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

Summary

This report presents the overall financial position of the City Fund (i.e. the Corporation's finances relating to Local Government, Police and Port Health services). It recommends that:

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

There is a further report to your Committee on the financial position of all the City Corporation's Funds.

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

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

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

Recommendations

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

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

<u>Key decisions</u>

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

Business Rates

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

Council Tax

- Recommendation is for the City's Council Tax (excluding the Greater London Authority precept) to remain unchanged.
- Based on a zero increase from 2015/16, determine the provisional amounts of Council Tax for the three areas of the City to which are added the precept of the Greater London Authority (appendix A).

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

Other recommendations

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

Recommendations

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

Capital expenditure

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

Chamberlain's assessment

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

Main Report

Financial overview

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

2. The lastest forecast position for City Fund, showing Police separately, and taking account of conclusions from the annual survey and the property rental income forecasts from the City Surveyor, is shown below:

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

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

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

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

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

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

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

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

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

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

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

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

   b. **City Offset:** In addition to Formula Grant, the City Fund uniquely receives, under business rates' regulations, an Offset from the business rates collected in the Square Mile. The amount of the Offset is determined annually by DCLG and for 2016/17 will be £11.039m a similar level to 2015/16 with RPI added. Small inflationary increases have been assumed for the other years of the forecast period.

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

   d. **Council Tax:** The City's council tax, expressed at band D and excluding the GLA precept, is £857.31 for the current financial year, 2015/16. The 2% threshold for Council tax remains, but upper tier authorities will be allowed to raise a further 2% to spend on social care throughout the settlement period. It will be up to councils to choose whether to exercise their discretion to raise council tax by an additional 2% for adult social care. For the City a 2% increase would only generate £120k. Although we anticipate that other London authorities will use the 2% flexibility for social care, the forecast surplus on City Fund for 2016/17 would more than negate any pressures within social care. **The Recommendation is therefore to freeze rather than increase council tax.** There is no freeze grant this year.

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

City Police

6. Funding assumptions include:

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

    b. **Specific grants**: In addition to the main Police grant, the City Police receives many specific grants. The main one of these is for Dedicated Security funding and is yet to be confirmed. We have assumed that the funding will be £4.7m, a reduction of £0.8m on 2015/16 levels. Capital City Funding has been advised as part of the provisional settlement at £4.5m, an increase of 61% on the prior year (£2.8m in 2015/16).

    c. **Business Rates Premium:** The City is uniquely able to raise additional income for the City Fund from its business rate premium. The current premium on City businesses has been unchanged since 2006/07 at 0.4p, although the revenue hypothecated to Police has increased from £3.6m to £5.1m (40% increase in value) over this period. The forecasts currently assume no increase in business rates premium.

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

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

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

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

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

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

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

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

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

   i) Business Rate Premium increase.

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

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

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

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

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

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

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

ii) Further budget savings and income generation.

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

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

Revenue Spending Proposals for 2016/17

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

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

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

13. A separate report on today's agenda "Revenue and Capital Budgets 2015/16 and 2016/17" includes the detailed net revenue budget requirements of the City Fund. Included within the net expenditure is provision for any levies issued to the City by relevant levying bodies such as the Environment Agency, the Lee Valley Regional Park Authority, London Pensions Fund Authority and London Council's Grant scheme. This also includes the following precepts anticipated for the year by the Inner and Middle temples (after allowing for the cost of highways, transportation planning, waste collection and disposal, drains and sewers, open spaces and street lighting being declared as special expenses as in previous years).

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

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

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

Business Rates

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

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

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

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

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

- relief of up to £1,500 to retail premises up to 31st March 2016;
- 50% relief from non-domestic rates for up to 18 months between 1st April 2014 and 31st March 2016 on retail premises that become occupied, having been empty for at least one year;
- exemption from empty rate for new rating assessments that completed between 1st October 2013 and 30th September 2016 for up to 18 months; and
- relief of the value that would have applied under the transitional relief scheme for two years from 1st April 2015 to 31st March 2017 to properties with a rateable value of less than £25,500 that would otherwise face bill increases above 15% and to properties with a rateable value of £50,000 or less that would otherwise face bill increases above 25%.

Business Rate Supplement

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

Determination of the Council Tax requirement

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

22. After allowing for a proposed contribution to reserves, the final City Fund council tax requirement for 2016/17 is £6.0m. In accordance with the provisions in the Localism Act 2011, the council tax requirement allows for the Formula Grant, the City Offset, the City's Rate Premium and the estimated surplus on the Collection Fund at 31 March 2016. As detailed in Appendix A, the City's proposed Council Tax for 2016/17 at band D is £857.31. Consequently it is proposed to freeze Council Tax for 2016/17 at £857.31 (band D property), before adding the Greater London Authority (GLA) precept. To determine the City's Council Tax for each property band, nationally-fixed proportions are applied to the average band D property.

23. The GLA's 'provisional' precept for 2016/17 is £69.21 for a Band D property. This excludes the Metropolitan Police requirement and represents a decrease of £17.10 compared with 2015/16.

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

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

	£							
	A	B	C	**D**	E	F	G	H
CoL	571.54	666.80	762.05	857.31	1,047.82	1,238.34	1,428.85	1,714.62
GLA	46.14	53.83	61.52	69.21	84.59	99.97	115.35	138.42
Total	617.68	720.63	823.57	926.52	1,132.41	1,338.31	1,544.20	1,853.04

25. It is anticipated that the City's total Council Tax will remain the third lowest in London. The Court of Common Council will be requested to formally determine that the relevant (net of local precepts and levies) basic amount of Council Tax for 2016/17 will not be excessive in relation to the new referendum requirements for any council tax increases.

Council Tax Reduction (formerly Council Tax Benefit)

26. From April 2013, council tax reduction replaced council tax benefit and local authorities had to make their own local schemes if not applying the Government default scheme. The City adopted the default scheme.

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

the Council Tax Reduction Schemes (Prescribed Requirements) (England) (Amendment) (No. 2) Regulations 2014. Effectively, the City's Local Council Tax Reduction Scheme for 2016-2017 will have the annual uprating of non-dependent income and deductions, and income levels relating to Alternative Council Tax Reduction, or any other uprating as it applies to working age claimants, adjusted in line with inflation levels by reference to relevant annual uprating in the Housing Benefit Scheme or The Prescribed Council Tax Reduction Scheme for Pensioners.

Assumptions

28. Whilst the fundamental basis and approach underlying the previous forecast and the City Fund Medium Term Financial Strategy remains sound, it is proposed that certain key assumptions should be revised:

Income

a) Investment income outlook: The City has a key income stream from its property portfolio. Market rents appear to be performing strongly for the foreseeable future. Property rental income is forecast based on the expected rental for each individual property, allowing for anticipated vacancy levels, expiry of leases, lease renewals and the smoothing of anticipated rent periods. Rental income is forecast to grow over the period. However, a vote to leave the EU might have an impact on rent revenue in the longer term. A recent FT survey found a consensus from economists that many international companies would no longer choose Britain as a base for their European operations in the event of the UK leaving the EU.

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

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

Expenditure

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

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

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

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

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

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

Capital

29. The Corporation has a significant programme of property investments and works to improve the operational property estate and the street scene. Spending on these types of activity is classified as capital expenditure. Key areas in the 2016/17 capital programme (including the indicative costs of implementing schemes still subject to approval) comprise:

	£m
Capital Contribution to Crossrail	200.0
Roads, Bridges, Street-scene (including Aldgate)	21.2
Dwelling Improvements	16.6
Affordable Housing Construction	17.0
New Police Accommodation	13.3
Barbican Podium	7.0
Old Bailey Enhancements	2.2

30. Capital expenditure is primarily financed from capital reserves derived from the sale of properties, earmarked reserves and grants or reimbursements from third parties. The City has not borrowed any money to finance these schemes. Financing is summarised in the table below.

Table 6: Financing of 2016/17 City Fund Capital Expenditure

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

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

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

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

32. The prudential indicators listed above, together with some locally developed indicators, have been calculated in Appendix B. In addition, treasury-related prudential indicators are required to be set and these are included within the 'Treasury Management Strategy and Annual Investment Strategy' at Appendix C.

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

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

Provision for future capital expenditure

35. In addition to the programmed capital schemes over the planning period, the Capital Programme allows £3m per annum for new schemes [of which £1m has been earmarked to provide capital funding for the Museum of London] which have not yet been identified. If schemes are identified in excess of these provisions, Resource Allocation Sub Committee will need to prioritise requests and/or consider making further resources available from reserves.

Robustness of Estimates and Adequacy of Reserves

36. Section 25 of the Local Government Act 2003 requires the Chamberlain to report on the robustness of estimates and the adequacy of reserves underpinning the budget proposals.

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

    a) provision has been made for all known liabilities, together with indicative costs(where identified) of capital schemes yet to be evaluated
    b) the estimates and financial forecast have been prepared at this stage on the basis of the Corporation remaining debt free as no requirement to borrow is currently anticipated
    c) prudent assessments have been made in regard to key assumptions
    d) an annual capital envelope is in place seeking to ensure that capital expenditure is contained within affordable limits or, if on an exceptional basis funding is sought outside this envelope, it has to be demonstrated that the project is of the highest corporate priority.
    e) although the City Fund financial position is vulnerable to rent levels and interest rates, it should be noted that:
        - the City Surveyor has carried out an in-depth review of rent incomes
        - the assumed interest rate remains low across the planning period
    f) a strong track record in achieving budgets gives confidence on the robustness of estimates.

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

Risks

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

Within the City Corporation's control

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

Outside the City Corporation's control

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

Equalities Implications

40. During the preparation of this report all Chief Officers have been asked to consider whether there would be any potential adverse impact of the various budget policy proposals on the equality of service with regard to service provision and delivery that affects people, or groups of people, in respect of disability, gender and racial equality. None are anticipated but they are expected to confirm this by the date of the Committee.

Conclusion

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

42. The different financial messages of efficiencies and surpluses are likely to be very challenging to manage, especially with our external stakeholders. Further thought is being given on how best to tackle the issue. There are still risks around the implementation of the saving proposals, but the estimates are considered robust and the level of and polices relating to the City Fund reserves are considered reasonable.

Dr Peter Kane
Chamberlain

Appendices

Appendix A – Calculating Council Tax
Appendix B – Prudential Indicators
Appendix C – Treasury Management Strategy and Annual Investment Strategy – please note: main changes to the document from last year's version are highlighted in grey
Appendix D – City Fund Usable Reserves
Appendix E - Minimum Revenue Provision Policy Statement 2016/17

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Appendix A

Calculating Council Tax

Step One ('B1')

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

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

Where

'B1' is the Basic Amount 'One':

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

T is the amount which is calculated by the authority as its Council Tax base for the year. This amount was approved by the Chamberlain under the delegated authority of the City of London (7,041.95) together with the Council Tax bases for each part of the City's area.

The above calculation is as follows:

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

'B'1 = £857.31

Note: Item R consists of the following components:

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

Step Two ('B2')

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

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

Where:

'B2' is the Basic Amount 'Two';

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

A is the Aggregate of all special items;

T is the Council Tax base for the whole area

The above calculation is as follows:

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

‘B2’ = £1,435.69 CR

Note: Item A consists of the following components:

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

Step Three ‘B3’

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

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

Where:

‘B3’ is the Basic Amount ‘Three’

‘B2’ is the Basic Amount ‘Two’

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

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

City Area Excluding the Temples

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

$$\text{'B3'} = £857.31$$

Inner Temple

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

$$\text{'B3'} = £857.31$$

Middle Temple

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

$$\text{'B3'} = £857.31$$

Step Four

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

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

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

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

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

Council Tax per Property Band: calculated by applying nationally fixed proportions from Band D.								
	£							
	A	B	C	D	E	F	G	H
Proportion	6	7	8	9	11	13	15	18
CoL	571.54	666.80	762.05	857.31	1,047.82	1,238.34	1,428.85	1,714.62
GLA	46.14	53.83	61.52	69.21	84.59	99.97	115.35	138.42
Total	617.68	720.63	823.57	926.52	1,132.41	1,338.31	1,544.2	1,853.04

PRUDENTIAL INDICATORS

The following Prudential Indicators (and those included in Appendix C) have been calculated in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities. In addition a local indicator has been calculated to reflect the City's particular circumstances. Those indicators relating to estimates for the financial years 2016/17, 2017/18 and 2018/19 (values shown in bold) are required to be set by the Court of Common Council as part of the budget setting process, and should be taken into account when considering the affordability, prudence and sustainability of capital investments.

Prudential Indicators for Affordability

Estimate of the ratio of financing costs to net revenue stream

Table 1

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

This ratio is intended to represent the extent to which the net revenue consequences of financing and borrowing impact on the net revenue stream. Since the City Fund is a net lender in its Treasury operations and is in receipt of significant rental income from investment properties, the Non-HRA and Total ratios are usually negative, with the exception of a positive ratio in 2013/14 reflecting the one-off treasury decision to invest significant revenue reserves in property.

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

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

Table 2

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

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

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

Whilst in theory, this indicator could be a strong measure of affordability, in reality it is difficult to demonstrate a direct link between capital expenditure and its impact on the Council Tax, due to the special arrangements relating to the setting of the City's Council Tax.

Estimate of the incremental impact of capital expenditure on housing rents

Table 3

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

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

Prudential Indicator of Prudence

Net Debt and the Capital Financing Requirement

Table 4

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

To ensure that, over the medium term, net external borrowing will only be for capital purposes, this indicator is intended to demonstrate that net debt does not exceed the capital financing requirement over the period 2015/16 to 2018/19. For this purpose, net debt is defined as the net total of external borrowing and cash investments. The existing financial plans assume that no external borrowing will be undertaken within the planning period, giving a 'net investment' position.

Prudential Indicators for Capital Expenditure and External Debt

Estimate of Capital Expenditure

Table 5

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

This indicator is based on the capital budget, augmented to reflect the indicative cost of schemes which have been approved in principle but have yet to be evaluated. It should be noted that the figures represent gross expenditure and that a number of schemes are wholly or partially funded by external contributions. Comparisons with the figures calculated at this time last year are generally reflective of the re-phasing of capital expenditure, most notably the deferral of the £200m contribution to Crossrail from 2015/16 to 2016/17.

Estimate of the Capital Financing Requirement

Table 6

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

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

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

In accordance with the guidance contained in the Prudential Code, the 'Actual' indicators are calculated directly from the Balance Sheet, whilst the method of calculating the HRA and Non-HRA elements is prescribed under Statute.

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

Local Indicator

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

Times Cover on Unencumbered Revenue Reserves

Table 7

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

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

Appendix C

TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY

2016/17

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

Treasury Management Strategy Statement, Minimum Revenue Provision (MRP) Strategy and Annual Investment Strategy 2016/17

1. Introduction

1.1 Background

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

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

1.2 The Treasury Management Policy Statement

The City defines its treasury management activities as:

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

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

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

1.3 CIPFA Requirements

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

The primary requirements of the Code are as follows:

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

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

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

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

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

1.4 Treasury Management Strategy for 2016/17

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

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

The suggested strategy for 2016/17 in respect of the required aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the City's treasury adviser, Capita Asset Services, Treasury Solutions.

The strategy covers:

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

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

1.5 Balanced Budget Requirement

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

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

2. Treasury Limits for 2016/17 to 2018/19

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

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

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

3. Current Portfolio Position

The City's treasury portfolio position at 31 December 2015 comprised:

Table 1		**Principal**		**Ave. rate**
		£m	**£m**	**%**
Fixed rate funding	PWLB	0		
	Market	0	0	-
Variable rate funding	PWLB	0	0	-
	Market	0	0	-
Other long term liabilities			0	
Gross debt			**0**	**-**
Total investments			**882.3**	**0.63**
Net Investments			**882.3**	

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

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

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

5. Prospects for Interest Rates

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

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 years	25 year	50 year
Mar 2016	0.50	2.00	2.60	3.40	3.20
Jun 2016	0.50	2.10	2.70	3.40	3.20
Sep 2016	0.50	2.20	2.80	3.60	3.30
Dec 2016	0.75	2.30	2.90	3.60	3.40
Mar 2017	0.75	2.40	3.00	3.70	3.50
Jun 2017	1.00	2.50	3.10	3.70	3.60
Sep 2017	1.00	2.60	3.20	3.80	3.70
Dec 2017	1.25	2.70	3.30	3.90	3.80
Mar 2018	1.25	2.80	3.40	4.00	3.90
Jun 2018	1.50	2.90	3.50	4.00	3.90
Sep 2018	1.50	3.00	3.60	4.10	4.00
Dec 2018	1.75	3.10	3.60	4.10	4.00
Mar 2019	1.75	3.20	3.70	4.10	4.00

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

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

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

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

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

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

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

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

6. Borrowing Strategy

It is anticipated that there will be no capital borrowings required during 2016/17.

7. Annual Investment Strategy

7.1 Introduction: Changes to Credit Rating Methodology

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

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

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

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

7.2 Investment Policy

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

(a) the security of capital and

(b) the liquidity of its investments.

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

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

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the City applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk The key ratings used to monitor counterparties are the Short Term and Long Term ratings

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

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

Investment instruments identified for use in the financial year are listed in Appendix 4 under the ‘specified’ and ‘non-specified’ investments categories.

7.3 Creditworthiness policy

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

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

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

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

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

Sole reliance will not be placed on the use of this external service. In addition the City will also use market data and market information, information from any external source and credit ratings.

Regular meetings are held involving the Chamberlain, Financial Services Director, Corporate Treasurer and Members of the Treasury Team, when the suitability of prospective counterparties and the optimum duration for lending is discussed and agreed.

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

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

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

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

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

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

  (i) are UK banks; and/or
  (ii) are non-UK and domiciled in a country which has a minimum sovereign long-term rating of AAA (Fitch rating)

  and have, as a minimum the following Fitch,credit rating:

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

- Banks 2 – Part Nationalised UK banks –Royal Bank of Scotland. This bank can be included if it continues to be part nationalised, or it meets the ratings in Banks 1 above.

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

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

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

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

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

- Local authorities.

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

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

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

7.4 Country limits

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

7.5 Investment Strategy

In-house funds: The City's in-house managed funds are both cash-flow derived and also represented by core balances which can be made available for investment over a 2-3 year period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). The City does not currently have any term deposits which span the 2017/18 financial year.

7.6 Investment returns expectations: The Bank Rate has been unchanged from 0.50% since March 2009. Bank Rate is forecast by Capita Asset Services to remain unchanged at 0.5% before starting to rise from quarter 4 of 2016. Bank Rate forecasts for financial year ends (March) are as follows:

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

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

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

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

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

7.7 Investment Treasury Indicator and Limit

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

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

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

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

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

7.8 End of year investment report

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

7.9 External fund managers

A proportion of the City's funds, amounting to £325.7m as at 31 December 2015, are externally managed on a discretionary basis by Aberdeen Asset Management, Deutsche Asset Wealth Management, Standard Life Investments (formally Ignis Asset Management), Invesco Fund Managers Ltd, Federated UK LLP, CCLA Investment Management Ltd and Payden Global Funds Plc. The City's external fund managers will comply with the Annual Investment Strategy, and the agreements between the City and the fund managers additionally stipulate guidelines and duration and other limits in order to contain and control risk. Investments made by the Money Market Fund Managers include a diversified portfolio of very high quality sterling-dominated investments, including gilts, supranationals, bank and corporate bonds, as well as other money market securities. The individual investments held within the Money Market Funds are monitored on a regular basis by Treasury staff.

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

7.10 Policy on the use of external service providers

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

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

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

7.11 Scheme of Delegation

Please see Appendix 7.

7.12 Role of the Section 151 officer

Please see Appendix 8.

7.13 Training

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

APPENDICES

1. Interest Rate Forecasts 2016-2019
2. Economic Background (Capita Asset Services)
3. Treasury Indicators
4. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
5. Current Approved Counterparties
6. Approved Countries for Investments
7. Treasury Management Scheme of Delegation
8. The Treasury Management Role of the Section 151 Officer

APPENDIX 1

CAPITA INTEREST RATE FORECASTS 2016-2019

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

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

ECONOMIC BACKGROUND

The UK Economy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CAPITA ASSET SERVICES FORWARD VIEW

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

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. At some future point in time, an increase in investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently to the downside, given the number of potential headwinds that could be growing on both the international and UK scene. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

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

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

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

- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

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

- Uncertainty around the risk of a UK exit from the EU.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

TREASURY INDICATORS

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

TABLE 2: Maturity structure of fixed rate borrowing during 2015/16	upper limit	lower limit
- under 12 months	0%	0%
- 12 months and within 24 months	0%	0%
- 24 months and within 5 years	0%	0%
- 5 years and within 10 years	0%	0%
- 10 years and above	0%	0%

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

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

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

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of £300m will be held in aggregate in non-specified investment.

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

	* Minimum Credit Criteria	Use	Maximum	Maximum Maturity Period
Term deposits - other LAs (with maturities in excess of one year)	-	In-house	£25m per LA	Three years
Term deposits, including callable deposits - banks and building societies (with maturities in excess of one year)	Long-term A, Short-term F1,	In-house and Fund Managers	£300m overall	Three years
Certificates of deposits issued by banks and building societies with maturities in excess of one year	Long-term A, Short-term F1,	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Government Gilts with maturities in excess of one year	AAA	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years

APPENDIX 5

APPROVED COUNTERPARTIES

BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES as at 31 DECEMBER 2015

FITCH RATINGS	BANK CODE	LIMIT OF £100M PER GROUP (£150m for Lloyds TSB Bank)	Duration
AA- F1+	40-53-71	HSBC	Up to 3 years
A F1	20-00-00 20-00-52	BARCLAYS CAPITAL BARCLAYS BANK	Up to 3 years
A+ F1	30-15-57	LLOYDS TSB BANK incl. Bank of Scotland	Up to 3 years
BBB+ F2	16-75-75	ROYAL BANK OF SCOTLAND RBOS SETTLEMENTS	Up to 3 years
A F1	09-02-22	SANTANDER UK	Up to 3 years

BUILDING SOCIETIES

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

MONEY MARKET FUNDS

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

FOREIGN BANKS

(with a presence in London)

FITCH RATINGS	BANK CODE		LIMIT £M	Duration
		AUSTRALIA		
AA- F1+	20-32-53	AUSTRALIA & NZ BANKING GROUP	25	Up to 3 years
AA- F1+	16-55-90	NATIONAL AUSTRALIA BANK	25	Up to 3 years
		SWEDEN		
AA- F1+	40-51-62	SVENSKA HANDELSBANKEN	25	Up to 3 years

LOCAL AUTHORITIES

LIMIT OF £25M PER AUTHORITY
Any UK local authority

APPENDIX 6

APPROVED COUNTRIES FOR INVESTMENT

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

AAA

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

AA+

- United Kingdom

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

APPENDIX 7

TREASURY MANAGEMENT SCHEME OF DELEGATION

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

(i) Court of Common Council

- Receiving and reviewing reports on treasury management policies, practices and activities
- Approval of annual strategy.

(ii) Financial Investment Board and Finance Committee

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

(iii) Audit & Risk Management Committee

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

APPENDIX 8

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The Chamberlain

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

Appendix D

Reserves

Forecast Movements in City Fund Usable Reserves 2016/17	Notes	Estimated Opening Balance 1 April 16 £m	Forecast Net Movement in Year £m	Estimated Closing Balance 31 March 17 £m
Revenue Usable Reserves				
General	a	(37.5)	(4.5)	(42.0)
Earmarked:				
Crossrail	b	(25.3)	25.3	0.0
Police future expenditure	c	(5.4)	0.0	(5.4)
Highway improvements	d	(10.8)	6.0	(4.8)
VAT Reserve	e	(4.2)	0.0	(4.2)
Proceeds of Crime Act	f	(4.0)	0.6	(3.4)
Judges Pensions	g	(1.2)	0.0	(1.2)
Public Health	h	(0.8)	0.0	(0.8)
Renewals and Repairs	i	(0.7)	0.0	(0.7)
Service Projects	j	(1.9)	0.0	(1.9)
Total Revenue Earmarked		(54.3)	31.9	(22.4)
Housing Revenue Account		(8.6)	6.6	(2.0)
Total Revenue Usable Reserves		**(100.4)**	**34.0**	**(66.4)**
Capital Usable Reserves				
Capital Receipts Reserve		(121.1)	37.6	(83.5)
HRA Major Repairs Reserve		(7.1)	6.8	(0.3)
Total Capital Usable Reserves		**(128.9)**	**44.4**	**(84.5)**
Total Usable Reserves		**(229.3)**	**78.4**	**(150.9)**

Crossrail Contribution

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

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

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

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

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

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

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

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

Appendix E

Minimum Revenue Provision (MRP) Policy Statement 2016/17

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

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

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

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

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