

<b>Committees:</b> Finance Committee Court of Common Council	<b>Dates:</b> 21 February 2017 9 March 2017
<b>Subject:</b> City Fund: 2017/18 Budget Report and Medium Term Financial Strategy	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
<b>Report author:</b> Caroline Al-Beyerty, Chamberlain's Department	

### Summary

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). It recommends that:

- the Council Tax for 2017/18 remains unchanged from 2016/17 and;
- The Business Rate Premium is unchanged.

There is a further report to your Committee on the financial position of all the City Corporation's Funds.

The overall strategy is unchanged for City Fund: to have a four year plan that presents a balanced budget.

- City Fund (non-Police): the provisional Government grant settlement is largely in line with our expectations. The one area of growth in income compared to previous forecasts is in retained business rate income, and results from a growth in office space within the City. This additional income has provided headroom to fund investment in one-off projects, such as the Museum of London relocation project, and to deal with the backlog of outstanding repair works for the operational properties.

The fund shows a deficit in 2016/17 as a result of the £27m purchase of an investment property in the year (133 Whitechapel High Street), funded through a drawdown on reserves. Otherwise the extra business rates income, combined with an increase in anticipated rents from the fund's investment properties and additional interest on cash balances, has allowed cost pressures to be accommodated and some extra items to be included whilst still leaving the fund in surplus for 2017/18 and 2018/19. The fund moves into deficit from 2019/20 onwards due to the inclusion of costs for the Museum of London relocation project. Funding options for MoL are being considered.

- Police: The core Police grant settlement is marginally (£0.7m) lower than anticipated. Additional cost pressures have meant the fund has moved into deficit, utilising the remaining ring fenced reserves in 2016/17 and 2017/18. The Police Medium Term Financial Plan, which went through the City's committee process in December, set out a strategy for dealing with the deficit to the end of 2017/18 and this has been put in place. An external review of future demands on policing and value for money has been commissioned to identify options to address the, projected deficits of £5.6m in 2018/19 and £3.8m in 2019/20. No increase in the rate of the premium is therefore proposed for the 2017/18 year.

## Recommendations

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

- Approve the overall financial framework and the revised Medium Term Financial Strategy (paragraph 2)
- Approve the City Fund Net Budget Requirement of £119.3m (paragraph 14)
- Approve the following **changes** from the previous forecast (paragraphs 3 and 11):
  - Allowances for pay and prices are factored in at 1% for 2017/18 and zero thereafter (paragraph 11c);
  - 2% cashable efficiency savings for City Fund from 2018/19 are included in line with the published Efficiency Plan (paragraph 12d);
  - A 3.5% increase across both City Fund and non-uniformed staff in Police in employers' pension contribution to tackle the pension fund deficit (paragraph 3a);
  - Additional provision of £2.9m pa from 2017/18 for IT (split £1.8m City Fund and £1.1m for Police) (paragraph 3c); and
  - A provision of £400k p.a. from 2017/18 onwards for Rough Sleepers and £400k p.a. for Adult Social Care, subject to a further report to Policy and Resources Committee (paragraphs 3g and 3h).
- Approve the following **investment opportunities** being included, subject to further reports:
  - Additional provision of £2m in 2017/18 and £4m pa thereafter to fund the investment in tackling the 'bow wave' for City Fund properties and in particular focus on some substantial refurbishment works at specific properties eg Old Bailey (paragraph 3f)
  - Provision for spending on the Cultural Hub including £5m in City Fund for the 'Look & Feel' strategy (paragraph 3e)
  - Substantial provision for the Museum of London relocation project (paragraph 3k) amounting to £81.2m across the planning period.
- Note that the forecast **includes items already agreed** by Policy and Resources Committee:
  - Provision in the City Fund forecast for the £2.5m to complete the design work for the Centre for Music, together with a provision of £1.25m for the City Surveyor to develop a full commercial scheme for the site if the Centre for Music doesn't go ahead; and
  - Substantial additional City Fund support for City Police pending the result of the external review. This amounts to £9m revenue funding across the planned period (including £0.9m for the 2017/18 deficit) and to a further c£11m funding for the Police capital schemes.
- Note that in the revenue estimates from 2017/18 assumes the City will be in a 'growth' position under the business rates retention scheme.
- Note the Local Council Tax Reduction Scheme set by the Court of Common Council on 12 January 2017 and as set out at paragraph 31.

## Key decisions

The key decisions to make are in setting the levels of Non Domestic Rates and Council Tax.

### **Business Rates**

- Set, exclusive of the Business rate premium, a Non-Domestic Rate multiplier of 47.9p for 2017/18 together with a Small Business Non-Domestic Rate multiplier of 46.6p (paragraph 17).

- Note that the Greater London Authority is, in addition, levying a Business Rate Supplement in 2017/18 of 2p in the £ on properties with a rateable value greater than £70,000 (paragraph 23).
- As in previous years, delegate to the Chamberlain the award of the discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988 as set out in paragraph 21.

### **Council Tax**

- Recommendation is for the City's Council Tax (excluding the Greater London Authority precept) to remain unchanged.
- Based on a zero increase from 2016/17, 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 (appendix A).
- Determine that the relevant (net of local precepts and levies) basic amount of Council tax for 2017/18 will not be excessive in relation to the requirements for referendum.
- Approve that the cost of highways, transportation planning, waste collection and disposal, drains and sewers, open spaces and street lighting functions for 2017/18 be treated as special expenses to be borne by the City's residents outside the Temples (appendix A).

### **Other recommendations**

All other recommendations are largely of a technical and statutory nature; the only one to highlight for particular attention is that it is proposed that the City of London Corporation remains debt free for 2017/18.

### **Recommendations**

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

#### **Capital expenditure**

- Note the proposed financing methodology of the capital programme in 2017/18 (paragraph 34).
- Approve the Prudential Code indicators (Appendix B).
- Approve the following resolutions for the purpose of the Local Government Act 2003 (paragraph 37 and Appendix E) that:
  - at this stage the affordable external borrowing limit (which is the maximum amount which the Corporation may have outstanding by way of external borrowing) be zero.
  - the prudent amount of Minimum Revenue Provision (MRP) for 2017/18 is £896,000 which equals the amount of deferred income released from the premiums received for the sale of long leases in accordance with the MRP Policy at Appendix E.
- Any potential external borrowing requirement and associated implications will be subject to a further report to Finance Committee and the Court of Common Council.
- Note that the funding for the £200m contribution from City Fund to Crossrail has been accrued to the 2016/17 financial year as the payment is anticipated to be in made in March 2017.

## Chamberlain's assessment

- Take account of the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves (paragraphs 40 and 41; and Appendix D)

## Main Report

### Financial overview

- The Government recently issued the Local Government Finance Settlement for 2017/18 and the Policing Minister published the revenue allocations for police for 2017/18.
- The latest forecast position for City Fund, showing Police separately, and taking account of conclusions from the annual survey and the property rental income forecasts from the City Surveyor, is shown below:

Table 1: City Fund Overall Revenue		<b>Deficit/ (Surplus)</b>			
	£m				
	<u>16/17</u>	<u>17/18</u>	<u>18/19</u>	<u>19/20</u>	<u>20/21</u>
<b>City Fund – non Police</b>					
March 2016 forecast	(5.9)	(2.0)	(2.1)	(1.0)	N/A
Current forecast*	(7.2)	(10.9)	(0.1)	15.6	19.4
Unearmarked revenue reserves	(28.4)	(32.6)	(35.0)	(19.4)	-
<b>City Fund – Police</b>					
March 2016	0.0	2.9	4.8	N/A	N/A
Current forecast	2.6	1.5	5.6	3.8	N/A
Unearmarked revenue reserves	(1.5)	-	5.6	9.4	N/A

\* Underlying position – excludes planned use of revenue reserves to fund one off items including the purchase of investment properties and cashflow assistance.

- For City Fund, following a £25.3m deficit in the current year reflecting the £27m purchase of an investment property in year (133 Whitechapel High Street), funded through a draw down in reserves, City Fund is forecast to be in surplus across the period. Extra business rates income, combined with an increase in anticipated rents from the fund's investment properties and additional interest on cash balances, has allowed the inclusion of additional funding to meet Member priorities and initiatives as follows:
  - Increased contribution to tackle the pension fund deficit. The proposed option is to make a 3.5% increase in employer's pension contribution from revenue. This has been included in the forecast. Alternative options, including a one-off capital contribution or extending the deficit recovery period were considered but ruled out on cost and reputational grounds.
  - The apprenticeship levy was included from 2017/18 onwards and is already in the base estimates. This year the forecast has been adjusted for the cost of apprentices' posts in City Fund (£0.5m in 2017/18 and £0.7m thereafter). At present it seems only training costs will be recoverable against the levy.

- c) Further funding for IT. Agreed funding of £2.2m has been included in 2016/17 (£1.3m City Fund and £0.9m for Police). Going forward provision of £2.9m pa has been included from 2017/18 onwards (£1.8m City Fund and £1.1m for Police) to ensure we have modernised, robust and reliable IT systems and services. This includes provision for spending on information security to address risks around cyber security.
- d) Additional funding for City of London Police. An extra £8.1m package (across the planning period) covering funding for IT noted at c) above, £2.4m revenue contribution to capital schemes, and for employers' pension fund contribution of £0.5m pa from 2017/18 has been included in the forecast. In addition the City has earmarked £11m from its City Fund capital resources to fund Police capital schemes. For 2017/18 only - pending the outcome of the external Demand and VFM review - funding for the remaining deficit of £0.9m after mitigation measures has also been included, to be drawn down only if reserves have been exhausted
- e) Cultural Hub - a £5m provision has been included to fund the works associated with the 'Look & Feel' strategy.
- f) Additional Cyclical Works Programme Funding. Following RASC Away Day in June, Members had given a steer that any 'windfall' surpluses from business rates in 2017/18 ought to be applied to 'one off items' such as revenue contribution to large capital schemes and catch up on the 'bow wave' of maintenance cost. As a consequence £2m in 2017/18, and £4m pa for 2018/19 and thereafter, has been included in the forecast to fund the 'bow wave' for City Fund properties and in particular focus on some substantial refurbishment projects (e.g. Old Bailey).
- g) Adult Social Care. Community and Children's Services have identified a budget pressure of circa £0.4m pa concerning the provision of adult social care and this has been included in the forecasts. Given the City's overall funding position, and the modest size of the cost, a social care precept increase would not be appropriate. £0.4m has been included in the budget subject to a further report outlining the issue to Policy and Resources Committee
- h) Rough Sleepers – The cost of statutory homelessness assistance is being driven up by higher demand, and the impact of welfare reform. Welfare reform is both reducing the amount of rent the City can reclaim against the cost of temporary accommodation, and is likely to greatly increase the levels of unpaid rent. Alongside this, changes to legislation are set to increase the demand for assistance provided by the City. Rough sleeping has increased in scale and complexity and demand for specialist accommodation outstrips the supply available to the City, resulting in people remaining stuck on the streets. Increased resources are necessary to provide a range of accommodation types – from emergency assessment beds, to those for people with complex needs. A provision of £400k pa from 2017/18 has been included to meet this additional budget pressure, subject to a further report outlining the issue to Policy and Resources Committee.
- i) City's Learning & Engagement Forum – £150k pa from 2017/18 to fund the 'cultural educational partnership'.

- k) Museum of London Relocation. Appendix 2 sets out the current phasing of the cost of the project to relocate the Museum of London to Smithfield. The net costs for 2017/18 to 2020/21 have been included in the City Fund forecast.
  - l) Centre for Music. Provision has been included for the £2.5m bid to complete the design work, together with a provision of £1.25m for the City Surveyor to develop a full commercial scheme for the site if the Centre for Music doesn't go ahead. No other provision has been made relating to this project.
4. **Council Tax:** The City's council tax, expressed at band D and excluding the GLA precept, is £857.31 for the current financial year, 2016/17. The council tax referendum threshold will effectively be 5%, including 3% to spend on social care. It will be up to councils to choose whether to exercise their discretion to raise council tax by an additional 3% for adult social care. We have been able to accommodate the increased cost of £400k pa within the existing forecast so this option is not recommended.
  5. **For Police**, additional cost pressures have meant the fund has moved into deficit, utilising the ring fenced reserves in 2016/17 and 2017/18. The Police Medium Term Financial Plan, which went through the City's committee process in December, set out a strategy for dealing with the deficit to the end of 2017/18 and this has been put in place. Even allowing for these measures, deficits are forecast from 2018/19 onwards and action is therefore needed to restore financial balance.
  6. In response to the deteriorating financial position a Medium Term Financial Plan for the Police was submitted to the December committee cycle. This detailed some immediate steps to stabilise the position which included the Police adopting a cashable savings target; the utilisation of the remaining Police reserves (subject to agreement of the Court in January) and the City funding some additional costs for IT and employers pension contribution directly. It also involved the City funding the revenue contribution to Police capital schemes already in the budget (£1.4m in 2017/18 and £1m in 2018/19) and the City funding the future Police capital programme. The latter will be subject to a further report but could be of the order of £11m over the planning period.
  7. Despite these mitigations there remain substantial deficits in 2018/19 and 2019/20. In response to this the Town Clerk, the Chamberlain and the Commissioner have commissioned an external review to assess value for money opportunities, current and future demand, and potentially consider a revised operating model. It is intended that the initial findings of this study will be reported back to Members before the Summer recess.
  8. A further option to consider would be an **increase in the business rate premium**. The City is uniquely able to raise additional income for the City Fund from its business rate premium. The premium on City businesses had been unchanged since 2006/07 at 0.4p. Last year, in light of Police funding constraints and additional requirements in relation to counter-terrorism and security, the Resource Allocation Sub Committee agreed an increase to 0.5p in the pound.
  9. As the Police forecasts show a continuing deficit, exhausting the reserves in 2017/18, and in light of the Home Secretary's expectation that Police authorities will use their precepting powers to maintain funding levels, Members may wish to consider a business rate increase.

10. The premium can be increased in increments of 0.1p with each 0.1p generating circa £2m pa. However given the overall position on the City Fund budget and the results of the Demand and VFM review are awaited **it is suggested that no increase be made in 2017/18**. It should also be remembered that as a result of the 2017 revaluation ratepayers are already facing an increase anyway. A meeting with ratepayers is planned for the 10 February and the Committee will be updated on comments made.

### Key assumptions used in the forecasts

11. 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:

#### Income

- a) Investment income outlook: The City has a key income stream from its property portfolio. 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, expiry of leases and lease renewals. Rental income is forecast to grow over the period.
- b) Interest rates: It is likely that interest rates will rise at some point in the medium term, although it is difficult to predict when such an increase might occur. Accordingly, the rate of 0.5% currently being achieved on cash balances is assumed to hold until the end of the planning period. This will be reviewed in the light of any substantial economic change and adjusted, if required, when the forecast is updated in the summer. Additional interest on cash balances, shown in the schedules, is being achieved in City Fund due to the level of cash balances being held. A 0.25% increase in interest rates in 2017/18 would equate to £1.5m p.a. on City Fund.

#### Expenditure

- c) An inflation allowance is factored in at 1% for 2017/18 and zero thereafter. On City Fund each 1% is approximately £636k. RPI is currently 2.5% and CPI is 1.6%, so maintaining a zero pay and prices allowance adds further impetus for efficiency. Consideration will be given to supporting exceptional cost increases on a case by case basis.
  - d) 2% cash efficiency savings are included from 2018/19 in line with the published Efficiency Plan.
12. The key assumptions that underpin these latest projections for **City Fund** include the following:
- a. **Grant Settlement:** the provisional settlement is largely as expected. As the City's Efficiency Plan has been accepted we have been promised certainty on the figures published for the lifetime of this Parliament (ie four years up to 2019/20). This four year horizon reveals a gradual rate of reduction in Revenue Support Grant with the grant dropping from its current level of £10.6m in 2016/17 in stepped amounts to £6.2m in 2019/20 and continuing at this level thereafter. If the business rates retention scheme were to be introduced in 2018/19 grant income would be reduced to zero and we would need the shortfall to be made up from additional retained rates.
  - b. **Business Rates retention:** The other element of core Government funding relates to retained business rates. This is known as the Baseline Funding

Level and is £15.6m for 2017/18. The system of business rate retention remains broadly the same with the City benefiting from 15% of any growth in business rates. The one area of growth in income compared to the previous forecast is for additional retained business rates, where due to growth in business occupation in the City substantial additional business rate income is forecast. Members should note the Government has announced a review of the business rates retention system. Depending on the outcome of the review there is consequently a risk that this income will not be achieved. Also, although the 2017 rating revaluation shows a considerable increase in rateable values, there may well be appeals reducing the overall additional income achieved. Appeals are unlikely until 2018/19 at the earliest but will be backdated to 2017 and the effect of any appeals cannot be quantified at this stage.

- c. **City Offset:** In addition to Formula Grant, the City Fund uniquely receives, under business rates' regulations, an Offset from the business rates collected in the Square Mile. The amount of the Offset is determined annually by DCLG and for 2017/18 will be £11.267m, a similar level to 2016/17 with RPI added. Small inflationary increases have been assumed for the other years of the forecast period.
- d. The remaining **Service Based Review Savings** will be achieved.

13. Funding assumptions for **City Police** include:

- a. **Grant funding:** The Police core grant settlement was marginally worse than anticipated at £51.4m, some £0.7m lower than anticipated. The Government's stated intention is that the shortfall should be met from an increase in the precept (in the City's case, the business rate premium).
- b. **Specific grants:** In addition to the main Police grant, the City Police receives many specific grants. The main one of these is for Dedicated Security funding and is yet to be confirmed. We have assumed that the funding will be £4.5m, a reduction of 0.2m from 2016/17. Capital City Funding has been advised as part of the settlement at £4.5m, which is no change from the prior year.
- c. **Action Fraud Service:** The latest phasing for this Police project has been included in the forecasts which has resulted in the recovery from Home Office grant of the City's £6.6m advance funding being pushed out into the future. The project itself has significantly slipped and at present the Police envisage a £2.8m overspend by its end in 2020/21. At present the aim is to cover this shortfall by a combination of Home Office grant and 'monetisation' (selling the product to others) but should this fail the City could potentially be faced with picking up the remaining bill.

**Revenue Spending Proposals for 2017/18**

14. The City Fund net budget requirement for 2017/18 is £119.3m, an increase of £12.3m. The following table shows how this is financed and the resulting council tax requirement.



<b>Table 2: Setting the Council Tax requirement</b>		
	<b>2016/17 (original) £m</b>	<b>2017/18 £m</b>
Net Expenditure before investment income from City Fund assets	147.3	162.3
Estate rental income	(42.3)	(45.0)
Income on balances	(2.5)	(3.0)
Net requirement	102.5	114.3
Plus proposed contribution to/(from) reserves	4.5	4.2
<b>City Fund Net Budget Requirement</b>	<b>107.0</b>	<b>119.3</b>
<u>Financing sources</u>		
Formula Grant	(80.5)	(90.1)
City Offset	(11.0)	(11.3)
NNDR premium (net)	(8.1)	(10.5)
City's share of Collection Fund Surplus	(1.4)	(0.6)
<b>Council Tax Requirement</b>	<b>6.0</b>	<b>6.0</b>

15. A separate report on today's agenda "Revenue and Capital Budgets 2016/17 and 2017/18" includes the detailed net revenue budget requirements of the City Fund. Included within the net expenditure is provision for any 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, waste collection and disposal, drains and sewers, open spaces and street lighting being declared as special expenses as in previous years).

<b>Table 3: Temple's Precepts</b>		
	<b>2016/17 £</b>	<b>2017/18 £</b>
Inner Temple	188,003	202,484
Middle Temple	153,218	164,155
<b>Total</b>	<b>341,221</b>	<b>366,638</b>

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

<b>Table 4: Analysis of Core Government Grants</b>					
		2016/17 Original £m	2017/18 Original £m	Reduction (Increase) on 2016/17	
				£m	%
1	Police	52.1	51.4	0.7	1.3%
2	Non-Police	10.6	8.8	1.8	17.0%
3	<b>Total before Rates Retention Scheme and grants Rolled In Rates Retention Scheme</b>	<b>62.7</b>	<b>60.2</b>	<b>2.5</b>	<b>4.0%</b>
4	Baseline	15.3	15.6	(0.3)	(2.0%)
5	Growth	2.5	14.3	(11.8)	(472.0%)
6	<b>Total before Grants Rolled In</b>	<b>80.5</b>	<b>90.1</b>	<b>(9.6)</b>	<b>(11.9%)</b>
7	Grants Rolled In	(0.4)	(0.4)	0.0	NA
8	<b>Total Core Government Grants</b>	<b>80.1</b>	<b>89.7</b>	<b>(9.6)</b>	<b>(12.0%)</b>

## Business Rates

17. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 47.9p and a Small Business Non-Domestic Rate Multiplier Rate of 46.6p for 2017/18. These multipliers represent a reduction of 1.8p over the 2016/17 levels as a result of the rates revaluation. The actual amount payable by each business will depend upon its rateable value.
18. The business rate premium on City businesses was increased to 0.5p in the £ last year and if this remains unchanged, the proposed premium will result in a National Non-Domestic Rate multiplier of 48.4p and a Small Business Non-Domestic Rate of 47.1p for the City for 2016/17. It is anticipated that a premium of 0.5p will raise approximately £10.5m.
19. Likely appeals would also affect the premium income. However, as with business rates, we do not know the certainty or timing and it might be outside our current planning horizon.
20. The forecast assumes no increase in business rates premium and that the existing provision for appeals will be sufficient.
21. One final issue in relation to business rates. 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:
  - exemption from empty rate for new rating assessments that completed between 1st October 2013 and 30th September 2016 for up to 18 months.
22. Although fully funded by central government, this discount is to be delivered using Localism Act discounts and so technically will be discretionary.

## Business Rate Supplement

23. 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 £70,000, to raise funds towards Crossrail. The threshold is being increased to reflect the effects of revaluation.

## Determination of the Council Tax requirement

24. 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.
25. After allowing for a proposed contribution to reserves, the final City Fund Council Tax requirement for 2017/18 is £6.0m. 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 2017. As detailed in Appendix A, the City's proposed Council Tax for 2017/18 at band D is £857.31. Consequently it is proposed to freeze Council Tax for 2017/18 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.

26. The GLA's 'provisional' precept for 2017/18 is £73.89 for a Band D property. This excludes the Metropolitan Police requirement and represents no change compared with 2016/17.

27. 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:

<b>Table 5: Council Tax per Property Band: calculated by applying nationally fixed proportions from Band D.</b>								
	£							
	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	49.26	57.47	65.68	73.89	90.31	106.73	123.15	147.78
Total	620.80	724.27	827.73	931.20	1,138.13	1,345.07	1,552.00	1,862.40

28. 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 2016/17 will not be excessive in relation to the new referendum requirements for any council tax increases.

### **Council Tax Reduction (formerly Council Tax Benefit)**

29. 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. To protect residents on low incomes, the City Corporation adopted the Government's default scheme for the financial years 2013/14 to 2015/16, which kept the Council Tax Reduction Scheme in line with the Government's general increase in benefits.

30. Changes were made to national benefits in the July 2015 budget and, as a result, it was not possible to maintain the same scheme for the 2016/17 financial year. A consultation exercise was undertaken and the Court of Common Council agreed to make adjustments to the scheme as it applies to working age claimants to protect existing claimants from possibly being worse off, keeping the administration of the Council Tax Reduction Scheme in line with Housing Benefit

31. There were 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 Housing Benefit and therefore Members at the Court of Common Council meeting in January 2017 approved the Council Tax Reduction Scheme for 2017/18 to be the same as the scheme for 2016/17, subject to the annual uprating of amounts in line with Housing Benefit applicable amounts. They also approved the Council Tax Reduction Scheme for future years to be the same as the previous year, subject to the application of those upratings.

## Capital

32. 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 2017/18 capital programme (including the indicative costs of implementing schemes still subject to approval) comprise:

	£m
Roads, Street-scene and Public Realm	26.3
Dwelling Improvements	20.8
Affordable Housing Construction	15.6
New Police Accommodation	15.7
Museum of London	10.5
Police systems and equipment	10.0
Barbican Podium	10.0
Old Bailey Enhancements	3.6

33. Note that the funding for the £200m contribution from City Fund to Crossrail has been accrued to the 2016/17 financial year as the payment is anticipated to be in made in March 2017.

34. 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. Financing is summarised in the table below.

<b>Table 6: Financing of 2017/18 City Fund Capital Expenditure</b>	
	£m
Estimated Capital Expenditure	<b>132.2</b>
Financing	
Internal	
• Earmarked reserves:	
Housing Revenue Account (HRA)	13.1
Highways Improvements	8.7
Unapplied grants	2.9
Other	1.7
• Disposal Proceeds	38.8
• Revenue Reserves	18.5
External	
• Grants and reimbursements	48.5
<b>Total</b>	<b>132.2</b>

35. 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 2017/18 to 2019/20
- Estimates of the capital financing requirement 2017/18 to 2019/20
- 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.

36. The prudential indicators listed above, together with some locally developed indicators, have been calculated in Appendix B. In addition, treasury-related prudential indicators are required to be set and these are included within the 'Treasury Management Strategy Statement and Annual Investment Strategy' at Appendix C.

37. The main point to highlight is that there is no underlying requirement at this stage to borrow externally for capital purposes. However 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 Minimum Revenue Provision equal to the amount released, resulting in an overall neutral impact on the revenue account bottom line. The Minimum Revenue Provision Policy Statement 2017/18 is set out in Annex E. A further point to note relates to the funding for relocating the Museum of London to the Smithfield Market site. Although the Museum is undertaking a fundraising campaign and the GLA is providing a contribution to the project, the City will be forward funding a large element of the costs. The intention is to use revenue reserves initially for as long as this is affordable, with external borrowing to bridge the gap in the latter period if necessary.

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

#### Provision for future capital expenditure

39. 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 requests and/or consider making further resources available from reserves.

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

40. 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.

41. 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 until such time as external borrowing may be needed to bridge the gap for the Museum of London relocation
- 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 or, if on an exceptional basis funding is sought outside this envelope, it has to be demonstrated that the project is of the highest corporate priority.
- 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 remains low across the planning period
- f) a strong track record in achieving budgets gives confidence on the robustness of estimates.

42. An analysis of usable City Fund Reserves is set out in Appendix D.

## **Risks**

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

### Within the City Corporation's control

- Delivery of efficiency savings built into City Police budget forecast
- Police Action Fraud project
- Museum of London relocation project delivery within estimated cost.
- Delivery of the service based review savings proposals.

### Outside the City Corporation's control

- BREXIT impacting on the rental income from our commercial property as a result of increased voids
- Adjustments to the Rates Retention System
- An increase in the rate of inflation over the planning period above its currently low level.

## **Equalities Implications**

44. 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.

## **Conclusion**

45. Following the service based review and the growth in business rate income, the City Fund is in a much healthier position across the medium term. However, there are a number of risks as outlined above. City Fund will need to develop a funding strategy for the Museum of London relocation project before it can be fully returned to surplus.

46. City Police face a budget challenge but the Demand and VFM review will highlight options for addressing the deficit.

47. The different financial messages of efficiencies and surpluses are likely to be very challenging to manage, especially with our external stakeholders. Further thought is being given on how best to tackle the issue. There are still risks around the implementation of the saving proposals, but the estimates are considered robust and the level of and policies relating to the City Fund reserves are considered reasonable.

**Dr Peter Kane**  
**Chamberlain**

**Appendices**

Appendix A – Calculating Council Tax

Appendix B – Prudential Indicators

Appendix C – Treasury Management Strategy and Annual Investment Strategy

Appendix D – City Fund Usable Reserves

Appendix E - Minimum Revenue Provision Policy Statement 2016/17

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## Calculating Council Tax

### Step One ('B1')

This requires calculation of the basic amount of Council Tax for a Band D dwelling for the whole of the City's area by applying the formula:

$$'B1' = \frac{R}{T}$$

Where

'B1' is the Basic Amount 'One':

R is the amount calculated by the authority as its council tax requirement for the year;

T is the amount which is calculated by the authority as its Council Tax base for the year. This amount was approved by the Chamberlain under the delegated authority of the City of London (7,060.39) together with the Council Tax bases for each part of the City's area.

The above calculation is as follows:

$$\begin{aligned} 'B1' &= \frac{\pounds 6,052,943}{7,060.39} \\ 'B1' &= \pounds 857.31 \end{aligned}$$

**Note:** Item R consists of the following components:

	£	£
City Fund Net Budget Requirement		118,490,236
Less:		
Formula Grant	(90,109,478)	
City's Offset	(11,267,000)	
Estimated Non-Domestic Rate Premium (Net)	(10,500,000)	
Estimated Collection Fund Surplus as at 31 March 2017 (City's share)	(560,815)	(112,437,293)
<b>TOTAL COUNCIL TAX REQUIREMENT (R)</b>		<b>6,052,943</b>

### Step Two ('B2')

This calculation is for the basic amount of tax for the area of the City excluding special items. The prescribed formula is:

$$'B2' = 'B1' - \frac{A}{T}$$

Where:

'B2' is the Basic Amount 'Two';



'B1' is the Basic Amount of Council Tax (Basic Amount 'One')  
NB included with 'B1' is the aggregate of special items

A is the Aggregate of all special items;

T is the Council Tax base for the whole area

The above calculation is as follows:

$$\text{'B2'} = \frac{\pounds 857.31 - \pounds 16,860,638.85}{7,060.39}$$

$$\text{'B2'} = \pounds 1,530.75 \quad \underline{\text{CR}}$$

**Note:** Item A consists of the following components:

	£	£
Highways Net Expenditure	8,941,000.00	
Waste Collection & Disposal Net Expenditure	2,188,000.00	
Open Spaces Net Expenditure	1,674,000.00	
Transportation Planning	2,008,000.00	
Drains and Sewers	417,000.00	
Street Lighting Net Expenditure	1,266,000.00	
Total City's Special Expenses		16,494,000.00
Inner Temple's Precept	202,483.61	
Middle Temple's Precept	164,155.24	366,638.85
Total Special Items		16,860,638.85

### Step Three 'B3'

The next calculation is for the basic amount of each of the three parts of the City (the Inner and the Middle Temples and the remainder of the City area) to which special items relate (Basic Amount 'Three'). The calculations for each of the areas are as follows:

$$\text{'B3'} = \text{'B2'} + \frac{S}{TP}$$

Where:

'B3' is the Basic Amount 'Three'

'B2' is the Basic Amount 'Two'

S is the amount of the special items for the part of the area

TP is the billing authority's Tax base for the part of the area to which the special items relate as determined by the Chamberlain under the delegated authority of the City of London Finance Committee.

### City Area Excluding the Temples

$$\text{'B3'} = £1,530.75 \text{ CR} + \frac{£16,494,000}{6,906.86}$$

$$\text{'B3'} = £857.31$$

### Inner Temple

$$\text{'B3'} = £1,530.75 \text{ CR} + \frac{£202,483.61}{84.79}$$

$$\text{'B3'} = £857.31$$

### Middle Temple

$$\text{'B3'} = £1,530.75 \text{ CR} + \frac{£164,155.24}{68.74}$$

$$\text{'B3'} = £857.31$$

### Step Four

Finally, Council Tax amounts have to be calculated for each valuation band (A to H) in each of the three areas (i.e. 24 Council Tax categories). The formula to be used is:

$$\text{Council Tax for particular category} = A \times \frac{N}{D}$$

A is the Basic Amount 'Three' ('B3') calculated for each part of its area;

N is the proportion applicable to dwellings listed in the particular valuation Band for which the calculation is being made;

D is the proportion applicable to dwellings listed in valuation Band D.

Council Tax per Property Band: calculated by applying nationally fixed proportions from Band D.								
	£							
	A	B	C	D	E	F	G	H
Proportion	6	7	8	9	11	13	15	18
CoL	571.54	666.80	762.05	857.31	1,047.82	1,238.34	1,428.85	1,714.62
GLA	49.26	57.47	65.68	73.89	90.31	106.73	123.15	147.78
Total	620.80	724.27	827.73	931.20	1,138.13	1,345.07	1,552.00	1,862.40