Public Document Pack

Finance Committee

Date: **TUESDAY, 21 FEBRUARY 2017**

Time: **1.45 pm**

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

Members:
Jeremy Mayhew (Chairman)
Deputy Roger Chadwick (Deputy Chairman)
Randall Anderson
Deputy John Barker
Nicholas Bensted-Smith
Chris Boden
Nigel Challis
Dominic Christian
Simon Duckworth
Deputy Anthony Eskenzi
Sheriff & Alderman Peter Estlin
Sophie Anne Fernandes
John Fletcher
Alderman Timothy Hailes
Deputy Brian Harris
Christopher Hayward
Tom Hoffman
Wendy Hyde
Deputy Jamie Ingham Clark
Clare James
Gregory Lawrence
Alderman Professor Michael Mainelli
Paul Martinelli
Deputy Robert Merrett
Deputy Henry Pollard
Sheriff & Alderman William Russell
James de Sausmarez
Ian Seaton
Deputy Dr Giles Shilson
Sir Michael Snyder
David Thompson
Deputy James Thomson
Deputy John Tomlinson
Philip Woodhouse
Vacancy
Mark Boleat (Ex-Officio Member)
Deputy Catherine McGuinness (Ex-Officio Member)
Andrew McMurtrie (Ex-Officio Member)
Deputy Alastair Moss (Ex-Officio Member)

Enquiries: **Chris Braithwaite**
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christopher.braithwaite@cityoflondon.gov.uk

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 non-public minutes of the meeting held on 31 January 2017.

   For Decision
   (Pages 1 - 10)

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

   For Information
   (Pages 11 - 14)

5. **REPORT OF THE WORK OF THE SUB-COMMITTEES**
   Report of the Town Clerk.

   For Information
   (Pages 15 - 16)

6. **DRAFT PUBLIC MINUTES OF THE INFORMATION TECHNOLOGY SUB-COMMITTEE HELD ON 20 JANUARY 2017**
   To note the draft minutes of the meeting held on 20 January 2017.

   For Information
   (Pages 17 - 22)

7. **DRAFT MINUTES OF THE JOINT MEETING OF THE RESOURCE ALLOCATION SUB-COMMITTEE, EFFICIENCY AND PERFORMANCE SUB-COMMITTEE AND SERVICE COMMITTEE CHAIRMEN, HELD ON 19 JANUARY 2017**
   To note the draft minutes of the meeting held on 19 January 2017.

   For Information
   (Pages 23 - 26)

8. **DRAFT NOTES OF THE BUSINESS RATEPAYERS CONSULTATION EVENT**
   To note the draft minutes of the consultation event held on 10 February 2017.

   For Decision
   (Pages 27 - 32)

9. **REVENUE AND CAPITAL BUDGETS 2016/17 AND 2017/18**
   Report of the Chamberlain.

   For Decision
   (Pages 33 - 54)

10. **CITY FUND 2017/18 BUDGET REPORT AND MEDIUM TERM FINANCIAL STRATEGY**
Report of the Chamberlain.

For Decision
(Pages 55 - 112)

11. **CHAMBERLAIN'S DEPARTMENT - DRAFT HIGH LEVEL BUSINESS PLAN**
Report of the Chamberlain.

For Information
(Pages 113 - 116)

12. **LOCAL GOVERNMENT FINANCE BILL**
Joint report of the Chamberlain and the Remembrancer.

For Information
(Pages 117 - 124)

13. **CITY FUND AND PENSION FUND FINAL ACCOUNTS 2016/17 AND 2017/18 - UPDATE**
Report of the Chamberlain.

For Information
(Pages 125 - 128)

14. **REVENUE BUDGET MONITORING TO DECEMBER 2016**
Report of the Chamberlain.

For Information
(Pages 129 - 138)

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

For Decision
(Pages 139 - 142)

16. **CITY PROCUREMENT QUARTERLY UPDATE - FEBRUARY 2017**
Report of the Chamberlain.

For Information
(Pages 143 - 150)

17. **RISK MANAGEMENT - TOP RISKS**
Report of the Chamberlain.

For Information
(Pages 151 - 154)

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

For Information
(Pages 155 - 162)

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

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

21. **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

22. **NON-PUBLIC MINUTES OF THE LAST MEETING**
To agree the non-public minutes of the meeting held on 31 January 2017.

For Decision
(Pages 163 - 166)

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

For Information
(Pages 167 - 168)

24. **REPORT OF THE WORK OF THE SUB-COMMITTEES - NON-PUBLIC ISSUES**
Report of the Town Clerk.

For Information
(Pages 169 - 170)

25. **DRAFT NON-PUBLIC MINUTES OF THE INFORMATION TECHNOLOGY SUB-COMMITTEE HELD ON 20 JANUARY 2017**
To note the draft non-public minutes of the meeting held on 20 January 2017.

For Information
(Pages 171 - 172)

26. **DRAFT NON-PUBLICMINUTES OF THE JOINT MEETING OF THE RESOURCE ALLOCATION SUB-COMMITTEE, EFFICIENCY AND PERFORMANCE SUB-COMMITTEE AND SERVICE COMMITTEE CHAIRMEN, HELD ON 19 JANUARY 2017**
To note the draft non-public minutes of the meeting held on 19 January 2017.

For Information
(Pages 173 - 176)

27. **BUILDINGS REPAIRS AND MAINTENANCE - PROCUREMENT STAGE 3 CONTRACT AWARD REPORT**
Joint report of the Chamberlain and the Chairman of the Facilities Services Category Board.

For Decision
(Pages 177 - 186)

28. **CCTV SUPPLY, INSTALLATION AND MAINTENANCE CONTRACT - PROCUREMENT STAGE 3 CONTRACT AWARD REPORT**
Report of the Chamberlain.

For Decision
(Pages 187 - 194)

29. **IT TRANSFORMATION - LAN HARDWARE PROCUREMENT STAGE 1 REPORT**
Report of the Chamberlain.

For Decision
(Pages 195 - 202)

30. **IT TRANSFORMATION - LOCAL AREA NETWORK SERVICES - PROCUREMENT EVALUATION CRITERIA**
Report of the Chamberlain.

For Decision
(Pages 203 - 210)

31. **CITY OF LONDON FREEMEN'S SCHOOL CATERING, CLEANING AND HOUSEKEEPING SERVICES - PROCUREMENT STAGE 1 EVALUATION CRITERIA**
Joint report of the Chamberlain and the Headmaster, City of London Freemen's School.

For Decision
(Pages 211 - 216)

32. **EARLY PAYMENT DISCOUNT PROGRAMME PROJECT**
Report of the Chamberlain.

For Decision
(Pages 217 - 220)

33. **REVIEW OF METRICS USED IN MAKING MAJOR PROPERTY DECISIONS**
Joint report of the Chamberlain and the City Surveyor.

For Decision
(Pages 221 - 228)

34. **COMPUTER AIDED FACILITIES MANAGEMENT (CAFM) PROJECT - ADDITIONAL FUNDING FOR DRAWINGS**
Report of the City Surveyor.

For Decision
(Pages 229 - 232)

35. **NON-DOMESTIC RATES - REVIEW OF DISCRETIONARY RATE RELIEF**
Report of the Chamberlain.

For Decision
(Pages 233 - 246)

36. **FORMER COMMERCIAL TENANT RENT ARREARS - WRITE OFF**
Joint report of the Comptroller and City Solicitor and the City Surveyor.

For Decision
(Pages 247 - 250)

37. **BARBICAN ESTATE - WRITE OFF OF RENT ARREARS**
Report of the Director of the Community and Children’s Services.

For Decision
(Pages 251 - 252)

38. **REPORT ON WAIVERS AT £50K AND OVER GRANTED SINCE THE LAST FINANCE COMMITTEE**
Report of the Chamberlain.

For Information
(Pages 253 - 256)

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

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

FINANCE COMMITTEE

Tuesday, 31 January 2017

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

Present

Members:

Jeremy Mayhew (Chairman)
Deputy Roger Chadwick (Deputy Chairman)
Randall Anderson
Deputy John Barker
Nicholas Bensted-Smith
Chris Boden
Nigel Challis
Sophie Anne Fernandes
Alderman Timothy Hailes
Deputy Brian Harris
Christopher Hayward
Tom Hoffman
Wendy Hyde
Deputy Jamie Ingham Clark
Clare James
Gregory Lawrence
Alderman Professor Michael Mainelli
Paul Martinelli
Deputy Robert Merrett
Sheriff & Alderman William Russell
Ian Seaton
Deputy Dr Giles Shilson
David Thompson
Philip Woodhouse
Mark Boleat (Ex-Officio Member)

Officers:

Christopher Braithwaite	-	Town Clerk's Department
Peter Kane	-	Chamberlain
Caroline Al-Beyerty	-	Chamberlain's Department
Christopher Bell	-	Chamberlain's Department
Sean Green	-	Chamberlain's Department
Tamara Jaenicke	-	Chamberlain's Department
Kate Limna	-	Chamberlain's Department
Steven Reynolds	-	Chamberlain's Department
Deborah Cluett	-	Comptroller and City Solicitor's Department
Paul Wilkinson	-	City Surveyor
Nick Bodger	-	Culture, Heritage and Libraries Department
Miatta Fahnbulleh	-	Economic Development Office
Gary Brailsford-Hart	-	City of London Police

1. **APOLOGIES**
   Apologies for absence were received from John Fletcher, Deputy Catherine McGuiness, Deputy Henry Pollard, James De Sausmarez and Deputy John Tomlinson.

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 13 December 2016 be approved as an accurate record, subject to the additional of the word "area" after "London" in the final paragraph of Minute Item 15.

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

The Town Clerk explained that information regarding proposals for making Christmas charitable donations in future years (action 3b) would be considered at the Finance Grants Oversight and Performance Sub-Committee in February 2017.

RESOLVED – That the Committee notes the report.

5. **REPORT OF THE WORK OF THE SUB-COMMITTEES**
The Chairman welcomed Sean Green, the new IT Director, to his first meeting of the Committee.

The Committee considered a report of the Town Clerk which advised Members of the key discussions which had taken place during recent meetings of the Committee's Sub-Committees.

A Member noted that the report indicated that alternative options to Microsoft Licensing and Cloud Productivity suite were not considered to be viable in the available timeframe and asked whether there may be a significant financial incentive to pursue these alternative options. The Chamberlain explained that the cheapest alternative option was to use open source software. This would allow savings to be made on licensing costs, but was likely to require increased funding for support, security, training and integration. Therefore, it was not anticipated that this alternative option was capable of delivering a significant financial saving.

A Member commented that, while some staff at the Corporation would require a wide suite of Microsoft products and required integration between these projects, there may be a significant number of staff who only required access to a small number of products, with minimal integration. He suggested that tailoring the provision of licences to the needs of staff could create some savings.

RESOLVED – That the Committee notes the report.

6. **PUBLIC MINUTES OF SUB-COMMITTEES**
RESOLVED – That the Committee notes the public minutes and non-public summary of the following Sub-Committee meetings:

- Efficiency and Performance Sub-Committee held on 30 November 2016;
- Information Technology Sub-Committee held on 25 November 2016.

7. **APPOINTMENT OF CHAIRMEN OF SUB-COMMITTEES**

The Committee considered a resolution from the Policy and Resources Committee regarding the process for the appointment of Chairmen of Sub-Committees.

The Chairman commented that the purpose of the resolution was to ensure that Chairmen of Sub-Committees were always appointed by the Committee as a whole, rather than solely by the Chairman.

Members discussed the resolution and agreed that, as Members had interpreted the resolution in a range of different ways, the resolution was unclear without having the context of the report which had being considered by the Policy and Resources Committee. Members also commented that, in meetings of other Committees, the resolution had been interpreted in different ways by Members of the Town Clerk's Department.

The Town Clerk explained that the purpose of the report which had been submitted to the Policy and Resources Committee was to ensure that Sub-Committee Chairmen were not appointed solely by the Chairman of the Grand Committee, rather than to require that all Sub-Committees Chairmen were appointed in the manner described in the resolution. The Chairman suggested that it may be beneficial for the report which had been submitted to the Policy and Resources Committee to be circulated to all Members of the Finance Committee.

Members agreed that it was important that Sub-Committee Chairmen were appointed in a manner which was open and transparent.

The Chairman commented that, for the Finance Committee, the practice prior to his election as Chairman had been that the Chairman of the Grand Committee chaired all of the Sub-Committees. He commented that this was typically the practice for most Grand Committees. He explained that he had preferred for other Members of the Committee to be Chairmen of some of the Sub-Committees and, as such, had identified the Members whom he thought would make effective Chairmen of each Sub-Committee. The Grand Committee had then approved the appointment of those Members as Chairmen of the Sub-Committees.

The Committee agreed that it required further clarification of the resolution before it could consider whether to endorse it. The Committee also suggested that, if other Committees had experienced similar confusion in considering the resolution, the Policy and Resources Committee should be requested to review the resolution and recirculate it to all Grand Committees in a clearer format.

RESOLVED – That the Committee requests that further clarification be provided regarding the resolution from the Policy and Resources Committee.

8. **PROVISIONAL SETTLEMENTS FOR LOCAL GOVERNMENT AND POLICE 2017/18**

The Committee considered a report of the Chamberlain which provided information regarding the Provisional Settlements for Local Government and Police for 2017/18.

Members asked whether further information was available regarding the proposals by the Government for the devolution of Business Rates to local areas by 2020. The Chamberlain explained that information was still being gathered in relation to this, but a report would be submitted to the Committee's February 2017 meeting.

RESOLVED – That the Committee notes the report.

9. **REVENUE AND CAPITAL BUDGETS FOR FINANCE COMMITTEE OPERATIONAL SERVICES 2017/18**

The Committee considered a report of the Chamberlain which set out the proposed budgets 2017/18 for the operational services overseen by the Finance Committee.

A Member commented that it did not appear that there was sufficient funding in the budget for IT Security, given that activity in this area was very important. He noted that JP Morgan spent £500m per year on this kind of activity.

The Town Clerk advised Members that an overspend was projected for 2016/17 for the Electoral Services Team within the Town Clerk's Department, which was included the Finance Committee's budget. He explained that this overspend was due to there being three major elections during 2016/17 (London Mayoral Elections; EU Referendum; and Court of Common Council elections). He explained that a report would be submitted once the outturn position for the service was known. The Chairman requested that the report provide information of the Electoral Services Team spend against budgets for the previous four years, so that the Committee could assess spend against budget for a full four-year cycle.

RESOLVED – That the Committee

a) notes the forecast underspend of £120,000 at 31 March 2017 against the
Chamberlain's 2016/17 local risk budget;
b) approves proposed 2017/18 revenue budget
c) authorises the Chamberlain to revise these budgets to allow for any necessary realignment of funds as set out in paragraph 18 of the report; and
d) notes the approved capital and supplementary revenue budgets.

10. **PENSION FUND - ACTUARIAL VALUATION AS AT 31 MARCH 2016**

The Committee considered a report of the Chamberlain which provided the preliminary results of the triennial actuarial valuation of the Local Government Pension Fund as at 31 March 2016, which had been undertaken by the Fund's

Actuary, Barnett Waddingham. The report informed the Committee that the Pension Fund deficit had increased from £128m as at March 2013 to £150m as at March 2016 and recommended an increase in the employers' contribution rate to the Fund, from 17.5% to 21%.

The Chamberlain and a Member, who had worked with the Chamberlain throughout the actuarial valuation, explained that the main reason for the increased deficit was a change in the financial assumptions which had been used. The Member explained that the deficit would be in the region of £90m if the financial assumptions used in the previous triennial valuation had been used for this valuation. However, the Government Actuarial Department (GAD) had required that Pension Funds used more prudent assumptions, based on GAD's expectation for returns on pooled investment vehicles. This assumption had the impact of creating roughly £60m in additional liabilities for the Pension Fund.

A Member commented that the Corporation's Pension Fund held almost all of its assets in equities, with no exposure to property, which was unusual for a Pensions Fund. He queried whether this had caused the actuarial assumptions to affect the Corporation's Pension Fund more heavily than other organisations' Pensions Funds. The Chamberlain confirmed that this was the case.

The Member commented that the Committee could suggest to the Financial Investment Board that it should to invest some of the Pension Fund assets into property to reduce the risk of a similar issue arising in future. The Chamberlain explained that investing some portion of the Pension Fund in property was an issue which Financial Investment Board was currently considering. The Chamberlain explained that the Financial Investment Board was seeking to invest a proportion of the Pensions Fund in a property fund, rather than in specific properties, to ensure appropriate diversity of risk. However, it had not been possible to allow the Pensions Fund to invest in the Corporation's investment properties, due to conflicts of interest.

A Member asked whether it would be possible or advisable to make a lump sum contribution to the Pension Fund to reduce the contribution rate. The Chamberlain explained that this would be possible but, if such a contribution was made at this point, it would be after the valuation event and, therefore, GAD would not consider the contribution to have any impact on the deficit or funding level for the Pension Fund. If such a contribution was made, without an adjustment to the employer contribution rate, it would have no impact on the rating of the Pension Fund. A Member commented that, if such a contribution was being considered, to have any effect on the deficit or funding level of the Fund, it would need to be made before the next valuation event (31 March 2019).

A Member asked that the Committee be provided with the cost of receiving the actuarial report which accompanied the report of the Chamberlain. The Chamberlain explained that this information could be provided to the Committee following the meeting.

RESOLVED – That the Committee agrees that:

a) The Pension Fund deficit recovery period is set at 17 years from 2017/18 and:
b) The employers' overall contribution rate be increased from 17.5% to 21% for the financial years 2017/18, 2018/19 and 2019/20.

11. **CHAMBERLAIN'S DEPARTMENTAL BUSINESS PLAN - QUARTER 3 UPDATE**

The Committee considered a report of the Chamberlain which provided Members with the quarterly progress update regarding the Chamberlain's Departmental Business Plan for 2016/17. The report informed Members that performance was broadly in line with expectations, with the exception of progress in delivering the annual Internal Audit Plan.

A Member noted that the Internal Audit Plan was behind schedule and asked how this would be improved so as to achieve the target. The Chamberlain explained that he had commissioned some additional resource to ensure that the target was achieved.

RESOLVED – That the Committee notes the report.

12. **REVIEW OF THE CORPORATE PURCHASE CARDS CARD HOLDERS AND CONTROLS**

The Committee considered a report of the Chamberlain which provided information of the findings of a review of Corporate Purchase Cards controls and card holders.

The Chamberlain explained that roughly 10% of spend on purchase cards was for what may be considered to be expenses. He explained that a portion of that was spend on high value travel or by Police Officers on covert assignment, for which use of the existing expenses scheme would not be appropriate. He explained that the vast majority of expenses for officers were processed through the expenses scheme, which was separate from the purchase cards scheme.

A Member noted that, once the review of card holders had been instigated, a large number of card holders cancelled their cards. He suggested that this indicated that City Procurement should periodically review when cards had not seen recent use, to determine whether these cards could be cancelled.

The Committee agreed that a further report should be submitted to the Committee in one year, to provide an update on progress with reducing the number of rarely-used purchase cards and in reducing the use of purchase cards for expenses.

RESOLVED – That the Committee notes the report.

13. **IT DIVISION - QUARTERLY UPDATE**
The Committee considered a report of the Chamberlain which provided a quarterly update on the work of the IT Division.

The Chamberlain explained that Members could be confident that improvements would be achieved in the IT Service for six reasons: the leadership team now in place; the development of the IT Strategy (which would be presented to the Committee in February 2017); the budget uplift; the improved understanding of risk in the IT Division; the development of the partnership with Agilisys; and the performance improvements which had been achieved over the previous two to three months.

A Member noted that the Chamberlain intended to appoint external consultants to review and strengthen the current approach to IT Services. The Member asked for reassurance that there would be an appropriate return on this investment. The Chamberlain explained that procurement for this consultant was ongoing, so he was unable to provide specific information, but he assured Members that he would ensure that value for money was achieved.

RESOLVED – That the Committee notes the report.

14. **CHAMBERLAIN'S DEPARTMENT RISK MANAGEMENT - QUARTERLY REPORT**
The Committee considered a report of the Chamberlain which provided the quarterly update regarding the Chamberlain’s Departmental Risk Register.

RESOLVED – That the Committee notes the report.

15. **GREAT FIRE 350: MONITORING AND EVALUATION**
The Committee considered a report of the Director of Culture, Heritage and Libraries which provided information of the key findings of a monitoring and evaluation report, undertaken by the Audience Agency, following the series of events to commemorate the 350th anniversary of the Great Fire of London.

The Director of Culture, Heritage and Libraries explained that only a small proportion of funding had been raised from City businesses. The feedback which had been received from businesses was that the City Corporation had sufficient funding to provide events such as this, without requiring private funding from businesses.

RESOLVED – That the Committee notes the report.

16. **DONATIONS IN EMERGENCY APPEAL SITUATIONS**
The Committee considered a report of the Chamberlain which provided information, requested by the Committee at a previous meeting, regarding donations made to emergency appeals.

A Member noted that, in the list of DEC charities, the descriptions for Tearfund and World Vision appeared to indicate that they were evangelical Christian charitable organisations, rather than a non-denominational or faith-based charity. The Member suggested that it may not be appropriate for the Corporation to make disaster relief donations to evangelical charities. The Town Clerk agreed to look into this issue and provide further information to the Committee.

RESOLVED – That the Committee notes the report, particularly:

a) The strong criteria applied by DEC for the selection and monitoring of UK aid charities;
b) The ability of the Central Grants Unit to provide recommendations of appropriate charities to support, including due diligence reviews;
c) That donations given as restricted to a specific appeal or purpose are required, under charity law, to be spent directly on emergency appeals.

17. **CENTRAL CONTINGENCIES**

The Committee considered a report of the Chamberlain which provided Members with information regarding the current balance of the Finance Committee Contingency Funds for the current year.

RESOLVED – That the Committee notes the report.

18. **DECISIONS TAKEN UNDER DELEGATED AUTHORITY OR URGENCY SINCE THE LAST MEETING OF THE COMMITTEE**

The Committee considered a report of the Town Clerk which provided information of the actions 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). The decisions were:

- A donation of £20,000 to Save The Children's Nigeria Food Crisis Emergency Appeal
- A donation of £25,000 to the Disaster Emergency Committee's Yemen Crisis Emergency Appeal
- Christmas donations of £2,500 each to The Parent House, Crisis, The Stuart Low Trust and Solace Women's Aid.

A Member asked whether the Corporation received information about how the Corporation's donations to disaster relief efforts were spent. The Town Clerk explained that the Corporation was periodically provided with updates regarding these donations and explained that, in future, he would ensure that these updates were circulated to Members.

RESOLVED – That the Committee notes the report.

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

There were no questions.

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

There were no urgent items.

21. **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**
22-25, 27-35	3
26	7

22. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**

The non-public minutes of the meeting held on 13 December 2016 were approved as an accurate record.

23. **OUTSTANDING ACTIONS FROM NON-PUBLIC MINUTES OF PREVIOUS MEETINGS**

The Committee noted a report of the Town Clerk which set out outstanding actions from previous non-public minutes of the Committee.

24. **REPORT OF THE WORK OF THE SUB-COMMITTEES - NON-PUBLIC ISSUES**

The Committee noted a report of the Town Clerk which advised Members of the key discussions which had taken place during non-public session at recent meetings of the Committee's Sub-Committees.

25. **NON-PUBLIC MINUTES OF SUB-COMMITTEES**

The Committee noted the non-public minutes of the following Sub-Committee meetings:

- Efficiency and Performance Sub-Committee held on 30 November 2016;
- Information Technology Sub-Committee held on 25 November 2016.

26. **INFORMATION SECURITY & MANAGEMENT**

The Committee noted a report of the Chamberlain which provided information of progress to mitigate the Corporate Risk regarding Information Security and Management.

27. **LONDON WORK & HEALTH PROGRAMME**

The Committee noted a report of the Director of Economic Development which provided information regarding the procurement of Central London Forward's Work and Health Programme.

28. **LONDON SEXUAL HEALTH TRANSFORMATION PROGRAMME E-HEALTHCARE SERVICES CONTRACT - REQUEST FOR DELEGATED AUTHORITY FOR AWARD OF CONTRACT**

The Committee considered and approved a joint report of the Chamberlain and the Director of Community and Children's Services which sought delegated authority to the Town Clerk, in consultation with the Chairman and Deputy Chairman, to award the contract for the London Sexual Health Transformation Programme e-healthcare services contract.

29. **NEW SPITALFIELDS MARKET WASTE COLLECTION - CONTRACT AWARD REPORT**
The Committee considered and approved a joint report of the Chamberlain and the Director of Markets and Consumer Protection which sought approval for the award for the contract for waste collection at New Spitalfields Market.

30. **BRIDGE HOUSE ESTATES - ANNUAL STRATEGY UPDATE**
The Committee noted a report of the City Surveyor which provided the annual update on the Bridge House Estates Investment Property Portfolio.

31. **CITY FUND STRATEGIC REVIEW - ANNUAL UPDATE**
The Committee noted a report of the City Surveyor which provided the annual update on the City Fund Investment Property Portfolio.

32. **CITY'S ESTATE STRATEGY REPORT**
The Committee noted a report of the City Surveyor which provided the annual update on the City's Estate Investment Property Portfolio.

33. **REPORT ON WAIVERS AT £50K AND OVER GRANTED SINCE THE LAST FINANCE COMMITTEE**
The Committee noted a report of the Chamberlain which updated Members on non-urgent waivers over £50,000 which had been approved by the relevant Spending Committee, in accord with the Waiver Approval Process set out within the Corporation's Procurement Code.

34. **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.

35. **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 3.25 pm

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.	31 Jan 2017, Item 7	Appointment of Chairmen of Sub-Committees Members request further clarification regarding the resolution from Policy and Resources Committee about the appointment of Sub-Committee Chairmen	Town Clerk	March 2017	Similar concerns were expressed at other Committee meetings. Therefore, a further report on this matter will be submitted to the Policy and Resources Committee for consideration in March 2017.
2.	31 Jan 2017, Item 8	Devolution of Business Rates Members requested that further information be provided regarding the proposals for the devolution of Business Rates	Chamberlain	February 2017	A report on this matter is included within the agenda.
3.	31 Jan 2017, Item 9	Electoral Services Team Budget The Town Clerk to provide information of the outturn position of the Electoral Services Team budget, including information of the spend against budgets over a four year period.	Town Clerk	May 2017	A report on this matter will be provided in May 2017.
4.	31 Jan 2017, Item 12	Corporate Purchase Cards A report to be provided in one year's time to provide an update on progress with reducing the number of rarely-used Purchase Cards and in reducing the use of purchase cards for expenses.	Chamberlain	January 2018	A report will be provided in January 2018.
5.	31 Jan 2017, Item 16	Disaster Relief Donations Members requested to be provided with updates regarding disaster relief donations which have been agreed by the Committee.	Town Clerk	Ongoing	An update regarding the British Red Cross's Hurricane Matthew appeal was circulated with the agenda. Future updates will be circulated in the same manner.

Item	Date	Item and Action	Officer responsible	To be completed/ progressed to next stage	Progress Update
6.	13 Dec 2016, Item 13	IT Strategy Members were advised that the IT Strategy would be considered by the IT Sub-Committee and Finance Committee in January 2017.	Chamberlain	May 2017	The IT Strategy and Police IT Strategy will considered by the IT Sub-Committee in February 2017. Following this, they will be submitted to the Finance Committee for consideration.
7.	13 Dec 2016, Item 14	Members Financial Loss Allowance Scheme Members commented that it would be to review the Scheme after the Common Council elections to ensure that it remains fit for purpose.	Town Clerk	May 2017	This review would be conducted by the Policy and Resources Committee, and will be progressed following the elections.
8.	13 Dec 2016, Item 15	Christmas donations A report to be submitted to explain how it will be possible to make such grants in future years.	Chief Grants Officer	February 2017	A report on this issue will be considered by the Finance Grants Oversight and Performance Sub-Committee in February 2017
9.	15 Nov 2016, Item 9	Financial Statements The Chamberlain to review whether it is advisable to include more information in relation to operational risk within the Financial Statements.	Deputy Chamberlain	June 2017	This will be considered as part of the development of the Financial Statements for the City Fund Accounts for 2016/17.
10.	15 Nov 2016, Item 15	Central Contingencies The Committee to consider the appropriate level for the Committee's Contingencies.	Chamberlain	May 2017	This should be considered by the Committee in May 2017, when the final balance for contingencies for 2016/17 is known.

Item	Date	Item and Action	Officer responsible	To be completed/ progressed to next stage	Progress Update
11.	18 Oct 2016, Item 11	Chamberlain's Departmental Business Plan – KPI for Information Technology The Chamberlain to replace the existing IT KPI with a revised KPI which will provide a more accurate measure of performance.	Chamberlain	May 2017	The IT team is developing a broader set of indicators together with our partner Agilisys. However, due to the IT Division leadership changes and the development of the IT Strategy, it has not been possible to complete this work in time for inclusion with the quarterly update. The revised KPI will be included in the next quarterly update.
12.	19 July 2016, Item 7	Review of Sub-Committees Investment Committee is requested to consider an amendment to its Terms of Reference (and subsequently to Standing Orders) to allow Corporate Asset Sub-Committee to be responsible for the disposal of surplus operational properties which are not suitable as investment properties.	Town Clerk	February 2017	This has been approved by Investment Committee and Property Investment Board. A report has been submitted to the Policy and Resources Committee on 16 February 2017 and onward to Court of Common Council in March 2017 to request an amendment to Standing Orders to enact this proposal.

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Committee:	Date:
Finance Committee	21 February 2017
Subject: Report of the work of the Sub-Committees	**Public**
Report of: Town Clerk	**For Information**
Report authors: Chris Braithwaite, Town Clerk's Department	

Summary

On 19 July 2016, the Finance Committee agreed that, in addition to draft minutes of Sub-Committee meetings, short reports would be provided to advise the Committee of the main issues considered by the Sub-Committees at recent meetings.

Since the last meeting of the Finance Committee, the Corporate Asset Sub-Committee met on 10 February 2017.

The main issue considered in public session at this meeting was the operation of Standing Order 55, which sought to ensure the efficient use of operational property assets. Members were extremely concerned that no operational property assets were identified as surplus through this process. Members agreed that they would expect to see operational property assets being released through the embedding of this process within the business planning process for this and future years.

Members commented that, at their previous meeting, they had discussed options to incentivise Departments to declare assets as surplus when they were no longer required for the Department's operations. The Chairman explained that officers were preparing a report regarding the possible incentives which could be put in place to encourage the efficient use of operational property assets throughout the organisation, and to ensure that Departments were more proactive in declaring operational assets as surplus.

The Chairman explained that this issue was due to be discussed by the Summit Group in February 2017, and a report would be submitted to the Corporate Asset Sub-Committee in May 2017. Members commented that charging imputed rent to Departments for the use of operational property should be one of the options which was explored within this report. The Chairman confirmed that imputed rent would be one of the options.

In addition, the Efficiency and Performance Sub-Committee meets on 17 February 2017. A report of the main issues considered at that meeting will be circulated to the Committee prior to the Finance Committee meeting on 21 February.

Recommendations

The Committee is asked to note the report.

Chris Braithwaite
Senior Committee and Member Services Officer

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INFORMATION TECHNOLOGY SUB (FINANCE) COMMITTEE

Friday, 20 January 2017

Minutes of the meeting of the Information Technology Sub (Finance) Committee held at Guildhall, EC2 on Friday, 20 January 2017 at 11.00 am

Present

Members:
Deputy Jamie Ingham Clark (Chairman)
Deputy Roger Chadwick (Deputy Chairman)
Randall Anderson
Deputy Douglas Barrow
Nigel Challis
Deputy John Chapman
Jeremy Mayhew
Sylvia Moys
Graham Packham
Deputy John Tomlinson

Officers:

Fern Aldous	-	Town Clerk's Department
Peter Kane	-	Chamberlain
Sean Green	-	Director of IT
Matt Gosden	-	Chamberlain's Department
Kevin Mulcahy	-	Chamberlain's Department
Fay Sutton	-	Chamberlain's Department
Gary Brailsford-Hart	-	City of London Police

In attendance:

Sean Grimes	-	Agilisys
Eugene O'Driscoll	-	Agilisys

1. **APOLOGIES**
Apologies for absence were received from Hugh Morris.

The Chairman welcomed Sean Green, the new Director and Matt Gosden, the new Deputy Director to the meeting.

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 previous meeting were approved as an accurate record, following the addition of the following to Item 10:

"Structured Interviews would be conducted".

4. **OUTSTANDING ACTIONS FROM PREVIOUS MEETINGS**

The Sub-Committee considered a report of the Town Clerk which provided details of actions outstanding from previous meetings. It was noted that a workshop in the transformation programme would be held on the 3rd February from 1:00pm at the Guildhall.

RESOLVED – That the report be noted.

5. **WORK PROGRAMME FOR FUTURE MEETINGS**

The Sub-Committee considered a joint report of the Town Clerk and Chamberlain outlining the proposed work plan for 2017. Items added since the last meeting had been highlighted and it was reported that the standing items would be removed for clearer analysis going forward.

RESOLVED – That the report be noted.

6. **IT MEMBER UPDATE**

The Sub-Committee considered a report of the Chamberlain providing an update on the recent activity of the IT Division. It was reported that there were six reasons to have confidence in the department's ability to enact change. The first was the strong leadership team which was now in place, and the recruitment of the new Director and Deputy Director, providing a clear organisational structure. The second was the development of the draft strategy which had seen strong support from both Members and Senior Officers. The third was the budget uplift which had been agreed for the current year and 2017/18. There was recognition that there had been underinvestment in the past. The next reason was the greater understanding of the departmental risk and the measures that would need to be put in place to mitigate it. The strengthening partnership within the team and between Members and Senior Officers was a further reason, and the last was felt to be the positive results seen in the performance statistics for this quarter.

As a result it was anticipated that the service would see a significant improvement by the end of 2017. In response to a query from a Member it was confirmed that the additional £8.1-8.4 million predicted would cover phase 1-3 of the improvement works. It was likely the final figure would be approximately £10 million as initially predicted.

Officers undertook to provide a breakdown of workforce numbers of the previous years, including the levels pre- Agilisys for comparison to the current levels. The current Agilisys workforce would also be provided. It was noted that although it was useful to compare with past actions, the current situation was unique and the past should not be dwelt upon.

RESOLVED – That the report be noted.

7. **IT STRATEGY AND TRANSFORMATION UPDATE**

The Sub-Committee considered a report of the Chamberlain detailing the recent developments in the implementation of the transformation programme, as well as the current draft of the IT Strategy. In 2016 an audit of all sites and equipment had been undertaken and an investigation had been carried out on how infrastructure could better support the user experience. This audit had informed the development of designs for the new desktop service and network replacement, the implementation of which was on track. The Strategy had been developed to support this work, and an equivalent police strategy was currently being drafted. In response to a query from a Member it was confirmed that both strategies would be finalised by March 2017.

It was reported that the ways of working pilot had been delayed to allow time for the transformation programme to be completed, and for resilience to be built into the system to support the changes that would be required. The introduction of Office 365 would further support the ways of working pilot and improve the user experience, which was still often slow and frustrating despite recent service level improvements.

A Member queried the inclusion of Microsoft in the draft strategy, given that the following item discussed options on the procurement of licenses for a new suite of products, and it was agreed that the reference should be removed.

In response to a further query relating to the cost neutrality of the desktop upgrade and introduction of Office 365 it was reported that fewer servers and a reduction in complexity of products (for example by removing the enterprise vault from outlook) would balance the additional hosting cost and cost of implementation.

RESOLVED – That Members endorse the draft strategy, and that the report be noted.

8. **MICROSOFT LICENSING AND CLOUD PRODUCTIVITY - PROJECT GATEWAY 1/2**

The Sub-Committee received a report of the Chamberlain seeking permission to undertake an options appraisal for the re-procurement of the Microsoft Licensing and Cloud productivity suite or other open source alternative. Gateway 3 of the report would be presented to the next meeting of the group for approval.

Members were concerned that the other options, identified as including Google and Open Office, may not be viable in the timeframe identified for the project, and felt that a more realistic options appraisal would focus on options within the Microsoft Suite. Officers reported that a hybrid option would signify a move away from the platform based architecture which presented the greatest efficiency for organisations such as the Corporation, and would come with considerable cost and maintenance. Members felt that there was a danger of over dependency on Microsoft and that there could be cost implications of being tied to one provider.

In response to a query from a Member it was confirmed that there would be no cost benefit to including the City of London Police in the appraisal, as prices were set and not based on volume.

RESOLVED – That the report be noted.

9. **IT FINANCE UPDATE**
The Sub-Committee considered a report of the Chamberlain updating them on the financial position of the IT division. The Chamberlain reported that it was now acknowledged that investment in IT was required to enable departmental savings elsewhere.

RESOLVED – That the report be noted.

10. **SERVICE PERFORMANCE UPDATE**
The Sub-Committee considered a report of the Chamberlain providing Members with an update on the performance of the IT service for the Corporation and the City of London Police. It was reported that both service desk satisfaction and first time fixes had improved since the last meeting of the Committee, and the Priority 1 and 2 level incidents had reduced. In response to a query from a Member, it was explained that the reason behind the upturn in the service desk performance was due to greater training and a reinforcement of the systems team. Members were supportive of the service desk manager undertaking regular visits to the Corporation.

RESOLVED – That the report be noted.

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

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

13. **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 the Schedule 12A of the Local Government Act.

Item No.	Paragraph(s) in Schedule 12A
14-15	3
16-17	7

14. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
The non-public minutes of the last meeting were approved as an accurate record.

15. **OUTSTANDING ACTIONS FROM NON-PUBLIC MINUTES OF PREVIOUS MEETINGS**
The Sub-Committee noted a report of the Town Clerk which provided information of outstanding actions from previous meetings.

16. **RISK UPDATE AND TREND**
The Sub-Committee considered a report of the Chamberlain updating them on the Division's risk management and mitigation activity since the last meeting.

17. **IT SECURITY AND MANAGEMENT**
The Committee considered a report of the Chamberlain outlining recent activity in relation to IT security and management.

18. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE SUB COMMITTEE**
The Chamberlain provided a response to a query in relation to the Agilisys contract.

19. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE SUB COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**
There was no other non-public business.

20. **CONFIDENTIAL MINUTES**
Members considered the confidential minutes from the previous meeting.

21. **STAFFING UPDATE**
Members received a staffing update.

The meeting ended at 12:40pm

Chairman

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

Thursday, 19 January 2017

Minutes of the meeting of the Resource Allocation Sub (Policy and Resources) Committee held at Committee Room - 2nd Floor West Wing, Guildhall on Thursday, 19 January 2017 at 12.15 pm

Present

Members:
Mark Boleat (Chairman)
Jeremy Mayhew (Deputy Chairman)
Randall Anderson
Deputy Roger Chadwick
Henry Colthurst
Simon Duckworth
Stuart Fraser
Jamie Ingham Clark
Edward Lord
Deputy Catherine McGuinness
Deputy Joyce Nash
Ian Seaton
Deputy Tom Sleigh
Sir Michael Snyder
Deputy John Tomlinson

In Attendance
Doug Barrow
Deputy John Bennett
Peter Dunphy
Alderman Alison Gowman
Ann Holmes
Clare James
Vivienne Littlechild
Wendy Mead
Dhruv Pate
John Scott

Officers:

John Barradell	-	Town Clerk and Chief Executive
Peter Kane	-	Chamberlain
Caroline Al-Beyerty	-	Deputy Chamberlain
Michael Cogher	-	Comptroller and City Solicitor
Bob Roberts	-	Director of Communications
Peter Lisley	-	Assistant Town Clerk
John James	-	Chamberlain's Department
David Farnsworth	-	Chief Grants Officer

Kate Smith - Head of Corporate Strategy and Performance
Angela Roach - Principal Committee and Members Services Manager

1. **APOLOGIES**
Apologies were received from Alderman Peter Estlin, Rev.d Stephen Haines, Oliver Lodge, Virginia Rounding, Giles Shilson and Philip Woodhouse.

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-COMMITTEE**
There were no questions.

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

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

Part 2 – Non-Public Agenda

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

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-COMMITTEES AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

There were no urgent items.

The meeting ended at 12.55pm

Chairman

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BUSINESS RATEPAYERS' CONSULTATION MEETING

Minutes of the BUSINESS RATEPAYERS' CONSULTATION MEETING held at Guildhall, EC2 on FRIDAY 10 FEBRUARY 2016 at 8.30am.

Present
Members:

Deputy Catherine McGuinness	-	Deputy Chairman of the Policy and Resources Committee
Jeremy Mayhew	-	Chairman of the Finance Committee
Randall Anderson	-	Common Councilman
Deputy John Barker	-	Common Councilman
Peter Bennett	-	Common Councilman
Nick Bensted-Smith	-	Common Councilman
Sylvia Moys	-	Common Councilman
Patrick Streeter	-	Common Councilman

Also in attendance were representatives from the following companies:

ABN Amro Bank NV
Argus Vickers Ltd
Asgard Partners
Association of MBAs
Banco Sabadell
Beaumont Offices
Blade Barbisher
Cargill PLC
Catalyst Development Ltd
City and Country Financial Services
Cooke, Young and Keidon LLP
Divisa UK Ltd
Esclot London
Evans Hart Ltd
Gerald Eve LLP
Harvey Nash
Innovation Warehouse
KfW IPEX-Bank GmbH London Branch
Liberty Speciality Markets
Maxfield Search and Selection
Quadrant Chambers
RESTYLE
Royal Humane Society
Saffery Champness
Sheraton Systems Ltd
Society of Maritime Industries
St Pauls Cathedral
Standard Chartered Bank CBRE
T. Rowe Price International Ltd
Taiwan Financial Supervisory Commission
Tavira Securities Ltd
The Associated Board of Royal Schools of Music
The Corporation of Trinity House
The Corporation of Trinity House
The Investment Association
The Worshipful Company of Educators
The Worshipful Company of Tallow Chandlers
Turkish-British Chamber of Commerce
Two Sigma International
UOL Group Limited
Vardags
Woodalls Design Ltd
Workman LLP
Zaiwalla and Co Solicitors

Officers Present:

John Barradell	-	Town Clerk and Chief Executive
Peter Lisley	-	Assistant Town Clerk & Cultural Hub Director
Christopher Braithwaite	-	Town Clerk's Department
David Kerr	-	Town Clerk's Department
Simon Latham	-	Town Clerk's Department
Emma Lloyd	-	Town Clerk's Department
Peter Kane	-	Chamberlain

Caroline Al-Beyerty	-	Deputy Chamberlain
Heather Adeyemi	-	Chamberlain’s Department
Carla-Maria Heath	-	Chamberlain’s Department
Ian Dyson	-	Commissioner, City of London Police
Steven Bage	-	City Surveyor’s Department
Jon Averns	-	Port Health and Public Protection Director
Claire Holdgate	-	Economic Development Office
Gillian Howard	-	Department of the Built Environment
Steve Presland	-	Department of the Built Environment

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

- Finance Position Statement
- Key Facts Sheet

1. Deputy Catherine McGuinness, Deputy 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

   She explained that the City Corporation supported and promoted London as the world’s leading international financial centre, worked with local communities to increase the skills and employability of all Londoners, and worked to enhance London’s reputation as a hub of culture, history and green space to ensure that London was an attractive place to live, work and visit.

   She outlined the key issues over the next 12 months for the City Corporation. She explained that the City Corporation worked with trade bodies, politicians and central government to ensure the best possible outcome of Brexit for the City and the UK, and to develop the trading relationship with the remaining 27 EU nations. She explained that the City Corporation had recently appointed a special representative to develop the City’s and the UK’s trading relationship with Asia. She explained that the City Corporation would also seek to develop strategic relationships with domestic regions with which the City had common interests or historic ties.

   Ms McGuiness also outlined the proposals for the development of the Cultural Hub around the Barbican Centre, Guildhall School and Museum of London. She also outlined the proposals with the City Corporation’s Education Strategy, which would draw together the diverse education portfolio and promote joint working between City institutions.

   She explained that the City Corporation’s goal was to contribute to the UK’s prosperity and growth, promote the City’s role in encouraging international trade, build London as a successful and attractive city in which to live, work and visit, and to fly the flag for UK business throughout the world.

2. Jeremy Mayhew, Chairman of the Finance Committee, explained that, although Government Funding for the City Corporation’s local authority functions had continued to reduce, the City Corporation had been able to benefit from the

growth of office space within the City. This increased income, along with certainty from Government about the level of core grant funding to be received through to 2019/20, had allowed an improved financial forecast for the City Corporation. However, he explained that a budget deficit was still forecast from 2019 onwards.

The Chairman commented on the recent revaluation of property which established the rateable values for the calculation of business rates. He explained that this exercise had been carried out by the Government and had resulted in an average Business Rates increase of 30% for City businesses. The City Corporation had responded to the Government's consultation on the revaluation and had proposed that all increases be capped at a maximum of 20% in the first year. However, this had not been adopted by the Government. He explained that the City Corporation only retained a small amount of the income from Business Rates, but the rates collected in the City would fund reductions in business rates elsewhere in the country.

He explained that the City of London Police grant settlement had been £0.7m worse than had been expected. The Government expected that the shortfall should be met from an increase in the Police precept levied by Councils on their taxpayers. For the City Corporation, the Business Rate Premium served the role of the precept. The City Corporation did not, this year, propose any increase to the Business Rate Premium this year. However, he explained that substantial deficits existed in the Police Budget for 2018/19 and 2019/20 and the City Corporation had commissioned an external review to assess value for money opportunities, current and future demand, and potential revisions to the operating model.

The Chairman, therefore, asked the Business Ratepayers present to endorse the proposal to freeze council tax for residents and for there to be no increase in the Business Rate Premium.

3. Ian Dyson, Commissioner of the City of London Police, provided an update on the work of the City of London Police. He explained that the budget position remained challenging and staffing costs represented 85% of the budget. He outlined some efficiency measures which the Police had undertaken over the last year, including the roll-out of mobile tablets to Police Officers to allow them to complete "paperwork" tasks while on patrol, rather than requiring frequent returns to Police stations to input reports.

The Commissioner explained that the Police's current priorities were counter-terrorism, cyber-crime, anti-fraud, protecting vulnerable people, reducing violent and acquisitive crime, ensuring safer roads and enforcing public order.

With regard to counter-terrorism, he explained that City remained an attractive target for terrorists and the City Police worked constantly to prevent attacks and improve the response capability to any threats. He reminded Ratepayers that an increase in the Business Rates Premium had been approved the previous year, and explained that a portion of the proceeds of this had been used to increase firearms capability to respond to terrorist threats. The Commissioner also outlined the success of Project Servator in responding to major crimes.

In relation to cyber-crime, he explained that the City of London Police was the national lead force for cyber-crime. This was a major area for the City of London Police. To indicate the scale of this area of work, he explained that there had been 6.1m “traditional” crimes in the past year in the UK, and 5.8m cyber-related crimes.

In relation to violent and acquisitive crimes, the Commissioner explained that he believed that the City of London was the safest urban area in the world. He explained that, with a daytime population of 380,000, there had only been 800 violent and acquisitive crimes in the past year, and only 27 robberies.

With regard to safer roads, the Commissioner outlined the work that the City of London Police undertook, along with a multitude of other agencies to address illegal or unsafe practices by all street users, including heavy goods vehicles, motorists, cyclists and pedestrians.

4. John Barradell, the Town Clerk and Chief Executive, highlighted the key activities which the Corporation would be undertaking in 2017 within the City. He explained that the Bank Junction Safety Scheme had been approved by the City Corporation in December 2016, which would close the junction to all traffic apart from buses and bicycles between 7am and 7pm on weekdays. He explained that this Scheme would be implemented for a trial period of 18 months and was expected to reduce casualties at the junction by 50-60%.

   To reduce congestion in the City, the Town Clerk explained that the City Corporation was promoting the use of consolidation centres, to encourage deliveries to multiple businesses to be contained within single vehicles. Use of such consolidation centres was a requirement for new buildings within the eastern City cluster of high-rise buildings.

   He informed Ratepayers that, during 2017, the City Corporation would make payment of its £200m contribution to the Crossrail project, which was due to open in the City by late 2018. Crossrail should assist the City in increasing its attractiveness to potential workers through improved transport links and better access to affordable homes.

   The Town Clerk informed Ratepayers of a project to invest in mobile network infrastructure within the City, which would improve the use of mobile phones, mobile data and Wi-fi throughout the City. He also explained that work was also ongoing to improve the provision of high-speed broadband in the City.

   Finally, the Town Clerk provided further information regarding the proposals for the Cultural Hub around the Barbican Centre and Museum of London, and of the work the City Corporation was doing to ensure the best possible outcome of Brexit for the City and the UK.

5. The Ratepayers were given the opportunity to comment on the circulated documents and to ask questions. The following questions were raised:-

- A Ratepayer asked whether the City Corporation had given any consideration to implementing a recycling scheme for businesses. The Director of the Built Environment explained that the City Corporation currently only provided collection services for residential waste. However, he explained that there were many private businesses which provided excellent services, including providing information regarding the final destinations of recycled materials, and agreed to provide the Ratepayer with information regarding these organisations following the meeting.
- A Ratepayer asked whether any consideration had been given to reducing the licenced hours of bars, which may reduce instances of anti-social behaviour and crime. The Commissioner of the City of London Police explained that, in his experience, the way in which bars operated was a more important factor in preventing anti-social behaviour and crime than their operating hours. He explained that he worked closely with the Licensing Department of the Corporation to ensure that all bars within the City operated in an appropriate manner. The Deputy Chairman of the Policy and Resources Committee commented that, if any Ratepayers had concerns with any premises, they could contact their Common Councilmen, who would to assist in ensuring that their concerns were addressed.
- A Ratepayer asked whether consideration had been given to a State Visit by President Trump. The Town Clerk explained that this decision would be made by other organisations but, typically, US Presidents did not visit Guildhall for a State Banquet. He explained that it was part of the role of the City to support efforts by Government to improve the international trading relationship with the USA.
- A Ratepayer stated that the rateable value threshold for reduced Business Rates was too low to apply to many properties within the City. The Chamberlain explained that this threshold was set by Government, and had little application throughout London. The Ratepayers were informed that, as part of the revaluation process, the threshold for reduced Rates had been increased to £51k, which may apply to some businesses in the City.
- A Ratepayer complimented the City Corporation on the proposals for the Cultural Hub, which he thought was a very worthwhile project. He asked when it was likely that further information and public consultation would be forthcoming on this project. The Assistant Town Clerk & Cultural Hub Director explained that he expected that this would be forthcoming around July 2017. He explained that the major activities of the Cultural Hub may take some years to come to fruition, but explained that many of the “quick-wins”, such as improvements to lighting, street scene and signage, would be prioritised in the short term.
- A Ratepayer commented that she believed that many of the phone boxes in the City were unsightly, and should be removed. She also suggested that the vintage phone boxes could be used for income generation from tourists.
- A Ratepayer commented that pollution in the City had become a major problem and asked what leadership role the Corporation was taking in addressing this. The Port Health and Public Protection Director explained that

the City Corporation was working with the Greater London Authority, Transport for London and the Government to tackle pollution. He explained that the City Corporation had created an Air Quality Strategy and an Air Quality Team to seek to address the issue. He also explained that the City Corporation had received £1m in grant funding for initiatives to establish a low emission neighbourhood in the area of the Beech Street tunnel.

- A Ratepayer noted that Council Tax in the City was lower than many London Boroughs and suggested that the City Corporation should consider increasing Council Tax and reducing Business Rates. The Ratepayer also commented that, while the Business Rates Premium had not been increased, there had been an increase in "stealth taxes", such as for tables and chairs licences. The Chairman of the Finance Committee explained that the level of business rates was set by the Government, and the Deputy Chamberlain commented that the Corporation had responded to the Government's consultation to request that the increase in rates be reduced. The Chairman of the Finance Committee also explained that Council Tax was low, but was only third lowest of London Councils, so was not out of line with other authorities. He also explained that the amount of money raised by Council Tax was very small in relation to that raised by Business Rates.

6. Following the discussion, the Deputy 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:	Date:
Finance Committee Court of Common Council	21 February 2017 9 March 2017
Subject: Revenue and Capital Budgets 2016/17 and 2017/18	**Public**
Report of: The Chamberlain	**For Decision**
Report author: John James, Chamberlain's Department	

Summary

This report should be read in conjunction with the separate report to your Committee entitled 'City Fund – 2017/18 Budget Report and Medium Term Financial Strategy' which recommends that:

- the Council Tax for 2017/18 remains unchanged from 2016/17 and;
- Members agree to recommend no increase in the Business Rates Premium to the Court of Common Council.

The 2016/17 and 2017/18 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	2016/17 Original £m	2016/17 Latest £m	2017/18 Original £m
City Fund			
Gross Expenditure	344.5	396.7	383.0
Gross Income	(242.0)	(255.7)	(268.7)
Net Expenditure before Government Grants and Taxes	102.5	141.0	114.3
Government Grants and Taxes	(107.0)	(115.7)	(118.5)
Deficit/ (Surplus) from (to) Reserves	**(4.5)**	**25.3**	**(4.2)**
Less one-off items planned to be funded from revenue reserves	(1.4)	(32.5)	(6.7)
Underlying Deficit/(Surplus)	**(5.9)**	**(7.2)**	**(10.9)**
City's Cash			
Gross Revenue Expenditure	172.8	185.3	196.8
Gross Revenue Income	(173.5)	(175.9)	(181.9)
Operating Deficit (Surplus)	**(0.7)**	**9.4**	**14.9**
Profit on asset sales	(3.7)	(1.1)	(2.0)
Deficit/ (Surplus) from (to) Reserves	**(4.4)**	**8.3**	**12.9**
Bridge House Estates			
Gross Expenditure	47.9	56.8	51.3
Gross Income	(47.8)	(49.4)	(49.6)
Operating Deficit (Surplus)	**0.1**	**7.4**	**1.7**
Profit on asset sales	0.0	0.0	(2.0)
Deficit/ (Surplus) from (to) Reserves	**0.1**	**7.4**	**(0.3)**

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

City Fund

- The latest budget for the current year is an underlying surplus of £7.2m which compares to a surplus of £5.9m in the original budget. For 2017/18 a surplus of £10.9m is indicated. In particular, this surplus takes account of the City's share of growth in the retained National Non Domestic rates income which feeds, increased incomes from rents and interest earnings, and further savings/increased incomes agreed for the Service Based Review. Other reasons for the main variations are set out in paragraphs 11 to 31.
- The subsequent years of the medium term financial forecast (2018/19 to 2020/21) show a breakeven position in 2018/19 and the Fund then moves into deficit from 2019/20 due to inclusion of costs for the Museum of London relocation project. Funding options for the Museum at that point are being considered.
- 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. The Government core grant settlement for 2017/18 the Police was marginally worse, being £51.4m some £0.7m lower than anticipated. Overall the fund moved into deficit in 2016/17 and the Police Medium Term Financial Plan sought to address this deficit in the short term through a combination of additional support from the City and use of the Police reserve, which will now be fully utilised in 2017/18.
- Despite these mitigations substantial deficits are still anticipated for 2018/19 and 2019/20. In response to this an external value for money review has been commissioned to address the problem. It is intended that initial findings from the review will be reported back to Members prior to the Summer recess. The police medium term financial position is considered in detail in the separate report to your Committee entitled 'City Fund – 2017/18 Budget Report and Medium Term Financial Strategy'.

City's Cash

- The City's Cash deficit in the current year is anticipated to be £8.3m compared to a surplus of £4.4m in the original budget. This movement largely relates to budgets carried forward from 2015/16; additional cyclical works; lower disposal receipts due to slippage; and provision for the "Promoting the City" initiative. These additional costs are in part offset by extra rental income. Details of significant budget variations are set out in paragraphs 37 to 45.
- For 2017/18, the City's Cash deficit increases due to some additional costs such as an increase in the employers' pension contribution but also to increased investment in repairs and maintenance projects and the 'Promoting the City' initiative. Some of these costs are offset by additional rental income.
- As indicated in the table above, these bottom line figures are after anticipated profits on asset sales of £1.1m and £2.0m respectively. If the profits on asset

sales are excluded, there is an estimated operating deficit of £9.4m in the current year and £14.9m in 2016/17.

- With regard to the subsequent years of the medium term financial forecast, City's Cash has a reducing deficit in 2018/19 and 2019/20 and returns to surplus in 2020/21.

Bridge House Estates

- For the current year, the deficit is estimated to increase from £0.1m to £7.4m mainly due to an increase in expenditure on cyclical repairs projects such as Tower Bridge Bascules.
- For 2017/18, the fund is expected to break even in broad terms. Surpluses are forecast for the remaining planning period of 2018/19 to 2020/21 even after allowing for the £5m increase to the City Bridge Trust grants budget to be extended to the end of the period. Details of significant budget variances are set out in paragraphs 50 to 60.

Guildhall Administration

- 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. Details of significant budget variances are set out in paragraphs 62 to 63.
- The 2017/18 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 john.james@cityoflondon.gov.uk.

Recommendations

- It is recommended that Members:
  - note the latest revenue budgets for 2016/17;
  - agree the 2017/18 revenue budgets, subject to any amendments on the City Fund that may be agreed in relation to the report on 'City Fund – 2017/18 Budget Report and Medium Term Financial Strategy';
  - agree the capital budgets;
  - delegate authority to the Chamberlain to determine the financing of the capital budgets; and
  - submit this report to the Court of Common Council for its approval.

MAIN REPORT

Background

1. The primary purpose of this report is to summarise the latest budgets for 2016/17 and the proposed budgets for 2017/18 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.

2. 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;

    - an allowance towards pay and price increases of 1%;

    - inclusion of 3.5% increase across all funds in employer's pension contributions to tackle the pension fund deficit; and

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

3. 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 exhausting its reserves in 2017/18. In addition, because of the Police's worsening financial position, the City has agreed to fund some specific additional cost pressures relating to IT, additional employers pension contribution as well as the marginal reduction in grant from the Police core grant settlement. An external value for money review has been commissioned with a view to addressing financial pressures in future years.

4. For Bridge House Estates, the 1% allowance towards inflationary pressures and the resources for the 3.5% increase in employer's national insurance have been provided, but, as the fund remains in a reasonably buoyant position, no Service Based Review budget reductions have been required. Savings have been made in the fund however, through the reduction of central departmental costs which are then apportioned to the fund.

5. Accompanying this report is the Summary Budget Book 2017/18 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 john.james@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

6. 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.

7. The medium term financial strategies/budget policies for each of the funds are set out in Appendix 1.

CITY FUND

Overall Budget Position

8. The overall budgets have been prepared in accordance with the strategy and the requirements for 2016/17 and 2017/18 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 ***Net Expenditure (Income)***	**2016/17 Original £m**	**2016/17 Latest £m**	**2017/18 Original £m**
Barbican Centre	24.7	26.4	26.6
Barbican Residential	2.8	2.9	2.3
Community and Children's Services	11.7	12.1	12.0
Culture Heritage and Libraries	20.6	20.1	20.7
Finance(2)	(11.8)	20.6	(5.3)
Licensing	0.1	0.1	0.1
Markets	(0.7)	(1.7)	(1.2)
Open Spaces	1.7	1.7	1.7
Planning and Transportation	14.5	13.8	15.4
Police (3)(4)	58.3	65.1	64.0
Policy and Resources	3.9	4.6	4.0
Port Health and Environmental Services	13.6	13.5	13.6
Property Investment Board	(36.9)	(38.2)	(39.6)
City Fund Requirement(5)	**102.5**	**141.0**	**114.3**

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 £11.8m surplus in the 2016/17 original budget to £20.6m deficit in the 2016/17 latest budget primarily relates to the purchase of an investment property (133 Whitechapel High Street) from reserves plus the funding of some agreed supplementary revenue projects*
3. *The increase in Police net expenditure from £58.3m in the original budget to £65.1 in the latest budget relates to a £5.2m carry forward of unused budget for the Action Fraud Service provided to assist with its cash flow. It should be repayable over the life of the project.*
4. *The increase in Police net expenditure from £58.3m in the original budget 2016/17 to £64.0m in the original budget 2017/18 comprises £2.0m extra expenditure funded by the headroom on business rates plus the agreed additional City Fund*

support for 2017//18 for Police IT, employer's pension contribution, capital schemes and deficit after utilisation of Police reserves

5. Reconciles to line 9 in the following table.

9. 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 7, and investment property rent income – line 8);
- the funding received from Government formula grants and from taxes (lines 10 to 13); and
- the estimated surpluses to be transferred to reserves, or deficits to be funded from reserves (lines 15 to 17)

City Fund Revenue Requirements 2016/17 and 2017/18

		2016/17 Original £m	**2016/17 Latest £m**	**2017/18 Original £m**	**Para. No.**
1	Net expenditure on services	141.9	148.1	163.1	11,19
2	Property Investments funded from Revenue Reserves	1.9	27.3	6.7	12,20
3	City Police - Action Fraud	(0.5)	5.2	0.0	13
4	Cyclical Works Programme and capital expenditure financed from revenue	4.0	8.9	13.7	14,21
5	Drawdown retained business rates	-	-	(21.2)	22,23
6	Requirement before investment income from the City's Assets	147.3	189.5	162.3	
7	Interest on balances	(2.5)	(4.0)	(3.0)	15,24
8	Estate rent income	(42.3)	(44.5)	(45.0)	16,25
9	**City Fund Requirement**	**102.5**	**141.0**	**114.3**	
	Financed by:				
10	Government formula grants	(80.5)	(88.7)	(90.1)	17,26
11	City offset	(11.0)	(11.0)	(11.3)	
12	Council tax	(7.4)	(7.4)	(6.6)	29
13	Business rates premium	(8.1)	(8.6)	(10.5)	30
14	Total Government Grants and Tax Revenues	(107.0)	(115.7)	(118.5)	
15	**Deficit/(Surplus)transferred from (to) reserves**	**(4.5)**	**25.3**	**(4.2)**	
16	Less one-off items planned to be funded from revenue reserves	1.4	32.5	6.7	18,31
17	**Underlying Deficit/(Surplus)**	**(5.9)**	**(7.2)**	**(10.9)**	

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

10. The latest budget for the current year is an underlying surplus of £7.2m which compares to a surplus of £5.9m in the original budget. For 2017/18 a surplus of £10.7m is indicated. The subsequent years of the medium term financial forecast (2018/19 to 2020/21) show a breakeven position in 2018/19 and the Fund then moves into deficit from 2019/20 due to inclusion of costs for the

Museum of London relocation project. Funding options for the Museum project at that point are being considered.

Revenue Budget 2016/17

Net Expenditure on Services

11. Net expenditure on City Fund services in 2016/17 was originally budgeted at £141.9m, whereas the latest budget totals £148.1m, an increase of £6.3m. The main reasons for this increase are:

    - £3.2m approved budgets brought forward from 2015/16;
    - £1.3m investment in Information Technology (IT) to ensure we have modernised, robust and reliable IT systems and services
    - £0.5m for Barbican Centre equipment previously funded from the its capital cap which has now been replaced by the Cyclical Works programme (CWP)
    - £1.8m additional support for the Police largely relating to IT and slippage on the Action Fraud Scheme repayment (see para 21 below).
    - £0.8m reduction in costs funded from the On Street Parking Reserve.
    - £0.3m agreed adjustment for planned service based review savings.
    - £0.3m for contribution pay awards

partly offset by

- £1.3m addition rental income from Markets
- £0.4m refund on business rates

Property Investments Funded from Revenue Reserves

12. The purchase of an investment property (133 Whitechapel High Street) during the year was funded from reserves.

City Police Action Fraud

13. 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 which could not be met from Police reserves. The costs were originally envisaged all to fall in 2016/17 but due to slippage on the project £5.2m of this budget was carried forward to 2016/17. Repayments will now fall into later financial years.

Cyclical Works Programme and Capital Expenditure Financed from Revenue

14. The increase from £4.0m to £8.9m largely relates to expenditure on the Police accommodation project.

Interest on Balances

15. The latest budget for 2016/17 anticipates an increase of £1.5m in interest earnings to £4.0m. This reflects a more beneficial cash flow, particularly from larger business rate receipts and capital transactions. The assumed average interest rate for the year is unchanged at 0.5%.

Investment Estate Rent Income

16. Rent income from investment properties is forecast to be £44.5m, an increase of £2.2m compared to the original budget. Significant variances include additional rent arising from the purchase of a new property at 133-137 Whitechapel High Street and a substantial increase in rent following a rent review at Baynard House

Government Formula Grants

17. The increase from £80.5m to £88.7m mainly relates to the City's share of growth in national non domestic rates which feeds through to income in 2016/17 and 2017/18.

Transfer from Reserves

18. The £32.5m 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 13).

Revenue Budget 2017/18

Net Expenditure on Services

19. Net expenditure on City Fund services in 2017/18 is £163.1m an increase of £21.2m on the Original Budget for 2016/17. The main reason for the increases are:

    - £10.5m funding in 2017/18 for the Museum of London relocation project based on the latest profiled project spend;
    - £1.8m investment in Information Technology (IT) to ensure we have modernised, robust and reliable IT systems and services
    - £5.3m additional funding for the City Police covering additional IT costs, the shortfall in HO grant, additional employer's pension contribution and revenue funding of capital schemes. There is also additional expenditure funded by the increased headroom on business rate premium.
    - £1.9m as a result of the 3.5% increase in the rate for employer's pension contribution
    - £0.6m allowance for pay and prices
    - £0.8m for the apprentices scheme including £0.5m provision for the levy.
    - £0.5m for additional security works on City Fund operational buildings

- £0.4m provision for marketing and other costs connected with the Cultural Hub
- £0.4m provision for additional expenditure on adult social care, and £0.4m for additional expenditure for the rough sleeper initiative. Funds to be drawn down subject to a report to Policy & Resources committee
- £0.5m for Barbican Centre equipment

partly offset by:

- £2.4m for the next tranche of service based review savings/increased incomes;
- £0.7m additional rental income from Markets

Property Investments Funded from Revenue Reserves

20. The planned expenditure principally comprises £5m works for the Cultural Hub 'Look and Feel' Strategy (for which a further report to Policy Committee will be submitted) and £1.5m of works for Exhibition Hall 1.

Cyclical Works Programme and Capital Expenditure Financed from Revenue

21. The increase in budget for 2017/18 relates mainly to feasibility costs for the Centre for Music, further expenditure on the Police accommodation project and the latest phasings of the cyclical works and additional works programmes. It also includes an additional £2m provision for some substantial refurbishment projects.

Drawdown Retained Business Rates

22. The City has benefitted from an increase business rates, arising from growth in business occupation, which under the Government scheme can be retained by the City. An element of these retained rates, from previous years, has been drawn down to fund some items of expenditure and in particular for the Museum of London relocation project.
23. The recent revaluation exercise of business properties has led to an average 30% increase the rateable values of businesses in the square mile. However, the exercise will not see any ‘windfall’ for the City Corporation, as additional income from revaluations is not retained locally.

Interest on Balances

24. Income is anticipated to increase from £2.5m in the 2016/17 original budget to £3.0m in 2016/17. This reflects a more beneficial cash flow, particularly business rate receipts, capital transactions and higher reserves. The assumed average interest rate for the year remains at 0.5%.

Investment Estate Rent Income

25. The latest rental forecasts for 2017/18 assume an increase of £2.7m to £45m compared to the original budget for 2016/17. Significant variances include additional rent arising from the purchase of a new property at 133-137 Whitechapel High Street and a substantial increase in rent following a rent review at Baynard House

Core Government Grants

26. Overall, there is an estimated increase of £9.6m in core Government grants but, as indicated below, the position is somewhat complex.

	Table 4: Analysis of Core Government Grants				
		2016/17 Original	2017/18 Original	Reduction (Increase) on 2016/17	
		£m	£m	£m	%
1	Police	52.1	51.4	0.7	1.3%
2	Non-Police	10.6	8.8	1.8	17.0%
3	**Total before Rates Retention Scheme and grants Rolled In**	**62.7**	**60.2**	**2.5**	**4.0%**
	Rates Retention Scheme				
4	Baseline	15.3	15.6	(0.3)	(2.0%)
5	Growth	2.5	14.3	(11.8)	(472.0%)
6	**Total before Grants Rolled In**	**80.5**	**90.1**	**(9.6)**	**(11.9%)**
7	Grants Rolled In	(0.4)	(0.4)	0.0	NA
8	**Total Core Government Grants**	**80.1**	**89.7**	**(9.6)**	(12.0%)

27. Lines 1 to 3 are the basic formula grants which have reduced by £2.5m in total.

28. Lines 4 to 7 reflect the impact of the Rates Retention Scheme for which the outturn does not generally feed through until subsequent years.

Council Tax

29. There is an estimated decrease of £0.8m in 2017/18 compared to 2016/17 due to the recognition of surpluses from previous years. The underlying income base of £6m remains unchanged. 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.

Business Rates Premium

30. The City premium is affected by the revaluation as the yield will increase in line with rateable values.

Transfer from Reserves

31. The net £6.7m planned transfer from reserves is to fund the property works detailed above (para 21)

CITY'S CASH

Overall Budget Position

32. The budgets have been prepared in accordance with the budget policy set out in Appendix 1 and the net positions for 2016/17 and 2017/18 are summarised by Committee in the table below. Reserves are available to meet the estimated deficit in the current year and in 2017/18.

City's Cash Summary by Committee ***Net Expenditure (Income)***	**2016/17 Original £m**	**2016/17 Latest £m**	**2017/18 Original £m**
Culture, Heritage & Libraries	0.0	0.0	0.0
Education Board	1.0	1.0	1.3
Finance (1)(2)	(9.4)	6.5	3.3
G. P. Committee of Aldermen	3.2	3.5	3.4
Guildhall School of Music and Drama	10.1	10.2	12.1
Markets	1.0	0.0	1.0
Open Spaces :-		0.0	0.0
Open Spaces Directorate	0.0	0.2	0.0
Epping Forest and Commons	7.7	7.0	8.4
Hampstead, Queen's Pk, Highgate Wd	7.7	6.8	8.3
Bunhill Fields	0.5	0.3	0.3
West Ham Park	1.2	1.1	1.2
Policy and Resources	11.7	14.1	14.8
Property Investment Board	(42.9)	(46.1)	(45.0)
Schools :-			
City of London School (3)	1.4	1.4	1.5
City of London Freemen's School (3)	1.8	1.7	1.7
City of London School for Girls (3)	0.6	0.6	0.6
Deficit (Surplus) from (to) reserves	**(4.4)**	**8.3**	**12.9**

1. *For Finance Committee, the significant variations between the 2016/17 original budget (£9.4m credit) and the 2016/17 latest (£6.5m debit) mainly comprise expected slippage £2.6m in disposal receipts largely for Queens Bridge House, £1.8m deferred income accounting adjustment in accordance UKGAAP, £8.9m for agreed supplementary revenue projects and a £1.1m carry-forward relating to the Cultural Hub*
2. *For Finance Committee, the significant variations between the 2016/17 original budget (£9.4m credit) and the 2017/18 original budget (£3.3m debit) principally comprises £1.4m provision for employer's pension contribution increase, £1.8m deferred income accounting adjustment in accordance UKGAAP, £7.8m for agreed supplementary revenue projects and £0.5m for provision for extra security works*
3. *Shows City support rather than net expenditure by the schools.*

33. 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 2016/17 and 2017/18				
		2016/17 Original £m	**2016/17 Latest £m**	**2017/18 Original £m**	**Para. No.**
1	Net expenditure on services	64.9	71.6	73.5	37,42
2	Cyclical Works Programme	4.6	11.4	14.2	38,43
3	Estate rent income	(50.4)	(53.8)	(53.0)	39,44
4	Non-property investment income (net)	(19.5)	(19.5)	(19.5)	40
5	Interest on balances	(0.3)	(0.3)	(0.3)	
6	**Operating Deficit (Surplus)**	**(0.7)**	**9.4**	**14.9**	
7	Profit on asset sales	(3.7)	(1.1)	(2.0)	41,45
8	**Deficit (Surplus) from (to) reserves**	**(4.4)**	**8.3**	**12.9**	

34. The City's Cash deficit in the current year is anticipated to be £8.3m compared to a surplus of £4.4m in the original budget. This movement largely relates to incorporation of agreed budget carry forwards, additional cyclical works, lower disposal receipts due to slippage, provision for the 'Promoting the City" Initiative and an accounting adjustment for deferred income. This is in part offset by additional rental income.

35. For 2017/18, City's Cash the deficit increases due to some additional costs such an increased employers' pension contribution but also due to increased investment in repairs and maintenance projects and for the 'Promoting the City' initiative. Some of these costs are offset by additional rental income.

36. With regard to the subsequent years, the medium term financial forecast has a reducing deficit in 2018/19 and 2019/20 and returns to surplus in 2020/21.

Revenue Budget 2016/17

Net Expenditure on Services

37. Net expenditure on City's Cash services for 2016/17 was originally budgeted at £64.9m. The latest budget of £71.6m is an increase of £6.7m which is primarily due to:

   - £3.4m of agreed budget carry forwards from 2015/16
   - £1.5m for the "Promoting the City" initiative
   - £1.8m deferred income accounting adjustment of £1.8m as a result of adoption of the new UKGAAP accounting standard (FRS102)

Cyclical Works Programme

38. The increase from £4.6m to £11.4m includes expenditure on Museum of London relocation project, Crossrail Art and slippage on works at the Guildhall School of Music & Drama, in part offset by a reduction in the additional works programme due to rephasing of projects.

Investment Estate Rent Income

39. Rent income from investment properties is forecast to be £53.8m which is an increase of £3.4m on the original budget. The positive variance is mainly due to a new lease with increased rents at 220-226 Tottenham Court Road, new lettings at 53 New Broad St following refurbishment and rent from a newly acquired property at 37/39 Creechurch Lane.

Non-Property Investment Income

40. 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 2016/17 and 2017/18, after the deduction of management fees, remains at the £19.5m assumed in the 2016/17 original budget.

Profit on Asset Sales

41. The profit on the sale of assets is anticipated to reduce from £3.7m to £1.1m due to slippage of anticipated disposal receipts mainly relating to Queensbridge House.

Revenue Budget 2017/18

Net Expenditure on Services

42. Net expenditure on City's Cash services for 2017/18 is budgeted at £73.5m, an increase of £8.6m compared to the original budget for 2016/17. The main reasons for the increased requirement are:

- £1.4m provision for the increase in employers' pension contribution
- £1.8m deferred income accounting adjustment as a result of adoption of the new UKGAAP accounting standard (FRS102)
- £2.5m for the "Promoting the City" initiative
- £0.5m for additional security works on the City's operational properties
- £0.4m allowance for pay and prices
- £0.8m extra staffing for apprentices posts and for additional City Surveyor's staff working on the expanded cyclical works programme and investment properties
- £0.9m increase in depreciation charge for capital schemes relating to IT and Hampstead Heath ponds.
- £0.4m for additional business rates at Hamilton House
- £0.4m for equipment at the Guildhall School of Music & Drama

partly offset by

- £1.2m of savings/increased income relating to the Service Based Review

Cyclical Works Programme

43. The £9.6m increase in budget to £14.2m mainly relates to health and safety works to the Smithfield market site to facilitate the Museum of London relocation and external repairs to the Magistrates' Court at 1 Queen Victoria Street.

Investment Estate Rent income

44. Rent income from investment properties is forecast to be £53.0m which is an increase of £2.6m on the 2016/17 original budget. There is a general improvement in the forecast due to a new lease with increased rents at 220-226 Tottenham Court Road; new lettings at 53 New Broad St and 85 Gresham Street; and rent from a newly acquired property at 37/39 Creechurch Lane. This has been in part offset by a reduction in rent due to a lease expiry at 209/212 Tottenham

Profit on Asset Sales

45. The estimate of £2.0m for profits on asset sales relates to the disposal of surplus operational assets, rights of light compensation and investment property overage receipts.

BRIDGE HOUSE ESTATES

Overall Budget Position

46. The budgets have been prepared in accordance with the budget policy set out in Appendix 1 and the requirements for 2016/17 and 2017/18 are summarised in the table below.

Bridge House Estates Summary by Committee ***Net Expenditure (Income)***	**2016/17 Original £m**	**2016/17 Latest £m**	**2017/18 Original £m**
The City Bridge Trust	21.4	23.0	22.6
Culture, Heritage and Libraries	(0.3)	(0.5)	(0.9)
Finance	(10.5)	(3.9)	(10.3)
Planning and Transportation	3.9	4.4	4.1
Property Investment Board	(14.4)	(15.6)	(15.8)
Deficit (Surplus) from (to) reserves	**0.1**	**7.4**	**(0.3)**

47. 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 7 respectively); and
- the budgets for charitable grants (line 9)

Bridge House Estates Requirements 2016/17 and 2017/18					
		2016/17 Original £m	**2016/17 Latest £m**	**2017/18 Original £m**	**Para. No.**
1	Net expenditure on services	9.8	11.3	10.4	50,56
2	Cyclical Works Programme	0.5	7.0	1.9	51,57
3	Bridges repairs, maintenance and major works fund contribution	1.1	1.6	1.1	52,53
4	Estate rent income	(19.0)	(20.2)	(20.4)	54,58
5	Non-property investment income (net)	(12.2)	(12.2)	(12.2)	55
6	Interest on balances	(0.1)	(0.1)	(0.1)	
7	Profit on asset sales	0.0	0.0	(2.0)	59
8	**Revenue surplus**	**(19.9)**	**(12.6)**	**(23.3)**	
9	Charitable grants	20.0	20.0	21.0	60
10	**Deficit (Surplus) from (to) reserves**	**0.1**	**7.4**	**(0.3)**	

48. For the current year, the deficit is estimated to increase from £0.1m to £7.4m mainly due to expenditure on cyclical works relating to Tower Bridge bascules.

49. For 2017/18, the fund is expected to break even in broad terms. A return to surpluses is forecast for 2018/19, 2019/20 and 2020/21 despite the three year increase to the City Bridge Trust grants budget being extended to the end of the planning period.

Revenue Budget 2016/17

Net Expenditure on Services

50. The increase from £9.8m to £11.3m in 2016/17 is due to approved budgets brought forward from 2015/16.

Cyclical Works Programme

51. The latest estimate includes an additional £6.5m for cyclical works mainly relates to the Tower Bridge bascules redecking and waterproofing project.

Bridges Repairs, Maintenance and Major Works Fund

52. 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.

53. 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 £1.6m for 2016/17– an increase of £0.5m. The assessed contribution returns to £1.1m for 2017/18. 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

54. Rent income from investment properties is forecast to be £20.2m which is an increase of £1.2m on the original budget arising from a number of properties but principally 24-25 New Bond Street.

Non-Property Investment Income

55. 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 amount to be drawn down in 2016/17 and 2017/18, after the deduction of management fees, remains at the £12.2m assumed in the 2016/17 original budget.

Revenue Budget 2017/18

Net Expenditure on Services

56. The estimate for 2017/18 of £10.4m is an increase of £0.6m on the original budget for 2016/17. This increase primarily relates to increases in employer's national insurance contributions, apprentices costs and an increase in costs for "strategic initiatives" under City Bridge Trust

Cyclical Works Programme

57. The estimate of £1.9m is an increase of £1.4m on the original budget for 2016/17 and relates to additional void costs associated with the redevelopment of 181 Queen Victoria Street and also funding for the enhanced river camera provision.

Investment Estate Rent Income

58. The increase in rental income, from £19m to £20.4m, arises from a number of properties but notably from improved rents at 24-25 New Bond Street.

Profit on Asset Sales

59. This relates to the £2m overage payment due from the developer as part of the Bridge Master Phase 1 project

Charitable Grants

60. The reason for the increase of £1m to £21m is the full effect of the agreed three year increase in the grant budget. The original budget 2016/17 already contains an agreed increase of £3m and this further £1m increase takes the additional funding to the £4m agreed for 2017/18. The forecasts assume this additional funding will now continue to the end of the planning period in 2020/21

GUILDHALL ADMINISTRATION

61. 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*	**2016/17 Original £m**	**2016/17 Latest £m**	**2017/18 Original £m**
Establishment - Town Clerk & C&CS	11.2	11.5	10.9
Finance - Chamberlain	32.5	34.3	34.7
Finance - City Surveyor, Remembrancer and Town Clerk	21.1	20.0	22.3
Total Net Expenditure	**64.8**	**65.8**	**67.9**
Recovery of Costs	(64.8)	(65.8)	(67.9)
Total Guildhall Administration	0	0	0

Revenue Budget 2016/17

62. The net budget has increased by £1.0m overall to £65.8m. The main variations are as follows:

- £1.9m approved uplift in the IT budget
- £1.0m approved budgets brought forward from 2015/16;
- £0.2m for contribution pay

partly offset by

- £1.2m reduction relating to the rephasing of the additional repairs and maintenance works programmes;
- £0.6m reduction in insurance premiums mainly due to revaluations and lower excess payments.

Revenue Budget 2017/18

63. The net expenditure for 2017/18 is £67.9m, an increase of £3.1m from 2016/17. The main variations are as follows:

- £2.7m approved uplift in the IT budget
- £0.3m allowance for pay and prices;
- £0.4m agreed by Policy Committee for the new contract management team
- £0.5m net increased expenditure on the additional works/cyclical works programme
- £0.5m for increased business rates as a result of revaluation

partly offset by

- £0.9m of savings/increased income relating to the Service Based Review;

- £0.4m reduction in insurance premiums partly due to revaluations and to lower excess payments.

CAPITAL AND SUPPLEMENTARY REVENUE PROJECT BUDGETS

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

65. The "Supplementary Revenue Projects" classification was created where the costs for some projects do not comply with the accounting definition of capital expenditure. This is an accounting treatment and does not change the projects themselves, which continue to be controlled in the same way as capital projects. The relevant expenditure and income on such projects is posted to revenue accounts, rather than capitalised at year end.

City Fund Capital and Supplementary Revenue Project Budgets

66. The latest City Fund capital and supplementary revenue projects budgets total £282.5m for 2016/17 and £30.4m for 2017/18. The budgets for both years include schemes relating mainly to existing HRA stock improvements and construction of new affordable housing, 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 and the purchase of an investment property. 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

67. The latest City's Cash capital and supplementary revenue projects budgets total £53.1m for 2016/17 and £7.4m for 2017/18. The budgets include property investments, the flood mitigation scheme at Hampstead Heath and the new swimming pool at the Freemen's school.

Bridge House Estates Capital and Supplementary Revenue Project Budgets

68. The latest Bridge House Estates capital and supplementary revenue projects budgets total £29.4m for 2016/17 and £4.0m in 2017/18 mainly related to investment property acquisitions and developments and works at Tower Bridge.

Financing Capital Expenditure

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

Dr 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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Committees: Finance Committee Court of Common Council	Dates: 21 February 2017 9 March 2017
Subject: City Fund: 2017/18 Budget Report and Medium Term Financial Strategy	**Public**
Report of: The Chamberlain	**For Decision**
Report author: Caroline Al-Beyerty, Chamberlain's Department	

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 2017/18 remains unchanged from 2016/17 and;
- The Business Rate Premium is unchanged.

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 that presents a balanced budget.

- City Fund (non-Police): the provisional Government grant settlement is largely in line with our expectations. The one area of growth in income compared to previous forecasts is in retained business rate income, and results from a growth in office space within the City. This additional income has provided headroom to fund investment in one-off projects, such as the Museum of London relocation project, and to deal with the backlog of outstanding repair works for the operational properties.
  The fund shows a deficit in 2016/17 as a result of the £27m purchase of an investment property in the year (133 Whitechapel High Street), funded through a drawdown on reserves. Otherwise the extra business rates income, combined with an increase in anticipated rents from the fund's investment properties and additional interest on cash balances, has allowed cost pressures to be accommodated and some extra items to be included whilst still leaving the fund in surplus for 2017/18 and 2018/19. The fund moves into deficit from 2019/20 onwards due to the inclusion of costs for the Museum of London relocation project. Funding options for MoL are being considered.
- Police: The core Police grant settlement is marginally (£0.7m) lower than anticipated. Additional cost pressures have meant the fund has moved into deficit, utilising the remaining ring fenced reserves in 2016/17 and 2017/18. The Police Medium Term Financial Plan, which went through the City's committee process in December, set out a strategy for dealing with the deficit to the end of 2017/18 and this has been put in place. An external review of future demands on policing and value for money has been commissioned to identify options to address the, projected deficits of £5.6m in 2018/19 and £3.8m in 2019/20. No increase in the rate of the premium is therefore proposed for the 2017/18 year.

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 £119.3m (paragraph 14)
- Approve the following **changes** from the previous forecast (paragraphs 3 and 11):
  - Allowances for pay and prices are factored in at 1% for 2017/18 and zero thereafter (paragraph 11c);
  - 2% cashable efficiency savings for City Fund from 20181/9 are included in line with the published Efficiency Plan (paragraph 12d);
  - A 3.5% increase across both City Fund and non-uniformed staff in Police in employers' pension contribution to tackle the pension fund deficit (paragraph 3a);
  - Additional provision of £2.9m pa from 2017/18 for IT (split £1.8m City Fund and £1.1m for Police**)** (paragraph 3c); and
  - A provision of £400k p.a. from 2017/18 onwards for Rough Sleepers and £400k p.a. for Adult Social Care, subject to a further report to Policy and Resources Committee (paragraphs 3g and 3h).
- Approve the following **investment opportunities** being included, subject to further reports:
  - Additional provision of £2m in 2017/18 and £4m pa thereafter to fund the investment in tackling the 'bow wave' for City Fund properties and in particular focus on some substantial refurbishment works at specific properties eg Old Bailey (paragraph 3f)
  - Provision for spending on the Cultural Hub including £5m in City Fund for the 'Look & Feel' strategy (paragraph3e)
  - Substantial provision for the Museum of London relocation project (paragraph 3k) amounting to £81.2m across the planning period.
- Note that the forecast **includes items already agreed** by Policy and Resources Committee:
  - Provision in the City Fund forecast for the £2.5m to complete the design work for the Centre for Music, together with a provision of £1.25m for the City Surveyor to develop a full commercial scheme for the site if the Centre for Music doesn't go ahead; and
  - Substantial additional City Fund support for City Police pending the result of the external review. This amounts to £9m revenue funding across the planned period (including £0.9m for the 2017/18 deficit) and to a further c£11m funding for the Police capital schemes.
- Note that in the revenue estimates from 2017/18 assumes the City will be in a 'growth' position under the business rates retention scheme.
- Note the Local Council Tax Reduction Scheme set by the Court of Common Council on 12 January 2017 and as set out at paragraph 31.

<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 47.9p for 2017/18 together with a Small Business Non-Domestic Rate multiplier of 46.6p (paragraph 17).

- Note that the Greater London Authority is, in addition, levying a Business Rate Supplement in 2017/18 of 2p in the £ on properties with a rateable value greater than £70,000 (paragraph 23).
- 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 21.

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 2016/17, 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 2017/18 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 2017/18 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 for 2017/18.

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 2017/18 (paragraph 34).
- Approve the Prudential Code indicators (Appendix B).
- Approve the following resolutions for the purpose of the Local Government Act 2003 (paragraph 37 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 2017/18 is £896,000 which equals 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 accrued to the 2016/17 financial year as the payment is anticipated to be in made in March 2017.

Chamberlain's assessment

- Take account of the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves (paragraphs 40 and 41; and Appendix D)

Main Report

Financial overview

1. The Government recently issued the Local Government Finance Settlement for 2017/18 and the Policing Minster published the revenue allocations for police for 2017/18.

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				
	16/17	17/18	18/19	19/20	20/21
City Fund – non Police					
March 2016 forecast	(5.9)	(2.0)	(2.1)	(1.0)	N/A
Current forecast*	(7.2)	(10.9)	(0.1)	15.6	19.4
Unearmarked revenue reserves	(28.4)	(32.6)	(35.0)	(19.4)	-
City Fund – Police					
March 2016	0.0	2.9	4.8	N/A	N/A
Current forecast	2.6	1.5	5.6	3.8	N/A
Unearmarked revenue reserves	(1.5)	-	5.6	9.4	N/A

** Underlying position – excludes planned use of revenue reserves to fund one off items including the purchase of investment properties and cashflow assistance.*

3. **For City Fund**, following a £25.3m deficit in the current year reflecting the £27m purchase of an investment property in year (133 Whitechapel High Street), funded through a draw down in reserves, City Fund is forecast to be in surplus across the period. Extra business rates income, combined with an increase in anticipated rents from the fund's investment properties and additional interest on cash balances, has allowed the inclusion of additional funding to meet Member priorities and initiatives as follows:

   a) Increased contribution to tackle the pension fund deficit. The proposed option is to make a 3.5% increase in employer's pension contribution from revenue. This has been included in the forecast. Alternative options, including a one-off capital contribution or extending the deficit recovery period were considered but ruled out on cost and reputational grounds.

   b) The apprenticeship levy was included from 2017/18 onwards and is already in the base estimates. This year the forecast has been adjusted for the cost of apprentices' posts in City Fund (£0.5m in 2017/18 and £0.7m thereafter). At present it seems only training costs will be recoverable against the levy.

c) Further funding for IT. Agreed funding of £2.2m has been included in 2016/17 (£1.3m City Fund and £0.9m for Police). Going forward provision of £2.9m pa has been included from 2017/18 onwards (£1.8m City Fund and £1.1m for Police) to ensure we have modernised, robust and reliable IT systems and services. This includes provision for spending on information security to address risks around cyber security.

d) Additional funding for City of London Police. An extra £8.1m package (across the planning period) covering funding for IT noted at c) above, £2.4m revenue contribution to capital schemes, and for employers' pension fund contribution of £0.5m pa from 2017/18 has been included in the forecast. In addition the City has earmarked £11m from its City Fund capital resources to fund Police capital schemes. For 2017/18 only - pending the outcome of the external Demand and VFM review - funding for the remaining deficit of £0.9m after mitigation measures has also been included, to be drawn down only if reserves have been exhausted

e) Cultural Hub - a £5m provision has been included to fund the works associated with the 'Look & Feel' strategy.

f) Additional Cyclical Works Programme Funding. Following RASC Away Day in June, Members had given a steer that any 'windfall' surpluses from business rates in 2017/18 ought to be applied to 'one off items' such as revenue contribution to large capital schemes and catch up on the 'bow wave' of maintenance cost. As a consequence £2m in 2017/18, and £4m pa for 2018/19 and thereafter, has been included in the forecast to fund the 'bow wave' for City Fund properties and in particular focus on some substantial refurbishment projects (e.g. Old Bailey).

g) Adult Social Care. Community and Children's Services have identified a budget pressure of circa £0.4m pa concerning the provision of adult social care and this has been included in the forecasts. Given the City's overall funding position, and the modest size of the cost, a social care precept increase would not be appropriate. £0.4m has been included in the budget subject to a further report outlining the issue to Policy and Resources Committee

h) Rough Sleepers – The cost of statutory homelessness assistance is being driven up by higher demand, and the impact of welfare reform. Welfare reform is both reducing the amount of rent the City can reclaim against the cost of temporary accommodation, and is likely to greatly increase the levels of unpaid rent. Alongside this, changes to legislation are set to increase the demand for assistance provided by the City. Rough sleeping has increased in scale and complexity and demand for specialist accommodation outstrips the supply available to the City, resulting in people remaining stuck on the streets. Increased resources are necessary to provide a range of accommodation types – from emergency assessment beds, to those for people with complex needs. A provision of £400k pa from 2017/18 has been included to meet this additional budget pressure, subject to a further report outlining the issue to Policy and Resources Committee.

i) City's Learning & Engagement Forum – £150k pa from 2017/18 to fund the 'cultural educational partnership'.

k) Museum of London Relocation. Appendix 2 sets out the current phasing of the cost of the project to relocate the Museum of London to Smithfield. The net costs for 2017/18 to 2020/21 have been included in the City Fund forecast.

l) Centre for Music. Provision has been included for the £2.5m bid to complete the design work, together with a provision of £1.25m for the City Surveyor to develop a full commercial scheme for the site if the Centre for Music doesn't go ahead. No other provision has been made relating to this project.

4. **Council Tax:** The City's council tax, expressed at band D and excluding the GLA precept, is £857.31 for the current financial year, 2016/17. The council tax referendum threshold will effectively be 5%, including 3% to spend on social care. It will be up to councils to choose whether to exercise their discretion to raise council tax by an additional 3% for adult social care. We have been able to accommodate the increased cost of £400k pa within the existing forecast so this option is not recommended.

5. **For Police**, additional cost pressures have meant the fund has moved into deficit, utilising the ring fenced reserves in 2016/17 and 2017/18. The Police Medium Term Financial Plan, which went through the City's committee process in December, set out a strategy for dealing with the deficit to the end of 2017/18 and this has been put in place. Even allowing for these measures, deficits are forecast from 2018/19 onwards and action is therefore needed to restore financial balance.

6. In response to the deteriorating financial position a Medium Term Financial Plan for the Police was submitted to the December committee cycle. This detailed some immediate steps to stabilise the position which included the Police adopting a cashable savings target; the utilisation of the remaining Police reserves (subject to agreement of the Court in January) and the City funding some additional costs for IT and employers pension contribution directly. It also involved the City funding the revenue contribution to Police capital schemes already in the budget (£1.4m in 2017/18 and £1m in 2018/19) and the City funding the future Police capital programme. The latter will be subject to a further report but could be of the order of £11m over the planning period.

7. Despite these mitigations there remain substantial deficits in 2018/19 and 2019/20. In response to this the Town Clerk, the Chamberlain and the Commissioner have commissioned an external review to assess value for money opportunities, current and future demand, and potentially consider a revised operating model. It is intended that the initial findings of this study will be reported back to Members before the Summer recess.

8. A further option to consider would be an **increase in the business rate premium**. The City is uniquely able to raise additional income for the City Fund from its business rate premium. The premium on City businesses had been unchanged since 2006/07 at 0.4p. Last year, in light of Police funding constraints and additional requirements in relation to counter-terrorism and security, the Resource Allocation Sub Committee agreed an increase to 0.5p in the pound.

9. As the Police forecasts show a continuing deficit, exhausting the reserves in 2017/18, and 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.

10. The premium can be increased in increments of 0.1p with each 0.1p generating circa £2m pa. However given the overall position on the City Fund budget and the results of the Demand and VFM review are awaited **it is suggested that no increase be made in 2017/18**. It should also be remembered that as a result of the 2017 revaluation ratepayers are already facing an increase anyway. A meeting with ratepayers is planned for the 10 February and the Committee will be updated on comments made.

Key assumptions used in the forecasts

11. 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 and lease renewals. Rental income is forecast to grow over the period.

b) Interest rates: It is likely that interest rates will rise at some point in the medium term, although 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 the end of the planning period. This will be reviewed in the light of any substantial economic change and adjusted, if required, when the forecast is updated in the summer. Additional interest on cash balances, shown in the schedules, is being achieved in City Fund due to the level of cash balances being held. A 0.25% increase in interest rates in 2017/18 would equate to £1.5m p.a. on City Fund.

Expenditure

c) An inflation allowance is factored in at 1% for 2017/18 and zero thereafter. On City Fund each 1% is approximately £636k. RPI is currently 2.5% and CPI is 1.6%, so maintaining a zero pay and prices allowance adds further impetus for efficiency. Consideration will be given to supporting exceptional cost increases on a case by case basis.

d) 2% cash efficiency savings are included from 2018/19 in line with the published Efficiency Plan.

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

a. **Grant Settlement:** the provisional settlement is largely as expected. As the City's Efficiency Plan has been accepted we have been promised certainty on the figures published for the lifetime of this Parliament (ie four years up to 2019/20). This four year horizon reveals a gradual rate of reduction in Revenue Support Grant with the grant dropping from its current level of £10.6m in 2016/17 in stepped amounts to £6.2m in 2019/20 and continuing at this level thereafter. If the business rates retention scheme were to be introduced in 2018/19 grant income would be reduced to zero and we would need the shortfall to be made up from additional retained rates.

b. **Business Rates retention:** The other element of core Government funding relates to retained business rates. This is known as the Baseline Funding

Level and is £15.6m for 2017/18. The system of business rate retention remains broadly the same with the City benefiting from 15% of any growth in business rates. The one area of growth in income compared to the previous forecast is for additional retained business rates, where due to growth in business occupation in the City substantial additional business rate income is forecast. Members should note the Government has announced a review of the business rates retention system. Depending on the outcome of the review there is consequently a risk that this income will not be achieved. Also, although the 2017 rating revaluation shows a considerable increase in rateable values, there may well be appeals reducing the overall additional income achieved. Appeals are unlikely until 2018/19 at the earliest but will be backdated to 2017 and the effect of any appeals cannot be quantified at this stage.

c. **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 2017/18 will be £11.267m, a similar level to 2016/17 with RPI added. Small inflationary increases have been assumed for the other years of the forecast period.

d. The remaining **Service Based Review Savings** will be achieved.

13. Funding assumptions for **City Police** include:

a. **Grant funding**: The Police core grant settlement was marginally worse than anticipated at £51.4m, some £0.7m lower than anticipated. The Government's stated intention is that the shortfall should be met from an increase in the precept (in the City's case, the business rate premium).

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 £4.5m, a reduction of 0.2m from 2016/17. Capital City Funding has been advised as part of the settlement at £4.5m, which is no change from the prior year.

c. **Action Fraud Service**: The latest phasing for this Police project has been included in the forecasts which has resulted in the recovery from Home Office grant of the City's £6.6m advance funding being pushed out into the future. The project itself has significantly slipped and at present the Police envisage a £2.8m overspend by its end in 2020/21. At present the aim is to cover this shortfall by a combination of Home Office grant and 'monetisation' (selling the product to others) but should this fail the City could potentially be faced with picking up the remaining bill.

Revenue Spending Proposals for 2017/18

14. The City Fund net budget requirement for 2017/18 is £119.3m, an increase of £12.3m. The following table shows how this is financed and the resulting council tax requirement.

Table 2: Setting the Council Tax requirement		
	2016/17 (original) £m	**2017/18 £m**
Net Expenditure before investment income from City Fund assets	147.3	162.3
Estate rental income Income on balances	(42.3) (2.5)	(45.0) (3.0)
Net requirement Plus proposed contribution to/(from) reserves	102.5 4.5	114.3 4.2
City Fund Net Budget Requirement	**107.0**	**119.3**
<u>Financing sources</u> Formula Grant City Offset NNDR premium (net) City's share of Collection Fund Surplus	 (80.5) (11.0) (8.1) (1.4)	 (90.1) (11.3) (10.5) (0.6)
Council Tax Requirement	**6.0**	**6.0**

15. A separate report on today's agenda "Revenue and Capital Budgets 2016/17 and 2017/18" 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		
	2016/17 £	2017/18 £
Inner Temple Middle Temple	188,003 153,218	202,484 164,155
Total	**341,221**	**366,638**

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

	Table 4: Analysis of Core Government Grants				
		2016/17 Original £m	2017/18 Original £m	Reduction (Increase) on 2016/17 £m	%
1	Police	52.1	51.4	0.7	1.3%
2	Non-Police	10.6	8.8	1.8	17.0%
3	**Total before Rates Retention Scheme and grants Rolled In**	**62.7**	**60.2**	**2.5**	**4.0%**
	Rates Retention Scheme				
4	Baseline	15.3	15.6	(0.3)	(2.0%)
5	Growth	2.5	14.3	(11.8)	(472.0%)
6	**Total before Grants Rolled In**	**80.5**	**90.1**	**(9.6)**	**(11.9%)**
7	Grants Rolled In	(0.4)	(0.4)	0.0	NA
8	**Total Core Government Grants**	**80.1**	**89.7**	**(9.6)**	(12.0%)

Business Rates

17. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 47.9p and a Small Business Non-Domestic Rate Multiplier Rate of 46.6p for 2017/18. These multipliers represent a reduction of 1.8p over the 2016/17 levels as a result of the rates revaluation. The actual amount payable by each business will depend upon its rateable value.

18. The business rate premium on City businesses was increased to 0.5p in the £ last year and if this remains unchanged, the proposed premium will result in a National Non-Domestic Rate multiplier of 48.4p and a Small Business Non-Domestic Rate of 47.1p for the City for 2016/17. It is anticipated that a premium of 0.5p will raise approximately £10.5m.

19. 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.

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

21. 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:

    - exemption from empty rate for new rating assessments that completed between 1st October 2013 and 30th September 2016 for up to 18 months.

22. Although fully funded by central government, this discount is to be delivered using Localism Act discounts and so technically will be discretionary.

Business Rate Supplement

23. 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 £70,000, to raise funds towards Crossrail. The threshold is being increased to reflect the effects of revaluation.

Determination of the Council Tax requirement

24. 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.

25. After allowing for a proposed contribution to reserves, the final City Fund Council Tax requirement for 2017/18 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 2017. As detailed in Appendix A, the City's proposed Council Tax for 2017/18 at band D is £857.31. Consequently it is proposed to freeze Council Tax for 2017/18 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.

26. The GLA's 'provisional' precept for 2017/18 is £73.89 for a Band D property. This excludes the Metropolitan Police requirement and represents no change compared with 2016/17.

27. 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	49.26	57.47	65.68	73.89	90.31	106.73	123.15	147.78
Total	620.80	724.27	827.73	931.20	1,138.13	1,345.07	1,552.00	1,862.40

28. 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)

29. In 2013/14, the Government introduced a locally-determined Council Tax Reduction Scheme**.** This replaced the national Council Tax Benefit scheme and assisted people on low incomes with their council tax bills. To protect residents on low incomes, the City Corporation adopted the Government's default scheme for the financial years 2013/14 to 2015/16, which kept the Council Tax Reduction Scheme in line with the Government's general increase in benefits.

30. Changes were made to national benefits in the July 2015 budget and, as a result, it was not possible to maintain the same scheme for the 2016/17 financial year. A consultation exercise was undertaken and the Court of Common Council agreed to make adjustments to the scheme as it applies to working age claimants to protect existing claimants from possibly being worse off, keeping the administration of the Council Tax Reduction Scheme in line with Housing Benefit

31. There were no proposals to make any specific amendments to the Council Tax Reduction Scheme for this or future years, beyond keeping the scheme in line with Housing Benefit and therefore Members at the Court of Common Council meeting in January 2017 approved the Council Tax Reduction Scheme for 2017/18 to be the same as the scheme for 2016/17, subject to the annual uprating of amounts in line with Housing Benefit applicable amounts. They also approved the Council Tax Reduction Scheme for future years to be the same as the previous year, subject to the application of those upratings.

Capital

32. 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 2017/18 capital programme (including the indicative costs of implementing schemes still subject to approval) comprise:

	£m
Roads, Street-scene and Public Realm	26.3
Dwelling Improvements	20.8
Affordable Housing Construction	15.6
New Police Accommodation	15.7
Museum of London	10.5
Police systems and equipment	10.0
Barbican Podium	10.0
Old Bailey Enhancements	3.6

33. Note that the funding for the £200m contribution from City Fund to Crossrail has been accrued to the 2016/17 financial year as the payment is anticipated to be in made in March 2017.

34. 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 2017/18 City Fund Capital Expenditure	
	£m
Estimated Capital Expenditure	**132.2**
Financing	
Internal	
• Earmarked reserves:	
Housing Revenue Account (HRA)	13.1
Highways Improvements	8.7
Unapplied grants	2.9
Other	1.7
• Disposal Proceeds	38.8
• Revenue Reserves	18.5
External	
• Grants and reimbursements	48.5
Total	**132.2**

35. 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 2017/18 to 2019/20
- Estimates of the capital financing requirement 2017/18 to 2019/20
- 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.

36. 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 Statement and Annual Investment Strategy' at Appendix C.

37. 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 2017/18 is set out in Annex E. A further point to note relates to the funding for relocating the Museum of London to the Smithfield Market site. Although the Museum is undertaking a fundraising campaign and the GLA is providing a contribution to the project, the City will be forward funding a large element of the costs. The intention is to use revenue reserves initially for as long as this is affordable, with external borrowing to bridge the gap in the latter period if necessary.

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

Provision for future capital expenditure

39. 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

40. 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.

41. 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 until such time as external borrowing may be needed to bridge the gap for the Museum of London relocation
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.

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

Risks

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

    Within the City Corporation's control
    - Delivery of efficiency savings built into City Police budget forecast
    - Police Action Fraud project
    - Museum of London relocation project delivery within estimated cost.
    - Delivery of the service based review savings proposals.

    Outside the City Corporation's control
    - BREXIT impacting on the rental income from our commercial property as a result of increased voids
    - Adjustments to the Rates Retention System
    - An increase in the rate of inflation over the planning period above its currently low level.

Equalities Implications

44. 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

45. Following the service based review and the growth in business rate income, the City Fund is in a much healthier position across the medium term. However, there are a number of risks as outlined above. City Fund will need to develop a funding strategy for the Museum of London relocation project before it can be fully returned to surplus.

46. City Police face a budget challenge but the Demand and VFM review will highlight options for addressing the deficit.

47. 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
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 (7,060.39) together with the Council Tax bases for each part of the City's area.

The above calculation is as follows:

$$'B1' = \frac{£6,052,943}{7,060.39}$$

'B'1 = £857.31

Note: Item R consists of the following components:

	£	£
City Fund Net Budget Requirement		118,490,236
Less:		
Formula Grant	(90,109,478)	
City's Offset	(11,267,000)	
Estimated Non-Domestic Rate Premium (Net)	(10,500,000)	
Estimated Collection Fund Surplus as at 31 March 2017 (City's share)	(560,815)	(112,437,293)
TOTAL COUNCIL TAX REQUIREMENT (R)		**6,052,943**

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:

$$\text{‘B2’} = £857.31 - \frac{£16,860,638.85}{7,060.39}$$

‘B2’ = £1,530.75 CR

Note: Item A consists of the following components:

	£	£
Highways Net Expenditure	8,941,000.00	
Waste Collection & Disposal Net Expenditure	2,188,000.00	
Open Spaces Net Expenditure	1,674,000.00	
Transportation Planning	2,008,000.00	
Drains and Sewers	417,000.00	
Street Lighting Net Expenditure	1,266,000.00	
Total City’s Special Expenses		16,494,000.00
Inner Temple’s Precept	202,483.61	
Middle Temple’s Precept	164,155.24	366,638.85
Total Special Items		16,860,638.85

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

$$\text{'B3'} = £1{,}530.75\ \text{CR} + \frac{£16{,}494{,}000}{6{,}906.86}$$

$$\text{'B3'} = £857.31$$

Inner Temple

$$\text{'B3'} = £1{,}530.75\ \text{CR} + \frac{£202{,}483.61}{84.79}$$

$$\text{'B3'} = £857.31$$

Middle Temple

$$\text{'B3'} = £1{,}530.75\ \text{CR} + \frac{£164{,}155.24}{68.74}$$

$$\text{'B3'} = £857.31$$

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	49.26	57.47	65.68	73.89	90.31	106.73	123.15	147.78
Total	620.80	724.27	827.73	931.20	1,138.13	1,345.07	1,552.00	1,862.40

Appendix B

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 2017/18, 2018/19 and 2019/20 (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

	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA	0.24	0.25	0.21	0.50	**1.13**	**0.53**	**0.53**
Non-HRA	0.22	-0.46	-0.37	-0.14	**-0.25**	**-0.33**	**-0.16**
Total	0.22	-0.39	-0.30	-0.09	**-0.12**	**-0.25**	**-0.10**
At this time last year	*0.22*	*-0.39*	*-0.28*	*-0.31*	*-0.03*	*-0.38*	-

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 2017/18, 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

	2016/17 Revised £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Incremental increase/(decrease) Per Band 'D' Equivalent	2,500.00	**4,488.00**	**5,614.00**	**9,527.00**
At this time last year	*1,546.00*	*1,455.00*	*1,335.00*	

This ratio has been calculated to show the net incremental revenue impact of variations in the capital programme since the 2016/17 original estimates were prepared, expressed as a Band D equivalent. The variations reflect the net impact of changes in the capital programme on the revenue budget.

The increases over the indicators calculated at this time last year reflect the purchase of an investment property in 2016/17 to maximise income over the medium term and from 2017/18 onwards reflect the funding of the Museum of London relocation from revenue.

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

	2016/17 Revised £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Incremental increase/(decrease) on Average Weekly Rent	(3.64)	**(4.89)**	**(4.06)**	**(1.70)**
At this time last year	*1.58*	*9.18*	*11.67*	

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. These negative figures arise from lower levels of expenditure than anticipated at this time last year. Councils’ discretion to amend rents has, 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 2016/17 to 2019/20 £m
Net borrowing/(Net investments)	**(35,193)**
Capital Financing Requirement	**154,509**

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 2016/17 to 2019/20. 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

	2013/14 Actual £m	2014/15 Actual £m	2015/16 Actual £m	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
HRA	2.502	4.534	8.984	9.903	**36.615**	**25.253**	**7.331**
Non-HRA	181.183	41.103	32.012	274.130	**95.601**	**105.450**	**95.658**
Total	183.685	45.637	40.996	284.033	**132.216**	**130.703**	**102.989**
At this time last year	*183.685*	*45.637*	*56.709*	*304.809*	*73.580*	*57.151*	-

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, together with the inclusion of additional provisions such as the Museum of London relocation and the increase in cost of the police accommodation programme.

Estimate of the Capital Financing Requirement

Table 6

	2013/14 Actual £m	2014/15 Actual £m	2015/16 Actual £m	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
HRA	10.705	10.490	2.352	**0.000**	**0.000**	**0.000**	**0.000**
Non-HRA	-12.647	-12.309	-3.496	**92.928**	**49.688**	**100.955**	**154.509**
Total	-1.942	-1.819	-1.144	**92.928**	**49.688**	**100.955**	**154.509**
At this time last year	*-1.942*	*-1.819*	*-1.818*	*99.567*	*118.457*	*158.186*	-

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 external and/or 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 currently continues to remain free of external debt. Going forward, a funding strategy for the Museum of London relocation is to be developed which may result in a need for external borrowing or the sale of investment property.

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

	2016/17	2017/18	2018/19	2019/20
Times cover on unencumbered revenue reserves	*1.2*	**(5.5)**	***26.0***	***1.1***
At this time last year	*(10.0)*	*32.8*	*11.1*	-

This indicator is calculated by dividing the balance of unencumbered general reserves by any annual revenue deficit/(surplus). By 2019/20 the cover is reduced, reflecting the diminution of the City Fund general reserves to fund the Museum of London relocation. A formal funding strategy is to be developed which may result in external borrowing or the sale of investment property.

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TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY

2017/18

Issue Date: 03/02/2017

Treasury Management Strategy Statement and Annual Investment Strategy 2017/18

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 2017/18

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 2017/18 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 which limit the treasury risk and activities of the City
- 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 2017/18 to 2019/20

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 2016 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			**969.1**	**0.53**
Net Investments			**969.1**	

4. Treasury Indicators for 2017/18 – 2019/20

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.

	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 years	25 year	50 year
Dec 2016	0.25	1.60	2.30	2.90	2.70
Mar 2017	0.25	1.60	2.30	2.90	2.70
Jun 2017	0.25	1.60	2.30	2.90	2.70
Sep 2017	0.25	1.60	2.30	2.90	2.70
Dec 2017	0.25	1.60	2.30	3.00	2.80
Mar 2018	0.25	1.70	2.30	3.00	2.80
Jun 2018	0.25	1.70	2.40	3.00	2.80
Sep 2018	0.25	1.70	2.40	3.10	2.90
Dec 2018	0.25	1.80	2.40	3.10	2.90
Mar 2019	0.25	1.80	2.50	3.20	3.00
Jun 2019	0.50	1.90	2.50	3.20	3.00
Sep 2019	0.50	1.90	2.60	3.30	3.10
Dec 2019	0.75	2.00	2.60	3.30	3.10
Mar 2020	0.75	2.00	2.70	3.40	3.20

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth.

During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter

2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets.

The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth, but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries. The degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, **downside risks to current forecasts** for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:

- Italian constitutional referendum 4.12.16 resulted in a ‘No’ vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.
- Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
- Dutch general election March 2017;
- French presidential election April/May 2017;
- French National Assembly election June 2017;
- German Federal election August – October 2017.

- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats.
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in 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.

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

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- 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.
- A downward revision to the UK’s sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

6. Borrowing Strategy

It is anticipated that there will be no capital borrowings required during 2017/18.

7. Annual Investment Strategy

7.1. 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) security; and

(b) liquidity.

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.

7.2. **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, the Deputy Chamberlain, 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

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

7.3. **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 (which is currently rated as AA) will be excluded from this stipulated minimum sovereign rating requirement.

7.4. **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 2018/19 financial year.

7.5. **Investment returns expectations**: The Bank Rate is forecast to stay flat at 0.25% until quarter 2 of 2019 and not to rise above 0.75% by quarter 1 of 2020. Bank Rate forecasts for financial year ends (March) are as follows:

- 2016/17 0.25%
- 2017/18 0.25%
- 2018/19 0.25%
- 2019/20 0.50%

Capita consider that the overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, upside risk may increase i.e. Bank Rate increases occur earlier and / or at a quicker pace.

The Chamberlain and his Treasury Officers consider that the base rate will not increase until June 2019 at the earliest and even then is unlikely to increase rapidly following the initial rises. Currently available interest rates over the longer term (2 to 3 years) are not significantly above 0.75% to 1.0% and are therefore considered insufficient to place funds on 2 or 3 year deposit at present.

For 2016/17 the City has budgeted for an average investment return of 0.50% on investments placed during the financial year. Financial forecasts for the period 2017/18 and 2018/19 include interest earnings based on an average investment return of 0.50%.

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.

7.6. **Investment Treasury Indicator and Limit**

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

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

Maximum principal sums invested for more than 364 days (up to three years)			
	2017/18 £M	2018/19 £M	2019/20 £M
Principal sums invested >364 days	300	300	300

7.7. **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.

7.8. **External fund managers**

A proportion of the City's funds, amounting to £403.2m as at 31 December 2016, 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.

7.9. **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.

7.10. **Scheme of Delegation**

Please see Appendix 7.

7.11. **Role of the Section 151 officer**

Please see Appendix 8.

7.12. **Training**

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. 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 2017-2020
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 2017 - 2020

Capita Asset Services Interest Rate View	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.95%	3.05%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%

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
The Bank of England base rate was cut from 0.5% to 0.25% on 4 August 2016.

ECONOMIC BACKGROUND

UK. GDP growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The **referendum vote for Brexit** in June 2016 delivered an immediate shock fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The **Monetary Policy Committee, (MPC), meeting of 4th August** was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The **MPC meeting of 3 November** left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that **Bank Rate** could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly Inflation Report was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, **consumers** have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In addition, the GfK consumer confidence index recovered quite strongly to -3 in

October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The Chancellor has said he will do 'whatever is needed' to **promote growth**; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of just under 3% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro (as at the MPC meeting date – 15.12.16).This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2% though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upwards path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December, (for November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. **House prices** have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA. The American economy had a patchy 2015 with sharp swings in the quarterly **growth rate** leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.2% signalled a rebound to strong growth. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Fed. therefore also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the **presidential election** in November is expected to lead to a strengthening of US growth if Trump's election promise of a major increase in expenditure on infrastructure is implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

Trump's election has had a profound effect on the **bond market and bond yields** rose sharply in the week after his election. Time will tell if this is a reasonable assessment of his election promises to cut taxes at the same time as boosting expenditure. This could lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.

In the first week since the US election, there was a major shift in **investor sentiment** away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

EZ. In the Eurozone, **the ECB** commenced, in March 2015, its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels. This has added to comments from many forecasters that those central banks in countries around the world which are currently struggling to combat low growth, are running out of ammunition to stimulate growth and to boost inflation. Central banks have also been stressing that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand and economic growth in their economies.

There are also significant specific political and other risks within the EZ: -

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
- **Spain** has had two inconclusive general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- The under capitalisation of **Italian banks** poses a major risk. Some **German banks** are also undercapitalised, especially Deutsche Bank, which is under threat of major financial penalties from regulatory authorities that will further weaken its capitalisation. What is clear is that national governments are forbidden by EU rules from providing state aid to bail out those banks that are at risk, while, at the same time, those banks are unable realistically to borrow additional capital in financial markets due to their vulnerable financial state. However, they are also 'too big, and too important to their national economies, to be allowed to fail'.
- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this was also a confidence vote on Prime Minister Renzi who has resigned on losing the referendum. However, there has been remarkably little fall out from this result which probably indicates that the financial markets had already fully priced it in. A rejection of these proposals is likely to inhibit significant progress in the near future to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth and a very high debt to GDP ratio of 135%. These reforms were also intended to give Italy more stable government

as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is currently unclear what the political, and other, repercussions are from this result.

- **Dutch general election 15 March 2017**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
- **French presidential election;** first round 13 April; second round 7 May 2017.
- **French National Assembly election** June 2017**.**
- **German Federal election August** 22 October 2017**.** This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- The core EU, (note, not just the Eurozone currency area), principle of **free movement of people** within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks within the EU.

Asia. Economic growth in **China** has been slowing down and this, in turn, has been denting economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a dangerous build up in the level of credit compared to the size of GDP, plus there is a need to address a major over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy away from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.
Economic growth in **Japan** is still patchy, at best, and skirting with deflation, despite successive rounds of huge monetary stimulus and massive fiscal action to promote consumer spending. The government is also making little progress on fundamental reforms of the economy.

Emerging countries. There have been major concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further significant increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could cause significant problems for those emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.
- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

APPENDIX 3

TREASURY INDICATORS

TABLE 1: TREASURY MANAGEMENT INDICATORS	2015/16	2016/17	2017/18	2018/19	2019/20
	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	£14,124	£14,006	£13,888	£13,770
TOTAL	£0	£14,124	£14,006	£13,888	£13,770
Operational Boundary for external debt -					
borrowing	£0	£0	£0	£0	£0
other long term liabilities	£0	£14,124	£14,006	£13,888	£13,770
TOTAL	£0	£14,124	£14,006	£13,888	£13,770
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	£300m	£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%

APPENDIX 4

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 categories set out below.

	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
UK Index Linked Gilts	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 2016

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 BANK incl. Bank of Scotland	Up to 3 years
BBB+ F2	16-75-80	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	225	120	Up to 3 years
A- F1	Yorkshire	39	20	Up to 1 year
A F1	Coventry	36	20	Up to 1 year
A- F1	Skipton	18	20	Up to 1 year
A- F1	Leeds	14	20	Up to 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

APPROVED COUNTRIES FOR INVESTMENT

This list is based on those countries which have sovereign ratings of AAA as at 16 December 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.

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.

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Reserves

Forecast Movements in City Fund Usable Reserves 2017/18				
	Notes	Estimated Opening Balance 1 April 17 £m	Forecast Net Movement in Year £m	Estimated Closing Balance 31 March 18 £m
Revenue Usable Reserves				
General	a	(28.4)	(4.2)	(32.6)
Earmarked:				
Police future expenditure	b	(1.5)	1.5	(0.0)
Highway improvements	c	(19.8)	6.7	(13.2)
VAT Reserve	d	(4.2)	0.0	(4.2)
Proceeds of Crime Act	e	(3.6)	1.0	(2.6)
Judges Pensions	f	(1.1)	0.0	(1.1)
Public Health	g	(1.0)	0.0	(1.0)
Renewals and Repairs	h	(0.7)	0.0	(0.7)
Service Projects	i	(2.4)	0.0	(2.4)
Total Revenue Earmarked		(34.5)	9.2	(25.3)
Housing Revenue Account		(9.6)	9.0	(0.7)
Total Revenue Usable Reserves		**(72.5)**	**14.0**	**(58.6)**
Capital Usable Reserves				
Capital Receipts Reserve		0.0	0.0	0.0
Capital Grants Unapplied		(7.8)	(3.8)	(11.6)
HRA Major Repairs Reserve		(3.8)	3.1	(0.7)
Total Capital Usable Reserves		**(11.5)**	**(0.7)**	**(12.2)**
Total Usable Reserves		**(84.1)**	**13.2**	**(70.8)**

Notes

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

(b) 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) 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.

(e) 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.

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

(g) 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.

(h) 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.

(i) 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.

(j) These reserves are ringfenced by statute to the Housing Revenue Account.

(k) It is anticipated that the capital receipts reserve will be exhausted in 2016/17 due to the City's commitment to Crossrail

(l) Capital grants and contributions received for specific purposes. This includes receipts from the City's Community Infrastructure Levy.

Appendix E

Minimum Revenue Provision (MRP) Policy Statement 2017/18

To ensure that capital expenditure funded by borrowing is ultimately financed, the City Fund is required to make a Minimum Revenue Provision (MRP) when the Capital Financing Requirement (CFR) is positive. A positive 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, subject to the funding strategy for the Museum of London relocation which has yet to be agreed.

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 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. The MRP liability for 2017/18 is estimated at £896k. Subsequent year MRPs are to be equal to the deferred income to be released.

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Agenda Item 11

Committee:	Dated:
Finance Committee	21 February 2017
Subject: Chamberlain's Department – Draft High Level Business Plan	**Public**
Report of: Chamberlain	**For Information**
Report author: Matt Lock, Chamberlain's Department	

Summary

Departmental business plans are reviewed annually, this report presents a draft high level business plan for the Chamberlain's department, reflecting the changes being made corporately to business planning, in particular the renewed focus on outcomes.

Members' comments on the draft plan are welcomed and will be incorporated with further development along with wider staff consultation. A further report will be made to Finance Committee in May.

Recommendation

Members are asked to note the Chamberlain's Department draft high level business plan and provide feedback.

Main Report

Background

1. As some Members will be aware, a new framework for corporate and business planning is currently being developed, led by Kate Smith, the Head of Corporate Strategy and Performance. The aims of this new approach include:
   - To align departmental business plans with outcomes in the strategic corporate plan;
   - To develop a "golden thread", such that everything we do and develop is well thought through, aligned with the corporate plan, and included within a departmental business plan, team plan, or individual work plan;
   - To have corporate strategy driving business planning and resource allocation, and
   - To support a culture of continuous improvement, challenging ourselves about the effectiveness of our services and the value they provide.

2. As this new approach involves in-parallel changes to a number of high-level processes, it will take 2-3 years to be fully implemented. Because of this, 2017/18 is very much a year of transition. Work has started on preparing the revised corporate plan, based on outcomes identified by the People, Place and Prosperity Strategic Chief Officer Groups. This will be brought to Members post-election for further development, leading to full Member approval of the plan before the start of the 2018/19 financial year. Revised departmental business planning documentation is being introduced to address Member concerns over

the consistency of presentation across the organisation, and a desire to see a succinct statement of key ambitions and objectives for every department.

3. In the initial phase, departments have been asked to produce a high-level departmental plan, to a standard template, for discussion with their Service Committees, prior to the Common Council elections in March, where Committee meeting dates permit. The template for these high-level plans has been developed through consultation so far to date with Chief Officers, their business planners, and Service Committee Chairmen. As well as key information on ambitions, budget and planned outcomes, the template includes scope for departments to report key projects, development needs, and a horizon-scan of future events that will influence shape future service delivery. It should be noted that the format for these plans has not been finally determined, therefore Members are invited to comment on the format of the high-level plan(s) presented to you today, as well as the content.

4. Following the elections in March, Chief Officers have been asked to present the final draft of their high-level plans to their Service Committees for approval, supported by more detailed plans for 2017/18, in the previously used format. The departmental ambitions agreed at this time will then be used to inform budget setting for 2018/19, and for the development of the 2018-23 Corporate Plan. During 2017/18, consultation will also take place on the format of the more detailed departmental plans, with a view to a standard format being introduced for 2018/19 onwards.

Current Position

5. The Chamberlain's draft high level business plan is attached at Appendix 1; this sets out the strategic ambitions of the department, our top level objectives and how we will monitor performance. This is a working draft and will be updated to reflect feedback from Members and further consultation with staff.

Corporate & Strategic Implications

6. The business plan identifies how the department's activities and improvement activities will support the aspirations of the organisation, as reflected in the Corporate Plan.

Conclusion

7. This report presents the draft high level business plan for the Chamberlain's department in order that Members are able to feed into this plan at an early stage. Following discussion at Finance Committee and further consultation with staff, a revised plan will be submitted to the May Finance Committee.

Appendices

- Appendix 1 – Chamberlain's Department Draft High Level Business Plan

Matt Lock, Assistant Director – Strategic Resources
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Appendix 1

Chamberlain's Department

We aim to deliver value for money and responsive assurance, finance, procurement and IT services that enable the City of London Corporation and its partner organisations to achieve their aims and aspirations.

Our ambitions are:

- **To ensure sound financial management**
- **To achieve operational excellence**
- **To enable transformation across the City of London Corporation**

What we do is:

Financial Services
Working to sustain and enhance the City's Financial Resources so as to ensure that they are sufficient to meet its strategic objectives and future service requirements.

Information Technology
Working in partnership with Agilisys to implement appropriate and innovative technology and business processes to support our customers across the Corporation and Police in the delivery of more efficient and more effective services.

Procurement/Commercial
Providing a comprehensive procurement/commercial service to the City of London Corporation, providing effective and sustainable solutions to client departments.

Internal Audit
Providing independent assurance, maintaining the City Corporation's risk management framework and providing counter fraud services.

Our budget is:

	£'000
Expenditure	
FSD and Chamberlain's General	10,498
IT Division	10,401
City Procurement	2,497
	23,396
Income	
FSD and Chamberlain's General	**(302)**
IT Division	**(134)**
	(436)
Net Local Risk Expenditure	**22,960**

Our top line objectives are

To:

- Improve underlying IT performance issues and delivering major IT projects (Network Transformation and Desktop Refresh)
- Maintain focus on value for money over the current funding period and beyond.
- Pursue the responsible procurement agenda and further adoption of smarter, more efficient procurement processes.
- Provide assurance to the City and its Partners on their control environments, supporting the risk management framework and promoting an anti-fraud culture.

What we'll measure:

IT Service Availability

- P1 fixed within SLA (2 hrs) 98%
- P1 fixed within SLA (8 hrs) 99.5%
- P2 fixed within SLA (6 hrs) 98%
- P2 fixed within SLA (10 hrs) 99%
- Application availability 99%
- Telephony Availability 99.5%
- Datacentre LAN Availability 99.9%
- Corporate Network Availability 99.5%

Deliverables within corporate programmes and projects

- Strategic Asset Management – project management support
- Transformation Fund – administering the Transformation fund on behalf of the Town Clerk
- Work of Strategic Resources Group – ensuring that corporate resources are aligned to priorities and maintaining oversight of the delivery of crosscutting projects.

Deliverables in relation to departmental / service programmes and projects

- Provide robust financial support, advice and guidance to departments throughout all stages of project delivery
- Provide City Corporation departments with effective, value for money, procurement solutions.
- Capture and evaluate departmental IT requirements and facilitate the delivery of effective solutions
- Respond to our staff survey to ensure we continuously improve the services we provide by enhancing working environment and development opportunities for staff

How we plan to develop our capabilities this year:

- Delivery of an in house programme of training, supporting continuous professional development – coordinated by the Departmental Training Group.
- Operation the CIPFA Training programme and offering a diverse range of secondment and apprenticeship opportunities, building future capability.
- Engage with our customers to better understand their business requirements and continue to develop our processes and services, services and IT Solutions.

What we'll measure:

Efficiency

Delivery of SBR savings and efficiency savings secured across CoL

Internal Audit Performance

Audit plan delivered 95% by the end of the year

Accounts Payable

97% of 30 day invoices to be turned around within 30 day
86% of SME invoices to be turned around within 30 day
97% invoices to be received electronically

Procurement Savings

£7.90m of savings to be achieved throughout the year

Collection rates

98% of commercial rent collected
99.75%of business rates collected

What we're planning to do over the following two years

- Deliver enhanced IT network and desktop capabilities to ensure that we have a stable and sustainable IT platform that will allow us to meet current and future requirements.
- Develop and embed a stronger commercial focus through the work of the new Commercial team.
- Develop financial reporting capability through improved management information and Faster Closing of Accounts.

Committee:	Date:
Policy and Resources Finance	16 February 2017 21 February 2017
Subject: Local Government Finance Bill	**Public**
Report of: Chamberlain and Remembrancer	**For information**
Report author: Sam Cook, Assistant Parliamentary Affairs Counsel	

Summary

This report informs the Committee of the relevant provisions of the Local Government Finance Bill recently introduced in Parliament. The Bill will enable 100% of business rates to be retained within local government, subject to a mechanism for distribution among councils. It will give individual councils a greater incentive to maximise the amount of rates they collect. The 100% retention scheme will be accompanied by a new needs assessment formula, the devolution of additional responsibilities to local government, and the abolition of the Revenue Support Grant. Provision is included in the Bill to address concerns about the effect of valuation appeals within the current system, which should alleviate a significant down-side risk in the retention model.

The Bill will make a number of other changes. These include a power for the Greater London Authority to impose an ‘infrastructure supplement’ to fund particular projects, the ability of individual councils to offer discounts on rates, and a new relief intended to encourage the installation of fibre broadband. The Bill is also likely to prompt wider discussion of how the devolution agenda can be taken forward in London, in the light of the Government’s need to devolve additional responsibilities and various proposals which have been raised in the London local government arena for greater fiscal autonomy.

Recommendation

The Committee is invited to receive this report, and to note the provisions of the Bill and the actions anticipated in paragraph 28 in respect of them.

Main report

1. The Government’s Local Government Finance Bill has been introduced in Parliament. Its main purpose is to pave the way for the 100% retention of business rates within local government—a policy first announced by the then Chancellor of the Exchequer at the Conservative Party conference in October 2015. Under the current system, introduced in 2013, rates are split 50-50 between the Treasury and local government. To offset the increase in retained rates, the Revenue Support Grant will be abolished and additional responsibilities will be devolved to local government. The changes are expected to take effect in the 2019–20 financial year.

100% retention: main features

2. Rates retention does not mean that each individual billing authority gets to keep whatever rates it generates. A sophisticated mechanism is in place to distribute revenue among councils having regard to their differing levels of need. This mechanism will remain in place under the 100% retention scheme.

3. The system provides an incentive for billing authorities in the following way. At the beginning of each cycle the distribution mechanism is set up so that each authority will receive income in line with its formula-assessed spending need, assuming that the amount of rates it collects remains constant throughout the cycle. If an authority manages to increase the amount it collects over the course of the cycle, it keeps the benefit. Conversely, if its yield decreases, it bears the loss. The Bill will increase the 'stake' of each authority in these movements in its rating yield from 50% to 100% (setting aside the role of precepting authorities—see paragraph 6 below). The length of the cycle is five years under the current system but has not yet been announced in relation to the new system.

4. The scope of the incentive does not extend to movements in local property values. The distribution mechanism is adjusted to strip out their effects. It is only physical changes—such as the construction of new office space, the demolition of old properties, major refurbishments, or changes in the occupation rate—which affect an authority's level of retained income.

5. There are currently two further mechanisms which serve to cap the gains or losses which an individual authority can encounter as a result of the retention system. The Bill will remove the upper cap while retaining the lower one. Set at its current level, this lower cap ('safety net') means that no authority can see an income reduction of more than 7.5% below its assessed need as a result of the system.

6. In areas with more than one tier of local government, the local share of rates must be distributed between billing authorities and precepting authorities. In London, 20% of revenue is passed to the Greater London Authority (in addition to the 50% passed to the Government), meaning that the 'stake' of London boroughs and the City in their rating yield is 30%. It is not yet known what the division will be under the 100% retention scheme; this will depend in part on the distribution of additional responsibilities between the two tiers. As part of a pilot scheme, the Greater London Authority is already set to receive an additional proportion of rates revenue from this year (taking its share to 37%) to allow it to take over responsibility for Transport for London's capital spending.

The City's arrangements

7. Under the current rating legislation, special arrangements apply to the City in recognition of the unique disparity between the level of services it provides and its ability to raise revenue through council tax. The 'City premium' enables it to set a slightly higher multiplier and to retain the proceeds (which are currently applied for security purposes). The 'City offset' enables it to

withhold a certain sum from the distribution mechanism. These arrangements were preserved, with necessary adaptations, when the current 50% retention scheme was introduced under earlier legislation. They will not be disturbed by the move to 100% retention.

Valuation appeals

8. Under the current 50% retention scheme, billing authorities (together with their precepting authorities) bear 50% of the risk from successful valuation appeals. The risk can be considerable, as appeals may result in refunds stretching back over several years. This aspect of the system is unsatisfactory, as valuations are not within the control of billing authorities and to make them bear the cost of incorrect valuations undermines the incentive which the scheme is intended to provide. The lack of predictability of appeal outcomes also makes it difficult for billing authorities to predict their income from year to year. These problems have borne significantly on the City owing to a high level of appeals in recent years, and have led to the City making substantial provision of around £200 million. They have been subject of discussions with officials over a considerable period.

9. The Government has responded to this concern by including a power in the Bill to make compensatory payments to billing authorities which suffer appeal losses. While the way in which this power will be used is not yet settled, its inclusion is (from the City's perspective) encouraging, and could alleviate a significant down-side risk from the retention model as well as enabling more reliable financial projections. Discussions with officials indicate, however, that compensation may not be available until the next valuation cycle starting in 2022.

Needs formula

10. As noted above, the distribution mechanism is underpinned by an assessment of each authority's spending need. Currently this need is calculated on the basis of a complex formula which determines the allocation of the Revenue Support Grant as well as the distribution of the local share of business rates. As part of the move to 100% retention, the Government intends to introduce a new formula for the assessment of need. It has consulted on the principles which should underlie such a formula but has not yet revealed its preferred approach.

11. Given the uncertainty about the nature of the new formula, it is not possible to anticipate its implications for the City, which could be positive or negative. The significance of the formula for the City is, however, limited in comparison with other authorities, as the arrangements referred to in paragraph 7 above already recognise that a general formula does not capture the full range of demands in the City. Around one third of the City's retained rates revenue is currently derived from the formula assessment.

Additional responsibilities

12. The move to 100% retention, even when set off against the abolition of the Revenue Support Grant, with leave local government with a net ‘surplus’ over its current funding level. In order to absorb this surplus funding, the Government intends to devolve additional responsibilities to local government (making the changes ‘fiscally neutral’). London Councils has estimated London’s aggregate surplus at around £4 billion per annum.

13. It is not yet known what the content of the additional responsibilities will be. They may vary from area to area. Following discussions led by London Councils (and supported by the City Corporation), it is likely that they will, in London, include functions in relation to work and health and adult education. The City has argued that additional responsibilities in London should also focus on matters of interest to business ratepayers, such as skills, infrastructure and housing. As noted in paragraph 6 above, London’s package is set to include the devolution of TfL’s capital expenditure to the Greater London Authority.

Infrastructure supplements

14. The Bill will allow the Greater London Authority (or, outside London, a mayoral combined authority) to impose an ‘infrastructure supplement’ on rating bills to raise revenue for specified projects. Despite the name, use of the supplement is not confined to infrastructure, but can be for any project thought to promote economic development in the area concerned (so long as it does not fall within a list of core local government services). The Government is expected to cap the supplement at 2%.

15. The new power is very similar to, but apparently will sit alongside, the Business Rate Supplement currently used to help to fund Crossrail. Unlike with the Business Rate Supplement, however, there will be no potential requirement to hold a ballot of ratepayers. Instead, the authority proposing the supplement will have to publish and consult on a prospectus.

Other changes

16. The Bill will allow the Secretary of State to change the national indexation measure for business rates. This is intended to bring about a change from the Retail Prices Index to the Consumer Price Index, as announced in the 2016 Budget. On normal trends this will reduce the amount of rates collected by local government over time.

17. The Bill will allow the Secretary of State to introduce mandatory rates relief for telecommunications infrastructure. The Government intends to use this to give a five-year tax break for new fibre broadband installations, as announced in the 2016 Autumn Statement. The costs will be met by the Government. The Bill will also allow billing authorities to grant discretionary relief for local authority toilets.

18. The Bill makes technical changes to the local government finance settlement and the council tax referendum requirement, intended to support the Government's policy of offering multi-year financial settlements to individual councils. For instance, the Secretary of State will in future be able to require a council tax referendum if proposed increases exceed a cumulative threshold over a number of years; at present the threshold relates only to year-on-year increases.

19. The Bill will allow the Secretary of State to require billing authorities (including the Common Council) to offer ratepayers the option of electronic billing. It is not yet clear whether, and if so when, such a requirement will actually be introduced. The Secretary of State will also be empowered to give detailed guidance to billing authorities about the appearance and layout of rates bills.

20. The Bill will provide a general power for billing and precepting authorities to reduce rates in their areas by up to 2%. Similar flexibility already exists in the City by virtue of the arrangements referred to in paragraph 7 above.

London devolution matters

21. In advance of the publication of the Bill, London Councils and the Greater London Authority submitted to the Government a far-reaching devolution proposal in respect of business rates, going beyond the changes envisaged by the Government. This proposal would see London government collectively determining both the level of business rates and the distribution of rating revenue within the capital. The City has supported the principle of further devolution, while making clear that the arrangements referred to in paragraph 7 above will need to be preserved as part of any devolved package.

22. The Government has not yet made any public announcement in response to the London proposal. The Bill as introduced does not, however, include the legal changes which would be needed to give effect to important elements of the proposal. There will be opportunities to press this matter further as the Bill moves through Parliament.

23. The need to identify additional responsibilities to devolve to local government (as mentioned in paragraphs 12 and 13) offers a connection between the Bill and the efforts being undertaken in London to agree 'devolution deals' with the Government, currently focused on healthcare and employability. It may also reawaken the discussion about governance arrangements for devolved functions in London. In the devolution deals struck elsewhere in the country, the Government's strong preference has been to devolve to multi-authority structures, mainly through the 'combined authority' model. This model, which effectively creates a new tier of local government, is not available in London and there is little appetite for its introduction. Efforts to establish looser collaborative vehicles for devolution in London (involving the London boroughs, the City and the Greater London Authority) have, however, foundered on Government concerns about permanence and accountability. This issue was explored, but not resolved, during the passage of the Bill for the Cities and Local Government Devolution Act 2016. It may be revisited during the passage of the present Bill. The Government's current view,

however, is that it does not require provision in primary legislation in order to devolve additional responsibilities. It remains to be seen what arrangement the Government has in mind for London.

24. In 2013 the London Finance Commission, established by the then Mayor under the chairmanship of Professor Tony Travers, published a report calling for greater fiscal autonomy for London. This focused largely on property taxes such as rates, council tax and stamp duty. The present Mayor has reconvened the Commission to consider the case for further devolution in the wake of the EU referendum. The reconvened Commission recently reported. It proposes even further-reaching tax devolution, including a share of income tax and VAT. Both reports of the Commission go significantly wider than the measures proposed in the current Bill, or any hitherto contemplated by the Government as part of its devolution agenda. The latest report may, however, add momentum to the efforts to secure further devolution for London.

Wider business rates matters

25. The Bill comes at a time of controversy surrounding the 2017 rates revaluation, which sees businesses faced with a year-on-year increase in bills of up to 43%. London is particularly badly affected owing to the relative strength of its property market in the seven years since the last revaluation. The City has been among the many bodies calling for greater transitional relief to be put in place. There is also wider political discussion about the suitability of the rates system now that much business has moved online. While the Bill does not address these matters, it is likely to provide the opportunity for parliamentary discussion and debate about them.

Conclusion

26. The Bill will give billing authorities, including the Common Council acting in that capacity, a greater stake in the growth or reduction of business rates collected in their areas. For the City, this could bring significant benefit from any increase in office space in the Square Mile over the course of the next retention cycle (likely to begin in 2019–20). Conversely, it will make the City more vulnerable to any market downturn which results in less rating revenue being collected over the cycle. The new provisions on valuation appeals should remove a significant down-side risk for the City under the current scheme, and reduce uncertainty as to its future finances.

27. The Bill sets out a broad legal framework for the new scheme. A number of significant details will be determined by regulations or as a matter of policy. These include the formula by which relative spending need will be assessed and the additional responsibilities that are to be devolved to local government to absorb the additional funding. High-level consultation has taken place on some of these matters (to which the City Corporation has contributed) and further consultation and announcements are expected as the Bill moves through Parliament.

28. Both the parliamentary passage of the Bill and the Government's policy announcements will be closely followed and examined in liaison with the

Chamberlain, as will wider discussions concerning devolution in London, and this may lead to the tabling of amendments. Members will be updated on any relevant developments.

Background Papers

- Finance Committee, 18th October 2016, Item 16 (delegated actions report on responses to Government consultations on rates retention and fair funding).
- Policy and Resources Committee, 24 September 2015, Item 10 (report of the Town Clerk and the Remembrancer on the London devolution settlement).

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Committee:	Date:
Audit and Risk Management Committee Finance Committee	07 February 2017 21 February 2017
Subject: City Fund and Pension Fund Final Accounts 2016/17 and 2017/18 - Update	**Public**
Report of: The Chamberlain	**For Information**
Report author: John James, Chamberlain's Department	

Summary

This report highlights the steps being taken to achieve faster closure to meet the new statutory deadlines for the City Fund and Pension Fund accounts which will apply from 2017/18 onwards requiring the draft accounts to be published by 31 May (a month earlier than currently required) and the audited accounts to be published by 31 July (two months earlier than currently required).

The report also provides an overview of the main changes to the local authority accounting framework for 2016/17 and outlines the anticipated impact of a change to the accounting treatment of local authority highways networks due to be implemented in 2017/18.

Recommendation

Members are asked to note the report and give their support to achieving the new condensed timetable.

Main Report

Faster Closing

1. The City Fund and Pension Fund Financial Statements of Accounts are prepared in accordance with the statutory framework established by the Accounts and Audit Regulations (the Regulations) and the Code of Practice on Local Authority Accounting (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2. The 2015 Regulations introduced a number of changes to the statutory framework. Several of the changes, mainly relating to the public's right to inspect the accounts, took effect from 1 April 2015. However, the most significant changes requiring the acceleration of the closing timetable take effect from 1 April 2017 and apply to any financial year beginning on or after that date. The unaudited accounts, certified by the Chief Financial Officer, must be published by the 31 May which is a month earlier than currently required and the audited accounts must be published by the 31 July, two months earlier than currently required.

Table 1 Old and Revised City Fund and Pension Fund Accounts Deadlines

Task	Current Deadline	Future Deadline
Unaudited financial statements signed by Chamberlain	30th June	31st May
Audited statement of accounts approved by Finance Committee and published	30th September	31st July

3. The change in the statutory deadlines for the 2017/18 City Fund and Pension Fund accounts will require significant changes in the way the accounts are prepared. It is therefore intended to have a "dry run" in 2016/17.

4. In preparation a number of tasks have been or are being undertaken including:-
    - A review of the 2015/16 closedown process and the 2016/17 closedown timetable;
    - Early engagement with external audit;
    - A faster closing workshop, facilitated by CIPFA, for key staff in the Financial Services Division and attended by representatives from both external audit firms to look at best practice and identify areas for improvement.

5. Several key themes have emerged; final accounts are not just an accounting task, faster closing will require the increased use of estimates and greater reliance on budget managers signing off year-end figures particularly on capital and revenue projects rather than finance staff. It will also require the earlier receipt and sign-off of third party information from valuers and actuaries. There are also some significant reconciliations, such as on the collection fund, that will need to be completed earlier.

6. To prepare the financial statements the finance team need information from a range of internal and external sources including Members and Chief Officers, individual budget and project managers, HR, other sections of the Chamberlain's Department, property valuers and actuaries. The finance team will continue to work with colleagues to obtain this information. However, a critical factor to achieving this in a more condensed timeframe will be the commitment of senior officers across the Corporation to ensure that the significance of year end processes are understood and prioritised.

7. Faster closing will inevitably involve a greater use of estimation and a review of materiality. Estimation is a valid way of closing down the accounts early, however, if we rely more on estimates we will need a clear assessment of the robustness of the methodologies used, the supporting evidence and the impact of any estimation uncertainty. Materiality will also need to be considered e.g. setting a revised upper limit for accruals, reviewing the statements to remove non-material disclosures – "cutting the clutter". On this latter point the Chamberlain is convening a CIPFA/London Treasurers workshop on streamlining local authority financial statements.

8. Changes to our approach to estimation and materiality will need to be discussed and agreed with our auditors before the closedown process begins. Finally, Members will need to recognise that there may be more changes between the draft and final accounts, particularly if further, more certain information becomes available during the audit which impact on material estimates.

Changes to the City Fund and Pension Fund Financial Statements for 2016/17

9. The main changes for the City Fund financial statements under the 2016/17 Code are presentational including new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements and the introduction of a new Expenditure and Funding Analysis. Prior to 2016/17 local authorities were required to report the cost of individual services in accordance with a prescribed format. This format will still need to be used for government statistical reporting requirements. However, annual accounts will need to be presented in a format reflecting the organisational structure of a local authority.

10. For the Pension Fund there are minor changes to the format of the Fund Account and Net Asset Statement, new disclosure requirements for investments at fair value and recommendations for a new disclosure on investment management transaction costs.

Highways Network Asset

11. CIPFA's Code of Practice on the Highways Network Asset (Highways Code), first published in 2010 at the request of the Government, promotes the use of consistent financial information to support transport asset management, financial management and financial reporting. Since then it has been used to provide data to the Treasury as part of the annual Whole of Government Accounts exercise.

12. In 2017/18, in addition to meeting the accelerated timetable, local authorities will be required to adopt the method set out in the Highways Code of valuing the Highways Network Asset (HNA) at depreciated replacement cost (DRC) instead of at historical cost.

13. This change has been the subject of substantial consultation and debate for a number of years and its implementation in 2017/18 represents the largest change to local authority financial reporting since the introduction of IFRS. CIPFA has estimated that full implementation will result in a revaluation increase of approximately £1trillion to the UK public sector balance sheet. For the City Fund the increase is anticipated to be in the region of £370m.

14. Whilst the HNA will appear as a single asset on the Balance Sheet the valuation will be built up from more detailed inventory information. Officers in the Chamberlain's Department and the Department of the Built Environment are liaising to ensure that the City is able to comply with the Code requirements. As a next step and to provide assurance that the HNA supporting data is complete, accurate and evidenced Internal Audit have been asked to review the work to date and the systems and processes that have been put in place.

Implications

15. It is possible that additional resources will be required to bring the City Fund closure of accounts process forward but this is yet to be quantified. It is intended to use the closure of the 2016/17 accounts to identify where we will be attempting to bring key elements of the closure process forward, to inform this and then report back to Members in the Autumn if resources are required.

Conclusion

16. Early statutory deadlines for preparing and reporting the City Fund accounts will require significant effort. It does, however, offer the opportunity to review and streamline our processes and refresh the look of our published accounts.

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Committee:	Date:
Finance Committee	21 February 2017
Subject: Revenue Budget Monitoring to December 2016	**Public**
Report of: Chamberlain	**For Information**
Report author: John James, Chamberlain's Department	

Summary

The overall forecast year end position at quarter three is £7.9m better than budget. This comprises an adverse variance of £0.3m on Chief Officer Cash Limited Budgets which has been more than offset by a favourable variance of £8.2m on Central Risk (Corporate) Budgets.

Chief Officer Cash Limited Budgets
The year end forecast is £0.3m over the latest approved budget of £211.3m, which represents an improvement of £2.5m compared to the forecast position at quarter two. The key cause for the improvement is the additional resources of £2.8m in relation to the IT service provision. Brief commentary on the main variances and actions being taken are outlined in Appendix 1.

Central Risk Budgets
Corporate Income Budgets
Forecast property investment income and interest earnings are anticipated to be better than original budget by £6.7m and £1.5m respectively. The latest budgets which take account of the forecast outturns are outlined in a separate report 'Revenue and Capital Budgets 2016/17 and 2017/18', elsewhere on the agenda.

Risk
The Police forecast excludes any potential overspending on the Police Action Fraud project. The potential overspending in 2016/17, which depends on the timing of milestone payments to IBM as work is completed, could be in the order of £0.5m. The project's overall finances are currently being reviewed in depth by the City Police finance team and a report will be submitted to Projects Sub (Policy and Resources) Committee on a revised funding strategy.

Recommendation

Members are asked to note the report.

Main Report

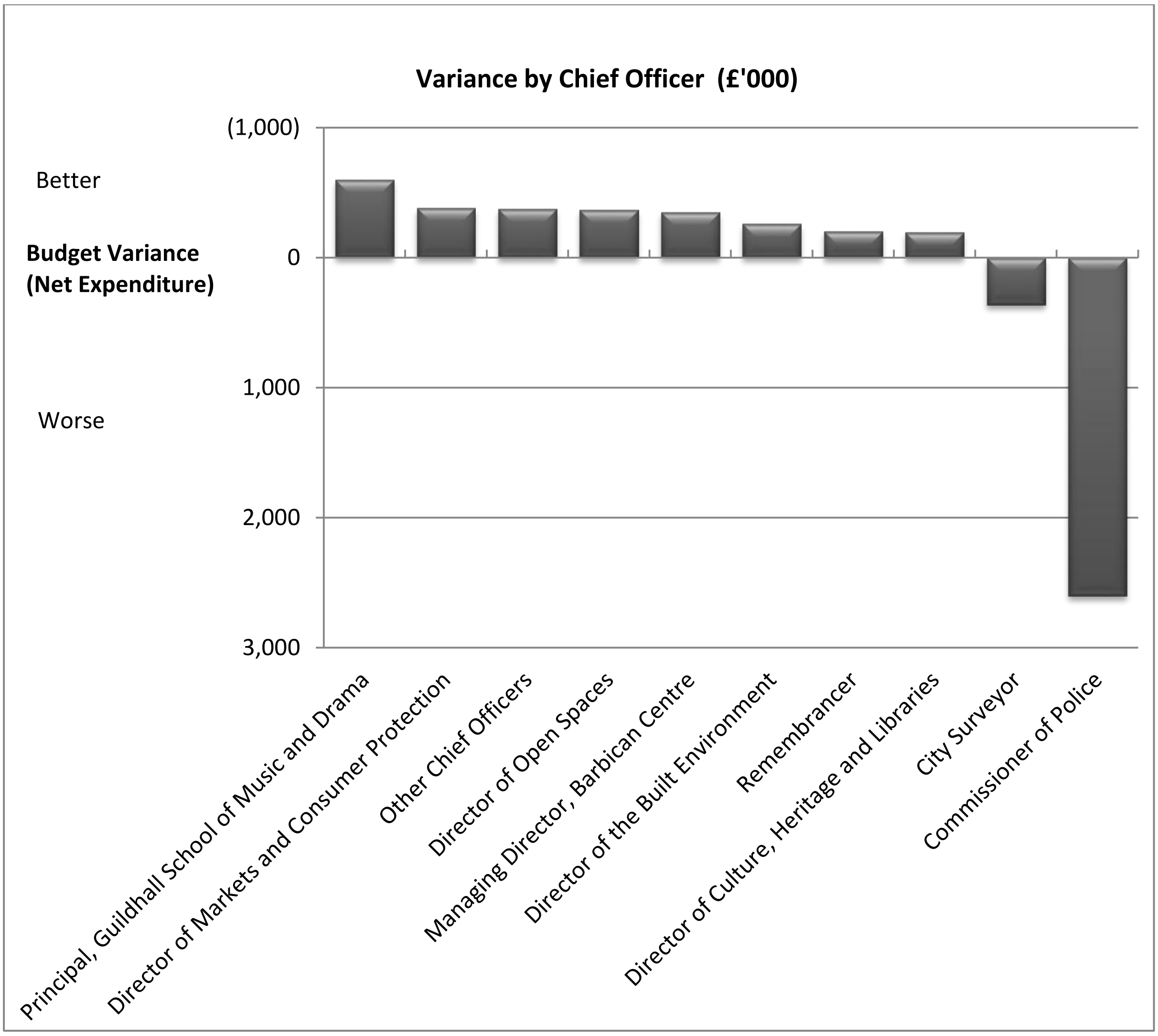
Chief Officer Cash Limited Budgets

1. The year end forecast is £0.3m over the latest approved budget of £211.3m, which represents an improved position of £2.5m compared to the forecast position at quarter two. The key cause for the improvement is the additional

resources of £2.8m (£1.9m for Chamberlains and £0.9m for Police) in relation to the IT service provision.

2. The below graph shows Chief Officers with significant variances against budget forecast for the full year. Brief commentary on the main variances and actions being taken are outlined in Appendix 1. The other Chief Officers are broadly in line with the year to date and full year budgeted positions.

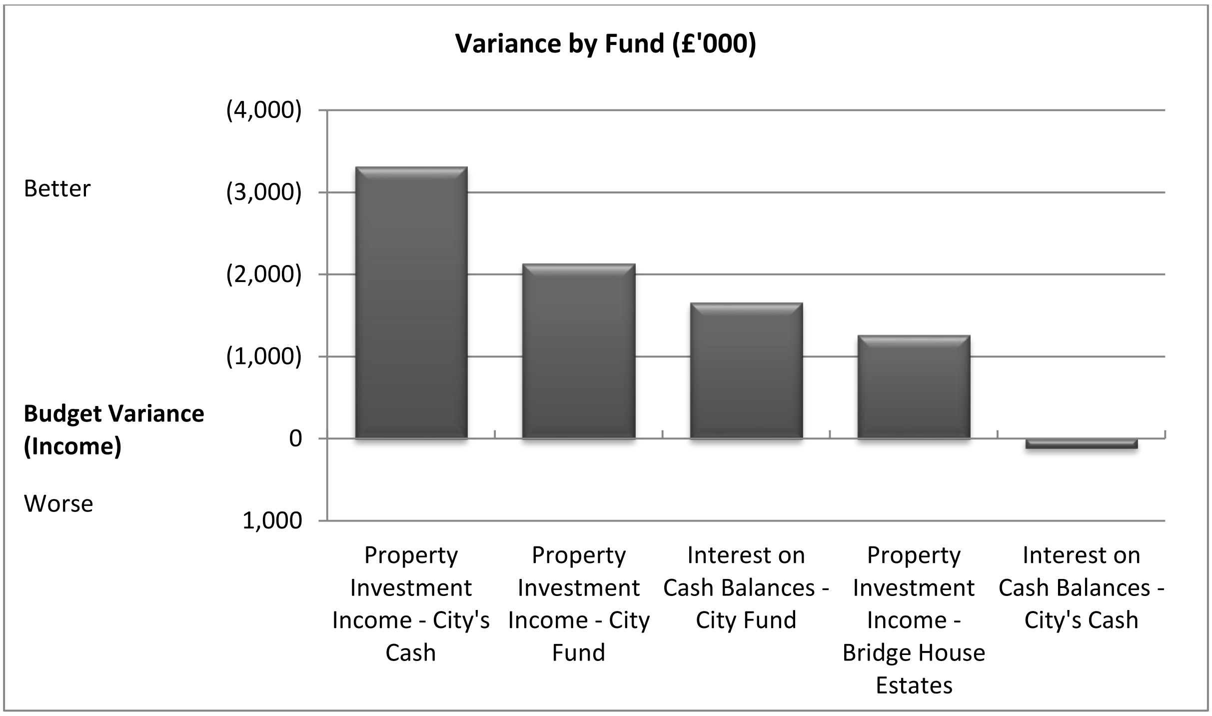
3. A summary of changes from Chief Officers original cash limited budgets to latest budgets is provided in Appendix 3.



4.

Central Risk Budgets

Corporate Income Budgets



5. The forecast outturn for property investment income is a positive variation of £6.7m against original budget due to a number of rental movements across the investment estates as follows:

- City's Cash (£3.3m) – is mainly due to new lettings at 53 New Broad St, 220-226 Tottenham Court Road and rent received from a new property acquisition at 37/39 Creechurch Lane.
- City Fund (£2.1m) – is mainly due to rent received on a new property acquisition at 133-137 Whitechapel High St and rent review at Baynard House.
- Bridge House Estate (£1.3m) – is principally due to rental income at 24-25 New Bond Street.

6. The forecast outturn for interest earnings is £1.5m better than original budget comprising a favourable variance on City Fund of £1.6m, partially offset by an unfavourable variance on City's Cash of £0.1m.

7. The latest budgets which take account of the forecast outturns are outlined in a separate report 'Revenue and Capital Budgets 2016/17 and 2017/18', elsewhere on the agenda.

Risks

7. The Police forecast excludes any potential overspending on the Police Action Fraud project. The potential overspending in 2016/17, which depends on the timing of milestone payments to IBM as work is completed, could be in the order of £0.5m. The project's overall finances are currently being reviewed in depth by the City Police finance team and a report will be submitted to Projects Sub (Policy and Resources) Committee on a revised funding strategy.

Appendices

- Appendix 1: Chief Officers Cash Limited Budgets - Full year forecast variances and commentary
- Appendix 2: Full year forecast comparison with the previous quarter
- Appendix 3: Summary of changes from the original budget to latest budget at 31st December 2016
- Appendix 4: Central Risk (Corporate Income Budgets) - Full year forecast variances

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Appendix 1

Chief Officer	**Latest Approved Budget £'000**	**Forecast £'000**	**Forecast Variance (B)/W £'000**	**Forecast Variance (B)/W %**
Principal, Guildhall School of Music and Drama	5,546	4,946	(600)	(11)
Director of Markets and Consumer Protection	3,702	3,320	(382)	(10)
Other Chief Officers	53,938	53,564	(374)	(1)
Director of Open Spaces	10,815	10,447	(368)	(3)
Managing Director, Barbican Centre	18,178	17,828	(350)	(2)
Director of the Built Environment	16,000	15,741	(259)	(2)
Remembrancer	796	593	(203)	(26)
Director of Culture, Heritage and Libraries	8,277	8,081	(196)	(2)
City Surveyor	29,523	29,884	361	1
Total (excluding Police)	**146,775**	**144,404**	**(2,371)**	**(2)**
Commissioner of Police	64,570	67,170	2,600	4
Total (including Police)	**211,345**	**211,574**	**229**	**0**

Chief Officer	**Latest Budget £'000**	**Forecast Variance (B)/W £'000**	**Cause/Action**
Principal, Guildhall School of Music and Drama	5,546	(600)	Student recruitment at the start of the 2017/18 academic year being 71 FTE's higher than planned.
Director of Markets and Consumer Protection	3,702	(382)	Additional 'Passports for Pets' and car park income; savings on salary costs due to vacanct posts and energy costs due to a lower unit price.

Chief Officer	Latest Budget £'000	Forecast Variance (B)/W £'000	Cause/Action
Other Chief Officers	53,938	(374)	This comprises other Chief Officers who are broadly in line with the year to date and full year budgeted positions. The forecast variance of £374k comprises favourable variances of £165k for Town Clerk, £120k for Chamberlain and £91k for Private Secretary and Chief of Staff to the Lord Mayor; which are partially offset by an adverse variance of £2k for Director of Community and Childrens Services. The total variance of £374k is principally due to underspends on staff and travel costs. The following Chief Officers are forecasting to be on budget at year end - Comptroller and City Solicitor; Headmistress, City of London School for Girls and Head, City of London School and Headmaster, City of London Freemen's School.
Director of Open Spaces	10,815	(368)	Above target income at the Cemetery and Crematorium.
Managing Director, Barbican Centre	18,178	(350)	Increased activity at the gallery, theatre and business events, as well as income for development expected to be received in Q4.
Director of the Built Environment	16,000	(259)	Additional barrier, car park and 'Drain & Sewers Service' income and savings on electricity and salaries. Also admin fees held on the balance sheet from old closed recoverable jobs has been redistributed to provide highway maintenance in other areas and will result in a lower draw down from the Parking Meter Reserve at year end.
Remembrancer	796	(203)	Increased Guildhall lettings income.
Director of Culture, Heritage and Libraries	8,277	(196)	The forecast comprises a favourable variance of £300k on Tower Bridge partially offset by an adverse variance of £104k on Monument.Tower Bridge income is forecast to be significantly above the uplifted income target, which is due to the impact of the refurbishment works being less disruptive on performance as originally expected. Monument has experienced a shortfall in income following its closure for repair work and limited access due to TfL hoardings at Fish Hill.

Chief Officer	Latest Budget £'000	Forecast Variance (B)/W £'000	Cause/Action
City Surveyor	14,807	361	The total variance of £361k is principally due to projected overspends at Walbrook Wharf of £157k and the Guildhall Complex of £147k. At Warlbrook Wharf, unforeseen reactive repairs to ageing assets have been incurred for health and safety reasons, together with unexpected flood risk mitigation works. All areas of discretionary spend will be reviewed to try and reduce the forecast overspend position by year end. At Guildhall, despite the additional resources agreed in December of £372k to meet higher running costs including repairs and maintenance and energy costs, there are still budget pressures on the cost of providing security services for the complex. An in-depth value for money exercise on security services for Guildhall has been fastracked as part of a cross-cutting thematic exercise. The findings of the review and options for the future are due to be reported to the Strategic Asset Management Board, however at this time a year end overspend of £147k is anticipated.
Commissioner of Police	64,570	2,600	For the City Police, the latest forecast indicates that a transfer of £2.6m will be required to remain within the cash limit of £64.6m. The budget was based on remaining within the cash limit without any call on reserves, using £2.6m from the general reserve would leave a balance of £1.5m at 31st March 2017. The Police forecast excludes any potential overspending on the Police Action Fraud project. The potential 2016/17 overspending, which depends on the timing of milestone payments to IBM as work is completed, could be in the order of £0.5m. The project's overall finances are currently being reviewed in depth by the City Police finance team and a report will be submitted to Projects Sub (Policy and Resources) Committee.

Appendix 2

Original Budget	Chief Officer Cash Limited 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	Variance (Better)/ Worse		Latest Budget	Variance (Better)/ Worse		
£'000		£'000	£'000	%	£'000	£'000	%	£'000
	City Fund							
1,736	Chamberlain	1,819	(50)	(3)	1,819	(50)	(3)	0
5,053	City Surveyor	5,651	14	0	5,607	133	2	119
7,387	Director of Community & Children's Services	7,560	(58)	(1)	7,627	2	0	60
7,831	Director of Culture, Heritage & Libraries	7,906	0	0	7,939	0	0	0
1,955	Director of Markets & Consumer Protection	2,155	(99)	(5)	2,184	(232)	(11)	(133)
(646)	Director of Open Spaces	(520)	(363)	(70)	(516)	(368)	(71)	(5)
15,563	Director of the Built Environment	15,788	(446)	(3)	15,744	(258)	(2)	188
16,909	Managing Director, Barbican Centre	18,108	0	0	18,178	(350)	(2)	(350)
7,552	Town Clerk	7,743	(50)	(1)	7,764	(100)	(1)	(50)
63,340	**Total City Fund (excluding Police)**	**66,210**	**(1,052)**	**(2)**	**66,346**	**(1,223)**	**(2)**	**(171)**
	City's Cash							
69	Chamberlain	69	0	0	69	0	0	0
14,225	City Surveyor	14,555	(15)	(0)	14,425	82	1	97
420	Director of Community & Children's Services	445	0	0	445	0	0	0
(42)	Director of Culture, Heritage & Libraries	(17)	104	612	(17)	104	612	0
1,457	Director of Markets & Consumer Protection	1,603	(68)	(4)	1,518	(150)	(10)	(82)
10,993	Director of Open Spaces	11,309	0	0	11,331	0	0	0
799	Head, City of London School	799	0	0	816	0	0	0
60	Headmaster, City of London Freemen's School	(51)	(2)	(4)	(51)	0	0	2
155	Headmistress, City of London School for Girls	155	0	0	171	0	0	0
5,479	Principal, Guildhall School of Music & Drama	5,479	0	0	5,546	(600)	(11)	(600)
2,381	Private Secretary & Chief of Staff to the Lord Mayor	2,471	(66)	(3)	2,615	(91)	(3)	(25)
1,080	Remembrancer	1,105	0	0	1,134	0	0	0
569	Town Clerk	667	0	0	672	(15)	(2)	(15)
37,645	**Total City's Cash**	**38,589**	**(47)**	**(2)**	**38,674**	**(670)**	**(2)**	**(623)**
	Bridge House Estates							
2,412	City Surveyor	2,412	4	0	2,420	0	0	(4)
595	Director of Culture, Heritage & Libraries	667	(300)	(45)	355	(300)	(85)	0
256	Director of the Built Environment	256	0	0	256	(1)	(0)	(1)
1,267	Town Clerk	1,309	0	0	1,358	0	0	0
4,530	**Total Bridge House Estates**	**4,644**	**(296)**	**(6)**	**4,389**	**(301)**	**(7)**	**(5)**
	Guildhall Administration							
18,532	Chamberlain	18,752	1,770	9	20,648	(70)	(0)	(1,840)
6,696	City Surveyor	6,696	379	6	7,071	146	2	(233)
2,897	Comptroller and City Solicitor	3,119	0	0	3,184	0	0	0
(379)	Remembrancer	(339)	0	0	(338)	(203)	(60)	(203)
6,664	Town Clerk	6,802	0	0	6,801	(50)	(1)	(50)
34,410	**Total Guildhall Administration**	**35,030**	**2,149**	**6**	**37,366**	**(177)**	**(0)**	**(2,326)**
139,925	**Grand Totals (excluding Police)**	**144,473**	**754**	**1**	**146,775**	**(2,371)**	**(2)**	**(3,125)**
58,347	Commissioner of Police	63,580	2,000	3	64,570	2,600	4	600
198,272	**Grand Totals**	**208,053**	**2,754**	**1**	**211,345**	**229**	**0**	**(2,525)**

Appendix 3

Chief Officer - Cash Limited Budgets (Excluding Police)		
	£'000	£'000
Original Budget (Excluding Police)		**139,925**
Previously reported budget movements		4,548
		144,473
Movements since previous report		
Additional resources for IT Department approved by Court of Common Council 8/12/16	1,896	
Contribution pay and London Living wage adjustments	676	
Allocation from contingencies for Guildhall Complex approved by Resource Allocation Sub Committee 15/12/16	372	
Transfer of City Surveyor budget to a SRP for Temple Chambers	(305)	
Base budget uplift to Tower Bridge Tourism income target agreed by Culture, Heritage & Libraries Committee 5/12/16	(300)	
Budget reductions for Graduate Scheme, Printing & Stationery and Pensionsers Lunch as part of SBR savings	(219)	
Additional resources for 'Promoting the City' agreed by Resource Allocation Sub 5/7/16	173	
Adjustment for rates revaluations	(168)	
Allocation from contingencies for Investment Property Group approved by Resource Allocation Sub 15/12/16	83	
Adjustment for Barbican Residential loss of rent income from sold flats	53	
Additional resources for City Bridge Trust approved by Resource Allocation Sub 15/12/16	49	
Approved local risk carry forwards, including Barbican Residential 2015/16 overspend	(39)	
Latest estimates for Schools agreed in December 2016 by Board of Governors	33	
Other minor adjustments	(2)	
		2,302
Latest Budget (Excluding Police)		**146,775**

Appendix 4

	Original Budget £'000	Forecast Outturn £'000	Variance (B)/W £'000	Variance (B)/W %
Property Investment Income - City's Cash	(50,447)	(53,765)	(3,318)	(7%)
Property Investment Income - City Fund	(42,329)	(44,466)	(2,137)	(5%)
Property Investment Income - Bridge House Estates	(20,153)	(21,414)	(1,261)	(6%)
Total Property Investment Income	**(112,929)**	**(119,645)**	**(6,716)**	**(6%)**
Interest on Cash Balances - City Fund	(2,500)	(4,154)	(1,654)	(66%)
Interest on Cash Balances - City's Cash	(300)	(185)	115	38%
Interest on Cash Balances - Bridge House Estates	(100)	(100)	0	0%
Total Interest on Cash Balances	**(2,900)**	**(4,439)**	**(1,539)**	**(53%)**
Total	**(115,829)**	**(124,084)**	**(8,255)**	**(7%)**

Committee:	Date:
Finance Committee	21 February 2017
Subject: Irrecoverable Non-Domestic Rates and Council Tax	**Public**
Report of: Chamberlain	**For Decision**
Report author: Carla-Maria Heath, Chamberlain's Department	

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 £1,121,145 noting that £321,526 will be met by the City Corporation and £9,052 from the premium; and.
b) Approve the write off of irrecoverable council tax in the sum of £7,064.

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 £7,064. 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 2014/15 £**	**Amount written off 2015/16 £**	**Amount submitted for write off 2016/17 £**
Dissolved companies	434,218	790,341	649,332
Companies in liquidation	481,390	1,223,574	281,411
Companies in administration	55,241	0.00	43,593
LPA Receiver appointed	0.00	0.00	0.00
Bankrupt individuals	16,184	0.00	15,416
Absconded individuals	26,165	70,621	117,318
Otherwise irrecoverable/uneconomic	0.00	121,286	14,075
Total	1,013,198	2,205,822	**1,121,145**

7. The total annual debit for each of these years is in excess of £850 million. The total this year is comparable to previous years. There is a single case where a ratepayer has absconded owing almost £90,000. Following two years of searching, the absconder remains untraced and no goods have been found upon which to distrain. In these circumstances there is no alternative but to write off 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 2014/15 £**	**Amount written off 2015/16 £**	**Amount submitted for write off 2016/17 £**
Absconded tax payers	2,394	12,477	1,147
Bankruptcy	1,298	0.00	0.00
Deceased tax payers	0.00	4,032	0.00
Companies in liquidation	0.00	0.00	5,917
Total	**3,692**	**16,509**	**7,064**

9. The annual debit for 2016-17 is approximately £7.2 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 0.40% in each year.

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	535,877
City Corporation	321,526
GLA	214,351
Crossrail Supplement	40,339
Premium	9,052
Total	**1,121,145**

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

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Committee:	Date:
Finance Committee	21 February 17
Subject: City Procurement Quarterly Update – February 2017	**Public**
Report of: The Chamberlain	**For Information**
Report author: Chris Bell, Chamberlain's Department	

Summary

The report updates Members on the work of City Procurement and the key areas of progress since April 2016.

Members are asked to:

a) Note the progress report on key strategic improvement projects and performance:
   i. Current 2016/17 cumulative savings of £6.30m achieved against cumulative target of £6.55m
   ii. Projecting 2016/17 end of year savings of £8.27m against target of £7.90m
   iii. PO Compliance averaging at 96% in 2016/17
   iv. 97% of all supplier payments happening within 30 days whilst 85% of SME supplier payments happening within 10 days
   v. 93% of invoices are received electronically

Main Report

Background

1. City Procurement has three main functions, Category Management/Sourcing, Accounts Payable and Policy and Compliance. The service has a number of key improvement projects that support the objectives of the Procurement Strategy 2015-2018 presented to Finance Committee in June 2015. This report updates on progress of the key projects and current performance of delivery against the service KPIs set in April 2016.

City Procurement Strategy and Key Improvement Projects

2. The City Procurement 3 year strategy has 4 themes and in year 2 the focus is on increasing Value for Money. The key improvement projects supporting this strategy current are:

   a) **Commercial Contract Management –** We have recruited five posts out of seven with the new team members arriving mainly during the month of February. The draft framework and toolkit to support and embed better contract management within the organisation has had a first round of consultation with the final draft targeted for completion by the end of February. A detailed update is to be reported at Efficiency and Performance Sub-Committee this month.

b) **Payment Card Management System** – The City has now launched a new self-service portal for spend management and budget owners of all payment card activities. A full report on P-Cards was reported at Finance Committee in January 2017.

c) **Responsible Procurement Strategy** – The Corporation's first Responsible Procurement Strategy was published in July 2016. A range of interventions are ongoing across all our new contracts to ensure greater results from our purchasing activity. A report will be brought back to Committee in September 2017 with details of the impact of the strategy 12 months on.

d) Early Payment Discount Scheme – There is a full paper at this Committee on this new initiative for City Procurement to obtain discounts from suppliers for prompt payments in advance of contracted 30 days terms and conditions. Estimates are projecting net income of £540k over a 5 year period.

e) **Commercial Opportunities** – Although the new Commercial team does not "go live" until April 2017, there have been some early opportunities identified. There is a paper going to Strategic Resources Group on 8th February to seek approval for a new working group to review all aspects of fleet and plant purchasing, management and maintenance as the Commercial Director has identified this as potentially an area where efficiencies and savings could be achieved if managed differently from current practices. A report on early opportunities identified is scheduled to be presented at May 2017 Efficiency and Performance Sub-Committee.

Efficiency and Savings

3. City Procurement is set an annual savings target at the start of each year based on the contracts to be let during the financial year that have the potential to make efficiency or cost savings and contracts let in previous years that are generating guaranteed savings in the current year. Each contract is reviewed by the relevant Category Board to set the targets: each contract target considers historic spend, scope changes, complexity, risk and industry benchmarks. The 2016/17 City Procurement target is £7.90m.

The Annual Savings Target elements

4. The 2016/17 annual savings target was set using two types of in-year savings:

    a. **Previously let contracts generating savings (known as run-rate)** – Savings already guaranteed for the current financial year from contracts let in previous years. This is for contracts that span different financial years and is typically for service contracts that are let for a 2-7 year period when the savings are spread across the contract life.

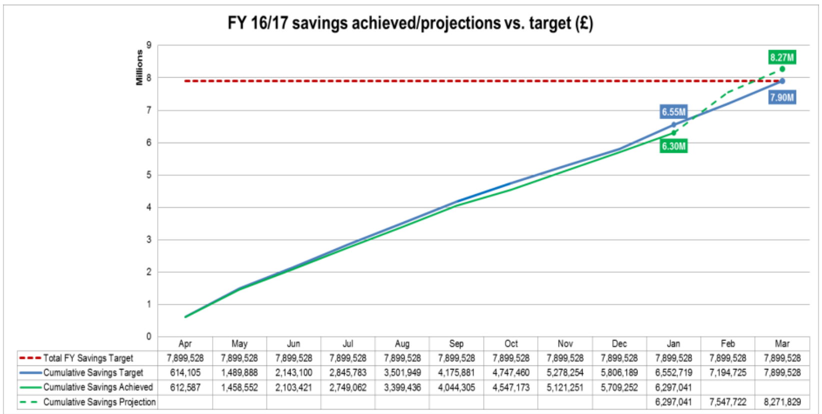
    b. **New contracts let generating savings** – Savings targeted to be generated from new contracts let during the current financial year.

5. The savings targets are for competitive price savings and are not inclusive of scope changes/service downgrades or other operation decisions which are treated as local department savings.

2016/2017 Efficiencies and Savings progress as at 31 January 2017

6. City Procurement has achieved £6.30m this year to date compared to the cumulative target of £6.55m for this period. In terms of the annual position City Procurement is projecting a positive end of year position of realised savings totalling £8.27m against the 2016/17 target of £7.90m as illustrated in the Figure A below. Of the projected £8.27m total savings, it is projected that £6.71m will be budget impact savings (£587k cashable in year) resulting in budget adjustments for any newly realised savings achieved within 2016/17.

Figure A – Actual Vs. Target Savings (*Target £7.90M*)

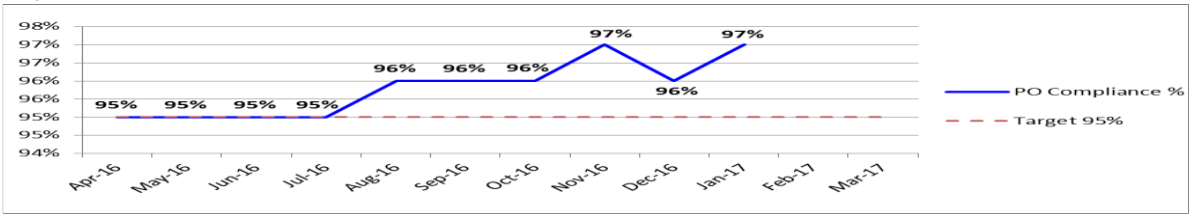


The Cumulative Savings Projections as shown in Figure A above refer to the projects listed in Appendix 1.

Accounts Payable Performance - PO Compliance/No PO No Pay

7. The Corporation's No PO No Pay Policy is now fully embedded and we continue to achieve high levels of compliance with every month so far achieving or beating our target of 95% compliance. Figure B illustrates the performance this year.

Figure B - Corporation PO Compliance 2016/17 (*Target 95%)*



Payment Performance

8. As at the end of January 2017, the Corporation's 30 days invoice paid on time performance for the month is 95% (target 97%) with the average for the year so far achieving 97%. We have only fallen below this target twice this year: the first in July, which was mentioned in November's quarterly update, and the second being in January 2017, which is due to staff resource issues (we have had 2 vacant posts to fill) which are being addressed.

9. Our 10 day SME invoice payment performance is averaging at 85% this year (target 88%). Unfortunately the resource issue mentioned above has affected the 10 day average the most and will make it very difficult to hit the target for the current financial year. However we hope to reach the 10 day figure achieved in

2015/16 which was 86%. The following figures show performance trends for both metrics during 2016/17 to date.

Figure C – 30 Day Payment Performance trend report (*Target 97%*)

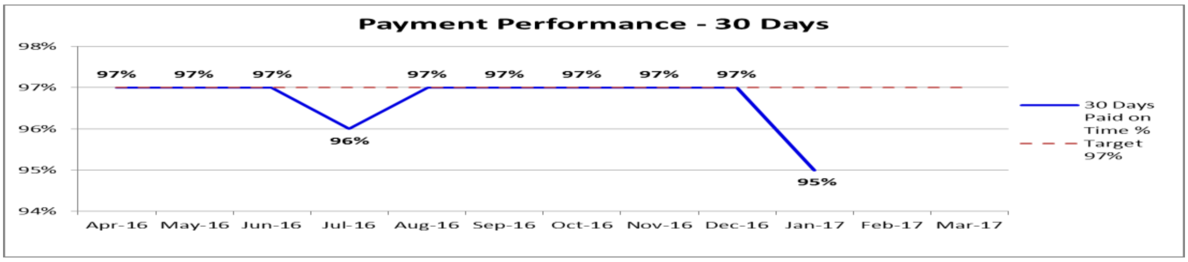
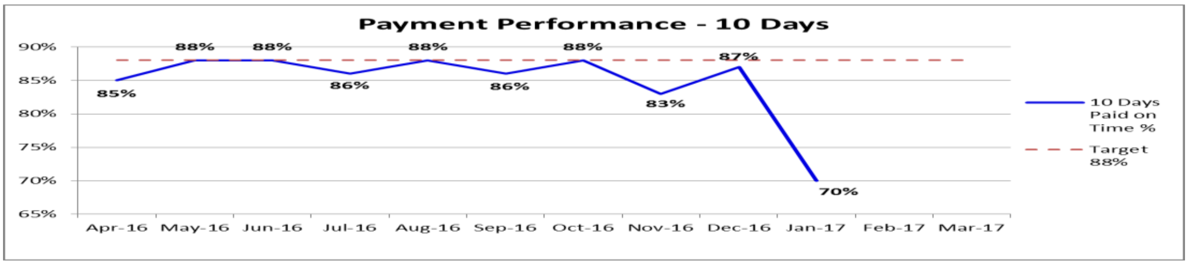


Figure D – 10 Day SME Payment Performance trend report (*Target 88%*)



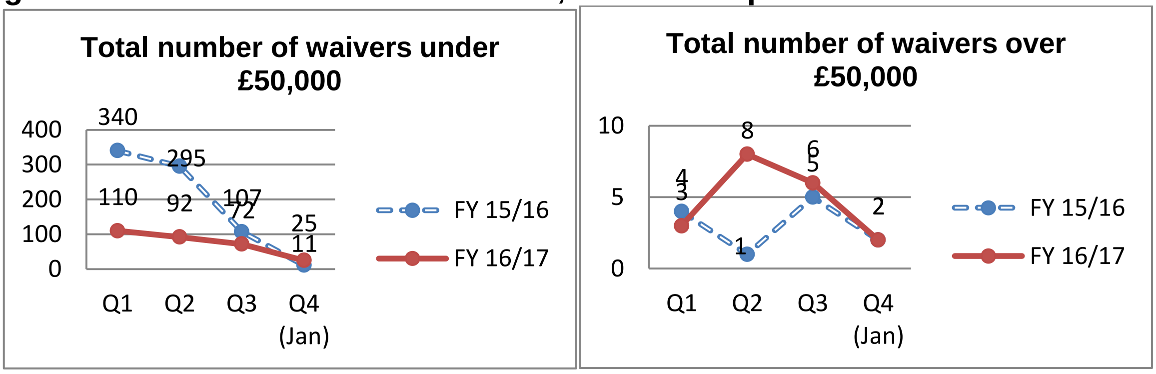
Electronic Invoices Received

10. As at the end of December 2016, the number of electronic invoices being received is 93% and sees us regular hitting this figure over the last quarter. The 10% increase since April 2016 when this initiative was launched is particularly positive.

Current Waiver performance

11. This part of the report sets out the quarterly trend update on the approval of waivers. The following graphs compare the trend of number of waivers from Q1 2015/16 to Jan 2016 and Q1 2016/17 to Jan 17. Appendix 2 sets out a summary of the total number, value and the reasons for the waivers. Waivers under £50,000 require a Chief Officer approval, with those above requiring the approval of the Chamberlain (under urgency) or the appropriate spend Committee.

Figure E - Waivers under and over £50,000 trend reports



12. The number of under £50k waivers in the first 3 quarters of 2016/17 drastically decreased in comparison to the same period of 2015/16 showing a growing awareness of regulatory requirements within the Corporation. There has however been a slight increase in the number of over £50k waivers in comparison.

Conclusion

13. City Procurement continues to enhance its service levels whilst achieving improving performance, attaining consistently the majority of its KPIs which have been raised in this financial year. The strategy of developing operational excellence and value for money levels during 2016/17 has progressed significantly with a series of improvement programmes now completed whilst being managed at an implementation pace that has not impacted service delivery levels.

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Appendix 1 – Summary of savings projections for FY 16/17 as at end of Jan 17 which are pending approval

Project	**FY 16/17 Savings Projection value (£)**
Property Insurance	400,000
Freemen's School Swimming Pool	263,710
Comensura rebate (Q1+Q2 FY16/17 forecast)	144,427
Telephone lines and ISDN	56,055
End user devices	55,121
Fire safety services	39,850
COLP Record storage and retrieval service	7,642
Total	**966,804**

Appendix 2 - Summary of overall waivers performance

Table 1- Waivers under £50,000 number and value comparator report

2016/17	**Number**	**Value (£)**	**Average Value(£)**
Q1 (April – June)	110	2,430,762	22,098
Q2 (July – September)	92	1,682,215	18,285
Q3 (October - December)	72	1,339,182	18,600
Q4 (January)	25	565,556	22,622
2015/16	**Number**	**Value (£)**	**Average Value(£)**
Q1 (April – June)	340	2,620,613	7,753
Q2 (July – September)	295	2,431,485	8,299
Q3 (October - December)	107	1,293,733	12,091
Q4 (January)	11	249,320	22,665

Table 2 - Waivers over £50,000 number and value comparator report

2016/17	**Number**	**Value (£)**	**Average Value(£)**
Q1 (April – June)	3	245,450	84,817
Q2 (July – September)	8	1,246,212	155,777
Q3 (October - December)	6	911,235	151,873
Q4 (January)	2	362,400	181,200
2015/16	**Number**	**Value (£)**	**Average Value(£)**
Q1 (April – June)	4	680,985	170,246
Q2 (July – September)	1	154,000	154,000
Q3 (October - December)	5	482,980	96,596
Q4 (January)	2	110,000	55,000

Table 3 – Analysis of reasons provided for need for waivers (Under £50k)

	16/17 Q1
Sole Supplier (not advertised)	66
Retrospective Waiver	19
Outside Corporate Contract	18
Extension of Contract	7
Total	**110**

	16/17 Q2
Retrospective Waiver	61
Sole Supplier (not advertised)	22
Extension of Contract	7
Outside Corporate Contract	2
Total	**92**

	16/17 Q3
Retrospective Waiver	58
Sole Supplier (not advertised)	9
Outside Corporate Contract	3
Extension of Contract	2
Total	**72**

	16/17 Q4 (Jan)
Retrospective Waiver	20
Extension of Contract	3
Sole Supplier (not advertised)	2
Outside Corporate Contract	0
Total	**25**

Table 4 – Retrospective Waivers (Under £50,000 – FY 2016/2017 to Jan 17)

4 - Retrospective Waiver (A purchase where previous authority has not been obtained)	Number of Waivers	Total Value £
Barbican	40	£742,276
Town Clerks	18	£341,398
Community and Children's Services	14	£287,797
Built Environment	10	£272,675
Chamberlain's	13	£190,798
COL School	10	£181,612
City of London Police	9	£167,000
Open Spaces	7	£156,916
Freemen's School	8	£141,006
Remembrancer's	5	£124,756
GSMD	6	£123,370
Culture, Heritage & Libraries	4	£75,209
City Surveyors	4	£69,509
Mansion House	3	£47,608
City Bridge Trust	2	£22,600
Markets & Consumer Protection	2	£22,201
COL School for Girls	2	£22,042
Central Criminal Courts	1	£15,800
Total	**158**	**£3,004,573**

Table 5 – Retrospective Waivers (Over £50,000 – FY 2016/2017 to Jan 17)

4 - Retrospective Waiver (A purchase where previous authority has not been obtained)	Number of Waivers	Total Value £
Built Environment	2	£157,402
City of London Police	1	£96,875
Barbican	1	£62,400
Total	**4**	**£316,677**

Committee:	Date:
Finance Committee	21 February 2017
Subject: Chamberlain's Department Risk Management – Monthly Report	**Public**
Report of: Chamberlain	**For Information**
Report author: Hayley Hajduczek, 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 within the responsibility of Chamberlain's Department:

- **CR19 - IT Service Provision**

The Senior Leadership Team continues to monitor closely the progress being made to mitigate this risk. Additional funding has been approved to support and strengthen the IT service in the longer term, there is a clear programme of activity to deliver sustainable performance improvements by the end of 2017.

An emerging risk has been identified regarding a potential withdrawal of ESF grant funding up to a maximum of £300k. Discussions are taking place with GLA to reduce the impact of this risk.

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 and no RED risks on the departmental Risk Register:

   CR19 – IT Service Provision (Current Risk: Red – no change**)**

   The primary focus of the team is on stabilisation, a more robust approach to managing change is in operation, reducing the likelihood of service interruption. IT Division has secured a £2.8m budget uplift for the remainder of 2016/17, £3.7m in subsequent years, to implement sustainable mitigations and long term service improvements. The risk is expected to reduce to Amber by December 2017 followed by steady progress to Green in the subsequent 12 months. The team are managing a number of operational risks which contribute towards managing this higher level strategic risk.

Other Material Changes since the Previous Review

4. **CR14 – Funding Reduction** (Current status : Closed)
   Current modelling shows an improving budget position on City Fund due to business rates growth and increased rates retention from 2017/18 onwards.

   There is currently no perceived risk to the City of London Corporation over the short term from reduced government funding; the focus of this risk has moved more towards securing value for money and effective use of resources. Meanwhile the funding reduction risk to the City of London Police is increasing.

   This risk has now been removed from the register and two new risks have been raised to reflect this. The first is a revised focus on value for money (CHB012) across all funds and a second risk has been raised for City of London Police funding (CHB013). While the risk to City of London Corporation is reducing, the risk in relation to City of London Police funding remains. The Senior Leadership Team are currently considering whether this Police funding risk should be added to the corporate risk register or remain a departmental risk.

5. **CHB014 – Loss of ESF Funding for Central London Forward CESI Programme** (Current Risk: Amber)
   A new risk has been added to the departmental register whereby the City of London Corporation have not complied fully with ESF grant terms and conditions in relation to the procurement of the contractor for this program. City Procurement and the Comptroller and City Solicitor are in dialogue with the GLA to reduce the potential liability. The maximum liability is £300k which, if the GLA decision is upheld, will be the subject of a request for funding from the Finance Committee contingency fund.

Conclusion

6. Members are asked to note the actions taken to manage the IT provision risk in relation to the operations of the Chamberlain's Department and the emerging risk in relation to the potential loss of ESF Grant Funding.

Appendices

- None

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Committee:	Date:
Finance Committee	21 February 2017
Subject: Central Contingencies	**Public**
Report of: Chamberlain	**For Information**
Report author: John James, Chamberlain's Department	

Main Report

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 to support humanitarian disaster relief efforts both nationally and internationally. The available balance of £55,000 on this contingency includes funds brought forward from 2015/16.
3. The uncommitted balances that are currently available are set out in the table below.

2016/17 Contingencies – Uncommitted Balances at 2 February 2017				
	City's Cash £'000	City Fund £'000	Bridge House Estates £'000	Total £'000
General Contingencies	391	733	50	1,174
National and International Disasters	55	0	0	55
Uncommitted Balances	**446**	**733**	**50**	**1,229**

4. At the time of preparing this report there is one request for the use of contingencies included within the non–public session of the agenda.

5. The sums which the Committee has previously allocated from the 2016/17 contingencies are listed in Appendix 1.

Recommendation

Members are asked to note the contents of this report.

Appendices

Appendix 1 – Allocations from 2016/17 contingencies

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2016/17 General Contingency – City's Cash

Date	Description	Responsible Officer	Allocation £	Balance £
	2016/17 Provision			950,000
	2015/16 Provision brought forward to fund allocations agreed in previous years			310,000
	Total Provision			1,260,000
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	60,000	
17 Feb 2015	Grant funding for The Honourable The Irish Society (£25,000 p.a. for 2014/15 and 2015/16) with payment of the grant conditional upon the purchase of the land in question for development	TC	50,000	
15 Dec 2015	£150,000 to fund emergency repair works to the glass panels of the Guildhall West wing staircase	CS	150,000	
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	
11 Jul 2016	£18,600 to fund the staffing of the Central Grants Unit for a total of 3 months	TC	18,600	
1 Aug 2016	Additional £75,000 to fund emergency repair works to the glass panels of the Guildhall West wing staircase	CS	75,000	

Date	Description	Responsible Officer	Allocation £	Balance £
13 Dec 2016	£372,000 towards the Guildhall Administration budgetary 2016/17 overspend	CS	372,000	
13 Dec 2016	£83,000 to fund three additional members of staff in Investment Property Group	CS	83,000	
13 Dec 2016	£10,000 for charitable donations to be made at Christmas 2016	TC	10,000	
	Total allocations agreed to date			868,600
	Balance remaining prior to any requests that may be made to this meeting			391,400

2016/17 General Contingency – City Fund

Date	Description	Responsible Officer	Allocation £	Balance £
	2016/17 Provision			800,000
	2015/16 Provision brought forward to fund allocations agreed in previous years			118,000
	Total Provision			918,000
17 Feb 2015	£142,000 (£84,000 in 2014/15 and £58,000 in 2015/16) towards an appeal regarding Greater London Authority Roads. In 2015/16 £20,000 of the allocation was spent therefore the balance of £38,000 was brought forward into 2016/17	C&CS/CS	38,000	
19 Jan 2016	£80,000 increase in the allocation towards the Greater London Authority Roads appeal	C&CS/CS	80,000	
18 Oct 2016	£6,250 to fund legal fees in relation to the admittance of the London Collective Investment Vehicle (CIV) into the Corporations Local Government Pension Scheme	CHB/C&CS	6,250	
13 Dec 2016	£61,000 to meet the costs of setting up the City of London Corporations Apprenticeship Service	DCCS	61,000	
	Total allocations agreed to date			185,250
	Balance remaining prior to any requests that may be made to this meeting			732,750

2016/17 General Contingency – Bridge House Estates

Date	Description	Responsible Officer	Allocation £	Balance £
	2016/17 Provision			50,000
	Total allocations agreed to date			0
	Balance remaining prior to any requests that may be made to this meeting			50,000

2016/17 National & International Disasters Contingency – City's Cash

Date	Description	Responsible Officer	Allocation £	Balance £
	2016/17 Provision			100,000
	2015/16 Provision brought forward to fund allocations agreed in previous years			80,000
	Total Provision			180,000
12 Apr 2016	£50,000 grant to UK Community Foundations in order to benefit children who are refugees/seeking asylum	TC	50,000	
10 Oct 2016	£30,000 donation to the Red Cross Hurricane Appeal	TC	30,000	
12 Dec 2016	£20,000 donation to Save the Children's Nigeria Food Crisis Emergency Appeal	TC	20,000	
12 Dec 2016	£25,000 donation to the Disaster Emergency Committee's Yemen Crisis Emergency Appeal	TC	25,000	
	Total allocations agreed to date			125,000
	Balance remaining prior to any requests that may be made to this meeting			55,000

Key to Responsible Officers:

CS – City Surveyor
TC – Town Clerk
C&CS – Comptroller and City Solicitor
CHB – Chamberlain
DCCS – Department of Community and Children's Services

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