ISLINGTON

Resources Directorate
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Report of: Executive Member for Finance and Performance

Meeting of	**Date**	**Ward(s)**
Executive	21 January 2021	All

Delete as appropriate	~~Exempt~~	Non-exempt

DRAFT BUDGET PROPOSALS 2021/22 AND MEDIUM-TERM FINANCIAL STRATEGY

1 SYNOPSIS

1.1 The principal purpose of this report is for the Executive to consider draft proposals in respect of the council's 2021/22 budget and the latest assumed medium-term financial position.

1.2 The draft proposals take into account an unprecedented level of uncertainty around the council's budget due to ongoing developments around the COVID-19 crisis and the delay of a longer-term local government funding settlement.

1.3 Outwith wartime, COVID-19 has caused the largest shock to the global economy on record, with severe restrictions put in place across huge swathes of economic and social activities. Rather than a one-off event that the council's budget is recovering from, it is expected that COVID-19 will continue to have a significant, currently unquantifiable, impact on the council's medium-term budget over and above the amount covered by the government's COVID support package announced to date. For example, the COVID support package provides no funding for business rates income losses in 2021/22 and only provides support for sales, fees and charges income losses up until June 2021. Therefore, it is essential that the council has sufficient annual contingency budget and reserves to boost financial resilience and protect residents.

1.4 The COVID-19 crisis has had a massive impact on the council's work, and how it supports and delivers its services to residents and local people. While supporting residents hardest hit by the pandemic, the council remains determined to make Islington a fairer place for all, so that:

- Everyone has a decent, genuinely affordable place to call home;
- Everyone feels safe and does their bit to keep others safe too;
- We build and support a thriving local economy that works for everyone, offering jobs and opportunities for local people; and
- Everyone can enjoy a cleaner, greener, healthier future.

1.5 The 2021/22 budget outlines how the council will invest in new innovations and improvements to support that effort, including setting the foundations for becoming a net zero-carbon borough within a decade and continuing with our ambitious council house building programme. Alongside this, we are having to make savings of £25m in 2021/22 due to the impact of central government funding cuts over the past decade and rising costs and demand for council services. We have protected the services local people value and rely on, and we will continue to invest in the issues that matter most to our residents.

1.6 Based on the government's methodology, Islington's Core Spending Power (CSP) will increase by 3.7% in 2021/22, which represents a real term increase in resources but is less than the national average increase of 4.5%. The government has assumed that the council will increase core council tax by the maximum amount (1.99%) and will apply a 3% Adult Social Care (ASC) precept. Therefore, the draft 2021/22 budget and MTFS is premised on a proposed increase in the basic Islington council tax of 1.99% in 2021/22 and, subject to review as part of future budget setting cycles, assumed increases of 1.99% in 2022/23 and 2023/24. A 1.99% increase in the basic Islington council tax (excluding the GLA precept) for the average (Band D) property equates to an increase of around 47p per week, or 4p per week for working aged council tax support recipients.

1.7 The draft 2021/22 budget also assumes that the ASC precept of 3% will be applied. This equates to a further increase of around 70p per week for the average (Band D) property, or 6p per week for working aged council tax support recipients.

1.8 The Policy and Performance Scrutiny Committee will review the budget proposals on 25 January 2021 and its comments will be taken into account in finalising the budget proposals and proposed level of council tax for consideration by the Executive on 11 February 2021 and onward recommendation to Full Council on 25 February 2021.

1.9 The council will also be inviting comments from business rates payers and representatives of business rates payers in Islington on the draft 2021/22 budget proposals set out in this report. The consultation period will run from 13 January 2021 (upon the publication of this report and related communication to business rates payers and representatives of business rates payers) to 2 February 2021. Any comments received will be considered by the council before the final budget proposals for consideration by the Executive on 13 February 2021 and Full Council on 25 February 2021.

1.10 The contents of the report are summarised below.

Section 2 sets out the recommendations.

Section 3 summarises the assumptions within the General Fund (GF) Medium-Term Financial Strategy (MTFS) and sets out the 2021/22 net revenue budget as well as GF 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 2021/22 to 2023/24 capital programme and funding, and the latest indicative programme up until 2030/31. In the final version of the budget report, which goes to the Executive on 11 February 2021 and Full Council on 25 February 2021, the Capital Strategy, Treasury Management Strategy and Investment Strategy will also be included here.

Section 6 will include the detailed, statutory council tax calculations and any matters relating to retained business rates and, if applicable, the London Business Rates Retention (Non-Pilot) Pool in the final version of the budget report for Executive on 11 February 2021 and Full Council on 25 February 2021.

Section 7 details the matters to formally consider in setting the final budget, namely the comments of the Section 151 Officer and the Monitoring Officer, an Equality Impact Assessment (EQIA) of the budget proposals and budget consultation requirements.

2 RECOMMENDATIONS

The General Fund Budget 2021/22 and MTFS (Section 3)

2.1 To approve and recommend to council the latest assumed MTFS and balanced 2021/22 budget, including the underlying principles and assumptions. (**Paragraphs 3.1-3.30**, **Table 1** and **Appendix A**)

2.2 To note the unprecedented level of uncertainty in the estimates due to COVID-19 and the wider local government funding outlook. (**Paragraphs 3.31-3.41**)

2.3 To approve and recommend to council the latest draft 2021/22 net budgets by directorate. (**Paragraph 3.5**, **Table 2** and **Appendix A**)

2.4 To approve and recommend to council the 2021/22 savings (**Paragraphs 3.42-3.45**, **Table 6** and **Appendices B1-B2**), which in some cases remain subject to consideration of individual consultations before implementation.

2.5 To note the Dedicated Schools Grant (DSG) settlement for 2021/22 and related funding assumptions. (**Paragraphs 3.46-3.55**)

2.6 To approve the fees and charges policy and the GF fees and charges for 2021/22. (**Paragraphs 3.56-3.63** and **Appendices C1-C5**)

2.7 To approve and recommend to council the policy on GF contingency and reserves, including the target level of GF balances, and agree the movements to/from earmarked reserves assumed as part of the 2021/22 revenue budget. (**Paragraphs 3.64-3.72** and **Table 7**)

2.8 To approve and recommend to council that the Section 151 Officer be delegated responsibility for any technical adjustments required to be made to the 2021/22 budget (in line with the council's Financial Regulations).

2.9 To approve and recommend to council that centrally held demographic growth be allocated to service budgets if and when the need materialises and approved by the Section 151 Officer. (**Paragraph 3.9**)

The HRA Budget and MTFS (Section 4)

2.10 To approve and recommend to council the balanced HRA 2021/22 budget and note the latest estimates over the 3-year MTFS period. (**Paragraphs 4.1-4.3, Table 8** and **Appendix D1**)

2.11 To approve the HRA rents and other HRA fees and charges for 2021/22. (**Paragraphs 4.4-4.30**, **Tables 9-12** and **Appendix D2**)

Capital Investment and Treasury and Investment Management (Section 5)

2.12 To approve and recommend to council the draft 2021/22 to 2023/24 capital programme, including investment in projects related to the council's net zero carbon priority, and note the latest indicative capital programme for 2024/25 to 2030/21. (**Paragraph 5.1-5.5**, **Table 13** and **Appendix E)**

2.13 To note the estimated funding of the 2021/22 to 2023/24 capital programme and 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. (**Paragraphs 5.6-5.7** and **Table 14**)

2.14 To note that the final version of the budget report to the Executive on 11 February 2021 and Full Council on 25 February 2021 will include the Capital Strategy, Treasury Management Strategy and Investment Strategy. (**Paragraph 5.8**)

Council Tax and Retained Business Rates (Section 6)

2.15 To note that the detailed, statutory council tax calculations and the recommendations for the final 2021/22 council tax, including the GLA precept, will be included for agreement in the final budget report to the Executive on 11 February 2021 and Full Council on 25 February 2021. (**Paragraphs 6.1-6.2**)

2.16 To approve that authority be delegated to the Section 151 Officer to finalise the council's 2021/22 NNDR1 (detailed business rates) estimate ahead of the 31 January 2021 statutory deadline. (**Paragraph 6.3)**

2.17 To note that, if applicable, any matters relating to the London Business Rates Retention (Non-Pilot) Pool in 2021/22 will be included for agreement in the final budget report to the Executive on 11 February 2021 and Council on 25 February 2021. (**Paragraphs 6.5-6.6**)

2.18 To note the significant funding risk for the council in relation to Material Changes in Circumstances business rates appeals due to COVID-19. (**Paragraphs 6.7-6.9**)

Matters to Consider in Setting the Budget (Section 7)

2.19 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 7.1-7.9**)

2.20 To note the Monitoring Officer comments. (**Paragraphs 7.10-7.14**)

2.21 To note the Equality Impact Assessment (**Paragraphs 7.15-7.17** and **Appendix F**) and to take fully account of it in approving the overall budget and related proposals.

2.22 To note that the council is inviting business rate payers or representatives of business rate payers in Islington to comment on the draft 2021/22 budget proposals in this report, as required under Section 65 of the Local Government Finance Act 1992. (**Paragraphs 7.18-7.20**)

3 GENERAL FUND MTFS AND 2021/22 REVENUE BUDGET

Summary of MTFS 2021/22 to 2023/24

3.1 The latest assumed budget position in 2021/22 and over the medium term is summarised in **Table 1** and detailed at **Appendix A**. There was an estimated gross budget gap of £25.765m in 2021/22 (balanced in full by the proposals in this report) and £80.427m over the medium term (with a remaining estimated 3-year gap of £34.211m after the proposals and underlying assumptions in this report).

Table 1 – Summary Budget Gap 2021/22 to 2023/24

	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Inflation and demographic growth	9.464	14.431	19.175	**43.070**
Base budget pressures	9.649	0.465	(0.100)	**10.014**
Corporate costs (e.g. capital financing/levies)	6.609	0.580	4.441	**11.630**
COVID-19 budget pressures/risks	5.500	0.000	0.000	**5.500**
Government funding	(5.457)	11.021	4.649	**10.213**
Gross Budget Gap	**25.765**	**26.497**	**28.165**	**80.427**
Assumed savings	(25.284)	(8.200)	(2.367)	**(35.851)**
Council tax base	4.496	(4.561)	(0.989)	**(1.054)**
Council tax increases (1.99% per annum)	(1.985)	(2.045)	(2.106)	**(6.136)**
ASC precept (3% in 2021/22)	(2.992)	(0.090)	(0.093)	**(3.175)**
Net Budget Gap	**(0.000)**	**11.601**	**22.610**	**34.211**

3.2 The MTFS is under-pinned by the following key principles:

- Setting a balanced budget for the year ahead and working up robust estimates and funding scenarios over a 3-year period, as well as longer-term horizon scanning;
- Fully budgeting for ongoing budget pressures, and not applying one-off funding to bridge ongoing funding gaps;
- Reflecting the ongoing revenue cost of the capital programme (both the cost of servicing and, very importantly, setting aside enough to prudently repay debt principal) in the revenue budget, taking into account the potential for interest rates to increase;
- Not assuming additional funding from central government until it is confirmed, and developing exit plans in the event that specific funding streams end at short notice;
- Increasing the level of council tax in line with the government's expectations in local government finance settlements, in order to avoid an ongoing shortfall in the base budget; and
- Setting a sufficient contingency budget for in-year budget risks and using one-off funding to strengthen financial resilience in reserves for hardening budget risks over the medium term.

3.3 The medium-term financial outlook for local government is the most uncertain it has ever been and there is unlikely to be any degree of certainty for some time. The economic ramifications of the COVID-19 pandemic are going to take some years to unfold, with an inevitable impact on public sector spending settlements going forward. The estimated medium-term budget outlook will be kept under review and could be subject to significant change as further information emerges on key budget variables, including the following:

- Ongoing COVID-19 income losses and expenditure/demographic pressures, and the extent to which these are covered by central government funding;
- Delivery of the savings programme;
- The longer-term government Comprehensive Spending Review (CSR) and future local government finance settlements, and potential funding distribution reforms such as the reset of business rates retention growth and the fair funding review; and
- The impact of wider planned government reforms of the business rates system and social care funding system.

3.4 The national economic outlook and the potential medium-term local government funding implications are considered in more detail later in the report.

Net Revenue Budget 2021/22

3.5 Within the balanced 2021/22 budget position, **Table 2** summarises the latest draft 2021/22 net revenue budget by directorate (cash-limited budgets). A breakdown of the movement between the 2020/21 and 2021/22 budget is shown in **Appendix A**.

Table 2 – Net Revenue Budget 2021/22

	2021/22 Net Budget
	£m
Chief Executive's	0.695
Environment and Regeneration	10.684
Housing	9.138
People	143.882
Public Health (net nil as wholly grant funded)	0.000
Resources	41.340
Net Services	**205.739**
Corporate Items	6.791
Net Operating Budget	**212.530**
Contingency	5.000
COVID-19 Contingency	5.500
Transfer to Earmarked Reserves	8.606
Corporate Specific Grants	(7.540)
Net Budget Requirement	**224.096**
Settlement Funding Assessment	(109.848)
Business Rates Growth/Section 31 Grant	(14.999)
Council Tax Requirement	**99.249**

3.6 The estimates and Council Tax Requirement in **Table 2** are subject to change before the final proposed budget to the Executive on 11 February 2021 and Full Council on 25 February 2021. This includes potential adjustments in relation to the council tax base due to be set by Audit Committee on 25 January 2021 and the 2021/22 detailed business rates estimate (NNDR1) due to be submitted to MHCLG by 31 January 2021.

Key Revenue Cost Pressures

3.7 The government announced in Spending Review 2020 (SR20) that there will be a public sector pay freeze in 2021/22, excluding frontline NHS staff and those earning less than £24,000 (who will receive a minimum increase of £250). This is the assumption in the proposed 2021/22 budget, with a 2.5% per annum increase estimated from 2022/23 onwards. However, it is important to highlight that the government does not set the pay award for local government. If a local government pay increase is agreed for 2021/22, this would be funded from the revenue contingency budget, in-year, with the ongoing impact subsequently reflected in future year budgets. Employer pension contributions are expected to be unchanged in 2021/22 based on the 2019 triennial pension fund valuation.

3.8 The MTFS also provides for non-pay/contract inflation pressures of £5m per annum, the majority of which relates to inflation on the council's adult social care contracts with providers and the associated London Living Wage cost increases. This is in line with previous years and consistent with the latest departmental projections.

3.9 A further, significant cost pressure facing the council is the increasing quantum and complexity of demand for council services, including in adult and children's social care and homelessness/No Recourse to Public Funds (NRPF) services. Based on the latest forecasts, albeit highly uncertain due to the ongoing impact of COVID-19, the MTFS assumes demographic budget growth of £4.307m in 2021/22 and £13.723m over the medium term. It is recommended that this demographic growth is held centrally and allocated to service budgets in-year once a more evidenced assessment is available and approved by the Section 151 Officer. There is a risk that COVID-19 leads to a long-term increase in demand for some council services (e.g. mental health services).

3.10 The proposed 2021/22 budget includes funding for ongoing base budget shortfalls that have been evidenced in the current financial year, as well as budget increases for the following areas in **Table 3** to support wider council improvements and transformation.

Table 3 – Funding for Council Improvements 2021/22

	£m
Equalities (recurring)	0.270
Organisational development (recurring)	0.450
HR improvements (recurring)	0.350
HR investment (one-off)	0.500
Total	**1.570**

3.11 Based on current treasury management assumptions, the MTFS fully provides for the capital financing costs (interest cost and repayment of debt) of the proposed 2021/22 to 2023/24 capital programme presented in **Section 5** of this report. The proposed 2021/22 budget also includes a recurring £0.6m per annum for additional revenue costs of the council's net zero carbon programme.

3.12 The council is required to pay levies to a number of external organisations, estimated to total £18.663m in 2021/22. The most significant levies are the council's contribution to Transport for London (TfL) for the cost of concessionary fares (London Freedom Pass) and the North London Waste Authority (NLWA) levy towards the disposal of household waste in partnership with across six other north London boroughs.

3.13 The estimated levies for 2021/22 are shown in **Table 4**.

Table 4 – Levies 2021/22

	2021/22 Budget £m	2021/22 Estimate £m	Increase/ (Decrease) £m
Concessionary Fares (London Freedom Pass)	11.392	9.932	(1.460)
North London Waste Authority	6.363	6.368	0.005
London Pensions Fund Authority	1.162	1.185	0.023
Inner London North Coroners Court	0.332	0.360	0.028
Traffic and Control Liaison Committee	0.268	0.254	(0.014)
Lee Valley Regional Park Authority	0.190	0.194	0.004
Environment Agency (Thames Region)	0.186	0.190	0.004
London Boroughs Grants Scheme	0.179	0.180	0.001
Total	**20.072**	**18.663**	**(1.409)**

3.14 The council's MTFS previously assumed a £1.144m overall increase in levies in 2021/22 compared to 2020/21. Based on latest estimates, and largely due to the impact of COVID-19 on activity levels (e.g. reduced concessionary fares passenger numbers), the latest estimate is a £1.409m decrease in 2021/22. This £2.553m decrease from the previous MTFS assumption (approximately comprising a £1.7m decrease in the concessionary fares estimates and a £0.9m decrease in the NLWA levy estimate) means that there is a one-one-off balance of £2.553m in 2021/22 to transfer to a levies smoothing earmarked reserve. This will help mitigate against future unexpected levy increases (such as fluctuations in borough waste tonnages that are used to calculate the NLWA levy).

Local Government Finance Settlement 2021/22

3.15 The provisional local government finance settlement for 2021/22 was announced on 17 December 2020, with the final settlement due to be announced in February 2021.

3.16 Based on the government's methodology, Islington's Core Spending Power (CSP) will increase by 3.7% in 2021/22, which represents a real term increase in resources but is less than the national average increase of 4.5%. This assumes that the council raises council tax by the maximum amount (1.99% referendum limit & 3% ASC precept).

3.17 In calculating CSP, the government has also assumed that each authority's taxbase has increased in line with their average taxbase growth since 2016/17. However, in reality the taxbase may be lower than this because COVID-19 has resulted in lower growth rates and lower collection rates, combined with higher costs of local council tax support. The ability of an authority to generate additional resources from local council tax (i.e. the local taxbase) is now increasingly important in determining its increase in CSP. Islington's taxbase is below the London average, meaning that there is relatively lower scope for the council to raise additional income from council tax.

3.18 **Settlement Funding Assessment (SFA)/S31 grant for under-indexation** – Islington's SFA is made up of a Baseline Funding Level (BFL) under the partial business rates retention system (comprising a business rates baseline and a 'top-up' grant) and Revenue Support Grant (RSG). This is summarised in **Table 5** below. In 2021/22, RSG will increase in line with the Consumer Price Index (CPI, 0.55%) and the BFL will be the same as in 2020/21 (owing to it being directly linked to the small business rates multiplier, which will be frozen in 2021/22). The council will receive additional S31 grant to compensate for the impact of the small business rates multiplier freeze compared to a 0.55% inflationary uplift on SFA.

Table 5 – Settlement Funding Assessment (SFA)

	2020/21 £m	2021/22 £m	Change £m
Business rates baseline	82.456	82.456	0.000
Top-up grant	2.798	2.798	0.000
Baseline Funding Level	**85.254**	**85.254**	**0.000**
Revenue Support Grant	24.458	24.594	0.136
Settlement Funding Assessment	**109.712**	**109.848**	**0.136**

3.19 The business rates baseline is the amount that the government expects the council to retain under the Business Rates Retention System. In addition, the council retains a 30% share of any additional business rates income that the council collects over and above the business rates baseline. Conversely should business rates shrink, the council fully stands its share of the loss of the first 7.5% below the business rates baseline. This means the council would meet the first £15m of business rates losses before receiving support. The council also receives compensation (Section 31 grant income) to offset the impact of government initiatives (e.g. new business rates reliefs) on its retained business rates income. The council's retained business rates funding is considered in more detail in Section 6 of this report.

3.20 **Social care grant funding** – The council's share of the £300m additional Social Care Grant announced in SR20 is £2.596m (assumed ongoing but subject to confirmation in the next Spending Review/settlement). Allocations of the £300m grant have been 'equalised' for each authority's ability to generate income from the ASC precept (equalisation has been limited to £240m). All other social care grant funding in 2020/21 continues unchanged into 2021/22 (no inflation has been applied). In total, this means that the council will receive social care grant funding of £24.854m in 2021/22, comprising £14.076m Improved Better Care Fund and £10.778m Social Care Grant. However, there remains uncertainty around the 2021/22 allocation from the former Independent Living Fund (ILF) recipient grant (£1.182m for Islington in 2020/21).

3.21 **New Homes Bonus (NHB)** – The NHB will operate on the same basis in 2021/22 as in 2020/21. New allocations relating to housing growth over the past year will be one-off in nature and will not result in legacy payments in subsequent years on those allocations. Based on this, Islington will receive £2.448m NHB grant in 2021/22 (a decrease of £2.821m compared to 2020/21), diminishing to £0.649m in 2022/23 and zero by 2023/24 as legacy payments for prior year housing growth fall out. A consultation on the reforms to the New Homes Bonus will commence shortly, with the aim to implement in 2022/23.

3.22 **Lower tier services grant** – There is a new, one-off lower tier services grant of £111m, of which Islington will receive £0.922m. The function of this grant appears to be to reduce the range of increases in CSP, largely by 'levelling up' those with the lowest taxbases, and to provide a 'floor' increase for every authority (i.e. to ensure that no authority's CSP is lower in 2021/22 than it was in 2020/21).

3.23 **Troubled families** – The government has now confirmed that the same amount (£165m) will be available nationally in 2021/22 as in 2020/21. Whilst there remains uncertainty around the council's allocation, 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.

3.24 **Homelessness Prevention Grant** – This grant combines and increases the previous Flexible Homelessness Support and Homelessness Reduction Grant. Islington's allocation for 2021/22 is £3.667m, an increase of £0.619m compared to 2020/21.

3.25 A number of other specific grants, including the ring-fenced Public Health grant, sit outside the main local government finance settlement and for which 2021/22 allocations have not yet been announced. The MTFS assumes that any changes in these specific grants compared to 2020/21 will be contained within the related service area.

COVID Support Package 2021/22

3.26 Alongside the provisional local government finance settlement, the government published a consultative policy paper with further details on the COVID Support Package for 2021/22 announced in SR20. **It is expected that COVID-19 will continue to have a significant impact on the council's budget over and above the amount covered by this COVID support package. Therefore, it is essential that the council has sufficient annual contingency budget and reserves to boost financial resilience and protect residents.**

3.27 Final allocations on the £1.55bn COVID-19 tranche 5 grant have been announced (£9.312m for Islington). **The government has advised that councils should plan for no further funding, other than this package, to meet COVID-19 costs in 2021/22.**

3.28 The government propose to distribute a £670m Local Council Tax Support (LCTS) grant based on each billing authority's share of the England level working-age local council tax support caseload (using data from 2020/21 Q1 and Q2), adjusted to reflect the average bill per dwelling in the area. Islington's indicative allocation is £3.6m, and it is assumed in the draft 2021/22 budget that this is directly offset against a lower council taxbase due to the increased cost of providing the council's approved council tax support scheme. **The cost of council tax support in 2021/22 and over the medium term is highly uncertain as it will depend on future developments in the economy, including the level of unemployment, and government measures to support businesses and individuals.**

3.29 There will be a local tax guarantee scheme to provide compensation for 75% of irrecoverable council tax and business rates losses in the Collection Fund relating to 2020/21. Collection Fund deficits will also be spread over 3 years (2021/22 to 2023/24) instead of fully impacting on the 2021/22 budget as would ordinarily be the case. The government has set out how losses in scope of the 75% local tax income guarantee will be measured. For council tax, this is broadly a comparison of each authority's council tax requirement and an adjusted net collectable debit. For business rates, this is broadly a comparison of income as calculated in the National Non-Domestic Rates (NNDR) statistical collection forms 1 and 3. The local tax guarantee scheme for 2020/21 Collection Fund losses will help to mitigate the impact on the council's balance sheet in 2021/22. However, it applies to 2020/21 losses only. **COVID-19 is expected to have a significant, currently unquantifiable, adverse impact on council tax and business rates income beyond 2020/21 that remains unfunded and a significant uncertainty in our budget planning for 2021/22 and over the medium term.**

3.30 The sales, fees and charges income loss scheme (whereby local authorities can claim back funding for 75% of income losses from sales, fees and charges, where these losses are greater than 5% of the council's planned income receivable) will continue for the first quarter of 2021/22 (until the end of June 2021). **It is likely that sales, fees and charges income losses will continue long after June 2021.**

Medium-Term Funding Outlook

National Picture

3.31 The national economic outlook is highly uncertain, even more so with the recent Tier 4 restrictions impacting an increasing percentage of the UK population. There is some hope with the development and approval of vaccines; the speed of vaccine rollout, as well as actual vaccine efficacy, will impact greatly on the pace at which the UK recovers from the pandemic, both in health and economic terms.

3.32 COVID-19 has delivered the largest peacetime shock to the global economy on record, greater even than the Great Depression or the 2008 Global Financial Crisis. There has been an unprecedented fall in national income, a huge rise in the in-year government deficit and the level of the overall UK national debt (effectively, accumulated deficits) has soared past £2tn, greater than 100% of the UK's Gross Domestic Product (GDP). The Office for Budget Responsibility's (OBR) central forecast assumes an 11% fall in GDP in 2020/21, the largest annual reduction since the Great Frost of 1709.

3.33 The OBR's latest, central forecast is that the combined impact of COVID-19 on the economy and the government's fiscal response, will result in a deficit of £394bn in 2020/21 (19% of GDP), with national debt at 105% of GDP. The central forecast then estimates that the in-year deficit falls to £102bn by 2025/26 (3.9% of GDP). Based on this forecast, the OBR estimate that a fiscal adjustment of £27bn would be required to match day-to-day spending to tax receipts by the end of 2025/26. This means an increase in taxation, a reduction in government spending, or a combination of the two. The size of the estimated fiscal adjustment may vary going forward; the Institute for Fiscal Studies had anticipated that this fiscal adjustment, prior to SR20, could be as high as £40bn. Any required fiscal tightening in the range of £27bn to £40bn, or higher, will involve some form of significant budgetary constraint for government departments over the medium term; fiscal tightening purely via tax increases is hard to envisage as being politically feasible, nationally.

Local Government Funding

3.34 The headline announcement in the 2021/22 Provisional Local Government Finance Settlement is of a £2.2bn (4.5%) increase in Core Spending Power for local government in England. However, it is estimated that only £300m of this will come in the form of additional central government funding. The remaining £1.9bn is estimated to come from increases in council tax bills of up to 5%. Taken in the context of the national economic outlook, this is very concerning for local government going forward. Local government (ring-fenced schools funding aside) has not been a 'protected' spending area over the past decade, unlike expenditure priorities such as the National Health Service (NHS) and Pensions; before COVID-19, the NHS and Pension budgets accounted for nearly 40% of government spending, with defence and interest costs taking the percentage up to 50%. This means that any spending reductions from the significant fiscal tightening required over the medium term will fall on a narrow set of spending departments, local government included. At best, this may mean that local government can expect cash flat local government finance settlements going forward, and potentially cash reductions.

3.35 The longer-term CSR and planned reforms to the local government finance system around business rates retention and the 'Fair Funding Review' (Review of Relative Needs and Resources) have all been delayed until 2021/22.

3.36 The 'Fair Funding Review' presents a particular risk to Islington Council with the potential that government funding could be redistributed away from authorities such as London boroughs (in particular, inner London) towards counties and districts; this is an added layer of risk over and above the local government funding outlook that could see cash flat funding, on average, nationally.

Business Rates Review

3.37 A fundamental Business Rates Review is due to report in Spring 2021 on how the business rates system works, issues to be addressed, ideas for change and alternative taxation options. This is likely to have significant consequences for local government funding.

Business rates are a principal funding stream for local government, currently funding over 40% of local government spending and, since 2013/14, the business rates retention scheme has created a direct link between local business rates growth and locally retained funding. The government has noted that the "impact on the local government funding system will be an important consideration in reviewing the tax".

3.38 London Government has long held common ambitions regarding a greater role over the setting and retention of business rates and has worked closely together to put this case to government. In recent years concerns have been repeatedly raised regarding the sustainability of the tax, which is in desperate need of reform. The review is therefore very welcome.

3.39 However, it comes at a time of growing economic uncertainty caused by the COVID-19 pandemic, in which London businesses have been hit very hard. The grant support and temporary rate relief provided by the government to date has been very welcome, but substantial challenges remain for the foreseeable future, particularly in the retail, hospitality and leisure sectors.

3.40 More broadly, central London and its town centres – in common with cities across the country – face potentially far-reaching changes in business activity and property use, and it is too early to tell what the long-term impact will be on the commercial property market.

3.41 The review comes at an important crossroads for local government finance, with fundamental decisions to be taken soon regarding the overall quantum of local government funding in the next CSR period, the funding of adult social care reform, the business rates retention scheme, the 'Fair Funding Review' and on the broader relationship between local and central government in the Devolution and Recovery White Paper.

Revenue Savings

3.42 The 2021/22 revenue budget assumes the delivery of savings totalling £25.284m in 2021/22, of which £14.086m are new savings proposals for approval in this report (**Appendix B1**) and £11.198m are previously agreed from prior year budget setting processes (**Appendix B1**). This is summarised by type of saving in **Table 6**.

Table 6 – 2021/22 Budget Savings

	New £m	Previously Agreed £m	Total £m
Efficiency	8.272	7.931	16.203
Funding substitution	2.149	0.000	2.149
Growth reduction	0.330	0.000	0.330
Income	1.469	1.617	3.086
Reduction in demand	0.450	0.000	0.450
Service reconfiguration	1.416	1.650	3.066
Total	**14.086**	**11.198**	**25.284**

3.43 It should be noted that a number of the proposed savings remain subject to individual consultation before they can be implemented. In the event that any savings do not proceed as planned following consultation, any in-year budget would need to be funded from the corporate contingency budget.

3.44 Updates on the delivery of the 2021/22 budget savings will be provided as part of the 2021/22 budget monitoring process.

3.45 The estimated future year implications of 2021/22 savings proposals in 2022/23 and 2023/24 are taken into account in the remaining medium-term budget gap that was presented in **Table 1**. These will be worked up further ahead of their inclusion in future year budget reports.

Dedicated Schools Grant (DSG) Funding

3.46 The provisional DSG settlement for 2021/22 was announced by the Department for Education (DfE) on 17 December 2020. The final settlement for the schools block and the central schools services block is due before the start of the next financial year. The early years block is subject to retrospective adjustments and will not be finalised until Summer 2022.

3.47 The DSG provisionally totals £196.062m for Islington in 2021/22, an overall increase of £10.149m on 2020/21. The provisional allocation includes the roll-in of the Teachers' Pay Grant (TPG) and the Teachers' Pension Employer Contribution Grant (TPECG) that account for £5.823m of the increase in funding across the Schools Block and High Needs Block. A revised like-for-like comparison is an increase of £4.326m (2.3%).

Schools Block

3.48 This block is the main source of funding for mainstream schools and academies. Almost all of this funding is allocated to schools through the schools funding formula, with a small amount retained for growing schools and to support those with falling rolls, subject to specific criteria being met.

3.49 At a national level, schools block funding is set to increase by £7.1bn by 2023/24 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 2023/24. Islington will receive an additional £0.892m (0.7%) in 2021/22 after allowing for the roll in of TPG and TPECG. 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 has agreed to implement the National Funding Formula in full in 2021/22. This is due to be considered by Schools Forum in January 2021 before being signed off by the Executive Member for Children's and Families.

Central School Services Block (CSSB)

3.50 The CSSB provides funding for the provision of central services to schools and academies by local authorities. The council has received a 20% funding reduction (£0.132m) in relation to historic commitments, and a 0.5% funding increase (£0.005m) in relation to ongoing responsibilities. Further to this there has been an allocation of £0.101m for the roll in of TPG and TPEGC, leading to an overall reduction of 1.6% (£0.026m).

High Needs Block

3.51 The High Needs Block supports provision for children and young people with SEND from their early years to age 25 and alternative provision for pre-16 pupils who cannot receive education in schools. There is a like-for-like increase of 10% (£3.427m) in this Block in 2021/22 after allowing for the roll in of TPG and TPEGC. The provisional allocation for high needs is subject to a number of adjustments by the DfE and won't be finalised until the summer term 2022.

3.52 The additional funding will go some way to offsetting DSG demographic pressures in relation to children and young people with high needs. It is estimated that this will be sufficient to meet high needs budget pressures until the end of 2022/23. As there is no guarantee that the council will receive further funding increases beyond 2021/22, any unused balances from 2021/22 will be carried forward to phase in cost pressures from 2023/24.

Early Years Block

3.53 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 2021/22 at £7.81 per eligible child per hour, while the rate for 2-year-old provision has increased by 8p (1.2%) to £6.66 per eligible child per hour.

3.54 There is a significant funding risk for early years. Allocations are based on the January census, and the government have confirmed that they will be using the January 2021 census, despite participation being significantly lower than pre-pandemic levels. Reductions in funding will be capped at 15% of the January 2020 census, which exposes Islington to a potential loss of up to £2.9m.

3.55 The local early years funding formula and factor values and central retention are due to be agreed by the Schools Forum in January 2021. Central retention remains capped at 5% of Early Years Block funding. As in previous years, the council is applying to the Secretary of State to dis-apply 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

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

3.57 In setting the fees and charges policy, consideration is given to the current level of inflation in the economy as well as the level of inflation expected to prevail over the forthcoming financial year.

3.58 The most widely used measure of inflation is the Consumer Price Index (CPI). This is currently very low (0.3% in November 2020) due to the extraordinary circumstances of the COVID-19 pandemic and therefore is not considered the best current estimate of inflation for the 2021/22 financial year.

3.59 For budget planning purposes, the council's proposed policy is to uplift discretionary fees in line with external estimates of the level of inflation during 2021/22 unless a variation is agreed. The average estimates at the point finalising the proposed fees and charges schedule is 2% which is also in line with the government's official target inflation rate therefore this level has been applied.

3.60 Possible reasons for variation from the standard 2.0% uplift include separate existing council policy, benchmarking with alternative providers, level of increases in recent years and rounding for efficiency of collection.

3.61 Based on the policy, the proposed General Fund discretionary fees and charges for 2021/22 are set out at **Appendices C1-C5.**

3.62 Any increase in fees and charges income that has not already been included separately as part of the budget savings proposals will be fully factored into the overall budget planning assumptions for the relevant services to cover corresponding inflation in costs incurred by the council.

3.63 It is proposed that this policy also applies to HRA fees and charges, with the exception of HRA rents that will be increased in line with the government rent standard (September CPI 0.5% + 1%). HRA fees and charges are considered in the HRA section (**Section 4**) of this report.

General Fund Contingency, Reserves and Balances

3.64 A fundamental element of the robustness of the council's annual budget and MTFS is the level of contingency budget, earmarked reserves and GF balance, as determined by the Section 151 Officer.

3.65 Even prior to the COVID-19 crisis, the 2020/21 budget report had noted the need for the council to strengthen its financial resilience for deteriorating budget risks over the medium term.

3.66 Similarly, the findings of the External Auditor on the 2019/20 Statement of Accounts noted that the council's non-schools GF reserves are below the average level for London Boroughs and that:

"It is critical that management continue to look beyond the current crisis and maintain sufficient reserves relative to likely future pressures as systemic change and transformation become embedded and begin to realise substantive recurrent savings, to mitigate risks posed by external factors outside of member and officer control."

3.67 The significant expenditure pressures and income shortfalls incurred within a few weeks of the COVID-19 lockdown have highlighted the underlying level of risk in the council's budget. In particular, the council is currently estimating one of the highest COVID-19 sales, fees and charges income losses in London.

3.68 The 2021/22 budget includes an ongoing corporate contingency budget of £5m per annum, broadly in line with the 2020/21 financial year. The contingency budget is available as a last resort for in-year contingency pressures that cannot be funded from compensating underspends elsewhere and subject to approval in line with the council's Financial Regulations. Directorates agree cash limited budget allocations and take responsibility for delivering a balanced budget unless a business case, presenting an exceptional circumstance, for contingency funding is approved.

3.69 Islington's current GF balance (£16.7m, excluding schools balances) equates to just over one week of GF gross expenditure. It is proposed that any underspend on the contingency budget at the end of each financial year is used to increase the GF balance (excluding schools balances) from the current level towards a target level of £40m over the medium to longer term. This £40m target level of GF balance (excluding schools balances) is approximately based on the latest estimated COVID-19 budget shortfall in the current financial year. It is the view of the Section 151 Officer that this is a reasonable proxy, subject to annual review, for the level of unquantifiable risk in the council's budget (as captured in the latest Principal Risk report to the council's Audit Committee in September 2020), and therefore the target balance needed to deal with economic shocks and insulate the council from potential cuts to key services in the short term.

3.70 In addition to the corporate contingency budget, the council has set aside an additional COVID-19 contingency budget of £5.5m. The current expectation is that this will be needed in full in 2021/22 for COVID-19 expenditure and income budget pressures not funded by available central government funding. If there is any underspend on COVID-19 contingency at the end of the financial year, it is recommended that this is transferred to earmarked reserve for COVID-19 pressures.

3.71 The government's financial assistance towards COVID-19 pressures will create complexities for reporting at the end of the current financial year due to timing differences between when funding is received and when it is applied against budget pressures. This is particularly the case for S31 grant compensation for COVID-19 business rates reliefs, where the grant income has been received in the current financial year, but the associated budget pressures will not come through until 2021/22 due to accounting arrangements. Given this complexity and the significant uncertainty around the level of COVID-19 grant funding that will be carried forward in earmarked reserves at the end of the financial year, COVID-19 reserve movements have been excluded from the earmarked reserves forecast.

3.72 The estimated level of GF reserves, reflecting current known movements, over the 3-year MTFS period is shown in **Table 7** followed by a brief description of each reserve. This reflects known reserves movements at the time of writing, and assumes that the estimated budget gap for 2022/23 and 2023/24 will be fully closed without drawing down on reserves. It is expected that there will be additional movements to/from reserves that will be brought forward for approval once there is greater clarity on their timing and amount. This will include reserves movements related to the finalisation of the 2020/21 financial outturn after the end of the current financial year.

Table 7 – Estimated General Fund Reserves

	31.3.20 Actual	**31.3.21**	**31.3.22**	**31.3.23**	**31.3.24**
	£m	**£m**	**£m**	**£m**	**£m**
Earmarked					
BSF PFI	4.979	4.950	5.397	5.850	6.280
Budget Risk and Insurance	17.396	14.775	14.775	14.775	14.775
Budget Strategy	21.111	17.282	17.282	17.282	17.282
Cemeteries	1.634	1.634	1.634	1.634	1.634
CIL	9.428	9.428	9.428	9.428	9.428
Housing Benefit	7.921	7.921	6.512	5.103	3.694
Levies	0.000	0.000	2.553	2.553	2.553
NNDR	7.723	14.328	15.520	15.520	15.520
Public Health	2.123	2.123	2.123	2.123	2.123
Social Care	0.000	3.704	3.704	3.704	3.704
Street Markets	0.260	0.260	0.260	0.260	0.260
Unallocated	0.000	0.000	2.270	2.270	2.270
Total Excluding COVID-19	**72.575**	**76.405**	**81.458**	**80.502**	**79.523**
COVID-19	7.684	0.000	0.000	0.000	0.000
Total Including COVID-19	**80.259**	**76.405**	**81.458**	**80.502**	**79.523**
GF Balances					
Non Schools	16.664	17.098	17.686	17.686	17.686
Schools	11.208	11.208	11.208	11.208	11.208
Total GF Balances	**27.872**	**28.306**	**28.894**	**28.894**	**28.894**

- 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.
- Budget Risk and Insurance – to mitigate wider budget risks, particularly the impact of delayed savings delivery, and for one-off expenditure commitments that span more than one financial year.
- Budget Strategy – to provide one-off funding linked to the delivery of the MTFS (e.g. one-off investment costs, revenue costs of capital projects, redundancy costs).
- Cemeteries – 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.

- Community Infrastructure Levy (CIL) – This is the balance of CIL funding available for infrastructure investment.
- COVID-19 – This is the balance of COVID-19 government grant funding received in 2019/20 that will be used towards the significant COVID-19 related budget shortfall in 2020/21.
- Housing Benefit – 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 proposed 2021/22 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 housing benefit administration grant. The housing benefit reserve is sufficient 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, as the future shape of the remaining housing benefit service becomes clearer.
- Levies – to mitigate against future unexpected increases in levies (e.g. due to fluctuation in borough waste tonnages that are used to calculate the NLWA levy).
- NNDR – 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. The estimated transfers to the reserve in 2020/21 and 2021/22 reflect the final position on the 2019/20 pilot pool, which impacts on the budget for those years due to accounting arrangements.
- Public Health – This is the balance of ring-fenced public health grant funding.
- Social Care – to mitigate significant uncertainty in social care demographic growth estimates.
- 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 using this earmarked reserve for future costs of operating the markets.
- Unallocated – This includes the budgeted annual £4m contribution to replenish and provide additional resilience in earmarked reserves (it is currently assumed that this this will fully offset drawdowns against other earmarked reserves) and a £2.270m one-off transfer to earmarked reserves due to a one-off positive movement in 2021/22 budget assumptions late in the budget setting process. This will be allocated to a specific earmarked reserve at the end of the 2021/22 financial year based on an assessment of quantifiable budget risks at that point in time.

4 HOUSING REVENUE ACCOUNT

Overview

4.1 The HRA MTFS covers the cost of managing and maintaining council-owned housing stock, servicing both existing debt taken on as part of self-financing and new debt taken on to support the delivery of the new build programme and contributing towards the long-term investment in the existing stock, all of which is funded primarily from rents and tenants' and leaseholders' service charges.

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

4.3 The proposed HRA budget for 2021/22 and latest estimates for the medium term, including HRA reserves estimates, is set out at **Appendix D1.** The movement between the approved 2020/21 budget and the proposed 2021/22 budget is summarised in **Table 8**.

Table 8 – Summary of HRA Budget Changes 2020/21 to 2021/22

	£m
Expenditure	
Staffing	0.5
Refinancing debt at lower rates of interest	(1.2)
Reduction in the cost of communal gas and electricity	(0.8)
Increase in bad debt provision	1.0
Increase in the cost of voids arising from greater use of general needs stock for temporary accommodation clients and the higher re-let rates	1.2
Inflationary increase PFI costs	0.7
Increase in depreciation	0.6
Increase in contingency to cover one-off pressures	1.3
Other	0.4
Total Expenditure Increase	**3.7**
Income	
Rent	3.7
Tenant Service Charges	(0.1)
Heating Charges (Tenants & Leaseholders)	(0.4)
Other income reductions	(1.5)
Leaseholder Annual Service Charges – Year 3 of phasing in charges to more closely align with actual costs	0.5
Income from lease extensions	0.5
Interest earned on HRA balances	0.2
Net increase in contribution from reserves	0.8
Total Income Increase	**3.7**

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 (excluding PFI managed properties) held in their HRA's, by 1% each year for 4 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's remit was limited to 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 policy statement referred to above and as such, the Regulator's Rent Standard, first published in May 2019 and updated in December 2020, reflects the government's policy statement.

4.7 The proposed 2021/22 rents set out in below have been calculated in accordance with the rent standard.

4.8 The rent standard does not apply to PFI managed properties.

Islington Council Managed General Needs Properties (excluding New Build Properties)

4.9 **Table 9** sets out the average proposed rent for existing tenancies – the maximum 2021/22 permitted rent is the prior year 2020/21 actual rent plus CPI 0.5% (September 2020) plus 1%.

4.10 However, if the maximum rent exceeds the lower of the 2021/22 national rent cap or the 2021/22 national target rent then 2021/22 rent will be the higher of A or B:

A. The lower of 2021/22 national target rent or the 2021/22 national rent cap; or

B. 2020/21 actual rent plus CPI 0.5% (September 2020) plus 0%.

4.11 99.7% of the Islington Council general needs properties will be subject to the maximum rent increase in 2021/22 of 1.5% (i.e. CPI 0.5% at September 2020 + 1%) as their maximum rent in 2021/22 does not exceed the lower of the 2021/22 national target rent or the 2021/22 national rent cap.

4.12 Only 1% (222) of the Islington Council general needs properties have a national target rent greater than the national rent cap.

Table 9 – Existing Tenancies Average Weekly Rent 2021/22

Average Weekly Rent 2020/21	£111.13
Increase (£)	£1.66
Increase (%)	1.50%
Average Weekly Rent 2021/22	£112.79

4.13 General needs properties – re-lets. Properties will be re-let at the lower of the national rent cap or the national target rent. Given that 99% of Islington Council general needs properties have a national target rent below the national rent cap it is likely that re-lets will be at national target rent.

4.14 In accordance with the rent standard, 2021/22 national target rents will reflect an increase of CPI 0.5% (September 2020) plus 1% and the 2021/22 national rent caps will reflect an increase of CPI 0.5% (September 2020) plus 1.5%.

4.15 **Table 10** sets out the proposed average change in national target rent and the proposed average re-let rent in 2021/22.

Table 10 – Re-Let Properties Likely Average Weekly Rent 2021/22

Average Weekly National Target Rent 2020/21	£116.43
Increase (£)	£1.74
Increase (%)	1.50%
Average Weekly National Target Rent 2021/22	£118.17

Islington Council Managed General Needs New Build Properties

4.16 2021/22 new build existing tenants' rents will reflect an increase of CPI 0.5% (September 2020) plus 1%.

4.17 2021/22 re-let and first-let new build rents will be based on new build target rents reflecting an increase of CPI 0.5% (September 2020) plus 1%.

4.18 New build target rents are based on 2015-16 target rents inflated by the relevant CPI plus 1% for each year from 2016/17 to 2021/22.

LBI Managed Property Acquisitions used for Temporary Accommodation (TA) (including reception centres and general needs properties assigned to TA clients)

4.19 Existing tenancies and re-let rents in 2021/22 will be set on the same basis as general needs properties referred to above.

LBI Managed Property Acquisitions

4.20 Existing Tenancies – 2021/22 rents will be set at the lower of:

A. The 2020/21 rent plus CPI 0.5% (September 2020) plus 1%; or

B. The lower of the relevant 2021/22 local housing allowance rate, or 80% of relevant market rent.

4.21 Re-lets and first-lets in 2021/22 will be set at the lower of:

A. The relevant 2021/22 local housing allowance rate; or

B. 80% of relevant market rent.

Partners for Islington (PFI) Managed Properties

4.22 PFI managed properties are exempt from the rent standard as such it is proposed that existing council policy continues to apply to all PFI managed properties.

4.23 This means that the principles of rent restructuring will continue to apply. As such existing tenancies (not previously re-let) will continue to move towards the lower of the 2021/22 PFI target rent or the PFI rent cap but subject to a maximum increase of CPI 0.5% (September 2020) plus 1% plus £2.

4.24 Where an existing tenancy rent is already at either the lower of the PFI target rent or the PFI rent cap (if not previously re-let) or the PFI target rent (if previously re-let) then the maximum increase will be plus CPI 0.5% (September 2020) plus 1%.

4.25 PFI property re-lets in 2021/22 will be based on the PFI target rent reflecting an increase of CPI 0.5% (September 2020) plus 1%.

4.26 PFI target rents are based on the 2015/16 target rents inflated by the relevant CPI plus 1% for each year from 2016/17 to 2021/22.

4.27 PFI rent caps are based on the 2015/16 national rent caps inflated by the relevant CPI plus 1.5% for each year from 2016/17 to 2021/22.

4.28 **Table 11** below sets out the average change in PFI rents and the proposed rent for PFI properties in respect of existing tenancies.

Table 11 – Existing PFI Tenancies Average Weekly Rent 2021/22

Average Weekly Rent 2020/21	£156.47
Increase (£)	£2.89
Increase (%)	1.85%
Average Weekly Rent 2021/22	£159.36

4.29 **Table 12** below sets out proposed PFI target rent changes and the proposed PFI target for rent in respect of re-let PFI properties.

Table 12 – PFI Re-Let Properties Likely Average Weekly Rent 2021/22

Average Weekly PFI Target Rent 2020/21	£167.35
Increase (£)	£2.51
Increase (%)	1.50%
Average Weekly PFI Target Rent 2021/22	£169.86

Other HRA Fees and Charges

4.30 All other HRA fees and charges are set out at **Appendix D2.** These are proposed to increase by 2% in line with the council's policy set out in this report, except for the following charges:

Caretaking/Cleaning and Estate Services

4.30.1 Caretaking charges will not increase in 2021/22 and the estate service charge is reducing by 28p per week in 2021/22 because of the assumed public sector pay freeze and the forecast reduction in communal electricity prices. If a local government pay increase is agreed for 2021/22, this would be funded from contingency budget with the ongoing impact subsequently reflected in future year budgets.

Heating and Hot Water

4.30.2 Gas prices are forecast to fall in 2021/22 and, as such, charges have reduced by 10%. A new charge of +15% on the heating only charge has been introduced for Braithwaite, which is based on all-year heating availability.

Concierge Service Charges

4.30.3 These have increased by 9% to reflect the final year of phasing in the recovery of the full costs related to the provision of this service. It should be noted that the overall average weekly increase to tenants in receipt of the concierge service when combining rent and all service charges including caretaking/cleaning and estate services is an average increase of £2.14 or 2%, from an average of £135.63 per week in 2020/21 to an average of £137.77 per week in 2021/22.

Diesel Surcharge (Off Street)

4.30.4 This charge has increased by £6 per year or 5% in 2021/22 to align with the on-street parking surcharge.

5 CAPITAL PROGRAMME

5.1 The council committed to a new Corporate Asset Strategy in March 2020. The strategy aims to establish a bold new approach that ensures investment is directly linked to core council ambitions around fairness and community wealth building. It is designed to deliver a strategic, long-term approach to managing and enhancing our community asset base.

5.2 This budget represents a key step in implementing the new strategy by:

- Providing significant investment to support key council priorities on affordable housing and net zero carbon;
- Expanding the non-housing capital programme to support much-needed modernisation of a wide range of community assets; and
- Forecasting indicative capital investment over a longer time frame.

5.3 The proposed 2021/22 to 2023/24 capital programme as well as indicative estimates for 2024/25 to 2030/31 are summarised by council priority in **Table 13** and detailed at

Appendix E. This is estimated to deliver up to £1.6bn of capital investment in the borough over the next 10 years.

Table 13 – Capital Programme 2021/22 to 2023/24 and Indicative Programme 2024/25 to 2030/31

	2021/22	2022/23	2023/24	2021/22 to 2023/24	2024/25 to 2030/31 (Indicative)	Total
	£m	£m	£m	£m	£m	£m
Decent & Affordable Homes	138.049	165.392	134.544	**437.985**	956.988	**1,394.973**
Jobs & Opportunity	9.006	1.400	1.400	**11.806**	11.300	**23.106**
A Safer Borough for All	1.500	1.700	0.200	**3.400**	1.400	**4.800**
Greener & Cleaner Islington	24.584	12.467	11.292	**48.343**	71.450	**119.793**
Enhancing Community Assets	13.650	9.376	14.640	**37.666**	68.955	**106.621**
Total Capital Programme	**186.789**	**190.335**	**162.076**	**539.200**	**1,110.093**	**1,649.293**

5.4 The capital programme over the next three years will support the council's objectives in the following areas.

Decent and Genuinely Affordable Homes for All

- Housing new build programme (£302m) – the continuation of our major programme of investment in new social housing in Islington; and
- Housing major works and improvements programme (£135m) – ongoing investment in council homes and estates, including cyclical improvements, mechanical and electrical works, fire safety and energy efficiency improvements.

Jobs and Opportunity

- Improving our early years accommodation, schools and youth provision (£10m); and
- Modernising our libraries and museum (£1.4m).

A Safer Borough for All

- CCTV upgrade (£3m) – upgrades to the council's core CCTV network and investment in CCTV-enabled vehicles to increase coverage for hot-spots.

A Greener and Cleaner Islington

- Vehicle electrification infrastructure and replacement (£16m) – programme to develop electric charging infrastructure and replace our fleet with electric vehicles as part of our Net Zero Carbon Strategy;
- People Friendly Streets (£9m) and School Streets (£1m) – borough-wide programmes to reduce car trips and improve neighbourhoods for walking, cycling and living;

- Pilot retrofitting on housing estates (£3m) – energy efficiency measures across housing estates to reduce energy consumption and decrease carbon emissions;
- Cycle Schemes (£2m) – significant expansion of our borough-wide cycle parking and cycle hangars provision; and
- Solar Panels and LED Lighting (£2m) – installation of solar panels on our corporate estate where feasible and replacement of traditional light fittings with LED to lower emissions.

5.5 In addition to these programmes, the capital programme will support the effective management of Islington's infrastructure and estate. This includes:

- Structural maintenance of the highways infrastructure including carriageways, footways and drainage (£4m);
- Compliance and modernisation improvements (£8m) to deal with urgent property compliance issues and to assisting in providing funds for a cyclical maintenance and modernisation programme; and
- Use of Community Infrastructure Levy and s106 payments to make targeted investments across the borough (£15m), with spending decisions led and managed by local ward councillors.

5.6 The estimated funding of the 2021/22 to 2023/24 capital programme is summarised in **Table 14**. 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 (including the availability of corporate capital funding such as Strategic Community Infrastructure Levy income).

Table 14 – Estimated Funding of Capital Programme 2021/22 to 2023/24

	2021/22	2022/23	2023/24	Total
	£m	£m	£m	£m
General Fund Programme				
Capital Grant	6.206	1.400	1.400	**9.006**
Section 106/CIL	10.430	8.482	6.500	**25.412**
Capital Receipts	30.358	17.249	6.818	**54.425**
General Fund Borrowing	23.561	26.810	35.955	**86.327**
Total General Fund	**70.555**	**53.941**	**50.673**	**175.169**
HRA Programme				
Capital Grant	0.000	0.000	0.000	**0.000**
Section 106/CIL	1.717	0.000	0.000	**1.717**
Capital Receipts	43.471	48.062	57.080	**148.613**
HRA Reserves	70.496	50.721	22.348	**143.565**
HRA Borrowing	0.550	37.611	31.975	**70.136**
Total HRA	**116.234**	**136.394**	**111.403**	**364.031**
Total Capital Programme	**186.789**	**190.335**	**162.076**	**539.200**

5.7 It should be noted that the projected capital receipts financing is intrinsically linked with the housing new build capital programme, and that there is uncertainty around the timing and value of these receipts given present economic conditions. To mitigate these risks the council maintains a regular review of the property market and has been prudent in its financial assumptions. Timing delays can largely be managed through the use of HRA reserves. In the event of a decrease in projected capital receipts, the new build programme would need to be re-assessed in line with the overall available funding.

5.8 The final version of the budget report to the Executive on 11 February 2021 and Full Council on 25 February 2021 will include for agreement the Capital Strategy that underpins the capital programme as well as the inter-linked Treasury Management Strategy and Investment Strategy.

6 COUNCIL TAX AND RETAINED BUSINESS RATES 2021/22

Council Tax 2021/22

6.1 The detailed, statutory council tax calculations and the recommendations on 2021/22 council tax, including the GLA precept, will form part of the final budget report to the Executive on 11 February 2021, for onward recommendation to Full Council on 25 February 2021. This will also incorporate the level of the council tax base due to be set by Audit Committee on 25 January 2021 and the statutory forecast of the surplus/deficit on the Collection Fund as at 15 January 2021.

6.2 The Mayor of London’s final draft budget is scheduled to be considered by the Assembly on 25 February 2021 following which the Mayor will confirm formally the final precept and GLA group budget for 2021/22. This is the same date, but earlier in the day, as the Full Council meeting to agree Islington’s 2021/22 budget. In the unlikely event that the final GLA precept confirmed on 25 February 2021 is different from proposed ahead of the meeting, this would require an amendment to Islington's proposed budget at the Full Council meeting that evening.

Retained Business Rates

6.3 The council's 2021/22 NNDR1 (detailed business rates) estimate is currently being worked up ahead of the 31 January 2021 statutory submission deadline to central government. This will then be reflected in the final version of the budget report to the Executive on 11 February 2021 and Full Council on 25 February 2021. Due to time constraints, and in line with previous years, it is recommended that authority be delegated to the Section 151 Officer to finalise the council's 2021/22 NNDR1 (detailed business rates) estimate ahead of the 31 January 2021 statutory deadline.

6.4 The business rates retention system includes a safety net to protect local authorities from significant negative shocks to their income by guaranteeing that no authority will see its income from business rates fall beyond a set percentage (7.5%) of its spending baseline. Islington's safety net level in 2021/22 will be £78.860m, unchanged from 2020/21. For information, Islington's retained business rates funding is approximately £15m above the safety net level in the current financial year (2020/21). This is the maximum (worst case scenario) loss of business rates funding that the council could incur before being entitled to safety net funding from the government.

6.5 Since 2018/19, the council has been part of the London Business Rates Pool covering the GLA and the 33 London billing authorities. London Government is currently reviewing whether the pool remains financially viable in 2021/22 in light of the significant uncertainty around business rates income due to COVID-19.

6.6 An update on the status of the pool and any associated recommendations, including the council's NNDR1 (detailed business rates estimate), will be included in the final version of the budget report to the Executive on 11 February 2021 and Full Council on 25 February 2021.

Material Changes in Circumstances Business Rates Appeals

6.7 Due to the COVID-19 pandemic, the government has awarded retail, leisure and hospitality businesses a year-long holiday on business rates in 2020/21. However, offices have continued to be billed as normal, despite most laying empty due to office workers being advised to work from home. As a result, many businesses affected by the COVID-19 restrictions have appealed their business rates. It has been reported that the Valuation Office Agency (VOA) has made an interim ruling on Material Changes in Circumstance (MCC) appeals of a 25% reduction in business rates valuations in 2020/21, which could potentially also affect 2021/22 and beyond. It is highly likely that retail, leisure and hospitality businesses will also appeal that the rateable value of their property has reduced once their temporary reliefs expire.

6.8 Whilst the VOA has advised local authorities that no decision has been taken, the fact that these discussions are taking place would suggest an increased likelihood of some level of reduction. The VOA has also said that "*not all property types will have been affected in the same way and we will need to consider the evidence to understand any differences in extent and the effect of the varying dates of lockdown restrictions in the different regions of England and Wales".* Therefore, the local impact of any future MCC will depend on the eventual % reduction agreed, the number of sites locally and the extent of lockdown restrictions.

6.9 For illustration purposes, a 25% reduction in the rateable value of offices in Islington would, other things being equal, reduce the council's retained business rates funding by an estimated £10m. If the authority is to continue to be part of the London Business Rates Pool, the estimated funding loss could be significantly higher than £10m as a result of sharing in the loss of those authorities already at the safety net, such as Westminster. This means that the council may have to withstand funding losses up to £15m, after which the government safety net would kick in.

6.10 For 2020/21, under the government's COVID support package, 75% of any business rates loss due to MCC appeals will attract government compensation and the remaining 25% will be spread over 3 years. For 2021/22, in the absence of government support, this is a significant funding risk for the council but is unlikely to be sufficiently crystallised as a pressure to formally reflect in the council's 2021/22 NNDR1 estimate. As a last resort, any business rates funding loss relating to 2021/22 (which would impact the 2022/23 budget due to accounting arrangements) may need to be funded from reserves (e.g. the NNDR smoothing reserve) and any ongoing implications reflected as part of the base budget assumptions thereafter.

7 MATTERS TO CONSIDER IN SETTING THE BUDGET

Comments of the Section 151 Officer

7.1 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.

7.2 Developing 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 takes into account the most recently available budget monitoring information and the latest view on budget assumptions for the forthcoming financial year. In particular, the proposed savings have been signed off as deliverable by key stakeholder across the organisation.

7.3 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. This is particularly the case for the 2021/22 budget due to ongoing COVID-19 developments at the time of finalising the budget.

7.4 The thoroughness of the overall budget setting process and the council's proposed policy to strengthen financial resilience for hardening budget risks over the medium term provides the Section 151 Officer with assurance on the robustness of the council's budget estimates, contingency budget and reserves for the forthcoming financial year.

7.5 The Section 151 Officer also takes assurance on the robustness of the budget estimates from the Value for Money (VFM) conclusion of the External Auditor on the 2019/20 Statement of Accounts that the council has "proper arrangements for securing economy, efficiency and effectiveness in its use of resources". In particular, the VFM assessment noted that:

- The council has set out in a reasonable way estimates of the additional costs and reductions in income for the budgetary challenge through to 2023/24;
- The council has identified the estimated gap using suitable assumptions and estimates which are in line with the External Auditor's expectations and similar councils;
- The council has put in place robust arrangements to ensure that risks and uncertainties are given due consideration in short and medium-term financial

planning and the impact is effectively modelled to the best of their ability, drawing on external support where knowledge gaps or wider unknowns are identified;

- The outturn position for 2019/20 is broadly indicative that management's understanding of the key drivers for income and expenditure relating to core services and ability to understand impact of decisions taken is strong, and plans have been put in place for improvement to processes where significant variances were identified;
- The methodology through which management have identified pressures resulting from COVID-19, and the reporting structure to members, is considered effective;
- As a result of government funding and initiatives, prior year underspends and prudent financial planning including setting aside contingencies in the budget-setting process, the council has sufficient resources in place to meet the expected shortfalls in income and increases in expenditure for 2020/21 arising from the pandemic. However, in the medium term, the picture remains far more uncertain as the longer-lasting impact of the pandemic on the economy, in the context of wider financial risks beyond the control of officers or members, remains a significant unknown; and
- Management are conscious of the need to remain responsive to emerging circumstances, whilst keeping sight of longer-term strategic goals which underpin future investment decisions from use of reserves.

7.6 In setting an ambitious GF balance target for the council to work towards over the medium and longer term, consideration has been given to the total level of budgets pressures that the council has been exposed to during the pandemic (highlighting the inherent quantum of budget risk going forward) and the comments of the council's External Auditor on the council's reserves and GF balance.

7.7 The multi-year CSR, the planned reforms to the local government finance system around business rates retention and 'fair funding', and the long overdue reform of social care funding have been further delayed. As such, it is very difficult at this stage to estimate with any accuracy the external funding available to the council from 2022/23 onwards. In addition, the severely bleak nature of the national economic backdrop presents hugely significant risks for the funding of local government going forward. A further period of austerity cannot be ruled out and MTFS assumptions will need to be revised, potentially significantly, as events unfold.

7.8 It should be noted that there is an underlying shortfall of approximately £1.4m in the housing benefit administration budget that is being bridged by an annual drawdown from the Housing Benefit reserve. This is an exception to the normal MTFS strategy because it is assumed 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 as the future shape of the remaining housing benefit service becomes clearer.

7.9 Given the unprecedented uncertainty in the MTFS, the robustness of all assumptions, including delivery of savings, will be reviewed in early Spring 2021 in order to shape the medium-term budget setting process, beginning financial year 2022/23, from the outset.

Comments of the Monitoring Officer

7.10 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 2021/22. 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.

7.11 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.

7.12 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.

7.13 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.

7.14 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.

<u>Equalities Impact Assessment</u>

7.15 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.

7.16 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.

7.17 The EQIA of the budget proposals is set out at **Appendix F**. It is supplemented at a departmental level by detailed EQIAs 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.

<u>Budget Consultation</u>

7.18 Section 65 of the Local Government Finance Act 1992 requires the council each financial year to consult persons or bodies representative of business rate payers about expenditure proposals.

7.19 The council must make available the information described in the Non-Domestic Ratepayers (Consultation) Regulations 1992/3171, including:

- Details of proposals for expenditure in the financial year to which the consultation relates;
- Estimates of expenditure in the preceding financial year; and
- Particulars of significant changes in the level of proposed expenditure between the two years.

7.20 The council will be inviting comments from business rates payers and representatives of business rates payers in Islington on the draft 2021/22 budget proposals set out in this report. The consultation period will run from 13 January 2021 (upon the publication of this report and related communication to business rates payers and representatives of business rate payers) to 2 February 2021. Any comments received will be considered by the council before the final budget proposals for consideration by the Executive on 13 February 2021 and Full Council on 25 February 2021.

Appendices:

Appendix A	General Fund Medium-Term Financial Strategy 2021/22 to 2023/24
Appendix B1	General Fund Savings 2021/22 – New Proposals
Appendix B2	General Fund Savings 2021/22 – Previously Agreed
Appendix C1	General Fund Fees and Charges 2021/22
Appendix C2	Cemeteries Fees and Charges 2021/22
Appendix C3	GLL Activity Prices 2021/22
Appendix C4	GLL Memberships 2021/22
Appendix C5	GLL Trampoline Pricing 2021/22
Appendix D1	HRA MTFS 2021/22 to 2023/24
Appendix D2	HRA Fees and Charges 2021/22
Appendix E	Capital Programme 2021/22 to 2023/24
Appendix F	2021/22 Budget Equality Impact Assessment

Background papers: None

Final report clearance:

Signed by: 13 January 2021

Executive Member for Finance and Performance Date

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