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Wards: All  
Report of: Executive Member for Finance and Performance  
Report No: No Key Decisions – Not Required for Executive Meeting

# Medium-Term Financial Strategy 2025/26 Autumn Update Report

## 1. Recommendations

- 1.1. To note the latest Medium-Term Financial Strategy (MTFS) assumptions contained in Section 3 of this report and the changes since the Summer MTFS Update, as summarised in Table 2.
- 1.2. To note the latest General Fund (GF) revenue reserves forecast over the medium term. (Section 4)
- 1.3. To note the Housing Revenue Account (HRA) update. (Section 5)
- 1.4. To note the 2025/26 budget setting timeline. (Section 6)

## 2. Report Summary

- 1.5. Overall, since the last update to the Executive in July 2024, the estimated 2025/26 budget gap has increased by £2.772m (from £27.853m to £30.625m) and the 5-year gap has increased by £8.217m (from £122.226m to £130.443m). The most significant changes within this position are:
  - Increased pressure on pay budgets, primarily due to changes in employer National Insurance Contributions in the Autumn Budget.
  - Heightened inflation on non-pay (contract) budgets due to the impact of the government's changes to employer National Insurance Contributions and higher than forecast London/National Living Wage announcements.
  - In common with other councils, there has been a rapid escalation in Temporary Accommodation costs in the current financial year (driven by a 42% increase in demand) which shows no sign of easing.
  - Partially offset by additional government grant funding (mainly social care grant) that can be reliably estimated and a marginal increase in council taxbase growth. There is likely to be further grant funding (not yet assumed) from the £700m announced in the Autumn Budget for general pressures. However, the council's allocation from this additional funding is currently too uncertain to reliably estimate.
- 1.6. **This leaves a significant budget gap to be closed by a combination of new savings proposals (to come forward for approval in the New Year), additional funding anticipated in the provisional local government finance settlement and increases in**

**the level of council tax. Despite the significant gap, the Section 151 Officer expects the council to set a balanced budget in February 2025.**

- 1.7. The council's already comparatively low reserves are forecast to significantly decline over the 5-year MTFS period. In the 2024/25 budget report, the council's Minimum GF Balance and Earmarked Reserves Level was set at £80m with the target of increasing reserves where possible. If directorates continue to overspend in future years at the same level as the current year, usable revenue reserves would breach the Minimum GF Balance and Earmarked Reserves Level of £80m by the end of year 3 (2027/28) of the MTFS. It could be breached even sooner if significant new spending commitments are made against reserves or if the 2025/26 and 2026/27 budget gaps are not fully balanced by robust and deliverable savings.
- 1.8. The HRA is experiencing unprecedented financial pressures, which mean that local authorities must make difficult decisions between investing limited resources in maintaining and improving existing council homes and building new homes. The HRA 30-year Business Plan is currently being updated to reflect new pressures, other changes to assumptions and recent government announcements including rent increase policy.

### 3. The General Fund Medium-Term Financial Strategy

#### Context

- 1.9. 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 by 2030. These are:
  - Child-friendly Islington
  - Fairer Together
  - A Safe Place to Call Home
  - Community Wealth Building
  - Greener, Healthier Islington
- 1.10. 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 available funding.
- 1.11. Full Council agreed the council's budget for 2024/25 and MTFS on 29 February 2024. Following this, the Summer MTFS Report presented a year-one gap of £27.8m (before Council Tax) and a gap over the MTFS period of £122m. Since the publication of this report, despite inflation falling to target, there have been some significant changes to the medium-term outlook informed by 2024/25 Q2 budget monitoring (particularly the rapid escalation of Temporary Accommodation costs) and developments from the government's Autumn Budget announcement.

#### **Revised Medium-Term Budget Position 2025/26 to 2029/30**

- 1.12. The latest, estimated budget position for 2025/26 and over the medium term is summarised in Table 1 below. This shows a significant budget gap of nearly £31m in 2025/26 to close over the remainder of the 2025/26 budget process to set a legally balanced budget, with a further gap of £130m over the forecast period to 2029/30.

**Table 1 – Latest Summary Medium-Term Budget Gap 2025/26 to 2029/30**

|  | 2025/26<br>£m | 2026/27<br>£m | 2027/28<br>£m | 2028/29<br>£m | 2029/30<br>£m | Total<br>£m    |
|--|---------------|---------------|---------------|---------------|---------------|----------------|
| Pay Inflation (including NI Changes)                                 | 12.859        | 5.000         | 5.000         | 5.000         | 5.000         | <b>32.859</b>  |
| Pensions Contributions Adjustments                                   | 0.000         | (4.364)       | 0.000         | 0.000         | 0.000         | <b>(4.364)</b> |
| Demographic Growth   | 7.562         | 7.050         | 6.545         | 6.001         | 7.065         | <b>34.223</b>  |
| Non-Pay Inflation  | 11.945        | 9.469         | 8.089         | 8.503         | 9.100         | <b>47.106</b>  |
| Directorate Base Budget Growth                                       | 1.665         | 0.033         | 0.000         | 0.000         | 0.000         | <b>1.698</b>   |
| Corporate Budget Growth inc. Levies and Capital Financing Amendments | 5.171         | 5.154         | 4.823         | 4.324         | 3.416         | <b>22.888</b>  |
| Additional Contingency for Known Service Pressures                   | 6.053         | 3.000         | 3.000         | 3.000         | 3.000         | <b>18.053</b>  |
| Government Grant Funding   | (4.480)       | 0.000         | 0.000         | 0.000         | 0.000         | <b>(4.480)</b> |
| <b>Gross Budget Gap</b>  | <b>40.775</b> | <b>25.342</b> | <b>27.457</b> | <b>26.828</b> | <b>27.581</b> | <b>147.983</b> |
| Previously Agreed Savings  | (4.396)       | (1.604)       | 0.000         | 0.000         | 0.000         | <b>(6.000)</b> |
| Directorate Management Actions                                       | (1.835)       | (1.499)       | (0.140)       | (0.415)       | (0.050)       | <b>(3.939)</b> |
| Directorate Funding Substitutions                                    | (2.146)       | (1.265)       | 0.000         | 0.000         | 0.000         | <b>(3.411)</b> |
| Assumed Tax Base Growth  | (1.773)       | (0.600)       | (0.603)       | (0.606)       | (0.609)       | <b>(4.191)</b> |
| <b>Net Budget Gap (Before C-Tax and New Savings Proposals)</b>       | <b>30.625</b> | <b>20.374</b> | <b>26.714</b> | <b>25.807</b> | <b>26.922</b> | <b>130.443</b> |

1.13. The revised net budget gap of £30.625m in 2025/26 is presented before:

- New savings proposals – Only previously agreed savings are assumed in the position. New savings proposals will be part of the Draft Budget Proposals to close the gap, to be published early in January 2025.
- Additional government grant funding which will not be confirmed until the provisional local government finance settlement in December 2024. Specifically, no assumptions have been made on the allocation of the additional £700m announced by the government in the Autumn Budget for general pressures or potential compensation for the significant additional direct staffing costs to the council of employer National Insurance Contributions changes.
- Additional income from increasing Council Tax. Latest indications suggest that the council tax referendum threshold will be 4.99% in 2025/26 (same as 2024/25). If this is confirmed in the settlement and comes forward as a council tax proposal, it would equate to approximately £6.000m of additional council tax income in 2025/26.

1.14. The changes to the medium-term budget gap since the Summer MTFs Update to the July 2024 Executive meeting are summarised in Table 2 below. Overall, the 2025/26 gap has increased by £2.772m and the 5-year gap has increased by £8.218m. There are some very significant changes in assumptions within this position.

**Table 2 – Changes to the Medium-Term Budget Gap since the Summer MTFS Update**

|   | 25/26<br>£m   | 26/27<br>£m    | 27/28<br>£m   | 28/29<br>£m   | 29/30<br>£m   | Total<br>£m    |
|---|---------------|----------------|---------------|---------------|---------------|----------------|
| <b>Net Budget Gap Pre-Council Tax Summer MTFS</b>                           | <b>27.853</b> | <b>20.981</b>  | <b>24.197</b> | <b>24.245</b> | <b>24.949</b> | <b>122.226</b> |
| Pay assumptions (mainly NI Changes)   | 4.659         | 1.000          | 1.000         | 1.000         | 1.000         | <b>8.659</b>   |
| Pensions Contributions adjustments  | 0.000         | (4.364)        | 0.000         | 0.000         | 0.000         | <b>(4.364)</b> |
| Change to Non-Pay Inflation assumptions                                     | 4.882         | 3.194          | 1.015         | 1.165         | 1.307         | <b>11.562</b>  |
| Change to additional contingency for known service pressures                | (0.006)       | (0.679)        | (0.000)       | (0.000)       | (0.000)       | <b>(0.685)</b> |
| Demographic Growth assumptions  | 0.713         | 0.078          | (0.524)       | (1.279)       | (0.389)       | <b>(1.401)</b> |
| Directorate Base Budget Growth  | 1.510         | (0.048)        | 0.000         | 0.000         | 0.000         | <b>1.462</b>   |
| Removal of previously agreed savings which are no longer deemed deliverable | 1.736         | 0.000          | 0.000         | 0.000         | 0.000         | <b>1.736</b>   |
| Directorate Management Actions and Funding Substitutions                    | (2.542)       | (1.540)        | (0.140)       | (0.415)       | (0.050)       | <b>(4.687)</b> |
| Levies Forecast   | 0.727         | (0.168)        | 0.033         | 0.047         | 0.047         | <b>0.687</b>   |
| Realignment of Capital Financing Budgets                                    | (4.000)       | 1.900          | 1.100         | 1.000         | 0.000         | -              |
| Insurance Appeals and Bad Debt Provision Base Budget Growth                 | 3.000         | 0.000          | 0.000         | 0.000         | 0.000         | <b>3.000</b>   |
| Removal of Financial Resilience budget                                      | (4.000)       | 0.000          | 0.000         | 0.000         | 0.000         | <b>(4.000)</b> |
| Settlement funding assumptions  | (3.094)       | 0.000          | 0.000         | 0.000         | 0.000         | <b>(3.094)</b> |
| Council Tax Base growth assumption  | (0.813)       | 0.020          | 0.032         | 0.045         | 0.058         | <b>(0.658)</b> |
| <b>Sub-Total of Changes in Assumptions</b>                                  | <b>2.772</b>  | <b>(0.607)</b> | <b>2.516</b>  | <b>1.563</b>  | <b>1.974</b>  | <b>8.218</b>   |
| <b>Net Budget Gap Pre-Council Tax Autumn MTFS</b>                           | <b>30.625</b> | <b>20.374</b>  | <b>26.714</b> | <b>25.807</b> | <b>26.922</b> | <b>130.443</b> |

### **Pay Budget Assumptions**

- 1.15. The 2025/26 budget and medium-term budget gap assumes 2% pay inflation per annum over the entire forecast period. Due to the compounding effect of the annual pay award and recent changes announced to employer National Insurance Contributions, as a general calculation, every 1% increase in pay budgets broadly costs £2.500m for the council's GF.
- 1.16. The local government pay award for the period 1 April 2024 to 31 March 2025 has now been agreed. Council officers on pay points up to and including pay points 50 (£62,457) will receive an annual increase of £1,575, and those on pay points 51 (£63,582) and above (excluding those on the chief officer grades) will receive an annual increase of 2.5%. The pay award for chief officer grades had already been agreed at an annual increase of 2.5%. Work is being undertaken to allocate the required budgets to services. At the summer MTFS update, £4m was built in for pay catch up relating to the 2024/25 pay award to provide for any pressure over the medium-term. Detailed calculations are currently being worked up and will be reviewed against this budget.
- 1.17. It was announced in the Autumn Budget that from April 2025 there will be a 1.2% increase in employer National Insurance Contributions (NICs) and a reduction in the threshold from

£9,100 to £5,000 (the level per-employee at which employers will begin to pay NICs). As an initial high-level estimate, the MTFs assumes that this will result in additional direct staffing costs of £3.859m for the council's GF. The government has indicated that it has set aside additional funding to protect local government from the changes to employer National Insurance Contributions, and the impact they will have on their direct staffing costs. However, there is a significant risk that this will not completely offset the additional direct staffing costs incurred. It is also not clear what mechanism will be used, if at all, to compensate the ring-fenced HRA for this additional cost.

### **Pensions Contributions Adjustments**

1.18. The triennial pension fund valuation as at 31 March 2025 will impact the council's budget for the three years from 2026/27 to 2028/29. As we approach the 31 March 2025 valuation date, the latest working assumption is that there will be no prior year deficit on the fund and therefore a saving of the currently budgeted annual deficit payment of £4.674m. It is also forecast that the future service employer contribution rate could increase from 18.3% to 18.5%, an increase of approximately £0.400m per annum. These assumptions have been reflected in this MTFs update and will be kept under close review in future updates.

### **Demography (Demand) Growth and Non-Pay Inflation**

1.19. Demographic growth refers to the budgetary impact of increased demand and complexity of demand for council services. Demographic growth estimates have been updated and are summarised in **Table 3**. Non-pay (mainly contract) inflation estimates have also been updated and are summarised in **Table 4**. The largest forecasts are explained in detail below including risks and planned mitigations.

**Table 3 - Demographic Growth Forecasts across the MTFs Period**

| <b>Directorate</b>   | <b>2025/26<br/>£m</b> | <b>2026/27<br/>£m</b> | <b>2027/28<br/>£m</b> | <b>2028/29<br/>£m</b> | <b>2029/30<br/>£m</b> | <b>Total<br/>£m</b> |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|
| <b>Adult Social Care</b> – Mental Health, Learning Disabilities, Memory, Cognition and Physical Support Service Users. | 4.924                 | 5.726                 | 5.270                 | 5.461                 | 6.465                 | <b>27.846</b>       |
| <b>Children &amp; Young People</b> – Children Looked After Placements Short Break, and Send Transport                  | 0.558                 | 0.654                 | 0.540                 | 0.540                 | 0.600                 | <b>2.892</b>        |
| <b>Children &amp; Young People</b> – Historical demographic growth no longer required in the base budget.              | (1.050)               | -                     | -                     | -                     | -                     | <b>(1.050)</b>      |
| <b>Homes &amp; Neighbourhoods</b> – Temporary Accommodation  | 3.130                 | 0.670                 | 0.735                 | -                     | -                     | <b>4.535</b>        |
| <b>TOTAL</b>   | <b>7.562</b>          | <b>7.050</b>          | <b>6.545</b>          | <b>6.001</b>          | <b>7.065</b>          | <b>34.223</b>       |

**Table 4 – Non-Pay Inflation Forecasts across the MTFS Period**

| Directorate   | 2025/26<br>£m | 2026/27<br>£m | 2027/28<br>£m | 2028/29<br>£m | 2029/30<br>£m | Total<br>£m   |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Adults Social Care</b> – Care UK Contract, London Living Wage/National Living Wage Contracts             | 7.759         | 5.538         | 6.049         | 6.593         | 7.170         | <b>33.109</b> |
| <b>Children &amp; Young People</b> – Children Looked After Placements, Children’s Centres and SEN Transport | 0.630         | 0.630         | 0.630         | 0.740         | 0.740         | <b>3.370</b>  |
| <b>Environment &amp; Climate Change</b> – Parking Staffing Contracts  | 0.500         | 0.500         | 0.500         | 0.500         | 0.500         | <b>2.500</b>  |
| <b>Homes &amp; Neighbourhoods</b> – Temporary Accommodation and No Recourse to Public Funds (NRPF)          | 2.802         | 2.575         | 0.629         | 0.670         | 0.690         | <b>7.366</b>  |
| <b>Resources</b> – Digital Contracts  | 0.193         | 0.226         | 0.281         | -             | -             | <b>0.700</b>  |
| <b>Energy Costs</b> – Amendment to Energy Budgets across the GF   | 0.061         | -             | -             | -             | -             | <b>0.061</b>  |
| <b>TOTAL</b>  | <b>11.945</b> | <b>9.469</b>  | <b>8.089</b>  | <b>8.503</b>  | <b>9.100</b>  | <b>47.106</b> |

1.20. The largest requirement of demographic growth and non-pay inflation is within Adult Social Care. The number of residents requiring adult social care has risen over the past number of years. The Adult Social Care demographic growth forecasts are based on average growth projections, average cost increases above inflation and any assumed management actions that can be taken to reduce the growth. The rise in 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.

Regarding non-pay inflation, the council contracts with providers to provide adult social care provision across the borough in both residential and community-based settings. The following factors have contributed to a significant increase in the estimated increase in contract costs since the previous MTFS update:

- Employer National Insurance Contributions Changes in Autumn Budget: It is estimated that this will lead to a £2.120m increase in adult social care contracts in 2025/26.
- Wage Increases: On 23 October 2024, the London Living Wage was set at £13.84 per hour (a 5.32% increase compared to 3.94% previously assumed). The government has set the National Living Wage for 2025/26 at £12.21 per hour (a 6.73% increase compared to 4.62% previously assumed).
- General Inflation: The Consumer Price Index (CPI) for 2025/26 is forecast to be 2.6% (Office for Budgetary Responsibility forecast), which is above the previous forecast of 2%.

1.21. Since the previous update, there has been a rapid escalation in Temporary Accommodation costs which shows no sign of easing in the near future. This is an exponentially increasing problem for local authorities all around the UK and Islington is no

exception. The number of homeless households in London is now at a record high. In 2024/25, there has been a 42% increase in demand for temporary accommodation in Islington. There are currently around 1,677 homeless households in Islington, being supported in temporary accommodation. These households account for 2,133 Adults and 1,470 children, living in temporary accommodation.

At 2024/25 Q2 there was a forecast overspend of +£5.316m in the area. A forecast budget growth requirement for future years based on previous data has been factored into the demographic and non-pay growth forecasts in this report. However, it is now considered likely that this will be insufficient.

Whilst scenarios are being reviewed and forecasts developed further, £5m has been added to the corporate contingency for additional known pressures in anticipation of the expected additional growth requirement for Temporary Accommodation. There is a risk that there will be further growth required above this. The demographic and non-pay inflation pressures, risks and possible mitigations are set out in more detail below:

- There has been a vast rise in the number of cases and increasing number of people presenting as homeless. In recognition of the demographic growth, this iteration of the MTFs forecast assumes that there will be a 5.1% increase in 2025/26 and 2026/27, however this is subject to further review and there is a risk that this will be higher. It is presently difficult to forecast the ceiling of demand for temporary accommodation.
- Rising nightly costs exacerbate the overall cost of homelessness and there is a requirement for non-pay inflation growth over the medium-term. The reduction in the number of private landlords and the demand for properties has seen rents continue to rise at a rate well above inflation. The revised forecast assumes a 15% increase in costs in 2024/25 and 2025/26, which reflects Islington rent increases and external analysis. The ONS has put average rents at 12.8% higher in the last 12 months from September 2024. It is expected that rents will continue to be high until 2026/27 and will then rise in-line with Retail Price Index (RPI) inflation.
- The following actions focus on reducing homelessness, improving access to housing, and housing advice, improving the supply and quality of housing across Islington, preventing harm, and improving the experience of all residents in Islington. Therefore, the council proposes the following to ensure we manage housing need and reduction the overspend associated with the council's homelessness provision of services.
  - Rehousing the homeless households from expensive and inappropriate private sector temporary accommodation as soon as possible. This will be achieved by offering permanent council, housing association accommodation, and moving the households in the most expensive temporary accommodation to cheaper forms of temporary accommodation.
  - Increase the number of permanent lettings to homeless households
  - Making quicker homeless decisions recruiting four new officers as part of the restructure to clear the backlog before the 1st of April 2025. This will mean the restructure is implemented immediately now the consultation has ended. This has now been actioned as the restructure consultation ended on the 1st of November 2024.



- Implementing the one offer rule for accepted homeless cases and non-priority/intentionally homeless cases.
- Ensure the council continues to minimise placing homeless households into bed and breakfast and hotels due to the subsidy loss and minimises further the use of storage facilities for homeless households' furniture.
- Submit a further bid to the GLA to purchase 150 new Ex Right to Buy properties with a grant requirement of £36 million in December 2024.
- Using the Right to buy receipts the council has collected to purchase additional Ex Right to Buy properties and to use as Temporary Accommodation.
- Moving homeless households to the 90-minute policy framework previously agreed,
- Complete an end to end (termination of tenancy to commencement of new tenancy) analysis in partnership with the Data Intelligence team to ensure an independent assessment and new framework is established to improve the performance relating to voids.
- Seek additional funding from the MHCLG to copy the programme we have successfully run during 2023 and 2024 to acquire 317 properties.

### **Other Directorate Base Budget Growth**

1.22. The MTFs provides growth in 2025/26 for the following other base budget pressures in directorates. This growth will be kept under review throughout the budget setting and budget monitoring processes.

**Table 5 – Directorate Base Budget Growth 2025/26**

|                                | <b>Description</b>   | <b>£m</b> |
|--------------------------------|--|-----------|
| Adult Social Care              | Additional staffing costs attached to the delivery of the agreed Demand Led Strategy to provide for an additional post to manage the Shared Lives Project and to facilitate sourcing accommodation for care leavers. | 0.055     |
| Children & Young People        | Support Young Black Males & Mental Health – Budget to extend the council's existing agreement with the NHS to support relevant services.   | 0.140     |
|                                | Fostering Allowances – Allowances are reviewed by the government annually and implemented by local authorities as of 6 April each year.  | 0.064     |
|                                | DSG Overheads – A charge is levied to reflect the full cost to the council of providing central services to Schools.   | 0.013     |
| Communities, Strategy & Change | Growth within the Communications and Campaign team relating to the platforms required for consultations and internal and external bulletins.   | 0.060     |
| Environment and Climate Change | Highways tree surgery – One-off growth was provided in 2024/25 for backlog maintenance. This adjustment reverses the one-off growth out of the Environment and Climate Change in 2025/26.                            | (0.410)   |
| Homes &                        | Mortuaries Service - Increase the current Mortuary Services budget to align with the newly proposed Mortuary Service Level Agreement (SLA)   | 0.223     |



|                |   |              |
|----------------|---|--------------|
| Neighbourhoods | charges set by the Whittington Hospital, who currently provide these services.  |              |
|                | Removal of 2024/25 Agreed Temporary Accommodation Saving. Due to the vast increase of costs and subsequent pressures reported in TA, this saving is to be removed from the base budget on an ongoing basis.   | 0.407        |
| Resources      | Previously assumed Housing Benefit Overpayment Income that can no longer be assumed from 2025/26 due to the ongoing migration to Universal Credit.  | 0.939        |
|                | Support the Career Pathways and Apprentices Strategy - In order to become an Exemplar Employer, additional resource was required and agreed in the 2024/25 budget report. Further growth is needed in 2025/26 to replace a one-off grant which supported the strategy until March 2025. | 0.174        |
| <b>TOTAL</b>   |   | <b>1.665</b> |

### **Previously Agreed Savings**

- 1.23. The MTFS assumes the delivery of the previously agreed savings at **Appendix B**.
- 1.24. The following undeliverable 2024/25 savings have been added back to the MTFS gap:
- The 2024/25 budget included a saving of £0.407m aiming to reduce the cost of the Temporary Accommodation provision and to manage demand. Due to the vast increase of costs and subsequent pressures reported in Temporary Accommodation, this saving is to be removed from the base budget on an ongoing basis.
  - Of the £1.000m savings target to be delivered from a second round of the Voluntary Efficiency and Redundancy Scheme in 2024/25, £0.732m was delivered. The undelivered £0.268m has been added back the MTFS gap.
- 1.25. In addition, the 2024/25 budget setting process agreed the following savings that are now considered undeliverable and have been removed from the MTFS:
- £0.511m relating to further managing demand in Temporary Accommodation.
  - £0.400m generation of additional commercial income due to ongoing base budget pressures in this area.
  - £0.150m from redirecting money from commissioning budgets into the new Voluntary & Community Sector (VCS) grants programme to ensure local and more efficient delivery of services through our local VCS organisations. However, an appropriate method of delivery could not be found.

### **Directorate Management Actions**

- 1.26. The MTFS includes management actions reflect where directorates are taking action to mitigate budgetary pressures through measures such as contract efficiencies with no service impact or policy change and realigning budgets with demand. Planned service management actions in 2025/26 are noted in **Table 6**.

**Table 6 – Planned Directorate Management Actions 2025/26**

| Directorate                    | Description  | £m             |
|--------------------------------|--|----------------|
| Adult Social Care              | Reviews of care packages - Continuation of historically agreed saving to manage the cost of Care Packages  | (0.300)        |
| Children and Young People      | Package of smaller management actions following agreed changes in the Platform Islington service, reorganisation of Early Years service and reducing non-pay and agency expenditure. | (0.280)        |
| Community Wealth Building      | Rationalise level of security cover across council sites   | (0.075)        |
| Environment and Climate Change | Anticipated net increase in Leisure Contract rent income and Parks and Leisure increased income  | (0.250)        |
|                                | Reduce the Recycling and Waste Minimisation Team to 1 Full Time Equivalent post  | (0.060)        |
| Public Health                  | Contract Efficiencies and managing inflationary pressures  | (0.370)        |
| Resources                      | Reduced costs of the finance service, through the consolidation of systems, improvements in processes and development of staff to deliver a more efficient service                   | (0.200)        |
|                                | Legal Services efficiencies as a result of a planned reorganisation and additional income generation   | (0.250)        |
|                                | Further delivery of allowing staff to purchase additional annual leave   | (0.050)        |
| <b>TOTAL</b>                   |  | <b>(1.835)</b> |

**Funding Substitutions**

1.27. The MTFS also includes funding substitutions where alternative funding (e.g. external grant funding) has been identified to fund an existing council budget. Funding substitutions in 2025/26 are noted in **Table 7**.

**Table 7 – Directorate Funding Substitutions 2025/26**

| Directorate               | Description   | 2025/26 £m     |
|---------------------------|---|----------------|
| Children and Young People | In respect of council managed Children's Centres and nurseries, £0.969m will be substituted with additional Dedicated Schools Grant in 2025/26. Due to new government funding and entitlements for Under 2's and Over 2-Year-Olds, vacancies will reduce and increase DSG funding to nurseries. | (0.969)        |
|                           | The Mayor's Fund for Universal Free School Meal is set to continue in 2025/26 meaning that GF resources are not required to fund the council's commitment to Free School Meals. This will release £1.177m from the GF in 2025/26.   | (1.177)        |
| <b>TOTAL</b>              |   | <b>(2.146)</b> |

**Corporate Budget Adjustments****Levies**

1.28. Levies forecasts have been updated in **Table 7** to reflect latest forecasts from levying bodies. Where there is an absence of forecast from the levying body, the MTFS assumes an increase of 2% per levy per annum in line with the Bank of England target inflation rate.

**Table 7 – Estimated Corporate Levies 2025/26**

| <b>Levy</b>                           | <b>Budget<br/>2024/25<br/>£m</b> | <b>Forecast<br/>2025/26<br/>£m</b> | <b>Increase<br/>£m</b> | <b>Increase<br/>%</b> |
|---------------------------------------|----------------------------------|------------------------------------|------------------------|-----------------------|
| Freedom Pass                          | 10.475                           | 11.870                             | 1.395                  | 13.3%                 |
| Environment Agency (Thames Region)    | 0.198                            | 0.202                              | 0.004                  | 2.0%                  |
| Inner North London Coroner's Court    | 0.520                            | 0.546                              | 0.026                  | 5.0%                  |
| Lee Valley Regional Park Authority    | 0.212                            | 0.216                              | 0.004                  | 2.0%                  |
| London Boroughs Grants Scheme         | 0.164                            | 0.165                              | 0.001                  | 0.6%                  |
| London Pensions Fund Authority        | 0.493                            | 0.494                              | 0.001                  | 0.3%                  |
| North London Waste Authority Levy     | 8.288                            | 9.860                              | 1.572                  | 19.0%                 |
| Traffic and Control Liaison Committee | 0.243                            | 0.248                              | 0.005                  | 2.0%                  |
| <b>TOTAL</b>                          | <b>20.594</b>                    | <b>23.603</b>                      | <b>3.009</b>           | <b>14.6%</b>          |

- 1.29. The most significant change is regarding the North London Waste Authority levy. The latest forecast is £9.860m for 2025/26, £1.572m higher than the 2024/25 levy and a £0.498m increase since the previous forecasts in February 2024. The increase is driven by a full year of operating costs, interest charges and Minimum Revenue Provision relating to the new facility being brought into use in 2024/25.
- 1.30. The increase in the Freedom Pass levy is due to forecast demand returning towards pre-pandemic levels. Freedom Pass journeys have increased in recent years but remain lower than pre-pandemic levels (2019/20). The levy for 2024/25 is based on Freedom Pass journeys being 77% of pre-pandemic levels. The baseline forecast from London Councils is that demand will be 84% of pre-pandemic levels in 2025/26.

### **Revenue Cost of Capital Programme**

- 1.31. The MTFs impact of funding the existing planned capital programme has been realigned to reflect the latest profiling of expenditure by year. This has given rise to a non-recurrent £4m reduction in capital financing costs (interest payable and Minimum Revenue Provision for the repayment of debt) in 2025/26.
- 1.32. It should be noted that fortuitous in-year underspends in the capital financing budget have helped to partially offset directorate overspends in recent years. By taking £4m out of the budget in 2025/26 on a non-recurrent basis, it means that this will not be available to offset any directorate overspends.
- 1.33. The revised 10-year capital programme is currently being worked up to be presented as part of the Draft Budget Proposals. It is expected that this may result in an increase in the MTFs gap for year 2 (2026/27) onwards once additional essential investment need is added to the programme.

### **Required Year-End Provisions**

- 1.34. There has previously been no annual budget to replenish the insurance appeals provision (amount assessed by an external actuary) and sundry bad debt provision. These provisions are required under the accounting code of practice. The annual replenishment amounts to approximately £3m in total each year. This has previously been funded through in-year corporate underspends on the capital financing budget or use of the financial resilience budget. This is no longer considered a sustainable approach due to the removal of the financial resilience budget and the re-alignment of capital financing budgets

discussed above. Therefore, an annual budget of £3m per annum has been included in the MTFs from 2025/26 to provide for these known costs.

### **Council Taxbase**

- 1.35. It is now forecast that the council taxbase will grow by 1.5% in 2025/26 and 0.5% per annum over the forecast period.
- 1.36. The forecast 2025/26 taxbase increase includes the estimated additional income from the planned introduction of a second homes premium from 1 April 2025.

### **Government Funding**

- 1.37. The Chancellor of the Exchequer announced the Autumn Budget on 30 October 2024. Whilst the Budget recognised the pressures on local authorities, there remains significant uncertainty around individual local authority funding for 2025/26. A full understanding of the funding implications for the council will not be known until the provisional Local Government Finance Settlement in mid to late December.
- 1.38. It was announced that there will be a 3.2% real-terms increase in local government Core Spending Power in 2025/26. This will include an assumption of Council Tax increases at the maximum threshold (to be confirmed, but a working assumption of 4.99%), additional social care grant (£600m nationally) and additional grant for general pressures (£700m).
- 1.39. The MTFs currently assumes the following changes in government grant funding in 2025/26:
  - £4.285m additional social care grant (estimated share of the additional £600m nationally).
  - £0.892m (one-off) estimated from the assumed continuation of the New Homes Bonus grant for a final year.
  - Nothing yet assumed in terms of the council's potential share of the additional £700m nationally for general pressures. This is expected to be allocated based on levels of deprivation, which may work in Islington's favour as the 6<sup>th</sup> most deprived council in London. However, it is too speculative at this stage to reliably estimate the council's allocation from the £700m.
  - Nothing yet assumed as compensation for the significant additional costs to the council of changes to employer National Insurance Contributions. The government has indicated that it has set aside additional funding to protect local government from the changes to employer National Insurance Contributions, and the impact they will have on their direct staffing costs. However, there is a significant risk that this will not completely offset the additional direct staffing costs incurred.
- 1.40. In recognition of the implementation of the Extended Producer Responsibility Scheme to improve recycling outcomes (due January 2025), £1.1bn of new funding will be provided across Local Government. It is expected that this grant funding will compensate for the additional resource required to improve recycling outcomes, so may not wholly be additional net funding compared to existing budget assumptions. Indicative estimates of individual funding allocations are expected in November for the 2025/26 financial year and recycling plans are being developed within the service.

- 1.41. To tackle homelessness and prevent rough sleeping, £233m was announced for 2025/26. Islington's allocation from this additional funding is unknown and cannot yet be estimated in the MTFs.
- 1.42. Announcements were made in the Autumn Budget in relation to Schools and Education Funding:
- The Core Schools budget will increase by £2.3bn next year. Of which, £1bn will be provided to increase Special Educational Needs and Disabilities (SEND) and Alternative Provision funding.
  - The Chancellor also committed to providing £6.7bn of capital funding in 2025/26 for education in England, including £1.4bn for the school rebuilding programme, over £2bn for school's maintenance and £950m for skills capital.

Pupil numbers in Islington have been falling in recent years, so an increase in per-pupil funding does not mean that overall funding for schools in Islington will increase. Allocations will not be known until the provisional schools settlement in December.

- 1.43. Given the huge uncertainty around local government funding from 2026/27 onwards, both in terms of the overall funding quantum for local government that comes out of the government's multi-year Spending Review due to take place in 2025 and potential changes to the methodology for allocating funding, the MTFs currently assumes no additional government funding beyond 2025/26.

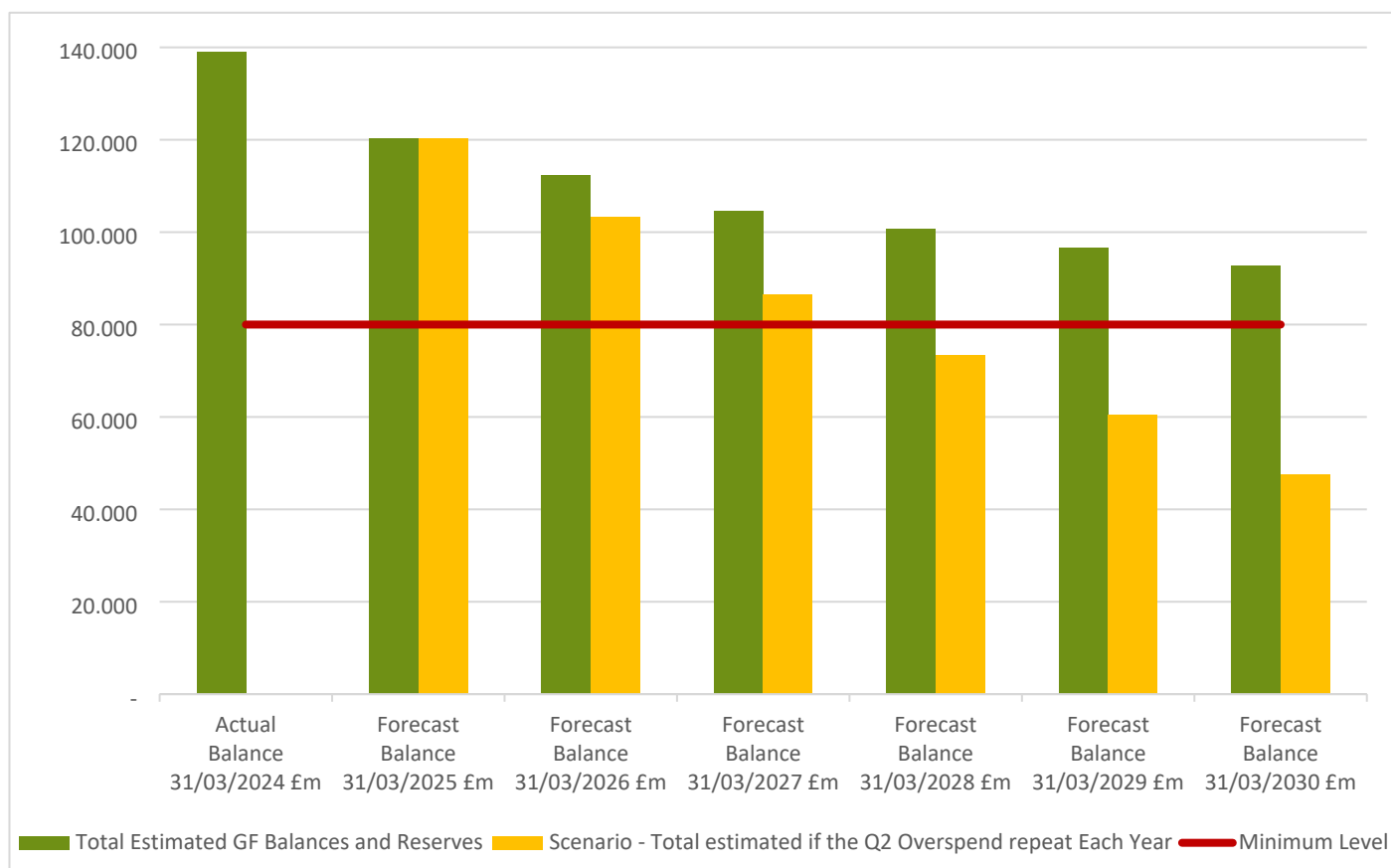
## 2. General Fund Contingency and Reserves

- 2.1. The MTFs continues to assume an annual, general contingency budget of £5m. However, this is extremely small as a proportion of the overall GF budget and given the level of unforeseen service pressures that have come through in the current financial year.
- 2.2. In addition, there is corporate budget provision for known additional pressures and unquantifiable risks in directorates. This amounts to £9.649m in 2025/26 (including an additional £5m for Temporary Accommodation pressures) and an additional £3m per annum in 2026/27 to 2029/30 for further emerging pressures.
- 2.3. Maintaining adequate reserves to manage budgetary risks and unexpected events or emergencies is a key component of the council's financial sustainability. As all reserves are one-off in nature, they should not be used to bridge recurrent budget gaps. A sustained trend of declining reserves has been an early indicator of financial distress in authorities that have subsequently issued S114 notices.
- 2.4. At the end of 2023/24, Islington had useable revenue reserves equating to 43% of its core spending power. This is significantly lower than the Inner London Borough average of 76%.
- 2.5. In the 2024/25 budget report, the council's Minimum GF Balance and Earmarked Reserves Level was set at £80m with the target of increasing reserves where possible. The £80m Minimum GF Balance and Earmarked Reserves Level will be reviewed and updated ahead of the MTFs update in the 2025/26 budget report.
- 2.6. Due to widening directorate pressures since the Summer MTFs Update to the July Executive, the previously assumed £4m restoration of the financial resilience budget in 2025/26 is no longer considered a realistic proposition. The consequence of this is a faster depletion of reserves than previously assumed.

2.7. **Figure 1** below projects the level of GF revenue reserves over the 5-year MTFS period against the agreed £80m Minimum GF Balance and Earmarked Reserves Level (red line) under two scenarios:

- **Green bar scenario** – This is simply a projection of existing spending commitments and plans against reserves. It assumes that the GF budget will be balanced each with a combination of robust and deliverable savings, additional government funding and council tax increases. Moreover, that the approved budget is subsequently not overspent in year. Under this scenario, reserves would stay above the Minimum GF Balance and Earmarked Reserves Level of £80m over the MTFS period but with little headroom. Significant new spending commitments against reserves would likely push the projection into a breach of the Minimum GF Balance and Earmarked Reserves Level of £80m. This highlights the high need to increase reserves where possible to ensure a more sustainable financial position for the council.
- **Orange bar scenario** – This additionally assumes a repeat of the forecast 2024/25 Q2 directorate-level overspend (£14.042m less general contingency budget of £5m) in 2025/26 and over the medium term. Under this scenario, reserves would breach the Minimum GF Balance and Earmarked Reserves Level of £80m by year 3 (2027/28) of the MTFS. It could be breached even sooner if significant new spending commitments are made against reserves or if the 2025/26 and 2026/27 budget gaps are not fully balanced by robust and deliverable savings.

**Figure 1 – Usable General Fund Revenue Reserves Forecast**



2.8. Schools' balances in Islington have been in decline since 2018/19 when they stood at a total surplus of £11.732m. Balances have reduced steadily since then, with a total surplus

of £5.984m and 17 schools in deficit at the end of 2023/24. Based on the 2024/25 Q2 forecast there will be a surplus of £1.594m at the end of 2024/25 and 18 schools will be in deficit. This is forecast to decline to a deficit of approximately £6m by 2026/27. The pressures on schools' balances are a national issue. Inner London boroughs in particular have seen significant reductions in their total pupil numbers since 2019/20, leading to increasing numbers of schools forecasting future deficit budgets. This risk is being responded to in Islington through the schools' strategic reorganisation programme.

- 2.9. The council previously approved a Flexible Use of Capital Receipts Policy for 2024/25, up to £20m, that makes use of the government flexibility for local authorities to use capital receipts generated from the sale of assets (except for Right to Buy disposals) to fund revenue costs arising from transformational revenue projects that deliver savings. Ordinarily these receipts would only be available to fund capital expenditure. Utilising the capital receipts flexibility would mean that the council's reserves would reduce by less but there would be a corresponding increase in the council's underlying need to borrow for the capital programme. The latest MTFs assumes that the flexibility is not utilised.

### 3. Housing Revenue Account

- 3.1. The HRA is experiencing unprecedented financial pressures. Recent inflation on the cost of repairs has increased at a far greater rate than rental inflation, due to several caps imposed by the government. This is restricting the ability of HRA's across the country to use rent collection, the main form of income, to fully cover the costs of providing services to current and future tenants. In recent years there have also been several legislative changes around building and fire safety, affecting the ability to fulfil decent homes standards. The cost of borrowing increased from 2% in 2021 to nearly 6% in 2023, almost eradicating the viability of new build developments. These pressures mean local authorities must now make difficult decisions between investing limited resources in maintaining and improving existing council homes and building new homes.
- 3.2. The HRA 30-year Business Plan is currently being updated to reflect the key pressures and also to incorporate Government announcements. The HRA budget, incorporating a medium-term reserves position and a 30-year Business Plan will be presented to the Executive and to Council in Spring 2025.
- 3.3. The 2024/25 Q2 budget monitoring position for the HRA highlights pressure that expected to continue in future years, including +£2.500m on damp and mould, +£1.300m on repairs and maintenance and +£3.235m from elevated housing disrepair claims. The impact on future years will be assessed and factored into the HRA budget.
- 3.4. There are further pressures that are being factored into the HRA business planning. The 2024/25 Local Government Pay Award is forecast to cost more than budgeted for creating a further £1.039m pressure in 2024/25 which will need to be factored into future years base budgets. The announcements around employers National Insurance Contributions are likely to create a further pressure of up to £1.300m.
- 3.5. Local authorities across the country have lobbied for a more sustainable rent settlement which, alongside stable inflation, will enable greater certainty over long-term financial planning and investment in our housing stock. The Autumn Budget announcement confirmed a rent policy of CPI +1% for next year and the following five years. It also indicated an intention to consult about an extension of this for future years. The impact of this is a significant benefit to the HRA, reducing the existing funding gap for major investment in the housing stock when compared to the previous budget assumptions.



- 3.6. One of the key constraints of the HRA Business Plan is that we retain a minimum level of HRA reserves. This is currently set at 10% of annual operating expenditure, which equates to a minimum reserves level of c£32m across the life of the business plan. At the end of 2024/25, we are projecting an HRA reserves position of £72.912m. Whilst this is well above the minimum level of reserves it is in the context of a significant investment need in the existing stock.
- 3.7. The government granted additional flexibility by removing the cap on using Right to Buy (RTB) receipts to build new social housing from 50%, albeit for a time-limited period. This will help reduce the level of unaffordable HRA borrowing required on capital schemes and could potentially provide greater funding towards acquisitions programmes or to support existing new build schemes. There have been other changes to the rules around RTB. The most notable is a significant reduction to the level of discount purchasers will be entitled to, reducing from c£130k to £16k. Whilst this increases the amount of the capital receipt that the Council will receive and retain. It is likely to have an impact on the number of sales that are made. In higher property value areas this is expected to have less of an impact, however, this will need to be monitored carefully over the coming months.
- 3.8. There has been a marginal reduction in the cost of borrowing over recent months. The council has been utilising a rolling three-month average for Public Works Loans Board (PWLB) interest rates within its new build viability modelling. This has reduced rates within our pipeline New Build schemes from approximately 6% during 2023/24, to 5.16%, increasing capital scheme viability. There is currently a 0.4% HRA interest rate concession on PWLB borrowing for housing investment, but this will end in June 2026. London Councils is working with local authorities to lobby for a medium-to-long-term discount on PWLB borrowing rates, which would further aid capital investment decisions.

## 4. 2025/26 Budget Setting Timeline

- 4.1. **Table 8** below shows a high-level timeline of the upcoming dates in the budget setting process:

**Table 8 – 2025/26 Budget Setting Process High-Level Timeline**

|               |   |
|---------------|---|
| December 2024 | <ul style="list-style-type: none"> <li>Provisional 2025/26 Local Government Finance Settlement</li> </ul>   |
| January 2025  | <ul style="list-style-type: none"> <li>Draft 2025/26 Budget Proposals published and considered by the Executive</li> <li>Let's Talk Budget Consultation</li> <li>Draft 2025/26 Budget Proposals considered by the Corporate Resources and Economy Scrutiny Committee</li> <li>Council Taxbase Set by Audit Committee</li> </ul> |
| February 2025 | <ul style="list-style-type: none"> <li>Final 2025/26 Local Government Finance Settlement</li> <li>GLA Precept confirmed</li> <li>Final 2025/26 Budget Proposals considered by the Executive and Full Council</li> </ul>   |
| March 2025    | <ul style="list-style-type: none"> <li>Q3 2024/25 Budget Monitoring Report considered by the Executive</li> </ul>   |

## 5. Implications

## **Finance Implications**

- 5.1. These are contained within the body of the report.

## **Legal Implications**

- 5.2. This report sets out the basis upon which a recommendation will be made for the adoption of a lawful budget and the basis for the level of the council tax for 2025/26. It also 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.
- 5.3. The setting of the budget and council tax by Members involves their consideration of choices. No genuine and reasonable options should be dismissed out-of-hand and Members must bear in mind their fiduciary duty to the council taxpayers of Islington.
- 5.4. Members must have adequate evidence on which to base their decisions on the level and quality at which services should be provided. Where a service is provided pursuant to a statutory duty, it would not be lawful to fail to discharge it properly or abandon it, and where there is discretion as to how it is to be discharged, that discretion should be exercised reasonably.
- 5.5. The report sets out the relevant considerations for Members to consider during their deliberations and Members are reminded of the need to ignore irrelevant considerations. Members have a duty to seek to ensure that the council acts lawfully. They are under an obligation to produce a balanced budget and must not knowingly budget for a deficit. Members must not come to a decision which no reasonable authority could come to; balancing the nature, quality, and level of services which they consider should be provided against the costs of providing such services.
- 5.6. 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 Corporate Resources and Economy Scrutiny Committee must have been given the opportunity to scrutinise these proposals and the Executive should consider its comments when making those recommendations.

## **Climate Change and Environmental Implications**

- 5.7. 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.
- 5.8. The council's budget can influence behaviour of residents and businesses which can result in both positive and negative environmental implications. Environmental implications of budget proposals are considered as part of the budget setting process and will be reported in the Full Budget Report.
- 5.9. This report provides information on updated assumptions and estimates regarding the 2025/26 budget and does not seek any decisions which would have an impact on the environment or climate change.

## **Equalities Impact Assessment**

- 5.10. 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.
- 5.11. A full Equalities Impact Assessment was carried out for the 2024/25 budget agreed by Full Council in February 2024. The 2025/26 budget will be agreed in February 2025 and will be subject to a full Equalities Impact Assessment. This report does not seek any decisions which would have an impact on residents.

### **Appendices**

Appendix A: MTFS Forecast 2025/26 to 2029/30

Appendix B: Previously Agreed Savings 2025/26

Background papers: None

|                       |  |                       |
|-----------------------|--|-----------------------|
| <b>Authorised by:</b> |  |                       |
|                       | Executive Member for Finance and Performance | Date 20 November 2024 |

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