

Committee(s): Finance Committee – For decision Policy and Resources – For Information Court of Common Council – For decision	Date(s): 19 February 2019 21 February 2019 7 March 2019
Subject: City Fund	Public
Report of: The Chamberlain	For Decision
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Summary

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

The medium-term financial challenge facing the Corporation's City Fund reflects uniquely: a) external factors, such as potential major changes to business rate income and government support, which could lead to a significant drop in income. And b) the increased funding requirement flowing from the adoption of a major projects programme, in addition to pressures across a range of existing revenue and capital budgets.

The scale of these changes will become clearer during the next year, following the Spending Review and reviews of business rates and council tax, and will impact from 2020/21 onwards.

The report outlines why the City of London will need to undertake a fundamental review of its priorities and expenditure over the next year to ensure that budgets are fully aligned with and support our Corporate Plan objectives and our finances are put on to a sustainable footing over the medium-term.

Proposals on the fundamental review will be brought to the March Policy and Resources Committee. In the meantime, this report recommends a number of measures to stabilise the position in 2019/20 and that will support the steps that will need to be taken over the medium-term, through a combination of continuing the efficiency drive across the Corporation and Police, income generation measures, including tax/Premium increases, and containing the cost of major projects and other programmes. Members will also want to note the implications of funding the increased revenue pressures for future years and signal an expectation that additional pressures that might arise during 2019/20 will be absorbed within local risk budgets.

It includes proposals on increases in Council Tax by 2.99%, Social Care Precept by 2% and Business Rate Premium by 0.1p in the £.

There are further reports to your Committee on the financial position of the other funds within the City Corporation's and the Capital Programme across all funds.

Recommendations

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

- Approve the establishment of a fundamental review of priorities to align resources to the Corporate Plan and deliver a sustainable medium-term financial plan.
- Approve the mitigation actions with respect to the Police budget.
- Approve the overall financial framework and the revised Medium-Term Financial Strategy (paragraph 23)
- Approve the Treasury Management Strategy Statement and Investment Strategy Statement for 2019/20 and for it to come into effect once it has been agreed by Court of Common Council, i.e. on 7 March 2019.
- Approve the operational boundary and authorised limit for external borrowing as stated in the Treasury Management Strategy Statement and Investment Strategy for 2019/20.
- Approve the City Fund Net Budget Requirement of £137.2m (paragraph 26)
- Approve the increases in base budget detailed in appendix B for 2019/20, subject to inclusion within the scope of the fundamental review, included within the City Fund budget requirement.
- Note that the forecast includes items already agreed by Policy and Resources Committee detailed in appendix B.
- Note that the revenue estimates assume that a Business Rates reset will remove the City's recent business rates growth receipts in 2020/21 (forecast at £37m in 2019/20) and further reforms of Business Rates could worsen the impact from 2020/21.
- Note that the Local Council Tax Reduction Scheme will remain the same as set by the Court of Common Council on 12 January 2017 (paragraph 42).

Key decisions:

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

Council Tax

- To consider an increase of 2.99% in the City of London Corporation element of the Council Tax Demand (paragraph 37).
- To approve the City of London Corporation charges an Adult Social Care Precept of 2.00% (paragraph 37).

- Determine the amounts of Council Tax for the three areas of the City (the City, the Middle Temple and the Inner Temple) to which are added the precept of the Greater London Authority (GLA) (appendix A).
- Determine that the relevant (net of local precepts and levies) basic amount of Council Tax for 2018/19 will not be excessive in relation to the requirements for referendum.
- Approve that the cost of highways, street cleansing, waste collection and disposal, drains and sewers, and road safety functions for 2019/20 be treated as special expenses to be borne by the City's residents outside the Temples (appendix A).

Business Rates

- Set a Non Domestic Rate multiplier of 51.0p and a Small Business Non-Domestic Rate Multiplier Rate of 49.7p for 2019/20, inclusive of a Business Rates Premium increase of 0.1p to 0.6p in the £ (paragraph 30).
- Note that, in addition, the GLA is levying a Business Rate Supplement in 2019/20 of 2.0p in the £ on properties with a rateable value of £70,000 and above (paragraph 34).
- Delegate to the Chamberlain the award of discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988 (paragraph 32).

Capital Expenditure

- Note the proposed financing methodology of the capital programme in 2019/20 (paragraph 44).
- Approve the Capital Strategy (Appendix G).
- Approve the Prudential Code indicators (appendix D).
- Approve the following resolutions for the purpose of the Local Government Act 2003 (paragraph 41 and Appendix E):
 - the external borrowing limit (which is the maximum the City Fund may have outstanding by way of external borrowing) is £241m.
 - the prudent amount of Minimum Revenue Provision (MRP) for 2019/20 is £1.152m (appendix E).

Treasury Management Strategy Statement and Investment Strategy Statement 2019/20

- Agree the change to allow external borrowing to be undertaken within City Fund within the parameters of the Prudential Code (paragraph 48).

Chamberlain's Assessment

- Take account of the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves and contingencies (paragraphs 51-55 and Appendix C).

Main Report

Background

1. This report sets out the revenue and capital budgets for City Fund for the Finance Committee and Court of Common Council to approve. In setting the budget for 2019/20 and the Medium-Term Financial Strategy (MTFS) for future years, consideration has been given to the high degree of uncertainty and therefore risk in determining Local Government funding levels.
2. The City Corporation has benefited from a period of relative prosperity in recent years, with growth in both its income streams and asset holdings. However, going forward there are significant risks and a great deal of uncertainty.
3. The Government recently confirmed the Local Government Finance Settlement for 2019/20 and the Policing Minister published the revenue allocations for Police forces for 2019/20.
4. The medium-term financial challenge facing the City Corporation reflects uniquely significant risks and a great deal of uncertainty. The scale of these risks will become more certain during the next year, following the Spending Review 2019.
5. Revenue streams are likely to be under considerable pressure as the Government intends to change current funding mechanisms to reflect an increased emphasis on need and to reset the current business rates retention system:
 - a. **Spending Review** (potentially reporting November 2019) – there is unlikely to be significant additional government funding for local government or police, with the most likely outcome being a further squeeze.
 - b. The **Fair Funding Review** of local government funding is likely to shift resources away from London and an increased focus on need could impact on City Corporation funding.
 - c. **Police Funding Formula review** – this has been delayed but might well re-emerge after the Spending Review and carries significant risks.
 - d. **Business Rates** – danger of a double hit from a reset which will remove the City's recent growth receipts (forecast at £37m in 2019/20) in 2020/21 and further reforms of Business Rates could again impact from 2020/21. Consultation will continue in the summer but we have put in place plans on the assumption that these changes will be carried forward.
6. In parallel with the external revenue threats, the City Fund budget will start to come under increasing pressure from the revenue costs of borrowing to fund the major projects including, on the City Fund, the Museum of London and Combined Courts project. In addition, the Police budget forecast shows a rising deficit.
7. A fundamental review of the City Corporation's priorities and expenditure during 2019/20 will ensure that budgets are fully aligned with and support our Corporate Plan objectives and our finances are on a sustainable footing over the medium-

term. Proposals on the fundamental review will be brought to the March Policy and Resources Committee.

Current Position

8. The latest forecast position for City Fund is shown below in Table 1. The City Fund (non-Police) is forecast to be in surplus by £19.8m in 2019/20 (allowing for £8m p.a. revenue requests as shown in appendix B). However, it can only be balanced over the next four years with the use of general fund reserves. Additionally, the Police budget is forecast to be in substantial deficit, pre-mitigation, across the planning horizon, which taken together, exhaust all City Fund General Fund Reserves by 2022/23. Overall, the City Fund faces substantial growing deficits over the planning period and the 10 year horizon.

Table 1: City Fund medium-term forecast

Surplus/ (Deficit)	2018/19	2019/20	2020/21	2021/22	2022/23
City Fund (non-Police) After major projects	19.3	27.8	(3.9)	(2.8)	(4.6)
City Fund uplift revenue requests		(8.0)	(7.6)	(7.6)	(7.6)
Police Deficit – pre mitigation	(5.4)	(8.7)	(11.9)	(13.3)	(14.3)
City Fund combined-pre mitigation	13.9	11.1	(23.4)	(23.7)	(26.5)

9. The 10 year City Fund forecast becomes even more challenging, as the annual revenue costs of borrowing to finance the major projects (Museum of London and combined courts) rise to around £21m, resulting in substantial deficits across the planning horizon and gearing of 44% long term debt to asset ratio on the balance sheet. The revenue impact of funding £170m of second tier projects would be an additional £6m, giving a total revenue pressure of £27m p.a.
10. Major Projects funding: Table 2 below sets out the current phasing of the projects. The net financing costs for the planning period 2019/20 to 2022/23 have been included in the City Fund forecast.

Table 2: City Fund major project net costs

£m	2018/19	2019/20	2020/21	2021/22	2022/23
Combined Courts Centre	(30.54)	(9.34)	(8.63)	(60.59)	(94.25)
Museum of London	(11.06)	(49.85)	(46.99)	(132.57)	(81.57)
Total:	(41.60)	(59.19)	(55.62)	(193.16)	(175.82)

11. To fund the major projects will involve external borrowing. On City Fund this will be through the Public Works Loans Board (PWLb) and will be incurred as and when the funding is required (borrowing in advance of need is contrary to CIPFA Code regulations).
12. Additional funding requests: There have been a large number of requests for 2019/20, attached at Appendix B, totalling £8.0m for City Fund. Although the £8.0m could be accommodated in 2019/20 because of the growth in retained business rates, the ongoing nature of the requests cannot be contained in the medium to

longer term. The largest item is £3.2m for the waste collection and street cleansing contract which is £2m higher than expected.

13. Council Tax: The City Corporation's Council Tax has not been increased since 2009/10, as resource pressures have been contained at a time of rising business rate revenues.
14. The Council Tax for the current year, 2018/19, is £857.31, expressed at band D and excluding the GLA precept of £76.10 (total: £933.41). The council tax referendum threshold will effectively be 5%, including a 2% adult social care precept. Table 3 below shows the cumulative impact of an illustrative 5% increase in 2019/20, followed by a 3% increase each year over the MTFP (assuming that the tax base remains static and adjusted for the precepts for the Inner and Middle Temples):

Table 3: Council Tax illustrative forecast

	2018/19	2019/20†	2020/21	2021/22	2022/23
Band D Council Tax (£)	857.31	894.28	917.35	941.02	965.30
In-year Income (£'000)	6,050	6,311	6,474	6,641	6,812
Cumulative Income (£'000)	-	261	424	591	762

† Assumes 3% Council Tax increase + 2% Adult Social Care precept

15. In considering the position for 2019/20, it remains the case that the immediate budget position would not in itself necessitate an increase (although the increase in the cost of the waste and street cleansing contract could be pointed to as a service pressure point). And that an increase of 2.99%, the maximum increase allowed on the main Council Tax, without a referendum, would only generate around £150,000. For comparative purposes, Westminster band D excluding GLA precept is currently £416.27 (including GLA precept: £710.50); Wandsworth, £428.42 (including GLA precept: £722.65); and Hammersmith and Fulham £727.81 (including GLA precept: £1,022.04).
16. In addition, there is scope to apply a further 2% adult social care precept, to help in meeting additional social care costs for adults and the elderly. This would raise approximately £110k and could be used to fund the growing costs on mental health (as shown by the specific funding requests in appendix B).
17. Police: The Police budget deficit – which is forecast to grow to £14.3m by 2022/23, a cumulative deficit of £53.5m by March 2023 – poses a significant threat to the financial stability of the City Fund.
18. The Home Office has announced the police funding settlement for 2019/20. The outcome for City of London Police (CoLP) was better than had been previously assumed when the Police Force MTFP was updated in December, with:
 - a. the core (HO and ex-DCLG) grant increasing by £1m, to £52.3m
 - b. National & International Capital City Grant increasing from £4.5m to £4.8m
 - c. Precept Grant increasing to £2.7m

- d. Additional pensions grant of £0.8m, which is aimed to fully offset the increase in pension deficit contributions in 2019/20.
19. The CoLP budget forecast shows a worsening deficit position over the medium-term. A number of mitigating actions have been agreed with the Commissioner:
- a. CoLP will continue to implement agreed measures, to the value of £3.1m, to reduce the in-year 2018/19 budget overspend of £5.4m to £2.3m (which includes the full draw down of the Police general reserve). Following the application of the additional Business Rate Premium revenues, the budget overspend would then reduce to £0.4m.
 - b. In response to the forecast deficit of £8.7m in 2019/20, savings of £4.6m should be built into the budget and implemented leaving a remaining deficit of £4.1m.
 - c. Further work is required to:
 - i. bring the medium-term position into balance, in light of changes in government funding following the Spending Review;
 - ii. review additional pressures including scope for re-prioritisation, increased utilisation of existing resources, benchmarked against other Police forces, through the Transform programme;
 - iii. prioritise within the capital programme; and
 - iv. establish whether additional resources might be required to fund new demands identified by the Strategic Threat and Risk Assessment process, noting that a funding request to Resource Allocation Sub-Committee will be made before the end of 2018/19.
20. To bring the 2019/20 budget into balance and meet the £4.1m deficit Members have agreed to allocate additional revenue raised from the current Business Rates Premium following the revaluation amounting to £2.2m.
21. It is recommended that the Business Rates Premium is increased by 0.1p in the £ to 0.6p in the £. This increase is forecast to raise £2m which can be applied to bringing the budget back into balance and to the increased demands CoLP are facing in maintaining the security of the City.
22. In addition to the revenue cost pressures described above the Force has a number of capital programmes in the pipeline which are currently unfunded. The estimated shortfall is in excess of £41m over the planning period.

Key assumptions used in the forecast

23. The following paragraphs detail the key assumptions that have been used in the construction of the 2019/20 budget and Medium-Term Financial Strategy:

Income

- a. The City Fund has two key income streams, rental and investment income.
 - i. Property rental income is forecast on the expected rental income for each property, allowing for anticipated vacancy levels, expiry of leases and lease renewals. Rental income is forecast to grow over the period. The City's income is protected to some extent in the short term as our leases are long term with medium term specified break clauses. The City Surveyor has identified no current fall in demand for office accommodation and the Central London market has up to now remained buoyant. Forecast rental income is regularly reviewed and any potential reduction will be factored into updates to the medium-term financial plan.
 - ii. Non-property investments have performed strongly, benefiting from the mixed portfolio of investments held to manage investments over the investment cycle. While there is growth in the asset base, this is sustainable. However, the market view is that the equity bull market will not continue and that an adjustment is likely which may see a dip in returns. The City as a long-term investor aims to ride out such storms.
- b. The Bank of England base rate is currently 0.75%. The Corporate Treasurer advisor estimates two further rate increases of 0.25% each are possible during the planning period. A 0.25% increase in interest rates equates to additional income of £1.5m on City Fund balances.

Expenditure

- c. An allowance for pay and price inflation is included at 2% for 2019/20.
- d. A 2% efficiency saving from 2019/20 is included in line with the published 'efficiency plan'.
- e. Removal of the "Priorities Investment Pot", established last year from the efficiencies generated, to support the bottom line.

Grant settlement – City Fund

- f. The Local Government Settlement for 2019/20 was largely as expected. 2019/20 will be the final year of the multi-year agreement where Government agreed to a 4 year funding deal in return for publishing a corresponding efficiency plan. There remains a great deal of uncertainty regarding Local Government funding after March 2020

Business Rates Retention

- g. The London 75% business rates retention pilot has been confirmed alongside 15 new 75% business rates retention pilots for 2019-20, and the 5 existing pilots will continue in devolution deal areas. The City Corporation

will continue to act as lead authority for the London business rates retention pilot which includes all London boroughs and the Greater London Authority.

- h. The estimated benefit in 2019/20 for the City Corporation of the business rates retention pilot is £8.4m, albeit based on 75% rates retention rather than 100% in 2018/19 where the estimated benefit is £11.6m.
- i. The Business Rates Retention scheme is expected to be reset from 2020/21. MHCLG are expected to launch their final consultation during summer 2019 and announce the revised scheme during autumn 2019. The expected impact on City Fund is the loss of growth in business rates (forecast at £37m in 2019/20) with no transition in a 'hard reset' scenario. Current intelligence suggests that future growth from 2020/21 onwards will be capped and subject to 'soft resets' in future (with less of a 'cliff edge' on removal of growth).
- j. MHCLG are also consulting on their Fair Funding Review. This review will adjust the baseline funding allocations for all tiers of Local Government across the country. The revised funding formulae will redistribute the business rates income retained within the Local Government sector. It is expected that social care and areas outside London are likely to benefit from the review.

City Offset

- k. In addition to baseline funding provided through the Business Rates Retention scheme, the City Fund uniquely receives an Offset from the Business Rates collected in the Square Mile. The amount of Offset is determined annually by MHCLG and for 2019/20 will be £11.9m. Small inflationary increases have been assumed for subsequent years of the planning period.

Grant funding – City Police

- l. The core and specific grants are marginally better than expected. These are detailed above in paragraph 17.

Action Fraud Service – City Police

- m. The City Fund is providing cash flow assistance in relation to the Action Fraud service provided by CoLP. This service was transferred from the Home Office National Fraud Authority to CoLP with effect from 1 April 2014. Phase 1 of the new service provided by IBM went live in December 2018. Phase 2 of the service is expected to launch during 2019. Final costs of delivering the new service are subject to ongoing negotiation. The repayment of the cash flow assistance is profiled beyond the medium-term planning period.

City Support – City Police

- n. The City Fund is directly funding some additional costs for IT, pensions and the CoLP capital programme (total capital support of £17m has been agreed

and further requests are considered on the report on your agenda on capital financing). A key driver of the CoLP capital programme are schemes that are required by the Home Office as part of national programmes, e.g. the Emergency Security Network (ESN).

Revenue Spending Proposals 2019/20

24. The overall budget requirements have been prepared in accordance with the strategy and the requirements for 2018/19 and 2019/20 are summarised by Committee in the table below. Explanations for significant variations were contained in the budget reports submitted to service committees.

Table 4: City Fund Summary Budget

City Fund Summary by Committee	2018/19 Original £m	2018/19 Latest £m	2019/20 Original £m
Net (Expenditure) / Income			
Barbican Centre	(27.1)	(29.2)	(26.5)
Barbican Residential	(2.6)	(3.1)	(2.9)
Community and Children's Services	(13.3)	(13.9)	(13.4)
Culture Heritage and Libraries	(20.4)	(20.7)	(20.6)
Finance	(13.2)	3.9	(6.7)
Licensing	(0.1)	(0.1)	(0.1)
Markets	1.2	0.8	1.0
Open Spaces	(1.7)	(1.8)	(1.7)
Police	(65.7)	(65.7)	(72.7)
Planning and Transportation	(16.0)	(14.9)	(14.9)
Policy and Resources	(4.1)	(6.3)	(6.0)
Port Health and Environmental Services	(14.5)	(14.9)	(14.4)
Property Investment Board	40.2	41.6	41.7
City Fund Requirement	(137.3)	(124.3)	(137.2)

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

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

- the contributions from the City's own assets towards the City Fund requirement (interest on balances [line 6] and investment property rent income [line 7])
- the funding received from Government grants and from taxes [lines 9 to 13]; and
- the estimated surpluses to be transferred to reserves, or deficits to be funded from reserves [line 15].

Table 5: City Fund net budget requirement and financing

		2018/19 Original £m	2018/19 Latest £m	2019/20 Original £m
1	Net expenditure on services	(174.3)	(165.3)	(173.7)
2	Capital Expenditure funded from Revenue Reserves	(0.5)	(0.0)	0.0
3	Cultural Mile funded from Revenue Reserves	(4.5)	(3.1)	0.0
4	Cyclical Works Programme expenditure financed from revenue	(10.3)	(12.5)	(20.1)
5	Requirement before investment income from the City's Assets	(189.6)	(180.9)	(193.8)
6	Interest on balances	5.5	7.2	7.9
7	Estate rent income	46.8	49.4	48.7
8	City Fund Requirement	(137.3)	(124.3)	(137.2)
	Financed by:			
9	Government formula grants	134.4	121.8	121.5
10	City offset	11.6	11.6	11.9
11	Council tax	6.6	6.6	8.0
12	NNDR premium	10.5	10.5	12.5
13	Total Government Grants and Tax Revenues	163.1	150.5	153.9
14	(Deficit)/Surplus transferred from (to) reserves	25.8	26.2	16.7
15	Less one-off items planned to be funded from revenue reserves	(5.0)	(3.1)	0.0
16	Underlying Deficit/(Surplus)	20.8	23.1	16.7

26. The City Fund budget requirement for 2019/20 is £137.2m plus a contribution to reserves of £16.7m resulting in a net City Fund budget requirement of £153.9m, an increase of £3.4m on the previous year. The following table shows how this is financed and the resulting council tax requirement.

Table 6: Council Tax requirement

Council Tax Requirement	2018/19 Original £m	2019/20 Draft £m
Net Expenditure	(189.6)	(193.8)
Estate Rental Income	46.8	48.7
Interest on balances	5.5	7.9
Budget Requirement	(137.3)	(137.2)
Proposed contribution to reserves	(11.3)	(16.7)
Net City Fund Budget Requirement	(148.6)	(153.9)
Financing Sources:		
Business Rates Retention	67.7	61.7
Police Grant	52.1	59.8
City Offset	11.6	11.9
NDR Premium	10.5	12.5
Collection Fund Surplus (CoL share)	0.5	1.0
Council Tax Requirement	6.2	7.0

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

Table 7: Temple Precepts

	2018/19 £	2019/20 £
Inner Temple	202,484	208,963
Middle Temple	164,615	164,481
Total:	367,099	373,444

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

Table 8: Analysis of Core Government Grants

	2018/19 Original £	2019/20 Draft £	Variance £m	Variance %
Rates Retention: baseline funding	23.6	22.6	(1.0)	(4.2)
Rates Retention: growth	44.1	39.1	(5.0)	(11.3)
Subtotal:	67.7	61.7	(6.0)	(8.9)
Police	52.1	59.8	7.7	14.8
Total Core Government Grants	119.8	121.5	1.7	1.4

Business Rates

29. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 50.4p and a small business National Non-Domestic Rate multiplier of £49.1p for 2019/20. These multipliers represent an increase of 1.1p over the 2018/19 levels. The actual amount payable by each business will depend upon its rateable value.
30. If the proposed Business Rate Premium increases by 0.1p to 0.6p in the £, the proposed premium will result in a National Non-Domestic Rate multiplier of 51.0p and a small business National Non-Domestic Rate multiplier of £49.7p for the City for 2019/20. It is anticipated that a Premium of 0.6p will raise £14.6m taking into account reliefs and appeals.
31. As in previous years, authority is sought for the Chamberlain to award the following discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988:
- Supporting Small Business Relief – A discount for ratepayers who as a result of their rateable value changing as a result of the 2017 revaluation have lost some or all of their small business rate relief.
32. A discretionary revaluation relief scheme was introduced in April 2017 to support businesses facing the steepest increases in bills following revaluation. This is a four-year scheme with specific amounts allocated to each billing authority for each

of the five years. Authority is sought for the Chamberlain to determine the City scheme for each of the remaining years 2019/20 and 2020/21.

33. For 2019/20 the Government announced that it would provide additional support for some types of retail properties. If a property has a rateable value of less than £51,000 then it will receive a reduction of a third in its 2019/20 and 2020/21 business rates bills.

Business Rates Supplement

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

Determination of the Council tax Requirement

35. 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.
36. After allowing for a proposed contribution to reserves, the final City Fund Council Tax requirement for 2019/20 is £7.0m. 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 2019.
37. As detailed in Appendix A, the City's proposed Council Tax for 2019/20 at band D would be £894.28, before adding the Greater London Authority (GLA) precept and inclusive of a 2.99% increase in Council Tax and a 2.0% Adult Social Care precept. To determine the City's Council Tax for each property band, nationally-fixed proportions are applied to the average band D property.
38. The GLA's 'provisional' precept for 2019/20 is £78.38 for a Band D property. This excludes the Metropolitan Police requirement and represents an increase of £2.28 compared with 2018/19.
39. The total amounts of Council Tax for each category must be set by the City before 11 March. The proposed amounts are shown in table 9 below:

Table 9: Council Tax per Property Band

	£							
	A	B	C	D	E	F	G	H
Proportion	6	7	8	9	11	13	15	18
CoL	596.19	695.55	794.92	894.28	1,093.01	1,291.73	1,490.47	1,788.56
GLA	52.25	60.96	69.67	78.38	95.80	113.22	130.63	156.76
Total	648.44	756.51	864.59	972.66	1,188.81	1,404.95	1,621.10	1,945.32

40. It is anticipated that the City's total Council Tax will remain one of the lowest in London. The Court of Common Council will be requested to formally determine that the relevant (net of local precepts and levies) basic amount of Council Tax for 2019/20 will not be excessive in relation to the new referendum requirements for any council tax increases.

Council Tax Reduction Scheme

41. In 2013/14, the Government introduced a locally-determined Council Tax Reduction Scheme. This replaced the national Council Tax Benefit scheme and assisted people on low incomes with their council tax bills. There are no proposals to make any specific amendments to the Council Tax Reduction Scheme for this or future years, beyond keeping the scheme in line with the national Housing Benefit regulations.
42. The Council Tax Reduction Scheme will therefore remain the same for 2019/20 as was administered in 2016/17, 2017/18, and 2018/19 subject to the annual uprating of amounts in line with Housing Benefit applicable amounts.

Capital

43. The City 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.
44. Capital expenditure is primarily financed from capital reserves derived from the sale of properties, earmarked reserves and grants or reimbursements from third parties. The City has historically not borrowed any money to finance these schemes. Financing is summarised in the table below.

Table 10: Capital Financing

	2018/19 £m	2019/20 £m
Estimated Capital Expenditure	117.1	211.0
<u>Financing Sources:</u>		
Housing Revenue Account (HRA)	12.8	4.7
Disposal Proceeds	28.3	62.3
Revenue Reserves	48.5	37.8
External Grants and Reimbursements	27.5	47.0
External borrowing	-	59.2
Total:	117.1	211.0

45. The Local Government Act 2003 requires the City to set prudential indicators as part of the budget setting process. The indicators that the Court of Common Council will be asked to set are:
- Ratio of financing costs to net revenue stream (City Fund and HRA)
 - Gross debt and the capital financing requirement
 - Estimates of capital expenditure 2019/20 to 2021/22

- d. Estimates of the capital financing requirement 2019/20 to 2021/22
- e. Times cover on Unencumbered Revenue Reserves

46. The prudential indicators listed above have been calculated in Appendix D. In addition, treasury-related prudential indicators are required to be set, and these are included within the 'Treasury Management Strategy Statement and Investment Strategy Statement 2019/20' at Appendix E.
47. The Court of Common Council needs to formally approve these indicators.
48. The main point to highlight is that there is now an underlying requirement to borrow externally for capital purposes. The Minimum Revenue Provision Policy Statement 2019/20 is set out in Appendix F. The cost of borrowing must be charged to the relevant revenue budget whether this is on an interest-only or repayment basis. The long-term nature of borrowing means these revenue sums are unavailable to fund other activity for a significant period of time. By agreeing to fund capital schemes through borrowing, Members are agreeing to divert this funding away from revenue activity in order to meet their priorities.
49. The City Corporation must ensure that a Minimum Revenue Provision (MRP) is set aside for all City Fund related borrowing. This is managed by borrowing on an annuity basis for long term borrowing which repays the capital and interest over the term of the borrowing. The MRP is aligned to the interest repaid over the term of the loan
50. In addition, the funding of capital expenditure from cash received from long lease premiums which are deferred in accordance with accounting standards has to be treated as internal borrowing. To ensure that this cash is not 'used again' when the deferred income is released to revenue, the City Corporation will make a MRP equal to the amount released, resulting in an overall neutral impact on the revenue account bottom line.

Robustness of Estimates and Adequacy of Reserves and Contingencies

51. 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.
52. 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.
- g. a number of measures are needed to stabilise the financial position in 2019/20 that will support the steps that need to be taken over the medium-term, through a combination of continuing the efficiency drive across the Corporation and Police, income generation measures, including tax/Premium increases, and containing the cost of major projects and other programmes. The fundamental review will be the mechanism to achieve this.

53. An analysis of usable City Fund Reserves is set out in Appendix C. Depletion of City Fund reserves is a consideration for the medium-term: although reserve balances are forecast to remain healthy in 2019/20, the potential call on reserves to support revenue and capital expenditure beyond 2019/20 reinforces the need for the fundamental review to establish prioritised plans.

54. In assessing the adequacy of contingency funds, the Chamberlain has reviewed the allocation and expenditure of contingency funds over the past four years. This has included the Finance Committee contingencies, the Policy and Resources Committee contingency and the Policy Initiatives Fund. In each of the past four years the provision of funds has been more than sufficient resulting in an uncommitted balance for each contingency fund in each year. On this basis the existing contingency provision will remain unchanged for 2019/20. A full analysis of contingency fund provision and expenditure is provided in Appendix I.

Risks

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

Within the City Corporation's control:

- The fundamental review does not lead to effectively prioritised revenue and capital budgets;
- Addressing the City Police budget deficit of £8.7m in 2019/20 with savings from the force of at least £4.6m, with further savings required in future years;

- Police Action Fraud project overspending and changes in cash flow requirements; Major capital projects not being delivered within estimated cost;

Outside the City Corporation's control:

- Brexit affecting the rental income from our commercial property as a result of increased voids;
- Business Rates income - volatility around the growth forecasts and appeals, dependent on full occupation of new builds and London pilot;
- Fair Funding review which will affect the amount of business rates retained by the City to fund services; and
- Inflation is currently running at 2.3%, but the Office for Budget Responsibility forecasts a drop to 2%. The position will be monitored during 2019/20.
- Pension fund deficit: This can have a significant impact on the finances of the City Corporation. If we start falling behind the recovery profile, the Corporation would need to consider whether to contribute more funds into the scheme. We have a full actuarial valuation every three years and annual updates on the funding position. As at 31 March 2018, the projected funding position was 91.5%, requiring an employer contribution of 19.5% of payroll to repay the deficit by 2033. The Government Actuary's Department (GAD) have recently scrutinised the assumptions used in the Local Government Pension scheme to ensure that employers are taking a sufficiently prudent approach to financing the LGPS benefits. Applying GAD's standardised assumptions would put the City Corporation's funding level in the lowest 10%, however our actuaries apply assumptions on the profile and experience of our own scheme.

Whilst we should not be too alarmed by the prospect of a worsening funding position as result of standardised assumptions as opposed to actual financial deterioration, it is likely that our actuaries will be 'encouraged' to apply a more prudent range of assumptions at this valuation, which will result in higher liabilities and consequently a worse funding position.

If we used the standardised GAD assumptions, it would imply an increase in employer contributions to 25% from 2020-2022, with a potential impact of £5.1m p.a.

The Actuarial review will take place in March and the implications will be considered by a working party involving members and recommendations made to Finance Cttee in early summer, ready for the revised budget considerations in the Autumn

Equalities Implications

56. During the preparation of this report, all Chief Officers were asked to consider whether there would be any potential adverse impact of the various budget policy proposals on equality of service. This was with particular regard to service

provision and delivery that affects people, or groups of people, in respect of disability, gender and racial equality. None were received.

Conclusion

57. It is important that a fundamental review is taken forward to address the medium-term financial challenges which will emerge from 2020/21 onwards and to ensure that our resources are aligned with our Corporate Plan outcomes. Adopting the new Corporate Plan is the City Corporation's opportunity to reappraise spending in a cross-cutting way, rather than the normal silo-based approach of applying efficiency squeezes and savings by Service Committee by Service Committee or department by department
58. A report will be presented to the March Policy and Resources Committee on the process.
59. Steps should be taken this year to maintain the progress on efficiencies, address the police budget deficit, manage resource pressures and contain costs of the major projects and other capital requests.
60. Increases in Council Tax should be considered in view of the medium-term financial outlook, wider developments across London, the Fair Funding Review and pressures on social care budgets.

Dr Peter Kane

Chamberlain

Appendices

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

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