

Key assumptions used in the forecast

1. The following paragraphs detail the key assumptions that have been used in the construction of the 2023/24 budget and Medium-Term Financial Strategy (MTFP):

Income

2. 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 underspends from 2022/23 carried forward 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. This has included further pressure on void costs where properties are not fit for relet. 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: 1) through investing in a diversified property portfolio - reducing the risk, and 2) 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. The Bank of England's Monetary Policy Committee (MPC) raised the base rate incrementally from 0.25% which was applicable at 31 December 2021, to 3.5% in December 2022, and more recently to 4.0% in February 2023, which was the tenth successive rise since December 2021, with a terminal peak of 4.5% expected by June 2023. It is estimated to remain at this rate until December 2023 when it will fall to 4.25%, and then continue to incrementally fall as inflationary pressures subside, settling at 2.5% by the end of the 2025/26 financial year. However, there is uncertainty surrounding the forecast, particularly around the timing of the Bank of England's decision on interest rate reductions, reduced too soon and inflationary pressures may well build up further, but reduced too late and any downturn or recession may be prolonged. 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 an update to the medium-term financial plan.

Expenditure

3. The starting point for the 2023/24 budget is 4% inflationary uplift with 2% efficiency savings from the previous resource allocation in 2022/23; additional uplift for the agreed pay award from 2022/23; with provision made for the 2023/24 pay award – held centrally. The Spending Review announcement on 19 December confirmed a small increase in the level of funding for social care, with the expectation more will be raised from local taxpayers. £1.2m pressures on adult social care and children services has been included. The increase in CPI inflation is above previously anticipated and has meant central inflationary contingency is held to ease the pressure of living with budgets, this is to be met from underspends from 2022/23 carry forward.
4. Policy and Resources Committee and Finance Committee have messaged clearly that cost pressures should be managed within existing resources. Additional funding for the Health and Safety Team has been accommodated through increase in income from RPR workstreams. Furthermore, headroom has been created to fund urgent health and safety works for the CWP. Where one-off funding/time limited resource is required, this is accommodated through underspends from 2022/23 carried forward.
5. Also underlines the need for additional unfunded revenue bids to be avoided during 2023/24, unless these can be reprioritised through RPR workstreams.

Grant settlement – City Fund

6. The Provisional Local Authority Grant Settlement was received before Christmas and debated in the Commons early February. The final settlement was published on 6th February, stating the funding settlement, year two of the three year spending review, with one year funding confirmed for 2023/24, this still leaves a great deal of uncertainty regarding Local Government funding after March 2024.

Business Rates Retention

7. A further two years 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 seven years has provided headroom, continuing in 2023/24 and 2024/25 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;
 - Continued support to 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.

8. However, the growth is vulnerable to bad debts, appeals and potential changes to office demand with the likelihood of a recession looming in 2023. The Secretary of State approved the extension of the 8 Authority Pool on 6th February to proceed. Income from the pool has not been factored into plans as it is volatile, besides this is one-off funding and should not be applied against on-going costs. Therefore any gains from the pool is ringfenced to the major projects programme, reducing the impact on City Fund deficits in later years.

City Police

9. The Police is facing significant medium-term pressures at a time of increasing demand.
10. The City of London Police (CoLP) has both national and local responsibilities- It is the National Lead Force for Fraud and also holds the National Police Chiefs Council (NPCC) Portfolio for Cyber Crime. It also provides local policing services for the City Community in order to support the City of London Corporation Corporate Plan objective to ensure 'People are Safe and Feel Safe'.
11. As we have moved through 2022 to 2023 and are now post Covid restrictions, the Police have seen a significant increase in demand for services. This increasing demand is experienced both day and night. Daytime, the City is experiencing increased levels of protest activity. Policing in the City (and indeed nationally) has seen significant increases in the use of the Night-time Economy, in particular the use of licensed premises - we see a changing economy with increasing violence and disorder.
12. The force now has national strategies to deliver on in keeping women and girls in particular, safe in the City, which has resulted in an increase in visible policing response. The Cost-of-Living crisis has also brought fresh challenges to policing in 2022 and will continue into 2023. The City particularly experiences the impact of this through increases in calls for service around vulnerability, national policing trends will also anticipate a rise in acquisitive crime. Wider national public dissatisfaction is also felt across the City through transport strikes and increased protests which disrupt our residents, students, and those that visit and work in the City. Various parts of the UK, including the City of London have been focal points for several protest groups engaging in criminal activity over the past year, which has caused disruption to the daily lives of our residents, students, business communities and visitors. In addition to our specialist capabilities to respond to the public order threats, CoLP's existing protocol arrangements with the Metropolitan Police, British Transport Police and Ministry of Defence (under Operation Benbow) has ensured there has been sufficient resources available to flex our response quickly to any escalation of disorder as well as resourcing pre-planned large-scale events. The City will benefit over the coming months from 123 student officer recruits as part of the Police Uplift programme to

improve public safety and security. This additional resource will largely be used to greatly enhance our overall visibility and response to crime.

13. The CoLP is working with the Corporation to deliver its 'Destination City' Strategy which will aim to meet the increases in demand as the leisure sector in the City enhances. The Police will continue to work closely with the City of London Corporation through the Safer City Partnership, to ensure that we appropriately manage the impact of rising attractiveness of our daytime and night-time economies.
14. Nationally, the force has responsibilities as 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. The City Corporation's small residential population does not yield anywhere near the sums provided by local funding for other police forces. Instead, the City is uniquely able to levy a business rate premium as part of its strategy for allocating local funding to the Police.
15. As addressed under paragraph 40 in the main report, 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 2023/24

16. The overall budget requirements have been prepared in accordance with the strategy and the requirements for 2022/23 and 2023/24 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

City Fund Summary by Committee	2022/23 Original £m	2022/23 Latest £m	2023/24 Original £m
Net Expenditure (Income)			
Barbican Centre	(26.5)	(29.2)	(28.0)
Barbican Residential	(2.2)	(2.2)	(2.7)
Community and Children's Services*	(15.5)	(14.9)	(17.1)
Culture Heritage and Libraries	(19.7)	(22.2)	(20.7)
Finance**	(14.8)	(0.9)	12.7
Licensing	(0.2)	(0.3)	(0.3)
Markets	0.4	0.4	0.1
Open Spaces	(1.6)	(1.8)	(1.7)
Planning and Transportation	(14.2)	(13.7)	(16.6)
Police	(91.9)	(92.9)	(101.0)
Police Authority Board	0	(1.0)	(1.0)
Policy and Resources	(4.2)	(4.3)	(4.5)
Port Health and Environmental Services	(14.3)	(15.2)	(15.3)
Property Investment Board	34.3	34.2	35.6
City Fund Requirement	(169.6)	(164.2)	(160.5)

* Significant variance under Community & Children's Services due to budget uplift to accommodate pressures within the adults & children's social care including the Unaccompanied Asylum-seeking children.

** Finance includes changes to: capital revenue expenditure, supplementary revenue programme, additional one-off cost pressure highlighted in this report. The 22/23 latest budget and 23/24 budget have benefited from increased income on cash balances due to the higher interest rates. Figures in brackets denote expenditure, increases in expenditure, or shortfalls in income.

17. 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 2022/23 and 2023/24					
		2022/23 Original £m	2022/23 Latest £m	2023/24 Original £m	Para. No.
1	Net expenditure on services	(201.5)	(214.7)	(215.8)	
2	Capital Expenditure funded from Revenue Reserves	(3.9)	(3.6)	(2.2)	
3	Cyclical Works Programme expenditure financed from revenue	(10.3)	(10.4)	(11.2)	
4	Requirement before investment income from the City's Assets	(215.7)	(228.7)	(229.2)	
5	Interest on balances	6.4	24.8	27.5	
6	Estate rent income	39.7	39.7	41.2	
7	City Fund Requirement	(169.6)	(164.2)	(160.5)	
	Financed by:				
8	Government formula grants	140.4	136.7	135.5	
9	City offset	12.1	12.1	12.5	
10	Council tax	8.3	8.3	9.7	
11	NNDR premium	18.4	19.4	28.0	
12	Total Government Grants and Tax Revenues	179.2	176.5	185.7	
13	Drawdown on Reserves	0.0	14.9*	(2.0)*	
14	(Deficit)/Surplus transferred (from)/to reserves	9.6	27.2	23.2	

*Includes transfer from reserves to support 21 New St Rent, climate action and carry forward requests from previous years underspend

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

Table 5: Analysis of Core Government Grants

	2022/23 Original £m	2023/24 Draft £m	Variance £m	Variance %
Revenue Support Grant	8.2	9.1	0.9	
Rates Retention: baseline funding	16.7	16.7	0.0	
Rates Retention: growth	41.2	33.0	(8.1)	
Subtotal:	66.1	58.8	(7.2)	
Police	74.3	76.7	2.4	
Total Core Government Grants	140.4	135.5	(4.8)	3.4%

18. The City Fund budget requirement for 2023/24 is £160.5m plus a contribution to reserves of £23.2 resulting in a net City Fund budget requirement of £185.7m, an increase of £6.5m on the previous year. The following table shows how this is financed and the resulting Council Tax requirement. Appendix B details the consequent determination of council tax by property band.

Table 6: Council Tax requirement

Council Tax Requirement	2022/23 Original £m	2023/24 Original £m
Net Expenditure	(215.7)	(229.2)
Estate Rental Income	39.7	41.2
Interest on balances	6.4	27.5
Budget Requirement	(169.6)	(160.6)
Drawdown from Earmarked reserves	0	(2.0)
Proposed contribution to reserves	(9.6)	(23.2)
Net City Fund Budget Requirement	(179.2)	(185.7)
<u>Financing Sources:</u>		
Business Rates Retention	66.2	58.8
Police Grant	74.3	76.7
City Offset	12.1	12.5
NDR Premium	18.4	28.0
Collection Fund Surplus (CoL share)	0.3	0.8
Council Tax Requirement	(7.9)	(8.9)

19. 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 B).

Business Rates

20. 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 2023/24. 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.

21. It is proposed the Business Rate Premium is increased up to 0.2p in the £, the proposed premium will result in a National Non-Domestic Rate multiplier of 52.6p and a small business National Non-Domestic Rate multiplier of 51.3p for the City for 2023/24.

- 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:
- During 2022/23, the Government supported businesses with business rate relief for Retail, Hospitality and Leisure businesses at 50% with an RV cap of £110,000. This support has been extended into 2023/24 but increased to 75% with the same £110,000 cap.
- A new Supporting Small Business (SSB) relief scheme which will cap bill increases at £600 per year for any business losing eligibility for Small Business Rate Relief. The scheme also provides support for those previously eligible for the 2022/23 SSB scheme and facing large increases in 2023/24. Further details of the various relief schemes will be published on the City of London Website in due course.

22. **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 £75,000 and above to fund Crossrail.

23. **Revaluation of Properties** The revaluation of properties set by the Government's Valuation Office (VOA), Agency for Business Rates have now completed the 2023 revaluation. Subject to publication of the final valuation list, business premises within the City will see an overall rateable value increase of about 1.5%. Businesses can check their property valuations for 2023 at www.gov.uk/find-business-rates. Where the rateable value has increased, a Transitional Relief scheme will operate with significant increases phased in over the life of the list. Any business that benefits from a rateable valuation decrease will receive the full benefit of the decrease in 2023.

24. Details of the transitional scheme and other reliefs can be found at www.gov.uk/government/publications/autumn-statement-2022-business-rates-factsheet.

Council Tax - Long-Term Property Premiums

25. 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.

26. The empty property premium was introduced by Government 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%.

27. From 2020/21 properties that have been empty over 5 years can be charged a higher premium of up to 200%. From 2021/22 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 £0.3m in 2022/23.

Council Tax Reduction Scheme

28. 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.
29. The Council Tax Reduction Scheme will therefore remain the same for 2023/24 as was administered in previous years subject to the annual uprating of amounts in line with Housing Benefit applicable amounts.

Capital

30. 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.
31. 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

	2022/23 £m	2023/24 £m
Estimated Capital Expenditure	158.8	444.2
<u>Financing Sources:</u>		
Housing Revenue Account (HRA) Major Repairs Reserve	4.1	3.3
Disposal Proceeds	23.4	92.2
Earmarked and General Revenue Reserves	84.9	183.2
External Grants and Reimbursements	46.4	165.5
External borrowing	0.0	0.0
Total:	158.8	444.2

32. The main areas of capital expenditure in 2023/24 are as follows:

- Major Projects – Museum of London (£88.7m)
- Major Projects – Salisbury Square (£186.1m)
- Major Projects – London Wall West (£5m)

- Housing Revenue Account* – decent homes & new build (£72.7m)
- Highways and Transport (£33.6m)
- Investment Property Refurbishments (£17.7m)
- Police loan (£9.8m)
- No New Bids, instead contingency held for urgent health and safety capital programmes (£3.0m)

*Includes loan facility of £23.3m

33. Resource Allocation Sub Committee approved in principle no new capital bids for 2023/24 at its July meeting, with £3m contingency held for urgent health and safety capital programmes. Giving an opportunity to catch up on delivering existing approved capital programmes, in which there is considerable slippage. 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 £9.8m and £13.5m respectively in 2023/24. 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 2023/24 budget setting process.
34. In light of inflationary pressures, a capital review took place in the Autumn where officers were given the opportunity to put forward revised forecasts for inflationary pressures, as this exercise is now complete it is recommended further pressures are contained through value engineering. Where this is not practicable it is recommended alternative sources of funding are explored - potentially CIL, OSPR, 3rd party contributions, underspends from existing capital projects, and / or reprioritisation of projects within the wider capital programme.
35. CoLP 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 equated borrowing cap of £5m up to a loan ceiling of £35m (actual drawdown may vary depending on Police financing requirement). The Police repay this loan with interest.
36. The Local Government Act 2003 requires the City to set prudential indicators as part of the budget setting process. The indicators that the Court of Common Council will be asked to set are:
- Ratio of financing costs to net revenue stream (City Fund and HRA)
 - Gross debt and the capital financing requirement
 - Estimates of capital expenditure 2023/24 to 2026/27
 - Estimates of the capital financing requirement 2023/24 to 2026/27
 - Times cover on Unencumbered Revenue Reserves.
37. 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 Annual Investment Strategy 2023/24' at Appendix E.

38. The Court of Common Council needs to formally approve these indicators.
39. 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 2023/24 is set out in appendix 2 within the Treasury Management Strategy Statement and Investment Statement 2023/24 at appendix E. 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 their priorities. Borrowing can either be internal (use of internal cash balances) or external (third party loan finance).
40. Funding assumptions for the major projects is currently planned to come from external contributions, retained rates growth monies (including income from 8 Authority Pool), and property disposal proceeds, rather than external loans from third parties. Based on these assumptions, there is an interim requirement for internal borrowing utilising City Fund general cash balances –pending receipts from disposal of investment properties. Such short-term internal borrowing does not require an MRP to be made, however losses from investing cash balances has been accounted for. Nonetheless, wider thinking is now needed on how best to secure 3rd party capital investment on the major projects and our asset base to relieve the pressure on our own capital resources.
41. 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.