

Committee(s): Resource Allocation Sub Committee Policy & Resources Committee	Date: 14 March 2019 14 March 2019
Subject: Fundamental Review: Design Principles and Governance	Public
Report of: Town Clerk & Chief Executive Chamberlain	
Author: Kate Smith, Head of Corporate Strategy & Performance Caroline Al-Beyerty, Deputy Chamberlain	For Decision

Summary

The City of London Corporation has an ambitious programme of activity and projects to deliver a vibrant and thriving City, supporting a diverse and sustainable London within a globally-successful UK. However, in line with other public bodies, the City Corporation faces significant pressures from falling income. Members have requested a fundamental review be conducted of the City of London Corporation's allocation of resources. The review seeks to provide Members with information in an accessible, timely manner, about how the City Corporation is currently allocating resources against Corporate Plan priorities so that Members can take decisions that ensure that the City Corporation is, in fact, spending according to corporate priorities, and that the organisation's financial plans are sustainable in the medium term. This report proposes design principles for conducting the fundamental review and sets out officer governance

Recommendations

It is recommended that Members:

- i. Agree to the design principles for the review, and;
- ii. Note the officer governance process.

Main Report

Background

1. The City of London Corporation has an ambitious programme of activity and projects to deliver a vibrant and thriving City, supporting a diverse and sustainable London within a globally-successful UK. However, in line with other public bodies, the City Corporation faces significant pressures from falling income. HM Government intends to change current funding mechanisms to reflect an increased emphasis on need and to reset the business rates retention system. In parallel with these external threats to revenue streams, both City Fund and City's Cash will start to come under increasing pressure from the revenue costs of borrowing to fund the major projects already agreed by the Court; and cost pressures within and increasing demand for the delivery of current activities.

2. The City Corporation has benefited from a period of relative prosperity in recent years, with growth in both its income streams and asset holdings. However, going forward there are significant risks and a growing uncertainty. Revenue streams are likely to be under considerable pressure as the Government intends to change current funding mechanisms to reflect an increased emphasis on need and to reset the current business rates retention system:
 - **Spending Review** (potentially reporting November 2019) – there is unlikely to be significant additional government funding for local government or police, with the most likely outcome being a further squeeze.
 - The **Fair Funding Review** of local government funding is likely to shift resources away from London and an increased focus on need could have an effect on City funding.
 - **Police Funding Formula review** – this has been delayed but might well re-emerge after the Spending Review and carries significant risks.
 - **Business Rates** – danger of a double hit from a reset which will remove the City's recent growth receipts (forecast at £37m in 2019/20) in 2020/21 and further reforms of Business Rates could again have an effect from 2020/21. Consultation will begin in the summer but we have to put in place contingency plans on the assumption that these changes will be carried forward.
3. In parallel with the external revenue threats, the City Fund revenue budget will start to come under increasing pressure from the revenue costs of borrowing to fund the major projects, including the Museum of London and Fleet St Courts project.
4. Although the City Fund (non-Police) is forecast to be in surplus by £19m in 2019/20, this will be needed to strengthen the major projects reserve. And it can only be balanced, over the next four years, with the use of general fund reserves.
5. Additionally, the Police budget is forecast to be in substantial deficit, pre-mitigation, across the planning horizon, reducing City Fund General Fund Reserves substantially by 2022/23, unless robust mitigations are put in place. The Force is focused on closing the gap through efficiencies and service transformation.
6. Overall, City Fund faces substantial growing deficits over the planning period and the 10-year horizon. Local authority accounting rules do not allow receipts from the sale of assets to be used to support the revenue position. Moreover, there is a statutory requirement to balance the budget across the medium term taking one year with another.
7. Although City's Cash income streams are more stable and therefore more predictable, we are already drawing down on recent balance sheet growth to support the revenue position. In the immediate short-term the financial position is more benign, but both the medium term and the longer-term views are problematic, particularly if the City's Cash potential major projects (Markets Consolidation,

Centre for Music) start to ramp up. The medium-term financial budget position will therefore become increasingly challenging. The cumulative draw down on equities is £221m (including the planned £50m to finance the two Crossrail payments), when historically we would have drawn down £115m over the period. This represents a diminution of £106m of the net asset balance on the current balance sheet over the period.

Summary Position

8. The scale of the challenges will become clearer during the next year, following the Spending Review and reviews of business rates and council tax, and will have an effect from 2020/21 onwards. The medium-term financial position is summarised in the table below. This excludes the impact of pipeline second tier capital projects, which are not currently allocated funding.

CITY FUND - COMBINED (Police and non-Police)

	2018/19	2019/20	2020/21	2021/22	2022/23
Surplus / (Deficit)	29.3	26.6	(5.4)	(0.0)	3.7
Major project financing (net GLA contribution)	(10.0)	1.2	1.5	(2.9)	(8.3)
Budget uplift revenue requests	0	(8.0)	(7.6)	(7.6)	(7.6)
City Fund- non-Police Surplus/ (Deficit)	19.3	19.8	(11.5)	(10.5)	(12.2)
Police Surplus/ (Deficit)	(0.4)	(0.1)	(2.4)	(3.6)	(4.4)
City Fund combined Surplus/ (Deficit)- post mitigation and Premium increase	18.9	19.7	(13.9)	(14.1)	(16.6)
Financed By:					
General Fund Reserves- planned use	80.5	99.3	83.8	68.8	47.2
Or savings requirement			13.9	14.1	16.6

CITY'S CASH

	2018/19	2019/20	2020/21	2021/22	2022/23
(Deficit)/ Surplus with planned equity drawdown	(11.6)	(2.9)	(2.4)	(2.6)	3.5
Major Project Financing	0	(4.5)	(7.5)	(9.3)	(12.4)
Budget uplift revenue requests	0	(5.3)	(4.8)	(3.7)	(3.4)
City's Cash combined deficit	(11.6)	(12.7)	(14.7)	(15.6)	(12.3)
Financed by:					
Savings requirement	11.6	12.7	14.7	15.6	12.3

9. Alternatively, the deficit could be financed through the use of reserves. Although there are no general fund reserves left, there is potential to draw down on the reserve currently invested in securities or property – with between £26m and £43m

available p.a. during the planning period before affecting the level of investments needed to generate sufficient revenue income to run the services.

Responding to the Challenge

10. The recent adoption of a new Corporate Plan provides a prism through which to assess how resources are being allocated to deliver Member agreed policy priorities identified in this plan, both current activity and future projects. This is not just a means of addressing the medium-term financial challenge; it is also an opportunity for Members to decide how best to use resources to achieve a Corporate Plan with maximum impact, thereby ensuring that departmental budgets are fully aligned with and support corporate priorities within a sustainable medium-term financial framework. Moreover, the fundamental review provides an opportunity to reappraise spending across the City Corporation in a cross-cutting way, rather than just depending on the conventional approach of achieving efficiency savings through silos – be it by Service Committee or Department.

Design principles

11. The following design principles are proposed for the fundamental review, in order to ensure that Members are given the information they need to assess how the City Corporation is currently allocating resources against Corporate Plan priorities.

- a) As this is a fundamental review of the organisation, everything is in scope: increasing income (e.g. tax increases, fees/charges); stopping or delaying work; major contracts / outsourcing; service transformation (e.g. via automation); using reserves; selling assets, and; changing the way projects (both capital and revenue) are funded and delivered.
- b) Members need to be able to make real choices – officers need to present options that, in aggregate, enable the funding deficits to be addressed and, where necessary, leave headroom for further resource allocation in respect of corporate priorities.
- c) Assumptions underpinning the projections, e.g. the anticipated Spending Review, Fair Funding Review and Rate Retention Review, will be made clear. Officers and Members will need to stand ready to reprioritise if any of the underpinning assumptions change.
- d) The City of London Police has its own version of a fundamental review underway in the form of the Transform Programme, which will be presenting options as part of a separate but linked process to enable Members to take a view on priorities across the range of Corporation and Policing activities.
- e) The Bridge House Estates (BHE) sits outside this review as BHE is a registered charity, governed by various statutory instruments and Charity Commission orders/schemes. Its governing documents, alongside specific laws relating to

charities, determine the use of funds held, hence such funds are separate from those of the Corporation and can only be used to further the stated objects of the charity.

- f) The steer provided at RASC Away Day will be used to produce prioritisation options that will be presented to P&R Committee (and other relevant Committees) for approval.

Governance process

- 12. Decisions pertaining to the fundamental review will be taken by the Policy & Resources Committee and Resource Allocation Sub-Committee in the first instance, with input where appropriate from the Finance Committee given its responsibility for the City Corporation's Medium-Term Financial Plan (MTFP). The first milestone in the fundamental review is proposed to be the Resource Allocation Sub Committee (RASC) Away Day in July 2019 at which, as usual, Members will be asked to provide officers with a steer as to how they wish to prioritise use of resources going forward; to this end, Members will be presented at the Away Day with a range of options to balance both City Fund and City's Cash in the medium term. Subsequent to this discussion at RASC Away Day, proposals will be then presented to Committees and the Court of Common Council in the usual way.
- 13. The senior responsible officer (SRO) for the fundamental review is the Town Clerk & Chief Executive; the deputy SRO will be the Chamberlain. Oversight of the work will take place via Summit Group, with input from the Deputy Chamberlain, Head of Corporate Strategy & Performance, and Director of Communications. The Chairman and Deputy Chairman of RASC will be briefed regularly on the review's progress prior to the July Away Day.

Corporate and Strategic Implications

- 14. The Corporate Plan, 2018-23, will be used as the strategic framework for this work.

Security Implications

- 15. This is partially a risk driven exercise, so security implications will be covered in the process.

Public Sector Equality Duty

- 16. Full analysis of selected options against this to follow in the due diligence work officers undertake after the RASC awayday.

Conclusion

- 17. This paper sets out the governance process and proposed design principles for conducting the fundamental review so that Members can take decisions that ensure that the City Corporation is, in fact, spending according to corporate priorities, and that the organisation's financial plans are sustainable in the medium term.

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