



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

Meeting of	Date	Agenda Item	Ward(s)
Executive Policy and Performance Scrutiny Committee	17 January 2019 24 January 2019		All
Executive Council	7 February 2019 28 February 2019		
Delete as appropriate	Exempt		Non-exempt



## **BUDGET PROPOSALS 2019-20 AND MEDIUM-TERM FINANCIAL STRATEGY 2019-22**

### **1 INTRODUCTION**

- 1.1 The principal purpose of this report is for the Executive to recommend proposals in respect of the Council's 2019-20 budget, as the basis for setting the 2019-20 budget and council tax. The Policy and Performance Scrutiny Committee will review the proposed budget at its meeting on 24 January 2019 and its comments will be taken into account in setting the final budget and level of council tax at Council on 28 February 2019.
- 1.2 The contents of this report are summarised below:
- Section 2** sets out the recommendations.
- Section 3** sets out the 2019-20 General Fund revenue budget and Medium Term Financial Strategy (MTFS).
- Section 4** details the Housing Revenue Account (HRA) for 2019-20 and its MTFS.
- Section 5** sets out the 2019-22 Capital Programme.
- Section 6** will set out the Treasury Management Strategy in the final version of the budget report to be considered by the Executive on 7 February 2019 and Council on 28 February 2019, following its consideration by the Audit Committee on 31 January 2019.
- Section 7** seeks approval for the Council to participate in the London Business Rates Pilot Pool in 2019-20. This section will show the detailed, statutory council tax calculations in the final version of the budget report to be considered by the Executive on 7 February 2019 and Council on 28 February 2019.

**Section 8** details matters to consider in setting the budget.

### **List of Appendices**

<b>Appendix A</b>	General Fund MTFS 2019-22
<b>Appendix B</b>	General Fund Revenue Savings 2019-22
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## **2 RECOMMENDATIONS**

### **The General Fund Budget 2019-20 and MTFS (Section 3)**

- 2.1 To agree the 2019-20 net Council cash limits as set out in **Table 1 (Paragraph 3.8)** and the MTFS at **Appendix A**, which include the 2019-22 revenue savings at **Appendix B**, and the 2019-20 revenue growth proposals at **paragraph 3.7**.
- 2.2 To note the fees and charges policy and agree the 2019-20 fees and charges. (**Paragraphs 3.13-3.14** and **Appendices C1-C3**)
- 2.3 To agree the estimated use of the Council's earmarked budget reserves (including the creation of a new Transformation Reserve), the Council's policy on the level of General Fund balances, with an increase in General Fund balances of £2m in 2019-20, and an increase in the ongoing contingency budget of £3m in 2019-20. (**Paragraphs 3.15-3.18** and **Table 2**)

### **The HRA Budget and MTFS (Section 4)**

- 2.4 To agree the balanced HRA 2019-20 budget, including savings and growth proposals, within the HRA MTFS at **Tables 4-5** and **Appendix D1**.
- 2.5 To agree the 2019-20 HRA rents, fees and charges. (**Tables 6-9** and **Appendix D2**)

### **The Capital Programme 2019-22 (Section 5)**

- 2.6 To agree the 2019-20 capital programme and note the provisional programme for 2020-22. (**Paragraph 5.1, Table 10** and **Appendix E**)
- 2.7 To agree that the Section 151 Officer applies capital resources to fund the capital programme in the most cost-effective way. (**Paragraph 5.2**)

### **Treasury Management and Investment Strategy (Section 6)**

- 2.8 To note that the Treasury Management and Investment Strategy will initially be considered by Audit Committee on 31 January 2019 and then be included for agreement within the final budget report to the Executive on 7 February 2019 and Council on 28 February 2019.

### **Council Tax and Retained Business Rates (Section 7)**

- 2.9 To note that the detailed, statutory council tax calculations and the recommendations for the final 2019-20 council tax level, including the Greater London Authority (GLA) precept, will be included in the budget report to the Executive on 7 February 2019 and Council on 28 February 2019. (**Paragraph 7.1**)

- 2.10 To agree to the following in relation to the Council's proposed participation in the London Business Rates Pilot Pool: (**Paragraphs 7.2 to 7.6**)
- 2.10.1 To approve and accept the designation by the Secretary of State as an authority within the London Business Rates Pilot Pool pursuant to 34(7) (1) of Schedule 7B Local Government Finance Act 1988.
  - 2.10.2 To participate in the London Business Rates Pilot Pool with effect from 1 April 2019 to 31 March 2020.
  - 2.10.3 To delegate the authority's administrative functions as a billing authority pursuant to the Non-Domestic Rating (Rates Retention) Regulations 2013 to the City of London Corporation acting as the Lead Authority.
  - 2.10.4 To authorise the Lead Authority to sub-contract certain ancillary administrative functions regarding the financial transactions (payment of tariffs and top-ups) within the Pool to the GLA as it considers expedient.
  - 2.10.5 To delegate authority to the Section 151 Officer, in consultation with the Executive Member for Finance, Performance and Community Safety, to agree the operational details of the pooling arrangements with the participating authorities.
  - 2.10.6 To authorise the Section 151 Officer to make any amendments to the Memorandum of Understanding, attached at **Appendix F** to the report, as may be required by the Secretary of State, and to enter into the final Memorandum of Understanding on behalf of the authority.
  - 2.10.7 To authorise the Leader of the Council to represent the authority in relation to consultations regarding the London Business Rates Pilot Pool as may be undertaken by the Lead Authority pursuant to the Memorandum of Understanding.
  - 2.10.8 To delegate to the Section 151 Officer, in consultation with the Executive Member for Finance, Performance and Community Safety, the authority to consider such consultative reports as the Lead Authority may circulate and to respond on behalf of the authority with regard to any recommendations and, in particular, proposals for projects to be approved for funding from the Strategic Investment Pot.
  - 2.10.9 To delegate to the Lead Authority the functions of assessment, due consultation and approval of projects eligible for funding from the Pool's Strategic Investment Pot following consultation with the participating authorities (provided that at least two thirds of such participating London Boroughs are (including the City of London Corporation) in favour of the relevant recommendation as well as the Mayor of London, and that no entire sub-region is in disagreement with the decision) on such terms and conditions as shall ensure value for money and compliance with the law.

### **Matters to Consider in Setting the Budget (Section 8)**

- 2.11 To note the Section 151 Officer's and the Monitoring Officer's comments in their determination of the revenue and capital budgets for 2019-20 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.
- 2.12 To note the Resident Impact Assessment (RIA) on the 2019-22 budget proposals. (**Appendix G**)

### **3 GENERAL FUND BUDGET 2019-20 AND MTFS 2019-22**

#### **Overview**

- 3.1 Central Government has cut its core funding to Islington Council by 70 per cent since 2010, on a like-for-like basis. The combination of Government funding cuts and rising demand for services means the Council needs to close a revenue budget gap of c£50m over the next three years. The Council has already made savings of £225m since 2010. Despite the significant financial challenges faced by both Islington Council and local government as a whole, the Council remains determined to make Islington fairer for all - making sure that every penny spent goes on things that will make the biggest difference to the lives of local people, particularly those who rely on the Council the most.
- 3.2 The Council has undertaken an extensive organisation-wide exercise to re-examine every budget line and ensure we are prioritising spend on the right things. This exercise has enabled revenue savings proposals to be proposed for the next three years, as set out in this report. This will enable more strategic planning and support a transformation of the way the Council works to best help the people in Islington who need that help the most.
- 3.3 Islington's aim is to become the best council in the country at prevention and early intervention – helping residents nip problems in the bud, or better still prevent them from developing in the first place. The Council will always be there for Islington residents when it matters most, which is why there will be continued funding of vital services such as the Resident Support Scheme and free school meals for all nursery and primary school children. The proposed budget allows us to focus on key priorities, including new council house building, preventing youth crime and tackling street homelessness. This will all be done whilst protecting vital frontline services, with no closures of libraries, youth centres or leisure centres over the next three years.
- 3.4 Islington will be the first council in England to agree to pay for applications for settled status for its directly employed European Union (EU) employees – which they will need to remain in the UK after the UK exits the EU. This step is being taken both to protect the Council's employees and to ensure continuity of service for residents.
- 3.5 The budget is premised on a proposed increase in Islington council tax of 2.99 per cent in 2019-20 to help pay for essential local services. Each one per cent rise in council tax means an increase of around 20p per week for the average (Band D) property, so the proposed increase will be around 60p per week for a Band D property, excluding the GLA precept. A resident in receipt of full Council Tax Support only pays 8.5% of what would otherwise be their full council tax bill, so the proposed 2.99% increase in council tax will require such a resident in a Band D property to pay around an extra 6p of council tax per week.

#### **Proposed MTFS, Revenue Savings and Growth**

- 3.6 The proposed General Fund net revenue budget over the period 2019-22 is shown within the MTFS at **Appendix A**. The MTFS includes the proposed 2019-22 General Fund savings at **Appendix B** and details the forecast net expenditure over the medium term, based on current knowledge and expectations.
- 3.7 It is recommended that the following budget growth proposals be agreed, for inclusion in the 2019-20 revenue budget:
  - 3.7.1 **Street Homelessness (£90k ongoing)** - To mainstream permanently into the Council's budget the funding for a Street Homelessness Coordinator and 0.5 FTE of a St Mungo's Street Homelessness Outreach Worker.
  - 3.7.2 **EU Settlement Employee Reimbursement Scheme (£80k one-off)** – As part of the Council's commitment to supporting EU workers, an EU settlement

reimbursement scheme will provide financial assistance (reimbursement of £65 payment fee) to directly employed Council employees who successfully apply to the EU settlement scheme.

- 3.8 **Table 1** summarises the net revenue budgets for 2019-20 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 2019-20**

	<b>£000</b>
<b>Departments</b>	
Chief Executive’s Department	1,953
Children’s, Employment and Skills	82,668
Environment and Regeneration	15,401
Housing and Adult Social Services	78,664
Public Health	0
Resources	38,654
<b>NET COST OF SERVICES</b>	<b>217,340</b>
<b>Net Corporate items</b>	2,797
<b>NET OPERATING EXPENDITURE</b>	<b>220,137</b>
<b>Other Budget Items:</b>	
Contingency	5,000
Transfer to/(from) Reserves	(4,207)
New Homes Bonus	(5,051)
Other Corporate Grants (estimate)	(600)
<b>AMOUNT TO BE MET FROM BUSINESS RATES RETENTION SYSTEM AND COUNCIL TAX</b>	<b>215,279</b>

**Local Government Finance Settlement 2019-20**

- 3.9 Islington’s core settlement funding allocation for 2019-20 is £108m, a cash cut of £6.6m (5.8%) compared to 2018-19.
- 3.10 There was a £180m surplus on the Government’s business rates retention levy account in 2017-18 (for the first time) and £155m of this will be redistributed to local authorities in 2019-20, based on need. This is a one-off technical adjustment (indicative £1.3m for Islington, subject to consultation on the distribution methodology) whereby previously top-sliced core funding will be returned to local authorities as part of the business rates retention system. As such, it feeds into the Council’s overall retained business rates growth estimates.
- 3.11 In 2019-20, the Council will receive £3.5m social care grant (of the £650m national funding announced in the Autumn Budget 2018) and £12.8m from the Improved Better Care Fund.

**New Homes Bonus Scheme**

- 3.12 The Council will receive £5.1m New Homes Bonus grant income in 2019-20, directly attributable to the number of new homes built in the borough over the past four years.

## **Fees and Charges**

- 3.13 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 2019-20 are set out at **Appendices C1-C3**.
- 3.14 It is the Council's policy to increase its discretionary fees and charges broadly in line with inflation (3.3% at Quarter 3 2018, this being the quarter average) unless a variation is approved by Council or the 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."*

## **General Balances and Reserves**

- 3.15 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 budget reserves and general balances for use in 2019-20, after taking into account latest estimated commitments in 2018-19 and 2019-20, is shown in **Table 2**.

**Table 2 – Reserves and General Balances 2019-20**

	<b>£m</b>
Transformation Reserve	15.1
General Fund Balances (excluding schools)	10.7
Schools Balances	9.3
<b>Total</b>	<b>35.1</b>

- 3.16 The transformation reserve is a recommended, new earmarked budget reserve to provide up-front investment for the delivery of transformational revenue savings over the medium-term, where this investment cannot be funded from within existing departmental budgets or one-off resources. The estimated balance of this reserve includes the available balances from the existing Islington 2020 earmarked reserve and from a comprehensive review of the Council's balance sheet.
- 3.17 It is recommended that £2m is added to General Fund balances in 2019-20 from the one-off 2018-19 contingency balance, as agreed in principle by the Executive on 6 September 2018. This will provide some further financial resilience going forward. The 2019-20 level of the Council's general balances will be £10.7m, 5% of the net budget requirement, with the Council's policy on the level of general balances proposed as follows:

"The policy of the Council is to set a minimum target level of General Fund balances (excluding schools balances) at **5%** of the net budget requirement (excluding schools expenditure) over the course of the medium-term financial strategy. The

rationale for this level is based upon an assessment of the level of risk inherent within the Council budget over the medium-term financial planning period. The level of General Fund balances should be adequate to meet working balance requirements and to provide a reasonable allowance for unquantifiable risks that are not already covered within the Council’s budgets and any contingency sums. The Section 151 Officer shall be responsible for reporting to the Council on the adequacy of the reserves and balances.”

- 3.18 It is recommended that £3m is added to the ongoing, unallocated General Fund contingency budget, taking it from £2m to £5m in 2019-20. The ongoing contingency budget is intended to provide some flexibility and resilience within the budget over the medium-term, and is increased to reflect the level of risk associated in delivering the savings proposals to close the c£50m three-year revenue budget gap.

**Corporate Levies**

- 3.19 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 estimated levies for 2019-20 are detailed in **Table 3**.

**Table 3 – Levy Estimates 2019-20**

	<b>2019-20 Estimate £000</b>
Concessionary Fares ('Freedom Pass')	11,449
North London Waste Authority	6,152
Lee Valley Regional Park Authority	195
Traffic and Control Liaison Committee	295
Inner London North Coroners Court	350
London Pensions Fund Authority	1,162
Environment Agency (Thames Region)	181
London Boroughs Grants Scheme	178
<b>Total</b>	<b>19,962</b>

**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.

**Recent Legislative impacts on the HRA**

**The Housing and Planning Act 2016**

- 4.2 The main element of the Housing and Planning Act which affects the HRA’s financial position is the requirement for local authorities to dispose of high-value vacant council houses, in order to fund both the increase in discounts arising from the extension of the Right to Buy to housing association tenants and the building of more affordable homes.
- 4.3 Whilst this legislation remains in place the Government’s recent policy paper ‘A New Deal for Social Housing’ makes clear that it is not this Government’s intention to implement the requirement for local authorities to dispose of high-value council houses and as such all assumptions relating to this requirement have been removed from the HRA MTFs and 30-year HRA business plan.

## **The Welfare Reform and Work Act 2016**

- 4.4 The main elements of the Welfare Reform and Work Act 2016 affecting the HRA's financial position 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 CPI +1% + £2 built in. The impact of the 1% rent reduction is an effective reduction of rental income of approximately 5% incrementally or £7m per annum equating to a loss of approximately 20% or £28m over the 4-year period.
  - 2019-20 is the last year of the 1% rent reduction. Thereafter, current government policy has yet to be confirmed and has been subject to a recent consultation paper.
- 4.5 In order to mitigate the financial impact of the 1% rent reduction, the following key measures have previously been taken:
- The ongoing re-financing of all HRA debt 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/increased income totalling £17.2m has been delivered, in the main, as part of prior years' HRA budget setting.

## **Immediate Revocation of the Limit on HRA Indebtedness Determination – Issued by Government in October 2018**

- 4.6 The revocation of this Determination removed the limit on HRA borrowing. This will allow the HRA to borrow to build increased numbers of new social rented properties using the extra net rental income to cover the cost of borrowing.

## **HRA – Detailed Budget and MTFS**

- 4.7 The HRA 30-year business plan is currently balanced over the medium term.
- 4.8 The proposed HRA budget for 2019-20 and the forecast budgets over the medium-term, based on current knowledge and assumptions, are shown at **Appendix D1**. The HRA budgets set out at **Appendix D1** include the following Growth and Savings (or increased Income) items set out in **Tables 4-5**:

**Table 4 - HRA Growth 2019-22**

	<b>2019-20 £m</b>	<b>2020-21 £m</b>	<b>2021-22 £m</b>	<b>TOTAL £m</b>
Loss of Thames Water Commission	0	1.50	0	1.50
Loss of Shared Digital savings	0.50	0	0	0.50
Increase the capacity of the New Build Team to build more new council homes	1.00	0	0	1.00
Review and correction of the allocation of costs incurred by General Fund departments in respect of HRA activities	3.00	0	0	3.00
<b>TOTAL</b>	<b>4.50</b>	<b>1.50</b>	<b>0</b>	<b>6.00</b>

**Table 5 - HRA Savings/Increased Income 2019-22**

	<b>2019-20 £m</b>	<b>2020-21 £m</b>	<b>2021-22 £m</b>	<b>TOTAL £m</b>
Increase in Leaseholders' service charges to address under-charging	0.630	0.630	0.630	1.890
Increase in Tenants' service charges to address under-charging	1.980	0	0	1.980
Re-design of the Homes and Communities division	0.570	0.430	0	1.000
Adjusting budgets to reflect an expected ongoing reduction in the number of void properties requiring works	0.200	0	0	0.200
Extending the lifespan of the repairs vehicle fleet from 4 to 5 years	0.125	0	0	0.125
Increase the staffing vacancy factor from an average of 1% to 2%	0.500	0	0	0.500
HRA general efficiency savings	0.900	0	0	0.900
<b>TOTAL</b>	<b>4.905</b>	<b>1.060</b>	<b>0.630</b>	<b>6.595</b>

**Rental Income and Other HRA Fees and Charges**

- 4.9 HRA 2019-20 rents will be set in accordance with the proposals as set out in the Welfare Reform and Work Bill.

**LBI Managed General Needs Properties (excluding New Build Properties)**

- 4.10 **Table 6** sets out proposed rent changes for existing tenancies – 2018-19 actual rents less 1%.

**Table 6 – Existing Tenancies Weekly Rent 2019-20**

	<b>Proposed 2019-20</b>
Average Weekly Rent 2018-19	£109.13
Decrease (£)	-£1.09
Decrease (%)	-1%
Average Weekly Proposed Rent	£108.04

- 4.11 **Table 7** sets out proposed rent changes for properties Re-Let during 2019-20 – the 2019-20 rent is the higher of 2018-19 target rent less 1% or the 2018-19 actual rent less 1%.

**Table 7 – Re-Let Properties Weekly Rent 2019-20**

	<b>Proposed 2019-20</b>
Average Weekly Target Rent 2018-19	£114.39
Decrease (£)	-£1.14
Decrease (%)	-1%
Average Weekly Proposed Target Rent	£113.24

**LBI Managed General Needs New Build Properties**

- 4.12 Existing tenancies – 2018-19 rents will reduce by 1%.
- 4.13 Re-Lets and New-Lets in 2019-20 - Rents will be set at 2019-20 target rent (i.e. 2018-19 target plus CPI (+2.4% at September 2018) plus 1%).

**LBI Managed Non-General Needs Properties**

- 4.14 Properties used for temporary accommodation (including reception centres) – existing tenancies and re-lets set at 2018-19 actual rents minus 1%.
- 4.15 Specialised supported housing is exempt from the 1% rent reduction hence 2019-20 rents will be set in line with current Council policy and increase by CPI (+2.4% at September 2018) plus 1%.

**Partners for Islington Managed Properties**

- 4.16 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.
- 4.17 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 2019-20 target rent subject to the affordability cap of the 2018-19 actual rent plus CPI (+2.4% at September 2018) plus 1% plus £2.
- 4.18 However, PFI properties already at target rent will simply increase by CPI (+2.4% at September 2018) plus 1%.
- 4.19 PFI property re-lets will be set at 2019-20 target rents (i.e. the 2018-19 target rent plus CPI (+2.4% at September 2018) plus 1%).
- 4.20 **Table 8** below sets out proposed rent changes for PFI properties (existing tenancies not yet at target rent).

**Table 8 – Existing Tenancies (Not at Target Rent in 2018-19)  
PFI Properties Weekly Rent 2019-20**

	<b>Proposed 2019-20</b>
Average Weekly Rent 2018-19	£145.72
Increase (£)	£5.68
Increase (%)	3.9%
Average Weekly Proposed Rent	£151.40

4.21 **Table 9** below sets out proposed rent changes for PFI properties (re-lets and existing tenancies already at target rent).

**Table 9 – Re-Lets and Existing Tenancies (at Target Rent in 2018-19)  
PFI Properties Weekly Rent 2019-20**

	<b>Proposed 2019-20</b>
Average Weekly Target Rent 2018-19	£157.51
Increase (£)	£5.36
Increase (%)	3.4%
Average Weekly Proposed Target Rent	£162.87

**Other HRA Fees and Charges**

4.22 These are set out at **Appendix D2**. All fees and charges are increasing in line with RPI at September 2018, i.e. +3.3%, with the exception of the following charges:

4.22.1 Caretaking/Cleaning and Estate Services – The charges for 2019-20 incorporate the results of a review of the costs associated with the provision of these services. Charges have been increased by £2.59 per week or +18% to reflect both the direct and indirect costs related to providing these services. It should be noted that the overall average weekly increase to tenants when combining rent and service charges (taking into account the 1% rent reduction) is an average increase of £1.21 or +0.99%.

4.22.2 Digital TV aerials – Digital TV aerial installation charges were levied over a 10-year period. The 10-year period is coming to an end, in tranches, over the next 3 years. As the charges in respect of the installation element elapse, tenants will continue to be a charged the maintenance element which for 2019-20 reduces the charge from 33p to 20p per week.

4.22.3 Heating and Hot Water – Even though it is anticipated that there will be a significant increase in gas prices, it is proposed to freeze gas charges to tenants for the third year and use the tenants heating reserve (which was set up to smooth the annual fluctuating gas costs) to absorb any increases in costs.

4.22.4 Concierge Service - The charges for 2019-20 incorporate the results of a review of the costs associated with the provision of this service. Charges have been increased by an average of £1.18 per week or +19% to reflect the costs related to providing this service. It should be noted that the overall average weekly increase to tenants in receipt of the concierge service when combining rent and all service charges

including caretaking/cleaning and estate services (taking into account the 1% rent reduction) is an average increase of £2.43 or +1.95%.

## **5 CAPITAL PROGRAMME**

5.1 The 2019-22 capital programme is summarised in **Table 10** below and detailed at **Appendix E**. This will deliver £379m of capital investment over the next three years and includes the continuation of existing significant programmes of investment in new homes (£260m), housing major works and improvements (£75m), the purchase of temporary accommodation (£13m), traffic and engineering improvements (£12m) and education facilities (£7m).

**Table 10 – Capital Programme 2019-22**

	<b>2019-20 £000</b>	<b>2020-21 £000</b>	<b>2021-22 £000</b>	<b>Total £000</b>
Housing and Adult Social Services	114,171	131,067	103,224	<b>348,462</b>
Children's, Employment and Skills	6,170	870	250	<b>7,290</b>
Environment and Regeneration	10,013	8,375	5,275	<b>23,663</b>
Total Capital Programme	<b>130,354</b>	<b>140,312</b>	<b>108,749</b>	<b>379,415</b>

5.2 While uncertainty surrounds the level and timing of capital resources estimated to be available over the medium-term, the Council is forecasting that there will be sufficient resources to fund the 2019-20 programme and the provisional programme for 2020-22. The Section 151 Officer will continue to apply capital resources to fund the ongoing capital programme in the most cost-effective way.

5.3 The Council's Capital Strategy 2019-22 will be included for agreement within the final budget report to the Executive on 7 February 2019 and Council on 28 February 2019, alongside the Council's treasury management and investment strategy. This links the capital programme, in this report, to the estimated funding of the programme (linked to the treasury management and investment strategy, and prudential indicators), and sets out the formal process for monitoring the capital programme during the financial year.

## **6 TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2019-20**

6.1 The Council's 2019-20 annual treasury management and investment strategy will initially be considered by Audit Committee on 31 January 2019, and then included for agreement within the final budget report to the Executive on 7 February 2019 and Council on 28 February 2019.

## **7 COUNCIL TAX AND RETAINED BUSINESS RATES 2019-20**

### **Council Tax 2019-20**

7.1 The detailed, statutory council tax calculations and the recommendations for the final level of the 2019-20 council tax, including the GLA precept, will form part of the budget report to the Executive on 7 February 2019, for onward recommendation to Council on 28 February 2019. This will also incorporate decisions on the level of the council tax base to be agreed by Audit Committee on 31 January 2019.

### **London Business Rates Pilot Pool**

7.2 Approval is sought in the recommendations of this report for the Council to participate in the proposed London Business Rates Retention Pilot Pool in 2019-20. The pilot pool has been developed by London Councils and will require London Boroughs, the City of London and the Greater London Authority to pool 75% of business rates received in 2019-20. Pooling is voluntary and all pool members must formally agree to join for it to happen but

are free to leave after a year. The Memorandum of Understanding is attached at **Appendix F**.

- 7.3 The Council's overall level of core settlement funding in 2019-20 will be the same inside the pool as it would be outside it. However, the composition of core settlement funding will change from being part of the pool, with Revenue Support Grant and top-up grant replaced by a greater retained share of business rates income and a tariff payment to the pool.
- 7.4 All pool members will share the benefits of future growth in business rates income, with 15% of growth proceeds allocated to a Strategic Investment Pot and the remaining 85% distributed to pool members. There is no guarantee that the Council will not be worse off inside the pool than it would be outside it. The Council will not be worse off, unless pool growth is negative.
- 7.5 There will be no upper levy (ceiling) on growth proceeds that can be retained by the pool, and a safety net (floor) will protect 95% of income.
- 7.6 No new burdens will be imposed by the Government and participation will not prejudice the outcome of the Government's so-called Fair Funding Review for London boroughs.

## **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.
- 8.3 The scale of the revenue budget gap in 2019-20 and the uncertainty over local authority funding in the following years has been a challenge for the organisation. Important financial management principles have been applied to the closing of the budget gap for 2019-20 and the forecast gap for the following two years. The principles have been to make prudent forecasts of funding levels, inflation and budget pressures, to avoid using one-off resources to close the ongoing budget gap and to look to produce a set of base budget savings proposals to cover a three-year period. This has been a significant challenge but an important one in order to provide a level of financial resilience when heading into a very uncertain future for local authority funding. It should be noted that between 2020-21 and 2021-22 a further £8m of efficiency savings is expected from all services and work will need to be undertaken to identify in detail those savings. The future years' budgets from 2020-21 look extremely challenging for the Council and will result in the need to take further tough decisions to ensure the budget is balanced.
- 8.4 The challenge to close a revenue budget gap of c£50m over the period 2019-22 should be considered against the Council already having delivered £225m of savings since 2010, having faced significant cash cuts to Central Government funding in every budget year (continuing at least until 2020) and with inflationary and demographic pressures rising at a trajectory even beyond that for which we attempt to budget. There are no easy decisions

left to make. Given the difficulty in identifying such significant savings proposals, there is inevitably a degree of risk with their achievement - that risk has increased year-on-year as finding savings has got harder. The risk with these budget proposals will be mitigated through a new programme management approach introduced this year, proposals for robust project and financial monitoring, financial discipline by services in managing budgets and having prudent levels of base budget contingency and reserves. Budget contingency has been increased in this budget to reflect the level of risk. It is welcomed that on 6 September 2018 the Executive agreed, in principle, to increase General Fund balances in the 2019-20 budget to £10.7m (5% of the net budget requirement) from the previous level of £8.7m (4% of the net budget requirement). This level is considered to be a minimum level in the context of the medium-term risk to the budget and the aim is to see it increased in the future when opportunities arise.

- 8.5 Subject to the concerns raised in **paragraphs 8.3** and **8.4** above, it is the opinion of the Section 151 Officer that the estimates for 2019-20 have been prepared on a robust basis.
- 8.6 In setting the level of General Fund 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 has been updated for the 2019-20 budget to set a policy for the minimum of general balances to be at 5% of the budget requirement. It is the Section 151 Officer's view that the level of General Fund balances over the medium-term should be increased. Earmarked reserves are currently sufficient, at the level set out in this report, but as the scale of investment required in the transformation programme becomes clear and able to be better estimated, it is expected that the Transformation Reserve will require further funds over the medium-term.

## **COMMENTS OF THE MONITORING OFFICER**

### **Overall**

- 8.7 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 2019-20. 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.
- 8.8 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.
- 8.9 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.
- 8.10 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.
- 8.11 Under the constitutional arrangements, the setting of the Council budget is a matter for the Council, having considered recommendations made by the Executive. Before the final

recommendations are made to the Council, the Policy and Performance Scrutiny Committee must have been given the opportunity to scrutinise these proposals and the Executive should take into account its comments when making those recommendations.

### **London Business Rates Pilot Pool**

- 8.12 The Council has power to participate in the London Business Rates Retention Pilot Pool for 2019-20, and participation would be reasonable, lawful and for a proper purpose.
- 8.13 Two or more relevant authorities can be designated by the Secretary of State for the purposes of pooling their business rates, with the effect that business rates can be retained by those authorities: Part IX of Schedule 7B to the Local Government Finance Act 1988. The authorities that can be designated include the London Boroughs and the Greater London Authority. The Council has billing functions and can participate in the pooling arrangement that will be subject to the Secretary of State's designation by virtue of section 111 of the Local Government Act 1972 (the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions). The Council's participation in the pooling arrangement appears to have a number of potential advantages: in particular, the ability to receive additional business rates, and benefiting (directly or indirectly) from the strategic investment projects that will be made across London. Obtaining this additional income, and benefitting from the strategic investment projects, would be proper and lawful purposes for entering into the pooling arrangement. There is no longer a 'no detriment' guarantee that no member of the pool will be worse off inside the pool than outside of it, but this should only arise if pool growth is negative. The reasonableness of the proposed arrangement is also supported by the fact that the arrangement is a pilot for 2019-20 only. The Government is looking to put the pooling arrangement onto statutory footing for 2020-21 onwards.
- 8.14 There are a variety of mechanisms that could be established for pooling, and discussions have taken place under the auspices of London Councils as to which mechanism to put forward. The preferred mechanism is for the London Boroughs and the GLA to enter into a Memorandum of Understanding (rather than a more formal contractual arrangement), with delegation to the Lead Authority (there has to be a Lead Authority in accordance with the Schedule 7B framework: in this case, that would be the City of London Corporation) and a degree of consultation before decisions are made. The Council has power to delegate decision-making and administrative functions to another local authority. It would be lawful for the Council to adopt this mechanism on the basis that it provides for a degree of flexibility and allows for an appropriate level of participation in the decision-making through the consultative process. The Council will not have a veto on decision-making for the Pool's Strategic Investment Pot: however, it does have a role in the decision-making process, and should take some reassurance from the fact that (i) decisions will only be taken if two-thirds of participating boroughs agree; and (ii) no entire sub-region is in disagreement with the decision.
- 8.15 It is not necessary for the Council to engage in consultation with respect to participating in the business rates pilot pool; there is no statutory obligation to do so and no common law obligation either. There are no obvious equality implications that would require a residents' impact assessment.

### **RESIDENT IMPACT ASSESSMENT**

- 8.16 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:

8.16.1 Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act;

8.16.2 Advance equality of opportunity between people who share a protected characteristic and those who do not; and

8.16.3 Foster good relations between people who share a protected characteristic and those who do not.

8.17 A Resident Impact Assessment (RIA) of the 2019-22 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.

8.18 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 2010.

8.19 The Council must have due regard to the Public Sector Equality Duty, which is integral to the Council's functions, and which is set out in Section 149 of the Equality Act 2010 as follows:

(1) A public authority must, in the exercise of its functions, have due regard to the need to:

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it...

(3) Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to-

(a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;

(b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;

(c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

(4) The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

(5) Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

- (a) tackle prejudice; and
- (b) promote understanding.
- (6) Compliance with the duties in this section may involve treating some persons more favourably than others; but that is not to be taken as permitting conduct that would otherwise be prohibited by or under this Act.
- (7) The relevant protected characteristics are—
  - age;
  - disability;
  - gender reassignment;
  - pregnancy and maternity;
  - race;
  - religion or belief;
  - sex; and
  - sexual orientation.

## Final Report Clearance

Signed by



9 January 2019

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Executive Member for Finance, Performance  
and Community Safety

Date

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