

Town Hall, Upper Street
London, N1 2UD

Report of: Chair of the Policy and Performance Scrutiny Committee

Meeting of: Executive

Date: 8 February 2024

Ward(s): All

Subject: Budget Proposals & Medium Term Financial Strategy 2024/25 – Comments of the Policy & Performance Scrutiny Committee

1. Synopsis

- 1.1. The Policy and Performance Scrutiny Committee considered the budget proposals at its meeting on 18 January 2024 and questioned the Executive Member for Finance, Planning and Performance, Councillor Diarmaid Ward, the Corporate Director of Resources, and the Director of Finance on related matters.
- 1.2. This report summarises the comments of the Policy and Performance Scrutiny Committee. The Executive is invited to review the committee's comments and take note of them when considering budget matters.

2. Recommendation

- 2.1. That the comments of the Policy and Performance Scrutiny Committee on the Budget Proposals 2024/25 and Medium Term Financial Strategy be noted.

3. Background

- 3.1. Councillor Ward introduced the budget proposals and emphasised the challenging financial position across local government. Islington Council had lost around £300m of funding from central government over the last decade. Due to increased

costs arising from inflation and demographic pressures, and continued government austerity, it was essential that the council continued to operate efficiently. The budget identified £10.8m in savings, prioritising frontline services, however it was expected that the next financial year would be even more challenging.

- 3.2. The Executive Member commented on the need for a fair funding deal from central government. In particular, support was needed to help local government address the housing crisis through developing new social housing and maintaining its existing stock, and a fair funding deal was needed to ensure the sustainability of Adult Social Care. The cost of delivering Adult Social Care in Islington was increasing by £20m a year.
- 3.3. The proposed budget reflects the current crisis in local government finance. There were currently significant budget overspends across London Boroughs and several councils nationally had declared Section 114 Notices. The Committee noted the cost pressures associated with inflation, demographic change, and the impact this was having across council budgets. There were acute pressures on school budgets across inner London and there were longer-term challenges associated with the funding of social housing.
- 3.4. The proposed budget made use of contingency budgets to balance the overspends in the current financial year. As a result, there was a decrease in the contingency budgets for proposed for 2024-25. The Council was not proposing to make use of financial reserves to balance the budget, while this was an option that several London Boroughs were having to resort to.

The Policy and Performance Scrutiny Committee made the following main comments on the budget proposals:

- 3.5. The Committee considered paragraph 4.9 of the report, which states

‘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.’

The Committee queried the implications of this and the possible impact on future service delivery. In response, the Executive Member explained that the council may need to undertake a fundamental review of how services are delivered. Due to the unprecedented financial challenges in local government, it would not be sufficient to spread efficiency savings across services to minimise the impact of budget cuts. It would not be possible to continue to deliver services on the current

basis without increased financial support from central government. The council would be prioritising frontline services for residents, but it was essential that services are joined-up and delivered as efficiently as possible.

- 3.6. Central government was aware of the significant financial challenges across the local government sector. The Department for Levelling Up, Housing and Communities was currently consulting on capitalisation plans, allowing councils to use capital receipts and borrowing to fund day-to-day services. This policy would load councils with significant debt, impacting their financial sustainability, and should be avoided at all costs.
- 3.7. At the end of Quarter 2 2023-24, the council had a budget overspend of £17.7m, largely driven by inflation and demographic pressures in Adult Social Care and Children's Services. While increased demand for services was occurring at the same time as significant financial challenges, it was asked if this funding gap would mean the council must resort to delivering only statutory services. In response, it was considered that providing the statutory minimum in service levels would not meet the needs of Islington residents. The Committee considered the range of non-statutory services provided by the council; while these focused on supporting residents and addressing the significant challenges in the borough, there would need to be difficult choices made about the sustainability, delivery and prioritisation of non-statutory services in line with the Islington Together strategy. There was potential to transform services to reduce costs and deliver them in a different way, but this would be a significant challenge after services had already made significant efficiencies due to government austerity.
- 3.8. The Committee asked if the Executive was satisfied with the financial assumptions in the budget report, and confident that the council would not need to make use of financial reserves to balance the 2024-25 budget. In response, it was noted that the budget report set out a prudent plan that had been endorsed by the Chief Finance Officer. Local government was in a precarious financial position, but the council was setting a balanced budget and had a reasonable plan to achieve financial sustainability over the Medium Term Financial Strategy, on the assumption that the council would receive adequate funding settlements in future.
- 3.9. The Committee expressed concern at the potential impact of further government budget cuts. There was a £20m cost pressure on Adult Social Care; London Living Wage had increased by 10%, and the council's spending power was significantly impacted as a result. The achievement of financial savings must be a priority and focus, and it would be important to review the capacity of the organisation to achieve these savings.
- 3.10. In relation to Adult Social Care, the Committee commented on the need for a holistic plan to reduce costs, increase efficiencies, and manage demand across

the service. The Committee noted the work of officers to control overspends against the agreed budget and this would continued to be monitored by the committee.

- 3.11. The Committee suggested that the five missions in the Islington Together strategy may need to be prioritised to give a clear focus to the council's activities. In response, the Executive Member advised that all five missions were priorities and addressing these would both meet the most pressing challenges faced by the borough and save money in the longer term.
- 3.12. While the Committee commended the focus on delivering frontline services, it was commented that this could be an ambiguous term, and it was asked how frontline services would be prioritised and protected, while ensuring that the council did not incur significant overspends as it had in the current financial year. In response, frontline services were considered to be those that directly contributed to the delivery of the council's five missions, and the Executive Member emphasised the importance of transforming services to achieve savings. As an example, the Executive Member commented on the investment made to improve IT systems in the contact centre which had led to efficiencies and improvements in service performance. There was scope for greater automation across services to achieve efficiencies and improve performance. It was also suggested that further investment in data would assist the council in taking service decisions and managing spend. The Council had also implemented Finance Challenge Panels to review how services with significant overspends were operating.
- 3.13. The Committee noted the shortfall in parking revenue and asked if this was expected to be repeated in 2024-25. It was noted that parking revenue had been impacted by a decrease in pay and display transactions, fewer Penalty Charge Notices (PCNs) being issued, and fewer PCNs being collected. Finance officers had worked with the Parking Service to rigorously review the service's financial assumptions and would continue to invest in this approach to diligence across services. The Committee noted that the delivery of transport projects was funded through parking revenue and suggested that the council's ambitious projects may need to be reviewed if parking income continued to decline.
- 3.14. It was advised that the Housing Revenue Account (HRA) reserves position was relatively healthy in comparison to other local authorities. However, Islington faced big financial challenges, and it was important to retain a moderate level of reserves to address any potential safety concerns or other significant issues. It was noted that the HRA had been heavily impacted by central government policy over recent years, including rent freezes, below inflation rent settlements, and a reduction in government grants. Inflation in the building sector was also a challenge. Councillors commented on ongoing repairs casework and the need to

fix repairs first-time to both provide a better service to residents and reduce ongoing costs.

- 3.15. The Committee commented on the council's employment of agency staff and the need to reduce agency spend to achieve financial savings. The council made use of challenge panels to review the need for agency staff and it was noted that the recruitment of agency staff was subject to management oversight. The council considered business needs, performance and outcomes when considering agency recruitment.
- 3.16. The Committee emphasised the need for prioritisation of services and highlighted the consequences of seeking to fund day-to-day services through borrowing. Financial assumptions made in previous years that projects can be funded through future income may need to be reviewed.
- 3.17. The Committee considered the financial assumptions behind the capital programme and how this would be impacted by national economic conditions, including future levels of inflation and interest rates. It was expected that the stability of the economy would improve in comparison to the current position, however national political decisions would have an impact on the council's spending power, and rigorous scrutiny of budget performance would be needed to ensure that the council's financial plans remained aligned with economic conditions.
- 3.18. Overall, the Committee's most significant concern was the decrease in contingency budgets and the reduced capacity to offset budget overspends as a result. It would be essential for the council to focus on transformation work, deliver efficiencies and review discretionary spend, including the use of agency staff, and to challenge overspends robustly. The Committee thanked officers for their work in preparing the budget proposals, noting the difficulty in the current financial climate.

4. Implications

4.1. **Financial Implications**

The financial implications are set out in the main budget report.

4.2. **Legal Implications**

The legal implications are set out in the main budget report.

4.3. **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030**

The environmental implications are set out the main budget report.

4.4. **Equalities Impact Assessment**

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.

The equalities impacts are set out in the main budget report.

5. **Conclusion and reasons for recommendations**

- 5.1. The Executive is asked to note the comments of the Policy and Performance Scrutiny Committee on the budget proposals.

Appendices:

- None.

Background papers:

- None.

Final report clearance:

Authorised by: Chair of the Policy and Performance Scrutiny Committee

Date: 30 January 2023

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