ITEM 13(A)

Report – Finance Committee

City Fund: 2013/2014 Budget Report and Medium Term Financial Strategy

To be presented on Thursday, 7th March 2013
To the Right Honourable The Lord Mayor, Aldermen and Commons of the City of London in Common Council assembled.

Summary

1. 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 overall financial position is broadly as forecast twelve months ago, but all forecasts have been revised and updated.

2. The financial strategy last year was to make further efficiencies to generate small surpluses for the next two years. These surpluses were to bolster our reserves, allowing time to plan for further government spending cuts. As expected and notwithstanding government cuts in the current Comprehensive Spending Review period, the City Fund is forecast to make small surpluses in 2013/14 and 2014/15.

3. City Fund moves to a small deficit in 2015/16 and a more significant one in 2016/17, when additional savings in the order of £5m p.a. will need to be found. This is equivalent to about 8% on net spending on services (excluding Police). The main causes of the forecast deficit in 2016/17 are:

   - the continued reduction in government funding; coupled with
   - a reduction in rental income associated with the asset sales needed to finance the capital programme.

4. A detailed plan to address the 2016/17 deficit is needed. The Town Clerk and Chamberlain will draw up a programme for a service based review, for future consideration by the Resource Allocation Sub (Policy & Resources) Committee.

5. At the same time other options will also be considered. This will include looking at the potential for elements of spend not in line with City Fund duties that might be better funded from Bridge House Estates and reviewing the asset sales policy.

6. City Police has its own savings plan to match reductions in police funding and its budget is ring-fenced within the City Fund. The forecast is that the Force will achieve its balanced position over the medium term through drawing on its reserve on a measured basis.

Recommendations

7. We recommend that the Court of Common Council:

   (i) Approve that further work be undertaken by the Town Clerk and Chamberlain on a service based review for City Fund to address the potential deficits forecast from 2016/17 (paragraph 22). At the same time the potential for elements of spend not in line with City Fund duties that might be better funded from Bridge House Estates will be considered together with the asset sales policy.
   (ii) Approve the overall financial framework and the revised Medium Term Financial Strategy for the City Fund (paragraph 17)
   (iii) Approve the City Fund Revenue estimates of £150.3m (paragraph 30)
   (iv) Note the following changes in assumptions from the previous forecast (paragraph 17):
   - an inflation assumption of 2% per annum from 2014/15 (1% in 2013/14);
   - the impact of reduced rental and investment income on the financial position following asset sales needed to finance the capital programme;
   - lowering the anticipated interest rate for earnings from cash deposits to 1.5% in 2013/14 and 1.25% in subsequent years;
   - the 2% efficiency savings required by 2014/15 have been included alongside the 'Procurement & Procure to Pay' (PP2P) programme savings and costs; and
   - ring fencing an element of reserves for any possible VAT bill from breaching the partial exemption de minimis threshold, rather than making an annual provision.

   (v) Continue the policy of allowing City Police to draw from its reserves over the medium term on a managed basis, subject to a minimum £4.5m being retained (paragraph 29)

The new local government financial framework

   (vi) Note that no provision in the revenue estimates is made for growth or reduction in business rates, any changes being met from the use of balances (paragraph 12)

Non Domestic Rates

   (vii) Retain the City Business Rate Premium at 0.4p in the pound in 2013/14, but advise ratepayers of a possibility of an increase in 2014/15 if security funding continues to be reduced and the City is unsuccessful in securing additional grant funding (paragraph 35)

(viii) Set, inclusive of this premium, a Non-Domestic Rate multiplier of 47.5p for 2013/14 together with a Small Business Non-Domestic Rate multiplier of 46.6p (paragraph 36)

(ix) Note that the Greater London Authority is in addition levying a Business Rate Supplement in 2013/14 of 2p in the £ on properties with a rateable value greater than £55,000 (paragraph 37)

Council Tax

(x) Based on a zero increase over 2012/13, determine the provisional amounts of Council Tax for the three areas of the City to which are added the precept of the Greater London Authority (paragraphs 38-41)

(xi) Determine that the relevant (net of local precepts and levies) basic amount of Council tax for 2013/14 will not be excessive in relation to the requirements for referendum (paragraph 42)

(xii) Approve that the cost of highways, transportation planning, waste disposal, drains and sewers, open spaces and street lighting functions for 2013/14 be treated as special expenses to be borne by the City's residents outside the Temples (paragraph 31)

(xiii) Advise that as the City has not set a local scheme for council tax reduction the government's default scheme will be adopted (paragraph 43)

(xiv) Approve a number of discretionary discounts that will apply from April 2013 (paragraphs 44-45)

Capital expenditure

(xv) Note the proposed financing methodology of the capital programme in 2013/14 (paragraphs 47-48)

(xvi) Approve the Prudential Code indicators (paragraph 49 and Appendix D)

(xvii) Approve the following resolutions for the purpose of the Local Government Act 2003 (paragraphs 49-51):

- That at this stage the affordable borrowing limit (which is the maximum amount which the Corporation may have outstanding by way of borrowing) be zero
- That the prudent amount of Minimum Revenue Provision is zero

(xviii) Note that any potential borrowing requirement and associated implications will be subject to a further report to the Finance Committee and the Court of Common Council.

(xix) Note the continued pursuit of the approved financing methodology for the Corporation's funding commitment towards the cost of Crossrail, in particular each future year's budget report will give a detailed update on funding progress (paragraph 55 and Appendix B).

Chamberlain's assessment

(xx) Take account of the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves (paragraphs 53-55).

Main Report

Financial overview and the new financial framework

8. The overall financial position is broadly as forecast twelve months ago. Last year the City Corporation put in place a savings plan to achieve 2% efficiency savings, in addition to having already secured 12.5% the previous year. The cumulative efficiency savings are progressing well against forecast.

9. However, 2013/14 will see a fundamental change in the way local government is financed as, for services other than Police, a new system of business rates retention has replaced the old formula grant system. The Government's intention is to provide a direct link between business rate growth and the amount of money councils will have to spend on local people and local services. Councils will be able to keep a proportion of the business rates revenue as well as growth on the revenue that is generated in their area.

10. Under the new system each authority has a Baseline Funding Level. The authority retains this amount from the business rates collected. If an authority can increase business rates above its baseline funding level, it can retain a proportion of that growth.

11. The ability of the City Corporation to benefit from this scheme depends on our ability to maintain or increase business rate revenue above its baseline funding level. There is much growth in the business City to look forward to. However, our concern is that the value of this new development will be more than negated by the likely number of valuation appeals in the pipeline. The baseline provided by Government has been established without taking into full account the likely level of appeals in the City. This means that the City would need to grow more business rates than the value of appeals just to stand still.

12. It is impossible to be precise about the value of appeals, and even less so about the proportion that might be successful. But appeals already in the pipeline are of such a magnitude that it is unlikely that the City Corporation would be able to secure enough business rate growth to benefit from the new scheme. So, whilst growth is not impossible, it is more likely that it will not be sufficient to hold the baseline funding level. Where there is a fall, the government has established a safety net to cushion the consequent fall in income. The City Corporation would enter the safety net territory if there was a decline in business rates of over 3.7% which at least limits the City Corporation's share of future losses to a figure of £1.1m per annum. In view of the uncertainty, no growth or reduction has been anticipated in the forecasts. Due to appeals, there is a high likelihood that rates due will fall, in which case additional provision would need to be made for the City of up to £1.1m per annum but this would be best met from reserves for the immediate future.

13. These dynamics have been significantly and adversely intensified by the local government funding environment as well as the continuing difficult economic climate. The Government recently issued the Local Government Finance Settlement for 2013/14 and 2014/15. For Non-Police services 2013/14

government funding levels are close to forecast. However, the 2014/15 settlement is more severe than expected with a £1.7m reduction on forecast.

14. For Police Services the 2013/14 position is close to forecast, but once adjustments for rolled in grants have been allowed for, there is a reduction of £1m from 2012/13 funding levels. The Home Secretary is deferring details of the 2014/15 settlement, but has committed to the calculation being on the same basis. The City of London can therefore expect the same level of reduction as every other force in the country. Many specific grants have yet to be confirmed and significant further reductions are anticipated in the following two years.

15. The economic context also remains challenging with only minimal economic growth. Interest rates remaining at an historic low mean that returns on cash investments remain small.

Revenue spending across planning period

16. This overview of the City Fund's financial position, covering the medium term period to 2016/17, is based on the annual in-depth survey of all revenue income and expenditure used to draft budgets approved by Committees.

17. Whilst the fundamental basis and approach underlying the previous forecast and the City Fund Medium Term Financial Strategy (shown in Appendix A) remains sound, it is proposed that certain key assumptions should be revised:

    a) **Inflation/Uplift:** As part of securing savings, the inflation provision was revised in the previous forecast to 1% in 2013/14 and 2% in 2014/15. Inflation at 2% is factored in to continue through in to 2015/16 and 2016/17. On City Fund each 2% is approximately £1.7m and on City's Cash each 2% is approximately £1.1m. This excludes Police funding, as the City Police are restricted to their resource cash limit based on Government grant allocations and their share of the City's premium rate.

    b) **Interest rates for cash investments:** The previous financial forecast included income from interest on cash investments based on an anticipated return of 2%. However, with poor economic growth prospects, and the general level of indebtedness, it is unlikely that interest rates will rise significantly in the short term. Although every effort is made to lock in higher rates through longer term investments, expiring loans are being replaced by lower yielding deals. As a result the interest earnings are reducing incrementally. Accordingly an anticipated rate of 1.5% has been included in the financial forecasts for 2013/14, falling to 1.25% for subsequent years.

    c) **Capital financing:** The Resource Allocation Sub (Policy & Resources) Committee approved a financing programme based on asset disposal of properties with a view to optimising the maximum capital return with minimum rental income loss. City Fund capital receipts from the asset realisation programme are now forecast to be needed from 2015/16. The consequent impact on reduced rental income is also included in the forecast, reducing City Fund rental income from 2016/17 by £2m per annum.

d) **Efficiency savings:** An efficiency squeeze of 2%, phased over 2 years from 2013/14 has been introduced. Most departments are managing within the resource envelope using a variety of measures which generally have limited impact on services. However there are three departments which have wider cost pressures and the measures they are using to manage the pressures are more substantial. These three departments are:

- Built Environment
- Markets and Consumer Protection
- Barbican Centre

In addition to the 2% savings, the following savings have also been included in the forecast. The figure stated is the net annual saving in 2015/16 (although some would be implemented earlier).

Item	**City Fund £m**	**City's Cash £m**
Insurance Renewals	0.2	0.1
Known cashable PP2P savings	1.3	0.8
Total	**1.5**	**0.9**

e) The PP2P savings in the analysis above refer to the secured and cashable savings to City budgets from the Highways contract, Building Repairs and Maintenance and the 'quick wins' which presently stand, in gross terms at £4.1m p.a. After deductions for savings to third parties and City Police/HRA this nets to a figure of £2.1m p.a. by 2015/16; these figures will increase as the PP2P programme progresses and future cashable savings are agreed.

Amendments to in year provisions: Annual provisions for the possible loss of exempt input tax have previously been included in forecasts of £0.5m on City Fund and £1.0m on City's Cash (£2m in 2012/13). As HMRC has indicated it is not the intention that local authorities are caught by VAT requirements and that breaches of the de minimis levels can be viewed over a longer time frame, there is a low likelihood that the City would be required to pay even if we breached. Also a VAT refund of £9.8m net of fees (City Fund element of which is £4.2m) has been claimed. It is proposed that this is added to reserves (and ring-fenced at least in part) with any possible future VAT liability for breaching the de minimis threshold being met from reserves, rather than carrying a budgetary provision year on year. The provision has therefore been removed.

18. Two important continuing assumptions:

- The Financial Strategy assumes no council tax increases across the planning period. The Government has announced that it will provide a grant to local authorities that freeze council tax for 2013/14. Councils that freeze or reduce council tax will receive a grant worth 1% of their council tax in each of 2013/14 and 2014/15- approximately £50,000 each year for the City. However, City council tax payers will pay a very slightly higher bill as the GLA proportion will increase by £7.46 on an average band D property in the City.
- Freezing of the City Business Rate Premium at the existing level for 2013/14.

19. The latest forecast for City Fund non Police Services and Police services, taking account of conclusions from the annual survey and the property rental income forecasts from the City Surveyor, is shown below:

Table 1: City Fund Overall Revenue Deficit/ (Surplus)

NON-POLICE	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
March 2012 forecast	(3.5)	(2.9)	0.9	2.1	-
Current forecast	(0.7)	(5.7)	(0.8)	1.4	5.2
Unallocated revenue reserve	(68.7)	(74.4)	(75.2)	(73.8)	(68.6)
POLICE					
March 2011 forecast	2.8	1.3	(0.2)	(0.2)	-
Current forecast	1.2	2.1	1.8	0	0
Uncommitted reserves	(12.6)	(10.5)	(8.7)	(8.7)	(8.7)

20. The forecasts are broadly similar to last year's position taking into account the following factors:

City Fund Non-Police

21. For City Fund, the government funding cuts are higher than could have been forecast and so, despite the extra 2% efficiency savings that are currently being made, the fund still moves into deficit from 2015/16. The position in 2016/17 is also exacerbated by the loss of £2m p.a. in rental income following anticipated asset sales to fund the capital programme.

22. From 2016/17, additional savings in the order of £5m p.a. will need to be found. This is equivalent to about 8% of net spending on services (excluding Police which has its own savings plan to match reductions in police funding) With necessary savings in the order of 8%, on top of the savings already made, a service based activity review will probably be necessary for City Fund rather than simply cash limiting budgets and requiring efficiency squeezes.

23. The reduction in the forecast surplus for 2012/13 is largely due to the carry forward of budget underspends from the previous period. The £2.8m increase in the surplus forecast for 2013/14 is mainly due to a combination of the grant settlement being £0.5m better than anticipated, recognising a £0.5m increase in the proceeds of the NNDR premium based on the experience of recent years, deletion of the provision for the potential loss of VAT partial exemption as explained above, and the impact of savings from the PP2P project and 2% efficiency reductions.

24. The key assumption underpinning City Fund relates to the provisional grant settlement. The original forecast assumed grant reductions over the four years to 2014/15 over and above the national figures announced in the 2010 Spending review. However, the 2012 autumn statement announced a likely further 2% reduction in local government funding and the impact of this, plus the adverse impacts from the new system of local government finance are reflected in the forecast deficit from 2014/15.

25. Further cuts to public spending are likely to be required in 2015/16 and 2016/17. Whilst it is almost certain that reductions in grant income will fall on City Fund, we do not know the timing or the magnitude. The Chartered Institute of Public Finance and Accountancy has recently forecast in its publication "The Long Downturn" likely public service spending reductions of 7.5% in real terms over 2015/16 and 2016/17. A reduction of 3.75% p.a. has therefore been included in the 2015/16 and 2016/17 forecasts.

City Police

26. For Police services, the deficit position improves in 2012/13 as specific Government grant for dedicated security posts is higher than anticipated and staff costs are lower due to a higher number of leavers - partly offset by additional expenditure on a number of projects.

27. In 2013/14, the increased deficit and hence use of reserves is due to an increase in the capital programme with the balance of funding having to be provided from revenue, together with provision to allow for the natural turnover of police officers to continue without the use of forced retirement. The forecast deficit of £1.8m in 2014/15 is due to the need for short term mitigation for part of an assumed reduction of £3m in the Government's formula grant.

28. Funding assumptions include:

a) **Grant funding,** as in previous years, City of London Police will receive formula funding from two sources - Home Office Police Grant and Department for Communities and Local Government (DCLG) formula funding. The Policing Minister, Damian Green has published details of revenue allocations for 2013/14 and capital allocations for 2013/14 and 2014/15. The Home Office has decided to defer publication of the 2014/15 revenue funding allocations in light of the further reductions announced in the December 2012 Autumn Statement. The formula used to calculate 2013/14 allocations will be frozen for 2014/15, with only the total to be distributed through the model differing between the two years.

   The City Police will receive £57.8m for 2013/14. This includes the 'rolling in' of £1.3m for the Neighbourhood Policing Fund which was previously a separate specific grant, so, on a like for like basis, this is a reduction of £1m compared to 2012/13. This reduction equates to 1.7% which is exactly the same reduction as for all police forces. This reduction is less than the figure factored into the previous financial forecasts by some £0.9m.

   However this calculation reflects a significant reduction in the formula grant, which is then compensated for by a 'damping' assessment of £10m to achieve the 1.7% reduction. In previous years the City of London has contributed to the 'damping' scheme. Now, the City is dependent on the 'damping' and therefore exposed to greater financial risk should the 'damping' provision be removed as is intended when the Police Allocation Formula is reviewed.

b) **Specific grants:** The announcement did not cover all specific grant funding with some £15m to be confirmed. The Police budget makes prudent allowance for a reduction in such funding.

c) **Business Rates Premium:** The City is uniquely able to raise additional income for the City Fund from its business rate premium. The current premium on City businesses has been unchanged since 2006/07 at 0.4p. At the ratepayers meeting in February 2012, the Chairman of Finance signalled that an increase may be required in 2013/14 in light of the reducing Police funding. For 2013/14 the forecast is that we will manage within budget. However, at the ratepayers' consultation meeting on 11 February 2013 a signal was again given that an increase in the premium may be required from 2014/15.

29. As it will take some time to implement fully the efficiency plan and to restructure the Force, a phased/managed utilisation of its ring-fenced reserves built up over previous years was agreed. This will, however, be subject to a prudent reserve sum being maintained (at around 5% of its total annual budget) and to the annual withdrawal being on a measured basis over the medium term planning period.

Revenue Spending Proposals for 2013/14

30. Total revenue expenditure of £150.3m is proposed for 2013/14, an increase of £1.8m. The table below shows how this is financed and the resulting council tax requirement.

Table 2: Setting the Council Tax requirement		
	2012/13 £m (original)	**2013/14 £m**
Net Expenditure on Services	146.9	149.2
Supplementary Revenue Projects	1.6	1.1
Total revenue requirement	**148.5**	**150.3**
Estate rental income	(32.5)	(34.7)
Income on balances	(4.1)	(4.4)
Net requirement	111.9	111.2
Plus proposed contribution to/(from) reserves	3.5	5.7
City Fund Net Budget Requirement	**115.4**	**116.9**
Financing sources		
Formula Grant	(93.5)	(94.3)
City Offset	(10.3)	(10.5)
NNDR premium (net)	(6.0)	(6.5)
City's share of Collection Fund Surplus	(0.4)	(0.5)
Council Tax Requirement	**5.2**	**5.1**

31. A separate report entitled "Revenue and Capital Budgets 2012/13 and 2013/14" includes the detailed net revenue budget requirements of the City Fund. Included within the net expenditure on services of £149.2m is provision for any levy or special levies issued to the City by relevant levying bodies such as the Environment Agency, the Lee Valley Regional Park Authority, London Pensions Fund Authority and London Council's Grant scheme. This also includes the following precepts anticipated for the year by the Inner and Middle temples (after allowing for the cost of highways, transportation planning, waste disposal, drains and sewers, open spaces and street lighting being declared as special expenses as in previous years).

Table 3: Temple's Precepts		
	2012/13 £	2013/14 £
Inner Temple	172,698	175,297
Middle Temple	146,134	146,341
Total	**318,832**	**321,638**

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

Table 4: Analysis of the City's National Formula Grant				
	2012/13	**2013/14**	**Reduction on 2012/13**	
	£m	**£m**	**£m**	**%**
Police	57.5	56.5	-1.0	-1.7
Non-Police	36.0	35.2	-0.8	-2.2
Total	**93.5**	**91.7***	**-1.8**	**-1.9**

**After adjusting for £2.6m of specific grants rolled into formula grant*

33. In addition to formula grant, the City Fund uniquely receives an offset from Business Rates collected in the square mile. The City Offset is determined annually by DCLG and for 2013/14 has increased marginally to £10.5m. The Offset is included in the new arrangements for Business Rates Retention.

Non-Domestic Rate

34. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 47.1p and a Small Business Non-Domestic Rate Multiplier Rate of 46.2p for 2013/14. These multipliers represent an increase of 1.3p and 1.2p respectively over the 2012/13 levels. The actual amount payable by each business will depend upon its rateable value and the impact of the transitional relief scheme following the Government's five yearly business rate revaluation implemented in April 2010.

35. The City Corporation is uniquely able to raise additional income for the City Fund from its business rate premium. The current premium on City businesses has been unchanged since 2006/07 at 0.4p. At the ratepayers meeting in February 2012, it was signalled that an increase may be required in 2013/14 in light of the reducing dedicated security posts (DSP) funding. The City Corporation continues to lobby government for specific capital city functions grant for City of London Police similar to the Metropolitan Police Services Special Payment. The forecast does not assume any increase across the planning period. If security funding continues to be reduced and the City Corporation is unsuccessful in securing grant funding, a premium increase may be requested from 2014/15. This was flagged at the ratepayers' consultation meeting on 11 February 2013.

36. The proposed premium will result in a National Non-Domestic Rate multiplier of 47.5p and a Small Business Non-Domestic Rate of 46.6p for the City for 2013/14. It is anticipated that a premium of 0.4p will raise approximately £6.5m.

Business Rate Supplement

37. The Mayor for London is again proposing to levy a Business Rate Supplement of 2.0p in the £ on properties with a rateable value greater than £55,000, to raise funds towards Crossrail.

Determination of the Council Tax requirement

38. The 1992 Act prescribes detailed calculations that the City Corporation, as billing authority, has to make to determine Council Tax amounts. The four steps are shown in Appendix C. Although the process is somewhat laborious, it is a legislative requirement that these separate amounts be formally determined by resolutions of the Court of Common Council.

39. After allowing for a proposed contribution to reserves (to balance the revenue position over the planning period), the final City Fund council tax requirement for 2013/14 is £5.1m. In accordance with the provisions in the Localism Act 2011, the council tax requirement allows for the Formula Grant, the City Offset, the City's Rate Premium, Council Tax Support and the estimated surplus on the Collection Fund at 31 March 2013. As detailed in Appendix C, it is proposed to freeze Council Tax for 2013/14 at £857.31 (band D property), before adding the Greater London Authority (GLA) precept. To determine the City's Council Tax for each property band, nationally-fixed proportions are applied to the average band D property.

40. The GLA's proposed precept for 2013/14 is £86.08 for a Band D property. This excludes the Metropolitan Police requirement and represents an increase of £7.46 (9.5%) compared with 2012/13. The increase reflects that the Mayor is moving funding from Metropolitan Police to London Fire Brigade and we do not benefit from savings for the Metropolitan Police element of the precept.

41. The total amounts of Council Tax for each category must be set by the City before 11 March 2013. The proposed amounts are shown in the table below:

Table 5: Council Tax per Property Band: calculated by applying nationally fixed proportions from Band D.

	£							
	A	B	C	D	E	F	G	H
CoL	571.54	666.80	762.05	857.31	1,047.82	1,238.34	1428.85	1,714.62
GLA	57.39	66.95	76.52	86.08	105.21	124.34	143.47	172.16
Total	628.93	733.75	838.57	943.39	1,153.03	1,362.68	1,572.32	1,886.78

42. It is anticipated that the City Corporation's total Council Tax will remain the third lowest in London. The Court of Common Council is requested to formally determine that the relevant (net of local precepts and levies) basic amount of Council tax for 2013/14 will not be excessive in relation to the new referendum requirements for any council tax increases. A letter from the Department for Communities and Local Government is shown at Appendix G encouraging local authorities to sign up to a council tax freeze.

43. As part of the overall funding changes, council tax benefit is being replaced by a council tax reduction scheme from April 2013 and the funding of this scheme forms part of the overall council tax calculation. The City Corporation has not set a local scheme for the financial year 2013/14 and as a result the Government's default scheme will be adopted. This means that reductions from council tax will be calculated using the same criteria as for the current council tax benefit.

Discounts and Exemptions

44. As part of the localism agenda, greater discretion has been allowed to local authorities with the award of discounts and exemptions, both over the amounts granted and the circumstances in which discounts or exemptions may be granted. Your Finance Committee agreed at the January 2013 meeting that there should be no changes for 2013/14. However, as some statutory discounts and exemptions have technically been removed, it will be necessary formally to agree to apply those discounts. It is proposed, therefore that the following discretionary discounts should apply from April 2013:

    a) to dwellings in Class B as defined in the Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 prescribed by the Secretary of State under the provisions of Section 11A of the Local Government Finance Act 1992 (i.e. second homes) - 10% for the financial year beginning on 1st April 2013:

    b) to dwellings in Class C as defined in the Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 prescribed by the Secretary of State under the provisions of Section 11A of the Local Government Finance Act 1992

        - in the case of a vacant dwelling that has been such for a continuous period of less than 6 months ending immediately before the day in question: 100% for the financial year beginning on 1st April 2013;
        - in the case of a vacant dwelling that has been such for a continuous period of 6 months or more: 50% for the financial year beginning on 1st April 2013; (i.e. a dwelling that is unoccupied and substantially unfurnished will qualify for a discount from the date the dwelling became vacant of 100% for the first 6 months (less one day) and 50% thereafter)

    c) to dwellings in Class D as defined in the Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 prescribed by the Secretary of State under the provisions of Section 11A of the Local Government Finance Act 1992 (i.e. vacant uninhabitable dwellings or vacant dwellings undergoing major works to make them habitable or vacant dwellings where major repair works have taken place): 100% for the financial year beginning on 1 April 2013.

45. One final issue in respect of the City Corporation's council tax relates to payment discounts:

- There is discretion for billing authorities to offer discounts for either prompt payment of Council Tax (i.e. paying for the whole year at the time of the first monthly instalment) or for paying the tax using methods other than cash or cheque (e.g. direct debit). Such potential discounts were considered when council tax was first introduced but were rejected on cost effectiveness and equity grounds. These reasons apply equally today. It is therefore not proposed to revise the City Corporation's approach.

Capital

46. The City Corporation has a significant programme of property acquisitions and works on improving buildings and the street scene. Spending on these types of activity is classified as capital expenditure. Key areas in the 2013/14 capital programme include:

	£m
Crossrail acquisitions	9.9
Roads, bridges, streetscene	13.4
Affordable housing construction	7.8
Barbican Centre	5.2
Barbican Podium	3.0

47. 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 Corporation has not borrowed any money to finance these schemes.

48. The financing of capital expenditure is summarised in the table below:

Table 6: Financing of 2013/14 City Fund Capital Expenditure	
	£m
Estimated Capital Expenditure	46.1
Financing	
Internal	
• Earmarked reserves- Housing Revenue Account(HRA)	2.0
• Earmarked reserves- other	6.7
• Capital Receipts	19.6
External	
• Grants and reimbursements	17.8
Total	**46.1**

49. The Local Government Act 2003 requires the City Corporation to set prudential indicators as part of the budget setting process. The indicators that the Court of Common Council are being asked to set are:

- Estimates of capital expenditure 2013/14 to 2015/16
- Estimates of the capital financing requirement 2013/14 to 2015/16
- Ratio of financing costs to net revenue stream (City Fund and HRA)
- Estimate of the incremental impact on council tax and housing rents.

50. The prudential indicators have been calculated in Appendix D and are included in the treasury management strategy and the annual investment strategy report at Appendix E.

51. The main point to highlight is that there is no underlying requirement at this stage to borrow for capital purposes and therefore the City Corporation's Minimum Revenue Provision towards borrowing costs (MRP) is also zero. The Court of Common Council needs to formally approve these indicators.

Provision for future capital expenditure

52. In addition to the programmed capital schemes over the planning period, the Capital Programme allows £3m per annum for new schemes [of which £1m has been earmarked to provide capital funding for the Museum of London] which have not yet been identified. If schemes are approved in excess of these provisions, Resource Allocation Sub (Policy & Resources) Committee will need to prioritise resources.

Robustness of Estimates and Adequacy of Reserves

53. 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.

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

    a) provision has been made for all known liabilities, together with indicative costs (where identified) of capital schemes yet to be evaluated

    b) the estimates and financial forecast have been prepared at this stage on the basis of the City Corporation remaining debt free as no requirement to borrow is currently anticipated

    c) prudent assessments have been made in regard to key assumptions

    d) an annual capital envelope is in place seeking to ensure that capital expenditure is contained within affordable limits

    e) although the City Fund financial position is vulnerable to rent levels and interest rates, it should be noted that:

        - the City Surveyor has carried out an in-depth review of rent incomes

- the assumed interest rate has been lowered across the planning period

f) a strong track record in achieving budgets gives confidence on the robustness of estimates.

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

Within the City of London's control:

- The key risk highlighted to us in February 2013 for achieving the financial forecast lies in achieving the programme of asset sales needed to finance the capital programme. The largest risk lies with City Fund. We are currently re-profiling the capital spend across the period, but it is likely that disposals of up to £52m will be needed on City Fund across the period in a combination of operational and investment property. The less operational assets disposed of, the higher the revenue impact from disposing of income generating investment assets. The impact of the first tranche of investment disposals in 2015/16 is £2m p.a. from 2016/17 onwards - increasing the City Fund deficit.
- Whilst capital spend up to 2016 can be supported by the disposal programme, this level of spend cannot be sustained in the longer term. Unless the revenue position improves over the longer term, the overall level of capital spend will need to reduce.
- The forecasts also assume that sufficient capital receipts will be generated to fund the Crossrail commitment of £200m from City Fund and that the payment is made on 31 March 2016. The funding is predicated on the Crossrail property investment programme. An update is provided at Appendix B. At this point in time, there is a small gap, estimated to be in the order of £6.2m, in the provision for the £200m, although with 3 years to run, we aim to eliminate this.

Outside the City of London's control

- The key risk on City Fund relates to the government funding streams and system. We now have confirmation of the grant figures for 2013/14 and 2014/15 for City Fund non Police services and for 2013/14 for Police; sometime in 2013 we should have a more informed view about the impact of the Government's mini spending review but, as ever, will need to translate this in terms of potential reductions to the Revenue Support Grant.
- The Business Rates Retention Scheme now looks to present very little opportunity, but also presents a risk to our funding; we are forecasting a neutral position on this for the present. Revenue reserves will need to be maintained by the City Fund to provide cover for the potential volatility in business rates retention.

56. The Chamberlain has reviewed the various level of Reserves within City Fund as listed at Appendix F and is satisfied that each reserve continues to be relevant.

Equalities Implications

57. During the preparation of this report all Chief Officers have been asked to consider whether there would be any potential adverse impact of the various budget policy proposals on the equality of service with regard to service provision and delivery that affects people, or groups of people, in respect of disability, gender and racial equality.

Conclusion

58. Based on these projections, the estimates are considered robust and the level of and policies relating to the City Fund reserves considered reasonable.

59. The main risk to City Fund relates to the Government funding from 2015/16 onwards. We have factored a 7.5% reduction over 2015/16 and 2016/17 into our financial forecasts. However the reduction could be greater than this. The financial strategy already addresses this risk in making additional savings and efficiencies to not only balance the budget, but to generate surpluses to offer some protection. However the grant cuts coupled with the reduction in income from the sale of assets to finance the capital programme means that a further savings programme is required for City Fund. We have sufficient unallocated reserves of £68.7m for City Fund to allow time for a properly constituted service based activity review and it is proposed that the Town Clerk and Chamberlain draw up a programme to undertake this, for future consideration by the Resource Allocation Sub (Policy & Resources) Committee.

60. In addition, when reviewing the service activity for City Fund, it would be appropriate to identify elements of spend not in line with City Fund duties and objectives that might satisfy Bridge House Estates charitable objectives and be better funded from Bridge House Estates and, again, it is proposed that the Town Clerk and Chamberlain review the potential for this.

Appendices

Appendix A   Medium Term Financial Strategy
Appendix B   Crossrail Funding Commitment; latest position
Appendix C   Calculating Council Tax
Appendix D   Prudential Code Indicators
Appendix E   Treasury Management Strategy and Annual Investment Strategy
Appendix F   City Fund Reserves 2013/14
Appendix G   Letter from the Department for Communities and Local Government

All of which we submit to the judgement of this Honourable Court.

DATED this 19th day of February 2013.

SIGNED on behalf of the Committee.

ROGER ARTHUR HOLDEN CHADWICK

Chairman of the Finance Committee