

<b>Committee(s):</b> Finance Committee – For decision Policy and Resources – For Information Court of Common Council – For decision	<b>Date(s):</b> 15 February 2022 17 February 2022 10 March 2022
<b>Subject:</b> City Fund 2022/23 Budget	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
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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 last year has been a huge catalyst for change, shaping a very different set of priorities for the Corporation – focusing on recovery following the pandemic and rebuilding the Square Mile as a destination for residents, workers, students and visitors. However, there is still a need to manage significant remaining COVID risks and an unprecedented range of external challenges as the economy recovers from a global pandemic e.g. Fair Funding Review, Business Rates income volatility, supply chain problems and inflationary pressures.

For 2021/22, the Corporation family committed to a 12% budgetary reduction (or 6% in the case of social care and children services) continuing to protect the most vulnerable services. In addition, the Corporation committed to Fundamental Review savings approved in 2019/20 to be delivered across five years from 2020/21 to 2024/25. Resource Allocation Sub Committee signalled that 2022/23 should be a year of consolidation to bed down the 12% savings and take stock on fundamental review proposals.

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

- maintain a flat cash in 2022/23;
- re-prioritise existing resources to accommodate funding bids relating to additional resources within the Target Operating Model (TOM);
- prioritising the 2022/23 capital programme within the recommended funding allocation for schemes totalling £17.0m; and
- continuing to invest in major projects.

The Local Government financial settlement assumes local authorities use locally levied taxes to support rising pressures, for example in social care, with the exception of additional one-off funding to support increase in national insurances. This is also the case for the Police funding settlement, where a flat cash has been applied with support for additional officer uplift and slight increase to support increase in national insurances. The Government's assumption is that Policing cost pressures would be covered through the levy on council taxpayers.

The settlement also included an application for a single year only '8 Authority Pool' with 7 neighbouring billing authorities, which will enable the pool partners to keep more of the business rate growth they generate – this pool will cover 4 of the 6 most deprived boroughs. For City Fund this will potentially yield £12m. This pool is for one year only, after which the Corporation intends to return to a pan London Pooling. Approval was received from the Secretary of State on 7<sup>th</sup> February to proceed. Income from the pool has not been factored into plans as it is volatile. However, should the City benefit from the income the arrangement could provide significant upside which would cover growth bids as part of the TOM and Destination City.

The medium-term financial outlook is summarised in the table 1 below:

**Table 1**

Surplus/ (Deficit)	2021/22	2022/23	2023/24	2024/25	2025/26
£m					
<b>City Fund position</b>	<b>13.4</b>	<b>10.7</b>	<b>(13.4)</b>	<b>(8.5)</b>	<b>(4.3)</b>
<b>City of London Police deficit</b>	<b>-</b>	<b>(3.9)</b>	<b>(10.6)</b>	<b>(8.4)</b>	<b>(10.5)</b>
<b>City Fund position including Police deficit</b>	<b>13.4</b>	<b>6.8</b>	<b>(24.0)</b>	<b>(16.9)</b>	<b>(14.8)</b>
<b>*General Fund Reserve – working capital</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>
<b>**Major Project Financing Reserve</b>	<b>90.7</b>	<b>74.9</b>	<b>45.9</b>	<b>37.7</b>	<b>33.7</b>
<b>***Build Back Better Fund Reserve</b>	<b>16.7</b>	<b>15.0</b>	<b>13.4</b>	<b>11.8</b>	<b>10.3</b>
<b>****Security Reserve</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>

\*General fund reserve maintained at minimal prudent amount in line with other Local Authorities and the law, to provide funds for emergencies and other unexpected requirements for funds.

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

\*\*\*Build Back Better fund set up in 2021/22 to support Climate Action savings in the previous period.

\*\*\*\*Security Reserve recommended in light of reallocation of revenue security contingency.

The Government has pushed back its reform of Business Rates to 2023/24. This means that we have an extra year of retained Business Rates growth of £27m, which is very welcome. In addition, City Fund has benefited from one-off funding of £1.88m in 2022/23, producing a small surplus of £10.7m, giving a much-needed boost to the financial position across the medium-term financial plan. However, despite the additional income, the medium-term clearly highlights City Fund finances including Police are on a knife edge with significant deficits forecast across the remainder of the medium-term financial plan. Deficits are largely caused by the reset in retained business rates growth in 2023/24 and forecast annual deficits in Police.

Increasing demands on Police services for protest activity; increasing violence and disorder; creating a safe and secure environment for Destination City; and increasing cyber threats. These demands sit within the context of a notable shift in the balance of central funding towards locally levied taxes, provided elsewhere through increases in Council Tax.

There is a statutory duty to remain balanced across the medium-term taking one year with the next over the five-year period. There are two options to close the medium-term deficits:

- Further savings, potentially through zero based budget exercise; and /or

- Revenue raising i.e. increases in Council Tax and Business Rate Premium. City Fund can be balanced across the medium-term plan if Business Rate Premium is increased by 0.4p in the £, or a combination of up to 0.4p and further savings.

However, this leaves very little margin to support unforeseen financial challenges. Modelling of a more pessimistic view on retained business rates income removes almost all of the £27m growth - pushing City Fund into an estimated £16m deficit. Alongside potential impact of a more pessimistic rents position, we recommend not releasing the £30m of general fund reserves for major project spend in mitigation – to be assessed in December 2023.

Turning to the **capital position**, under the annual process, bids for capital funding totalling £17.0m for City Fund were approved in principle by Resource Allocation Sub Committee. This remains within the overall recommended funding allocation of £20m, the sum is considered manageable over the medium term. Given the pressures on construction and labour inflation rising up to 15%, it is recommended a contingency is held under the capital programme up to the allocated amount - £3.0m, this takes into account capital programmes in flight and due to be delivered over the next 1-2 years. However, optimism bias/costed risk is presumed to contain inflationary pressures within the overall capital programmes. If the contingency is approved a business case will be required for approval under the correct governance process.

This report recommends a number of measures to stabilise the position in 2022/23 and that will support the steps that will need to be taken over the medium-term, supported by:

- Zero based budgeting – prioritising within the overall envelope – supporting the change in the operating model, plus a review of operational property and income generation.
- The need to move to service transformation; and pin down the fundamental review proposals – through an officer Star Chamber led by the Town Clerk and Chamberlain.
- Scope for embedding change, removal of duplication as part of the TOM review, and introduction of greater ways of working.
- Barbican renewal programme included, also subject to business case approval and future net spending benefit targets in City Fund.

For 2022/23, Members will need to consider whether to:

- Levy a Social Care precept of 1%; but otherwise freeze council tax.
- Increase business rates premium up to 0.4p in the £ / increasing the Business Rates Premium to 1.2p in the £ .

Members will also want to note that increased revenue pressures have been accommodated by reprioritising existing budgets and signal an expectation that additional pressures that might arise during 2022/23 will be absorbed within local risk budgets. However, where one-off cost pressures have been approved by Members these have been built into the medium-term.

## Recommendations

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

- Note the overall budget envelopes, this incorporates additional one-off funding from Government of £1.88m and retained business rates growth of £27m in 2022/23. For Police, an increase of additional grant to support the officer uplift plus £6.1m mitigations combined with £2.3m Business Rate Premium reinstated – noting this leaves the Police budget in deficit for 2022/23.
- Continue to monitor COVID income risk during 2022/23 and maintain a COVID contingency fund, not releasing £30m of general fund reserves for major project spend – to be reassessed in December 2023.
- Approve the overall financial framework and the revised Medium-Term Financial Strategy (paragraph 25).
- Approve the Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23, including the treasury indicators.
- Approve the City Fund Net Budget Requirement of £167.3m (paragraph 57)

### Key decisions:

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

#### Council Tax

- To approve an increase in the Adult Social Care Precept of 1.00% (paragraph 38).
- To otherwise consider whether to freeze council tax (paragraph 39).
- 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 2022/23 will not be excessive in relation to the requirements for referendum.
- Determine, the current 100% discount awarded to unoccupied and unfurnished and uninhabitable dwellings is continued at zero (0%) for the financial year 2022/23 and future years.
- Determine that the premium levied on long-term empty property for 2022/23 and future years of 100% and 200% is continued and that for properties that have been empty for over ten years, a premium of 300% is levied.
- It is recommended that, having regard to the government guidance issued, the Chamberlain be given the discretion, delegated to the Head of Shared Services, to reduce or waive the long-term empty premium charge in exceptional circumstances.
- Approve that the cost of highways, street cleansing, waste collection and disposal, drains and sewers, and road safety functions for 2022/23 be treated as special expenses to be borne by the City's residents outside the Temples (appendix A).

## **Business Rates**

- To approve an increase of up to 0.4p in the £ in Business Rate Premium (paragraph 40).
- Set a Non-Domestic Rate multiplier of 52.4p and a Small Business Non-Domestic Rate Multiplier Rate of 51.1p for 2022/23.
- Note that, in addition, the GLA is levying a Business Rate Supplement in 2022/23 of 2.0p in the £ on properties with a rateable value of £70,000 and above (paragraph 62).
- Delegate to the Chamberlain the award of discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988 (paragraphs 61).

## **Capital Expenditure**

- Approve the Capital Strategy (appendix E).
- Approve the Capital Budgets for City Fund and the allocation of central funding from the appropriate reserves to meet the cost of the 2022/23 new bids– release of funding being subject to approval at the relevant gateway and specific agreement of the Resource Allocation Sub Committee at gateway 4(a) (paragraph 68).
- Approve the continuation of the allocation of central funding in 2022/23 to provide internal loan facilities for police and the HRA, currently estimated at £4.9m and £19.0m respectively (paragraph 71).
- Approve the Prudential Code indicators (appendix C).
- Approve the authorised limit for external debt (which is the maximum the City Fund may have outstanding by way of external borrowing) at £216.6m for 2022/23; and the Minimum Revenue Provision (MRP) for 2022/23 at £1.2m (MRP policy is included within appendix D – Treasury Management Strategy Statement and Investment Strategy Statement 2022/23 - appendix 2).

## **Treasury Management Strategy Statement and Investment Strategy Statement 2022/23 (Appendix D)**

- Approve the addition of multi-asset funds to the list of permitted non-specified investments subject to an overall limit of £50m (Appendix D, sub appendix 3). The Corporation is expected to maintain significant surplus cash balances for the foreseeable future. Multi-asset funds enable the Corporation to mitigate the gradual erosion of the real value of these long-term cash balances from the effects of inflation.
- Approve the new policy for managing environmental, social and governance (ESG) risks within treasury investment activity (Appendix D, paragraph 5.4).

## Chamberlain's Assessment

- Take account of the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves and contingencies (paragraphs 79-82 and appendices B and G respectively).

## Main Report

### Background

1. This report sets out the revenue and capital budgets for City Fund for the Finance Committee and Court of Common Council to approve.
2. The last year has been a huge catalyst for change, shaping a very different set of priorities for the Corporation:
  - The City Corporation has a crucial role to play in helping London in its recovery following the pandemic, through:
    - providing an ecosystem for businesses to access talent and capital;
    - creating a vibrant place to spend time; and
    - providing adaptable workspace underpinned by excellent digital infrastructure, renewable energy networks and a sustainable and resilient built environment across the Square Mile.
  - Ensuring the Square Mile is a more compelling place to visit, work and invest – Destination City sets out a renewed vision for the Square Mile to become the world's most attractive destination for residents, workers, students and visitors.
  - It is a sign of this ambition for the future of London that we are investing in major projects such as the new courts and City of London Police HQ complex at Salisbury Square, the relocation of the wholesale markets to Dagenham Dock and the relocation of the Museum of London at West Smithfield. Furthermore, consideration is also being given to include the Barbican renewal.
  - Tackling climate change, with ambitious climate action to achieve our net zero targets; and influencing action across the country.
  - Progressing with the new target operating model across the Corporation family, incorporating the design principles and permanent savings required to meet the 12% (6% in the case of community and children services) budget reductions from 2021/22 budgets.
  - With the global pandemic and challenging economic position, pressures and risks to the City Corporation's finances are likely to continue into the 2022/23 financial year. Resource Allocation Sub Committee signalled that 2022/23 should be a year of consolidation to bed down the 12% savings and take stock on fundamental review proposals. Additionally, there is a need to manage significant remaining COVID risks and unprecedented

range of external challenges e.g. Fair Funding Review, Business Rates income volatility, supply chain problems and inflationary pressures.

3. Tough decisions have been needed to maintain flat cash in 2022/23 which has meant additional resources are prioritised within the overall envelope. Bilateral meetings have taken place during the Autumn – providing an opportunity for service committees to highlight risks and opportunities.
4. Existing resources have been reprioritised to accommodate bids for additional resources within the Target Operating Model (TOM). For one-off pressures to support corporate initiatives, which cannot be accommodated within the overall envelope, time limited resource uplifts have been included under the medium-term.
5. Aggressive assumptions have been made in respect of inflationary pressures - where inflation is expected to be significantly above the Bank of England's 2% target in the near future reaching 5% in 2022/23 before gradually returning to target in 2024/25. The current upward pressure on inflation is expected to subside over the medium-term as supply chains recover, global demand rebalances, and the effects of energy price increases wear off.
6. In setting the budget for 2022/22 and the Medium-Term Financial Strategy (MTFS) for future years, consideration has been given to the high degree of uncertainty and therefore risk in determining Local Government funding levels.
7. The Government recently confirmed the Local Government Finance Settlement for 2022/23 and the Policing Minister published the revenue allocations for Police forces for 2022/23. The Local Government finance assumes local authorities use locally levied taxes to support rising pressures, for example in social care, with the exception of additional one-off funding to support increase in national insurances. This is also the case for the Police funding settlement, where a flat cash has been applied with support for additional officer uplift and slight increase to support increase in national insurances. The Government's assumption is that Policing cost pressures would be covered through the levy on council taxpayers.
8. 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:
  - **One Year Settlement** – the 2022/23 Local Government Finance Settlement is a one-year settlement, no information is available on how the planned increase in grant funding will be distributed to local authorities.
  - The **Fair Funding Review** of local government funding is likely to shift resources away from London.
  - **Business Rates** – danger from a reset which would remove the City's recent growth receipts (forecast at £27m) in 2023/24.
9. The settlement also included an application for a single year only '8 Authority Pool' with 7 neighbouring billing authorities, which will enable the pool partners

to keep more of the business rate growth they generate. For City Fund this will potentially yield £12m. Following the collective decision not to form a London wide business rates pool for 2022/23, the opportunity was still available for authorities to form their own pool groupings. Having considered the experience from the London Pool, which whilst challenging in 2020/21, did produce significant financial gains in previous years, the City of London alongside Brent, Barnet, Enfield, Hackney, Haringey, Tower Hamlets and Waltham Forest, have applied to form a tactical pool in 2022/23. The pool is formed with the aim of keeping the levy payments the City of London and Tower Hamlets make to Government, in London. This pool will cover 4 of the 6 most deprived boroughs, which supports the Government's levelling up agenda. This pool is for one year only, after which the Corporation intends to return to a pan London Pooling. Approval was received from the Secretary of State on 7<sup>th</sup> February to proceed. Income from the pool has not been factored into plans as it is volatile. However, should the City benefit from the income the arrangement could provide significant upside which would cover growth bids as part of the TOM and Destination City.

10. The forecast includes the revenue impact from funding £17.0m of second tier projects from capital reserves, with capital receipts reserves standing at £50m by 2025/26.
11. Although the City Fund excluding Police is forecast to be in surplus by £10.7m in 2022/23, it can only be balanced, over the next four years, with the use of general fund reserves and further savings and/or revenue raising by increasing Council Tax and Business Rate Premium. Despite the savings planned to date through the Fundamental Review, 12% (6% in case of community and children services) budget reductions, and mitigations in place under Police - overall, City Fund including Police are on an absolute knife edge with significant deficits over the planning period and the 10-year horizon.
12. Over the next year we will focus on making operational efficiencies through the target operating model (TOM) as well as improving how we prioritise our resources to ensure:
  - That we are spending on key priorities; and
  - That our plans are sustainable in the medium-term.

The coming year will see the work for the next Corporate plan highlighting our priorities post pandemic for the City alongside this we will engage in a zero based budgeting exercise to ensure we have the right resources to support our post pandemic priorities.

13. There are two options to close the medium-term deficits, or more realistically a combination of the two:
  - Further savings, potentially through zero based budget exercise; and/or
  - Revenue raising through taxation i.e. increases in Council Tax and Business Rate Premium; and

## Overall Financial Strategy

14. The City of London Corporation's overall financial strategy seeks to:

- manage the effects/recovery of a global pandemic impacting on the economy and income;
- maintain and enhance the financial strength of the City Corporation through its investment strategies for financial and property assets;
- pursue budget policies which seek to achieve a sustainable level of revenue spending and create headroom for capital investment and policy initiatives, such as Destination City – renewed vision for the square mile;
- create a stable framework for budgeting through effective financial planning;
- promote investment in capital projects which bring clear economic, policy or service benefits;
- manage the affordability to support major projects programmes now and in the future; and
- financial strategy to be developed following review of the investment asset base and fund income requirements during 2022.

## Measures to the 2022/23 budget

15. At its December meeting, Resource Allocation Sub Committee approved the budget envelopes that service committees will use to deliver their services in 2022/23. It is intended that business planning will address how service committees intend to focus their resources to achieve key outcomes in year. Zero based budgeting will be needed to reprioritise current resources in line with new corporate priorities requiring investment, rather than being able to deliver significant savings – supporting the change in the operating model, plus a review of operational property and income generation.

16. For City Fund, our local authority fund, the Government has pushed back its reform of Business Rates for another year to 2023/24, which is very welcome. This means that we have an extra year of retained Business Rates income.

17. Key risks from COVID impact to our income streams are expected to continue into 2022/23, especially for rental income for the investment property portfolio and further support is likely to be required from reserves. Detailed stress testing and scenario analysis has been carried out on key income assumptions for City Fund and more sophisticated funds modelling has enabled a holistic assessment of overall financial health, including ability of net assets and reserve balances to meet risks of potential funding shortfalls. We should nonetheless continue to monitor COVID income risk during 2022/23.

18. Tough decisions have been needed to maintain flat cash in 2022/23, but Members have worked together to re-prioritise the following cost pressures within existing resources, such as:

- New Chief Officer teams;

- Growth bids under the Target Operating Model to support corporate initiatives;
- Change in financing model for IT equipment from capital to revenue (e.g. E5 licences).

Measures include reallocating the Transformation Fund monies and headroom within the security contingencies.

19. Time limited additional resources have been included within the budget for policy initiatives such as:

- Destination City (£2.3m\* in 2022/23, thereafter split equally between City Fund and City's Cash in 2023/24 and 2024/25 – For City Fund £1.15m p.a.).

\*This amount has been updated from the report received by the Joint Resource Allocation and Efficiency & Performance Sub Committee's – full costs to be borne by City Fund in the first year, thereafter reviewed - depending on how the strategy is developed this will determine the amounts under each fund. For the purpose of this report the amounts for 2023/24 and 2024/25 are split equally between City Fund and City's Cash).

20. Additional funding is required for new on-going cost pressures and have been included under the medium-term, these include:

- Pay award added back for 2022/23, including agreed pay award for A-C grade from 1st July 2021;
- Increase in National Insurance at 1.25%;
- Extended Member Support Scheme;
- Additional pressure on audit fees – rising by 307% (uplift of £170k p.a.);
- Support to high hostel agreed in 2021/22 now included in MTFP; and
- Secure City pressures from 2023/24 - £1 p.a.

21. In light of pressures on construction and labour inflation rising up to 15%, it is recommended a contingency is held under the capital programme up to £3m from Major Projects reserve. However, optimism bias/costed risk is presumed to contain inflationary pressures within the overall capital programmes. If the contingency is approved a business case will be required for approval under the correct governance process.

22. With reallocation of revenue security contingency to support additional pressures within the envelope – it is recommended the earmarked security reserve retains £1m as a minimum to support future revenue security pressures and is reviewed regularly to ensure sufficient funds are available at all times.

23. Increasing demands on Police services for protest activity; increasing violence and disorder; creating a safe and secure environment for 'Destination City'; and increasing cyber threats. These demands sit within the context of a notable shift in the balance of central funding towards local funding, provided elsewhere through continued increases on Council Tax.

24. Delivering the 2022/23 budget will enable us to push ahead on reshaping the City Corporation and re-aligning resources to new Corporate priorities in a post pandemic world. Key follow up themes for 2022/23 include:

- Zero based budgeting – prioritising within the overall envelope – supporting the change in the operating model, plus a review of operational property and income generation.

- The need to move to service transformation; and pin down the fundamental savings through an officer Star Chamber led by the Town Clerk and Chamberlain.
- Scope for embedding change, removal of duplication as part of the TOM review, and introduction of greater ways of working.
- Barbican renewal - future net spending benefit targets in City Fund, subject to business case approval
- Guildhall masterplan – delivering future savings across City Fund and City Cash, subject to business case subject to business case approval.

### **Latest forecast position**

25. Whilst City Fund (excluding Police) is in surplus in 2022/23, the medium term is in overall deficit by £2.2m, taking one year with the next over the five-year period. Despite taking measures set out under paragraphs 17-18, City Fund is struggling to accommodate the £3m cost pressures under Secure City after accommodating the Barbican renewal – a much needed investment subject to business case approval.
26. The City Fund position is exacerbated when including Police increasing the overall deficit by £35.5m across the medium-term.
27. Going forward, there are significant risks and a great deal of uncertainty. The overall medium-term financial position is shown in the table 2 below. Despite the additional income from retained Business Rates growth and one-off funding, the medium-term clearly highlights City Fund finances including Police are absolutely on the knife edge with significant deficits forecast across the remainder of the medium-term financial plan.
28. City Fund including police cannot be balanced without further measures put in place, either through further flightpath savings or through the levy on council taxpayers. City Fund (including Police) has a statutory requirement to remain balanced over the medium-term. The Medium-Term financial position is shown in the table 2 below, illustrated by funding from an increase in social care percept and increase in Business Rate Premium. Replacing this with flightpath savings requires a further £35.5m savings across the medium term - £2.2m for City Fund and £33.3m for Police:

**Table 2**

Surplus/ (Deficit)	2021/22	2022/23	2023/24	2024/25	2025/26
£m					
<b>City Fund*</b>	<b>4.2</b>	<b>(1.3)</b>	<b>(25.3)</b>	<b>(23.2)</b>	<b>(19.0)</b>
<b>Fundamental Review savings</b>	<b>2.0</b>	<b>2.6</b>	<b>2.6</b>	<b>5.4</b>	<b>5.4</b>
<b>12% incl. TOM</b>	<b>7.2</b>	<b>9.3</b>	<b>9.3</b>	<b>9.3</b>	<b>9.3</b>
<b>City Fund before Police deficit</b>	<b>13.4</b>	<b>10.6</b>	<b>(13.4)</b>	<b>(8.5)</b>	<b>(4.3)</b>
<b>City of London Police</b>	<b>-</b>	<b>(3.9)</b>	<b>(10.6)</b>	<b>(8.4)</b>	<b>(10.5)</b>
<b>City Fund position including Police deficit before additional funding required</b>	<b>13.4</b>	<b>6.7</b>	<b>(24.0)</b>	<b>(16.9)</b>	<b>(14.8)</b>
<b>Social Care Percept</b>	<b>-</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>Proposed 0.4p increase in BRP</b>	<b>-</b>	<b>9.2</b>	<b>9.2</b>	<b>9.2</b>	<b>9.2</b>
<b>City Fund, incl. Police after increase in taxes</b>	<b>13.4</b>	<b>16.0</b>	<b>(14.7)</b>	<b>(7.6)</b>	<b>(5.5)</b>
<b>City Fund Reserves</b>					
<b>*General Fund Reserve – working capital</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>
<b>**Major Project Financing Reserve</b>	<b>90.7</b>	<b>71.9</b>	<b>42.9</b>	<b>34.7</b>	<b>30.7</b>
<b>***Build Back Better Fund Reserve</b>	<b>16.7</b>	<b>15.0</b>	<b>13.4</b>	<b>11.8</b>	<b>10.3</b>
<b>****Security Reserve</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>

\*After Major Projects financing

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

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

\*\*\*\*Build Back Better fund set up in 2021/22 to support Climate Action

\*\*\*\*\*Security Reserve recommended in light of reallocation of revenue security contingency

29. 2022/23, is forecasting a small surplus, largely due to an extra year of business rates retention income (albeit at a much-reduced level to previous years). Key points to note include:

- Revenue streams are likely to be under considerable pressure as COVID-19 continues to impact businesses through Government restrictions. In addition, all indications are that the business rates reset due in 2023/24 will be a hard reset and the Medium-Term Financial Plan has been compiled on this basis. If a more pessimistic view is taken on retained business rates income, it removes the £27m growth- pushing City Fund into an estimated £16m deficit in 2022/23. Alongside potential impact of a more pessimistic rents position, we recommend holding back £30m of reserves in mitigation; and
- Significant pressures highlighted by departments through Member bilateral meetings will require close monitoring and mitigations to be put in place. This is also the case for further requests for fundamental review savings to be pushed out – giving time to pin down the TOM.
- The Police commitment to secure £6.1m savings in 2022/23 will need to be reviewed to ensure savings are sustainable across the medium-term.
- In parallel with the external threats, the City Fund revenue budget will start to come under increasing pressure from major projects financing costs and opportunity costs – through loss in rental income/asset growth. This takes into

account the Barbican renewal programme, however, does not include any costs or potential savings reaped in from the Guildhall Master Plan.

- It should be noted the latest forecast position under City Fund has been updated since the report to the Joint Resource Allocation and Efficiency & Performance Sub Committees. These changes have reduced the overall deficit over the medium-term financial plan by £0.6m and have impacted the following areas:
  - City Fund to include the full cost of Destination City in year 1 – 2022/23;
  - Guildhall recharges updated with final estimate budgets received by departments;
  - Capital and Supplementary Revenue Programme (SRP) updated with latest forecast and carry forwards into subsequent years;
  - Major Projects programme updated with latest forecast – subsequently reprofiling the required funding to later year(s).

## **Police**

30. The Force is under increasing pressure despite having implemented £9m savings over the last two years and have committed to implement a further £6.1 mitigations in 2022/23, alongside reinstatement of £2.3m funding from City Fund (which had been reduced in 2021/22 following a dip in Business Rate Premium Income). Additionally, funding for Cyber Griffin (which provides City businesses with bespoke training and advice on countering a range of cyber threats) is included in the medium-term financial plan.
31. The Police Settlement is flat cash with a ringfenced amount to support the additional officer uplift and slight increase to support national insurance measures. This amount is less than assumed and required in the Police MTFP. The Police budget is facing significant medium-term pressures at a time of increasing demand on Police services.
32. The Police Settlement also enables Forces to set up to a £10 precept on Council Taxpayers to cover rising cost pressures. The City Corporation's small residential population does not yield anywhere near the sums provided by local funding for other police forces and City Fund funding to the Force is now substantially out of kilter with the local funding allocations of other forces, with City of London Police local funding (including rent-free benefit) being £7.5m less than it would be at the national average proportion. Not addressing this gap now will increase further pressures over the next 3 years.
33. To sustain and improve vital policing services, including building a highly visible Sector Policing service, in the context of increasing demand will require an aggregate medium-term deficit of £33m in the Police MTFP. The Police bilateral on 15th December acknowledged the structural problem and Finance Committee Members at their December committee meeting largely supported an increase in BRP in 2022/23 to resolve this and other City Fund pressures. Committee members noted that the Police local funding % is well below the national average and a significant hike in GLA council tax precept is likely for the Metropolitan Police Force.

34. The Rate Payers consultation took place on 25<sup>th</sup> February 2022 where the Chair of Policy, Chairman of Finance and Chairman Police Authority Board, alongside Assistant Commissioner Betts presented a compelling narrative to ratepayers in support of an increase in Business Rate Premium. The responses from those that attended was not unduly hostile.
35. City Fund's overall financial position include significant risks and a great deal of uncertainty. Despite the extra income from retained Business Rates growth, one-off funding combined with 12% budget reductions in 2021/22, mitigations in place City Fund finances including Police are on a knife edge with significant deficits forecast across the remainder of the medium-term financial plan. The fund is forecast, to move into deficit, from 2023/24 onwards due to the inclusion of financing costs of major projects: the Museum of London Relocation Project, Police Accommodation in the Salisbury Square Project and Barbican Renewal (subject to approval) together with the increase in Police pressures.
36. **Council Tax:** The Council Tax for the current year, 2021/22, is £952.91, expressed at band D and excluding the GLA precept of £95.53. Given the pressures to City Fund, Members will wish to consider council tax increases. Local authorities are permitted to levy a social care precept of 1% to address funding pressures and this has been modelled in the 2022/23 budget. Local Authorities are permitted a further uplift of Council Tax by 2.0% within the referendum threshold. In this context, Members may wish to consider:
- There is not a pressing financial need to uplift Council Tax in 2022/23.

However,

- Current intelligence suggests that most authorities, including those at the lowest end of the Council Tax league table, are considering increases of up to 3.00%, including the social care precept. There is a risk that the Corporation will stand out if it does not increase and will move closer to the bottom of the table.
  - There is a cumulative benefit in the medium-term.
  - It could reduce any penalisation in the fair funding review, where an implied council tax level might be assumed (above our current level) which could result in a loss of funding.
  - Those on lowest incomes will be eligible for council tax relief (Council Tax Reduction Scheme).
37. The City has seen increasing cost pressures in social care and tackling homelessness; and social care has been protected from the full impact of 12% reductions. **The recommendation is, therefore, to levy an Adult Social Care precept of 1%.**
38. The Adult Social Care precept of 1% would generate around £70k. An increase of 2.0% in council tax, would generate around £140k. For comparative purposes, Westminster band D excluding GLA precept is currently £463.90 (£780.28 including the GLA precept); Wandsworth, £475.44 (£793.56 including the GLA precept); and Hammersmith and Fulham £831.96 (£1227.55 including the GLA precept).

39. The steer from Resource Allocation Sub Committee was undecided on this matter with a range of views reflecting that although the sums involved were small, there are wider considerations in positioning for the fair funding review. In making this decision, Members may wish to consider the points in paragraph 36 above.

40. Business Rates Premium - The premium on City businesses was last increased in 2020/21, from 0.6p to 0.8p in the £ which, while not formally hypothecated to policing, supported the funding of an uplift of 67 priority policing roles at a cost of £5.4m. Given the pressures on security and Policing, Members may wish to consider increasing the Business Rate Premium up to 0.4p in the £, raising up to circa £9.2m p.a. in particular to enable the provision of vital policing services as set out in paragraphs 50-55 to be sustained and enhanced.

However,

- Police funding settlement enables most Forces in the country to levy a £10 local precept to support rising pressures; due to the very small residential population, the City of London Police Authority does not have the ability to raise local funding through this route.
- There is a statutory requirement to balance City Fund (including Police), if we do not increase the BRP by 0.4p over the medium term we cannot balance City Fund, without new significant savings targets, changes to major project assumptions and/or service impact.

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

41. This report recommends measures to stabilise the position in 2022/23 and that will support the steps that will need to be taken over the medium-term, through

- further work on securing permanent year on year savings;
- securing flight path savings through an officer Star Chamber led by the Town Clerk and Chamberlain.;
- building on collaboration through the bi-lateral approach; progressing with service transformation and a zero based review – supporting the change in the operating model plus a review of operational property and income generation; as well as
- containing the cost of major projects and other programmes.

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

42. The following paragraphs detail the key assumptions that have been used in the construction of the 2022/23 budget and Medium-Term Financial Strategy:

### **Income**

43. The City Fund has two key income streams, investment property rental and treasury income. Detailed stress testing and scenario analysis has been carried

out on key income assumptions for all funds and more sophisticated funds modelling has enabled a holistic assessment of overall financial health, including ability of net assets and reserve balances to meet risks of potential funding shortfalls.

- Property rental income is forecast on the expected rental income for each property, allowing for anticipated vacancy levels, expiry of leases and lease renewals. Throughout 2020/21 and 2021/22, the effect of COVID-19 has had a wide-ranging impact on the economy. This has included income losses from rental income from our property investment portfolio, plus further pressure on void costs where properties are not fit for relet. With the Government's moratorium for non-payment of rent being lifted on 1<sup>st</sup> April 2022 there is a significant risk on rental income and early termination of tenancy agreements, where tenants have gone into liquidation, to continue into 2022/23. It should be noted a further reduction in rental income is anticipated in later years as a consequence of the planned disposal of properties to fund the major projects. Outside these changes, the City's rental income is protected to some extent in the short-term as our leases are long term with medium-term specified break clauses. Forecast rental income is regularly reviewed and any potential reduction will be factored into updates to the medium-term financial plan.
- Cash balances are invested in a diversified range of money market and fixed income instruments in accordance with the Treasury Management Strategy with the aim of providing a yield once security and liquidity requirements have been satisfied. The forecast for treasury management income takes account of the likely path of short-term interest rates (chiefly, the Bank of England base rate) over the upcoming financial year. Base rates are expected to increase incrementally over the next few years from 0.50% today to 1.25% in 2024/25. The actual path of short-term interest rates is likely to depend on how the pandemic develops; whether labour and supply shortages prove to be persistent; the fiscal and monetary responses to managing inflation; as well as global economic developments (particularly in the US). A change of +/-0.25% to the base rate is expected to translate to approximately £1.5m additional/less income for the City Fund per year, based on current cash balances. Interest income is monitored throughout the year and any potential change to the forecast will be reported through updates to the medium-term financial plan.

## **Expenditure**

44. The starting point for the 2022/23 budget is 'flat cash' from the previous resource allocation in 2021/22, with provision made for the third year of the pay award. The Spending Review announcement on 17 December confirmed that there will not be a significant uplift in government funding. The increase in CPI inflation has meant 3% central inflationary contingency is held to ease the pressure of living with flat cash budgets. In particular, the Environment Department and the Barbican are exposed to inflationary increases through e.g. energy prices.
45. Policy and Resources Committee and Finance Committee have messaged clearly that cost pressures should be managed within existing resources. Requests for funding have been accommodated through re-prioritisation of

existing resources relating to policy initiatives and the TOM. Where one-off funding is required, this is accommodated through time limited resource uplifts.

46. Also underlines the need for additional unfunded revenue bids to be avoided during 2022/23.

### **Grant settlement – City Fund**

47. The provisional local authority grant settlement was received before Christmas and debated in the Commons early February. The final settlement was published on 7<sup>th</sup> February, stating the funding settlement is for three years with one year funding confirmed for 2022/23, this still leaves a great deal of uncertainty regarding Local Government funding after March 2023.

### **Business Rates Retention**

48. A further one-year delay on business rates reset enables the Corporation to continue to benefit from growth in office space over the years which has generated surpluses within the City. This growth in business rates income over the past six years has provided headroom, continuing in 2022/23 to fund:

- Much needed investment in one-off projects, such as: the Museum of London relocation project; the Salisbury Square project; and Barbican renewal (subject to Member approval)
- Support the rise in inflationary pressures;
- Helping London in its recovery following the pandemic
- Destination City – setting out a renewed vision for the Square Mile to become the world's most attractive destination for residents, workers, students and visitors – whilst retaining as a leading centre for financial and professional services.

49. However, the growth is vulnerable to bad debts, appeals and potential changes to office demand as we move out of the pandemic. Following the demise of the pan London business rate retention pool, the Corporation has applied to establish a small-scale business rate pool with 7 neighbouring billing authorities, enabling partners to keep more of the business rate growth it has generated – this pool will cover 4 of the 6 most deprived boroughs. This pool is for a single year only, after which the Corporation intends to move to pan London Pooling. Approval was received from the Secretary of State on 7<sup>th</sup> February to proceed. Income from the pool has not been factored into plans as it is volatile. However, should the City benefit from the income the arrangement could provide significant upside which would cover growth bids as part of the TOM and Destination City.

## City Police

50. The Police is facing significant medium-term pressures at a time of increasing demand.
51. This increasing demand is experienced both day and night. Daytime, the City is experiencing increased levels of protest activity. Night-time, we see a changing economy with increasing violence and disorder.
52. The ambition of Destination City relies on the force providing a safe and secure environment. This is especially important at a time when policing needs to build trust and confidence; and create safe spaces to prevent Violence Against Women and Girls. It is also essential to acknowledge the threat from terrorism which remains in the City. The current sector and servitor models provide a solid foundation to build on, however the force must continue to evolve and develop its services to keep pace with modern threats, including those that are cyber related (Cyber Griffin is an excellent example of how the force is keeping businesses safe in the virtual world).
53. Nationally, the force's responsibilities have grown significantly; recent examples are the adoption of lead status for cyber and business crime. It is well documented that the threat from economic and cybercrime, particularly fraud, are the fastest growing threats in the UK. Whilst these National responsibilities bring demand, they also bring opportunity for the force to work closer with the City's Financial and Professional Services sectors. This is essential if the City is to be a safe place to do business and remain the economic heart of the UK. These increasing demands are in the context of a notable shift of balance from central towards local Police funding. This is provided elsewhere through continuing precept increases on Council Tax. Comparatively speaking, City of London is behind the curve in this regard. The City Corporation's small residential population does not yield anywhere near the sums provided by local funding for other police forces and City Fund funding to the Force is now substantially out of kilter with the local funding allocations of other forces, with Force local funding (including rent-free benefit) being 25% compared to 34% nationally. Instead, the City is uniquely able to levy a business rate premium as part of its strategy for allocating local funding to the Police.
54. In addition, there are other needs which is appropriate to fund through the Business Rates Premium. These include strengthening the Police Authority function in line with the policing ambitions of the City, and comparisons across other Home Office Forces; and the running of a more sophisticated technological Secure City infrastructure – using technology to create safe spaces and compliment the policing presence.
55. As addressed under paragraph 30, despite efficiencies playing a significant part in securing fiscal sustainability, the Force is forecasting significant deficits across the Police medium-term financial plan in supporting the pressures highlighted above.

## Revenue Spending Proposals 2022/23

56. The overall budget requirements have been prepared in accordance with the strategy and the requirements for 2021/22 and 2022/23 are summarised by Committee in the table below. Explanations for significant variations were contained in the budget reports submitted to service committees.

**Table 3: City Fund Summary Budget**

<b>City Fund Summary by Committee</b>	<b>2021/22 Original £m</b>	<b>2021/22 Latest £m</b>	<b>2022/23 Original £m</b>
<b><i>Net Expenditure (Income)</i></b>			
Barbican Centre*	(37.3)	(36.0)	(26.5)
Barbican Residential	(2.4)	(2.4)	(2.2)
Community and Children's Services	(14.2)	(15.6)	(15.5)
Culture Heritage and Libraries	(19.7)	(20.9)	(19.7)
Finance**	2.2	6.2	(2.9)
Licensing	(0.1)	(0.1)	(0.2)
Markets	0.7	0.1	0.4
Open Spaces	(1.7)	(1.8)	(1.6)
Planning and Transportation	(14.4)	(15.6)	(13.3)
Police	(85.1)	(86.2)	(91.1)
Policy and Resources	(4.1)	(4.5)	(4.2)
Port Health and Environmental Services	(14.7)	(16.9)	(14.3)
Property Investment Board	37.3	37.2	33.4
<b>City Fund Requirement</b>	<b>(153.5)</b>	<b>(156.5)</b>	<b>(157.7)</b>

\* Significant variance under the Barbican Centre relates to one-off Covid support (£7m) received in 2021/22 with 12% savings recognised in 2022/23.

\*\* Finance includes changes to: capital revenue expenditure, supplementary revenue programme, additional one-off cost pressure highlighted in this report.

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

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

- the contributions from the City's own assets towards the City Fund requirement (interest on balances [line 5] and investment property rent income [line 6])
- the funding received from government grants and from taxes [lines 8 to 11]; and
- the estimated surpluses to be transferred to reserves, or deficits to be funded from reserves [line 14].

**Table 4: City Fund net budget requirement and financing (excluding Police)**

City Fund Revenue Requirements 2021/22 and 2022/23					
		2021/22 Original £m	2021/22 Latest £m	2022/23 Original £m	Para. No.
1	Net expenditure on services	(185.1)	(193.5)	(189.6)	
2	Capital Expenditure funded from Revenue Reserves	(3.3)	(2.5)	(3.9)	
3	Cyclical Works Programme expenditure financed from revenue	(11.0)	(8.5)	(10.3)	
4	Requirement before investment income from the City's Assets	(199.4)	(204.5)	(203.8)	
5	Interest on balances	2.6	4.8	6.4	
6	Estate rent income	43.2	43.2	39.7	
7	<b>City Fund Requirement</b>	<b>(153.6)</b>	<b>(156.5)</b>	<b>(157.7)</b>	
	Financed by:				
8	Government formula grants	122.5	122.5	128.5	
9	City offset	12.1	12.1	12.1	
10	Council tax	8.4	8.4	8.3	
11	NNDR premium	18.6	18.6	18.4	
12	Total Government Grants and Tax Revenues	161.6	161.6	167.3	
13	Drawdown on Reserves	0.0	6.7	0.0	
14	<b>(Deficit)/Surplus transferred (from)/to reserves</b>	<b>8.0</b>	<b>11.8</b>	<b>9.6*</b>	

\*Excludes transfer from major projects reserves to support 21 New St Rent

Line 8 in table 4 is shown in further detail below:

**Table 5: Analysis of Core Government Grants**

	2021/22 Original £m	2022/23 Draft £m	Variance £m	Variance %
Revenue Support Grant	6.3	8.2	1.9	
Rates Retention: baseline funding	16.7	16.7	0.0	
Rates Retention: growth	29.3	29.3	0.0	
<b>Subtotal:</b>	<b>52.3</b>	<b>54.2</b>	<b>1.9</b>	
Police	70.2	74.3	4.1	
<b>Total Core Government Grants</b>	<b>122.5</b>	<b>128.5</b>	<b>6.0</b>	<b>5%</b>

58. The City Fund budget requirement for 2022/23 is £157.7m plus a contribution to reserves of £9.6m resulting in a net City Fund budget requirement of £167.3m, an increase of £4.1m on the previous year. The following table shows how this

is financed and the resulting Council Tax requirement. Appendix A details the consequent determination of council tax by property band.

**Table 6: Council Tax requirement**

<b>Council Tax Requirement</b>	<b>2021/22 Original £m</b>	<b>2022/23 Original £m</b>
Net Expenditure	(199.4)	(203.8)
Estate Rental Income	43.2	39.7
Interest on balances	2.6	6.4
Budget Requirement	(153.6)	(157.7)
Proposed contribution to reserves	(8.0)	(9.6)
<b>Net City Fund Budget Requirement</b>	<b>(161.6)</b>	<b>(167.3)</b>
<u>Financing Sources:</u>		
Business Rates Retention	52.3	54.2
Police Grant	70.2	74.3
City Offset	12.1	12.1
NDR Premium	18.6	18.4
Collection Fund Surplus (CoL share)	0.6	0.3
<b>Council Tax Requirement</b>	<b>(7.8)</b>	<b>(8.0)</b>

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

## **Business Rates**

60. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 51.2p and a small business National Non-Domestic Rate multiplier of 49.9p for 2022/23. These multipliers remain at the 2021/22 levels as Government have opted not to apply the usual inflationary increase. They exclude the City's Business Rate Premium. The actual amount payable by each business will depend upon its rateable value.

61. It is proposed the Business Rate Premium is increased up to 0.4p in the £, the proposed premium will result in a National Non-Domestic Rate multiplier of 52.4p and a small business National Non-Domestic Rate multiplier of 51.1p for the City for 2022/23.

- 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:
- The 2022/23 Retail, Hospitality and Leisure Business Rates Relief scheme will provide eligible, occupied, retail, hospitality and leisure properties with a 50% relief, up to a cash cap limit of £110,000 per business.

- Covid-19 Additional Relief Fund (CARF) Scheme. - This is new relief. This government scheme requires local authorities to provide an allowance against ratepayer NNDR liabilities, rather than pay as a cash grant to the business. The City's proposed scheme will provide relief of around £64m against the net 2021/22 NNDR Liability. The full proposals and recommendation for the scheme will be the subject of a future report to Finance Committee

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

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

63. For council tax purposes a property is defined as empty if it is unoccupied and substantially unfurnished. Property that is furnished is treated as a second home.

64. The empty property premium was introduced in 2013/14 to encourage landlords to bring long-term empty property back into use. The City introduced the long-term empty premium for the first time in 2019/20, with a premium increase of 100%.

65. From 20/21 properties that have been empty over 5 years can be charged a higher premium of up to 200%. From 21/22 properties empty over 10 years can be charged a premium of 300%. The introduction of the Empty Property Premium has resulted in additional income of approximately £400k since 20/21.

### **Council Tax Reduction Scheme**

66. 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.

67. The Council Tax Reduction Scheme will therefore remain the same for 2022/23 as was administered in previous years subject to the annual uprating of amounts in line with Housing Benefit applicable amounts.

### **Capital**

68. The City Corporation has a significant programme of works to the operational property estate (including residential), investment property redevelopments and highways infrastructure, together with significant expenditure on the major programmes. Spending on these types of activity is classified as capital expenditure.

69. 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 used external loans to finance these schemes and current plans do not envisage borrowing from third parties. Financing is summarised in the table below.

**Table 7: Capital Financing**

	2021/22 £m	2022/23 £m
<b>Estimated Capital Expenditure</b>	<b>156.6</b>	<b>217.1</b>
<u>Financing Sources:</u>		
Housing Revenue Account (HRA) Major Repairs Reserve	4.7	3.0
Disposal Proceeds	52.4	65.5
Earmarked and General Revenue Reserves	25.1	65.6
External Grants and Reimbursements	74.4	83.0
External borrowing	-	-
<b>Total:</b>	<b>156.6</b>	<b>217.1</b>

70. The main areas of capital expenditure in 2022/23 are as follows:

- Major Projects – Museum of London (£37.8m)
- Major Projects – Salisbury Square (£25.0m)
- Housing Revenue Account – decent homes\* (£28.9m)
- Housing Revenue Account – new build (£23.3m)
- Highways and Transport (£17.5m)
- Investment Property Refurbishments (£8.8m)
- New Bids (£17.0m)

\*includes loan facility of £19.0m

71. In order to ensure capital expenditure is aligned to key priorities, the City Corporation's Resource Allocation Sub Committee has carried out a robust review of all service's annual capital bids and prioritised funding approval. The Resource Allocation Sub Committee has granted approval in principle to central funding for a number of new bids with a total estimated cost of £17.0m, of which £13.4m is expected to fall within 2022/23. In addition, approval in principle was granted for the continuation of central funding for internal loans for the police and HRA capital spending plans, which amount to £4.9m and £19.0m respectively in 2022/23. Allowance has been made in the City Fund MTFP for all of these items to demonstrate affordability; financial provision will need to be included within the City Fund revenue and capital budgets as appropriate as part of the 2022/23 budget setting process.

72. City of London Police need to prioritise investment in their capital programme and the resourcing of new activities. New arrangements for financing the Capital Programme were introduced in 2020/21, with capital expenditure (excluding Secure City and the Police Accommodation programme) being funded through

a loan arrangement between the City Corporation and the Force, with an annual borrowing cap of £5m. The Police repay this loan with interest.

73. 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 2022/23 to 2025/26
- Estimates of the capital financing requirement 2022/23 to 2025/26
- Times cover on Unencumbered Revenue Reserves.

74. The prudential indicators listed above have been calculated in appendix C. In addition, treasury-related prudential indicators are required to be set, and these are included within the 'Treasury Management Strategy Statement and Investment Strategy Statement 2022/23' at Appendix E.

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

76. Local authority borrowing is permitted for capital purposes within the current capital control regime, but the cost of borrowing must be charged to the relevant revenue budget, including interest and a statutory provision for repayment of principal known as the Minimum Revenue Provision (MRP). The MRP Policy Statement 2022/23 is set out in appendix 2 within the Treasury Management Strategy Statement and Investment Statement 2022/23 at appendix D. The typically long-term nature of borrowing means these revenue sums are unavailable to fund other activity for a significant period of time. By agreeing to fund capital schemes through borrowing, Members are agreeing to divert this funding away from other revenue activity in order to deliver the major projects. Borrowing can either be internal (use of internal cash balances) or external (third party loan finance).

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

78. In addition, the funding of some other capital schemes is being met from cash received from long lease premiums which are deferred in accordance with accounting standards - this also counts as internal borrowing. To ensure that this cash is not 'used again' when the deferred income is released to revenue, the City Corporation will make a MRP equal to the amount released, resulting in an overall neutral impact on the revenue account bottom line.

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

79. 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.

80. In coming to a conclusion on the robustness of estimates, the Chamberlain needs to assess the risk of over or under spending the budget. To fulfil this requirement the following comments are made:

- provision has been made for all known liabilities, together with indicative costs (where identified) of capital schemes yet to be evaluated, but continue to monitor COVID income risk during 22/23 and maintain a COVID contingency fund, not releasing £30m of general fund reserves for major project spend;
- the estimates and financial forecast have been prepared at this stage on the basis of the Corporation remaining debt free until such time as external borrowing may be needed to bridge the gap for major capital projects (the Museum of London relocation and the Combined Courts project);
- prudent assessments have been made regarding key assumptions;
- an annual capital bids process is in place seeking to ensure that capital expenditure is contained within affordable limits and that it can be demonstrated that each project is of the highest corporate priority;
- although the City Fund financial position is vulnerable to COVID income losses, rent levels and interest rates, it should be noted that:
  - the City Surveyor has carried out an in-depth review of rent incomes; and
  - the assumed interest rate remains low across the planning period;
- a strong track record in achieving budgets gives confidence on the robustness of estimates; and
- balancing 2022/23 with 'one-off' measures will give more time to implement the Target Operating Model - securing permanent year on year savings, and enabling support to recovery in the square mile and renewed vision.
- zero based budgeting will realign existing resources to new corporate priorities.

81. 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 2022/23, the potential call on reserves to support revenue and capital expenditure beyond 2022/23 reinforces the need for flight path savings and income generation.

82. In assessing the adequacy of contingency funds, the Chamberlain has reviewed the allocation and expenditure of contingency funds over the past four years and concluded that the estimates are robust. This takes account of the Finance Committee contingencies, the Policy and Resources Committee contingency and the Policy Initiatives Fund. In each of the past four years the provision of funds has been more than sufficient resulting in an uncommitted balance for each contingency fund in each year. On this basis the existing contingency

provision will remain unchanged for 2022/23. A full analysis of contingency fund provision and expenditure is provided in Appendix G.

## **Risks- Summary**

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

### Within the City Corporation's control:

- Securing permanent year on year permanent savings from the 12% savings programme and income schemes under the Fundamental Review;
- Achievement of Police savings targets needed to mitigate the Force deficit; and Action Fraud overspending and changes in cash flow requirement; and
- Major projects not being delivered within estimated costs.

### Outside the City Corporation's control:

- Significant remaining COVID risks including income losses from the closure of many services and facilities, and losses from rental income. There continues to be a significant risk for further income losses in 2022/23 as the economy recovers;
- Business Rates income - volatility around the growth forecasts and appeals, are dependent on full occupation of new builds and potential changes to office demand as we move out of the pandemic; and
- Fair Funding review which could affect government support to fund services.

## **Equalities Implications**

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. An update will be provided to the Finance Committee.

## **Conclusion**

84. There has been a significant effort across the Corporation family to commit to delivering year on year permanent savings against the 12% savings required to get us to a balanced 22/23 budget, and on track for a sustainable MTFP, and we appreciate Officers efforts in achieving this. But this is only the 'end of the beginning'; there is a big task still ahead to secure future savings ('flightpath') and to manage the significant remaining COVID risks and unprecedented range of external challenges e.g. Spending Review and Business Rates reset, as well as supply chain issues and inflationary pressures.

85. There are risks to the achievement of the 2022/23 budget position and MTFP, in particular income volatility impact from COVID; significant pressures highlighted by departments through bilateral meetings and tough decisions have been needed. But, Members have worked together to mitigate on-going pressures through re-prioritisation.
86. The Local Government Financial Settlement intends that taxes are levied locally to support rising pressures. The Government's assumption is that Policing cost pressures would be covered through the levy on council taxpayers. There is a statutory requirement for the City Fund including Police to remain balanced across the medium-term-financial plan.
87. Delivering the 2022/23 budget enables us to push ahead on reshaping City Corporation, through implementation of the TOM, to be able to respond in a more agile and flexible way to the challenges ahead.
88. This report recommends a number of measures to stabilise the position in 2022/23. Increases in Social Care, Council Tax and Business Rate Premium should be considered in view of wider developments across London, Government expectations to maximise taxes locally, the Fair Funding Review and pressures on security and Police budgets.

## **Appendices**

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

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