

Report – Finance Committee

City Fund 2017/18 Budget Report and Medium Term Financial Strategy

To be presented on Thursday, 9th March 2017

*To the Right Honourable The Lord Mayor, Aldermen and Commons of
the City of London in Common Council assembled.*

SUMMARY

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

- the Council Tax for 2017/18 remains unchanged from 2016/17; and
- the Business Rate Premium is unchanged.

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

The overall strategy is unchanged for City Fund: to have a four-year plan that presents a balanced budget.

- City Fund (non-Police): the provisional Government grant settlement is largely in line with our expectations. The one area of growth in income, compared to previous forecasts, is in retained business rate income and results from a growth in office space within the City. This additional income has provided headroom to fund investment in one-off projects, such as the Museum of London relocation project, and to deal with the backlog of outstanding repair works for the operational properties.

The fund shows a deficit in 2016/17, as a result of the £27m purchase of an investment property in the year (133 Whitechapel High Street), funded through a drawdown on reserves. Otherwise, the extra business rates income, combined with an increase in anticipated rents from the fund's investment properties and additional interest on cash balances, has allowed cost pressures to be accommodated and some extra items to be included, whilst still leaving the fund in surplus for 2017/18 and 2018/19. The fund moves into deficit from 2019/20, due to the inclusion of costs for the Museum of London relocation project. Funding options for MoL are being considered.

- Police: The core Police grant settlement is marginally (£0.7m) lower than anticipated. Additional cost pressures have meant the fund has moved into deficit, utilising the remaining ring-fenced reserves in 2016/17 and 2017/18. The Police Medium Term Financial Plan, which went through the City's committee process in December, set out a strategy for dealing with the deficit to the end of 2017/18 and this has been put in place. An external review of future demands on policing and

value for money has been commissioned, to identify options to address the, projected deficits of £5.6m in 2018/19 and £3.8m in 2019/20. No increase in the business rate is, therefore, proposed for the 2017/18 year.

RECOMMENDATION

The Court of Common Council is **recommended** to:

- Approve the overall financial framework and the revised Medium Term Financial Strategy (paragraph 2)
- Approve the City Fund Net Budget Requirement of £119.3m (paragraph 14)
- Approve the following **changes** from the previous forecast (paragraphs 3 and 11):
 - Allowances for pay and prices are factored in at 1% for 2017/18 and zero thereafter (paragraph 11c);
 - 2% cashable efficiency savings for City Fund from 2018/19 are included in line with the published Efficiency Plan (paragraph 12d);
 - A 3.5% increase across both City Fund and non-uniformed staff in Police in employer's pension contribution to tackle the pension fund deficit (paragraph 3a);
 - Additional provision of £2.9m pa from 2017/18 for IT (split £1.8m City Fund and £1.1m for Police) (paragraph 3c); and
 - A provision of £400k p.a. from 2017/18 onwards for Rough Sleepers and £400k p.a. for Adult Social Care, subject to a further report to Policy and Resources Committee (paragraphs 3g and 3h).
- Approve the following **investment opportunities** being included, subject to further reports:
 - Additional provision of £2m in 2017/18 and £4m pa thereafter, to fund the investment in tackling the 'bow wave' for City Fund properties and, in particular, focus on some substantial refurbishment works at specific properties e.g. Old Bailey (paragraph 3f)
 - Provision for spending on the Cultural Hub, including £5m in City Fund for the 'Look & Feel' strategy (paragraph 3e)
 - Substantial provision for the Museum of London relocation project (paragraph 3k), amounting to £81.2m across the planning period.
- Note that the forecast **includes items already agreed** by Policy and Resources Committee:
 - Provision in the City Fund forecast for the £2.5m, to complete the design work for the Centre for Music, together with a provision of £1.25m for the City Surveyor to develop a full commercial scheme for the site if the Centre for Music doesn't go ahead; and
 - Substantial additional City Fund support for City Police, pending the result of the external review. This amounts to £9m revenue funding across the planned period (including £0.9m for the 2017/18 deficit) and to a further circa £11m in funding for the Police capital schemes.
- Note that the revenue estimates for 2017/18 assumes the City will be in a 'growth' position under the business rates retention scheme.
- Note the Local Council Tax Reduction Scheme, set by the Court of Common Council on 12 January 2017 and as set out at paragraph 31.

Key decisions

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

Business Rates

- Set, exclusive of the Business rate premium, a Non-Domestic Rate multiplier of 47.9p for 2017/18, together with a Small Business Non-Domestic Rate multiplier of 46.6p (paragraph 17).
- Note that the Greater London Authority is, in addition, levying a Business Rate Supplement in 2017/18 of 2p in the £ on properties with a rateable value greater than £70,000 (paragraph 23).
- As in previous years, delegate to the Chamberlain the award of the discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988, as set out in paragraph 21.

Council Tax

- Recommendation is for the City's Council Tax (excluding the Greater London Authority precept) to remain unchanged.
- Based on a zero increase from 2016/17, determine the provisional amounts of Council Tax for the three areas of the City to which are added the precept of the Greater London Authority (appendix A).
- Determine that the relevant (net of local precepts and levies) basic amount of Council tax for 2017/18 will not be excessive in relation to the requirements for referendum.
- Approve that the cost of highways, transportation planning, waste collection and disposal, drains and sewers, open spaces, and street lighting functions for 2017/18 be treated as special expenses to be borne by the City's residents outside the Temples (appendix A).

Other recommendations

All other recommendations are largely of a technical and statutory nature; the only one to highlight for particular attention is that the City of London Corporation remains debt free for 2017/18.

Recommendations

The Court of Common Council is requested to:

Capital expenditure

- Note the proposed financing methodology of the capital programme in 2017/18 (paragraph 34).
- Approve the Prudential Code indicators (Appendix B).
- Approve the following resolutions for the purpose of the Local Government Act 2003 (paragraph 37 and Appendix E) that:
 - at this stage, the affordable external borrowing limit (which is the maximum amount which the Corporation may have outstanding by way of external borrowing) be zero.
 - the prudent amount of Minimum Revenue Provision (MRP), for 2017/18, is £896,000. This amount equals the annual income released from 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 recognised in the 2016/17 financial year, as the payment is anticipated to be made in March 2017.

Chamberlain's assessment

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

Resolution by the Court of Common Council

- The resolution for approval by the Court is set out in Appendix F.

MAIN REPORT

Financial overview

1. The Government recently issued the Local Government Finance Settlement for 2017/18 and the Policing Minister published the revenue allocations for police for 2017/18.
2. The latest 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>16/17</u>	<u>17/18</u>	<u>18/19</u>	<u>19/20</u>	<u>20/21</u>
City Fund – non Police					
March 2016 forecast	(5.9)	(2.0)	(2.1)	(1.0)	N/A
Current forecast*	(7.2)	(10.9)	(0.1)	15.6	19.4
Unearmarked revenue reserves	(28.4)	(32.6)	(35.0)	(19.4)	-
City Fund – Police					
March 2016	0.0	2.9	4.8	N/A	N/A
Current forecast	2.6	1.5	5.6	3.8	N/A
Unearmarked revenue reserves	(1.5)	-	5.6	9.4	N/A

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

3. **For City Fund**, following a £25.3m deficit in the current year - reflecting the £27m purchase of an investment property in year (133 Whitechapel High Street), funded through a draw-down in reserves, City Fund is forecast to be in surplus across the period. Extra business rates income, combined with an increase in anticipated rents from the fund's investment properties and additional interest on cash balances, has allowed the inclusion of additional funding to meet Member priorities and initiatives as follows:
 - a) Increased contribution to tackle the pension fund deficit. The proposed option is to make a 3.5% increase in employer's pension contribution from revenue. This has been included in the forecast. The aim is to maintain the time-frame for the deficit recovery plan. Alternative options, including a one-off capital contribution or extending the deficit recovery period, were considered, but ruled out on cost and reputational grounds.
 - b) The apprenticeship levy has been included from 2017/18 onwards and is already in the base estimates. This year the forecast has been adjusted for the cost of apprentice posts in City Fund (£0.5m in 2017/18 and £0.7m thereafter). At present, it seems only training costs will be recoverable against the levy.

- c) Further funding for IT. Agreed funding of £2.2m has been included in 2016/17 (£1.3m City Fund and £0.9m for Police). Going forward, provision of £2.9m pa has been included from 2017/18 onwards (£1.8m City Fund and £1.1m for Police) to enable we have modernised, robust and reliable IT systems and services. This includes provision for spending on information security to address risks around cyber security.
- d) Additional funding for City of London Police. An extra £9m package (across the planning period), covering funding for IT noted at c) above, £2.4m revenue contribution to capital schemes, and for an employer's pension fund contribution of £0.5m pa from 2017/18 have been included in the forecast. For 2017/18 only - pending the outcome of the external Demand and VFM review - funding for the remaining deficit of £0.9m after mitigation measures has also been included, to be drawn down only if reserves have been exhausted. In addition the City has earmarked £11m from its City Fund capital resources to fund Police capital schemes.
- e) Cultural Hub - a £5m provision has been included to fund the works associated with the 'Look & Feel' strategy.
- f) Additional Cyclical Works Programme Funding. Following RASC Away Day in June 2016, Members gave steer that any 'windfall' surpluses from business rates in 2017/18 ought to be applied to 'one off items', such as revenue contributions to large capital schemes and catch-up on the 'bow wave' of maintenance cost. As a consequence, £2m in 2017/18 and £4m pa for 2018/19 and thereafter, has been included in the forecast, to fund the 'bow wave' for City Fund properties, in particular, focused on some substantial refurbishment projects (e.g. Old Bailey).
- g) Adult Social Care. Community and Children's Services have identified a budget pressure of circa £0.4m pa for the provision of adult social care and this has been included in the forecasts. Given the City's overall funding position, and the modest size of the cost, a social care precept increase would not be appropriate. £0.4m has been included in the budget, subject to a further report outlining the issue to Policy and Resources Committee
- h) Rough Sleepers – The cost of statutory homelessness assistance is being driven up by higher demand and the impact of welfare reform. Welfare reform is both reducing the amount of rent the City can reclaim against the cost of temporary accommodation and is likely to increase greatly the levels of unpaid rent. Alongside this, changes to legislation are set to increase the demand for assistance provided by the City. Rough sleeping has increased in scale and complexity; the demand for specialist accommodation outstrips the supply available to the City, resulting in people remaining stuck on the streets. Increased resources are necessary to provide a range of accommodation types – from emergency assessment beds to providing for people with complex needs. A provision of £400k pa from 2017/18 has been included to meet this additional budget pressure, subject to a further report outlining the issue to Policy and Resources Committee.

- i) City's Learning & Engagement Forum – £150k pa from 2017/18, to fund the 'cultural educational partnership'.
 - k) Museum of London Relocation. Appendix 2 sets out the current phasing of the cost of the project to relocate the Museum of London to Smithfield. The net costs for 2017/18 to 2020/21 have been included in the City Fund forecast.
 - l) Centre for Music. Provision has been included for the £2.5m bid to complete the design work, together with a provision of £1.25m for the City Surveyor to develop a full commercial scheme for the site if the Centre for Music doesn't go ahead. No other provision has been made relating to this project.
4. **Council Tax:** The City's council tax, expressed at band D and excluding the GLA precept, is £857.31 for the current financial year, 2016/17. The council tax referendum threshold will effectively be 5%, including 3% to spend on social care. It will be up to councils to choose whether to exercise their discretion to raise council tax by an additional 3% for adult social care. We have been able to accommodate the increased cost of £400k pa within the existing forecast, so this option is not recommended.
 5. **For Police**, additional cost pressures have meant the fund has moved into deficit, utilising the ring-fenced reserves in 2016/17 and 2017/18. The Police Medium Term Financial Plan, which went through the City's Committee process in December, set out a strategy for dealing with the deficit to the end of 2017/18 and this has been put in place. Even allowing for these measures, deficits are forecast from 2018/19 onwards and action is, therefore, needed to restore financial balance.
 6. In response to the deteriorating financial position, a Medium Term Financial Plan for the Police was submitted to the December Committee cycle. This detailed some immediate steps to stabilise the position, which included the Police adopting a cashable savings target; the utilisation of the remaining Police reserves and the City funding some additional costs for IT and employers pension contribution directly. It also involved the City funding the revenue contribution to Police capital schemes already in the budget (£1.4m in 2017/18 and £1m in 2018/19) and the future Police capital programme. The latter will be subject to a further report, but could be of the order of £11m over the planning period.
 7. Despite these mitigations, there remain substantial deficits in 2018/19 and 2019/20. In response to this the Town Clerk, the Chamberlain and the Commissioner have commissioned an external review to assess value for money opportunities, current and future demand, and potentially considering a revised operating model. It is intended that the initial findings of this study will be reported back to Members before the Summer recess.
 8. A further option to consider would be an **increase in the business rate premium**. The City is uniquely able to raise additional income for the City Fund from its business rate premium. The premium on City businesses had been unchanged since 2006/07 at 0.4p; last year, in the light of Police funding constraints and additional requirements in relation to counter-terrorism and security, the Resource Allocation Sub Committee agreed an increase to 0.5p in the pound.

9. As the Police forecasts show a continuing deficit, exhausting the reserves in 2017/18, and in light of the Home Secretary's expectation that Police authorities will use their precepting powers to maintain funding levels, Members may wish to consider a business rate increase.
10. The premium can be increased in increments of 0.1p with each 0.1p generating circa £2m pa. However, given the overall position on the City Fund budget and the awaited results of the Demand and VFM review, **it is suggested that no increase is made in 2017/18**. It should also be remembered that, as a result of the 2017 revaluation, ratepayers are already facing an increase. A meeting with ratepayers was held on 10 February.

Key assumptions used in the forecasts

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

Income

- a) Investment income outlook: The City has a key income stream from its property portfolio. Market rents appear to be performing strongly for the foreseeable future. Property rental income is forecast based on the expected rental for each individual property, allowing for anticipated vacancy levels, expiry of leases and lease renewals. Rental income is forecast to grow over the period.
- b) Interest rates: It is likely that interest rates will rise, at some point, in the medium term, although it is difficult to predict when such an increase might occur. Accordingly, the rate of 0.5% currently being achieved on cash balances is assumed to hold until the end of the planning period. This will be reviewed in the light of any substantial economic change and adjusted, if required, when the forecast is updated in the summer. Additional interest on cash balances, shown in the schedules, is being achieved in the City Fund, due to the higher level of cash balances being held e.g. due to receipts from property disposals pending capital spend. A 0.25% increase in interest rates in 2017/18 would equate to £1.5m p.a. on City Fund.

Expenditure

- c) An inflation allowance is factored in at 1% for 2017/18 and zero thereafter. On City Fund each 1% amounts to approximately £636k. RPI is currently 2.5% and CPI is 1.6%, so maintaining a zero pay and prices allowance adds further impetus for efficiency. Consideration will be given to supporting exceptional cost increases on a case-by-case basis.
- d) 2% cash efficiency savings are included from 2018/19, in line with the published Efficiency Plan.

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

- a. **Grant Settlement:** the provisional settlement is largely as expected. As the City's Efficiency Plan has been accepted, we have been promised certainty on the figures published for the lifetime of this Parliament (ie four years up to 2019/20). This four-year horizon reveals a gradual rate of reduction in the Revenue Support Grant, with the grant dropping from its current level of £10.6m in 2016/17 in stepped amounts to £6.2m in 2019/20 and continuing at this level thereafter. If the business rates retention scheme were to be introduced in 2018/19, grant income would be reduced to zero and to maintain income levels we would need the shortfall to be made up from additional retained rates.
- b. **Business Rates retention:** The other element of core Government funding relates to retained business rates. This is known as the Baseline Funding Level and is £15.6m for 2017/18. The system of business rate retention remains broadly the same with the City benefiting from 15% of any growth in business rates. The one area of growth in income, compared to the previous forecast, is in additional retained business rates where, due to growth in business occupation in the City, substantial additional business rate income is forecast. Members should note the Government has announced a review of the business rates retention system. Depending on the outcome of the review there is a risk that this income will not be achieved. Also, although the 2017 rating revaluation shows a considerable increase in rateable values, there may well be appeals reducing the overall additional income achieved. Appeals are unlikely until 2018/19 at the earliest, but will be back-dated to 2017 and the effect of any appeals cannot at this stage be quantified.
- c. **City Offset:** In addition to Formula Grant, the City Fund uniquely receives, under business rates' regulations, an Offset from the business rates collected in the Square Mile. The amount of the Offset is determined annually by DCLG and, for 2017/18, will be £11.267m, a similar level to 2016/17 with RPI added. Small inflationary increases have been assumed for future years in the forecast period.
- d. The remaining **Service Based Review Savings** will be achieved.

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

- a. **Grant funding:** The Police core grant settlement was £51.4m, some £0.7m lower than anticipated. The Government's stated intention is that the shortfall should be met from an increase in the precept (in the City's case, the business rate premium).
- b. **Specific grants:** In addition to the main Police grant, the City Police receives many specific grants. The main one of these is for Dedicated Security funding and is yet to be confirmed. We have assumed that the funding will be £4.5m, a reduction of 0.2m from 2016/17. The other key grant is for Capital City Funding has been advised as part of the settlement at £4.5m, which is no change from the prior year.

- c. **Action Fraud Service:** The latest phasing for this Police project has been included in the forecasts, which has resulted in the recovery of the Home Office grant of the City's £6.6m advance funding being pushed out into the future. The project has significantly slipped and recovery by the City of its £6.6m advance from Home Office grant has consequently also slipped further into the future. This has been reflected in the forecast. The Police currently envisage a £2.8m overspend on the project by its end in 2020/21 and the plan is to cover this shortfall by a combination of additional Home Office grant and 'monetisation' (selling the product to others). If this strategy fails, the City would be faced with picking up the remaining bill.

Revenue Spending Proposals for 2017/18

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

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

15. A separate report on today's agenda "Revenue and Capital Budgets 2016/17 and 2017/18" includes the detailed net revenue budget requirements of the City Fund. Included within the net expenditure is provision for any levies issued to the City by relevant bodies such as the Environment Agency, the Lee Valley Regional Park Authority, London Pensions Fund Authority and London Councils (through its grant scheme) Grant scheme. This also includes the following precepts anticipated for the year by the Inner and Middle temples (after allowing for the cost of highways, transportation planning, waste collection and disposal, drains and sewers, open spaces, and street lighting being declared as special expenses as in previous years).

Table 3: Temple's Precepts		
	2016/17 £	2017/18 £
Inner Temple	188,003	202,484
Middle Temple	153,218	164,155
Total	341,221	366,638

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

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

Business Rates

17. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 47.9p and a Small Business Non-Domestic Rate Multiplier Rate of 46.6p for 2017/18. These multipliers represent a reduction of 1.8p over the 2016/17 levels, as a result of the rates revaluation. The actual amount payable by each business will depend upon its rateable value.
18. The business rate premium on City businesses was increased to 0.5p in the £ last year and, if this remains unchanged, the proposed premium will result in a Non-Domestic Rate multiplier of 48.4p and a Small Business Non-Domestic Rate of 47.1p for the City for 2017/18. It is anticipated that a premium of 0.5p will raise approximately £10.5m.
19. Likely appeals would also affect the premium income. However, as with business rates, we do not know the likelihood or timing, and any impact may be outside our current planning horizon.
20. The forecast assumes no increase in the business rates premium and that the existing provision for appeals will be sufficient.
21. One other 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:

- a. exemption from empty rate for new rating assessments, that completed between 1st October 2013 and 30th September 2016, for up to 18 months.
22. Although fully funded by central government, this discount is to be delivered using Localism Act discounts and so will be discretionary.

Business Rate Supplement

23. The Mayor for London is again proposing to levy a Business Rate Supplement of 2.0p in the £ on properties with a rateable value greater than £70,000, to raise funds towards Crossrail; this threshold is being increased to reflect the effects of revaluation.

Determination of the Council Tax requirement

24. The 1992 Act prescribes detailed calculations that the City, as billing authority, has to make to determine Council Tax amounts. The four steps are shown in Appendix A. Although the process is somewhat laborious, it is a legislative requirement that these separate amounts be formally determined by resolutions of the Court of Common Council.
25. After allowing for a proposed contribution to reserves, the final City Fund Council Tax requirement for 2017/18 is £6.0m. In accordance with the provisions in the Localism Act 2011, the Council Tax requirement takes into account for the Formula Grant, the City Offset, the City's Rate Premium, and the estimated surplus on the Collection Fund at 31 March 2017. As detailed in Appendix A, the City's proposed Council Tax for 2017/18 at band D is £857.31. Consequently, it is proposed to freeze Council Tax for 2017/18 at £857.31 (band D property), before adding the Greater London Authority (GLA) precept. To determine the City's Council Tax for each property band, nationally-fixed proportions are applied to the average band D property.
26. The GLA's precept for 2017/18 is £73.89 for a Band D property. This excludes the Metropolitan Police requirement and represents no change compared with 2016/17.
27. The total amounts of Council Tax for each category must be set by the City before 11 March. The proposed amounts are shown in the table below:

Table 5: Council Tax per Property Band: calculated by applying nationally fixed proportions from Band D.								
	£							
	A	B	C	D	E	F	G	H
CoL	571.54	666.80	762.05	857.31	1,047.82	1,238.34	1,428.85	1,714.62
GLA	49.26	57.47	65.68	73.89	90.31	106.73	123.15	147.78
Total	620.80	724.27	827.73	931.20	1,138.13	1,345.07	1,552.00	1,862.40

28. It is anticipated that the City's total Council Tax will remain the third lowest in London. The Court of Common Council is requested to determine that the relevant

(net of local precepts and levies) basic amount of Council Tax for 2017/18 will not be excessive in relation to the new referendum requirements for any council tax increases.

(i) Council Tax Reduction (formerly Council Tax Benefit)

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

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

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

Capital

32. The Corporation has a significant programme of property investments and works to improve the operational property estate and the street scene. Spending on these types of activity is classified as capital expenditure. Key areas in the 2017/18 capital programme (including the indicative costs of implementing schemes still subject to approval) comprise:

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

33. Note that the funding for the £200m contribution from City Fund to Crossrail has been recognised in the 2016/17 financial year, as it is anticipated that the payment be made in March 2017.
34. Capital expenditure is primarily financed from capital reserves, derived from the sale of properties, earmarked reserves, and grants or reimbursements from third parties. The City has not borrowed any money to finance these schemes. Financing is summarised in the table below.

Table 6: Financing of 2017/18 City Fund Capital Expenditure	
	£m
Estimated Capital Expenditure	132.2
Financing	
Internal	
• Earmarked reserves:	
Housing Revenue Account (HRA)	13.1
Highways Improvements	8.7
Unapplied grants	2.9
Other	1.7
• Disposal Proceeds	38.8
• Revenue Reserves	18.5
External	
• Grants and reimbursements	48.5
Total	132.2

35. The Local Government Act 2003 requires the City to set prudential indicators, as part of the budget-setting process. The indicators that the Court of Common Council is now asked to set are:
- Estimates of capital expenditure 2017/18 to 2019/20
 - Estimates of the capital financing requirement 2017/18 to 2019/20
 - Ratio of financing costs to net revenue stream (City Fund and HRA)
 - Net debt and the capital financing requirement
 - Estimate of the incremental impact on council tax and housing rents.
36. The prudential indicators listed above, together with some locally developed indicators, have been calculated in Appendix B. In addition, treasury-related prudential indicators are required to be set and these are included within the 'Treasury Management Strategy Statement and Annual Investment Strategy' at Appendix C.

37. The main point to highlight is that there is no underlying requirement, at this stage, to borrow externally for capital purposes. However the funding of capital expenditure from cash received from long lease premiums (which are deferred in accordance with accounting standards) has to be treated as internal borrowing. Having already utilised the cash to finance capital expenditure, when the deferred income is released to revenue over the life of the lease, it is important to ensure that this cash is not 'used again'. Therefore, the City Corporation will make a Minimum Revenue Provision, equal to the amount released, resulting in an overall neutral impact on the revenue account bottom line. The Minimum Revenue Provision Policy Statement 2017/18 is set out in Annex E. A further point to note relates to the funding for relocating the Museum of London to the Smithfield Market site. Although the Museum is undertaking a fundraising campaign and the GLA is providing a contribution to the project, the City will be "forward-funding" a large element of the costs. The intention is initially to use revenue reserves for as long as this is affordable - with, if necessary, external borrowing to bridge the gap in the latter period.

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

Provision for future capital expenditure

39. In addition to the programmed capital schemes over the planning period, the Capital Programme allows £2m per annum for new schemes which have not been identified. If schemes are identified in excess of these provisions, Resource Allocation Sub Committee will need to prioritise requests and/or consider making further resources available from reserves.

Robustness of Estimates and Adequacy of Reserves

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

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

- a) provision has been made for all known liabilities, together with indicative costs (where identified) of capital schemes yet to be evaluated
- b) the estimates and financial forecast have been prepared at this stage on the basis of the Corporation remaining debt-free until such time as external borrowing may be needed to bridge funding the gap for the Museum of London relocation
- c) prudent assessments have been made in regard to key assumptions
- d) an annual capital envelope is in place seeking to ensure that capital expenditure is contained within affordable limits - or if, on an exceptional basis, funding is sought outside this envelope, it has to be demonstrated that the project is of the highest corporate priority
- e) although the City Fund financial position is vulnerable to rent levels and interest rates, it should be noted that:
 - the City Surveyor has carried out an in-depth review of rent incomes
 - across the planning period the assumed interest rate remains low

- f) a strong track record in achieving budgets gives confidence about the robustness of estimates.

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

Risks

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

Within the City Corporation's control

- a. Delivery of efficiency savings built into City Police budget forecast
- b. The Police Action Fraud project
- c. Museum of London relocation project delivery within estimated cost.
- d. Delivery of the service based review savings proposals.

Outside the City Corporation's control

- e. BREXIT affecting rental income from our commercial property – for example, as a result of increased voids
- f. Adjustments to the Rates Retention System
- g. An increase in the rate of inflation over the planning period above its current relatively low level.

Equalities Implications

44. During the preparation of this report, all Chief Officers have been asked to consider whether the various budget policy proposals would have any potentially adverse impact on the equality of service provision or delivery for people, or groups of people, in respect of disability, gender and racial equality. No such equalities issues have been identified.

Conclusion

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

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

47. The different financial messages of the continuing need for efficiencies and the forecast of surpluses may be difficult to manage, especially with our external stakeholders. Further thought is being given to how best to tackle some of such issues. There are still risks around the implementation of the saving proposals, but the estimates are considered robust. The level of and policies relating to the City Fund reserves are considered reasonable by the Chamberlain.

48. Therefore, the Court is **recommended** to approve the recommendations, set out at the start of this report and in Appendix F.

All of which we submit to the judgement of this Honourable Court.

DATED this 21st day of February 2017.

SIGNED on behalf of the Committee.

Jeremy Mayhew
Chairman, Finance Committee

Appendices

- Appendix A – Calculating Council Tax
- Appendix B – Prudential Indicators
- Appendix C – Treasury Management Strategy and Annual Investment Strategy
- Appendix D – City Fund Usable Reserves
- Appendix E – Minimum Revenue Provision Policy Statement 2017/18
- Appendix F – Resolution for Approval by Court of Common Council

Calculating Council Tax

Step One ('B1')

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

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

Where

'B1' is the Basic Amount 'One':

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

T is the amount which is calculated by the authority as its Council Tax base for the year. This amount was approved by the Chamberlain under the delegated authority of the City of London (7,060.39) together with the Council Tax bases for each part of the City's area.

The above calculation is as follows:

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

$$'B1' = \pounds 857.31$$

Note: Item R consists of the following components:

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

Step Two ('B2')

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

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

Where:

'B2' is the Basic Amount 'Two';

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

A is the Aggregate of all special items;

T is the Council Tax base for the whole area

The above calculation is as follows:

$$\text{'B2'} = \frac{\pounds 857.31 - \pounds 16,860,638.85}{7,060.39}$$

$$\text{'B2'} = \pounds 1,530.75 \quad \underline{\text{CR}}$$

Note: Item A consists of the following components:

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

Step Three 'B3'

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

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

Where:

'B3' is the Basic Amount 'Three'

'B2' is the Basic Amount 'Two'

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

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

City Area Excluding the Temples

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

$$\text{'B3'} = £857.31$$

Inner Temple

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

$$\text{'B3'} = £857.31$$

Middle Temple

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

$$\text{'B3'} = £857.31$$

Step Four

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

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

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

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

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

Council Tax per Property Band: calculated by applying nationally fixed proportions from Band D.								
	£							
	A	B	C	D	E	F	G	H
Proportion	6	7	8	9	11	13	15	18
CoL	571.54	666.80	762.05	857.31	1,047.82	1,238.34	1,428.85	1,714.62
GLA	49.26	57.47	65.68	73.89	90.31	106.73	123.15	147.78
Total	620.80	724.27	827.73	931.20	1,138.13	1,345.07	1,552.00	1,862.40

PRUDENTIAL INDICATORS

The following Prudential Indicators (and those included in Appendix C) have been calculated in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities. In addition a local indicator has been calculated to reflect the City's particular circumstances. Those indicators relating to estimates for the financial years 2017/18, 2018/19 and 2019/20 (values shown in bold) are required to be set by the Court of Common Council as part of the budget setting process, and should be taken into account when considering the affordability, prudence and sustainability of capital investments.

Prudential Indicators for Affordability

Estimate of the ratio of financing costs to net revenue stream

Table 1

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

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

The upward trend in HRA ratios reflects increased revenue contributions to the major repairs reserve, peaking in 2017/18, which is used to fund the HRA programme of capital works necessary to maintain the housing estates.

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

Table 2

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

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

The increases over the indicators calculated at this time last year reflect the purchase of an investment property in 2016/17 to maximise income over the medium term and from 2017/18 onwards reflect the funding of the Museum of London relocation from revenue. Whilst in theory, this indicator could be a strong measure of affordability, in reality it is difficult to demonstrate a direct link between capital expenditure and its impact on the Council Tax, due to the special arrangements relating to the setting of the City's Council Tax.

Estimate of the incremental impact of capital expenditure on housing rents

Table 3

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

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

Prudential Indicator of Prudence

Net Debt and the Capital Financing Requirement

Table 4

	Period 2016/17 to 2019/20 £m
Net borrowing/(Net investments)	(35,193)
Capital Financing Requirement	154,509

To ensure that, over the medium term, net external borrowing will only be for capital purposes, this indicator is intended to demonstrate that net debt does not exceed the capital financing requirement over the period 2016/17 to 2019/20. For this purpose, net debt is defined as the net total of external borrowing and cash investments. The existing financial plans assume that no external borrowing will be undertaken within the planning period, giving a 'net investment' position.

Prudential Indicators for Capital Expenditure and External Debt

Estimate of Capital Expenditure

Table 5

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

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

Estimate of the Capital Financing Requirement

Table 6

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

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

The overall negative figures before 2016/17 are indicative of the City's debt-free status. From 2016/17 onwards the City Fund will finance some capital expenditure from cash sums received from the sale of long leases, which are treated as deferred income in accordance with accounting standards. For the purposes of this indicator, such funding counts as 'internal borrowing' and has given rise to positive CFRs going forward. The City currently continues to remain free of external debt. Going forward, a funding strategy for the Museum of London relocation is to be developed which may result in a need for external borrowing or the sale of investment property.

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

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

Local Indicator

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

Times Cover on Unencumbered Revenue Reserves

Table 7

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

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

TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY

2017/18

Treasury Management Strategy Statement and Annual Investment Strategy 2017/18

1. Introduction

1.1. Background

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

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

1.2. The Treasury Management Policy Statement

The City defines its treasury management activities as:

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

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

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

1.3. CIPFA Requirements

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

The primary requirements of the Code are as follows:

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

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
 - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- (ii) This organisation (i.e. the Court of Common Council) will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.
- (iii) The Court of Common Council delegates responsibility for the implementation and regular monitoring of its treasury management policies to the Finance Committee and the Financial Investment Board; the execution and administration of treasury management decisions is delegated to the Chamberlain, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
- (iv) The Court of Common Council nominates the Audit and Risk Management Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

1.4. Treasury Management Strategy for 2017/18

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

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

The suggested strategy for 2017/18 in respect of the required aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the City's treasury adviser, Capita Asset Services, Treasury Solutions.

The strategy covers:

- the current treasury position
- treasury indicators which limit the treasury risk and activities of the City
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy

- creditworthiness policy
- policy on use of external service providers.

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

1.5. Balanced Budget Requirement

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

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

2. Treasury Limits for 2017/18 to 2019/20

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

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

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

3. Current Portfolio Position

The City’s treasury portfolio position at 31 December 2016 comprised:

Table 1		Principal		Ave. rate
		£m	£m	%
Fixed rate funding	PWLB	0		
	Market	0	0	-
Variable rate funding	PWLB	0	0	-

	Market	0	0	-
Other long term liabilities			0	
Gross debt			0	-
Total investments			969.1	0.53
Net Investments			969.1	

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

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

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

5. Prospects for Interest Rates

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

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

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp

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

During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

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

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

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

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and

emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

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

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

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
 - Italian constitutional referendum 4.12.16 resulted in a 'No' vote which led to the resignation of Prime Minister Renzi. This means that Italy needs to appoint a new government.
 - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
 - Dutch general election March 2017;
 - French presidential election April/May 2017;
 - French National Assembly election June 2017;
 - German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats.
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

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

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

6. Borrowing Strategy

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

7. Annual Investment Strategy

7.1. Investment Policy

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

- (a) security; and
- (b) liquidity.

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

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

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

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

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

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

7.2. Creditworthiness policy

The City uses the creditworthiness service provided by Capita. This service employs a sophisticated modelling approach utilising credit ratings from all three rating agencies - Fitch, Moody's and Standard & Poor's. However, it does not rely

solely on the current credit ratings of counterparties but also uses the following as overlays:

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

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

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

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

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

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

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

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

The Chamberlain will maintain a counterparty list in compliance with the following criteria and will revise these criteria and submit them to the Financial Investment

Board for approval as necessary. These criteria are separate to those which determine which types of investment instruments are classified as either specified or non-specified as it provides an overall pool of counterparties considered high quality which the City may use, rather than defining what types of investment instruments are to be used.

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

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

- Banks 1 – good credit quality – the City will only use banks which:
 - (i) are UK banks; and/or
 - (ii) are non-UK and domiciled in a country which has a minimum sovereign long-term rating of AAA (Fitch rating)

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

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

- Banks 2 – Part Nationalised UK banks –Royal Bank of Scotland. This bank can be included if it continues to be part nationalised, or it meets the ratings in Banks 1 above.
- Banks 3 – The City's own banker (Lloyds Banking Group) for transactional purposes if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and duration.
- Bank subsidiary and treasury operation - The City will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above. This criteria is particularly relevant to City Re Limited, the City's Captive insurance company, which deposits funds with bank subsidiaries in Guernsey.
- Building Societies – The City may use all societies which:
 - (i) have assets in excess of £9bn; or
 - (ii) meet the ratings for banks outlined above
- Money Market Funds (MMF) – with minimum credit ratings of AAA/mmff
- UK Government – including government gilts and the debt management agency deposit facility.

- Local authorities.

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

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

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

7.3. Country limits

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

7.4. Investment Strategy

In-house funds: The City's in-house managed funds are both cash-flow derived and also represented by core balances which can be made available for investment over a 2-3 year period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). The City does not currently have any term deposits which span the 2018/19 financial year.

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

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

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

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

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

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

7.6. Investment Treasury Indicator and Limit

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

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

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

7.7. End of year investment report

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

7.8. External fund managers

A proportion of the City's funds, amounting to £403.2m as at 31 December 2016, are externally managed on a discretionary basis by Aberdeen Asset Management, Deutsche Asset Wealth Management, Standard Life Investments (formally Ignis Asset Management), Invesco Fund Managers Ltd, Federated UK LLP, CCLA Investment Management Ltd and Payden Global Funds Plc. The City's external fund managers will comply with the Annual Investment Strategy, and the agreements between the City and the fund managers additionally stipulate guidelines and duration and other limits in order to contain and control risk. Investments made by the Money Market Fund Managers include a diversified

portfolio of very high quality sterling-dominated investments, including gilts, supranationals, bank and corporate bonds, as well as other money market securities. The individual investments held within the Money Market Funds are monitored on a regular basis by Treasury staff.

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

7.9. Policy on the use of external service providers

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

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

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

7.10. Scheme of Delegation

Please see Appendix 7.

7.11. Role of the Section 151 officer

Please see Appendix 8.

7.12. Training

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

APPENDICES

1. Interest Rate Forecasts 2017-2020
2. Economic Background (Capita Asset Services)
3. Treasury Indicators
4. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
5. Current Approved Counterparties
6. Approved Countries for Investments
7. Treasury Management Scheme of Delegation
8. The Treasury Management Role of the Section 151 Officer

CAPITA INTEREST RATE FORECASTS 2017 - 2020

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

Note: The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of 1st November 2012
The Bank of England base rate was cut from 0.5% to 0.25% on 4 August 2016.

ECONOMIC BACKGROUND

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

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

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

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

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

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

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

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

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

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

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

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

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

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative

easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from

the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process

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

TREASURY INDICATORS

TABLE 1: TREASURY MANAGEMENT INDICATORS	2015/16	2016/17	2017/18	2018/19	2019/20
	actual	probable outturn	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt -					
borrowing	£0	£0	£0	£0	£0
other long term liabilities	£0	£14,124	£14,006	£13,888	£13,770
TOTAL	£0	£14,124	£14,006	£13,888	£13,770
Operational Boundary for external debt -					
borrowing	£0	£0	£0	£0	£0
other long term liabilities	£0	£14,124	£14,006	£13,888	£13,770
TOTAL	£0	£14,124	£14,006	£13,888	£13,770
Actual external debt	£0	£0	£0	£0	£0
Upper limit for fixed interest rate exposure					
Expressed as either:-					
Net principal re fixed rate borrowing / investments OR:-	100%	100%	100%	100%	100%
Net interest re fixed rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Expressed as either:-					
Net principal re variable rate borrowing / investments OR:-	100%	100%	100%	100%	100%
Net interest re variable rate borrowing / investments	100%	100%	100%	100%	100%
Upper limit for total principal sums invested for over 364 days	£200m	£300m	£300m	£300m	£300m
(per maturity date)					

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

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

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

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

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

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

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

APPROVED COUNTERPARTIES

BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES as at 31 DECEMBER 2016

FITCH RATINGS	BANK CODE	LIMIT OF £100M PER GROUP (£150m for Lloyds TSB Bank)	Duration
AA- F1+	40-53-71	HSBC -----	Up to 3 years
A F1	20-00-00 20-00-52	BARCLAYS CAPITAL BARCLAYS BANK -----	Up to 3 years
A+ F1	30-15-57	LLOYDS BANK incl. Bank of Scotland -----	Up to 3 years
BBB+ F2	16-75-80	ROYAL BANK OF SCOTLAND RBOS SETTLEMENTS -----	Up to 3 years
A F1	09-02-22	SANTANDER UK	Up to 3 years

BUILDING SOCIETIES

FITCH RATINGS	GROUP	ASSETS £BN	LIMIT £M	Duration
A F1	Nationwide	225	120	Up to 3 years
A- F1	Yorkshire	39	20	Up to 1 year
A F1	Coventry	36	20	Up to 1 year
A- F1	Skipton	18	20	Up to 1 year
A- F1	Leeds	14	20	Up to 1 year

MONEY MARKET FUNDS

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

FOREIGN BANKS

(with a presence in London)

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

LOCAL AUTHORITIES

LIMIT OF £25M PER AUTHORITY
Any UK local authority

APPROVED COUNTRIES FOR INVESTMENT

This list is based on those countries which have sovereign ratings of AAA as at 16 December 2016

AAA

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

AA

- United Kingdom

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

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.

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

Notes

- (a) General Reserve – The accumulated balance from annual surpluses or deficits on the City Fund Revenue Account less any transfers to, or plus any transfers from, earmarked reserves.
- (b) Police Future Expenditure - Revenue expenditure for the City Police service is cash limited. Underspendings against this limit may be carried forward as a reserve to the following financial year and overspendings are required to be met from this reserve.

- (c) Highway Improvements - Created from on-street car parking surpluses to finance future highways related expenditure and projects as provided by section 55 of the Road Traffic Regulation Act 1984, as amended by the Road Traffic Act 1991.
- (d) VAT Reserve – Should the City Corporation no longer be able to recover VAT incurred on exempt services as a result of exceeding the 5% partial exemption threshold, this reserve will be the first call for meeting the associated costs.
- (e) Proceeds of Crime Act – Cash forfeiture sums awarded to the City. Under the guidelines of the scheme, the funds must be ringfenced for crime reduction initiatives.
- (f) Judges Pensions - Sums set aside to assist with the City of London's share of liabilities.
- (g) Public Health - established from ring-fenced grant allocations. The grant must be used on activities whose main or primary purpose is to improve the public health of local populations.
- (h) Renewals and Repairs – Sums obtained on the surrender of headleases and set aside to fund cyclical maintenance and repair works to the property and void costs.
- (i) A number of reserves for service specific projects and activities where the balance on each individual reserve is less than £0.5m have been aggregated under this generic heading.
- (j) These reserves are ringfenced by statute to the Housing Revenue Account.
- (k) It is anticipated that the capital receipts reserve will be exhausted in 2016/17 due to the City's commitment to Crossrail
- (l) Capital grants and contributions received for specific purposes. This includes receipts from the City's Community Infrastructure Levy.

Appendix E

Minimum Revenue Provision (MRP) Policy Statement 2017/18

To ensure that capital expenditure funded by borrowing is ultimately financed, the City Fund is required to make a Minimum Revenue Provision (MRP) when the Capital Financing Requirement (CFR) is positive. A positive CFR is indicative of an underlying need to borrow.

A positive CFR will arise when capital expenditure is funded by 'borrowing', either external (loans from third parties) or internal (use of cash balances held by the City Fund). The current Budget Strategy for the City Fund does not envisage any external borrowing, subject to the funding strategy for the Museum of London relocation which has yet to be agreed.

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

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

The MRP liability for 2016/17 is zero. The MRP liability for 2017/18 is estimated at £896k. Subsequent year MRPs are to be equal to the deferred income to be released.

City Fund 2016/17 Budget Report and Medium Term Financial Strategy including Non Domestic Rates and Council Taxes for the Year 2017/18

Resolution by the Court of Common Council

1. It is recommended that for the 2017/18 financial year the Court of Common Council approves:
 - the Premium multiplier on the Non-Domestic Rate and Small Business Rate multipliers be set at 0.005 (no increase on the present multiplier) to enable the City to continue to support the City of London Police, security and contingency planning activity within the Square Mile at an enhanced level;
 - an unchanged Council Tax of £857.31 for a Band D property (excluding the GLA precept);
 - the overall financial framework and the revised Medium Term Financial Strategy for the City Fund; and
 - the City Fund Net Budget Requirement of £119.3m.

Council Tax

2. It be noted that in 2012 the Finance Committee delegated the calculation of the Council Tax Base to the Chamberlain and the Chamberlain has calculated the following amounts for the year 2017/18 in accordance with Section 31B of the Local Government Finance Act 1992:
 - (a) 7060.39 being the amount calculated by the Chamberlain (as delegated by the Finance Committee), in accordance with the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012, as the City's Council Tax Base for the year; this amount includes a calculation of the amount of council tax reduction; and
 - (b) Parts of Common Council's Area

Inner Temple	Middle Temple	City excl. Temples (special expense area)
84.79	68.74	6906.86

being the amounts calculated by the Chamberlain, in accordance with the Regulations, as the amounts of the City's Council Tax Base for the year for dwellings in those parts of its area to which the special items relate.

3. For the year 2017/18 the Common Council determines, in accordance with Section 35(2)(d) of the Local Government Finance Act 1992, that any expenses incurred by the Common Council in performing in a part of its area a function performed elsewhere in its area by the Sub-Treasurer of the Inner Temple and the Under Treasurer of the Middle Temple shall not be treated as special expenses, apart from the amount of £16,494,000 being the expenses incurred by

the Common Council in performing in the area of the Common Council of the City of London the City open spaces, highways, waste collection and disposal, transportation planning and road safety, street lighting, drains and sewer functions.

4. That the following amounts be now calculated by the Common Council for the year 2017/18 in accordance with Sections 31 to 36 of the Local Government Finance Act 1992:

- | | |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) £387,200,000 | Being the aggregate of the amounts which the Common Council estimates for the items set out in Section 31A(2) (a) to (f) of the Act, including the local precepts issued by the Inner and Middle Temples |
| (b) £381,147,057 | Being the aggregate of the amounts which the Common Council estimates for the items set out in Section 31A(3) (a) to (d) of the Act; |
| (c) £6,052,943 | Being the amount by which the aggregate at 4(a) above exceeds the aggregate at 4(b) above, calculated by the Common Council, in accordance with Section 31A(4) of the Act, as its council tax requirement for the year; |
| (d) £857.31 | Being the amount of 4(c) above, divided by the amount at 2(a) above, calculated by the Common Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year; |
| (e) £16,860,638.85 | Being the aggregate amount of all special items referred to in Section 34(1) of the Act, including the local precepts issued by the Inner and Middle Temples; |
| (f) £1,530.75 CR | Being the amount at 4(d) above less the result given by dividing the amount at 4(e) above by the amount at 2(a) above, calculated by the Common Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no special item relates. |

(g) Parts of Common Council's Area

Inner Temple	Middle Temple	City excl. Temples (special expense area)
£	£	£
857.31	857.31	857.31

being the amounts given by adding to the amount at 4(f) above the amounts of the special item or items relating to dwellings in those parts of the Common Council's area mentioned above divided in each case by the amount at 2(b) above, calculated by the Common Council, in accordance with Section 34(3) of the Act, as the basic amounts of its Council Tax for the year for dwellings in those parts of its area to which one of the special items relate; and

(h) Council Tax Valuation Bands

Valuation Bands	Inner Temple	Middle Temple	City excluding Temples (special expense area)
	£	£	£
A	571.54	571.54	571.54
B	666.80	666.80	666.80
C	762.05	762.05	762.05
D	857.31	857.31	857.31
E	1,047.82	1,047.82	1,047.82
F	1,238.34	1,238.34	1,238.34
G	1,428.85	1,428.85	1,428.85
H	1,714.62	1,714.62	1,714.62

being the amounts given by multiplying the amounts at 4(g) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which, in that proportion, is applicable to dwellings listed in valuation band D, calculated by the Common Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

5. It be noted that for the year 2017/18 the Greater London Authority has proposed the following amounts in precepts issued to the Common Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below:

<u>Valuation Bands</u>	<u>Precepting Authority</u>
	Greater London Authority
	£
A	49.26
B	57.47
C	65.68
D	73.89
E	90.31
F	106.73
G	123.15
H	147.78

6. Having calculated the aggregate in each case of the amounts at 4(h) and 5 above, the Common Council, in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby proposes the following amounts as the amounts of Council Tax for the year 2017/18 for each of the categories of dwelling as shown below:

Council Tax Valuation Bands Inclusive of GLA Precept

Valuation Bands	Inner Temple	Middle Temple	City excluding Temples (special expense £
	£	£	£
A	620.80	620.80	620.80
B	724.27	724.27	724.27
C	827.73	827.73	827.73
D	931.20	931.20	931.20
E	1,138.13	1,138.13	1,138.13
F	1,345.07	1,345.07	1,345.07
G	1,552.00	1,552.00	1,552.00
H	1,862.40	1,862.40	1,862.40

7. The Common Council of the City of London hereby determines that the following amounts of discount be awarded:
- i. to dwellings in Class B as defined in the Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 prescribed by the Secretary of State under the provisions of Section 11A of the Local Government Finance Act 1992 (i.e. second homes) - Nil for the financial year beginning on 1st April 2017;
 - ii. to dwellings in Class C as defined in the Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 prescribed by the Secretary of State

under the provisions of Section 11A of the Local Government Finance Act 1992:

- (a) in the case of a vacant dwelling that has been such for a continuous period of less than 6 months ending immediately before the day in question: 100% for the financial year beginning on 1st April 2017;
 - (b) in the case of a vacant dwelling that has been such for a continuous period of 6 months or more: nil for the financial year beginning on 1st April 2017 (i.e. a dwelling that is unoccupied and substantially unfurnished will qualify for a discount from the date the dwelling became vacant of 100% for the first six months (less one day) and nil thereafter)
- iii. to dwellings in Class D as defined in the Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 prescribed by the Secretary of State under the provisions of Section 11A of the Local Government Finance Act 1992 (i.e. vacant uninhabitable dwellings or vacant dwellings undergoing major works to make them habitable or vacant dwellings where major repair works have taken place): 100% for the financial year beginning on 1st April 2017.
8. The Common Council of the City of London hereby determines that its relevant basic amount of council tax for 2017/18, calculated in accordance with Section 52ZX of the Local Government Finance Act 1992 is not excessive in accordance with the Referendums Relating to Council Tax Increases (Principles) (England) Report 2017/18.

Council Tax Reduction (formerly Council Tax Benefit)

9. It be noted that at the Court of Common Council meeting in January 2017 Members approved the Council Tax Reduction Scheme for 2017/18 to be the same as the scheme for 2016/17 Effectively, the City's Local Council Tax Reduction Scheme for 2017/18 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.

Non Domestic Rates

10. The Common Council of the City of London being a special authority in accordance with Section 144(6) of the Local Government Finance Act 1988 hereby sets for the chargeable financial year beginning with 1st April 2017, a Non-Domestic Rating Multiplier of 0.484 and a Small Business Non-Domestic Rating Multiplier of 0.471 in accordance with Part II of the Schedule 7 of the said Act. (Both multipliers are inclusive of the City business rate premium of 0.005).
11. In addition, the levying by the Greater London Authority of a Business Rate Supplement in 2017/18 of 0.020 (i.e. 2.0p in the £) on hereditaments with a

rateable value greater than £70,000, to finance its contribution to Crossrail, be noted.

12. A copy of the said Council Taxes and the Non-Domestic Rating Multipliers, signed by the Town Clerk, be deposited in the offices of the Town Clerk in the said City, and advertised within 21 days from the date of the Court's decision, in at least one newspaper circulating in the area of the Common Council.

Capital Expenditure and Financing for the Year 2017/18

Having considered the circulated report, we further recommend that the Court passes a resolution in the following terms:-

13. The City Fund capital budget is approved and its final financing be determined by the Chamberlain, apart from in regard to any possible borrowing options.
14. For the purpose of Section 3(1) of the Local Government Act 2003, for the financial years 2017/18 to 2019/20, the Court of Common Council hereby determines that at this stage the amount of money (referred to as the "Affordable Borrowing Limit"), which is the maximum amount which the City may have outstanding by way of external borrowing, shall be £0.
15. For the purpose of Section 21(A) of the Local Government Act 2003, for the financial year 2017/18, the Court of Common Council hereby determines that the prudent amount of Minimum Revenue Provision is £896,000 which equals the amount of deferred income released from the premiums received for the sale of long leases in accordance with the Minimum Revenue Provision Policy at Appendix E.
16. Any potential external borrowing requirement and associated implications will be subject to a further report to Finance Committee and the Court of Common Council.
17. The Chamberlain be authorised to lend surplus monies on the basis set out in the Annual Investment Strategy, with an absolute limit of £300m for maturities in excess of 364 days.
18. The following Prudential Indicators be set:

Prudential indicators for affordability, prudence, capital expenditure and external debt:

	2017/18	2018/19	2019/20
Estimates of the ratio of financing costs to net revenue stream:			
HRA	1.13	0.53	0.53
Non-HRA	(0.25)	(0.33)	(0.16)
Total	(0.12)	(0.25)	(0.10)
Estimate of the incremental impact of capital investment decisions on the Council Tax - compared to 2016/17 estimates and expressed as a Band D equivalent	£ 4,488	£ 5,614	£ 9,527
Estimate of the incremental impact on average weekly rent of capital investment decisions on housing rents	£ (4.89)	£ (4.06)	£ (1.70)
Estimates of Capital Expenditure	£m	£m	£m
HRA	36.615	25.253	7.331
Non-HRA	95.601	105.450	95.658
Total	132.216	130.703	102.989
Estimates of Capital Financing Requirement – underlying need to borrow	£m	£m	£m
HRA	0.000	0.000	0.000
Non-HRA	49.688	100.955	154.509
Total	49.688	100.955	154.509
Net borrowing/(Net investments)	Period 2016/17 to 2019/20 £m (35.193)		
Capital financing requirement – underlying need to borrow	154.509		

Prudential Indicators for Treasury Management:

	<i>2017/18</i>	<i>2018/19</i>	<i>2019/20</i>
Operational Boundary for External Debt	£m	£m	£m
Borrowing	0	0	0
Other Long Term Liabilities	14.0	13.9	13.8
Total	14.0	13.9	13.8
Authorised Limit	£m	£m	£m
Borrowing	0	0	0
Other Long Term Liabilities	14.0	13.9	13.8
Total	14.0	13.9	13.8
Upper Limit - Fixed Interest Rate Exposure	100%	100%	100%
Upper Limit-Variable Interest Rate Exposure	100%	100%	100%
Upper limit for Principal Sums Invested for > 364 days	£300m	£300m	£300m
Maturity Structure of New 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	

Local Indicator focusing on revenue reserves:

	<i>2017/18 Estimate</i>	<i>2018/19 Estimate</i>	<i>2019/20 Estimate</i>
<i>Times cover by dividing unencumbered revenue reserves by annual revenue deficit/(surplus) - bracketed figures denote annual surpluses</i>	<i>(5.5)</i>	<i>26.0</i>	<i>1.1</i>

Other Recommendations

19. The Treasury Management Strategy Statement and Annual Investment Strategy 2017/18 are endorsed.
20. The Chamberlain's assessment of the robustness of budgets and the adequacy of reserves is endorsed.