ITEM 13 (a)

Report – Finance Committee
City Fund: 2014/2015 Budget and Medium Term Financial Strategy

To be presented on Thursday, 6th March 2014
To the Right Honourable The Lord Mayor, Aldermen and Commons of the City of London in Common Council assembled.

Summary

1. This report presents the overall financial position of the City Fund (i.e. the Corporation's finances relating to Local Government, Police and Port Health services) and recommends setting levels of business rates and council tax. There is a further report to your Committee on the financial position of all the City Corporation's Funds.
2. The City Fund forecast previously approved by the Court, included a provision for further government grant cuts up to 2016/17.The agreed strategy was to generate small surpluses for the next two years to bolster our reserves, allowing time to plan for neutralising the City Fund deficits with an additional savings programme identified from a service based review of activities and central departments. As expected and notwithstanding government cuts in the current Comprehensive Spending Review period, the City Fund is forecast to make a small surplus in 2014/15.
3. City Fund moves to a breakeven position in 2015/16 and significant deficits are forecast from 2016/17 onwards. By 2017/18, additional savings in the order of £9m p.a. will need to be found. This is equivalent to about 10% on Chief Officers' net cash limit budgets (paragraph 9).
4. So far, savings options worth up to £7.5m have been identified and are being examined. Of this, some £2m is reasonably secure and has therefore been removed from budget. These savings, along with investing cash reserves into property, have moved the deficit out a year from the position forecasted in the autumn 2013, when the scale of the likely government funding reductions became apparent (paragraph 10).
5. City Police and the Police Committee has its own savings plan to match reductions in police funding and is therefore a ring-fenced budget within the City Fund. The forecast is that the Force will achieve its balanced position over the medium term through drawing on its reserve on a measured basis (paragraph 12).

Recommendations

6. We recommend that the Court of Common Council:-

i) Approve the overall financial framework and the revised Medium Term Financial Strategy for the City Fund (paragraph 7);

ii) Approve the City Fund Net Budget Requirement of £110.4m (paragraph 15);

iii) Note the change in anticipated earnings from cash deposits to 0.75% across the planning period (paragraph 7a);

iv) Continue the policy of allowing City Police to draw from its reserves over the medium term on a managed basis, subject to a minimum £4.5m being retained (paragraph 12);

v) Note that no provision in the revenue estimates is made for growth or reduction in business rates, any changes being met from the use of balances (paragraph 22); and

vi) Approve that the annual uprating of applicable amounts, premiums, disregarded income, or capital in relation to the Local Council Tax Reduction Scheme 2014-2015 as it applies to working age claimants, be in accordance with the uprating to be applied under the Housing Benefit Regulations which take effect from 1 April each year; and the annual uprating of non-dependent income and deductions, and income levels relating to Alternative Council Tax Reduction, or any other uprating as it applies to working age claimants, shall be adjusted in line with inflation levels by reference to relevant annual uprating in the Housing Benefit Scheme, or The Prescribed Council Tax Reduction Scheme for Pensioners (paragraphs 32 and 33).

Business Rates

vii) Retain the City Business Rate Premium at 0.4p in the pound in 2014/15, but advise ratepayers of a possibility of an increase in 2015/16 if there is a further reduction in in the specific government grant for the Police's capital city responsibilities (paragraph 14h);

viii) Set, inclusive of this premium, a Non-Domestic Rate multiplier of 48.6p for 2014/15 together with a Small Business Non-Domestic Rate multiplier of 47.5p (paragraph 20);

ix) Note that the Greater London Authority is in addition levying a Business Rate Supplement in 2014/15 of 2p in the £ on properties with a rateable value greater than £55,000 (paragraph 25); and

x) Delegate to the Chamberlain the award of the following discretionary rate reliefs awarded under Section 47 of the Local Government Finance Act 1988:

relief of up to £1,000 to retail premises; 50% relief from non-domestic rates for up to 18 months between 1st April 2014 and 31st March 2016 on retail premises that become occupied, having been empty for at least one year; and exemption from empty rate for new rating assessments completed between 1st October 2013 and 30th September 2016 for up to 18 months (paragraph 24)

Council Tax

xi) Based on a zero increase over 2013/14, determine the provisional amounts of Council Tax for the three areas of the City to which are added the precept of the Greater London Authority (paragraphs 26-29);

xii) Determine that the relevant (net of local precepts and levies) basic amount of Council tax for 2014/15 will not be excessive in relation to the requirements for referendum (paragraph 30);

xiii) Approve that the cost of highways, transportation planning, road safety waste disposal, drains and sewers, open spaces and street lighting functions for 2014/15 be treated as special expenses to be borne by the City's residents outside the Temples (paragraph 16)

Capital expenditure

xiv) Note the proposed financing methodology of the capital programme in 2014/15 (paragraph 36);

xv) Approve the Prudential Code indicators (paragraph 37 and Appendix C);

xvi) Approve the following resolutions for the purpose of the Local Government Act 2003 (paragraph 35) that:-

- at this stage the affordable borrowing limit (which is the maximum amount which the Corporation may have outstanding by way of borrowing) be zero; and
- the prudent amount of Minimum Revenue Provision is zero.

xvii) Any potential borrowing requirement and associated implications will be subject to a further report to Finance Committee and the Court of Common Council (paragraph 39); and

xviii) Note the continued pursuit of the approved financing methodology for the Corporation's funding commitment towards the cost of Crossrail, in particular each future year's budget report will give an update on funding progress (paragraph 43 and Appendix A).

Chamberlain's assessment

xix) Take account of the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves (paragraphs 41-44).

Main Report

Financial overview

1. The City Fund forecast previously approved by the Court included a provision for further government grant cuts up to 2016/17. The agreed strategy was to generate small surpluses for the next two years to bolster our reserves, allowing time to plan for neutralising the City Fund deficits with an additional savings programme identified from a service based review of activities and central departments.

2. The Government recently issued the Local Government Finance Settlement for 2014/15 and 2015/16 and the Policing Minster published the revenue allocations for police for 2014/15.

3. For City Fund, the government funding cuts equating to £5.1m in 2015/16, a further £2.2m in 2016/17 and £1.7m in 2017/18, have a significant impact. By 2017/18, the further cuts anticipated in government funding contribute to an expected deficit of £8.9m. The service based review sets a target to identify proposals amounting to £13m p.a, in order to provide a range of options from which Members may choose £9m p.a. The surplus for 2014/15 and the broadly breakeven position in 2015/16 allow two years for agreed savings proposals to be implemented.

4. For City Police, there is a reduction of £2.6m in grant compared to 2013/14. This reduction, equates to 4.5% which is exactly the same reduction as for all police forces. Our 2014/15 forecast assumed the 3.3% cash reduction the Home Office announced in relation to the 2014/15 grant, but the reduction in funding is some £667,000 worse than anticipated, despite the fact that Police has been protected from additional Government cuts announced in the Autumn statement. Further reductions are anticipated in subsequent years.

5. The economic context also remains challenging and the historically low interest rates mean that returns on cash investments remain small. The City has invested a considerable, but prudent, proportion of formerly cash-backed reserves into investment properties to secure a better income return.

Revenue spending across planning period

6. This overview of the City Fund's financial position, covering the medium term period to 2017/18, is based on the annual in-depth survey of all revenue income and expenditure used to draft budgets approved by Committees.

7. Whilst the fundamental basis and approach underlying the previous forecast and the City Fund Medium Term Financial Strategy remains sound, it is proposed that certain key assumptions should be revised:-

   a) **Investment income outlook:** On the City's two other key income streams, rental and investment income, market rents appear to be performing strongly for the foreseeable future. Property rental income is forecast based on the expected rental for each individual property, allowing for anticipated vacancy levels. For City Fund there is a fall in rental income of £1.1m p.a. in 2016/17 (and a further £0.6m p.a. in 2017/18) as the impact of financing the Crossrail contribution through the disposal of investment properties on City Fund takes effect.

As the economic situation improves, it is likely that interest rates will rise at some point in the medium term. However, it remains difficult to predict when an increase might occur. Accordingly, the rate of 0.75% currently being achieved on cash deposits has been included in the financial forecasts throughout the period.

However, since Resource Allocation Sub Committee decided to invest £110m of City Fund cash backed reserves into property, the income derived from cash balances has accordingly fallen.

A 1% increase in interest rates in 2015/16 would lead to increased income of £3m for the City Fund.

b) **Service Based Review:** So far, savings options worth up to £7.5m have been identified and are being examined. Of this, some £2m is reasonably secure and has therefore been removed from budget. Work continues to provide the June meeting of the Resource Allocation Sub Committee with proposals in the order of £13m p.a.

8. To highlight three important continuing assumptions:-

- The Financial Strategy assumes no council tax increases across the planning period. The Government has announced that it will provide a grant to local authorities that freeze council tax for 2014/15. Councils that freeze or reduce council tax will get a grant worth 1% of their council tax in each of 2014/15 and 2015/16 - approximately £50,000 each year for the City. However, it is anticipated that City council tax payers will pay a very slightly lower bill as the GLA proportion, is expected to decrease by £1.60 on an average band D property in the City;

- Freezing of the City Business Rate Premium at the existing level for 2014/15;

- As part of securing savings, the inflation provision was revised in the previous forecast to 1% in 2013/14 and 2% in 2014/15. This excluded Police funding, as the City Police are restricted to their resource cash limit based on Government grant allocations and their share of the City's premium rate. Inflation at 2% per annum is also factored in throughout the remainder of the period. The Government's own measure – the GDP deflator - is presently 2.2% falling to 1.7% over the next 3 to 4 years. We continue to drive down procurement costs through the PP2P programme. We have a policy to consider supporting exceptional cost increases on a case by case basis and anticipate that might be necessary, for example on energy costs, notwithstanding the very good work being undertaken to reduce energy consumption. On City Fund each 2% is approximately £1.7m.

9. The latest forecast for City Fund-Non Police Services and Police services, taking account of conclusions from the annual survey and the property rental income forecasts from the City Surveyor, is shown below:

Table 3: City Fund Overall Revenue Deficit/ (Surplus)

	£m				
	13/14	14/15	15/16	16/17	17/18
Non-Police					
March 2013 forecast	(5.7)	(0.8)	1.4	5.2	NA
Current forecast	(5.4)	(6.8)	0.2	4.7	8.9
Uncommitted revenue reserves #	(39.5)	(45.2)	(45.0)	(39.0)	(23.6)
Police					
March 2013 forecast	2.1	1.8	0	0	NA
Current forecast *	0.4	4.6	4.7	6.7	NA
Uncommitted revenue reserves	(14.8)	(10.2)	(5.5)	1.2	NA

 # Please note there are revenue contributions to capital spend in some years as approved by the Policy and Resources Committee. Consequently reserves are adjusted by more than the forecast deficit/ surplus.

** Assumes Capital City Grant will continue to be received at £2.5m per year.*

10. For City Fund, the large increase in the forecast surplus for 2014/15 is largely due to increased rent income following the purchase of investment properties from City's Cash and Bridge House Estates, together with the re-phasing to later years of revenue works programmes. The service based review savings of £2m already identified and removed from budgets, along with investing cash reserves into property, have moved the deficit out a year from the position forecasted in the autumn 2013, when the scale of the likely government funding reductions became apparent.

11. The key assumptions that underpin these latest projections for City Fund include the following:

    a. **Provisional Grant settlement**: The financial forecast position includes an adjustment to the annual surplus/ (deficit) for the government funding settlement announced on the 18 December- a marginal reduction compared to forecast on 2014/15 and a 15.8% reduction in grant income in 2015/16 (compared to the 2014/15 grant level). A further likely reduction of 8% has been applied to 2016/17 and a further cut of 7% in 2017/18, in line with Local Government Association's assumptions included in its Future Funding Outlook report. It is worth noting that the LGA's reduction assumptions are consistent with the 15% forecast over the same period by the Institute of Fiscal Studies.

    b. **City Offset:** In addition to Formula Grant, the City Fund uniquely receives an Offset from the business rates collected in the Square Mile. The amount of the Offset is determined annually by DCLG and for 2014/15 is £10.7m.

c. **Business Rates:** The 2012 Local Government Finance Act became law on 31 October 2012. It provided for the implementation of a system of business rate retention from 1 April 2013. If the City can increase non domestic rate revenue above its baseline funding level, it can retain a proportion of that growth. The way in which the scheme works means that any growth is split between central Government 50%, the GLA 20% and the City 30%. This 30% is then subject to a 50% levy payable to central Government. However, the assumptions in setting the starting point mean it is unlikely that the City will be able to share in business rate growth; rather the impact of future appeals means we are more likely to be concerned by the safety net which at 7.5% of the baseline funding level at least limits the City's share of future losses to £1.1m p.a. Of all local authorities, the City is at most risk of calling on the safety net, as this would occur if there was a decline in business rates of just 0.42%. Whilst appeals and consequential income loss are expected, we do not know the certainty or timing - it might be outside our current planning horizon.

   Assumption - No growth or reduction anticipated, but note that due to appeals, there is a high likelihood that rates due will fall, in which case additional provision would need to be made for the City of up to £1.1m p.a.but this would be best met from reserves for the immediate future.

d. **Council Tax:** The City's Council tax, expressed at band D and excluding the GLA precept is £857.31 for the current financial year, 2013/14. In December, the Chancellor announced that freeze grant will be rolled into the national baseline. Councils that freeze or reduce council tax will get a grant worth 1% of their council tax. For the City 1% equates to a figure of around £50,000.

   The Government has announced that for 2014/15 any council tax increase of 2%, or higher than 2%, would require a referendum.

   The forecast currently anticipates accepting the freeze grant. This would be in line with our policy of maintaining parity with London Boroughs most of whom have indicated that they will freeze, although three have confirmed reductions between 0.5% and 3%.

e. The forecast currently anticipates accepting the freeze grant.

City Fund: Police

12. Notwithstanding the assumption that the Capital City Grant will be maintained at £2.5m a year across the forecast period; current projections indicate that Police reserves will be fully utilised by 2016/17. This would breach the current policy of allowing City Police to draw on its reserves over the medium term, subject to a minimum £4.5m being retained. The Police has its own savings plan to match reductions in police funding which will also amount to about £9m by 2017/18. It is proposed that the current policy of allowing City Police to draw on its reserves, subject to a minimum of £4.5m is retained, pending the outcome of the Police's cost reduction programme.

13. The increasing deficits from 2014/15 onwards and hence use of reserves, is essentially the net impact of allowances for pay and price increases, changes in manpower levels and revenue contributions towards the funding of the capital programme.

14. Funding assumptions include:

f. **Grant funding**, as in previous years, City of London Police will receive formula funding from two sources - Home Office Police Grant and DCLG formula funding. The City Police will receive £55.2m for 2014/15. This is a reduction of £2.6m compared to 2013/14. This reduction, equates to 4.5% which is exactly the same reduction as for all police forces. Our 2014/15 forecast assumed the 3.3% cash reduction the Home Office announced in relation to the 2014/15 grant, but the reduction in funding is some £667,000 worse than anticipated, depsite the fact that Police has been protected from additional Government cuts announced in the Autumn statement. This is mainly due to top slicing of the overall Police Grant to fund a number of new initiatives, such as Police Innovation Fund, additional funding for the Independent Police Complaints Commission and the City Police Capital City Grant.

As with 2013/14, the City's provisional settlement includes some £10m protection (damping mechanism) which presents a financial risk in future reviews of the Police Allocation Formula.

For 2015/16, the Home Secretary has deferred publication of police funding allocations pending her review of all Home Office budgets. For planning purposes the 2015/16 and 2016/17 forecasts assume cash reductions of 3.2% and 3.75% respectively.

g. **Specific grants**: In addition to the main Police grant, the City Police receives many specific grants. One of these, for Dedicated Security Posts/ Capital City funding, was initially forecast to reduce from £8.5m to £5m as the City Police has been benefitting from protection measures in the distribution formula. This grant has now been confirmed at £7.8m for 2014/15 including a £2.5m Capital City element 'in recognition of its national and international city functions '. Whilst the £7.8m compares favourably with £5m that had been anticipated by the City of London Police, it does still represent a further £0.7m cash reduction to Police funding compared to 2013/14. The Police forecast assumes that the £2.5m Capital City Grant will be received across the forecast period.

Although the Capital City Grant settlement for 2014/15 is welcomed, it comes with the caveat that for future years a joint bid will need to be presented with the Metropolitan Police which itself is facing very tough budget decisions.

h. **Business Rates Premium**: The City is uniquely able to raise additional income for the City Fund from its business rate premium. The current premium on City businesses has been unchanged since 2006/07 at 0.4p. In light of Police funding constraints and the likelihood of further grant reductions, the December Resource Allocation Sub Committee considered a potential increase to 0.5p in the pound. However, the Sub Committee preferred to seek appropriate levels of funding to help support national responsibilities in 2015/16 rather than looking to raise the premium.

At the Ratepayers meeting on 4 February 2014, the Chairman of Finance signalled that if there was a further reduction in the specific Government grant for dedicated security posts /capital city responsibilities, a request for an increase in the premium on the business rate may be made from 2015/16.

The Police forecast assumes that there will be no increase in the business rate premium.

Revenue Spending Proposals for 2014/15

15. Total revenue expenditure of £146.1m is proposed for 2014/15, a decrease of £4.2m. The table below shows how this is financed and the resulting council tax requirement.

Table 2: Setting the Council Tax requirement

	2013/14 £m (original)	**2014/15 £m**
Net Expenditure on Services	149.2	144.5
Supplementary Revenue Projects	1.1	1.6
Total revenue requirement	**150.3**	**146.1**
Estate rental income	(34.7)	(39.3)
Income on balances	(4.4)	(2.1)
Net requirement	111.2	104.7
Plus proposed contribution to/(from) reserves*	5.7	5.7
City Fund Net Budget Requirement	**116.9**	**110.4**
<u>Financing sources</u>		
Formula Grant	(94.3)	(87.4)
City Offset	(10.5)	(10.7)
NNDR premium (net)	(6.5)	(6.5)
City's share of Collection Fund Surplus	(0.4)	(0.5)
Council Tax Requirement	**5.2**	**5.3**

** The £5.7m contribution to reserves in 2014/15 comprises the £6.8m underlying surplus less £1.1m used to finance capital expenditure from revenue.*

16. A separate report on today's agenda "Revenue and Capital Budgets 2013/14 and 2014/15" includes the detailed net revenue budget requirements of the City Fund. Included within the net expenditure on services of £144.5m is provision for any levy or special levies issued to the City by relevant levying bodies such as the Environment Agency, the Lee Valley Regional Park Authority, London Pensions Fund Authority and London Council's Grant scheme. This also includes the following precepts anticipated for the year by the Inner and Middle temples (after

allowing for the cost of highways, transportation planning, road safety, waste disposal, drains and sewers, open spaces and street lighting being declared as special expenses).

Table 3: Temple's Precepts		
	2013/14 £	2014/15 £
Inner Temple	175,297	180,931
Middle Temple	146,341	152,273
Total	**321,638**	**333,204**

17. On financing, the table below analyses the change in formula grant:

Table 4: Analysis of the City's National Formula Grant				
	2013/14	**2014/15**	**Reduction on 2013/14**	
	£m	**£m**	**£m**	**%**
Police	57.8	55.2	-2.6	-4.5
Non-Police	36.5	32.2	-4.3	-11.8
Total	**94.3**	**87.4**	**-6.9**	**-7.3**

18. The City Offset of £10.7m is included in the new arrangements for Business Rates Retention.

Business Rates

19. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 48.2p and a Small Business Non-Domestic Rate Multiplier Rate of 47.1p for 2014/15. These multipliers represent an increase of 1.1p and 0.9p respectively over the 2013/14 levels. The actual amount payable by each business will depend upon its rateable value and the impact of the transitional relief scheme following the Government's five yearly business rate revaluation implemented in April 2010.

20. The business rate premium on City businesses has been unchanged since 2006/07 at 0.4p and it is proposed that this remain unchanged again this year. The proposed premium will result in a National Non-Domestic Rate multiplier of 48.6p and a Small Business Non-Domestic Rate of 47.5p for the City for 2014/15. It is anticipated that a premium of 0.4p will raise approximately £6.5m.

21. Likely appeals would also affect the premium income. However, as with business rates, we do not know the certainty or timing- it might be outside our current planning horizon.

22. The forecast assumes no increase in business rates premium. No estimate has been included for potential reductions from successful appeals.

23. One final issue in relation to business rates: The Government has announced that the temporary increase in small business rate relief will continue to 31st March 2015. Also three new reliefs have been, or are about to be, introduced:

- a discount of £1,000 in 2014/15 and 2015/16 for retail properties with a rateable value of up to £50,000 (there will be a few exclusions, e.g. betting shops, building societies, and professional services such as solicitors);
- a 50% discount for new occupiers of previously empty property for up to 18 months; and
- an exemption from empty rate for up to 18 months for new property completed between 1st October 2013 and 31st March 2016.

24. As rateable values in the City are comparatively very high, more than half the retail premises will not qualify for the £1,000 relief. There is no upper limit with the other two forms of relief. All these reliefs will be subject to state aid rules and will therefore be complicated to administer. It is understood that these new reliefs are to be funded fully by central government, although full details are not yet available. Technically, in order to avoid primary legislation, these reliefs will be discretionary. However, as they are to be fully funded by central Government and not subject to the rates retention split, there is no reason not to award them to all cases that meet the criteria. It is anticipated that virtually every qualifying retail business will apply and delegation to the Chamberlain is therefore sought to award all three of these reliefs.

Business Rate Supplement

25. The Mayor for London is again proposing to levy a Business Rate Supplement of 2.0p in the £ on properties with a rateable value greater than £55,000, to raise funds towards Crossrail.

Determination of the Council Tax requirement

26. 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 B. 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.

27. After allowing for a proposed contribution to reserves (to balance the revenue position over the planning period), the final City Fund council tax requirement for 2014/15 is £5.3m. 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 2014. As detailed in Appendix B, the City's proposed Council Tax for 2014/15 at band D is £857.31. Consequently it is proposed to freeze Council Tax for 2013/14 at £857.31 (band D property), before adding the Greater London Authority (GLA) precept. To determine the City's Council Tax for each property band, nationally-fixed proportions are applied to the average band D property.

28. The GLA’s proposed precept for 2014/15 is £84.48 for a Band D property. This excludes the Metropolitan Police requirement and represents a decrease of £1.60 (1.86%) compared with 2013/14.

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

Table 5: Council Tax per Property Band: calculated by applying nationally fixed proportions from Band D.

	£							
	A	B	C	**D**	E	F	G	H
CoL	571.54	666.80	762.05	857.31	1,047.82	1,238.34	1,428.85	1,714.62
GLA	56.32	65.71	75.09	84.48	103.25	122.03	140.80	168.96
Total	627.86	732.51	837.14	941.79	1,151.07	1,360.37	1,569.65	1,883.58

30. It is anticipated that the City’s total Council Tax will remain the third 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 2014/15 will not be excessive in relation to the new referendum requirements for any council tax increases.

31. One final issue in respect of the City’s Council Tax relates to discounts:

- Currently second homes in the City still receive 10% discount and no changes have been made since 2007. However, following a report to the January 2013 meeting of the Finance Committee, it was agreed to retain the discounts at 10% for 2013/14 but to consult with council tax payers about the level of discounts so that any changes could be made from 1st April 2014. This consultation has now taken place.

- Letters were sent to all council tax payers, not only second home owners, asking for comments on the level of discount for second homes. Around 5,500 letters were sent but there have only been about 130 responses. As there are at least 1,500 second properties in the City, this implies that there is no strong objection to removing the discount. All London Boroughs, apart from two, have removed the second homes discount. Finance Committee considered this issue at its January meeting and proposes to recommend to the Court of Common Council that the discount applying to second homes should be removed in 2014/15.

Council Tax Reduction (formerly council tax benefit)

32. From April 2013, council tax reduction replaced council tax benefit and local authorities have to make their own local schemes if not applying the Government default scheme. The City adopted the default scheme for 2013/14. There is no proposal to amend the scheme for 2014/15 other than to apply the annual uprating of applicable amounts in line with housing benefit applicable amounts to ensure that no claimants in receipt of the council tax reduction are no worse off in 2014/15.

33. It is proposed, therefore, that the annual uprating of applicable amounts, premiums, disregarded income, or capital in relation to the Local Council Tax Reduction Scheme 2014-2015 as it applies to working age claimants, be in accordance with the uprating to be applied under the Housing Benefit Regulations which take effect from 1 April each year; and the annual uprating of non-dependent income and deductions, and income levels relating to Alternative Council Tax Reduction, or any other uprating as it applies to working age claimants, shall be adjusted in line with inflation levels by reference to relevant annual uprating in the Housing Benefit Scheme, or The Prescribed Council Tax Reduction Scheme for Pensioners.

Capital

34. The Corporation has a significant programme of property investments and works to improve the operational property estate and the street scene. Spending on these types of activity is classified as capital expenditure. Key areas in the 2014/15 capital programme include:

	£m
Property Investment	9.0
New Police Accommodation	8.2
Old Bailey Enhancements	4.3
Affordable Housing Construction	9.7
Dwelling Improvements	7.6
Barbican Podium	8.1
Roads, Bridges, Streetscene	17.9

35. 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 not borrowed any money to finance these schemes.

36. This is summarised in the table below:-

Table 6: Financing of 2014/15 City Fund Capital Expenditure

	£m
Estimated Capital Expenditure	73.6
Financing	
Internal	
• Earmarked reserves:	
Housing Revenue Account (HRA)	5.4
Highways Improvements	9.0
Other	1.0
• Capital Receipts	25.2
• Revenue Reserves	2.1
External	
• Grants and reimbursements	30.9
Total	**73.6**

37. 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:

- Estimates of capital expenditure 2014/15 to 2016/17
- Estimates of the capital financing requirement 2014/15 to 2016/17
- Ratio of financing costs to net revenue stream (City Fund and HRA)
- Net debt and the capital financing requirement
- Estimate of the incremental impact on council tax and housing rents.

38. The prudential indicators listed above, together with some locally developed indicators, 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 and Annual Investment Strategy' at Appendix D.

39. The main point to highlight is that there is no underlying requirement at this stage to borrow for capital purposes and therefore the Corporation's Minimum Revenue Provision towards borrowing costs (MRP) is also zero. The Court of Common Council needs to formally approve these indicators.

Provision for future capital expenditure

40. In addition to the programmed capital schemes over the planning period, the Capital Programme allows £3m per annum for new schemes [of which £1m has been earmarked to provide capital funding for the Museum of London] which have not yet been identified. If schemes are identified in excess of these provisions, Resource Allocation Sub Committee will need to prioritise resources.

Robustness of Estimates and Adequacy of Reserves

41. 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.

42. 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:-

    a) provision has been made for all known liabilities, together with indicative costs(where identified) of capital schemes yet to be evaluated;
    b) the estimates and financial forecast have been prepared at this stage on the basis of the Corporation remaining debt free as no requirement to borrow is currently anticipated;
    c) prudent assessments have been made in regard to key assumptions;
    d) an annual capital envelope is in place seeking to ensure that capital expenditure is contained within affordable limits;
    e) 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
        - the assumed interest rate has been lowered across the planning period

f) a strong track record in achieving budgets gives confidence on the robustness of estimates.

43. There are, nevertheless, risks to the achievement of the latest forecasts:

Within the City of London's control:

- The key risk we highlighted to the Resource Allocation Sub Committee in December 2013 for achieving the financial forecast lies in achieving the programme of asset sales needed to finance the capital programme. Whilst capital spend up to 2018 can be supported by the disposal programme, this level of spend cannot be sustained in the longer term. The forecast revenue position cannot support significant contributions to the funding of the capital programme. Consequently the overall level of capital spend will need to be contained unless the revenue position can be improved.
- The forecasts also assume that sufficient capital receipts will be generated to fund the Crossrail commitment of £200m from City Fund and that the payment is made on 31 March 2016. As set out in Appendix A, part of these receipts have been achieved and a strategy is being prepared to deliver the balance. Based on the forecast receipts, there is a small gap, estimated to be in the order of £7.1m, in the provision for the £200m, although with 2 years to run, the aim is to eliminate this.

Outside the City of London's control

- The key risk on City Fund relates to the government funding streams and system. We now have confirmation of the grant figures for 2014/15 and 2015/16 for City Fund non- Police services and for 2014/15 for Police; sometime in 2014 we should have a more informed view about the impact of the mini spending review but as ever, will need to translate this in terms of potential reductions to the Revenue Support Grant.
- The Business Rates Retention Scheme currently presents more of a risk to our funding rather than an opportunity; however, we are forecasting a neutral position on this for the present. Against this however, when interest rates do eventually increase, the additional income could offset the risks of these losses.
- The assumption on interest rates of 0.75% may appear overly prudent across the period, but if interest rates rise then it is likely inflation will do also and the assumption also provides a buffer against the risk of a loss in business rates income, capped at £1.1m p.a.

44. The Chamberlain has reviewed the various levels of Reserves within City Fund as listed at Appendix E and is satisfied that each reserve continues to be relevant.

Equalities Implications

45. During the preparation of this report all Chief Officers have been asked to consider whether there would be any potential adverse impact of the various

budget policy proposals on the equality of service with regard to service provision and delivery that affects people, or groups of people, in respect of disability, gender and racial equality. None are anticipated but they are expected to confirm this by the date of the Committee.

Consultations

46. The various proposals contained in this report were presented to the annual meeting of business ratepayers held in the Guildhall on the 4th February. No objections were raised.

47. A meeting was held with the Trade Unions to discuss the recommendations. There were no objections to the proposals and the trade unions have asked to meet to discuss the service based review.

Conclusion

48. Based on these projections, the estimates are considered robust and the level of and polices relating to the City Fund reserves considered reasonable.

49. The main risk to City Fund relates to the Government funding from 2016/17 onwards. We have factored a 15% reduction over 2016/17 and 2017/18 into our financial forecasts, however the reduction could be greater than this. The financial strategy already addresses this risk in making additional savings and efficiencies through the service based review.

Appendices

Appendix A	Crossrail Funding Commitment; latest position
Appendix B	Calculating Council Tax
Appendix C	Prudential Code Indicators
Appendix D	Treasury Management Strategy and Annual Investment Strategy
Appendix E	City Fund Reserves 2014/15

All of which we submit to the judgement of this Honourable Court.

DATED this 18th day of February 2014.

SIGNED on behalf of the Committee.

ROGER ARTHUR HOLDEN CHADWICK
Chairman of the Finance Committee