

Report of: Executive Member for Finance, Planning and Performance

Meeting of: Executive

Dates: 11 January 2024

Ward(s): All

The Policy and Performance Scrutiny Committee is invited to review the draft budget proposals as submitted to the Executive.

Draft Budget Proposals 2024/25 and Medium-Term Financial Strategy (Post-Settlement)

1. Synopsis

- 1.1. The principal purpose of this report is for the Executive to agree draft proposals in respect of the council's 2024/25 budget, the estimated level of council tax and the latest assumed medium-term financial position.
- 1.2. The budget setting process for the 2024/25 financial year has been particularly challenging due to the national cost-of-living and energy crisis, and the ongoing economic and political uncertainty. The long-term economic impact of COVID-19 and global conflicts, have contributed towards the current cost-of-living crisis with inflation, as measured by the Consumer Prices Index (CPI), high throughout 2023 and only recently falling, with the latest figure 3.9% in November 2023.
- 1.3. The cost-of-living crisis is still having a significant impact on Islington residents and businesses, and the council. High, prevailing inflation has resulted in significant budget pressures in respect of energy and fuel costs, pay inflation and significant levels of contract inflation for key service areas.
- 1.4. Very high demand pressures have been evident in the 2023/24 budget monitoring reports, including significant demographic pressures within key services such as Adult Social Care and Children's Services. These pressures are anticipated to continue into the 2024/25 financial year and to grow further over the medium term.
- 1.5. The scale of the current demographic pressures are unprecedented over recent times, and when added to the huge challenge of persistently high inflation, the result is council financial health that is very delicately positioned. Local government finance settlements, although slightly improved in recent years, are still not keeping pace with inflation and do nothing to address the historic under funding of the local government sector since the austerity budgets commenced in 2010.
- 1.6. The 2024/25 and medium-term budget setting process started with a very significant funding gap to close. To set a balanced budget in 2024/25, the council is proposing savings of £10.820m in 2024/25. A further £7.061m of savings are planned over 2025/26 to 2026/27 towards the medium-term gap. The underlying, structural financial position is extremely challenging, exacerbated by the in-year financial position in 2023/24, with a gross General Fund (GF) overspend at Quarter 2 (Q2) of £17.729m. The estimate of the net budget gap for 2025/26 is approximately £34m at this stage in the medium-term planning cycle and around £25m for 2026/27. Over a 5-year financial planning cycle, the level of the budget gap stretches to over £100m. If there is not a significant increase in

local government funding settlements, other revenue sources or a reduction in assumed budget pressures, then the savings requirement in 2025/26 alone will be over three-times the level of GF savings being proposed for 2024/25 in this budget report. This will require very difficult decisions as regards expenditure in order for the council to maintain a sustainable and robust financial position going forward.

- 1.7. Despite the very challenging financial position, the Council continues to protect and enhance the vital council services that residents rely on. The 2024/25 budget enables the delivery of the principles and priorities set out in the council's Strategic Plan – [Islington Together 2030](#). Budget proposals include growth to support manifesto commitments and continued transformation funding to put strategic principles into practice.
- 1.8. The current council tax assumption in the 2024/25 budget report is for an increase of core council tax by the maximum amount (2.99%) and a further 2% Adult Social Care (ASC) precept. The assumptions were confirmed in the Provisional Local Government Finance Settlement (the 'settlement') on 18 December 2023. For the average (Band D) property, the proposed 4.99% increase in the basic 2024/25 Islington council tax (excluding the GLA precept) equates to an increase of around £1.32 per week for full council taxpayers.
- 1.9. The Mayor of London is due to publish the draft GLA consolidated budget, capital spending plan and provisional council tax precept for 2024/25 on 17 January 2024, following a budget consultation period.
- 1.10. The Policy and Performance Scrutiny Committee will review the budget proposals on 18 January 2024 and its comments will be considered in finalising the budget proposals and proposed level of council tax for recommendation by the Executive on 8 February 2024 and agreement by Full Council on 29 February 2024.
- 1.11. The Council is inviting comments from residents and business rates payers (and representatives) in Islington on the draft 2024/25 budget proposals set out in this report. The consultation period runs for 21 days from 4 January 2024 to 24 January 2024. Any comments received will be considered by the council before the final budget proposals for consideration by the Executive on 8 February 2024 and Full Council on 29 February 2024.
- 1.12. The contents of the report are summarised below:
 - **Section 2** sets out the recommendations.
 - **Section 3** summarises the assumptions within the GF Medium-Term Financial Strategy (MTFS) and sets out the 2024/25 net revenue budget, fees and charges.
 - **Section 4** sets out the reserves and balance sheet strategy, reserves analysis including key risks and mitigations, and the CIPFA Financial Management (FM) Code assessment.
 - **Section 5** covers the Housing Revenue Account (HRA) and includes HRA savings, rents, service charges and other fees and charges.
 - **Section 6** summarises the 2024/25 to 2026/27 capital programme and funding, and the latest indicative programme up until 2032/33. In the final version of the budget report, which goes to the Executive on 8 February 2024 and Full Council on 29 February 2024, the Capital Strategy, Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy Statement and Investment Strategy will also be included here.

- **Section 7** provides an overview of work the council is doing in respect of climate action and its Greener, Healthier Islington Mission.
- **Section 8** will include the detailed, statutory council tax calculations and any matters relating to retained business rates in the final version of the budget report which goes to the Executive on 8 February 2024 and Full Council on 29 February 2024.
- **Section 9** details the matters to formally consider in setting the final budget, namely the comments of the Section 151 Officer and the Monitoring Officer, a cumulative Equality Impact Assessment (EQIA) of the budget proposals and budget consultation requirements.

2. Recommendations

The General Fund Budget 2024/25 and MTFS (Section 3)

- 2.1. To agree and recommend to Full Council the latest assumed MTFS and 2024/25 budget, including the underlying MTFS principles, in-year monitoring position (to date) and the budget assumptions. **(Paragraphs 3.7-3.8, Table 1, and Appendix A)**
- 2.2. To agree and recommend to Full Council the proposed 2024/25 net budgets by directorate. **(Paragraph 3.9, Table 2, and Appendix A)**
- 2.3. To agree the annual budget for the London Councils Grants Committee and proposed Islington contribution, following consideration by the London Councils Leaders' Committee on 12 December 2023, and to note that this will be reported (for noting purposes) to the Voluntary and Community Sector (VCS) Committee on 30 January 2023. **(Paragraph 3.26)**
- 2.4. To agree and recommend to Full Council the 2024/25 savings and note that individual savings may be subject to individual consultation before they can be implemented. **(Paragraphs 3.28-3.31, Table 4, and Appendix B)**
- 2.5. To note the funding assumptions following the announcement of the Provisional Local Government Settlement on 18 December 2023. **(Paragraphs 3.37-3.48)**
- 2.6. To note that the fees and charges policy and the GF fees and charges from 1 January 2024 are as agreed by Executive on 30 November 2023. **(Paragraph 3.59)**
- 2.7. To agree that a green garden waste chargeable service is introduced from 1 April 2024. **(Paragraph 3.61)**
- 2.8. To agree and recommend to Full Council that the Section 151 Officer is delegated responsibility for any technical adjustments required for the 2024/25 budget (in line with the council's Financial Regulations).
- 2.9. To agree and recommend to Full Council that centrally held demographic growth be allocated to service budgets in-year once a more evidenced assessment is available and has been approved by the Section 151 Officer. **(Paragraph 3.19)**

Reserves and Balance Sheet Strategy & CIPFA Financial Management Code Assessment (Section 4)

- 2.10. To agree and recommend to Full Council the Reserves and Balance Sheet Strategy, including proposed minimum reserves levels, and agree the movements to/from earmarked reserves assumed as part of the 2024/25 revenue budget. (**Paragraphs 4.1-4.14 and Table 8**)
- 2.11. To note the assessment of compliance against the CIPFA Financial Management Code and that this will be re-visited annually as part of the budget process, with any actions or recommendations implemented on an ongoing basis. (**Paragraphs 4.15-4.17 and Appendix E1**)
- 2.12. To note the balance sheet analysis, which provides a snapshot of the council's financial position detailing assets, liabilities, and reserves, and aids understanding of the underlying financial position of the council. (**Paragraphs 4.18-4.20 and Appendix E2**)

The HRA Budget and MTFs (Section 5)

- 2.13. To agree and recommend to Full Council, the balanced HRA 2024/25 budget and note the latest estimates over the 3-year MTFs period. (**Paragraphs 5.1-5.9, Table 9, and Appendix D1**)
- 2.14. To agree the HRA rents and other HRA fees and charges for 2024/25. (**Paragraphs 5.10-5.44, Tables 11-13, and Appendix D2**)
- 2.15. To agree and recommend to Full Council the 2024/25 savings and note that individual savings may be subject to individual consultation before they can be implemented. (**Table 9, and Appendix D3**)
- 2.16. To note that the HRA 30-year business plan is currently being updated to reflect latest government policy (**Paragraph 5.2**)
- 2.17. To agree to delegate authority to the Corporate Director of Homes & Neighbourhoods in consultation with the Executive member for Housing and the Corporate Director of Resources to amend the heating and hot water charges, in year, between budget setting cycles.

Capital Investment and Treasury and Investment Management (Section 6)

- 2.18. To agree and recommend to Full Council, the proposed 2024/25 to 2026/27 capital programme and latest indicative capital programme for 2027/28 to 2033/34. (**Paragraphs 6.1-6.4, Tables 14-15, and Appendix F**)
- 2.19. To agree and recommend to Full Council the funding of the 2024/25 to 2033/34 capital programme and to delegate authority to the Section 151 Officer, where necessary, to apply capital resources to fund the capital programme in the most cost-effective way for the council. (**Paragraphs 6.5-6.7 and Table 16**)
- 2.20. To note that the final version of the budget report to the Executive on 8 February 2024 and to Full Council on 29 February 2024 will include the Capital Strategy, Minimum Revenue Provision (MRP) Policy Statement, Treasury Management Strategy, and Investment Strategy. (**Paragraph 6.2**)

Council Tax and Retained Business Rates (Section 8)

- 2.21. To note that the detailed, statutory council tax calculation and the recommendations for the final 2024/25 council tax, including the GLA precept, will be included for agreement in

the final budget report to the Executive on 8 February 2024, and Full Council on 29 February 2024. (**Paragraph 8.1-8.3**)

- 2.22. To agree that authority be delegated to the Section 151 Officer to finalise the council's 2024/25 NNDR1 (detailed business rates) estimate ahead of the 31 January 2024 statutory deadline. (**Paragraphs 8.4-8.5**)

Matter to Consider in Setting the Budget (Section 9)

- 2.23. To have regard to the Section 151 Officer's report on the robustness of the estimates included in the budget and the adequacy of the proposed financial reserves when making decisions about the budget and the level of council tax, as required under Section 25(2) of the Local Government Act 2003. (**Paragraphs 9.1-9.9**)
- 2.24. To note the Monitoring Officer comments. (**Paragraphs 9.10-9.15**)
- 2.25. To note the Equality Impact Assessment (**Paragraphs 9.22-9.24** and **Appendix G**) and to take fully account of it in approving the overall budget and related proposals.
- 2.26. To note that the council is inviting residents and business rate payers (or representatives of business rate payers) in Islington to comment on the draft 2024/25 budget proposals in this report, as required under Section 65 of the Local Government Finance Act 1992. (**Paragraphs 9.25-9.27**)
- 2.27. To agree and recommend to Full Council the Retail Relief Scheme for 2024/25 (**Appendix H** and **Paragraph 9.28**)

3. General Fund MTFs and 2024/25 Revenue Budget

The Budget and Islington Together 2030 Plan

- 3.1. In the 2030 Plan, Islington Together, the ambition was set to create a more equal Islington where everyone is able to thrive. The council has set five missions to create a more equal future for Islington in 2030. These are:
- Child-friendly Islington
 - Fairer Together
 - A Safe Place to Call Home
 - Community Wealth Building
 - Greener, Healthier Islington
- 3.2. Islington is a unique borough with specific demographic requirements:
- Islington is the most densely populated local authority area in England and Wales.
 - There has been a population increase of approximately 19% since 2011.
 - Socially rented properties make up 35% of the borough.
 - The pattern of deprivation differs to other London boroughs with affluent areas being immediately next to deprived areas.
- 3.3. To deliver on these missions, we are committed to put communities at the heart of everything we do. This includes how we manage and spend our finances.

- 3.4. The council's funding will drive these five missions, with new investment already in place to ensure we achieve our objectives. Budgets will be set with a strong focus on mission delivery. Examples of this include:
- A safe place to call home: Continuing to deliver new genuinely affordable homes as part of the council's commitment to build 750 new council homes by 2027.
 - Greener, healthier borough: Continued investment of more than £10m for School Streets and Liveable Neighbourhoods to reduce air pollution, and make it easier to walk, cycle and scoot. This includes work on Liveable Neighbourhoods for Mildmay, The Cally, Barnsbury and Laycock, Bunhill and Dartmouth Park, and school streets across Islington including secondary schools. Almost £6m investment in electric vehicles for council services, and £1.8m to create more electric charging points.
 - A fairer local economy: Continuing to support thousands of residents into work by protecting investment in our pioneering iWork services and investing in affordable workspaces.
 - Child-friendly Islington: Protecting an extra £500,000 investment, first begun in 2019, to tackle serious youth violence and opening our third Family Hub.
 - Help and support where and when people need it: Continuing to fund new Access Islington hubs that bring together help and support under one roof and maintain funding support key voluntary sector partners.
- 3.5. The council can put residents at the heart of our work in lots of different ways, including by changing the way we do things. For example [Let's Talk](#) Islington aims to work with communities to fundamentally change the way we work to tackle inequality over the next decade.
- 3.6. In the context of the challenges we face, providing genuine power for residents and local businesses to influence decisions and deliver on key issues impacting their lives can fundamentally change and transform the relationship between state and citizen. It is an essential component to enable us to realise our ambition of a more equal Islington. This includes developing initiatives such as participatory budgeting pilots allowing residents to decide how money is spent in their local area.

Summary of MTFS 2024/25 to 2026/27

- 3.7. The latest assumed budget position for 2024/25 and over the medium term is summarised in **Table 1** and detailed at **Appendix A**, with a balanced budget position in 2024/25. There is a remaining estimated £34m gap in 2025/26 and £25m in 2026/27, as set out below.

Table 1 – Summary Budget Gap 2024/25 to 2026/27

	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Pay and pension inflation	5.695	6.200	6.000	17.895
Non-pay/contract inflation	13.070	6.819	5.146	25.036
Demographic growth	8.866	11.468	12.602	32.936
Base budget adjustments/growth	4.297	0.928	0.286	5.511
Corporate levies/capital financing costs	6.145	6.596	5.527	18.268
Transfer to/(from) reserves movement	(0.991)	4.000	0.000	3.009
Inflation, energy & demand contingency	(5.000)	5.000	0.000	0.000
Government funding	(12.671)	1.240	0.000	(11.431)
Gross Budget Gap	19.411	42.251	29.562	91.224
Proposed savings	(10.820)	(5.457)	(1.604)	(17.881)
Business rates inflation funding	(3.412)	0.000	0.000	(3.412)
Assumed council tax base decrease/(increase)	0.487	(0.570)	(0.584)	(0.666)
Budget Gap (Before Council Tax Increases)	5.667	36.225	27.374	69.265
Assumed Council Tax Increase	(3.396)	(2.385)	(2.445)	(8.226)
Assumed ASC precept increase	(2.272)	0.000	0.000	(2.272)
Remaining Budget Gap to Close	0.000	33.840	24.929	58.768

MTFS Principles

3.8. The proposed 2024/25 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 as a general rule not applying one-off funding to bridge ongoing funding gaps. If one-off funding is used, to ensure that any residual, ongoing budget gap is resolved using ongoing savings over the medium term and that one-off funds are restored.
- 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 rate volatility.
- Not assuming additional funding from central government until it is confirmed and developing exit plans for specific funding streams that are due to come to an end.
- 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.
- Budgeting for sufficient contingency provision 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.

Summary Net Revenue Budget 2024/25

- 3.9. **Table 2** summarises the 2024/25 net revenue budget by directorate (cash-limited budgets). The table is subject to change based on the final settlement and January 2024 Collection Fund Forecast.
- 3.10. A breakdown of the movement between the 2023/24 and 2024/25 budget is shown in **Appendix A**. Movement in the table below is broken down by:
- Inter-Directorate Changes - Representing virements and structural adjustments between council directorates (e.g., due to restructures that transfer responsibilities between directorates). These inter-directorate changes net off to nil across the council.
 - Growth and Base Budget Adjustments – Representing any agreed growth, management actions such as contract efficiencies or new funding allocations as a result of specific grant funding or additional forecast income.
 - Savings – Representing the total of savings proposed as part of the 2024/25 process. A further breakdown can be found at **Table 4**.

Table 2 – Net Revenue Budget 2024/25

	2023/24 Net Budget £m	Inter- Director ate Changes £m	Growth/ Base Budget Adjs. £m	Savings £m	2024/25 Net Budget £m
Adult Social Care	52.232	7.085	1.414	(1.965)	58.767
Chief Executive's Directorate	1.327	(1.284)	0.000	0.000	0.043
Children and Young People	87.594	(2.801)	2.681	(0.577)	86.897
Community Engagement and Wellbeing	8.563	4.918	0.609	(0.764)	13.326
Community Wealth Building	21.312	0.100	(0.115)	(1.513)	19.784
Environment and Climate Change	0.496	(4.200)	5.510	(2.867)	(1.061)
Homes and Neighbourhoods	7.888	4.616	1.317	(0.787)	13.034
Public Health (fully grant funded)	0.000	0.000	0.000	0.000	0.000
Resources	35.146	(1.518)	0.741	(0.150)	34.219
Central Costs	29.944	(6.916)	17.490	(2.197)	38.322
Net Cost of Services	244.502	0.000	29.647	(10.820)	263.329
General Contingency	5.000	0.000	0.000	0.000	5.000
Inflation, Energy and Demand Contingency	5.000	0.000	(5.000)	0.000	0.000
Transfer to/(from) Earmarked Reserves	13.518	0.000	(7.225)	0.000	6.293
Non-Specific Grants	(3.530)	0.000	2.290	0.000	(1.240)
Net Budget Requirement	264.490	0.000	19.712	(10.820)	273.382
Settlement Funding Assessment	(116.967)	0.000	(6.534)	0.000	(123.501)
Business Rates Growth	(24.770)	0.000	(3.412)	0.000	(28.182)
Collection Fund (Surplus)/Deficit	(9.714)	0.000	6.234	0.000	(3.480)
Council Tax Requirement	113.039	0.000	16.001	(10.820)	118.220

Budget Monitoring Position 2023/24 – Q2 Budget Monitoring

- 3.11. The estimated outturn position for the current financial year (2023/24) is reported through the Executive at quarterly intervals throughout the financial year and on to the Policy and Performance Scrutiny Committee. Where there are significant variances to the financial

position, management actions are identified and detailed within the report, with the intention of bringing the anticipated year-end position back to target. Any ongoing impact on budgets beyond the current financial year, that would remain even after management actions have been implemented, is considered within the budget planning process for the forthcoming financial year and over the medium term. Where such ongoing variances are identified late in the budget process, then there can be a knock-on impact to future financial year budget gaps if the pressures are not fully closed by ongoing savings.

- 3.12. High inflation and low economic growth have created a very uncertain backdrop to the 2023/24 financial year. When combined with significant demand pressures within services and the ongoing effect of 13 years of central government under-funding of council services, the 2023/24 financial position presents a challenge to keep in balance even after using available inflation energy and demand and general contingencies as at the Q2 2023/24 financial position reported to the Executive on 30 November 2023.
- 3.13. The Q2 2023/24 financial position estimates significant, adverse outturn variances in the three main spending directorates of Adult Social Care (£4.911m), Children and Young People (£2.480m), and Environment and Climate Change (£9.084m). In total at Q2 the financial position shows a £17.729m gross GF overspend. This is partly mitigated by applying the inflation, energy and demand, and general contingencies. It is possible that there will be a further erosion of earmarked reserves at year end as a result of the estimated outturn GF overspend. This follows a £37m reduction in earmarked reserves in the 2022/23 financial year. A significant proportion of the 2023/24 GF overspend has been factored into the ongoing GF budget in 2024/25 and over the medium term. This is reflected in the MTFs at **Appendix A** and the significant budget gaps presented in this budget report for the financial years 2025/26 (£34m) and 2026/27 (£25m).
- 3.14. Maintaining sufficient earmarked reserves and contingencies for future budgetary pressures and risks is a key component of a council's overall financial resilience. Earmarked reserves can only be used once. They cannot sustainably be used to fund recurrent expenditure. Persistent and significant in-year overspends are very damaging to the council's ongoing financial health and when coupled with significant budget gaps over the medium term bring into question financial sustainability over a medium to longer term forecast period if not addressed.
- 3.15. Taking forward the strategic implications of the in-year budget monitoring position into the medium-term budget planning process is a crucial aspect of the overall budget monitoring process. This can take the form of:
 - Ensuring that ongoing budget implications of in-year gross and net expenditure are fully reflected in base budgets, informing future budget processes.
 - Reviewing base savings proposals for deliverability in-year and over the medium term and assessing overall savings requirements for future budget processes as far in advance of the next budget setting cycle as possible.
 - Working up new savings proposals in the context of financial and performance monitoring data analysed within the in-year budget monitoring process.
 - Reviewing reserve positions in light of any drawdown in-year to ensure that there are sufficient reserves to provide financial resilience going forward, and measures to replenish earmarked reserves and contingency budgets over the medium term.

Key Revenue Budget Cost Pressures

- 3.16. The MTFSS assumes a 3% pay award in 2024/25 (and budget provision for the final 2023/24 pay settlement) and 3% over the remainder of the medium term.
- 3.17. The MTFSS provides for contract and non-pay inflation that cannot be managed within existing budgets. Where it is possible to do so, management actions are taken to reduce contract inflation additions to the budget. This includes:
- Adults Social Care Pay Contracts – The council contracts staff to provide social care provision across the borough and is required to pay National and London Living Wages as part of these contracts. This is set by Living Wage foundation annually and the council bears the additional cost.
 - Temporary Accommodation (TA) and No-Recourse to Public Funds (NRPF) – The combination of high inflation on private sector rents and energy bills impacts the Council's expenditure on TA and NRPF. Attempts are made to control this through representation in the London council Inter-Borough Temporary Accommodation agreement.
 - Parking NSL Staffing Contract – Inflationary growth is required to meet pressures existing from 2023/24 and forecast in 2024/25 as a result of high-CPI levels, London Living Wage announcement and Cost-of-Living pay claims contributions.
 - Children Looked After Placements – Inflationary growth for Residential and Independent Fostering Agency Placements. There is a programme of management actions in place to reduce placement cost pressures.
- 3.18. A further, significant cost pressure for the council is the increasing quantum and complexity of demand for council services. Based on latest estimates, the MTFSS assumes demographic budget growth of £11m in 2024/25 and on average £12m per annum over the remainder of the medium term. This is the net growth requirement after planned management actions to mitigate cost increases. There is considerable uncertainty around these estimates, in particular due to the unknown lasting impact of the pandemic on demand.
- 3.19. It is recommended that demographic growth, as in previous financial years, is held centrally and allocated to service budgets in-year once a more evidenced assessment is available and has been approved by the Section 151 Officer.
- 3.20. 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.
 - Significant backlogs and longer waits in the NHS have exacerbated demand.
- 3.21. The demographic growth for Adult Social Services is split into the following client groups:
- Mental Health Service Users
 - Learning Disability Service Users
 - Memory, Cognition and Physical Support Service Users

3.22. The demographic growth for Children’s Services relates to the following service areas:

- Children Looked After (Under 18/18+)
- SEND Transport
- Short Breaks and Personal Budgets

Levies

3.23. The council is required to pay levies to various external organisations, estimated to total £21m in 2024/25. The most significant levies are the council’s contribution to Transport for London (TfL) for the cost of concessionary fares (London Freedom Pass) and the North London Waste Authority (NLWA) levy towards the disposal of household waste in partnership with six other north London boroughs.

3.24. The estimated levies for 2024/25 are shown in **Table 3**.

Table 3 – Levies 2024/25

	2023/24 Budget £m	2024/25 Estimate £m	Increase/ (Decrease) £m
Concessionary Fares	8.341	10.475	2.134
NLWA Household Levy	5.497	8.305	2.808
Inner North London Coroner's Court	0.510	0.520	0.010
London Pensions Fund Authority (LPFA)	0.493	0.493	0.000
Traffic and Control Liaison Committee	0.296	0.243	(0.053)
Lee Valley Regional Park Authority	0.208	0.212	0.004
Environment Agency (Thames Region)	0.194	0.198	0.004
London Boroughs Grants Scheme	0.184	0.164	(0.020)
Total Levies	15.723	20.611	4.888

3.25. Islington’s two largest levies are forecast to increase by 36% in 2024/25. The NLWA is reporting increased charges relating to operating costs and interest charge increases. Costs are forecast to increase over the medium term but likely to remain moderate compared to other waste authorities.

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

3.27. The London Councils Grant Committee report was considered by the London Councils Leaders’ Committee on 12 December 2023 and will be reported to the VCS Committee on 30 January 2024 for information. The report proposes an overall level of expenditure in 2024/25 of £6.732 million, which requires borough contributions of £6.668m, the same level of contribution as for 2023/24, and a transfer from the Premises Transition Reserve of £64,000. Two-thirds of boroughs need to agree the grants budget by the third Friday in January. Islington’s contribution in 2024/25 will be £164,317 compared to £183,779 in 2023/24, a reduction of £19,462.

Revenue Savings

3.28. The 2024/25 revenue budget assumes the delivery of savings totalling £17.881m in 2024/25 (**Appendix B**). This is summarised by directorate in **Table 4**.

Table 4 – General Fund Budget Savings Proposals by Directorate

Directorate	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Adult Social Care	1.965	1.601	-	3.566
Children & Young People	0.577	0.212	0.165	0.954
Cross-Cutting	2.197	1.112	1.358	4.667
Community Wealth Building	1.498	0.469	-	1.967
Community Engagement & Wellbeing	0.764	0.504	-	1.268
Environment & Climate Change	3.112	0.588	0.081	3.781
Homes and Neighbourhoods	0.557	0.511	-	1.068
Public Health	-	0.060	-	0.060
Resources	0.150	0.400	-	0.550
Total	10.820	5.457	1.604	17.881

3.29. It should be noted that some savings may be subject to individual consultation before they can be implemented. In the event that any savings do not proceed as planned following consultation, any in-year pressure would need to be funded from the corporate contingency budget and the ongoing implications considered as part of the next budget process.

3.30. The identification and delivery of savings gets more challenging every year. This is particularly the case for cross-cutting savings. In order to enhance delivery of cross cutting savings in the 2024/25 budget it is imperative that all cross-cutting savings are applied to directorate cash limited budgets at the earliest opportunity post budget setting and in advance of the 2024/25 financial year.

3.31. Updates on the delivery of the 2024/25 budget savings will be provided as part of the budget monitoring process, reported up through the Executive and scrutinised by the Policy and Performance Committee.

Economic Forecasts

3.32. The Chancellor of the Exchequer announced the Autumn Statement ('the Statement') on 22 November 2023. The Office for Budget Responsibility's (OBR) economic forecasts were published alongside the Statement.

3.33. Looking further ahead over the medium term, prospects for local government finance settlements look very bleak with expected real-terms funding cuts for unprotected departmental spending, including most of local government. This could equate to cash flat local government funding settlements, or even cash cuts given that inflation is estimated to fall over the government's forecast period. Islington's core spending power has been cut by 45% since 2010 and is highly likely to be cut further. The Resolution Foundation has estimated that unprotected departments' core spending power is set to be cut by 16% between 2022/23 and 2027/28.

3.34. The negative local government funding outlook is reinforced by the Chancellor setting out his aim in the Statement that growth in public sector spending should be lower than the growth in the wider economy (in theory to indicate an improvement in public sector productivity) over the forecast period.

- 3.35. Living standards, as measured by real household disposable income (RHDI) per person, are forecast to be 3.5% lower in 2024/25 than their pre-pandemic level and are not forecast to recover to the pre-pandemic level until 2027/28. This represents the largest reduction in real living standards since Office for National Statistics began in the 1950s.
- 3.36. The fiscal forecasts by 2027/28 improved by £27bn since the Spring Budget in March 2023 due to higher tax receipts offset by higher interest rates and inflation. However, the Autumn Statement spends nearly all of this net fiscal improvement on a 2% cut in employee National Insurance Contributions (NICs), permanent corporation tax write-offs for business investment, and welfare and health reforms aimed at boosting employment.

Funding Announcements (Provisional Local Government Finance Settlement)

- 3.37. The settlement for 2024/25 was announced on 18 December 2023. The final settlement is due to be announced in early February 2024.
- 3.38. The settlement was broadly in line with expectations following the Autumn Statement 2023 announcement in November, except for the scale of the cut to the Services Grant (£2.9m). The Services Grant is an unringfenced (general) grant first introduced in the 2022/23 settlement, cut in 2023/24 and now being further cut in 2024/25. This will further reduce the council's capacity in the 2024/25 budget to absorb additional budget pressures or risks and makes a further call on reserves over the next financial year more likely. The £2.9m cut is partially offset by small favourable movements in other grants in the settlement totalling £0.8m and an estimated £1.1m favourable movement in 2023/24 pay award estimates compared to previous budget assumptions.
- 3.39. This settlement is for one-year only, representing the final year of the current spending review period. The next spending review announcement is expected in Autumn 2024 which will set out government spending forecasts for the financial planning period from 2025/26. It is conceivable however that the next spending review and the 2025/26 settlement could subsequently be amended by the outcome of the next General Election.
- 3.40. Based on the government's methodology, Islington's Core Spending Power (CSP) will increase by 6.54% in 2024/25, broadly in line with the England average. CSP is the government's measure of a local authority's resources available to fund service delivery. It mainly consists of income from retained business rates, grants, and council tax (assuming that council tax is increased by the maximum allowed without a referendum).
- 3.41. In calculating Islington's CSP the government has applied the council's average annual growth in taxbase between 2019/20 and 2023/24 to project growth in taxbase for 2024/25. However, based on local knowledge, Islington's taxbase is currently estimated to fall by 0.39% in 2024/25. This means that the government is over-estimating Islington's council tax raising ability in 2024/25 by approximately £1.4m.
- 3.42. Islington's Settlement Funding Assessment (SFA) is made up of a Baseline Funding Level under the partial (30%) business rates retention system (comprising a business rates baseline amount and a 'top-up' grant) and Revenue Support Grant. This is summarised in **Table 5** below.
- 3.43. The increase in SFA announced in the 2024/25 settlement does not fully keep pace with the inflationary pressures underpinning the 2024/25 budget and headline increase in CSP, and so represents a real-terms funding cut. Furthermore, it does not address the historical funding shortfalls since 2010 whereby Islington's spending power decreased by 45% in real terms between 2010/11 and 2023/24.

Table 5 – Settlement Funding Assessment

	2023/24 £m	2024/25 £m	Change £m	Change %
Business Rates Baseline	79.160	82.453	3.290	4.16%
Top-Up Grant	9.284	10.355	1.070	11.54%
Baseline Funding Level	88.444	92.808	4.364	4.93%
Revenue Support Grant	28.523	30.412	1.890	6.62%
Settlement Funding Assessment	116.967	123.220	6.253	5.35%

- 3.44. Islington does not benefit from the government’s minimum funding guarantee because the council’s CSP increase is already higher than 3%.
- 3.45. Previous announcements of additional social care grant funding in 2024/25 were confirmed at authority level, as shown in **Table 6** below. This includes £80m nationally that was diverted to the Social Care Grant from elsewhere in the settlement.

Table 6 – Social Care Funding (Ringfenced)

	2023/24 £m	2024/25 £m	Change £m
Improved Better Care Fund	14.501	14.501	-
Social Care Grant	23.690	28.147	4.457
Adult Social Care Discharge Fund	2.033	3.388	1.355
Market Sustainability and Improvement Fund	4.967	5.626	0.659
Total Social Care Funding	45.191	51.662	6.472

- 3.46. The Services Grant is an unringfenced (general) grant first introduced in the 2022/23 settlement, cut in 2023/24 and now being further cut in 2024/25. The Services Grant will be cut nationally from £483m in 2023/24 to £77m in 2024/25 to fund other parts of the settlement. For Islington, this equates to a £2.905m funding cut on the 2023/24 allocation of £3.448m. Whilst a cut in this grant was anticipated after the Autumn Statement, the cut is significantly higher than expected. The government intends to hold back a proportion of the Services Grant as contingency to cover any unexpected movement, such as adjustments to New Homes Bonus allocations.
- 3.47. The settlement confirmed that the New Homes Bonus grant will continue for an additional year. Islington’s allocation, based on housing growth in the borough over the past year, is £0.697m (£0.615m higher than the 2023/24 allocation of £0.082m).
- 3.48. Service specific grants outside of the settlement such as the Public Health and Homelessness Prevention have not yet been confirmed but are currently expected to be in line with forecasts.

Dedicated Schools Grant (DSG) Funding and Schools Balances

- 3.49. The following analysis is based on funding announcements from the Department for Education (DfE) following the settlement.
- 3.50. The table below shows a summary of the DSG funding by various blocks. The total DSG funding for 2024/25 of £177.748m is an increase of £12.304m (7.4%) as compared to the 2023/24 position.

Table 7 – DSG Funding by Block

Blocks	2024/25 (£m)	2023/24 (£m)	Variance (£m)	%
Schools	107.626	102.643	4.983	4.9%
Central	1.319	1.379	-0.060	-4.3%
High Needs	43.902	42.429	1.473	3.5%
Early Years	24.900	18.992	5.909	31.1%
Total	177.748	165.443	12.304	7.44%

- 3.51. An increase of per-pupil funding for primary and secondary schools is being provided for in the Schools Block in 2024/25 of 5.5% and 5.8% respectively when compared to the 2023/24 funding rates. This is expected to be equivalent to an increase in funding of £4.983m (4.9%) after allowing for the 2.2% reduction in pupil numbers from October 2022 to October 2023. Had pupil numbers not reduced, then a further £2.533m in funding would have been received for schools. The School's Block is the main source of funding for mainstream schools, over 96% of which is based on pupil numbers.
- 3.52. There will be a further reduction in the historic duties' element of Central Schools Services Block funding for Council services provided to mainstream schools of £0.067m (20%) in 2024/25. This follows a 20% reduction in each of the last four years, in line with the DfE's plans to phase out this funding for local authorities by 2026/27. Funding for ongoing duties is increasing by £0.008m (0.7%). The net reduction in funding is £0.059m (4.3%).
- 3.53. There is a year-on-year increase of £1.473m (3.5%) in the High Needs Block after recouplement following the provision of additional funding for high needs nationally. The High Needs Block provides funding for special schools, funding for children and young people with Special Educational Needs and Disabilities in other settings, and related local authority services. Demand for education health and care plans is increasing by an average of 8% per annum, therefore funding is not keeping pace with demand.
- 3.54. Early Years Block funding is provided for the statutory entitlements to early education and childcare. Funding is has increased by £5.909m (31.1%) in 2024/25. This is an initial position based on the January 2023 headcount. It will be updated by the DfE for the January 2024 headcount when they become available and will form part of the June / July DSG updated allocations from the DfE. The hourly funding provided to local authorities for 2-year-olds provision has increased by 47.1%, while the 3- and 4-year-old rate has increased by 1.0%. There will be further growth in the provisional settlement for the new entitlements for free early education and childcare that come in from April and September 2024.
- 3.55. A recent survey by London Councils that was responded to by 31 boroughs (including Islington) showed forecast accumulated surplus / deficits as a percentage of their DSG allocation range from -17% to +5% in 2023/24 (Islington +2.3%). The London average stood at -3%. Islington is forecast to enter into an accumulated DSG deficit in 2025/26 across all spending blocks due to High Needs funding allocations from the DfE not keeping pace with demand and falling pupil numbers. This is being addressed through the Council's SEND strategy.
- 3.56. Schools Balances are forecast to enter a net accumulated deficit overall in 2024/25 based on current spending plans from schools due to falling pupil numbers and increasing cost

pressures. 23% of maintained schools in London are forecast to be in deficit by the end of 2023/24, just below the forecast percentage in Islington of 25%.

- 3.57. A school organisation plan is being put in place to reduce surplus capacity in schools and bring schools back onto a more sustainable financial footing. The first two phases of this plan have been agreed by the Executive that will reduce the forecast deficit, but further significant actions are required to eliminate the forecast deficit and bring balances back into surplus overall.

Fees and Charges

- 3.58. 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 suite of papers, including the fees and charges report. The fees and charges policy considers the current level of inflation in the economy as well as the level of inflation expected to prevail over the forthcoming financial year.
- 3.59. It was agreed by Executive on 30 November 2023 that all discretionary fees and charges be increased by an average 6.7% (based on CPI) from 1 January 2024, unless a variation was otherwise stated.
- 3.60. Any increase in fees and charges income that has not already been included separately as part of the budget savings proposals is fully factored into the overall budget planning assumptions for the relevant services to cover corresponding inflation in costs incurred by the council.
- 3.61. It is recommended to agree that a chargeable green garden waste fortnightly recycling service is introduced from 1 April 2024. The current free green garden waste weekly recycling service would no longer be offered to residents after 31 March 2024. A separate green garden waste collection schedule will be implemented to collect from subscribed customers. The weekly charge would be set at an initial charge equivalent to £1.44 per week, or £2.88 per collection, payable as an annual fee.
- 3.62. HRA fees and charges are considered in the **Section 5** of this report.

4. Reserves and Balance Sheet Strategy & CIPFA Financial Management Code Assessment

Reserves and Balance Sheet Strategy

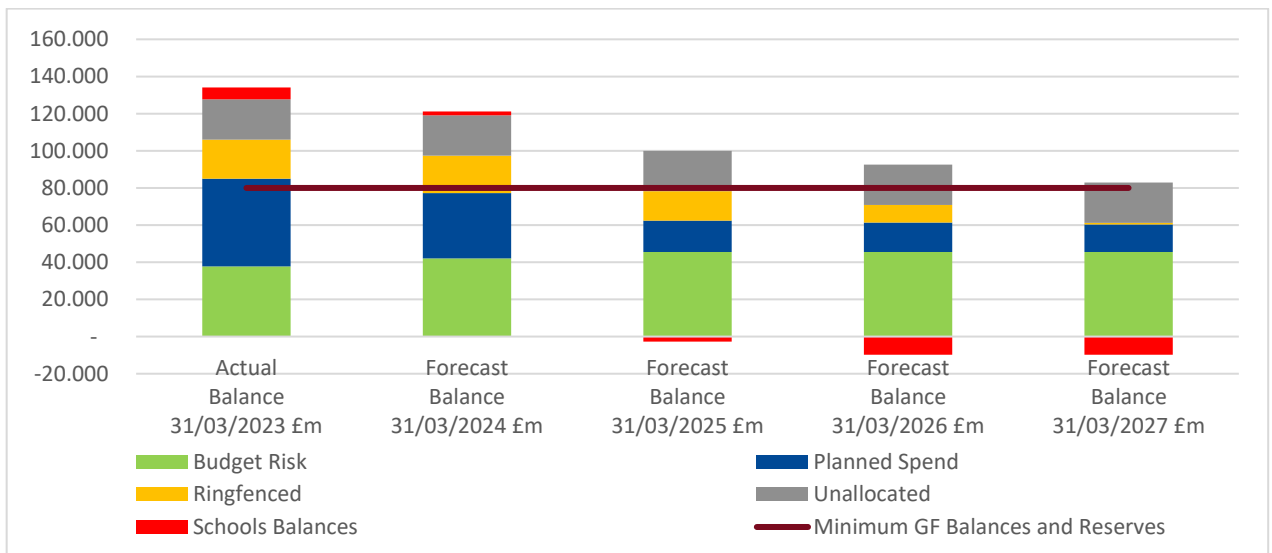
- 4.1. A fundamental element in assessing the robustness of the council's annual budget and MTFs is the level of contingency budget(s), earmarked reserves, and GF balance, as determined by the Section 151 Officer. The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, there is no specified minimum level of reserves that an authority should hold. It is the responsibility of the Section 151 Officer and the Members of the Council to determine the level of reserves and to ensure that there are procedures for their initial formation and use.
- 4.2. Historically Islington has had comparatively low reserves with similar authorities. There was also a higher-than-average decrease in reserves at 2022/23 outturn. In addition, the significant expenditure pressures and income shortfalls incurred as a result of COVID-19, the high levels of inflation and the sustained economic downturn have highlighted the underlying level of risk inherent in the council's budget position.

- 4.3. There are different types of reserve held across the Council which are split between usable and unusable reserves. Unusable Reserves are used to hold unrealised gains or losses for assets not yet disposed of and accounting adjustments, which are required by statute. These reserves cannot be used to fund capital or revenue expenditure.
- 4.4. The different categories of usable reserves are broken down below:
- General Balances (GF or HRA) are unallocated funds which do not have any restrictions on their use. They cushion the impact of uneven cash flows, offset budget requirements, if necessary, or can be held in case of unexpected events or emergencies. These are split between GF and HRA.
 - Earmarked Reserves - these must be held for genuine and intended purposes. Earmarked funds within the GF are categorised into:
 - **Budget Risk** – These are held to protect the council against the significant and wide-ranging budget risk within the MTFS. This includes to:
 - Mitigate specific budget risks, particularly the impact of delayed savings delivery.
 - Protect against wider, external events and the impact of this on the council's budget e.g., Economic events and forecasts such as inflation and interest rate announcements and future Local Government Funding Settlements and announcements.
 - Mitigate the impact of business rates and council tax income fluctuations and timing differences.
 - Provide resilience for business continuity in the event of exceptional circumstances such as a cyber-attack.
 - **Planned Spend** – This comprises reserves that are earmarked to fund one-off expenditure. This includes to:
 - Provide for agreed Transformation projects and other agreed one-off budget growth.
 - Set aside funds for specific projects such as the potential direct and indirect costs of the non-recent child abuse support payment scheme.
 - **Ringfenced** – This comprises ring-fenced grants and contributions such as Dedicated Schools Grant (DSG) and Public Health grant where the funds cannot be used to resource anything other than the specified purpose due to funding or legal restrictions.
 - The HRA also holds earmarked reserves.
 - Other Capital Reserves – these are broken down between:
 - Major Repairs Reserve – Applies to the HRA only and is used to build up capital sums that can be used to finance the capital programme and repayment of housing debt.
 - Capital Receipts Reserve – Holds funds received from sales of non-current assets (primarily receipts from the sale of property). The use of receipts is normally restricted to funding other capital expenditure or paying off debt.

- Capital Grants Unapplied – Holds capital grants that have been received in advance of the associated expenditure being incurred. They are not available for revenue purposes.

- 4.5. Islington’s current GF balance (£21.7m, excluding balances held on behalf of schools) equates to just over one week of gross expenditure. It is recommended that a minimum GF balance is set at £20m, broadly in line with the current GF balance which is widely viewed as being low, it representing, for example, just one week of the council’s gross annual GF expenditure in the current financial year, and is still at only half of the level of the MTFFS GF balance target of £40m.
- 4.6. It is proposed that any underspend on the GF and contingency budget at the end of each financial year is used to increase the GF balance (excluding schools balances) from the current level towards the target level of £40m GF balance over the medium term. It is the view of the Section 151 Officer that this remains a reasonable proxy, subject to annual review, for the level of unquantifiable risk in the council’s budget, and therefore the target GF balance needed to deal with economic shocks and insulate the council from potential compensating cuts to key services that could arise in a given financial year.
- 4.7. Decreasing reserve levels are a key indicator of financial distress in councils. It is important that the medium-term budget makes provision to sustain reserve levels. It is recommended that an absolute Minimum GF Earmarked Reserves Level is set at £60m (combined with the proposed £20m General Balances minimum level). This is set out in **Figure 1** below, which illustrates that GF reserves are currently forecast to fall significantly over the medium term.

Figure 1 – General Fund Earmarked Reserves and Balances Forecast



- 4.8. The above graph shows that the 2025/26 and 2026/27 forecast reserves balances are close to breaching the recommended absolute minimum of £80m GF Balances and Earmarked Reserves Level. Remaining above the minimum level and replenishing reserves over the forecast period will require the following:

- Delivering balanced in-year budget positions. A repeat of the £17.729m Q2 gross GF overspend in 2024/25 and over the medium term would deplete reserves further to balance the year-end position.

- Fully closing the forecast, significant GF budget gaps over the medium term, as set out in this budget report, with ongoing savings. Use of any reserves to close an ongoing budget gap will further push the council towards breaching the Minimum GF Balances and Earmarked Reserves Level, and simply push the budget gap to later financial years, potentially unsustainably.
- Receiving adequate, above inflation funding settlements from central government over the next Spending Review period commencing 2025/26, which would enable the council to meet the unprecedented inflationary, demographic and demand pressures faced over recent financial years and forecast to continue over the financial planning period. Adequate funding settlements would assist the council in restoring reserves to more sustainable levels.

4.9. Ongoing and significant budget savings of a level not seen in recent budget processes will need to be delivered over the medium term to ensure the adequacy and robustness of reserves is at least maintained and, as an objective, significantly strengthened.

Reserve Movements, Budget Risks and Contingencies

4.10. The pressures across councils have resulted in increasing numbers of local authorities issuing Section 114 (S114) notices. A S114 notice puts spending controls in place and prohibits all new expenditure by a council, other than that required to provide statutory services. A council's Chief Financial Officer (CFO) has a statutory duty to issue a S114 notice if they believe the council will be unable to meet its expenditure commitments from its income. The CFO does not need councillors' consent to issue this notice. The rising numbers of S114 notices highlight how difficult it is becoming for all councils to set a balanced budget and this is going to become even more challenging if service demands increase further and funding continues to be outstripped by inflation.

4.11. Use of reserves to balance ongoing budget gaps is not advised for a number of significant reasons:

- The level of the medium-term budget gap would stay the same, with the relevant budget gap merely pushed to the following financial year.
- Future budget gaps tend to widen as the budget process for that financial year is approached – a combination of an expanding prior year budget gap and an underlying gap to close for the following financial year would be extremely difficult to balance in a single budget year.
- It would reduce flexibility to use reserves in-year for any unforeseen events (e.g., to fund local risks such as a cyber-attack that would be unlikely to be funded by the government) or to resource one-off requests such as transformational costs.
- It would essentially be a 'sticking plaster' to deal with a long-term budget problem – potentially leading to much bigger problems down the line, as evidenced with recent high profile council failures.

4.12. There have been GF savings made consistently in recent years, including those proposed as part of this budget. However, sources of savings become harder to find each year without impact local services. Furthermore, when savings are identified, the delivery of savings is more difficult to manage.

4.13. The 2024/25 budget includes an ongoing, general corporate contingency budget of £5m per annum, unchanged from 2023/24. A contingency budget is an ongoing budget intended

to be applied on a one-off basis only against unforeseen expenditure in-year. If it were to be applied on an ongoing basis against ongoing expenditure pressures, then the budget would not be available for future financial years. The contingency budget is viewed as a last resort for in-year budget pressures that cannot be funded from compensating underspends elsewhere and is 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 or reserve funding is agreed. Given the level of gross in-year overspends in recent financial years, a £5m contingency budget is at the very low end of acceptability in terms of providing assurance against unanticipated or unexpected expenditure over and above budget. The Inflation, Energy and Demand contingency budget available in the 2023/24 budget has been removed from the 2024/25 budget as part of the measures to set a balanced budget. The MTFS assumes that this additional Inflation, Energy and Demand contingency budget is restored at the earliest opportunity, given the risk in removing from the 2024/25 budget on a one-off basis. It forms part of the estimated budget gap for 2025/26.

4.14. The estimated level of usable reserves, reflecting current known movements is shown in **Table 8** and detailed by individual reserve at **Appendix C**. This reflects known reserves movements including:

- Previous budget reports have made provision of £4m earmarked to be transferred to GF Earmarked Reserves. Due to the pressures faced in 2024/25 this has been removed for one year only to resource the pressures and growth required to set a balanced budget. As a result, it is forecast that Earmarked Reserves will fall further in 2024/25, reducing the council's financial resilience.
- It is expected that additional movements to/from reserves will be brought forward for agreement once there is greater clarity on their timing and amount. This includes reserves movements related to the finalisation of the 2023/24 financial outturn after the end of the current financial year.

Table 8 – Forecast Usable Reserves

Reserve Category	31/03/23 Actuals £m	31/03/24 Estimate £m	31/03/25 Estimate £m	31/03/26 Estimate £m	31/03/27 Estimate £m
Budget Risk*	37.851	42.030	45.510	45.510	45.510
Planned Spend	47.076	35.150	16.866	15.866	14.866
Ringfenced	21.145	20.168	15.804	9.458	0.780
Total GF Earmarked Reserves**	106.073	97.348	78.181	70.834	61.156
General Fund	21.718	21.718	21.718	21.718	21.718
Schools Balances***	6.292	2.151	-2.677	-9.745	-9.745
Total General Balances	28.01	23.869	19.041	11.973	11.973
HRA Earmarked Reserves	32.424	45.696	47.514	66.535	82.075
HRA Balances	17.521	17.521	17.521	17.521	17.521
Total HRA Earmarked Reserve and Balances	49.945	63.217	65.035	84.056	99.596
Capital Grants Unapplied	24.807	TBC	TBC	TBC	TBC
Capital Receipts	49.988	45.171	44.354	31.092	20.680
Major Repairs	0.921	11.872	4.290	12.111	17.370
Total Capital Reserves	75.716	57.043	48.644	43.203	38.050
Total Usable Reserves	258.824	229.605	206.611	197.955	193.405

*Core Funding Reserve movements are subject to potentially significant change following completion of the NNDR1 and Council Tax Forecast in January 2024. This will be updated in the final version of the budget report.

**These reserve forecasts do not assume use of the approved Flexible Use of Capital Receipts policy, which will be determined by the Section 151 Officer based on the overall reserves position at the end of the financial year. Utilising the flexibility would result in a reduced fall in GF earmarked reserves, but higher borrowing and revenue costs of borrowing.

***Schools balances forecasts will be updated as required for the final version of the budget report.

CIPFA Financial Management Code Compliance Assessment

- 4.15. An initial compliance analysis against the CIPFA Financial Management Code has been undertaken as part of the 2024/25 budget assurance work. The CIPFA Financial Management Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, the Code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities, and circumstances. Each local authority should demonstrate that the requirements of the CIPFA Financial Management Code are being satisfied.
- 4.16. Demonstrating this compliance with the CIPFA Financial Management Code is a collective responsibility of elected members, the Section 151 Officer, and professional colleagues in the leadership team.
- 4.17. The annual compliance analysis is included at **Appendix E1** and shows that the council achieves a high level of compliance against the vast majority of the CIPFA Financial Management Code statements of standard (or best) practice. Where there is only a medium level of compliance, actions are suggested that would take the council to high

level. The compliance analysis should be seen as an organic piece of work, re-visited at least annually as part of the budget process, with any actions or recommendations implemented on an ongoing basis.

Balance Sheet Analysis

- 4.18. The balance sheet provides a snapshot of the council's financial position detailing assets, liabilities, and reserves. The balance sheet shows the complex and closely interlinked relationship between revenue, capital, borrowing and other existing and emerging risks. Analysing the council's balance sheet on a regular and ongoing basis (and not just at financial year-end) is key to understanding the underlying financial position of the council. Effective balance sheet analysis is very useful as a measure to indicate whether or not a local authority is showing signs of financial stress currently and over time within an overall direction of travel.
- 4.19. To be effective, balance sheet analysis needs to look at a wide range of measures to enhance overall understanding of financial resilience and direction of travel.
- 4.20. Detailed balance sheet analysis can be found at **Appendix E2**. In summary, the analysis has found that:
- The council has been able to build reserves, and therefore financial resilience, over the previous 6 years, partly due to additional transitory income received during the COVID-19 pandemic. However, the recent significant decrease in reserves demonstrates the importance of strengthening and maintaining sufficient levels of the reserves where the council is able to do so.
 - Furthermore, the council has been able to defer external borrowing, despite the increasing need to borrow, by using its own resources to finance capital expenditure. However, if reserves continue to decline and the need to borrow continues to rise, the council will be required to externally borrow and will risk paying high interest rates.

5. Housing Revenue Account

- 5.1. The HRA is a ringfenced account covering the cost of managing and maintaining council-owned housing stock, servicing both existing debts taken on as part of self-financing and new debt taken on to support the delivery of the new build and property acquisitions programmes, the funding of which comes primarily from rents and tenants' and leaseholders' service charges.
- 5.2. The draft updated HRA 30-year business plan is planned to be reported to the Executive on 8 February 2024 and Full Council on 29 February 2024.
- 5.3. The proposed HRA budget includes the balance of the savings package identified as part of the 2023/24 budget process and the continuation of these savings in 2026/27 totalling £3.646m (detailed at **Table 10** and **Appendix D3**). In addition, the draft HRA 30-year business plan assumes that the new build programme will continue towards attempting to meet the Council's manifesto commitment of delivering an additional 750 social rented homes (with a start on site by December 2027).
- 5.4. The current challenging economic climate, which includes much higher interest rates as compared to recent years and increased construction costs, means that the interest charges on the borrowing required to balance the financing of new schemes can no longer be fully funded from the net rent generated from the new council homes. As such the HRA

30-year business plan includes subsidised new build borrowing of £34.2m to take 180 new council homes through to completion and a further provision of £20.2m to continue developing a pipeline programme of 570 new council homes through to Planning stage. This new build programme budget pressure has been met by reducing the budget provision available to the major works and improvement capital programme for investment in existing council homes, by 5% (or £2.8m) per year over 30 years.

- 5.5. It should also be noted that whilst the draft HRA 30-year business plan balances this is achieved by limiting the budget provision for the investment in existing council homes. There remains an investment gap of; £933m (over 30 years) when comparing this budget limited provision to a “replacement of life expired components” investment model and £1.829b (over 30 years) when comparing this budget limited provision to a “traditional” investment model.
- 5.6. Whilst within the limited budget provision included in the HRA 30-year business plan, priority will be given to building safety works & meeting statutory compliancy, the shortfall in available resources will inevitably reduce the Council’s capacity to invest in maintaining the condition of existing homes and over time will lead to significant deterioration in our housing stock, with our non-decency levels rising.
- 5.7. The major works capital programme investment gap referred to above is driven in significant part because of past Government interventions in relation to Local Authority rent setting which include the minus 1% rent reduction applied over the 4 years 2016/17 - 2019/20 and the 7% rent cap applied in 2023/24, these interventions led to a loss in rental income over 30 years of £1.7b.
- 5.8. Consideration of options and measures to bridge the investment gap is currently underway.
- 5.9. The proposed HRA budget for 2024/25 and latest estimates for the medium term, including HRA reserves estimates, is set out at **Appendix D1**. The movement between the approved 2023/24 budget and the proposed 2024/25 budget is summarised in **Table 9**.

Table 9 – Summary of HRA Budget Changes 2023/24 to 2024/25

Expenditure	£m
Pay and pensions inflation	6.213
HRA savings proposals (See Table 10)	(1.443)
Increase in contributions to HRA reserves	8.181
Contractual inflationary increases and other budgetary changes	4.955
Reduction in the cost of communal gas and electricity	(4.062)
Increase in Leaseholder property insurance costs	3.171
Increased funding for New Build Pipeline programme	14.412
Decrease in bad debt provision resulting from a reduction in energy prices	(0.997)
Capital related items (borrowing, RCCO and depreciation charges)	(0.201)
Total Expenditure Increase	30.229
Income	£m
Rent and Tenant charges	(26.775)
Heating charges (Tenants and Leaseholders)	1.010
Leaseholder annual service charges	(3.073)
Other income net increases	0.227
Change in interest receivable on HRA balances	(1.618)
Total Income Increase	(30.229)

Table 10 – Summary of HRA Savings 2024/25 to 2026/27

Savings type	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Efficiency	0.530	0.150	0.220	0.900
Service reconfiguration	0.853	0.500	1.038	2.391
Income generation	0.000	0.295	0.000	0.295
Budget Realignment	0.060	0.000	0.000	0.060
Total	1.443	0.945	1.258	3.646

Rental Income and Other HRA Fees and Charges

- 5.10. 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.
- 5.11. In February 2019, the Government issued a policy statement on rents for social housing effective from April 2020.
- 5.12. Compliance with this policy is effectively mandatory, for the first time 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 only (i.e., housing associations). The Regulator is required by “direction” from the secretary of state for the Dept. of Levelling-Up Housing & Communities (DLUHC) to have regard to the government’s policy statement referred to above and as such, the Regulator issued the first rent standard effective from April 2020. The rent standard was subsequently updated with effect from April 2023 to reflect the Government’s “direction” which capped existing tenant rent increases to a maximum of +7% in 2023/24.
- 5.13. The rent standard has not yet been updated in respect of 2024/25 rent setting. However, the Council has been advised by DLUHC that 2024/25 rent setting policy will revert to previous long-term Government rent setting policy i.e., a maximum increase of September 2023 CPI + 1% which equates to +7.7%.
- 5.14. A review of new build rent setting policies has been carried out to align existing tenant & re-let rents over a period of 3 years from 2023/24 to 2025/26 to ensure a consistent approach across all new build rents.
- 5.15. 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.

Islington Council Managed General Needs Properties (excluding New Build and current plus ex PFI properties)

- 5.16. **Table 11** sets out the average rent in 2024/25 for existing tenancies. The maximum 2024/25 permitted rent is the prior year (2023/24) actual rent plus 7.7% (Sept.23 CPI +1%)
- 5.17. However, if the maximum rent exceeds the lower of the 2024/25 national rent cap (for the relevant bed size) or the property’s 2024/25 national target rent then the 2024/25 rent will be the higher of A or B:
 - A. The lower of 2024/25 national target rent or the 2024/25 national rent cap or
 - B. The 2023/24 actual rent plus 7.7%

- 5.18. All the council's general needs properties will be subject to the maximum rent increase in 2024/25 of plus 7.7% as their maximum rents in 2024/25 do not exceed the lower of the 2024/25 national target rents or the 2024/25 national rent caps.
- 5.19. 1% (215) of the council's general needs properties have a national target rent greater than the national rent cap.

Table 11 – Existing Tenancies Average Weekly Rent 2024/25

Average Weekly Rent 2023/24	£126.13
Increase (£)	£9.71
Increase (%)	7.70%
Average Weekly Rent 2024/25	£135.84

- 5.20. General needs properties will be re-let at the lower of the 2024-25 national rent cap (for the relevant bed size) or their 2024-25 national target rent. As 99% of Islington Council general needs properties have a national target rent below the national rent cap, it is likely that re-lets will be at national target rent.
- 5.21. In accordance with DLUHC advice 2024/25 national target rents will reflect an increase of CPI (Sept. 2023) plus 1% and the 2024/25 national rent caps will reflect an increase of CPI 6.7% (Sept. 2023) plus 1.5%.
- 5.22. **Table 12** sets out the likely average rent in 2024/25 for re-let properties.

Table 12 – Re-Let Properties Likely Average Weekly Rent 2024/25

Average Weekly National Target Rent 2023/24	£136.85
Increase (£)	£10.53
Increase (%)	7.70%
Average Weekly National Target Rent 2024/25	£147.38

Islington Council Managed General Needs New Build Properties

- 5.23. 2024/25 new build existing tenants' rents will increase by an average of 5.5% as compared to revised 2023/24 rents. This reflects the proposal referred to above which seeks align all new build rents, over 3 years commencing in 2023/24, to ensure a consistent approach.
- 5.24. 2024/25 re-let and first-let new build rents will, like the LBI managed general needs stock, be based on the lower of the 2024/25 national rent cap or the 2024/25 national target rent.
- 5.25. 27% of existing new build national target rents are greater than the national rent cap (for the relevant bed size), hence these re-let rents will be set at the national rent cap.

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

- 5.26. Existing tenancies and re-let rents in 2024/25 will be set on the same basis as general needs properties referred to above, with the exception that for reception centres the plus 5% flexibility has been applied to the national target rent calculation.

LBI Managed Property Acquisitions - purchased using right to buy 141 receipts or GLA Grant

- 5.27. Existing Tenancies – 2024/25 rents will be set at the lower of:
- A) The 2023/24 rent plus 7.7% or

B) The lower of; Bi) the relevant 2024/25 local housing allowance rate (noting that the Chancellor's 2023 Autumn Statement indicates that LHA rates will be updated to reflect the 30th percentile of local market rents to be effective from April 2024) or Bii) 80% of the relevant market rent.

5.28. Re-lets and first-lets in 2024/25 will be set at the lower of:

A) The relevant 2024/25 local housing allowance rate (noting that the Chancellor's 2023 Autumn Statement indicates that LHA rates will be updated to reflect the 30th percentile of local market rents to be effective from April 2024) or

B) 80% of the relevant market rent

LBI Managed Property Acquisitions - purchased using DLUHC grant

5.29. Existing Tenancies – 2024/25 rents will be set at the lower of:

A) The 2023/24 rent plus 7.7% or

B) 80% of relevant market rent

5.30. Re-lets and first-lets in 2024/25 will be set at 80% of the relevant market rent

Properties Currently Managed (PF1) and Properties Previously (Until April 2022) Managed (PF2) under a Private Finance Initiative (PFI) Contract by Partners for Islington

5.31. Properties that were previously or are currently managed under a PFI contract are exempt from the government rent setting policy and as such the 1% rent reduction relating to the period 2016/17 to 2019/20 was not applied to these property rents. The council is now seeking to align PFI rents, over time, with standard social rents as they apply to the rest of the housing stock.

5.32. To move towards achieving this alignment, existing tenants 2024/25 rents for properties that continue to be managed by Partners for Islington under the PFI (1) contract and properties that returned to Council management from 4th April 2022, that were previously managed by Partners for Islington under the PFI (2) contract will be based upon the prior year 2023/24 rent plus 7.7% minus 50p per week towards convergence with standard social rents.

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

5.34. **Table 13** sets out the average rent in 2024/25 for existing tenancies and likely average rent in 2024/25 for re-lets for current PFI (1) properties and ex PFI (2) properties.

Table 13 – Existing Tenancies + Re-Lets – PFI (1) current contract and PFI (2) returned to Council management - Average Weekly Rent 2024/25

Average Weekly Rent 2023/24	£177.30
Increase (£)	£13.18
Increase (%)	7.43%
Average Weekly Rent 2024/25	£190.48

Shared Ownership Rents

5.35. Rent charged with effect from 1 April 2024 in respect of the unsold equity in relation to shared ownership properties will be based on the prior year rent plus the lower of:

A) CPI (2 months before the rent increase review date) +1% or

B) RPI (2 months before the rent increase review date) +0.5%

Other HRA Fees and Charges

- 5.36. Other HRA fees and charges are set out at **Appendix D2** and summarised below.
- 5.37. Caretaking/Cleaning and Estate Services - Caretaking and Estate Service Charges will reduce by £0.84 (-4.2%) per week as compared to the 2023/24 Charges. This £0.84 reduction per week primarily reflects the net impact of; the reduction in the weekly charge for communal electricity that has come down because of fall in energy prices in 2024/25 as compared to 2023/24, and the increase in staffing related costs covering the increase in the 2023/24 pay award, and the estimated 2024/25 pay award.
- 5.38. Digital TV Maintenance - Charges have remains unchanged at 22p per week in 2024/25 reflecting the cost of the provision of this service.
- 5.39. Heating and Hot Water - Gas prices are forecast to reduce in 2024/25, together with a forecast reduction in consumption, weekly heating charge have come down by 41% as compared to 2023/24 charges. The average weekly heating and Hot Water charge in 2024/25 will be £17.28 per week. Unlike, Caretaking, Estate Service and Concierge charges, Heating and Hot Water charges are not covered by housing benefit or universal credit.
- 5.40. Concierge Service Charges - These have increased by 6.3% this increase relates primarily to the increase in staffing costs.
- 5.41. Estate based Parking and Storage Charges - Charges in respect of facilities used for vehicles i.e., Garages, parking spaces and car cages increase by 6.7% in line with September 2023 CPI.
- 5.42. Diesel Surcharge (Off Street) - This charge has increased by £10 per year in 2024/25 in line with September 2023 CPI Sept.
- 5.43. Home Ownership Administration costs - Increase by 6.7% in line with September 2023 CPI to reflect inflationary cost pressures whilst also acknowledging the cost-of-living pressures facing leaseholders.
- 5.44. Carpet Charges - Increase by 2% in line with the agreed annual contractual uplift.

6. Capital Programme

- 6.1. The council takes a strategic, long-term approach to managing and enhancing our community asset base through the setting of a 10-year capital programme. The 10-year programme comprises the current year approved programme, a proposed 3-year programme, followed by an indicative programme for the final 6 years.
- 6.2. The final version of the budget report to the Executive on 8 February 2024 and Full Council on 29 February 2024 will include for agreement the Capital Strategy that underpins the capital programme, as well as the inter-linked Treasury Management Strategy, MRP Statement and Investment Strategy. The Capital Strategy will be fully aligned with the council's Strategic Asset Management Plan.
- 6.3. The proposed 2024/25 to 2026/27 capital programme as well as indicative estimates for 2027/28 to 2033/34, totalling £1,150.287m of capital investment in the Borough, are summarised by directorate and council priority in **Tables 14 and 15** below and detailed by scheme at **Appendix F**.

Table 14 - Capital Programme 2024/25 to 2033/34 Summarised by Directorate

Directorate	2024/25 £m	2025/26 £m	2026/27 £m	2024/25 - 2026/27 Total £m	2027/28 - 2033/34 £m	Total Future Years £m
Community Wealth Building	28.119	20.052	24.784	72.955	18.986	91.941
Environment	19.708	10.251	13.014	42.973	77.741	120.714
Housing General Fund	20.081	44.629	40.541	105.251	5.416	110.667
General Fund Total	67.908	74.932	78.339	221.179	102.143	323.322
HRA Total	238.741	109.637	97.336	445.714	381.251	826.965
Total Capital Programme	306.649	184.569	175.675	666.893	483.394	1,150.287

Table 15 - Capital Programme 2024/25 to 2033/34 by Strategic Priority

Strategic Priority	2024/25 £m	2025/26 £m	2026/27 £m	2024/25 - 2026/27 Total £m	2027/28 - 2033/34 £m	Total Future Years £m
A Safe Place to Call Home	260.376	154.266	137.877	552.519	388.067	940.586
Child-Friendly Islington	11.574	3.862	3.628	19.064	8.400	27.464
Community Wealth Building	11.506	16.590	21.406	49.502	18.986	68.488
Fairer Together	1.000	1.000	1.150	3.150	-	3.150
Greener, Healthier Islington	22.193	8.851	11.614	42.658	67.941	110.599
Total	306.649	184.569	175.675	666.893	483.394	1,150.287

6.4. The council's capital investment plans recommended in this report have been drawn up in accordance with the CIPFA Prudential Code framework and have been demonstrated to be prudent, affordable and sustainable. The proposed programme is currently set at an overall affordable level and the increased revenue costs associated with additional borrowing are considered manageable within the assumptions of the MTFs. However, it is important to note that there are significant budgetary risks around the funding of this ambitious capital programme, including:

- Inflation rates provide a risk to the delivery of the capital programme to budget. If inflation rises, the cost of materials and labour will increase which can lead to overspends within the capital programme. This risk will be mitigated to some extent by contingency built into scheme budgets.
- Increasing interest rates in turn increase the revenue impact of borrowing to fund the capital programme. Future iterations of this report will include sensitivity analysis to illustrate the impact that this risk has on the affordability of the programme overall.
- The funding of some capital schemes is linked to delivery of the scheme's asset and may be subject to timing differences between expenditure being incurred and receipt of the funding, particularly regarding housing open market sale properties. In these instances, alternative interim funding will be applied such as short-term

borrowing, with additional short-term revenue cost implications, or the use of HRA reserves.

- As the ambition for the capital programme increases, it is important that project delivery is monitored and managed to ensure appropriate profiling of the programme in future years and robust budget setting to provide assurance on affordability of the programme. In recent years, there has been significant in-year reprofiling of the capital programme to later in the MTFs period. This has been due to various internal and external factors such as COVID-19 restrictions, capacity constraints, the global supply chain and more recently economic uncertainty affecting project viability assessments.
- As part of the ongoing management of the capital programme and its affordability, in addition to the regular budget management it is proposed to conduct a more detailed review of the capital programme in Summer 2024. This will be a review of projects' performance delivering to schedule, to budget and of their associated funding across all years of the programme.

6.5. **Table 16** summarises the funding of the capital programme by funding source, with this detailed at scheme level at **Appendix F**.

Table 16 - Capital Financing 2024/25 to 2033/34

	2024/25 £m	2025/26 £m	2026/27 £m	2024/25 - 2026/27 Total £m	2027/28 - 2033/34 £m	Total Future Years £m
Grants	6.290	4.029	4.028	14.347	8.400	22.747
S106/Local CIL	3.555	-	-	3.555	0.600	4.155
Strategic CIL	-	-	1.276	1.276	-	1.276
Capital Receipts	20.081	44.629	40.541	105.251	5.416	110.667
Revenue Contributions and Other	0.470	0.560	-	1.030	1.500	2.530
Borrowing	37.512	25.714	32.494	95.720	86.227	181.947
Total General Fund Financing	67.908	74.932	78.339	221.179	102.143	323.322
Grants	57.801	-	-	57.801	-	57.801
S106/Local CIL	2.478	-	-	2.478	-	2.478
Strategic CIL	5.174	3.200	-	8.374	-	8.374
Capital Receipts	26.060	46.588	25.423	98.071	21.315	119.386
Revenue Contributions and Other	18.590	29.033	32.326	79.949	334.056	414.005
Borrowing	128.638	30.816	39.587	199.041	25.880	224.921
Total HRA Financing	238.741	109.637	97.336	445.714	381.251	826.965
Total Capital Financing	306.649	184.569	175.675	666.893	483.394	1,150.287

6.6. Over the life of the proposed and indicative capital programme, there is a total borrowing requirement of £406.868m, of which £181.947m relates to the GF. There will be GF revenue implications from this borrowing in the form of interest costs and the statutory Minimum Revenue Provision (MRP) that the GF is required to make towards the repayment of debt. These revenue costs need to be provided for and managed within the MTFs, in addition to the borrowing costs associated with the council's current and prior year capital

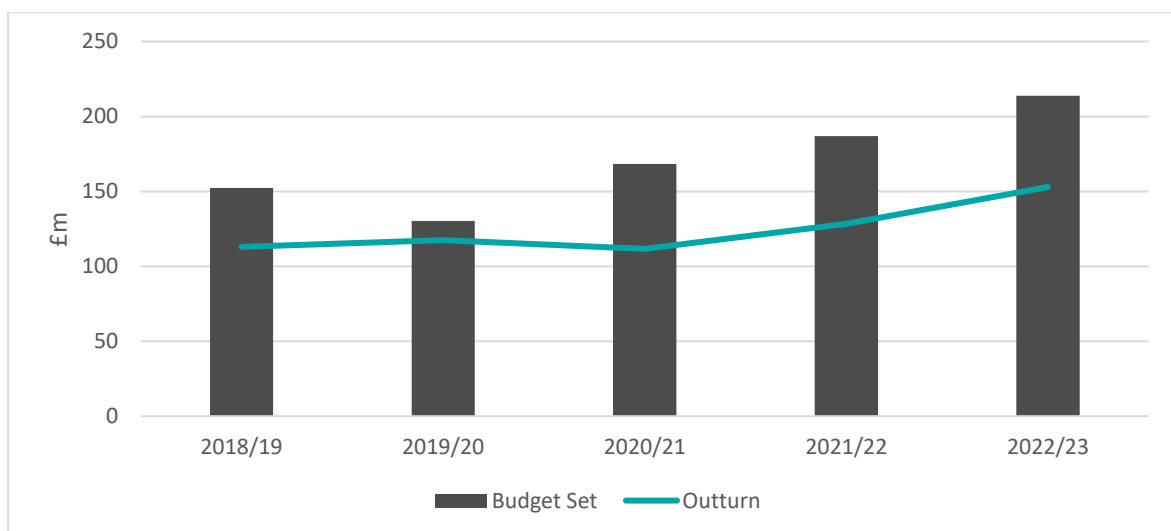
programme. **Table 17** shows the estimated GF revenue impact of the proposed new borrowing. Interest costs have been prudently modelled for budget setting purposes at 4.82% which was the annuity certainty rate on a 50-year loan from the Public Works Loan Board on the afternoon of 20th December 2023.

Table 17 – General Fund Revenue Borrowing Implications of the Proposed 3-Year Capital Programme

	2024/25 £m	2025/26 £m	2026/27 £m	2024/25 - 2026/27 Total £m
New Interest Charge (4.82%)	2.290	1.498	1.403	5.190
New MRP Charge	1.349	1.153	1.172	3.673
Total Additional Revenue Charge	3.638	2.651	2.574	8.863

- 6.7. It is recommended that delegated authority is given to the Section 151 Officer, where necessary, to apply capital resources to fund the capital programme in the most cost-effective way for the council.
- 6.8. It is typical for there to be slippage in the capital programme where works delivered, and so spend incurred, fall below what is expected at budget setting. Capital spend has been increasing in recent years at the council, by 35% since 2018/19, however the average delivery on the programme set in the budget has remained consistent at 74%. **Figure 2** below shows historic trends of outturn compared to budget set. Robust budget monitoring in-year will identify where these slippages are occurring and with timely raising and reporting management actions can be taken to adjust the borrowing requirements and associated revenue charges.

Figure 2 – Analysis of Capital Budgets to Outturn

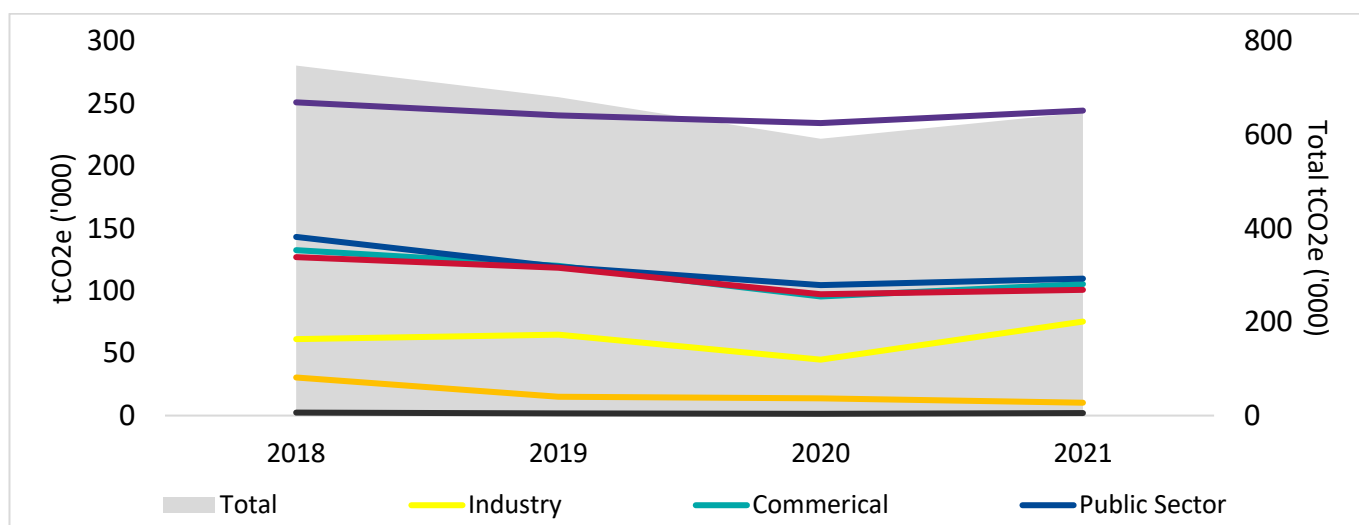


7. Climate Action

- 7.1. The council first declared a climate emergency in June 2019, and it set out its approach to achieving a net zero borough in 'Vision 2030 Building a Net Zero Carbon Islington by 2030'. In this strategy we established our Net Zero Carbon (NZC) programme which coordinates and delivers our commitments to deliver change with eight multi-disciplinary workstreams

- 7.2. Recent polling from London Councils (September 2022) states that 84% of Londoners are concerned about climate change and 62% believe their day-to-day life in London has been impacted by the changing climate. Current projections suggest that by 2070 summers in the UK could be anywhere up to 6°C warmer and up to 60% drier (Met Office). Islington is one of the six London boroughs most at risk to climate change (Bloomberg) affecting the health and wellbeing of our residents including for example from flooding and heat deaths. We are increasingly looking at what we can do to adapt and improve our resilience to the impacts of climate change (subject to council resources) and in October 2023 we renamed (and repurposed) our Net Zero Carbon Programme Team to a new 'Climate Action Team'.
- 7.3. Performance against all our commitments is monitored through the Climate Action Steering Board and Climate Action Executive Board together with Environment and Regeneration Scrutiny Committee which is a public meeting. The council also holds an annual scrutiny meeting on engaging local stakeholders on the climate emergency.
- 7.4. Our boroughwide greenhouse gas emissions (tCO₂e) (at July 2023) shows an overall 10% increase from 2020 to 2021 which is mainly attributable to the easing of the nationwide lockdowns post COVID-19. Our emissions in 2021 are still approx. 13% lower in Islington compared to our baseline of 2018 (648,000 tCO₂e vs 748,000 tCO₂e).

Figure 3 – Islington Greenhouse Gas Emissions 2018-2021 (UK local authority and regional greenhouse gas emissions national statistics (BEIS and DESNZ))



- 7.5. We continue to invest in our buildings including a new heat pump installation at Bevin Court (commencing 2024) and solar PVs at a number of sites including Islington Ecology Centre. We are on track to deliver our 600th Electric Vehicle Charging Point before March 2024 and in November 2023 we chaired a discussion panel at the Net Zero Festival in Angel.
- 7.6. We have also cut direct emissions from our pension fund by 40% between 2021 and 2023 as we continue to strive to make our £1.7 billion pension fund net zero by 2050 (or earlier).
- 7.7. The council has been working closely with partners and stakeholders including the Anchor Institutions Network and is committed to continued local government collaboration through the London Councils' climate programme. We have also been working on a new 'Net Zero Neighbourhood' proposal for Arsenal and Finsbury Park Wards with Arsenal Football Club and London Metropolitan University to help stimulate both public and private investment in Islington. 3Ci (Cities Commission for Climate Investment) included our proposal in their prospectus which was showcased at COP28 (United Arab Emirates) in November 2023.

- 7.8. In 2024/25 we will further engage with our residents and businesses on climate action. We have direct control over only 4% of the carbon emissions in the borough (and a further 5% as a landlord) so we must lead the way in supporting others to reduce their impact.
- 7.9. For the first time in 2024/25 the Climate Action Team worked with officers from Finance to complete a qualitative assessment of the NZC Impact of each new savings proposal in this budget report from 'Very Positive' to 'Very Negative'. A number of proposals are expected to have a 'Positive' or a 'Very Positive' NZC Impact (see Environmental Implications) and these assessments help to ensure both members and officers consider the environmental implications of their decision making.
- 7.10. The council is now an active member of a new Climate Budgeting Working Group with The Mayor (GLA), London Councils and select London Boroughs and is committed to reporting on how the organisation plans to achieve net zero carbon across our operations including both the funded and unfunded measures required to meet these commitments. This is work in progress but for 2025/26 the council endeavours to complete a quantitative assessment of the capital programme incorporating estimates of annual and lifetime greenhouse gas emissions savings.
- 7.11. Further ahead our ambition is to track our greenhouse gas emissions alongside the budget setting process to ensure spending plans are consistent with our climate goals. Oslo has published a climate budget since 2017 and it supported The Mayor (GLA) on proposals for @2023/24. Our work with The Mayor (GLA) on Local Area Energy Planning (LAEP) will help us identify the unfunded measures required between now and 2030 and we are part of a new Subregional LAEP to help develop data-driven, collaborative and cost-effective action plans. Islington is also part of the Advanced Zoning Pilot (AZP) and North London Heat Study. The AZP has produced a Heat Network Zone for London which will mandate most new and existing developments to connect to a network as part of the Energy Act 2023.
- 7.12. The council's budget proposes continued investment in the Climate Action Team over the current MTFS period and the capital programme proposes investment of £29.959m (including grants and income) as part of its Greener, Healthier Islington Mission. This does not include additional funding for council building decarbonisation, and it reflects wider economic pressures impacting on council funding (e.g. cost inflation, interest rates). Additional borrowing requires a c. 10% increase in revenue budgets for interest and MRP. The Finance & Investment workstream continues to investigate green finance opportunities including from The GLA (Mayor) and UKIB as well as alternative delivery model.

Table 18 – Proposed Revenue and Capital Investment in Climate Action

	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Revenue Investment	0.740	0.740	0.740	2.220
Capital Investments	13.070	7.451	9.438	29.959

- 7.13. Nationally there has been recent relaxation of net zero targets (September 2023) including on the ban of the sale of new petrol and diesel cars and vans (was 2030, now 2035) and on the phasing out of gas boilers (was 100% by 2035, now 80% by 2035). UK Government is also committed to expansion of fossil fuel production. Combined with the latest Climate Change Committee (CCC) Progress Report (June 2023) indicating a 'lack of urgency' in the policy framework for net zero and climate action this is concerning.

- 7.14. One of the key recommendations from the CCC is 'clearer, simpler and longer-term funding and resourcing of local authority delivery of net zero.' UK Government acknowledges that 'green and growth go hand in hand' (Powering Up Britain Report, 2023) and 'the costs of global inaction significantly outweigh the costs of action' (Net Zero Review Report, 2021). The climate emergency and health inequalities are intrinsically linked (Strategic Plan 2021) and the changes to our climate make it harder to create a more equal future for residents and businesses. The council campaigns at a local and national level for longer-term policy and funding certainty to adapt and improve our resilience to the impacts of climate change.

8. Council Tax and Retained Business Rates

Council Tax Forecast 2023/24

- 8.1. The detailed, statutory council tax calculation and the recommendations on 2024/25 council tax, including the GLA precept, will form part of the final budget report to the Executive on 8 February 2024, for onward recommendation to Full Council on 29 February 2024.
- 8.2. This will also incorporate the level of the council taxbase due to be set by Audit Committee on 29 January 2024 and the statutory forecast of the surplus/deficit on the Collection Fund as at 15 January 2024 (the Local Government Finance Act 1992 requires the council as the Billing Authority to calculate a Collection Fund estimate by 15 January each year for council tax).
- 8.3. The GLA final draft budget is scheduled to be considered at the London Assembly on 22 February 2024. Following this, the Mayor will confirm formally the final precept and GLA group budget for 2024/25.

Retained Business Rates

- 8.4. The council's 2023/24 NNDR1 (detailed business rates) estimate is currently being worked up ahead of the 31 January 2023 statutory submission deadline to central government. This will be reflected in the final version of the budget report to the Executive on 8 February 2024 and Full Council on 29 February 2024.
- 8.5. In line with previous years, it is recommended that authority be delegated to the Section 151 Officer to finalise the council's 2023/24 NNDR 1 (detailed business rates) estimate ahead of the statutory deadline.

9. Matters to Consider in Setting the Budget

- 9.1. This section contains the Section 151 Officer's comments on the robustness of the estimates included in the budget and the adequacy of the proposed financial reserves, as required under Section 25(1) of the Local Government Act 2003. Section 25(2) of the same Act requires the authority to have regard to this report of the Section 151 Officer when making decisions about the budget and the level of council tax.
- 9.2. Developing the budget estimates for a given financial year is an ongoing, iterative process within the medium-term financial planning cycle. This is a council-wide process involving all spending departments whereby estimates are worked up, challenged, and refined as further information becomes available. It considers the most recently available budget monitoring information and the latest assumptions for the forthcoming financial year. In particular, the proposed savings have been reviewed and signed off as deliverable by key stakeholders across the organisation. The thoroughness of this process is a source of

assurance in determining that overall estimates in the budget are robust and that financial reserves, whilst needing to be significantly strengthened over the medium term, are adequate for the 2024/25 budget.

- 9.3. The 2024/25 budget report and MTFFS has been compiled against a backdrop of continued and significant macro-economic uncertainty with the national cost-of-living crisis continuing to severely impact residents and the council. High inflation has remained for a period way beyond initial government forecasts. This has impacted council pay settlements, major contract inflation costs and other costs of service provision. Alongside this has been an unprecedented level of service demand in key services such as Adult Social Care and Children and Young People. Further, there have been significant challenges in income budgets partly due to the sustained economic downturn, with parking income particularly badly impacted in the 2023/24 in-year financial position. The latest (Q2) forecast is a £17m gross GF overspend in 2023/24. Any residual, ongoing impact of this forecast gross GF overspend for 2023/24 will impact the council's budget in 2024/25 and over the medium term. In addition, any residual overspend at the end of 2023/24 will be a further drain on the council's earmarked reserves.
- 9.4. The significant recurrent budget impact of the in-year financial position has meant that there has been greater use made of the council's financial sustainability mechanisms, such as contingency budgets, in delivering a balanced budget for 2024/25. These financial sustainability mechanisms must be restored at the very earliest opportunity, in the 2025/26 budget round. In total, £11m is factored into the 2025/26 budget forecast to restore previously held contingency, financial resilience, and capital financing budgets. As it stands the MTFFS only contains a £5m ongoing, general contingency budget in 2024/25 to be applied against unforeseen expenditure in-year and on a one-off basis. This level of contingency cover is only barely adequate against a £274m 2024/25 net budget requirement on the GF and given the level of unforeseen service pressures in the current financial year.
- 9.5. The medium-term local government funding outlook is very negative following the Autumn Statement and settlement, with expected real-terms funding cuts (and potentially cash cuts) for unprotected departmental spending, including most of local government. Added to this are potential government funding reforms (including 'fair funding' and a business rates reset) on the horizon that could have a significant, negative impact on funding levels in the next Spending Review period (commencing 2025/26). All of this means that additional government funding is highly unlikely to be a route to restoring the council to a sustainable financial footing.
- 9.6. The budget report includes a commentary and analysis on the financial health of the council's balance sheet and the level of the council's earmarked reserves. A recommended Minimum GF Balance and Earmarked Reserves Level of £80m is proposed within this budget report. This is the absolute minimum level of GF balance and reserves that the council cannot sustainably breach and is strictly not a target. The target, albeit extremely challenging in the current environment, should be to restore earmarked reserves to a level well in excess of the 2023/24 opening position, and to increase the GF balance over time. In order to take steps towards this target, the council will need to return to delivering on or under budget and to fully close future year budget gaps with robust ongoing savings. This will require early and sustained engagement from all stakeholders to make the difficult service and financial decisions critical to the financial resilience of the council.

- 9.7. Schools' budget plans submitted in the summer term indicated that schools would have a significant and widening medium-term deficit due to falling pupil numbers and increasing cost pressures. This represents a significant risk, as even with current plans to reduce surplus capacity agreed by the Executive, further proposals are required to bring school budgets onto a more sustainable financial footing and bring forecast balances back into surplus overall.
- 9.8. The 2024/25 Housing Revenue Account (HRA) budget has been prepared based on robust estimates and adequate reserves for next financial year. The HRA Business Plan presents a balanced position over the next 30 years, which is an essential framework in safeguarding the HRA from on-going pressures. Balancing the HRA budget has become more challenging due to the turbulent macro-economic environment, changing legislative requirements, government restrictions on the council's ability to increase rents, and the growing demand for increasingly costly resources. This has resulted in the proposed reduced investment in Major Works improvements to existing council dwellings from 2024/25, which is a risk to the Decent Homes commitment, as we balance corporate priorities by subsidising New Build schemes with external borrowing. The medium-term impact of these risks is under continual review. Measures to bridge the investment gap are being considered through quarterly budget monitoring and financial challenge. Understanding the changing economic and service-specific environments, adopting best practice, and lobbying central government on key issues are essential in maintaining a balanced and viable HRA Business Plan in future.
- 9.9. It is concluded that the estimates are sufficiently robust for the purposes of the calculation and setting of the 2024/25 budget and to ensure the adequacy of the proposed financial balances and reserves in 2024/25. It should be highlighted, as stated in this report, that recent years' budgets have made provision of £4m annually to be transferred to GF earmarked reserves. Due to the significant expenditure pressures and income shortfalls encountered in setting a balanced 2024/25 budget, this has been removed for one year, along with some previously held contingency budgets. As a result, it is forecast that earmarked reserves will fall further in 2024/25 than they otherwise would have. In addition, there is a real risk of spending pressures coupled with real-terms government funding cuts over the medium term causing a further, significant depletion of reserves. This trend will need to be reversed, with a commitment from all stakeholders to agree to a course of action in the 2025/26 and medium-term budget setting process. This will be necessary for the council to remain on a sound financial footing going forward.

Comments of the Monitoring Officer

- 9.10. Local authorities are under an explicit statutory duty to ensure that their financial management is adequate and effective and that they have a sound system of internal control and management of financial risk. This report set out the basis upon which a recommendation will be made for the adoption of a lawful budget and the basis for the level of the council tax for 2024/25. s25 Local Government Act 2003 sets a specific duty on an Authority's Chief Financial Officer to make a report to the authority for it to take into account when it is considering its budget and funding for the forthcoming year. This report outlines the council's current and anticipated financial circumstances, including matters relating to the GF budget and MTFs, the HRA, the capital programme and borrowing and expenditure control.
- 9.11. Section 26 of the Act gives the Secretary of State power to set a minimum level of reserves for which an authority must provide in setting its budget. There is an ongoing need to

prepare for contingencies including maintaining sound risk management and level of reserves which enables the authority to be prepared to deal with risks, contingencies, and its future strategic vision.

- 9.12. By law a local authority is required under the Local Government Finance Act 1992 to produce a 'balanced budget'. The setting of the budget and council tax by Members involves their consideration of choices through the provision of adequate evidence on which to base their decisions on the level and quality at which services should be provided. No genuine and reasonable options should be dismissed without robust consideration and Members must consider their fiduciary duty to the council taxpayers of Islington.
- 9.13. Where a service is provided pursuant to a statutory duty, it would not be lawful to fail to discharge it properly or abandon it, and where there is discretion as to how it is to be discharged, that discretion should be exercised reasonably. Whenever there are proposals for the closure or discontinuance of a service or services, there will be a need for appropriate consultation, with consideration of the Equality Act 2010 and the Public Sector equality duty.
- 9.14. All decisions must be lawfully exercised, and the council must not come to a decision which no reasonable authority could come to; balancing the nature, quality, and level of services which they consider should be provided against the costs of providing such services.
- 9.15. Under the constitutional arrangements, the setting of the council budget is a matter for the council, having considered recommendations made by the Executive. Before the final recommendations are made to the council, the Policy and Performance Scrutiny Committee must have been given the opportunity to scrutinise these proposals and the Executive should take into account its comments when making those recommendations.

Environmental Implications and Contribution to Achieving a net zero carbon (NZC) Islington by 2030

- 9.16. The council's budget can influence the behaviour of residents and businesses which can result in both positive and negative environmental implications. The budget proposals and MTFS affects various services across the council and have been developed in line with our new Islington Together 2030 Plan to create a more equal future for our borough in tandem with Vision 2030 - Building a Net Zero Carbon Islington by 2030.
- 9.17. For 2024/25 the Climate Action Team worked with officers from Finance to complete a new qualitative assessment of the NZC Impact of each new saving proposal from 'Very Positive' to 'Very Negative'. A number of proposals for Parking are expected to have a 'Very Positive' NZC Impact and should increase levels of active travel and/or use of public transport. Only one proposal could have a marginally 'Negative' NZC Impact (new green garden waste collection subscription charge) as residents may send more green waste to landfill. These assessments help to ensure both members and officers consider the environmental implications of their decision making.
- 9.18. For 2025/26 the council endeavours to complete a quantitative assessment of the capital programme (see Climate Action section) which will incorporate estimates of annual and lifetime greenhouse gas emissions (tCO₂e) savings.
- 9.19. Services were also asked to consider environmental implications on all GF fees and charges. These were included in a report to Executive dated 30 November 2023 and all the proposed fees and charges were approved by the Executive.

- 9.20. The council's budget proposes continued investment in the Climate Action Team and the capital programme as part of its Greener, Healthier Islington Mission.
- 9.21. The council is committed to considering the environmental impact of all its decision making to align with our climate action commitments and improve our resilience to the impacts of climate change.

Equalities Impact Assessment

- 9.22. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.
- 9.23. After more than a decade of significant budget savings, it is difficult to make new savings without any impact on residents. There will inevitably be some impact on particular groups, including those with protected characteristics as defined by the Equality Act. The council is not legally obligated to reject savings with negative impacts on any particular groups but must consider carefully and with rigour the impact of its proposals on the Public Sector Equality Duty, take a reasonable and proportionate view about the overall impact on particular groups and seek to mitigate negative impacts where possible.
- 9.24. The cumulative EQIA assessment of the budget proposals was completed on 9 November 2023. The main findings are that there is a potential neutral impact as a result of the budget proposals. The cumulative EQIA is set out at **Appendix G**. It is supplemented at a departmental level by detailed EQIAs of major proposals. These demonstrate that the council has met its duties under the Equality Act 2010 and has taken account of its duties under the Child Poverty Act 2010.

Budget Consultation

- 9.25. Section 65 of the Local Government Finance Act 1992 requires the council each financial year to consult persons or bodies representative of business ratepayers about expenditure proposals.
- 9.26. The council must make available the information described in the Non-Domestic Ratepayers (Consultation) Regulations 1992/3171, including:
- Details of proposals for expenditure in the financial year to which the consultation relates.
 - Estimates of expenditure in the preceding financing year.
 - Particulars of significant changes in the level of proposed expenditure between the two years.
- 9.27. The council will be inviting comments from residents, business rates payers and representatives of business rates payers in Islington on the draft 2024/25 budget proposals set out in this report. The consultation period will run for 21 days from 4 January 2024 to 24 January 2024. Any comments received will be considered by the council before the final budget proposals for consideration by the Executive on 8 February 2024 and Full Council on 29 February 2024.

Retail Relief Policy

9.28. In the 2018 Budget, the Government introduced a new relief scheme for retail properties and these 'retail relief' schemes have existed, albeit with some variations, since the 2019/20 financial year. **Appendix H** addresses the need to adopt the government's scheme variation, for the financial year 2024/25. The adoption of the local policy described in Appendix H is recommended, which will award Retail Relief in accordance with the Discretionary Rate Relief powers as contained within Section 47 of the Local Government Finance Act 1988 (as amended), for the year 2024/25. The Islington Retail Relief Scheme proposed reflects the Government's guidance.

Appendices

Appendix A: General Fund Medium-Term Financial Strategy 2024/25 to 2026/27

Appendix B: General Fund Proposed Savings 2024/25 to 2026/27

Appendix C: Earmarked Reserves Balances

Appendix D1: HRA MTFS 2024/25 to 2026/27

Appendix D2: HRA Fees and Charges 2024/25

Appendix D3: HRA Proposed Savings 2024/25 to 2026/27

Appendix E1: CIPFA Financial Management Code Compliance Assessment

Appendix E2: Balance Sheet Analysis

Appendix F1: Capital Programme 2024/25 to 2033/34

Appendix G: Budget Cumulative Equality Impact Assessment 2024/25

Appendix H: Retail Relief Policy 2024/25

Background papers: None

Signed by:		
	Executive Member for Finance, Planning and Performance	Date

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