



Fehler, Peter

Peter.Fehler@islington.gov.uk

Resources Directorate

7 Newington Barrow Way, London, N7 7EP

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

Meeting of	Date	Ward(s)
Executive Council	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 reviewed the draft 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, includes the related annual Treasury Management Strategy and, in the final version of the budget report to Council on 27 February 2020, will include the Capital Strategy and the Investment Strategy.

Section 6 covers the detailed, statutory council tax calculations and matters relating to the London Business Rates Retention Pool.

Section 7 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 Acting Section 151 Officer in **Section 7** 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 approve and recommend to Council 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 there are significant 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 approve and recommend to Council 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 approve the 2020/21 fees and charges. (**Paragraphs 3.35-3.36 and Appendices D1-D4**)
- 2.8 To approve and recommend to Council the budgeted movements to/from earmarked reserves assumed as part of the 2020/21 revenue budget, and to note the policy on the minimum target level of General Fund balances. (**Paragraphs 3.38-3.40 and Table 8**)
- 2.9 To approve and recommend to Council that if there any advantageous changes to 2020/21 budget assumptions before finalising the budget report to Council on 27 February 2020 and/or an overall underspend on the General Fund budget at the end of the current 2019/20 financial year, that this should be used to increase the corporate contingency budget and/or General Fund balances. (**Paragraph 7.11**)

The HRA Budget and MTFS (Section 4)

- 2.10 To approve and recommend to Council 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 approve the 2020/21 HRA rents and other fees and charges. (**Tables 10-13 and Appendix E2**)

Capital Investment and Treasury and Investment Management (Section 5)

- 2.13 To approve and recommend to Council 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 The approve and recommend to Council the annual Treasury Management Strategy for 2020/21, which was considered by Audit Committee on 28 January 2020. (**Paragraph 5.7 and Appendices G1-G3**)
- 2.17 To note that additional appendices relating to 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, and the Investment Strategy disclosures required by the Statutory Guidance on Local Government Investments will be included in the within the final budget report to Council on 27 February 2020. (**Paragraph 5.8**)

Council Tax and Retained Business Rates (Section 6)

- 2.18 To approve and recommend to Council the calculations required for the determination of the 2020/21 council tax requirement and the level of council tax as detailed in **Section 6** and summarised below.
- 1) The 2020/21 council tax requirement of £98,768,282.10. (**Paragraph 6.2**)
 - 2) The relevant basic amount of Islington Band D council tax of £1,216.04, a 3.99% increase compared to 2019/20 (comprising 2.00% for expenditure on adult social care and 1.99% for other expenditure), and that this is not 'excessive'. (**Paragraphs 6.3 and 6.4**)
 - 3) The basic amount of Islington Band D council tax for dwellings to which no special item relates (i.e. outside of the Lloyd Square Garden Committee area) of £1,215.81. (**Paragraph 6.5**)
 - 4) The amount of 2020/21 council tax (excluding the GLA precept) for each valuation band over each of the Council's areas. (**Paragraph 6.7**)
 - 5) The total amount of 2020/21 council tax (including the GLA precept) for each valuation band over each of the Council's areas. (**Paragraph 6.9**)
- 2.19 To note arrangements for the London Business Rates Retention Pool in 2020/21, which will continue on a non-pilot basis. (**Paragraphs 6.10-6.13**)
- 2.20 To approve and recommend to Council that any additional estimated retained business rates income in 2020/21 before finalising the budget report to Council on 27 February 2020 should be used to further increase General Fund balances. (**Paragraph 6.14**)

Matters to Consider in Setting the Budget (Section 7)

- 2.21 To have regard to the Acting 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 7.1-7.11**)
- 2.22 To note the comments of the Monitoring Officer. (**Paragraphs 7.12-7.16**)
- 2.23 To note the Resident Impact Assessment (RIA) on the budget proposals. (**Paragraphs 7.17-7.19 and Appendix H**)

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 £11.130m in 2020/21 (balanced in full by the proposals in this report) and £39.342m over the medium term (with a remaining 3-year gap of £10.527m after the proposals in this report). This is subject to the comments of the Acting Section 151 Officer in **Section 7** 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)	16.219	15.086	14.995	46.300
Central Government Funding	(13.693)	4.090	0.530	(9.073)
Other Net Funding Changes (e.g. funding substitutions)	(5.544)	5.918	(1.057)	(0.683)
Change in net transfer to/(from) reserves	14.148	(11.350)	0.000	2.798
Gross Budget Gap	11.130	13.744	14.468	39.342
Savings	(9.663)	(11.234)	(2.695)	(23.592)
Budget Growth	2.322	0.274	0.000	2.596
Assumed Council Tax Increase	(1.890)	(1.985)	(2.045)	(5.920)

Assumed Adult Social Care Precept	(1.899)	0.000	0.000	(1.899)
Remaining Budget Gap	0.000	0.799	9.728	10.527

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 £3.544m per annum in 2020/21 and £10.846m 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 £1.8m). 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 £5.539m 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 £16.952m 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 assumed demand reducing savings, will total £5.818m in 2020/21 and £13.440m over the medium term. These estimates should be reviewed annually as part of future MTFS refreshes due to significant volatility in the demand for services and given that the assumed demand reducing savings have not yet been realised. Further work is being undertaken to test the assumptions around the demand reduction savings, which may impact on the future level of demographic growth in the MTFS.

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

*The 2023/23 demographic growth estimates are lower in some cases compared to 2020/21 and 2021/22. This is due to a presentational change; the 2022/23 demographic growth estimates are net of assumed management actions to counter increasing demand, in contrast to 2020/21 and 2021/22 where the management actions are shown separately as savings.

- 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	6.442	7.464	9.504
Traffic and Control Liaison Committee	0.295	0.268	0.268	0.268
Total	19.962	20.148	21.440	23.753
Year-on-Year Increase (£m)		0.186	1.292	2.313
Year-on-Year Increase (%)		0.93%	6.41%	10.79%

- 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 ran from 20 December to 17 January 2020 and will be followed by the final settlement some time 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 following separate funding streams sit outside the main funding local government finance settlement.

3.16.1 Public Health grant – Pending the announcement of 2020/21 public health grant allocations, the MTFS assumes that Islington will receive public health grant of £25.667m in 2020/21 (a 1.7% inflationary increase based on the September 2019 Consumer Price Index).

3.16.2 Homelessness grants – Provisional 2020/21 allocations have been announced for the Flexible Homelessness Support Grant (£2.141m, unchanged from 2019/20) and the HRA/Prevention pot (£0.906m, an increase of £0.569m from 2019/20). The MTFS assumes that any decrease in homelessness funding in subsequent years would be contained within the available external funding and any carried forward funding from previous years.

3.16.3 Troubled Families programme funding – The Troubled Families programme was due to end in March 2020 but the Government has confirmed that funding will now continue in 2020/21. The MTFS currently assumes that costs will be contained within the available Government funding, which is 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.

3.17.1 The latest emerging analysis from our external financial advisors indicates that inner London boroughs such as Islington will be hit harder by the fairer funding review and that, looking at this review in isolation, the Council could lose £23.6m of central government funding over the five years from 2021/22 to 2025/26. This analysis is highly speculative based on limited available information from proposals under the previous Government, and more indicative of the overall direction of travel than precise funding estimates. Moreover, it is anticipated that this would be at least partially offset by other funding changes such as the needs-based redistribution of previous incentive-based funding (e.g. end of New Homes Bonus funding, reset of business rates retention growth). The MTFS currently assumes that the Council's overall central Government funding (including retained business rates) will be flat in cash terms in 2021/22 and 2022/23 (with the exception of the planned end to New Homes Bonus grant that is already factored into the MTFS). Based on the latest direction of travel, this cash flat assumption is now considered higher risk than previously and will need to be reviewed as part of the next MTFS refresh (including any implications from the Government's Budget announcement in March 2020).

3.17.2 There is additional 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 not currently 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 approval in this report. This is part of a revised savings programme totalling £23.592m over the course of 2020/21 to 2022/23, for approval, 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 delivery of 2019/20 base budget savings totalling £13.475m. Based on a recent risk-based (Red/Amber/Green) review of the 2019/20 base budget savings, £10.444m (78%) are Green rated, £0.436m are Amber rated and £2.595m are Red rated. Whilst the Amber and Red rated savings are being covered from one-off resources and underspends in the current financial year, there are significant risks around the ongoing delivery of these savings in future years.
- 3.20 There is a particularly high degree of risk around the cross-cutting savings assumed in the budget. 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 similar risk-based review of the assumed 2020/21 to 2022/23 savings is now underway. The conclusions from the savings review, including any re-phasing of savings, will feed into the next review of budget assumptions at the outset of the 2021/22 budget setting process. Any re-phasing of savings in-year will also be captured through the monthly revenue budget monitoring 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). The ongoing MTFs implications of this additional growth is currently being reviewed, including scope for containing within existing budgets, and will be reflected in the final version of the budget report to Council on 27 February 2020.

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
Chief Executive's	1.134
Environment and Regeneration	17.330
Housing	10.371
People	148.220
Public Health	0.000
Resources	39.329
Net Services	216.384
Corporate Items	2.436
Net Operating Budget	218.820
Contingency	3.442
Transfer to/(from) Reserves	9.941
Corporate Specific Grants	(5.834)
Net Budget Requirement	226.369
Settlement Funding Assessment	(109.713)
Additional Business Rates Retention Income	(10.847)
One-off Collection Fund Surplus	(7.040)
Council Tax Requirement	98.769

- 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;
- Finalisation of the NNDR1 return (detailed business rates estimate);
- Confirmation of remaining corporate levies;
- Any changes to the expected delivery and phasing of agreed savings following the risk-based review of the savings programme that is currently underway;
- Testing of the demand reduction savings assumed as part of the demographic growth estimates;
- Confirmation of the pay award (2% currently assumed);
- 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 the central schools services block before the start of the financial year. 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 £0.777m (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 implement the National Funding Formula in full in 2020/21 with an MFG of 1.43%. This is due to be signed off by the Executive Member for Children's and Families.

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 was 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 £3.641m 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 were 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 £3.442m. All directorates have agreed cash limited budget allocations and therefore take responsibility for delivering a balanced budget unless a business case is approved for an allocation from the corporate contingency budget.
- 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 known movements, is shown in **Table 8**.

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

	Estimated Balance 31 March 2020 £m	Estimated Balance 31 March 2021 £m	Estimated Balance 31 March 2022 £m	Estimated Balance 31 March 2023 £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	4.533	3.124	1.715
NNDR Smoothing	9.324	15.930	15.930	15.930
Services Specific	12.314	10.767	10.767	10.767
Street Markets	0.579	0.579	0.579	0.579
Transformation/Invest to Save	12.329	12.329	12.329	12.329
General Balances				
General Fund (non-schools)	10.881	11.315	11.315	11.315
Schools Balances	11.840	11.840	11.840	11.840
Total	73.840	77.828	76.952	76.071

- 3.39 The paragraphs below explain the purpose of each earmarked reserve and, for approval, 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 approval.

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. There is an estimated shortfall of £1.409m in the housing benefit administration budget that is being bridged by an annual drawdown from the Housing Benefit reserve (i.e. funding ongoing budget from one-off resources). As such, the 2020/21 revenue budget includes a drawdown of £1.409m from this reserve, for approval. This base budget shortfall represents the amount by which the Council's housing benefit administration costs exceed the available housing benefits administration grant. There is sufficient balance in the Housing Benefit reserve to fund the base budget shortfall over the current 3-year MTFS period. The MTFS currently assumes that the base budget shortfall will be fully offset by a permanent reduction in ongoing expenditure upon the full implementation of Universal Credit and that it will not add to the estimated budget gap. This assumption should be kept under review, including any changes to the Universal Credit full implementation timetable (currently by the end of 2023), as the future shape of the remaining housing benefit service becomes clearer.

3.39.6 NNDR Smoothing Reserve – This is an accumulation of unbudgeted retained business rates income, including 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, but not yet allocated, for risks around Government funding reforms and/or additional future one-off expenditure requirements. For approval, the 2020/21 revenue budget includes a transfer of £6.606m to this reserve, this representing the forecast 2019/20 Collection Fund surplus on the business rates account.

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. For approval, the 2020/21 revenue budget includes the following budgeted movements to/from this reserve: drawdown of prior year interest savings on pensions costs to corporate items to reflect the annual profile of corporate pensions costs (£0.925m); and transfer to the reserve relating to the additional social care grant to be received in 2020/21 (£5.985m), pending the further working up of proposals and draw down for expenditure when it is incurred.

3.39.8 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.

3.39.9 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.

3.40 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 budget and any contingency sums. The estimated level of General Fund balances in **Table 8** is consistent with the existing policy to set a minimum target level at 5.0% of the net budget requirement. This includes an additional £0.434m to be transferred to balances in 2020/21, relating to the forecast 2019/20 Collection Fund surplus on the council tax account.

- 3.41 Ideally the level of General Fund balances would be higher going forward given the degree of risk around the medium-term budget 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 annual fluctuating gas costs) to absorb any increases in costs. Furthermore, the Kings Square estate will be added to the Bunhill energy network in 2020, and as such the 10% reduction in heating and hot water charges that applies to all tenants connected to the Bunhill energy network will be extended to Kings Square tenants with effect from April 2020.

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 is underway to allocate this additional capital investment pot and plan delivery timescales. Whilst the full £10m is currently profiled in 2020/21, it is unlikely that all schemes will be live during 2020/21 and therefore expenditure is likely to be incurred across 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 annual Treasury Management Strategy for 2020/21, in line with the requirements of the CIPFA Treasury Management Code, was considered by Audit Committee on 28 January 2020, and is included at **Appendices G1-G3** for approval.
- 5.8 The final budget report Council on 27 February 2020 will include additional appendices relating to: 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; and the Investment Strategy disclosures required by the Statutory Guidance on Local Government Investments.

6 COUNCIL TAX AND RETAINED BUSINESS RATES 2020/21

Islington Council Tax Base 2020/21

- 6.1 On 28 January 2020, the Audit Committee agreed a Band D equivalent council tax base for 2020/21 of 81,221.2 properties for the Council's whole area, and 45.2 properties for the Lloyd Square Garden Committee area. This assumes a budgeted council tax collection rate of 98.0%, unchanged from 2019/20.

Council Tax 2020/21

- 6.2 Sections 31A and 31B of the amended Local Government Finance Act (LGFA) 1992 require the Council to calculate its gross expenditure, gross income and council tax requirement. For these purposes, HRA expenditure and income is included even though it has no effect on council tax, and the gross expenditure figure includes special expenses relating to part only of the Council's area. The calculation of the 2020/21 council tax requirement is set out in **Table 16**.

Table 16 – Section 31A (amended LGFA 1992) Calculation 2020/21

	£
Aggregate of the amounts which the Council estimates for items set out in Section 31A (2) (a) to (f) of the LGFA 1992 (A)	1,023,909,082.10
Aggregate of the amounts which the Council estimates for items set out on Section 31A (3) (a) to (d) of the LGFA 1992 (B)	(925,140,800.00)
Calculation of the council tax requirement under Section 31A (4), being the amount by which the sum aggregated at (A) above exceeds the aggregate at (B) above	98,768,282.10

- 6.3 The calculation of the relevant (average) 2020/21 council tax per Band D property is set out in **Table 17**.

Table 17 – Section 31B (amended LGFA 1992) Calculation 2020/21

Council Tax Requirement	98,768,282.10
Council Tax Base	81,221.2
2020/21 Relevant Band D Council Tax	1,216.04
Increase Compared to 2018-19	3.99%

- 6.4 Each billing authority and precepting authority must determine whether its relevant basic amount of council tax for a financial year is excessive. If an authority's relevant basic amount of council tax is excessive, a referendum must be held in relation to that amount. For 2020/21, the relevant basic amount of council tax for Islington would be excessive if it is 4% (comprising 2% for expenditure on adult social care, and 2% for other expenditure), or more than 4%, greater than 2019/20. Therefore, the proposed 3.99% increase in the relevant basic amount of Band D Islington council tax, which comprises 2.00% for expenditure on adult social care and 1.99% for other expenditure, is not excessive.
- 6.5 Additional council tax calculations are required where special items relate to part only of the Council's area (for Islington, the Lloyd Square Garden Committee special expense). The calculation of the 2020/21 basic amount of council tax for dwellings in Islington to which no special item relates (i.e. outside the Lloyd Square Garden Committee area) is shown in **Table 18**.

Table 18 – 2020/21 Basic Council Tax for All Other Parts of the Council's Area

Council Tax Requirement (including Lloyd Square Garden Committee special expense)	98,768,282.10
Less Lloyd Square Garden Committee special expense	(£18,922.10)
Council Tax Requirement (excluding special expenses)	98,749,360.00
Council Tax Base	81,221.2
2020/21 Basic Band D Council Tax for All Other Parts of the Council's Area	£1,215.81
Increase Compared to 2018-19	3.99%

- 6.6 The Lloyd Square Garden Committee special expense is £18,922.10 in 2020/21. When this is divided by the Lloyd Square Garden Committee Band D tax base (45.2), it gives a charge of £418.63 per Band D property for 2020/21. This will be charged to Lloyd Square Garden area dwellings in addition to the basic Islington Band D council tax of £1,215.81 for all other parts of the Council's area.
- 6.7 The 2020/21 basic amount of Islington council tax for each valuation band for the Lloyd Square Garden area and all other parts of the Council's area are shown in **Table 19**. These amounts are calculated by multiplying the Band D council tax amount per property by the proportions set out in Section 5(1) of the LGFA 1992.

Table 19 – Basic Islington Council Tax 2020/21

Valuation Band	Lloyd Square Garden Area (£)	All Other Parts of the Council's Area (£)
A	1,089.63	810.54
B	1,271.23	945.63
C	1,452.84	1,080.72
D	1,634.44	1,215.81
E	1,997.65	1,485.99
F	2,360.86	1,756.17
G	2,724.07	2,026.35
H	3,268.88	2,431.62

6.8 The proposed 2020/21 GLA precept for each valuation band is shown in **Table 20**.

Table 20 – GLA Precept 2020/21

Valuation Band	GLA (£)
A	221.38
B	258.28
C	295.17
D	332.07
E	405.86
F	479.66
G	553.45
H	664.14

6.9 Once the proposed 2020/21 GLA precept has been announced, **Table 21** will show the total amount of 2020/21 council tax (including GLA precept) for each valuation band over each of the Council's areas.

Table 21 – Total Islington and GLA Council Tax 2020/21

Valuation Band	Lloyd Square Garden Area (£)	All Other Parts of the Council's Area (£)
A	1,311.01	1,031.92
B	1,529.51	1,203.91
C	1,748.01	1,375.89
D	1,966.51	1,547.88
E	2,403.51	1,891.85
F	2,840.52	2,235.83
G	3,277.52	2,579.80
H	3,933.02	3,095.76

Retained Business Rates 2020/21

- 6.10 London Government has agreed 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.
- 6.11 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.
- 6.12 A pool memorandum of understanding will need to be signed off by each member authority through their usual decision making processes.

- 6.13 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.
- 6.14 It is recommended that any additional estimated retained business rates income in 2020/21 before finalising the budget report to Council on 27 February 2020, based on the Council's NNDR1 return (detailed business rates estimate) and any updated modelling from the London pool, should be used to further increase General Fund balances. This recognises the need to provide further resilience going into a very uncertain medium-term budget cycle from 2021/22.

7 MATTERS TO CONSIDER IN SETTING THE BUDGET

COMMENTS OF THE SECTION 151 OFFICER

- 7.1 This section contains the Acting 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 Acting Section 151 Officer when making decisions about the budget and the level of council tax.
- 7.2 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.
- 7.3 The 2020/21 budget assumptions in respect of central government funding reflect the Provisional Local Government Finance Settlement for 2020/21 and subsequent announcements. 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 public health grant allocations for 2020/21 have yet to be announced, the inflationary increase assumed in the budget is considered robust based on latest indications from the Government.
- 7.4 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. A similar risk-based review of the assumed 2020/21 to 2022/23 savings is now underway. The conclusions from this savings review, including any re-phasing of savings, will feed into the next review of budget assumptions at the outset of the 2021/22 budget setting process.

- 7.5 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 £3.442m. 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.
- 7.6 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, but with the caveat that there are concerns around the ongoing delivery of savings over the medium term. This includes the demand reducing savings assumed as part of the demographic growth estimates, as these savings have not yet been realised. There is also a significant risk that the ongoing budget growth included at **Appendix C2** could add to the medium-term budget gap. In terms of the latter, this will be clarified and reflected in the final version of the budget report to Council on 27 February 2020.
- 7.7 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.
- 7.8 The latest emerging analysis from our external financial advisors indicates that inner London boroughs such as Islington will be hit harder by the fairer funding review and that, looking at this review in isolation, the Council could lose £23.6m of central government funding over the five years from 2021/22 to 2025/26. This analysis is highly speculative based on limited available information from proposals under the previous Government, and more indicative of the overall direction of travel than precise funding estimates. Moreover, it is anticipated that this would be at least partially offset by other funding changes such as the needs-based redistribution of previous incentive-based funding (e.g. end of New Homes Bonus funding, reset of business rates retention growth). The MTFS currently assumes that the Council's overall central Government funding (including retained business rates) will be flat in cash terms in 2021/22 and 2022/23 (with the exception of the planned end to New Homes Bonus grant that is already factored into the MTFS). Based on the latest direction of travel, this cash flat assumption is now considered higher risk than previously and will need to be reviewed as part of the next MTFS refresh (including any implications from the Government's Budget announcement in March 2020).
- 7.9 It should also be noted that there is an estimated shortfall of £1.409m in the housing benefit administration budget that is being bridged by an annual drawdown from the Housing Benefit reserve (i.e. funding ongoing budget from one-off resources). The MTFS currently assumes that this base budget shortfall will be fully offset by a permanent reduction in ongoing expenditure upon the full implementation of Universal Credit and that it will not add to the estimated budget gap. This assumption should be kept under review, including any changes to the Universal Credit full implementation timetable (currently by the end of 2023), as the future shape of the remaining housing benefit service becomes clearer.
- 7.10 Given the huge risks and uncertainties around the medium-term financial outlook, it is possible that the estimated budget gap presented in **Table 1** (based on the current MTFS

assumptions) could be significantly higher and therefore it should be treated with caution. The robustness of all MTFS assumptions should be reviewed in early spring 2020, including different funding scenarios, in order to shape the 2021/22 budget setting process from the outset.

- 7.11 In setting a minimum target 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 if there be any advantageous changes to 2020/21 budget assumptions before finalising the budget report to Council on 27 February 2020 (including any additional retained business rates income) and/or an overall underspend on the General Fund budget at the end of the current 2019/20 financial year, that this should be used to increase the corporate contingency budget and/or General Fund balances. This would provide further resilience going into a very uncertain medium-term budget cycle from 2021/22.

COMMENTS OF THE MONITORING OFFICER

- 7.12 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.
- 7.13 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.
- 7.14 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.
- 7.15 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.
- 7.16 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

- 7.17 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.


- 7.18 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.
- 7.19 A Resident Impact Assessment (RIA) of the budget proposals is set out at **Appendix H**. 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
Appendices G1-G3 – Treasury Management Strategy 2020/21 and related appendices
Appendix H – Resident Impact Assessment

Background papers: None

Final report clearance:

Signed by:		29 January 2020
	Councillor Andy Hull, Executive Member for Finance, Performance and Community Safety	Date

Responsible Officer:

Steve Key (Assistant Director, Service Finance) (Acting Section 151 Officer)

Report Author:

Martin Houston, Strategic Financial Advisor

Legal Implications Author:

Peter Fehler (Acting Director of Law and Governance)