ISLINGTON

Resources Directorate
7 Newington Barrow Way, London, N7 7EP

Report of: Executive Member for Finance and Performance

Meeting of	Date	Ward(s)
Executive	11 February 2021	All

Delete as appropriate	~~Exempt~~	Non-exempt

BUDGET PROPOSALS 2021/22 AND MEDIUM-TERM FINANCIAL STRATEGY

1 SYNOPSIS

1.1 The principal purpose of this report is for the Executive to approve proposals in respect of the council's 2021/22 budget and level of council tax and the latest assumed medium-term financial position, for onward recommendation to Full Council.

1.2 The budget 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 proposed 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 proposed 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 reviewed the draft budget proposals on 21 January 2021 and its comments have been taken into account in finalising the budget proposals and proposed level of council tax.

1.9 The council also invited comments from business rates payers and representatives of business rates payers in Islington on the draft 2021/22 budget proposals. The consultation period ran from 15 January 2021 to 31 January 2021. No responses were received.

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, GF fees and charges and estimated GF reserves.

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, and includes the related Capital Strategy, Treasury Management Strategy and Investment Strategy documents.

Section 6 includes the detailed, statutory council tax calculations and matters relating to retained business rates.

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. It also includes the Annual Pay Policy Statement 2021/22 for approval.

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 proposed 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 note the HRA rents and other HRA fees and charges for 2021/22 that are unchanged from those approved by the Executive on 21 January 2021. (**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 proposed 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 2030/31. (**Paragraph 5.1-5.5**, **Table 13** and **Appendix E1)**

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 approve and recommend to council the Capital Strategy, Minimum Revenue Provision (MRP) Policy Statement, Treasury Management Strategy and Investment Strategy. (**Paragraph 5.3** and **Appendices E2-E5**)

Council Tax and Retained Business Rates (Section 6)

2.15 To note the 2020/21 council tax and business rates forecasts and budgetary impact over the medium term. (**Paragraphs 6.1-6.3**, **Table 15**, **Paragraph 6.17** and **Table 23**)

2.16 To approve and recommend to Council the calculations required for the determination of the 2021/22 council tax requirement and the level of council tax as detailed in **Section 6** and summarised below.

1) 2021/22 council tax requirement of £99,248,682.10. (**Paragraph 6.6** and **Table 16**)
2) The relevant basic amount of Islington Band D council tax of £1,276.72, a 4.99% increase compared to 2020/21 (comprising 3.00% for expenditure on adult social care and 1.99% for other expenditure), and that this is not 'excessive'. (**Paragraphs 6.7-6.8** and **Table 17**)
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 £1,276.48. (**Paragraph 6.9** and **Table 18**)
4) The amount of 2020/21 council tax (excluding the GLA precept) for each valuation band over each of the Council's areas. (**Paragraph 6.11** and **Table 19**)
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 6.13** and **Table 21**)

2.17 To note the council's estimated retained business rates funding in 2021/22, as per the 2021/22 NNDR1 return estimate. (**Paragraph 6.14-6.15** and **Table 22)**

2.18 To note that the London Business Rates Pool will not continue in 2021/22. (**Paragraph 6.16**)

2.19 To note the significant funding risk for the council in relation to Material Change in Circumstance (MCC) business rates appeals due to COVID-19 and that additional appeals provision for this threat in 2020/21 or 2021/22 was not included in the 2021/22 NNDR1 return. (**Paragraphs 6.18-6.21**)

Matters to Consider in Setting the Budget (Section 7)

2.20 To have regard to the Section 151 Officer's report on the robustness of the estimates included in the budget and the adequacy of the proposed financial reserves when making decisions about the budget and the level of council tax, as required under Section 25(2) of the Local Government Act 2003. (**Paragraphs 7.1-7.9**)

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

2.22 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.

2.23 To note that the council invited business rate payers or representatives of business rate payers in Islington to comment on the draft 2021/22 budget proposals, as required under Section 65 of the Local Government Finance Act 1992, and that no responses were received. (**Paragraphs 7.18-7.20**)

2.24 To approve and recommend to council the Annual Pay Policy Statement 2021/22. (**Paragraph 7.21** and **Appendix G**)

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 £25.745m in 2021/22 (balanced in full by the proposals in this report) and £80.405m over the medium term (with a remaining estimated 3-year gap of £34.209m 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	8.964	14.431	19.175	**42.570**
Base budget pressures	9.949	0.465	(0.100)	**10.314**
Corporate costs (e.g. capital financing/levies)	6.611	0.578	4.441	**11.630**
COVID-19 budget pressures/risks	5.500	0.000	0.000	**5.500**
Government funding	(5.279)	11.021	4.649	**10.391**
Gross Budget Gap	**25.745**	**26.495**	**28.165**	**80.405**
Assumed savings	(25.264)	(8.200)	(2.367)	**(35.831)**
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**	**11.599**	**22.610**	**34.209**

3.2 The proposed 2021/22 budget and MTFS complies with the CIPFA Financial Management Code and 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 available 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 (including council tax and business rates 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 proposed 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	1.277
Environment and Regeneration	10.475
Housing	9.027
People	141.747
Public Health (net nil as wholly grant funded)	0.000
Resources/Corporate	49.651
Net Cost of Services	**212.177**
Contingency	5.000
COVID-19 Contingency	5.500
Transfer from Earmarked Reserves*	(15.047)
Unringfenced Grants	(7.540)
Net Budget Requirement	**200.090**
Settlement Funding Assessment	(109.848)
Business Rates Growth/Section 31 Grant	(13.629)
Collection Fund Deficit	22.636
Council Tax Requirement	**99.249**

**Excluding timing differences related to the COVID-19 Collection Fund deficit on council tax and business rates income, the 2021/22 budget assumes a net transfer of £7.589m to earmarked reserves.*

3.6 It should be noted that at the time of finalising the 2021/22 budget the council was consulting on a proposed restructure at corporate management level. The breakdown of the budget in this report reflects the current structure, which would need to be re-aligned upon the implementation of any structural changes.

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.

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 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)	0.300
Organisational development (recurring)	0.450
HR improvements (recurring)	0.350
HR investment (one-off)	0.500
Total	**1.600**

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 committed to paying levies to a number of external organisations, which is 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 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	6.195	(0.168)
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**	**18.490**	**(1.582)**

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 £1.582m decrease in 2021/22. This £2.726m decrease from the previous MTFS assumption (approximately comprising a £1.7m decrease in the concessionary fares estimates and a £1.0m decrease in the NLWA levy estimate) means that there is a one-one-off balance of £2.726m 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 often 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 income shrink, the council fully stands its share of the loss of the first 7.5% (£6.4m) below the baseline funding level down to a safety net level of £78.9m. The council's retained rates income for safety net purposes in 2021/22 is approximately £15.1m above the safety net level. This is the maximum (worst case scenario) loss of retained business rates funding that the council could incur in 2021/22 before being entitled to safety net funding from the government. 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. The reduction in New Homes Bonus is a key driver in Islington receiving a lower increase in Core Spending Power than the national average. 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 2021/22 budget that this is directly offset by a one-off reduction in the 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 local tax guarantee scheme will apply 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.** 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 with no compensation for collection losses. Due to wider growth in the council's taxbase over the past year that offsets the increased cost of council tax support, the council is not expected to receive any compensation for the council's share of COVID-19 related council tax losses. Therefore, these losses (latest estimate £1.433m) will need to be fully funded within the council's reserves.
- 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. Based on latest estimates, but subject to change by the end of the financial year, the council would receive £2.478m compensation towards its share of net business rates losses (£3.304m), leaving a remaining shortfall of £0.826m to be funded within the council's reserves.

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, with all parts of the UK still being in lockdown at the point of finalising this report. 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 will 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 CSP 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 £25.264m in 2021/22, of which £14.066m 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	1.396	1.650	3.046
Total	**14.066**	**11.198**	**25.264**

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 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 £10.148m 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 £5.913m of the increase in funding across the Schools Block, Central School Services Block (CSSB) and High Needs Block. A revised like-for-like comparison is an increase of £4.235m (2.2%).

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 £2.2bn in 2021/22 as part of the government’s commitment to increase funding by £7.1bn by 2023/24 compared to 2019/20 funding levels. A further increase of £2.3bn is due 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 +2% 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 agreed to continue to implement the National Funding Formula in full in 2021/22 on 21 January 2021. This is due to be 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 0.6% funding increase (£0.006m) 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 1.5% (£0.025m).

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 9.8% (£3.438m) 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. Provisional allocations are based on the January 2020 headcount and will be updated to reflect the January 2021 headcount in the summer term.

3.54 There is a significant funding risk associated with the January 2021 headcount as a result of the pandemic – local authorities and settings will be required to absorb the first 15% of any reduction in numbers compared to the January 2020 headcount, and can only claim protection up to that amount where the headcount subsequently recovers during the spring term. This risk is particularly acute for the spring and summer terms 2021 (funding for the autumn term 2021 and spring term 2022 will eventually be updated to reflect the January 2022 headcount). The first 15% of any reduction in the January 2021 headcount would cost up to £0.978m per term. Any subsequent reduction that doesn't recover would cost £0.065m for each 1% reduction that doesn't recover.

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 (0.6% in December 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% 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 GF 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, except for 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 reactionary 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.

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 Estimate	31.3.22 Estimate	31.3.23 Estimate	31.3.24 Estimate
	£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	17.047	17.047	17.047
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
Core Funding	7.723	39.644	17.008	15.429	13.850
Housing Benefit	7.921	7.921	6.512	5.103	3.694
Levies	0.000	0.000	2.726	2.726	2.726
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
Total Excluding COVID-19	**72.575**	**101.721**	**83.121**	**80.586**	**78.028**
COVID-19	7.684	0.000	0.000	0.000	0.000
Total Including COVID-19	**80.259**	**101.721**	**83.121**	**80.586**	**78.028**
GF Balances					
Non Schools	16.664	17.098	17.098	17.098	17.098
Schools	11.208	11.208	11.208	11.208	11.208
Total GF Balances	**27.872**	**28.306**	**28.306**	**28.306**	**28.306**

- 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 and insurance risks, including the impact of delayed savings delivery. This includes a £2.272m one-off transfer to the reserve due to a one-off positive movement in 2021/22 budget assumptions late in the budget setting process.
- Budget Strategy – to provide one-off funding linked to the delivery of the MTFS (e.g. one-off transformation/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.
- Core Fund Smoothing Reserve – This reserve is mainly an accumulation of unbudgeted retained business rates income in previous years, 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 for significant risks around the

council’s core funding over the medium term, including business rates and council tax income. The estimated movements to/from the reserve reflect the estimated government grant funding due to be received in 2020/21 towards COVID-19 related Collection Fund losses and the spread of these losses over 3 years as required by government regulations.

- 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).
- 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.

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 the HRA, 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 As PFI managed properties are exempt from the rent standard, 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 E1**. This is estimated to deliver up to £1.6bn of capital investment in the borough over the next 10 years. The related Capital Strategy that underpins the capital programme (**Appendix E2**), Minimum Revenue Provision Policy Statement (**Appendix E3**), Treasury Management Strategy (**Appendix E4**) and Investment Strategy (**Appendix E5**) documents are included as appendices for approval.

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.

6 COUNCIL TAX AND RETAINED BUSINESS RATES

Council Tax Forecast 2020/21

6.1 In the 2019/20 Statement of Accounts the final council tax outturn was a total surplus of £1.301m, of which £0.551m was forecast and allocated as part of 2020/21 budget setting and £0.750m is an additional unbudgeted surplus to be included in the 2021/22 budget. This will be allocated between the council (£0.589m) and the Greater London Authority (£0.161m) based on their respective share of 2020/21 council tax.

6.2 In relation to the 2020/21 council tax year, the Collection Fund forecast for council tax is a COVID-19 exceptional deficit of £1.824m to be shared between the council (£1.433m) and GLA (£0.391m) and spread over the 3 years 2021/22 to 2023/24. This exceptional deficit is due to the following variables:

- COVID-19 has led to a significant increase in the cost of the local council tax support scheme (which is currently approximately £1.5m higher than assumed at 2020/21 budget setting).
- The council collected rate is less than assumed at 2020/21 budget setting.

- The above is partially offset by growth in the overall council tax base not assumed at 2020/21 budget setting. For this reason, and due to the local tax guarantee scheme not covering collection losses for council tax, the council is not expected to receive any compensation for its share of the exceptional COVID-19 deficit. Therefore, these losses (latest estimate £1.433m) will be borne in full by the council.

6.3 The estimated impact of the 2020/21 council tax forecast on the council's budget over the medium term is summarised in **Table 15** below. It is assumed that the annual budgetary impact will be funded from the Core Funding earmarked reserve.

Table 15 – Medium-Term Budget Impact of 2020/21 Council Tax Forecast

	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Residual surplus from 2019/20	0.589			0.589
2020/21 Exceptional Deficit	(0.478)	(0.478)	(0.478)	(1.433)
Total Surplus/(Deficit)	**0.111**	**(0.478)**	**(0.478)**	**(0.844)**

Council Tax Base 2021/22

6.4 On 25 January 2021, the Audit Committee agreed a Band D equivalent council tax base for 2021/22 of 77,737.1 properties for the Council's whole area (a 4.29% decrease compared to 2020/21) and 44.2 properties for the Lloyd Square Garden Committee area.

6.5 The council taxbase calculation for 2021/22 has been prepared on the following basis:

- **The number of dwellings on the Valuation List as at 30 November 2020, adjusted for exemptions, discounts and disabled relief** – In line with previous years' methodology, and given the uncertainty around economic activity, the taxbase makes no projection for additional properties that may be added to the Valuation List during the 2021/22 financial year. Instead, any future additions to the taxbase will be reflected in future year (2022/23 onwards) taxbases once they have been formally confirmed.
- **The local council tax support scheme for 2021/22 agreed by council on 10 December 2020 and a projection of future demand** – Due to increased caseload as a result of the COVID-19 pandemic, the cost of the local council tax support scheme has already increased by approximately £2m since the start of the financial year. The 2021/22 taxbase calculation assumes that the higher caseload experienced during the current financial year will continue and projects a further increase during 2021/22. However, it should be noted that cost of local 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.
- **Continuation of council tax relief for care leavers, foster carers and Shared Lives carers** – These are estimated to continue in 2021/22 at current levels.
- **A budgeted council tax collection rate for 2021/22 of 96.5%** - This is a reduction of 1.5% from the 2020/21 budgeted collection rate of 98%. This reflects the reduction in council tax collection in the current financial year due to the COVID-19 pandemic and likely continued impact in 2021/22.

Level of Council Tax 2021/22

6.6 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 2021/22 council tax requirement is set out in **Table 16**.

Table 16 – Section 31A (amended LGFA 1992) Calculation 2021/22

	£
Aggregate of the amounts which the Council estimates for items set out in Section 31A (2) (a) to (f) of the LGFA 1992 **(A)**	1,077,690,848.10
Aggregate of the amounts which the Council estimates for items set out on Section 31A (3) (a) to (d) of the LGFA 1992 **(B)**	(978,442,166.00)
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	**99,248,682.10**

6.7 The calculation of the relevant (average) 2021/22 council tax per Band D property is set out in **Table 17**.

Table 17 – Section 31B (amended LGFA 1992) Calculation 2021/22

Council Tax Requirement	99,248,682.10
Council Tax Base	77.737.10
2021/22 Relevant Basic Band D Council Tax	**1,276.72**
Increase Compared to 2020/21	**4.99%**

6.8 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 2021/22, the relevant basic amount of council tax for Islington would be excessive if it is 5% or more greater than 2020/21 (comprising 3% for expenditure on adult social care, and 2% for other expenditure). Therefore, the proposed 4.99% increase in the relevant basic amount of Band D Islington council tax, which comprises 3.00% for expenditure on adult social care and 1.99% for other expenditure, is not excessive.

6.9 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 2021/22 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 – 2021/22 Basic Council Tax for All Other Parts of the Council's Area

Council Tax Requirement (including Lloyd Square Garden Committee special expense)	£99,248,682.10
Less Lloyd Square Garden Committee special expense	£18,922.10
Council Tax Requirement (excluding special expenses)	**£99,229,760.00**
Council Tax Base	77,737.1
2021/22 Basic Band D Council Tax for All Other Parts of the Council's Area	**£1,276.48**
Increase Compared to 2020/21	**4.99%**

6.10 The Lloyd Square Garden Committee has agreed a special expense of £18,922.10 for 2021/22 (unchanged from 2020/21). When this is divided by the Lloyd Square Garden Committee Band D tax base (44.2), it gives a charge of £428.10 per Band D property for 2021/22. This will be charged to Lloyd Square Garden area dwellings in addition to the basic Islington Band D council tax of £1,276.48 for all other parts of the Council's area.

6.11 The 2021/22 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 2021/22

Valuation Band	Lloyd Square Garden Area (£)	All Other Parts of the Council's Area (£)
A	1,136.39	850.99
B	1,325.79	992.82
C	1,515.18	1,134.65
D	**1,704.58**	**1,276.48**
E	2,083.37	1,560.14
F	2,462.17	1,843.80
G	2,840.97	2,127.47
H	3,409.16	2,552.96

6.12 The proposed 2021/22 GLA precept for each valuation band is shown in **Table 20**. 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 event that the final GLA precept confirmed on 25 February 2021 is different from the proposed precept, this would require an amendment to Islington's proposed budget at the Full Council meeting that evening.

Table 20 – GLA Precept 2021/22

Valuation Band	GLA (£)
A	242.44
B	282.85
C	323.25
D	**363.66**
E	444.47
F	525.29
G	606.10
H	727.32

6.13 **Table 21** shows the total amount of 2021/22 council tax (including GLA precept) for each valuation band over each of the Council's areas.

Table 21 – Total Islington and GLA Council Tax 2021/22

Valuation Band	Lloyd Square Garden Area (£)	All Other Parts of the Council's Area (£)
A	1,378.83	1,093.43
B	1,608.64	1,275.67
C	1,838.43	1,457.90
D	**2,068.24**	**1,640.14**
E	2,527.84	2,004.61
F	2,987.46	2,369.09
G	3,447.07	2,733.57
H	4,136.48	3,280.28

Retained Business Rates

6.14 The council's 2021/22 NNDR1 return (detailed business rates estimate) has now been submitted to central government following the 31 January 2021 statutory submission deadline. The financial implications of this return are fully incorporated in the proposed 2021/22 budget. **Table 22** below shows the movement between the 2020/21 and 2021/22 NNDR1 return estimates in terms of the council's total retained business rates funding.

Table 22 – Retained Business Rates Funding

	2020/21 £m	**2021/22 £m**	**Change £m**
Retained Rates Share (30%)	87.405	89.111*	1.706
Section 31 Compensation	7.833	6.974	(0.859)
Total	**95.238**	**96.084**	**0.847**

**This is 30% of the £297.037m business rates that the council expects to collect in relation to 2021/22 after estimated collection losses and provision for appeals. The remaining 70% is shared between the GLA (37%) and central government (33%).*

6.15 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. Based on the NNDR1 return estimate, Islington's retained business rates funding is approximately £15.1m above the safety net level in 2021/22. This is the maximum (worst case scenario) loss of retained business rates funding that the council could incur in 2021/22 before being entitled to safety net funding from the government.

6.16 Since 2018/19, the council has been part of the London Business Rates Pool covering the GLA and the 33 London billing authorities. Due to significant uncertainty around the impact of the COVID-19 pandemic on business rates income and therefore on the financial viability of the pool, London Government has collectively decided that the pool will not go ahead in 2021/22.

6.17 The 2021/12 NNDR1 return also includes a forecast for 2020/21 business rates income. The estimated impact of this on the council's budget over the medium term is summarised in **Table 23** below. It is assumed that the annual budgetary impact will be funded from the Core Funding earmarked reserve. As discussed further below, the 2021/22 NNDR1 return does not include any provision in 2020/21 or 2021/22 for COVID-19 related Material Change in Circumstance (MCC) business rates appeals.

Table 23 – Medium-Term Budget Impact of 2020/21 Business Rates Forecast

	2020/21 £m	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**Total £m**
Residual surplus from 2019/20		1.192			1.192
Up-front compensation for COVID-19 reliefs and 2021/22 budget impact of reliefs	22.838	(22.838)			0.000
2020/21 Exceptional Deficit*		(1.101)	(1.101)	(1.101)	(3.304)
Up-front compensation for 75% of Exceptional Deficit	2.478				2.478
Total Surplus/(Deficit)	**25.316**	**(22.748)**	**(1.101)**	**(1.101)**	**0.366**

**This is the council's 30% share of a total COVID-19 exceptional deficit of £11.013m.*

Material Changes in Circumstance (MCC) Business Rates Appeals

6.18 There have been reports in the press and indications from the Valuation Office Agency (VOA) that they are working with Rating Agents to agree reductions to rateable values across a wide variety of sectors in response to the effects of the pandemic. Whilst the VOA has recently confirmed that discussion have been suspended to gather further evidence, the eventual result of these discussions is expected to be a temporary Material Change in Circumstance (MCC) reduction which could apply to almost every property sector including offices, retail, airports, stadiums, car parks and factories. The effect could result in reductions in both 2020/21 and 2021/22.

6.19 These reports and London-wide analysis of the current assessments that are under challenge due to the impact of the pandemic suggest that reductions could range from 20% up to 70%. This level of reduction could have a catastrophic impact on the business rates system and, without further government support, could lead to a significant reduction in the council's retained business rates income.

6.20 Under normal circumstances the council would give proper consideration to increasing appeals provisions in the NNDR1 return to cover a worst-case scenario. However, such action, in a climate of unprecedented uncertainty, could have far reaching and unintended consequences. In fact, given the potential impact, it could be a threat to the future operation of the entire business rates system. This is also coupled with a lack of clarity on whether the Retail, Hospitality and Leisure Relief will be extended into 2021/22. Therefore, without further information, a London-wide decision has been taken to not provide for threats in NNDR1 returns. The alternative action of including provision for MCC appeals in the NNDR1 return would have been exceptionally challenging, if not impossible, effectively making them meaningless.

6.21 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 net 25% loss would not impact until the 2022/23 budget (due to Collection Fund accounting arrangements). For 2021/22, in the absence of government support, this is a significant funding risk for the council and in theory could see the council lose retained business rates funding down to the level of the safety net (anything up to a £15.1m funding loss). 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 within the council's reserves (e.g. the Core Funding 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. As noted in paragraphs 6.18 to 6.21, there is also a significant risk around the sustainability of the council's business rates base over the medium term due to COVID-19 related Material Change in Circumstance (MCC) appeals. 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.

Equalities Impact Assessment

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.

Budget Consultation

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 invited comments from business rates payers and representatives of business rates payers in Islington on the draft 2021/22 budget proposals. The consultation period ran from 15 January 2021 to 31 January 2021. No responses were received.

Annual Pay Policy Statement 2021/22

7.21 Section 38 of the Localism Act 2011 requires local authorities to publish an annual 'Pay Policy Statement', setting out their policies in respect of chief officer remuneration and other specified matters. Regard must be had to guidance to be published by the Secretary of State in preparing the statement, which must be approved by Full Council. The council is then constrained by its pay policy statement when making determinations on chief officer pay, although the statement may be amended at any time by a further resolution of Full Council. The council's Annual Pay Policy Statement for 2021/22 is provided at **Appendix G**.

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 E1	Capital Programme 2021/22 to 2023/24
Appendix E2	Capital Strategy 2021/22
Appendix E3	Minimum Revenue Provision (MRP) Policy Statement 2021/22
Appendix E4	Treasury Management Strategy 2021/22
Appendix E5	Investment Strategy 2021/22
Appendix F	2021/22 Budget Equality Impact Assessment
Appendix G	Annual Pay Policy Statement 2021/22

Background papers: None

Final report clearance:

Signed by:	Satnam Gill	3 February 2021
	Executive Member for Finance and Performance	Date

Responsible Officers: Dave Hodgkinson, Corporate Director of Resources (Section 151 Officer)
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