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CITY OF LONDON

Finance Committee

Date: **TUESDAY, 17 FEBRUARY 2015**

Time: **1.45 pm**

Venue: **COMMITTEE ROOM - 2ND FLOOR WEST WING, GUILDHALL**

7. **CITY FUND 2015/16 BUDGET REPORTS AND MEDIUM TERM FINANCIAL STRATEGY INCLUDING NON DOMESTIC RATES AND COUNCIL TAXES FOR THE YEAR 2015/16**
   Report of the Chamberlain. Following consideration of this report by the Finance Committee, approval will also be sought from the Court of Common Council on 5 March 2015.

   For Decision
   (Pages 1 - 52)

8. **REVENUE AND CAPITAL BUDGETS 2014/15 AND 2015/16**
   Report of the Chamberlain. Following consideration of this report by the Finance Committee, approval will also be sought from the Court of Common Council on 5 March 2015.

   For Decision
   (Pages 53 - 70)

9. **REVENUE BUDGET MONITORING TO DECEMBER 2014**
   Report of the Chamberlain.

   For Information
   (Pages 71 - 78)

Reports received too late to be circulated with agenda.

John Barradell
Town Clerk and Chief Executive

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Committee: Finance Committee	Date: 17 February 2015
Subject: City Fund: 2015/2016 Budget Report and Medium Term Financial Strategy	**Public**
Report of: The Chamberlain	**For Decision**

Summary

This report presents the overall financial position of the City Fund (i.e. the Corporation's finances relating to Local Government, Police and Port Health services) and recommends that the Business Rates Premium and Council Tax for 2015/16 remain unchanged from 2014/15. There is a further report to your Committee on the financial position of all the City of London Corporation's Funds.

The overall strategy is unchanged for City Fund: to have a four year plan with sufficient cashable savings to present a balanced budget.

- City Fund (non-Police): there are significant cuts to government funding and we are forecasting that the Revenue Support Grant element of our funding will drop to zero by 2020. Following the service based review and inclusion of these savings in budgets, the fund remains in balance or close to breakeven across the period.

- Police: deficits are forecast across the period with draw down of reserves. The strategy of draw down on reserves is as planned, however the extent of draw down is more than expected. The strategy was to retain £4m in reserves, but we are forecast to breach this level from 2016/17 onwards with reserves forecast to be fully utilised early in 2017/18. This position is to be addressed by the Commissioner in consultation with the Chamberlain and a financial strategy to maintain a minimum general reserve balance of £4m over the period to 2017/18 will be presented to the Police Committee before the summer recess.

Recommendations

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

- Approve the overall financial framework and the revised Medium Term Financial Strategy for the City Fund (paragraph 6)
- Approve the City Fund Net Budget Requirement of £101.8m (paragraph 10)
- Note the following changes in assumptions from the previous forecast (paragraph 5):
  - an inflation assumption is factored in at 2% in 2015/16 and then reducing year on year until 2018/19 - when a freeze is assumed, reflecting public sector finance constraints; and
  - anticipated earnings from cash balances have been reduced to 0.5% for 2015/16 and 2016/17 after which we anticipate a marginal increase and have assumed obtaining a rate of 0.75%.

- Note that no provision in the revenue estimates is made for growth or reductions in the City's baseline funding level as part of the Rates Retention Scheme. Any changes will therefore be an addition or reduction to balances.
- Approve the annual uprating of applicable amounts, premiums, disregarded income, or capital in relation to the Local Council Tax Reduction Scheme 2015-2016 as set out at paragraph 28.

Key decisions

The key decisions to make are in setting the levels of Non Domestic Rates and Council Tax. The recommendations provide for the continuation of the City's business rate premium at 0.4p in the pound and for the City's Council Tax (excluding the Greater London Authority precept) to remain unchanged.

Business Rates

- Retain the City Business Rate Premium at 0.4p in the pound in 2015/16, but advise ratepayers of a likely increase in 2016/17 to support initiatives to reduce cyber-crime and promote better security of the City e.g. through the ring of steel (paragraph 9)
- Set, inclusive of this premium, a Non-Domestic Rate multiplier of 49.7p for 2015/16 together with a Small Business Non-Domestic Rate multiplier of 48.4p (paragraph 15)
- Note that the Greater London Authority is, in addition, levying a Business Rate Supplement in 2015/16 of 2p in the £ on properties with a rateable value greater than £55,000 (paragraph 20)

Delegate to the Chamberlain the award of the following discretionary rate reliefs awarded under Section 47 of the Local Government Finance Act 1988: relief of up to £1,500 to retail premises; 50% relief from non-domestic rates for up to 18 months between 1st April 2014 and 31st March 2016 on retail premises that become occupied, having been empty for at least one year; exemption from empty rate for new rating assessments that completed between 1st October 2013 and 30th September 2016 for up to 18 months; and relief of the value that would have applied under the transitional relief scheme for two years from 1st April 2015 to 31st March 2017 to properties with a rateable value of less than £25,500 that would otherwise face bill increases above 15% and to properties with a rateable value of £50,000 or less that would otherwise face bill increases above 25% (see paragraphs 18 and 19).

Council Tax

- Based on a zero increase from 2014/15, 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 (appendix B).
- Determine that the relevant (net of local precepts and levies) basic amount of Council Tax for 2015/16 will not be excessive in relation to the requirements for referendum (paragraph 8).
- Approve that the cost of highways, transportation planning, waste disposal, drains and sewers, open spaces and street lighting functions for 2015/16 be treated as special expenses to be borne by the City's residents outside the Temples (appendix B).
- Remove, from 2015/16, the discount applying to vacant properties that have been empty for more than 6 months.

Other recommendations

All other recommendations are largely of a technical and statutory nature; the only one to highlight for particular attention is that it is proposed that the City of London Corporation remains debt free.

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

Capital expenditure

- Note the proposed financing methodology of the capital programme in 2015/16 (paragraph 30).
- Approve the Prudential Code indicators (paragraph 31 and Appendix C).
- Approve the following resolutions for the purpose of the Local Government Act 2003 (paragraph 33) 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.
    - the prudent amount of Minimum Revenue Provision is zero.
- Any potential borrowing requirement and associated implications will be subject to a further report to Finance Committee and the Court of Common Council.
- Note the continued pursuit of the approved financing methodology for the Corporation's funding commitment towards the cost of Crossrail, in particular each year's budget report will give an update on funding progress (Appendix A).

Chamberlain's assessment

- Take account of the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves (paragraphs 35 and 36)

Main Report

Financial overview

1. The Government recently issued the Local Government Finance Settlement for 2015/16 and the Policing Minster published the revenue allocations for police for 2015/16.

2. For City Fund, government funding cuts equating to £5.1m in 2015/16, and an assumed further £3m p.a. thereafter, have a significant impact. In addition, last year we entered the safety net under the business rates retention scheme which reduces our 2015/16 funding by a further £1.2m. However, the service based review savings proposals bring in a balanced position for 2015/16, with small surpluses from 2016/17. There is of course the risk of delivering these savings.

3. The Police Settlement for 2015/16 is a reduction of £2.4m which is £660k worse than anticipated (£1.050m reduction in core grant partly offset by a £390k increase in Capital City Funding), with the Dedicated Security funding yet to be confirmed. We have assumed that funding will be £5.9m. Further funding reductions are anticipated to lead to a deficit of £7.6m by 2017/18. The strategy of draw down on reserves is as planned, however the extent of draw down is more than expected. The strategy was to retain £4m in reserves, but we are forecast to breach this level

from 2016/17 onwards with reserves forecast to be fully utilised by early 2017/18. This position is to be addressed by the Commissioner in consultation with the Chamberlain and a financial strategy to maintain a minimum general reserve balance of £4m over the period to 2017/18 will be presented to the Police Committee before the summer recess.

Revenue spending across planning period

4. This overview of the City Fund's financial position, covering the medium term period to 2018/19, is based on the annual in-depth survey of all revenue income and expenditure used to draft budgets approved by Committees.
5. Whilst the fundamental basis and approach underlying the previous forecast and the City Fund Medium Term Financial Strategy remains sound, it is proposed that certain key assumptions should be revised:

Income

a) Investment income outlook: The City has a key income stream from its property portfolio. Market rents appear to be performing strongly for the foreseeable future. Property rental income is forecast based on the expected rental for each individual property, allowing for anticipated vacancy levels. For City Fund there is a fall in rental income of £0.6m p.a. in 2016/17 due largely to the impact of a number of rent free periods and a further reduction of £1.1m in 2017/18 due to the end of a lease following which a void period and/or rent free period are expected.

b) Interest rates: As the economic situation improves, it is likely that interest rates will rise at some point in the medium term. However, the general level of indebtedness in the economy and the proximity of a general election, means that it is difficult to predict when such an increase might occur. Accordingly, the average annual rate of 0.75% assumed for the current year has been reduced to 0.5% for 2015/16 and 2016/17. Thereafter an increase back to 0.75% has been included. However, since Resource Allocation Sub Committee decided to invest cash backed reserves into property (£110m of City Fund reserves), the income derived from cash balances has fallen. When interest rates do eventually increase, Members will need to take a view as to whether to utilise the additional revenue to support new priority schemes or to add back to the base to support current spending.

   A 1% increase in interest rates in 2015/16 would equate to approximately £3.2m on City Fund.

Expenditure

c) Inflation/ cost increase allowance: The allowance was revised last year to 2% across the period. Inflation/cost increase is factored in for 2015/16 at 2% and then reducing year on year - 1.5% in 2016/17, 1% in 2017/18 and a budget freeze in 2018/19. On City Fund each 1% is approximately £850k. RPI has dropped recently to 1.6% and CPI to 0.5%. The Government's own measure- the GDP deflator - is presently 2.1% falling to 1.3% over the next two years and then increasing to 1.9% by 2018/19.

We have a policy to consider supporting exceptional cost increases on a case by case basis and anticipate that might be necessary for highways maintenance as reported to Policy and Resources Committee in December.

d) London Living Wage: The City is supportive of the London Living Wage and as each contract expires and is tendered, or comes up for renewal, consideration is given to awarding it on the basis of the London Living Wage. Contingencies have been included in City Fund and City's Cash of £500k p.a. and £250k p.a. respectively across the period.

e) The additional works programme and supplementary revenue projects: The annual provisions included for additional repairs and maintenance reflect detailed programmes for 2014/15 and 2015/16. For the years 2016/17 to 2018/19 an assumption has been included for additional works/supplementary revenue projects of £2.5m a year in City Fund. For City Fund this is a reduction of 19% on the provisions included for 2015/16.

Service Based Review Savings

f) The City Fund (non-Police) saving/income generation proposals have been reflected in the budgets; increasing from a £3.8m saving in 2015/16 to £10.8m in 2018/19.

City Fund

6. The lastest forecast position for City Fund, showing Police separately, and 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)***

	£m				
	14/15	15/16	16/17	17/18	18/19
City Fund – non Police					
March 2013 forecast	(6.8)	0.2	4.7	8.9	N/A
Current forecast	(3.4)	(0.2)	(0.9)	(0.2)	(0.5)
Uncommitted revenue reserves	(46.9)	(47.1)	(48.0)	(48.2)	(48.7)
City Fund – Police					
March 2013	4.6	4.7	6.7	N/A	N/A
Current forecast	8.5	1.7	3.9	7.6	N/A
Uncommitted revenue reserves	(5.9)	(4.2)	(0.3)	7.2	N/A

7. For City Fund, taking account of the service based review proposals, a very small surplus is forecast in 2015/16 with small surpluses also anticipated in the subsequent years. For Police the large deficit in 2014/15 makes a significant call on reserves and deficits are forecast across the period. However, the deficits forecast for 2015/16 and 2016/17 are an improvement from last year and the Commissioner is confident that the necessary savings can be made.

8. The key assumptions that underpin these latest projections for City Fund include the following:

a. **Grant Settlement:** The City Fund financial forecast position includes the 2015/16 government funding settlement confirmed on the 3 February - broadly in line with previous forecasts and a £5.1m (15.8%) cash reduction compared to the 2014/15 grant level. For subsequent years, it has been assumed that the Revenue Support Grant element of Government Funding (£11.8m in 2015/16) will reduce to zero by 2019/20 – i.e. a cash reduction of some £3m a year. The other element of core Government Funding relates to retained business rates. This is known as the Baseline Funding Level and is £15.1m for 2015/16 (see paragraph c below). This sum is assumed to be unchanged across the forecast period (i.e. no growth or reduction anticipated).

b. **City Offset**: In addition to Formula Grant, the City Fund uniquely receives, under business rates' regulations, an Offset from the business rates collected in the Square Mile. The amount of the Offset is determined annually by DCLG and for 2015/16 is estimated to be £11m which is a £0.3m increase on 2014/15. Small inflationary increases have been assumed for the other years of the forecast period.

c. **Business rates:** The system of business rate retention remains broadly the same, with the City benefitting from 15% of any growth in business rates.[1] The assumptions in setting the starting point mean it is unlikely that the City will be able to share in business rate growth; rather the impact of future appeals means we are more likely to be concerned by the safety net which, at 7.5% of the baseline funding level, at least limits the City's share of future losses to £1.1m p.a. The City is at risk of calling on the safety net, as this would occur if there was a further decline in business rates of just 0.51%. The position relative to each year's baseline funding level cannot be finalised until after the end of the financial year.

   The business rates multiplier is capped at 2% in 2015/16 for those properties subject to the small business multiplier.

d. **Council Tax**: The City's council tax, expressed at band D and excluding the GLA precept is £857.31 for the current financial year, 2014/15. Councils that freeze or reduce council tax will receive a grant worth 1% of their council tax in 2015/16. For the City 1% equates to a figure of around £50,000. Freeze grant is subsequently rolled into formula funding where it is no longer separately identifiable. The forecast currently anticipates accepting the freeze grant. This would be in line with our policy of maintaining parity with London Boroughs most of whom will freeze, although some are considering a council tax increase below the 2% referendum limit.

City Fund- Police

9. 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 DCLG

[1] If the City can increase non domestic rate revenue above its baseline funding level, it can retain a proportion of that growth. The way in which the scheme works means that any growth is split between central Government 50%, the GLA 20% and the City 30%. This 30% is then subject to a 50% levy payable to central Government

formula funding. The City Police will receive £52.4m for 2015/16. This is a reduction of £2.8m compared with 2014/15. This reduction equates to 5.1% which is the same reduction as for all police forces, but is £1.05m worse than we had anticipated for 2015/16.

b. **Specific grants**: In addition to the main Police grant, the City Police receives many specific grants. The main one of these is for Dedicated Security funding and is yet to be confirmed. We have assumed that the funding will be £5.9m, an increase of 10% on 2014/15 levels. Capital City Funding has been advised as part of the provisional settlement at £2.8m which is a 16% increase on the prior year and £390k better than anticipated.

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. In light of Police funding constraints and the likelihood of further grant reductions, Resource Allocation Sub Committee considered a potential increase, however, the Committee preferred to seek appropriate levels of funding for our national responsibilities rather than looking to raise the premium. Resource Allocation Sub Committee agreed last year that if Police experienced a shortfall in funding, the City of London Corporation would provide necessary temporary support from the City Fund. This wasn't needed in 2014/15. If needed in 2015/16, a fuller review of Police savings proposals would be needed. However, the Commissioner is confident that the necessary savings can be made.

   Ratepayers will be advised of a likely increase to the business rates premium in 2016-17. However, we would need to show added value to support initiatives such as reducing cyber-crime and promoting better security of the City through the ring of steel, rather than try to offset a funding deficit. Based on the income generated during the past few years, an increase of 0.1p would generate approximately £1.7m a year for attribution between the Police & the City Fund (£1.3m & £0.4m respectively using the current proportions).

Revenue Spending Proposals for 2015/16

10. The City Fund net budget requirement for 2015/16 is £101.8m, a decrease of £8.6m. The following table shows how this is financed and the resulting, unchanged, council tax requirement.

Table 2: Setting the Council Tax requirement		
	2014/15 £m (original)	**2015/16 £m**
Net Expenditure on Services Supplementary Revenue Projects	145.6 1.6	142.0 2.7
Total revenue requirement	**147.2**	**144.7**
Estate rental income Income on balances	(40.4) (2.1)	(41.5) (1.6)
Net requirement Plus proposed contribution to/(from) reserves*	104.7 5.7	101.6 0.2

City Fund Net Budget Requirement	110.4	101.8
Financing sources Formula Grant City Offset NNDR premium (net) City's share of Collection Fund Surplus	 (87.4) (10.7) (6.5) (0.5)	 (78.3) (11.0) (6.5) (0.8)
Council Tax Requirement	**5.3**	**5.3**

11. A separate report on today's agenda "Revenue and Capital Budgets 2014/15 and 2015/16" includes the detailed net revenue budget requirements of the City Fund. Included within the net expenditure on services of £142m is provision for any 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		
	2014/15 £	2015/16 £
Inner Temple Middle Temple	180,932 152,273	184,070 152,242
Total	**333,205**	**336,312**

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

Analysis of the City's National Formula Grant				
	2014/15	2015/16	Reduction on 2014/15	
	£m	£m	£m	%
Police	55.2	52.4	2.8	5.1
Non-Police	32.2	27.1	5.1	15.8
Total before Rates Retention Scheme Reduction	**87.4**	**79.5**	**7.9**	**9.0**
Rates Retention Scheme Reduction	0.0	1.2	1.2	-
Total	**87.4**	**78.3**	**9.1**	**10.4**

13. The City Offset of £11m is included in the new arrangements for Business Rates Retention.

Business Rates

14. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 49.3p and a Small Business Non-Domestic Rate Multiplier Rate of 48.0p for 2015/16. These multipliers represent an increase of 1.1p and 0.9p respectively over the 2014/15 levels. The actual amount payable by each business will depend upon its rateable value.

15. The business rate premium on City businesses has been unchanged since 2006/07 at 0.4p and it is proposed that this remain unchanged again this year. The proposed premium will result in a National Non-Domestic Rate multiplier of 49.7p and a Small Business Non-Domestic Rate of 48.4p for the City for 2015/16. It is anticipated that a premium of 0.4p will raise approximately £6.5m.

16. Likely appeals would also affect the premium income. However, as with business rates, we do not know the certainty or timing and it might be outside our current planning horizon.

17. The forecast assumes no increase in business rates premium and that the existing provision for appeals will be sufficient.

18. One final issue in relation to business rates: the Government has announced that the following reliefs will continue:

   - small business rate relief to 31st March 2016;
   - the retail relief introduced in 2014/15 will also continue and be increased to £1,500. As ratable values in the City are comparitively very high, more than half the retail premises do not qualify for the £1,500 relief;
   - the discount for new occupiers of previously empty property;
   - the exemption for empty property completed between October 2013 and March 2016.
   - additionally, the Government has announced a new relief that will in effect extend the transitional relief scheme for two years for properties with a rateable value of up to and including £50,000. Small properties with a rateable value of less than £25,500 that would otherwise face bill increases above 15% and properties with a rateable value of £50,000 or less that would otherwise face bill increases above 25% will benefit. Although fully funded by central Government, all these discounts are to be delivered using Localism Act discounts and so technically will be discretionary.
   - DCLG also announced a long term review of the structure of business rates.

19. As rateable values in the City are comparatively very high, more than half the retail premises do not qualify for the £1,500 relief. DCLG also announced a long term review of the structure of business rates. Additionally, the Government has announced a new relief that will in effect extend the transitional relief scheme for two years for properties with a rateable value up to and including £50,000. Small properties with a rateable value of less than £25,500 that would otherwise face bill increases above 15% and properties with a rateable value of £50,000 or less that would otherwise face bill increases above 25% will benefit. Although fully funded by central Government, all these discounts are to be delivered using Localism Act discounts and so technically will be discretionary.

Business Rate Supplement

20. 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

21. The 1992 Act prescribes detailed calculations that the City, as billing authority, has to make to determine Council Tax amounts. The four steps are shown in Appendix B. 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.

22. 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 2015/16 is £5.3m. In accordance with the provisions in the Localism Act 2011, the Council Tax requirement allows for the Formula Grant, the City Offset, the City's Rate Premium and the estimated surplus on the Collection Fund at 31 March 2015. As detailed in Appendix B, the City's proposed Council Tax for 2015/16 at band D is £857.31. Consequently it is proposed to freeze Council Tax for 2015/16 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.

23. The GLA's proposed precept for 2015/16 is £80.48 for a Band D property. This excludes the Metropolitan Police requirement and represents a decrease of £4.00 (4.7%) compared with 2014/15.

24. The total amounts of Council Tax for each category must be set by the City before 11 March. 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	1,428.85	1,714.62
GLA	53.65	62.60	71.54	80.48	98.36	116.25	134.13	160.96
Total	625.19	729.40	833.59	937.79	1,146.18	1,354.59	1,562.98	1,875.58

25. One final issue in respect of the City's Council Tax relates to discounts:

- Currently vacant properties in the City, defined as being substantially unfurnished, that have been empty for more than 6 months still receive 50% discount and no changes have ever been made to this discount. However, following the change to discount for second homes, it was decided to review the discounts for vacant properties. All London Boroughs have removed the discount for long term empty properties. Finance Committee considered this issue at its June 2014 meeting and proposes to recommend to the Court of Common Council that the discount applying to vacant properties that have been empty for more than 6 months should be removed from 2015-2016.

26. It is anticipated that the City's total Council Tax will remain the third lowest in London. The Court of Common Council will be requested to formally determine that the relevant (net of local precepts and levies) basic amount of Council Tax for 2015/16 will not be excessive in relation to the new referendum requirements for any Council Tax increases.

Council Tax Reduction (formerly Council Tax Benefit)

27. From April 2013, council tax reduction replaced council tax benefit and local authorities had to make their own local schemes if not applying the Government default scheme. The City adopted the default scheme for 2013/14. In 2014/15 the scheme was not altered other than to apply the annual uprating of applicable amounts in line with housing benefit applicable amounts There is no proposal to alter the scheme for 2015/16 other than to apply the annual uprating of applicable amounts in line with housing benefit applicable amounts to ensure that no claimants in respect of council tax reduction are worse off in 2015/16.

28. It is proposed therefore that the annual uprating of applicable amounts, premiums, disregarded income, or capital in relation to the Local Council Tax Reduction Scheme 2015-2016 as it applies to working age claimants, be in accordance with the uprating to be applied under the Housing Benefit Regulations which take effect from 1 April each year and the Council Tax Reduction Schemes (Prescribed Requirements) (England) (Amendment) (No. 2) Regulations 2014; and the annual uprating of non-dependent income and deductions, and income levels relating to Alternative Council Tax Reduction, or any other uprating as it applies to working age claimants, shall be adjusted in line with inflation levels by reference to relevant annual uprating in the Housing Benefit Scheme or The Prescribed Council Tax Reduction Scheme for Pensioners

Capital

29. The Corporation has a significant programme of property investments and works to improve the operational property estate and the street scene. Spending on these types of activity is classified as capital expenditure. Key areas in the 2015/16 capital programme (including the indicative costs of implementing schemes still subject to approval) comprise:

	£m
Capital Contribution to Crossrail	200.0
Roads, Bridges, Street-scene (including Aldgate)	15.7
Dwelling Improvements	15.9
Affordable Housing Construction	7.6
New Police Accommodation	4.6
Barbican Podium	5.0
Old Bailey Enhancements	4.4

30. 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 not borrowed any money to finance these schemes. Financing is summarised in the table below:

Table 6: Financing of 2015/16 City Fund Capital Expenditure	
	£m
Estimated Capital Expenditure	269.2
Financing	
Internal	
• Earmarked reserves:	
Housing Revenue Account (HRA)	11.7
Highways Improvements	5.0
Crossrail	19.6
Other	1.0
• Capital Receipts	196.0
• Revenue Reserves	2.4
External	
• Grants and reimbursements	33.5
Total	**269.2**

31. 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:

- Estimates of capital expenditure 2015/16 to 2017/18
- Estimates of the capital financing requirement 2015/16 to 2017/18
- Ratio of financing costs to net revenue stream (City Fund and HRA)
- Net debt and the capital financing requirement
- Estimate of the incremental impact on council tax and housing rents.

32. The prudential indicators listed above, together with some locally developed indicators, 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 and Annual Investment Strategy' at Appendix D.

33. The main point to highlight is that there is no underlying requirement at this stage to borrow for capital purposes and therefore the 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

34. 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 identified in excess of these provisions, Resource Allocation Sub Committee will need to prioritise resources.

Robustness of Estimates and Adequacy of Reserves

35. 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.

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

   a) provision has been made for all known liabilities, together with indicative costs(where identified) of capital schemes yet to be evaluated
   b) the estimates and financial forecast have been prepared at this stage on the basis of the Corporation remaining debt free 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 or, if on an exceptional basis funding is sought outside this envelope, it has to be demonstrated that the project is of the highest corporate priority.
   e) although the City Fund financial position is vulnerable to rent levels and interest rates, it should be noted that:
      - the City Surveyor has carried out an in-depth review of rent incomes
      - 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.

37. An analysis of usable City Fund Reserves is set out in Appendix E

Risks

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

   Within the City of London Corporation's control

   a. The key risk we highlighted to the Resource Allocation Sub Committee in December for achieving the financial forecast lies in achieving the programme of asset sales needed to finance the City Fund capital programme.
   b. Delivery of the service based review savings proposals.

   Outside the City of London Corporation's control

   c. The key risk on City Fund relates to the government funding streams for both Non-Police and Police services.
   d. The business rates retention system looks to present very little opportunity for growth, but there is a risk to our funding levels; we are forecasting a neutral position on this for the present.

Equalities Implications

39. 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. None are anticipated but they are expected to confirm this by the date of the Committee.

Conclusion

40. Following the service based review, the funds are in a much healthier position across the medium term. There are still risks around the implementation of the saving proposals, but the estimates are considered robust and the level of and polices relating to the City Fund reserves are considered reasonable.

Dr Peter Kane
Chamberlain

Appendices

Appendix A – Progress on City Fund Crossrail Funding Commitment
Appendix B – Calculating Council Tax
Appendix C – Prudential Indicators
Appendix D – Treasury Management Strategy and Annual Investment Strategy
Appendix E – City Fund Usable Reserves

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Appendix A

Progress on City Fund Crossrail Funding Commitment
Forecast position for 31/3/16

The City of London Corporation is committed to a contribution of £200m from City Fund to the Crossrail Project. The earliest date for payment is estimated to be 31 March 2016. The latest forecast indicates that the Crossrail Funding Strategy is on track to deliver the £200m by 31 March 2016 as summarised in the total below.

Resources Available for Funding the City Fund Crossrail Commitment **Forecast for 31 March 2016**	
	£m
Capital receipts from sale of Crossrail investment properties or from substitute properties where it is more advantageous to retain the Crossrail properties.	125.2
General capital receipts reserve	
From planned disposals	51.0
Unused balance of £100m provision for Crossrail investment properties	4.2
Revenue reserve- Rental income from Crossrail investment properties and interest on cash balances held for Crossrail contribution purposes.	19.6
Total forecast of resources available at 31 March 2016	200.0

The realisation of this forecast level of resources is dependent upon the delivery by 31 March 2016 of £176.2m capital receipts (£125.2m + £51m) from the sale of investment properties of which £134.7m has been received to date. The City Surveyor has identified the properties which will deliver the balance of £41.5m by 31 March 2016.

Calculating Council Tax

Step One ('B1')

This requires calculation of the basic amount of Council Tax for a Band D dwelling for the whole of the City's area by applying the formula:

$$\text{'B1'} = \frac{R}{T}$$

Where
'B1' is the Basic Amount 'One':

R is the amount calculated by the authority as its council tax requirement for the year;

T is the amount which is calculated by the authority as its Council Tax base for the year. This amount was approved by the Chamberlain under the delegated authority of the City's Finance Committee (6,239.59) together with the Council Tax bases for each part of the City's area.

The above calculation is as follows:

$$\text{'B1'} = \frac{£5,349,263}{6,239.59}$$

'B'1 = £857.31

Note: Item R consists of the following components:

	£	**£**
City Fund Net Budget Requirement		101,840,901
Less:		
Formula Grant	(78,215,000)	
City's Offset	(11,040,000)	
Estimated Non-Domestic Rate Premium (Net)	(6,500,000)	
Estimated Collection Fund Surplus as at 31 March 2015 (City's share)	(736,638)	(96,491,638)
TOTAL COUNCIL TAX REQUIREMENT (R)		**5,349,263**

Step Two ('B2')

This calculation is for the basic amount of tax for the area of the City excluding special items. The prescribed formula is:

$$\text{'B2'} = \text{'B1'} - \frac{A}{T}$$

Where:

'B2' is the Basic Amount 'Two';

‘B1’ is the Basic Amount of Council Tax (Basic Amount ‘One’)
NB included with ‘B1’ is the aggregate of special items

A is the Aggregate of all special items;

T is the Council Tax base for the whole area

The above calculation is as follows:

$$\text{‘B2’} = £857.31 - \frac{£13{,}574{,}312.09}{6{,}239.59}$$

‘B2’ = £1,318.20 CR

Note: Item A consists of the following components:

	£	£
Highways Net Expenditure	7,819,000.00	
Waste Disposal Net Expenditure	1,348,000.00	
Open Spaces Net Expenditure	1,574,000.00	
Transportation Planning	993,000.00	
Drains and Sewers	433,000.00	
Street Lighting Net Expenditure	1,071,000.00	
Total City’s Special Expenses		13,238,000.00
Inner Temple’s Precept	184,069.90	
Middle Temple’s Precept	152,242.19	336,312.09
Total Special Items		13,574,312.09

Step Three ‘B3’

The next calculation is for the basic amount of each of the three parts of the City (the Inner and the Middle Temples and the remainder of the City area) to which special items relate (Basic Amount ‘Three’). The calculations for each of the areas are as follows:

$$\text{‘B3’} = \text{‘B2’} + \frac{S}{TP}$$

Where:

‘B3’ is the Basic Amount ‘Three’

‘B2’ is the Basic Amount ‘Two’

S is the amount of the special items for the part of the area

TP is the billing authority’s Tax base for the part of the area to which the special items relate as determined by the Chamberlain under the delegated authority of the City of London Finance Committee.

City Area Excluding the Temples

$$'B3' = £1{,}318.20\text{ CR} + \frac{£13{,}238{,}000.00}{6{,}085.00}$$

$$'B3' = £857.31$$

Inner Temple

$$'B3' = £1{,}318.20\text{ CR} + \frac{£184{,}069.90}{84.61}$$

$$'B3' = £857.31$$

Middle Temple

$$'B3' = £1{,}318.20\text{ CR} + \frac{£152{,}242.19}{69.98}$$

$$'B3' = £857.31$$

Step Four

Finally, Council Tax amounts have to be calculated for each valuation band (A to H) in each of the three areas (i.e. 24 Council Tax categories). The formula to be used is:

$$\text{Council Tax for particular category} = A \times \frac{N}{D}$$

A is the Basic Amount 'Three' ('B3') calculated for each part of its area;

N is the proportion applicable to dwellings listed in the particular valuation Band for which the calculation is being made;

D is the proportion applicable to dwellings listed in valuation Band D.

Council Tax per Property Band: calculated by applying nationally fixed proportions from Band D.								
	£							
	A	B	C	D	E	F	G	H
Proportion	6	7	8	9	11	13	15	18
CoL	571.54	666.80	762.05	857.31	1,047.82	1,238.34	1,428.85	1,714.62
GLA	53.65	62.60	71.54	80.48	98.36	116.25	134.13	160.96
Total	625.19	729.40	833.59	937.79	1,146.18	1,354.59	1,562.98	1,875.58

PRUDENTIAL INDICATORS

The following Prudential Indicators (and those included in Appendix D) have been calculated in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities. In addition a local indicator has been calculated to reflect the City's particular circumstances. Those indicators relating to estimates for the financial years 2015/16, 2016/17 and 2017/18 (values shown in bold) are required to be set by the Court of Common Council as part of the budget setting process, and should be taken into account when considering the affordability, prudence and sustainability of capital investments.

Prudential Indicators for Affordability

Estimate of the ratio of financing costs to net revenue stream

Table 1

	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Revised	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
HRA	0.18	0.21	0.20	0.22	0.23	0.24	0.24	0.26	**0.50**	**0.25**	**0.25**
Non-HRA	-0.44	-0.40	-0.29	-0.28	-0.37	-0.39	0.22	-0.40	**-0.39**	**-0.40**	**-0.40**
Total	-0.39	-0.36	-0.26	-0.25	-0.32	-0.33	0.22	-0.34	**-0.30**	**-0.33**	**-0.33**
At this time last year	*-0.39*	*-0.36*	*-0.26*	*-0.28*	*-0.26*	*-0.30*	*0.22*	*-0.34*	*-0.35*	*-0.31*	-

This ratio is intended to represent the extent to which the net revenue consequences of borrowing impact on the net revenue stream. Since the City Fund is a net lender in its Treasury operations and is in receipt of significant rental income from investment properties, the Non-HRA and Total ratios are usually negative, with the exception of a positive ratio in 2013/14 reflecting the one-off treasury decision to invest revenue reserves in property. The upward trend in HRA ratios reflects increased revenue contributions to the major repairs reserve which is used to fund the HRA programme of capital works necessary to retain the housing estates.

Estimate of the incremental impact of capital investment decisions on the Council Tax

Table 2

	2014/15 Revised £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Incremental increase/(decrease) Per Band 'D' Equivalent	(189.00)	**19.00**	**(189.00)**	**(242.00)**
At this time last year	*(918.00)*	*(1,744.00)*	*(2,035.00)*	-

This ratio has been calculated to show the net incremental revenue impact of variations in the capital programme since the 2014/15 original estimates were prepared, expressed as a Band D equivalent. The variations generally reflect the impact on interest earnings and rental income arising from changes in the capital programme, with bracketed items representing a net revenue benefit. The indicators calculated at this time last year were exceptional, reflecting the beneficial impact of the treasury management decision to switch from cash to property investment in 2013/14. The new indicators show a net beneficial impact across the period, arising from increased rental returns generated through current capital investment plans. Whilst in theory, this could be a strong indicator of affordability, in reality it is difficult to demonstrate a direct link between capital expenditure and its impact on the Council Tax, due to the special arrangements relating to the setting of the City's Council Tax.

Estimate of the incremental impact of capital expenditure on housing rents

Table 3

	2014/15 Revised £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Incremental increase/(decrease) on Average Weekly Rent	(1.91)	**2.84**	**4.04**	**4.10**
At this time last year	*1.04*	*(0.37)*	*(0.27)*	-

The current figures reflect the variations in annual capital costs associated with maintaining the decent homes standard and other improvements. Positive figures denote an increase and negative (bracketed) figures denote a decrease in the costs to be borne by the Housing Revenue Account. Councils' discretion to amend rents has, until recently, been largely removed by the Government's restrictions on the levels of rent chargeable, which previously made the above figures purely notional. As a result of Government reforms to council housing finance, the extent to which capital will impact on future rent levels is under review.

<u>Prudential Indicator of Prudence</u>

Net Debt and the Capital Financing Requirement

Table 4

	Period 2014/15 to 2017/18 £m
Net borrowing/(Net investments)	**(75.658)**
Capital Financing Requirement	**(1.942)**

To ensure that, over the medium term, net borrowing will only be for capital purposes, this indicator is intended to demonstrate that net debt does not exceed the capital financing requirement over the period 2014/15 to 2017/18. For this purpose, net debt is defined as the net total of external borrowing and investments. The existing financial plans assume that no external borrowing will be undertaken within the planning period, resulting in a 'net investment position', and this indicator has been calculated simply to comply with the Code.

Prudential Indicators for Capital Expenditure and External Debt

Estimate of Capital Expenditure

Table 5

	2007/08 Actual £m	2008/09 Actual £m	2009/10 Actual £m	2010/11 Actual £m	2011/12 Actual £m	2012/13 Actual £m	2013/14 Actual £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
HRA	0.444	1.755	1.000	3.541	12.910	3.502	2.502	7.789	**22.532**	**5.056**	**0.200**
Non-HRA	27.060	121.934	76.404	42.109	210.156	17.939	181.183	58.953	**246.682**	**32.204**	**26.324**
Total	27.504	123.689	77.404	45.650	223.066	21.441	183.685	66.742	**269.214**	**37.260**	**26.524**
At this time last year	*27.504*	*123.689*	*77.404*	*45.650*	*99.681*	*32.373*	*193.843*	*73.587*	*234.804*	*21.275*	-

This indicator is based on the capital budget, augmented to reflect the indicative cost of schemes which have been approved in principle but have yet to be evaluated. It should be noted that the figures represent gross expenditure and that a number of schemes are wholly or partially funded by external contributions. Comparisons with the figures calculated at this time last year are generally reflective of the re-phasing of capital works.

Estimate of the Capital Financing Requirement

Table 6

	2007/08 Actual £m	2008/09 Actual £m	2009/10 Actual £m	2010/11 Actual £m	2011/12 Actual £m	2012/13 Actual £m	2013/14 Actual £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
HRA	11.958	11.758	11.563	11.374	11.374	10.924	10.924	10.706	**10.492**	**10.282**	**10.076**
Non-HRA	-15.158	-14.558	-14.282	-14.016	-13.413	-12.852	-12.866	-12.648	**-12.434**	**-12.224**	**-12.018**
Total	-3.200	-2.800	-2.719	-2.642	-2.039	-1.928	-1.942	-1.942	**-1.942**	**-1.942**	**-1.942**
At this time last year	*-3.200*	*-2.800*	*-2.719*	*-2.719*	*-2.642*	*-2.039*	*-1.928*	*-1.928*	*-1.928*	*-1.928*	

The capital financing requirement reflects the underlying need to borrow; the overall negative figures are indicative of the City's debt-free status. The estimate is calculated by considering the capital expenditure and identifying all the financing options (e.g. capital receipts, grants) to be applied to finance it. In accordance with the guidance contained in the Prudential Code, the 'Actual' indicators are calculated directly from the Balance Sheet, whilst the method of calculating the HRA and Non-HRA elements is prescribed under Statute.

The remaining prudential indicators relating to external debt and treasury management are included within Appendix D.

Local Indicator

The City has considerable reserves when compared to a typical local authority, and as a result, some of the standard indicators required under the Code are not directly relevant.

A local indicator which gives a useful measure of both sustainability and of the adequacy of revenue reserves has been developed.

Times cover on unencumbered revenue reserves

Table 7

	2014/15	**2015/16**	**2016/17**	**2017/18**
Times cover on unencumbered revenue reserves	*(10.4)*	***(30.2)***	***(16.2)***	***(5.5)***
At this time last year	*(7.7)*	*250.0*	*6.4*	*-*

This indicator is calculated by dividing the balance of unencumbered general reserves by any annual revenue deficit/ (surplus). Compared with last year, the figures show a transformation from deficits to surpluses from 2015/16 onwards, as a result of the savings anticipated from the service based reviews.

Appendix D

TREASURY MANAGEMENT

STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY

2015/16

[The main changes to the document from last year's version are highlighted in grey]

Treasury Management Strategy Statement, Minimum Revenue Provision (MRP) Strategy and Annual Investment Strategy 2015/16

1. Introduction

1.1 Background

The City of London Corporation (the City) is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the City's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of capital expenditure plans. The City is not anticipating any borrowing at this time.

1.2 The Treasury Management Policy Statement

The City defines its treasury management activities as:

> The management of the organisation's investments and cash flows, its banking, money market and capital market transaction; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

The City regards the security of its financial investments through the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The City acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.3 CIPFA Requirements

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by the Court of Common Council (the Court) on 3 March 2010:

The primary requirements of the Code are as follows:

(i) The City of London Corporation will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

(ii) This organisation (i.e. the Court of Common Council) will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

(iii) The Court of Common Council delegates responsibility for the implementation and regular monitoring of its treasury management policies to the Finance Committee and the Financial Investment Board; the execution and administration of treasury management decisions is delegated to the Chamberlain, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

(iv) The Court of Common Council nominates the Audit and Risk Management Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

1.4 Treasury Management Strategy for 2015/16

The Local Government Act 2003 (the Act) and supporting regulations require the City to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the City's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Court of Common Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) (included in section 7 of this report); this sets out the City's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2015/16 in respect of the required aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the City's treasury adviser, Capita Asset Services, Treasury Solutions.

The strategy covers:

- the current treasury position
- treasury indicators in force which will limit the treasury risk and activities of the City
- Treasury Indicators
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers.

These elements cover the requirements of the local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

1.5 Balanced Budget Requirement

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the City to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the City for the foreseeable future.

2. Treasury Limits for 2015/16 to 2017/18

It is a statutory duty under Section 3 (1) of the Local Government Finance Act and supporting regulations, for the City to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The City must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.

Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion in corporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years; details of the Authorised Limit can be found in Appendix 3.

3. Current Portfolio Position

The City's treasury portfolio position at 31 December 2014 comprised:

Table 1		**Principal**		**Ave. rate**
		£m	**£m**	**%**
Fixed rate funding	PWLB	0		
	Market	0	0	-
Variable rate funding	PWLB	0	0	-
	Market	0	0	-
Other long term liabilities			0	
Gross debt			**0**	**-**
Total investments			**650.2**	**0.87**
Net Investments			**650.2**	

4. **Treasury Indicators for 2015/16 – 2017/18**

Treasury Indicators (as set out in Appendix 3) are relevant for the purposes of setting an integrated treasury management strategy.

The City is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The original 2001 Code was adopted by the Court of Common Council on 9 March 2004 and the revised 2009 Code was adopted on 3 March 2010.

5. **Prospects for Interest Rates**

The City of London has appointed Capita Asset Services (Capita) as its treasury advisor and part of their service is to assist the City to formulate a view on interest rates. Appendix 1 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates and Appendix 2 provides a more detailed economic commentary. The following table and accompanying text below gives the Capita central view.

Annual Average %	**Bank Rate %**	**PWLB Borrowing Rates % (including certainty rate adjustment)**		
		5 year	**25 year**	**50 year**
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q2 2014 and 5.0% in Q3. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Greece: the general election on 25 January 2015 appears to have brought to power a political party which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strenthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify;

- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2015/16 and beyond;

- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

6. Borrowing Strategy

It is anticipated that there will be no capital borrowings required during 2015/16.

7. Annual Investment Strategy

7.1 Introduction: Changes to Credit Rating Methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014/15 and / or 2015/16. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis. The eventual removal of implied sovereign support will only take place when the regulatory and economic environments have ensured that financial institutions are much stronger and less prone to failure in a financial crisis.

Both Fitch and Moody's provide "standalone" credit ratings for financial institutions. For Fitch, it is the Viability Rating, while Moody's has the Financial Strength Rating. Due to the future removal of sovereign support from institution assessments, both agencies have suggested going forward that these will be in line with their respective Long Term ratings. As such, there is no point monitoring both Long Term and these "standalone" ratings.

Furthermore, Fitch has already begun assessing its Support ratings, with a clear expectation that these will be lowered to 5, which is defined as "A bank for which there is a possibility of external support, but it cannot be relied upon." With all institutions likely to drop to these levels, there is little to no differentiation to be had by assessing Support ratings.

As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed where it relates to these categories. This is the same process for Standard & Poor's that Capita have always taken, but a change to the use of Fitch and Moody's ratings. Furthermore, they will continue to utilise CDS prices as an overlay to ratings in their new methodology.

7.2 Investment Policy

The City of London's investment policy will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes ("the CIPFA TM Code"). The City's investment priorities are:

(a) the security of capital and

(b) the liquidity of its investments.

The City will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the City is low in order to give priority to security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and the City will not engage in such activity.

In accordance with the above guidance from the CLG Government and CIPFA, and in order to minimise the risk to investments, the City applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk

Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the City will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in Appendices 4 and 5 under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits are also set out in these appendices.

7.3 Creditworthiness policy

The City uses the creditworthiness service provided by Capita. This service employs a sophisticated modelling approach utilising credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor’s. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swap spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries.

The City will not specifically follow the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties but will have regard to the approach adopted by Capita’s creditworthiness service which incorporates ratings from all three agencies and uses a risk weighted scoring system, thereby not giving undue preponderance to just one agency's ratings.

All credit ratings will be monitored on a daily basis**.** The City is alerted to credit warnings and changes to ratings of all three agencies through its use of the Capita creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the City's minimum criteria, its further use as a possible investment will be withdrawn immediately.
- In addition to the use of Credit Ratings the City will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution and possible removal from the City lending list.

Sole reliance will not be placed on the use of this external service. In addition the City will also use market data and market information, information on sovereign support for banks and the credit ratings of that government support. Regular meetings are held involving the Chamberlain, Financial Services Director, Corporate Treasurer and Members of the Treasury Team, when the suitability of prospective counterparties and the optimum duration for lending is discussed and agreed.

The primary principle governing the City's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the City will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the City's prudential indicators covering the maximum principal sums invested.

The Chamberlain will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Financial Investment Board as necessary. These criteria are separate to those which determine which types of investment instruments are classified as either specified or non-specified as it provides an overall pool of counterparties considered high quality which the City may use, rather than defining what types of investment instruments are to be used.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

- Banks 1 – good credit quality – the City will only use banks which:

  (i) are UK banks; and/or
  (ii) are non-UK and domiciled in a country which has a minimum sovereign long-term rating of AAA (Fitch rating) and have, as a minimum the following Fitch credit rating:

(i) Short-term	F1
(ii) Long-term	A

- Banks 2 – Part Nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised, or they meet the ratings in Banks 1 above.

- Banks 3 – The City's own banker for transactional purposes if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and duration.

- Bank subsidiary and treasury operation - The City will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above. This criterion is particularly relevant to City Re Limited, the City's Captive insurance company, which deposits funds with bank subsidiaries in Guernsey.

- Building Societies – The City may use all societies which:
  (i) have assets in excess of £9bn; or
  (ii) meet the ratings for banks outlined above

- Money Market Funds – with minimum credit ratings of AAA/mmf

- UK Government – including government gilts and the debt management agency deposit facility.

- Local authorities.

A limit of £200m will be applied to the use of non-specified investments.

7.4 Country limits

The City has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA or equivalent from all three rating agencies. The counterparty list, as shown in Appendix 6, will be added to or deducted from by officers should individual country ratings change in accordance with this policy. It is proposed that the UK will be excluded from this stipulated minimum sovereign rating requirement.

7.5 Investment Strategy

In-house funds: The City's in-house managed funds are both cash-flow derived and also represented by core balances which can be made available for investment over a 2-3 year period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). The City does not currently have any term deposits which span the 2015/16 financial year.

7.6 Investment returns expectations: The Bank Rate has been unchanged from 0.50% since March 2009. Bank Rate is forecast by Capita Asset Services to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. Bank Rate forecasts for financial year ends (March) are as follows:

- 2015/16 0.75%
- 2016/17 1.25%
- 2017/18 2.00%

Capita considers that there are there are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

The Chamberlain and his Treasury Officers consider there to be a likelihood of interest rates remaining at very low levels for some considerable time, and in view of the importance of interest earnings included in forward financial forecasts, opportunities have been taken in the past to lock-in some of the 'core balances' cash holdings to 2 and 3 year deals when attractive interest rates have been available, having regard however to the alternative investment opportunities already agreed. The current returns on deposits for these lending periods is considered insufficient and so no new 2 or 3 year deposits have been placed.

For 2014/15 the City has budgeted for an average investment return of 0.75% on investments placed during the financial year and previously. Financial forecasts for the period 2015/16 to 2017/18 include interest earnings based on an average investment return of 0.50%.

For its cash flow generated balances, the City will seek to utilise its business reserve accounts, money market funds, and short-dated deposits (overnight to twelve months) in order to benefit from the compounding of interest until increases in the base rate are sufficient to lend funds for longer periods.

7.7 Investment Treasury Indicator and Limit

Total principal funds invested for greater than 364 days are subject to a limit, set with regard to the City's liquidity requirements and to reduce the need for an early sale of an investment, and are based on the availability of funds after each year end.

The Board is asked to approve the treasury indicator and limit:

Maximum principal sums invested for more than 364 days (up to three years)

£M	2015/16 (£M)	2016/17 (£M)	2017/18 (£M)
Principal sums invested >364 days	200	200	200

It should be emphasised that the City is prepared to lend monies out for periods of up to three years which is longer than most other local authorities who tend to opt for shorter durations.

7.8 End of year investment report

At the end of the financial year, the City will report on its investment activity as part of its Annual Treasury Report.

7.9 External fund managers

A proportion of the City's funds, amounting to £160.8m as at 31 December 2014, are externally managed on a discretionary basis by Ignis Asset Management, Invesco, Prime Rate, CCLA Liquidity Fund and Payden Global Funds Plc. The City's external fund managers will comply with the Annual Investment Strategy, and the agreements between the City and the fund managers additionally stipulate guidelines and duration and other limits in order to contain and control risk. Investments made by the Money Market Fund Managers include a diversified portfolio of very high quality sterling-dominated investments, including gilts, supranationals, bank and corporate bonds, as well as other money market securities. The individual investments held within the Money Market Funds are monitored on a regular basis by Treasury staff.

The credit criteria to be used for the selection of the cash fund manager(s) are based on Fitch Ratings and is AAA/mmf. The Payden Sterling Reserve Fund is rated by Standard and Poor's at AAA/f.

7.10 Policy on the use of external service providers

The City uses Capita Asset Services, Treasury Solutions as its external treasury management advisers.

The City recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon its external service providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The City will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

7.11 Scheme of delegation

Please see Appendix 7.

7.12 Role of the Section 151 officer

Please see Appendix 8.

APPENDICES

1. Interest Rate Forecasts 2015-2018
2. Economic Background (Capita Asset Services)
3. Treasury Indicators
4. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
5. Current Approved Counterparties
6. Approved Countries for Investments
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8. The Treasury Management Role of the Section 151 Officer

APPENDIX 1: Interest Rates Forecasts 2015-2018

Capita Asset Services Interest Rate View													
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.10%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	2.10%
6 Month LIBID	0.70%	0.70%	0.80%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.30%
12 Month LIBID	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.60%
5yr PWLB Rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB Rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
Capital Economics	2.20%	2.50%	2.70%	3.00%	3.10%	3.20%	3.30%	3.40%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
Capital Economics	2.80%	3.05%	3.30%	3.55%	3.60%	3.65%	3.70%	3.80%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.25%	3.45%	3.65%	3.85%	3.95%	4.05%	4.15%	4.25%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.30%	3.50%	3.70%	3.90%	4.00%	4.10%	4.20%	4.30%	-	-	-	-	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

APPENDIX 2: Economic Background

THE UK ECONOMY

UK. After strong UK GDP growth in 2013 at an annual rate of 2.7%, and then in 2014 0.7% in Q1, 0.9% in Q2 2014 (annual rate 3.2% in Q2), Q3 has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the surge in the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016, albeit that growth will still remain strong by UK standards. For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance. This overall strong growth has resulted in unemployment falling much faster than expected. The MPC is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back significantly above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in inflation (CPI), reaching 1.0% in November 2014, the lowest rate since September 2002. Forward indications are that inflation is likely to remain around or under 1% for the best part of a year. The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.

Eurozone (EZ). The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In November 2014, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June and September 2014 to loosen monetary policy in order to promote growth.

In addition to the circa €10bn of monthly bond purchases already carried out, the ECB announced in January that it would begin purchasing a further €50bn of bonds per month to bring its monthly asset purchases to €60bn. Although markets had been pricing in quantitative easing for quite some time, Draghi's announcement was at the top end of the range of market forecasts. The quantitative easing programme will begin in March 2015 and is expected to conclude in September 2016. However, should the need occur the programme will continue until inflationary targets of close to 2% are met over the medium term. This caveat leaves the ECB with the flexibility to continue with quantitative easing past September 2016 if it finds it necessary

Concern in financial markets for the Eurozone subsided considerably after the prolonged crisis during 2011-2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. The ECB's pledge in 2012 to buy unlimited amounts of bonds of countries which ask for a bailout has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2013 figures) of Greece 180%, Italy 133%, Portugal 129%, Ireland 124% and Cyprus 112%, remain a cause of concern, especially as some of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are likely to continue to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US.

Greece: the general election due to take place on 25 January 2015 is likely to bring a political party to power which is anti EU and anti-austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of anti EU and anti-austerity political parties throughout the EU is much more difficult to quantify. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries which have high unemployment rates. There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake overdue reforms to improve national competitiveness. These countries already have political parties with major electoral support for anti EU and anti-austerity policies. Any loss of market confidence in either of the two largest Eurozone economies after Germany would present a huge challenge to the resources of the ECB to defend their debt.

USA. The U.S. Federal Reserve ended its monthly asset purchases in October 2014. GDP growth rates (annualised) for Q2 and Q3 of 4.6% and 5.0% have been stunning and hold great promise for strong growth going forward. It is therefore confidently forecast that the first increase in the Fed. rate will occur by the middle of 2015.

China. Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has indicated a marginally lower outturn for 2014, which would be the lowest rate of growth for many years. There are also concerns that the Chinese leadership has only started to address an unbalanced economy which is heavily over dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehman's crisis.

Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth to the extent that it has slipped back into recession in Q2 and Q3. The Japanese government already has the highest debt to GDP ratio in the world.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over 2015. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis. There is an increased risk that Greece could end up leaving the Euro but if this happens, the EZ now has sufficient fire walls in place that a Greek exit would have little immediate direct impact on the rest of the EZ and the Euro. It is therefore expected that there will be an overall managed, albeit painful and tortuous, resolution of any EZ debt crisis that may occur where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be weak at best for the next couple of years with some EZ countries experiencing low or negative growth, which will, over that time period, see an increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the larger countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK strong economic growth is weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- An adverse reaction by financial markets to the result of the UK general election in May 2015 and the economic and debt management policies adopted by the new government
- ECB either failing to carry through on recent statements that it will soon start quantitative easing (purchase of government debt) or severely disappointing financial markets with embarking on only a token programme of minimal purchases which are unlikely to have much impact, if any, on stimulating growth in the EZ.
- The commencement by the US Federal Reserve of increases in the central rate in 2015 causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities, leading to a sudden flight from bonds to equities.
- A surge in investor confidence that a return to robust world economic growth is imminent, causing a flow of funds out of bonds into equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

APPENDIX 3 - Treasury Indicators

TABLE 1: TREASURY MANAGEMENT INDICATORS	2013/14	2014/15	2015/16	2016/17	2017/18
	actual	probable outturn	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt -					
borrowing	£0	£0	£0	£0	£0
other long term liabilities	£0	£0	£0	£0	£0
TOTAL	£0	£0	£0	£0	£0
Operational Boundary for external debt -					
borrowing	£0	£0	£0	£0	£0
other long term liabilities	£0	£0	£0	£0	£0
TOTAL	£0	£0	£0	£0	£0
Actual external debt	£0	£0	£0	£0	£0
Upper limit for fixed interest rate exposure					
expressed as either:-					
Net principal re fixed rate borrowing / investments OR:-	100%	100%	100%	100%	100%
Net interest re fixed rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
expressed as either:-					
Net principal re variable rate borrowing / investments OR:-	100%	100%	100%	100%	100%
Net interest re variable rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for total principal sums invested for over 364 days	£300m	£200m	£200m	£200m	£200m
(per maturity date)					

TABLE 2: Maturity structure of fixed rate borrowing during 2013/14	upper limit	lower limit
under 12 months	0%	0%
12 months and within 24 months	0%	0%
24 months and within 5 years	0%	0%
5 years and within 10 years	0%	0%
10 years and above	0%	0%

APPENDIX 4 – Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management, Specified and Non-Specified Investments and Limits

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where appropriate.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of £200m will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

SPECIFIED INVESTMENTS:
(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

	*** Minimum 'High' Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A,	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A,	Fund Managers
Money Market Funds	AAA/mmf	In-house & Fund Managers
UK Government Gilts	UK Sovereign Rating	In-house & Fund Managers
Treasury Bills	UK Sovereign Rating	Fund Managers
Sovereign Bond issues (other than the UK government)	AAA	Fund Managers

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment Criteria with maturities in excess of 1 year. A maximum of £200m will be held in aggregate in non-specified investments.

	*** Minimum Credit Criteria**	**Use**	**Maximum**	**Maximum Maturity Period**
Term deposits - other LAs (with maturities in excess of one year)	-	In-house	£25m per LA	Three years
Term deposits, including callable deposits - banks and building societies (with maturities in excess of one year)	Long-term A, Short-term F1,	In-house and Fund Managers	£200m overall	Three years
Certificates of deposits issued by banks and building societies with maturities in excess of one year	Long-term A, Short-term F1,	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Government Gilts with maturities in excess of one year	AAA	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years

APPENDIX 5 – Approved Counterparties

BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES

FITCH RATINGS	BANK CODE	LIMIT OF £100M PER GROUP (£150m for Lloyds TSB Bank)	Duration
AA - F1 +	40.53.71	HSBC ----------------------------------	Up to 3 years
A F1	20.00.00 20.00.52	BARCLAYS CAPITAL BARCLAYS BANK ------------------------------	Up to 3 years
A F1	30.15.57	LLOYDS TSB BANK incl. Bank of Scotland ----------------------------	Up to 3 years
A F1	16.75.75	ROYAL BANK OF SCOTLAND RBOS SETTLEMENTS	Up to 3 years

BUILDING SOCIETIES

FITCH RATINGS	GROUP	ASSETS £BN	LIMIT £M	Duration
A F1	Nationwide	189	120	Up to 3 years
A – F1	Yorkshire	34	20	Up to 1 year
A F1	Coventry	28	20	Up to 1 year
BBB – F2	Skipton	14	20	Up to 1 year
A – F1	Leeds	11	20	Up to 1 year

MONEY MARKET FUNDS

FITCH RATINGS	MONEY MARKET FUNDS Overall Limit £250m	DURATION
AAA/mmf	Goldman Sachs Sterling Liquidity Reserve Fund	Liquid
AAA/mmf	CCLA	Liquid
AAA/mmf	Prime Rate Liquidity Fund	Liquid
AAA/mmf	Ignis Asset Management Liquidity Fund	Liquid
AAA/mmf	Invesco	Liquid
AAA / f	Payden Sterling Reserve Fund	Liquid

FOREIGN BANKS

(with a presence in London)

FITCH RATINGS	BANK CODE		LIMIT £M	Duration
		AUSTRALIA		
AA- F1+	20.32.53	AUSTRALIA & NZ BANKING GROUP	25	Up to 3 years
AA- F1+	16.55.90	NATIONAL AUSTRALIA BANK	25	Up to 3 years
		SWEDEN		
AA- F1+	40.51.62	SVENSKA HANDELSBANKEN	25	Up to 3 years

LOCAL AUTHORITIES

LIMIT OF £25M PER AUTHORITY
Any UK local authority

APPENDIX 6 - Approved Countries for Investments – Based on ratings of the three rating agencies

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- United Kingdom

APPENDIX 7 – Treasury Management Scheme of Delegation

The roles of the various bodies of the City of London Corporation with regard to treasury management are:

(i) Court of Common Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy.

(ii) Financial Investment Board and Finance Committee

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit & Risk Management Committee

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- Working closely with and considering recommendations of the Section 151 officer on the compliance with legal statute and statements of recommended practice.

APPENDIX 8 - The Treasury Management Role of the Section 151 Officer

The Chamberlain

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

Appendix E

Reserves

Forecast Movements in City Fund Usable Reserves 2015/16				
	Notes	Estimated Opening Balance 1 April 15 £m	Forecast Net Movement in Year £m	Estimated Closing Balance 31 March 16 £m
Revenue Usable Reserves				
General	a	(46.9)	0.0	(46.9)
Earmarked:				
Crossrail	b	(22.8)	19.6	(3.2)
Police future expenditure	c	(5.9)	1.7	(4.2)
Highway improvements	d	(7.6)	3.7	(3.9)
Business Rates Safety Net Equalisation	e	(14.3)	14.3	0.0
VAT Reserve	f	(4.2)	0.0	(4.2)
Proceeds of Crime Act	g	(3.7)	0.5	(3.2)
Judges Pensions	h	(1.4)	0.0	(1.4)
Central Criminal Court	i	(0.6)	0.4	(0.2)
Renewals and Repairs	j	(0.7)	0.0	(0.7)
Maintenance of Graves	k	(0.5)	0.5	0.0
Service Projects	l	(2.5)	0.3	(2.2)
Total Revenue Earmarked		(64.2)	41.0	(23.2)
Housing Revenue Account		(7.7)	5.3	(2.4)
Total Revenue Usable Reserves		**(118.8)**	**46.3**	**(72.5)**
Capital Usable Reserves				
General Capital Receipts Reserve		(35.9)	(4.8)	(40.7)
Crossrail Capital Receipts Reserve		(132.6)	132.6	0.0
HRA Major Repairs Reserve		(4.0)	4.0	0.0
Total Capital Usable Reserves		**(172.5)**	**131.8**	**(40.7)**
Total Usable Reserves		**(291.3)**	**178.1**	**(113.2)**

Notes

(a) General Reserve – The accumulated balance from annual surpluses or deficits on the City Fund Revenue Account less any transfers to, or plus any transfers from, earmarked reserves.

(b) Crossrail – Revenue funds set aside to contribute towards the City's £200m commitment towards the Crossrail project, currently anticipated in 2016.

(c) Police Future Expenditure - Revenue expenditure for the City Police service is cash limited. Underspendings against this limit may be carried forward as a reserve to the following financial year and overspendings are required to be met from this reserve.

(d) Highway Improvements - Created from on-street car parking surpluses to finance future highways related expenditure and projects as provided by section 55 of the Road Traffic Regulation Act 1984, as amended by the Road Traffic Act 1991.

(e) Business Rates Safety Net Equalisation - Safety net arrangements are in place to protect local authorities from the impact of any reductions below 7.5% in their retained business rates baseline funding level. Under these arrangements the maximum loss the City can suffer is £1.1m against the baseline funding level. Due to the impact of the provision for rating appeals the City did suffer a reduction in retained rates income for 2013/14. However, under statutory arrangements, the shortfall will not be charged against the City Fund unallocated reserve until 2015/16 and is held temporarily in the Collection Fund Adjustment Account as a negative reserve. This liability will be largely offset by a payment from the Government to bring the City's retained rates income up to its safety net level. This payment from the Government has therefore been set aside to partly compensate for the shortfall when it is subsequently recognised.

(f) VAT Reserve – Should the City of London Corporation no longer be able to recover VAT incurred on exempt services as a result of exceeding the 5% partial exemption threshold, this reserve will be the first call for meeting the associated costs.

(g) Proceeds of Crime Act – Cash forfeiture sums awarded to the City. Under the guidelines of the scheme, the funds must be ring-fenced for crime reduction initiatives.

(h) Judges Pensions - Sums set aside to assist with the City of London's share of liabilities.

(i) Central Criminal Court Plant Replacement – Sums set aside to assist with financing the net cost up to design report stage.

(j) Renewals and Repairs – Sums obtained on the surrender of headleases and set aside to fund cyclical maintenance and repair works to the properties and void costs.

(k) Maintenance of Graves - to help fund the maintenance of graves and memorial gardens so that current income is not the sole source of finance for the maintenance of old graves. Any surpluses made by the Cemetery and Crematorium are transferred to the Reserve at year end.

(l) A number of reserves for service specific projects and activities where the balance on each individual reserve is less than £0.5m have been aggregated under this generic heading.

Committees: Finance Committee	Dates: 17 February 2015
Subject: Revenue and Capital Budgets 2014/15 and 2015/16	**Public**
Report of: The Chamberlain	**For Decision**

SUMMARY

1. This report should be read in conjunction with the separate report to your Committee entitled 'City Fund – 2015/16 Budget Report and Medium Term Financial Strategy' which recommends that the City's business rate premium and council tax for 2015/16 remain unchanged.

2. The 2014/15 and 2015/16 budgets for each of the City of London Corporation's three main funds are set out below. They have been prepared within the planning frameworks agreed by the Resource Allocation Sub Committee.

Budgets by Fund			
	2014/15 Original £m	**2014/15 Latest £m**	**2015/16 Original £m**
City Fund			
Gross Expenditure	363.5	394.7	372.6
Gross Income	(258.8)	(287.4)	(271.0)
Net Expenditure before Government Grants and Taxes	104.7	107.3	101.6
Government Grants and Taxes	(110.4)	(110.7)	(101.8)
Surplus to Reserves	**(5.7)**	**(3.4)**	**(0.2)**
City's Cash			
Gross Revenue Expenditure	157.8	182.6	175.4
Gross Revenue Income	(149.7)	(170.5)	(166.0)
Operating Deficit	**8.1**	**12.1**	**9.4**
Profit on asset sales	(2.0)	(11.4)	(12.0)
Deficit from Reserves	**6.1**	**0.7**	**(2.6)**
Bridge House Estates			
Gross Expenditure	38.3	45.1	40.8
Gross Income	(41.1)	(43.5)	(44.4)
Deficit (Surplus) from (to) Reserves	**(2.8)**	**1.6**	**(3.6)**

NB: Figures in brackets indicate income or in hand balances, increases in income or decreases in expenditure.

3. City Fund

- The surplus in the current year is anticipated to reduce from £5.7m to £3.4m. For 2015/16 a broadly break even position is indicated. This takes account of cuts in Government Formula Grants of £5.1m (15.8%) and £2.8m (5.1%) for City Fund Non-Police and Police services respectively,

together with the first tranche of savings/increased incomes agreed for the Service Based Review. Other reasons for the main variations are set out in paragraphs 19 to 28.

- The subsequent years in the medium term financial forecast (2016/17 to 2018/19) indicate small surpluses which are similarly dependent on delivery of the savings/increased incomes from the Service Based Review.
- The City Fund capital budget includes the £200m contribution payable to Crossrail which is anticipated to become due in March 2016 although the timing will depend upon the completion of certain project milestones. The funding for the £200m is on track and is covered in more detail in the 'City Fund – 2015/16 Budget Report'.

4. City's Cash

- The City's Cash deficit in the current year is anticipated to be £0.7m, an improvement of £5.4m on the original budget. For 2015/16, City's Cash returns to a surplus of £2.6m.
- As indicated in the table above, these bottom line figures are after anticipated profits on asset sales of £11.4m and £12m respectively. If the profits on asset sales are excluded, the operating deficits for 2014/15 and 2015/16 are £12.1m and £9.4m respectively.
- With regard to the subsequent years of the medium term financial forecast, break-even is indicated for 2016/17 after profits on asset sales and modest surpluses are indicated for 2017/18 and 2018/19. As with City Fund, these forecasts are predicated on the achievement of the savings/increased incomes from the Service Based Review.
- Details of other significant budget variations are set out in paragraphs 32 to 39.

5. Bridge House Estates

- For the current year, the surplus of £2.8m is anticipated to move to a deficit of £1.6m due to the carrying forward of unused grants budgets from 2013/14.
- The fund is expected to return to surplus in 2015/16 with the medium term financial forecast also indicating healthy surpluses for subsequent years.

6. The report also summarises the budgets for central support services within Guildhall Administration (which initially 'holds' such costs before these are wholly recovered) and the capital budgets for the three Funds.

7. The 2015/16 Summary Budget Book accompanies this report and will be available on the *Members' Committees and Papers* section of the City of London Corporation's website. Copies will also be available in the Members' Reading Room and individual copies can be requested from steve.telling@cityoflondon.gov.uk.

Recommendations

8. It is recommended that Members:
   (i) note the latest revenue budgets for 2014/15;
   (ii) agree the 2015/16 revenue budgets;
   (iii) agree the capital budgets;
   (iv) delegate authority to the Chamberlain to determine the financing of the capital budgets; and
   (v) submit this report to the Court of Common Council for its approval

MAIN REPORT

Background

9. The primary purpose of this report is to summarise the latest budgets for 2014/15 and the proposed budgets for 2015/16 respectively together with the capital budgets, which have all been prepared within agreed policy guidelines and allocations, for your submission to the Court of Common Council in March.

10. During the autumn/winter cycle of meetings each Committee has received and approved a budget report which, with the exception of City Police and Bridge House Estates, took account of the general planning framework for Chief Officers which provided for;

    - allowances towards pay and price increases of 2%; and

    - the inclusion of the Service Based Review expenditure reductions and/or increased incomes agreed by the Policy and Resources Committee – in so far as such expenditure reductions/increased incomes have been phased for 2015/16.

11. For the City Police, the annual cash limit continues to be determined by the national settlement allocation plus support from the City's Business Rate Premium, with the Force using its reserves on a phased basis subject to a minimum level being retained.

12. As Bridge House Estates remains in a reasonably buoyant position, the 2% allowance towards inflationary pressures has been provided and no Service Based Review budget reductions have been required.

13. Accompanying this report is the Summary Budget Book 2015/16 which will be available on the *Members' Committees and Papers* section of the City of London Corporation's website. Copies will also be available in the Members' Reading Room and individual copies can be requested from steve.telling@cityoflondon.gov.uk. The Summary Budget Book provides:

    (i) all the budgets at a summary level in a single document;
    (ii) service overviews – a narrative of the services for which each Chief Officer is responsible;
    (iii) Chief Officer summaries showing net revenue expenditure by division of service, fund, type of expenditure and income;

(iv) Fund summaries showing the net revenue requirement for each Fund supported by Committee summaries showing the net requirement for each Committee within the Fund; and

(v) the capital and supplementary revenue project budgets by Fund.

Overall Financial Strategy

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

- maintain and enhance the financial strength of the City of London 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;
- encourage competition for resources;
- create a stable framework for budgeting through effective financial planning; and
- promote investment in capital projects which bring clear economic, policy or service benefits.

15. The medium term financial strategy/budget policies for each of the funds are set out in Annex 1.

CITY FUND

Overall Budget Position

16. The overall budgets have been prepared in accordance with the strategy and the requirements for 2014/15 and 2015/16 are summarised by Committee in the table below. Explanations for significant variations were contained in the budget reports submitted to service committees.

City Fund Summary by Committee	**2014/15**	**2014/15**	**2015/16**
	Original	**Latest**	**Original**
Net Expenditure (Income) (1)	**£m**	**£m**	**£m**
Barbican Centre	24.0	24.9	25.0
Barbican Residential	0.1	0.9	1.0
Community and Children's Services	11.2	11.9	11.4
Culture Heritage and Libraries	20.1	20.2	20.1
Finance (2)	(7.7)	(6.7)	(10.2)
Licensing	0.0	0.2	0.1
Markets	(0.8)	(0.8)	(0.8)
Open Spaces	1.4	1.5	1.6
Planning and Transportation	12.6	12.6	13.7
Police	60.4	60.4	57.5
Policy and Resources	3.7	3.7	3.9
Port Health and Environmental Services	14.1	14.7	14.4
Property Investment Board	(34.4)	(36.2)	(36.1)
City Fund Requirement (3)	**104.7**	**107.3**	**101.6**

1. *Figures in brackets indicate income or in hand balances, increases in income or decreases in expenditure.*
2. *The increase in net income on Finance Committee from £7.7m in the 2014/15 original budget to £10.2m in the 2015/16 original budget primarily relates to capital contras. Depreciation charges are made to service committees but, under local government accounting requirements, such costs cannot be charged to taxpayers. Consequently the depreciation charges are reversed out through the Finance Committee.*
3. *Reconciles to line 6 in the table overleaf.*

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

- the contributions made from the City's own assets towards the City Fund requirement (interest on balances – line 4, and investment property rent income – line 5);
- the funding received from Government formula grants and from taxes (lines 7 to 10); and
- the estimated surpluses to be transferred to reserves (line 12).

City Fund Revenue Requirements 2014/15 and 2015/16					
		2014/15 Original £m	**2014/15 Latest £m**	**2015/16 Original £m**	**Para. No.**
1	Net expenditure on services	145.6	149.0	142.0	19, 23
2	Supplementary revenue projects and capital expenditure financed from revenue	1.6	2.4	2.7	20, 24
3	Requirement before investment income from the City's Assets	147.2	151.4	144.7	
4	Interest on balances	(2.1)	(2.5)	(1.6)	21, 25
5	Estate rent income	(40.4)	(41.6)	(41.5)	22, 26
6	**City Fund Requirement**	**104.7**	**107.3**	**101.6**	
	Financed by:				
7	Government formula grants	(87.4)	(87.6)	(78.3)	27, 28
8	City offset	(10.7)	(10.8)	(11.0)	
9	Council tax	(5.8)	(5.8)	(6.0)	
10	NNDR premium	(6.5)	(6.5)	(6.5)	
11	Total Government Grants and Tax Revenues	(110.4)	(110.7)	(101.8)	
12	**Surplus transferred to reserves**	**(5.7)**	**(3.4)**	**(0.2)**	

18. The surplus in the current year is anticipated to reduce from £5.7m to £3.4m. For 2015/16 a broadly break even position is indicated. The impact of significant and continuing cuts in Government funding is being partly offset by the first tranche of savings/increased incomes agreed as part of the Service Based Review. The subsequent years in the medium term financial forecast (2016/17 to 2018/19) indicate small surpluses which are similarly dependent on delivery of the savings/increased incomes from the Service Based Review.

Revenue Budget 2014/15

Net Expenditure on Services

19. Net expenditure on City Fund services in 2014/15 was originally budgeted at £145.6m, whereas the latest budget totals £149.0m, an increase of £3.4m. The main reasons for this increase are:

- £1.6m approved budgets brought forward from 2013/14;
- £1m for the deletion of an income provision for efficiency and budget reviews – replaced by the City Procurement and Service Based Review savings below;
- £1m increase in the transfer to the on-street parking reserve largely resulting from contract savings;
- £0.5m increase for the rephasing of the additional repairs and maintenance works programmes;
- £0.4m increase for the Barbican Centre to preserve the neutrality principle in relation to the relocation of the cinemas to the exhibition halls, the corporate repairs and maintenance contract and the pay and grading review;
- £0.4m one-off costs for bringing the collection of rates and council tax back in- house;

partly offset by

- £1.2m Service Based Review (£0.7m) and Procurement savings (£0.5m);

Supplementary Revenue Projects and Capital Expenditure Funded from Revenue

20. The increase from £1.6m to £2.4m largely relates Museum of London and Police Accommodation projects, partially offset by slippage on the planned works to Exhibition Hall 1 required to enable occupation by the London Film School.

Interest on Balances

21. The latest budget for 2014/15 anticipates an increase of £0.4m in interest earnings to £2.5m. This reflects a more beneficial cash flow, particularly business rate receipts, capital expenditure and higher reserves. The assumed average interest rate for the year is unchanged at 0.75%.

Investment Estate Rent Income

22. Rent income from investment properties is forecast to be £41.6m, an increase of £1.2m on the original budget due to rent and occupancy levels generally being more favourable than the original assumptions, together with accounting adjustments required to recognise the impact of rent incentives (e.g. rent free periods).

Revenue Budget 2015/16

Net Expenditure on Services

23. Net expenditure on City Fund services for 2015/16 is budgeted at £142m, a reduction of £3.6m compared to the 2014/15 original budget. The main variations are:

- £4.3m of savings/increased income relating to the Service Based Review (£3.8m) and procurement (£0.5m);
- £2.8m reduction in the City Police cash limit to reflect the cut in core Government grant;
- £0.4m increase in unringfenced specific grant income;
- £0.4m saving from bringing the collection of rates and council tax back in-house;

partly offset by

- £1.6m increase for pay and prices.
- £1.3m increase in the on-street parking surplus transferred to reserve, largely resulting from contract savings;
- £1m for the deletion of an income provision for efficiency and budget reviews – replaced by the Service Based Review savings above;
- £0.4m increase relating to the phasing of the additional repairs and maintenance works programmes.

Supplementary Revenue Projects and Capital Expenditure Funded from Revenue

24. The budget of £2.7m reflects the revenue financing required for the latest supplementary revenue and capital expenditure programmes which, by their nature, tend to be 'lumpy'.

Interest on Balances

25. Income is anticipated to reduce to £1.6m from the £2.5m forecast in the current year due largely to a decrease in the assumed average interest rate for the year from 0.75% to 0.5%.

Investment Estate Rent Income

26. The latest rental forecasts for 2015/16 assume an increase of £1.1m to £41.5m compared to the original budget for 2014/15. This increase relates to the latest assumptions on availability, occupancy, and rent levels.

Government Formula Grant

27. There is a reduction of £7.9m in core Government Grants from £87.4m in the original budget for the current year to £79.5m in 2015/16. This reduction is split between Police and Non-Police services as follows:

Analysis of the City's National Formula Grant				
	2014/15	2015/16	Reduction on 2014/15	
	£m	£m	£m	%
Police	55.2	52.4	2.8	5.1
Non-Police	32.2	27.1	5.1	15.8
Total before Rates Retention Scheme Reduction (para 28)	**87.4**	**79.5**	**7.9**	**9.0**
Rates Retention Scheme Reduction	0.0	1.2	1.2	-
Total in table at para 17 (line7)	**87.4**	**78.3**	**9.1**	**10.4**

28. Under the Rates Retention Scheme element of Non-Police Formula Grant, the City's rates receivable in 2013/14 were lower than originally forecast due to a significant increase in the provision for appeals. However, the Government's safety net mechanism limited the City's losses to £1.2m. Due to the way the scheme works this reduction does not flow through until 2015/16.

CITY'S CASH

Overall Budget Position

29. The budgets have been prepared in accordance with the budget policy set out in Annex 1 and the net positions for 2014/15 and 2015/16 are summarised by committee in the table below. Sufficient reserves are available to meet the estimated deficit in the current year.

City's Cash Summary by Committee	**2014/15**	**2014/15**	**2015/16**
	Original	**Latest**	**Original**
Net Expenditure (Income)	**£m**	**£m**	**£m**
Culture, Heritage & Libraries	0.4	0.4	0.3
Education Board	0.0	0.7	1.0
Finance (1)	(5.9)	(14.3)	(15.4)
G. P. Committee of Aldermen	3.1	3.3	3.2
Guildhall School of Music and Drama	9.0	10.5	9.9
Markets	1.2	1.3	0.5
Open Spaces :-			
Open Spaces Directorate (2)	0.0	0.0	0.0
Epping Forest and Commons	7.2	7.6	7.7
Hampstead, Queen's Pk, Highgate Wd	7.4	7.7	7.9
Bunhill Fields	0.3	0.3	0.3
West Ham Park	1.2	1.0	1.2
Planning and Transportation	0.1	0.0	0.0
Policy and Resources	10.6	12.1	11.3
Port Health and Environmental Services	0.1	0.0	0.0
Property Investment Board	(33.5)	(35.1)	(35.0)
Schools :-			
City of London School (3)	1.5	1.6	1.6
City of London Freemen's School (3)	2.3	2.4	2.1
City of London School for Girls (3)	1.1	1.2	0.8
Deficit (Surplus) from (to) reserves	**6.1**	**0.7**	**(2.6)**

1. *The significant variations between the 2014/15 original budget (£5.9m credit) and the 2014/15 latest (£14.3m credit) and 2015/16 original (£15.4m credit) budgets largely relates to the estimated profits on the sale of assets which are £2.0m, £11.4m and £12.0m respectively.*
2. *Fully recharged to the Opens Spaces.*
3. *Shows City Support rather than net expenditure by the schools.*

30. The following table further analyses the budget to indicate the income produced from the City's assets (investment property rent income, non-property investment income and interest on balances at lines 3 to 5 respectively). It also indicates the underlying deficit on City's Cash before the anticipated profits on the sale of assets are taken into account (lines 6 to 8).

	City's Cash Requirements 2014/15 and 2015/16				
		2014/15 Original £m	2014/15 Latest £m	2015/16 Original £m	Para. No.
1	Net expenditure on services	66.9	71.4	68.2	32, 37
2	Supplementary revenue projects	2.7	3.5	3.7	33, 38
3	Estate rent income	(41.8)	(43.1)	(42.8)	34
4	Non-property investment income (net)	(19.6)	(19.6)	(19.6)	35
5	Interest on balances	(0.1)	(0.1)	(0.1)	
6	**Operating Deficit**	**8.1**	**12.1**	**9.4**	
7	Profit on asset sales	(2.0)	(11.4)	(12.0)	36, 39
8	**Deficit (Surplus) from (to) reserves**	**6.1**	**0.7**	**(2.6)**	

31. The City's Cash operating deficit is anticipated to increase from £8.1m to £12.1m in the current year and then reduces to £9.4m in 2015/16. However, the operating position is forecast to return to surplus from 2017/18 due to a combination of savings from the Service Based Review, increased rent income from the investment estate and lower expenditure on supplementary revenue projects.

Revenue Budget 2014/15

Net Expenditure on Services

32. Net expenditure on City's Cash services for 2014/15 was originally budgeted at £66.9m. The latest budget of £71.4m is an increase of £4.5m which is primarily due to:

- £2.1m approved budgets brought forward from 2013/14;
- £1.8m increase in depreciation charges primarily relating to the new facilities provided at Milton Court for the Guildhall School of Music and Drama;
- £1.4m increase for the rephasing of the additional repairs and maintenance works programmes;
- £0.7m budget for the Education Board;

partly offset by

- £1.6m increase in the release of deferred income relating to grants and contributions received towards capital projects, mainly developer contributions towards Milton Court. UKGAAP requires such income to be released to revenue over the anticipated lives of the assets rather than being applied to match expenditure as it is incurred. This largely offsets the increase in depreciation above;

Supplementary Revenue Projects

33. The increase from £2.7m to £3.5m primarily relates to slippage from 2013/14 on investment properties and Guildhall School of Music and Drama.

Investment Estate Rent Income

34. Rent income from investment properties is forecast to be £43.1m which is an increase of £1.3m on the original budget. This increase relates to the retention of tenants and lettings that were not anticipated in the original budget, together with accounting adjustments required to recognise the impact of rent incentives (e.g. rent free periods).

Non-Property Investment Income

35. Previously the budget reflected fund managers' forecasts of dividend income and these would vary in line with their expectations of performance. However, during 2013/14 most of the equity funds transferred to pooled investment vehicles. Consequently all non-property investment income is now required to be treated as remaining within the managed funds, with City's Cash drawing down income as necessary. The amounts to be drawn down in 2014/15 and 2015/16, after the deduction of management fees, have been set at the £19.6m assumed in the 2014/15 original budget.

Profit on Asset Sales

36. The profit on the sale of assets is anticipated to increase from £2m to £11.4m. The original budget included a nominal sum to reflect that on the basis of past experience some profits should be expected. The latest budget now reflects estimated profits from the sales of low yielding freehold interests in the West End and premiums from long leases granted on properties in the City.

Revenue Budget 2015/16

Net Expenditure on Services

37. Net expenditure on City's Cash services for 2015/16 is budgeted at £68.2m, an increase of £1.3m compared to the original budget for 2014/15. The main reasons for the increased requirement are:

- £2.6m increase in depreciation charges primarily relating to the new facilities at Milton Court for the Guildhall School and Music and Drama and the Phase 1 Freemen's School Masterplan works;
- £1.0m budget for the Education Board;
- £1.0m increase for pay and prices;
- £0.8m additional resources for the corporate repairs and maintenance contract;
- £0.6m increase relating to the phasing of the additional repairs and maintenance works programmes;

partly offset by

- £2.8m of savings/increased income relating to the Service Based Review;
- £1.6m increase in the release of deferred income relating to grants and contributions received towards capital projects mainly relating to developer contributions towards Milton Court. UKGAAP requires such income to be released to revenue over the anticipated lives of the assets rather than being applied to match expenditure as it is incurred. This partly offsets the increase in depreciation above;
- £0.5m reduction in the GSMD revenue budget as the temporary increase from the capital cap is partly withdrawn;

Supplementary Revenue Projects

38. The £3.7m budget for 2015/16 relates mainly to the City's anticipated contribution towards the cost of delivering the Crossrail Arts Strategy.

Profit on Asset Sales

39. The estimate of £12m for profits on asset sales relates to the anticipated receipt of a lease premium from a redevelopment to the east of the City.

BRIDGE HOUSE ESTATES

Overall Budget Position

40. The budgets have been prepared in accordance with the budget policy set out in Annex 1 and the requirements for 2014/15 and 2015/16 are summarised in the table below.

Bridge House Estates Summary by Committee *Net Expenditure (Income)*	**2014/15 Original £m**	**2014/15 Latest £m**	**2015/16 Original £m**
The City Bridge Trust	16.9	21.7	17.2
Culture, Heritage and Libraries	(0.3)	(0.3)	(0.2)
Finance	(10.6)	(9.7)	(10.6)
Planning and Transportation	3.7	3.6	3.6
Property Investment Board	(12.5)	(13.7)	(13.6)
Deficit (Surplus) from (to) reserves	**(2.8)**	**1.6**	**(3.6)**

41. In the current year, the original estimate for a surplus of £2.8m is anticipated to move to a deficit of £1.6m largely due to unspent budgets brought forward from 2013/14 in relation to City Bridge Trust grants. A return to surplus is expected for 2015/16 with the medium term financial forecast also indicating healthy surpluses for subsequent years.

42. The following table further analyses the budget to indicate;

- the income produced from the City's assets (investment property rent income, non-property investment income and interest on balances at lines 4 to 6 respectively); and
- the budgets for charitable grants (line 8).

	Bridge House Estates Requirements 2014/15 and 2015/16				
		2014/15 Original £m	**2014/15 Latest £m**	**2015/16 Original £m**	**Para. No.**
1	Net expenditure on services	10.3	10.8	10.6	43, 50
2	Supplementary Revenue Projects	0.4	1.2	0.5	44
3	Bridges repairs, maintenance and major works fund contribution	1.1	1.1	1.1	47,48
4	Estate rent income	(16.7)	(18.1)	(17.9)	45
5	Non-property investment income (net)	(13.8)	(13.8)	(13.8)	46
6	Interest on balances	(0.1)	(0.1)	(0.1)	
7	**Revenue surplus**	**(18.8)**	**(18.9)**	**(19.6)**	
8	Charitable grants	16.0	20.5	16.0	49, 51
9	**Deficit (Surplus) from (to) reserves**	**(2.8)**	**1.6**	**(3.6)**	

Revenue Budget 2014/15

Net Expenditure on Services

43. The increase from £10.3m to £10.8m in 2014/15 is primarily due to:

- £0.4m approved budgets brought forward from 2013/14;
- £0.2m increase for the City Bridge Trust Grants Unit in relation to management of the Social Investment Fund, and administration and monitoring of grant programmes.

Supplementary Revenue Projects

44. The increase from £0.4m to £1.2m largely relates to additional costs associated with the redevelopment of the Bridgemaster's House at Tower Bridge for investment purposes.

Investment Estate Rent Income

45. Rent income from investment properties is forecast to be £18.1m which is an increase of £1.4m on the original budget. This increase relates to income from two new acquisitions.

Non-Property Investment Income

46. As with City's Cash, the budget previously reflected fund managers' forecasts of dividend income and these would vary in line with their expectations of performance. However, during 2013/14 most of the equity funds transferred to pooled investment vehicles. Consequently all non-property investment income is now required to be treated as remaining within the managed funds, with Bridge House Estates drawing down income as necessary. The amounts to be drawn down in 2014/15 and 2015/16, after the deduction of management fees, have been set at the £13.8m assumed in the 2014/15 original budget.

Bridges Repairs, Maintenance and Major Works Fund

47. The objective for the Bridges Repairs, Maintenance and Major Works Fund is to provide sufficient resources to meet the enhanced maintenance costs of the five bridges over a period of at least 50 years.

48. Having compared the costs of the City Surveyor's 50 year maintenance programme with the projections for income to be earned by the Fund, the 2015/16 contributions required have been assessed as £1.1m – unchanged from the current year. The 50 year maintenance programme and the levels of contributions required to smooth the costs over this period will continue to be reviewed annually.

Charitable Grants

49. The increase of £4.5m to £20.5m relates to budgets brought forward from 2013/14 and the first instalment of £1m a year (for 10 years) to the Prince's Trust.

Revenue Budget 2015/16

Net Expenditure on Services

50. The estimate of £10.6m is an increase of £0.3m on the original budget for 2014/15. This increase primarily relates to the resourcing of the City Bridge Trust Grants Unit in relation to management of the Social Investment Fund and administration and monitoring of grant programmes together with an allowance for pay and prices.

Charitable Grants

51. The 2015/16 budget is £16m and comprises:

- £15m base budget for charitable grants; and
- £1m for the second instalment of £1m a year (for 10 years) to the Prince's Trust

GUILDHALL ADMINISTRATION

52. Guildhall Administration encompasses most of the central support services for the City, with the costs being fully recovered from the three main City Funds, Housing Revenue Account, Museum of London and other external bodies in accordance with the level of support provided. Consequently, after recovery of costs, the net expenditure on Guildhall Administration is nil. The table below summarises the position.

Guildhall Administration by Committee *Net Expenditures*	**2014/15 Original £m**	**2014/15 Latest £m**	**2015/16 Original £m**
Culture, Heritage and Libraries - City Records Office	0.9	0.9	0.9
Establishment - Town Clerk & C&CS	11.6	11.6	11.0
Finance - Chamberlain	31.3	31.5	31.8
Finance - City Surveyor, Remembrancer and Town Clerk	19.9	19.7	19.8
Total Net Expenditure	**63.7**	**63.7**	**63.5**
Recovery of Costs	(63.7)	(63.7)	(63.5)
Total Guildhall Administration	0	0	0

Revenue Budget 2014/15

53. Although the 2014/15 latest budget is unchanged from the original, there are a number of largely compensating variations:

- £0.4m reduction relating to the phasing of the additional repairs and maintenance works programmes;
- £0.3m of savings/increased income relating to the Service Based Review;

largely offset by

- £0.3m increase in the IS budget for licences and the local area network;
- £0.3m increase in insurance premiums.

Revenue Budget 2015/16

54. Again, the net expenditure for 2015/16, at £63.5m, is little changed from 2014/15. The main variations are as follows:

- £1.4m savings/increased income relating to the Service Based Review;
- £1.1m saving in consultants fees in relation to procurement;

largely offset by

- £0.8m increase in insurance premiums;
- £0.7m increase for pay and prices;
- £0.4m increase in the IS budget for wi-fi infrastructure and the local area network;
- £0.3m increase relating to the additional repairs and maintenance works programmes.

CAPITAL AND SUPPLEMENTARY REVENUE PROJECT BUDGETS

55. The City Fund, City's Cash and Bridge House Estates capital and supplementary revenue project budgets being submitted to the Court of Common Council in March are included in the Summary Budget Book.

City Fund Capital and Supplementary Revenue Project Budgets

56. The latest City Fund capital and supplementary revenue projects budgets total £62.8m for 2014/15 and £231.5m for 2015/16. The budgets for both years include schemes relating to affordable housing, the Barbican Centre, works at the Old Bailey and highways/streetscene schemes, most notably the highway and public realm scheme at Aldgate. In addition, the 2015/16 budget reflects the capital contribution of £200m payable towards Crossrail. After allowing for external contributions and the use of earmarked reserves, the remainder of the City Fund capital budget is anticipated to be financed largely from capital receipts in line with budget policy.

City's Cash Capital and Supplementary Revenue Project Budgets

57. The latest City's Cash capital and supplementary revenue projects budgets total £28.9m for 2014/15 and £18.8m for 2015/16. The budgets for both years include property investments and flood mitigation schemes on the Open Spaces.

Bridge House Estates Capital and Supplementary Revenue Project Budgets

58. The latest Bridge House Estates capital and supplementary revenue projects budgets total £35.4m for 2014/15 and £14.8m in 2015/16 mainly related to investment property acquisitions and developments.

Financing Capital Expenditure

59. As in previous years, it is proposed that the Chamberlain should determine the final financing of the capital budgets.

Peter Kane
Chamberlain

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Annex 1

Medium Term Financial Strategy/Budget Policy

City Fund

The main constituents of the City Fund medium term financial strategy/budget policy are as follows:-

(i) to aim to achieve as a minimum over the medium term planning period the 'golden rule' of matching on-going revenue expenditures and incomes;
(ii) to implement budget adjustments and measures that are sustainable, on-going and focused on improving efficiencies;
(iii) in line with (ii), as far as possible to protect existing repairs and maintenance budgets from any efficiency squeezes or budget adjustments and to ring-fence all other non-staffing budgets (to prevent any amounts from these budgets being transferred into staffing budgets);
(iv) within the overall context of securing savings and budget reductions, to provide Chief Officers with stable financial frameworks that enable them to plan and budget with some certainty;
(v) for the Police service, ordinarily to set an annual cash limit determined from the national settlement allocation to the City Police and to allow the Force to draw from its reserves on a phased basis, subject to a minimum level being retained;
(vi) to identify and achieve targeted/selective budget reductions and savings programmes;
(vii) to ring-fence sufficient assets (cash and investment property) to accumulate, via revenue and/or capital growth, the amount required to meet the City of London Corporation's Crossrail direct funding commitment of £200m in 2015/16;
(viii) to continue to review critically all financing arrangements, criteria and provisions relating to existing and proposed capital and supplementary revenue project expenditures;
(ix) to reduce the City Fund's budget exposure to future interest rate changes by adopting a very prudent, constant annual earnings assumption in financial forecasts. If higher earnings are actually achieved, consideration to be given to only making the additional income available for non-recurring items of expenditure;
(x) to accept that in some years of the financial planning period it may be necessary to make contributions from revenue balances to balance the revenue budget;
(xi) ordinarily to finance capital projects from capital rather than revenue resources and supplementary revenue projects from provisions set aside within the financial forecast; and
(xii) to minimise the impact of rate/tax increases on City businesses and residents.

City's Cash

The main constituents of the current budget policy for City's Cash services reflect the general elements within the City Fund strategy together with the following specific objectives:

- ensure that ongoing revenue expenditure is contained within revenue income over the medium term and sufficient surpluses are generated to finance capital investment on City's Cash services;

- continue to seek property investment opportunities to enhance income/seek capital appreciation during the year, subject to any financing being met from the City's Estate Designated Sales Pool; and

- sell either property or financial assets, which would need to be in addition to property disposals required to meet the financing requirements of the Designated Sales Pool, to meet City's Cash cash-flow requirements.

Bridge House Estates

Budget policy in relation to Bridge House Estates is as follows:

- adhering to a planning framework which provides cash limit allowances towards inflationary pressures rather than the budget reductions and savings programmes applied to other funds;

- ensuring that ongoing revenue expenditure is contained within revenue income over the medium term and that sufficient surpluses are generated to finance expenditure on the Bridges with surplus funds allocated to charitable grants; and

- continuing to seek property investment opportunities to enhance income/provide capital appreciation during the year subject to any financing being met from the Bridge House Estates Designated Sales Pool.

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Committee: Finance Committee	Date: 17 February 2015
Subject: Revenue Budget Monitoring to December 2014	**Public**
Report of: The Chamberlain	**For Information**

Summary

This report sets out the position on Chief Officers' cash limited local risk budgets. Variations on corporate budgets such as investment incomes, profits on asset sales and supplementary revenue projects are outlined in a separate report - "Revenue and Capital Budgets 2014/15 and 2015/16" - elsewhere on the agenda.

Net local risk expenditure at the end of December, excluding the ring-fenced Police account, is £2.9m (3%) within the profiled budget of £107.6m.

The forecast year end position, excluding the ring-fenced Police account, is £1.9m (1%) within the budget of £142.7m.

The most significant variations forecast to local risk budgets at year end are a better than budget position of £0.7m (4%) by the Director of the Built Environment primarily due to savings on the 'On Street' parking contract and income streams exceeding expectations for development related activities and parking; and £0.7m (10%) by the Director of Community and Children's Services largely due to reduced expenditure requirements across a number of programmes and care services.

The latest forecast for the Police ring fenced account indicates that a transfer from reserves of £8.5m will be required, an increase of £4.4m from the original budget. The reasons for this are set out in paragraph 3. As a result it is anticipated that the balance on the Police general reserve as at 31 March 2015 will be some £5.9m.

Risks

In another report elsewhere on the agenda the Chamberlain is seeking an allocation from your Committee's contingencies to mitigate the cost of additional IS projects that cannot be absorbed within existing resources.

The City Surveyor has outlined cost pressures on repairs and maintenance for the operational estate and Guildhall together with the steps being taken to mitigate these pressures (paragraphs 4 and 5).

Recommendation

Members are asked to note the report.

Main Report

Introduction

1. This report sets out the position on Chief Officers' cash limited local risk budgets. Variations on corporate budgets such as investment incomes, profits on asset sales and supplementary revenue projects are outlined in a separate report - "Revenue and Capital Budgets 2014/15 and 2015/16" - elsewhere on the agenda.

Main Variations

2. Net local risk expenditure across all funds, excluding the ring-fenced Police account, was £2.9m (3%) within the budget profile of £107.6m at the end of December. The forecast year end position, excluding the ring-fenced Police account, is £1.9m (1%) within the budget of £142.7m. A summary of the financial position on each Chief Officers' local risk (cash limited) budgets as at 31st December, excluding the ring-fenced Police account, is set out in Appendix 1. The main variations together with a brief commentary are outlined below.

Table 1: Main Variations

Chamberlain	**Year to Date (YTD) £68,000 (0%) worse, Full Year (FY) £186,000 (1%) worse**
The Chamberlain's department has taken on a number of additional high priority corporate IS programmes and initiatives which could not be absorbed within existing resources. A separate report is included on the agenda requesting an allocation from the Finance Committee's contingencies.	
City Surveyor, Guildhall Administration	**YTD £263,000 (5%) worse, FY £327,000 (5%) worse**
An overspend on energy costs and repairs and maintenance, together with increased costs associated with events. A full review is being undertaken of repairs and maintenance transactions, income and expenditure related to events, and energy bills.	
Comptroller and City Solicitor	**YTD £385,000 (17%) better, FY £300,000 (10%) better**
Additional income from property based transactions and other legal fees, together with underspends on employees.	
Director of the Built Environment, City Fund	**YTD £866,000 (7%) better, FY £688,000 (4%) better**
Additional Off-Street Parking income due to the Tower of London poppy display and salary savings from vacant posts as part of the Planning restructure. Accumulated departmental savings from prior periods include savings from the new street parking enforcement contract, together with additional income from hoardings, scaffolding and road closure licences.	

Director of Community and Children's Services	**YTD £424,000 (9%) better, FY £652,000 (10%) better**
Underspends on various programmes including student support, youth programmes, early learning support and an underspend on consultancy fees. In addition a £250,000 budget set aside to help mitigate potential financial pressures is unlikely to be required.	
Director of Culture, Heritage and Libraries, BHE	**YTD £65,000 (13%) better, FY £90,000 (12%) better**
Higher than anticipated income at Tower Bridge from the Exhibition, gift shop and vending machines. This is partly offset by increased marketing and equipment costs for the new Glass Walkways.	
Director of Markets and Consumer Protection City Fund	**YTD £299,000 (17%) better, FY £12,000 (1%) worse**
Additional income has been generated at the Heathrow Animal Reception Centre (HARC) from 'Passports for Pets' and from trade waste charges. In addition there are underspends at Spitalfields Market due to vacant posts. The favourable variance to date is forecast to reduce to a break even position at year end. This is due to savings at Spitalfields Market being offset by a reduced service charge, slowing of income at HARC, and a new rates charge for Border Inspection Posts at the Thames Gateway.	
Director of Markets and Consumer Protection, City's Cash	**YTD £383,000 (24%) better, FY £204,000 (9%) better**
Underspends on vacant posts, savings on the Citigen hot water budget and re-phasing of repairs and maintenance work at Smithfields Market. The underspend is expected to reduce in the coming months due to increased energy use in the winter, and the completion of the deferred repairs and maintenance work.	
Managing Director, Barbican Centre, City Fund	**YTD £627,000 (5%) better, FY £86,000 (1%) better**
Positive variance largely due to favourable box office results for the Artistic Programme and the 'Digital Revolution' event, together with the aggregate of a number of minor expenditure savings. The Memberships scheme also generated additional income due to the strength of the 15/16 Theatre programme. This favourable variance is expected to reduce in the coming months due to the loss of two slots for exhibition events in the second half of the year, and a shortfall in income from business events.	

Principal, Guildhall School of Music and Drama	YTD £390,000 (7%) worse, FY £190,000 (3%) worse
A lack of breakout spaces has reduced income from selling conference space at Milton Court, with an associated impact on secondary income. A review of different types of events is taking place to maximise sales at Milton Court, with benefits anticipated in the next financial year. In addition a fee for the London Symphony Orchestra participating in the Orchestral Artistry course was not budgeted for.	

City of London Police

3. The original revenue budget for the Police ringfenced account was based on a contribution from the Police general reserve of some £4.1m. The latest forecast indicates that a transfer from reserves of £8.5m, an increase of £4.4m, will be required. This is due to significant investment in one-off essential projects, e.g. IT, accommodation and mobile working, together with commitments of £1.7m brought forward from 2013/14 – particularly in relation to revenue funding of capital expenditure. As a result of these changes it is currently anticipated that the balance on the Police general reserve as at 31 March 2015 will be some £5.9m.

Risks

4. The City Surveyor is facing continuing cost pressures on repairs and maintenance for the operational estate and Guildhall. While additional budget has been requested and approved for 2015-16 to meet the higher building repairs and maintenance costs, the City Surveyor was hopeful that he could contain current year costs within his overall budgets but due to the continuing high demand for out of scope and reactive repairs and the associated material costs this is currently proving difficult.

5. An exercise is being undertaken to review commitments on all budgets under his control, for operational properties and the Guildhall, with a view to finding sufficient savings to cover any potential overspending. However, to be prudent, a full year overspend of £164,000 is projected in total across all funds.

Appendices

- Appendix 1 – year to date and forecast full year variances as at the 31st December 2014.
- Appendix 2 - full year local risk forecasts comparison with the previous quarter.
- Appendix 3 – summary of changes from the original budget to the 31st December 2014.

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Local Risk Budgets as at 31st December

Chief Officer	Year To Date - 31st Dec				Full Year Forecast			
	Budget	(Better)/Worse			Budget	(Better)/Worse		
	£000	£000	%		£000	£000	%	
Chamberlain	16,815	68	0	x	21,883	186	1	x
City Surveyor - City Fund (CF)	3,133	31	1	x	5,139	(33)	(1)	√
City Surveyor - City's Cash (CC)	8,425	(16)	(0)	√	12,464	78	1	x
City Surveyor - Bridge House Estates (BHE)	1,272	(110)	(9)	√	2,416	(208)	(9)	√
City Surveyor - Guildhall Administration (GA)	4,853	263	5	x	6,369	327	5	x
Comptroller & City Solicitor	2,318	(385)	(17)	√	3,090	(300)	(10)	√
Director of the Built Environment - CF	11,994	(866)	(7)	√	15,992	(688)	(4)	√
Director of the Built Environment - BHE	180	2	1	x	240	3	1	x
Director of Community & Children's Services	4,792	(424)	(9)	√	6,432	(652)	(10)	√
Director of Culture, Heritage & Libraries - CF	6,242	(42)	(1)	√	8,322	0	0	-
Director of Culture, Heritage & Libraries - CC	39	3	8	x	52	0	0	-
Director of Culture, Heritage & Libraries- BHE	519	(65)	(13)	√	778	(90)	(12)	√
Director of Markets & Consumer Protection - CF	1,773	(299)	(17)	√	2,364	12	1	x
Director of Markets & Consumer Protection - CC	1,624	(383)	(24)	√	2,165	(204)	(9)	√
Director of Open Spaces	8,188	(87)	(1)	√	10,918	0	0	-
Head, City of London School	1,230	2	0	x	812	(86)	(11)	√
Headmaster, City of London Freemen's School	1,360	(1)	(0)	√	277	(110)	(40)	√
Headmistress, City of London School for Girls	769	(84)	(11)	√	595	(25)	(4)	√
Managing Director, Barbican Centre	12,527	(627)	(5)	√	16,402	(86)	(1)	√
Principal, Guildhall School of Music and Drama	5,623	390	7	x	6,827	190	3	x
Private Secretary & Chief of Staff to the Lord Mayor	1,822	3	0	x	2,544	(61)	(2)	√
Remembrancer	196	(18)	(9)	√	736	0	0	-
Town Clerk	11,865	(291)	(2)	√	15,931	(111)	(1)	√
Totals (Period 9) Excluding Police	**107,559**	**(2,936)**	**(3)**	√	**142,748**	**(1,858)**	**(1)**	√

Summary Position - Local Risk Budgets

Original Budget £000	Chief Officer - Local Risk Budgets	Full Year Forecast as at 30 September Latest Budget £000	(Better)/Worse £000	(Better)/Worse %	Full Year Forecast as at 31st December Latest Budget £000	(Better)/Worse £000	(Better)/Worse %	Forecast ↑ better ↓ worse ↔ no change
	City Fund							
2,267	Chamberlain	2,698	34	1	2,701	97	4	↓
4,843	City Surveyor	5,226	139	3	5,139	(33)	(1)	↑
16,250	Director of the Built Environment	16,100	(758)	(5)	15,992	(688)	(4)	↓
5,912	Director of Community & Children's Services	6,367	(580)	(9)	6,282	(600)	(10)	↑
8,257	Director of Culture, Heritage & Libraries	8,282	0	0	8,322	0	0	↔
2,526	Director of Markets & Consumer Protection	2,715	18	1	2,364	12	1	↑
(520)	Director of Open Spaces	(387)	0	0	(384)	0	0	↔
15,957	Managing Director, Barbican Centre	16,366	0	0	16,402	(86)	(1)	↑
7,279	Town Clerk	7,347	0	0	7,432	15	0	↓
62,771	**Total City Fund (excluding Police)**	**64,714**	**(1,147)**	**(2)**	**64,250**	**(1,283)**	**(2)**	↑
57,808	Commissioner of Police	57,808	8	0	56,837	59	0	↓
120,579	**Total City Fund**	**122,522**	**(1,139)**	**(1)**	**121,087**	**(1,224)**	**(1)**	↑
	City's Cash							
182	Chamberlain	182	18	10	184	14	8	↑
12,188	City Surveyor	12,253	155	1	12,464	78	1	↑
0	Director of Community & Children's Services	150	(69)	(46)	150	(52)	(35)	↓
64	Director of Culture, Heritage & Libraries	64	0	0	52	0	0	↔
2,341	Director of Markets & Consumer Protection	2,338	(33)	(1)	2,165	(204)	(9)	↑
11,116	Director of Open Spaces	11,202	0	0	11,302	0	0	↔
726	Head, City of London School	781	0	0	812	(86)	(11)	↑
263	Headmaster, City of London Freemen's School	263	0	0	277	(110)	(40)	↑
535	Headmistress, City of London School for Girls	566	0	0	595	(25)	(4)	↑
6,516	Principal, Guildhall School of Music & Drama	6,701	(3)	(0)	6,827	190	3	↓
2,453	Private Secretary & Chief of Staff to the Lord Mayor	2,522	(50)	(2)	2,544	(61)	(2)	↑
1,030	Remembrancer	1,038	0	0	1,046	0	0	↔
816	Town Clerk	816	0	0	713	(51)	(7)	↑
38,230	**Total City's Cash**	**38,876**	**18**	**0**	**39,131**	**(307)**	**(1)**	↑
	Bridge House Estates							
2,255	City Surveyor	2,493	(176)	(7)	2,416	(208)	(9)	↑
240	Director of the Built Environment	240	(6)	(3)	240	3	1	↓
872	Director of Culture, Heritage & Libraries	909	(246)	(27)	778	(90)	(12)	↓
854	Town Clerk	901	0	0	958	0	0	↔
4,221	**Total Bridge House Estates**	**4,543**	**(428)**	**(9)**	**4,392**	**(295)**	**(7)**	↓
	Guildhall Administration							
18,792	Chamberlain	18,808	2	0	18,998	75	0	↓
6,232	City Surveyor	6,369	164	3	6,369	327	5	↓
3,121	Comptroller and City Solicitor	3,226	(326)	(10)	3,090	(300)	(10)	↓
(327)	Remembrancer	(311)	0	0	(310)	0	0	↔
6,559	Town Clerk	6,870	0	0	6,828	(75)	(1)	↑
34,377	**Total Guildhall Administration**	**34,962**	**(160)**	**(0)**	**34,975**	**27**	**0**	↓
139,599	**Grand Totals (excluding Police)**	**143,095**	**(1,717)**	**(1)**	**142,748**	**(1,858)**	**(1)**	↑

Local Risk Budget Changes (Excluding Police)

	£'000	£'000
Original Budget (excluding Police)		139,599
Previously reported budget movements		3,496
Budget as at 30 September		143,095
Carry Forwards Not Previously Included	283	
Contingency Allocations	5	
Contribution Pay	630	
Chamberlain - Increase in employee budget following cessation of Accenture contract - offset by savings in consultant fees within central risk budgets	125	
Open Spaces additional resources for 1 year following reduction in CBT funding	101	
Loss of rent income following Barbican Flat sales	55	
Town Clerks - New City Bridge Trust Monitoring Officer post agreed by Policy and Resources Committee	50	
Harmonisation of pay for unsocial hours at Barbican and GSMD	34	
City Surveyors Markets R & M financed from reserves in central risk	24	
London Living Wage	21	
Others	(8)	
Transfer of Sheriffs catering to central risk	(76)	
Transfer to central risk to fund City Widened Line	(85)	
Town Clerks Service Based Review Savings	(100)	
Comptroller and City Solicitor Service Based Review Savings	(165)	
Contribution from Culture, Heritage and Libraries revenue budgets to Glass Walkways project.	(261)	
Director of Built Environment Service Based Review Savings	(350)	
Director of Markets and Consumer Protection - Transfer from central risk to match income and expenditure on repairs and maintenance to the same risk	(630)	
		(347)
Latest Budget		**142,748**