Employment, Business, Economy and the Council's Financial Position - Impacts of Covid-19

FINAL REPORT OF THE POLICY AND PERFORMANCE SCRUTINY COMMITTEE

London Borough of Islington
March 2022

1. EXECUTIVE SUMMARY – EMPLOYMENT, BUSINESS, ECONOMY AND COUNCIL FINANCES

1.1 With its central London location Islington has been one of the places in the country most affected by the Covid-19 pandemic. As commuters and visitors stayed away, demand drained out of parts of the economy. As the crisis deepened, already vulnerable businesses and workers in the hospitality and food, arts, entertainment and recreation, retail and office support services, together with young and old workers, especially those from underrepresented communities were most likely to lose out. Covid-19 has therefore widened inequalities further, as those (non-essential) employees who could work at home continued to earn, whilst those whose presence was needed at work were often furloughed or, in the worse cases made redundant, or forced to shut down their business. In this scenario, mammoth state interventions provided temporary relief, and mitigated the worst effects of the crisis.

1.2 Over the last 18 months, the Council has put measures in place to mitigate the economic, social and environmental impacts of the pandemic. These can broadly be categorised in the following:

- Rescue – emergency response for local people and businesses in crisis (Mar/Apr 20)
- Resilience – shoring up businesses to survive, and supporting people to work (May20-Feb21)
- Recovery – coming out of lockdowns and starting recovery journey (Feb-Aug21)
- Reframing – building back better (Sep21 onwards)

1.3 Since the economy came out of lockdown fully initially in June Islington's economy started to pick up, but like other parts of London, which were hit hardest by the pandemic, it has a way to go to reach pre-pandemic levels of activity. There are also signs that the early optimism of opening up the economy is faltering slightly with retail sales down across the capital, and footfall down in Islington as visitors and workers stay away. This is affecting the whole borough, but it is most keenly felt in the part of Islington that forms or borders part of the Central Activities Zone in Clerkenwell, Bunhill, the Angel and Old Street.

1.4 Despite this, it is too early to announce 'the death of the High Street'. Islington's Town Centres and High Streets have responded imaginatively to considerable threats from online competition, particularly in comparison goods shops, the creativity and ingenuity of our residents, businesses and workers taking advantage of higher demand for in-service retail, leisure and convenience opportunities. New working practices, visitor stay aways and Brexit still exert pressure, but the measures that the council put into place to support local businesses, and shore up the local economy during the pandemic have helped.

1.5 Further efforts are underway to increase local shopping, boost local supply chains and develop the skills of our residents through initiatives such as the LIFT programme supporting people into tech, affordable workspace provision, and numerous sectoral-based employment schemes in the growth fields of the knowledge economy, life sciences, health and social care and construction.

1.6 Interventions like this mean that unemployment in Islington remains below the London average. Our success in recent years to facilitate the means to make a livelihood amongst our young people has yielded results with some of the lowest rates of youth unemployment in the capital. Figures on older persons unemployment are now the focus of attention, in order to help improve digital literacy and tackle high levels of deprivation amongst our older population as they migrate onto the state pension.

1.7 Compared to other parts of London the borough also has a small percentage of people remaining on furlough and there is still the hope that the 7,000 people on furlough at the end of June 2021 will by now have fallen further, and taken advantage of the high level of job vacancies currently open. With the active intervention of the Islington Working Partnership, it is also expected that the falls in unemployment witnessed to date will continue, as residents and workers who were laid off in the pandemic find work in other jobs.

1.8 A recovery is now fully underway, which is blended with an approach to reframe the economy, taking advantage of new relationships forged during the pandemic to build back better to achieve a fairer, more inclusive, more democratic, innovative and greener economy built on the principles of social and environmental justice. This will see more local residents into good jobs, protect our high streets and forge a better future for everyone in Islington.

1.9 The Council financial position has been severely impacted by the COVID pandemic and the Government has not adequately funded the costs of the pandemic, which has come on top of a substantial reduction from austerity measures imposed by central Government over the past 10 years.

1.10 The Committee are of the view that the additional pressures of these measures on the budget and the pandemic has made the Council less able to respond to the deprivation in the borough, especially for its most vulnerable residents, and will also impact on the provision of Adult Social Care and children's social care in the future.

1.11 In addition, the Fair Funding settlement may have an impact on Islington, which is as yet unknown, and there is uncertainty over business rate retention, and future levels of inflation, which will have an impact on Council finances.

1.12 The Committee has made a number of recommendations, in order to ensure that Islington's Economy, Business and Employment, and Council Finances recover from the pandemic as quickly as possible.

RECOMMENDATIONS

EMPLOYMENT, BUSINESS AND ECONOMY

That the Executive be recommended: -

(a) That the Council place on record its admiration and thanks to Islington businesses who, despite unprecedented pressures, have worked diligently throughout the pandemic to keep their customers and staff safe. In addition they have invested extraordinary resources and efforts in meeting the enormous challenges presented by Covid-19, particularly those independent, locally-owned businesses whose resilience was tested through various lockdowns and periods of restriction, and who continued to serve the needs of residents and protect local jobs;

(b) To ensure that residents understand that Business rates are set by Government, and not the Council, but that the Council will continue to lobby the government on behalf of businesses to reform the business rate system, and make it fairer in order to support businesses. In the short-term as part of recovery efforts, the Council should also continue lobbying the Government to provide a continuation of the business rates holiday, VAT relief and eviction protections;

(c) To capture learning from the extensive business communication and engagement undertaken during the pandemic, with a particular focus on supporting businesses owners where English is not their first language and ensuring that businesses can easily access information and guidance without needing to rely on the intensive level of support provided during the pandemic;

(d) To recognise the importance of using the Council's spending power both as an enabler and commissioner to help local businesses recover, and put in place targets, as committed in the Council's Progressive Procurement Strategy, to increase spend with small/medium businesses in local economy, and to increase the number who are successful in securing contracts through the Council's procurement processes;

(e) To reaffirm the Council's commitment to enabling secure, fairly paid work in Islington, and to initiate a campaign to increase the number of local hospitality businesses who are paying the London Living Wage, and to generally encourage employers to provide 'good work' for their employees, recognising that smaller businesses may need more support and time to deliver;

(f) To pursue the expansion of the Council's affordable workspace portfolio to include additional space on high streets and local neighbourhoods, although not at the expense of social housing in the case of the latter, to promote a diversity of opportunities for local people to start-up their own businesses;

(g) To continue to invest in support for local economies, in Islington town centres, neighbourhood parades and the south of the borough, and create networks of businesses to work with the Council to increase footfall to local shops, hospitality businesses and cultural venues, including the south of the borough which is being impacted by potentially long term changes to the City.

COUNCIL FINANCIAL POSITION

That the Executive be recommended:

(h) To recognise the vulnerability of the Council to the loss of income, primarily from fees and charges from services such as parking and leisure, and put in place measures to address these. This income is vital to underpin the investment the Council makes. Taking parking for example, £30m of income is generated which offsets eligible expenditure. Items which would count as eligible expenditure include £1.4m of highways & pavement works, £12m towards concessionary fares for our residents, £0.5m in road safety measures and £4.1m on provision of accessible community transport. In recognising the vulnerability in income levels, it may be necessary to identify possible compensatory savings, if the loss of income results in a shortfall to the medium term financial budget;

(i) That the Council place on record the failure of the Government to provide all necessary funding for the COVID pandemic. This in addition to the requirement for the Council to make savings in excess of £275m due to austerity measures imposed by Government over the past 10 years. The Government failed to fund the COVID pandemic costs incurred by the Council to the tune of £6m in 2020/21, and this has resulted in the Council having to make additional savings in its medium/long term financial savings plan;

(j) That it be noted that the provisional Local Government settlement for Islington did not provide sufficient funding to meet the Council's pressures. Any additional monies were in relation to costs of new burdens such as meeting the increase in National Insurance, or largely one off in nature. The increased demand and pressures on key services, such as Adult Social Care and children's social care, plus large increases in inflation, will mean that the Council will not be adequately funded. This inevitably means that the Council will need to increase savings targets in the medium and longer term to adequately fund our services and meet future demand;

(k) That consideration should be given to increasing reserves in future in order to safeguard the Council against any unexpected shortfalls in the budget, or for 'one off events' that may occur in the future that necessitates emergency funding. This is in recognition of the significant risks faced, such as losing business rates growth funding due to a government "reset", and the likelihood of a fiscal changes requiring public finances to repay the record level of government debt;

(l) That consideration be given to allocating efficiency targets to departments focussed on reducing avoidable costs and duplication in processes as part of the budget setting process. These targets should focus key issues such as streamlining resident contacts with the aim of improving customer experience;

(m) That the Director of Finance provide adequate training to Members, particularly Members of the Policy and Performance Committee, in order to ensure that they are cognisant with the skills to effectively challenge the Budget process, risk analysis and financial risks identified to the Council. This should also include additional commercial training in matters such as capital / project finance and contracts;

(n) That in addition to the scheduled 12 month progress report on recommendations an additional progress report be submitted to the Committee later in 2022.

2. Introduction – Employment, Business and Economy

2.1 The Committee received evidence at its meeting on 9 September 2022 from Stephen Biggs and Caroline Wilson, L.B. Islington, Community Wealth Building.

2.2 This evidence related to the need to consider the effect of the pandemic on employment, business and the local economy, in relation to the Scrutiny Initiation Document approved on 29 July 2021.

2.3 The objectives of the review were:

- To consider the measures in place to mitigate the economic, social and environmental impacts of the pandemic;
- To analyse the measures that are in place going forward to ensure residents and businesses are in the best position possible to recover from the pandemic and to maximise commercial and employment opportunities;
- To consider how lessons learned in front line services can best support residents going forward.

3. Background

3.1 The Committee noted that prior to the pandemic:

- A significant minority of Islington's workforce and employed residents were in a vulnerable economic position, working in low paid, insecure jobs;
- There was a lack of mid-tier, skilled, secure jobs with good prospects for advancement led experts to describe Islington's labour market as 'hourglass', with some of the highest rates of pay inequality in London;
- Many residents were running small and micro businesses in sectors like fashion, retail, leisure and hospitality, a majority of whom were already pessimistic about their long-term viability;
  These businesses were disproportionately in the ownership of women and people from BAME communities, and typically operating with low levels of turnover compared to those in sectors like IT, Research & Development, and Public Relations, all of which have a strong presence in Islington's economy.

3.2 When Covid-19 hit, economic inequalities became more transparent, and it became clear that:

- The initial sectors most affected by Covid-19 were those in which workers needed to be in physical proximity at their place of work and were not classed as 'key workers. Lockdown' effectively 'switched off' the demand for their services and some businesses have still not fully recovered from the shock;
- In Islington these initially hardest hit sectors were predominantly, but not exclusively classed under 'Accommodation and Food Services' (A&FS), '(Non-essential) Retail', and 'Arts, Entertainment & Recreation (AE&R) accounting for approximately 35,000 jobs in the borough;
- As the effects of the pandemic continue to keep international tourists and office workers away, businesses in Islington's 'sandwich economy' that rely upon their demand are often struggling to make ends meet;
- In addition to this a number of residents and workers employed in Professional Services, IT, Business Support and Administrative and Secretarial roles remain on furlough (34%, 2,380 people) because they account for over half of all employment in Islington although not comparable to numbers still furloughed in Retail, AE&R and A&FS (45%, 3,150 people).

3.3 As the Borough emerges from the Covid-19 pandemic, these economic effects remain, and new challenges are emerging:

- Most recent data on the national picture shows that economic vitality is returning to the UK with five consecutive months of growth in output, the last on record being a 1% increase in June. This means the economy jumped by 4.8% in terms of the goods and services it was producing between April and June;
- Despite this, the UK economy is still 4.4% below its pre-pandemic size;

- The service sector across the UK, which is of particular importance within London and Islington, also grew in June by 1.5%, although it remains 2.1% below its February 2020 level;
- Accommodation and Food, Professional, Scientific, Technical, and Human Health and Social Work activities have recently driven demand for these services;
- Construction fell by 1.3%, and is now 0.3% smaller in terms of output than it was before the pandemic as supplies of raw materials and labour are hard to source;
- Whilst UK economy-wide figures were hailed by the Chancellor in August 2021 as signalling that a full recovery was underway, a recent OECD (Organisation for Economic Cooperation and Development) report found that the economic recovery was 'running out of steam,' and the UK was amongst one of the major economies in the slow lane;
- In particular, there are serious concerns about rising rates of Covid-19 infections, and rising levels of reluctance to mix in public places amongst certain sections of the public, which are affecting demand. Combined with serious labour market shortages, the most publicised being amongst lorry drivers, although there are shortages in other areas too, and this is slowing down the recovery.

3.4 The recent Omicron variant has made the situation more uncertain, although it is hoped that with the lifting of restrictions in January the effects will be limited.

4. Impacts

(i) <u>Business Sectors</u>

4.1 Most business sectors across the UK have experienced a reduction in trade due to the effects of Covid-19, although they have been least felt by the following; real estate activities, human health and social work, information and communication, professional, scientific and technical activities, and construction.

4.2 The retail sector, which together with wholesale trading accounted for 2,130 businesses (10%) in Islington supporting 18,000 jobs in 2019, has been affected by a spate of fresh store closures. The British Retail Consortium reported a slowing in the pace of recovery in town centres in July, and the Centre for Cities has highlighted London as being most severely affected by a retail contraction with only one third of a recovery in footfall taking place to date as office workers continue to work from home and tourists stay away.

4.3 In terms of trading, whilst May had seen good news for retail businesses with a return to pre-pandemic levels of activity in the UK, June 2021 saw these services contract by 2.3%, leaving output at 0.5% below its February 2020 level.

4.4 Although it is not possible to know how far output has been affected in Islington retail businesses, data released by Google shows declining levels of footfall. As lockdown began the numbers of people shopping for non-essential food and pharmaceutical essentials fell dramatically. A gradual recovery has taken place since, albeit with a few bumps in the road. Despite this, grocery and pharmacy visits, declined by a further 10 percentage points between June and August 2021 and, overall 23% fewer people are visiting essential retail stores compared to before the pandemic.

4.5 Furthermore, in July 2021 the improvement in non-essential retail sales appeared to tail off despite the economy being open. Levels of retail and recreation footfall were still less than half the level they were before Covid-19. Workplace visits are also down since June with only 35% of the pre-Covid-19 workforce numbers returning back into Islington. This is a much worse picture than the average for the UK, where footfall levels were 80% of the equivalent week of 2019 on 21st August 2021, and reflects Islington's prime central location and dependency upon outside commuters and tourists for trade.

4.6 Across the UK, the pattern of a muted recovery is similar for Accommodation service activities. The sector grew faster than at any time since the start of the pandemic in June 2021, by 27.8% together with Food and Beverage service activities, which grew by over 10% as pubs and restaurants fully opened inside and out for the whole month. However, food and beverage services are still producing 1.5% less output compared to before the pandemic and an official digest of the data for August 2021 reported that the number of seated diners in restaurants had not risen from the previous month.

4.7 Arts, Entertainment and Recreation services (1,705 businesses (8%) in 2020, and 20,000 jobs in Islington in 2019), were meanwhile operating a quarter smaller in May across the UK, than before the pandemic, and by June 2021 had only contributed a further 0.02% to overall output.

4.8 Given the heavy reliance of London and Islington on commuter and tourist trade to sustain these activities, reports on the UK-wide impacts on food, hospitality, arts, entertainment, and recreation are also, as in the case with retail, likely to underestimate the effect on Islington's economy.

4.9 In this context, it is worth recalling which parts of the borough are more highly dependent upon Accommodation and Food Service activities and Arts, Entertainment and Recreation. Half (49.4%) of all businesses working in these sectors (1,545 out of 3,130) are to be found in descending numbers in the Clerkenwell, Old St & St Luke's, Angel and Kings Cross & Pentonville areas. It is worth noting that these are the parts of the borough most affected by 'zoom-shock'. Office workers are now more likely to work from home on at least 2 days per week, meaning a reduction in footfall of at least 40% to local cafes, ancillary services (e.g. dry cleaning) and retail (e.g. newsagents). With a reported increase of only 4% in the number of international flights to the UK in August, it is also clear that international visitors are not yet returning to anything like the numbers prior to the pandemic.

4.10 In extreme cases this meant that some businesses have been forced to close, although it is important to bear in mind that this was already the case before Covid-19, and is not necessarily an indication of a poorly functioning local economy. Every year in Islington, at least 10% of businesses will not survive.

4.11 Unfortunately, it is not possible to single out Islington's performance compared to other boroughs, since data is collected for Haringey and Islington together. Taking both boroughs together, 85.8% of businesses were trading and had been doing so in the last two weeks to the 11th July 2021, however a further 7.4% had paused trading, but were expecting to re-open within the next two weeks and 6.3% had paused trading and did not expect to re-open in the following two weeks.

4.12 The Haringey/Islington 6.3% figure is slightly higher than 4.9% of businesses in Camden and the City of London, and 4.4% of businesses in Westminster, which had paused trading and who did not expect to re-open in the next two weeks. Compared to Bexley and Greenwich (11.8%), and Redbridge and Waltham Forest (26.7%) these are smaller figures for businesses that intend to continue pausing their trading in the weeks ahead.

(ii) High Streets and Town Centres

4.13 Declining footfall and business closures on the high street are considered to be part of a longer-term trend that was already evident before the advent of Covid-19. However, data from Primary Shopping Areas collected in 2019 for the Islington Local Plan showed that vacancy rates were well below levels considered as giving grounds for concern in all areas bar one, the Nag's Head. Even in the Nag's Head. the vacancy rate (9%) was one percentage point above what is considered an 'optimal' rate of 8%. Furthermore, since the time of the last survey in 2017, vacancy rates had improved dramatically in Archway (from 12.7% in 2017 to 5% in 2019), and also in Finsbury Park (from 9.9% in 2017 to 8% in 2019. On the other hand, vacancy rates had increased (from 2% to 9% in Nag's Head and from 4% to 7% in the Angel).

4.14 The Mayor of London's gathering of strategic evidence to support the Article 4 Direction, (the preservation of commercial space in London), points at possible reasons why the picture is more complicated than a binary competition between online and offline retail, spelling doom for the high street. Highlighting a growth in the total number of retail outlets in London's town centres and high streets between 2015 and 2019, the Mayor's paper identifies an increase in service-retail, leisure and convenience outlets. Their expansion has more than compensated for a loss of comparison goods retail shops, which have been affected by a rise in e-commerce.

Even in the case of price comparison shops, some, for example those selling books and music have found ways to present a unique offer, thereby stabilising their position over the same period.

4.15 The high street and town centre retail and leisure offer was thus showing itself to be resilient, and adaptive to new trends prior to Covid-19, including those presented by online competition. However, 20% of spend on comparison goods retail in London, for example came from tourists and commuters from outside London prior to the pandemic. Demand for retail and leisure products and services at the scale witnessed in central London is therefore substantially driven by the presence of commuters, tourists and a growth in London's population, all of which have been affected by the pandemic and Brexit.

(iii) Employment

4.16 Central London experienced a disproportionate impact on employment due to its reliance on office work, the visitor economy and the arts; and its generally higher share of private sector employment. The total number of jobs in London decreased by 4% in the last year, compared to 3% in the rest of the country. Employee jobs in London decreased by 2.8% and self-employment by 12.2%. However, in the most recent figures for April, London PAYE employment grew faster than across the UK. The growth in the employment rate was highest for people aged 18 to 24 (5.6 percentage point increase between February and April).

4.17 Job vacancies in July showed a recovery to close to pre-crisis levels (at 758,000), driven by a rebound in hospitality, but also strong growth in real estate jobs and across the board. More timely, online job adverts are now above pre-pandemic levels at 129% of their February 2020 average.

4.18 This employment growth has been driven by an increase in demand in the hospitality and food sector as businesses re-opened after lockdown. There are reports of labour shortages with vacancies growing by 265% in the three months from January to March, although less than the highest recorded 330% sectoral rise in vacancies listed in Arts, entertainment, and recreation industries.

4.19 The so-called 'pingdemic' has also probably contributed to these shortages as thousands of workers had to self-isolate during June, but this explains only part of the situation. It appears that during lockdown many European nationals in particular returned home. Other, UK citizens furloughed in the hospitality sector also looked for work in other sectors, some even going to the lengths of undertaking training in order that they could obtain more highly paid jobs.

(iv) Unemployment

4.20 With a growing demand for labour in the economy, it would be expected that rates of unemployment in Islington would be falling, and this is indeed the case. From its peak in March 2021, unemployment in Islington has followed a universal downward trend, falling for the fourth consecutive month on record, from 7.6% of the working age population making unemployment related benefits claims in March, to 6.5% in July 2021. This is higher than the UK rate (5.5%), but lower than the rate for London (7.3%), both of which have also witnessed falls.

4.21 More males as a percentage of the working age population in Islington are unemployed than females (7.2% of males compared to 6.1% of females). In both cases, this was lower than the figures for London and the UK.

4.22 In relation to youth unemployment, Islington is performing much better than the London and UK average, with a rate of 5.4% of young people out of work claiming unemployment benefits, compared to 8.9% in London, and 7.2% for the UK.

4.23 Islington fares less well in the level of over 50s unemployment. 9.3% of people in the working age population over 50 are claiming unemployment related benefits, compared to 7.4% in London and 4.2% in the UK. The Institute of Employment Studies found people still on furlough were more likely to be older workers. It also underlines an increasing digital and technological skills divide emerging amongst older workers, as described in further detail by the Centre for Ageing Better in their report 'Covid-19 and the digital divide: supporting digital inclusion and skills during the pandemic and beyond'.

(v) Furlough

4.24 Furlough rates in the borough were at 7% of the eligible workforce, which is lower than the London average of 10%, but was a high percentage compared to some other parts of the UK.

4.25 In July 2021 7,000 people in Islington were on furlough - 8% of eligible men (3,700) and 6% of eligible women (3,300). Compared to other parts of London, this was the lowest percentage rate, equivalent to the national average. For comparison, Hounslow and Newham each witnessed 12% of eligible workers still on furlough in July.

4.26 About half of people on furlough in Islington, are employed in sectors that rely upon demand from outside visitors, hospitality and food services, arts, entertainment and recreation and business support services.

(vi) Financial Resilience

4.27 There has been media expectation that people will start to spend savings accrued during lockdowns when consumers were confined indoors and unable to buy non-essential goods and services except online. This has started to happen amongst wealthier segments of the population, those who were able to work from home for example in lockdown and saved on commuting costs. Online spending grew during this period and now accounts for over 50% of non-food sales in the UK, compared to 30% two years ago.

4.28 On the other hand, research undertaken by the House of Commons Library has identified a clear savings and debt divide in which households specifically on low incomes have been more likely to run down savings and increase debt during the pandemic. Groups singled out in the report as especially indebted included renters, people from black and minority ethnic groups, parents and carers, the disabled, people shielding and young people.

4.29 Supporting these residents to build financial resilience is a key part of the council's Economic Wellbeing Offer, alongside an employment support offer. In this respect the Council has in place a range of financial support and advice to help vulnerable residents or those on low incomes. This includes financial support through our Resident Support Scheme and Council Tax Support Scheme, as well advice and support on maximising household income and benefit entitlement through our Income Maximisation team (IMAX).

5. Council's Response

(i) Phase 1 – Rescue Period

5.1 In the early days of the pandemic, the primary goal was to protect Islington's small, local businesses, and unemployed residents, as much as possible from the immediate economic ravages of the Covid-19 pandemic.

5.2 To achieve these goals Islington:

- Surveyed businesses getting in touch with us to find out more about the substantive issues they were facing and help us more effectively tailor our response;
- Developed an emergency response plan, ensuring the coordination of various council services supporting businesses in the immediate aftermath of the Government's lockdown;
- Devised a public-access emergency business directory, profiling businesses and services still open;

- Deployed local economy officers to every part of the borough with the task of contacting businesses to check on their status and find out what support they needed;
- Liaised with colleagues in public protection to keep businesses informed of new operating guidelines to keep themselves and the public safe, and provided additional support to initiatives where safe/appropriate to do so;
- Sustained regular meetings of the Town Centre groups, moving them online, to ensure that independent business owners could stay connected to others in their locality and to explain what council support they needed during the emergency phase;
- Developed a business bulletin to keep businesses informed about support available to them. The bulletin now broadcasts to 5,000 businesses in the borough;
- Distributed grants to support small businesses in vulnerable sectors to help them through the pandemic. To date Islington businesses have received more than £8m in discretionary grants;
- Of these grants, one third have gone to Black, Asian & Minority Ethnic owned businesses, over 40% to female owned local small or micro businesses, and targeted £1.8m of financial aid to cultural venues in Islington;
- Brokered sustainable and competitive delivery options tomitigate the need for face to face contact through subsidised cargo bike schemes like Pedivan;
- Brokered employment opportunities between local businesses and the iWork team, highlighting the benefits for employers of recruiting local residents, including supporting candidates to high demand sectors such as healthcare, retail and logistics on safety concerns;
- Facilitated links with local community groups in Finsbury Park with Fashion Enter (affordable workspace operator) to donated material, to make face coverings for free distribution;
- Linked our communication media including our website and Twitter to the government websites so that businesses became aware of new opportunities as soon as possible.

5.3 People experiencing high levels of financial insecurity also needed emergency support during the emergency phase of the pandemic. In the early months, Islington channelled financial hardship monies through the Resident Support Scheme. In 2020-21, the Council paid out 5,418 RSS awards totalling £2.455m. This included 2,111 Crisis awards totalling £247k, well above the £12-14k we would normally expect to spend on Crisis support in any given year. Demand for Crisis support has now fallen and is largely back to pre-pandemic levels, following a peak in autumn 2020. As of mid-August 2021, there have been 65 Crisis awards totalling £2,383, compared to 1,237 in the same period last year totalling £125k;

5.4 The Islington working partnership (IWP) co-ordinated by iWork provides a network of multiple employment support organisations in Islington working together, in order to get people into work, playing to each organisation's particular areas of expertise and strengths. In the early stages of the pandemic, the IWP focused on improving our referral processes and the level of integration with other services including the Income maximisation team, to ensure residents are able to claim all benefits they are entitled to and take full advantage of the support available in light of the Covid 19 pandemic.

(ii) Phase 2 – Building Resilience Against the Shock

5.5 Following the emergency period, Islington moved on to shore up the local economy so that businesses and the community could build more resilience to withstand shocks like Covid-19 in future.

5.6 Islington combined small business support with measures to support Islington's unemployed, and low paid workers and residents seeking work or better quality employment. Whilst more people joined the unemployment queue the Council ensured that a service was available to those who were already disadvantaged before Covid-19 and who were finding themselves further towards the back of the queue for employment. Additional economic wellbeing measures addressed the financial hardships of our most vulnerable residents.

5.7 Some examples of Council interventions during the resilience phase included:

- Distributing Tranches 1 and 2 of the Additional Restrictions Grant, supporting nearly 1,500 businesses to the value of £7.4m, including four targeted schemes operating up until mid-June 21. Of all awards, around 27% were made to Black and Minority-owned businesses, with approx. 43% awarded to female-owned businesses;
- Setting up new business networks, for example a new traders' association in Caledonian Road and Barnsbury, and a new Small Business Forum in Finsbury in the south of the borough;
- Assisting businesses to adapt their business models in innovative ways, for example hosting dedicated webinars helping businesses to go online in partnership with our affordable workspace provider Outlandish a tech co-operative;
- A series of 'Shop Local' initiatives, including the distribution of 1000s of 'Open Safely' packs to local businesses and regular e-bulletins to over 5,000 businesses;

- Using a dedicated business directory to develop the 'My Virtual Neighbourhood' app that will provide a platform for Islington businesses to promote themselves to local people, anchor institutions and businesses online;
- Using new and existing business forums like the Finsbury Park Delivery Board, the Caledonian Road and Barnsbury and Finsbury Business Forums to address deeply embedded issues like paying the London Living Wage;
- The Omicron hospitality and leisure grant.

5.8 In 2020/21, Islington received £877,270 through the Government's £170 million COVID Winter Grant Scheme. The aim of the funding, which covered the period December 2020 to end March 2021, was to meet immediate needs and help those struggling to afford food and utility bills (heating, cooking, lighting) and water for household purposes. In Islington, the Council allocated 80% of the funding (once administration costs had been deducted), to vulnerable households and families with children, and the remaining 20% to other households at risk of experiencing poverty.

5.9 As the pandemic worsened in 2020/21, the Government established a £500 million Hardship Fund for Local Authorities to support vulnerable people and households, of which Islington received £3,879,455. The funding was aimed primarily at providing council tax relief to working age residents in receipt of Council Tax Support (CTS). 23,659 households of working age received the up to £150 council tax relief during 20/21, totalling £2,629 million of support.

5.10 In 2020/21, the IMAX team ran a Pension Credit take-up campaign linked to the TV licence change for those over 75 years old. Just over 200 older residents were supported to make a claim. The campaign secured £431k additional income for Islington pensioners, averaging £3,260 extra per successful claim.

5.11 The Omicron Hospitability & Leisure Grant was introduced and intended to support businesses whose trading has been impacted by Omicron, and the 'Plan B' Covid -19 arrangements. Businesses in certain types of hospitality, leisure and accommodation services qualify for this grant, receiving awards of £2,667, £4,000 and £6,000, depending on their premises' rateable value. Grants can only be paid to rate-payers. The Council launched the scheme in w/b 17 January2022, and aims to determine grants by 28 February 2022. The Council are also required to conduct pre-payment counter-fraud assurance checks before a grant is able to be paid.

(iii) <u>Phase 3 – The Recovery of Islington's Economy</u>

5.12 The IWP have signed up to Council priorities on tailored employment support for priority groups that have faced significant challenges during the pandemic. In particular, people from black & minority ethnic communities, those with disabilities, parents, older workers, and young people (18-25) have faced considerable difficulties in accessing the labour market.

5.13 A sustained collaborative approach that uses the resources available through the Islington Working Partnership is levelled at supporting residents, sometimes with complex needs, to get back into training and the labour market. Stretch targets set during the resilience phase to tackle systemic poverty, particularly amongst Black, Asian and Minority Ethnic communities are going into action during the recovery phase. In particular the Council are;

- Designing a research proposal to work with the London Metropolitan University with support from the Runnymede Trust to develop an understanding of labour market outcomes for black and minority ethnic communities in Islington. The research will inform how the council sets meaningful targets, and develop support appropriate to the needs of different intersectional groups;
- Building upon the formation of the London Living Wage Action Group, which has helped secure London Living Wage Place Accreditation for the borough and brought together a strong cross-sectoral platform of businesses and organisations committed to promoting fair pay and good work for local residents;
- Launching the Islington working jobs portal connecting local residents to local vacancies. Within weeks of the portal becoming live 1,200 residents had registered. A preliminary survey highlighted that residents would like more part time roles and, in response, a quarter of the roles on the site now offer flexible working opportunities.

5.14 An above average number of over 50s in the borough are unemployed compared to London and UK, and therefore a programme has been developed specifically for this age group, which aims to tackle digital literacy and re-skilling for new technologies, and working practices with a focus on key growth sectors.

5.15 Partnership work is also underway between the council, DWP and the London Deaf Information Service to meet a gap in provision to support deaf residents into employment. BSL Interpreters provide support using virtual toolkits to provide a pathway to employment.

5.16 In addition to efforts to support people into work, the Council recognised the need for advice and support to help those in work remain in their jobs and progress. The council has funded the Get Back on Track service, delivered by the Shaw Trust, and is targeting support to residents who have lost jobs due to the pandemic. The service offers specialist Human Resources and Legal advice furlough, changes to job descriptions or working conditions, and redundancy. The Council considers that Get Back on Track delivers a unique service in the borough and has agreed an additional year's funding to 31 August 2022.

5.17 Business support measures implemented during the recovery phase have included:

- Using council spending power and that of other local businesses and partner organisations to develop and expand the activities of a locally based supply chain. The small business directory will help anchor institutions, and larger businesses source locally, as well as support small businesses to organise consortia to bid and win larger contracts;
- On the strength of a new partnership with City University at the flagship Ray Building in Clerkenwell, the Council are now delivering over £2.5 million worth of social value, including helping residents into jobs and apprenticeships, acting as an incubator for new social enterprises and other social impact businesses;
- Further building on expanded business contacts made during the pandemic, to employ new local economy officers in Clerkenwell and Bunhill, areas which have faced a large economic contraction due to the loss of tourist and commuter trade;
- Using new and existing business forums like the Finsbury Park Delivery Board, the Caledonian Road and Barnsbury and Finsbury Business Forums to address deeply embedded issues like paying the London Living Wage;
- Building on our experience of developing affordable workspace to deliver social value in Finsbury Park, the council are now developing further workspaces in the borough, for example at the White Collar Factory in Old St. New affordable workspaces are offering employment training, business development advice, links to large employers, and spaces for micro businesses to locate;
- Building upon experience of ethical, sustainable delivery options brokered during the pandemic to set up a new delivery co-operative, Wings as an ethical alternative to other platform companies. Wings pays the London Living Wage and offers workers more secure terms and conditions.

5.18 To continue tackling financial hardship, the council has decided to fund and continue the Council Tax Support Hardship Fund in 2021/22, even though there is no more government funding. This forms part of the vital support the Council is providing to assist with the recovery from Covid. The scheme criteria remains unchanged providing a Council Tax rebate of up to £150 for those working age residents in receipt of Council Tax Support. As of end of August 2021, 21,163 households have received a rebate of up to £150, totalling £2,549m of support provided. It is good to note the scheme is being enhanced in the Budget 2022/23 proposals detailed later in the report.

5.19 The Covid winter grant transitioned into the Covid Local Support Grant, and has been extended to end September 2021. Islington has received a further sum of £826,000. In Islington, this has been used mainly to assist those families who qualify for free school meals or who are in receipt of Housing Benefit, or Council Tax Support, and have a child aged under 5 years old.

5.20 The government also established a Test and Trace Support scheme, administered by local authorities. It provided a one off payment of £500 to support those who must stay at home and self-isolate by NHS Test and Trace or the NHS Covid-19 app, either because they have tested positive for Covid-19 or have recently been in close contact with someone who has tested positive. The payment is means-tested, based on being in receipt of a list of qualifying benefits, including Universal Credit. However, residents not on one of these benefits may be eligible for a £500 discretionary payment if they meet all other criteria, are on a low income and would face financial hardship if self-isolating.

5.21 As of 24 August 2021, Islington had received 2,530 applications of which: 1,359 (54%) have been paid (678 mandatory payments and 681 discretionary). This is the highest payment rate of London boroughs in latest survey on end of July data. 1,149 applications have been rejected and 22 claims are pending. It is anticipated that a reduction in the number of applications for Test & Trace support payments as, from 16 August 2021, those who have received both Covid vaccinations will no longer be required to self-isolate if they come into close contact with someone who has tested positive for Covid, unless they themselves test positive. The scheme was extended to 30 September 2021.

(iv) Phase 4 – Reframing Islington's Economy

5.22 Islington will build back better for an inclusive, fairer, greener, more creative local economy through promotion of sectoral interventions. A focus on key sectors that have the potential to create not just jobs but careers, the aim has been to remove any systemic barriers that prevent specific cohorts within our diverse local communities from accessing these opportunities by:

- Health and Care – In response to the Covid-19 pandemic the Islington Health and Social Care Hub provided local recruitment for social care contractors. Working closely with partners in the NHS and Adult Social care to ensure that local people are prioritised for local vacancies, providing a wealth of information about the variety of roles and progression opportunities in the sector, expanding its reach beyond the traditional care assistant roles, to include GP reception staff, vaccination roles and ophthalmology technicians;

- Green Economy –The Council are creating new opportunities in the 'green economy' with jobs related to new new building techniques, energy saving devices, green transport and delivery systems, and reusing and recycling;

- Construction – Working with colleagues in housing to implement a new approach to apprenticeships with the new build programme, providing new homes for our residents and aspirational careers for local young people in surveying, project management, engineering, and traditional skills. This includes working with the developers on the Holloway Prison site to optimise the employment and green skills opportunities for local people and businesses;

- Tech and Knowledge – Islington is currently lead partner on LIFT (Leading Inclusive Futures through Technology), a £7.4m project spanning four boroughs to deliver jobs and training in tech and related jobs. LIFT is getting local residents skilled up and ready to launch careers or start-up businesses in industries like IT and Communications, both of which have recovered fast from Covid-19 and offer significant opportunities for career progression in addition to incomes well above the London average;

- Creative Production - Celebrating Islington's creative community as one of the most valued assets, and building strong partnerships with creative production companies such as Film London and the N7 business cluster to plug local residents into new opportunities;

- Affordable Workspaces - Ensuring the Council deliver a thriving, diverse local economy by creating new, genuinely affordable, workspaces, for example the FC Designer Collective and Space4/Outlandish on Fonthill Road, where local residents interested in garment production and tech can get skilled and networked into good jobs. Despite lockdowns, these two operators were able to generate a social value return to the council, equivalent to over £500,000 in the last year.

5.23 Through the Tranche 3 Additional Restrictions Grant, the council will be delivering a Business Recovery Programme. The Government has given Local Authorities the discretion to prioritise certain businesses or sectors, based on local economic needs. This needs to provide direct benefit to local businesses, and can be done either as a grants scheme, or through business support activities.

5.24 In line with the Council's community wealth-building agenda, the central ambition for Islington's recovery, is to build a more inclusive, fairer, greener, more innovative and resilient local economy.

5.25 The business recovery programme prioritises two areas of intervention:

5.26 There are two cross-cutting themes:

- Equalities: Addressing structural inequalities of business ownership and employment;
- Net zero: Growing green business though through innovation, transport and circular economy business interventions.

5.27 It is planned that activities focus on supporting the following outcomes:

- The economic and social recovery of high streets and town centres;
- Strengthening the local economy by supporting business supply chains and use the council's power as a commissioner; and
- Supporting jobs and businesses in tech, creative production, hospitality, construction and creative sectors;
- Strengthening innovation in sustainable growth sectors;
- Supporting the growth of democratically owned business models.

5.28 This year, in addition to continuing to support Pension Credit claims, the IMAX team will focus upon increasing take up of disability benefits for working age residents. Disabled people, including those with long term health conditions, are one of the priority groups for our employment support offer, so they can securing vital support through benefits, which could give them the crucial day to day support they need to enable them to consider employment, where this is an option.

6. Emerging Opportunities

6.1 As the borough emerges from the Covid-19 pandemic, the Council are reviewing service delivery to improve its approach and to identify possible opportunities to develop further. More than residents, businesses and the Council need to be resilient, creative, dynamic and able to adapt to tackle challenges, and make the most of opportunities.

(i) <u>Employment – local residents into good jobs</u>

6.2 Islington's greatest challenge now furlough has ended, is likely to be supporting a growing sector of the unemployed back into work (particularly those over 50 years), whilst ensuring that we can still offer a service to those who were already disadvantaged before Covid-19 and will find themselves even further at the back of the queue for employment.

6.3 People from underrepresented communities have been hit hardest by Covid-19, and the council need to redouble its efforts to ensure that they are facilitated to flourish in Islington's inclusive economy. The council are doing this by supporting early stage entrepreneurship for people in these communities, and for existing businesses.

6.4 In cases where residents furthest away from the labour market are still not accessing jobs because of the ability of employers to 'cherry pick' from a large pool of labour, it may be necessary for the council to intervene more directly. For example by actively facilitating the creation of co-operative enterprises to supply the council and other anchor institutions, and expressly employ people from these groups, including young people without experience, and others who are likely to face labour market discrimination. The Council will also work closely with partners in the Islington Working Partnership, to target under-served groups in the labour market.

6.5 The Council will also identify employment types in sectors that have been less affected by Covid-19, understand the skills required in each and look to quickly re-orientate these skills and then facilitate clear pathways into new employment. Low paid employment is more likely to require a physical presence at work, so there is need to ensure that this can be carried out safely, and workers are actually able to access work will be an important role to further working opportunities for lower paid workers.

6.6 Partnership work is underway with Adult & Community Learning, College and the National Careers service to develop skills provision that matches sectoral needs, allows our residents to move between sectors and to understand the opportunities available in the post Covid 19 labour market.

6.7 The number of apprenticeships being offered by employers remains low. The council will work with employers to better align apprenticeships with job opportunities, and viable career pathways. The Council will continue to develop the Islington jobs portal to improve strategic co-ordination to connect local jobs and training opportunities with Islington residents.

(ii) <u>Protecting our High Streets</u>

6.8 Reductions in footfall in our town centres, high streets and markets means that the Council need to work harder than ever to promote their diverse retail and leisure offers. For example, local guides are needed to promote our street market and local entertainment offers to local offices, in order to attract people there during lunch times and after work.

6.9 More needs to be done to increase local business to business trading, something which the council are pursuing through an app called 'Near Street' that shows what stock is available nearby, rather than simply driving people to websites like Amazon.

6.10 The southern part of Islington the Central Activities Zone (CAZ) had traditionally catered for a wealthier office worker demographic, which has stayed away. Many shops and facilities in these areas are not likely to be catering for local residents. More work needs to be done to ensure that affordable goods and services are available e.g. street markets and for businesses to pivot to sell into local markets.

6.11 A recent GLA report into the future of the CAZ expects international tourism to rebound to reach 2019 levels in 2024, the start of a gradual path to recovery. Driven by a combination of workers not wishing to lose out, and managers eager to rebuild team working, the report anticipates a return to the office for three to four days a week for the majority who are currently home working. A more competitive office environment is also likely to increase demand for quality office space in locations nearest to stations, which could benefit Farringdon, a key transport hub for the Elizabeth Line. Any short-term rationalisation of this order in the office market is, however, likely to be counterbalanced over the next two to five years by a continuing centralisation of offices within high profit sectors such as tech, life science, and knowledge quarter occupiers. As growth returns, the opening of the Elizabeth Line and HS2 is going to draw in a much wider pool of skilled labour to London, and is likely to compensate further for short-term losses. However, it will be imperative to ensure that residents are positioned, and skilled, to avail of the growth of opportunity on their doorstep.

6.12 The optimistic view then sees the reduction in economic activity as temporary, a view reflected in Islington's Local Plan estimate for office space demand, which has uprated an earlier Employment and Land Study estimate for 400,000 metres squared to 420,000 metres squared of floor space demanded by businesses in the years running up to 2036.

6.13 Article 4 direction is also sought to prevent conversion of office space to residential, which would jeopardise the viability of strategically important economic clusters in locations such as Tech City in Old Street, which falls outside the CAZ.

6.14 Many landlords have not yet adjusted to new market realities, which have affected businesses ability to pay. More work is needed to broker fairer rents that reflect new market conditions.

6.15 As business models change in response to a shift away from five days and physically attending an office to more home working, affordable workspaces need to be ready to offer a flexible model of occupancy. Better Space, a company that manages many workspaces in Islington is alert to this issue and responding to new requirements. There are also likely to be opportunities to think about how the Council could use 'meanwhile space' more effectively to support residents, and capitalise on the opportunities arising from public demand for more spectacle and leisure services.

6.16 Throughout the pandemic Islington's Inclusive Economy team has increased contact with businesses, but also with local groups (Mutual Aid Groups), who provided much needed brokerage on the ground in order to link up local businesses with communities. It is vital that the Council continue to build and strengthen these community relationships whilst they are still 'warm', as part of the social and economic recovery of our high streets.

6.17 Online workshops to help businesses to adapt showed that there is considerable demand for support to develop a local online presence and ensure that small businesses have the right technology to compete with larger and online businesses.

6.18 Arising from the recent experience of the pandemic that led to people becoming more familiar with their localities, there has been a resurgence in a new model for urban planning: the '15-minute city'. The concept is to improve quality of life by creating cities where everything that a resident needs can be reached within a quarter of an hour by foot or bike. The 15-minute city requires minimal travel among housing, offices, restaurants, parks, hospitals, and cultural venues. The idea is that each neighbourhood should fulfil six social functions: living, working, supplying, caring, learning, and enjoying. The 15 minute city, it is argued could help to tackle the climate crisis by increasing green initiatives at the neighbourhood level and reduce travel. To support this idea the council is looking at the potential to develop spaces for affordable 'near-home' working, providing residents who have limited facilities at home to sustain long-term shift for blended working.

(iii) Working in partnership – to deliver for local people and businesses

6.19 New Affordable Workspaces available in late 2021 will provide the opportunity to deliver an integrated programme to support local residents to learn new skills, and to access training and jobs opportunities. This includes the imminent announcement of major new 10-year partnerships with new operators for the White Collar Factory and our affordable workspace at 250 City Road.

6.20 The council has established a new network of 'anchor institutions' to take advantage of the greater collaborations emerging from the pandemic. Working more closely with these strategic partners, it is planned to deliver:

- As an employer, – progressive policies on recruitment, pay & conditions and careers to fully harness the talents of the local workforce, and future generations;
- As a purchaser – actively supporting existing and emerging local businesses to deliver affordable, quality goods and services thereby maximising local social value and wealth creation;
- As a landlord and asset manager – managing and developing buildings and spaces to create more accessible, sustainable and better places; and, as a leader committing to a shared ambition for Islington, and embedding these values into day to day activity to ensure we make a difference.

6.21 The anchor institutions working with the Council on the Living Wage action plan, and the Health and Social Care Academy, are already referring new employers to the scheme, and our HR Team have used the sharing of our apprenticeship levy to influence living wage uplifts within three local firms seeking levy transfer. Expansion of this work will continue, including through the development of a new business directory to help anchor institutions keep more of their spend local.

6.22 The Council are also ramping up delivery of a progressive approach to the procurement of goods and services and planning policies, so that more of the money we spend goes into the pockets of local businesses and workers, works harder in the Islington economy, and helps Islington become a Living Wage Place and achieve Net Zero status by 2030. This will include the publication of a new Social Value guidance for both commissioners and suppliers, as well as market warming with local businesses to help improve the opportunity to secure contracts with the council.

6.23 The Mayor of London announced over £10m of investment into green projects. This investment is designed to help double London's green economy to £100Bn by 2030 from its 2020 net worth of £48Bn. If this level of investment materialises it would kick start huge business and jobs opportunities for Islington's residents given the creation of over 80,000 new jobs in the capital. This will be an excellent opportunity to expand work in green skills for the construction industry, as well as wider sectors.

6.24 In March 2021 the LIFT (Leading Inclusive Futures Through Technology) was launched. A £7.4m joint project in Islington, Hackney Camden & Tower Hamlets to make sure underrepresented communities and businesses benefit from the Technology, Science and Digital sectors. It aims to address the underrepresentation of some communities in these sectors including women, those with disabilities, lone parents, and people from Black and ethnic minority backgrounds. The programme is being led by Islington Council, and delivered in partnership with entrepreneurship not for profit firm Capital Enterprise which has supported more than 3,500 small businesses, and created nearly 7,000 in new start-ups since 2014.

6.25 This will include delivering a truly inclusive economy – building back better, fairer, greener and more democratic. The Council has already begun to establish innovative partnerships with various groups, including Wings, a co-operative, human powered home delivery scheme, using freight bicycles to deliver food to local homes in Finsbury Park, as well as Manor Gardens, to explore the potential for community-led re-development of the high street through a food co-operative.

6.26 In addition, the Council will also be creating a series of further partnerships over the coming months to deliver a number of key projects under the Additional Restrictions Grant scheme. These will include:

- Training and development programme for local aspiring or start-up circular economy businesses;
- Inclusive entrepreneurialism to support Black and Minority-owned in social impact business start-ups;
- A local development scheme for democratically owned co-operatives
- Promotion of Black-owned businesses on the high street and online, to increase footfall and spend with local businesses in the run-up to the festive season;
- A business development programme to stabilise existing street market traders and recruit new ones, aligned to the public realm project.

7. Witness evidence - Polly Robins –Director Outlandish Workspace

7.1 The committee also received evidence from Polly Robbins, Director of Outlandish, an affordable workspace in Fonthill Road.

7.2 The committee noted that the workspace was established in 2019, and had entered into a formal partnership with L.B.Islington. Outlandish worked with large Trade Unions and other organisations.

7.3 During the pandemic, the workshop had to close, however outreach engagement had taken place, and two projects relevant to the Public had taken place with the council. Training had taken place to upskill residents, and also as to how marketing could be improved. Businesses and residents had been badly affected by the pandemic. More work needs to take place to follow up on projects that had taken place during the pandemic to assess their effectiveness.

7.4 The committee noted that there had been a lot of innovation in the technology sector during the pandemic, and more young people were looking to build a career in the sector. In addition, remote working was beneficial to family life, and reduced commuting. However, remote working did mean that employers had a larger labour market to choose from, and had the option of not recruiting from the local community.

7.5 The council had been satisfied with the partnership and the workspace was pleased with the support offered by the council during the pandemic. It was felt that the development of more affordable workspaces and small businesses, such as cafes would be beneficial to the Finsbury Park area. There is also a need to gather evidence to more effectively target needs in the area, and to build up relationships with those residents who did not work during the pandemic.

7.6 In terms of the workforce of Outlandish, there were more males than females. 20% of the workforce were BAME, and it is hoped to improve on this in future
The committee noted that work is taking place with charities and during the pandemic work took place targeting BAME communities, and work had taken place with London Metropolitan University.

7.7 The workspace had a 10 year contract with the council. The council paid the rent on the workspace, and that this was approximately £60k per year. In return, the workspace had to deliver £12m of social value to the council over the 10 year period. A loan had also been received during the pandemic to support the workspace. Outlandish had to submit a report to the council on a quarterly basis.

7.8 The committee noted the view that there is a need to support local ethical supply chains, and to establish training to support people to establish new workspaces.

8. Witness evidence– Hak Hussain Vice Chair, Archway Town Centre Forum

8.1 The committee received a presentation from Hak Hussein, Vice Chair Archway Town Centre Forum.

8.2 The committee noted that COVID had had a profound impact on businesses during the first of the Government lockdowns. At the start of the first lockdown it was felt by some local businesses that the council communication could have been better. The fact that businesses had to prove they were ratepayers to access grants in some cases, and needing to contact the council to obtain proof, was also initially of concern. It had proved easier in later grant applications to access funding, however the Council officers had been excellent in supporting businesses.

8.3 The committee also noted that there had been issues of complexity in completing forms initially, and that this had mainly been the result of the regulations set down by Government for applying for loans, and there had been different regulations for the 11 different types of lockdown that had taken place.

8.4 The committee were pleased however to receive evidence that the pandemic had brought businesses and the community closer together, and there is now a WhatsApp group, which council officers, businesses, and councillors had access to.

9. Council Financial Position Introduction - Witness evidence - David Hodgkinson/Paul Clarke

9.1 The committee received evidence in relation to the effect that the pandemic has had on the council's financial position, in line with the Scrutiny Initiation Document approved by the Policy and Performance Scrutiny Committee on the 29th July 2021, copy attached at Appendix A to the report.

9.2 The report explored the key factors around the council's finances in relation to the impact of the Covid-19 pandemic, specifically around:

- Increased pressure due to demand from residents (e.g. housing/social care);
- Reduced fees and Charges – e.g. parking and leisure;
- Structural changes to the tax raising capability of the council;
- Increased levels of uncollected debt;
- Fiscal and monetary policy as a result of the national debt burden;
- The extent to which these pressures come to bear on the council budget remains uncertain and will depend on the way in which the pandemic impacts on LBI residents.

9.3 Out of 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.

9.4 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 and currently unquantifiable impact on the council's medium-term budget. This impact will be over and above the amount covered by the government's Covid support package to local authorities announced to date. For example, the Covid support package provides no funding for business rates income losses in 2021/22 and only provided 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.

9.5 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.

9.6 The Council are dealing with the fallout of Covid-19 at the end of a decade that has also seen central Government cut our core funding cut by £275m. Despite promises from central government to fund the coronavirus response, the council has a funding shortfall in a year where it was also forced to make savings of £25million. This total of savings in 2021/22 included £14million of new savings, due to real-terms cuts by government to the council's funding.

9.7 Whilst in 2021/22 there are encouraging signs of financial recovery for the economy, there still remains significant pressures and even greater longer term risks. It is anticipated that the in - year position can achieve a balanced outturn, however the medium term financial position for the Local Government sector looks extremely challenging as a result of record national debt levels and an increase in the needs of residents.

10. COVID-19 impact - 2020/21

Collection Fund

(i) <u>Council Tax</u>

10.1 At the start of 2020/21, the expected collection rate was set at 96.3%. This underpinned the budget, and based on the historical level of collection experienced within the borough. By the end of Quarter 1 (2020/21), performance was down by around 0.4%. By the end of the year this had slipped to 2.6% behind.

10.2 This performance was in line with the other London Boroughs. Residents through lost jobs or reduced income have struggled to keep up with payments, resulting in the target shortfall. Under normal circumstances, the Revenues Service uses the Courts to support pursuit and enforcement of debts. However, courts closed for most of the year and reopened for Council Tax in February 2021, which was too late to have a material impact on our collection rates.

10.3 For every 1% of collection rate the council receives around £1m, therefore the overall lost to the council before Government support was just below £3m.

(ii) Business Rates

10.4 In relation to Business Rates, our 2020/21 collection rate was 3.7% less when compared with (pre-Covid19) targets. Closures, reduced demand and/or reduced capacity has meant businesses have struggled to keep up with payments, resulting in the target shortfall. Under normal circumstances, the Revenues Service uses the Courts to support pursuit and enforcement of debts. However, Courts closed for business rates for the entire year.

10.5 There has been a small rise in council tax debt, an overall reduction in Housing Benefit overpayment however a sustained rise in Housing Rent debts. This increase in Housing Rents debt is a continuation of a trend however, and the increase was shallower in the pandemic year, possibly as a result of the temporary increase to Universal Credit introduced during the pandemic.

11. 2021/22

11.1 During this period the council had a reduction in income –

(i) Reduced income

11.2 A large proportion of the council's budget is funded by income through fees and charges. Nearly all of this income is driven by activity, which has been directly impacted by the pandemic. Throughout 2020/21 the changing nature of national restrictions made forecasting income extremely difficult. During 2021/22 income had fared slightly better however remains subdued below pre-pandemic levels overall.

(ii) Parking – Parking income improved following the pandemic, and future charges are identified in the Budget 2022/23 detailed below.

(iii) Leisure Services

11.3 Leisure services have been one of the most impacted areas of council service as restrictions effectively enforced closure of facilities for a large proportion of 2020/21. Since the gradual lifting of these restrictions, activity levels have been positive, with the number of membership sales increasing. Generally, the summer months see a lower level of activity than the winter months, so there is still a great deal of uncertainty about how activity and associated income returns.

Increased needs of residents

11.4 Whilst the pandemic has reduced the income available to the council to fund vital services, it has also meant that the support residents need has increased. Whilst some of this additional demand for services will dissipate as the pandemic recedes, some longer term 'scarring' will remain.

11.5 One important way that residents are financially protected by the council is through the Council Tax Support Scheme. This is where reliefs against council tax are granted to those who need it. During the pandemic the cost of providing the scheme to working age adults rose by over 25%. These costs have since slightly receded, but the cost of council tax support in 2021/22, and over the medium term, is highly uncertain. Much will depend on future developments in the economy, including the level of unemployment, and government measures to support businesses and individuals. Details of the proposed scheme are outlined in the Budget 2022/23 evidence below.

12. Covid 19 Funding – Government Funding

12.1 There were several mechanisms available to maintain resilience. They consist as follows: Specific Government Grants towards Covid-19.

12.2 Final allocations of Covid-19 tranche 5 grant were announced in time for budget setting (£9.3m 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. There has also been an Omicron Hospitality and Leisure grant to businesses, and this is referred to earlier in the report.

12.3 The government also distributed 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, adjusted to reflect the average bill per dwelling in the area. Islington's allocation was £3.6m, and was fully used to directly offset the one-off reduction in the council tax base resulting from the tax support scheme in place.

12.4 The local tax guarantee scheme provides 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.

12.5 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) continued for the first quarter of 2021/22 (until the end of June 2021). It is evident that sales, fees and charges income losses will continue long after June 2021.

(ii) General Budget Contingency

12.6 The 2021/22 budget included 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. In 2021/22, it will be necessary to fund the Local Government Pay Award from this budget, reducing the resilience available to meet other pressures. This is outlined in more detail in the Budget 2022/23 evidence detailed below.

(iii) Covid-19 specific Contingency

12.7 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.

(iv) Earmarked Reserves

12.8 The council's reserves are an important part of financial resilience. They represent funds set aside for specific purposes, however in a time of financial distress these can be repurposed to support general expenditure.

12.9 Islington's current General Fund (GF) balance (£16.7m) equates to just over one week of GF gross expenditure. It is agreed that any underspend on the contingency budget at the end of each financial year is used to increase the GF balances from the current level, towards a target level of £40m over the medium to longer term. This £40m target level of GF balance is approximately based on the level of Covid-19 budget shortfall in the previous financial year.

12.10 The Omicron variant has also led to the Omicron Hospitality Grant payment to businesses, and this is referred to earlier in the report in more detail.

13. Looking ahead

(i) National Picture

13.1 The national economic outlook is highly uncertain. There has been a strong recovery following the development, and speedy roll out of the vaccine, and the gradual removing of restrictions to most economic and social activities. The economy is still subdued however. Gradually confidence will recover, however the scarring left by the unprecedented response will remain for generations to come.

13.2 The longer-term Comprehensive Spending Review 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.

13.3 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.

(ii) General Fund Reserves and Balances

13.4 A fundamental element of the robustness of the council's annual budget and Medium Term Financial Savings (MTFS) is the level of contingency budget, earmarked reserves and GF balance, as determined by the Section 151 Officer.

13.5 The council's reserves however are lower than comparator organisations. 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. Whilst being well-run and maintaining a strong financial discipline, the nature of increasing economic risks means the Council felt the need to increase its General Fund balance.

13.6 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".

13.7 The significant expenditure pressures, and income shortfalls, incurred during the COVID-19 lockdowns have highlighted the underlying level of risk in the council's budget. In particular, the council possesses one of the highest Covid-19 sales, fees and charges income losses in London.

14. Maxine Holdsworth/Matt West – L.B.I. Housing – Witness evidence

14.1 The Committee received evidence at its meeting on 9 September 2021, relating to the service that was being provided by the Housing Department during the pandemic.

14.2 The Committee noted that 400/500 out of 1000 housing staff had been on site during the pandemic, and that there was high staff availability, and since Spring 2021 staffing levels had remained close to 90%.

14.3 PPE and regular testing had been provided for staff, and there had been adapted ways of working in order to increase safety for residents and staff. Planned works and new build housing schemes had been delayed, due to staff being furloughed by contractors, however new build and external works commenced following the first lockdown.

14.4 There was an increased focus on resident safety, and risk assessments were carried out to ensure resident safety. Gas safety checks remained in place.

14.5 The Committee noted that rent arrears had increased, but had stabilised and support to residents had been offered in terms of information on debt support, and accessing support services. Call handling had been moved to home working, and the Triage service had experienced high call volumes, and extra support had to be put in place to deal with these, however an improvement plan had been put in place and the situation had improved.

14.6 Over 350 homeless people had been accommodated under the' Everyone in' rough sleepers programme, and accommodation had to be sourced speedily. The funding provided by Government had not been designed to cover the costs of moving from temporary accommodation. Exit strategies had to be designed, and a long term holistic support pathway had been provided for rough sleepers, including funding for new accommodation.

14.7 The Committee noted that in relation to housing allocations, Choice Based Lettings had been suspended from April to July 2020, however properties already offered and accepted by residents proceeded and sign ups continued, wherever possible. Choice Based Lettings had restarted on 2 August 2020.

14.8 In terms of day to day repairs, urgent and emergency repairs had been delivered through lockdown. There were 2 two brief periods where only emergency and essential works were conducted, however staff required to work safely in residents homes.

14.9 The service reopened to delivering non-urgent repairs during relaxation of Covid.

15 Evidence Grant Thornton– Council External Auditor

15.1 The Committee received evidence from Grant Thornton, the Council’s External Auditors in relation to Covid 19 and Council’s vulnerability, and in relation to a recovery index, which provides a nationwide view of how different places are positioned to respond and recover from Covid 19. It was stated that the social and economic impacts of Covid 19 will be profound, affecting all elements of business communities.

15.2 The vulnerability index takes account of financial positions, people, place, economy, health and social care. The recovery index looks at a number of factors including level of reserves as a percentage of total expenditure, house price recovery, employment risks, business size etc. varies greatly across London, and many boroughs fall below the median. The committee noted that L.B. Islington were well placed in terms of being subject to any financial vulnerability, and the economic recovery prospects were good for the borough.

15.3 In relation to financial foresight it was noted that whilst the headline scenario could be pessimistic, with funding reforms delayed, there has been an 3% annual uplift in central government funding, but councils are unable to maximise council tax increases. Business rate growth has been slowed by economic challenges, there are significant collection fund deficits to clear, a wind down of Government support, and there will be a crystallisation of Covid costs (social care, homelessness), and increased inflation will result in higher staffing costs.

15.4 In terms of financial risks, 2020/21 posed a unique challenge, and by and large, Councils stepped up, however in the longer term financial consequences are still emerging. Ongoing cost pressures are crystallising e.g. social care, children’s and impact of heavy borrowing to be felt over the next 5 years. There are implications for funding e.g. business rate base, and other income generation. In addition there is wider economic uncertainty, supply chain and inflation, traditional financial assumptions and risks need to re-evaluated rather than reverting to normal.

15.5 Grant Thornton indicated that every Councillor is responsible for financial control, and decision making at their council. Whilst Members may not be financial experts, they should take an interest in financial and best value decisions. There should be a culture that encourages scrutiny, and accountability, as a key element of decision making to successful delivery of services. Constructive challenge and debate from Members can enhance performance. All Members, and not just members of Scrutiny and Audit Committees, should be clear on role in financial management, have access to adequate financial skills, be provided with regular, and ongoing financial training, be provided with accurate and timely reports on the financial and non-financial performance of the Council on a regular basis, and be aware of the CIPFA FM Code, and Nolan principles.

15.6 The committee received evidence around Autumn Budget and Spending Review 2021 which had been announced, and set out aggregate spending plans by Government department, for 3 years 2022/25. The spending allocation appears to be more favourable than anticipated, however it does assume councils will increase council Tax by 2.99% per annum. Further details are contained in Budget 2022/223 evidence, and this is detailed below.

15.7 Additional grant funding will be needed to bridge the gap between the estimated net budget pressures in the medium term financial plan, and it is not known if the Government spending plans will continue to be revised. There has been no update on local government funding reforms, namely the Fair Funding review, and business rates retention reset. There is significant uncertainty for London Boroughs in this regard.

15.8 In terms of Education Early years, and families, the committee noted the measures announced in the spending review, and other announcements made including the taper rate in Universal Credit being reduced to 55% from 63% and the Public Health Grant being maintained in real terms.

15.9 The Committee expressed the view that going forward the council needed to establish which costs will continue to be present post Covid, and that more focus should be placed on planning for this by increasing reserves and contingencies.

16. Budget Proposals 2022/23 and Medium Term Financial Plan (MTFP)

16.1 The committee received evidence at its meeting on 20 January 2022 in relation to the 2022/23 budget and the MTFP from Councillor Gill, Executive Member for Finance and Performance.

16.2 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.

16.3 The 2022/23 budget, details 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.

16.4 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.

16.5 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 and other possible future variants, as 'plan B' restrictions have now been revised 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.

16.6 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. This is subject to future 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.

16.7 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.

16.8 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.

17. General Fund MTFS and 2022/23 Revenue Budget - Summary

17.1 The latest assumed budget position in 2022/23 and over the medium term is summarised in Table 1 below. 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).

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

	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

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

- Compliance with the CIPFA Financial Management Code;
- 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.

18. Net Revenue Budget 2022/23

18.1 The table below summarises the proposed 2022/23 net revenue budget by directorate (cash-limited budgets).

Table – 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

18.2 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.

18.3 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.

18.4 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%-7% in 2022.

18.5 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).

18.6 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.

18.7 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.

19. Key Revenue Cost pressures

19.1 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.

19.2 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.

19.3 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.

19.4 The MTFS provides for contract and non-pay inflation that is unable to 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.

19.5 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.

19.6 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.

19.7 The demographic growth for Adult Social Services is divided 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.

19.8 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.

19.9 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, in order 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.

19.10 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.

19.11 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. A budget is now being recommended for consideration.

19.12 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.

20. Provisional Local Government Settlement 2022/23

20.1 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.

20.2 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).

20.3 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.

Figure 5.4. Percentage change in departmental 'core' (non-virus) resource budgets, 2009–10 to 2021–22

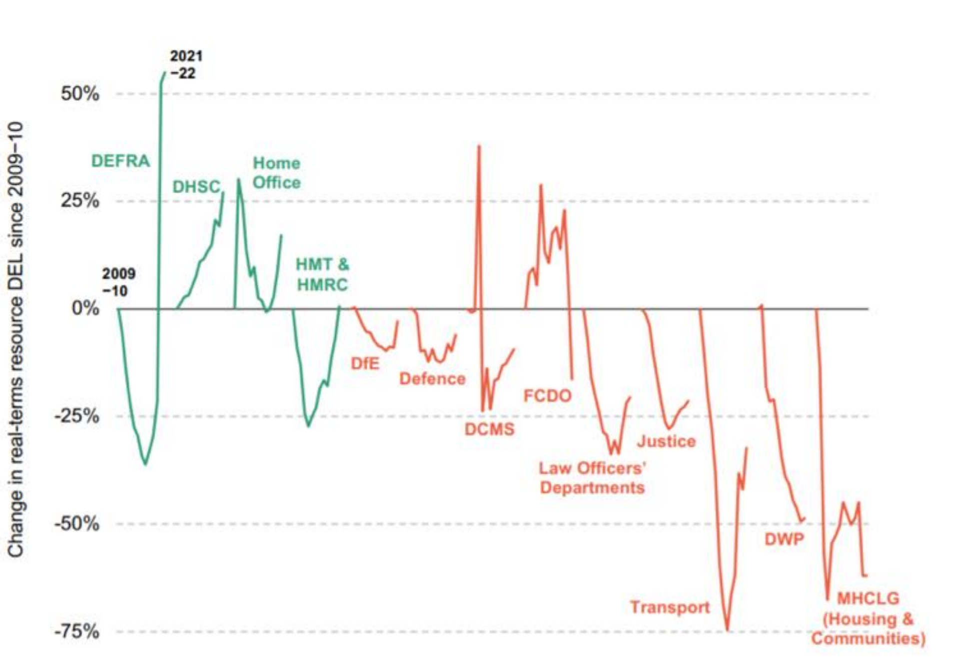

Chart referenced from: IFS Green Budget 2021 (https://ifs.org.uk/uploads/IFS-Green-Budget-2021-.pdf)

20.4 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.

21. Settlement Funding SFA

21.1 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).

21.2 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).

22. Services Grant 2022/23

22.1 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.

22.2 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.

23. Social Care Funding

23.1 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 2021/2.

23.2 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.

24. New Homes Bonus (NHB)

24.1 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.

25. Lower Tier Services Grant

25.1 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.

26. Other Grants

26.1 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.

27. Revenue Savings

27.1 The 2022/23 revenue budget assumes the delivery of savings totalling £6.776m in 2022/23, 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 below.

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

27.2 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.

27.3 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.

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

27.5 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 calculations.

28. Dedicated Schools Grant (DSG) Funding

28.1 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.

28.2 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.

28.3 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.

28.4 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.

28.5 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.

28.6 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.

29. Fees and Charges

29.1 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.

29.2 In setting the fees and charges policy, consideration has been 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.

29.3 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, however it is expected to peak at 6%-7% in 2022.

29.4 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.

29.5 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.

29.6 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.

29.7 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.

30. General Fund Contingency, Reserves and Balances

30.1 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.

30.2 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.

30.3 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.

30.4 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.

30.5 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 position, 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.

30.6 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.

30.7 The estimated level of General Fund, reflecting current known movements, 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.

30.8 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.

30.9 The proposed 2022/23 budget includes a further one-off £4m transfer to earmarked reserves to provide additional financial resilience:

- 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.

31 Housing Revenue Account

31.1 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.

31.2 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.

32. Rental Income and Other HRA Fees and Charges

32.1 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.

32.2 In February 2019 the government issued a policy statement on rents for social housing effective from April 2022.

32.3 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.

32.4 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.

32.5 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.

32.6 It is proposed to revise the way in which leaseholder service charges are calculated, from a bedroom weighting method to a points-based method.

33. Islington Council Managed General Needs Non-New Build Properties

33.1 The maximum 2022/23 permitted rent is the prior year 2021/22 actual rent plus CPI 3.1% (September 2021) plus 1%.

33.2 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%.

34. Other HRA Fees and Charges

34.1 All other HRA fees and charges will increase by 2% in line with the council's policy, 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.

35. Capital Programme

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

35.2 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 timeframe.

35.3 The proposed 2022/23 to 2024/25 capital programme, as well as indicative estimates for 2025/26 to 2031/32, are summarised by council priorities in the budget report. This is estimated to deliver up to £1.7bn of capital investment in the borough over the next 10 years.

35.4 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 re-profiling 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.

35.5 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.

35.6 The capital programme over the next 3 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.

35.7 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.

35.8 The capital programme also includes a new £10m investment pot to support key community priorities across the borough.

35.9 Further work will be required to allocate this additional capital investment pot and plan delivery timescales.

36. Retained Business Rates

36.1 The council's 2022/23 NNDR1 (detailed business rates) estimate is currently being worked up ahead of the statutory submission deadline to central government. This will be reflected in the final version of the budget report.

36.2 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.

36.3 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.

36.4 The business rates retention system includes a safety net to protect local authorities from significant negative shocks to their income by guaranteeing that no authority will see its income from business rates fall beyond a set percentage (7.5%) of its spending baseline. 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.

36.5 In the 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.

37. CONCLUSION

37.1 Islington has gone to great lengths to provide emergency support, build economic resilience and recover the economy. It was only possible with an active pulling together of the whole community in ways not witnessed since the Second World War. From the spontaneous setting up of neighbourhood groups, to the 'We are Islington' service and the vigorous engagement to support individual businesses and residents through challenges such as a loss of trade, unemployment, and debt, strong relationships have been formed and trust has grown. There is now an unprecedented opportunity to build upon this progress and turn the vision of a fairer, more sustainable, socially and environmentally just economy into a practical reality.

37.2 This has never been more important as the challenges faced are only a foretaste of more to come. The climate emergency, the impact of Brexit and Covid on supply lines and labour markets, the ending of furlough, the loss of the Universal Credit uplift and the adaptive capabilities of the virus are just some of the ongoing threats facing Islington's economy and livelihoods moving forward.

37.3 Islington's Community Wealth Building teams are therefore re-doubling efforts to reframe the economy and build back better for an inclusive, fairer, greener, more creative local economy. As this paper has shown, this means being aware of emerging opportunities like a greater focus on the 'local', changing preferences for retail and leisure experiences in urban space. It also means actively shaping and developing those opportunities into gains for our residents and on a net zero carbon footing. This is happening as part of our local industrial strategy in Health and Care, the Green Economy, Construction, Tech and Knowledge, Creative Production, and Affordable Workspaces, all leveraged to provide good quality work and business for our residents, underpinned by our social value and equalities commitments.

37.4 It also means engineering an economic and social recovery of high streets and town centres, supporting our business supply chains, using the council's power as a civic leader, and collaborating with other anchor institutions in the borough to inspire them to work with us and follow suit. As we seek to create more 'good work', we will be encouraging partners to join us in building upon our new found status as a Living Wage Place, also to join us in applying community wealth building principles to facilitate democratically owned businesses such as co-operatives by initiatives such as succession planning and active use of the procurement system.

37.5 There is no option to rebuild the economy as it was before. Islington will maintain its pioneering approach amongst councils, drawing upon the wealth of new thinking to focus on environmental sustainability, reducing inequalities, improving individual and social wellbeing and applying Community Wealth Building to ensure our local economy is resilient and fit for the future

37.6 In terms of the Council's financial position, the Committee considered the draft budget proposals at its meeting on 20 January 2022. This shows clearly the effect that Covid, and 10 years of austerity measures imposed by central government has had on Local Government and Islington in particular. This has had the effect of reducing the Council's core funding by £275m over the past 10 years, and the Covid pandemic has exacerbated this, despite promises by the Government the full costs of Covid have not been reimbursed.

37.7 The impact of inflation, which is expected to rise to 6%-7% in 2022, will also have an impact on the Council's budget, as this rise in inflation has not been adequately reflected in the Government's settlement.

37.8 The Fair Funding review and business rate retention reset will also have an impact on the ability of the Council to maintain services to its residents in the future.

37.9 Our recommendations are aimed at mitigating the effects on residents, however the committee are of the view that the Government should ensure that Local Authorities are funded fully and fairly to be able to maintain services to residents.

MEMBERSHIP OF THE POLICY AND PERFORMANCE SCRUTINY COMMITTEE – 2021/22

Councillors:
Councillor Theresa Debono (Chair)
Councillor Troy Gallagher (Vice-Chair)
Councillor Sheila Chapman
Councillor Jilani Chowdhury
Councillor Tricia Clarke
Councillor Osh Gantly
Councillor Gary Heather
Councillor Bashir Ibrahim
Councillor Clare Jeapes
Councillor Roulin Khondoker
Councillor Matt Nathan
Councillor Michael O'Sullivan
Councillor Caroline Russell
Councillor Rakhia Ismail
Councillor Nick Wayne
Councillor Santiago Bell-Bradford

Substitutes:
Councillor Valerie Bossman-Quarshie
Councillor Sara Hyde
Councillor Jason Jackson
Councillor Anjna Khurana
Councillor Toby North
Councillor David Poyser
Councillor Angelo Weekes
Councillor John Woolf

Acknowledgements:
The Committee would like to thank all the witnesses who gave evidence to the review.

Stephen Biggs/Caroline Wilson – L.B. Islington Community Wealth Building
Paul Clarke – Director of Finance
Polly Robbins – Director Outlandish Workspace
Thomas Foster – Grant Thornton External Auditors
Hak Hussein – Archway Town Centre
Maxine Holdsworth/Matt West – LBI Housing

Officer Support:
David Hodginkson – Director
Peter Moore – Democratic Services
Paul Clarke – Director of Finance
Stephen Biggs – Director Community Wellbeing

Appendix A

SCRUTINY REVIEW INITIATION DOCUMENT (SID)
Review: Covid Impact Review
Scrutiny Review Committee: Policy and Performance Scrutiny Committee
Director leading the review: Dave Hodgkinson, Stephen Biggs, Maxine Holdsworth
Lead Officers: Caroline Wilson, Robbie Rainbird, Paul Clarke, Jo Murphy, Matt West
Overall aim: To consider the effect of the pandemic on employment, business and the local economy, on Council BAU service delivery, and on the Council's finances
Objectives of the review: • To consider the impact on employment and businesses in the borough and what measures have been put in place to mitigate this • To analyse the measures that are in place going forward to ensure residents and businesses are in the best position possible to recover from the pandemic and to maximise employment opportunities • To consider how lessons learned in front line services can best support residents going forward • To analyse the effect that the pandemic has had on the Council's financial position
How the review is to be carried out <u>Scope of the review</u> The review will focus on 3 areas – Employment, Business and Economy Service case study Council financial position **Employment, Business and Economy** Scope of the review Impact of Covid on employment rates across the borough including furlough Support provided to residents who have become unemployed, or have experienced reduced income, or have had to self-isolate (missing work) Impact on businesses and key local economic sectors Support provided to businesses Recovery planning: building back better Types of evidence Documentary evidence and survey data Witnesses: Caroline Wilson, Robbie Rainbird, Cllr Asima Shaikh, Expert witness on recovery plan, businesses

Case study – lessons learned from the pandemic

Housing plays a key role in supporting the health, safety and prosperity of our residents. During the pandemic there were a wide range of impacts upon the service. Housing will provide a case study to explore:

- How we adapted services on estates
- Trends in service demand, how we modified services, what we learned
- Adapting repairs service and bringing back normal service
- Working with contractors
- Providing access to services for homeless households

Types of evidence
Documentary evidence
Witnesses: Billy Wells, Maxine Holdsworth, Matt West, homelessness charity, residents including tenants,TRA's, leaseholders,

Council Financial Position

Scope of the Review

Rather than a one off event for the Council budget recovery from COVID 19 it will have an ongoing impact on the Council budget for the foreseeable future. This has the potential to come in the form of:

Increased pressure due to demand from residents (e.g. housing/social care)
Reduced fees and Charges – e.g. parking and leisure
Structural changes to the tax raising capability of the Council
Increased levels of uncollected debt
Fiscal and monetary policy as a result of the national debt burden
The extent to which these pressures come to bear on the Council budget remains uncertain and will depend on the way in which the pandemic impacts on LBI residents

Types of evidence:

Documentary evidence – Financial monitoring information to be presented throughout the year, the annual budget papers and additional information to consider financial planning for future years and the impact of the pandemic
Witness evidence – David Hodgkinson, Paul Clarke, Councillor Satnam Gill

Timetable for Review

29 July
Approval of SID
Revenue Outturn 2020/21

08 September
Initial presentation and overview across all three themes

07 October:

Further analysis and evidence of impacts on Employment, Business and the local Economy and the Council's finances and associated mitigations
Case study – lessons learned from the pandemic in the housing service

04 November:
Draft recommendations & clarifications

02 December
Final report

Note: it is anticipated that findings and recommendations from the Finance work stream will be incorporated into the council's annual budget setting process which will be presented to the Committee in full in the usual way

Additional Information:

In carrying out the review the committee will consider equalities implications and resident impacts identified by witnesses. The Executive is required to have due regard to these, and any other relevant implications, when responding to the review recommendations.