ITEM 18(A)

Report – Finance Committee

City Fund 2018/19 Budget Report and Medium Term Financial Strategy

To be presented on Thursday, 8th March 2018

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 City Corporation's finances relating to Local Government, Police and Port Health services). It recommends that:

- the Council Tax for 2018/19 remains unchanged from 2017/18; and
- The Business Rate Premium is unchanged.

There is a further report 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 was received before Christmas and was largely in line with our assumptions. The substantial surpluses forecast across the medium term are due to retained income from business rate growth, including an additional £8m from the London pilot scheme for business rate devolution.

  The extra business rates income, combined with an increase in anticipated rents from the fund's investment properties and additional interest on cash balances, has allowed cost pressures to be accommodated and some extra items to be included whilst still leaving the fund in surplus for 2017/18 and 2018/19. The fund moves into deficit from 2019/20 onwards due to the inclusion of costs for the Museum of London relocation project and the Combined Courts project. It has been assumed that the preference will be to utilise City Fund reserves prior to borrowing to fund these projects, though this is subject to the overall funding strategies for the projects, which are yet to be agreed.

- **Police:** The police budget for 2018/19 has been brought into balance through a combination of efficiency savings, additional government grant in the provisional settlement, and drawdown on reserves. This provides the breathing space required to implement Force transformation plans, following the Deloitte Review, which will help to address the forecast budget deficit of £4-5m per annum in subsequent years (when it is anticipated that Reserves

will be exhausted and additional pressures will arise from increased demand and the changing nature of police services).

In January 2018, the Police Committee considered a report concerning the City Police's Strategic Threat and Risk Assessment Process, which is being used to identify needs and how best they can be met through existing and future operating models. This is likely to require a short-term uplift in police officer numbers, at an initial cost of £0.5m, funded in 2018/19 through management of the agreed budget. No new funding is sought at this stage.

The Police medium term financial plan also asks for continued support from the City Corporation for capital investment priorities up to a maximum of £17.5m over the period 2017/18-2022/23.

No increase in the rate of the Business Rate Premium is therefore proposed for the 2018/19 year.

RECOMMENDATION

It is **recommended** that the Court of Common Council:

- Approve the overall financial framework and the revised Medium Term Financial Strategy (paragraph 2).
- Approve the Treasury Management Strategy Statement and Investment Strategy Statement for 2018/19 and for it to come into effect once it has been agreed.
- Approve the City Fund Net Budget Requirement of £148.6m (paragraph 14).
- Approve the following **changes** from the previous forecast (paragraphs 3 and 11):
    - allowances for pay and prices be factored in at 2% for 2018/19 and thereafter (paragraph 11c);
    - a 2% efficiency savings for City Fund from 2018/19 be included in line with the published Efficiency Plan, which will fund a new 'Priorities Investment Pot'. Members are asked to note the approval process for funding from the Priorities Investment Pot (paragraph 11d);
    - substantial additional City Fund support for City Police potentially amounting to £13m revenue funding across the planning period, prior to mitigations/transformation (paragraph 7) and a further £13m to underpin the shortfall on Police capital schemes (paragraph 13d);
    - a provision of £265k in 2018/19, rising to £400k in 2019/20 onwards for Adult Social Care (paragraph 4a); and
    - an additional £1m to £1.5m ring-fenced provision for waste and cleaning from 2019/20 onwards (paragraph 4d).
- Approve the following **investment opportunities** being included, subject to further reports:
    - substantial provision for major projects, including £90m for the Combined Courts relocation and £187m for the Museum of London

projects (paragraph 4c) across the planning period (noting further costs of £137m are forecast beyond the planning period for the Museum of London;

  - due to the uneven profile of spend on the major projects, Members are also asked to approve the establishment of a new 'Major Projects Earmarked Reserve';
  - an additional allocation of £4m to address more of the backlog of refurbishment costs; (paragraph 4b); and
  - £4.4m remains of the provision for the Culture Mile allocated in the 2017/18 budget by the Court of Common Council. Policy and Resources Committee have approved an additional £1.4m p.a. for two years to fund the annual revenue running costs of the programme (paragraph 4h).

- Note that the forecast **includes an item already agreed** by Policy and Resources Committee:
  - an additional £571k p.a. for the restructuring of the Brussels office. A review of the effectiveness of the office and resourcing need will be undertaken as the UK approaches Brexit.
- Note that the revenue estimates from 2018/19 assumes the City will be in a 'growth' position under the business rates retention scheme, with an income of typically £40m p.a. (including the benefit of the London business rates pool) (paragraph 12b).
- Note the Local Council Tax Reduction Scheme as set out at paragraph 33.

Key Decisions

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

Business Rates

- Set, inclusive of an unchanged business rate premium (0.5p in the £), a Non-Domestic Rate multiplier of 49.8p for 2018/19 together with a Small Business Non-Domestic Rate multiplier of 48.5p (paragraph 17).
- Note that the Greater London Authority is, in addition, levying a Business Rate Supplement in 2018/19 of 2p in the £ on properties with a rateable value greater than £70,000 (paragraph 24).
- 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 paragraphs 21 and 22.

Council Tax

- Agree that the City's Council Tax (excluding the Greater London Authority precept) remain unchanged.
- Based on a zero increase from 2017/18, 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 2018/19 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 2018/19 be treated as special expenses to be borne by the City's residents outside the Temples (appendix A).

Other Recommendations

N.B. All other recommendations are largely of a technical and statutory nature; the only one to highlight for particular attention is that it is proposed that the City of London Corporation remains free of external borrowing for 2018/19.

Capital Expenditure

- Note the proposed financing methodology of the capital programme in 2018/19 (paragraph 35).
- Approve the Prudential Code indicators (Appendix B).
- Approve the following resolutions for the purpose of the Local Government Act 2003 (paragraph 36 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; and
    - the prudent amount of Minimum Revenue Provision (MRP) for 2018/19 is £975k which equals the amount of deferred income released from the premiums received for the sale of long leases in accordance with the MRP Policy at Appendix E.
- Note that any potential external borrowing requirement and associated implications will be subject to a further report to Finance Committee and the Court of Common Council.

Treasury Management Strategy Statement and Investment Strategy Statement 2018/19

- Agree the change to allow investment in short-dated bonds in the Treasury Management Strategy Statement and Investment Strategy Statement 2018/19 with immediate effect (paragraph 40).

Chamberlain's Assessment

- Take account of the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves (paragraph 42-45 and Appendix D).

Resolution by the Court of Common Council

- Agree the resolution for approval, set out in Appendix F.

MAIN REPORT

Financial Overview

1. The Government recently issued the Local Government Finance Settlement for 2018/19 and the Policing Minster published the revenue allocations for police for 2018/19.

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

Table 1: City Fund Overall Revenue	£m				
	17/18	18/19	19/20	20/21	21/22
City Fund – non-Police					
March 2017 forecast	10.9	0.1	(15.6)	(19.6)	N/A
Current forecast*	5.7	16.7	(5.5)	(63.4)	(103.3)
Unearmarked revenue reserves	55.9	72.6	68.1	4.7	-
City Fund – Police					
March 2017	(1.5)	(5.6)	(3.8)	N/A	N/A
Current forecast	-	-	(4.2)	(4.1)	(4.8)
Unearmarked revenue reserves	3.5	-	-	-	-

Figures in brackets denote expenditure, increases in expenditure, or shortfalls in income.
**Costs, including Major Projects, have been applied up to available reserves with assumption that the balance will be funded by borrowing*.

3. **For City Fund**, 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. It has also allowed for the inclusion of additional funding to meet Member priorities and initiatives as shown in paragraph 4 below, whilst still leaving the fund in surplus for 2017/18 and 2018/19. The fund moves into deficit, however, from 2019/20 onwards, due to the inclusion of costs for the Museum of London and the Combined Courts relocation projects.

4. The following have been included in the City Fund forecast:
    a. Adult Social Care: The forecast overspend in the Adult Social Care budget arises from increasing costs of provision and demographic pressures driving the future growth in need for services. A provision of £400k was made in 2017/18 in response to these pressures. In December 2017, the Policy and Resources Committee approved the Community and Children's Services Committee's request for a permanent increase in the baseline budget - an additional £265,000 in 2018/19; and a further £135,000 in 2019/20 (to total £400k). Given the City's overall funding position, and the size of the cost, a social care precept increase would not be appropriate.

    b. Additional Cyclical Works Programme Funding: Following the Resource Allocation Sub Committee Away Day in June, Members gave a 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. Last year, Members approved £4m p.a. for 2018/19 and thereafter to fund the 'bow wave' for City Fund properties and in particular some substantial refurbishment projects (e.g. Old Bailey). It is proposed that an additional £4m is allocated, with £1m in 2018/19 and £3m in 2021/22, to address more of the backlog, allowing a reasonable timeframe to deliver an expanded scheme.

    c. Major Projects including the Museum of London Relocation: following the decision last year to allocate surplus revenue monies to one-off large capital projects, the following schemes have been included, based on financing requirements during the period:

        i. Museum of London (£187m of which £4m p.a. is funded by the GLA);

        ii. Cash flow loan to City Police: Action Fraud £11.7m; and

        iii. Combined Courts (on basis of just the Courts being built, combined Police and Court costs yet to be validated) £90m.

    The inclusion of the major projects leads to a potential borrowing requirement in excess of £100m from 2021/22. The costs of borrowing have not been included in the medium term financial plan. For indicative purposes, a £30m loan over 25 years would incur repayments of £1.9m per annum on a capital repayment basis. Total borrowing would be subject to Prudential Borrowing Limits.

    Table 2 below sets out the current phasing of the projects. The net costs for the planning period 2018/19 to 2021/22 (highlighted) have been included in the City Fund forecast.

Table 2: Major Project Costs	**Prior Years £m**	**17/18 £m**	**18/19 £m**	**19/20 £m**	**20/21 £m**	**21/22 £m**	**Later Years £m**	**Total £m**

Police Action Fraud	(7.5)	(4.2)	2.1	1.9	2.9	1.5	3.3	0.0
Museum of London	(2.0)	(7.2)	(14.5)	(24.3)	(53.5)	(94.8)	(136.8)	(333.1)
Combined Courts	0.0	(0.3)	(4.0)	(20.0)	(35.5)	(30.3)	0.0	(90.1)

Figures in brackets denote expenditure, increases in expenditure, or shortfalls in income

Although the Museum is undertaking a fundraising campaign and the GLA is providing a contribution to the project cost, the City will have to forward fund some of the costs being met from these funding streams. The intention is to finance the cash-flow spend on the Museum initially through revenue reserves, in so far as it is affordable, and thereafter potentially through borrowing. For modelling purposes, the GLA's proposed annual contribution of £4m has been included but the Museum's fundraising contribution of £70m has been excluded.

Due to the uneven profile of spend on the major projects, we propose establishing a new 'Major Projects Earmarked Reserve' as a mechanism for ring-fencing surplus retained business rates income.

d. Waste & Cleansing: the contract with the current supplier comes to an end in April 2019. It is estimated that tenders for the new contract will be £1m to £1.5m higher per annum than the current contract cost, should Members wish to maintain the same high standards across the City. This is based on the next lowest tender when the last contract was tendered. A request has yet to be made to the Policy and Resources Committee for a ring-fenced provision.

e. Brussels Office: the Policy and Resources Committee approved an additional £571k p.a. for the restructuring of the Brussels office in December 2017. A review of the effectiveness of the office and resourcing need will be undertaken as the UK approaches Brexit.

f. Rental income: void costs: the City Surveyor has identified £800k of void costs in 2018/19 following the departure of tenants. A request for funding was made by Property Investment Board to the Resource Allocation Sub Committee in January 2018, which was approved.

g. Security within City Corporation buildings: an allowance of £1m p.a. was approved by the Court of Common Council last year. There are likely to be draw-downs on this amount for both the Barbican Centre and Guildhall, subject to the approval of the Policy and Resources Committee.

h. Culture Mile: A £5m provision was provided in 2017/18 for the capital costs of the project. Annual revenue running costs for 2018/19 have initially been estimated at £1.4m in addition to the capital funding to be funded from City Fund. The Policy and Resources Committee, at its February 2018 meeting, approved two years of funding to provide these additional

resources which will support delivery across the eight Culture Mile workstreams.

i. Not yet included in the financial forecast:

- Cost pressures on local government community safety/prevent activities following a reduction in Home Office funding; the financial impact has not yet been quantified.
- Security hostile vehicle mitigation estimated to be in the region of c£12m, although it is expected that the initiative will be funded initially from CIL (Community Infrastructure Levy) until monies are exhausted and thereafter a request to be made for City Corporation support.
- The Centre for Music, which is outside the planning period.
- The combined Courts/Police accommodation proposal (the forecast currently includes the separate schemes).
- A request for resources relating to flood risk assessments which will be requested from the Policy and Resource Committee in the coming months.

5. **Council Tax:** With regard to Council Tax for the current financial year, 2017/18, the City's Council tax is £857.31, expressed at band D and excluding the GLA precept. The council tax referendum threshold will effectively be 6%, 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 £275k in 2018/19 (rising to £400k in 2019/20) within the forecast, so this option is not recommended. **The recommendation is therefore to freeze, rather than increase, council tax.**

6. **For Police,** the core grant settlement was marginally worse than anticipated, at £51.4m. This was some £0.2m lower than anticipated, but overall £0.7m better-off when specific purpose grants are included.

7. The police budget for 2018/19 has been brought into balance through a combination of efficiency savings, additional government grant in the provisional settlement, and draw-down on Police reserves. This provides the breathing space required to implement Force transformation plans following the Deloitte Review, amid pressures arising from increased demand and the changing nature of police services. These plans will address the underlying forecast budget deficit of £4-5m p.a. in subsequent years, when it is anticipated Reserves will be exhausted.

8. The January 2018 Police Committee meeting considered a report on the Strategic Threat and Risk Assessment Process, which is being used to identify needs and how best they can be met in the existing and future operating models. This is likely to require a short-term uplift in police officer numbers, at an initial cost of £0.5m, funded in 2018/19 through management of the agreed budget. No new funding is sought at this stage.

9. The Force has a number of capital programmes in the pipeline which are currently unfunded, with the overall shortfall estimated at £13m over the forecast period. A key driver of the expenditure in the pipeline programmes is the Emergency Security Network (ESN) Home Office programme, where it is anticipated that £8m over and above the earmarked allocation may be required to ensure delivery.

10. As the Police forecasts show a continuing deficit, exhausting the reserves in 2018/19, Members may wish to consider a business rate increase. The premium can be increased in increments of 0.1p with each 0.1p generating circa £2m p.a. It is also worth noting that the Mayor of London intends to increase the GLA policing precept by the maximum amount of £12. As the City Corporation has its own Police force this increase does not apply to the City, but it is worth noting the financial climate faced by London local authorities and measures being taken elsewhere. The Home Secretary's expectation is that Police authorities will use their precepting powers to maintain funding levels (in the City's case the business rate premium). In recognition of the specific circumstances of the City, the Home Office provided additional grant funding of £0.9m in Precept Grant for 2018/19. Given the relative health of City Fund overall, it is suggested that no increase be made in the business rate premium for 2018/19, although the Police Committee has suggested that an increase may be proposed next year.

Key assumptions used in the forecast

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. On the City's two other key income streams, rental and investment income, market rents appear to be performing strongly for the foreseeable future, although there has been an increase in void periods over the last six months. The 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. Non-property investment returns have performed strongly over the last eighteen months, whilst bond returns have been rather mixed. The City Corporation has a mixed portfolio to manage its investments across the investment cycle.

b. The Bank of England base rate is 0.75% for 2018/19 and, based on Corporate Treasury calculations on the rate we are likely to achieve, allowance has been made for two 0.25% base rate increases across the planning period. A 0.25% increase in interest rates in 2018/19 equates to additional income of £1.5m on City Fund balances.

Expenditure

c. An allowance for pay and prices is factored in at 2% for 2018/19 and throughout the planning period.

d. A 2% efficiency saving from 2018/19 for City's Cash and City Fund is included in line with the published Efficiency Plan, which will fund a new 'Priorities Investment Pot' (PIP). PIP funding bids have been submitted by a range of departments and recommended bids will be presented to Members for approval.

e. All remaining Service Based Review (SBR) savings will be achieved. Currently five departments have outstanding issues in respect of SBR savings, with two departments having additional savings to deliver in 2018/19. The January 2018 meeting of the Policy and Resources Committee approved a reduction in the City Surveyor's SBR target of £300k to fund the Assistant Property Facility Managers posts for 2017/18 and subsequent financial years. An adjustment has been made in the forecasts. Otherwise, the risk of not achieving all SBR savings is low as the majority of savings have already been delivered.

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

a. **Grant Settlement:** The provisional local authority grant settlement was received before Christmas and was largely as expected. The Ministry of Housing, Communities and Local Government (MHCLG) are undertaking a Fair Funding Review which will set the business rates baseline (the amount retained by the City to fund services) and determine the grant allocated to the City in place of Revenue Support Grant from 2019/20 onwards. This change in funding regime will also coincide with the anticipated introduction of retained business rates nationally. There will be a degree of uncertainty on the impact of these proposals until the details of the schemes are published. If implementation is delayed beyond 2020/21, a transition funding regime will be required from MHCLG.

b. **Business Rates retention:** The Government, the GLA and London Councils have negotiated a pilot scheme for business rate devolution in London for the financial year 2018/19, involving the establishment of a business rate pool. The proposal was approved in January 2018. The scheme has a financially neutral starting point, but enables any year-on-year growth in rates revenue to be retained in London. Some of this will be used to establish a strategic investment fund and the rest will be shared among participating authorities. If the projected benefits do not materialise, the Government has guaranteed that no individual authority will be worse off as a result of participating in the pool. The scheme carries no commitment beyond 2018/19; however, the forecasts include the assumption that the pilot will run its full two years, with an assumption of typically £40m p.a. retained from growth.

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 MHCLG and for 2018/19 will be £11.6m, a similar level to 2017/18 inflated by RPI. Small inflationary increases have been assumed for subsequent years of the planning period.

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

a. **Grant funding:** The Police core grant settlement was marginally worse than anticipated at £51.4m. This was some £0.2m lower than anticipated, but overall £0.7m better off when specific purpose grants are included.

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 £4.8m, a reduction of £0.05m from 2017/18. Home Office Capital City Funding has been advised as part of the settlement at £4.5m, which represents no change from the prior year.

c. **Action Fraud Service:** The City Fund is providing cash flow assistance in relation to the Action Fraud Service provided by the City of London Police. This service was transferred from the Home Office National Fraud Authority to the City of London Police with effect from 1 April 2014. Subsequently the service was subject to a procurement process which was won by IBM (UK) Ltd. The phasing of contract payments reflects IBM's significant mobilisation costs which could not be met from Police reserves. The costs were originally envisaged to all fall in 2016/17 but, due to slippage on the project, an additional cash flow loan of £5.2m was approved, taking the total cash flow support to £11.7m. Repayments will fall between 2018/19 and 2023/24 and are partially reliant on the successful monetisation of the service.

d. **City Support:** The City is directly funding some additional costs for IT and pension costs and a request has been made to fund a number of capital projects in the pipeline estimated at £13m from 2018/19 onwards (total capital support of £17m). A key driver of the expenditure in the pipeline is the Emergency Security Network (ESN) Home Office programme, where it is anticipated that £8m over and above the earmarked funding may be required to ensure delivery.

Revenue Spending Proposals for 2018/19

14. The City Fund net budget requirement for 2018/19 is £148.6m, an increase of £8.9m. The following table shows how this is financed and the resulting council tax requirement.

Table 3: Setting the Council Tax requirement

	2017/18 Original £m	2018/19 Draft £m
Net Expenditure before investment income from City Fund assets	(183.5)	(189.7)
Estate rental income	45.0	46.8
Income on balances	3.0	5.5
Net requirement	(135.5)	(137.4)

Plus proposed contribution (to)/from reserves	(4.2)	(11.2)
City Fund Net Budget Requirement	**(139.7)**	**(148.6)**
Financing sources		
Formula Grant	111.3	119.8
City Offset	11.3	11.6
NNDR premium (net)	10.5	10.5
City's share of Collection Fund Surplus	0.6	0.5
Council Tax Requirement	**6.0**	**6.2**

15. A separate report on today's agenda "Revenue and Capital Budgets 2017/18 and 2018/19" includes the detailed net revenue budget requirements of the City Fund. Included within the net expenditure is provision for any levies issued to the City by relevant levying bodies such as the Environment Agency, the Lee Valley Regional Park Authority, London Pensions Fund Authority and London Council's Grant scheme. This also includes the following precepts anticipated for the year by the Inner and Middle temples (after allowing for the cost of highways, transportation planning, waste collection and disposal, drains and sewers, open spaces and street lighting being declared as special expenses as in previous years).

Table 4: Temple's Precepts

	2017/18 £	**2018/19 £**
Inner Temple	202,484	204,944
Middle Temple	164,155	164,616
Total	**366,639**	**369,560**

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

Table 5: Analysis of Core Government Grants

		2017/18 Original £m	**2018/19 Original £m**	**Increase (Reduction) on 2017/18 £m**	**%**
1	Police	51.4	52.1	0.7	1.4
2	Non-Police	8.8	0.0	(8.8)	(100.0)
3	**Sub-total:**	**60.2**	**52.1**	**(8.1)**	**(13.5)**
4	Rates Retention Baseline	15.6	23.6	8.0	51.3
5	Rates Retention Growth	35.5	44.1	8.6	24.2
6	**Sub-total:**	**111.3**	**119.8**	**8.5**	**7.6**
7	Grants Rolled In	0.0	0.0	0.0	0.0
8	**Total Core Government Grants**	**111.3**	**119.8**	**8.5**	**7.6**

Business Rates

17. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 49.3p and a Small Business Non-Domestic Rate Multiplier Rate of 48.0p for 2018/19. These multipliers represent an increase of 1.4p over the 2017/18 levels. The actual amount payable by each business will depend upon its rateable value.

18. If the business rate premium on City businesses remains at 0.5p in the £, the proposed premium will result in a National Non-Domestic Rate multiplier of 49.8p and a Small Business Non-Domestic Rate of 48.5p for the City for 2018/19. It is anticipated that a premium of 0.5p will raise approximately £10.5m taking into account likely reliefs, reductions or refunds.

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

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

21. 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:

    - Supporting Small Businesses Relief - a discount for ratepayers who, as a result of the change in their rateable value at the rating revaluation in 2017, have lost some or all of their small business rate relief.

    - A discount of £1,000 to pubs with a rateable value below £100,000.

22. A discretionary revaluation relief scheme was introduced in April 2017 to support those businesses facing the steepest increases in their rates bills, following rating revaluation. This is a five-year scheme with specific total amounts allocated to each billing authority for each of the five years. Each authority has to determine its own local scheme for each year. Authority is sought for the Chamberlain to determine the City scheme for each of the remaining four years: 2018/19, 2019/20, 2020/21 and 2021/22.

23. Although fully funded by central Government, these discounts are to be delivered using Localism Act discounts and so technically will be discretionary.

Business Rate Supplement

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

Determination of the Council Tax requirement

25. 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.

26. After allowing for a proposed contribution to reserves, the final City Fund Council Tax requirement for 2018/19 is £6.2m. In accordance with the provisions in the Localism Act 2011, the Council Tax requirement allows for the Formula Grant, the City Offset, the City's Rate Premium and the estimated surplus on the Collection Fund at 31 March 2018. As detailed in Appendix A, the City's proposed Council Tax for 2018/19 at band D is £857.31. Consequently, it is proposed to freeze Council Tax for 2018/19 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.

27. The GLA's 'provisional' precept for 2018/19 is £76.10 for a Band D property. This excludes the Metropolitan Police requirement and represents an increase of £2.21 compared with 2017/18.

28. 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 6: Council Tax per Property Band:

	£							
Band	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	50.73	59.19	67.64	76.10	93.01	109.92	126.83	152.20
Total:	622.27	725.99	829.69	933.41	1140.83	1348.26	1555.68	1866.82

29. 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 formally determine that the relevant (net of local precepts and levies) basic amount of Council Tax for 2018/19 will not be excessive in relation to the new referendum requirements for any council tax increases.

Council Tax Reduction

30. 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.

31. Changes were made to national benefits in the July 2015 budget and, as a result, it was not possible to maintain the same scheme for the 2016/17 financial year. A consultation exercise was undertaken and the Court of Common Council agreed

to make adjustments to the scheme as it applies to working age claimants to protect existing claimants from possibly being worse off, keeping the administration of the Council Tax Reduction Scheme in line with Housing Benefit.

32. There were no proposals to make any specific amendments to the Council Tax Reduction Scheme for this or future years, beyond keeping the scheme in line with Housing Benefit.

33. The Council Tax Reduction Scheme will therefore remain the same for 2018/19 as was administered in 2016/17 and 2017/18, subject to the annual uprating of amounts in line with Housing Benefit applicable amounts.

Capital

34. The City 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 2018/19 capital programme (including the indicative costs of implementing schemes still subject to approval) comprise:

Table 7: Key areas of 2018/19 Capital Expenditure	
	£m
Roads, Street-scene and Public Realm (incl. Culture Mile)	(39.6)
Dwelling Improvements	(17.9)
New Affordable Housing	(18.0)
Museum of London Relocation	(14.5)
New Police Accommodation	(27.0)
Police systems and equipment	(10.0)
Old Bailey Plant Replacement	(4.9)
New Courts Provision	(4.0)

35. 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 Corporation has not borrowed any money to finance these schemes. Financing is summarised in the table below.

Table 8: Financing of 2018/19 City Fund Capital Expenditure		
	£m	**£m**
Estimated Capital Expenditure		(152.5)
Financing:		
Internal		
Earmarked Reserves		
Housing Revenue Account (HRA)	(5.3)	
Highways Improvements	(2.9)	
Unapplied Grants	(4.7)	
Disposal Proceeds	(69.9)	
Revenue Reserves	(19.4)	(102.2)
External		
Grants and Reimbursements		(50.3)
Total		**(152.5)**

36. 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 asked to set are:

- Estimates of capital expenditure 2018/19 to 2020/21;
- Estimates of the capital financing requirement 2018/19 to 2020/21;
- Ratio of financing costs to net revenue stream (City Fund and HRA);
- Net debt and the capital financing requirement; and
- Estimate of the incremental impact on council tax and housing rents.

37. The prudential indicators listed above, together with one locally developed indicator, have been calculated in Appendix B. In addition, treasury-related prudential indicators are required to be set. These are included within the 'Treasury Management Strategy Statement and Investment Strategy Statement 2018/19' at Appendix C.

38. The main point to highlight is that there is no underlying requirement at this stage to borrow externally for capital purposes. However, the funding of capital expenditure from cash received from long-lease premiums, which are deferred in accordance with accounting standards, has to be treated as internal borrowing. To ensure that this cash is not 'used again' when the deferred income is released to revenue, the City Corporation will make a Minimum Revenue Provision equal to the amount released, resulting in an overall neutral impact on the revenue account bottom line. The Minimum Revenue Provision Policy Statement 2018/19 is set out in Appendix E. A further point to note relates to the funding for major projects, specifically the Combined Courts project and the relocation of the Museum of London to the Smithfield Market site. The intention is to use revenue reserves initially for as long as this is affordable, with external borrowing to bridge the gap in the latter period when necessary. Although the Museum of London is undertaking a fundraising campaign and the GLA is providing a contribution to this project, the City Corporation will be forward funding a large proportion of the costs.

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

40. Additionally, the Financial Investment Board are looking to invest monies in two short-dated bond funds to maximise returns. Investing in these types of fund is not permitted within the 2017/18 Treasury Management Strategy Statement and Investment Strategy Statement, but has been included within the 2018/19 Treasury Management Strategy Statement and Investment Strategy Statement (Appendix C paragraph 7.8). The Court of Common Council is requested to approve this change with immediate effect.

Provision for future capital expenditure

41. In addition to the programmed capital schemes over the planning period, the Capital Programme allows £3m per annum for new schemes [of which £1m has been earmarked to provide capital funding for urgent works necessary for the Museum of London's existing building] which have not yet been identified. If schemes are identified in excess of these provisions, Resource Allocation Sub

Committee will need to prioritise requests and/or consider making further resources available from reserves.

Robustness of Estimates and Adequacy of Reserves

42. 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.

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

    a. provision has been made for all known liabilities, together with indicative costs (where identified) of capital schemes yet to be evaluated;

    b. the estimates and financial forecast have been prepared at this stage on the basis of the Corporation remaining debt free until such time as external borrowing may be needed to bridge the gap for major capital projects (the Museum of London relocation and the Combined Courts project);

    c. prudent assessments have been made regarding 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 must 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; and

        - the assumed interest rate, although increasing, remains low across the planning period; and

    f. a strong track record in achieving budgets gives confidence on the robustness of estimates.

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

Risks

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

    <u>Within the City Corporation's control:</u>

    - Challenges faced by the City Police to remove projected deficits;

    - Police Action Fraud project overspending and changes in cash flow requirements;

- Museum of London relocation project not being delivered within estimated cost;

- Slippage in major projects; and

- Rent income- the loss of £6-8m p.a. for Fleet Street should the Combined Courts/Police proposal go ahead.

Outside the City Corporation's control:

- Brexit affecting the rental income from our commercial property as a result of increased voids;

- Business Rates income - volatility around the growth forecasts, dependent on full occupation of new builds and London pilot;

- Fair Funding review which will affect the amount of business rates retained by the City to fund services; and

- Inflation is currently running at 3%, but the Office for Budget Responsibility forecasts a drop to 2%. However, forecasts made by the OBR last year for 2017/18 proved to be over-optimistic. The position will be monitored during 2018/19.

Equalities Implications

46. During the preparation of this report, all Chief Officers were asked to consider whether there would be any potential adverse impact of the various budget policy proposals on equality of service. This was with particular regard to service provision and delivery that affects people, or groups of people, in respect of disability, gender and racial equality. None were received.

Conclusion

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

48. For Police, the drawdown on reserves in 2018/19 provides breathing space to implement Force transformation plans, following the Deloitte Review, which will help address the forecast deficit of £4-5m p.a. in subsequent years.

49. The estimates are considered robust and the level of and polices relating to the City Fund reserves are considered reasonable.

50. 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 20th day of February 2018.

SIGNED on behalf of the Committee.

Jeremy Paul Mayhew
Chairman, Finance Committee

Appendices

- Appendix A: Calculating Council Tax
- Appendix B: Prudential Indicators
- Appendix C: Treasury Management Strategy Statement and Investment Strategy Statement 2018/19
- Appendix D: City Fund Usable Reserves
- Appendix E: Minimum Revenue Provision Policy Statement 2018/19
- 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:

$$\mathrm{B1} = \frac{\mathrm{R}}{\mathrm{T}}$$

Where:

B1 is the Basic Amount 'One'

R is the amount calculated by the authority as its Council Tax requirement for the year:

	£	£
City Fund Net Budget Requirement		148,588,781
Less:		
Formula Grant	(119,800,000)	
City Offset	(11,605,000)	
Estimated Non Domestic Rate Premium (net)	(10,500,000)	
Estimated Collection Fund Surplus as at 31 March 2017 (City's Share)	(501,744)	(142,406,744)
TOTAL COUNCIL TAX REQUIREMENT		**6,182,037**

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 (7,210.97) together with the Council Tax bases for each part of the City's area

The above calculation is as follows:

$$\mathrm{B1} = \frac{£6{,}182{,}037}{7{,}210.97}$$

$$\mathrm{B1} = £857.31$$

Step Two (B2)

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

$$\mathrm{B2} = \mathrm{B1} - \frac{\mathrm{A}}{\mathrm{T}}$$

Where:

'B2' is the Basic Amount 'Two'

A is the Aggregate of all special items:

	£	£
Highways Net Expenditure	9,148,000	
Waste Collection & Disposal Net Expenditure	2,311,000	
Open Spaces Net Expenditure	1,660,000	
Transportation Planning	2,215,000	
Drains and Sewers	381,000	
Street Lighting Net Expenditure	1,184,000	
Total City's Special Expenses		16,899,000
Inner Temple Precept	204,943.56	
Middle Temple Precept	164,615.80	369,559.36
TOTAL SPECIAL ITEMS		**17,268,559.36**

T is the Council Tax base for the whole area

The above calculation is as follows:

$$\mathrm{B2} = £857.31 - \frac{£17{,}268{,}559.36}{7{,}210.97}$$

$$\mathrm{B2} = £1{,}537.45\ (\mathrm{CR})$$

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:

$$\mathrm{B3} = \mathrm{B2} + \frac{\mathrm{S}}{\mathrm{TP}}$$

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

$$\mathrm{B3} = £1{,}537.45\ \mathrm{CR} + \frac{£16{,}899{,}000}{7{,}056.65}$$

$$\mathrm{B3} = £857.31$$

Inner Temple

$$\mathrm{B3} = £1{,}537.45\ \mathrm{CR} + \frac{£204{,}943.56}{85.58}$$

$$\mathrm{B3} = £857.31$$

Middle Temple

$$\mathrm{B3} = £1{,}537.45\ \mathrm{CR} + \frac{£164{,}615.80}{68.74}$$

$$\mathrm{B3} = £857.31$$

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:

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

Where:

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:								
	£							
Band	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	50.73	59.19	67.64	76.10	93.01	109.92	126.83	152.20
Total:	622.27	725.99	829.69	933.41	1,140.83	1,348.26	1,555.68	1,866.82

Appendix B

PRUDENTIAL INDICATORS

1. 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 2018/19, 2019/20 and 2020/21 (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:

	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
HRA	0.25	0.21	0.41	**0.72**	**0.84**	**0.71**	**0.72**
Non-HRA	-0.46	-0.37	-0.17	**-0.23**	**-0.23**	**-0.11**	**-0.23**
Total	-0.39	-0.30	-0.12	**-0.15**	**-0.14**	**-0.05**	**-0.15**
At this time last year	*-0.39*	*-0.30*	*-0.09*	*-0.12*	*-0.25*	*-0.10*	*-*

2. This ratio is intended to represent the extent to which the net revenue consequences of capital financing and borrowing impact on the net revenue stream. Since the City Fund is currently 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. The upward trend in HRA ratios reflects increased revenue contributions to the major repairs reserve, which is used to fund the HRA programme of capital works necessary to maintain the housing estates.

Prudential Indicator of Prudence

Gross Debt and the Capital Financing Requirement

Table 2:

	Period 2017/18 to 2020/21
	£m
Gross Debt	**28,875**
Capital Financing Requirement	**184,582**

3. To ensure that, over the medium term, borrowing will only be for capital purposes, this indicator demonstrates that gross debt will not exceed the capital financing requirement over the period 2017/18 to 2020/21. The existing

financial plans identify a potential shortfall in funding for two major projects - the Museum of London relocation and the new combined courts building - which may result in a need to start borrowing in 2020/21. However, the decision on borrowing is for the future; a Capital Strategy is being prepared which will identify potential sources of funding for these items of capital expenditure and consider the most prudent approach.

Prudential Indicators for Capital Expenditure and External Debt

Estimate of Capital Expenditure

Table 3:

	2014/15 Actual £m	2015/16 Actual £m	2016/17 Actual £m	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
HRA	4.534	8.984	8.775	**16.686**	**35.957**	**18.652**	**2.667**
Non-HRA	41.103	32.012	250.705	**76.003**	**116.594**	**142.595**	**168.265**
Total	45.637	40.996	259.480	**92.689**	**152.551**	**161.247**	**170.932**
At this time last year	*45.637*	*40.996*	*284.033*	*132.216*	*130.703*	*102.989*	*-*

4. 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 for the Museum of London relocation, the increase in cost of the police accommodation programme and inclusion of the new combined courts building.

Estimate of the Capital Financing Requirement

Table 4:

	2014/15 Actual £m	2015/16 Actual £m	2016/17 Actual £m	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
HRA	10.490	2.352	0.000	**0.000**	**9.500**	**9.310**	**9.124**
Non-HRA	-12.309	-3.496	40.628	**48.095**	**68.104**	**115.682**	**175.458**
Total	-1.819	-1.144	40.628	**48.095**	**77.604**	**124.992**	**184.582**
At this time last year	*-1.819*	*-1.144*	*92.928*	*49.688*	*100.955*	*154.509*	*-*

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

6. The overall negative figures before 2016/17 are indicative of the City's debt-free status. From 2016/17 onwards, the City Fund is financing 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. Whilst the City currently continues to remain free of external debt, a shortfall in funding for major projects has been identified which may result in external borrowing or the sale of investment property. A Capital Strategy is being prepared to determine a prudent approach to capital financing.

7. 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.

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

Local Indicator

9. 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 5:

	2017/18	2018/19	2019/20	2020/21
Times cover on unencumbered revenue reserves	*(9.8)*	**(4.3)**	***15.2***	***0.1***
At this time last year	*(5.5)*	*26.0*	*1.1*	*-*

10. This indicator is calculated by dividing the balance of unencumbered general reserves by any annual revenue deficit/(surplus). For 2017/18 and 2018/19 revenue surpluses are forecast, denoted by the brackets. In 2019/20 a modest deficit is forecast, covered by ample revenue reserves. However, in 2020/21, a significantly larger deficit is forecast, with reserves falling to a minimum. The movement from annual revenue surpluses to deficits is attributable to funding for two major projects – the Museum of London relocation and the new combined courts project. A formal Capital Strategy is to be developed to address the pressure on reserves which may result in external borrowing and/or the sale of investment property.

Appendix C

TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY

2018/19

Issue Date: 06/02/2018

Appendix C

Treasury Management Strategy Statement and Annual Investment Strategy 2018/19

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 2018/19

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 2018/19 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, Link 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 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 2017 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			**873.4**	**0.56**
Net Investments			**873.4**	

4. Treasury Indicators for 2018/19 – 2020/21

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 Link Asset Services (Link) 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 Link central view.

	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 years	25 year	50 year
Dec 2017	0.50	1.50	2.10	2.80	2.50
Mar 2018	0.50	1.60	2.20	2.90	2.60
Jun 2018	0.50	1.60	2.30	3.00	2.70
Sep 2018	0.50	1.70	2.40	3.00	2.80
Dec 2018	0.75	1.80	2.40	3.10	2.90
Mar 2019	0.75	1.80	2.50	3.10	2.90
Jun 2019	0.75	1.90	2.60	3.20	3.00
Sep 2019	0.75	1.90	2.60	3.20	3.00
Dec 2019	1.00	2.00	2.70	3.30	3.10
Mar 2020	1.00	2.10	2.70	3.40	3.20
Jun 2020	1.00	2.10	2.80	3.50	3.30
Sep 2020	1.25	2.20	2.90	3.50	3.30
Dec 2020	1.25	2.30	2.90	3.60	3.40
Mar 2021	1.25	2.30	3.00	3.60	3.40

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

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 more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to 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 in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

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 stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will 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 are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, 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 towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

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 balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

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

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

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

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.
- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

6. Borrowing Strategy

It is anticipated that there will be no capital borrowings required during 2018/19.

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 achieve this consideration, 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 Link Asset Services. 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 Link’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 Link 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 Link 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 Link Asset Services, our treasury advisors, 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 bias outside the central rating view) 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 in light of market conditions.

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 CNAV – with minimum credit ratings of AAA/mmf
- Money Market Funds (MMFs) LVNAV – with minimum credit ratings of AAA/mmf
- Money Market Funds (MMFs) VNAV – with minimum credit ratings of AAA/mmf
- Ultra-Short Dated Bond Funds with a credit rating of at least AAA/f (previously referred to as Enhanced Cash Plus Funds)
- Short Dated Bond Fund – These funds typically do not obtain their own standalone credit rating. The funds will invest in a wide array of investment grade instruments, The City will undertake all necessary due diligence to ensure a minimum credit quality across the funds underlying composition is set out within initial Investment Manager Agreements and actively monitor the on-going credit quality of any fund invested.
- 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 City 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 City's counterparty list are set out in Appendix 5 as at 31st December 2017. The City may add managers to this list as appropriate.

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.

Investment Strategy

7.4. **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**: Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021. Bank Rate forecasts for financial year ends (March) are as follows:

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 1.25%

Link consider that the overall balance of risks to these forecasts is currently probably tilted towards 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 there may be a slow increase in base rate beginning in either late 2018 or early 2019, at the earliest. 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 2017/18 the City has budgeted for an average investment return of 0.50% on investments placed during the financial year. Financial forecasts for the period 2018/19 include interest earnings based on a weighted average investment return of 0.65%.

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 365 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.

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

Maximum principal sums invested for more than 365 days (up to three years)			
	2018/19 £m	**2019/20 £m**	**2020/21 £m**
Principal sums invested >365 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 £206.9m as at 31 December 2017, are externally managed on a discretionary basis by Standard Life Aberdeen plc, Deutsche Asset Wealth 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 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 Funds are monitored on a regular basis by Treasury staff.

The credit criteria to be used for the selection of the Money Market fund manager(s) is based on Fitch Ratings and is AAA/mmf. The Ultra-Short Dated Bond fund managers (including Payden Sterling Reserve Fund, Federated Sterling Cash Plus Fund and Standard Life Investments Short Duration Managed Liquidity Fund) are all rated by Standard and Poor's as AAA/f.

Any newly appointed Short Dated Bond fund manager will be appointed on a distinct Investment Manager Agreement, under which the City will outline the minimum credit criteria to be maintained across the underlying fund composition. The funds are expected to offer significant diversification by being invested in a wide range of investment grade instruments, rated BBB and above and limiting exposure to any one debt issuer or issuance.

7.8. **Policy on the use of external service providers**

The City uses Link 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.

7.9. **Scheme of Delegation**

Please see Appendix 7.

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

Please see Appendix 8.

7.11. **Training**

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. The training needs of members and treasury management officers are periodically reviewed.

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APPENDICES

1. Interest Rate Forecasts 2018-2021

2. Link Asset Services view on Economic Background

3. Treasury Indicators 2018/19 – 2020/21 and Minimum Revenue Provision Statement

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

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APPENDIX 1

LINK INTEREST RATE FORECASTS 2018 - 2021

Link Asset Services Interest Rate View	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
5yr PWLB Rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB Rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
Capital Economics	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.00%	2.25%	2.25%	-
5yr PWLB Rate													
Link Asset Services	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.70%	1.90%	2.10%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.65%	2.65%	2.90%	-
10yr PWLB Rate													
Link Asset Services	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.20%	2.40%	2.60%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	3.05%	3.05%	3.30%	-
25yr PWLB Rate													
Link Asset Services	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.60%	2.90%	3.10%	3.30%	3.30%	3.30%	3.35%	3.35%	3.35%	3.60%	3.60%	3.80%	-
50yr PWLB Rate													
Link Asset Services	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

Note: The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective since 1st November 2012. The Bank of England base rate was increased from 0.25% to 0.50% on 2 November 2017.

Appendix C
APPENDIX 2

LINK ASSET SERVICES VIEW ON ECONOMIC BACKGROUND

GLOBAL OUTLOOK. World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution.**

KEY RISKS - central bank monetary policy measures

Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures they used were a combination of lowering central interest rates and flooding financial markets with liquidity, particularly through unconventional means such as Quantitative Easing (QE), where central banks bought large amounts of central government debt and smaller sums of other debt.

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing consumer disposable income,** which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift *UP* in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

UK. After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has been disappointingly weak**; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the **manufacturing sector** which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting**

of 14 September 2017 managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.1% in November so that may prove now to be the peak.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

EZ. Economic growth in the eurozone (EZ), (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.1% y/y), 0.7% in quarter 2 (2.4% y/y) and +0.6% in quarter 3 (2.6% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in November inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

USA. Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.3%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with four increases in all and four increases since December 2016; the latest rise was in December 2017 and lifted the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN. has been struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

<u>Brexit timetable and process</u>

- March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
- March 2019: initial two-year negotiation period on the terms of exit. In her Florence speech in September 2017, the Prime Minister proposed a two year transitional period after March 2019.
- UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will

leave the single market and tariff free trade at different times during the two year transitional period.

- 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 could also exit without any such agreements in the event of a breakdown of negotiations.
- 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 full 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.

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APPENDIX 3

TREASURY INDICATORS 2018/19 – 2020/21 AND MINIMUM REVENUE PROVISION STATEMENT

TABLE 1: TREASURY MANAGEMENT INDICATORS	2016/17	2017/18	2018/19	2019/20	2020/21
	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	£14,124	£14,006	£13,888	£13,770	£13,653
TOTAL	£14,124	£14,006	£13,888	£13.770	£13,653
Operational Boundary for external debt -					
Borrowing	£0	£0	£0	£0	£0
other long term liabilities	£14,124	£14,006	£13,888	£13,770	£13,653
TOTAL	£14,124	£14,006	£13,888	£13.770	£13,653
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 2017/18	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%

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MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2018/19

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 2018/19 City Fund Budget Strategy does not envisage any external borrowing in-year. A formal Capital Strategy will be developed to determine a prudent level of external borrowing to fund the Museum of London relocation and the potential new Combined Court building.

As at 31 March 2017 the City Fund CFR became positive for the first time as a result of internal borrowing. This arose 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 in respect of internal borrowing 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 2017/18 is £897k and is estimated at £975k for 2018/19 - assuming no external borrowing.

Future year MRPs will be equal to the deferred income to be released (in respect of internal borrowing) plus a prudent provision to repay external borrowing (yet to be determined).

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APPENDIX 4

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

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

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A,	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A,	Fund Managers
Money Market Funds CNAV (see Note below)	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds LVNAV (see Note below)	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds VNAV (see Note below)	AAA/mmf (or equivalent)	In-house via Fund Managers
Ultra-Short Dated Bond Fund	AAA/f (or equivalent)	In-house via 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

Note:

New European Money Market Fund regulations are due to come into effect from 21 July 2018. There are currently two broad categories of Money Market Funds (MMFs): short-term MMFs and standard MMFs.

Under existing regulations, the standard MMF can only be run as a variable net asset value (VNAV) fund, while the short-term MMF can be run as either a constant net asset value (CNAV) or VNAV fund.

The new regulations introduce a couple of changes to the short-term MMF category. Until now, these have included government style funds and credit style funds. The new regulation provides optionality for investors, allowing for three new successor structures:

- A CNAV fund option, which will be permitted for "public debt" or government style funds.
- A low-volatility NAV (LVNAV) fund, which delivers a stable NAV and is also available for credit-style offerings.
- A VNAV fund option, offering a fluctuating dealing NAV, which could be a government fund or a credit fund.

All existing MMFs have to comply with the new rules by January 2019 whilst new MMF's must be in compliance by 21st July 2018.

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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
Short Dated Bond Fund	--	In-house via Fund Managers	£100m Principal Overall	n/a*

*Short Dated Bonds Funds are buy and hold investments with no pre-determined maturity at time of funding, liquidity access will be typically T+4.

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APPENDIX 5

APPROVED COUNTERPARTIES as at 31 DECEMBER 2017

BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES

FITCH RATINGS	LIMIT OF £100M PER GROUP (£150m for Lloyds TSB Bank)	Duration
AA- F1+	HSBC	Up to 3 years
A F1	BARCLAYS BANK	Up to 3 years
A+ F1	LLOYDS BANK incl. Bank of Scotland	Up to 3 years
BBB+ F2	ROYAL BANK OF SCOTLAND	Up to 3 years
A F1	SANTANDER UK	Up to 3 years
A F1	GOLDMAN SACHS INTERNATIONAL BANK	Up to 3 years

BUILDING SOCIETIES

FITCH RATINGS	GROUP	ASSETS £BN	LIMIT £M	Duration
A+ F1	Nationwide	220	120	Up to 3 years
A- F1	Yorkshire	45	20	Up to 1 year
A F1	Coventry	38	20	Up to 1 year
A- F1	Skipton	18	20	Up to 1 year
A- F1	Leeds	16	20	Up to 1 year

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MONEY MARKET FUNDS

FITCH RATINGS	MONEY MARKET FUNDS Limit of £100M per fund	DURATION
AAA/mmf	CCLA	Liquid
AAA/mmf	Federated Short-Term Sterling Prime Fund*	Liquid
AAA/mmf	Standard Life Liquidity Fund** Aberdeen Sterling Liquidity Fund	Liquid
AAA/mmf	Invesco	Liquid
AAA/mmf	Deutsche Liquidity Fund	Liquid

ULTRA SHORT DATED BOND FUNDS

FITCH RATINGS (or equivalent)	ULTRA SHORT DATED BOND FUNDS Limit of £100M per fund	DURATION
AAA/f	Payden Sterling Reserve Fund	Liquid
AAA/f	Federated Sterling Cash Plus Fund*	Liquid
AAA/f	Standard Life Investments Short Duration Managed Liquidity Fund**	Liquid

*A combined limit of £100m applies to balances across the Money Market Fund and Ultra Short Dated Bond Fund both managed by Federated
**A combined limit of £100m applies to balances across the Money Market Funds and Ultra Short Dated Bond Fund all managed by Standard Life Aberdeen

SHORT DATED BOND FUNDS

FITCH RATINGS (or equivalent)	SHORT DATED BOND FUNDS Limit of £100M per fund	DURATION
n/a	To be confirmed	Liquid

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FOREIGN BANKS

(with a presence in London)

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

LOCAL AUTHORITIES

LIMIT OF £25M PER AUTHORITY
Any UK local authority

APPENDIX 6

APPROVED COUNTRIES FOR INVESTMENT

This list is based on those countries which have sovereign ratings of AAA as at 18 December 2017

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 Link Asset Services weekly list

APPENDIX 7

TREASURY MANAGEMENT SCHEME OF DELEGATION

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

(i) Court of Common Council

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

(ii) Financial Investment Board and Finance Committee

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

(iii) Audit & Risk Management Committee

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

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APPENDIX 8

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The Chamberlain

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

Appendix D

Reserves

Forecast Movements in City Fund Usable Reserves 2018/19				
	Notes	Estimated Opening Balance 1 Apr 2018 £m	Forecast Net Movement in Year £m	Estimated Closing Balance 31 Mar 2019 £m
Revenue Usable Reserves				
General	a	61.0	7.1	68.1
Earmarked				
Police Future Expenditure	b	3.5	(3.5)	0.0
Highways Improvements	c	29.8	6.7	36.5
VAT Reserve	d	4.2	0.0	4.2
Proceeds of Crime Act	e	1.0	0.0	1.0
Judges Pensions	f	1.1	0.0	1.1
Public Health	g	0.9	0.0	0.9
Renewals and Repairs	h	0.7	0.0	0.7
Service Projects	i	6.4	0.0	6.4
Total Revenue Earmarked		47.6	3.2	50.8
Housing Revenue Account (HRA)	j	5.3	(5.3)	0.0
Total Revenue Usable Reserves		**113.9**	**5.0**	**118.9**
Capital Usable Reserves				
Capital Receipts Reserve	k	24.1	(2.9)	21.2
Capital Grants Unapplied	l	21.0	(4.3)	16.7
HRA Major Repairs Reserve	j	1.2	(1.0)	0.2
Total Capital Usable Reserves		**46.3**	**(8.2)**	**38.1**
Total Usable Reserves		**160.2**	**(3.2)**	**157.0**

Notes

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

b. Police Future Expenditure - Revenue expenditure for the City Police service is cash limited. Underspends 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 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 2018/19

1. 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.

2. 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 2018/19 City Fund Budget Strategy does not envisage any external borrowing in-year. A formal Capital Strategy will be developed to determine a prudent level of external borrowing to fund the Museum of London relocation and the potential new Combined Courts building.

3. As at 31 March 2017 the City Fund CFR became positive for the first time as a result of internal borrowing. This arose 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.

4. The City's MRP policy in respect of internal borrowing 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.

5. The MRP liability for 2017/18 is £897k and is estimated at £975k for 2018/19 - assuming no external borrowing.

6. Future year MRPs will be equal to the deferred income to be released (in respect of internal borrowing) plus a prudent provision to repay external borrowing (yet to be determined).

Appendix F

City Fund 2018/19 Budget Report and Medium Term Financial Strategy including Non-Domestic Rates and Council Taxes for the Year 2018/19

Resolution by Court of Common Council

1. It is recommended that for the 2018/19 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, to enable the City to continue to support the City of London Police and 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 £148.6m.

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 2018/19 in accordance with section 31B of the Local Government Finance Act 1992:

    (a) 7210.97 being the 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)
85.58	68.74	7,056.65

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 2018/19 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 £16,899,000 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 2018/19 in accordance with Sections 31 to 36 of the Local Government Finance Act 1992:

(a) £388,467,000	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) £382,284,963	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) £**6,182,037**	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)£**17,268,559.36**	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) £1,537.45	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 2018/19 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:

Appendix F

Valuation Bands	Precepting Authority Greater London Authority £
A	50.73
B	59.19
C	67.64
D	76.10
E	93.01
F	109.92
G	126.83
H	152.20

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 2018/19 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	622.27	622.27	622.27
B	725.99	725.99	725.99
C	829.69	829.69	829.69
D	933.41	933.41	933.41
E	1,140.83	1,140.83	1,140.83
F	1,348.26	1,348.26	1,348.26
G	1,555.68	1,555.68	1,555.68
H	1,866.82	1,866.82	1,866.82

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 2018;

   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 April2018;

(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 2018 (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 2018;

iv. to care leavers within the City up to the age of 25, 100% under Section 13A(1)(c) of the Local Government Finance Act 1992 subject to liability considerations for the financial year beginning on 1st April 2018; and

v. discretionary discounts up to 100% under Section 13A(1)(c) of the Local Government Finance Act 1992 to provide council tax support in exceptional circumstances as agreed by the Finance Committee at its meeting in November 2017.

8. The Common Council of the City of London hereby determines that its relevant basic amount of council tax for 2018/19, 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 (2018/19).

Council Tax Reduction

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 and future years to be the same as the scheme for 2016/17 There were no proposals to make any specific amendments to the Council Tax Reduction Scheme for that or future years, beyond keeping the scheme in line with Housing Benefit.

   Effectively, therefore, the City's Local Council Tax Reduction Scheme for 2018/19 will remain the same as was administered in 2016/17 and 2017/18 subject to 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 2018, a Non-Domestic Rating Multiplier of 0.498 and a Small Business Non-Domestic Rating Multiplier of 0.485 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 2018/19 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 2018/19

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 2018/19 to 2020/21, 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 2018/19, the Court of Common Council hereby determines that the prudent amount of Minimum Revenue Provision is £975,000 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:

Appendix F

	2017/18	2018/19	2019/20
Estimates of the ratio of financing costs to net revenue stream: HRA Non-HRA Total	0.72 (0.23) (0.15)	0.84 (0.23) (0.14)	0.71 (0.11) (0.05)
Estimates of Capital Expenditure HRA Non-HRA Total	£m 16.686 76.003 92.689	£m 35.957 116.594 152.551	£m 18.652 142.595 161.247
Estimates of Capital Financing Requirement – underlying need to borrow HRA Non-HRA Total	£m 0.000 49.095 49.095	£m 9.500 68.104 77.604	£m 9.310 155.682 124.992
Net borrowing/(Net investments) Capital financing requirement – underlying need to borrow	Period 2017/18 to 2020/21 £m 28.875 184.582		

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

TREASURY MANAGEMENT INDICATORS	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	probable outturn	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**
Authorised Limit for external debt -				
Borrowing	£0	£0	£0	£0
other long-term liabilities	£14,006	£13,888	£13,770	£13,653
TOTAL	£14,006	£13,888	£13.770	£13,653
Operational Boundary for external debt -				
Borrowing	£0	£0	£0	£0
other long-term liabilities	£14,006	£13,888	£13,770	£13,653
TOTAL	£14,006	£13,888	£13.770	£13,653

Appendix F

TREASURY MANAGEMENT INDICATORS	2017/18	2018/19	2019/20	2020/21
Actual external debt	£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%
Net interest re fixed rate borrowing / investments	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%
Net interest re variable rate borrowing / investments	100%	100%	100%	100%
Upper limit for total principal sums invested for over 364 days	£300m	£300m	£300m	£300m
(per maturity date)				

Maturity structure of fixed rate borrowing during 2017/18	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:

	2017/18	2018/19	2019/20	2020/21
Times cover on unencumbered revenue reserves	*(9.8)*	**(4.3)**	***15.2***	***0.1***
At this time last year	*(5.5)*	*26.0*	*1.1*	*-*

Other Recommendations

19. The Treasury Management Strategy Statement and Annual Investment Strategy 2018/19 are endorsed and to come into effect once agreed by the Court of Common Council i.e. on 8th March 2018.

20. The Chamberlain's assessment of the robustness of budgets and the adequacy of reserves is endorsed.