ISLINGTON

Resources Directorate

Newington Barrow Way, London, N7 7EP

Report of: Executive Member for Finance and Performance

Meeting of	Date	Ward(s)
Executive	13 January 2022	All

Delete as appropriate	~~Exempt~~	Non-Exempt

Draft Budget Proposals 2022/23 and Medium-Term Financial Strategy

1. Synopsis

1.1. The principal purpose of this report is for the Executive to agree draft proposals in respect of the council's 2022/23 budget and level of council tax and the latest assumed medium-term financial position.

1.2. 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. Demand for services has risen sharply. The pandemic has also created opportunities for the council to work with communities, partner organisations and businesses to build back differently and realise our collective ambitions for the future.

1.3. The 2022/23 budget outlines how the council will continue to invest in innovative improvements to support these efforts. It also continues to safeguard investment in the services and support which people value and rely on.

1.4. Alongside this, the council is having to make new savings of £3.530m in 2022/23, in addition to those previously agreed, with local government funding failing to keep up with rising costs and demand for council services.

1.5. Future waves of the pandemic and restrictions are likely to continue to have a significant impact on the council's finances. In particular, the risk around the impact of the Omicron variant as 'plan B' restrictions are in place at the point of drafting this report. The sales, fees and charges income compensation scheme has now ended, and the government has indicated that there will be no additional COVID-19 funding for local authorities in 2022/23. This reinforces the need to have sufficient coverage in the council's base budget and reserves for hardening budget risks over the medium term.

1.6. The government has assumed in its local government funding calculations that in 2022/23 the council will increase core council tax by the maximum amount (1.99%) and will apply a further 1% Adult Social Care (ASC) precept. This is reflected in the draft 2022/23 budget proposals. Subject to review as part of future budget setting cycles, the MTFS also assumes core council tax increases of 1.99% in 2023/24 and 2024/25.

1.7. For the average (Band D) property, the 2.99% increase in the basic Islington council tax (excluding the GLA precept) equates to an increase of around 73 pence per week for full council tax payers. Despite the proposed increase in council tax, working aged council tax support recipients living in a Band D property will pay around 82 pence per week less in 2022/23 due to the enhancement of the council tax support scheme.

1.8. The Mayor of London has now published his draft consolidated budget, capital spending plan and provisional council tax precept for 2022/23 for consultation. The proposed precept on Band D council taxpayers in the 32 London Boroughs is £395.59 - a £31.93 or 8.8% increase compared to this year. Combined with the proposed 2.99% increase in Islington council tax, this would equate to a total increase of 4.27% for Islington council tax payers.

1.9. The Policy and Performance Scrutiny Committee will review the budget proposals on 20 January 2022 and its comments will be considered in finalising the budget proposals and proposed level of council tax for recommendation by the Executive on 10 February 2022 and agreement by Full Council on 3 March 2022.

1.10. The council will also be inviting comments from business rates payers (and representatives) in Islington on the draft 2022/23 budget proposals set out in this report. The consultation period will run from 6 January 2022 (upon the publication of this report and related communication to business rates payers and representatives of business rates payers) to 26 January 2022. Any comments received will be considered by the council before the final budget proposals for consideration by the Executive on 10 February 2022 and Full Council on 3 March 2022.

1.11. The contents of the report are summarised below:

- Section 2 sets out the recommendations.
- Section 3 summarises the assumptions within the General Fund Medium-Term Financial Strategy (MTFS) and sets out the 2022/23 net revenue budget, fees and charges and estimated reserves.
- Section 4 covers the Housing Revenue Account (HRA) and includes HRA rents, service charges and other fees and charges.
- Section 5 summarises the 2022/23 to 2024/25 capital programme and funding, and the latest indicative programme up until 2031/32. In the final version of the budget report, which goes to the Executive on 10 February 2022 and Full Council on 3 March 2022, the Capital Strategy, Flexible Use of Capital Receipts Policy, Treasury Management Strategy,

Minimum Revenue Provision (MRP) Policy Statement and Investment Strategy will also be included here.

- Section 6 will include the detailed, statutory council tax calculations and any matters relating to retained business rates and, if applicable, the London Business Rates Retention (Non-Pilot) Pool in the final version of the budget report which goes to the Executive on 10 February 2022 and Full Council on 3 March 2022.
- 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, a cumulative Equality Impact Assessment (EQIA) of the budget proposals and budget consultation requirements.

2. Recommendations

The General Fund Budget 2022/23 and MTFS (Section 3)

2.1. To agree and recommend to Full Council the latest assumed MTFS and balanced 2022/23 budget, including the underlying principles and assumptions. (**Paragraphs 3.1-3.38, Table 1** and **Appendix A**)

2.2. To agree and recommend to Full Council the proposed 2022/23 net budgets by directorate. (**Paragraph 3.3, Table 2** and **Appendix A**)

2.3. To agree the annual budget for the London Councils Grants Committee and to note that this will be reported to the VCS Committee on 25 January 2022 for information. (**Paragraph 3.22-3.23**)

2.4. To agree and recommend to Full Council the 2022/23 savings, and note that individual savings may be subject to individual consultation before they can be implemented. (**Paragraphs 3.39-3.43, Table 5,** and **Appendix B**)

2.5. To note the Dedicated Schools Grant (DSG) settlement for 2022/23 and related funding assumptions. (**Paragraphs 3.44-3.49**)

2.6. To agree the fees and charges policy and the General Fund fees and charges for 2022/23 (**Paragraphs 3.50-3.57** and **Appendix C**)

2.7. To agree and recommend to Full Council the policy on General Fund contingency and reserves and agree the movements to/from earmarked reserves assumed as part of the 2022/23 revenue budget. (**Paragraphs 3.58-3.67** and **Table 6**)

2.8. To agree and recommend to Full Council that the Section 151 Officer is delegated responsibility for any technical adjustments required for the 2022/23 budget (in line with the council's Financial Regulations).

2.9. To agree and recommend to Full Council that centrally held gross demographic growth be allocated to service budgets if and when the need materialises and be approved by the Section 151 Officer (**Paragraph 3.14**)

The HRA Budget and MTFS (Section 4)

2.10. To agree and recommend to Full Council, the balanced HRA 2022/23 budget and note the latest estimates over the 3-year MTFS period. (**Paragraphs 4.1-4.3, Table 7** and **Appendix D1**)

2.11. To agree the HRA rents and other HRA fees and charges for 2022/23. (**Paragraphs 4.4-4.29, Tables 8-10** and **Appendix D2**)

2.12. To agree the introduction of a points-based apportionment method from April 2022 to revise the way in which Housing Leaseholder Service Charges are calculated. (**Paragraph 4.9,** and **Appendix D3**)

2.13. To note that the HRA 30-year business plan will be updated (**Paragraph 4.2**)

Capital Investment and Treasury and Investment Management (Section 5)

2.14. To agree and recommend to Full Council, the proposed 2022/23 to 2024/25 capital programme and note the latest indicative capital programme for 2025/26 to 2031/32. (**Paragraphs 5.3, Table 11** and **Appendix E1**)

2.15. To note the estimated funding of the 2022/23 to 2024/25 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. (**Paragraph 5.10** and **Table 12**)

2.16. To note that the final version of the budget report to the Executive on 10 February 2022 and to Full Council on 3 March 2022 will include the Capital Strategy, Flexible Use of Capital Receipts Policy, Minimum Revenue Provision (MRP) Policy Statement, Treasury Management Strategy and Investment Strategy. (**Paragraph 5.12**)

Council Tax and Retained Business Rates (Section 6)

2.17. To note that the detailed, statutory council tax calculation and the recommendations for the final 2022/23 council tax, including the GLA precept, will be included for agreement in the final budget report to the Executive on 10 February 2022, and Full Council on 3 March 2022. (**Paragraph 6.1-6.2**)

2.18. To agree that authority be delegated to the Section 151 Officer to finalise the council's 2022/23 NNDR1 (detailed business rates) estimate ahead of the 31 January 2022 statutory deadline. (**Paragraph 6.3**)

Matter to Consider in Setting the Budget (Section 7)

2.19. To have regard to the Section 151 Officer's report on the robustness of the estimates included in the budget and the adequacy of the proposed financial reserves when making decisions about the budget and the level of council tax, as required under Section 25(2) of the Local Government Act 2003. (**Paragraphs 7.1-7.6**)

2.20. To note the Monitoring Officer comments. (**Paragraphs 7.7-7.11**)

2.21. To note the Equality Impact Assessment (**Paragraphs 7.12-7.14** and **Appendix F**) and to take fully account of it in approving the overall budget and related proposals.

2.22. To note that the council is inviting business rate payers or representatives of business rate payers in Islington to comment on the draft 2022/23 budget proposals in this report, as required under Section 65 of the Local Government Finance Act 1992. (**Paragraphs 7.15-7.17**)

3. <u>General Fund MTFS and 2022/22 Revenue Budget</u>

Summary of MTFS 2022/23 to 2024/25

3.1. The latest assumed budget position in 2022/23 and over the medium term is summarised in **Table 1** and detailed at **Appendix A**. There was an estimated gross budget gap of £11.276m in 2022/23 (balanced in full by the proposals in this report) and £55.748m over the medium term (with a remaining estimated 3-year gap of £28.473m after the proposals and underlying assumptions in this report).

<u>Table 1 – Summary Budget Gap 2022/23 to 2024/25</u>

	2022/23 £m	**2023/24 £m**	**2024/25 £m**	**Total £m**
Pay and pension inflation	9.830	8.850	4.860	**23.540**
Non-pay/contract inflation	5.879	4.350	4.350	**14.579**
Demographic growth	3.057	3.038	5.000	**11.095**
Base budget adjustments	4.958	0.726	(0.102)	**5.582**
Investment growth	2.000	0.000	0.000	**2.000**
Corporate items (e.g. levies/contingency)	(5.149)	0.784	5.878	**1.513**
Government funding	(9.299)	6.738	0.000	**(2.561)**
Gross Budget Gap	**11.276**	**24.486**	**19.986**	**55.748**
Continuation of previously agreed savings	(3.246)	(0.540)	0.000	**(3.786)**
New savings proposals	(3.530)	(0.459)	0.000	**(3.989)**
Assumed council tax base increase	(1.500)	(1.000)	(1.000)	**(3.500)**
Assumed council tax increase	(2.000)	(3.000)	(3.000)	**(8.000)**
Assume ASC precept increase	(1.000)	0.000	0.000	**(1.000)**
Net Budget Gap	**(0.000)**	**17.487**	**13.986**	**28.473**

3.2. The proposed 2022/23 budget is under-pinned by the following key principles.

- Compliance with the CIPFA Financial Management Code - the final version of the budget report to the Executive on 10 February 2022 and Full Council on 3 March 2022 will include a self-assessment in this regard.
- 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 interest and prudently setting aside enough to repay debt principal) in the revenue budget, in particular considering the potential for interest rates to increase in the future.
- Not assuming additional funding from central government until it is confirmed and developing exit plans for specific funding streams ending at short notice.
- Increasing the level of council tax in line with the government's expectations in local government finance settlements to avoid an ongoing shortfall in the base budget.

- 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.
- Maintaining a minimum balance in the Core Funding Reserve to mitigate against a potential fall in retained business rates funding to the government safety net level.

Net Revenue Budget 2022/23

3.3. **Table 2** summarises the proposed 2022/23 net revenue budget by directorate (cash-limited budgets). A breakdown of the movement between the 2021/22 and 2022/23 budget is shown in **Appendix A**.

Table 2 – Net Revenue Budget 2022/23

	2022/23 Net Budget £m
Adult Social Services	56.763
Chief Executive's Directorate	1.206
Children's Services	84.637
Community Wealth Building	16.318
Environment	5.452
Fairer Together	5.914
Homes & Neighbourhoods	6.308
Public Health (net nil as wholly grant funded)	0.000
Resources Directorate and Central Costs	50.875
Net Cost of Services	**227.473**
Contingency	5.000
Transfer to/(from) Earmarked Reserves	7.729
Unringfenced Grants	(8.279)
Net Budget Requirement	**231.923**
Settlement Funding Assessment	(110.601)
Business Rates Growth/Section 31 Grant	(13.629)
Collection Fund Deficit	(1.020)
Council Tax Requirement*	**106.673**

Subject to change following council tax base calculation in January 2022

Economic Forecasts

3.4. The Office for Budget Responsibility's (OBR) latest economic forecasts, published alongside Autumn Budget and Spending Review 2021, showed an improvement compared to the previous forecasts in March 2021. The successful vaccine rollout and consumers' and businesses' adaptability to public health restrictions has allowed faster than expected recovery. However, domestic and international markets have suffered from supply constraints, exacerbated by changes following the UK Exit from the EU.

3.5. The economy is expected to grow by 6.5% in 2021 (2.4% higher than forecast in March 2021). Future year growth is forecast at 6.0% in 2022, 2.1% in 2023 and 1.3% in 2024.

3.6. Inflation (Consumer Price Index, CPI) was forecast to reach 4.4% in the second quarter of 2022 (2.6% higher than forecast in March 2021) and return to the government's 2%

target in 2024. However, CPI has since surged to 5.1% in November 2021 (up from 4.2% in October 2021) and is forecast to peak at around 6% in April 2022.

3.7. The economy is expected to regain its pre-pandemic size by around the end of 2021 (previously mid 2022). Economic scarring from the pandemic is forecast at 2% (down from 3% in March 2021 forecast).

3.8. Unemployment is now predicted to peak at 5.25% (1.25% less than forecast in March 2021). Vacancies have reached a record high of 1.1 million. However, the share of unemployed people who are classified as long-term unemployed has continued to rise and is now at a five-year high at almost 30% of the unemployed.

3.9. Lower borrowing over the forecast period means that public sector net debt is now forecast to peak below 100% of GDP at 98.2% this year.

Key Revenue Cost Pressures

3.10. The MTFS assumes a 2.0% per annum pay award in 2021/22 and over the medium term. As the 2021/22 budget assumed a pay freeze (in line with government expectations at the time), the 2022/23 budget effectively has to make provision for both the 2021/22 and 2022/23 pay awards. Every 1% increase in pay equates to approximately £1.75m for the General Fund. It is possible that pay settlements could be higher than 2% with inflation now forecast to peak at 6% in 2022 and to be above the government's 2% target for most of the MTFS period.

3.11. As a result of the recently announced Health and Social Care reforms, there will be a 1.25% increase in employer National Insurance Contributions (NICs) from April 2022. This equates to a pressure of approximately £2m per annum on the council's General Fund employee costs of at least £2m per annum. There will be a further related pressure on ring-fenced areas of the council's budget such as the Housing Revenue Account (HRA) as well as on the council's contracts.

3.12. Employer pension contributions are expected to be broadly unchanged in 2022/23 based on the 2019 triennial pension fund valuation, with a stepped increase in costs expected in 2023/24 following the 2022 valuation. In addition, the MTFS includes £1m per annum additional provision from 2022/23 and over the medium terms towards the historical pension fund deficit.

3.13. The MTFS provides for contract and non-pay inflation that cannot be managed within existing budgets. This includes the significant impact on adult social care contracts of the National Living Wage (from £8.91 to £9.50 per hour), London Living Wage (from £10.85 to £11.05 per hour) and National Insurance (1.25% increase) increases. It also includes provision for the potential impact of rising energy costs.

3.14. A further, significant cost pressure for the council is the increasing quantum and complexity of demand for council services. Based on latest estimates, the MTFS assumes demographic budget growth of £3.057m in 2022/23 and £11.095m over the medium term. This is the net growth requirement after planned management actions to mitigate cost increases. There is considerable uncertainty around these estimates due to the unknown lasting impact of the pandemic on demand. It is recommended that gross demographic growth is held centrally and allocated to service budgets in-year once a more evidenced assessment is available and has been approved by the Section 151 Officer.

3.15. The number of residents requiring adult social care has risen over the past number of years. This demand is driven by:

- An ageing population with people living longer with multiple of complex needs requiring social care.
- Increased prevalence of learning disabilities or physical or mental illness among working-age adults over recent years.
- The COVID-19 pandemic and related hospital discharge schemes have exacerbated this demand.

3.16. The demographic growth for Adult Social Services is split into the following client groups:

- Memory, Cognition, and Physical Support – It is estimated that approximately 8% of Islington's population is aged over 65. Between 2017 and 2027 the Islington population aged over 65 is projected to rise by 27%.
- Mental Health, Learning Disabilities and Physical Disabilities - People are living longer but are developing long-term conditions earlier in life. There are also a growing number of frail older family carers. Planning is necessary to meet the needs of an increasing number of people with profound and multiple disabilities and manage the resulting pressure on resources.

3.17. The demographic growth for Children's Services relates to the following service areas:

- Demand pressures in relation to Children's Social Care – Bed night activity increased by 10% during 2020/21. While it has partially subsided in the first half on 2021/22, underlying demand and cost pressures remain, particularly in residential provision, independent living and fostering. Alongside this we are seeing increased numbers of care leavers as increasing numbers of children in care turn 18.
- Increased provision of home to school transport as the numbers of pupils with special educational needs and disabilities continues to increase.
- An increase in provision of school uniform grants and Post-16 bursaries because of the eligibility for free school meals increasing during the pandemic.

3.18. The 2022/23 recurrent budget includes £2m for investment in Member priorities. This is summarised below.

- Expansion of the Council Tax Support Scheme (CTSS) (£0.676m) by increasing working-aged support from the current 91.5% to 95%, as agreed by Full Council on 9 December 2021.
- Revenue cost of capital (£0.650m) associated with the new £10m capital investment pot to support key community priorities across the borough (see **Section 5**).
- Enhanced Childcare Bursary Scheme (£0.120m) to extend the childcare bursary scheme to support an additional estimated 300 parents per annum.

- Local Community Infrastructure Levy Top Ups (£0.050m) – The council currently operates a Community Infrastructure Levy (CIL) top-up scheme whereby those wards with negligible development, and therefore very low to zero local share CIL funding, receive a top-up of £0.030m per annum to support local infrastructure projects. The top-up value has not been increased for several years to reflect increasing costs, and it is proposed to increase the top-up to £0.075m per annum to allow all wards to deliver impactful projects and better meet local needs and priorities. Recurrent budget growth of £0.050m will be required each and every year going forward and reflects the estimated cost of this change in terms of reduced strategic share CIL funding and increased revenue cost of borrowing to fund the capital programme.
- Remaining amount of £0.554m to be allocated in the final budget proposals to the Executive on 10 February 2022 and Full Council on 3 March 2022.

3.19. The council is committed to paying levies to various external organisations, estimated to total £16.821m in 2022/23. 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.

3.20. The estimated levies for 2022/23 are shown in **Table 3**.

Table 3 – Levies 2022/23

	2021/22 Budget £m	2022/23 Estimate £m	Increase/ (Decrease) £m
Concessionary Fares	9.932	7.471	(2.461)
NLWA Household Levy	6.195	6.908	0.713
London Pensions Fund Authority	1.185	1.209	0.024
Inner North London Coroner's Court	0.360	0.367	0.007
Traffic and Control Liaison Committee	0.254	0.290	0.036
Lee Valley Regional Park Authority	0.194	0.198	0.004
Environment Agency (Thames Region)	0.190	0.194	0.004
London Boroughs Grants Scheme	0.180	0.184	0.004
Total	**18.490**	**16.821**	**(1.669)**

3.21. The overall decrease in the levies budgets is due to the further significant decrease in concessionary fares due to reduced passenger numbers on Transport for London (TfL) services since the start of the pandemic. The budget forecast to return to its pre-pandemic level by 2024/25.

3.22. The London Boroughs Grants Committee contributes towards the funding of many London-wide organisations providing a wide range of services. These services are accessible by Islington residents and contribute towards the council's priorities including tackling homelessness, dealing with violence against women and girls and support people with no recourse to public funds.

3.23. The London Councils Grants Committee considered proposals for expenditure in 2022/23 at its meeting on 24 November 2021. The London Councils Leaders' Committee considered a budget at its meeting on 7 December 2021 and the following recommendation is now made for constituent councils (including Islington) to agree an overall level of expenditure of £6,668,000 comprising:

- Payments to Commissions - £6,173,000
- Administrative Expenditure - £435,000
- London Funders Membership Fees - £60,000
- Borough contributions - £6,668,000 (Islington contribution £183,779)

3.24. In order to help protect much-needed reserves, the 2022/23 base budget and MTFS additionally provides £1.5m per annum budget for corporate transformation projects.

Provisional Local Government Finance Settlement 2022/23

3.25. The provisional local government finance settlement for 2022/23 was announced on 16 December 2021. The final settlement is due to be announced early February 2022.

3.26. Based on the government's methodology, Islington's Core Spending Power (CSP) will increase by 6.57% in 2022/23 in cash terms, slightly less than the national average increase of 6.88%. This represents a real-terms increase in resources of approximately 4% (albeit the parameters around what constitutes a real-terms increase are shifting on a monthly basis, given the sharp increases in the headline inflation rate). Within this, it is assumed that the council will raise council tax by the maximum amount (1.99% referendum limit and 1% ASC precept).

3.27. Despite an increase in local government funding in 2022/23, this falls considerably short of rectifying government funding cuts to councils over the past decade. This is illustrated by the chart below. The chart shows the percentage change in core government spending (excluding COVID-19) by government department from 2009/10 to 2021/22. Local Government (within Department for Levelling Up, Housing & Communities, previously named MHCLG) has been the most severely affected area with real terms funding cuts of around 60% since 2009/10.

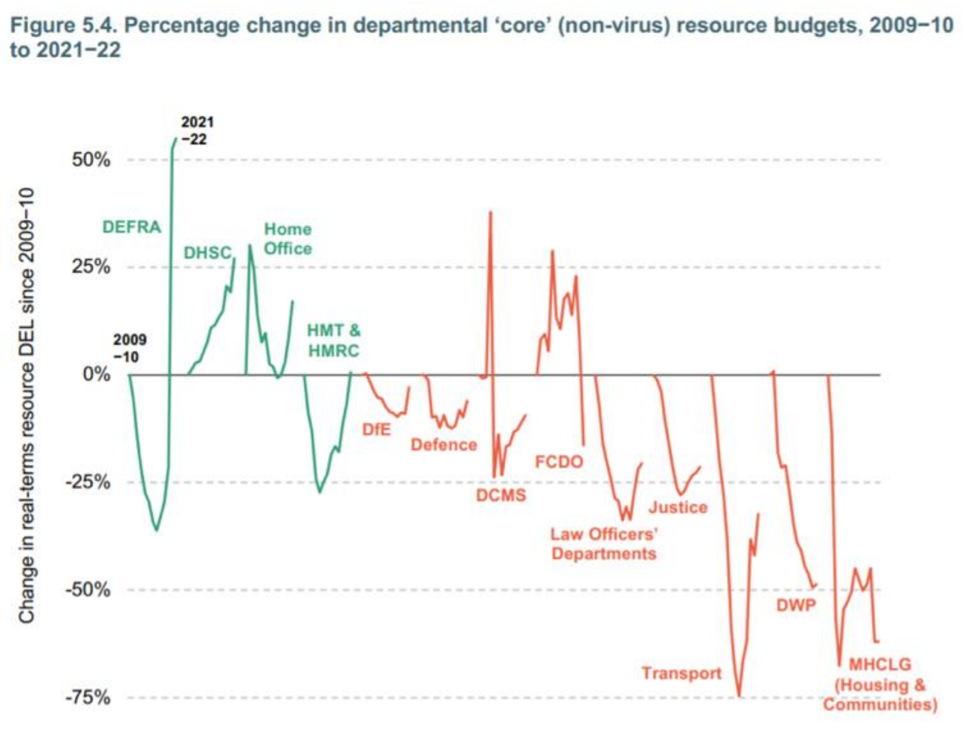

Chart referenced from: IFS Green Budget 2021 (https://ifs.org.uk/uploads/IFS-Green-Budget-2021-.pdf)

3.28. It was announced in the settlement that local government funding reform work is due to restart in spring 2022. This means that the Fair Funding Review (which Islington stood potentially to lose out from under a redistribution of local government funding) and business rates baseline reset are likely to be under consideration again, for possible implementation from 2023/24. This is a significant uncertainty in the MTFS going forward.

Settlement Funding Assessment (SFA)

3.29. Islington's SFA is made up of a Baseline Funding Level (BFL) under the partial (30%) business rates retention system (comprising a business rates baseline and a 'top-up' grant) and Revenue Support Grant (RSG). This is summarised in **Table 4** below.

Table 4 – Settlement Funding Assessment (SFA)

	2021/22	2022/23	Increase/ (Decrease)
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	24.590	25.347	0.757
Settlement Funding Assessment	**109.844**	**110.601**	**0.757**

3.30. The BFL will be the same as in 2021/22 due to the previously announced freezing of business rates in 2022/23. The council will receive offsetting grant funding to compensate for the impact of the business rates freeze on its retained rates income.

3.31. In 2022/23, RSG will increase in line with the September 2020 to September 2021 change in the Consumer Price Index (CPI, 3.1%). The government also intends to roll into the RSG two small New Burdens grants (the Electoral Registration Grant and the Financial Transparency of Local Authority Maintained Schools Grant).

Services Grant 2022/23

3.32. Islington will receive £5.877m from the new, one-off 2022/23 Services Grant. As well as other immediate pressure in the sector, this is intended to fund the 1.25% increase in employer National Insurance Contributions (Health and Social Care Levy) in 2022/23.

3.33. The settlement makes clear that this grant is one-off in nature and that it will be excluded from potential transitional protections put in place to support local authorities when the assessment of council's needs and resources is updated. Pending further clarity, it is assumed in the MTFS that the council will not continue to receive this additional funding in 2023/24 and 2024/25.

Social Care Funding

3.34. The council will receive social care grant funding of £29.060m in 2022/23, comprising £14.502m Improved Better Care Fund and £14.558m Social Care Grant. This is an increase of £3.781m compared to 2021/22.

3.35. In addition, the council will receive £0.868m in 2022/23 from the £162m Market Sustainability and Fair Cost of Care Fund (Social Care Reforms). The purpose of this grant (funded from the Health and Social Care Levy) is to support local authorities prepare markets for reform and move to paying providers a fair cost of care. There is a significant risk for local authorities that the overall quantum and distribution of funding for ASC reforms will be insufficient to meet the additional costs of implementing the reforms.

New Homes Bonus (NHB)

3.36. There will be a rollover of the 2021/22 policy on NHB for a new round of payments in 2022/23. These payments will not attract new legacy commitments. This equates to additional, one-off funding of £0.212m for Islington.

Lower Tier Services Grant

3.37. This was a new grant in 2021/22, the function of which appears to be to reduce the range of increases in Core Spending Power, largely by 'levelling up' those with the lowest taxbase, and to provide a 'floor' increase for every authority. Islington will receive £0.971m from the Local Tier Service Grant in 2022/23, an increase of £0.049m.

Other Grants

3.38. A number of other specific grants, including the ring-fenced Public Health grant and the former Independent Living Fund recipient grant, sit outside the main local government finance settlement and for which 2022/23 allocations have not yet been announced. The MTFS assumes that any changes in these specific grants compared to 2020/21 will be neutral impact within the related service area.

Revenue Savings

3.39. The 2022/23 revenue budget assumes the delivery of savings totalling £6.776m in 2022/23 (**Appendix B**) of which £3.530m are new savings proposals for agreement in this report and £3.246m are previously agreed from prior year budget setting processes. This is summarised by type of saving in **Table 5**.

Table 5 – 2022/23 Budget Savings

Type	**New Savings £m**	**Previously Agreed £m**	**Total £m**
Efficiency	1.350	1.035	**2.385**
Funding Substitution	0.500	0.000	**0.500**
Income	1.356	0.432	**1.788**
Service Reconfiguration	0.324	1.779	**2.103**
Total	**3.530**	**3.246**	**6.776**

3.40. It should be noted that individual savings may be 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 pressure would need to be funded from the corporate contingency budget and the ongoing implications considered as part of the next budget process.

3.41. The proposed savings include the generation of additional property income of £0.840m in 2022/23. However, it should be noted that there is a significant in-year (2021/22) budget pressure on the existing property income budget. This suggests a high degree of risk around the delivery of the 2022/23 saving and a possible call on the contingency budget. This will be kept under close review and factored into future MTFS updates.

3.42. Updates on the delivery of the 2022/23 budget savings will be provided as part of the 2022/23 budget monitoring process.

3.43. The estimated future year implications of 2022/23 savings proposals in 2023/24 and 2024/25 are fully taken into account in the remaining medium-term budget gap in **Table 1**. These will be reviewed ahead of their inclusion in future year budget proposals.

Dedicated Schools Grant (DSG) Funding

3.44. An additional £4.7bn is being provided by 2024/25 for the core schools budget in England compared to 2019/20. This is broadly equivalent to a cash increase of over £1,500 per-pupil by 2024/25, restoring schools' per-pupil funding to 2010 levels in real terms. However, this effectively means that there has been no real-terms growth in per-pupil funding in a decade.

3.45. In Islington the funding in the Schools Block is set to increase by £2.775m following an increase in per-pupil funding for primary and secondary schools of 2.86% and 2.59% respectively. However, as allocations at local authority level are on a per-pupil basis, the council would have received a further £1.211m if pupil numbers had been unchanged in 2021/22 (the basis of 2022/23 funding allocations) instead of reducing.

3.46. Islington will receive a further reduction in the historic duties element of Central Schools Services Block funding for services provided to mainstream schools of £106k (20%) in 2022/23. This follows a 20% reduction in 2020/21 (£167k) and 2021/22 (£131k), in line with the Department for Education's (DfE) plans to phase out this funding for local authorities by 2026/27. Funding for ongoing duties is reducing by £18k (1.7%) due to declining pupil numbers and a 0.7% reduction in the per-pupil funding rate for local authorities.

3.47. Funding for High Needs is set to increase by £2.823m (7.5%) but is subject to confirmation by the government in the summer term, in line with previous years.

3.48. Funding in the Early Years Block to fund statutory entitlements to early education and childcare is provisionally set to reduce by £1.555m (7.7%) in 2022/23 but will be adjusted in the summer term in line with the 2022 spring term early years census. Provisional allocations are based on the 2021 spring term headcount which was artificially suppressed due to the pandemic. In the normal course of events, we would expect some recovery in the data compared to 2021, and therefore a positive in-year funding adjustment. However, the Omicron variant is likely to have an adverse impact on recovery, therefore this remains a significant budget risk for the council and early years providers. Specific provisional funding adjustments within the Early Years Block are:

- The hourly funding rate for statutory entitlements to free early education and childcare for 2-year-olds is increasing by 3.2%, but the gain in funding has been offset by the reduced headcount.
- The Early Years Pupil Premium and The Disability Access Fund are increasing by £0.073m and £0.013m respectively, however this funding is passported directly to providers with eligible children.

3.49. In addition to the DSG, supplementary grant funding has been announced for schools in relation to the Health and Social Care Levy and to meet other cost pressures. The council has been notified of an indicative allocation of £4m for primary and secondary schools and £1.5m for high needs, including special schools. This funding is outside of the DSG for 2022/23 but is expected to be rolled into the DSG from 2023/24.

Fees and Charges

3.50. 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.

3.51. 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.

3.52. The most widely used measure of inflation is the Consumer Price Index (CPI). Inflation is currently at its highest level in over a decade (November CPI – 5.1%). The spike in inflation is expected to be relatively short lived and forecast to return to the 2% target over the medium term.

3.53. Due to the unstable and short-term nature of the current rate of inflation, it is proposed that discretionary fees and charges are uplifted by 2.0% in 2022/23 (the government's official target rate) unless a variation is agreed.

3.54. Possible reasons for variation from the standard uplift include separate council policy, cost recovery, price elasticity of demand, benchmarking with alternative providers, and rounding for efficiency of collection.

3.55. Based on the policy, the General Fund discretionary fees and charges for 2022/23 are set out at **Appendix C**.

3.56. 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.

3.57. 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 3.1% + 1%). HRA fees and charges are considered in the **Section 4** of this report.

General Fund Contingency, Reserves and Balances

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

3.59. 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 budget risks over the medium term.

3.60. In recent years external auditors have highlighted the comparatively low levels of the council's non-schools reserves and emphasised the importance of maintaining sufficient reserves. Furthermore, the significant expenditure pressures and income shortfalls incurred as a result of COVID-19 have highlighted the underlying level of risk in the council's budget.

3.61. The 2022/23 budget includes an ongoing corporate contingency budget of £5m per annum, unchanged from 2020/21. 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 agreed.

3.62. Islington's current General Fund balance (£16.7m, excluding balances held on behalf of schools) equates to just over one week of gross expenditure. It is proposed that any underspend on the General Fund and contingency budget at the end of each financial year is used to increase the General Fund 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 General Fund balance (excluding schools balances) would be achievable by delivering a balanced budget over the next 5 years and transferring the unused contingency budget to general reserves. 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, 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.

3.63. The government's financial assistance towards COVID-19 pressures has created complexities for reporting and for reserves comparisons between authorities and financial years. This is due to timing differences between when funding is received and when it is applied against budget pressures. The most significant impact is in respect of S31 grant compensation for COVID-19 business rates reliefs, where the grant income was received in 2020/21 (transferred to reserves) but the associated budget pressures will not come through until 2021/22 (drawn down from reserves) due to accounting regulations. This is the reason for the forecast decrease in the Core Funding reserve in 2021/22.

3.64. The estimated level of General Fund, reflecting current known movements, over the 3-year MTFS period is shown in **Table 6** followed by a brief description of each reserve. This reflects known reserves movements and assumes that the estimated budget gap for 2023/24 and 2024/25 will be fully closed without drawing down on reserves.

3.65. The 2021/22 budget established a £4m per annum recurrent transfer to earmarked reserves as part of the council's efforts to strengthen financial resilience for hardening budget risks. It is prudently assumed that this £4m annual budgeted transfer to earmarked reserves will be offset fully by drawdowns against reserves commitments. However, the medium-term financial strategy will be to fund pressures within the annual base budget where possible, in which case the budgeted transfer to reserves may help towards further strengthening the overall reserves position.

3.66. The proposed 2022/23 budget includes a further one-off £4m transfer to earmarked reserves to provide additional financial resilience for the additional potential budgetary impact of the COVID-19 pandemic that is not reflected in base budgets.

3.67. It is expected that additional movements to/from reserves will be brought forward for agreement once there is greater clarity on their timing and amount. This includes reserves movements related to the finalisation of the 2021/22 financial outturn after the end of the current financial year.

Table 6 – Estimated General Fund Reserves

	31.3.21 Actual £m	31.3.22 Estimate £m	31.3.23 Estimate £m	31.3.24 Estimate £m	31.3.25 Estimate £m
Earmarked Reserves					
BSF PFI	5.762	5.762	5.762	5.762	5.762
Budget Risk and Insurance	25.425	27.697	23.697	23.697	23.697
Budget Strategy	21.111	21.111	21.111	21.111	21.111
Business Continuity	10.000	10.000	10.000	10.000	10.000
Care Experience	16.000	16.000	20.000	20.000	20.000
Cemeteries	2.107	2.107	2.107	2.107	2.107
CIL	8.434	8.434	8.434	8.434	8.434
Core Funding	41.465	18.829	19.849	18.270	18.270
COVID-19	0.000	0.000	4.000	4.000	4.000
Levies	0.000	2.726	2.844	2.844	2.844
Net Zero Carbon	2.548	2.548	2.548	2.548	2.548
Public Health	1.353	1.353	1.353	1.353	1.353
Social Care	5.985	5.985	5.985	5.985	5.985
Street Markets	0.260	0.260	0.260	0.260	0.260
Total	**140.450**	**122.812**	**127.950**	**126.371**	**126.371**
General Fund Balance					
Non Schools	16.664	16.664	16.664	16.664	16.664
Schools*	10.109	4.326	4.326	4.326	4.326
Total	**26.773**	**20.990**	**20.990**	**20.990**	**20.990**

*Schools balances are currently being reviewed and will be updated in the final version of the budget report to Executive on 10 February 2022 and Full Council on 3 March 2022.

- Building Schools for the Future (BSF) PFI Smoothing reserve – The annual costs of PFI schemes fluctuate over the lifecycle of the schemes. This reserve helps to smooth the budgetary impact of PFI costs across financial years.
- Budget Risk and Insurance reserve – to mitigate budget and insurance risks, the impact of delayed savings delivery and other timing differences and one-off expenditure commitments that span more than one financial year.
- Budget Strategy reserve – This reserve provides one-off funding linked to the delivery of the medium-term Financial Strategy (e.g. transformation projects, revenue costs of capital projects, redundancy costs). It supplements the £1.5m annual budget for corporate transformation projects.
- Business Continuity - mitigates the risk of disruption to key council services and systems, including cyber security risks.
- Care Experience – provides for the potential direct and indirect costs of the non-recent child abuse (NRCA) support payment scheme. There is an additional £4m transfer to the reserve in 2022/23 in order to provide for the potential costs of the NRCA support scheme.

- Cemeteries reserve – The council operates a shared cemeteries service with the London Borough of Camden, and any surplus at the end of each financial year is carried forward through this reserve.
- Community Infrastructure Levy (CIL) reserve – balance of CIL funding available for infrastructure investment in future financial years.
- Core Funding – This reserve comprises the one-off financial gain from the former London Business Rates Pool and other one-off Collection Fund surpluses, and up-front government grant received in 2020/21 to fund 2020/21 Collection Fund losses that will come out of future year budgets (due to Collection Fund accounting timing differences). The remaining balance has been set aside for risks around taxation income and government funding streams.
- COVID-19 – The proposed 2022/23 budget includes a £4m one-off transfer to earmarked reserves to provide additional financial resilience against the ongoing impact of COVID-19 on the council's budget.
- Levies – mitigates future unexpected increases in levies (e.g. due to fluctuation in borough waste tonnages that are used to calculate the NLWA levy).
- Net Zero Carbon – supports the delivery of the council's Net Zero Carbon programme.
- Public Health – balance of ring-fenced public health grant funding carried forward to spend in future financial years.
- Social Care – mitigates 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 through this reserve for the future costs of operating the markets.

4. Housing Revenue Account

4.1. The HRA is a ring-fenced account covering 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, the funding of which comes 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 short to medium term. Work is currently underway to update the business plan to reflect the impact of the latest rent setting proposals as well as other agreed increases in expenditure not previously anticipated (e.g. the increase in employers National Insurance). The outcome of this will determine the longer-term outlook and provide a basis for considering options for balancing the HRA in the longer term (if required) and meeting future investment need in relation to fire safety & net zero carbon priorities.

4.3. The proposed HRA budget for 2022/23 and latest estimates for the medium term, including HRA reserves estimates, is set out at **Appendix D1**. The movement between the approved 2021/22 budget and the proposed 2022/23 budget is summarised in **Table 7**.

Table 7 – Summary of HRA Budget Changes 2021/22 to 2022/23

	£m
Expenditure	
Staffing (estimated pay awards 2021/22 + 2022/23 & employers NI increase)	3.5
Net Reduction arising from PFI2 stock returning to council management	(22.2)
Reduction in the temporary use of revenue contributions to fund capital expenditure	(26.2)
Increase in borrowing costs to fund capital expenditure	3.1
Increase in the cost of communal gas and electricity	2.2
Increase in the use of Temporary Accommodation arising primarily in response to domestic violence & disrepair	1.0
Budget growth	0.7
Contractual inflationary increases	1.2
Increase in tenants building Insurance costs	0.9
Increase in depreciation (contribution to the Major Repairs Reserve)	0.7
Increase in contingency to cover one-off pressures	1.7
Increase in the contribution to HRA reserves	8.6
Total Expenditure Reduction	**(24.8)**
Income	
Rent	(7.9)
Loss of PFI2 credits arising from PFI2 stock returning to council management	16.7
Tenant service charges	(1.0)
Heating charges (tenants & leaseholders)	(0.6)
Other income net reductions	0.4
Leaseholder service charges – re-aligning the budget to more closely align with actual costs & recovery	(1.4)
Reduction in contribution from HRA reserves	18.6
Total Income Reduction	**24.8**

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 the government has included local authority social housing within the remit of the Social Housing Regulator (previously the Regulator's remit was limited to private registered providers of social housing i.e. housing associations). The Regulator is required by direction from the DLUHC to have regard to the government's policy statement referred to above. 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 2022/23 rents set out below have been calculated in accordance with the rent standard and the government's "limit on annual rent increases 2022/23 (from April 2022)" issued in November 2021.

4.8. The Social Housing Regulator has advised that all properties that are currently or that were previously managed under a private finance initiative (PFI) arrangement are exempt from the rent standard.

4.9. It is proposed to revise the way in which leaseholder service charges are calculated, from a bedroom weighting method to a points-based method, and this is detailed in **Appendix D3**.

Islington Council Managed General Needs Non-New Build Properties

4.10. **Table 8** sets out the average rent in 2022/23 for existing tenancies. The maximum 2022/23 permitted rent is the prior year 2021/22 actual rent plus CPI 3.1% (September 2021) plus 1%.

4.11. However, if the maximum rent exceeds the lower of the 2022/23 national rent cap or the 2022/23 national target rent then 2022/23 rent will be the higher of A or B:

A. The lower of 2022/23 national target rent or the 2022/23 national rent cap, or

B. 2021/22 actual rent plus CPI 3.1% (September 2021) plus 0%.

4.12. All the Islington Council general needs properties will be subject to the maximum rent increase in 2022/23 of 4.1% (i.e. CPI 3.1% at September 2021 + 1%) as their maximum rent in 2022/23 does not exceed the lower of the 2022/23 national target rent or the 2022/23 national rent cap.

4.13. 1% (217) of the Islington Council general needs properties have a national target rent greater than the national rent cap.

Table 8 – Existing Tenancies Average Weekly Rent 2022/23

Average Weekly Rent 2021/22	£112.91
Increase (£)	£4.63
Increase (%)	4.10%
Average Weekly Rent 2022/23	£117.54

4.14. General needs properties will be re-let at the lower of the 2022/23 national rent cap or the 2022/23 national target rent. As 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.

4.15. In accordance with the rent standard, 2022/23 national target rents will reflect an increase of CPI 3.1% (September 2021) plus 1% and the 2022/23 national rent caps will reflect an increase of CPI 3.1% (September 2021) plus 1.5%.

4.16. **Table 9** sets out the likely average rent in 2022/23 for re-let properties.

Table 9 – Re-Let Properties Likely Average Weekly Rent 2022/23

Average Weekly National Target Rent 2021/22	£118.27
Increase (£)	£4.85
Increase (%)	4.10%
Average Weekly National Target Rent 2022/23	£123.12

Islington Council Managed General Needs New Build Properties

4.17. 2022/23 new build existing tenants' rents will reflect an increase of CPI 3.1% (September 2021) plus 1%.

4.18. 2022/23 re-let and first-let new build rents will, like the LBI managed general needs stock, be based on the lower of the 2022/23 national rent cap or the 2022/23 national target rent.

4.19. 50% of existing new build national target rents are greater than the national rent cap, hence these re-let rents will be set at the national rent cap.

Islington Council Managed Property Acquisitions used for Temporary Accommodation (including reception centres and general needs properties)

4.20. Existing tenancies and re-let rents in 2022/23 will be set on the same basis as general needs properties referred to above, with the exception that for reception centres the plus 5% flexibility has been applied to the national target rent calculation.

4.21. LBI Managed Property Acquisitions - purchased using right to buy 141 receipts

4.22. Existing Tenancies – 2022/23 rents will be set at the lower of:

A. The 2021/22 rent plus CPI 3.1% (September 2021) plus 1%, or

B. The lower of the relevant 2022/23 local housing allowance rate or 80% of the relevant market rent.

4.23. Re-lets and first-lets in 2022/23 will be set at the lower of:

A. The relevant 2022/23 local housing allowance rate, or

B. 80% of the relevant market rent

Islington Council Managed Property Acquisitions (purchased Using GLA grant)

4.24. Existing Tenancies – 2022/23 rents will be set at the lower of:

A. The 2021/22 rent plus CPI 3.1% (September 2021) plus 1%, or

B. The relevant 2022/23 local housing allowance rate.

4.25. Re-lets and first-lets in 2022/23 will be set at the relevant 2022/23 local housing allowance rate.

Properties Managed and Properties Previously (Until April 2022) Managed under a Private Finance Initiative (PFI) Contract by Partners for Islington

4.26. The existing tenants' 2022/23 rents will reflect an increase of CPI 3.1% (September 2021) plus 1% in respect of; properties that continue to be managed by Partners for Islington under the PFI (1) contract and properties returning to council management from 4th April 2022, that were previously managed by Partners for Islington under the PFI (2) contract.

4.27. Re-Lets will be based on the outgoing tenants' rent as set out above.

4.28. **Table 10** sets out the average rent in 2022/23 for existing tenancies & likely average rent in 2022/23 for re-lets for current PFI (1) properties and ex PFI (2) properties.

Table 10 – Existing Tenancies + Re-Lets – PFI (1) current contract and PFI (2) returning to council management - Average Weekly Rent 2022/23

Average Weekly Rent 2021/22	£159.47
Increase (£)	£6.54
Increase (%)	4.10%
Average Weekly Rent 2022/23	£166.01

Other HRA Fees and Charges

4.29. All other HRA fees and charges are set out at **Appendix D2**. These will 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

  Caretaking and Estate Service Charges will increase by 79p per week this is primarily due to the significant forecast increase in energy prices affecting the charge in respect of communal electricity.

- Digital TV Maintenance

  Charges have increased by 1p per week in 2022/23 to reflect the cost of the provision of this service.

- Heating and Hot Water

  Gas prices are forecast to increase by around 55% in 2022/23. The Tenants' gas reserve has been used to absorb some of this increase & limit the increase in charges to tenants to +25%.

- Concierge Service Charges

  These have increased by 4.54% to reflect the phasing in of the recovery of the full costs related to the provision of this service.

- Estate Parking for Non HRA Rent & Service Charge payers

  Charges in respect of facilities used for vehicles i.e. Garages, parking spaces & car cages have increased by 10% in 2022/23 for non-HRA residents.

- Diesel Surcharge (Off Street)

  This charge has increased by £3 per year or 2.4% in 2022/23 to align with the on-street parking surcharge.

5. Capital Programme

5.1. The council has a Corporate Asset Strategy that aims to take a strategic, long-term approach to managing and enhancing our community asset base.

5.2. The proposed capital programme continues the work over the past two years to implement this 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 and enhancement of a wide range of community assets, including an additional one-off £10m capital investment.

- Forecasting indicative capital investment needs over a longer time frame.

5.3. The proposed 2022/23 to 2024/25 capital programme as well as indicative estimates for 2025/26 to 2031/32 are summarised by council priority in **Table 11** and detailed at **Appendix E**. This is estimated to deliver up to £1.7bn of capital investment in the borough over the next 10 years.

5.4. The capital expenditure profiles by financial year are based on latest best estimates by budget holders and project managers. In recent years however, there has been significant in-year reprofiling of the capital programme to later financial years. This has been due to various internal and external factors such as significant uncertainty around timescales at the point of adding schemes to the programme, capacity constraints, Brexit, COVID-19 restrictions and the global supply chain.

5.5. Despite plans to increase project manager capacity going forward, a central reprofiling assumption of 25% has been made against the total capital programme. The purpose of this is to highlight the expectation of further reprofiling in future updates of the capital programme.

Table 11 – Capital Programme 2022/23 to 2024/25 and Indicative Programme 2025/26 to 2031/32

	2022/23	**2023/24**	**2024/25**	**2022/23 to 2024/25 Total**	**2025/26 to 2031/32 (Indicative)**	**Total 10 Year Programme**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Corporate Landlord Service	21.821	16.523	17.747	56.091	40.365	**96.456**
Environment	25.481	27.147	20.804	73.432	89.500	**162.932**
Homes & Neighbourhoods	168.607	168.632	147.049	484.288	988.032	**1,472.320**
Total Capital Programme	**215.909**	**212.302**	**185.600**	**613.811**	**1,117.897**	**1,731.708**
25% Central Reprofiling Adjustment	(53.977)	(53.075)	(46.400)	(153.453)	(279.474)	**(432.927)**
Adjusted Capital Programme	**161.932**	**159.227**	**139.200**	**460.358**	**838.423**	**1,298.781**

5.6. The capital programme over the next three years will support the council's objectives by providing funding for the following projects:

Decent and Genuinely Affordable Homes for All:

- Housing New Build Programme – the continuation of our major programme of investment in new social housing in Islington.
- Housing major works and improvements programme - ongoing investment in council homes and estates, including cyclical improvements, mechanical and electrical works, fire safety and energy efficiency improvements.

- New investment to support the redevelopment of Finsbury Leisure Centre, including over 100 new genuinely affordable homes.

Children and Young People:

- Improving our early years, schools, youth and play provision.

A Safer Borough for All:

- Upgrade to the council's core CCTV network and investment in CCTV-enabled vehicles to increase coverage for hot spots.

A Greener and Cleaner Islington:

- Continuing investment to support the council’s Net Zero Carbon strategy.
- Vehicle electrification charging infrastructure and replacement of vehicles.
- People Friendly Streets and School Streets – borough-wide programmes to reduce car trips and improve neighbourhoods for walking, cycling and living.
- Investment in the borough’s parks, open spaces and leisure facilities.

5.7. 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.
- Compliance and modernisation improvements to deal with urgent property compliance issues.
- Use of Community Infrastructure Levy and S106 payments to make targeted investment across the borough spending decisions led and managed by local ward councillors.

5.8. The capital programme also includes a new £10m investment pot to support key community priorities across the borough. Officers will work with members to agree how the pot is used, which may include:

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

5.9. Further work will be required to allocate this additional capital investment pot and plan delivery timescales. Once this work has been completed, the proposed revised capital programme will be set out in a report to Full Council during 2022/23. In the meantime, the £10m additional capital budget is currently profiled equally between 2023/24 and 2024/25.

5.10. The estimated funding of the 2022/23 to 2024/25 capital programme is summarised in **Table 12**. At the end of each financial year, the Section 151 Officer will apply resources to finance capital expenditure in the most cost-effective way for the council.

Table 12 – Estimated Funding of Capital Programme 2022/23 to 2024/25

	2022/23	**2023/24**	**2024/25**	**Total**
	£m	**£m**	**£m**	**£m**
General Fund				
Capital Grant	6.001	5.400	5.650	**17.051**
S106/CIL	6.919	7.094	0.104	**14.117**
Capital Receipts	16.139	15.558	0.573	**32.270**
General Fund Borrowing	40.475	49.725	68.113	**158.313**
Total General Fund	**69.534**	**77.777**	**74.440**	**221.751**
HRA				
Capital Grant	5.725	0.000	0.000	**5.725**
S106/CIL	3.143	0.500	0.500	**4.143**
Capital Receipts	39.681	61.003	42.323	**143.007**
Revenue Contributions	5.694	8.669	16.506	**30.869**
HRA Reserves	32.357	33.159	28.232	**93.748**
HRA Borrowing	59.776	31.194	23.599	**114.569**
Total HRA	**146.376**	**134.525**	**111.160**	**392.061**
Total Capital Programme	**215.910**	**212.302**	**185.600**	**613.812**

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

5.12. The final version of the budget report to the Executive on 10 February 2022 and Full Council on 3 March 2022 will include for agreement the capital strategy that underpins the capital programme, as well as the inter-linked, Flexible Use of Capital Receipts Policy, Treasury Management Strategy, MRP Statement and Investment Strategy.

6. Council Tax and Retained Business Rates

Council Tax Forecast 2022/23

6.1. The detailed, statutory council tax calculation and the recommendations on 2022/23 council tax, including the GLA precept, will form part of the final budget report to the Executive on 10 February 2022, for onward recommendation to Full Council on 3 March 2022. This will also incorporate the level of the council tax base due to be set by audit committee on 31 January 2022 and the statutory forecast of the surplus/deficit on the Collection Fund as at 15 January 2022.

6.2. The Mayor of London's final draft budget is schedule to be considered at the Assembly on 24 February 2022. Following this, the Mayor will confirm formally the final precept and GLA group budget for 2022/23.

Retained Business Rates

6.3. The council's 2022/23 NNDR1 (detailed business rates) estimate is currently being worked up ahead of the 31 January 2022 statutory submission deadline to central government. This will be reflected in the final version of the budget report to the Executive on 10 February 2022 and Full Council on 3 March 2022. In line with previous years, it is recommended that authority be delegated to the Section 151 Officer to finalise the council's 2022/23 NNDR 1 (detailed business rates) estimate ahead of the statutory deadline.

6.4. Since the implementation of the business rates retention system in 2013/14, the council retains 30% of business rates collected. This is expected to continue to be the case in 2022/23.

6.5. It is expected that the London-wide Business Rates Pool, which the council participated in prior to 2021/22 but ended due to uncertainty in the business rates base following the COVID-19 pandemic, will not be reinstated in 2022/23.

6.6. 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. It is assumed that Islington safety net level in 2022/23 will be £78.860m, unchanged from 2021/22. For information, Islington's retained business rates funding is approximately £15m above the safety net level in the current financial year (2020/21). This is the maximum (worst-case scenario) loss of business rates funding that the council could incur before being entitled to safety net funding from the government. As mitigation, the council maintains a Core Funding reserve to cover at least one year of business rates losses to the government safety net level. In the event of such losses, this one-off funding in reserves would cover the immediate budgetary impact and provide sufficient time for any ongoing implications to be factored into the MTFS and future annual budget setting processes.

6.7. In Autumn Budget and Spending Review 2021, the Chancellor made the following key announcements around business rates. The council will be fully compensated under the business rates retention system for the impact of its retained rates income:

- Up to 400,000 retail, hospitality and leisure properties will be eligible for a new, temporary business rates relief next year. This will provide support until the next revaluation.
- The government is also freezing the business rates multiplier in 2022/23 (costing £4.6bn over five years in lost tax revenue). The business rates multiplier represents the number of pence in each pound of rateable value payable in business rates before any relief or discounts are applied. In effect, freezing the multiplier means that business rates will not be subject to inflation.
- From 2023, a new business rates relief will support investment in property improvements so that no business will face higher business rates bills for 12 months after making qualifying improvements to a property they occupy.
- More frequent revaluations from 2023, occurring every 3 years (opposed to every 5 years). This comes with a heavy caveat given past government promises in this area.

It is currently unclear what this might mean for businesses as it depends on government policy.

7. Matters to Consider in Setting the Budget

Comments of the Section 151 Officer

7.1. This section contains the Section 151 Officer's comments 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. The final assessment on the robustness of the 2022/23 budget proposals and adequacy of financial reserves will be made in the budget report to the Executive on 10 February 2022 and 3 March 2022.

7.3. Developing the budget estimates for a given financial year is an ongoing, iterative process within the medium-term financial planning cycle. This is a council-wide process involving all spending departments whereby estimates are work up, challenged and refined as further information becomes available. It takes into account the most recently available budget monitoring information and the latest assumptions for the forthcoming financial year. In particular, the proposed savings have been reviewed and signed off as deliverable by key stakeholders across the organisation. The thoroughness of this process is a key source of assurance in determining that overall estimates in the budget (including contingency) are robust and that financial reserves, whilst needing to be further strengthened, are adequate.

7.4. During the 2021/22 financial year the council's Policy and Performance Scrutiny Committee considered reports and testimony from a number of witnesses in relation to the council's financial position as a result of COVID-19. This additional scrutiny gave the committee opportunity to consider lots of different evidence and viewpoints to better understand the decisions that have and are to be made whilst also gaining a wider appreciation of the environment in which the council is operating.

7.5. The medium-term local government funding outlook continues to be highly uncertain. The 2022/23 local government finance settlement is the fourth consecutive one-year settlement. It is largely a rollover of the 2021/22 settlement with additional, one-off funding to address immediate funding issues in the sector. In addition, there are potential government funding reforms on the horizon that could have a significant impact on funding levels, although there would be transitional protections.

7.6. The robustness of all assumptions, including delivery of savings, will next be reviewed in early spring 2022 in order to shape the new medium-term budget setting process from 2023/24 and estimated additional savings requirement. Given the unprecedented uncertainty and the lead-time in identifying and delivering savings, it is crucial that assumptions remain prudent in line with MTFS principles set out in this report.

Comments of the Monitoring Officer

7.7. This report set 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 2022/23. 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.

7.8. The setting of the budget and council tax by Members involves their consideration of choices. No genuine and reasonable options should be dismissed out-of-hand and Members must bear in mind their fiduciary duty to the council taxpayers of Islington.

7.9. Members must have adequate evidence on which to base their decisions on the level 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.

7.10. The report sets out the relevant considerations for Members to consider during their deliberations and Members are reminded of the need to ignore irrelevant considerations. Members have a duty to seek to ensure that the council acts lawfully. They are under an obligation to produce a balanced budget and must not knowingly budget for a deficit. Members must not come to a decision which no reasonable authority could come to; balancing the nature, quality and level of services which they consider should be provided against the costs of providing such services

7.11. Under the constitutional arrangements, the setting of the council budget is a matter for the council, having considered recommendations made by the Executive. Before the final recommendations are made to the council, the Policy and Performance Scrutiny Committee must have been given the opportunity to scrutinise these proposals and the Executive should take into account its comments when making those recommendations.

Equalities Impact Assessment

7.12. 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.

7.13. After more than a decade of significant budget savings, it is difficult to make new savings without any impact on residents. 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.

7.14. The cumulative EQIA assessment 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

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

7.16. 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 financing year.
- Particulars of significant changes in the level of proposed expenditure between the two years.

7.17. The council will be inviting comments from business rates payers and representatives of business rates payers in Islington on the draft 2022/23 budget proposals set out in this report. The consultation period will run for 21 days from 6 January 2022 (upon the publication of this report and related communication to business rates payers and representatives of business rates payers) to 26 January 2022. Any comments received will be considered by the council before the final budget proposals for consideration by the Executive on 10 February 2022 and Full Council on 3 March 2022.

Appendices

Appendix A – General Fund Medium-Term Financial Strategy 2022/23 to 2024/25

Appendix B – General Fund Proposed Savings 2022/23

Appendix C – General Fund Fees and Charges 2022/23

Appendix D1 – HRA MTFS 2022/23 to 2024/25

Appendix D2 – HRA Fees and Charges 2022/23

Appendix D3 – Leaseholder Service Charges Proposal

Appendix E – Capital Programme 2022/23 to 2024/25 (and indicative 2025/26 to 2031/32)

Appendix F – Budget Cumulative Equality Impact Assessment 2022/23

Background papers: None

Signed by: 5 January 2022

Executive Member for Finance and Performance Date

Responsible Officers:

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

Paul Clarke, Director of Finance

Report Authors:
Martin Houston, Strategic Financial Advisor
Tony Watts, Head of Financial Planning

Legal Implications:
Peter Fehler, Director of Law and Governance (Monitoring Officer)