

Committee	Dated:
Finance Committee	20 February 2018
Subject: City Fund: 2018/19 Budget Report and Medium Term Financial Strategy	Public
Report of: The Chamberlain	For Decision
Report author: Caroline Al-Beyerty, Deputy Chamberlain	

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 2018/19 remains unchanged from 2017/18; 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 was received before Christmas and was largely in line with our assumptions. The substantial surpluses forecast across the medium term are due to retained income from business rate growth, including an additional £8m from the London pilot scheme for business rate devolution.

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 and the Combined Courts project. It has been assumed that the preference will be to utilise City Fund reserves prior to borrowing to fund these projects, though this is subject to the overall funding strategies for the projects, which are yet to be agreed.

- Police: The police budget for 2018/19 has been brought into balance, through a combination of efficiency savings, additional government grant in the provisional settlement and draw down on reserves. This provides the breathing space to implement Force transformation plans, following the Deloitte Review, which will help to address the forecast budget deficit of £4-5m pa in subsequent years, when it is anticipated Reserves will be exhausted,

and pressures arising from increased demand and the changing nature of police services.

The January Police Committee considered a report on the Strategic Threat and Risk Assessment Process, which is being used to identify needs and how best they can be met in the existing and future operating models. This is likely to require a short-term uplift in police officer numbers, at an initial cost of £0.5m, funded in 2018/19 through management of the agreed budget. No new funding is sought at this stage.

The Police medium term financial plan also asks for continued support from the Corporation for capital investment priorities up to a maximum of £17.5m over period 2017/18-2022/23.

No increase in the rate of the premium is therefore proposed for the 2018/19 year.

Recommendation(s)

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 Treasury Management Strategy Statement and Investment Strategy Statement for 2018/19 and for it to come into effect once it has been agreed by the Court of common Council i.e. on 8th March.
- Approve the City Fund Net Budget Requirement of £148.6m (paragraph 14)
- Approve the following **changes** from the previous forecast (paragraphs 3 and 11):
 - Allowances for pay and prices are factored in at 2% for 2018/19 and thereafter (paragraph 11c);
 - A 2% efficiency savings for City Fund from 2018/19 is included in line with the published Efficiency Plan, which will fund a new 'Priorities Investment Pot'. Members are asked to note the approval process for funding from the Priorities Investment Pot as outlined at (paragraph 11d);
 - Substantial additional City Fund support for City Police potentially amounting to £13m revenue funding across the planning period, prior to mitigations/transformation (paragraph 7) and a further £13m to underpin the shortfall on Police capital schemes (paragraph 13d);
 - A provision of £265k in 2018/19, rising to £400k in 2019/20 onwards for Adult Social Care (paragraph 4a); and
 - An additional £1m to £1.5m ring-fenced provision for waste and cleaning from 2019/20 onwards (paragraph 4d).

- Approve the following **investment opportunities** being included, subject to further reports:
 - Substantial provision for major projects including £90m for the Combined Courts relocation and £187m for the Museum of London projects (paragraph 4c) across the planning period (noting further costs of £137m are forecast beyond the planning period for the Museum of London);
 - Due to the uneven profile of spend on the major projects, Members are also asked to approve the establishment of a new 'Major Projects Earmarked Reserve';
 - Additional allocation of £4m to address more of the backlog of refurbishment costs; (paragraph 4b); and
 - Provision for spending on the Cultural Hub of £4.4m within the planning period (paragraph 4h).
- Note that the forecast **includes items already agreed** by Policy and Resources Committee:
 - An additional £571k p.a. for the restructuring of the Brussels office. A review of the effectiveness of the office and resourcing need will be undertaken as the UK approaches Brexit.
- Note that the revenue estimates from 2018/19 assumes the City will be in a 'growth' position under the business rates retention scheme, with an income of typically £40m p.a. (including the benefit of the London business rates pool) (paragraph 12b).
- Note the Local Council Tax Reduction Scheme set by the Court of Common Council on 11 January 2018 and as set out at paragraph 33.

Key Decisions

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

Business Rates

- Set, inclusive of an unchanged business rate premium (0.5p in the £), a Non-Domestic Rate multiplier of 49.8p for 2018/19 together with a Small Business Non-Domestic Rate multiplier of 48.5p (paragraph 17).
- Note that the Greater London Authority is, in addition, levying a Business Rate Supplement in 2018/19 of 2p in the £ on properties with a rateable value greater than £70,000 (paragraph 24).
- 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 paragraphs 21 and 22.

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 2017/18, 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 2018/19 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 2018/19 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 free of external borrowing for 2018/19.

Capital Expenditure

- Note the proposed financing methodology of the capital programme in 2018/19 (paragraph 35).
- Approve the Prudential Code indicators (Appendix B).
- Approve the following resolutions for the purpose of the Local Government Act 2003 (paragraph 36 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 2018/19 is £975k 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.

Treasury Management Strategy Statement and Investment Strategy Statement 2018/19

- Members are asked to agree the change to allow investment in short-dated bonds in the Treasury Management Strategy Statement and Investment Strategy Statement 2018/19 with immediate effect (paragraph 40).

Chamberlain's Assessment

- Take account of the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves (paragraph 42-45 and Appendix D).

Main Report

Financial Overview

1. The Government recently issued the Local Government Finance Settlement for 2018/19 and the Policing Minister published the revenue allocations for police for 2018/19.
2. 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	£m				
	<u>17/18</u>	<u>18/19</u>	<u>19/20</u>	<u>20/21</u>	<u>21/22</u>
City Fund – non Police					
March 2017 forecast	10.9	0.1	(15.6)	(19.6)	N/A
Current forecast*	5.7	16.7	(5.5)	(63.4)	(103.3)
Unearmarked revenue reserves	55.9	72.6	68.1	4.7	-
City Fund – Police					
March 2017	(1.5)	(5.6)	(3.8)	N/A	N/A
Current forecast	-	-	(4.2)	(4.1)	(4.8)
Unearmarked revenue reserves	3.5	-	-	-	-

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

**Costs, including Major Projects, have been applied up to available reserves with assumption that the balance will be funded by borrowing.*

3. **For City Fund**, 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 the inclusion of additional funding to meet Member priorities and initiatives as shown in paragraph 4 below, whilst still leaving the fund in surplus for 2017/18 and 2018/19. The fund moves into deficit, however, from 2019/20 onwards due to the inclusion of costs for the Museum of London and the Combined Courts relocation projects.
4. The following have been included in the City Fund forecast:
 - a. Adult Social Care: The forecast overspend in the Adult Social Care budget arises from increasing costs of provision and demographic pressures driving the future growth in need for services. A provision of £400k in 2017/18 was made in response to these pressures. December Policy and Resources Committee approved the Community and Children's Services Committee request for a permanent increase in the baseline budget - an additional £265,000 in 2018/19; and a further £135,000 in 2019/20 (to total

£400k). Given the City's overall funding position, and the size of the cost, a social care precept increase would not be appropriate.

- b. Additional Cyclical Works Programme Funding: Following the Resource Allocation Sub Committee Away Day in June, Members gave a steer that any 'windfall' surpluses from business rates in 2017/18 ought to be applied to 'one off items' such as revenue contributions to large capital schemes and catch up on the 'bow wave' of maintenance cost. Last year Members approved £4m p.a. for 2018/19 and thereafter to fund the 'bow wave' for City Fund properties and in particular some substantial refurbishment projects (e.g. Old Bailey). It is proposed that an additional £4m is allocated, with £1m in 2018/19 and £3m in 2021/22- to address more of the backlog, allowing a reasonable timeframe to deliver an expanded scheme.
- c. Major Projects including the Museum of London Relocation: following the decision last year to allocate surplus revenue monies to one-off large capital projects, the following schemes have been included, based on financing requirements during the period:
 - i. Museum of London (£187m of which £4m p.a. is funded by the GLA);
 - ii. Cash flow loan to City Police: Action Fraud £11.7m; and
 - iii. Combined Courts (on basis of just the Courts being built, combined Police and Court costs yet to be validated) £90m.

The inclusion of the major projects leads to a potential borrowing requirement in excess of £100m from 2021/22. The costs of borrowing have not been included in the medium term financial plan. For indicative purposes, a £30m loan over 25 years would incur repayments of £1.9m per annum on a capital repayment basis. Total borrowing would be subject to Prudential Borrowing Limits.

Table 2 below sets out the current phasing of the projects. The net costs for the planning period 2018/19 to 2021/22 have been included in the City Fund forecast.

Table 2: Major Project Costs	Prior Years £m	17/18 £m	18/19 £m	19/20 £m	20/21 £m	21/22 £m	Later Years £m	Total £m
Police Action Fraud	7.5	4.2	(2.1)	(1.9)	(2.9)	(1.5)	(3.3)	0.0
Museum of London	2.0	7.2	14.5	24.3	53.5	94.8	136.8	333.1
Combined Courts	0.0	0.3	4.0	20.0	35.5	30.3	0.0	90.1

Although the Museum is undertaking a fundraising campaign and the GLA is providing a contribution to the project cost, the City will have to forward fund some of the costs being met from these funding streams. The intention is to finance the cash-flow spend on the Museum initially through revenue reserves, in so far as it is affordable, and thereafter potentially through borrowing. For modelling purposes, the GLA's proposed annual contribution of £4m has been included but excludes the Museum's fundraising contribution of £70m.

Due to the uneven profile of spend on the major projects, we propose establishing a new 'Major Projects Earmarked Reserve' as a mechanism for ring-fencing surplus retained business rates income.

- d. Waste & Cleansing: the contract with the current supplier comes to an end in April 2019. It is estimated that tenders for the new contract will be £1m to £1.5m higher per annum than the current contract cost if members wish to maintain the same high standards across the City. This is based on the next lowest tender when the last contract was tendered. A request has yet to be made to the Policy and Resources Committee for a ring-fenced provision.
- e. Brussels Office: Policy and Resources Committee approved an additional £571k p.a. for the restructuring of the Brussels office in December. A review of the effectiveness of the office and resourcing need will be undertaken as the UK approaches Brexit.
- f. Rental income: void costs: the City Surveyor has identified £800k of void costs in 2018/19 following the departure of tenants. A request for funding will be made from Property Investment Board to Resource Allocation Sub Committee in January.
- g. Security within Corporation buildings: an allowance of £1m p.a. was approved by Court last year. There are likely to be draw-downs on this amount for both the Barbican Centre and Guildhall, subject to reporting to Policy and Resources Committee.
- h. Culture Mile: A £5m provision was provided in 2017/18 for the capital costs of the project. Annual revenue running costs for 2018/19 have initially been estimated at £1.4m in addition to the capital funding to be funded from City's Cash. A report is currently being drafted for February Policy and Resources Committee seeking 2 years of funding to provide additional resources that will support delivery across the eight Culture Mile workstreams.
- i. Not yet included in the financial forecast:
 - Cost pressures on local government community safety/prevent activities following a reduction in Home Office funding; the financial impact has not yet been quantified.
 - Security hostile vehicle mitigation estimated to be in the region of c£12m, although it is expected that the initiative will be funded initially

from CIL until monies are exhausted and thereafter a request to be made for City Corporation support.

- The Centre for Music is outside the planning period.
- Combined Courts/ Police accommodation proposal, the forecast currently includes the separate schemes.
- Request for resources relating to flood risk assessments which will be requested from February Policy and Resource Committee.

5. **Council Tax:** With regard to Council Tax for the current financial year, 2017/18, the City's Council tax is £857.31, expressed at band D and excluding the GLA precept. The council tax referendum threshold will effectively be 6%, 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 £275k in 2018/19, rising to £400k in 2019/20, within the forecast so this option is not recommended.
6. **For Police,** The Police core grant settlement was marginally worse than anticipated, at £51.4m some £0.2m lower than anticipated, but overall £0.7m better off when specific purpose grants are included.
7. The police budget for 2018/19 has been brought into balance, through a combination of efficiency savings, additional government grant in the provisional settlement and draw down on Police reserves. This provides the breathing space to implement Force transformation plans, following the Deloitte Review amid pressures arising from increased demand and the changing nature of police services. These plans will address the underlying forecast budget deficit of £4-5m p.a. in subsequent years, when it is anticipated Reserves will be exhausted.
8. The January Police Committee considered a report on the Strategic Threat and Risk Assessment Process, which is being used to identify needs and how best they can be met in the existing and future operating models. This is likely to require a short-term uplift in police officer numbers, at an initial cost of £0.5m, funded in 2018/19 through management of the agreed budget. No new funding is sought at this stage.
9. The Force has a number of capital programmes in the pipeline which are currently unfunded, with the overall shortfall estimated at £13m over the forecast period. A key driver of the expenditure in the pipeline programmes is the Emergency Security Network (ESN) Home Office programme, where it is anticipated that £8m over and above the earmarked allocation may be required to ensure delivery.
10. As the Police forecasts show a continuing deficit, exhausting the reserves in 2018/19, Members may wish to consider a business rate increase. The premium can be increased in increments of 0.1p with each 0.1p generating circa £2m pa. It is also worth noting that the Mayor of London intends to increase the GLA policing precept by the maximum amount of £12. As the City Corporation has its own Police force this increase does not apply to the City, but it is worth noting the financial climate faced by London local authorities and measures being taken elsewhere. The Home Secretary's expectation is that Police authorities will use

their precepting powers to maintain funding levels (in the City's case the business rate premium). In recognition of the specific circumstances of the City the Home Office provided additional grant funding of £0.9m in Precept Grant for 2018/19. Given the relative health of City Fund overall, it is suggested that no increase be made in the business rate premium for 2018/19, although Police Committee have suggested that an increase may be proposed next year.

Key assumptions used in the forecast

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. On the City's two other key income streams, rental and investment income, market rents appear to be performing strongly for the foreseeable future, although there has been an increase in void periods over the last six months. The 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. Non-property investment returns have performed strongly over the last eighteen months, whilst bond returns have been rather mixed. The City has a mixed portfolio to manage its investments across the investment cycle.
- b. The Bank of England base rate is 0.75% for 2018/19 and, based on Corporate Treasury calculations on the rate we are likely to achieve, allowance has been made for two 0.25% base rate increases across the planning period. A 0.25% increase in interest rates in 2018/19 equates to additional income of £1.5m on City Fund balances.

Expenditure

- c. An allowance for pay and prices is factored in at 2% for 2018/19 and throughout the planning period.
- d. A 2% efficiency saving from 2018/19 for City's Cash and City Fund is included in line with the published Efficiency Plan, which will fund a new 'Priorities Investment Pot' (PIP). PIP funding bids have been submitted by a range of departments. These bids will be reviewed by the Town Clerk and Chamberlain before being presented to Members for approval.
- e. All remaining Service Based Review (SBR) savings will be achieved. Currently five departments have outstanding issues in respect of SBR savings with two departments having additional savings to deliver in 2018/19. The January Policy and Resources Committee approved a reduction in the City Surveyor's SBR target of £300k to fund the Assistant Property Facility Managers posts for 2017/18 and subsequent financial years. An adjustment has been made in the forecasts. Otherwise, the risk

of not achieving all SBR savings is low as the majority of savings have been delivered.

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

- a. **Grant Settlement:** The provisional local authority grant settlement was received before Christmas and was largely as expected. The Ministry of housing, Communities and Local Government (MHCLG) are undertaking a Fair Funding Review which will set the business rates baseline (the amount retained by the City to fund services) and determine the grant allocated to the City in place of Revenue Support Grant from 2019/20 onwards. This change in funding regime will also coincide with the anticipated introduction of retained business rates nationally. There is a degree of uncertainty on the impact of these proposals until the details of the schemes are published. If implementation is delayed beyond 2020/21, a transition funding regime will be required from MHCLG.
- b. **Business Rates retention:** The Government, the GLA and London Councils have negotiated a pilot scheme for business rate devolution in London for the financial year 2018/19, involving the establishment of a business rate pool. The proposal was approved in December. The scheme has a financially neutral starting point, but enables any year-on-year growth in rates revenue to be retained in London. Some of this will be used to establish a strategic investment fund and the rest will be shared among participating authorities. If the projected benefits do not materialise, the Government has guaranteed that no individual authority will be worse off as a result of participating in the pool. The scheme carries no commitment beyond 2018/19, however the forecasts include the assumption that the pilot will run its full two years, with an assumption of typically £40m p.a. retained from growth.
- 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 MHCLG and for 2018/19 will be £11.6m, a similar level to 2017/18 inflated by RPI. Small inflationary increases have been assumed for subsequent years of the planning period.

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

- a. **Grant funding:** The Police core grant settlement was marginally worse than anticipated at £51.4m, some £0.2m lower than anticipated, but overall £0.7m better off when specific purpose grants are included.
- 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 £4.8m, a reduction of £0.05m from 2017/18. Home Office 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 City Fund is providing cash flow assistance in relation to the Action Fraud Service provided by the City of London Police. This service was transferred from the Home Office National Fraud Authority to the City of London Police with effect from 1 April 2014. Subsequently the service was subject to a procurement process which was won by IBM (UK) Ltd. The phasing of contract payments reflects IBM's significant mobilisation costs which could not be met from Police reserves. The costs were originally envisaged to all fall in 2016/17 but due to slippage on the project an additional cash flow loan of £5.2m was approved taking the total cash flow support to £11.7m. Repayments will fall between 2018/19 and 2023/24 and are partially reliant on the successful monetisation of the service.
- d. **City Support:** The City is directly funding some additional costs for IT and pension costs and a request has been made to fund a number of capital projects in the pipeline estimated at £13m from 2018/19 onwards (total capital support of £17m). A key driver of the expenditure in the pipeline is the Emergency Security Network (ESN) Home Office programme, where it is anticipated that £8m over and above the earmarked funding may be required to ensure delivery.

Revenue Spending Proposals for 2018/19

14. The City Fund net budget requirement for 2018/19 is £148.6m, an increase of £8.9m. The following table shows how this is financed and the resulting council tax requirement.

Table 3: Setting the Council Tax requirement		
	2017/18 Original £m	2018/19 Draft £m
Net Expenditure before investment income from City Fund assets	(183.5)	(189.7)
Estate rental income	45.0	46.8
Income on balances	3.0	5.5
Net requirement	(135.5)	(137.4)
Plus proposed contribution (to)/from reserves	(4.2)	(11.2)
City Fund Net Budget Requirement	(139.7)	(148.6)
<u>Financing sources</u>		
Formula Grant	111.3	119.8
City Offset	11.3	11.6
NNDR premium (net)	10.5	10.5
City's share of Collection Fund Surplus	0.6	0.5

Council Tax Requirement	6.0	6.2
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15. A separate report on today's agenda "Revenue and Capital Budgets 2017/18 and 2018/19" 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).

Table 4: Temple's Precepts		
	2017/18 £	2018/19 £
Inner Temple	202,484	204,944
Middle Temple	164,155	164,616
Total	366,639	369,560

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

Table 5: Analysis of Core Government Grants					
		2017/18 Original £m	2018/19 Original £m	Increase (Reduction) on 2017/18 £m %	
1	Police	51.4	52.1	0.7	1.4
2	Non-Police	8.8	0.0	(8.8)	(100.0)
3	Sub-total:	60.2	52.1	(8.1)	(13.5)
4	Rates Retention Baseline	15.6	23.6	8.0	51.3
5	Rates Retention Growth	35.5	44.1	8.6	24.2
6	Sub-total:	111.3	119.8	8.5	7.6
7	Grants Rolled In	0.0	0.0	0.0	0.0
8	Total Core Government Grants	111.3	119.8	8.5	7.6

Business Rates

17. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 49.3p and a Small Business Non-Domestic Rate Multiplier Rate of 48.0p for 2018/19. These multipliers represent an increase of 1.4p over the 2017/18 levels. The actual amount payable by each business will depend upon its rateable value.
18. If the business rate premium on City businesses remains at 0.5p in the £, the proposed premium will result in a National Non-Domestic Rate multiplier of 49.8p

and a Small Business Non-Domestic Rate of 48.5p for the City for 2018/19. It is anticipated that a premium of 0.5p will raise approximately £10.5m taking into account likely reliefs, reductions or refunds.

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:
- Supporting Small Businesses Relief - A discount for ratepayers who as a result of the change in their rateable value at the rating revaluation in 2017, have lost some or all of their small business rate relief;
 - A discount of £1,000 to pubs with a rateable value below £100,000.
22. A discretionary revaluation relief scheme was introduced in April 2017 to support those businesses facing the steepest increases in their rates bills following rating revaluation. This is a five-year scheme with specific total amounts allocated to each billing authority for each of the five years. Each authority has to determine its own local scheme for each year. Authority is sought for the Chamberlain to determine the City scheme for each of the remaining 4 years 2018/19, 2019/20, 2020/21 and 2021/22
23. Although fully funded by central Government, these discounts are to be delivered using Localism Act discounts and so technically will be discretionary.

Business Rate Supplement

24. 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

25. 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.
26. After allowing for a proposed contribution to reserves, the final City Fund Council Tax requirement for 2018/19 is £6.2m. 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 2018. As detailed in Appendix A, the City's proposed Council Tax for 2018/19 at band D is £857.31. Consequently, it is proposed to freeze Council Tax for 2018/19 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.

27. The GLA's 'provisional' precept for 2018/19 is £76.10 for a Band D property. This excludes the Metropolitan Police requirement and represents an increase of £2.21 compared with 2017/18.

28. 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 6: Council Tax per Property Band:								
	£							
Band	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	50.73	59.19	67.64	76.10	93.01	109.92	126.83	152.20
Total:	622.27	725.99	829.69	933.41	1140.83	1348.26	1555.68	1866.82

29. 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 2018/19 will not be excessive in relation to the new referendum requirements for any council tax increases.

Council Tax Reduction

30. 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.

31. 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.

32. 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.

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

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 2018/19 capital programme (including the indicative costs of implementing schemes still subject to approval) comprise:

Table 7: Key areas of 2018/19 Capital Expenditure	
	£m
Roads, Street-scene and Public Realm (incl. Culture Mile)	39.6
Dwelling Improvements	17.9
New Affordable Housing	18.0
Museum of London Relocation	14.5
New Police Accommodation	27.0
Police systems and equipment	10.0
Old Bailey Plant Replacement	4.9
New Courts Provision	4.0

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. Financing is summarised in the table below.

Table 8: Financing of 2018/19 City Fund Capital Expenditure		
	£m	£m
Estimated Capital Expenditure		152.5
Financing:		
Internal		
Earmarked Reserves		
Housing Revenue Account (HRA)	5.3	
Highways Improvements	2.9	
Unapplied Grants	4.7	
Disposal Proceeds	69.9	
Revenue Reserves	19.4	102.2
External		
Grants and Reimbursements		50.3
Total		152.5

36. 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 2018/19 to 2020/21
- Estimates of the capital financing requirement 2018/19 to 2020/21
- 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

37. The prudential indicators listed above, together with one locally developed indicator, 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 Investment Strategy Statement 2018/19' at Appendix C.

38. 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 2018/19 is set out in Annex E. A further point to note relates to the funding for major projects, specifically the Combined Courts project and the relocation of the Museum of London to the Smithfield Market site. 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 when necessary. Although the Museum of London is undertaking a fundraising campaign and the GLA is providing a contribution to this project, the City will be forward funding a large proportion of the costs.

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

40. Additionally, the Financial Investment Board are looking to invest monies in two short- dated bond funds to maximise returns. Investing in these types of fund is not permitted within the 2017/18 Treasury Management Strategy Statement and Investment Strategy Statement, but has been included within the 2018/19 Treasury Management Strategy Statement and Investment Strategy Statement (Appendix C para 7.8). The Court of Common Council are requested to approve this change with immediate effect.

Provision for future capital expenditure

41. 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 urgent works necessary for the Museum of London's existing building] 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

42. 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.

43. 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 major capital projects (the Museum of London relocation and the Combined Courts project);

- c. prudent assessments have been made regarding 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 must 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; and
 - the assumed interest rate, although increasing, remains low across the planning period; and
- f. a strong track record in achieving budgets gives confidence on the robustness of estimates.

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

Risks

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

Within the City Corporation's control:

- Challenges faced by City Police to remove projected deficits;
- Police Action Fraud project overspending and changes in cash flow requirements;
- Museum of London relocation project will not be delivered within estimated cost;
- Slippage in major projects; and
- Rent income- the loss of £6-8m p.a. for Fleet Street should the Combined Courts/Police proposal go ahead.

Outside the City Corporation's control:

- Brexit affecting the rental income from our commercial property as a result of increased voids;
- Business Rates income- volatility around the growth forecasts, dependent on full occupation of new builds and London pilot;
- Fair Funding review which will affect the amount of business rates retained by the City to fund services; and

- Inflation is currently running at 3%, but the Office for Budget Responsibility forecasts a drop to 2%. However, forecasts made by the OBR last year for 2017/18 proved to be over-optimistic. The position will be monitored during 2018/19.

Equalities Implications

46. 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

47. 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 Major Capital Projects before it can be fully returned to surplus.

48. For Police, the drawdown on reserves in 2018/19 provides breathing space to implement Force transformation plans, following the Deloitte Review, which will help address the forecast deficit of £4-5m p.a. in subsequent years.

49. 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 Statement and Investment Strategy Statement 2018/19
- Appendix D: City Fund Usable Reserves
- Appendix E: Minimum Revenue Provision Policy Statement 2018/19

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