

|   |                                |
|---|--------------------------------|
| <b>,Committee(s):</b>   | <b>Date(s):</b>                |
| Audit and Risk Management Committee   | 11 <sup>th</sup> December 2013 |
| <b>Subject:</b><br>Strategic Risk 3: Financial Stability, and<br>Strategic Risk 14: Longer Term Financial Uncertainty | <b>Public</b>                  |
| <b>Report of:</b><br>Chamberlain  | <b>For Information</b>         |

### Summary

This report explains the changes to Strategic Risk (SR) 3: Financial Stability and SR14: Longer Term Financial Uncertainty.

SR 14 formerly covered the risks relating to the funding uncertainty beyond the current spending review period ending in 2014/15; but, as time has moved on, we have more certainty over the level of reductions in 2014/15 and 2015/16 and a clearer view of more cuts to come in 2016/17 and 2017/18 (notwithstanding the General Election).

SR 3, therefore, covers the 'known' reductions up to 2015/16 and SR 14 covers the likely reductions over the remaining part of the planning horizon.

SR3: The financial settlement for 2015/16 is worse than originally anticipated by the Local Government finance community and we estimate the impact will make a further dent of £2.7m p.a in our 2015/16 forecast, increasing the deficit forecast for that year to £5.6m. We have currently identified some efficiency savings to meet this gap, but this still leaves a potential gap of between £1.1m-£3.6m if we are to achieve a balanced budget on the City Fund in 2015/16.

However, as this deficit is covered by reserves, the net risk assessment is amber; assuming savings are identified and once they have been removed from budgets in the autumn of 2014, the risk can be expected to drop to green.

SR14: The position for non-protected services from 2016/17 looks to be difficult, with potentially £13m p.a. savings to be found in City Fund - which will need to be addressed through savings being identified in the service based review.

Again, the risk remains red until savings options have been identified.

### Recommendations

Members are asked endorse the recommendations in the report.

## Main Report

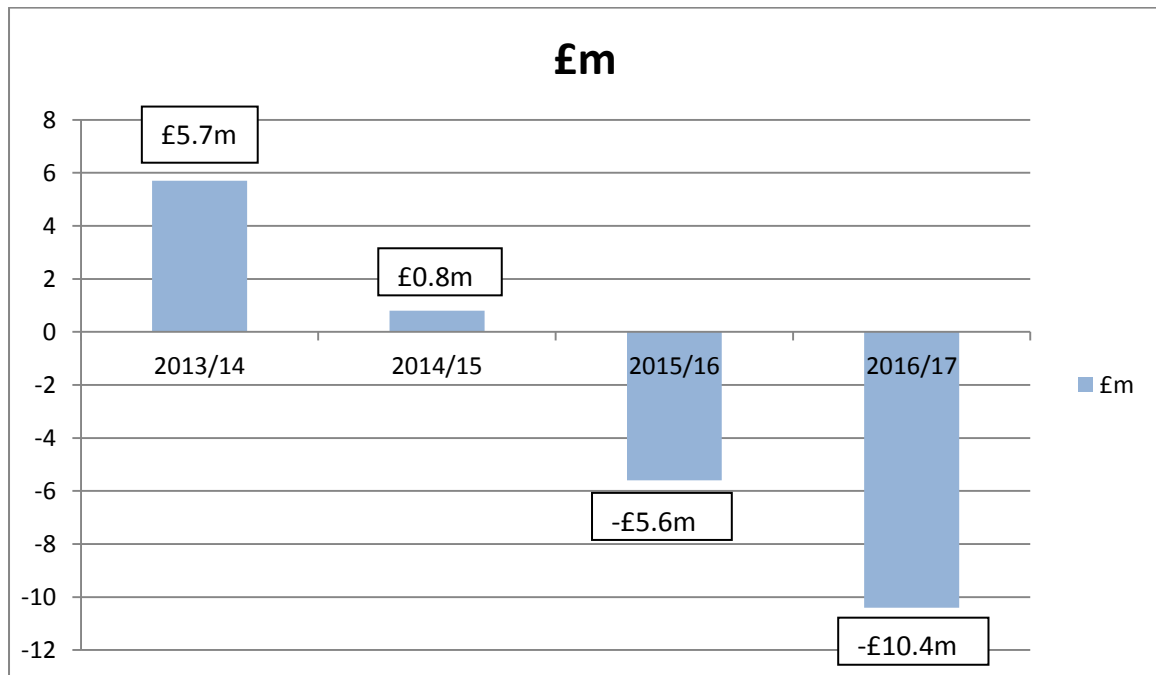
### **Background**

1. At the time the Spending Review was announced, the 2015/16 grant reduction was headlined as 10% (8.2% in cash terms). Over the summer, DCLG issued a technical consultation on the forthcoming finance settlement for 2014/15 and 2015/16. Now we have seen the detail, the real reduction is 15.5%, translating to a loss in the Settlement Funding Assessment of £2.7m p.a. and increasing the City Fund deficit for 2015/16 to £5.6m.
2. The position for non-protected services from 2016/17 looks to be difficult, with another £25 billion worth of cuts pencilled in for the two years after 2015-16. The Future Funding Outlook report, launched at Local Government Association (LGA) conference in July, used a central assumption of an 8% (cash) cut in 2016/17, and a 7% cut each year thereafter. However, there is a risk that the actual reductions could be higher as the above percentages refer to the Settlement Funding Assessment (SFA). There are two elements to the SFA- the retained business rates element and the Revenue Support Grant (RSG). The percentage cut to RSG will be much greater because retained business rates element of SFA funding increases with RPI, so the entire cut must be taken from RSG. It is worth noting that the LGA's reduction assumptions are consistent with the 15% forecast by the Institute for Fiscal Studies.
3. SR 14 formerly covered the risks relating to the funding uncertainty beyond the current spending review period, ending in 2014/15. As time has moved on, we have more certainty over the level of reductions in 2014/15 and 2015/16 and a clearer view of more cuts to come in 2016/17 and 2017/18 (notwithstanding the General Election).
4. SR 3, therefore, covers the known reductions up to 2015/16; and SR 14 covers the likely reductions over the remaining part of the planning horizon.
5. The impact of the likely reductions will be included in our financial planning process during the autumn and will need to be mitigated by potential savings verified during the service based review.
6. The service based review is currently in progress so that, in due course, Members will be able to reduce budgets to the level indicated by the savings target (now £13m) based on either:
  - efficiencies: by identifying areas of spend, or ways of working, which are not optimal and where savings can, therefore, be made with little impact on services; or
  - statutory need: by identifying the necessary level of spend required to meet statutory requirements for the provision of a service, and where savings can be made from reducing budgets which are in excess of this level.

7. At the same time, work is being undertaken to identify options from which members might choose to assist in meeting the savings target based:
  - On policy grounds: by identifying those areas of service which do not meet current and future policy objectives and where services might be reduced, provided at nil net cost, or possibly be discontinued with little impact on meeting the City's policy objectives: or
  - On funding: by identifying services that might be more properly funded from City's Cash and / or Bridge House Estates- having due regard to the objectives and purposes of those funds; or
  - From additional income opportunities.

**SR3: The nature of the Risk**

8. The risk is a deficit position of £5.6m on City Fund in 2015/16. To set out the context, the forecast financial position for the City Fund is shown in the table below:



9. For this financial year and 2014/15, we expect to add to our reserves, thus providing a one year window in which to hone savings plans before the 2015/16 budget setting process commences.
10. So far savings options worth up to £4.5m have been identified and are being examined. Of this, some £2m is reasonably secure and the remaining £2.5m are being assessed. This leaves a target of between £1.1m-£3.6m in order to achieve a balanced budget in 2015/16.
11. Our financial strategy for City Fund (Non Police) is to have sufficient cashable savings to balance the budget, based on our estimate of government funding cuts up to 2014/15 and to have a surplus to carry into 2015/16 and 2016/17, in anticipation of further funding cuts. On this basis, we have sufficient reserves to allow us to cover 2015/16, should there prove to be a modest deficit.

### SR3: Mitigating Controls

12. Our approach to mitigating the risk is:

- Stage 2 of the service based review- to identify savings options of between £1.5m-£3.6m in order to achieve a balanced budget on the City Fund in 2015/16
- Validate savings options;
- To increase the Prudent management of City Fund finances and to use current financial planning to build up reserves;
- Robust financial forecasting and planning; and
- Scrutiny of the achievement of savings options by the Efficiency Board and Efficiency and Performance Sub-Committee.

***13. As the savings are only partially secure, but the deficit is covered by reserves, the net risk assessment is amber. Assuming savings are identified during 2014 and once they have been removed from budgets in the autumn of 2014, the risk will drop to green.***

### SR14: Nature of the Risk

14. Extrapolating the assumptions used by the LGA results in a forecast deficit of £10.4m in 2016/17. This figure includes provision for known likely costs pressures of £3.6m, but on the basis that these will be largely offset by the rental income derived from investing £110m of cash balances in property; however, there is a new risk of pension fund employer increases, yet to be agreed, quantified and included. Further cuts are likely in 2017/18.

### SR14: Mitigating Controls

15. Our approach to mitigating the risk is therefore:

- Increase the target for stage 2 of the service based review from £10m to £13m as a result of the further grant reductions required;
- Expand the scope of the service based review to cover City's Cash
- Manage reductions within current reserves once magnitude of reduction is clear;
- Robust financial forecasting and planning;
- Direct engagement with central government on grant formula to influence where possible the impact on City Fund and to gain early insight into likely scale of cuts; and
- Scrutiny of central risk efficiency proposals by the Efficiency Board and Efficiency and Performance Sub-Committee.

***16. Again, as the savings are only partially secure, the net risk assessment is red. Assuming savings are identified, the risk will drop to amber; once savings have been removed from budgets, the risk will drop to green.***

## **Conclusion**

17. Further potential mitigation action is primarily being identified via the service based reviews.

## **Appendices**

- SR 3: Financial stability up to 2015/16
- SR14: Longer Term Financial Uncertainty

## **Caroline Al-Beyerty**

Financial Services Director

T: 0207 332 1164

E: [C.Al-Beyerty@cityoflondon.gov.uk](mailto:C.Al-Beyerty@cityoflondon.gov.uk)