands	Lloyd Square Garden Area (£)	All Other Parts of the Council's Area (£)
A	1,151.68	900.72
B	1,343.63	1,050.84
C	1,535.58	1,200.96
D	1,727.52	1,351.08
E	2,111.42	1,651.32
F	2,495.31	1,951.56
G	2,879.20	2,251.80
H	3,455.04	2,702.16

8 MATTERS TO CONSIDER IN SETTING THE BUDGET

COMMENTS OF THE SECTION 151 OFFICER

8.1 The Council, when determining the budget and thereby the level of council tax, must take into account the report of its Section 151 Officer. The report must comment on the robustness of the estimates included in the budget and parallel consideration of the adequacy of the Council's proposed reserves. This section of the report includes

consideration of these specific areas and enables the authority to discharge its duty to take account of the statutory report under Section 25(2) of the Local Government Act 2003.

- 8.2 The process for challenging, compiling and collating the budget begins in April prior to the year for which the council tax is being set. The process involves all of the spending departments, and assumptions are scrutinised throughout the year. It is the thoroughness of this process, which provides the assurance that all strategic, operational and financial risks facing the authority have been taken into account, as far as they are reasonably anticipated to be incurred by the Council in the next financial year. It is the opinion of the Section 151 Officer that the estimates for 2017-18 have been prepared on a robust basis, and further that where there are uncertainties, for instance in relation to departmental service pressures, that these can be covered by the increased level of corporate contingency provision.
- 8.3 In setting the level of general reserves and balances, account has been taken of the key financial assumptions underpinning the budget, the views of the Council's auditors, the level of earmarked reserves and provisions, and the risks facing the Council over the medium-term. The MTFS assumes contributions such that over the planning period the Council is forecast to attain a target of general balances at 4% of the budget requirement. Maintaining general balances at 4% of the budget requirement is considered a prudent position over the medium-term.

COMMENTS OF THE MONITORING OFFICER

- 8.4 This report sets out the basis upon which a recommendation will be made for the adoption of a lawful budget and the basis for the level of the council tax for 2017-18. It also outlines the Council's current and anticipated financial circumstances, including matters relating to the General Fund budget and MTFS, the HRA, the capital programme, and borrowing and expenditure control.
- 8.5 The setting of the budget and council tax by Members involves their consideration of choices. No genuine and reasonable options should be dismissed out-of-hand and Members must bear in mind their fiduciary duty to the council taxpayers of Islington.
- 8.6 Members must have adequate evidence on which to base their decisions on the level of quality at which services should be provided. Where a service is provided pursuant to a statutory duty, it would not be lawful to fail to discharge it properly or abandon it, and where there is discretion as to how it is to be discharged, that discretion should be exercised reasonably. Where a service is derived from a statutory power and is in itself discretionary that discretion should be exercised reasonably.
- 8.7 The report sets out the relevant considerations for Members to consider during their deliberations and Members are reminded of the need to ignore irrelevant considerations. Members have a duty to seek to ensure that the Council acts lawfully. They are under an obligation to produce a balanced budget and must not knowingly budget for a deficit. Members must not come to a decision, which no reasonable authority could come to; balancing the nature, quality and level of services, which they consider, should be provided, against the costs of providing such services.
- 8.8 Under the constitutional arrangements, the setting of the Council budget is a matter for the Council, having considered recommendations made by the Executive. Before the final recommendations are made to the Council on 23rd February 2017, 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.

RESIDENT IMPACT ASSESSMENT

- 8.9 The Equality Act 2010 sets out the requirement for the Council to pay due regard in the exercise of its functions to the need to:

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

8.10 A Resident Impact Assessment (RIA) of the 2017-18 budget proposals is set out at **Appendix G**. It is supplemented at a departmental level by detailed RIAs of major proposals. These demonstrate that the Council has met its duties under the Equality Act 2010 and has taken account of its duties under the Child Poverty Act 2010.

8.11 It is difficult to make savings on the scale required without any impact on residents, and there will inevitably be some impact on particular groups, including those with protected characteristics as defined by the Equality Act. The Council is not legally obligated to reject savings with negative impacts on any particular groups but must consider carefully and with rigour the impact of its proposals on the Public Sector Equality Duty (as set out above), take a reasonable and proportionate view about the overall impact on particular groups and seek to mitigate negative impacts where possible. In this context, the Council's proposals for achieving savings are considered to be reasonable overall and take adequate account of the three duties set out under the Equality Act.

8.12 Members are asked to note the Resident Impact Assessment.

PAY POLICY STATEMENT 2017-18

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

8.14 The Council's proposed Pay Policy Statement for 2017-18 is provided at **Appendix H**.

Background Papers: None.

Final Report Clearance

Signed by		15 February 2017
	-----	-----
	Executive Member for Finance, Performance and Community Safety	Date

Responsible Officer : Mike Curtis, Corporate Director of Resources
 Report Authors : Tony Watts, Head of Financial Planning
 Martin Houston, Strategic Financial Advisor