

<b>Committee(s):</b> Finance Committee – For decision Policy and Resources – For Information Court of Common Council – For decision	<b>Date(s):</b> 16 February 2021 18 February 2021 4 March 2021
<b>Subject:</b> City Fund 2021/22 Budget	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Information</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).

The significant effort across Corporation family to commit to the 12% savings required for 2021/22, is delivering a balanced budget and puts the Corporation on track for a sustainable Medium Term Financial Plan. But with a global pandemic and worsening economic position, pressures and risks for the City Corporation's finances will continue into the 2021/22 fiscal year. This is only the 'end of the beginning'; the task to secure the future savings 'flightpath' remains and there is a need to manage the significant remaining COVID risks and unprecedented range of external challenges e.g. Local Government and Police Spending Reviews and Business Rates income fluctuations.

Tough decisions have been needed, but Members have worked to:

- mitigate impact on vital front-line services in social care, rough sleeping and support to our Academies;
- finance the climate action strategy within the MTFP;
- re-prioritise existing resources to accommodate funding bids relating to policy initiatives: e.g. culture mile; and
- prioritise the 2021/22 capital programme enabling the funding for schemes totalling £32.9m in the Climate Action Strategy.

In December, Finance Committee approved the proposals to balance the budget for 2021/22 and adjustments have been made to departmental local risk budgets following Policy and Resources Committee approval, effectively creating a resource limit for each department and relevant service committee.

Further work will be needed to identify savings that meet the full extent of the financial gap over the medium-term and provide a build back better/new priorities fund for new policy initiatives, principally the Climate Action Strategy.

The medium-term financial outlook is summarised in the table below:

Surplus/(Deficit)	2020-21	2021-22	2022-23	2023-24	2024-25
	£m	£m	£m	£m	£m
<b>Net City Fund position, after contribution to Build Back Better Fund</b>	<b>32.9</b>	<b>4.1</b>	<b>(7.8)</b>	<b>(6.4)</b>	<b>(3.6)</b>
<b><u>Revenue Reserves</u></b>					
<b>General Reserves*</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>
<b>Major Project Financing Reserve</b>	<b>81.7</b>	<b>74.4</b>	<b>64.9</b>	<b>57.4</b>	<b>50.9</b>

\* General fund reserve maintained at minimal prudent amount for working capital.

The additional year of business rate growth retention benefits City Fund by £27m in 2021/22, producing a small surplus of £8m, giving a much-needed boost to the financial position and enabling a contribution of £3.9m to the Build Back Better Fund, used initially for the Climate Action Strategy. However, there is significant ongoing COVID impact on Barbican, requiring £7m support for continuing lost income and on other sources of income. Modelling of a more pessimistic view on retained business rates income removes almost all of the £27m growth - pushing City Fund into an estimated £19m deficit. Alongside potential impact of a more pessimistic rents position, we recommend holding back £30m of reserves in mitigation.

Turning to the **capital position**, under the annual process, bids for capital funding totalling £65.1m for City Fund were approved in principle by Resource Allocation Sub Committee. Whilst the £65m is much higher than the more usual £20m level, the sum includes climate action strategy and is considered manageable over the medium term, albeit that mitigating actions will be needed to provide funding for future capital spending requirements.

This report recommends a number of measures to stabilise the position in 2021/22 and that will support the steps that will need to be taken over the medium-term, through further work on identifying flightpath savings, building on collaboration between service committees, moving from a tactical response to COVID to service transformation and containing the cost of major projects and other programmes.

For 2021/22, Members will need to consider whether to:

- Levy a Social Care precept of 3%; but otherwise freeze council tax.
- Retain business rates premium at 0.8p in the £ /Increase the Business Rates Premium (against a backdrop of COVID impact on local businesses).

Members will also want to note that increased revenue pressures have been accommodated by reprioritising existing budgets and signal an expectation that additional pressures that might arise during 2021/22 will be absorbed within local risk budgets.

### Recommendations

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

- Note the overall budget envelopes, incorporate the 12% savings (or 6% in the case of social care and children's services) as agreed by Resource Allocation Sub Committee and are consistent with approved savings flight path.
- Continue to monitor COVID income risk during 21/22 and maintain a COVID contingency fund, not releasing £30m of general fund reserves for major project spend.
- Approve the overall financial framework and the revised Medium-Term Financial Strategy (paragraph 18)
- Approve the Treasury Management Strategy Statement and Annual Investment Strategy for 2021/22, including the treasury indicators.
- Approve the City Fund Net Budget Requirement of £153.6m (paragraph 40)

### **Key decisions:**

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

### **Council Tax**

- To approve an increase in the Adult Social Care Precept of 3.00% (paragraph 25).
- To otherwise consider whether to freeze council tax (paragraph 27).
- 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) - appendix A.
- Determine that the relevant (net of local precepts and levies) basic amount of Council Tax for 2021/22 will not be excessive in relation to the requirements for referendum.
- Determine, the current 100% discount awarded to unoccupied and unfurnished and uninhabitable dwellings is continued at zero (0%) for the financial year 2021/22.
- Determine that the premium levied on long-term empty property for 2021/22 of 100% and 200% is continued and that for properties that have been empty for over ten years, a premium of 300% 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 2021/22 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 2021/22.

- Note that, in addition, the GLA is levying a Business Rate Supplement in 2021/22 of 2.0p in the £ on properties with a rateable value of £70,000 and above (paragraph 47).
- Delegate to the Chamberlain the award of discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988 (paragraphs 48-52).

### **Capital Expenditure**

- Approve the Capital Strategy (appendix E).
- Fund the court element of the Salisbury Square project from City's Cash, rather than City Fund- to better equalise the call on the Corporation's investment assets and to protect local authority fund. (paragraph 22)
- Approve the Capital Budgets for City Fund and the allocation of central funding from the appropriate reserves to meet the cost of the 2021/22 new bids– release of funding being subject to approval at the relevant gateway and specific agreement of the Resource Allocation Sub Committee at gateway 4(a) (paragraph 53)
- Approve the allocation of central funding in 2021/22 to provide internal loan facilities for police and the HRA, currently estimated at £4.9m and £19.2m respectively.
- Approve the Prudential Code indicators (appendix C).
- Approve the authorised limit for external debt (which is the maximum the City Fund may have outstanding by way of external borrowing) at £237.5m for 2021/22; and the Minimum Revenue Provision (MRP) for 2021/22 at £1.1m (MRP policy is included within appendix D – Treasury Management Strategy Statement and Investment Strategy Statement 2021/22 - appendix 2).

### **Treasury Management Strategy Statement and Investment Strategy Statement 2021/22 (Appendix D)**

- Approve the following changes to the creditworthiness policy to ensure the Corporation can continue to access a wide enough range of counterparties of suitable credit standing when investing cash balances under the Treasury Management Strategy (appendix D, paragraphs 8.2 to 8.6):
  - Change the minimum acceptable Long Term credit rating for banks and other financial institutions from "A" to "A-" (appendix D, paragraph 8.2);
  - Change the minimum acceptable sovereign credit rating for approved counterparties from "AAA" to "AA+" (appendix D, paragraph 8.5);
  - Add an overall limit of £250m for outstanding lending to local authorities as a whole at any given time (appendix D, paragraph 8.6).

### **Chamberlain's Assessment**

- Take account of the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves and contingencies (paragraphs 64-67 and appendices B and G respectively).

## 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. The effect of the COVID-19 has had a wide-ranging impact on the economy, including income losses from the closure of many services and facilities, and losses from rental income. With another national lockdown, delays in the economic recovery continue to be a significant risk for further income losses in 2021/22.
2. In setting the budget for 2021/22 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.
3. The Government recently confirmed the Local Government Finance Settlement for 2021/22 and the Policing Minister published the revenue allocations for Police forces for 2021/22.
4. 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 again only a one-year deal; there remains a great deal of uncertainty regarding Local Government funding after March 2022.
  - The **Fair Funding Review** of local government funding is likely to shift resources away from London.
  - **Business Rates** – danger from a reset which would remove the City's recent growth receipts (forecast at £27m) in 2022/23. We are exploring with other affected London Boroughs whether a case can be made to MHCLG for transitional relief.
5. The forecast includes the revenue impact from funding £65.1m of second tier projects from capital reserves, with capital receipts reserves standing at £80m by 2024/25.
6. The forecasts also assume all approved Fundamental Review proposals are achieved.
7. Although the City Fund is forecast to be in surplus by £4m in 2021/22, it can only be balanced, over the next four years, with the use of general fund reserves. Despite the savings planned to date through the Fundamental Review and in line with the 12%, overall, City Fund faces substantial growing annual deficits over the planning period and the 10-year horizon.
8. Over the next year we will focus on making operational efficiencies through a new target operating model (TOM) as well as improving how we prioritise our resources to ensure:
  - That we are spending on key priorities; and
  - That our plans are sustainable in the medium-term.

9. There are three options to close the medium-term deficits, or more realistically a combination of the three:
- Further savings; 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, focusing on requirements from the investment portfolio.

### **Measures to the 2021/22 budget**

10. The aim of the 2021/22 budget round is to set us on the flight path to achieving a sustainable budget over the medium-term. With the continuation of financial challenges, a general budgetary reduction of 12% has been applied in 2021/22, (or 6% in case of social care and children's services) - continuing to protect the most vulnerable services. 12% savings have been applied to all grant budget heads over £100k except for where there are co-funding arrangements (e.g. the Museum of London) or where there are growth pressures (e.g. the Academies where pupil numbers are expected to rise).
11. At its December meeting, Resource Allocation Sub Committee approved the budget envelopes that service committees will use to deliver their services in 2021/22. It is intended that business planning will address how service committees intend to focus their resources to achieve key outcomes in year. Work will continue to identify further savings that can underpin medium plans for 2022/23 and beyond.
12. Chief Officers will now look at how any changes in services can be achieved. This will follow our normal policies and procedures in relation to reorganisations and restructurings. This will include consultation with staff and the Trade Unions on any proposals which may affect staff. Therefore, whilst the departmental budget "envelope" has now been set for departments, how these will actually be achieved is subject to consultation and the usual Committee approvals.
13. We have not yet identified savings that meet the full extent of the financial gap in the medium-term. However, for City Fund, our local authority fund, the Government has pushed back its reform of Business Rates to 2022/23. This means that we have an extra year of retained Business Rates income, albeit at a reduced level from COVID impact, before the regime is changed.
14. Key risks from COVID impact to our income streams continue into 2021/22, especially for rental income for the investment property portfolio and further support is likely to be required from reserves. Detailed stress testing and scenario analysis has been carried out on key income assumptions for all funds and more sophisticated funds modelling has enabled a holistic assessment of overall financial health, including ability of net assets and reserve balances to meet risks of potential funding shortfalls. We should nonetheless continue to monitor COVID income risk during 21/22.
15. Tough decisions have been needed but Members have worked together to:

- mitigate impact on vital front-line services in social care, rough sleeping and support to our academies.
- finance the climate action strategy within the MTFP; and
- Re-prioritise existing resources to accommodate bids for resources relating to policy initiatives: e.g. culture mile.

16. The budget structure will need to be translated into the new TOM in the new financial year.

17. Delivering the 21/22 budget will enable us to push ahead on reshaping City Corporation, through the TOM, to be able to respond in a more agile and flexible way to the challenges ahead. Key follow up themes for 2022/23 include:

- The need to move from tactical COVID response to service transformation; building on the collaboration from the bi-lateral approach to identify flightpath savings.
- Scope for further restructuring, removal of duplication as part of the TOM review, and scope for introduction of greater pay flexibilities.
- The need for a fuller grants review.

### Latest forecast position

18. City Fund is balanced, taking one year with the next over the five-year period. However, there are significant risks and a great deal of uncertainty. The Medium-Term financial position is shown in the table below:

**Table 1**

Surplus/(Deficit)	2020-21	2021-22	2022-23	2023-24	2024-25
	£m	£m	£m	£m	£m
<b>City Fund*</b>	<b>32.9</b>	<b>(0.1)</b>	<b>(16.6)</b>	<b>(17.3)</b>	<b>(17.1)</b>
<b>Fundamental Review savings</b>		<b>0.9</b>	<b>4.7</b>	<b>9.3</b>	<b>11.8</b>
<b>12% savings</b>		<b>7.0</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>
<b>Social Care Precept</b>		<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
<b>City Fund forecast position</b>	<b>32.9</b>	<b>8.0</b>	<b>(4.7)</b>	<b>(0.8)</b>	<b>1.9</b>
<b>Contribution to Build Back Better Fund</b>	<b>0.0</b>	<b>(3.9)</b>	<b>(3.1)</b>	<b>(5.6)</b>	<b>(5.6)</b>
<b>City Fund Surplus/(Deficit)</b>	<b>32.9</b>	<b>4.1</b>	<b>(7.8)</b>	<b>(6.4)</b>	<b>(3.6)</b>
<b>General Reserves**</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>
<b>Major Project Financing Reserve***</b>	<b>81.7</b>	<b>74.4</b>	<b>64.9</b>	<b>57.4</b>	<b>50.9</b>

\* After major projects financing

\*\*General fund reserve maintained at minimal prudent amount for working capital.

\*\*\* Major project financing reserve, holding back £30m reserves under major project financing for COVID mitigation measures

19. 2021/22, is forecasting a small surplus, largely due to additional year of business rates retention income (albeit at a much-reduced level to previous years). Key points to note include:

- Significant COVID impact on the Barbican, which will need continuing support for lost income as it puts in place a sustainable medium-term plan (£7m included, but more likely to be needed if there is an extended lockdown-government support yet to be confirmed may partially offset this);
- Mitigated limited number of service areas (e.g. Social Care saving at 6%) and rephased fundamental review savings delayed by work on TOM or by COVID impact;
- Significant risk on major income streams from business rates and rents. If a more pessimistic view is taken on retained business rates income, it removes the £27m growth- pushing City Fund into an estimated £19m deficit in 2021/22. Alongside potential impact of a more pessimistic rents position, we recommend holding back £30m of reserves in mitigation; and
- For medium term, assumes funding the Court's element of the Fleet Street project from City's Cash (for decision) to manage pressures across funds and create headroom should major refurbishment of operational property be required.

20. **Police** have committed to balancing the books in 21/22 and also to making 12% saving on Corporation funding to the Force. The Police Settlement included an additional increase in the precept grant. The Police budget forecast shows deficits across the period, but the Force has committed to closing the gap - so no provision has been made within City Fund for Police deficits.

21. Extra business rates income, combined with 12% budget reductions, efficiencies through the target operating model and additional interest on cash balances, has allowed cost pressures to be accommodated whilst still leaving the fund in surplus for 2020/21 and 2021/22. The fund is forecast, however, to move into deficit, from 2022/23 onwards due to the inclusion of financing costs for the Museum of London Relocation Project and Police Accommodation in the Salisbury Square Project.

22. Major Projects funding: For the medium term, recommend funding the Court element of the Salisbury Square project to City's Cash to help manage pressures across funds, in particular to reduce potential property disposal requirement over the long-term from £0.5bn to £0.3bn (representing one fifth of the property portfolio).

23. The 10-year financing strategy for major projects is being recast and financing requirements will be reported to Finance Committee in April to consider the financing options. The intention is for Investment Committee to advise Resource Allocation Sub Committee on how best to draw down from the investment portfolios.

24. Council Tax: The Council Tax for the current year, 2020/21, is £927.25, expressed at band D and excluding the GLA precept of £79.94. Given the pressures to City Fund, Members will wish to consider council tax increases. Local authorities are permitted to levy a social care precept of 3% to address funding pressures and this has been modelled in the 21/22 budget. Local Authorities are permitted a further



uplift of Council Tax by 1.99% within the referendum threshold. In this context, Members may wish to consider:

- There is not a pressing financial need to uplift Council Tax in 2021/22.

However,

- Current intelligence suggests that most authorities, including those at the lowest end of the Council Tax league table, are considering increases of up to 4.99%, 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.
- There is a cumulative benefit in the medium-term.
- 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.
- Those on lowest incomes will be eligible for council tax relief (Council Tax Reduction Scheme).

25. The City has seen increasing cost pressures in social care and tackling homelessness; and social care has been protected from the full impact of 12% reductions. **The recommendation is, therefore, to levy an Adult Social Care precept of 3%.**

26. The Adult Social Care precept of 3% would generate around £200k. An increase of 1.99% in council tax, would generate around £150k. For comparative purposes, Westminster band D excluding GLA precept is currently £448.21 (£780.28 including the GLA precept); Wandsworth, £461.49 (£793.56 including the GLA precept); and Hammersmith and Fulham £792.42 (£1124.49 including the GLA precept).

27. The steer from Resource Allocation Sub Committee **was to otherwise freeze council tax**. In making this decision, Members may wish to consider the points in paragraph 24 above.

28. Given the impact of COVID on City businesses, **an increase in the Business Rates Premium is not being recommended in 2021/22.**

29. The premium on City businesses was increased in 2020/21, from 0.6p to 0.8p in the £ which, while not formally hypothecated to policing, supported the funding of an uplift of 67 priority policing roles at a cost of £5.4m.

### **A strategic response to continuing challenges**

30. This report recommends measures to stabilise the position in 2021/22 and that will support the steps that will need to be taken over the medium-term, through
- further work on identifying flightpath savings, building on collaboration through the bi-lateral approach;
  - moving from a tactical response to COVID to service transformation;
  - a more in-depth review of non CBT grant giving; as well as
  - containing the cost of major projects and other programmes.

31. Further work to explore cost options should also provide mitigation for the substantial income generation risks. Members should note that the Investment Committee intend to set up a Working Group consider and report back to Resource Allocation Sub Committee on how best to:

- Address changing requirements for potential draw-down and re-balancing of asset portfolios; and
- Risk exposure in particular asset classes with consequent impact on investment strategy e.g. diversification of property portfolio from office space

32. In addition, there is a need to make sure the position does not get worse by reinforcing the cap on the major projects and securing third party capital where possible.

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

33. The following paragraphs detail the key assumptions that have been used in the construction of the 2021/22 budget and Medium-Term Financial Strategy:

### **Income**

34. The City Fund has two key income streams, rental and investment income. Detailed stress testing and scenario analysis has been carried out on key income assumptions for all funds and more sophisticated funds modelling has enabled a holistic assessment of overall financial health, including ability of net assets and reserve balances to meet risks of potential funding shortfalls.

- Property rental income is forecast on the expected rental income for each property, allowing for anticipated vacancy levels, expiry of leases and lease renewals. Throughout 2020/21, the effect of COVID-19 has had a wide-ranging impact on the economy. This has included income losses from rental income from our property investment portfolio. With another national lockdown, delays to economic recovery continues and further losses on income are expected to continue into 2021/22. 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. 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. Bank Rate is unlikely to rise from 0.10% for a considerable period given underlying economic expectations. In these circumstances it is likely that investment earnings from money market-related instruments will be below 0.50% for the foreseeable future. The actual path of short-term interest rates is likely to depend on (amongst other things) how the

pandemic develops and the efficacy of vaccination programmes as well as the pace and trajectory of an economic recovery. A change of +/-0.25% to the base rate is expected to translate to approximately £1.6m 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**

35. The starting point for the 2021/22 budget is 'flat cash' from the previous resource allocation in 2020/21, with provision made for the pay award agreed by the December Establishment Committee. The Spending Review announcement on 25 November confirmed that there will not be a significant uplift in government funding and the Chancellor announced a Public Sector Pay Freeze for most workers. The reduction in CPI inflation should ease the pressure of living with flat cash budgets, from which the 12% savings will need to be achieved.
36. Policy and Resources Committee and Finance Committee have messaged clearly that cost pressures should be managed within existing resources (applying the 12% reduction). No new initiatives are permitted into the member arena without an identified funding source. Requests for funding are therefore being accommodated through re-prioritisation of existing resources. The Climate Action Strategy, Culture Mile, and training requests from the Tackling Racism Taskforce have all been accommodated through re-prioritisation.
37. Also underlines the need for additional unfunded revenue bids to be avoided during 2021/22.

## **Grant settlement – City Fund**

34. The provisional local authority grant settlement was received before Christmas and confirmed in February. This funding settlement is for one year only following the conclusion of the previous four-year Spending Review period (2016/17 - 2019/20 and subsequent one year settlement in 2020/21). As this is a one-year settlement, there is a great deal of uncertainty regarding Local Government funding after March 2022.

## **Business Rates Retention**

35. A further one-year delay on business rates reset enables the Corporation to continue to benefit from growth in office space over the years which has generated surpluses within the City. This growth in business rates income over the past six years has provided headroom, continuing in 2021/22 to fund investment in one-off projects, such as: the Museum of London relocation project; the Salisbury Square project; to deal with the backlog of outstanding repair works for City Fund operational properties; and more recently to mitigate the losses caused by a COVID-19. However, the growth is vulnerable to bad debts and appeals; and especially so for the London Business Rates Pool, where a collective decision to end the pilot has been taken.

36. The Government has announced additional support for business rate losses in 2020/21 in the form of a 75% compensation scheme for irrecoverable tax losses resulting from COVID-19. The Spending Review confirmed the business rates holiday for Retail, Hospitality and Leisure businesses would end in March 2021. If the current relief scheme is not extended, there could be significant reductions in business rates collected from businesses in these sectors.

## City Police

37. Major deficits in the Police Medium-Term Financial Plan have, over the last two years, been significantly reduced through a combination of Police savings plans and additional Business Rate Premium funding. However, deficits continue to exist across the medium-term, particularly linked to an assumption that future funding will not be inflation-linked, and work continues to focus on mitigation strategies.

## Revenue Spending Proposals 2021/22

38. The overall budget requirements have been prepared in accordance with the strategy and the requirements for 2020/21 and 2021/22 are summarised by Committee in the table below. Explanations for significant variations were contained in the budget reports submitted to service committees.

**Table 2: City Fund Summary Budget**

City Fund Summary by Committee	2020/21 Original £m	2020/21 Latest £m	2021/22 Original £m
<i>Net Expenditure (Income)</i>			
Barbican Centre	(28.8)	(39.2)	(37.3)
Barbican Residential	(2.6)	(3.1)	(2.4)
Community and Children's Services	(13.7)	(15.7)	(14.2)
Culture Heritage and Libraries	(21.8)	(21.3)	(19.7)
Finance	7.4	2.2	2.2
Licensing	(0.1)	(0.3)	(0.1)
Markets	0.7	0.5	0.7
Open Spaces	(1.7)	(1.7)	(1.7)
Police (3)	(15.5)	(16.2)	(14.4)
Planning and Transportation	(84.9)	(84.9)	(85.1)
Policy and Resources	(5.0)	(6.1)	(4.2)
Port Health and Environmental Services	(17.2)	(17.3)	(14.7)
Property Investment Board	45.4	39.3	37.3
<b>City Fund Requirement</b>	<b>(137.8)</b>	<b>(163.8)</b>	<b>(153.6)</b>

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

39. 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 3: City Fund net budget requirement and financing**

		2020/21 Original £m	2020/21 Latest £m	2021/22 Original £m
1	Net expenditure on services	(183.2)	(203.3)	(188.1)
2	Capital Expenditure funded from Revenue Reserves	(1.8)	(1.2)	(0.3)
3	Cyclical Works Programme expenditure financed from revenue	(13.5)	(12.6)	(11.0)
4	Requirement before investment income from the City's Assets	(198.5)	(217.1)	(199.4)
5	Interest on balances	8.5	6.5	2.6
6	Estate rent income	52.2	46.8	43.2
7	<b>City Fund Requirement</b>	<b>(137.8)</b>	<b>(163.8)</b>	<b>(153.6)</b>
	Financed by:			
8	Government formula grants	124.5	124.5	122.5
9	City offset	12.1	12.1	12.1
10	Council tax	8.7	8.7	8.4
11	NNDR premium	15.5	20.5	18.6
12	Total Government Grants and Tax Revenues	160.8	165.8	161.6
13	<b>Deficit/(Surplus)transferred from (to) reserves</b>	<b>23.0</b>	<b>2.0</b>	<b>8.0</b>

Line 8 is shown in further detail below:

**Table 4: Analysis of Core Government Grants**

	2020/21 Original £	2021/22 Draft £	Variance £m	Variance %
Rates Retention: baseline funding	16.7	16.7	0.0	0%
Rates Retention: growth	43	35.6	(7.4)	-17%
<b>Subtotal:</b>	<b>59.7</b>	<b>52.3</b>	<b>(7.4)</b>	<b>-17%</b>
Police	64.8	70.2	5.4	8%
<b>Total Core Government Grants</b>	<b>124.5</b>	<b>122.5</b>	<b>(2.0)</b>	<b>-9%</b>

40. The City Fund budget requirement for 2021/22 is £153.6m plus a contribution to reserves of £8.0m resulting in a net City Fund budget requirement of £161.6m, an increase of £0.8m on the previous year. The following table shows how this is financed and the resulting Council Tax requirement. Appendix A details the consequent determination of council tax by property band.

**Table 5: Council Tax requirement**

<b>Council Tax Requirement</b>	<b>2020/21 Original £m</b>	<b>2021/22 Draft £m</b>
Net Expenditure	(198.5)	(199.4)
Estate Rental Income	52.2	43.2
Interest on balances	8.5	2.6
Budget Requirement	(137.8)	(153.6)
Proposed contribution to reserves	(23.0)	(8.0)
<b>Net City Fund Budget Requirement</b>	<b>(160.8)</b>	<b>(161.6)</b>
<u>Financing Sources:</u>		
Business Rates Retention	59.6	52.3
Police Grant	64.9	70.2
City Offset	12.1	12.1
NDR Premium	15.5	18.6
Collection Fund Surplus (CoL share)	1.1	0.6
<b>Council Tax Requirement</b>	<b>(7.6)</b>	<b>(7.8)</b>

41. 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 A).

## **Business Rates**

42. 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 2021/22. These multipliers remain at the 2020/21 levels as Government have opted not to apply the usual inflationary increase. The actual amount payable by each business will depend upon its rateable value.

43. If the proposed Business Rate Premium remains 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 2021/22.

44. 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.

45. It is unclear if Government will announce a Retail Relief scheme for 2021/22. Clarification on a future scheme is not expected to be made until the Budget announcements on 3<sup>rd</sup> March 2021.

46. The current expanded Retail and Leisure relief scheme was increased to 100% as a result of the Covid-19 Pandemic. The expanded relief is claimed by 1,813 retail and leisure 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**

47. 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.

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

48. 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.
49. The empty property premium was introduced in 2013/14 to encourage landlords to bring long-term empty property back into use. The City introduced the long-term empty premium for the first time in 2019/20, with a premium increase of 100% and it is estimated that this has resulted in additional income of approximately £200,000.
50. In 2021/22 properties that have been empty over 5 years can be charged a higher premium of up to 200% and we estimate this could raise around £7,000. Properties empty over 10 years can now be charged a premium of 300%. The report recommends that the premium is increased to 300% for properties that remain empty for more than ten years. The City currently has 7 properties that would fall into this category and it is estimated that this would result in additional income of approximately £13,500.

## **Council Tax Reduction Scheme**

51. 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.
52. The Council Tax Reduction Scheme will therefore remain the same for 2021/22 as was administered in previous years subject to the annual uprating of amounts in line with Housing Benefit applicable amounts.

## **Capital**

53. 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.
54. 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 some borrowing in future years is now anticipated for the major projects. Financing is summarised in the table below.

**Table 6: Capital Financing**

	2020/21 £m	2021/22 £m
<b>Estimated Capital Expenditure</b>	<b>123.9</b>	<b>245.1</b>
<u>Financing Sources:</u>		
Housing Revenue Account (HRA)	6.2	3.1
Disposal Proceeds	50.7	126.5
Earmarked and General Revenue Reserves	18.4	40.4
External Grants and Reimbursements	48.6	75.1
External borrowing	-	-
<b>Total:</b>	<b>123.9</b>	<b>245.1</b>

55. The main areas of capital expenditure in 2021/22 are as follows:

- Major Projects – Museum of London (£47.6m)
- Major Projects – Salisbury Square (£32.3m)
- Housing Revenue Account – decent homes\* (£29.4m)
- Housing Revenue Account – new build (£35.7m)
- Highways and Transport (£23.0m)
- Investment Property Refurbishments (£9.6m)
- New Bids – Climate Action (£8.4m) and Other (£22.1m)

\*includes loan facility of £19.2m

56. In order to ensure capital expenditure is aligned to key priorities, the City Corporation's Resource Allocation Sub Committee has carried out a robust review of all service's annual capital bids and prioritised funding approval. 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 £65.1m, of which £30.5m is expected to fall within 2021/22. In addition, approval in principle was granted to provide central funding for internal loans for the police and HRA capital spending plans, which amount to £4.9m and £19.2m respectively in 2021/22. 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 2021/22 budget setting process.

57. City of London Police need to prioritise investment in their capital programme and the resourcing of new activities. New arrangements for financing the Capital Programme were introduced in 2020/21, with capital expenditure (excluding Secure City and the Police Accommodation programme) being funded through a loan arrangement between the City Corporation and the Force, with an annual borrowing cap of £5m. The Police repay this loan with interest.



58. 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 2021/22 to 2023/24
- Estimates of the capital financing requirement 2021/22 to 2023/24
- Times cover on Unencumbered Revenue Reserves.

59. The prudential indicators listed above have been calculated in appendix C. 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 2021/22' at Appendix E.

60. The Court of Common Council needs to formally approve these indicators.

61. Local authority borrowing is permitted for capital purposes within the current capital control regime, but 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 2021/22 is set out in appendix 2 within the Treasury Management Strategy Statement and Investment Statement 2021/22 at appendix D. The typically 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. Borrowing can either be internal (use of internal cash balances) or external (third party loan finance).

62. Funding for the major projects is currently planned to come from external contributions, retained rates growth monies and property disposal proceeds, rather than external loans from third parties. However, there is an interim requirement for internal borrowing utilising City Fund general cash balances – effectively a bridging facility pending receipts from disposal of investment properties. Such short-term internal borrowing does not require an MRP to be made.

63. In addition, the funding of some other capital schemes is being met from cash received from long lease premiums which are deferred in accordance with accounting standards - this also counts 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**

64. 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.

65. 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, but continue to monitor COVID income risk during 21/22 and maintain a COVID contingency fund, not releasing £30m of general fund reserves for major project spend;
- 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 COVID income losses, 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 2021/22 with 'one-off' measures will give more time to implement the new Target Operating Model, enabling the creation of a build back better fund to deliver against our ambitions and financial objectives.

66. 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 2021/22, the potential call on reserves to support revenue and capital expenditure beyond 2021/22 reinforces the need for future savings and income generation.

67. 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 2021/22. A full analysis of contingency fund provision and expenditure is provided in Appendix I.

## **Risks- Summary**

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

### Within the City Corporation's control:

- Delivery of the 12% savings programme and income 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:

- The effect of the COVID-19 has had a wide-ranging impact on the economy, including income losses from the closure of many services and facilities, and losses from rental income. With another national lockdown, foreseeable delays in the economic recovery continue to be a significant risk for further income losses in 2021/22;
- Business Rates income - volatility around the growth forecasts and appeals, dependent on full occupation of new builds; and
- Fair Funding review which could affect government support to fund services.

## **Equalities Implications**

69. 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**

70. There has been a significant effort across Corporation family to commit to delivering on 12% savings required to get us to a balanced 21/22 budget and on track for sustainable MTFP. But this is only the 'end of the beginning'; there is a big task still ahead to secure future savings ('flightpath') and to manage the significant remaining COVID risks and unprecedented range of external challenges e.g. Spending Review, Business Rates and Brexit implications.

71. There are risks to the achievement of the 2021/22 budget position and MTFP, in particular income volatility impact from COVID; and tough decisions have been needed. But, Members have worked together to mitigate impact on vital front line services in social care, rough sleeping and support to our academies.

72. Delivering the 2021/22 budget enables us to push ahead on reshaping City Corporation, through the TOM, to be able to respond in a more agile and flexible way to the challenges ahead.

## **Appendices**

- Appendix A – Calculating Council Tax
- Appendix B – City Fund Useable Reserves
- Appendix C – Prudential Indicators
- Appendix D – Treasury Management Strategy Statement and Investment Strategy Statement 2021/22
- Appendix E – Capital Strategy
- Appendix F – City Fund Budget Policy
- Appendix G – Review of contingency funds

### **Caroline Al-Beyerty**

Deputy Chamberlain

T: 020 7332 1113

E: [Caroline.Al-Beyerty@cityoflondon.gov.uk](mailto:Caroline.Al-Beyerty@cityoflondon.gov.uk)