ISLINGTON

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

Meeting of		**Date**	**Agenda Item**	**Ward(s)**
Executive Policy and Performance Scrutiny Committee Executive Council		16 January 2020 23 January 2020 6 February 2020 27 February 2020		All
Delete as appropriate	~~Exempt~~		Non-exempt	

BUDGET PROPOSALS 2020/21 AND MEDIUM-TERM FINANCIAL STRATEGY

1 SYNOPSIS

1.1 The principal purpose of this report is for the Executive to recommend proposals in respect of the Council's 2020/21 budget, as the basis for setting the 2020/21 budget and council tax. The Policy and Performance Scrutiny Committee will review the budget proposals on 23 January 2020 and its comments will be taken into account in setting the final budget and level of council tax at Council on 27 February 2020.

1.2 The contents of this report are summarised below.

Section 2 sets out the recommendations.

Section 3 summarises the assumptions within the General Fund Medium-Term Financial Strategy (MTFS) and sets out the 2020/21 net revenue budgets as well as General Fund fees and charges.

Section 4 covers the Housing Revenue Account (HRA) and includes HRA rents, service charges and other fees and charges.

Section 5 summarises the 2020/21 to 2022/23 capital programme and funding.

Section 6 will set out the Treasury Management and Investment Strategy (including commercial investments) in the final version of the budget report to the Executive on 6 February 2020 and Council on 27 February 2020, following its consideration by the Audit Committee on 28 January 2020.

Section 7 will include the detailed, statutory council tax calculations and matters relating to the proposed London Business Rates Retention (Non-Pilot) Pool in the final version of the budget report to the Executive on 6 February 2020 and Council on 27 February 2020.

Section 8 details matters to consider in setting the budget.

2 RECOMMENDATIONS

The General Fund Budget 2020/21 and MTFS (Section 3)

2.1 To note the assumed MTFS and budget gap, subject to the comments of the Section 151 Officer in **Section 8** regarding the additional medium-term budget risks that are not currently factored into the budget gap. (**Paragraph 3.6**, **Table 1** and **Appendix A**)

2.2 To agree the revised 2020/21 to 2022/23 savings and income generation programme (**Paragraph 3.18** and **Appendix B**), and the revenue budget growth and additional/expanded service provision funded from existing budgets and external funding. (**Paragraphs 3.22-3.23**, **Table 5** and **Appendices C1-C2**).

2.3 To note that that there are risks around the savings currently assumed in the MTFS, and that a risk-based review of all assumed savings is currently underway and will feed into the next review of budget assumptions at the outset of the 2021/22 budget setting process. (**Paragraphs 3.19-3.21**)

2.4 To agree the 2020/21 net budgets by directorate. (**Paragraph 3.24**, **Table 7** and **Appendix A**)

2.5 To note the variables that could still significantly affect the 2020/21 budget. (**Paragraph 3.25**)

2.6 To note the latest Dedicated Schools Grant (DSG) assumptions following the provisional DSG settlement for 2020/21. (**Paragraphs 3.26-3.33**)

2.7 To note the General Fund fees and charges policy and agree the 2020/21 fees and charges. (**Paragraphs 3.35-3.36** and **Appendices D1-D4**)

2.8 To agree the budgeted movements to/from earmarked reserves assumed as part of the 2020/21 revenue budget (including the creation of a new Social Care Funding reserve), and to note the unchanged policy on the minimum level of General Fund balances. (**Paragraphs 3.38-3.40** and **Table 8**)

2.9 To agree that: any underspends at the end of the financial year should be used to increase General Fund balances and/or earmarked reserves in order to provide further resilience going into a very uncertain medium-term budget cycle from 2021/22; and should there be any advantageous changes to 2020/21 budget assumptions before finalising the final version of this report to the Executive on 6 February 2020 and Council on 27 February 2020, that this is used to increase the corporate contingency budget. (**Paragraph 8.11**)

The HRA Budget and MTFS (Section 4)

2.10 To agree the balanced HRA 2020/21 budget and note the latest estimates over the 3-year MTFS period. (**Paragraph 4.3** and **Appendix E1**)

2.11 To agree the 2020/21 HRA rents and other fees and charges. (**Tables 10-13** and **Appendix E2**)

2.12 **The Capital Programme 2020/21 to 2022/23 (Section 5)**

2.13 To agree the 2020/21 to 2022/23 capital programme. (**Paragraph 5.1**, **Table 14** and **Appendix F**)

2.14 To note that further work will be required to allocate the additional capital investment pot and that a revised capital programme will be set out in a report to Council during 2020/21. (**Paragraph 5.4**)

2.15 To delegate authority to the Section 151 Officer, where necessary, to apply capital resources to fund the capital programme in the most cost-effective way for the Council. (**Paragraph 5.6**)

2.16 To note that Council's Capital Strategy, in compliance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities, will be included within the final budget report to the Executive on 6 February 2020 and Council on 27 February 2020. (**Paragraph 5.7**)

Treasury Management and Investment Strategy (Section 6)

2.17 To note that the Treasury Management and Investment Strategy will be considered initially by Audit Committee on 28 January 2020 and included within the final budget report to the Executive on 6 February 2020 and Council on 27 February 2020. (**Paragraph 6.1**)

Council Tax and Retained Business Rates (Section 7)

2.18 To note that the detailed, statutory council tax calculations and the recommendations for the final 2020/21 council tax level, including the Greater London Authority (GLA) precept, will be included for agreement in the final budget report to the Executive on 6 February 2020 and Council on 27 February 2020. (**Paragraph 7.1**)

2.19 To note that matters relating to the proposed London Business Rates Retention (Non-Pilot) Pool in 2020/21 will be included for agreement in the final budget report to the Executive on 6 February 2020 and Council on 27 February 2020.

Matters to Consider in Setting the Budget (Section 8)

2.20 To have regard to the Section 151 Officer's report on the robustness of the estimates included in the budget and the adequacy of the proposed financial reserves when making decisions about the budget and the level of council tax, as required under Section 25(2) of the Local Government Act 2003. (**Paragraphs 8.1-8.10**)

2.21 To note the comments of the Monitoring Officer. (**Paragraphs 8.11-8.15**)

2.22 To note the Resident Impact Assessment (RIA) on the budget proposals. (**Appendix G**)

3 GENERAL FUND MTFS AND 2020/21 REVENUE BUDGET

Overview

3.1 The combination of central government funding cuts and rising costs and demand for services has meant that the Council has already made savings of £239m since 2010. Despite these significant financial challenges, 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 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. This will be done whilst protecting vital frontline services, with no closures of libraries, youth centres or leisure centres over the next three years.

3.3 In addition, a proposed package of budget growth in 2020/21 will help the Council to continue addressing some of the most pressing issues facing residents. This includes, for example, enhanced services to support victims of violence against women and girls; increased capacity to tackle anti-social behaviour; extra support for vulnerable young adults to help them increase skills and find work; investment in tackling homelessness and rough sleeping; and children's centre outreach.

3.4 The 2020/21 budget and MTFS is premised on a proposed increase in basic Islington council tax of 1.99% in 2020/21 and, subject to review as part of future budget setting cycles, assumed increases of 1.99% in 2021/22 and 2022/23. This will enable us to continue to deliver good quality basic services – such as cleaning the streets and emptying the bins – together with vital support for the most vulnerable, including older people, children and families in need, and disabled people. A 1.99% increase in basic Islington council tax (excluding the GLA precept) for the average (Band D) property equates to an increase of around 45p per week, or 4p per week for working aged council tax support recipients.

3.5 The 2020/21 budget also assumes that the Government's adult social care council tax precept of 2.00% will be applied. This equates to a further increase of around 45p per week for the average (Band D) property, or 4p per week for working aged council tax support recipients.

Summary of MTFS 2020/21 to 2022/23 and Budget Assumptions

3.6 The latest assumed budget position in 2020/21 and over the medium term is summarised in **Table 1** and detailed at **Appendix A**. This shows that the estimated net increase in central government funding is grossly insufficient to address the inflationary and demographic cost pressures that the Council is facing over the next three years. The resulting position is a gross budget gap of £11.088m in 2020/21 (balanced in full by the proposals in this report) and £39.088m over the medium term (with a remaining 3-year gap of £10.265m after the proposals in this report). This is subject to the comments of the Section 151 Officer in **Section 8** of this report regarding the additional medium-term budget risks that are not currently factored into the budget gap.

Table 1 – Summary Budget Gap 2020/21 to 2022/23

	2020/21 £m	**2021/22 £m**	**2022/23 £m**	**Total £m**
Cost Pressures (e.g. inflation/demography)	15.771	14.926	14.826	**45.523**
Central Government Funding	(13.693)	4.090	0.530	**(9.073)**
Other Net Funding Changes (e.g. funding substitutions)	(2.229)	3.705	(0.988)	**0.488**
Change in net transfer to/(from) reserves	11.239	(9.089)	0.000	**2.150**
Gross Budget Gap	**11.088**	**13.632**	**14.368**	**39.088**
Savings	(9.663)	(11.234)	(2.695)	**(23.592)**
Budget Growth	2.322	0.274	0.000	**2.596**
Assumed Council Tax Increase	(1.869)	(1.944)	(2.022)	**(5.835)**
Assumed Adult Social Care Precept	(1.878)	(0.056)	(0.058)	**(1.992)**
Remaining Budget Gap	**0.000**	**0.672**	**9.593**	**10.265**

Cost Pressures (e.g. Inflation/Demographic Growth)

3.7 Based on recent pay settlements, the MTFS assumes a pay award of 2.00% per annum. This equates to pay inflation of approximately £3.397m per annum in 2020/21 and £10.396m over the 3-year MTFS period. The actual pay award could be higher than 2%, which would add to the budget gap (every 1% increase in pay equates to approximately £1.7m). The actual total pay inflation incurred could also be marginally higher due to the impact of inflation on agency and overtime expenditure in some frontline services. The MTFS also assumes that the triennial review of the pension fund, currently being finalised, will have an overall neutral impact on budgets over the medium term.

3.8 In addition to pay inflation, the 2020/21 budget provides for non-pay/contract inflation pressures of approximately £5.538m based on worked-up submissions by services. This includes an estimated £3.1m inflation on the Council's adult social care contracts with service providers and the associated London Living Wage cost increases. It is assumed that these non-pay inflation pressures will continue and increase in line with inflation over the medium term (totalling £16.948m over the 3-year MTFS period).

3.9 Another significant MTFS cost pressure is the impact of demographic changes (e.g. increasing aged 65 and over population) on the demand for Council services. It is estimated in **Table 2** that the required demographic budget growth to fund these pressures, after planned management actions, will total £5.818m in 2020/21 and £13.440m over the medium term. These estimates should be reviewed annually as part of future refreshes of the budget assumptions due to significant volatility in the demand for services.

Table 2 –Demographic Growth 2020/21 to 2022/23

Directorate/Client Group	**20/21 £m**	**21/22 £m**	**22/23 £m**	**Total £m**
Housing				
Temporary Accommodation	0.217	0.184	0.197	**0.598**
Total Housing	**0.217**	**0.184**	**0.197**	**0.598**
People				
Memory, Cognition & Physical Support	0.814	1.219	0.363	**2.396**
Mental Health	0.538	0.538	0.192	**1.268**
Learning Disabilities	1.672	1.511	1.926	**5.109**
Total Adult Social Services	***3.024***	***3.268***	***2.481***	***8.773***
Children Looked After	0.880	0.880	0.000	**1.760**
Joint Agency Panel	0.778	0.150	0.163	**1.091**
16+ Supported Accommodation	0.623			**0.623**
Care Leaver "offer"	0.101	(0.010)	(0.031)	**0.060**
Special Educational Needs & Disabilities Transport	0.195	0.210	0.130	**0.535**
Total Children, Employment and Skills	***2.577***	***1.230***	***0.262***	***4.069***
Total People	**5.601**	**4.498**	**2.743**	**12.842**
Overall Total	**5.818**	**4.682**	**2.940**	**13.440**

3.10 Based on latest estimated capital expenditure profiles and assumptions around interest rates, the corporate financing account budget (borrowing costs and investment income) has been adjusted to reflect forecast costs in 2020/21 to 2022/23. This has resulted in a budget reduction, compared to 2019/20, of £3.482m in 2020/21 and £2.418m over the 3-year MTFS period (before factoring in any budget growth for the revenue cost of increasing the capital programme). This surplus position is due to the historical approach of budgeting up-front for the full long-term annual cost of borrowing whilst actual costs forecast over the medium term are significantly lower. In addition, the budget adjustment takes into account the increase in investment income in recent years. There may be a need to replenish the corporate financing account budget in future budget setting cycles to reflect any change in treasury management assumptions.

3.11 The Council is committed to paying a number of levies to external organisations. The latest estimated levies for 2020/21 and over the medium term are shown in **Table 3**. These are based on latest estimates and indications from levying bodies or, where unavailable, a 2%

inflationary increase is assumed. With the exception of the North London Waste Authority (NLWA) levy, individual levies are estimated to increase by no more than inflation over the medium term.

3.12 The NLWA levy contributes towards paying for the disposal of household waste across seven north London boroughs including Islington. The NLWA levy estimates in **Table 3** are based on the latest draft NLWA budget for 2020/21 and indicative estimates of the overall levy increases in 2021/22 and 2022/23. These indicative estimates for 2021/22 and 2022/23 are subject to significant change depending on the NLWA net expenditure requirement and estimated borough waste tonnages for those financial years (including the availability of any balances not currently assumed by the NLWA).

Table 3 –Levies 2020/21 to 2022/23

	2019/20 Budget £m	**2020/21 Budget £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**
Concessionary Fares (‘Freedom Pass’)	11.449	11.392	11.620	11.852
Environment Agency (Thames Region)	0.181	0.185	0.188	0.192
Inner London North Coroners Court	0.350	0.307	0.314	0.320
Lee Valley Regional Park Authority	0.195	0.193	0.197	0.201
London Boroughs Grants Scheme	0.178	0.179	0.183	0.186
London Pensions Fund Authority	1.162	1.182	1.206	1.230
North London Waste Authority	6.152	6.390	7.403	9.428
Traffic and Control Liaison Committee	0.295	0.268	0.268	0.268
Total	**19.962**	**20.096**	**21.379**	**23.677**
Year-on-Year Increase (£m)		**0.134**	**1.283**	**2.298**
Year-on-Year Increase (%)		**0.67%**	**6.38%**	**10.75%**

3.13 The 2020/21 budget includes, for the first time, permanent budget provision for the estimated ongoing cost (£0.725m) of fulfilling our statutory duty to provide housing and subsistence support to people with No Recourse to Public Funds (NRPF) and European Economic Area (EEA) nationals who may be prevented from accessing welfare benefits and housing support. This has been an unbudgeted cost pressure for a number of years, funded on a one-off basis each year from underspends elsewhere in the budget. It looks unlikely that this will be addressed by the Government as part of their so-called fairer funding review, and so we are making this permanent budget adjustment to ensure that we continue to provide this important safety net.

Central Government Funding

3.14 The Provisional Local Government Finance Settlement for 2020/21 was announced on 20 December 2019. The consultation period on the provisional settlement will run from 20 December to 17 January 2020 and will be followed by the final settlement (expected to be announced in February 2020).

3.15 Based on the provisional settlement, the 2020/21 budget contains the following assumptions around central government funding.

3.15.1 Settlement Funding Assessment (revenue support grant, business rates baseline and top-up grant) will be uprated by 1.6% in 2020/21 in line with the change in the small business non-domestic rating multiplier. As the London Business Rates Retention Pilot Pool will end, Revenue Support Grant will be reinstated as a component of SFA rather than being paid via retained business rates (as applied in 2018/19 and 2019/20).

3.15.2 The New Homes Bonus (NHB) will operate on the same basis in 2020/21 as in 2019/20 but any new 2020/21 allocations will be one-off and will not result in legacy payments being made in subsequent years on those allocations. Based on this, Islington will receive £5.269m NHB grant in 2020/21, diminishing to £0.649m by 2022/23 as legacy payments for prior year housing growth fall out.

3.15.3 In total, social care grant funding will increase by £5.985 in 2020/21, as summarised in **Table 4**. Within this, the Winter Pressures Grant will no longer be ring-fenced for alleviating winter pressures and will be rolled into the Improved Better Care Fund, and the previous Social Care Support Grant will be rolled into the new Social Care Grant. The MTFS assumes that the total social grant funding expected to be received in 2020/21 will continue over the medium term as part of the ongoing base budget.

Table 4 –Social Care Grant Funding

	2019/20 £m	**2020/21 £m**
Improved Better Care Fund	12.790	14.076
Winter Pressures Grant	1.286	0.000
Social Care Support Grant	2.197	0.000
Social Care Grant	0.000	8.182
Total	**16.273**	**22.258**
Year-on-Year Increase		**5.985**

3.15.4 The former Independent Living Fund (ILF) recipient grant, which funds pre-existing ILF arrangements following the closure of the ILF in 2015, will continue in 2020/21 at 2019/20 levels (£1.182m for Islington). The MTFS assumes that this funding will continue over the medium term. However, there is a risk that it ends in 2021/22, as it was only ever confirmed up until 2019/20 (now extended to 2020/21).

3.16 The provisional settlement did not include announcements in relation to the following separate funding streams.

3.16.1 Public Health grant – The MTFS assumes that this will increase in line with inflation (1.7% based on the September 2019 Consumer Price Index) and that Islington will receive £25.667m Public Health grant in 2020/21.

3.16.2 Homelessness grants – The MTFS assumes that the Flexible Homelessness Support Grant (£2.141m) and Homelessness Reduction Act New Burdens (£0.337m) will be maintained at 2019/20 levels.

3.16.3 Troubled Families programme funding – The Troubled Families programme was due to end in March 2020 but the Government has confirmed that it will now continue in 2020/21 with the same overall funding allocation. Pending further detail, the MTFS currently assumes that Islington's funding allocation will continue at the same level in 2020/21, subject to demonstrating in the monitoring visit that the work carried out continues to represent value for money in outcomes for families and continued transformation. The Government has made a manifesto commitment to 'improve the Troubled Families programme' and the medium-term financial implications of this will need to be reviewed as further information becomes available.

3.17 The longer-term central government Spending Review and planned reforms to the local government finance system around business rates retention and so-called fairer funding (Review of Relative Needs and Resources) have been delayed until 2021/22. Combined with the unknown impact of a new Government on local government funding, it is very difficult to estimate with any accuracy the budget gap in 2021/22 and 2022/23. The latest analysis from our external financial advisors estimates that inner London boroughs such as Islington will be hit harder by the so-called fairer funding review and that the Council could lose £2.7m per annum of our core settlement funding assessment over the six years from 2021/22 to 2026/27 (£5.4m cut over the current MTFS period to 2022/23 and £16.2m total cut by 2026/27). This is not currently factored into the MTFS assumptions. In addition, there is uncertainty around the continuation of specific funding streams beyond 2020/21 (e.g. the former Independent Living Fund (ILF) recipient grant and Troubled Families programme funding) that is currently not reflected in the estimated medium-term budget gap.

Revenue Savings and Income Generation

3.18 The 2020/21 revenue budget assumes new savings and income generation totalling £9.663m, of which £8.060m are prior agreed savings from the 2019/20 budget report and £1.603m are new savings for agreement in this report. This is part of a revised savings programme totalling £23.592m over the course of 2020/21 to 2022/23, for agreement, as summarised in **Table 5** and detailed in **Appendix B**.

Table 5 –Total Savings Programme 2020/21 to 2022/23

	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Total Assumed Savings	9.663	11.234	2.695	**23.592**

3.19 It should be noted that the 2020/21 to 2022/23 savings in **Table 5** are in addition to the assumed ongoing delivery of 2019/20 savings totalling £13.474m. There remain significant risks around the ongoing delivery of some of the 2019/20 savings in future financial years, particularly those that are being covered from one-off resources in 2019/20 and cross-cutting savings that have still not been allocated against specific budgets.

3.20 At the point of finalising the 2020/21 budget estimates, £4.612m of cross-cutting savings agreed as part of the 2019/20 budget report (summarised in **Table 6**) have still not been allocated against specific budgets. This represents a budget risk of £1.712m in 2020/21 (i.e. the total of 2019/20 and 2020/21 unallocated savings) and £4.612m over the next three years (almost 20% of the total 3-year savings programme).

Table 6 – Unallocated Cross-Cutting Savings

	2019/20 £m	2020/21* £m	2021/22 £m	Total £m
Customer Programme	0.000	0.200	0.400	0.600
Organisation Design	0.500	0.250	0.000	0.750
Fairer Together (formerly 'Localities')	0.000	0.000	1.500	1.500
Supply Chain Review	0.410	0.352	0.500	1.262
Enterprise Resource Planner	0.000	0.000	0.500	0.500
Total	**0.910**	**0.802**	**2.900**	**4.612**

3.21 A risk-based review of all savings assumed in the MTFS is currently underway and will feed into the next review of budget assumptions at the outset of the 2021/22 budget setting process.

Revenue Growth

3.22 This identification of further new savings has helped to fund an ongoing revenue budget growth package, totalling £2.596m over two years and detailed at **Appendix C1**, that will help the Council to continue addressing some of the most pressing issues facing residents. This includes, for example, enhanced services to support victims of violence against women and girls; increased capacity to tackle anti-social behaviour; extra support for vulnerable young adults to help them increase skills and find work; investment in tackling homelessness and rough sleeping; and children's centre outreach.

3.23 In addition to this budget growth, **Appendix C2** summarises a package of one-off and ongoing additional/expanded service provision, totalling £3.576m in 2020/21 and £2.252m ongoing, that is funded from existing budgets and external funding (ring-fenced and/or one-off). Within this, it is expected that the ongoing element of such growth being funded from adult social care grant in 2020/21 will be contained within existing budgets from 2021/22 onwards.

Net Revenue Budget 2020/21

3.24 Based on all the budget assumptions, **Table 7** summarises the proposed 2020/21 net revenue budget by directorate. The movement between the 2019/20 and 2020/21 budget is shown in **Appendix A**.

Table 7 – Net Revenue Budget 2020/21

	2020/21 Net Budget
	£m
Directorate	
Chief Executive's	1.109
Environment and Regeneration	17.180
Housing	10.217
People	148.375
Public Health	0.000
Resources	38.490
Net Services	**215.371**
Corporate Items	3.030
Net Operating Budget	**218.401**
Contingency	3.411
Transfer to/(from) Reserves	7.032

Corporate Specific Grants	(5.834)
Net Budget Requirement	**223.010**
Settlement Funding Assessment	(109.713)
Business Rates Retention Growth Above Baseline	(10.847)
One-off Collection Fund Surplus	(4.779)
Council Tax Requirement	**97.671**

3.25 It should be noted that the following variables could still significantly affect the 2020/21 budget:

- Confirmation of central government funding allocations in the Final Local Government Finance Settlement and allocations for specific grants outside of the main settlement;
- Calculation of the council tax base and Collection Fund estimates;
- Confirmation of corporate levies;
- Any changes to the expected delivery of agreed savings following the risk-based review of the savings programme that is currently underway;
- Confirmation of the pay award (currently assuming 2%), including the impact of inflation on agency and overtime expenditure in some frontline services;
- The finalisation of the triennial pension review; and
- Any developments connected with Brexit.

Dedicated Schools Grant (DSG) Funding

3.26 The provisional DSG settlement for 2020/21 was announced on 19 December 2019. All allocations are provisional with a final settlement due for the schools block and central schools services block in January 2020. Allocations against the high needs block are due to be finalised in March 2020. The early years block is subject to retrospective adjustments and will not be finalised by the DfE until summer 2021.

Schools Block

3.27 At a national level, Schools' Block funding is set to increase by £7.1bn by 2022/23 compared to 2019/20 funding levels, with a £2.6bn increase in 2020/21, a £2.2bn increase in 2021/22 and a £2.3bn increase in 2022/23. Islington will provisionally receive an additional £0.780m (1.7%) in 2020/21. Local authorities will have the freedom to set the Minimum Funding Guarantee (MFG) in local formulae between +0.5% and +1.84% per pupil. This means that all schools and academies can expect an increase in per pupil funding of at least 0.5% against pupil led factors. In Islington, this covers 80% of funding that is delegated to schools. Schools Forum have agreed to continue to implement the National Funding Formula, as closely as possible in 2020/21, subject to affordability. The final funding formula and factor values is due to be agreed by Schools Forum on 16 January 2020, subject to final agreement by the Executive Member for Children's and Families by 21 January 2020.

Central School Services Block (CSSB)

3.28 The Council has received a provisional 20% funding reduction (£0.165m) in relation to historic commitments, and a further 0.1% funding reduction (£0.012m) in relation to ongoing responsibilities. The resultant pressure is being managed through Schools Forum, through retention of CSSB funding that had previously been redirected to meet pressures against the High Needs Block. This is due to be agreed by Schools Forum on 16 January 2020.

High Needs Block

3.29 The Government has announced an additional £700m nationally in 2020/21 to support children and young people with special educational needs. The expectation is that this funding will continue in 2021/22. However, there is no indication that there will be further growth beyond this, despite the additional £700m falling significantly short of the national shortfall in funding for high needs.

3.30 Based on indicative High Needs Block allocations, Islington will receive an additional £3.332m funding in 2020/21. This will go some way to offsetting DSG demographic pressures in relation to children and young people with high needs, which are currently running at around £1m per annum. In addition, it will provide scope to:

- Increase investment in the Council's capacity to deliver its local offer for children and young people with special educational needs and disabilities, particularly those who do not meet the threshold for a statutory plan;
- Provide an additional inclusion fund for schools where they are facing particular challenges through exceptional cohorts, circumstances or characteristics that could be addressed through additional short-term funding; and
- Provide enhanced individual support for a small number of children with complex autistic spectrum condition in mainstream schools.

3.31 It is estimated that this additional funding will be sufficient to meet high needs budget pressures until mid-2022/23. As there is no guarantee that the Council will receive further funding increases beyond 2020/21, any unused balances from 2020/21 and 2021/22 will be carried forward to phase in cost pressures from 2022/23.

Early Years Block

3.32 Provisional funding rates published by the DfE for Islington show that the hourly rate paid to the Council for 3 and 4 year old children provision is unchanged in 2020/21 at £7.81 per eligible child per hour, while the rate for 2 year old provision has increased by 8p (1.2%) to £6.58 per eligible child per hour. Islington is provisionally due to receive an additional £0.050m in 2020/21.

3.33 The local early years funding formula and factor values and central retention are due to be agreed by Schools Forum on 16 January 2020. Central retention remains capped at 5% of Early Years Block funding. The Council is applying to the Secretary of State to disapply this regulation in order to enable the local funding formula for eligible 2 year olds to be cross-subsidised by funding for 3 and 4 year olds, as the cost of provision is greater for 2 year olds due to statutory requirements.

Fees and Charges

3.34 Some fees and charges are prescribed by statute and not within the Council's power to vary locally; others are discretionary and set as part of the annual budget setting process.

3.35 It is the Council's policy to increase discretionary fees and charges broadly in line with the average of the Retail Price Index (All Items) measure of inflation in the third quarter of the preceding calendar year (2.6% in Quarter 3 of 2019). This policy is subject to appropriate rounding for the purposes of administration and collection and any variation approved by the Executive.

3.36 The proposed discretionary fees and charges for 2020/21 are set out at **Appendices D1-D4.**

General Fund Contingency, Reserves and Balances

3.37 The ongoing corporate contingency budget available for use in 2020/21 is £3.411m.

3.38 The estimated level of General Fund earmarked reserves and balances available as one-off funding over the 3-year MTFS period, after taking into account both formally budgeted movements and additional estimated movements, is shown in **Table 8**.

Table 8 – Estimated General Fund Reserves and Balances 2020/21 to 2022/23

	Estimated Balance 1 April 2020	Estimated Balance 31 March 2021	Estimated Balance 31 March 2022	Estimated Balance 31 March 2023
	£m	**£m**	**£m**	**£m**
Earmarked Reserves				
BSF PFI Smoothing	5.049	5.703	6.236	6.764
Capital	0.750	0.000	0.000	0.000
Cemeteries	1.063	1.063	1.063	1.063
Community Infrastructure Levy	3.769	3.769	3.769	3.769
Housing Benefit	5.942	3.885	1.828	0.000
NNDR Smoothing	9.324	14.103	14.103	14.103
Services Specific	9.504	7.957	7.957	7.957
Social Care	5.985	0.000	0.000	0.000
Street Markets	0.579	0.579	0.579	0.579
Transformation/Invest to Save	15.139	15.139	15.139	15.139
General Balances				
General Fund (non-schools)	10.881	10.881	10.881	10.881
Schools Balances	11.840	11.840	11.840	11.840
Total	**79.825**	**74.919**	**73.395**	**72.095**

3.39 The paragraphs below explain the purpose of each earmarked reserve and, for agreement, any budgeted movements to/from earmarked reserves assumed as part of the 2020/21 revenue budget.

3.39.1 Building Schools for the Future PFI Smoothing Reserve – The annual costs of PFI schemes fluctuate over the lifecycle of the schemes. This earmarked reserve helps to smooth the budgetary impact of PFI costs across financial years.

3.39.2 Capital Reserve – This is one-off funding for expenditure previously in the capital programme that has been transferred to the revenue budget because it does not meet the definition of capital expenditure. The 2020/21 revenue budget includes a drawdown of £0.750m from this reserve, for agreement.

3.39.3 Cemeteries Reserve – The Council operates a shared cemeteries service with the London Borough of Camden, and any surplus at the end of each financial year is carried forward through this earmarked reserve for future investment.

3.39.4 Community Infrastructure Levy (CIL) Reserve – This is the balance of CIL funding available in future financial years.

3.39.5 Housing Benefit Reserve – This reserve is fully committed to funding the transitional costs of implementing Universal Credit and related central government reforms. There is an estimated base budget shortfall of £2.057m in Revenues and Benefits that is being bridged by an annual drawdown from the Housing Benefit reserve (i.e. funding ongoing budget from one-off resources). The 2020/21 revenue budget includes a drawdown of £2.057m from this reserve, for agreement. On this trajectory, the Housing Benefit reserve is due to be fully depleted during 2022/23 (the last year of the current MTFS). The MTFS currently assumes that the base budget shortfall in Revenues and Benefits will then be offset by a compensating reduction in net expenditure (including underspends) and will not add to the estimated budget gap. This needs to be reviewed as part of the next review of budget assumptions at the outset of the 2021/22 budget setting process.

3.39.6 NNDR Smoothing Reserve – This is an accumulation of unbudgeted retained business rates income, in the main related to the one-off financial gain from being part of the London Business Rates Retention Pilot Pool in 2018/19 and 2019/20. This one-off funding has been set aside to smooth the budgetary impact of future risks around the Council's retained business rates income, such as an expected full reset of business rates growth in 2021/22 not currently factored into the MTFS assumptions. The 2020/21 revenue budget includes a transfer of £4.779m to this reserve, for agreement.

3.39.7 Services Specific Reserve – This reserve is used to carry forward revenue budgets between financial years where the profile of service expenditure spans more than one financial year, or to help mitigate the impact of delayed savings. The 2020/21 revenue budget includes a drawdown of £0.925m from this reserve, for agreement.

3.39.8 Social Care Reserve – This is a new earmarked reserve to hold the new 2020/21 social care grant announced in Spending Round 2019, pending the further working up of proposals and draw down for one-off expenditure incurred during the financial year. The 2020/21 revenue budget includes a transfer of £5.985m to this new reserve, for agreement.

3.39.9 Street Markets – The Council operates three street markets at Chapel Market, Whitecross Street and Exmouth Market. Under laws governing the operation of these markets, any surplus at the end of each financial year is carried forward through this earmarked reserve for future costs of operating the markets.

3.39.10 Transformation – This provides 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 other one-off resources. The balance of this reserve is the combined balance of the remaining Transformation reserve (£12.329m) and the previous Invest to Save reserve (£2.810m) set aside for the same purpose.

3.40 The estimated 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 budget and any contingency sums. This is consistent with the existing policy to set a minimum target level of General Fund balances (excluding schools balances) at 5.0% of the net budget requirement (excluding schools expenditure) over the course of the MTFS. Ideally, the level of General Fund balances would be higher going forward given the level of risk around the medium-term assumptions.

4 HOUSING REVENUE ACCOUNT

Overview

4.1 The Housing Revenue Account (HRA) is a ring-fenced account, funded primarily from tenant rents and tenant and leaseholder service charges, covering the cost of:

- Managing and maintaining council-owned housing stock;
- Servicing existing debt taken on as part of HRA self-financing and new debt to support the delivery of the new build programme; and
- Contributing towards the long-term investment in the stock.

4.2 The HRA has a 30-year business plan that is currently balanced over the medium/long term.

4.3 The proposed balanced HRA budget for 2020/21 and estimates over the 3-year MTFS period, based on current knowledge and assumptions, are shown at **Appendix E1.** The movements between the 2019/20 and 2020/21 HRA budget is summarised in **Table 9**.

Table 9 – Summary of HRA Budget Changes 2019/20 to 2020/21

	£m
Expenditure	
Pay inflation	1.7
Contractual inflation on repairs	0.8
Other inflation increases (e.g. PFI, depreciation, gas and electricity)	1.5
Interest charges in respect of borrowing for new build programme and temporary accommodation acquisition programme	1.5
Increase in bad debt provision related to Universal Credit	0.5
Other budget realignments	0.8
One-off contingency increase (Traffic Management Orders and bringing PFI2 in-house)	1.2
Increase in transfer to HRA Reserves	2.7
Total Expenditure Increase	**10.7**
Income	
Leaseholders – more closely aligning service charges with actual costs	(0.6)
Interest earned on HRA Balances	(0.2)
Budget realignments	(1.8)
Tenant service charges and parking income	(0.9)
Rent increase	(7.2)
Total Income Increase	**(10.7)**
Net Movement	**0.0**

Rental Income and Other HRA Fees and Charges

4.4 The Welfare Reform and Work Act 2016 required Local Authorities to reduce the rents, in respect of all properties held in the HRA, by 1% each year for four consecutive years between 2016/17 and 2019/20.

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

4.6 Compliance with this policy is effectively mandatory as for the first time the Government has included local authority social housing within the remit of the Regulator of Social Housing (previously the Regulator governed rent setting in respect of private registered providers of social housing only (i.e. housing associations)). The Regulator is required by direction from the MHCLG to have regard to the Government's policy statement referred to above and therefore the Regulator's new rent standard, published in May 2019 and effective from April 2020, reflects the Government's policy statement.

4.7 The proposed 2020/21 rents set out below have been calculated in accordance with the new rent standard. The new rent standard does not apply to PFI managed properties.

LBI Managed General Needs Properties (excluding New Build Properties)

4.8 **Table 10** sets out the average proposed rent for existing tenancies. The maximum permitted 2020/21 rent is the 2019/20 actual rent plus CPI 1.7% (September 2019) plus 1%. This applies unless it exceeds the lower of the national rent cap or the target rent in which case the 2020/21 rent will be the higher of: the national rent cap or the target rent, whichever is lower; or 2019/20 actual rent plus CPI 1.7% (September 2019) plus 0%.

4.9 97% of the LBI General Needs properties will be subject to the maximum rent increase in 2020/21 of 2.7% (i.e. CPI 1.7% at September 2019 plus 1%) as their maximum rent in 2020/21 is less than the lower of the national rent cap or the target rent.

4.10 Only 1% of the LBI General Needs properties have a target rent greater than the national rent cap.

Table 10 – Existing Tenancies Average Weekly Rent 2020/21

	Proposed 2020/21
Average Weekly Rent 2019/20	£108.03
Increase (£)	£2.90
Increase (%)	2.68%
Average Weekly Proposed Rent	£110.93

4.11 Properties will be re-let at the lower of the national rent cap or the target rent. As 99% of LBI General Needs properties have a target rent below the national rent cap, it is likely that re-lets will be at the target rent.

4.12 2019/20 target rents are permitted to increase by CPI 1.7% (September 2019) plus 1% and the national rent caps are based on the 2015/16 rent caps increased in 2020/21 by CPI 1.7% (September 19) plus 1.5%.

4.13 **Table 11** sets out the proposed average change in target rents and the proposed most likely average re-let rent in 2020/21.

Table 11 – Re-Let Properties - Likely Average Weekly Rent 2020/21

	Proposed 2020/21
Average Weekly Target Rent 2019/20	£113.28
Increase (£)	£3.06
Increase (%)	2.70%
Average Weekly Proposed Target Rent	£116.34

LBI Managed General Needs New Build Properties

4.14 Existing Tenancies – 2020/21 rents will reflect an increase of CPI 1.7% (September 2019) plus 1%.

4.15 Re-Lets and first lets in 2020/21 - rents will be set at 2020/21 target rent (i.e. 2019/20 target rent plus CPI 1.7% (September 2019) plus 1%)

LBI Managed Non-General Needs Properties used for Temporary Accommodation (including Reception Centres & General Needs properties assigned to TA clients)

4.16 Existing Tenancies and Re-Let rents in 2020/21 will be set on the same basis as General Needs properties referred to above.

LBI Managed Property Acquisitions

4.17 Existing Tenancies – 2020/21 rents will be set at the lower of the 2019/20 rent plus CPI 1.7% (September 2019) plus 1% or the relevant 2020/21 local housing allowance rate (subject to the latter being less than 80% of the market rent).

4.18 Re-Lets and first lets in 2020/21 – rents will be set at the relevant 2020/21 local housing allowance rate subject to this being less than 80% of the market rent.

Partners for Islington (PFI) Managed Properties

4.19 It is proposed that existing Council policy continues to apply to all PFI managed properties.

4.20 This means that the principles of rent restructuring will continue to apply in that PFI properties in respect of existing tenancies (not previously re-let) will continue to move towards the lower of the 2020/21 PFI target rent or the PFI rent cap subject to a maximum increase of the 2019/20 actual rent plus CPI 1.7% (September 2019) plus 1% plus £2.

4.21 Where an existing tenancy rent is already at either the lower of the PFI rent cap or target rent (if not previously re-let) or the target rent (if previously re-let), then the maximum increase will be plus CPI 1.7% (September 2019) + 1%.

4.22 PFI property re-lets in 2020/21 will have rents set at 2020/21 target rents (i.e. the 2019/20 target rent plus CPI 1.7% (September 2019) plus 1%).

4.23 **Table 12** below sets out the average change in PFI target rents and the proposed rent for PFI properties (existing tenancies not yet at the PFI rent cap or target rent).

Table 12 – Existing Tenancies (Not at Target Rent or PFI Rent Cap in 2019/20)
PFI Properties Average Weekly Rent 2020/21

	Proposed 2020/21
Average Weekly Rent 2019/20	£151.50
Increase (£)	£4.70
Increase (%)	3.10%
Average Weekly Proposed Rent	£156.20

4.24 **Table 13** below sets out proposed target rent changes and the proposed target rent for re-let PFI properties.

Table 13 – Re-Lets PFI Properties Weekly Rent 2020/21

	Proposed 2020/21
Average Weekly Target Rent 2019/20	£162.90
Increase (£)	£4.39
Increase (%)	2.70%
Average Weekly Proposed Target Rent	£167.29

Other HRA Fees and Charges

4.25 Other HRA fees and charges for 2020/21 are set out at **Appendix E2** and will increase by September 2019 RPI (2.4%), with the exception of the following charges:

4.25.1 Caretaking/Cleaning and Estate Services – On a 52-week basis the 2020/21 charges will increase by 60p or 3.9% per week. The increase reflects all inflationary increases in respect of pay, utilities and running costs and the latest costs associated with the provision of these services. The overall average weekly increase to tenants when combining rent and service charges is an average increase of £3.50 or 2.80% per week.

4.25.2 Heating and Hot Water – Even though it is anticipated that there will be a significant increase in gas prices, in order to help tenants with their cost of living expenses it is proposed to freeze gas charges to tenants for the fourth year and use the tenants heating reserve (which was set up to smooth the annual fluctuating gas costs) to absorb any increases in costs.

4.25.3 Concierge Service - On a 52-week basis charges will increase by an average of 98p or 13% per week to reflect the phasing in of the full costs related to providing this service. 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, is an average increase of £4.49 or 3%.

5 CAPITAL PROGRAMME

5.1 The 2020/21 to 2022/23 capital programme is summarised by directorate in **Table 14** and detailed at **Appendix F**.

Table 14 – Capital Programme 2020/21 to 2022/23

	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Environment and Regeneration	14.214	10.275	11.275	**35.764**
Housing	142.096	148.100	135.409	**425.605**
People	1.847	5.489	0.000	**7.336**
Resources	10.000	0.000	0.000	**10.000**
Total Capital Programme	**168.157**	**163.864**	**146.684**	**478.705**

5.2 The capital programme will deliver £479m of capital investment over the next three years and includes the continuation of the following ongoing major programmes:

- Housing new build programme (£252m);
- Housing major works and improvements programme (£150m);
- Property acquisition programme to reduce the reliance on expensive private sector temporary accommodation and improve the quality of temporary accommodation (£24m);
- Fleet replacement programme to help meet all new emissions standards in London (£5m); and
- Structural maintenance of the highways infrastructure including carriageways, footways and drainage (£4.2m).

5.3 In addition to these existing ongoing programmes, the capital programme includes a new £10m investment pot that will be focused on the Council's non-housing assets and shaped around the following three themes:

- Tackling urgent maintenance and improvement backlogs;
- Providing top-up funding to ensure that in-flight schemes are completed or accelerated; and
- Delivering new schemes.

5.4 Further work will be required to allocate this additional capital investment pot and plan delivery timescales. Once this work has been completed, the proposed revised capital programme will be set out in a report to Council during 2020/21. The £10m additional capital budget is currently fully profiled in 2020/21. However, it is unlikely that all schemes will be live during 2020/21 and therefore expenditure is likely to be incurred across two financial years.

5.5 This additional capital investment will be delivered in the context of work to establish a strategic, long-term approach to managing and enhancing the Council's asset base. This work is underpinned by the Council's ambition to:

- Establish an asset-enabled model of policy and service delivery that more effectively aligns the Council's asset base to the creation of a fairer place;
- Unlock maximum value from the Council's asset base for residents, staff & partners;
- Establish a unified governance framework and joined-up decision-making;
- Build an effective operating model to support delivery;
- Ensure we fully understand and tackle the maintenance backlog across our current asset base;
- Turbo-charge our house-building capacity; and
- Make public commitment to invest in a community asset base as a key part of the Council's civic leadership role

5.6 The estimated funding of the capital programme is summarised in **Table 15**. At the end of each financial year, the Section 151 Officer will apply resources to finance capital expenditure in the most cost effective way for the Council.

Table 15 – Estimated Funding of Capital Programme 2020/21 to 2022/23

	2020/21 £000	**2021/22 £000**	**2022/23 £000**	**Total £000**
General Fund Programme				
Capital Grant	1.900	3.067	1.700	**6.667**
Section 106/Community Infrastructure Levy	7.500	7.500	7.500	**22.500**
Capital Receipts	1.237	21.135	12.728	**35.100**
General Fund Borrowing	35.593	5.197	2.075	**42.865**
Total General Fund	**46.230**	**36.899**	**24.003**	**107.132**
HRA Programme				
Capital Grant	9.450	6.950	0.000	**16.400**
Capital Receipts	18.089	13.314	25.714	**57.117**
HRA Reserves	53.898	54.698	56.908	**165.504**
HRA Borrowing	40.490	52.003	40.059	**132.552**
Total HRA	**121.927**	**126.965**	**122.681**	**371.573**
Total Capital Programme	**168.157**	**163.864**	**146.684**	**478.705**

5.7 The Council's Capital Strategy, in compliance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities, will be included within the final budget report to the Executive on 6 February 2020 and Council on 27 February 2020.

6 TREASURY MANAGEMENT STRATEGY AND INVESTMENT STRATEGY 2020/21

6.1 The Council's annual Treasury Management Strategy for 2020/21, in line with the requirements of the CIPFA Treasury Management Code, will be considered initially by Audit Committee on 28 January 2020, and included within the final budget report to the Executive on 6 February 2020 and Council on 27 February 2020.

6.2 The final budget report to the Executive on 6 February 2020 and Council on 27 February 2020 will also contain the Investment Strategy disclosures required by the Statutory Guidance on Local Government Investments.

7 COUNCIL TAX AND RETAINED BUSINESS RATES 2020/21

Council Tax 2020/21

7.1 The detailed, statutory council tax calculations and the recommendations on the final level of the 2020/21 council tax, including the GLA precept, will form part of the final budget report to the Executive on 6 February 2020, for onward recommendation to Council on 27 February 2020. This will also incorporate decisions on the level of the council tax base to be agreed by Audit Committee on 28 January 2020 and the statutory forecast of the surplus/deficit on the Collection Fund as at 15 January 2020.

Retained Business Rates 2020/21

7.2 London Government, through decisions made collectively by the London Councils Leaders Committee and the Mayor has agreed, in principle, to extend its business rates retention pool in 2020/21 covering the GLA and the 33 London billing authorities even though the current 75% pilot will end. The deadline for notifying MHCLG of any intention to pull out of the pool is 16 January 2020.

7.3 The arrangements for the pool will be as follows:

- The locally retained share will revert back to the 2017/18 position – a 67% locally retained share split 37% for the GLA and 30% for the 33 billing authorities (including Islington);
- The central share payable to MHCLG will therefore be 33%;
- Revenue Support Grant will be reinstated for the 33 local authorities rather than being paid via retained business rates (as applied in 2018/19 and 2019/20) based on the numbers confirmed in the provisional settlement. The GLA's revenue support grant and the TfL capital investment grant will – as in 2017/18 – continue to be paid via retained business rates;
- London will continue to pay a single tariff payment to MHCLG via the pool;
- The levy on growth will be reinstated and there will be a single collective payment to MHCLG calculated and paid post year-end via the NNDR3 reconciliation process. A key benefit of pooling is that the collective levy rate would be lower and therefore London collectively would expect to pay a reduced levy in monetary terms; and
- The entire monetary benefit of pooling – in effect the levy saving – will pass entirely to billing authorities in line with the existing distribution arrangements payable on an unringfenced basis. The Mayor has agreed that the GLA will therefore not receive a share of the pooling benefit. In addition the collective strategic investment pot will not continue.

7.4 A pool memorandum of understanding will need to be signed off by each member authority through their usual decision making processes.

7.5 Treasury management issues and monetary transfers between billing authorities, the pool and the Corporation of London as in 2019/20 will be managed on the Corporation's behalf by the GLA under a delegation arrangement. This reflects the fact that the GLA already has the systems in place to manage payment flows to and from billing authorities for business rates retention as well as council tax and the Business Rates Supplement. Central share and transitional relief protection payments as well as its applicable share of prior year collection fund surpluses or deficits will continue to be paid by billing authorities direct to MHCLG.

7.6 In order that the final pool distribution modelling can be completed in advance of budget setting, billing authorities (including Islington) are requested to submit their NNDR1 returns to the GLA, London Councils and the Corporation by no later than Friday 24 January 2020

– a week earlier than the expected formal MHCLG (statutory) deadline of 31 January. This will ensure that the revised pool distribution model can be prepared and circulated to all 34 authorities. As the final pool distribution modelling will not be circulated until February 2020 (most likely after the finalisation of the budget papers for Executive and Council), the final version of the budget report will seek delegated authority to transfer any additional increase in estimated business rates retention income for 2020/21 to the NNDR smoothing earmarked reserve.

8 MATTERS TO CONSIDER IN SETTING THE BUDGET

COMMENTS OF THE SECTION 151 OFFICER

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

8.2 The process for compiling the budget estimates for a given financial year is an ongoing process within the medium-term financial planning cycle that begins almost three years before any given budget report is agreed. This is a Council-wide process involving all spending departments whereby estimates are worked up, challenged and refined as further information becomes known. It also takes into account the most recently available budget monitoring information and the latest view on budget assumptions for the forthcoming financial year. It is important to note that any one-year budget report is essentially a 'snapshot' and an estimate at a given time – assumptions and estimates are subject to change before, during and after the setting of the Council's budget. Notwithstanding the comments on the ongoing and evolving medium-term position, the thoroughness of the overall budget process provides assurance on the robustness of the Council's budget estimates and proposed financial reserves for the forthcoming financial year.

8.3 The 2020/21 budget assumptions in respect of central government funding reflect the Provisional Local Government Finance Settlement for 2020/21. Within this, it should be noted that all social care grant funding in 2020/21 (totalling £22.258mm) is now assumed as part of the ongoing base budget. Whilst the provisional settlement did not include funding allocations in relation to separate funding streams such as public health grant and homelessness grants, the 2020/21 budget assumptions in this regard are considered robust based on latest indications from the Government and are expected to be validated in due course.

8.4 It should be highlighted that the 2020/21 to 2022/23 savings programme presented in this report is in addition to the assumed ongoing delivery of 2019/20 savings totalling £13.474m. There remain significant risks around the ongoing delivery of some of the 2019/20 savings in future financial years, particularly those that are being covered from one-off resources in 2019/20 and cross-cutting savings that have still not been allocated against specific budgets.

8.5 At the point of finalising the 2020/21 budget estimates, £4.612m of cross-cutting savings agreed as part of the 2019/20 budget report have still not been allocated against specific budgets. This represents a significant budget risk of £1.712m in 2020/21 and £4.612m over the next three years (almost 20% of the total 3-year savings programme). These high-level savings themes by now should be much further worked up into concrete proposals and individual delivery projects. The budget risk of £1.712m in 2020/21 should be considered in the context of an available corporate contingency budget of £3.411m. It is critical that the deliverability of the unallocated cross-cutting savings assumed as part of the 2020/21 budget is reviewed as soon as possible (ideally before the start of the financial year) and that they are either allocated against specific budgets where robust plans exist to deliver the savings, or factored into the estimated budget gap as undeliverable savings before we commence the 2021/22 budget setting cycle. To this end, a risk-based review of all savings assumed in the MTFS is currently underway and will feed into the next review of budget assumptions at the outset of the 2021/22 budget setting process.

8.6 The longer-term central government Spending Review and planned reforms to the local government finance system around business rates retention and so-called fairer funding (Review of Relative Needs and Resources) have been delayed until 2021/22. Combined with the unknown impact of a new Government on local government funding, it is very difficult to estimate with any accuracy the budget gap in 2021/22 and 2022/23. The latest analysis from our external financial advisors estimates that inner London boroughs such as Islington will be hit harder by the fairer funding review and that the Council could lose £2.7m per annum of our core settlement funding assessment over the six years from 2021/22 to 2026/27 (£5.4m cut over the current MTFS period to 2022/23 and £16.2m total cut by 2026/27). This is not currently factored into the MTFS assumptions.

8.7 In addition to so-called fairer funding, an expected full reset of business rates growth in 2021/22 creates significant uncertainty around the c£10.8m of business rates retention growth that the Council has built up since the introduction of the business rates retention system in 2013/14. However, this may be partially or fully offset by a redistribution of the national business rates growth back to authorities based on need as well as by a review of our underlying business rates base and provision for appeals. The MTFS currently assumes that this will have a neutral affect overall and has set aside a NNDR smoothing reserve to smooth any budgetary impact.

8.8 Overall, the 2020/21 budget estimates and available contingency and reserves are considered broadly sufficient to cover known commitments and risks in the forthcoming financial year (e.g. currently unallocated cross-cutting savings), but with the caveat that there are significant concerns about the deliverability of the cross-cutting savings going forward.

8.9 Within the overall medium-term budget position, it should be noted that there is an estimated base budget shortfall of £2.057m in Revenues and Benefits that is being bridged by an annual drawdown from the Housing Benefit reserve (i.e. funding ongoing budget from one-off resources). On this trajectory, the Housing Benefit reserve is due to be fully depleted during 2022/23 (the last year of the current MTFS). The MTFS currently assumes that the base budget shortfall in Revenues and Benefits will then be offset by a compensating reduction in net expenditure (including underspends) and will not add to the estimated budget gap. This needs to be reviewed as part of the next review of budget assumptions at the outset of the 2021/22 budget setting process.

8.10 Beyond 2020/21, there is significant uncertainty around the estimated budget gap to close over the medium term. It is possible that the remaining medium-term gap presented in **Table 1**, based on the current MTFS assumptions, could be significantly higher. As such, it should be interpreted with caution, especially in light of the concerns raised in this section of the report. The robustness of all MTFS assumptions should be reviewed in early spring 2020, including different funding scenarios, in order to help shape the 2021/22 budget setting process from the outset.

8.11 In setting a minimum level of General Fund balances at 5.0% of the net budget requirement, consideration has been given to the key assumptions and risks inherent in the 2020/21 budget and over the medium term, the views of the Council's auditor and the level of earmarked reserves and provisions. However, ideally the level of General Fund balances, earmarked reserves and contingencies would all be higher going forward given the concerns over the medium-term budget position. It is recommended that any underspends at the end of the financial year should be used to increase General Fund balances and/or earmarked reserves in order to provide further resilience going into a very uncertain medium-term budget cycle from 2021/22. Moreover, should there be any advantageous changes to 2020/21 budget assumptions before finalising the final version of the budget report to the Executive on 6 February 2020 and Council on 27 February 2020, it is recommended that this is used to increase the corporate contingency budget.

COMMENTS OF THE MONITORING OFFICER

8.12 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 2020/21. 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.

8.13 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.

8.14 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.

8.15 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.

8.16 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.

RESIDENT IMPACT ASSESSMENT

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

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, take a reasonable and proportionate view about the overall impact on particular groups and seek to mitigate negative impacts where possible.

8.19 A Resident Impact Assessment (RIA) of the 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.

Appendices:
Appendix A – General Fund Medium-Term Financial Strategy 2020/21 to 2022/23
Appendix B – General Fund Revenue Savings and Income Generation 2020/21 to 2022/23
Appendix C1 – General Fund Revenue Budget Growth
Appendix C2 – Extended/Additional Provision Funded from Existing Budgets/External Funding
Appendix D1 – General Fund Fees and Charges 2020/21
Appendix D2 – Cemeteries Fees and Charges 2020/21
Appendix D3 – GLL Activity Prices 2020/21
Appendix D4 – GLL Memberships and Trampoline Pricing 2020/21
Appendix E1 – HRA MTFS 2020/21 to 2022/23
Appendix E2 – HRA Fees and Charges 2020/21
Appendix F – Capital Programme 2020/21 to 2022/23
Appendix G – Resident Impact Assessment

Background papers: None

Final report clearance:

Signed by:

8 January 2020

Executive Member for Finance, Performance and Community Safety Date

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