

<b>Committee(s):</b>  Finance Committee – For decision Policy and Resources – For Information Court of Common Council – For decision	<b>Date(s):</b>  18 February 2020 20 February 2020 5 March 2020
<b>Subject:</b> City Fund 2020/21 Budget	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
<b>Report author:</b> Caroline Al-Beyerty, Deputy Chamberlain	

### Summary

This report presents the overall financial position of the City Fund (i.e. the City Corporation's finances relating to Local Government, Police and Port Health services).

It is framed by a highly uncertain external environment, with potentially significant changes in external funding policies (on both local government and police funding and business rates) that could significantly impact on the outlook, with more downside than upside risk. It shows that there is a window of opportunity, during the next two years, to help to ensure, through further mitigations, a sustainable medium-term budget outlook.

The scale of these changes will become clearer during the next year, following the Spending Review and reviews of business rates, and will impact from 2021/22 onwards.

Good progress has been made with the Fundamental Review, which has now identified opportunities to increase income and make savings in 2020/21 which do not impact on front line services. In November, Finance Committee approved the proposals to balance the budget for 2020/21 and adjustments have been made to departmental local risk budgets for 2020/21 following Policy and Resources Committee approval, effectively creating a resource limit for each department and relevant service committee.

We have not yet identified savings that meet the full extent of the financial gap over the medium-term; and the bulk of the required savings are on City Fund. However, the Government has pushed back its reform of Business Rates until next year. This means that we have an extra year of retaining the current level of Business Rates before they are reduced.

This report recommends a number of measures to stabilise the position in 2020/21 and that will support the steps that will need to be taken over the medium-term, through further work on options put forward in the Fundamental Review; income generation measures, including tax/Premium increases; and containing the cost of major projects and other programmes.

It includes proposals on increases in Council Tax by 1.99%, a Social Care Precept increase of 2% and increase the Business Rate Premium by 0.2p in the £.

Members will also want to note the implications of funding the increased revenue pressures for future years and signal an expectation that additional pressures that might arise during 2020/21 will be absorbed within local risk budgets.

Although the medium-term forecast is balanced through use of reserves, the longer-term picture is very challenging, especially as the statutory debt repayment provision for City Fund starts to ramp up. Given the magnitude of the impact on City Fund (deficits peaking at c£35m), it is not clear how, given the current funding models and phasing, how sufficient savings could be made to accommodate the cost pressures of the Museum of London and the Combined Court building.

Members will want to consider, in the months to come, options, likely to include:

- Phasing of the three major projects;
- Joint ventures on the commercial elements of the projects to bring in external capital; and
- Consideration of current fund classification for each project e.g. covering Police accommodation elements of the combined courts from City's Cash.

The 10-year financing strategy is being updated for consideration at the April Finance Committee.

There is a further report to your Committee on the financial position of the other funds within the City Corporation.

### **Recommendations**

Following Finance Committee's consideration of this City Fund report, it is recommended that the Court of Common Council is requested to:

- Confirm a funding commitment of £5.4m from City Fund for 67 additional police officer posts on the understanding that early progress will be made on shared services and that any underspend will be applied to not delaying the repayment of the Action Fraud loan in 2020/21.
- Agree to fund the rental costs of Middlesex Street carpark on behalf of CoLP (paragraph 29).
- Approve the overall financial framework and the revised Medium-Term Financial Strategy (paragraph 29)
- Approve the Treasury Management Strategy Statement and Annual Investment Strategy for 2020/21 (appendix E).
- Approve the treasury indicators including the operational boundary and authorised limit for external borrowing as stated in the Treasury Management

Strategy Statement and Annual Investment Strategy for 2020/21 (paragraph 75).

- Approve the City Fund Net Budget Requirement of £137.8m (paragraph 46)
- Approve the increases in base budget detailed in appendix B for 2020/21, included within the City Fund budget requirement.
- Note that the forecast includes items already agreed by Policy and Resources Committee detailed in appendix B.
- Note that the revenue estimates assume that a Business Rates reset will remove the City's recent business rates growth receipts in 2021/22 (forecast at £35m in 2019/20) and further reforms of Business Rates could further worsen the impact from 2021/22.
- Note that the Local Council Tax Reduction Scheme will remain the same as set by the Court of Common Council on 12 January 2017 (paragraph 68).

### **Key decisions:**

The key decisions are in setting the levels of Council Tax and Non- Domestic rates:

### **Council Tax**

- To consider an increase of 1.99% in the City of London Corporation element of the Council Tax Demand (paragraph 23).
- To approve an increase in the Adult Social Care Precept of 2.00% (paragraph 23).
- Determine the amounts of Council Tax for the three areas of the City (the City, the Middle Temple and the Inner Temple) to which are added the precept of the Greater London Authority (GLA) as set out in appendix A.
- Determine that the relevant (net of local precepts and levies) basic amount of Council Tax for 2020/21 will not be excessive in relation to the requirements for referendum.
- Determine, the discount awarded to unoccupied and unfurnished and uninhabitable dwellings is continued at zero (0%) for the financial year 2020/21.
- Determine that the premium levied on long-term empty property for 2020/21 of 100% is continued and that for properties that have been empty for over five years, a premium of 200% is levied.
- It is recommended that, having regard to the government guidance issued, the Chamberlain be given the discretion, delegated to the Head of Revenues, to reduce or waive the long-term empty premium charge in exceptional circumstances.
- Approve that the cost of highways, street cleansing, waste collection and disposal, drains and sewers, and road safety functions for 2020/21 be treated as special expenses to be borne by the City's residents outside the Temples (appendix A).

## **Business Rates**

- Set a Non Domestic Rate multiplier of 52p and a Small Business Non-Domestic Rate Multiplier Rate of 50.7p for 2020/21, inclusive of a Business Rates Premium increase of 0.2p to 0.8p in the £ (paragraph 50).
- Note that, in addition, the GLA is levying a Business Rate Supplement in 2020/21 of 2.0p in the £ on properties with a rateable value of £70,000 and above (paragraph 55).
- Delegate to the Chamberlain the award of discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988 (paragraph 51).
- The City Corporation will participate in the 2020/21 London Business Rate Pool with the Greater London Authority and the London borough councils.
- The City Corporation will act as Lead Authority for the 2020/21 London Business Rate Pool.

## **Capital Expenditure**

- Note the proposed financing methodology of the capital programme in 2020/21 (paragraph 71).
- Approve the Capital Strategy (Appendix F).
- Approve the Capital Budgets for City Fund (paragraph 72).
- Approve the allocation of central funding from the appropriate reserves to meet the cost of the 2020/21 new bids together with central funding for the remaining projects previously agreed for progression outside of the Fundamental Review – release of funding being subject to approval at the relevant gateway and specific agreement of the Resource Allocation Sub Committee at gateway 4(a)
- Approve the allocation of central funding in 2020/21 to provide internal loan facilities for police and the HRA, currently estimated at £4.2m and £22m respectively.
- Approve the Prudential Code indicators (Appendix D).
- Approve the following resolutions for the purpose of the Local Government Act 2003 (paragraph 73 and Appendix E):
  - The authorised limit for external debt (which is the maximum the City Fund may have outstanding by way of external borrowing) is £192.1m for 2020/21.
  - The prudent amount of Minimum Revenue Provision (MRP) for 2020/21 is £0.979m (appendix E).

## **Treasury Management Strategy Statement and Investment Strategy Statement 2019/20 (Appendix E)**

- Agree to change the limit on the maximum total principal sums invested for periods longer than one year from £300m to £500m and the limit on the maximum overall amount of non-specified investments from £300m to £500m.

## Chamberlain's Assessment

- Take account of the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves and contingencies (paragraphs 78-81 and Appendix C).

## Main Report

### Background

1. This report sets out the revenue and capital budgets for City Fund for the Finance Committee and Court of Common Council to approve. In setting the budget for 2020/21 and the Medium-Term Financial Strategy (MTFS) for future years, consideration has been given to the high degree of uncertainty and therefore risk in determining Local Government funding levels.
2. The City Corporation has benefited from growth in both its income streams and asset holdings. The additional year of business rate growth retention benefits City Fund by £34.5m in 2020/21, producing a surplus of £35.2m before Police deficit financing and resource request uplifts, and giving a much-needed boost to the financial position and the financing of our major projects.
3. However, going forward there are significant risks and a great deal of uncertainty.
4. The Government recently confirmed the Local Government Finance Settlement for 2019/20 and the Policing Minister published the revenue allocations for Police forces for 2020/21.
5. 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:
  - **The funding settlement one year only** - this year's settlement is the first following the conclusion of the previous four-year Spending Review period (2016-17 to 2019-20). As this is a one-year deal, there remains a great deal of uncertainty regarding Local Government funding after March 2021.
  - The **Fair Funding Review** of local government funding is likely to shift resources away from London which would impact on City Corporation 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 £35m) in 2021/22 and further reforms of Business Rates could again impact from 2021/22.
6. The forecast includes the revenue impact from funding £139m of second tier projects from capital reserves, with capital receipts reserves standing at £137m by 2023/24.

7. The forecasts also assume all approved Fundamental Review proposals are achieved.
8. Although the City Fund (non-Police) is forecast to be in surplus by £27.3m in 2020/21, it can only be balanced, over the next four years, with the use of general fund reserves. Despite the savings made to date in the Fundamental Review, overall, City Fund faces substantial growing deficits over the planning period and the 10-year horizon.
9. There are three options to close the medium-term deficits, or more realistically a combination of the three:
  - Further savings through the continuation of the Fundamental Review; and/or
  - Revenue raising through taxation i.e. increases in Council Tax and Business Rate Premium; and
  - Consideration of the financing strategy for the major projects.

## **Current Position**

### **Progress with the Fundamental Review**

10. The Fundamental Review has now identified opportunities to increase income and make savings in 2020/21 which do not impact on front line services. Finance Committee approved the proposal to balance the budget for 2020/21, by pursuing income proposals of £19.5m, savings/ resource reductions of £8.8m, and a £6.7m draw on reserves. Policy and Resources Committee approved in November a package of proposals; and adjustments have been made to departmental local risk budgets for 2020/21, effectively creating a resource limit for each department and relevant service committee. The adjustments are in addition to the current 2% efficiency requirement already included within the MTFP.
11. We have not yet identified savings that meet the full extent of the financial gap in the medium-term. However, for City Fund, the Government has pushed back its reform of Business Rates to 2021/22. This means that there is an extra year of retaining the current level of Business Rates before they are reduced.
12. The proposals identified to date do not have a large impact on the financial gap in 2020/21, but they reduce the gap over time. However, a substantial proportion (25%) of the proposals are income generation, achievement of which is far less certain than cost savings and are therefore a risk to the sustainability of the medium-term financial plan.

### **Latest forecast position**

13. The latest forecast position for City Fund is shown below in Table 1. The City Fund (non-Police) is forecast to be in surplus by £27.3m in 2020/21 (allowing for £3m p.a. revenue requests as shown in appendix B). However, it can only be balanced over the next four years with the use of general fund reserves.

14. Whereas there are no immediate issues to address for the 2020/21 budget, over the 10 year horizon, both City Fund and City's Cash move into significant cumulative deficit and so whilst action needs to be taken, there is time to properly consider and address prioritisation decisions.

**Table 1**

Surplus/ (Deficit)	2019/20	2020/21	2021/22	2022/23	2023/24
£m					
<b>City Fund (non-Police) after FR options, including BRP increase of 0.2p in the £ Before major projects</b>	25.8	35.7	1.5	6.6	7.1
<b>Police Deficit</b>	0	(5.4)	(8.6)	(8.8)	(8.8)
<b>Surplus (Deficit) before projects</b>	25.8	30.3	(7.1)	(2.2)	(1.7)
<b>Major Projects</b>	0	0	(4.4)	(14.3)	(21.4)*
City Fund uplift revenue requests	0	(2.3)	(2.1)	(3.6)	(4.3)
Pay award additional funding	0	(0.7)	(1.6)	(2.5)	(3.6)
<b>City Fund Total</b>	<b>25.8</b>	<b>27.3</b>	<b>(15.2)</b>	<b>(22.6)</b>	<b>(31.0)</b>

*\*Large increase in financing costs as i) reserves reach minimum levels and consequently borrowing costs ramp up; and ii) earlier profiling of spend.*

15. For City Fund, the impact of capital projects (Museum of London and the combined courts building) is considerable, with substantial deficits across the 10-year planning horizon. The deficit deepens if the financing strategy is weighted towards borrowing, rather than asset disposal, due to the statutory need to provide an annual contribution to debt repayment.
16. Major Projects funding: Table 2 below sets out the current phasing of the projects. The net financing costs for the planning period 2020/21 to 2023/24 have been included in the City Fund forecast.

**Table 2: City Fund major project net costs**

£m	2019/20	2020/21	2021/22	2022/23	2023/24
Combined Courts Centre	(6.2)	(22.6)	(114.4)	(147.9)	(137.9)
Museum of London	(12.7)	(20.6)	(118.9)	(117.3)	(44.9)
<b>Total:</b>	<b>(18.9)</b>	<b>(43.2)</b>	<b>(233.3)</b>	<b>(265.2)</b>	<b>(182.8)</b>

17. Given the magnitude of the impact on City Fund (deficits of around £35m), it is not clear how sufficient savings could be made to accommodate the cost pressures of the Museum of London and the Combined Court building.
18. Members will want to consider options in the coming months, which are likely to include:
- Phasing of the three major projects;
  - Joint ventures on the commercial elements of the projects to bring in external capital; and
  - Consideration of current fund classification for each project e.g. covering elements of the combined courts from City's Cash.

19. The 10-year financing strategy for major project is being recast and will be reported to Finance Committee in April to consider the financing options, including an optimum balance between borrowing and asset disposal. The intention is for Investment Committee in May to advise Resource Allocation Sub Committee on the strategic split between property and non-property investment disposal.
20. Additional funding requests: Policy and Resources Committee and Finance Committee have communicated clearly over the last six months that requests for additional resources will only be considered in exceptional circumstances. Consequently, requests for additional funding are restricted to new Policy initiatives or essential schemes. City Fund requests total £2.3m in 2020/21, increasing to £4.3 p.a. by 2023/24 for Culture Mile, Secure City and Homelessness (further details are provided in Appendix B). The sums have been built into the forecast, adding further cost pressures into the medium-term planning horizon. We should use next year to continue the Fundamental Review and we should be clearer on a number of external factors that will impact on the MTFP during the next year.
21. Council Tax: The Council Tax for the current year, 2019/20, is £894.28, expressed at band D and excluding the GLA precept of £78.38. The Council Tax referendum threshold will effectively be 4%, including 2% to spend on adult social care.
22. Table 3 below shows the cumulative impact of an illustrative 4% increase in 2020/21, followed by a 4% increase each year over the MTFP (assuming that the tax base remains static at 2020/21 levels and adjusted for the precepts for the Inner and Middle Temples):

**Table 3: Council Tax illustrative forecast**

	2019/20	2020/21†	2021/22	2022/23	2023/24
Band D Council Tax (£)	894.28	927.25	964.34	1002.91	1043.03
In-year Income (£'000)	6,311	7,556	7,859	8,173	8,500
Cumulative Income (£'000)	-	1,245	1,548	1,862	2,189

† Assumes 1.99% Council Tax increase + 2% Adult Social Care precept increase and an increase in the Council Tax base

23. In considering the position for 2020/21, the immediate budget position would not in itself necessitate an increase (although the increase in the costs of security and tackling homelessness could be pointed to as a service pressure point). An increase of 1.99%, the maximum increase allowed on the main Council Tax, without a referendum, would generate around £131k. A further 2% adult social care precept increase, raising £138k, is permitted. For comparative purposes, Westminster band D excluding GLA precept is currently £433.34 (£753.85 including the GLA precept); Wandsworth, £443.58 (£764.09 including the GLA precept); and Hammersmith and Fulham £762.02 (£1082.53 including the GLA precept).
24. Members may wish to consider an increase in the Council Tax as:
- Current intelligence suggests that most authorities, including those at the lowest end of the CT league table, are considering increases of up to 3.99%, including the social care precept. There is a risk that the Corporation will stand out if it does not increase and will move closer to the bottom of the table.



- It could reduce any penalisation in the fair funding review, where an implied council tax level might be assumed (above our current level) which could result in a loss of funding
25. Police: The City of London Police has a forecast underlying budget deficit of £11.1m in 2020/21, rising to c£16.8m p.a. by 2023/24. Resource Allocation Sub Committee approved that the City Corporation would fund £5.4m in 2020/21, with Police responsible for making necessary savings to balance the budget. In 2020/21, the Police Force measures to address the deficit include Transform savings of £5.7m, rising to £9.2m in 2023/24.
26. The Home Office has announced the police funding settlement for 2020/21. The outcome for City of London Police (CoLP) is better than had been previously assumed when the Police Force MTFP was updated in December. Although the core grant remains static at £52.4m there is an un-ringfenced uplift for additional officers of £3.9m plus a ring-fenced uplift of £1.2m not yet allocated pending progress on recruitment.
27. It is recommended that the Business Rates Premium is increased by 0.2p in the £ to 0.8p in the £ on the understanding that any underspends will be used to repay the outstanding Action Fraud loan and early progress will be made on shared services. This increase is forecast to raise £5m which would cover most of the £5.4m Corporation funding commitment in 2020/21. Along with the Police savings plans, this would balance the 20/21 budget while also providing for the increased demands CoLP are facing in maintaining the security of the City. Any underspends should also be used to repay the outstanding Action Fraud loan.
28. Although the 2020/21 Police budget can be balanced with City Fund support, the ongoing call on City Fund support increases to £8.8m p.a. during the period, which reduces to £3.4m if the 0.2p increase in BR Premium is applied across the period. The Force will therefore need to take further steps, including through the extension of shared services, to balance the budget in the medium-term. In addition to the revenue cost pressures described above the Force has a number of capital programmes in the pipeline which are currently unfunded. The estimated shortfall is in excess of £41m over the planning period.
29. As part of the Police Accommodation Programme, CoLP require alternative vehicle storage arrangements. Middlesex Street carpark, which is an HRA asset, has been identified as an available site. As an HRA asset a market rental is required for usage of this asset due to the statutory ringfence in place. An annual rental payment of £250k has been calculated as a market rent, and CoLP have requested support from CoL to meet this cost. This arrangement is likely to be in place over the medium term (to 2025 as a minimum), linked to delivery of the Police Accommodation Programme.

### **Key assumptions used in the forecast**

30. The following paragraphs detail the key assumptions that have been used in the construction of the 2020/21 budget and Medium-Term Financial Strategy:

## **Income**

31. The City Fund has two key income streams, rental and investment income.

- Property rental income is forecast on the expected rental income for each property, allowing for anticipated vacancy levels, expiry of leases and lease renewals. The most recent rental forecast reported to Property Investment Board reveals annual rental income is forecast to increase in 2020/21 but decline over the rest of the planning period largely due to the disposal of Fleet Street Estate to make way for the new Courts major project. It should be noted a further reduction in rental income is anticipated in later years as a consequence of the planned disposal of properties to fund the major projects. Outside these changes the City's rental income is protected to some extent in the short-term as our leases are long term with medium-term specified break clauses. The City Surveyor has identified no current fall in demand for office accommodation and the Central London market has up to now remained buoyant. Forecast rental income is regularly reviewed and any potential reduction will be factored into updates to the medium-term financial plan.
- Cash balances are invested in a diversified range of money market and fixed income instruments in accordance with the Treasury Management Strategy with the aim of providing a yield once security and liquidity requirements have been satisfied. The forecast for treasury management income takes account of the likely path of short-term interest rates (chiefly, the Bank of England base rate) over the upcoming financial year. The Bank of England base rate is forecast to remain near historic lows at 0.75% for the entirety of 2020/21 and to increase gradually over the medium-term. The actual path of interest rates will depend on (amongst other things) progress towards a future trade deal with the EU, the outlook for the domestic economy and global economic growth. A change of +/-0.25% to the base rate is expected to translate to approximately £1.7m additional/less income for the City Fund per year, based on current cash balances. Interest income is monitored throughout the year and any potential change to the forecast will be reported through updates to the medium-term financial plan.

## **Expenditure**

32. An assumption of a 2% uplift in departmental pay and inflation costs has been built into the forecast, alongside an allowance for the possible outcome of the Pay Review as shown in table 1.

33. Maintaining the good practice of securing at least 2% year on year efficiencies should be deliverable from continuous improvements in processes and ways of working. Efficiencies over and above 2% will provide opportunities for supporting new priorities and pressures.

## **Grant settlement – City Fund**

34. This year's settlement is the first following the conclusion of the previous four-year Spending Review period (2016-17 to 2019-20). There have been no substantive changes from the proposals set out in the October Spending Round, but as this is

a one-year deal, there remains a great deal of uncertainty regarding Local Government funding after March 2021.

### **Business Rates Retention**

35. The London 75% business rates retention pilot has ended; but as anticipated, the London business rate retention pool has been confirmed, operating with a 67% retention rate. The mechanics of the 2020/21 pool are slightly different to those of the previous pools, which will now see a single levy rate adopted across London, with the benefit being the difference between this single levy rate and the rate that would be in place without the pool. For the City Corporation this will mean a drop in its levy rate from 50% to 19.4%.
36. The benefits from the 2020/21 pool will be distributed on the below basis:
- Incentives pot (18%)
  - Settlement Funding Assessment (SFA) (needs based) pot (41%)
  - Population pot (41%).
37. The estimated benefit in 2020/21 for the City Corporation of the business rates retention pool is £1.2m, based on 67% rates retention rather than 75% in 2019/20 where the estimated benefit is £6m.
38. The City Corporation will continue its role as Lead Authority for the 2020/21 London business rates retention pool, which includes all London boroughs and the Greater London Authority.
39. The Business Rates Retention scheme is expected to be reset from 2021/22. MHCLG are expected to launch their final consultation during summer 2020 and announce the revised scheme during autumn 2020. The expected impact on City Fund is the loss of growth in business rates (forecast at £35m in 2020/21) with no transition in a 'hard reset' scenario. Current intelligence suggests that future growth from 2021/22 onwards will be capped and subject to 'soft resets' in future (with less of a 'cliff edge' on removal of growth).
40. MHCLG are also conducting a Fair Funding Review. This review will adjust the baseline funding allocations for all tiers of Local Government across the country. The revised funding formulae will redistribute the business rates income retained within the Local Government sector. It is expected that the review will shift resources away from London and an increased focus on need could impact on City Corporation funding.

### **Grant funding – City Police**

41. The grant for additional police officers is a little higher than expected. These are detailed above in paragraph 17.

## Action Fraud Service – City Police

42. The City Fund is providing cash flow assistance in relation to the Action Fraud service provided by CoLP. This service was transferred from the Home Office National Fraud Authority to CoLP with effect from 1 April 2014 and the new IBM-run service went live in 2018. The repayment of the cash flow assistance is currently profiled beyond the medium-term planning period, including deferral of the scheduled 2020/21 repayment, to allow for the current negotiations to conclude and the resulting financial impact to be assessed but the deferral will be waived if underspends emerge this year and next.

## City Support – City Police

43. The City Fund is directly funding some additional costs for IT and the CoLP capital programme (total capital support of £17m has been agreed and further requests are considered on the report on your agenda on capital financing). A key driver of the CoLP capital programme are schemes that are required by the Home Office as part of national programmes, e.g. the Emergency Security Network (ESN).

## Revenue Spending Proposals 2020/21

44. The overall budget requirements have been prepared in accordance with the strategy and the requirements for 2019/20 and 2020/21 are summarised by Committee in the table below. Explanations for significant variations were contained in the budget reports submitted to service committees.

**Table 4: City Fund Summary Budget**

<b>City Fund Summary by Committee</b>	<b>2019/20 Original £m</b>	<b>2019/20 Latest £m</b>	<b>2020/21 Original £m</b>
<b>Net (Expenditure) / Income</b>			
Barbican Centre	(26.5)	(26.3)	(28.8)
Barbican Residential	(2.9)	(2.6)	(2.6)
Community and Children's Services	(13.4)	(14.1)	(13.7)
Culture Heritage and Libraries	(20.6)	(37.3)	(54.5)
Finance	(6.7)	21.6	40.1
Licensing	(0.1)	(0.1)	(0.1)
Markets	1.0	0.7	0.7
Open Spaces	(1.7)	(1.9)	(1.7)
Police	(72.7)	(73.3)	(84.9)
Planning and Transportation	(14.9)	(16.4)	(15.5)
Policy and Resources	(6.0)	(7.2)	(5.0)
Port Health and Environmental Services	(14.4)	(18.5)	(17.2)
Property Investment Board	41.7	44.6	45.4
<b>City Fund Requirement</b>	<b>(137.2)</b>	<b>(130.8)</b>	<b>(137.8)</b>

*Figures in brackets denote expenditure, increases in expenditure, or shortfalls in income.*

45. The following table further analyses the budget to indicate:

- the contributions from the City's own assets towards the City Fund requirement (interest on balances [line 5] and investment property rent income [line 6])
- the funding received from government grants and from taxes [lines 8 to 11]; and
- the estimated surpluses to be transferred to reserves, or deficits to be funded from reserves [line 13].

**Table 5: City Fund net budget requirement and financing**

		2019/20 Original £m	2019/20 Latest £m	2020/21 Original £m
1	Net expenditure on services	(173.7)	(175.9)	(183.2)
2	Capital Expenditure funded from Revenue	0.0	(2.4)	(2.8)
3	Cyclical Works Programme expenditure financed from revenue	(20.1)	(14.1)	(12.5)
4	Requirement before investment income from the City's Assets	(193.8)	(192.4)	(198.5)
5	Interest on balances	7.9	8.9	8.5
6	Estate rent income	48.7	52.7	52.2
7	<b>City Fund Requirement</b>	<b>(137.2)</b>	<b>(130.8)</b>	<b>(137.8)</b>
	Financed by:			
8	Government formula grants	121.5	121.9	124.5
9	City offset	11.9	11.9	12.1
10	Council tax	8.0	8.0	8.7
11	NNDR premium	12.5	14.7	15.5
12	Total Government Grants and Tax Revenues	153.9	156.5	160.8
13	<b>(Deficit)/Surplus transferred from (to) reserves</b>	<b>16.7</b>	<b>25.7</b>	<b>23.0</b>

46. The City Fund budget requirement for 2020/21 is £137.8m plus a contribution to reserves of £23.0m resulting in a net City Fund budget requirement of £160.8m, an increase of £6.9m on the previous year before any increase in Business Rates or Council Tax. The following table shows how this is financed and the resulting Council Tax requirement.

**Table 6: Council Tax requirement**

Council Tax Requirement	2019/20 Original £m	2020/21 Draft £m
Net Expenditure	(193.8)	(198.5)
Estate Rental Income	48.7	52.2
Interest on balances	7.9	8.5
Budget Requirement	(137.2)	(137.8)
Proposed contribution to reserves	(16.7)	(23.0)
<b>Net City Fund Budget Requirement</b>	<b>(153.9)</b>	<b>(160.8)</b>

<b>Council Tax Requirement</b>	<b>2019/20 Original £m</b>	<b>2020/21 Draft £m</b>
<u>Financing Sources:</u>		
Business Rates Retention	61.7	59.7
Police Grant	59.8	64.8
City Offset	11.9	12.1
NDR Premium	12.5	15.5
Collection Fund Surplus (CoL share)	1.0	1.1
<b>Council Tax Requirement</b>	<b>7.0</b>	<b>7.6</b>

47. Included within the net budget requirement is provision for any levies issued to the City Corporation by relevant levying bodies and the precepts anticipated for the forthcoming year by the Inner and Middle Temples (after allowing for special expenses, detailed in Appendix 1).

**Table 7: Temple Precepts**

	<b>2019/20 £</b>	<b>2020/21 £</b>
Inner Temple	208,963	223,634
Middle Temple	164,481	160,559
<b>Total:</b>	<b>373,444</b>	<b>384,193</b>

48. On financing, the table below analyses the change in formula grants:

**Table 8: Analysis of Core Government Grants**

	<b>2019/20 Original £</b>	<b>2020/21 Draft £</b>	<b>Variance £m</b>	<b>Variance %</b>
Rates Retention: baseline funding	22.6	16.7	(5.9)	(26.1)
Rates Retention: growth	39.1	43.0	3.9	10.0
<b>Subtotal:</b>	<b>61.7</b>	<b>59.7</b>	<b>(2.0)</b>	<b>(3.2)</b>
Police	59.8	64.8	5.0	8.4
<b>Total Core Government Grants</b>	<b>121.5</b>	<b>124.5</b>	<b>3.0</b>	<b>2.5</b>

## **Business Rates**

49. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 51.2p and a small business National Non-Domestic Rate multiplier of £49.9p for 2020/21. These multipliers represent an increase of 0.8p over the 2019/20 levels. The actual amount payable by each business will depend upon its rateable value.
50. If the proposed Business Rate Premium increases by 0.2p to 0.8p in the £, the proposed premium will result in a National Non-Domestic Rate multiplier of 52.0p and a small business National Non-Domestic Rate multiplier of 50.7p for the City for 2020/21. It is anticipated that a Premium of 0.8p will raise £20.5m.

51. As in previous years, authority is sought for the Chamberlain to award the following discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988:

- Supporting Small Business Relief – A discount for ratepayers who as a result of their rateable value changing as a result of the 2017 revaluation have lost some or all of their small business rate relief.

52. A discretionary revaluation relief scheme was introduced in April 2017 to support businesses facing the steepest increases in bills following revaluation. This is a four-year scheme with specific amounts allocated to each billing authority for each of the five years. Authority is sought for the Chamberlain to determine the City scheme for the remaining year of the scheme.

53. In 2020/21 the current retail relief scheme will be extended for a further year and the relief increased to 50%. Relief has also been expanded to encompass small music venues and small cinemas. A separate relief has been introduced to provide additional relief to pubs with a rateable value of less than £100,000.

54. The current retail relief scheme is claimed by approximately 400 retail properties in the City. The cost of these reliefs is met in full through a government grant so there is no cost to the City Premium.

### **Business Rates Supplement**

55. The Mayor of London is proposing to levy a Business Rates Supplement of 2.0p in the £ on properties with a rateable value of £70,000 and above to fund Crossrail.

### **Determination of the Council Tax Requirement**

56. The 1992 Act prescribes detailed calculations that the City, as billing authority, has to make to determine Council Tax amounts. The four steps are shown in Appendix A. Although the process is somewhat laborious, it is a legislative requirement that these separate amounts be formally determined by resolutions of the Court of Common Council.

57. After allowing for a proposed contribution to reserves, the final City Fund Council Tax requirement for 2020/21 is £7.6m. In accordance with the provisions in the Localism Act 2011, the Council Tax requirement allows for the Formula Grant, the City Offset, the City's Rate Premium and the estimated surplus on the Collection Fund at 31 March 2020.

58. As detailed in Appendix A, the City's proposed Council Tax for 2020/21 at band D would be £927.25, before adding the Greater London Authority (GLA) precept and inclusive of a 1.99% increase in Council Tax and a 2.0% Adult Social Care precept. To determine the City's Council Tax for each property band, nationally fixed proportions are applied to the average band D property.

59. The GLA's 'provisional' precept for 2020/21 is £79.94 for a Band D property. This excludes the Metropolitan Police requirement and represents an increase of £1.56p compared with 2019/20.

60. The total amounts of Council Tax for each category must be set by the City before 11 March. The proposed amounts are shown in table 9 below:

**Table 9: Council Tax per Property Band**

	£							
	A	B	C	D	E	F	G	H
Proportion	6	7	8	9	11	13	15	18
CoL	618.17	721.20	824.22	927.25	1133.31	1339.36	1545.42	1854.50
GLA	53.29	62.17	71.06	79.94	97.70	115.47	133.23	159.88
Total	671.46	783.37	895.28	1007.19	1231.01	1454.83	1678.65	2014.38

61. It is anticipated that the City's total Council Tax will remain one of the lowest in London. The Court of Common Council will be requested to formally determine that the relevant (net of local precepts and levies) basic amount of Council Tax for 2020/21 will not be excessive in relation to the new referendum requirements for any council tax increases.

### **Council Tax Discounts and Long-Term Property Premiums**

62. For council tax purposes a property is defined as empty if it is unoccupied and substantially unfurnished. Property that is furnished is treated as a second home.
63. The second home discount was reduced to zero (0%) in 2014. In 2019 the empty property discount was also reduced to zero (0%) and a long-term empty property premium was introduced.
64. The empty property premium was introduced in 2013/14 to encourage landlords to bring long-term empty property back into use. This gave billing authorities the discretion to charge an additional 50% council tax on properties left empty for more than two years.
65. In 2019/20 the maximum permitted premium was increased to 100% for properties empty over two years. The City introduced the long-term empty premium for the first time in 2019/20 and it is estimated that this has resulted in additional income of approximately £200,000.
66. In 2020/21 properties empty over 5 years can be charged a premium of up to 200%. The City currently has 12 properties that would fall into this category and charging the additional premium would raise an additional £11,127 in income. The report recommends that the premium is increased to 200% for properties that remain empty for more than five years.

### **Council Tax Reduction Scheme**

67. In 2013/14, the Government introduced a locally determined Council Tax Reduction Scheme. This replaced the national Council Tax Benefit scheme and assisted people on low incomes with their council tax bills. There are no proposals to make any specific amendments to the Council Tax Reduction Scheme for this or future years, beyond keeping the scheme in line with the national Housing Benefit regulations.



68. The Council Tax Reduction Scheme will therefore remain the same for 2020/21 as was administered in 2016/17, 2017/18, 2018/19 and 2019/20 subject to the annual uprating of amounts in line with Housing Benefit applicable amounts.

## Capital

69. The City Corporation has a significant programme of works to the operational property estate (including residential) and highways infrastructure, together with significant expenditure on the major projects. Spending on these types of activity is classified as capital expenditure.
70. Capital expenditure is primarily financed from capital reserves derived from the sale of properties, earmarked reserves and grants or reimbursements from third parties. The City has historically not borrowed any money to finance these schemes, although borrowing in future years is now anticipated for the major projects. Financing is summarised in the table below.

**Table 10: Capital Financing**

	2019/20 £m	2020/21 £m
<b>Estimated Capital Expenditure</b>	<b>91.0</b>	<b>150.8</b>
<u>Financing Sources:</u>		
Housing Revenue Account (HRA)	6.1	2.4
Disposal Proceeds	33.8	51.7
Revenue Reserves	27.0	58.9
External Grants and Reimbursements	24.1	37.8
External borrowing	-	-
<b>Total:</b>	<b>91.0</b>	<b>150.8</b>

71. The main areas of capital expenditure in 2020/21 are as follows:

- Major Projects – Museum of London (£22.6m)
- Major Projects – Combined Courts (£20.6m)
- Housing Revenue Account – decent homes\* (£30.5m)
- Housing Revenue Account – new build (£18.2m)
- Highways and Transport (£15.7m)
- Police (£4.2m)
- Central Criminal Court (£4.6m)
- New Bids (£23.3m)

\*includes loan facility of £22m

72. As part of the new annual capital bids process, the Resource Allocation Sub Committee has granted approval in principle to central funding for a number of new bids with a total estimated cost of £89m, of which £23.3m is expected to fall

within 2020/21. In addition, approval in principle was granted to provide central funding for internal loans for the police and HRA capital spending plans, amounting to £4.3m and £22m respectively. Finally, there are a number of centrally funded schemes previously approved for progression outside of the fundamental review which have yet to reach gateway 4(a) when central resources would be allocated. Allowance has been made in the City Fund MTFP for all of these items to demonstrate affordability; financial provision will need to be included within the City Fund revenue and capital budgets as appropriate as part of the 2020/21 budget setting process.

73. The Local Government Act 2003 requires the City to set prudential indicators as part of the budget setting process. The indicators that the Court of Common Council will be asked to set are:
- Ratio of financing costs to net revenue stream (City Fund and HRA)
  - Gross debt and the capital financing requirement
  - Estimates of capital expenditure 2020/21 to 2022/23
  - Estimates of the capital financing requirement 2020/21 to 2022/23
  - Times cover on Unencumbered Revenue Reserves.
74. The prudential indicators listed above have been calculated in Appendix D. In addition, treasury-related prudential indicators are required to be set, and these are included within the 'Treasury Management Strategy Statement and Investment Strategy Statement 2020/21' at Appendix E.
75. The Court of Common Council needs to formally approve these indicators.
76. The main point to highlight is that in order to fund the major projects there is an underlying future requirement to borrow externally for capital purposes. The cost of borrowing must be charged to the relevant revenue budget, including interest and a statutory provision for repayment of principal known as the Minimum Revenue Provision (MRP). The MRP Policy Statement 2020/21 is set out in Appendix E. The long-term nature of borrowing means these revenue sums are unavailable to fund other activity for a significant period of time. By agreeing to fund capital schemes through borrowing, Members are agreeing to divert this funding away from other revenue activity in order to deliver the major projects.
77. In addition, the funding of capital expenditure from cash received from long lease premiums which are deferred in accordance with accounting standards has to be treated as internal borrowing. To ensure that this cash is not 'used again' when the deferred income is released to revenue, the City Corporation will make a MRP equal to the amount released, resulting in an overall neutral impact on the revenue account bottom line.

### **Robustness of Estimates and Adequacy of Reserves and Contingencies**

78. Section 25 of the Local Government Act 2003 requires the Chamberlain to report on the robustness of estimates and the adequacy of reserves underpinning the budget proposals.

79. In coming to a conclusion on the robustness of estimates, the Chamberlain needs to assess the risk of over or under spending the budget. To fulfil this requirement the following comments are made:

- provision has been made for all known liabilities, together with indicative costs (where identified) of capital schemes yet to be evaluated;
- the estimates and financial forecast have been prepared at this stage on the basis of the Corporation remaining debt free until such time as external borrowing may be needed to bridge the gap for major capital projects (the Museum of London relocation and the Combined Courts project);
- prudent assessments have been made regarding key assumptions;
- an annual capital bids process is in place seeking to ensure that capital expenditure is contained within affordable limits and that it can be demonstrated that each project is of the highest corporate priority;
- although the City Fund financial position is vulnerable to rent levels and interest rates, it should be noted that:
  - the City Surveyor has carried out an in-depth review of rent incomes; and
  - the assumed interest rate remains low across the planning period;
- a strong track record in achieving budgets gives confidence on the robustness of estimates; and
- balancing 2020/21 with 'one-off' measures will give more time to examine the options put forward in the Fundamental Review to achieve further change in future years. The cross-cutting workstreams on the new Target Operating Model and commercial income generation, together with a limited number of the initial FR options, are most likely to deliver against our ambitions and financial objectives.

80. An analysis of usable City Fund Reserves is set out in Appendix C. Depletion of City Fund reserves is a consideration for the medium-term: although reserve balances are forecast to remain healthy in 2020/21, the potential call on reserves to support revenue and capital expenditure beyond 2020/21 reinforces the need for the fundamental review to establish prioritised plans.

81. In assessing the adequacy of contingency funds, the Chamberlain has reviewed the allocation and expenditure of contingency funds over the past four years and concluded that the estimates are robust. This takes account of the Finance Committee contingencies, the Policy and Resources Committee contingency and the Policy Initiatives Fund. In each of the past four years the provision of funds has been more than sufficient resulting in an uncommitted balance for each contingency fund in each year. On this basis the existing contingency provision will remain unchanged for 2020/21. A full analysis of contingency fund provision and expenditure is provided in Appendix H.

## **Risks**

82. There are risks to the achievement of the latest forecasts:

#### Within the City Corporation's control:

- Delivery of the income generation schemes under the Fundamental Review;
- Achievement of Police savings targets needed to mitigate the Force deficit; and Action Fraud overspending and changes in cash flow requirement; and
- Major projects not being delivered within estimated costs.

#### Outside the City Corporation's control:

- Brexit affecting the rental income from our commercial property as a result of increased voids;
- Business Rates income - volatility around the growth forecasts and appeals, dependent on full occupation of new builds and London pilot; and
- Fair Funding review which could affect government support to fund services.

### **Equalities Implications**

83. During the preparation of this report, all Chief Officers were asked to consider whether there would be any potential adverse impact of the various budget policy proposals on equality of service. This was with particular regard to service provision and delivery that affects people, or groups of people, in respect of disability, gender and racial equality. None were received.

### **Conclusion**

84. The medium-term financial challenge facing the City Corporation reflects uniquely:
- External factors, such as potential major changes to business rate income and government support, which could lead to a significant drop in income;
  - the funding requirement flowing from the adoption of a major projects programme; and
  - pressures across a range of existing revenue and capital budgets.
85. In addition, there are risks to the achievement of the 2020/21 budget position and medium-term financial plan:
- A substantial proportion (25%) of the Fundamental Review proposals are income generation, achievement of which is far less certain than cost savings and are therefore a risk to the sustainability of the medium-term financial plan. Further work will be carried out on the options to quantify the extent of this risk.
  - Achievement of Police savings targets needed to mitigate the Force deficit; and
  - Potential liabilities crystallising from Action Fraud.
86. This report recommends a number of measures to stabilise the position in 2020/21 and support the steps that will need to be taken over the medium-term, through a combination of options put forward in the Fundamental Review to achieve further change in future years; income generation measures, including tax/Premium increases; containing the cost of major projects and other programmes. The planned use of reserves to support the medium-term position is sustainable only the short term.

87. It is important that the Fundamental Review continues to ensure that funding is aligned with the Corporation's Corporate Plan objectives and ensure a sustainable budget position over the medium- and longer-term.
88. Increases in Council Tax should be considered in view of wider developments across London, the Fair Funding Review and pressures on social care budgets.

## **Appendices**

- Appendix A – Calculating Council Tax
- Appendix B – Additional Revenue Funding Requests
- Appendix C – City Fund Useable Reserves
- Appendix D – Prudential Indicators
- Appendix E – Treasury Management Strategy Statement and Investment Strategy Statement 2019/20
- Appendix F – Capital Strategy
- Appendix G – City Fund Budget Policy
- Appendix H – Review of contingency funds

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