Public Document Pack

Finance Committee

Date: TUESDAY, 16 FEBRUARY 2016

Time: 1.45 pm

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

Members:

Deputy Roger Chadwick (Chairman)
Jeremy Mayhew (Deputy Chairman)
Randall Anderson
Deputy John Barker
Nicholas Bensted-Smith
Chris Boden
Sheriff & Alderman Charles Bowman
Nigel Challis
Simon Duckworth
Deputy Anthony Eskenzi
John Fletcher
Stuart Fraser
Lucy Frew
Deputy Brian Harris
Christopher Hayward
Alderman Peter Hewitt
Tom Hoffman
Wendy Hyde
Deputy Jamie Ingham Clark
Clare James
Alderman Vincent Keaveny
Deputy Alastair King
Gregory Lawrence
Oliver Lodge
Alderman Professor Michael Mainelli
Deputy Robert Merrett
Deputy Henry Pollard
Adam Richardson
James de Sausmarez
Ian Seaton
Sir Michael Snyder
David Thompson
Deputy John Tomlinson
Philip Woodhouse
Mark Boleat (Ex-Officio Member)
Deputy Alastair Moss (Ex-Officio Member)

Enquiries: **Chris Braithwaite**
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Lunch will be served in Guildhall Club at 1PM
NB: Part of this meeting could be the subject of audio or video recording

John Barradell
Town Clerk and Chief Executive

AGENDA

Part 1 - Public Agenda

1. **APOLOGIES**

2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**

3. **MINUTES OF THE PREVIOUS MEETING**
   To agree the public minutes and non-public summary of the meeting held on 19 January 2016.

   For Decision
   (Pages 1 - 6)

4. **OUTSTANDING ACTIONS FROM PREVIOUS MEETINGS**
   Report of the Town Clerk.

   For Information
   (Pages 7 - 10)

5. **TO NOTE THE DRAFT PUBLIC MINUTES OF THE EFFICIENCY AND PERFORMANCE SUB-COMMITTEE HELD ON 13 JANUARY 2016**

   For Information
   (Pages 11 - 14)

6. **TO NOTE THE DRAFT PUBLIC MINUTES OF THE JOINT MEETING OF THE RESOURCE ALLOCATION AND EFFICIENCY AND PERFORMANCE SUB-COMMITTEES HELD ON 14 JANUARY 2016**

   For Information
   (Pages 15 - 16)

7. **DRAFT NOTES OF THE BUSINESS RATEPAYERS CONSULTATION EVENT**
   Report of the Town Clerk.

   For Information
   (Pages 17 - 24)

8. **CITY FUND 2016/17 BUDGET REPORT AND MEDIUM TERM FINANCIAL STRATEGY**
   Report of the Chamberlain. This report will also be considered by the Court of Common Council on 3 March 2016.

   For Decision
   (Pages 25 - 76)

9. **REVENUE AND CAPITAL BUDGETS 2015/16 AND 2016/17**
Report of the Chamberlain. This report will also be considered by the Court of Common Council on 3 March 2016.

For Decision
(Pages 77 - 98)

10. **REVENUE BUDGET MONITORING TO DECEMBER 2015**
Report of the Chamberlain.

For Information
(Pages 99 - 106)

11. **INCOME GENERATION - REPORT OF A CROSS-CUTTING SERVICE BASED REVIEW**
Report of the Chamberlain on behalf of the Performance and Strategy Summit Group. This report will also be considered by various Committees as set out within the report.

For Decision
(Pages 107 - 118)

12. **COST OF INSURANCE PREMIUMS**
Report of the Chamberlain.

For Information
(Pages 119 - 122)

13. **STATUTORY DISMISSAL PROCEDURES FOR THE HEAD OF PAID SERVICE (TOWN CLERK AND CHIEF EXECUTIVE), MONITORING OFFICER (COMPTROLLER AND CITY SOLICITOR) AND CHIEF FINANCIAL OFFICER (CHAMBERLAIN)**
Joint report of the Town Clerk and Director of Human Resources. This report was also considered by the Establishment Committee on 4 February 2016 and will be considered by the Policy and Resources Committee on 18 February 2016.

For Decision
(Pages 123 - 132)

14. **NON-DOMESTIC RATES – REVIEW OF DISCRETIONARY RATE RELIEF**
Report of the Chamberlain. This report has two non-public appendices at item 25 on the agenda.

For Decision
(Pages 133 - 142)

15. **IRRECOVERABLE NON-DOMESTIC RATES AND COUNCIL TAX**
Report of the Chamberlain.

For Decision
(Pages 143 - 146)

16. **RISK MANAGEMENT - MONTHLY REPORT**
Report of the Chamberlain.

For Information
(Pages 147 - 148)

17. **CENTRAL CONTINGENCIES**
Report of the Chamberlain.

For Information
(Pages 149 - 154)

18. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

19. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

20. **EXCLUSION OF THE PUBLIC**
MOTION - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the Local Government Act.

For Decision

Part 2 - Non-Public Agenda

21. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
To agree the non-public minutes of the meeting held on 19 January 2016.

For Decision
(Pages 155 - 158)

22. **OUTSTANDING ACTIONS FROM NON-PUBLIC MINUTES OF PREVIOUS MEETINGS**
Report of the Town Clerk.

For Information
(Pages 159 - 160)

23. **TO NOTE THE DRAFT NON-PUBLIC MINUTES OF THE EFFICIENCY AND PERFORMANCE SUB-COMMITTEE HELD ON 13 JANUARY 2016**

For Information
(Pages 161 - 164)

24. **TO NOTE THE DRAFT NON-PUBLIC MINUTES OF THE JOINT MEETING OF THE RESOURCE ALLOCATION AND EFFICIENCY AND PERFORMANCE SUB-COMMITTEES HELD ON 14 JANUARY 2016**

For Information
(Pages 165 - 166)

25. **NON-DOMESTIC RATES – REVIEW OF DISCRETIONARY RATE RELIEF**
Non-public appendices to the report of the Chamberlain at agenda item 14.

For Information
(Pages 167 - 170)

26. **ORACLE PROGRAMME CLOSURE REPORT - GATEWAY 7**
Report of the Chamberlain. This report will also be submitted to the Projects Sub-Committee on 25 February 2015 and the IT Sub-Committee on 9 March 2016.

For Decision
(Pages 171 - 194)

27. **ENERGY PROCUREMENT AND THE NEXT GENERATION CONTRACT**
Report of the City Surveyor. This report will also be considered by the Court of Common Council on 3 March 2016.

For Decision
(Pages 195 - 204)

28. **INSURANCE (JUNE PROGRAMME) PROCUREMENT - EVALUATION CRITERIA**
Report of the Chamberlain.

For Decision
(Pages 205 - 216)

29. **CENTRAL CRIMINAL COURT PLANT REPLACEMENT PHASE 1 - GATEWAY 6 PROGRESS REPORT**
Report of the City Surveyor. This report will also be considered by the Projects Sub-Committee on 25 February 2016 and the Corporate Asset Sub-Committee on 11 March 2016.

For Information
(Pages 217 - 226)

30. **METRICS USED IN MAKING MAJOR PROPERTY DECISIONS**
Joint report of the Chamberlain and the City Surveyor. This report was also considered by the Property Investment Board on 10th February 2016.

For Information
(Pages 227 - 236)

31. **WAIVER OF PROCUREMENT REGULATIONS FOR THREE CONTRACTS TO ENABLE A RETENDER EXERCISE - EARLY INTERVENTION AND PREVENTION SERVICES**
Report of the Director of Community and Children's Services.

For Decision
(Pages 237 - 240)

32. **WAIVER OF PROCUREMENT REGULATIONS FOR TWO CONTRACTS TO ENABLE A RETENDER EXERCISE - COMMUNITY HEALTH AND WELLBEING**
Report of the Director of Community and Children's Services.

For Decision
(Pages 241 - 244)

33. **NOTIFICATION OF AN URGENT WAIVER APPROVAL BY THE CHAMBERLAIN - EMERGENCY PLACEMENT IN A FAMILY ASSESSMENT UNIT**
Report of the Director of Community and Children's Services. This report will also be considered by the Community and Children's Services Committee on 12 February 2016.

For Information
(Pages 245 - 248)

34. **NON-PUBLIC DECISIONS TAKEN UNDER DELEGATED AUTHORITY AND URGENCY PROCEDURES**
Report of the Town Clerk.

For Information
(Pages 249 - 250)

35. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

36. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

Part 3 - Members' Only

37. **CHAMBERLAIN'S DEPARTMENTAL RESTRUCTURE**
Report of the Chamberlain. This report was considered and approved by the Establishment Committee at its meeting on 4 February 2016, subject to the endorsement of the Finance Committee.

For Decision

FINANCE COMMITTEE

Tuesday, 19 January 2016

Minutes of the meeting of the Finance Committee held at the Guildhall EC2 at 1.45 pm

Present

Members:

Deputy Roger Chadwick (Chairman)
Jeremy Mayhew (Deputy Chairman)
Randall Anderson
Deputy John Barker
Nicholas Bensted-Smith
Chris Boden
Nigel Challis
Deputy Anthony Eskenzi
John Fletcher
Stuart Fraser
Lucy Frew
Deputy Brian Harris
Christopher Hayward
Alderman Peter Hewitt
Wendy Hyde
Deputy Jamie Ingham Clark
Alderman Vincent Keaveny
Deputy Alastair King
Oliver Lodge
Alderman Professor Michael Mainelli
Deputy Robert Merrett
Deputy Henry Pollard
James de Sausmarez
Ian Seaton
Sir Michael Snyder
Deputy John Tomlinson
Philip Woodhouse
Mark Boleat (Ex-Officio Member)

Officers:

Christopher Braithwaite	-	Town Clerk's Department
Scott Nixon	-	Town Clerk's Department
Peter Kane	-	Chamberlain
Caroline Al-Beyerty	-	Chamberlain's Department
Christopher Bell	-	Chamberlain's Department
Graham Bell	-	Chamberlain's Department
Carla-Maria Heath	-	Chamberlain's Department
Steve Telling	-	Chamberlain's Department
Michael Cogher	-	Comptroller and City Solicitor
Peter Bennett	-	City Surveyor
Commander Wayne Chance	-	City of London Police

1. **APOLOGIES**
Apologies for absence were received from Alderman and Sherriff Charles Bowman, Simon Duckworth, Clare James, Tom Hoffman, Greg Lawrence and David Thompson.

2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
There were no declarations of interest.

3. **MINUTES OF THE PREVIOUS MEETING**
RESOLVED – That the public minutes and summary of the meeting held on 15 December 2015 be approved as an accurate record.

4. **OUTSTANDING ACTIONS FROM PREVIOUS MEETINGS**
The Committee considered a report of the Town Clerk which set out actions outstanding from previous meetings of the Committee.

RESOLVED – That the Committee notes the report.

5. **DRAFT PUBLIC MINUTES OF THE INFORMATION TECHNOLOGY SUB-COMMITTEE HELD ON 15 DECEMBER 2015**
RESOLVED – That the public minutes and non-public summary of the Information Systems Sub-Committee meeting held on 15 December 2015 be noted.

6. **PROVISIONAL SETTLEMENTS FOR LOCAL GOVERNMENT AND POLICE 2016/17 AND MAYORAL PRECEPT 2016/17**
The Committee considered a report of the Chamberlain which provided information of the provisional settlements for Local Government and Police for 2016/17 and provided the Mayoral Precept for 2016/17. The report indicated that the provisional level of Local Government and Police funding were better than had been previously expected.

A Member asked for further information regarding the Government's proposal that authorities could receive certainty on their settlement for a period of four years (to 2019-20) if they published an efficiency plan. The Chamberlain explained that this only applied to the Revenue Support Grant aspect of the settlement, but beyond that no further information of the requirements of the efficiency plan were known.

RESOLVED – That the Committee notes the report.

7. **REVENUE AND CAPITAL BUDGETS FOR FINANCE COMMITTEE OPERATIONAL SERVICES**
The Committee considered a report of the Chamberlain which provided the provisional revenue budget for 2016/17 in relation to operational services directly overseen by the Finance Committee. The proposed budget totalled £55.688m, an increase of 5.0% compared to the 2015/16 budget.

The Chamberlain explained that, if approved, the budget uplift of £505,000 to cover the growth in server usage and storage, which the report proposed be requested from Policy and Resources Committee, would be ring-fenced for solely that purpose, and would not be drawn upon until a mitigation plan had been approved by the Finance Committee (or its Information Technology Sub-Committee).

The Committee discussed the proposal to request that Policy and Resources Committee approve a budget uplift for this issue. The Committee noted that it was important to demonstrate that the Finance Committee supported financial prudence across the Corporation, particularly in light of the challenges faced by all Committees in the Service Based Review. The Committee also agreed that, while this issue had been discussed at IT Sub-Committee meetings over the previous year, there had not previously been an indication of additional budget requirements to address this. The Committee suggested that it may have been possible to provide an indication of this requirement earlier in the budget setting process.

The Committee agreed that a sufficiently strong case had not been presented to the Committee for the Committee to recommend the proposal to the Policy and Resources Committee. The Committee agreed that it should be presented with the mitigation plan to reduce or remove the requirements for additional IT storage. Only following the mitigation plan demonstrating that all other possible actions had been taken and that additional funding was required and unavoidable would the Committee consider requesting additional funding from the Policy and Resources Committee.

The Committee also commented that information as to the increases in the various budget areas set out within the report did not provide sufficient information to allow the Committee to determine whether the increases were justifiable. The Chamberlain agreed to ensure that further detail of the reason for variances was provided in future reports of this nature. Members particularly requested that report be provided regarding the increase in insurance, and the Chamberlain agreed that this could be provided to the Committee’s next meeting.

RESOLVED – That the Committee:

a) notes the forecast underspend of £222,000 at 31 March 2016 against the Chamberlain’s 2015/16 local risk budget which will be applied towards the additional unfunded Oracle Project costs of £585,000. The Oracle Project costs will be the subject of a report to your February Committee;
b) approves the provisional 2016/17 revenue budget;
c) agrees that a report on the mitigation plan for the estimated growth in server usage and storage be presented to the Committee;
d) authorises the Chamberlain to revise these budgets to allow for any necessary realignment of funds – including those set out in paragraph 23;
e) notes the draft capital and supplementary revenue budgets;
f) agrees that a report be submitted to the Committee’s next meeting providing further information regarding the cost of insurance.

8. **CHAMBERLAIN'S BUSINESS PLAN - THIRD QUARTER UPDATE**

The Committee considered a report of the Chamberlain which provided Members with an update regarding the Chamberlain’s Departmental Business Plan.

RESOLVED – That the Committee notes the report.

9. **CHAMBERLAIN'S DEPARTMENT RISK MANAGEMENT - QUARTERLY REPORT**

The Committee considered a report of the Chamberlain which provided a quarterly update on the Chamberlain's Departmental Risk Register.

The Chamberlain provided Members with an update regarding the IT risks set out within the report. The Town Clerk highlighted that a Member Development session on Information Security had been arranged for 8 February 2016 at 2.00pm.

RESOLVED – That the Committee notes the report.

10. **CITY PROCUREMENT - QUARTERLY UPDATE**

The Committee considered a report of the Chamberlain which provided a quarterly update on the work of City Procurement.

A Member asked for clarification regarding how the savings achieved by City Procurement were calculated, and whether this included savings from reducing the scope of procurements or no longer proceeding with some projects. The Chamberlain explained that the saving was calculated based on a like-for-like basis and therefore provided an indication of the savings achieved from the procurement process alone, rather than any other external factors.

RESOLVED – That the Committee notes the report.

11. **FINANCE GRANTS SUB-COMMITTEE - REVISION TO TERMS OF REFERENCE**

The Committee considered a joint report of the Town Clerk and Chief Grants Officer which provided proposed revised Terms of Reference for the Finance Grants Sub-Committee following the Review of Grants as part of the Service Based Review.

The Committee discussed whether the Sub-Committee should also request that grants made through the City Bridge Trust were subject to the Sub-Committee's monitoring. The Committee agreed that this was not necessary.

RESOLVED – That the Committee approves the proposed amended Terms of Reference of the Finance Grants Sub-Committee, as set out at Appendix 1.

12. **CENTRAL CONTINGENCIES**

Consideration was given to a report of the Chamberlain which provided the Committee with information regarding the current balance of the Finance Committee Contingency Funds for the current year.

RESOLVED – That the Committee notes the report.

13. **DECISIONS TAKEN UNDER DELEGATED AUTHORITY AND URGENCY PROCEDURES**

The Committee considered a report of the Town Clerk which provided information of the action taken by the Town Clerk since the last meeting of the

Committee, in consultation with the Chairman and Deputy Chairman, in accordance with Standing Orders 41(a) and 41(b).

RESOLVED – That the Committee notes the report.

14. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
There were no questions.

15. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
There were no urgent items.

16. **EXCLUSION OF THE PUBLIC**
RESOLVED - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the Local Government Act.

Item No.	**Paragraphs in Schedule 12A**
17-22, 24-25	3
23, 26	1 and 3

17. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
The non-public minutes of the meeting held on 15 December 2015 were approved as an accurate record.

18. **OUTSTANDING ACTIONS FROM NON-PUBLIC MINUTES OF PREVIOUS MEETINGS**
The Committee noted a report of the Town Clerk which set out actions outstanding from previous non-public minutes of the Committee.

19. **DRAFT NON-PUBLIC MINUTES OF THE INFORMATION TECHNOLOGY SUB-COMMITTEE HELD ON 15 DECEMBER 2015**
The non-public minutes of the Information Systems Sub-Committee meeting held on 15 December 2015 were noted.

20. **BRIDGE HOUSE ESTATES STRATEGIC REVIEW ANNUAL UPDATE**
The Committee noted a report of the City Surveyor which provided an annual update of the progress made over the previous year in respect of the Bridge House Estates.

21. **CITY FUND STRATEGIC REVIEW - ANNUAL UPDATE**
The Committee noted a report of the City Surveyor which provided an annual update of the progress made over the previous year in respect of the City Fund Estate.

22. **JOINT NETWORK REFRESH PROGRAMME WIDE AREA NETWORK - PROCUREMENT EVALUATION CRITERIA**
The Committee considered and approved a report of the Chamberlain which provided information regarding the Procurement Evaluation Criteria which would be used for the Joint Network Refresh of the Wide Area Network Project.

23. **GLA ROADS - LAND DISPUTE WITH TRANSPORT FOR LONDON**
The Committee considered and approved a joint report of the Comptroller and City Solicitor which provided information of the ruling made by the High Court regarding the land dispute with the Greater London Authority regarding the ownership of strategic roads within the City.

24. **GUILDHALL WEST WING STAIRCASE REPAIRS - FINANCE COMMITTEE CONTINGENCY FUNDING - REQUEST FOR DELEGATED AUTHORITY**
The Committee considered and approved a report of the City Surveyor which provided information about urgent repairs which were required to the West Wing Staircase of Guildhall.

25. **NON-DOMESTIC RATES - DISCRETIONARY RATE RELIEF**
The Committee considered and approved a report of the Chamberlain which provided an application for discretionary rent relief under Section 47 of the Local Government Finance Act 1988.

26. **NON-PUBLIC DECISIONS TAKEN UNDER DELEGATED AUTHORITY AND URGENCY PROCEDURES**
The Committee considered and approved a report of the Town Clerk detailing a non-public decision taken under delegated authority since the last meeting.

27. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
There were no non-public questions relating to the work of the Committee.

28. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**
There were no items of urgent business.

The meeting closed at 3.05pm.

Chairman

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Finance Committee – Outstanding Actions

Item	Date	Item and Action	Officer responsible	To be completed/ progressed to next stage	Progress Update
1.	19 January 2016, Item 7	IT Storage and Server Usage A report to be submitted on the mitigation plan for the estimated growth in server usage and storage.	Chamberlain	February 2016 meeting.	A report will be provided to the Committee at its March 2016 meeting. In the interim, the IT Division continues as a high priority to work on a plan and actions to mitigate the additional £500K cost risk in 2016/17, a ring fenced provision for which was not approved at the January Finance Committee. Focusing on the 'pay for what you use' utility costs on data storage and servers work in the following areas are currently underway: Technology Including a reduction in the volume of information stored, configuration changes to reduce surplus capacity, a reduction in the amount of data replication taking place across the two data centres, archiving of information, and a focus on supplier and contract management.

Item	Date	Item and Action	Officer responsible	To be completed/ progressed to next stage	Progress Update
					<u>Policy</u> Defining appropriate data retention policies, agreeing these with the business and implementing. <u>Strategy</u> The Network and End User Device Programmes will prepare Corporation and Police Technology for a move toward Office 365, Software as a Service and Application Rationalisation. These will potentially offer a lower cost base for service from 2017/18 onward. The Department will seek to implement as many cost reductions as possible before the 2015/16 year end. A further verbal update will be provided at Committee, followed by a detailed update on actions, plans and further options for cost reduction to the March meetings of the Committee and the IT Sub-Committee.

Item	Date	Item and Action	Officer responsible	To be completed/ progressed to next stage	Progress Update
2.	19 January 2016, Item 7	Cost of Insurance A report to be submitted to the Committee providing information regarding the cost of insurance.	Chamberlain	February 2016 meeting.	Report included within this agenda.
3.	22 September 2015, Item 9	Purchasing Card Policy The Purchasing Card Policy to be reviewed on an annual basis.	Head of City Procurement	September 2016	Purchasing Card Policy to be reviewed in September 2016.

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EFFICIENCY AND PERFORMANCE SUB (FINANCE) COMMITTEE

Wednesday, 13 January 2016

Minutes of the meeting of the Efficiency and Performance Sub (Finance) Committee held at the Guildhall EC2 at 11.30 am

Present

Members:
Deputy Roger Chadwick (Chairman)
Jeremy Mayhew (Deputy Chairman)
Randall Anderson
Nigel Challis
Deputy Anthony Eskenzi
Deputy Jamie Ingham Clark
Ian Seaton
Deputy John Tomlinson
Philip Woodhouse

Officers:

Susan Attard	-	Deputy Town Clerk
Christopher Braithwaite	-	Town Clerk's Department
Neil Davies	-	Town Clerk's Department
Peter Kane	-	Chamberlain
Christopher Bell	-	Chamberlain's Department
Mark Jarvis	-	Chamberlain's Department
Paul Nagle	-	Chamberlain's Department
Peter Bennett	-	City Surveyor
Sue Ireland	-	Director of Open Spaces

1. **APOLOGIES**
   Apologies were received from Nick Bensted-Smith and John Fletcher.

2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
   There were no declarations.

3. **MINUTES OF THE PREVIOUS MEETING**
   RESOLVED - That the public minutes and non-public summary of the meeting held on 4 November 2015 be agreed as an accurate record.

4. **OUTSTANDING ACTIONS**
   The Sub-Committee considered a report of the Town Clerk which set out the outstanding actions from previous meetings of the Sub-Committee.

   Members discussed whether the proposed Barbican Centre Service Based Review savings would be achievable without changes to the pay and conditions of employees. The Chamberlain and a Member, also the Chairman of the Barbican Centre Board, confirmed that the Managing Director of the Barbican Centre was committed to delivering the agreed Service Based Review savings the Barbican Centre, and alternative savings proposals had been identified in the event that the initial proposals were not achievable.

RESOLVED – That the Committee notes the report.

5. **EXCLUSION OF THE PUBLIC**
RESOLVED - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the Local Government Act.

Item(s)	**Paragraph(s)**
6-15	3

6. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
The non-public minutes of the meeting held on 4 November 2015 were agreed as an accurate record.

7. **SERVICE BASED REVIEW: DEPARTMENTAL MONITORING - OPEN SPACES DEPARTMENT**
The Sub-Committee noted a report of the Director of Open Spaces which provided an update in relation to that Department's performance against Service Based Review savings targets.

8. **CROSS CUTTING REVIEW UPDATE - STRATEGIC REVIEW OF ASSET MANAGEMENT**
The Sub-Committee noted a presentation from the Deputy Town Clerk which provided an update about the Strategic Review of Asset Management, and set out the recommendations which had emerged from the review.

9. **NON-PUBLIC APPENDIX TO SERVICE BASED REVIEW ROADMAP - REVIEW OF INDEPENDENT SCHOOLS**
The Sub-Committee noted a non-public appendix to the report of the Deputy Town Clerk setting out the Service Based Review Roadmap, which provided an update on Independent Schools.

10. **SERVICE BASED REVIEW SAVINGS PROGRAMME - PROFILING CHANGES**
The Sub-Committee noted a report of the Chamberlain which summarised the changes to Departmental Savings Programmes which had been agreed by Service Committees as part of the Service Based Review process.

11. **SERVICE BASED REVIEW: DEPARTMENTAL MONITORING - TOWN CLERK'S DEPARTMENT**
The Sub-Committee noted a report of the Town Clerk which provided an update in relation to that Department's performance against Service Based Review savings targets.

12. **ENERGY TARGETS UPDATE - HALF YEAR REVIEW - APRIL - SEPTEMBER 2015**
The Sub-Committee noted a report of the City Surveyor which provided the half yearly update on energy reduction targets as part of the Carbon Descent Plan 2015.

13. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
There were no questions.

14. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**
There were no items of urgent business.

15. **MEMBERS ONLY APPENDIX TO SERVICE BASED REVIEW: DEPARTMENTAL MONITORING - TOWN CLERK'S DEPARTMENT**
The Sub-Committee noted a confidential appendix to the report of the Town Clerk which provided the Committee with details of the Service Based Review savings which had been identified by that Department.

Admittance of the public
Following consideration of this item, Members resolved to readmit the public to the meeting.

16. **SERVICE BASED REVIEW ROADMAP**
The Sub-Committee considered a report of the Deputy Town Clerk which provided the latest update in respect of the agreed Service Based Review projects and cross cutting reviews.

The Sub-Committee was informed that the Service Based Review Steering Group had agreed that the Review of Operational Property and the Review of Grants would now be rated as Green.

RESOLVED – That the Sub-Committee notes the report.

17. **WORK PLAN FOR FUTURE MEETINGS**
The Sub-Committee considered a report of the Town Clerk which set out the work plan for future meetings.

The Chamberlain highlighted to the Sub-Committee that the Government had indicated in the Autumn Statement that authorities which published an efficiency plan would receive four-year certainty of funding from Government. He explained that a report would be submitted to the next meeting of the Sub-Committee to provide information regarding the requirements for publishing such an efficiency plan, should such information be available at that time.

RESOLVED – That the Sub-Committee notes the report.

18. **CIPFA VALUE FOR MONEY INDICATORS - 2014/15**

The Sub-Committee considered a report of the Chamberlain which outlined the CIPFA Public Sector Corporate Services Value for Money Indicators for Finance, Human Resources and Legal Services for 2014/15 and compared movement to the previous submission for 2013/14.

A Member asked for clarification regarding indicators LS5 and LS8, which indicated that the Corporation was slightly above average for the cost of legal function per employee but was in the top quartile for the cost per hour of legal work. The Chamberlain agreed to provide a response to this question directly to the Member following the meeting.

RESOLVED – That the Committee notes the report.

19. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE SUB-COMMITTEE**
There were no questions.

20. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
There were no items of urgent business.

The meeting closed at 1.00pm

Chairman

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JOINT MEETING OF THE RESOURCE ALLOCATION AND EFFICIENCY AND PERFORMANCE SUB-COMMITTEE WITH COMMITTEE CHAIRMEN

Thursday, 14 January 2016

Minutes of the joint meeting of the Resource Allocation and Efficiency and Performance Sub-Committees with Committee Chairmen held at Committee Rooms, 2nd Floor, West Wing, Guildhall on Thursday, 14 January 2016 at 11.45 am

Present

Members:
Mark Boleat (Chairman)
Deputy Roger Chadwick (Deputy Chairman)
Randall Anderson
Nigel Challis
John Fletcher
Deputy Jamie Ingham Clark
Stuart Fraser
Marianne Fredericks
George Gillon
Deputy the Revd Stephen Haines
Jeremy Mayhew
Deputy Catherine McGuinness
Edward Lord
Hugh Morris
Deputy Joyce Nash
Sir Michael Snyder
Alderman Dr Andrew Parmley
Deputy John Tomlinson
Philip Woodhouse

In Attendance
Alderman Nick Anstee
Deputy John Bennett
Vivienne Littlechild
Alistair Moss
Dhruv Patel
Deputy Henry Pollard
Virginia Rounding
John Scott

Officers:

Peter Kane	-	Chamberlain
Caroline Al-Beyerty	-	Financial Services Director
Steve Telling	-	Chamberlain's Department
Peter Lisley	-	Assistant Town Clerk
Angela Roach	-	Principal Committee and Members Services Manager

1. **APOLOGIES**
An apology for absence was received from Nicholas Bensted-Smith and Sir David Wootton.

2. **MEMBERS DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
There were no declarations.

3. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE SUB-COMMITTEES**
There were no questions.

4. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
There were no items of urgent business.

5. **EXCLUSION OF THE PUBLIC**
RESOLVED – That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Local Government Act.

Item Nos.	**Paragraph(s) in Schedule 12A**
6	3

6. **OVERALL FINANCIAL POSITION AND MEDIUM TERM FINANCIAL PLANNING**
The Sub-Committees considered and supported a joint report of the Town Clerk and the Chamberlain concerning the City Corporation's overall financial.

7. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE SUB-COMMITTEES**
There were no questions.

8. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE SUB-COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**
There were no urgent items for consideration.

The meeting ended at 12.20pm

Chairman

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BUSINESS RATEPAYERS' CONSULTATION MEETING

Minutes of the BUSINESS RATEPAYERS' CONSULTATION MEETING held at Guildhall, EC2 on WEDNESDAY 3 FEBRUARY 2016 at 12.30pm.

Present

Members:

Mark Boleat	-	Chairman of the Policy and Resources Committee
Deputy Roger Chadwick	-	Chairman of the Finance Committee
Ian Luder JP	-	Alderman
Michael Hudson	-	Common Councilman
Jeremy Mayhew	-	Common Councilman
Deputy Catherine McGuinness	-	Common Councilman
Deputy John Tomlinson	-	Common Councilman

Also in attendance were representatives from the following companies:

Abrant Ltd
Allenby Capital
Alpina
Alwen Hough Johnson Ltd
ArgusVickers
AXA Insurance
Bank of Korea
Bank of Thailand
Baring Asset Management
Beaumont
Brookfield
Camino UK
Catalyst Development Limited
CBRE Global Investors
China Council for the Promotion of International Trade
City and Continental LLP
Colville Estate Limited
Cooke, Young and Keidan LLP
Cystic Fibrosis Trust
deVere and Partners
Endeavour Insurance
Evans Hart
Fincome Limited
Fxecosystem
Gestalten
GRF Services
ILS Word
KIO Restaurants
Lubbock Fine
Manchester Airport Group
MBA World
Operis Group Plc
Oxford Property Management
Persia International Bank
Providence Row Housing Association
Radcliffes le Brasseur
REGUS
Royal Humane Society
SJC
St Martins Property Corporation
Studio MA
TRowePrice
Turkish-British Chamber of Commerce and Industry
Turkiye Is Bankasi
Wardour Partners
Winter Scott
WL Bakers
Zaiwalla

Officers Present:

John Barradell	-	Town Clerk and Chief Executive
Simon Murrells	-	Assistant Town Clerk
Fern Aldous	-	Town Clerk's Department
Christopher Braithwaite	-	Town Clerk's Department
Sabina Johal	-	Town Clerk's Department
Simon Latham	-	Town Clerk's Department

Peter Kane	-	Chamberlain
Heather Adeyemi	-	Chamberlain's Department
Caroline Al-Beyerty	-	Chamberlain's Department
Carla-Maria Heath	-	Chamberlain's Department
Steve Telling	-	Chamberlain's Department
Ian Dyson	-	Commissioner, City of London Police
Stuart Phoenix	-	City of London Police
Claire Holdgate	-	Remembrancer's Department
Paul Beckett	-	Department of the Built Environment
Ian Hughes	-	Department of the Built Environment

The following documents had been circulated to the consultees attending the meeting:

- Finance Position Statement
- Key Facts Sheet

1. Mark Boleat, Chairman of the Policy and Resources Committee, welcomed representatives to the consultation meeting and provided an explanation of the role of the City of London Corporation and his role within it. He explained that the City of London Corporation promoted the City, London and the UK as a world centre for financial services, with the City of London Corporation working with business leaders across the world to promote London as a place to do business. He discussed the current issue of the UK's membership of the EU and stated that the majority of business with which the Corporation had consulted were in favour of the UK remaining within the EU. He explained that the Corporation would continue to support businesses and promote the City as a place for business during the upcoming referendum and beyond, regardless of the decision on EU membership.

   The Chairman explained the role of tax, regulation and legislation in ensuring that London and the UK remained an attractive place for companies to do business, and highlighted the need for a decision on increased airport capacity for London. The Chairman also updated Business Ratepayers on progress with improving broadband provision for businesses and residents in the City.

   The Chairman highlighted the role that London's culture offering had in attracting businesses and people to the City, and explained the City's specific contribution to the London's culture offering. He particularly highlighted the current work in relation to relocating the Museum of London and the feasibility study for a National Centre for Music.

   The Chairman also noted that roadworks continued to be a major issue within the City, in part due to the ongoing Cycle Super Highway works. He explained that the Corporation continued to actively manage the roads in the City, but sought to continue to improve in this area.

2. Deputy Roger Chadwick, Chairman of the Finance Committee, explained that the funding level for the City of London Corporation's local authority and police functions continued to reduce, although the rate of reduction was slower than

had previously been expected, with cash reductions for 2016/17 of roughly 6% for non-police local authority functions, and 0.5% for Police functions. The Chairman highlighted that the Corporation was already in the process of delivering an £11m per annum savings programme.

The Chairman explained that the Government anticipated that local authorities would be able to offset the reduction in central funding through an increase in the retention of business rates. However, he explained that changes in the threshold applied to the City meant that the Corporation's retained rates were likely to reduce, although these losses would be limited to a maximum of £1.2m per annum.

The Chairman explained that the Corporation intended to freeze Council Tax for residents. He explained that the Greater London Authority's draft budget had also indicated a reduced GLA precept for Council Taxpayers.

With regard to the Police funding position, the Chairman explained that uncertainty remained as a number of the grants for specific aspects of the Police's work had not yet been confirmed and the position remained very challenging. The Chairman explained that the majority of Police forces across the country had increased precepts in 2014/15 and all but seven had raised the precept again in 2015/16. He explained that it was anticipated that most forces would increase the precept again for 2016/17.

The Chairman explained that the Corporation was giving serious consideration to increasing the business rates premium, which had been kept at 0.4p in the pound since 2006/07, to address these funding challenges. The Chairman explained that the Corporation sought to minimise as far as possible its direct financial impact on the businesses and residents which it served within the Square Mile and beyond. However, he explained that government funding and tax revenues did not cover the cost of the Corporation's Local Government and Police functions, despite the wide-ranging savings programmes the Corporation and Police had undertaken, and returns from investments and properties.

The Chairman therefore asked the Business Ratepayers present to endorse the proposal to freeze council tax for residents and to note that an increase in the Business Rate premium was being given serious consideration.

3. Ian Dyson, Commissioner of the City of London Police, provided an update on the work of the City of London Police. He explained the challenging budget position faced by the Police, noting that roughly 80% of the budget was spent on staffing, and that staffing levels had reduced from 850 officers down to a target of 700 officers, which would continue to present challenges to deliver the high quality policing services expected by residents and businesses. He explained that the Police was actively pursuing new ways of working to drive efficiency savings to minimise the impact of budget reductions.

The Commissioner explained the impact of the Paris terrorist attacks of November 2015 on the work of the Police to keep the City safe. He explained that both the City of London Police and the Metropolitan Police had undertaken to increase the number of armed officers to seek to address this threat, which would work alongside a large number of other projects which the Police undertook to protect businesses and residents. The Commissioner particularly highlighted the need to replace the Ring of Steel and the desire to continue to fund Counter Terrorism Security Advisors as particular budget pressures in the Police's counter-terrorism operations.

The Commissioner also explained that the Police was the national lead force for Anti-Fraud, which was an area of crime which had increased significantly over recent years. He explained that cybercrime was another area of increasing activity and this was an area in which the Police was investing.

The Commissioner also discussed road safety, and highlighted a recent operation to address unsafe cycling practices on City streets, which had led to 200 tickets being issued to cyclists. He also explained that the Police was working closely with Transport for London to ensure the safe operation of heavy goods vehicles in the City.

The Commissioner concluded that despite the budget and operational challenges facing the Police, he was confident that the City remained a positive and safe place for people to live and work.

4. John Barradell, the Town Clerk and Chief Executive, explained the Corporation's role in providing civic leadership, and highlighted that he had addressed a local Government conference earlier in the day where he had defined this role as linking people and businesses with prosperity. He explained that the Corporation's role in extended beyond the City, to providing jobs and opportunity to the rest of London and the UK.

   The Town Clerk reminded Ratepayers of the upcoming Common Council elections, in March 2017, and urged Ratepayers to ensure that their businesses were properly registered so as to be able to vote in these elections. The Town Clerk highlighted that some Ratepayers may even wish to stand for election.

   The Town Clerk explained that the Corporation continued to work with telecommunications companies to improve the provision of broadband to businesses and residents in the City. He also explained that the Corporation would continue to work with Transport for London to mitigate the impact of any roadworks on businesses and residents.

   The Town Clerk echoed the comments of the Chairman of the Policy and Resources Committee about the work the Corporation in developing the City's cultural offer. He also advertised to Ratepayers the events to mark the 350th Anniversary of the Great Fire of London, which would take place on 2-4 September 2016.

   The Town Clerk concluded by explaining to Ratepayers the full breadth of local authority services provided by the Corporation, including Children's and Adult's Services, education, planning and environmental services.

5. The Ratepayers were given the opportunity to comment on the circulated documents and to ask questions. Many Ratepayers praised the work of the City of London Police. During discussion the following questions were raised:-

Traffic, Transport and Road Use

- A Ratepayer asked what enforcement options were available in relation to delivery vehicles parking on yellow lines. The Director of the Built Environment explained that a number was available for the public to call in the event of vehicles being parked on yellow lines, to allow parking enforcement officers to attend as soon as possible.
- A Ratepayer asked whether any consideration was being given to making certain roads bus only. The Chairman of the Policy and Resources Committee explained that it was something that could be considered in some areas. The Chairman highlighted the Bank Junction as an area where consideration was being given to making the roads cyclist and bus only. A Ratepayer asked for clarification as to when the restructuring of Bank Junction might take place. The Chairman of the Policy and Resources Committee explained that an interim measure was expected to be in place by the end of 2016, and appropriate permanent measures would follow two to three years after that. A Ratepayer asked whether shared space was being considered for Bank Junction. The Chairman of the Policy and Resources Committee explained that shared space would be considered where appropriate, but this was not appropriate for a seven-way junction such as Bank Junction.
- Ratepayers discussed the Police's work in addressing dangerous cyclists. The Commissioner explained that the Police had directed dangerous cyclists towards Cycle Safe schemes, and in his opinion the vast majority of cyclists used the road safely.
- A Ratepayer asked what role the Police had in addressing instances of dangerous driving by bus drivers. The Commissioner explained that its role was to investigate such instances and prosecute if appropriate.
- A Ratepayer asked what processes were in place for businesses to request the closure of roads to allow buildings works to be conducted. The Director of the Built Environment explained that in such instances Ratepayers should contact the Department of the Built Environment. However, he cautioned that road closures were challenging at present due to the work at Aldgate Gyratory and for the Cycle Super Highway, which was putting stress on the rest of the road network. The Director of the Built Environment explained that these works were expected to be completed in April 2016, at which point further road closures would be considered.
- A Ratepayer asked whether there was an intention for the extended hours of Cannon Street Station to continue following the completion of the current works at London Bridge Station. The Director of the Built Environment agreed that this could be discussed with Transport for London.

Business Rates and budgets

- A Ratepayer asked whether an increase to the business rates premium would be used solely by the Police. The Chairman of the Policy and Resources Committee explained that any additional funding from an increased premium would be devoted solely to security, but that would not necessarily mean it was all provided to the Police.

- A Ratepayer asked whether the Police could receive further funding for its Anti-Fraud work, given the national context of this work. The Commissioner clarified that this work was funded by the Government, and was outside of the Police's core budget.
- A Ratepayer, who was also a resident of the City, explained that the reduction in the visible police presence in the City was regrettable, but understood the budgetary situation. He asked whether it would be possible for residents or businesses to voluntarily contribute a greater amount to the Police to assist and ensure a greater visible police presence. Another Ratepayer supported this suggestion. The Town Clerk suggested that this may be problematic from a legal perspective, but agreed to investigate. The Town Clerk also explained that some specific Police programmes, such as the work against Insurance Fraud, was funded by businesses from the industries affected.
- A Ratepayer asked what options were available to the Corporation to share services with local authorities to achieve efficiencies and increase the pool of resources available to all authorities. The Chairman of the Policy and Resources Committee explained that there was plenty of willingness to share services, but much of the Corporation's work was particularly specialised, given the Corporation's different role to a traditional local authority. The Town Clerk noted that the Corporation did provide assistance to local authorities in areas such as planning, emergency planning and secretariat support.

<u>Promotion of the City</u>

- A Ratepayer asked what role the Corporation played in improving the public perception of the City, which appeared to be broadly positive for those who lived or worked there, but was often perceived negatively elsewhere. The Chairman of the Policy and Resources Committee explained that the promotion of the City as a positive environment was a role that the Corporation took very seriously, with successive Lord Mayor's actively promoting the City across the UK and the world.

<u>Culture</u>

- A Ratepayer asked whether there was anything that the Corporation could do to stimulate the night-time economy in the City at weekends, particularly on the North Bank of the Thames around Cannon Street. The Commissioner explained that the City did have a thriving weekend and night time economy, but this was focused elsewhere in the City.
- A Ratepayer asked for clarification as to the proposals for the redevelopment of the Smithfield Market area and the Museum of London. The Chairman of the Policy and Resources Committee explained that the proposal was for the Museum of London to be relocated to a currently vacant building at Smithfield Market and no proposals were in place to make any changes to the operational Market buildings. The Chairman explained that the relocation of the Museum provided an excellent opportunity to revitalise the Smithfield Market area.

Littering

- A Ratepayer asked whether more could be done to enforce the Butt It Out campaign against cigarette butt littering, particularly in the area of Austin Friars. The Town Clerk agreed that further work could be done, and informed the Ratepayer that he would ensure that their particular concern regarding Austin Friars was addressed.

6. Following the discussion, the Chairman of the Policy and Resources Committee concluded by thanking those present for attending the meeting and their contributions to the discussion.

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Committee(s) Finance Committee	Dated: 16 February 2016
Subject: City Fund: 2016/17 Budget Report and Medium Term Financial Strategy	**Public**
Report of: The Chamberlain	
Report Author: Steve Telling	**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). It recommends that:

- the Council Tax for 2016/17 remains unchanged from 2015/16 and;
- Members discuss whether to recommend an increase in the Business Rates Premium to the Court of Common Council and, if so, what proportion of the additional income should be allocated to the Police.

There is a further report to your Committee on the financial position of all the City 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): the provisional settlement is better than expected, an 11% reduction in revenue support grant (RSG), compared to an anticipated 25%. Unlike previous years, the provisional settlement includes figures for four years (2016-17 to 2019-20). The four year horizon suggests a far less steep rate of reduction in RSG. Our earlier forecast had assumed that RSG would be reduced from £12m in 2015/16 to zero by 2019/20, whereas the provisional settlement indicates that we should still receive £6m in 2019/20. With the inclusion of the service based review savings in budgets, the forecast is in surplus across the period, although reducing close to breakeven by the end of period.

- Police: more problematic - Whilst the settlement is better than anticipated, and accords with the Chancellor's announcement that police spending would be protected in real terms over the Spending Review period when precepts are taken into account, deficits are still forecast from 2017/18 onwards with draw down of reserves. This is despite the Police implementing a challenging savings plan that has delivered £16m from its new operating model 'City First' including a 14% decrease in the number of police officers. The strategy has been to retain £4m in reserves, but the forecast is to breach this level towards the end of 2017/18 and reserves are forecast to be exhausted during 2018. Since preparation of the Police Budget and approval by the Police Committee there are also a number of emerging cost pressures as set out in paragraphs 8 to 10. Action is therefore needed to restore financial balance.

Recommendations

Following the Committee's consideration of this City Fund 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 (paragraph 2)
- Approve the City Fund Net Budget Requirement of £105.4m (paragraph 12) - subject to Member discussion on the emerging cost pressures for the City Police, the options for tackling them, and any decision on the Business Rates Premium.
- Note the following changes in assumptions from the previous forecast (paragraphs 3 and 28):
    - Allowances for pay and prices are factored in at 1.5% in 2016/17 and then reducing to 1% across the rest of the period; and
    - A £250k contingency is provided in 2016/17 for the final stages of moving suppliers to the London Living Wage contracts;
    - A contingency has been provided for severance costs relating to service based review savings (£0.5m p.a. in both 2016/17 and 2017/18);
    - Following the identification of a bow-wave of delayed cyclical repairs work, an additional £1m p.a. funding has been included; and
    - Provision has been included for transformation funds – £0.5m p.a. from 2016/17 to 2018/19.
- Note that a provision of £1.2m p.a. has been made in the revenue estimates from 2017/18 for reductions in the City's baseline funding level as part of the Rates Retention Scheme.
- Approve the publication of an efficiency plan, subject to assessment of detailed requirements.
- Note the Local Council Tax Reduction Scheme set by the Court of Common Council on 14 January 2016 and as set out at paragraph 27.

<u>Key decisions</u>

The key decisions to make are in setting the levels of Non Domestic Rates and Council Tax.

Business Rates

- Set, exclusive of the Business rate premium, a Non-Domestic Rate multiplier of 49.7p for 2016/17 together with a Small Business Non-Domestic Rate multiplier of 48.4p (paragraph 15).
- Discuss whether to recommend an increase in the Business Rates Premium (currently 0.4p in the £) to the Court of Common Council and, if so, what proportion of the additional income should be allocated to the Police.
- Note that the Greater London Authority is, in addition, levying a Business Rate Supplement in 2016/17 of 2p in the £ on properties with a rateable value greater than £55,000 (paragraph 20).
- As in previous years, delegate to the Chamberlain the award of the discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988 as set out in paragraph 19.

Council Tax

- Recommendation is for the City's Council Tax (excluding the Greater London Authority precept) to remain unchanged.
- Based on a zero increase from 2015/16, 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 A).

- Determine that the relevant (net of local precepts and levies) basic amount of Council tax for 2016/17 will not be excessive in relation to the requirements for referendum.
- Approve that the cost of highways, transportation planning, waste collection and disposal, drains and sewers, open spaces and street lighting functions for 2016/17 be treated as special expenses to be borne by the City's residents outside the Temples (appendix A).

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.

Recommendations

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 2016/17 (paragraph 30).
- Approve the Prudential Code indicators (Appendix B).
- Approve the following resolutions for the purpose of the Local Government Act 2003 (paragraph 33 and Appendix E) that:
  - at this stage the affordable external borrowing limit (which is the maximum amount which the Corporation may have outstanding by way of external borrowing) be zero.
  - the prudent amount of Minimum Revenue Provision (MRP) for 2016/17 is zero. For subsequent years MRP will equal the amount of deferred income released from the premiums received for the sale of long leases in accordance with the MRP Policy at Appendix E.
- Any potential external borrowing requirement and associated implications will be subject to a further report to Finance Committee and the Court of Common Council.
- Note that the funding for the £200m contribution from City Fund to Crossrail has been assembled over the past few years from a planned strategy in relation to investment properties and is now in place, with payment anticipated to be in March 2017.

Chamberlain's assessment

- Take account of the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves (paragraphs 36, 37 and 42, and Appendix D)

Main Report

Financial overview

1. The Government recently issued the Local Government Finance Settlement for 2016/17and the Policing Minster published the revenue allocations for police for 2016/17.

2. 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				
	15/16	16/17	17/18	18/19	19/20
City Fund – non Police					
March 2015 forecast	(0.2)	(0.9)	(0.2)	(0.5)	N/A
Current forecast*	0.5	(5.9)	(2.0)	(2.1)	(1.0)
Unearmarked revenue reserves	(37.5)	(42.0)	(29.1)	(32.8)	(35.7)
City Fund – Police					
March 2015	1.7	3.9	7.6	N/A	N/A
Current forecast	3.2	0.0	2.9	4.8	N/A
Unearmarked revenue reserves	(5.4)	(5.4)	(2.5)	2.3	N/A

** Underlying position – excludes planned use of revenue reserves to purchase investment properties (£1.9m) and repayment of cashflow assistance for the Police Action Fraud service (£0.5m credit).*

3. **For City Fund**, following a small deficit in the current year reflecting agreed budgets brought forward from 2014/15, City Fund is forecast to be in surplus across the period due to a combination of Service Based Review savings and the better than anticipated provisional settlement. This allows the inclusion of additional funding to meet Member priorities and initiatives as follows:

   a) In the heightened security environment following the Paris attack, security measures have been reviewed across the estate. The on-going revenue implications of the recommendations are currently being finalised but, at this stage, we have included a preliminary estimate of £360,000 p.a. in the revenue budgets (together with a £3m provision in the capital budget for various works). The majority of the revenue estimate relates to the Central Criminal Court, a large element of which may be recovered from the Courts and Tribunal Service (subject to negotiation).

   b) Following the identification of a £40m 'bow-wave' of delayed cyclical repairs work, the annual provisions included in the forecasts for supplementary revenue projects and the additional works programme have been combined into the Cyclical Works Revenue Programme and increased by £1m p.a. for City Fund. Officers are currently assessing the deliverability of a wider cyclical repairs programme and Members may wish to consider a further allocation in the later years in the planning horizon, once the analysis has been completed.

   c) Transformation Funds - Provision has been included for transformation funds – For City Fund, £0.5m p.a. from 2016/17 to 2018/19. The purpose of the funds is to implement the cross cutting changes needed for the service based review, to invest in developing our skill set and service transformation, which will generate additional efficiency savings and income.

4. **For Police**, with the exception of a break even position anticipated for 2016/17, deficits are forecast across the period with draw down of reserves. The strategy has been to retain £4m in reserves, this is forecast to be breached towards the end of

2017/18 and reserves are forecast to be exhausted during 2018. Action is therefore needed to restore financial balance by 2018/19.

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

   a. **Grant Settlement:** the provisional settlement is better than expected. Our June forecast, based on the Treasury request to non-protected government departments to identify real savings of 25-40%, assumed a £3m (11%) cash reduction in RSG and rates retention funding between 2015/16 and 2016/17. However, the cash reduction in the provisional settlement is £1.7m - allowing for £0.4m of specific grants which have been rolled up into core funding. Unlike previous years, the provisional settlement includes figures for four years (2016-17 to 2019-20). The four year horizon suggests a far less steep rate of reduction in RSG. Our earlier forecast had assumed that RSG would be reduced from £12m in 2015/16 to zero by 2019/20, whereas the provisional settlement indicates that we should still receive £6m in 2019/20.

      The other element of core Government Funding relates to retained business rates. This is known as the Baseline Funding Level and is £15.2m for 2016/17. Note that a provision of £1.2m p.a. has been made in the revenue estimates from 2017/18 for reductions in the City's baseline funding level.

   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 2016/17 will be £11.039m a similar level to 2015/16 with RPI added. Small inflationary increases have been assumed for the other years of the forecast period.

   c. **Business rates retention**: The system remains broadly the same, with the City benefitting from 15% of any growth in business rates. Business rates income grew in 2014/15, for which the City will receive allocations totalling £4m spread over 2015/16 and 2016/17. However, due to a potential upward revision to the City's 'threshold' (above which the City retains a proportion of growth in rates and below which the City would move into a safety net position) the forecast has assumed that the City will return to a safety net position from 2017/18, retaining £14.4m of business rates income – a reduction of £1.2m p.a. against the baseline.

   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, 2015/16. The 2% threshold for Council tax remains, but upper tier authorities will be allowed to raise a further 2% to spend on social care throughout the settlement period. It will be up to councils to choose whether to exercise their discretion to raise council tax by an additional 2% for adult social care. For the City a 2% increase would only generate £120k. Although we anticipate that other London authorities will use the 2% flexibility for social care, the forecast surplus on City Fund for 2016/17 would more than negate any pressures within social care. **The Recommendation is therefore to freeze rather than increase council tax.** There is no freeze grant this year.

   e. **The four year offer:** The provisional funding settlement includes figures for four years (2016-17 to 2019-20). The Government presented this as an 'offer' to local government with the proviso in the consultation being that any Council accepting the offer will have to publish an efficiency plan. This is a very helpful move and one local government has been campaigning for, as it provides more certainty and ability to plan changes over the medium-term. There are no details about what an efficiency plan will need to include or when we would have to publish these plans, but the requirements will be clarified shortly by DCLG. A decision is required on whether to prepare an efficiency plan in return for certainty over 4 year funding. **The recommendation is to agree to publish an efficiency plan, subject to assessment of detailed requirements.**

City Police

6. Funding assumptions include:

   a. **Grant funding**: In our September forecast we had assumed the cash reduction to Core grant would be £2.6m (5%), but the provisional settlement is a reduction of £0.3m (0.6%) - £2.3m better than forecast for 2016/17. This results in a break even position being forecast for 2016/17, subject to additional cost pressures identified by the Commissioner in relation to security as set out in paragraphs 8 to 10 below.

   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 £4.7m, a reduction of £0.8m on 2015/16 levels. Capital City Funding has been advised as part of the provisional settlement at £4.5m, an increase of 61% on the prior year (£2.8m in 2015/16).

   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, although the revenue hypothecated to Police has increased from £3.6m to £5.1m (40% increase in value) over this period. The forecasts currently assume no increase in business rates premium.

   d. **Action Fraud Service**: As part of the Police forecast above, the City Fund is providing cash flow assistance in relation to the Action Fraud Service. This service was transferred by the Home Office from the National Fraud Authority to the City Police with effect from 1 April 2014. Subsequently, the service was subject to a procurement process which was won by IBM. The phasing of contract payments reflects IBM's mobilisation costs of £9.9m during the first year which could not be managed within Police reserves.

7. The Police are implementing a challenging savings plan and previous budget reductions have already resulted in a 14% decrease in the numbers of police officers in the City and £16m removed from the budget. **Further thought needs to be given to how best to tackle the financial challenges still being faced by the Police**, despite the settlement being significantly better than had been assumed in September.

8. Furthermore, additional challenges and cost pressures have been identified by the Commissioner since the compilation and approval of the Police Budget by Police Committee. The principal reason that police budgets have been protected in the

December settlement is the severity of the threat faced by the UK. The scale and complexity of the attacks in Paris have required forces to fundamentally re-think assumptions around responding to such events. The Commissioner is responsible for establishing the operational policing requirements for the City of London and the Force has reviewed its capacity and capability to respond to a terrorist assault on the scale of the Paris attacks. As a result, the Force's Senior Management Board has agreed two areas where the response capabilty should be increased:

- A further ten specialist firearms officers are to be employed. This will be in advance of any additional grant that may be provided by the Home Office. At the time of writing, the amount and criteria for any Home Office funding for an uplift in armed officers is unknown. The cost of ten additional officers is estimated at £500,000 with the cost of associated training and equipment estimated at £350,000.

- The Home Office has indicated that during 2016/17 it intends to reduce the amount of funding available for Counter Terrorism Security Advisors (CTSAs). The Force currently employs five CTSAs, which would reduce to two if the Force does nothing to compensate for the reduced funding. The density of new developments in the City, currently and planned over the medium term, means that to maintain the level of security necessary to protect the City of London, the Force may determine it necessary to fund additional CTSAs from its core budget to keep the level at five. An additional three officers is estimated at £150,000.

9. The Force has two additional tools to its response to the terrorist threat;

   - Operation Servator, which uses behavioural detection officers and cutting edge techniques to target suspect individuals and situations. The level of resources necessary to sustain the level of activity, or increase if dictated by the level of risk, is likely to result in a budget pressure.
   - The Ring of Steel, although recognised as excellent, is now in need of significant investment to ensure its continued effectiveness as a tool to address threat.

10. These additional pressures (estimated to cost approximately £1m) were not foreseen as likely prior to November 13th, the date when Paris was attacked by terrorists. Consequently, these pressures did not feature in basing the budget on 700 officers, but need to be addressed, which makes the task of restoring financial balance that bit harder.

11. Restoring the Financial Balance - There are three main options:

   i) Business Rate Premium increase.

   - The Home Secretary has said that the 'flat' Police settlement (in real as opposed to cash terms) takes into account the flexibility to 'raise local council tax'. For most forces, this would mean precepting the local authority. However, for the City, the residential base is so low that an increase of 2% in council tax would only generate £120,000. The other precepting mechanism for the City is the business rate premium. The premium can be increased in increments of 0.1p with each 0.1p generating an estimated £1.6m p.a. for attribution between the Police & the City Fund (£1.2m & £0.4m respectively using the current proportions).

   - With the exception of an anticipated break even in 2016/17, the Police forecasts show a continuing deficit and draw on Reserves. In light of the Home

Secretary's expectation that Police authorities will use their precepting powers to maintain funding levels, Members may wish to consider a business rate increase. The majority of forces raised council tax precepts last year and all but seven raised them in 2015-16. It is anticipated that most forces will increase their precepts again for 2016/17.

- There will be a general revaluation for business rates in 2017 (not related to retention issues) and overall City rateable values are likely to rise. This will automatically increase the yield from the premium, but will also increase the rate liability generally. There will almost certainly be some sort of transitional scheme to protect ratepayers from large increases but they will probably have to bear at least a percentage of the increase. Transitional relief will not apply to either the premium or the Crossrail supplement.

- The Resource Allocation and Efficiency and Performance Sub Committees considered this issue at the joint meeting with the Service Committee Chairmen and recommended that the business rate premium for 2016/17 be increased by 0.1p in the £. The votes were:
    - 16 votes in favour of a 0.1p increase in the Business Rate Premium for 2016/17
    - 10 votes against an increase in 2016/17

- The Policy and Resources Committee noted this recommendation at its meeting on 21st January 2016. Having discussed the merits of the business rate premium being increased by 0.1p in 2016/17 in detail, and bearing in mind the forthcoming funding discussions with the government regarding rates retention and the City Offset, the Policy Committee feels that the current rate should be maintained for a further year. The votes were:
    - 13 votes for a 0.1p increase in the Business Rate Premium for 2016/17
    - 14 votes against an increase.

- The meeting with ratepayers took place on 3 February and a number of ratepayers made comments supporting Police and expressing a willingness to contribute financially.

ii) Further budget savings and income generation.

- The Force is committed to making further savings wherever it can and will continue to refine processes and structures in the interests of efficiency and cost effectiveness. The reality is, however, that a police force as small as the City of London Police has now realised the vast majority of savings that are available from reducing headcount and re-organising the business. The recent analysis of the growing cost pressures to improve the response and prevention capability to a terrorist event similar to the Paris attacks would suggest that this option could not be pursued alone.

iii) Contribution from City of London Corporation Funds directly or to allow a lower reserves threshold below £4m

Revenue Spending Proposals for 2016/17

12. The City Fund net budget requirement for 2016/17 is £105.4m, an increase of £3.6m. The following table shows how this is financed and the resulting council tax requirement.

Table 2: Setting the Council Tax requirement		
	2015/16 (original) £m	**2016/17 £m**
Net Expenditure before investment income from City Fund assets	144.7	145.7*
Estate rental income Income on balances	(41.5) (1.6)	(42.3) (2.5)
Net requirement Plus proposed contribution to/(from) reserves	101.6 0.2	100.9 4.5
City Fund Net Budget Requirement	**101.8**	**105.4**
<u>Financing sources</u> Formula Grant City Offset NNDR premium (net) City's share of Collection Fund Surplus	 (78.3) (11.0) (6.5) (0.8)	 (80.5) (11.0) (6.5) (1.4)
Council Tax Requirement	**5.2**	**6.0**

**Prior to the emerging additional cost pressures identified by the City police*

13. A separate report on today's agenda "Revenue and Capital Budgets 2015/16 and 2016/17" includes the detailed net revenue budget requirements of the City Fund. Included within the net expenditure 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 collection and disposal, drains and sewers, open spaces and street lighting being declared as special expenses as in previous years).

Table 3: Temple's Precepts		
	2015/16 £	2016/17 £
Inner Temple Middle Temple	184,070 152,242	188,003 153,218
Total	**336,312**	**341,221**

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

	Table 4: Analysis of Core Government Grants				
		2015/16 Original	2016/17 Original	Reduction (Increase) on 2015/16	
		£m	£m	£m	%
1	Police	52.4	52.1	0.3	0.6%
2	Non-Police	11.9	10.6	1.3	10.9%
3	**Total before Rates Retention Scheme and grants Rolled In**	**64.3**	**62.7**	**1.6**	**2.5%**
	Rates Retention Scheme				
4	Baseline	15.2	15.3	(0.1)	(0.7%)
5	2013/14 Safety Net	(1.2)		(1.2)	NA
6	2014/15 Growth		2.5	(2.5)	NA
7	**Total before Grants Rolled In**	**78.3**	**80.5**	**(2.2)**	**(2.8%)**
8	Grants Rolled In		(0.4)	0.4	NA
9	**Total Core Government Grants**	**78.3**	**80.1**	**(1.8)**	(2.3%)

Business Rates

15. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 49.7p and a Small Business Non-Domestic Rate Multiplier Rate of 48.4p for 2016/17. These multipliers represent increases of 0.4p over the 2015/16 levels. The actual amount payable by each business will depend upon its rateable value.

16. The business rate premium on City businesses has been unchanged since 2006/07 at 0.4p and, if this remains unchanged again this year, the proposed premium will result in a National Non-Domestic Rate multiplier of 50.1p and a Small Business Non-Domestic Rate of 48.8p for the City for 2016/17. It is anticipated that a premium of 0.4p will raise approximately £6.5m.

17. 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.

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

19. One final issue in relation to business rates. As in previous years, authority is sought for the Chamberlain to award the following discretionary rate reliefs under Section 47 of the local Government Finance Act 1988:

- relief of up to £1,500 to retail premises up to 31st March 2016;
- 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%.

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 A. 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, the final City Fund council tax requirement for 2016/17 is £6.0m. 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 2016. As detailed in Appendix A, the City's proposed Council Tax for 2016/17 at band D is £857.31. Consequently it is proposed to freeze Council Tax for 2016/17 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 'provisional' precept for 2016/17 is £69.21 for a Band D property. This excludes the Metropolitan Police requirement and represents a decrease of £17.10 compared with 2015/16.

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	46.14	53.83	61.52	69.21	84.59	99.97	115.35	138.42
Total	617.68	720.63	823.57	926.52	1,132.41	1,338.31	1,544.20	1,853.04

25. 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 2016/17 will not be excessive in relation to the new referendum requirements for any council tax increases.

Council Tax Reduction (formerly Council Tax Benefit)

26. 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.

27. Following changes to national benefits in the July 2015 budget, it is no longer possible to use the default scheme. Members at the Court of Common Council meeting in January 2016 have approved a new Council Tax Reduction Scheme as it applies to working age claimants, which will reflect changes and uprating to be applied under the Housing Benefit Regulations, effective from 1 April each year and

the Council Tax Reduction Schemes (Prescribed Requirements) (England) (Amendment) (No. 2) Regulations 2014. Effectively, the City's Local Council Tax Reduction Scheme for 2016-2017 will have 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, 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.

Assumptions

28. 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, expiry of leases, lease renewals and the smoothing of anticipated rent periods. Rental income is forecast to grow over the period. However, a vote to leave the EU might have an impact on rent revenue in the longer term. A recent FT survey found a consensus from economists that many international companies would no longer choose Britain as a base for their European operations in the event of the UK leaving the EU.

b) Interest rates: As the economic situation improves, it is likely that interest rates will rise at some point in the medium term. However, it is difficult to predict when such an increase might occur. Accordingly, the rate of 0.5% currently being achieved on cash balances is assumed to hold until March 2017, when the consensus of opinion is for a marginal increase to 0.75%. A 0.25% increase in interest rates in 2016/17 would equate to £1.3m p.a. on City Fund.

   We are currently holding substantial sums of cash, pending payments of Crossrail commitments i.e. £200m from City Fund, now anticipated to be payable in March 2017. These additional monies increase the return on cash investments in 2016/17. When interest rates do eventually increase, Members will need to take a view as to whether to utilise the additional revenue

Expenditure

c) Allowances for pay and prices are factored in for 2016/17 at 1.5% and thereafter at 1% p.a. On City Fund each 1% is approximately £850k. RPI has dropped recently to 1.2% and CPI to 0.2%. The Government's own measure- the GDP deflator - is 1.7% for 2016/17 rising to 2.1% by 2019/20.

   We have a policy to consider supporting exceptional cost increases on a case by case basis and anticipate that might be necessary for data storage costs as reported to Finance Committee in January.

d) London Living Wage: A small contingency of £250k is provided in City Fund in 2016/17 for the final stages of moving suppliers to London Living Wage contracts.

e) A contingency of £0.5m p.a. has been provided for severance costs relating to service based review savings in both 2016/17 and 2017/18.

f) The additional works programme and supplementary revenue projects: Following the identification of a £40m 'bow-wave' of delayed cyclical repairs work, the annual provisions included in the forecasts for supplementary revenue projects and the additional works programme have been combined into the Cyclical Works Revenue Programme and increased by £1m p.a. for City Fund.

g) The City Fund (non-Police) service based review 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.

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 2016/17 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)	21.2
Dwelling Improvements	16.6
Affordable Housing Construction	17.0
New Police Accommodation	13.3
Barbican Podium	7.0
Old Bailey Enhancements	2.2

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 2016/17 City Fund Capital Expenditure	
	£m
Estimated Capital Expenditure	**304.8**
Financing	
Internal	
• Earmarked reserves:	
Housing Revenue Account (HRA)	13.0
Highways Improvements	7.5
Crossrail	25.3
• Disposal Proceeds	201.4
• Revenue Reserves	3.4
External	
• Grants and reimbursements	54.2
Total	**304.8**

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 2016/17 to 2018/19
- Estimates of the capital financing requirement 2016/17 to 2018/19

- 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 B. 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 C.

33. The main point to highlight is that there is no underlying requirement at this stage to borrow externally for capital purposes. However the funding of capital expenditure from cash received from long lease premiums which are deferred in accordance with accounting standards has to be treated as internal borrowing. To ensure that this cash is not 'used again' when the deferred income is released to revenue, the City Corporation will make a Minimum Revenue Provision equal to the amount released, resulting in an overall neutral impact on the revenue account bottom line. The Minimum Revenue Provision Policy Statement 2016/17 is set out in Annex E.

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

Provision for future capital expenditure

35. 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 requests and/or consider making further resources available from reserves.

Robustness of Estimates and Adequacy of Reserves

36. 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.

37. 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 remains low across the planning period
    f) a strong track record in achieving budgets gives confidence on the robustness of estimates.

38. An analysis of usable City Fund Reserves is set out in Appendix D

Risks

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

Within the City Corporation's control

- Challenges faced by City Police despite the settlement being significantly better than anticipated.
- Delivery of the service based review savings proposals.

Outside the City Corporation's control

- Increase to the threshold for achieving growth in business rates making it more difficult to retain a share additional income.
- Adjustments to the Rates Retention System.

Equalities Implications

40. 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

41. Following the service based review and the better than anticipated financial settlements from Government, the funds are in a much healthier position across the medium term. However, there are a number of risks as outlined above.

42. The different financial messages of efficiencies and surpluses are likely to be very challenging to manage, especially with our external stakeholders. Further thought is being given on how best to tackle the issue. 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 – Calculating Council Tax
Appendix B – Prudential Indicators
Appendix C – Treasury Management Strategy and Annual Investment Strategy – please note: main changes to the document from last year's version are highlighted in grey
Appendix D – City Fund Usable Reserves
Appendix E - Minimum Revenue Provision Policy Statement 2016/17

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Appendix A

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:

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

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 of London (7,041.95) together with the Council Tax bases for each part of the City's area.

The above calculation is as follows:

$$'B1' = \frac{£6,037,134}{7,041.95}$$

'B'1 = £857.31

Note: Item R consists of the following components:

	£	**£**
City Fund Net Budget Requirement		105,437,055
Less:		
Formula Grant	(80,501,051)	
City's Offset	(11,039,000)	
Estimated Non-Domestic Rate Premium (Net)	(6,500,000)	
Estimated Collection Fund Surplus as at 31 March 2016 (City's share)	(1,359,870)	(99,399,921)
TOTAL COUNCIL TAX REQUIREMENT (R)		**6,037,134**

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:

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

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:

$$\text{'B2'} = £857.31 - \frac{£16{,}147{,}221.33}{7{,}041.95}$$

‘B2’ = £1,435.69 CR

Note: Item A consists of the following components:

	£	£
Highways Net Expenditure	8,227,000.00	
Waste Collection & Disposal Net Expenditure	2,109,000.00	
Open Spaces Net Expenditure	1,720,000.00	
Transportation Planning	1,974,000.00	
Drains and Sewers	479,000.00	
Street Lighting Net Expenditure	1,297,000.00	
Total City’s Special Expenses		15,806,000.00
Inner Temple’s Precept	188,003.07	
Middle Temple’s Precept	153,218.26	341,221.33
Total Special Items		16,147.221.33

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

$$\text{'B3'} = £1{,}435.69 \text{ CR} + \frac{£15{,}806{,}000}{6{,}893.14}$$

$$\text{'B3'} = £857.31$$

Inner Temple

$$\text{'B3'} = £1{,}435.69 \text{ CR} + \frac{£188{,}003.07}{81.99}$$

$$\text{'B3'} = £857.31$$

Middle Temple

$$\text{'B3'} = £1{,}435.69 \text{ CR} + \frac{£153{,}218.26}{66.82}$$

$$\text{'B3'} = £857.31$$

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	46.14	53.83	61.52	69.21	84.59	99.97	115.35	138.42
Total	617.68	720.63	823.57	926.52	1,132.41	1,338.31	1,544.2	1,853.04

PRUDENTIAL INDICATORS

The following Prudential Indicators (and those included in Appendix C) 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 2016/17, 2017/18 and 2018/19 (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

	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Revised	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
HRA	0.24	0.24	0.25	0.42	**0.74**	**0.42**	**0.42**
Non-HRA	-0.39	0.22	-0.46	-0.35	**-0.43**	**-0.40**	**-0.48**
Total	-0.33	0.22	-0.39	-0.28	**-0.31**	**-0.32**	**-0.38**
At this time last year	*-0.30*	*0.22*	*-0.34*	*-0.30*	*-0.33*	*-0.33*	*-*

This ratio is intended to represent the extent to which the net revenue consequences of financing and 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 significant revenue reserves in property.

The upward trend in HRA ratios reflects increased revenue contributions to the major repairs reserve, peaking in 2016/17, which is used to fund the HRA programme of capital works necessary to maintain the housing estates.

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

Table 2

	2015/16 Revised £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Incremental increase/(decrease) Per Band 'D' Equivalent	1,233.00	**1,546.00**	**1,455.00**	**1,335.00**
At this time last year	*19.00*	*(189.00)*	*(242.00)*	*-*

This ratio has been calculated to show the net incremental revenue impact of variations in the capital programme since the 2015/16 original estimates were prepared, expressed as a Band D equivalent. The variations generally reflect the beneficial impact of interest earnings and rental income arising from changes in the capital programme, with bracketed items representing a net revenue benefit. However, funding of capital expenditure from revenue balances will offset the ongoing revenue income in the short term.

The increases over the indicators calculated at this time last year reflect this one-off short term negative impact of investing surplus revenue cash balances in investment property, which will generate a long term beneficial rental income.

Whilst in theory, this indicator could be a strong measure 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

	2015/16 Revised £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Incremental increase/(decrease) on Average Weekly Rent	(3.67)	**1.58**	**9.18**	**11.67**
At this time last year	*2.84*	*4.04*	*4.10*	-

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.

Prudential Indicator of Prudence

Net Debt and the Capital Financing Requirement

Table 4

	Period 2015/16 to 2018/19 £m
Net borrowing/(Net investments) at 31 March 2019	**(215.910)**
Capital Financing Requirement at 31 March 2019	**158.186**

To ensure that, over the medium term, net external 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 2015/16 to 2018/19. For this purpose, net debt is defined as the net total of external borrowing and cash investments. The existing financial plans assume that no external borrowing will be undertaken within the planning period, giving a ‘net investment’ position.

Prudential Indicators for Capital Expenditure and External Debt

Estimate of Capital Expenditure

Table 5

	2012/13 Actual £m	2013/14 Actual £m	2014/15 Actual £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
HRA	3.502	2.502	4.534	10.690	**33.628**	**30.943**	**6.609**
Non-HRA	17.939	181.183	41.103	46.019	**271.181**	**42.637**	**50.542**
Total	21.441	183.685	45.637	56.709	**304.809**	**73.580**	**57.151**
At this time last year	*21.441*	*183.685*	*66.742*	*269.214*	*37.260*	*26.524*	-

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 expenditure, most notably the deferral of the £200m contribution to Crossrail from 2015/16 to 2016/17.

Estimate of the Capital Financing Requirement

Table 6

	2012/13 Actual £m	2013/14 Actual £m	2014/15 Actual £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
HRA	10.924	10.705	10.490	**2.281**	**2.226**	**2.172**	**2.119**
Non-HRA	-12.852	-12.647	-12.309	**-4.099**	**97.341**	**116.285**	**156.067**
Total	-1.928	-1.942	-1.819	**-1.818**	**99.567**	**118.457**	**158.186**
At this time last year	*-1.928*	*-1.942*	*-1.942*	*-1.942*	*-1.942*	*-1.942*	-

The capital financing requirement (CFR) reflects the underlying need to borrow and is calculated by identifying the capital financing sources (e.g. capital receipts, grants) to be applied. A positive indicator reflects the use of both external and internal borrowing to fund capital expenditure.

The overall negative figures before 2016/17 are indicative of the City’s debt-free status. From 2016/17 onwards the City Fund will finance some capital expenditure from cash sums received from the sale of long leases, which are treated as deferred income in accordance with accounting standards. For the purposes of this indicator, such funding counts as ‘internal borrowing’ and has given rise to positive CFRs going forward. The City continues to remain free of external debt.

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 C.

Local Indicator

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

	2015/16	2016/17	2017/18	2018/19
Times cover on unencumbered revenue reserves	*13.2*	***(10.0)***	***32.8***	***11.1***
At this time last year	*(30.2)*	*(16.2)*	*(5.5)*	-

This indicator is calculated by dividing the balance of unencumbered general reserves by any annual revenue deficit/ (surplus). By 2018/19 the indicator shows that the cover could reduce to 11 years.

Appendix C

TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY

2016/17

[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 2016/17

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 2016/17

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 2016/17 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 2016/17 to 2018/19

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 2015 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			**882.3**	**0.63**
Net Investments			**882.3**	

4. Treasury Indicators for 2016/17 – 2018/19

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 forecasts for both short term (Bank Rate) and longer term 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	10 years	25 year	50 year
Mar 2016	0.50	2.00	2.60	3.40	3.20
Jun 2016	0.50	2.10	2.70	3.40	3.20
Sep 2016	0.50	2.20	2.80	3.60	3.30
Dec 2016	0.75	2.30	2.90	3.60	3.40
Mar 2017	0.75	2.40	3.00	3.70	3.50
Jun 2017	1.00	2.50	3.10	3.70	3.60
Sep 2017	1.00	2.60	3.20	3.80	3.70
Dec 2017	1.25	2.70	3.30	3.90	3.80
Mar 2018	1.25	2.80	3.40	4.00	3.90
Jun 2018	1.50	2.90	3.50	4.00	3.90
Sep 2018	1.50	3.00	3.60	4.10	4.00
Dec 2018	1.75	3.10	3.60	4.10	4.00
Mar 2019	1.75	3.20	3.70	4.10	4.00

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2%. Quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before weakening again to +0.4% (2.1% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK.

The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel and commodity prices will delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% by the end of 2016 and not get to near 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase. However, more falls in the price of oil and imports from emerging countries in early 2016 will further delay the pick up in inflation. There is therefore considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

The weakening of UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in Bank Rate would occur being pushed back to quarter 4 of 2016. There is downside risk to this forecast i.e. it could be pushed further back.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.0% in quarter 3. The run of strong monthly increases in nonfarm payrolls figures for growth in employment in 2015 prepared the way for the Fed. to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it was intended to run initially to September 2016. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. An anti-austerity coalition has won a majority of seats in Portugal while the general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 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 2016/17.

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. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these “uplifts” with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have “netted” each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody’s) Financial Strength rating withdrawn by the agency.

In keeping with the agencies’ new methodologies, the rating element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor’s, this has been a change in the use of Fitch and Moody’s ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of ….. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

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 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 The key ratings used to monitor counterparties are the Short Term and Long Term ratings

Ratings will not be the sole determinant of the quality of an institution; 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 Appendix 4 under the ‘specified’ and ‘non-specified’ investments categories.

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 & 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 daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution and possible removal from the City’s 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 from any external source and credit ratings.

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 these criteria and submit them to the Financial Investment Board for approval 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.

Credit rating information is supplied by Capita Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty would result in a temporary suspension which will be reviewed regularly.

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 –Royal Bank of Scotland. This bank can be included if it continues to be part nationalised, or it meets the ratings in Banks 1 above.

- Banks 3 – The City's own banker (Lloyds Banking Group) 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 criteria 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 (MMF) – with minimum credit ratings of AAA/mmf

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

- Local authorities.

A limit of £300m will be applied to the use of non-specified investments.

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties

Term and monetary limits applying to investments. The term and monetary limits for institutions on the Council's counterparty list are set out in Appendix 5.

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 (Fitch) or equivalent. . 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 2017/18 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 2016. Bank Rate forecasts for financial year ends (March) are as follows:

- 2016/17 0.75%
- 2017/18 1.25%
- 2018/19 1.75%

Capita considers that the overall balance of risk to this forecast is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk.

The Chamberlain and his Treasury Officers consider that the base rate will not increase until towards the end of 2016 at the earliest end even then are unlikely to increase rapidly over the next 2 to 3 years. Currently available interest rates over the longer term (2 to 3 years) are not significantly above 1.0% to 1.5% and are considered insufficient to place funds on 2 or 3 year deposit at present.

For 2015/16 the City has budgeted for an average investment return of 0.50% on investments placed during the financial year. Financial forecasts for the period 2016/17 include interest earnings based on an average investment return of 0.50% with an increase to 0.75% in 2017/18.

In managing its cash as effectively as possible, the City aims to benefit from the highest available interest rates for the types of investment vehicles invested in, whilst ensuring that it keeps within its credit criteria as set out in this document. Currently, the City invests in a call account with Lloyds Bank, money market funds, short-dated deposits (three months to one year) and a 95 day notice account. These investments are relatively liquid and therefore as and when interest rates improve balances can be invested 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 (upto three years)

£M	2016/17 (£M)	2017/18 (£M)	2018/19 (£M)
Principal sums invested >364 days	300	300	300

It should be emphasised that the City is prepared to lend monies for periods of up to three years which is longer than most other local authorities which 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 £325.7m as at 31 December 2015, are externally managed on a discretionary basis by Aberdeen Asset Management, Deutsche Asset Wealth Management, Standard Life Investments (formally Ignis Asset Management), Invesco Fund Managers Ltd, Federated UK LLP, CCLA Investment Management Ltd 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) is 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.

7.13 Training

Members with responsibility for treasury management should receive adequate training. This especially applies to Members responsible for scrutiny. Training was last provided by the City's external Consultant on 30 October 2014 and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

APPENDICES

1. Interest Rate Forecasts 2016-2019
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
7. Treasury Management Scheme of Delegation
8. The Treasury Management Role of the Section 151 Officer

APPENDIX 1

CAPITA INTEREST RATE FORECASTS 2016-2019

Capita Asset Services Interest Rate View	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%
6 Month LIBID	0.70%	0.70%	0.80%	0.90%	1.00%	1.20%	1.30%	1.50%	1.60%	1.70%	1.80%	2.00%	2.20%
12 Month LIBID	1.00%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.80%	1.90%	2.00%	2.10%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
10yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
25yr PWLB Rate	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
50yr PWLB Rate	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%
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%	1.50%	1.75%	1.75%
Capital Economics	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
Capital Economics	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%
Capital Economics	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	-	-	-	-	-

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

ECONOMIC BACKGROUND

The UK Economy

UK. UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2%. Quarter 1 2015 was weak at +0.4% (+2.9% y/y), although there was a slight increase in quarter 2 to +0.5% before weakening again to +0.4% (+2.1% y/y) in quarter 3. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.1%.

Since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK. Bank of England Governor Mark Carney has set three criteria that need to be met before he would consider making a start on increasing Bank Rate. These criteria are patently not being met at the current time, (as he confirmed in a speech on 19 January):

- *Quarter-on-quarter GDP growth is above 0.6% i.e. using up spare capacity. This condition was met in Q2 2015, but Q3 came up short and Q4 looks likely to also fall short.*
- *Core inflation (stripping out most of the effect of decreases in oil prices), registers a concerted increase towards the MPC's 2% target. This measure was on a steadily decreasing trend since mid-2014 until November 2015 @ 1.2%. December 2015 saw a slight increase to 1.4%.*
- *Unit wage costs are on a significant increasing trend. This would imply that spare capacity for increases in employment and productivity gains are being exhausted, and that further economic growth will fuel inflationary pressures.*

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%, as a labour productivity growth rate of around 2% would mean that net labour unit costs would still only be rising by about 1% y/y. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but only to be followed by a second, subsequent round of falls in fuel and commodity prices which will delay a significant tick up in inflation from around zero. CPI inflation is now expected to get back to around 1% in the second half of 2016 and not get near to 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase.

However, with the price of oil having fallen further in January 2016, and with sanctions having been lifted on Iran, enabling it to sell oil freely into international markets, there could well be some further falls still to come in 2016. The price of other commodities exported by emerging countries could also have downside risk and several have seen their currencies already fall by 20-30%, (or more), over the last year. These developments could well lead the Bank of England to lower the pace of increases in inflation in its February 2016 Inflation Report. On the other hand, the start of the national living wage in April 2016 (and further staged increases until 2020), will raise wage inflation; however, it could also result in a decrease in employment so the overall inflationary impact may be muted.

Confidence is another big issue to factor into forecasting. Recent volatility in financial markets could dampen investment decision making as corporates take a more cautious view of prospects in the coming years due to international risks. This could also impact in a slowdown in increases in employment. However, consumers will be enjoying the increase in disposable incomes as a result of falling prices of fuel, food and other imports from emerging countries, so this could well feed through into an increase in consumer expenditure and demand in the UK economy, (a silver lining!). Another silver lining is that the UK will not be affected as much as some other western countries by a slowdown in demand from emerging countries, as the EU and US are our major trading partners.

There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, accordingly, arguments that rates ought to rise sooner and quicker, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would aggressively raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively over the last year from Q4 2015 to Q4 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008. There has also been an increase in momentum towards holding a referendum on membership of the EU in 2016, rather than in 2017, with Q3 2016 being the current front runner in terms of timing; this could impact on MPC considerations to hold off from a first increase until the uncertainty caused by it has passed.

The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20 and this timetable was maintained in the November Budget.

USA. GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded remarkably strongly in Q2 to 3.9% (annualised) before falling back to +2.0% in Q3.

Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. would start to increase rates in September. The Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed. to lower its growth forecasts. Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October figure was stunningly strong while November was also reasonably strong (and December was outstanding); this, therefore, opened up the way for the Fed. to embark on its first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. A left wing / communist anti-austerity coalition has won a majority of seats in Portugal. The general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

China and Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.2% after a short burst of strong growth of 1.1% during Q1, but then came back to +0.3% in Q3 after the first estimate had indicated that Japan had fallen back into recession; this would have been the fourth recession in five years. Japan has been hit hard by the downturn in China during 2015 and there are continuing concerns as to how effective efforts by the Abe government to stimulate growth, and increase the rate of inflation from near zero, are likely to prove when it has already fired the first two of its 'arrows' of reform but has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

As for China, the Government has been very active during 2015 and the start of 2016, in implementing several stimulus measures to try to ensure the economy hits the growth target of about 7% for 2015. It has also sought to bring some stability after the major fall in the onshore Chinese stock market during the summer and then a second bout in January 2016. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, there are growing concerns about whether the Chinese economy could be heading for a hard landing and weak progress in rebalancing the economy from an over dependency on manufacturing and investment to consumer demand led services. There are also concerns over the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September and again in January 2016, which could lead to a flight to quality to bond markets. In addition, the international value of the Chinese currency has been on a steady trend of weakening and this will put further downward pressure on the currencies of emerging countries dependent for earnings on exports of their commodities.

Emerging countries. There are also considerable concerns about the vulnerability of some emerging countries, and their corporates, which are getting caught in a perfect storm. Having borrowed massively in dollar denominated debt since the financial crisis, (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries), there is now a strong flow back to those western economies with strong growth and a path of rising interest rates and bond yields.

The currencies of emerging countries have therefore been depressed by both this change in investors' strategy, and the consequent massive reverse cash flow, and also by the expectations of a series of central interest rate increases in the US which has caused the dollar to appreciate significantly. In turn, this has made it much more costly for emerging countries to service their dollar denominated debt at a time when their earnings from commodities are depressed by a simultaneous downturn in demand for their exports and a deterioration in the value of their currencies. There are also likely to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates.

Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by the sovereign wealth funds of those countries that are highly exposed to falls in commodity prices and which, therefore, may have to liquidate investments in order to cover national budget deficits.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Capita Asset Services undertook its last review of interest rate forecasts on 19 January 2016. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. . There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 4 of 2016.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. At some future point in time, an increase in 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 to the downside, given the number of potential headwinds that could be growing on both the international and UK scene. 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.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in January 2016, (based on short sterling), for the first Bank Rate increase are currently around quarter 1 2017.

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

- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a flight to safe havens.
- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

- 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 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: -

- Uncertainty around the risk of a UK exit from the EU.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to 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.

TREASURY INDICATORS

TABLE 1: TREASURY MANAGEMENT INDICATORS	2014/15	2015/16	2016/17	2017/18	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	£200m	£200m	£300m	£300m	£300m
(per maturity date)					

TABLE 2: Maturity structure of fixed rate borrowing during 2015/16	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%

TREASURY MANAGEMENT PRACTICES (TMP 1) – Credit and Counterparty Risk Management

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.

	*** 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 (or equivalent)	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. A maximum of £300m 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.

	*** 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	£300m 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 as at 31 DECEMBER 2015

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
BBB+ F2	16-75-75	ROYAL BANK OF SCOTLAND RBOS SETTLEMENTS	Up to 3 years
A F1	09-02-22	SANTANDER UK	Up to 3 years

BUILDING SOCIETIES

FITCH RATINGS	GROUP	ASSETS £BN	LIMIT £M	Duration
A F1	Nationwide	195	120	Up to 3 years
A- F1	Yorkshire	37	20	Upto 1 year
A F1	Coventry	31	20	Upto 1 year
BBB+ F2	Skipton	16	20	Upto 1 year
A- F1	Leeds	12	20	Upto 1 year

MONEY MARKET FUNDS

FITCH RATINGS	MONEY MARKET FUNDS Limit of £100M per fund	DURATION
AAA/mmf	Goldman Sachs Sterling Liquidity Reserve Fund	Liquid
AAA/mmf	CCLA	Liquid
AAA/mmf	Federated Liquidity Fund	Liquid
AAA/mmf	Standard Life Liquidity Fund	Liquid
AAA/mmf	Invesco	Liquid
AAA / f	Payden Sterling Reserve Fund	Liquid
AAA/mmf	Aberdeen Sterling Liquidity Fund	Liquid
AAA/mmf	Deutsche Liquidity 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 INVESTMENT

This list is based on those countries which have sovereign ratings of AAA as at 20 January 2016

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg*
- Netherlands
- Norway *
- Singapore
- Sweden
- Switzerland

AA+

- United Kingdom

* Currently no eligible banks to invest in either country as per the Capita Asset Services weekly list

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 D

Reserves

Forecast Movements in City Fund Usable Reserves 2016/17

	Notes	Estimated Opening Balance 1 April 16 £m	Forecast Net Movement in Year £m	Estimated Closing Balance 31 March 17 £m
Revenue Usable Reserves				
General	a	(37.5)	(4.5)	(42.0)
Earmarked:				
Crossrail	b	(25.3)	25.3	0.0
Police future expenditure	c	(5.4)	0.0	(5.4)
Highway improvements	d	(10.8)	6.0	(4.8)
VAT Reserve	e	(4.2)	0.0	(4.2)
Proceeds of Crime Act	f	(4.0)	0.6	(3.4)
Judges Pensions	g	(1.2)	0.0	(1.2)
Public Health	h	(0.8)	0.0	(0.8)
Renewals and Repairs	i	(0.7)	0.0	(0.7)
Service Projects	j	(1.9)	0.0	(1.9)
Total Revenue Earmarked		(54.3)	31.9	(22.4)
Housing Revenue Account		(8.6)	6.6	(2.0)
Total Revenue Usable Reserves		**(100.4)**	**34.0**	**(66.4)**
Capital Usable Reserves				
Capital Receipts Reserve		(121.1)	37.6	(83.5)
HRA Major Repairs Reserve		(7.1)	6.8	(0.3)
Total Capital Usable Reserves		**(128.9)**	**44.4**	**(84.5)**
Total Usable Reserves		**(229.3)**	**78.4**	**(150.9)**

Crossrail Contribution

	Estimated Opening Balance 1 April 16 £m	Forecast Net Movement in Year £m	Estimated Closing Balance 31 March 17 £m
Included in usable reserves above:			
Earmarked Crossrail revenue reserve	(25.3)	25.3	0.0
Capital receipts reserve (part)	(27.1)	27.1	0.0
Disposal proceeds (under local authority accounting requirements cash received from the sale of certain long lease premiums is classified as deferred income not reserves)	(147.6)	147.6	0.0
	(200.0)	**200.0**	**0.0**

<u>Notes</u>

(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) 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.

(c) 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.

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

(e) VAT Reserve – Should the City 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.

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

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

(h) Public Health - established from ring-fenced grant allocations. The grant must be used on activities whose main or primary purpose is to improve the public health of local populations. The reserve will be utilised to fund the start-up costs of a Workplace Health Centre, which is being planned for 2018 to provide a variety of public health services for City workers.

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

(j) 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.

Minimum Revenue Provision (MRP) Policy Statement 2016/17

In accordance with the ‘Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended)’, a local authority is required to make a prudent annual contribution from revenue – known as the Minimum Revenue Provision (MRP) - where it has an underlying need to borrow to finance capital expenditure. A positive Capital Financing Requirement (CFR) is indicative of an underlying need to borrow.

A positive CFR will arise when capital expenditure is funded by ‘borrowing’, either external (loans from third parties) or internal (use of cash balances held by the City Fund). The current Budget Strategy for the City Fund does not envisage any external borrowing.

As at 31 March 2017 the City Fund CFR is expected to become positive for the first time as a result of internal borrowing. This has arisen through funding of capital expenditure from cash received from long lease premiums which are deferred in accordance with accounting standards. This deferred income is released to revenue over the life of the leases to which it relates, typically between 125 and 250 years.

The City’s MRP policy is based on a prudent mechanism to ensure that the deferred income used to finance capital expenditure is not then ‘used again’ when it is released to revenue. The amount of the annual MRP is therefore to be equal to the amount of the deferred income released, resulting in an overall neutral impact on the bottom line.

The MRP liability for 2016/17 is zero. For subsequent years MRPs will be equal to the deferred income released.

Committee	Dated:
Finance Committee	16 February 2016
Subject: Revenue and Capital Budgets 2015/16 and 2016/17	**Public**
Report of: The Chamberlain	
Report author: Stephen Telling – Deputy Financial Services Director	**For Decision**

Summary

1. This report should be read in conjunction with the separate report to your Committee entitled 'City Fund – 2016/17 Budget Report and Medium Term Financial Strategy' which recommends that:

   - the Council Tax for 2016/17 remains unchanged from 2015/16 and;
   - Members discuss whether to recommend an increase in the Business Rates Premium to the Court of Common Council and, if so, what proportion of the additional income should be allocated to the Police.

2. The 2015/16 and 2016/17 budgets for each of the City 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	2015/16 Original £m	2015/16 Latest £m	2016/17 Original £m
City Fund			
Gross Expenditure	338.2	372.9	342.9
Gross Income	(236.6)	(249.9)	(242.0)
Net Expenditure before Government Grants and Taxes	101.6	123.0	100.9
Government Grants and Taxes	(101.8)	(103.4)	(105.4)
Deficit/ (Surplus) from (to) Reserves	**(0.2)**	**19.6**	**(4.5)**
Less one-off items planned to be funded from revenue reserves	0.0	(19.0)	(1.4)
Underlying Deficit/(Surplus)	**(0.2)**	**0.6**	**(5.9)**
City's Cash			
Gross Revenue Expenditure	170.9	173.0	172.8
Gross Revenue Income	(161.5)	(164.8)	(173.5)
Operating Deficit (Surplus)	**9.4**	**8.2**	**(0.7)**
Profit on asset sales	(12.0)	(7.3)	(3.7)
Deficit/ (Surplus) from (to) Reserves	**(2.6)**	**0.9**	**(4.4)**
Bridge House Estates			
Gross Expenditure	40.6	46.7	47.9
Gross Income	(44.2)	(47.8)	(47.8)
Deficit (Surplus) from (to) Reserves	**(3.6)**	**(1.1)**	**0.1**

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

3. City Fund

- The latest budget for the current year is an underlying deficit of £0.6m which compares to a surplus of £0.2m in the original budget. For 2016/17 a surplus of £5.9m is indicated. In particular, this surplus takes account of the City's share of growth in National Non Domestic rates income for 2014/15 which feeds through to income in 2015/16 and 2016/17, increased incomes from rents and interest earnings, the second tranche of savings/increased incomes agreed for the Service Based Review, and an increase in residential accommodation feeding through to additional council tax income. Other reasons for the main variations are set out in paragraphs 19 to 38.
- The subsequent years of the medium term financial forecast (2017/18 to 2019/20) also indicate surpluses across the period (albeit reducing) the achievement of 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 2017 although the timing will depend upon the completion of certain project milestones. The funding for the £200m has been assembled over the past few years from a planned strategy in relation to investment properties and is now in place.
- The budget for the City of London Police is contained within the overall City Fund budget. Whilst the Government funding settlement for the Police is better than anticipated, and accords with the Chancellor's announcement that police spending would be protected in real terms over the Spending Review period when precepts are taken into account, deficits are still forecast from 2017/18 with reserves potentially being exhausted by 2018. Furthermore, since preparation of the Police Budget and approval by the Police Committee there are a number of emerging cost pressures for 2016/17. The police medium term financial position is considered in detail in the separate report to your Committee entitled 'City Fund – 2016/17 Budget Report and Medium Term Financial Strategy'.

4. City's Cash

- The City's Cash deficit in the current year is anticipated to be £0.9m compared to a surplus of £2.6m in the original budget. This movement largely relates to budgets carried forward from 2014/15 and asset sales being completed at the end of 2014/15 rather than in 2015/16 as assumed in the budget – partly offset by increased rent income. For 2016/17, City's Cash returns to a surplus of £4.4m due mainly to increased rent income and the phasing of repairs, maintenance and improvements programmes.
- As indicated in the table above, these bottom line figures are after anticipated profits on asset sales of £7.3m and £3.7m respectively. If the profits on asset sales are excluded, there is an estimated operating deficit of £8.2m in the current year and a reduced surplus of £0.7m in 2016/17.

- With regard to the subsequent years of the medium term financial forecast, modest surpluses are indicated after taking account of profits on asset sales. As with City Fund, these forecasts are predicated on the achievement of the savings/increased incomes from the Service Based Review.
- There is, however, a risk in relation to the Guildhall School which faces a potential funding gap of £3.5m by 2017/18. Consequently, it is intended to commission a review of the School's operating model.
- Details of significant budget variations are set out in paragraphs 43 to 52.

5. Bridge House Estates
   - For the current year, the surplus is estimated to reduce from £3.6m to £1.1m mainly due to an increase in the City Bridge Trust grants budget.
   - For 2016/17, the fund is expected to break even in broad terms. Break-even is also forecast for 2017/18, whilst 2018/19 and 2019/20 indicate a return to surpluses as the three year increase to the City Bridge Trust grants budget comes to an end.
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 2016/17 Summary Budget Book accompanies this report and will be available on the *Members' Committees and Papers* section of the City 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 2015/16;
   (ii) agree the 2016/17 revenue budgets, subject to any amendments on the City Fund that may be agreed in relation to the report on 'City Fund – 2016/17 Budget Report and Medium Term Financial Strategy';
   (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 2015/16 and the proposed budgets for 2016/17 respectively together with the capital budgets, which have all been prepared within agreed policy guidelines and allocations, for 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 1.5%;

   - increases in employer's national insurance contributions due to the impact of no longer receiving the rebate on contracted out workplace pension schemes from April 2016; and

   - the inclusion of the Service Based Review expenditure reductions and/or increased incomes agreed by the Policy and Resources Committee.

11. For the City Police, the annual cash limit continues to be determined by the national settlement 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 1.5% allowance towards inflationary pressures and the resources for the increase in employer's national insurance have been provided and no Service Based Review budget reductions have been required.

13. Accompanying this report is the Summary Budget Book 2016/17 which will be available on the *Members' Committees and Papers* section of the City 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 Corporation's overall financial strategy seeks to:

   - maintain and enhance the financial strength of the City Corporation through its investment strategies for financial and property assets;
   - pursue budget policies which seek to achieve a sustainable level of revenue spending and create headroom for capital investment and policy initiatives;
   - 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 strategies/budget policies for each of the funds are set out in Appendix 1.

CITY FUND

Overall Budget Position

16. The overall budgets have been prepared in accordance with the strategy and the requirements for 2015/16 and 2016/17 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	**2015/16**	**2015/16**	**2016/17**
	Original	**Latest**	**Original**
Net Expenditure (Income) (1)	**£m**	**£m**	**£m**
Barbican Centre	25.0	24.6	24.7
Barbican Residential	1.0	3.0	2.8
Community and Children's Services	11.4	11.8	11.7
Culture Heritage and Libraries	20.1	20.8	20.6
Finance (2)	(10.2)	(2.0)	(11.8)
Licensing	0.1	0.0	0.1
Markets	(0.8)	(0.6)	(0.7)
Open Spaces	1.6	1.6	1.7
Planning and Transportation	13.7	13.1	14.5
Police (3)	57.5	67.4	56.7
Policy and Resources	3.9	4.0	3.9
Port Health and Environmental Services	14.4	14.6	13.6
Property Investment Board	(36.1)	(35.3)	(36.9)
City Fund Requirement (4)	**101.6**	**123.0**	**100.9**

1. *Figures in brackets indicate income or in hand balances, increases in income or decreases in expenditure.*
2. *The reduction in net income on Finance Committee from £10.2m in the 2015/16 original budget to £2m in the 2015/16 latest budget primarily relates to the planned purchase of investment properties from revenue reserves.*
3. *The increase in Police net expenditure from £57.5m in the original budget to £67.4m in the latest budget relates to cashflow assistance for the Action Fraud Service.*
4. *Reconciles to line 8 in the following table.*

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 6, and investment property rent income – line 7);
- the funding received from Government formula grants and from taxes (lines 9 to 13); and
- the estimated surpluses to be transferred to reserves, or deficits to be funded from reserves (lines 14 to 16).

City Fund Revenue Requirements 2015/16 and 2016/17					
		2015/16 Original £m	**2015/16 Latest £m**	**2016/17 Original £m**	**Para. No.**
1	Net expenditure on services	140.2	141.3	140.3	19, 27
2	Property Investments funded from Revenue Reserves	0.0	9.1	1.9	20, 28
3	City Police - Action Fraud	0.0	9.9	(0.5)	21, 29
4	Cyclical Works Programme and capital expenditure financed from revenue	4.5	6.0	4.0	22, 30
5	Requirement before investment income from the City's Assets	144.7	166.3	145.7	
6	Interest on balances	(1.6)	(2.4)	(2.5)	23, 31
7	Estate rent income	(41.5)	(40.9)	(42.3)	24, 32
8	**City Fund Requirement**	**101.6**	**123.0**	**100.9**	
	Financed by:				
9	Government formula grants	(78.3)	(79.9)	(80.5)	25, 33
10	City offset	(11.0)	(10.9)	(11.0)	
11	Council tax	(6.0)	(6.1)	(7.4)	37
12	NNDR premium	(6.5)	(6.5)	(6.5)	
13	Total Government Grants and Tax Revenues	(101.8)	(103.4)	(105.4)	
14	**Deficit/(Surplus)transferred from (to) reserves**	**(0.2)**	**19.6**	**(4.5)**	
15	Less one-off items planned to be funded from revenue reserves	0.0	19.0	1.4	26, 38
16	**Underlying Deficit/(Surplus)**	**(0.2)**	**0.6**	**(5.9)**	

18. The latest budget for the current year is an underlying deficit of £0.6m which compares to a surplus of £0.2m in the original budget. For 2016/17 a surplus of £5.9m is indicated. The subsequent years of the medium term financial forecast (2017/18 to 2019/20) also indicate surpluses across the period (albeit reducing) the achievement of which continues to be dependent on delivery of the savings/increased incomes from the Service Based Review.

Revenue Budget 2015/16

Net Expenditure on Services

19. Net expenditure on City Fund services in 2015/16 was originally budgeted at £140.2m, whereas the latest budget totals £141.3m, an increase of £1.1m. The main reasons for this increase are:

- £2.1m approved budgets brought forward from 2014/15;
- £0.5m for possible severance costs resulting from the implementation of service based review proposals;

  partly offset by

- £1.6m reduction for the release of a balance sheet provision relating to a liability that is considered unlikely to be required.

Property Investments Funded from Revenue Reserves

20. As rent yields significantly exceed interest earned on cash balances, Policy and Resources Committee agreed that £110m of cash backed revenue reserves should be used to purchase investment properties. An estimated £9.1m will be used in 2015/16 following which the balance of the £110m remaining will be £17.8m.

City Police Action Fraud

21. The City Fund is providing cash flow assistance in relation to the Action Fraud Service provided by the City Police. This service was transferred by the Home Office from the National Fraud Authority to the City Police with effect from 1 April 2014. Subsequently, the service was subject to a procurement process which was won by IBM. The phasing of contract payments reflects IBM's significant mobilisation costs during the first year which could not be managed within Police reserves. The amount and timing of the cash flow advance to the Police from City Fund and its subsequent recovery is set out below.

Police 'Action Fraud' Service - Cash Flow Assistance from City Fund

	15/16 £m	16/17 £m	17/18 £m	18/19 £m	19/20 £m	20/21 £m	Total £m
Advance to Police Revenue	9.9						9.9
Recovered through Home Office Capital Grant - Reflected in a lower requirement for use of City Fund capital receipts	(3.3)						(3.3)
Recovered from Police Revenue		(0.5)	(1.0)	(1.6)	(1.9)	(1.6)	(6.6)
Total	6.6	(0.5)	(1.0)	(1.6)	(1.9)	(1.6)	0.0

Cyclical Works Programme and Capital Expenditure Financed from Revenue

22. The increase from £4.5m to £6m largely relates to expenditure on the supplementary revenue project elements of the police accommodation programme.

Interest on Balances

23. The latest budget for 2015/16 anticipates an increase of £0.8m in interest earnings to £2.4m. This reflects a more beneficial cash flow, particularly business rate receipts, capital transactions and higher reserves. The assumed average interest rate for the year is unchanged at 0.5%.

Investment Estate Rent Income

24. Rent income from investment properties is forecast to be £40.9m, a reduction of £0.6m compared to the original budget. This mainly relates to a decrease in income following the sale of Alie Street and accounting adjustments for rent

incentives (e.g. rent free periods), partly offset by increased rent at 15/17 Eldon Street and from a new acquisition at 10 Bonhill Street.

Government Formula Grants

25. The increase from £78.3m to £79.9m mainly relates to the City's share of growth in national non domestic rates for 2014/15 which feeds through to income in 2015/16 and 2016/17.

Transfer from Reserves

26. The £19m planned transfer from reserves is to fund the costs of the investment property purchases (para 20) and the cash flow assistance to the Police for Action Fraud (para 21).

Revenue Budget 2016/17

Net Expenditure on Services

27. Although the net expenditure of £140.3m on City Fund services for 2016/17 is little changed from the 2015/16 original budget, there are a number of largely compensating movements:

    - £1.2m allowance for pay and prices;
    - £1.2m increases in employer's national insurance contributions due to the impact of no longer receiving the rebate on contracted out workplace pension schemes from April 2016;
    - £0.5m provision has been included for a transformation fund – £0.5m p.a. from 2016/17 to 2018/19. The purpose of the funds is to implement the cross cutting changes needed for the service based review, and to invest in developing skill sets and service transformation which will generate additional efficiency savings and income;
    - £0.5m for possible severance costs resulting from the implementation of service based review proposals;
    - £0.4m for security measures in response to the heightened security environment. Requirements have been reviewed across the estate and, at this stage, the £0.4m is a preliminary estimate. A £3m provision has also been included in the capital budget for various works.
    - £0.3m net increase in insurance premiums after having deducted estimated sums recoverable from third parties;
    - £0.2m for an increased allocation of City Surveyor staff time to the City Fund investment estate;

    largely offset by

    - £2.7m for the second tranche of service based review savings/increased incomes;
    - £0.8m relating to the cessation of the annual contribution to the Crossrail reserve as funds for the City Fund contribution are now in place;
    - £0.4m increase in non-core Government grants; and
    - £0.3m reduction in the City Police cash limit to reflect the cut in core Government grant.

Property Investments Funded from Revenue Reserves

28. Further to paragraph 20, an estimated £1.9m will be used in 2016/17 following which the balance remaining will be £15.9m.

City Police Action Fraud

29. As indicated in the table above, the first annual repayment of the cashflow assistance provided to the Police will be £0.5m in 2016/17.

Cyclical Works Programme and Capital Expenditure Financed from Revenue

30. The budget of £4m reflects the latest phasings of the additional works programme, other revenue works projects, and contributions to capital projects from revenue. By their natures, these costs and contributions tend to be 'lumpy'.

Interest on Balances

31. Income is anticipated to increase from £1.6m in the 2015/16 revenue budget to £2.5m in 2016/17. This is largely due to the deferral of the £200m City Fund contribution to Crossrail. The contribution is due on completion of specific milestones which were originally timetabled for March 2016 but are now unlikely to be completed until March 2017. The assumed average interest rate for the year remains at 0.5%.

Investment Estate Rent Income

32. The latest rental forecasts for 2016/17 assume an increase of £0.8m to £42.3m compared to the original budget for 2015/16. Increased rental incomes from Mansell Court, 15/17 Eldon Street, 36 Carter Lane and 31 Worship Street have been partly offset by the loss of rental following the sale of Alie Street.

Core Government Grants

33. Overall, there is an estimated increase of £1.8m in core Government grants but, as indicated below, the position is somewhat complex.

	Analysis of Core Government Grants				
		2015/16 Original £m	2016/17 Original £m	Reduction (Increase) on 2015/16 £m	%
1	Police	52.4	52.1	0.3	0.6%
2	Non-Police	11.9	10.6	1.3	10.9%
3	**Total before Rates Retention Scheme and grants Rolled In**	**64.3**	**62.7**	**1.6**	**2.5%**
	Rates Retention Scheme				
4	Baseline	15.2	15.3	(0.1)	(0.7%)
5	2013/14 Safety Net	(1.2)		(1.2)	NA
6	2014/15 Growth		2.5	(2.5)	NA
7	**Total before Grants Rolled In**	**78.3**	**80.5**	**(2.2)**	**(2.8%)**
8	Grants Rolled In		(0.4)	0.4	NA
9	**Total Core Government Grants**	**78.3**	**80.1**	**(1.8)**	(2.3%)

34. Lines 1 to 3 are the basic formula grant which have reduced by £1.6m in total.

35. Lines 4 to 7 reflect the impact of the Rates Retention Scheme for which the outturn does not generally feed through until subsequent years. Consequently in 2013/14, although the national non domestic rates for the City did not achieve the Government set threshold, losses were limited to £1.2m due to the operation of a safety net, the payment of which has to accounted for in 2015/16 (line 5). Conversely, in 2014/15 the City did benefit from rates growth and the majority of its share (£2.5m) has to be accounted for in 2016/17 (line 6).

36. The final complication is that in setting the basic formula grant for non-police services (line 2), the Government has rolled £0.4m of specific grants into the formula thus effectively further reducing the grants receivable by the City. These reductions to specific grants are included in the net cost of services.

Council Tax

37. There is an estimated ‘one-off’ increase of £1.4m, from £6m in the 2015/16 original budget to £7.4m in 2016/17, following the transfer of the estimated accumulated surplus on the collection fund. The accumulated surplus is due to an increase over the years in the residential properties in the City combined with a reduction in the number of residential properties assumed to be reclassified as commercial and therefore switch from council tax to non-domestic rates. The estimated Band D equivalents are 7,042 for 2016/17 compared to 6,240 assumed in 2015/16.

Transfer from Reserves

38. The net £1.4m planned transfer from reserves is to fund £1.9m of investment property purchases (para 28) less the first annual repayment (£0.5m) of the cashflow assistance provided to the Police for Action Fraud (para 29).

CITY'S CASH

Overall Budget Position

39. The budgets have been prepared in accordance with the budget policy set out in Appendix 1 and the net positions for 2015/16 and 2016/17 are summarised by committee in the table below. Reserves are available to meet the estimated deficit in the current year.

City's Cash Summary by Committee	**2015/16**	**2015/16**	**2016/17**
	Original	**Latest**	**Original**
Net Expenditure (Income)	**£m**	**£m**	**£m**
Culture, Heritage & Libraries	0.0	0.3	0.0
Education Board	1.0	1.0	1.0
Finance (1)	(15.1)	(6.9)	(9.4)
G. P. Committee of Aldermen	3.2	3.3	3.2
Guildhall School of Music and Drama	9.9	10.3	10.1
Markets	0.6	1.2	1.0
Open Spaces :-			
Epping Forest and Commons	7.7	7.5	7.7
Hampstead, Queen's Pk, Highgate Wd	7.9	7.7	7.7
Bunhill Fields	0.3	0.2	0.5
West Ham Park	1.2	1.3	1.2
Policy and Resources	11.3	12.2	11.7
Property Investment Board	(35.1)	(41.1)	(42.9)
Schools :-			
City of London School (2)	1.6	1.4	1.4
City of London Freemen's School (2)	2.1	1.9	1.8
City of London School for Girls (2)	0.8	0.6	0.6
Deficit (Surplus) from (to) reserves	**(2.6)**	**0.9**	**(4.4)**

1. *For Finance Committee, the significant variations between the 2015/16 original budget (£15.1m credit) and the 2015/16 latest (£6.9m credit) and 2016/17 original (£9.4m credit) budgets largely relates to the estimated profits on the sale of assets together with the phasing of expenditure on the Cyclical Works Programme.*
2. *Shows City Support rather than net expenditure by the schools.*

40. 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 deficits or surpluses 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 2015/16 and 2016/17					
		2015/16 Original £m	**2015/16 Latest £m**	**2016/17 Original £m**	**Para. No.**
1	Net expenditure on services	64.6	66.6	64.9	43, 48
2	Cyclical Works Programme	7.2	9.8	4.6	44, 49
3	Estate rent income	(42.8)	(48.4)	(50.4)	45, 50
4	Non-property investment income (net)	(19.5)	(19.5)	(19.5)	46
5	Interest on balances	(0.1)	(0.3)	(0.3)	
6	**Operating Deficit (Surplus)**	**9.4**	**8.2**	**(0.7)**	
7	Profit on asset sales	(12.0)	(7.3)	(3.7)	47, 51
8	**Deficit (Surplus) from (to) reserves**	**(2.6)**	**0.9**	**(4.4)**	

41. The City's Cash deficit in the current year is anticipated to be £0.9m compared to a surplus of £2.6m in the original budget. This movement largely relates to budgets carried forward from 2014/15 and asset sales being completed at the end of 2014/15 rather than in 2015/16 as assumed in the budget – partly offset by increased rent income. For 2016/17, City's Cash returns to a surplus of £4.4m.

42. With regard to the subsequent years of the medium term financial forecast, modest surpluses are indicated after taking account of profits on asset sales. As with City Fund, these forecasts are predicated on the achievement of the savings/increased incomes from the Service Based Review.

Revenue Budget 2015/16

Net Expenditure on Services

43. Net expenditure on City's Cash services for 2015/16 was originally budgeted at £64.6m. The latest budget of £66.6m is an increase of £2m which is primarily due to:

- £2.5m approved budgets brought forward from 2014/15;
- £0.3m for possible severance costs resulting from the implementation of service based review proposals;

  partly offset by

- £0.6m reduction in property operating costs following the sales of London Fruit and Wool Exchange and Whites Row car park;

Cyclical Works Programme

44. The increase from £7.2m to £9.8m primarily relates to slippage from 2014/15 on Guildhall School and investment property projects.

Investment Estate Rent Income

45. Rent income from investment properties is forecast to be £48.4m which is an increase of £5.6m on the original budget. This improvement relates to lease renewals of properties in Tottenham Court Road, backdated rent review increases for properties in New Bond Street and Smithfield Commercial offices, new lettings in North Road and Brewery Road, together with accounting

adjustments required to recognise the impact of both agreed and anticipated rent incentives (e.g. rent free periods).

Non-Property Investment Income

46. As most of the managed funds are held in pooled investment vehicles, income is drawn down from the investments as necessary rather than being received as dividend income. The amounts to be drawn down in 2015/16 and 2016/17, after the deduction of management fees, remains at the £19.5m assumed in the 2015/16 original budget.

Profit on Asset Sales

47. The profit on the sale of assets is anticipated to reduce from £12m to £7.3m. The original budget assumed the sale of two properties which were completed earlier than anticipated, in 2014/15. The latest budget reflects estimated profits from the disposal of a further three investment properties.

Revenue Budget 2016/17

Net Expenditure on Services

48. Net expenditure on City's Cash services for 2016/17 is budgeted at £64.9m, an increase of £0.3m compared to the original budget for 2015/16. The main reasons for the increased requirement are:

- £1m provision has been included for a transformation fund – £1m p.a. for 2016/17 and 2017/18 and £0.75m in 2018/19. The purpose of the funds is to implement the cross cutting changes needed for the service based review, and to invest in developing skill sets and service transformation which will generate additional efficiency savings and income;
- £0.8m allowance for pay and prices;
- £0.8m increases in employer's national insurance contributions due to the impact of no longer receiving the rebate on contracted out workplace pension schemes from April 2016;
- £0.5m additional funding for Economic Development relating to the City office in Brussels;
- £0.3m for possible severance costs resulting from the implementation of service based review proposals;

partly offset by

- £2.2m of savings/increased income relating to the Service Based Review;
- £0.6m reduction in property operating costs following the sales of London Fruit and Wool Exchange and Whites Row car park; and
- £0.5m reduction in the GSMD revenue budget as the temporary increase from resources transferred from the capital cap comes to an end.

Cyclical Works Programme

49. The £4.6m budget for 2016/17 relates mainly to anticipated expenditure on the additional works programmes approved by the Corporate Asset and Resource Allocation Sub Committees.

Investment Estate Rent income

50. Rent income from investment properties is forecast to be £50.4m which is an increase of £7.6m on the 2015/16 original budget. The reasons for this improvement are as set out in paragraph 45 together with rent increases for Tallis House, Devlin House, and properties in New Broad Street, Temple Chambers and Store Street.

Profit on Asset Sales

51. The estimate of £3.7m for profits on asset sales relates to the disposal of surplus operational assets, rights of light compensation and investment property overage receipts.

Guildhall School Potential Funding Gap

52. Modelling of new student numbers indicates that the School faces a potential funding gap of £3.5m by 2017/18. HEFCE is currently considering 'Specialist Institution' funding allocations and an announcement is anticipated in March on whether additional funding of around £1m will be made available. However, even with such funding, there is still likely to be a deficit and, consequently, it is intended to commission a fundamental review of the School's operating model.

BRIDGE HOUSE ESTATES

Overall Budget Position

53. The budgets have been prepared in accordance with the budget policy set out in Appendix 1 and the requirements for 2015/16 and 2016/17 are summarised in the table below.

Bridge House Estates Summary by Committee *Net Expenditure (Income)*	**2015/16 Original £m**	**2015/16 Latest £m**	**2016/17 Original £m**
The City Bridge Trust	17.2	20.9	21.4
Culture, Heritage and Libraries	(0.2)	(0.3)	(0.3)
Finance	(10.6)	(10.3)	(10.5)
Planning and Transportation	3.6	3.8	3.9
Property Investment Board	(13.6)	(15.2)	(14.4)
Deficit (Surplus) from (to) reserves	**(3.6)**	**(1.1)**	**0.1**

54. 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 2015/16 and 2016/17				
		2015/16 Original £m	2015/16 Latest £m	2016/17 Original £m	Para. No.
1	Net expenditure on services	9.1	10.0	9.8	57, 63
2	Cyclical Works Programme	0.5	0.7	0.5	
3	Bridges repairs, maintenance and major works fund contribution	1.1	1.1	1.1	58, 59
4	Estate rent income	(18.0)	(19.6)	(19.0)	60, 64
5	Non-property investment income (net)	(12.2)	(12.2)	(12.2)	61
6	Interest on balances	(0.1)	(0.1)	(0.1)	
7	**Revenue surplus**	**(19.6)**	**(20.1)**	**(19.9)**	
8	Charitable grants	16.0	19.0	20.0	62, 65
9	**Deficit (Surplus) from (to) reserves**	**(3.6)**	**(1.1)**	**0.1**	

55. For the current year, the surplus is estimated to reduce from £3.6m to £1.1m mainly due to an increase in the City Bridge Trust grants budget.

56. For 2016/17, the fund is expected to break even in broad terms. Break-even is also forecast for 2017/18, whilst 2018/19 and 2019/20 indicate a return to surpluses as the three year increase to the City Bridge Trust grants budget comes to an end.

Revenue Budget 2015/16

Net Expenditure on Services

57. The increase from £9.1m to £10m in 2015/16 is primarily due to approved budgets brought forward from 2014/15.

Bridges Repairs, Maintenance and Major Works Fund

58. 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.

59. 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 2016/17 contributions required has 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.

Investment Estate Rent Income

60. Rent income from investment properties is forecast to be £19.6m which is an increase of £1.6m on the original budget. This improvement relates to 1-5 London Wall Buildings due to retention of tenants and quicker letting of refurbished space, Colechurch House due to retention of tenants, and rent increases to various other properties.

Non-Property Investment Income

61. As most of the managed funds are held in pooled investment vehicles, income is drawn down from the investments as necessary rather than being received as dividend income. The amounts to be drawn down in 2015/16 and 2016/17, after the deduction of management fees, remains at the £12.2m assumed in the 2015/16 original budget.

Charitable Grants

62. The increase of £3m to £19m is the first of three years of additional funding. The budget for 2016/17 is £20m and for 2017/18 is £21m. The forecasts for 2018/19 and 2019/20 revert to £16m pending further consideration of future grant levels.

Revenue Budget 2016/17

Net Expenditure on Services

63. The estimate of £9.8m is an increase of £0.7m on the original budget for 2015/16. This increase primarily relates to allowances for pay and price increases, employer's national insurance contributions and increased allocations of staff time to the investment property estate and maintenance of bridges.

Investment Estate Rent Income

64. The reasons for the increase in income, from £18m to £19m, are as set out in paragraph 60 together with higher rents at Millennium Bridge House and 24-25 New Bond Street; partly offset by anticipated void periods at properties in Gresham Street and Wood Street.

Charitable Grants

65. The reason for the increase is outlined in paragraph 62.

GUILDHALL ADMINISTRATION

66. 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*	**2015/16 Original £m**	**2015/16 Latest £m**	**2016/17 Original £m**
Establishment - Town Clerk & C&CS	11.0	11.7	11.2
Finance - Chamberlain	31.8	32.2	32.5
Finance - City Surveyor, Remembrancer and Town Clerk	19.8	19.6	21.1
Culture, Heritage and Libraries - City Records Office	0.9	0.0	0.0
Total Net Expenditure	**63.5**	**63.5**	**64.8**
Recovery of Costs	(63.5)	(63.5)	(64.8)
Total Guildhall Administration	0	0	0

Revenue Budget 2015/16

67. Although the 2015/16 latest budget is unchanged from the original, there are a number of largely compensating variations:

- £0.7m reduction in dividend income from the City's Reinsurance Captive Company as a result of potentially high value claims;
- £0.6m approved budgets brought forward from 2014/15;
- £0.5m increase in insurance premiums for the part year effect of revaluations across the operational and investment property portfolio (the rates applied by insurers remain the same), an increase in Insurance Premium Tax from 6% to 9.5% and a restructure of the terrorism insurance provided by PoolRe which has increased premium charges.

offset by

- £0.9m reduction relating to the rephasing of the additional repairs and maintenance works programmes;
- £0.9m of costs relating to the City Records Office have been allocated directly to the three funds as the activity is now treated as a direct service rather than an apportioned support service.

Revenue Budget 2016/17

68. The net expenditure for 2016/17 is £64.8m, an increase of £1.3m from 2015/16. The main variations are as follows:

- £1.9m increase in insurance premiums as explained above. All insurances, with the exception of employees and public liability, are being tendered during 2016;
- £0.5m allowance for pay and prices;

- £0.5m increases in employer's national insurance contributions due to the impact of no longer receiving the rebate on contracted out workplace pension schemes from April 2016;
- £0.4m increased expenditure on the additional works programme

partly offset by

- £1.3m of savings/increased income relating to the Service Based Review;
- £0.9m of costs relating to the City Records Office have been allocated directly to the three funds as the activity is now treated as a direct service rather than an apportioned support service.

CAPITAL AND SUPPLEMENTARY REVENUE PROJECT BUDGETS

69. 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.

70. The "Supplementary Revenue Projects" classification has been created as certain projects do not comply with definitions of capital expenditure. This is an accounting treatment and does not change the projects themselves, which will be controlled in the same way as capital projects. All expenditure and income on such projects is posted to revenue accounts.

City Fund Capital and Supplementary Revenue Project Budgets

71. The latest City Fund capital and supplementary revenue projects budgets total £52.1m for 2015/16 and £235.5m for 2016/17. The budgets for both years include schemes relating to investment properties, works to existing HRA stock and construction of new affordable housing, the Barbican Centre, works to the Central Criminal Court and highways/streetscene schemes, most notably the highway and public realm scheme at Aldgate. In addition, the 2016/17 budget reflects the capital contribution of £200m payable towards Crossrail. After allowing for external contributions and the use of revenue reserves, the remainder of the City Fund capital budget is anticipated to be financed largely from disposal proceeds in line with budget policy.

City's Cash Capital and Supplementary Revenue Project Budgets

72. The latest City's Cash capital and supplementary revenue projects budgets total £69.0m for 2015/16 and £18.1m for 2016/17. The budgets for both years include property investments and the flood mitigation scheme at Hampstead Heath.

Bridge House Estates Capital and Supplementary Revenue Project Budgets

73. The latest Bridge House Estates capital and supplementary revenue projects budgets total £27.4m for 2015/16 and £15.0m in 2016/17 mainly related to investment property acquisitions and developments.

Financing Capital Expenditure

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

Peter Kane
Chamberlain

Appendices

- Appendix 1 – Medium Term Financial Strategy/Budget Policy

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Appendix 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 together with the allocation from the Business Rates Premium 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 Corporation's Crossrail direct funding commitment of £200m;
(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 disposal proceeds 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:	Date:
Finance Committee	16 February 2016
Subject: Revenue Budget Monitoring to December 2015	**Public**
Report of: Chamberlain	**For Information**
Report author: Caroline Al-Beyerty	

Summary

Local Risk Budgets (Chief Officer Cash Limits)

Net local risk expenditure (excluding Police) at the end of December is £3.9m (4%) within the profiled budget of £108.9m. The forecast year end position is £3m (2%) within the budget of £143.6m, which represents an improvement of £0.8m compared to the forecast year end position at quarter two. The main variations are outlined in paragraph 3.

The latest forecast for the Police ring-fenced account indicates that a transfer from the general reserves of £3.2m will be required to remain within the cash limit of £57.5m. This is an improvement of £0.4m compared to the forecast year end position last quarter.

Central Risk Budgets

Variations on corporate budgets such as rent incomes from the investment property estates and interest earned on cash balances are outlined in a separate report – 'Revenue and Capital Budgets 2015/16 and 2016/17' – elsewhere on the agenda.

Risks

There is one significant risk which relates to the Guildhall School. The forecast year end overspend has increased from £357,000 at quarter two to £769,000 at quarter three. There is also a potential funding gap of £3.5m by 2017/18. Consequently it is intended to commission a fundamental review of the School's operating model.

Recommendation

Members are asked to note the report.

Main Report

Local Risk Budgets

1. Net local risk expenditure across all funds, excluding the ring-fenced Police account, was £3.9m (4%) within the budget profile at the end of December. The forecast year end position, excluding the ring-fenced Police account, is £3m (2%) within the budget of £143.6m.

2. A summary of the financial position on each Chief Officers' local risk (cash limited) budgets as at 31 December is set out in Appendix 1. A comparison of the full year forecasts at the end of quarter two and quarter three is provided in Appendix 2.

Main Variations

3. The main variations together with a brief commentary are outlined below.

Chamberlain	**YTD £170,000 (1%) better, FY £277,000 (1%) better**
The full year underspend of £277,000 does not include additional unfunded Oracle project costs that total £585,000 and which are the subject of a separate report elsewhere on the agenda. This underspend will be used towards the Oracle project costs and will leave an estimated unfunded sum of £308,000. The separate report requests that this £308,000 be funded from the Finance Committee's contingencies.	

City Surveyor	**YTD £718,000 (4%) better, FY £383,000 (1%) better**
The favourable year to date variance at Quarter 3 principally comprises slippage on repairs and maintenance projects for Bridge House and City's Estates; savings on departmental staff budgets due to vacancies; and additional fee income recovered from property activities. These savings are offset in part by an overspending on Guildhall Complex budgets as a result of increasing demands, such as, the ongoing programme of staff being relocated to the Complex, increasing the energy required to power the building and associated IT requirements; the requirement for repairs and maintenance within the building growing beyond the rate of inflation together with the rising demands for event areas; as well as the significant 'bow wave' of deferred maintenance and renewal which will need to be addressed. It is anticipated that the slippage on repairs and maintenance projects will be partly recovered prior to year end which reduces the forecast underspending. Going forward, given the increased use of Guildhall, and future maintenance liabilities following the completion of North Wing, the Guildhall Complex budget is under considerable pressure and it is very likely that it will need to be increased. The City Surveyor is reviewing the budgets for 2016/17 and will report back to Members once additional requirements have been fully quantified. These requirements will also be considered in the context of the income being earned from the asset.	

Comptroller & City Solicitor	**YTD £400,000 (17%) better, FY £400,000 (13%) better**
Income from particular types of commercial property and planning transactions has been higher than expected during the year to date.	

Director of Community and Children's Services	**YTD £487,000 (8%) better, FY £395,000 (5%) better**
The underspend is due to the current mix of clients and their support needs - the nature of the service is that a relatively small change in clients and their needs can have a disproportionate impact on overall expenditure levels; the Golden Lane playground project has been delayed but is anticipated to start in March; and the budget held centrally by the Director has not yet been used.	

Director of Culture, Heritage and Libraries, BHE	**YTD £539,000 (133%) better, FY £650,000 (121%) better**
The budget for net income from Tower Bridge tourism was increased by £350,000 from £525,000 to £875,000 earlier this year but the latest forecast is for the outturn to still exceed budget by 13%. This is largely due to the impact of the glass flooring and the new marketing campaign. In addition, the online ticketing system is beginning to grow in popularity and the recently launched online gift shop has boosted shop profit.	

Director of Markets and Consumer Protection City Fund	**YTD £438,000 (23%) better, FY £257,000 (10%) better**
The favourable variance to date is due to additional 'Passport for Pets' income at the Heathrow Animal Reception Centre (HARC); increased income at the Ports for 'Common Veterinary Entry Document (CVED) and Common Entry Document (CED)' trade and savings from staff vacancies. Engine repair works to the launch and a payment of dilapidation costs for the Thamesport Office are expected to take place in the last quarter reducing the year to date favourable position. In addition, the levy raised from late night opening alcohol suppliers has not been spent to date. As the levy must be used in relation to the management of the night time economy, the balance will be spent in 2016/17 to tackle alcohol related crime and disorder.	

Managing Director, Barbican Centre	YTD £773,000 (6% better), FY £640,000 (4%) better
A surplus has been generated to date through strong box office sales at the theatre and gallery which have exceeded attendance and ticket yields; and strong commercial income through partnership work, touring programme and business events which have exceeded targets. Under the financial arrangements agreed for the Barbican Centre this surplus will be carried forward in order to deliver the strategic plan and support the SBR proposals in 2016/17.	

Principal, Guildhall School of Music and Drama	YTD £578,000 (12%) worse, FY £769,000 (13%) worse
The forecast of the year end overspend has increased from £357,000 at quarter two to £769,000 at quarter three. This position is due to target savings in the original budget which have not been achieved; a higher than expected energy bill for Milton Court of £120,000, which is based on an estimation and is being challenged; a shortfall on student enrolment of £100,000; additional expenditure of £75,000 incurred on setting up regional Centre for Young Musician centres and an increased Music teaching provision of £25,000. Modelling of new student numbers indicates that the School faces a potential funding gap of £3m by 2017/18. HEFCE is currently considering 'Specialist Institution' funding allocations and an announcement is anticipated in March on whether additional funding of around £1m will be made available. However even with such funding there is still likely to be a deficit and, consequently, it is intended to commission a fundamental review of the School's operating model.	

Town Clerk	YTD £395,000 (3%) better, FY £244,000 (2%) better
The underspend to date is due to vacant posts being held open in anticipation of Service Based Review budget savings and delays in recruiting to certain posts together with projects that have started later than anticipated, such as the 'Power of Diversity' and a review of administration processes in Occupational Health. Part of the project expenditure is expected to be incurred in the final quarter thus somewhat reducing the favourable position by year end.	

City of London Police

4. The December forecast for the Police ring - fenced account indicates that a year end transfer from reserve of £3.2m will be required to remain within the cash limit of £57.5m. This is an improvement of £0.4m compared to the forecast year end position at the end of September.

Central Risk Budgets

5. Variations on corporate budgets such as rent incomes from the investment property estates and interest earned on cash balances are outlined in a separate report – ‘Revenue and Capital Budgets 2015/16 and 2016/17’ – elsewhere on the agenda.

Appendices

- Appendix 1 – year to date and forecast full year variances as at 31 December 2015.
- Appendix 2 – full year forecast comparison with the previous quarter
- Appendix 3 – summary of changes from the original budget to the 31 December 2015.

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Appendix 1

Chief Officer	Year To Date - 31 December				Full Year Forecast			
	Budget	(Better)/Worse			Budget	(Better)/Worse		
	£000	£000	%		£000	£000	%	
Chamberlain	14,845	(170)	(1)	√	20,596	(277)	(1)	√
City Surveyor - City Fund (CF)	3,116	30	1	x	5,195	(78)	(2)	√
City Surveyor - City's Cash (CC)	9,768	(567)	(6)	√	14,301	(389)	(3)	√
City Surveyor - Bridge House Estates (BHE)	1,778	(467)	(26)	√	2,370	(125)	(5)	√
City Surveyor - Guildhall Administration (GA)	4,904	286	6	x	6,480	209	3	x
Comptroller & City Solicitor	2,349	(400)	(17)	√	3,132	(400)	(13)	√
Director of the Built Environment - CF	11,795	(172)	(1)	√	15,726	(143)	(1)	√
Director of the Built Environment - BHE	191	(16)	(8)	√	254	(1)	(0)	√
Director of Community & Children's Services	5,896	(487)	(8)	√	7,927	(395)	(5)	√
Director of Culture, Heritage & Libraries - CF	6,205	94	2	x	8,274	6	0	x
Director of Culture, Heritage & Libraries - CC	221	15	7	x	295	0	0	-
Director of Culture, Heritage & Libraries - BHE	405	(539)	(133)	√	539	(650)	(121)	√
Director of Markets & Consumer Protection - CF	1,940	(438)	(23)	√	2,587	(257)	(10)	√
Director of Markets & Consumer Protection - CC	1,253	(227)	(18)	√	1,670	(106)	(6)	√
Director of Open Spaces	8,236	(270)	(3)	√	10,979	(251)	(2)	√
Head, City of London School	1,889	(7)	(0)	√	800	0	0	-
Headmaster, City of London Freemen's School	1,565	(2)	(0)	√	214	0	0	-
Headmistress, City of London School for Girls	1,010	9	1	x	231	0	0	-
Managing Director, Barbican Centre	12,631	(773)	(6)	√	16,830	(640)	(4)	√
Principal, Guildhall School of Music and Drama	4,917	578	12	x	5,816	769	13	x
Private Secretary & Chief of Staff to the Lord Mayor	1,751	14	1	x	2,365	(50)	(2)	√
Remembrancer	233	(30)	(13)	√	747	(63)	(8)	√
Town Clerk	12,029	(395)	(3)	√	16,260	(244)	(2)	√
Totals Excluding Police	**108,927**	**(3,934)**	**(4)**	√	**143,588**	**(3,085)**	**(2)**	√

Appendix 2

Original Budget	Chief Officer - Local Risk Budgets	Full Year Forecast as at 30th September			Full Year Forecast as at 31st December			Movement in Full Year Forecast variances from budget
		Latest Budget	(Better)/Worse		Latest Budget	(Better)/Worse		
£000		£000	£000	%	£000	£000	%	**£000**
	City Fund							
1,680	Chamberlain	1,680	0	0	1,686	0	0	0
5,024	City Surveyor	5,079	(24)	0	5,195	(78)	(2)	(54)
6,823	Director of Community & Children's Services	7,498	(239)	(3)	7,507	(342)	(5)	(103)
8,083	Director of Culture, Heritage & Libraries	8,250	0	0	8,274	6	0	6
2,102	Director of Markets & Consumer Protection	2,262	(86)	(4)	2,587	(257)	(10)	(171)
(600)	Director of Open Spaces	(565)	(251)	(44)	(602)	(251)	(42)	0
15,300	Director of the Built Environment	15,660	(321)	(2)	15,726	(143)	(1)	178
16,478	Managing Director, Barbican Centre	16,754	(128)	(1)	16,830	(640)	(4)	(512)
7,057	Town Clerk	7,678	0	0	7,427	(47)	(1)	(47)
61,947	**Total City Fund (excluding Police)**	**64,296**	**(1,049)**	**(2)**	**64,630**	**(1,752)**	**(3)**	**(703)**
	City's Cash							
66	Chamberlain	66	0	0	68	0	0	0
12,973	City Surveyor	13,997	(140)	(1)	14,301	(389)	(3)	(249)
335	Director of Community & Children's Services	420	(60)	(14)	420	(53)	(13)	7
(45)	Director of Culture, Heritage & Libraries	290	0	0	295	0	0	0
1,840	Director of Markets & Consumer Protection	2,029	(171)	(8)	1,670	(106)	(6)	65
11,273	Director of Open Spaces	11,452	0	0	11,581	0	0	0
800	Head, City of London School	800	(30)	(4)	800	0	0	30
200	Headmaster, City of London Freemen's School	214	0	0	214	0	0	0
231	Headmistress, City of London School for Girls	231	(21)	(9)	231	0	0	21
6,181	Principal, Guildhall School of Music & Drama	5,685	357	6	5,816	769	13	412
2,351	Private Secretary & Chief of Staff to the Lord Mayor	2,365	(30)	(1)	2,365	(50)	(2)	(20)
1,050	Remembrancer	1,060	0	0	1,060	0	0	0
663	Town Clerk	692	15	2	692	(40)	(6)	(55)
37,918	**Total City's Cash**	**39,301**	**(80)**	**(0)**	**39,513**	**131**	**0**	**211**
	Bridge House Estates							
2,304	City Surveyor	2,291	(80)	(3)	2,370	(125)	(5)	(45)
883	Director of Culture, Heritage & Libraries	883	(1,000)	(113)	539	(650)	(121)	350
245	Director of the Built Environment	245	0	0	254	(1)	(0)	(1)
1,095	Town Clerk	1,137	0	0	1,198	(82)	(7)	(82)
4,527	**Total Bridge House Estates**	**4,556**	**(1,080)**	**(24)**	**4,361**	**(858)**	**(20)**	**222**
	Guildhall Administration							
18,666	Chamberlain	18,603	(74)	0	18,842	(277)	(1)	(203)
6,329	City Surveyor	6,329	97	2	6,480	209	3	112
2,901	Comptroller and City Solicitor	3,100	0	0	3,132	(400)	(13)	(400)
(333)	Remembrancer	(313)	0	0	(313)	(63)	(20)	(63)
6,511	Town Clerk	6,838	(50)	(1)	6,943	(75)	(1)	(25)
34,074	**Total Guildhall Administration**	**34,557**	**(27)**	**(0)**	**35,084**	**(606)**	**(2)**	**(579)**
138,466	**Grand Totals (excluding Police)**	**142,710**	**(2,236)**	**(2)**	**143,588**	**(3,085)**	**(2)**	**(849)**

Appendix 3

Local Risk Budget Changes (Excluding Police)

	£'000	£'000
Original Local Risk Budget (excluding Police)		138,466
Previously reported budget movements		4,244
Adjusted Local Risk Budget (excluding Police)		142,710
Contribution pay and LLW	1,043	
Increased income target for Tower Bridge	(350)	
Base adjustment for Town Clerk Office in Brussels	(230)	
Budgets reclassified from Central Risk to Local Risk	187	
Carry forwards	95	
Base adjustment for additional posts in City Bridge Trust	50	
Base adjustment for Chamberlain Open Mediated Wifi Project	43	
Other minor changes	40	
Latest Local Risk Budget (excluding Police)		**143,588**

Committee:	Date:
Finance Committee – For decision Policy & Resources Committee – For decision Planning & Transportation Committee – For decision Education Board – For Information Culture, Heritage and Libraries – For decision Port Health & Environmental Services Committee – For Decision Community & Children's Services Committee – For Information Barbican Centre – For Information	16 February 2016 18 February 2016 23 February 2016 3 March 2016 7 March 2016 8 March 2016 11 March 2016 16 March 2016
Subject: Income Generation - Report of a Cross-Cutting Service Based Review	**Public**
Report of: The Chamberlain (on behalf of the Performance and Strategy Summit Group)	**For Decision**
Report author: Susan Baxter	

Summary

A cross-cutting review of the potential for the City Corporation to exploit new sources of income was commissioned as part of the Service Based Review programme. The review was undertaken from April - September 2015, with a final report cleared by the Chief Officers Summit Group in January 2016. A summary of the review report and its recommendations are attached at Appendix 1.

The review found that there are:
- Opportunities to increase certain fees and charges to bring income into greater alignment with costs, in line with the approach taken in London local authorities;
- Opportunities to drive increased income from a more entrepreneurial approach in certain areas;
- Limited scope to increase revenues from public sector grants
- Potential opportunities to unlock increased corporate sponsorship and private giving to the benefit of the City's cultural and artistic institutions by taking a more co-ordinated approach.

Recommendations

The **Finance Committee** is asked to agree the overall report and all of its recommendations.

The **Policy & Resources Committee** is asked to agree the overall report and all of its recommendations.

The **Planning & Transportation Committee** is asked to:

a) endorse the overall report;
b) approve the introduction of Planning Performance Agreements to increase income from Development Control services; and

c) agree to review options to maximise full deployment of capacity and increase charges to align with neighbouring authorities / NCP charges to increase income from off-street parking.

The **Education Board** is asked to:

a) endorse the overall report;
b) note detailed recommendation i) ("that the Department of Community & Children's Services lead the preparation of a business case presenting options, costs, resources, risks and timetables for establishing the commercial expansion of central support services tied to the expansion of academy schools over the next one to three years").

The **Culture, Heritage and Libraries Committee** is asked to:

a) endorse the overall report;
b) agree detailed recommendation c) ("that the Department of Culture, Heritage & Libraries prepare options to review charging and income generation opportunities from the City Corporation's museums and galleries"); and
c) agree detailed recommendation j) ("that the Department of Culture, Heritage & Libraries commission a marketing consultancy to explore ways in which the City's offer to visitors can be better developed, co-ordinated and promoted to increase revenues to the City Corporation)".

The **Port Health & Environmental Services Committee** is asked to:

a) endorse the overall report;
b) agree detailed recommendation d) ("that the Department of Markets & Consumer Protection prepare a business case for expanding the animal transit and inspections services to London's airports on a more commercial basis to maximise potential income"); and
c) agree detailed recommendation h) ("that the Department of Markets & Consumer Protection prepare a business case for maximising the commercial potential of business regulatory advisory services via the Primary Authority partnership model").

The **Community & Children's Services Committee** is asked to:

a) endorse the overall report; and
b) agree detailed recommendation i) ("that the Department of Community & Children's Services lead the preparation of a business case presenting options, costs, resources, risks and timetables for establishing the commercial expansion of central support services tied to the expansion of academy schools over the next one to three years.")

The **Barbican Centre Board** is asked to:

a) endorse the overall report;
b) endorse headline recommendation 5: ("That a feasibility study be commissioned to explore the potential cost-benefits of adopting a more co-ordinated approach to securing commercial sponsorship for the City's cultural, heritage and arts institutions with the long term aim of ensuring they become less dependent upon public funding");
c) note detailed recommendation j) ("that the Department of Culture, Heritage & Libraries commission a marketing consultancy to explore ways in which the

City's offer to visitors can be better developed, co-ordinated and promoted to increase revenues to the City Corporation").

Main Report

Background

1. The review:
   - Benchmarked the City Corporation's income in relation to costs for its public services against those of London local authorities (on a consistent basis and taking account of the differences in scale);
   - Assessed the opportunities to increase revenues from a more commercial approach to providing services;
   - Assessed the scope to increase income from public grants and
   - Considered the scope to increase income from commercial sponsorship and donations, particularly for the cultural and artistic initiatives.

Current Position

2. In relation to the City Corporation's income from fees, charges and reclaimable costs from its public services, the City Corporation compares favourably with London local authorities in over half of London's services which are almost wholly self-financing. The areas of Off-street Parking, Development Control and Museums & Galleries offer the greatest opportunities for increasing charges to achieve levels more approaching London averages for cost-efficiency.

3. Upwards of £3m in additional income could be derived by taking a more overtly commercial approach to expanded services in several areas, the top three being:

   - Animal transit and inspections at London's airports
   - Property services: provision of an 'intelligent client' service for public bodies seeking to manage and develop their property assets
   - Venue hire and events management

4. Different commercial models would be deployed according to the nature of the service and certain of the City Corporation's decision-making processes and operating procedures might require adjustment to enable these services to operate with optimum commercial efficacy.

5. There is limited scope to drive significant additional income from domestic and EU public sector grants, since these sources are geared towards supporting new public sector initiatives and/or special needs – which the City Corporation does not generally tend to focus on due to its relatively small scale and its customer base as a public authority.

6. There is more scope to work in partnership with the City's cultural and artistic institutions to take a more structured and co-ordinated approach to securing corporate sponsorship and giving. This might unlock levels of funding and patronage that organisations are currently unable to secure at an individual level.

Options, Proposals and Implications

7. These are set out for each of the areas identified above in the tables of recommendations at Appendix 1.

Appendix

Appendix 1 - Income Generation Cross-Cutting Review: Summary & Recommendations.

Background Papers

A copy of the full report and its Annexes is available to Members as a PDF on the intranet at the following link:
http://vmtcapp12/documents/s60865/IncomeGenerationFullReport.pdf
PDF and paper copies are also available on request from the Committee and Member Services Team.

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INCOME GENERATION CROSS CUTTING REVIEW : SUMMARY

WHY INCOME GENERATION MATTERS FOR THE CITY CORPORATION

The Square Mile has long been a premiere global destination for financial and blue chip businesses and in more recent years, increasing numbers of new visitors and tourists who have come to enjoy its world class attractions and cultural events. The completion of Crossrail in the next 2-3 years will bring the City within even easier reach of millions more businesses, workers and visitors. Ensuring the Square Mile continues to flourish as an engaging economic engine in a constantly evolving geo-political, financial, social and cultural environment brings ever changing challenges and opportunities for the City Corporation to extend its reach, impact and income. The current agenda of rapidly diminishing public sector financing, rising public expectations of transparency in governance, ambitions to create a cultural hub in the Square Mile, potentially with a new world class Centre for Music, means that taking a fresh look at the City Corporation's approach to income generation will help to maximise its full potential, achieve its ambitions, reduce the need to cut resources and embrace best commercial and public sector practice.

SCOPE OF THE REVIEW

This report summarises the conclusions of an exercise between May - October 2015 to assess the potential to increase income from a variety of sources. The review aimed to:

1. Compare the City Corporation's income from fees, charges and debt recovery with that of London local authorities on a service-by-service basis for 2013/14 (the latest year for which comparisons were available)
2. Identify areas where fees, charging and debt recovery could be set in greater alignment with the approach taken elsewhere in London to increase income for the Corporation
3. Highlight the potential for more effective commercial exploitation of some of the City's services and the organisational implications for achieving optimum returns
4. Assess the extent to which the City Corporation might benefit from additional public funds and grants which have previously not been explored
5. Assess the potential to secure greater private sector sponsorship to support the City Corporation's priorities and the implications for the organisation.

Excluded from the review were issues which are (or have been recently) considered elsewhere:

- Use of property assets: this is subject to a separate cross-cutting review
- Measures to review business rates: the Business Rates Premium is under consideration as part of the budget setting process for the City of London Police
- Community Infrastructure Levy (CIL): the CIL rates have recently been set at a deliberately lower rate than elsewhere in central London but this may be reviewed by the Department for the Built Environment
- The Corporation's current policy against advertising hoardings around the Square Mile: this currently remains a priority for retention by Members, although it merits periodic review in relation to income potential, particularly in relation to public information
- Departmental efficiency savings: these are covered by departmental service based reviews.

HEADLINE FINDINGS

STATUTORY SERVICES

The City Corporation boasts some unique strengths but increased income could be achieved in other areas if an approach to setting fees, charges and debt recovery was aligned to and regularly benchmarked against London local authorities.

From an assessment of comparable categories of public authority spending, the City Corporation is most distinguished from London local authorities in relation to its significantly higher City Fund-related income derived from its property portfolio, its 'theatres' (as a result of the Barbican Centre), its 'port health functions' (as a result of the Animal Reception Centre) and from its 'cemetery and cremation services' (these spending categories are set and defined by the Revenue Outturn Returns reporting process.) These City Fund services alone generate £34m more than the London average for the equivalent services. Other City Corporation services, such as on-street parking and trade waste also do well when income is compared to costs in areas which are readily comparable. However, it would be possible to raise even more by increasing the rate of return on investment to levels which proportionately match the London local authority average in relation to the following services:

- Off street parking
- Development control
- Museums & galleries
  (in relation to the Guildhall Art Gallery, the Amphitheatre, the Roman Bath House and the Museum of London grant – ie the budgets included within this City Fund category.)

COMMERCIAL ACTIVITY & MARKETING

There is scope to refocus and expand some of the City Corporation's services which already have a commercial or recharged element. This could increase income by around £3m and would also demonstrate the City Corporation's commercial acumen to public and private sector stakeholders.

The City Corporation could maximise its earning potential and its reputational credibility as a public authority by working more adeptly in an increasingly commercial and competitive public sector environment. Current commercial offers across the City Corporation have evolved incidentally over time, resulting in a somewhat ad hoc and low key market presence. Whilst some services are more focussed than others on generating revenues, there is scope to augment income if the Corporation takes a fresh look at its commercial and marketing approach to services with income potential, most significantly in the areas of:

1. Animal transit & inspections at London's airports
2. Property services: An "intelligent client" service for public bodies seeking to manage and develop their property assets
3. Venue hire and events management
4. Film location services
5. Business regulatory advisory services – via the "Primary Authority" partnership model
6. Central support services (especially for potential future academy schools)

The success of greater commercialisation in the above areas would be reliant upon a more purposeful and corporately coherent approach to their direction, promotion and support (including investment, resourcing and professional services). However, the specific form and structure of the commercial presentation of these services to the market will vary according to the circumstances of each specific case.

PUBLIC SECTOR GRANTS

There is no significant scope to increase income from mainstream domestic grants. However, there is potential to apply for a wider range of competitive UK and EU programmes but these are geared more towards new initiatives than to supporting core business.

The relatively small scale and wealthy nature of the City detracts from its capacity to attract substantial income other than the mainstream local authority grants from central government. However, there are approximately 20 domestic sources of funding (such as the Heritage Lottery Fund in relation to historic buildings) and 13 EU programmes which could fund the Corporation's more experimental projects, such as the Safe & Smarter City Programme. These are aimed principally at enabling new initiatives and innovative ways of working (for example, many of the performing organisations which perform at City venues and festivals benefit from Arts Council England grants) rather than at meeting shortfalls in domestic mainstream funding. These programmes often require 'match-funding' although if projects are carefully constructed, match-funding can comprise existing budgets. Many larger local authorities run EU funded projects to highlight their initiative and participation on a wider stage. The Corporation has directly led a few EU funded projects within the last five years (mainly to support employment and policing) but none are currently live.

CORPORATE SPONSORSHIP & PRIVATE GIVING

As public funding for culture, heritage and the arts in London drops sharply, there is scope to help the City's organisations operating in these areas secure increased commercial sponsorship.

There is potential to lead the establishment of a more co-ordinated approach to fund-raising and seeking commercial sponsorship, while respecting the sensitive nature of sharing development contacts nurtured over long periods of time. A more structured and co-ordinated approach supported by the City Corporation might be able to unlock significant funds and patronage which smaller, individual organisations or different parts of the City Corporation are currently unable to secure on a piecemeal basis. Positive involvement by the City in developing major contacts for new projects, particularly as the plans for a new Museum of London and a world-class Centre for Music develop, would require a wholly different level of private support.

HEADLINE RECOMMENDATIONS

Recommendations	Committee approval
1. **Harmonise the approach to setting all charges, fees and debt recovery for City Fund services with those of other relevant authorities within 12 months, unless a compelling business case is agreed for individual exceptions.**	- Policy & Resources Committee; - Finance Committee; - Performance & Efficiency Sub Committee; - Relevant service committees
2. **Review annual performance of income recovered in relation to costs for all services from which income can be derived, benchmarking performance against London local authorities.**	- Finance Committee; - Performance & Efficiency Sub Committee; - Relevant service committees
3. **Commission business cases containing business model options to maximise the short, medium and longer term commercial income** from: ▪ Animal transit & inspections at London's airports ▪ Property services: An "intelligent client" service for public bodies seeking to manage and develop their property assets ▪ Venue hire and events management – following a steer from Members on principles for free and subsidised venue hire ▪ Film location services ▪ Central support services (targeting future CoLC academy schools) ▪ Business regulatory advisory services – via the "Primary Authority" partnership model ▪ Development of a co-ordinated and marketed City 'heritage offer'	- Policy & Resources Committee; - Finance Committee; - Relevant service committees
4. **Decide which commercialised services to implement, if any, on the basis of the business cases prepared.** Agree an appropriate business model for each case agreed and any associated broader organisational changes which are required to accommodate and support the commercial activity.	- Policy & Resources Committee; - Finance Committee; - Relevant service committees
5. **Commission a feasibility study to explore the potential cost-benefits of adopting a more co-ordinated approach to securing commercial sponsorship for the City's cultural, heritage and arts institutions** with the long term aim of ensuring they become less dependent upon public funding.	- Policy & Resources Committee; - Finance Committee; - Relevant service committees

PUBLICLY FUNDED SERVICES - BENCHMARKING FEES, CHARGES & RECLAIMABLE COSTS : DETAILED RECOMMENDATIONS

Headline recommendations	Actions	Timescales
1. **Harmonise the approach to setting all charges, fees and debt recovery for City Fund services with those of other relevant authorities within 12 months,** unless a compelling business case is agreed for individual exceptions.	All departments: All officers responsible for recovering fees, charges and debts to review CoLC charging & recovery policies / practice in relation to those applied by individual neighbouring or relevant London boroughs and recommend any changes to their respective committees.	Immediate
2. **Review annual performance of income recovered in relation to costs for all services from which income can be derived, benchmarking performance against other London local authorities.**	Chamberlain's: ▪ Maintain a central overview of full service costs and income, ensuring that systems used to apportion income and expenditure to City's Cash and City Fund do not make the City Corporation appear unduly inefficient. ▪ Commission annual supplementary analysis from CIPFA drawn from "Income Generation Comparative Profiles" derived from revenue outturn returns to Government ▪ Analyse significant differences and the underlying reasons and propose relevant recommendations in collaboration with relevant departments.	Immediate

Page 115

Detailed Recommendations	Actions	Timescales
a) Development Control		
Consider the introduction of Planning Performance Agreements	Department of Built Environment (DBE) to propose options.	Immediate
b) Off-street parking		
Review options to maximise full deployment of capacity and increase charges to align with neighbouring authorities / NCP charges.	DBE to propose options for maximising capacity and adjusting charging on an annual basis, following any necessary upgrades to car parks.	Immediate
c) Museums & galleries		
Review charging and income generation opportunities to increase revenues.	Department of Culture, Heritage & Libraries to propose options to increase income.	Immediate

CORPORATE COMMERCIAL ACTIVITY : DETAILED RECOMMENDATIONS

Headline recommendations	Actions	Timescales
3. **Commission business cases containing business model options to maximise the short, medium and longer term commercial income** from: ▪ Animal transit & inspections at London's airports ▪ Property services: An "intelligent client" service for public bodies seeking to manage and develop their property assets ▪ Venue hire and events management ▪ Film location services ▪ Business regulatory advisory services – via the "Primary Authority" partnership model ▪ Central support services (targeting future CoLC academy schools) Recommended business models should set out: - Anticipated additional annual income against additional costs and/or other resources required - Additional organisational changes or services required to enable and support the commercial activity, including any additional central support - The scope of commercial 'autonomy' sought by the service in relation to the relevant department/s and committee/s; a viable proposition for the apportionment of central costs and overheads and relevant commercial incentives (eg retention of surpluses generated) 4. **Decide which commercialised services to implement, if any, on the basis of the business cases prepared.** Agree an appropriate business model for each case and any associated broader organisational changes required to accommodate and support the commercial activity.	Income Generation Review implementation process to propose a framework for adopting and supporting a more commercial approach in the areas outlined in Recommendation 3. This should include operational proposals for: - Prioritising investment to increase revenue-generating activities - Retention of revenues for business reinvestment - Apportionment of central costs - Longer term options for establishing formal trading vehicles in appropriate cases.	Starting immediately and spread over the next year.

Detailed recommendations	Actions	Timescales
d) Animal transit & inspections at London's airports	Dept Markets & Consumer Protection to prepare a business case to the relevant Committees presenting options, costs / resources required, risks and timetables for establishing the commercial proposition as outlined.	Immediate
e) Property services: Management of property assets & development works	City Surveyor's to prepare a business case to the relevant Committees presenting options, costs / resources required, risks and timetables for establishing the commercial proposition as outlined.	Within 1 year
f) Venue hire & events management	Income Generation Review implementation process to deliver a business case with options for a tighter, more integrated corporate commercial offer which addresses: - Pricing policy in relation to principles for free and subsidised hire (who, when and why) and which draws on models pursued elsewhere (eg charging on the basis of per person per hour) – following a steer by Members - Core terms and conditions of hire for incorporation into all hire contracts which cover the Corporation's risks and liabilities associated with the commercial hire of its venues – under the auspices of the City Events Management Group proposed by the Hospitality SBR (provided this is agreed)	Within 1 year

	- Functions, resources and expertise which might be shared to increase business, reduce duplication and plug gaps – under the auspices of the City Events Management Group proposed by the Hospitality SBR (provided this is agreed) - Identification of additional venues and grounds which could be hired out + any associated investments needed to bring them into use – under the auspices of the City Events Management Group proposed by the Hospitality SBR (provided this is agreed)	
g) Film Location Services		
Adopt a proactive (rather than reactive) approach to marketing the Corporation's filming locations.	- Income Generation Review Implementation Manager to prepare a business case to increase staff resources by one or two additional people in the Film Team on a 2 year trial basis - the arrangement to be assessed after 2 years in relation to the additional revenues generated. (There is a particular need to market the Mansion House actively as a film location to turn around industry perceptions that filming is not allowed there.) - Enlarged Film Location Services team to prepare a comprehensive prospectus of all the City's potential filming assets (both within and outside the Square Mile) working closely with City Surveyors and Open Spaces to identify and document potential locations and indicative filming charges. This might be done as an internship project in partnership with the London Film School or University of Arts London more widely. Corporation venues also available for hire should be signalled and promoted prominently.	Immediate
Ensure consistent coverage of professional film location handling services across the Corporation's entire land and property portfolio.	- Enlarged Film Location Services team to establish a consistent charging policy and service across the entire land and property portfolio of the City Corporation, working closely with the relevant governing Trusts or leaseholders. (Burnham Beeches, due to its proximity to Pinewood Studios, has particular potential to generate more filming income.)	Within 1 year
Seek income from filming commercials on Tower Bridge.	Income Generation Review Implementation Manager to propose rescinding the blanket ban on filming commercials on Tower Bridge in favour of an approach which considers the merits of every application (which would be consistent with the approach taken for all other filming and hospitality applications to use the Bridge).	Immediate
h) Business regulatory advisory services – via the "Primary Authority" partnership model	Dept Markets & Consumer Protection to prepare a business case to the relevant Committees presenting options, costs / resources required, risks and timetables for establishing the commercial proposition outlined in this report.	Immediate
i) Central support services – especially tied to the expansion of academy schools	Dept Community & Children's Services to lead preparation of a business case to the relevant Committees presenting options, costs / resources required, risks and timetables for establishing the commercial proposition outlined in this report.	1 – 3 years
j) Development of the City's heritage offer	Dept Culture, Heritage & Libraries (in consultation with the workstream to develop the cultural hub) to commission a marketing consultancy to explore ways in which the City's offer to visitors can be better developed, co-ordinated and promoted, leading to increased revenues to the City Corporation.	Within 1 year

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Committee:	Date:
Finance Committee	16 February 2016
Subject: Cost of Insurance Premiums	**Public**
Report of: The Chamberlain	**For Information**
Report author: Connie Dale, Chamberlain's Department	

Summary

The report "Revenue and Capital Budgets for Finance Committee Operational Services - 2016/17", submitted to the Finance Committee on 19 January 2016, noted an increase in property insurance costs of £782k. The Finance Committee requested further details to explain the increase in the budget.

This movement is primarily due to an increase in the property insurance premium of £1,410k, partly offset by the dividend income from the City's reinsurance captive (City Re Ltd) of £650k. The increase in the property insurance premium is a result of the combined effect of three independent factors, unusually occurring in the same year, namely:

	£'000
City Surveyor's Revaluation Exercise	168
Market Changes (Pool Re Terrorism)	864
Taxation (Insurance Premium Tax)	378
Total	**1,410**

Given the nature and timing of the changes, the effects could not be mitigated prior to policy renewal in December 2015.

The property insurance programme will be tendered in 2016 which will provide the opportunity to consider changes to the programme structure to maximise market competition and discounts available for deductibles and risk management programmes. A report detailing the options available for the December insurance programme will be submitted to Members in March 2016.

Recommendation

Members are asked to note the report.

Main Report

Background

1. The report "Revenue and Capital Budgets for Finance Committee Operational Services - 2016/17", submitted to the Finance Committee on 19 January 2016, noted the following movement in insurance costs:

Analysis by Division of Service	Original Budget 2015/16 £'000	Latest Budget 2015/16 £'000	Original Budget 2016/17 £'000	Movement (Latest 2015/16 to Original 2016/17) £'000
Chamberlain's – Insurance	10,661	11,883	12,665	782

2. The Finance Committee requested further details to explain the increase in the budget.

Current Position

3. This movement in the insurance budget is primarily due to an increase in property insurance premium, partly offset by the dividend income from the City's reinsurance captive (City Re Ltd), as detailed below:

	£'000
Property Insurance Premium Increase	1,410
City Re Ltd	(650)
Other Costs	22
Total	**782**

4. The Property Insurance Premium Increase is a result of the combined effect of three independent factors unusually occurring at the same time in 2015, namely:

	£'000
City Surveyor's Revaluation Exercise	168
Market Changes (Pool Re Terrorism)	864
Taxation (Insurance Premium Tax)	378
Total	**1,410**

These factors are described in more detail below.

5. The City procures ground up property insurance for the operational and investment property portfolios. The insurance covers material damage to buildings and contents and financial loss from business interruption (for operational properties) and buildings and loss of rent (for investment properties).

6. The contract was awarded to RSA (with Aviva as co-insurer) in 2012 on a Long Term Agreement (three years with an option to extend for up to two years) and was renewed for a further year on 25 December 2015. Damage arising from terrorist acts is procured from Pool Re via RSA.

City Surveyor's Revaluation Exercise

7. The City has a responsibility as Owner/Landlord and, in respect to their commercial investment properties, a legal liability to maintain insurance valuations that reflect the current cost of reinstatement of a building, bridge or

structure in the event of fire. An undervaluation would create a risk of underinsurance and put the City in breach of the landlord's covenant within commercial and residential leases. An overvaluation would generate additional premium for no value.

8. Our valuations are the estimated cost to rebuild the properties, called the Declared Value (DV), against which the insurer's premium rates are applied, resulting in the total premium payable per premises.

9. The City Surveyor undertakes a full revaluation exercise every 10 years (with average uplifts and interim valuations carried out in intervening years). The exercise consists of a site inspection and the valuation accounts for the rebuild cost of the property, professional fees, VAT, and inflationary increases. The market value of the property has no bearing on the insurance valuation. The City Surveyor completed the revaluation exercise in September 2015.

10. A factor of 5% was built into the budget to accommodate the impact of potential increases in the DV but the actual increase averaged 7% (from £11.65bn to £12.51bn as at renewal). The City Surveyor has commented that a major factor in the increase is the strength of demand for construction work which has pushed up contract costs in the industry.

11. The premium rates charged by RSA, which are individual to each property, have remained the same since contract inception in 2012. Changes in the DVs will result in a correlating increase or decrease in the total premium payable. It was not possible to negotiate reductions in premium rates mid-contract term in order to mitigate the effects of the increased DVs. However, the property insurance programme will be tendered in 2016. This will provide the opportunity to consider restructuring the programme in order to maximise market competition and test market rates.

Market Changes (Pool Re Terrorism)

12. The City procures terrorism cover via RSA from Pool Re. Pool Re is a government backed reinsurance vehicle that provides the most comprehensive and financially secure terrorism insurance cover in the market. In 2014, the government changed the charging and dividend structure with Pool Re in order to retain a greater share of the income commensurate with the risk being underwritten. In July 2015, Pool Re consequently announced a restructure to the scheme premium rates and terms, but the details were not finalised and implications assessed until October 2015.

13. Premium rates were increased by 10% for properties in Zone A but these are offset in part by a 10% decrease in the Business Interruption (including Loss of Rent) rate for all zones. Zone A covers all central London postcodes and therefore affects the majority of the City's property programme.

14. Notwithstanding the VAT status of a company, Pool Re has stated that the DV should account for VAT for the purposes of the reinsurance premium calculation, where the insured is unable to recover VAT from HMRC. The City now accounts for VAT on the DVs for all properties where the leaseholder is required to

reinstate/repair. The premium for these properties has therefore increased by 20% on the terrorism element only for the policy year 2015/16.

15. All residential properties are rated at the same rate for terrorism purposes and now benefit from a discounted rate applied to local authorities with residential properties.

16. Pool Re rules require the whole property portfolio to be insured or none. There is no opportunity for rates to be negotiated with Pool Re as they apply to the whole market. However, the tender in 2016 will provide the opportunity to explore alternative terrorism markets and/or to restructure the programme to maximise available discounts for increased deductibles and risk management programmes.

Taxation (Insurance Premium Tax)

17. Insurance Premium Tax (IPT) is a non-recoverable government tax that is charged on the insurance premium. In the Summer Budget 2015, the Chancellor announced an increase to the standard rate of IPT from 6% to 9.5% with effect from 1 November 2015.

18. 2015 was an unusual year in that the 3 factors above occurred at the same time and gave no opportunity to mitigate the effects before renewal of the policy. The combined effect of the above factors has increased the insurance budget for 2016/17 by £1,410k. The dividend received from City Re Ltd, the City's reinsurance captive has offset this by £650k. Accounting for other costs, the increase in budget is £782k.

19. Approximately 75% of the property insurance costs are recoverable from leaseholders and tenants. For information, for the policy year 2015/16 (not financial year) this is split as follows:

	Total Premium (incl. IPT)
Operational (Non-Reimbursable)	£2.7m
Investment (Reimbursable)	£10.1m

Additionally, of the £10.1m, approximately £2m is received by the City as commission.

20. The property insurance programme will be tendered in 2016 and will provide the opportunity to consider changes to the programme structure to maximise market competition and discounts available for deductibles and risk management programmes. A report detailing the options available for the December insurance programme will be submitted to Members in March 2016.

Appendices

None

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Committee:	Date:
Establishment Committee – for information Finance Committee – for decision Policy and Resources Committee – for decision	4 February 2016 16 February 2016 18 February 2016
Subject: Statutory Dismissal Procedures for the Head of Paid Service (Town Clerk and Chief Executive), Monitoring Officer (Comptroller and City Solicitor) and Chief Financial Officer (Chamberlain)	**Public**
Report of: Joint Report of the Town Clerk and the Director of Human Resources	**For Information**
Authors: Chris Braithwaite and Tracey Jansen	

Summary

The Local Authorities (Standing Orders) (England) (Amendments) Regulations 2015 ("the 2015 Regulations") amended the process by which disciplinary action can be taken in respect of the Head of Paid Service (Town Clerk), Section 151 Officer (Chamberlain) and Monitoring Officer (Comptroller and City Solicitor) (hereafter referred to as "Statutory Officers"). The Regulations now only cover dismissal of these officers, rather than all formal disciplinary or capability matters.

The Establishment Committee agreed that any complaints regarding the Statutory Officers should be considered by the Chairman of the Appointing Committee (Policy and Resources Committee for the Town Clerk and Chief Executive or Comptroller and City Solicitor; Finance Committee for the Chamberlain) and the Chairman of the Establishment Committee.

These Chairmen would have responsibility for managing and overseeing the investigation of complaints (but no direct role in the investigation itself) and would consider the appropriate action to be taken. The options are to determine that no action is necessary; to determine that some disciplinary action short of dismissal may be necessary; or to determine that dismissal of the Statutory Officer is a possibility.

In the event of dismissal being an action which is considered, the Regulations require that Court of Common Council takes the final decision in the matter. The Court of Common Council is required to consider the findings of any investigation, representations from the Statutory Officer involved and, crucially, the findings of a Panel. Therefore, to comply with the Regulations, a Statutory Officer Review Panel (the Panel) must be created in accordance with requirements set out in the Regulations..

To ensure that the Panel maintains independence from any single Committee, it is proposed that the Panel be created as a Grand Committee of the Court. To ensure that there is no unnecessary delay in convening a meeting of the Panel, it is

recommended that appointment to the Panel be by virtue of holding certain offices (Chief Commoner and certain Committee Chairmanships). Proposed Terms of Reference and composition for the Panel are set out at Appendix 1.

The relevant Standing Order (set out at Appendix 2) was set out by legislation and is silent as to the investigative procedure to follow in the event of such disciplinary action being required. Therefore, it is proposed that an addition be made to the Standing Order to spell out that the procedure to be followed is that which is set out within the Statutory Officer Disciplinary Procedure.

Recommendations

The **Policy and Resources Committee** is asked to:

a) Agree that the Chairman of the Policy and Resources Committee, in conjunction with the Chairman of the Establishment Committee, will be responsible for the management of the investigation of complaints or concerns regarding the Head of Paid Service (Town Clerk and Chief Executive) or the Monitoring Officer (Comptroller and City Solicitor).
b) Recommend to the Court the creation of a Statutory Officer Review Panel, with Terms of Reference as set out at Appendix 1.
c) Recommend to the Court amendment of Standing Order 63 in line with the terms set out in Appendix 2.

The **Finance Committee** is asked to agree that the Chairman of the Finance Committee, in conjunction with the Chairman of the Establishment Committee, will be responsible for the management of the investigation of complaints or concerns regarding the Section 151 Officer (Chamberlain).

The **Establishment Committee** is asked note the report.

Main Report

Background

1. The Local Authorities (Standing Orders) (England) (Amendments) Regulations 2015 require that all Local Authorities (which the City of London Corporation is considered to be by the legislation) amend Standing Orders to ensure that they state that the 'relevant body' (the Court of Common Council for the Corporation) is responsible for approving dismissal of the Head of Paid Service, Section 151 Officer and the Monitoring Officer. Dismissal of any of these Statutory Officers must be approved by way of a vote at a meeting of the Authority provided it takes into account:

   - any advice, views or recommendations of a Panel
   - the conclusions of any investigation
   - any representations from the relevant officer concerned

2. The Court of Common Council agreed the amendment to Standing Orders in line with the 2015 Regulations in June 2015.

3. The Director of Human Resources has worked with the Town Clerk's Department and Comptroller and City Solicitor's Department to undertake further work into the disciplinary procedure which would be followed in the event of the potential dismissal of these relevant officers and the governance arrangements to facilitate this.

4. Dismissal for the purposes of the 2015 Regulations does not include redundancy, permanent ill health or infirmity of mind or body and does not include failure to renew a contract of employment for a fixed term unless the authority has undertaken to renew such a contract. It does include conduct and capability dismissals.

Current Position

5. A report was submitted to the Establishment Committee for consideration in December 2015, as the Committee responsible for all matters relating to the employment of City of London Corporation employees (where such matters are not specifically delegated to another Committee). This includes responsibility for disciplinary matters until delegated otherwise.

6. The Establishment Committee agreed to specific proposals to comply with the requirements of the 2015 Regulations.

Responsibility for investigation of complaints

7. The Establishment Committee agreed that responsibility for considering the action to be taken in relation to complaints received about these three Officers should be as follows:

   "The Chairman of the appointing Committee for the relevant officers (Policy and Resources Committee for the Head of Paid Service and Monitoring Officer; Finance Committee for the Section 151 Officer) and the Chairman of Establishment Committee will take an initial view of any complaints or concerns raised regarding the relevant officer and determine the appropriate course of action, reporting to the Court of Common Council as appropriate where dismissal of the relevant officer is recommended. In the event that there is a conflict of interest for the Chairmen, then an alternative Committee Chairman and/or Deputy Chairman will take on this role."

8. In the event that a formal investigation is required, it is anticipated that the relevant Chairmen would have responsibility for commissioning the investigation (but have no direct role in the investigation itself), and for considering any appropriate action as a result of the investigation's findings. The options are to determine that no action is necessary; to determine that some disciplinary action short of dismissal may be necessary; or to determine that dismissal of the Statutory Officer is a possibility.

9. In the event of any disagreement between the two Chairmen as to how to proceed, the decision of the Appointing Committee Chairman will be final.

10. The 2015 Regulations require these arrangements to be followed in relation to complaints which may result in dismissal. However, in most situations, preliminary work will need to be undertaken to determine whether a complaint could lead to potential dismissal. Therefore, it is proposed that the relevant Committee Chairman is responsible for the management and oversight of the investigation of all complaints against the Statutory Officers.

Creation of a Statutory Officer Review Panel

11. The 2015 Regulations require that, in considering the dismissal of a Statutory Officer, the Court of Common Council must consider the views or recommendations of a Panel (including Independent Persons), along with the conclusions of any investigations into the proposed dismissal and any representations from the Statutory Officer.

12. Accordingly, the Establishment Committee agreed to propose that:

    a) For the purposes of considering dismissal of a Statutory Officer, that the composition of the Panel comprises three current Chairmen and at least two of the three Independent Persons appointed to the Standards Committee.

    b) The Panel composition, once agreed, is set up as a Standing Committee and reporting directly to the Court of Common Council.

13. In the event of such disciplinary action being required, it would be wise to ensure that the process is not unnecessarily delayed by needing to wait until the next meeting of the Court to formally appoint Members to the Panel (or requiring the Town Clerk, who may be the officer who is subject of the investigation, to take a decision on the Membership of the Panel under urgency). Therefore, it is recommended that appointment to the Panel be on an ex-officio basis.

14. Upon reflection, Officers believe that it would be more appropriate to appoint the Chief Commoner and four Committee Chairmen to the Panel. This would ensure that, if the investigation of the incident involves the interviewing of any Committee Chairmen, they would be able to be excused from attending the meeting of the Panel without the Panel becoming too small to reasonably consider the issue. Any extension beyond five elected Members (a total panel size of seven) would seem to create too large a panel.

15. It is further recommended that Chairmen of specific Committees are appointed to the Panel. This would ensure that there is no delay in convening the Panel due to the Court first needing to appoint Members to it. The Panel must not include those Chairmen responsible for the management of the investigation of the complaint (Chairmen of Policy and Resources Committee and of Finance Committee) to ensure clarity, transparency and an independent view of the matter.

16. The simplest way to determine the appropriate Chairman is to follow the order of primacy given to Committees in the Members' Pocket Book. It is therefore proposed that the Statutory Officer Review Panel comprises:
    - The Chief Commoner;
    - Chairman of Planning and Transportation Committee;
    - Chairman of Port Health and Environmental Services Committee;
    - Chairman of the Markets Committee;
    - Chairman of the Police Committee;
    - two of the three Independent Persons appointed to the Standards Committee.

17. Proposed Terms of Reference for the Panel are set out at Appendix 1.

18. The Director of Human Resources will be responsible for providing advice on the administration, application and overview in relation to the disciplinary procedures for the three Statutory Officers. Where it is considered that there is a conflict of interest, an external senior human resources and/or legal adviser will be sourced to support the process as appropriate.

19. There is no requirement for the Panel to undertake in person any investigation into the matter of concern. It is recommended that it reviews the findings of the investigator and any representations made by the Statutory Officer before forming a view on the matter.

Statutory Officer Disciplinary Procedure

20. Based on the proposals agreed by the Establishment Committee, and subject to approval of recommendations set out in this report Officers will update the Disciplinary Procedure for the Statutory Officers. The Statutory Officers will be consulted on the revised Procedure before it is referred to the Establishment Committee for approval.

Amendment to Standing Orders

21. The 2015 Regulations required that specific text be included with Standing Orders. The Standing Order does not provide information regarding the process to be followed in the event of disciplinary action being considered against one of the Statutory Officers. Therefore, it is proposed that the following is added to Standing Orders:

    "Officers shall ensure that any action to consider the dismissal of a Statutory Officer shall comply with the provisions contained within the City of London Corporation's Statutory Officer Disciplinary Procedure"

22. This change has been incorporated into the proposed updated Standing Order extract at Appendix 2, and is intended to mirror the process which is applied to Project Management (Standing Order 50(2)).

Representations by Statutory Officer

23. The regulations are clear that the Court of Common Council, in considering the potential dismissal of one of the Statutory Officers, must take into account any representations made by the officer. While it is anticipated that the officer would make written representations to the Court of Common Council, it would not be

reasonable to prevent an officer from responding to allegations made against them when dismissal is being considered. Officers are not usually permitted to address the Court. However, an exception would clearly be made in this instance.

Proposals

24. There is a need to finalise the arrangements for taking disciplinary action against the three Statutory Officers in light of the 2015 Regulations. Members are asked to consider and agree the recommendations in order that the revised arrangements can be put in place.

Corporate & Strategic Implications

25. The 2015 Regulations have reduced the statutory requirements in relation to disciplinary matters. This is in line with the City Corporation's HR Strategy to simplify and standardise HR policies and procedures. The 2015 Regulations give us the opportunity to review the current procedures that apply to the Statutory Officers and to bring these in line with our Managing People standards and principles whilst at the same time ensuring compliance with the new statutory requirements.

Implications

26. These are included in the body of the report.

Conclusion

27. There is requirement to comply with the new 2015 Regulations in relation to the statutory dismissal procedures for the Head of Paid Service, Monitoring Officer and Section 151 Officer. The report sets out the proposed decision making structures and roles that need to be put in place to comply with the Regulations.

Appendices

- Appendix 1 – Statutory Officer Dismissal Panel Terms of Reference
- Appendix 2 – Standing Order 63 (amended)

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STATUTORY OFFICER REVIEW PANEL

1. **Constitution**

A Non-Ward Committee consisting of,
- The Chief Commoner for the time being
- The Chairman of the Planning and Transportation Committee for the time being
- The Chairman of the Port Health and Environmental Services Committee for the time being
- The Chairman of the Markets Committee for the time being
- The Chairman of the Police Committee for the time being
- Two of the Independent Persons of the Standards Committee

2. **Quorum**

The quorum consists of any three Members, including one Independent Person.

3. **Terms of Reference**

To make recommendations to the Chairman of the Appointing Committee (who will make subsequent recommendations to the Court of Common Council) regarding the dismissal of the Head of Paid Service (Town Clerk and Chief Executive), Monitoring Officer (Comptroller and City Solicitor) or Section 151 Officer (Chamberlain).

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Appendix 2

63. Disciplinary Action

1. In the following paragraphs,
   (a) “the 2011 Act” means the Localism Act 2011;
   (b) “chief finance officer”, “disciplinary action”, “head of the authority’s paid service” and “monitoring officer” have the same meaning as in regulation 2 of the Local Authorities (Standing Orders) (England) Regulations 2001;
   (c) “independent person” means a person appointed under section 28(7) of the 2011 Act;
   (d) “local government elector” means a person registered as a local government elector in the register of electors in the City of London Corporation’s area in accordance with the Representation of the People Acts;
   (e) “the Panel” means a committee appointed by the Court of Common Council under section 102(4) of the Local Government Act 1972 for the purposes of advising the Court of Common Council on matters relating to the dismissal of relevant officers of the City of London Corporation;
   (f) “relevant meeting” means a meeting of the Court to consider whether or not to approve a proposal to dismiss a relevant officer; and
   (g) “relevant officer” means the Town Clerk, Chamberlain or Monitoring Officer, as the case may be.

2. A relevant officer may not be dismissed by the City of London Corporation unless the procedure set out in the following paragraphs is complied with.

3. The Court of Common Council must invite relevant independent persons to be considered for appointment to the Panel, with a view to appointing at least two such persons to the Panel.

4. In paragraph 3 “relevant independent person” means any independent person who has been appointed by the Court of Common Council or, where there are fewer than two such persons, such independent persons as have been appointed by another authority or authorities as the Court of Common Council considers appropriate.

5. Subject to paragraph 6, the authority must appoint to the Panel such relevant independent persons who have accepted an invitation issued in accordance with paragraph 3 in accordance with the following priority order,
   (a) a relevant independent person who has been appointed by the Court of Common Council and who is a local government elector;
   (b) any other relevant independent person who has been appointed by the Court of Common Council;
   (c) a relevant independent person who has been appointed by another authority or authorities.

6. The Court of Common Council is not required to appoint more than two relevant independent persons in accordance with paragraph 5 but may do so.

7. The Court of Common Council must appoint any Panel at least 20 working days before the relevant meeting.

8. Before the taking of a vote at the relevant meeting on whether or not to approve such a dismissal, the Court of Common Council must take into account, in particular—
   (a) any advice, views or recommendations of the Panel;
   (b) the conclusions of any investigation into the proposed dismissal; and
   (c) any representations from the relevant officer.

9. Any remuneration, allowances or fees paid by the City of London Corporation to an independent person appointed to the Panel must not exceed the level of remuneration, allowances or fees payable to that independent person in respect of that person's role as independent person under the 2011 Act.

10. Officers shall ensure that any action to consider the dismissal of a relevant officer shall comply with the provisions contained within the City of London Corporation's Statutory Officer Disciplinary Procedure.

Committee:	Date:
Finance Committee	16 February 2016
Subject: Non-Domestic Rates – Review of Discretionary Rate Relief	**Public**
Report of: Chamberlain	**For Decision**
Report author: Carla-Maria Heath	

Summary

This report advises the Committee of the results of this year's annual review of discretionary non-domestic rate relief that is currently being granted under Section 47 of the Local Government Finance Act 1988 and considers whether any changes from the present levels of relief are required.

The Local Government Finance Act 1988 governs the way in which discretionary rate relief should be granted. Registered charities are entitled to receive 80% mandatory rate relief and the City of London as a Billing Authority has power to grant discretionary relief of up to a further 20%. Non-profit making organisations can be given up to 100% discretionary relief. The cost of discretionary reliefs is one of the variables taken into account in the calculation of the City's share of retained business rates.

Three cases of charities receiving both mandatory and discretionary rate relief are reviewed in this report together with two cases of non-profit making organisations receiving discretionary rate relief only. For all organisations reported, it is proposed that discretionary relief be continued at the levels previously determined. If the recommendations are agreed and it is determined that there should be no changes in the levels of relief currently awarded, the total estimated cost of discretionary relief to be met from the City's share of business rates is £106,603.

The estimated cost of discretionary rate relief in 2016/17 includes relief to cases being dealt with under delegated powers. Applications for discretionary rate relief where the recommended amount of relief in any year is no higher than £5,000 are dealt with under powers delegated to the Chamberlain. All applications for relief from not for profit organisations that can be defined as Social Investment Finance Intermediaries and Business Incubators are delegated to the Chamberlain for decision regardless of the recommended amount of relief.

Recommendations

Members are asked to:

a) Agree that discretionary relief be continued at the levels previously determined for all organisations reported noting that for 2016/17 the total estimated cost of the discretionary relief to be met from the City's share of business rates is £106,603 and £2,860 will be met from the premium; and

b) if applicable, state the reasons for any withdrawal or reduction in any recipient's relief in accordance with the advice of the Comptroller and City Solicitor.

Main Report

Background

1. On 21st February 2012 the Finance Committee reviewed the procedures previously adopted for considering applications for discretionary rate relief and agreed the criteria to be used in determining such applications for 2012/13 onwards.

2. The procedures adopted for considering applications for discretionary rate relief are set out in Appendix 1. The agreed criteria are set out in Appendix 2. The model adopted to assess the financial strength of organisations applying for discretionary rate relief where the relief to be granted under the criteria exceeds a set amount (the financial model) is set out in Appendix 3.

Current Position

3. All the organisations referred to in this report are in receipt of discretionary rate relief in the current year 2015/16. Appendix 4 (in the non-public section of the agenda) contains details of the levels of discretionary rate relief that would be granted in 2016/17 if relief continues to all organisations at the same levels as previously determined. A total of 23 cases were reviewed. In 20 cases 80% mandatory rate relief was topped up by between 5% and 15% of discretionary rate relief. In three cases including one Business Incubator discretionary rate relief was awarded.

Options

4. The options available are that discretionary relief be continued at the levels previously determined for all organisations reported or that a decision is made that discretionary rate relief should no longer apply. The rating regulations require a Billing Authority to give one year's written notice if the level of discretionary rate relief is to be reduced or to be discontinued. Such decisions can only take effect from the commencement of a financial year. The Regulations restrict, therefore, any such reductions from taking effect until 1 April 2017

5. It should be noted that for 2016/17 the total estimated cost of the discretionary relief to be met from the City's share of business rates is £106,603 while £2,860 will be met from the premium (based on a premium of 0.4p in the £).

Proposals

6. The organisations currently in receipt of discretionary rate relief have been reviewed. Based upon the agreed criteria no changes are suggested in the proposed level of discretionary relief compared with that previously determined.

7. Applications for discretionary rate relief where the recommended amount of relief in any year is no higher than £5,000 are dealt with under powers delegated to the Chamberlain. All applications for relief from not for profit organisations that can be defined as Social Investment Finance Intermediaries and Business Incubators are delegated to the Chamberlain for decision regardless of the recommended amount of relief. No new applications have been received from such organisations.

8. In the past year new applications from three registered charities were considered under powers delegated to officers. It was determined that two organisations did not sufficiently meet the City of London's criteria for relief and that no discretionary relief should be granted. Discretionary rate relief of £746.86 was granted to one organisation.

9. Details of the new applications considered under delegated powers are contained in Appendix 5 (in the non-public section of the agenda).

Implications

10. Under the arrangements in place from 1 April 2013 when the rates retention scheme was introduced 50% of income and therefore 50% of the costs of reliefs are met from the government's central share. The remaining 50% is funded from the local share. The local share is then divided between the City Corporation (30%) and the Greater London Authority (20%).

11. For 2016/17, assuming existing levels of relief continue to apply, the total estimated cost of the discretionary relief to be met from the City's share of business rates is £106,603 as set out below:

Type of organisation	Discretionary relief total £	City Share (30%) £
Registered Charities	149,382	44,815
Non-Profit Making	205,960	61,788
Total	**355,342**	**106,603**

Included in the above totals are cases being dealt with under delegated powers. These cases have been excluded from appendix 4 (in the non-public section of the agenda).

12. If the City of London levies a premium of 0.4p in 2016/17, assuming existing levels of relief continue to apply, the total estimated cost of the discretionary relief to be borne from the proceeds of the premium is £2,860

13. The cost of discretionary rate relief applicable to any additional amounts levied under the Crossrail business rate supplement is borne wholly by the Greater London Authority from the proceeds of the supplement.

14. The estimated cost of the City's share of discretionary reliefs is one of the variables taken into account in the calculation of the City's share of retained business rates.

Conclusion

15. The result of the review of discretionary rate relief is that based upon the agreed criteria no changes are suggested in the proposed level of discretionary relief compared with that previously determined.

16. Appendix 4 (in the non-public section of the agenda) contains details of the levels of discretionary rate relief that would be granted in 2016/17 if relief continues to all organisations at the same levels at previously determined. Cases being dealt with under delegated powers are excluded from Appendix 4.

Appendices

- Appendix 1 - Procedure agreed to determine claims for discretionary rate relief
- Appendix 2 - Criteria adopted for considering claims for discretionary rate relief
- Appendix 3 - Financial model
- Appendix 4 (non-public) - Organisations subject to the review of discretionary rate relief
- Appendix 5 (non-public) – Applications dealt with under delegated powers

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APPENDIX 1
PROCEDURE AGREED TO DETERMINE CLAIMS FOR DISCRETIONARY RATE RELIEF

Procedure agreed in determining claims for discretionary rate relief

1. In accordance with the Government's guidance there are 15 points which require consideration and it was decided that the following ground rules be adopted:

Ground Rule		Remarks
a)	Where a charity or non-profit making organisation fulfils less than 8 of the points	In such cases, no relief be granted
b)	Where a charity or non-profit making organisation fulfils 8 or more of the points	In such cases, consideration be given to the level of relief to be granted
c)	Where (b) above applies in considering whether or not to grant relief	That regard is had to: (i) the financial position of the charity or organisation; and (ii) the cost to the council tax payer

Considering the level of relief
Registered charities applying for discretionary relief

2. Under the provisions of the Local Government Finance Act 1988, registered charities are automatically entitled to receive 80% mandatory relief and there is power to grant up to a further 20% at the Committee's discretion.

3. It was agreed that consideration be given to allowing this additional relief up to the full 20% level of relief allowed by law.

4. To determine the maximum level of the additional relief to be granted, the following was adopted:

Points fulfilled	Maximum additional relief to be granted
0 to 7	Nil
8 or 9	5%
10 or 11	10%
12 or 13	15%
14 or 15	20%

5. In all cases, before determining what relief should be granted, consideration must be given to:

   a) the financial position of the charity; and

   b) the cost to the council tax payers, who bear 75% of any additional amount allowed.

Non-profit making organisations applying for discretionary relief

6. Under the provisions of the Local Government Finance Act 1988, the Committee has power to grant up to 100% relief at its discretion.

7. It was agreed that consideration be given to allowing additional relief up to the full 100% level allowed by law.

8. To determine the level of relief to be granted, the following was adopted:

Points fulfilled	Maximum relief to be granted
0 to 7	Nil
8 or 9	25%
10 or 11	50%
12 or 13	75%
14 or 15	100%

9. In all cases, before determining what relief should be granted, consideration must be given to:

   a) the financial position of the non-profit making organisation; and

   b) the cost to the council tax payers who bear 25% of the amount allowed.

Criterion effective from 1 April 2013

10. For 2013/14 onwards the annual maximum amount of discretionary rate relief granted to any organisation is limited to £300,000.

Criterion effective from 1 April 2014

11. For 2014/15 onwards no discretionary relief will be granted to hospitals funded by the National Health Service or similar Government funded organisations.

APPENDIX 2
CRITERIA ADOPTED FOR CONSIDERING CLAIMS
FOR DISCRETIONARY RATE RELIEF

	CRITERIA	**MODEL ANSWER**
	➢ACCESS	
1)	Can any individual from the community, become a member of the organisation? If there is no membership structure, can any individual assist in the organisation's administration and decision making process?	YES
2)	Are there any restrictions on membership, which require a high level of achievement, which would exclude the general Community? If there is no membership structure, is the organisation aimed at providing services to specialised groups of individuals such as Doctors, Lawyers, and other highly qualified individuals?	NO
3)	Is the membership or voting rights of the organisation determined by the votes of existing members or is it restricted by the trustees/management of the organisation in any way?	NO
4)	Does the organisation work for the benefit of particular deserving groups within the Community? (E.g. young people, women, ethnic minorities or the sick and disabled).	YES
5)	Does the organisation make its facilities and or make services available to all sections of the community irrespective of membership? (E.g. buildings, schools, casual public sessions, publications, helplines etc.).	YES
6)	Are non-members excluded from using the organisation's facilities, or from using services, provided by the organisation?	NO
	➢PROVISION OF FACILITIES	
7)	Does the organisation provide training or education for its members or education for the benefit of the community as a whole?	YES

APPENDIX 2
CRITERIA ADOPTED FOR CONSIDERING CLAIMS FOR DISCRETIONARY RATE RELIEF

CRITERIA		**MODEL ANSWER**
8)	Are there schemes for particular groups to develop their skills? (e.g. young, retired or disabled persons)	YES
9)	Did the organisation's membership pay for the provision and improvement of its facilities?	YES
10)	Were the facilities funded by grant aid?	NO
11)	Is the provision of a licensed bar the main purpose of the organisation?	NO
12)	Does the organisation provide a service provided by the City of London? If so does this organisation assist in meeting the needs of the Community as a whole?	YES
13)	➢ <u>OTHER CONSIDERATIONS</u> Is the organisation affiliated to or does it have close and identifiable links with other local or national organisations? (E.g. public bodies, local sport bodies, charities, arts councils or national representative bodies).	YES
14)	Is there an active involvement in the local or national development of the organisation's interest?	YES
15)	Is the membership drawn from, or does the organisation directly benefit, the residents of the City of London?	YES

APPENDIX 3
FINANCIAL MODEL

Model agreed by the Finance Committee to assess the financial strength of organisations applying for discretionary rate relief

A. The model only applies after the organisation has achieved a points score sufficient to qualify for a proportion of discretionary rate relief under the agreed criteria.

B. Before the financial model is applied, the organisation must qualify under these procedures for a total amount of discretionary rate relief of at least £15,000 in the case of charities in receipt of mandatory rate relief, or at least £1,000 in the case of non-profit making organisations in receipt of discretionary rate relief only.

C. The model is based on the latest published final financial accounts of the organisation.

D. The organisation's financial strength is compared with the amount of discretionary relief calculated under the points score basis, in order to measure whether the organisation has sufficient resources to pay the amount of rates for which discretionary relief might otherwise be given. This is done by a two stage process:

Stage 1 Surplus Financial Position

i. Establish whether the organisation has an annual surplus on its general fund activities. Exclude one-off items and unrealised gains in order to reflect the annual operating position. These are included at a later stage within the net asset values.

ii. Where the adjusted annual surplus is less than five times the total calculated amount of discretionary rate relief, do not reduce the amount of discretionary rate relief.

iii. Where the adjusted annual surplus of charities entitled to mandatory rate relief is at least five times the total calculated amount of discretionary rate relief, do not consider charities any further for discretionary relief.

iv. Where the adjusted annual surplus of non-profit making organisations is at least five times the total calculated amount of discretionary rate relief, award non-profit making organisations 50% of the amount of discretionary rate relief calculated according to their points score.

Stage 2 Net Assets Financial Position

i. For organisations which do not have a surplus sufficient to result in a reduction under Stage 1, examine the amount of net assets available to the general fund activities.

ii. Where the amount of net assets is less than ten times the total amount of discretionary rate relief proposed do not reduce the amount of discretionary rate relief.

iii. Where the amount of net assets of charities entitled to mandatory rate relief is at least ten times the total amount of discretionary rate relief proposed, do not consider charities any further for discretionary relief.

iv. Where the amount of net assets of non-profit making organisations is at least ten times the total amount of discretionary rate relief proposed award non-profit making organisations 50% of the amount of discretionary rate relief calculated according to their points score.

v. However, if the net assets appear from the accounts to be insufficiently realisable, do not reduce the amount of discretionary rate relief.

Committee:	Date:
Finance Committee	16 February 2016
Subject: Irrecoverable Non-Domestic Rates and Council Tax	**Public**
Report of: Chamberlain	**For Decision**
Report author: Carla-Maria Heath – City Revenues	

Summary

The Finance Committee has delegated authority to the Chamberlain to write off non-domestic rates debts of up to £5,000 and council tax debts of up to £1,000 without seeking the approval of the Committee. This annual report seeks approval to write off irrecoverable amounts in excess of those levels.

Under the arrangements in place from 1 April 2013 when the business rates retention scheme was introduced, 50% of income and therefore any losses attributable to irrecoverable amounts is met from the government's central share. The remaining 50% is funded from the local share. The local share is divided between the City Corporation (30%) and the Greater London Authority (20%). The element attributable to the additional amounts levied by the City of London as a premium and the Crossrail business rate supplement for the Greater London Authority are borne wholly from the proceeds of the premium and supplement.

All the amounts submitted for write off have previously been provided for as uncollectable in accordance with guidelines agreed with the City Corporation's external auditors and instructions issued by central government for the accounting of non-domestic rate. The amounts submitted have been included in a previous year's provision for bad debts in the annual outturn contribution form (NNDR3). The loss in council tax collection will be met from the provision for bad debts.

Recommendations

Members are asked to:

a) Approve the write off of irrecoverable non-domestic rates in the sum of £2,205,822 noting that £631,204 will be met by the City Corporation and £18,336 from the premium; and.
b) Approve the write off of irrecoverable council tax in the sum of £16,509.

Main Report

Background

1. The Finance Committee has delegated authority to the Chamberlain to write off non-domestic rates debts of up to £5,000 and council tax debts of up to £1,000 without seeking the approval of the Committee. This report seeks approval to write off irrecoverable amounts in excess of those levels.

Current Position

National Non Domestic Rates

2. The total amount submitted for write off comprises debts that have arisen over a number of financial years. All available recovery procedures have been taken to recover these sums, but without success.

3. The debts are uncollectable primarily because the companies concerned have become the subject of insolvency proceedings or have ceased to trade and subsequently been struck off the Register of Companies and dissolved or the ratepayers concerned are bankrupt or have absconded. The proposed write offs take account of any dividend payments received after the realisation of any assets.

Council Tax

4. For this year the level of irrecoverable Council Tax is £16,509. The total amount submitted for write off comprises debts that have arisen over a number of financial years. All recovery procedures have been taken to recover these sums, but without success.

Options

5. As stated above these debts have proved to be irrecoverable after exhaustive checks have been made. The companies are dissolved or in liquidation, the ratepayer is bankrupt or absconded, the only course of action is to write them off. If the debts are not written off there is a risk of non-compliance with the financial orders.

Proposals

National Non Domestic Rates

6. The table below sets out the amounts recommended for write off, and for comparison purposes the amounts that were written off by Committee in the previous two financial years.

Reason for write off	**Amount written off 2013/14 (£)**	**Amount written off 2014/15 (£)**	**Amount submitted for write off 2015/16 (£)**
Dissolved companies	565,889	434,218	790,341
Companies in liquidation	320,257	481,390	1,223,574
Companies in administration	104,880	55,241	0.00
LPA Receiver appointed	20,342	0.00	0.00
Bankrupt individuals	8,959	16,184	0.00
Absconded individuals	53,355	26,165	70,621
Otherwise irrecoverable/uneconomic	71,278	0.00	121,286
Total	1,144,960	1,013,198	**2,205,822**

7. The total annual debit for each of these years is in excess of £800 million. The total this year is higher than in the previous 2 years as nearly £1m of the irrecoverable amount is attributable to companies that went into liquidation over a period of time and where the liquidators have now advised that there is no prospect of a dividend to any class of creditor. One single company is responsible for about £400,000 of the debt. The amounts written off, including amounts written off under delegated powers, as a percentage of the annual non-domestic rates debit is less than 0.5% in each year.

Council Tax

8. The table below sets out for comparison purposes both the amounts of council tax submitted today for the Committee's approval to write off and the amounts that were written off by Committee in the previous two financial years.

Reason for write off	**Amount written off 2013/14 (£)**	**Amount written off 2014/15 (£)**	**Amount submitted for write off 2015/16 £**
Absconded tax payers	3,111	2,394	12,477
Bankruptcy	0.00	1,298	0.00
Deceased tax payers	0.00	0.00	4,032
Total	**3,111**	**3,692**	**16,509**

9. The annual debit for 2015-16 is approximately £7.1 million. The amounts in relation to council tax are low and although there is variation in amounts from year to year the amount written off, including amounts written off under delegated powers, as a percentage of the annual council tax debit is less than 0.42% in each year. Whilst this is an increase from the previous two financial years it should be noted that this is comparable with a previous financial year 2009/10 when £17,000 was written off by this Committee. The write offs include a repossession and a deceased case where there were substantial arrears. In these cases there are no further options to enforce the debts.

Implications

National Non Domestic Rates

10. All the amounts submitted for write off have previously been provided for as uncollectable in accordance with guidelines agreed with the City Corporation's external auditors and instructions issued by central government for the accounting of non-domestic rate. The amounts submitted have been included in a

previous year's provision for bad debts in the annual outturn contribution form (NNDR3).

11. Under the arrangements in place from 1 April 2013 when the business rates retention scheme was introduced, 50% of income and therefore any losses attributable to irrecoverable amounts are met from the government's central share. The remaining 50% is funded from the local share. The local share is divided between the City Corporation (30%) and the Greater London Authority (20%).

12. The elements attributable to additional amounts levied by the City of London as a premium and under the Crossrail business rate supplement are borne wholly from the proceeds of the premium and supplement.

13. The attribution of the cost of the amounts submitted for write off is detailed below:

Attribution of amounts of non-domestic rates to be written off as irrecoverable	**Amount £**
Government's Central Share	1,052,006
City Corporation	631,204
GLA	420,803
Crossrail Supplement	83,473
Premium	18,336
Total	**2,205,822**

Council Tax

14. All the amounts submitted for write off have previously been provided for as uncollectable in the City's accounts in accordance with guidelines agreed with the City Corporation's external auditors. The proposed write offs in this report can be met from the annual bad debt provision held within the City's accounts

Appendices
None

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Committee:	Date:
Finance Committee	16 February 2016
Subject: Risk Management – Monthly Report	**Public**
Report of: Chamberlain	**For Information**
Report author: Joy Ahwieh, Chamberlain's Department	

Summary

This report has been produced to provide Finance Committee with an update on the most significant risks faced by the Chamberlain's Department.

There are currently no RED risks on the departmental risk register and one RED risk on the Corporate Risk Register:

- **CR19 - IT Service Provision**

This risk remains red but is expected to reduce as on-going infrastructure changes, particularly to the Police IT estate, are implemented. Progress against the transition plan is measured regularly to ensure the risk continues to reduce towards the target status of GREEN by 31 December 2016.

Recommendation

Members are asked to note the report.

Main Report

Background

1. The Risk Management Framework of the City of London Corporation requires each Chief Officer to report regularly to Committee the key risks faced in their department. Finance Committee has determined that it will receive the Chamberlain's risk register on a quarterly basis with update reports on RED rated risks at the intervening Committee meetings.

Current Position

2. This report provides an update on the current RED risks that exist in relation to the operations of the Chamberlain's department and, therefore, Finance Committee.

3. There is currently one RED risk on the Corporate Risk Register for which the Chamberlain's Department is responsible:

CR19 - IT Service Provision (Current Status: RED – no change)

The current status of this risk is specifically in relation to the position of the Police IT Estate. This risk has reduced from October 2015 following the implementation of back up storage and spare network equipment. However, in discussion with Police leadership, the risk has been left in a red position due to the continued risk of an interruption of service.

To mitigate this risk, the Police server migration to the Infrastructure as a Service (IaaS) project is now underway and is expected to be complete by March 2016. From this point on, the Police and Corporation risk will be synchronised and is expected to reduce to Amber, then continue towards the target status of Green by 31 Dec 2016.

Conclusion

4. Members are asked to note the actions taken to manage these significant risks in relation to the operations of the Chamberlain's Department and the overall reducing level of current risk.

Appendices

- None

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Committee:	Date:
Finance Committee	16 February 2016
Subject: Central Contingencies	**Public**
Report of: Chamberlain	**For Information**
Report Author: Steve Telling	

1. Service Committee budgets are prepared within the resources allocated by the Policy and Resources Committee and, with the exception of the Policy and Resources Committee, such budgets do not include any significant contingencies. The budgets directly overseen by the Finance Committee therefore include central contingencies to meet unforeseen and/or exceptional items that may be identified across the City Corporation's range of activities. Requests for allocations from the contingencies should demonstrate why the costs cannot, or should not, be met from existing provisions.

2. In addition to the central contingencies, the Committee has a specific City's Cash contingency of £100,000 to support humanitarian disaster relief efforts both nationally and internationally.

3. The uncommitted balances that are currently available are set out in the table below together with the amounts being requested at this meeting.

2015/16 Contingencies - Uncommitted Balances at 5 February 2016				
	City Fund £'000	City's Cash £'000	Bridge House Estates £'000	Total £'000
General Contingencies	354	332	50	736
National and International Disasters	0	80	0	80
Uncommitted Balances	**354**	**412**	**50**	**816**
Requests for contingency allocations	201	92	15	308
Balances pending approval	**153**	**320**	**35**	**508**

4. The request for £308,000 is in relation to Oracle project costs which are the subject of a separate report elsewhere on the agenda.

5. The sums which the Committee has previously allocated from the 2015/16 contingencies are listed at Appendix 1.

Recommendation

6. Members are asked to note the report.

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Appendix 1 2015/16 Contingencies

2015/16 General Contingency – City's Cash

Committee Date	Description	Responsible Officer	Allocation £	Contingency Balance £
	2015/16 Provision			950,000
	2014/15 Provision brought forward to fund commitments entered into in previous financial years			145,000
	Total Provision			1,095,000
10 Dec 2013	£55,000 (£30,000 in 2014/15 and £25,000 in 2015/16) for additional one-off revenue costs in respect of the Education/Community Programme to launch the Heritage Gallery; and the provision of retail stock to promote the opening and the City's role in looking after London and the Nation's heritage. The first £15,000 of income from the sale of the special retail stock will be credited centrally.	DCHL	25,000	
21 Oct 2014	Up to £98,500 in match funding (in partnership with the Mercers' Company) for a biography of Sir Thomas Gresham. Phased over 5 years - £33,500, £5,000, £5,000. £25,000 and £30,000 in 2014/15, 2015/16, 2016/17, 2017/18 and 2018/19 respectively.	TC	65,000	
13 Jan 2015	Funding to meet the transport and freight costs of taking the Guildhall School's opera scenes to Shanghai in April 2015.	GSM	29,800	
17 Feb 2015	Grant funding for The Honourable The Irish Society (£25,000 p.a. for 2014/15 and 2015/16)	TC	25,000	
14 Apr 2015	"Founding Sponsor" contribution towards the cost of a major City spectacular in commemoration of the 350th anniversary of the Great Fire of London.	DCHL	300,000	
21 Jul 2015	£33,000 to match fund a grant that The Honourable The Irish Society is making to the National Citizenship Scheme. £5,000 for the Lord Mayor to host a dinner in Belfast to mark the giving of this grant.	TC	38,000	
15 Dec 2015	£50,000 to the Police Arboretum Memorial Trust in support of its project to create a new national memorial to pay tribute to the UK's Police Service.	TC	50,000	
15 Dec 2015	£80,000 to fund six Assistant Property Facilities Manager posts for the period January to March 2016.	CS/CH	80,000	
19 Jan 2016	£150,000 to fund emergency repair works.	CS	150,000	
	Total allocations agreed to date			762,800
	Balance remaining prior to any requests that may be made to this meeting			332,200

2015/16 General Contingency – City Fund

Committee Date	Description	Responsible Officer	Allocation £	Contingency Balance £
	2015/16 Provision			800,000
	2014/15 Provision brought forward to fund commitments entered into in previous financial years			83,000
	Total Provision			883,000
13 Jan 2015	£50,000 (£25,000 in 2014/15 and £25,000 in 2015/16) for additional funding towards the LGPS Collective Investment Vehicle (CIV).	CH	25,000	
17 Feb 2015	£142,000 (£84,000 in 2014/15 and £58,000 in 2015/16) towards an appeal regarding Greater London Authority Roads.	C&CS/CS	58,000	
9 Oct 2015	£366,000 to fund the cost of urgent waterproofing and drainage works at Frobisher Crescent.	DCCS	366,000	
19 Jan 2016	£80,000 in relation to an ongoing legal dispute.	C&CS	80,000	
	Total allocations agreed to date			529,000
	Balance remaining prior to any requests that may be made to this meeting			354,000

2015/16 General Contingency – Bridge House Estates

Committee Date	Description	Responsible Officer	Allocation £	Contingency Balance £
	2015/16 Provision			50,000
	Total allocations agreed to date			0
	Balance remaining prior to any requests that may be made to this meeting			50,000

2015/16 National & International Disasters Contingency – City's Cash

Committee Date	Description	Responsible Officer	Allocation £	Contingency Balance £
	2015/16 Provision			100,000
	2014/15 unspent provision brought forward			30,000
	Total Provision			130,000
27 Apr 2015 Urgency	Disasters Emergency Committee, Nepal Earthquake Appeal	TC	25,000	
1 May 2015 Urgency	Disasters Emergency Committee, Nepal Earthquake Appeal	TC	25,000	
	Total allocations agreed to date			50,000
	Balance remaining prior to any requests that may be made to this meeting			80,000

Key to Responsible Officers:

CH: Chamberlain
C&CS: Comptroller and City Solicitor
CS: City Surveyor
DCCS: Department of Community and Children's Services
DCHL: Director of Culture, Heritage and Libraries
GSM: Principal, Guildhall School of Music and Drama
TC: Town Clerk

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