



Finance Committee

Date: TUESDAY, 19 FEBRUARY 2019
Time: 1.45 pm
Venue: COMMITTEE ROOM - 2ND FLOOR WEST WING, GUILDHALL

11. CITY FUND BUDGET REPORT AND MEDIUM-TERM FINANCIAL STRATEGY

Report of the Chamberlain.

For Decision
(Pages 1 - 84)

12. CITY'S CASH AND BRIDGE HOUSE ESTATES REVENUE BUDGETS 2018/19 AND 2019/20

Report of the Chamberlain.

For Decision
(Pages 85 - 102)

**a) CAPITAL AND SUPPLEMENTARY REVENUE PROJECT FUNDING -
FUNDAMENTAL REVIEW AND INTERIM REVISED PRIORITISATION
PROCESS**

Report of the Chamberlain.

For Decision
(Pages 103 - 114)

Item received too late for circulation in conjunction with the Agenda.

John Barradell
Town Clerk and Chief Executive

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Committee(s): Finance Committee – For decision Policy and Resources – For Information Court of Common Council – For decision	Date(s): 19 February 2019 21 February 2019 7 March 2019
Subject: City Fund	Public
Report of: The Chamberlain	For Decision
Report author: Caroline Al-Beyerty, Deputy Chamberlain	

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).

The medium-term financial challenge facing the Corporation's City Fund reflects uniquely: a) external factors, such as potential major changes to business rate income and government support, which could lead to a significant drop in income. And b) the increased funding requirement flowing from the adoption of a major projects programme, in addition to pressures across a range of existing revenue and capital budgets.

The scale of these changes will become clearer during the next year, following the Spending Review and reviews of business rates and council tax, and will impact from 2020/21 onwards.

The report outlines why the City of London will need to undertake a fundamental review of its priorities and expenditure over the next year to ensure that budgets are fully aligned with and support our Corporate Plan objectives and our finances are put on to a sustainable footing over the medium-term.

Proposals on the fundamental review will be brought to the March Policy and Resources Committee. In the meantime, this report recommends a number of measures to stabilise the position in 2019/20 and that will support the steps that will need to be taken over the medium-term, through a combination of continuing the efficiency drive across the Corporation and Police, income generation measures, including tax/Premium increases, and containing the cost of major projects and other programmes. Members will also want to note the implications of funding the increased revenue pressures for future years and signal an expectation that additional pressures that might arise during 2019/20 will be absorbed within local risk budgets.

It includes proposals on increases in Council Tax by 2.99%, Social Care Precept by 2% and Business Rate Premium by 0.1p in the £.

There are further reports to your Committee on the financial position of the other funds within the City Corporation's and the Capital Programme across all funds.

Recommendations

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

- Approve the establishment of a fundamental review of priorities to align resources to the Corporate Plan and deliver a sustainable medium-term financial plan.
- Approve the mitigation actions with respect to the Police budget.
- Approve the overall financial framework and the revised Medium-Term Financial Strategy (paragraph 23)
- Approve the Treasury Management Strategy Statement and Investment Strategy Statement for 2019/20 and for it to come into effect once it has been agreed by Court of Common Council, i.e. on 7 March 2019.
- Approve the operational boundary and authorised limit for external borrowing as stated in the Treasury Management Strategy Statement and Investment Strategy for 2019/20.
- Approve the City Fund Net Budget Requirement of £137.2m (paragraph 26)
- Approve the increases in base budget detailed in appendix B for 2019/20, subject to inclusion within the scope of the fundamental review, included within the City Fund budget requirement.
- Note that the forecast includes items already agreed by Policy and Resources Committee detailed in appendix B.
- Note that the revenue estimates assume that a Business Rates reset will remove the City's recent business rates growth receipts in 2020/21 (forecast at £37m in 2019/20) and further reforms of Business Rates could worsen the impact from 2020/21.
- Note that the Local Council Tax Reduction Scheme will remain the same as set by the Court of Common Council on 12 January 2017 (paragraph 42).

Key decisions:

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

Council Tax

- To consider an increase of 2.99% in the City of London Corporation element of the Council Tax Demand (paragraph 37).
- To approve the City of London Corporation charges an Adult Social Care Precept of 2.00% (paragraph 37).

- Determine the amounts of Council Tax for the three areas of the City (the City, the Middle Temple and the Inner Temple) to which are added the precept of the Greater London Authority (GLA) (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, street cleansing, waste collection and disposal, drains and sewers, and road safety functions for 2019/20 be treated as special expenses to be borne by the City's residents outside the Temples (appendix A).

Business Rates

- Set a Non Domestic Rate multiplier of 51.0p and a Small Business Non-Domestic Rate Multiplier Rate of 49.7p for 2019/20, inclusive of a Business Rates Premium increase of 0.1p to 0.6p in the £ (paragraph 30).
- Note that, in addition, the GLA is levying a Business Rate Supplement in 2019/20 of 2.0p in the £ on properties with a rateable value of £70,000 and above (paragraph 34).
- Delegate to the Chamberlain the award of discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988 (paragraph 32).

Capital Expenditure

- Note the proposed financing methodology of the capital programme in 2019/20 (paragraph 44).
- Approve the Capital Strategy (Appendix G).
- Approve the Prudential Code indicators (appendix D).
- Approve the following resolutions for the purpose of the Local Government Act 2003 (paragraph 41 and Appendix E):
 - the external borrowing limit (which is the maximum the City Fund may have outstanding by way of external borrowing) is £241m.
 - the prudent amount of Minimum Revenue Provision (MRP) for 2019/20 is £1.152m (appendix E).

Treasury Management Strategy Statement and Investment Strategy Statement 2019/20

- Agree the change to allow external borrowing to be undertaken within City Fund within the parameters of the Prudential Code (paragraph 48).

Chamberlain's Assessment

- Take account of the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves and contingencies (paragraphs 51-55 and Appendix C).

Main Report

Background

1. This report sets out the revenue and capital budgets for City Fund for the Finance Committee and Court of Common Council to approve. In setting the budget for 2019/20 and the Medium-Term Financial Strategy (MTFS) for future years, consideration has been given to the high degree of uncertainty and therefore risk in determining Local Government funding levels.
2. The City Corporation has benefited from a period of relative prosperity in recent years, with growth in both its income streams and asset holdings. However, going forward there are significant risks and a great deal of uncertainty.
3. The Government recently confirmed the Local Government Finance Settlement for 2019/20 and the Policing Minister published the revenue allocations for Police forces for 2019/20.
4. The medium-term financial challenge facing the City Corporation reflects uniquely significant risks and a great deal of uncertainty. The scale of these risks will become more certain during the next year, following the Spending Review 2019.
5. Revenue streams are likely to be under considerable pressure as the Government intends to change current funding mechanisms to reflect an increased emphasis on need and to reset the current business rates retention system:
 - a. **Spending Review** (potentially reporting November 2019) – there is unlikely to be significant additional government funding for local government or police, with the most likely outcome being a further squeeze.
 - b. The **Fair Funding Review** of local government funding is likely to shift resources away from London and an increased focus on need could impact on City Corporation funding.
 - c. **Police Funding Formula review** – this has been delayed but might well re-emerge after the Spending Review and carries significant risks.
 - d. **Business Rates** – danger of a double hit from a reset which will remove the City's recent growth receipts (forecast at £37m in 2019/20) in 2020/21 and further reforms of Business Rates could again impact from 2020/21. Consultation will continue in the summer but we have put in place plans on the assumption that these changes will be carried forward.
6. In parallel with the external revenue threats, the City Fund budget will start to come under increasing pressure from the revenue costs of borrowing to fund the major projects including, on the City Fund, the Museum of London and Combined Courts project. In addition, the Police budget forecast shows a rising deficit.
7. A fundamental review of the City Corporation's priorities and expenditure during 2019/20 will ensure that budgets are fully aligned with and support our Corporate Plan objectives and our finances are on a sustainable footing over the medium-

term. Proposals on the fundamental review will be brought to the March Policy and Resources Committee.

Current Position

8. The latest forecast position for City Fund is shown below in Table 1. The City Fund (non-Police) is forecast to be in surplus by £19.8m in 2019/20 (allowing for £8m p.a. revenue requests as shown in appendix B). However, it can only be balanced over the next four years with the use of general fund reserves. Additionally, the Police budget is forecast to be in substantial deficit, pre-mitigation, across the planning horizon, which taken together, exhaust all City Fund General Fund Reserves by 2022/23. Overall, the City Fund faces substantial growing deficits over the planning period and the 10 year horizon.

Table 1: City Fund medium-term forecast

Surplus/ (Deficit)	2018/19	2019/20	2020/21	2021/22	2022/23
City Fund (non-Police) After major projects	19.3	27.8	(3.9)	(2.8)	(4.6)
City Fund uplift revenue requests		(8.0)	(7.6)	(7.6)	(7.6)
Police Deficit – pre mitigation	(5.4)	(8.7)	(11.9)	(13.3)	(14.3)
City Fund combined-pre mitigation	13.9	11.1	(23.4)	(23.7)	(26.5)

9. The 10 year City Fund forecast becomes even more challenging, as the annual revenue costs of borrowing to finance the major projects (Museum of London and combined courts) rise to around £21m, resulting in substantial deficits across the planning horizon and gearing of 44% long term debt to asset ratio on the balance sheet. The revenue impact of funding £170m of second tier projects would be an additional £6m, giving a total revenue pressure of £27m p.a.
10. Major Projects funding: Table 2 below sets out the current phasing of the projects. The net financing costs for the planning period 2019/20 to 2022/23 have been included in the City Fund forecast.

Table 2: City Fund major project net costs

£m	2018/19	2019/20	2020/21	2021/22	2022/23
Combined Courts Centre	(30.54)	(9.34)	(8.63)	(60.59)	(94.25)
Museum of London	(11.06)	(49.85)	(46.99)	(132.57)	(81.57)
Total:	(41.60)	(59.19)	(55.62)	(193.16)	(175.82)

11. To fund the major projects will involve external borrowing. On City Fund this will be through the Public Works Loans Board (PWLb) and will be incurred as and when the funding is required (borrowing in advance of need is contrary to CIPFA Code regulations).
12. Additional funding requests: There have been a large number of requests for 2019/20, attached at Appendix B, totalling £8.0m for City Fund. Although the £8.0m could be accommodated in 2019/20 because of the growth in retained business rates, the ongoing nature of the requests cannot be contained in the medium to

longer term. The largest item is £3.2m for the waste collection and street cleansing contract which is £2m higher than expected.

13. Council Tax: The City Corporation's Council Tax has not been increased since 2009/10, as resource pressures have been contained at a time of rising business rate revenues.
14. The Council Tax for the current year, 2018/19, is £857.31, expressed at band D and excluding the GLA precept of £76.10 (total: £933.41). The council tax referendum threshold will effectively be 5%, including a 2% adult social care precept. Table 3 below shows the cumulative impact of an illustrative 5% increase in 2019/20, followed by a 3% increase each year over the MTFP (assuming that the tax base remains static and adjusted for the precepts for the Inner and Middle Temples):

Table 3: Council Tax illustrative forecast

	2018/19	2019/20 [†]	2020/21	2021/22	2022/23
Band D Council Tax (£)	857.31	894.28	917.35	941.02	965.30
In-year Income (£'000)	6,050	6,311	6,474	6,641	6,812
Cumulative Income (£'000)	-	261	424	591	762

[†] Assumes 3% Council Tax increase + 2% Adult Social Care precept

15. In considering the position for 2019/20, it remains the case that the immediate budget position would not in itself necessitate an increase (although the increase in the cost of the waste and street cleansing contract could be pointed to as a service pressure point). And that an increase of 2.99%, the maximum increase allowed on the main Council Tax, without a referendum, would only generate around £150,000. For comparative purposes, Westminster band D excluding GLA precept is currently £416.27 (including GLA precept: £710.50); Wandsworth, £428.42 (including GLA precept: £722.65); and Hammersmith and Fulham £727.81 (including GLA precept: £1,022.04).
16. In addition, there is scope to apply a further 2% adult social care precept, to help in meeting additional social care costs for adults and the elderly. This would raise approximately £110k and could be used to fund the growing costs on mental health (as shown by the specific funding requests in appendix B).
17. Police: The Police budget deficit – which is forecast to grow to £14.3m by 2022/23, a cumulative deficit of £53.5m by March 2023 – poses a significant threat to the financial stability of the City Fund.
18. The Home Office has announced the police funding settlement for 2019/20. The outcome for City of London Police (CoLP) was better than had been previously assumed when the Police Force MTFP was updated in December, with:
 - a. the core (HO and ex-DCLG) grant increasing by £1m, to £52.3m
 - b. National & International Capital City Grant increasing from £4.5m to £4.8m
 - c. Precept Grant increasing to £2.7m

- d. Additional pensions grant of £0.8m, which is aimed to fully offset the increase in pension deficit contributions in 2019/20.
19. The CoLP budget forecast shows a worsening deficit position over the medium-term. A number of mitigating actions have been agreed with the Commissioner:
- a. CoLP will continue to implement agreed measures, to the value of £3.1m, to reduce the in-year 2018/19 budget overspend of £5.4m to £2.3m (which includes the full draw down of the Police general reserve). Following the application of the additional Business Rate Premium revenues, the budget overspend would then reduce to £0.4m.
 - b. In response to the forecast deficit of £8.7m in 2019/20, savings of £4.6m should be built into the budget and implemented leaving a remaining deficit of £4.1m.
 - c. Further work is required to:
 - i. bring the medium-term position into balance, in light of changes in government funding following the Spending Review;
 - ii. review additional pressures including scope for re-prioritisation, increased utilisation of existing resources, benchmarked against other Police forces, through the Transform programme;
 - iii. prioritise within the capital programme; and
 - iv. establish whether additional resources might be required to fund new demands identified by the Strategic Threat and Risk Assessment process, noting that a funding request to Resource Allocation Sub-Committee will be made before the end of 2018/19.
20. To bring the 2019/20 budget into balance and meet the £4.1m deficit Members have agreed to allocate additional revenue raised from the current Business Rates Premium following the revaluation amounting to £2.2m.
21. It is recommended that the Business Rates Premium is increased by 0.1p in the £ to 0.6p in the £. This increase is forecast to raise £2m which can be applied to bringing the budget back into balance and to the increased demands CoLP are facing in maintaining the security of the City.
22. In addition to the revenue cost pressures described above the Force has a number of capital programmes in the pipeline which are currently unfunded. The estimated shortfall is in excess of £41m over the planning period.

Key assumptions used in the forecast

23. The following paragraphs detail the key assumptions that have been used in the construction of the 2019/20 budget and Medium-Term Financial Strategy:

Income

- a. The City Fund has two key income streams, rental and investment income.
 - i. Property rental income is forecast on the expected rental income for each property, allowing for anticipated vacancy levels, expiry of leases and lease renewals. Rental income is forecast to grow over the period. The City's income is protected to some extent in the short term as our leases are long term with medium term specified break clauses. The City Surveyor has identified no current fall in demand for office accommodation and the Central London market has up to now remained buoyant. Forecast rental income is regularly reviewed and any potential reduction will be factored into updates to the medium-term financial plan.
 - ii. Non-property investments have performed strongly, benefiting from the mixed portfolio of investments held to manage investments over the investment cycle. While there is growth in the asset base, this is sustainable. However, the market view is that the equity bull market will not continue and that an adjustment is likely which may see a dip in returns. The City as a long-term investor aims to ride out such storms.
- b. The Bank of England base rate is currently 0.75%. The Corporate Treasurer advisor estimates two further rate increases of 0.25% each are possible during the planning period. A 0.25% increase in interest rates equates to additional income of £1.5m on City Fund balances.

Expenditure

- c. An allowance for pay and price inflation is included at 2% for 2019/20.
- d. A 2% efficiency saving from 2019/20 is included in line with the published 'efficiency plan'.
- e. Removal of the "Priorities Investment Pot", established last year from the efficiencies generated, to support the bottom line.

Grant settlement – City Fund

- f. The Local Government Settlement for 2019/20 was largely as expected. 2019/20 will be the final year of the multi-year agreement where Government agreed to a 4 year funding deal in return for publishing a corresponding efficiency plan. There remains a great deal of uncertainty regarding Local Government funding after March 2020

Business Rates Retention

- g. The London 75% business rates retention pilot has been confirmed alongside 15 new 75% business rates retention pilots for 2019-20, and the 5 existing pilots will continue in devolution deal areas. The City Corporation

will continue to act as lead authority for the London business rates retention pilot which includes all London boroughs and the Greater London Authority.

- h. The estimated benefit in 2019/20 for the City Corporation of the business rates retention pilot is £8.4m, albeit based on 75% rates retention rather than 100% in 2018/19 where the estimated benefit is £11.6m.
- i. The Business Rates Retention scheme is expected to be reset from 2020/21. MHCLG are expected to launch their final consultation during summer 2019 and announce the revised scheme during autumn 2019. The expected impact on City Fund is the loss of growth in business rates (forecast at £37m in 2019/20) with no transition in a 'hard reset' scenario. Current intelligence suggests that future growth from 2020/21 onwards will be capped and subject to 'soft resets' in future (with less of a 'cliff edge' on removal of growth).
- j. MHCLG are also consulting on their Fair Funding Review. This review will adjust the baseline funding allocations for all tiers of Local Government across the country. The revised funding formulae will redistribute the business rates income retained within the Local Government sector. It is expected that social care and areas outside London are likely to benefit from the review.

City Offset

- k. In addition to baseline funding provided through the Business Rates Retention scheme, the City Fund uniquely receives an Offset from the Business Rates collected in the Square Mile. The amount of Offset is determined annually by MHCLG and for 2019/20 will be £11.9m. Small inflationary increases have been assumed for subsequent years of the planning period.

Grant funding – City Police

- l. The core and specific grants are marginally better than expected. These are detailed above in paragraph 17.

Action Fraud Service – City Police

- m. The City Fund is providing cash flow assistance in relation to the Action Fraud service provided by CoLP. This service was transferred from the Home Office National Fraud Authority to CoLP with effect from 1 April 2014. Phase 1 of the new service provided by IBM went live in December 2018. Phase 2 of the service is expected to launch during 2019. Final costs of delivering the new service are subject to ongoing negotiation. The repayment of the cash flow assistance is profiled beyond the medium-term planning period.

City Support – City Police

- n. The City Fund is directly funding some additional costs for IT, pensions and the CoLP capital programme (total capital support of £17m has been agreed

and further requests are considered on the report on your agenda on capital financing). A key driver of the CoLP capital programme are schemes that are required by the Home Office as part of national programmes, e.g. the Emergency Security Network (ESN).

Revenue Spending Proposals 2019/20

24. The overall budget requirements have been prepared in accordance with the strategy and the requirements for 2018/19 and 2019/20 are summarised by Committee in the table below. Explanations for significant variations were contained in the budget reports submitted to service committees.

Table 4: City Fund Summary Budget

City Fund Summary by Committee	2018/19 Original £m	2018/19 Latest £m	2019/20 Original £m
Net (Expenditure) / Income			
Barbican Centre	(27.1)	(29.2)	(26.5)
Barbican Residential	(2.6)	(3.1)	(2.9)
Community and Children's Services	(13.3)	(13.9)	(13.4)
Culture Heritage and Libraries	(20.4)	(20.7)	(20.6)
Finance	(13.2)	3.9	(6.7)
Licensing	(0.1)	(0.1)	(0.1)
Markets	1.2	0.8	1.0
Open Spaces	(1.7)	(1.8)	(1.7)
Police	(65.7)	(65.7)	(72.7)
Planning and Transportation	(16.0)	(14.9)	(14.9)
Policy and Resources	(4.1)	(6.3)	(6.0)
Port Health and Environmental Services	(14.5)	(14.9)	(14.4)
Property Investment Board	40.2	41.6	41.7
City Fund Requirement	(137.3)	(124.3)	(137.2)

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

25. The following table further analyses the budget to indicate:

- the contributions from the City's own assets towards the City Fund requirement (interest on balances [line 6] and investment property rent income [line 7])
- the funding received from Government grants and from taxes [lines 9 to 13]; and
- the estimated surpluses to be transferred to reserves, or deficits to be funded from reserves [line 15].

Table 5: City Fund net budget requirement and financing

		2018/19 Original £m	2018/19 Latest £m	2019/20 Original £m
1	Net expenditure on services	(174.3)	(165.3)	(173.7)
2	Capital Expenditure funded from Revenue Reserves	(0.5)	(0.0)	0.0
3	Cultural Mile funded from Revenue Reserves	(4.5)	(3.1)	0.0
4	Cyclical Works Programme expenditure financed from revenue	(10.3)	(12.5)	(20.1)
5	Requirement before investment income from the City's Assets	(189.6)	(180.9)	(193.8)
6	Interest on balances	5.5	7.2	7.9
7	Estate rent income	46.8	49.4	48.7
8	City Fund Requirement	(137.3)	(124.3)	(137.2)
	Financed by:			
9	Government formula grants	134.4	121.8	121.5
10	City offset	11.6	11.6	11.9
11	Council tax	6.6	6.6	8.0
12	NNDR premium	10.5	10.5	12.5
13	Total Government Grants and Tax Revenues	163.1	150.5	153.9
14	(Deficit)/Surplus transferred from (to) reserves	25.8	26.2	16.7
15	Less one-off items planned to be funded from revenue reserves	(5.0)	(3.1)	0.0
16	Underlying Deficit/(Surplus)	20.8	23.1	16.7

26. The City Fund budget requirement for 2019/20 is £137.2m plus a contribution to reserves of £16.7m resulting in a net City Fund budget requirement of £153.9m, an increase of £3.4m on the previous year. The following table shows how this is financed and the resulting council tax requirement.

Table 6: Council Tax requirement

Council Tax Requirement	2018/19 Original £m	2019/20 Draft £m
Net Expenditure	(189.6)	(193.8)
Estate Rental Income	46.8	48.7
Interest on balances	5.5	7.9
Budget Requirement	(137.3)	(137.2)
Proposed contribution to reserves	(11.3)	(16.7)
Net City Fund Budget Requirement	(148.6)	(153.9)
Financing Sources:		
Business Rates Retention	67.7	61.7
Police Grant	52.1	59.8
City Offset	11.6	11.9
NDR Premium	10.5	12.5
Collection Fund Surplus (CoL share)	0.5	1.0
Council Tax Requirement	6.2	7.0

27. Included within the net budget requirement is provision for any levies issued to the City Corporation by relevant levying bodies and the precepts anticipated for the forthcoming year by the Inner and Middle Temples (after allowing for special expenses, detailed in Appendix 1).

Table 7: Temple Precepts

	2018/19 £	2019/20 £
Inner Temple	202,484	208,963
Middle Temple	164,615	164,481
Total:	367,099	373,444

28. On financing, the table below analyses the change in formula grants:

Table 8: Analysis of Core Government Grants

	2018/19 Original £	2019/20 Draft £	Variance £m	Variance %
Rates Retention: baseline funding	23.6	22.6	(1.0)	(4.2)
Rates Retention: growth	44.1	39.1	(5.0)	(11.3)
Subtotal:	67.7	61.7	(6.0)	(8.9)
Police	52.1	59.8	7.7	14.8
Total Core Government Grants	119.8	121.5	1.7	1.4

Business Rates

29. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 50.4p and a small business National Non-Domestic Rate multiplier of £49.1p for 2019/20. These multipliers represent an increase of 1.1p over the 2018/19 levels. The actual amount payable by each business will depend upon its rateable value.
30. If the proposed Business Rate Premium increases by 0.1p to 0.6p in the £, the proposed premium will result in a National Non-Domestic Rate multiplier of 51.0p and a small business National Non-Domestic Rate multiplier of £49.7p for the City for 2019/20. It is anticipated that a Premium of 0.6p will raise £14.6m taking into account reliefs and appeals.
31. 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 Business Relief – A discount for ratepayers who as a result of their rateable value changing as a result of the 2017 revaluation have lost some or all of their small business rate relief.
32. A discretionary revaluation relief scheme was introduced in April 2017 to support businesses facing the steepest increases in bills following revaluation. This is a four-year scheme with specific amounts allocated to each billing authority for each

of the five years. Authority is sought for the Chamberlain to determine the City scheme for each of the remaining years 2019/20 and 2020/21.

33. For 2019/20 the Government announced that it would provide additional support for some types of retail properties. If a property has a rateable value of less than £51,000 then it will receive a reduction of a third in its 2019/20 and 2020/21 business rates bills.

Business Rates Supplement

34. The Mayor of London is proposing to levy a Business Rates Supplement of 2.0p in the £ on properties with a rateable value of £70,000 and above to fund Crossrail.

Determination of the Council tax Requirement

35. 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.
36. After allowing for a proposed contribution to reserves, the final City Fund Council Tax requirement for 2019/20 is £7.0m. In accordance with the provisions in the Localism Act 2011, the Council Tax requirement allows for the Formula Grant, the City Offset, the City's Rate Premium and the estimated surplus on the Collection Fund at 31 March 2019.
37. As detailed in Appendix A, the City's proposed Council Tax for 2019/20 at band D would be £894.28, before adding the Greater London Authority (GLA) precept and inclusive of a 2.99% increase in Council Tax and a 2.0% Adult Social Care precept. To determine the City's Council Tax for each property band, nationally-fixed proportions are applied to the average band D property.
38. The GLA's 'provisional' precept for 2019/20 is £78.38 for a Band D property. This excludes the Metropolitan Police requirement and represents an increase of £2.28 compared with 2018/19.
39. The total amounts of Council Tax for each category must be set by the City before 11 March. The proposed amounts are shown in table 9 below:

Table 9: Council Tax per Property Band

	£							
	A	B	C	D	E	F	G	H
Proportion	6	7	8	9	11	13	15	18
CoL	596.19	695.55	794.92	894.28	1,093.01	1,291.73	1,490.47	1,788.56
GLA	52.25	60.96	69.67	78.38	95.80	113.22	130.63	156.76
Total	648.44	756.51	864.59	972.66	1,188.81	1,404.95	1,621.10	1,945.32

40. It is anticipated that the City's total Council Tax will remain one of the lowest in London. The Court of Common Council will be requested to formally determine that the relevant (net of local precepts and levies) basic amount of Council Tax for 2019/20 will not be excessive in relation to the new referendum requirements for any council tax increases.

Council Tax Reduction Scheme

41. 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. There are no proposals to make any specific amendments to the Council Tax Reduction Scheme for this or future years, beyond keeping the scheme in line with the national Housing Benefit regulations.
42. The Council Tax Reduction Scheme will therefore remain the same for 2019/20 as was administered in 2016/17, 2017/18, and 2018/19 subject to the annual uprating of amounts in line with Housing Benefit applicable amounts.

Capital

43. 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.
44. Capital expenditure is primarily financed from capital reserves derived from the sale of properties, earmarked reserves and grants or reimbursements from third parties. The City has historically not borrowed any money to finance these schemes. Financing is summarised in the table below.

Table 10: Capital Financing

	2018/19 £m	2019/20 £m
Estimated Capital Expenditure	117.1	211.0
<u>Financing Sources:</u>		
Housing Revenue Account (HRA)	12.8	4.7
Disposal Proceeds	28.3	62.3
Revenue Reserves	48.5	37.8
External Grants and Reimbursements	27.5	47.0
External borrowing	-	59.2
Total:	117.1	211.0

45. The Local Government Act 2003 requires the City to set prudential indicators as part of the budget setting process. The indicators that the Court of Common Council will be asked to set are:
- Ratio of financing costs to net revenue stream (City Fund and HRA)
 - Gross debt and the capital financing requirement
 - Estimates of capital expenditure 2019/20 to 2021/22

- d. Estimates of the capital financing requirement 2019/20 to 2021/22
- e. Times cover on Unencumbered Revenue Reserves

46. The prudential indicators listed above have been calculated in Appendix D. In addition, treasury-related prudential indicators are required to be set, and these are included within the 'Treasury Management Strategy Statement and Investment Strategy Statement 2019/20' at Appendix E.
47. The Court of Common Council needs to formally approve these indicators.
48. The main point to highlight is that there is now an underlying requirement to borrow externally for capital purposes. The Minimum Revenue Provision Policy Statement 2019/20 is set out in Appendix F. The cost of borrowing must be charged to the relevant revenue budget whether this is on an interest-only or repayment basis. The long-term nature of borrowing means these revenue sums are unavailable to fund other activity for a significant period of time. By agreeing to fund capital schemes through borrowing, Members are agreeing to divert this funding away from revenue activity in order to meet their priorities.
49. The City Corporation must ensure that a Minimum Revenue Provision (MRP) is set aside for all City Fund related borrowing. This is managed by borrowing on an annuity basis for long term borrowing which repays the capital and interest over the term of the borrowing. The MRP is aligned to the interest repaid over the term of the loan
50. In addition, 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 MRP equal to the amount released, resulting in an overall neutral impact on the revenue account bottom line.

Robustness of Estimates and Adequacy of Reserves and Contingencies

51. 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.
52. 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.
- g. a number of measures are needed to stabilise the financial position in 2019/20 that will support the steps that need to be taken over the medium-term, through a combination of continuing the efficiency drive across the Corporation and Police, income generation measures, including tax/Premium increases, and containing the cost of major projects and other programmes. The fundamental review will be the mechanism to achieve this.

53. An analysis of usable City Fund Reserves is set out in Appendix C. Depletion of City Fund reserves is a consideration for the medium-term: although reserve balances are forecast to remain healthy in 2019/20, the potential call on reserves to support revenue and capital expenditure beyond 2019/20 reinforces the need for the fundamental review to establish prioritised plans.

54. In assessing the adequacy of contingency funds, the Chamberlain has reviewed the allocation and expenditure of contingency funds over the past four years. This has included the Finance Committee contingencies, the Policy and Resources Committee contingency and the Policy Initiatives Fund. In each of the past four years the provision of funds has been more than sufficient resulting in an uncommitted balance for each contingency fund in each year. On this basis the existing contingency provision will remain unchanged for 2019/20. A full analysis of contingency fund provision and expenditure is provided in Appendix I.

Risks

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

Within the City Corporation's control:

- The fundamental review does not lead to effectively prioritised revenue and capital budgets;
- Addressing the City Police budget deficit of £8.7m in 2019/20 with savings from the force of at least £4.6m, with further savings required in future years;

- Police Action Fraud project overspending and changes in cash flow requirements; Major capital projects not being delivered within estimated cost;

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 and appeals, 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 2.3%, but the Office for Budget Responsibility forecasts a drop to 2%. The position will be monitored during 2019/20.
- Pension fund deficit: This can have a significant impact on the finances of the City Corporation. If we start falling behind the recovery profile, the Corporation would need to consider whether to contribute more funds into the scheme. We have a full actuarial valuation every three years and annual updates on the funding position. As at 31 March 2018, the projected funding position was 91.5%, requiring an employer contribution of 19.5% of payroll to repay the deficit by 2033. The Government Actuary's Department (GAD) have recently scrutinised the assumptions used in the Local Government Pension scheme to ensure that employers are taking a sufficiently prudent approach to financing the LGPS benefits. Applying GAD's standardised assumptions would put the City Corporation's funding level in the lowest 10%, however our actuaries apply assumptions on the profile and experience of our own scheme.

Whilst we should not be too alarmed by the prospect of a worsening funding position as result of standardised assumptions as opposed to actual financial deterioration, it is likely that our actuaries will be 'encouraged' to apply a more prudent range of assumptions at this valuation, which will result in higher liabilities and consequently a worse funding position.

If we used the standardised GAD assumptions, it would imply an increase in employer contributions to 25% from 2020-2022, with a potential impact of £5.1m p.a.

The Actuarial review will take place in March and the implications will be considered by a working party involving members and recommendations made to Finance Cttee in early summer, ready for the revised budget considerations in the Autumn

Equalities Implications

56. 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

57. It is important that a fundamental review is taken forward to address the medium-term financial challenges which will emerge from 2020/21 onwards and to ensure that our resources are aligned with our Corporate Plan outcomes. Adopting the new Corporate Plan is the City Corporation's opportunity to reappraise spending in a cross-cutting way, rather than the normal silo-based approach of applying efficiency squeezes and savings by Service Committee by Service Committee or department by department
58. A report will be presented to the March Policy and Resources Committee on the process.
59. Steps should be taken this year to maintain the progress on efficiencies, address the police budget deficit, manage resource pressures and contain costs of the major projects and other capital requests.
60. Increases in Council Tax should be considered in view of the medium-term financial outlook, wider developments across London, the Fair Funding Review and pressures on social care budgets.

Dr Peter Kane

Chamberlain

Appendices

- Appendix A – Calculating Council Tax
- Appendix B – Additional Revenue Funding Requests
- Appendix C – City Fund Useable Reserves
- Appendix D – Prudential Indicators
- Appendix E – Treasury Management Strategy Statement and Investment Strategy Statement 2019/20
- Appendix F – Minimum Revenue Provision Policy Statement 2019/20
- Appendix G – Capital Strategy
- Appendix H – City Fund Budget Policy
- Appendix I – Review of contingency funds

Caroline Al-Beyerty
Deputy Chamberlain

T: 020 7332 1113

E: Caroline.Al-Beyerty@cityoflondon.gov.uk

Calculating Council Tax

Step One ('B1')

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

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

Where

'B1' is the Basic Amount 'One':

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

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

The above calculation is as follows:

$$\begin{aligned} 'B1' &= \frac{\pounds 6,961,997.00}{7,785.03} \\ 'B1' &= \pounds 894.28 \end{aligned}$$

Note: Item R consists of the following components:

	£	£
City Fund Net Budget Requirement		153,884,727
Less:		
Business Rates Retention	(61,717,000)	
Police Grant	(59,800,000)	
City's Offset	(11,871,000)	
Estimated Non-Domestic Rate Premium (Net)	(12,500,000)	
Estimated Collection Fund Surplus as at 31 March 2018 (City's share)	(1,034,730)	(146,922,730)
TOTAL COUNCIL TAX REQUIREMENT ®		6,961,997

Step Two ('B2')

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

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

Where:

'B2' is the Basic Amount 'Two';

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

A is the Aggregate of all special items;

T is the Council Tax base for the whole area

The above calculation is as follows:

$$'B2' = \quad \quad \quad \pounds 894.28 - \frac{\pounds 19,564,445.17}{7,785.03}$$

$$'B2' = \quad \quad \quad \pounds 1,618.81 \quad \underline{\text{CR}}$$

Note: Item A consists of the following components:

	£	£
Highways Net Expenditure	8,259,000.00	
Street Cleansing	5,903,000.00	
Waste Collection	2,702,000.00	
Waste Disposal	1,395,000.00	
Road Safety	543,000.00	
Drains and Sewers	389,000.00	
Total City's Special Expenses		19,191,000.00
Inner Temple's Precept	208,963.43	
Middle Temple's Precept	164,481.74	373,445.17
Total Special Items		19,564,445.17

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:

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

Where:

'B3' is the Basic Amount 'Three'

'B2' is the Basic Amount 'Two'

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

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

City Area Excluding the Temples

$$\text{'B3'} = \text{£1,618.81 CR} + \frac{\text{£19,191,000}}{7,636.43}$$

$$\text{'B3'} = \text{£894.28}$$

Inner Temple

$$\text{'B3'} = \text{£1,618.81 CR} + \frac{\text{£208,963.43}}{83.15}$$

$$\text{'B3'} = \text{£894.28}$$

Middle Temple

$$\text{'B3'} = \text{£1,618.81 CR} + \frac{\text{£164,481.74}}{65.45}$$

$$\text{'B3'} = \text{£894.28}$$

Step Four

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

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

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

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

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

Council Tax per Property Band: calculated by applying nationally fixed proportions from Band D.								
	£							
	A	B	C	D	E	F	G	H
Proportion	6	7	8	9	11	13	15	18
CoL	596.19	695.55	794.92	894.28	1,093.01	1,291.73	1,490.47	1,788.56
GLA	52.25	60.96	69.67	78.38	95.80	113.22	130.63	156.76
Total	648.44	756.51	864.59	972.66	1,188.81	1,404.95	1,621.10	1,945.32

	One off /ongoing	Funded?	£'000	Detail	Comments
ALREADY APPROVED					
Corporate Energy contract	Ongoing	No	828.0	Corporate energy contract has been relet from 1 Oct 18 with an average increase in cost of 32%. It was agreed that calculated inflation would be provided for 19-20 for the major corporate properties (excluding services recharged to third parties).	Finance and Court approved under Urgency July 2018
Strengthening Police Authority Governance	Ongoing	No	250.0	Costs for two FTE in Financial Services and one FTE in Town Clerks to support Police Authority function	Policy approved in November 2018, Court approved in Jan 2019
Already approved by Court subtotal:			1,078.0		
PROPERTY INVESTMENT PORTFOLIO- MANAGEMENT					
City Fund Estate works and void costs	Ongoing	Yes from rent	417.0	To cover some cyclical works and void costs that cannot be met from the local risk budget	Property Investment Board 12th December As this is part of the investment portfolio can be covered by increased rent. Appropriate charge to property fund, so recommended for approval.
Architect to advise on options for redevelopment	One-off	Yes from rent	100.0	Options for development of Site 1 and Site 2 Tabernacle Street Site.	PIB 12th Dec. RASC 17th January Investment property portfolio- therefore invest to earn scheme. Recommended for approval.
Fleet House vacant possession	One-off	Yes from rent	260.0	Fees to facilitate the vacant possession of the Fleet Street Estate into Fleet house on a 15 year term for a major tenant at Fleet Street Estate.	PIB 23 Jan Dec. Capital Buildings - Urgency Investment property portfolio- therefore invest to earn scheme. Recommended for approval.
Investment Property Subtotal:			777.0		
OPPORTUNITY COSTS OF EVENTS					
Guildhall Art Gallery	Ongoing	Could be recovered through pricing of events	269.0	Funding required to compensate the gallery for closure for events. This uplift considers a staffing restructure to drive efficiencies, ensure sustainability, and delivers marketing, acquisitions, and conservation and collections care budgets, none of which previously existed (their absence limiting the Gallery's ability and reputation as a professional gallery body). Without the recommended adjustment, the Gallery will have to make some difficult choices if it is to stay open and continue to care for the City Corporation's art collection. This will likely see the closure of its education programme and the termination of its rolling programme of exhibitions.	CHL 14th May (agreed review of budgets), 11th December Although this is technically unfunded, the opportunity cost should be considered in the Guildhall trading account for the pricing of events. Already included in forecast
Costs of Events Subtotal:			269.0		
PUBLIC FACING SERVICES					
Operational Estate - Asset Maintenance	Ongoing	No	114.0	Cost of maintaining assets identified through the Asset verification exercise. Net cost, after savings on the contract retender, is £515k overall- apportioned to funds.	CASC 5th September and P&R 4th October: growth in asset base. Part included forecasts.
Waste Collection & Street Cleansing Contract	Ongoing	No	3,218.0	Increased cost of new contract commencing April 2019 following recent tender exercise	PHES 8th Nov, Finance 13th Nov, CCC 16th Nov (urgency) If not approved, significant service changes would be required. However this is a substantial ongoing increase in baseline that may not be sustainable over the longer term, when funding levels are reduced.
Coroner	Ongoing	No	150.0	Additional costs (staffing, medical and legal fees, mortuary etc) resulting from four-fold increase in number of reportable deaths in the Square Mile	PHES 15 Jan 2019. Growth in service provision, but can there be reprofiratisation of resources?
Operational Properties - Barbican Centre Running Costs	Ongoing	No	400.0	Citigen - Guildhall complex incl Wood St heat supplies	
Culture Mile	One-off	Yes	238.0	Postponement of content/artistic programmes from 18/19 to 19/20 i.e. Sound Unbound, originally planned for March 2019 has moved to May, development phases of projects extending into 19/20 for works initiated in 18/19 and key staff were not appointed until summer 2018 and consequently needed to spend much of autumn 2018 on team consolidation and outline strategic planning to ensure the total budget available to March 2020 is allocated in the most appropriate and impactful ways.	Budget realignment, underspend in 2018/19 and spend in 2019/20
Public facing services subtotal:			4,120.0		
Subtotal:			6,244.0		
DIMINIMUS ITEMS: less than £100k			£'000	Detail	Comments
Flood Risk & Future Resilience Work	Ongoing	No	78.0	Cost of Flood Risk And Future Resilience work to be drawn down from from the un-ringfenced government grant provision for Lead Local Flood Authorities.	P&T 20th November 2018. In previous years the costs have been absorbed in local risk, however the service committee are no longer able to absorb the costs.
Air Quality	Ongoing	No	99.0	To cover increase in statutory obligations and work demands due to air quality being a corporate red risk	PHES 15 Jan 2019
DCCS - Sir John Cass - Free School Meals	Ongoing	Yes	56.0	To continue SJC free school meals funded by PIP in 2018/19	Funded from ongoing saving in baseline.

DIMINIMUS ITEMS: less than £100k			£'000	Detail	Comments
DCCS - Childrens Social worker	Ongoing	No	60.0	To support the increase in numbers of care leavers and unaccompanied asylum seeking children	
DCCS - Adults Social worker	Ongoing	Yes*	60.0	To support the increase in demand on Adult Social Care regarding Safeguarding and Mental Health	Could be covered by increase in Council Tax- social care precept
DCCS - Approved Mental Health Practitioner (AMHP)	Ongoing	Yes*	40.0	Review of the current CoL AMHP function highlighted potential single point of failure	Could be covered by increase in Council Tax- social care precept
Sustainable Buildings review	One-off	No	42.0	Develop plans to make our operational and investment properies more environmentally sustainable	PIB 12th Dec. RASC 17th January. Discretionary one off spend, the review may lead to future resource requests unless otherwise contained.
Strategic Security Advisor	Ongoing	No	70.0	In Jan 2016, RA Sub approved a base budget increase of £60k in the Town Clerk’s Resilience Team for the appointment of a specialist Security Advisor. A Strategic Security Director was appointed, but at a significantly higher salary than initially anticipated. The shortfall in salary for this post is £70k	
London Counter Fraud Hub (LB Ealing/CIPFA)	Ongoing	No	70.0	Subscription cost of London Counter Fraud Hub (seven year agreement)	8 Nov 2018 (ARM approved signing up to the scheme)
Corporate Programme Office	Ongoing	No	50.0	salary cost of additional staff member £45k plus professional costs £5k	New growth area linked to need to improve programme management
Pan-London Resilience	Ongoing	No	30.0	Additional contribution from City of London Corporation	
Subtotal:			655.0		
TOTAL:			6,899.0		
Reapportion Guildhall Admin			1,122.5		
Cost per fund			8,021.5		

Reserves

Forecast Movements in City Fund Usable Reserves 2019/20				
	Notes	Estimated Opening Balance 1 Apr 2019 £m	Forecast Net Movement in Year £m	Estimated Closing Balance 31 Mar 2020 £m
Revenue Usable Reserves				
General Reserve	a	20.0	-	20.0
Earmarked				
Major Projects Financing Reserve	b	28.6	17.2	45.8
Police Future Expenditure	c	0.0	-	0.0
Highways Improvements	d	36.2	(29.1)	7.1
VAT Reserve	e	4.2	-	4.2
Proceeds of Crime Act	f	2.5	(0.5)	2.0
Judges Pensions	g	1.1	-	1.1
Public Health	h	0.9	(0.2)	0.7
Renewals and Repairs	i	0.7	-	0.7
Service Projects	j	10.0	-	10.0
Total Revenue Earmarked		84.2	(12.6)	71.6
Housing Revenue Account (HRA)	k	1.4	(0.8)	0.6
Total Revenue Usable Reserves		85.6	(13.4)	72.2
Capital Usable Reserves				
Capital Receipts Reserve	l	0	-	0
Capital Grants Unapplied	m	21.2	(3.3)	17.9
HRA Major Repairs Reserve	k	0	-	0
Total Capital Usable Reserves		21.2	(3.3)	17.9
Total Usable Reserves		96.8	(16.7)	90.1

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. Major Projects Financing Reserve – This reserve will contain the balance of the general reserve above £20m to fund investment in major projects, either as a direct revenue contribution or to generate income to fund revenue costs.
- c. Police Reserve - 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 overspends are required to be met from this reserve.
- d. 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.

- e. VAT Reserve – Should the City Corporation no longer be able to recover VAT incurred on exempt services as a result of exceeding the 5% partial exemption threshold, this reserve will be the first call for meeting the associated costs.
- f. Proceeds of Crime Act – Cash forfeiture sums awarded to the City. Under the guidelines of the scheme, the funds must be ringfenced for crime reduction initiatives.
- g. Judges Pensions - Sums set aside to assist with the City of London's share of liabilities.
- h. Public Health - established from ring-fenced grant allocations. The grant must be used on activities whose main or primary purpose is to improve the public health of local populations.
- i. Renewals and Repairs – Sums obtained on the surrender of headleases and set aside to fund cyclical maintenance and repair works to the property and void costs.
- j. A number of reserves for service specific projects and activities where the balance on each individual reserve is less than £0.5m have been aggregated under this generic heading.
- k. These reserves are ringfenced by statute to the Housing Revenue Account.
- l. The usable capital receipts within the capital receipts reserve have been exhausted due to the City's commitment to Crossrail. Unusable reserves as a result of deferred lease premiums are not included.
- m. Capital grants and contributions received for specific purposes. This includes receipts from the City's Community Infrastructure Levy.

PRUDENTIAL INDICATORS

The following Prudential Indicators (and those included in Appendix E) 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 Corporation's particular circumstances. Those indicators relating to estimates for the financial years 2019/20, 2020/21 and 2021/22 (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

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Actual	Actual	Revised	Estimate	Estimate	Estimate
HRA	0.21	0.41	0.71	0.61	0.68	0.71	0.71
Non-HRA	-0.37	-0.17	-0.40	-0.09	-0.39	-0.45	-0.41
Total	-0.30	-0.12	-0.29	-0.04	-0.30	-0.35	-0.31
<i>At this time last year</i>	-0.30	-0.12	-0.15	-0.14	-0.05	-0.15	-

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 2018/19 to 2021/22
	£m
Gross Debt	286,498
Capital Financing Requirement	399,843

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 2018/19 to 2021/22. As a result of two major projects to be funded through City Fund - the Museum of London relocation and the new combined courts building at Fleet Street – significant external borrowing is anticipated from 2019/20 onwards. The remainder of the capital financing requirement (the underlying need to borrow) is to be met largely through internal borrowing.

Prudential Indicators for Capital Expenditure and External Debt

Estimate of Capital Expenditure

Table 3

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Actual	Actual	Revised	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m	£m
HRA	8.984	8.775	6.974	24.161	37.142	45.540	11.842
Non-HRA	32.012	250.705	42.575	92.961	173.903	137.684	274.403
Total	40.996	259.480	49.549	117.122	211.045	183.224	286.245
<i>At this time last year</i>	40.996	259.480	92.689	152.551	161.247	170.932	-

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 more robust estimates relating to the major projects (Museum of London relocation and the new combined courts building).

Estimate of the Capital Financing Requirement

Table 4

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Actual	Actual	Revised	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m	£m
HRA	2.352	0.000	0.000	3.141	9.460	9.276	8.889
Non-HRA	-3.496	40.628	44.590	43.804	117.830	215.361	390.954
Total	-1.144	40.628	44.590	46.945	127.290	224.637	399.843
<i>At this time last year</i>	-1.144	40.628	48.095	77.604	124.992	184.582	-

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 need for external and/or internal borrowing to fund capital expenditure.

The overall negative figure before 2016/17 indicatives the City's debt-free status at that time. From 2016/17 onwards, the City Fund has been 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. In addition, from 2019/20 the City Fund will need to take out loans with third parties (external borrowing) towards funding for the major projects.

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

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

Local Indicators

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

	2018/19	2019/20	2020/21	2021/22
Times cover on unencumbered revenue reserves	2.7	(3.8)	N/a	N/a
<i>At this time last year</i>	(4.3)	15.2	0.1	-

This indicator is calculated by dividing the balance of unencumbered general reserves by any annual revenue deficit/(surplus). For 2018/19 a revenue deficit is forecast, mainly as a result of funding this year's major project expenditure from unencumbered reserves. In 2019/20 a revenue surplus is forecast, denoted by the brackets. From 2020/21 a break even position is forecast, which is dependent on the identification of savings in revenue expenditure. A positive balance of reserves is to be maintained to guard against the risk of savings not being achieved.

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TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY

2019/20

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Treasury Management Strategy Statement and Annual Investment Strategy 2019/20

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. These capital plans provide a guide to the borrowing needs of the City, essentially the longer-term cash flow planning, to ensure that the organisation can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

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 Code of Practice was revised in November 2017.

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:

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- 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.

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare a capital strategy. The capital strategy provides a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services as well as an overview of how the associated risk is managed and the implications for future financial sustainability. The Treasury Management Strategy Statement is reported separately from the Capital Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles from the policy and commercial investments usually driven by expenditure on an asset.

1.4. Treasury Management Strategy for 2019/20

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 City's Prudential Indicators are set in its annual Budget Report and Medium-Term Financial Strategy, while Treasury Indicators are established in this report (Appendix 3).

The Act requires the Court of Common Council to set out its treasury strategy for borrowing (section 7 of this report) and to prepare an Annual Investment Strategy (section 8 of this report). The Investment Strategy 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 2019/20 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 capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy
- 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 MHCLG MRP Guidance, the CIPFA Treasury Management Code and the MHCLG 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. Capital Expenditure, Capital Financing and the Underlying Borrowing Requirement

The City's capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

The City's capital expenditure plans in respect of its local authority functions (the City Fund) are detailed in the 2019/20 Budget Report and Medium-Term Financial Strategy, which also contains the City's Prudential Indicators. The Prudential Indicators summarise the City Fund's annual capital expenditure plans for the medium term.

Estimate of Capital Expenditure (City Fund)

Table 1	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Capital Expenditure	49.5	117.1	211.0	183.2	286.2

The Prudential Indicators also establish the City Fund's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the City Fund's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

Estimate of the Capital Financing Requirement (City Fund)

Table 2	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Capital Financing Requirement	44.6	46.9	127.3	224.6	399.8

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used. The City's MRP Policy is detailed in Appendix 3.

City's Cash

The City also delivers capital expenditure outside of its capacity as a local authority, via City's Cash. As with the City Fund, any capital expenditure which has not immediately been paid for through a revenue or capital resource, will increase the City's Cash borrowing requirement. Table 3 summarises the planned City's Cash capital expenditure for the medium term and the impact on the borrowing requirement.

Capital Expenditure and Borrowing Requirement (City's Cash)

Table 3	2017/18 Actual £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Capital Expenditure	59.3	200.6	174.4	155.9	138.8
Borrowing Requirement (Cumulative)	0.0	125.0	230.8	315.9	428.4

As with the MRP for the City Fund, the borrowing requirement for City's Cash will be reduced gradually over time as set out in the City's Cash Borrowing Policy Statement (Appendix 9).

3. Current Portfolio Position

The City's treasury portfolio position at 31 December 2018 comprised:

Table 4		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			871.8	0.77
Net Investments			871.8	

4. Treasury Indicators for 2019/20 – 2021/22

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

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
Mar 2019	0.75	2.10	2.50	2.90	2.70
Jun 2019	1.00	2.20	2.60	3.00	2.80
Sep 2019	1.00	2.20	2.60	3.10	2.90
Dec 2019	1.00	2.30	2.70	3.10	2.90
Mar 2020	1.25	2.30	2.80	3.20	3.00
Jun 2020	1.25	2.40	2.90	3.30	3.10
Sep 2020	1.25	2.50	2.90	3.30	3.10
Dec 2020	1.50	2.50	3.00	3.40	3.20
Mar 2021	1.50	2.60	3.00	3.40	3.20
Jun 2021	1.75	2.60	3.10	3.50	3.30
Sep 2021	1.75	2.70	3.10	3.50	3.30
Dec 2021	1.75	2.80	3.20	3.60	3.40
Mar 2022	2.00	2.80	3.20	3.60	3.40

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After a flow of generally positive economic statistics, the MPC increased Bank Rate from 0.5% to 0.75% on 2 August 2018. Growth strengthened during 2018, until slowing significantly in the last quarter. The MPC left Bank Rate unchanged in November, and it is unlikely to increase rates in February 2019, ahead of the March deadline for Brexit. On a major assumption that Parliament and the EU reach a deal before March, the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. Over the last 25 years historically low levels of inflation have coincided with falling bond yields. Since 2008 extraordinary monetary stimulus through quantitative easing and ultra low interest rates has also kept bond yields low and equity values high. However this changed from 2016, when the US Federal Reserve started tightening monetary policy to tackle inflation. US 10 year bond yields reached 3.2% in October 2018 but have since receded considerably.

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, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period. Therefore, 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.

Investment and borrowing rates

- Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.
- Borrowing interest rates have been volatile so far in 2018-19 and while they were on a rising trend during the first half of the year, they have backtracked since then until early January. Many local authorities have adopted a policy of avoiding new borrowing by running down spare cash balances, which has served them 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, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

6. Interest Rate Exposure

The revised Prudential Code removes the requirement to set treasury indicators for fixed and variable interest rate exposure. Instead the City is required to set out how it intends to manage interest rate exposure.

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

7. Borrowing Strategy

The borrowing strategy is developed from the capital plans and prospect for interest rates outlined in sections 2 and 5 above, respectively.

For both the City Fund and City's Cash, the capital expenditure plans create borrowing requirements and the borrowing strategy aims to make sure that sufficient cash is available to ensure the delivery of the City's capital programme as planned.

The City can choose to manage the borrowing requirements through obtaining external debt from a variety of sources; through the temporary use of its own cash resources ("internal borrowing"); or via a combination of these methods.

7.1. City Fund

As the City Fund currently has no external debt portfolio, consideration will be given to obtaining new external debt to meet some or all of the borrowing requirement in 2019/20. In doing so, the Chamberlain will have regard for liquidity requirements, interest rate risk and the implications for the revenue budget.

The Chamberlain will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. For example,

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates*, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential short-term borrowing will be considered.
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast*, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the Finance Committee and the Court of Common Council at the next available opportunity.

The City must set two treasury indicators representing the upper limits for the total amount of external debt for City Fund. These limits are required under the Prudential Code in order to ensure borrowing is affordable and is consistent with the City Fund's capital expenditure requirements.

- The **operational boundary for external debt** should represent the most likely scenario for external borrowing. It is acceptable for actual borrowing to deviate from this estimate from time to time. The proposed limit is set to mirror the estimated CFR for the forthcoming year and the following two years.

- The **authorised limit for external debt** is the maximum threshold for external debt for over 2019/20, 2020/21 and 2021/22. This limit is required by the Local Government Act 2003 and is set above the operational boundary to ensure that the City is not restricted in the event of a debt restructuring opportunity.

The proposed limits for 2019/20 are set out in Appendix 3.

The City is also required to set a treasury indicator in respect of the maturity structure of external debt to ensure that the external debt portfolio remains appropriately balanced over the long term. Under the revised Treasury Management Code of Practice, the City is required to set limit for all borrowing (i.e. both fixed rate and variable debt), and the proposed limits are detailed in Appendix 3.

7.2. City's Cash

The capital expenditure plans for City's Cash likewise create a borrowing requirement, which is forecast to be £230.8m in 2019/20. As with the City Fund borrowing strategy, consideration will be given to obtaining new external debt to meet some or all of this borrowing requirement in 2019/20. In doing so, the Chamberlain will have regard for liquidity requirements, interest rate risk and the implications for the revenue budget.

The regulatory framework established through the CIPFA professional codes and MHCLG guidance pertains to the City's local authority function, the City Fund. To facilitate effective management of the City's Cash borrowing requirement, this organisation has adopted the City's Cash Borrowing Policy Statement (Appendix 9), which sets out the principles for effectively managing the risks arising from borrowing on behalf of City's Cash. Under this framework, the City has resolved to establish two further treasury indicators, which will help the organisation to ensure its borrowing plans remain prudent, affordable and sustainable:

- **Estimates of financing costs to net revenue stream.** This indicator is given as a percentage and establishes the amount of the City's Cash net revenue that is used to service borrowing costs.
- **Overall borrowing limits.** This indicator represents an upper limit for external debt which officers cannot exceed.

The proposed indicators for 2019/20 are set out in Appendix 3 alongside the City Fund treasury indicators.

7.3. Policy on borrowing in advance of need

The City will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

7.4. Debt rescheduling

The City does not anticipate any debt rescheduling in the near term. However, should any opportunities for debt rescheduling arise (through a decrease in borrowing rates, for instance), such cases will need to be considered in the context

of the current treasury position and the size of the cost of debt repayment (i.e. any penalties incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

All rescheduling will be reported to the Court of Common Council, at the earliest meeting following its action.

8. Annual Investment Strategy

8.1. Investment Policy

The City of London's investment policy will have regard to the MHCLG'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 2017 ("the CIPFA TM Code").

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, (e.g. commercial property), are covered in the Capital Strategy, (a separate report).

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 MHCLG 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.

The City will also set a limit for the amount of its investments which are invested for longer than 365 days (see Appendix 3).

8.2. Creditworthiness policy

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.

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

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.

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.

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 **ring-fenced operations**. 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.

***European Money Market Reform.** Under EU money market reforms implemented in 2018/19, three new classifications of money market funds have been created:

- Constant Net Asset Value ("CNAV") MMFs – must invest 99.5% of their assets into government debt instruments and are permitted to maintain a constant net asset value.
- Low Volatility Net Asset Value ("LVNAV") MMFs – permitted to maintain a constant dealing net asset value provided that certain criteria are met, including that the market net asset value of the fund does not deviate from the dealing net asset value by more than 20 basis points.
- Variable Net Asset Value ("VNAV") MMFs – price assets using market pricing and therefore offer a fluctuating dealing net asset value.

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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 2018. The City may add managers to this list as appropriate.

UK banks – ring fencing. The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The City will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

8.3. 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 country limits 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.

8.4. Investment Strategy

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

Investment returns expectations: Bank Rate is forecast to increase steadily but slowly over the next few years to reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

- 2018/19 0.75%
- 2019/20 1.25%
- 2020/21 1.50%
- 2021/22 2.00%

Link consider that the overall balance of risks to these forecasts is currently probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

The outlook for rates for the forthcoming year and over the medium term remains heavily contingent on economic conditions and political developments, particularly Brexit. Under these conditions the Chamberlain will continue to invest surplus cash balances in a balanced portfolio that prioritises security and liquidity concerns.

For 2018/19 the City has budgeted for an average investment return of 0.75% on investments placed during the financial year. Financial forecasts for the period 2019/20 include interest earnings based on a weighted average investment return of 1.00%.

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.

9. 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.

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

Maximum principal sums invested for more than 365 days (up to three years)			
	2019/20 £M	2020/21 £M	2021/22 £M
Principal sums invested >365 days	300	300	300

10. 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.

11. External fund managers

A proportion of the City's funds, amounting to £400.4m as at 31 December 2018, are externally managed on a discretionary basis by the following fund managers:

- Aberdeen Standard plc,

- CCLA Investment Management Ltd
- Deutsche Asset Wealth Management,
- Federated UK LLP,
- Invesco Fund Managers Ltd
- Legal and General Investment Management
- Payden Global Funds Plc
- Royal London Asset Management

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 Aberdeen Standard Investments Ultra Short Duration Sterling Fund) are all rated by Standard and Poor's as AAA.

The City also uses two Short Dated Bond funds managers by Legal and General and Royal London Asset Management. Both funds are unrated (as is typical of these instruments). The funds 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.

12. 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.

13. Scheme of Delegation

Please see Appendix 7.

14. Role of the Section 151 officer

Please see Appendix 8.

15. 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.

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
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9. City's Cash Borrowing Policy Statement

LINK INTEREST RATE FORECASTS 2019 – 2022

Link Asset Services Interest Rate View													
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
Capital Economics	0.75%	1.00%	1.25%	1.50%	1.70%	1.75%	2.00%	2.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
Capital Economics	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
Capital Economics	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.96%	3.08%	3.33%	3.58%	3.53%	3.48%	3.43%	3.38%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	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.

LINK ASSET SERVICES VIEW ON ECONOMIC BACKGROUND

GLOBAL OUTLOOK. World growth has been doing reasonably well, aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China and the eurozone, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to an acceleration of wage inflation. The US Fed has therefore increased rates nine times and the Bank of England twice. However, the ECB is unlikely to start raising rates until late in 2019 at the earliest.

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 period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period is well advanced in the US, and started more recently in the UK, of 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 a 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 also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This meant that both asset categories were exposed to the risk of a sharp downward correction and we did, indeed, see a sharp fall in equity values in the last quarter of 2018. 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, conversely, 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.** At the time of writing, (early January 2019), financial markets are very concerned that the Fed is being too aggressive with its policy for raising interest rates and is likely to cause a recession in the US economy.

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt (currently about \$50bn per month). In addition, the European Central Bank ended its QE purchases in December 2018.

UK. The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also raise Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.1% in December 2018. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate.

The **labour market** figures in November were particularly strong with an emphatic increase in total employment of 141,000 over the previous three months, unemployment at 4.0% at a 43 year low on the Independent Labour Organisation measure, and job vacancies hitting an all-time high, indicating that employers are having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation continued at its high point of 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.2%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, the Brexit deal put forward by the Conservative minority government was defeated on 15 January. It is unclear at the time of writing, how this situation will move forward. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit though the risks are increasing that it may not be possible to get full agreement by the UK and EU before 29 March 2019, in which case this withdrawal date is likely to be pushed back to a new date. If, however,

the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2% (annualised rate) in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. The strong growth in employment numbers and the reduction in the unemployment rate to 3.9%, near to a recent 49 year low, has fed through to an upturn in wage inflation which hit 3.2% in November. However, CPI inflation overall fell to 2.2% in November and looks to be on a falling trend to drop below the Fed's target of 2% during 2019. The Fed has continued on its series of increases in interest rates with another 0.25% increase in December to between 2.25% and 2.50%, this being the fifth increase in 2018 and the ninth in this cycle. However, they did also reduce their forecast for further increases from three to two. This latest increase compounded investor fears that the Fed is over doing the speed and level of increases in rates and that it is going to cause a US recession as a result. There is also much evidence in previous monetary policy cycles of the Fed's series of increases doing exactly that. Consequently, we have seen stock markets around the world falling under the weight of fears around the Fed's actions, the trade war between the US and China and an expectation that world growth will slow.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation if an agreement is not reached soon between the US and China.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this was probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of its manufacturing exports e.g. cars. Current forward indicators for economic growth and inflation have now been on a downward trend for a significant period, which will make it difficult for the ECB to make any start on increasing rates until 2020 at the earliest. Indeed, the issue now is rather whether the ECB will have to resort to new measures to boost liquidity in the economy in order to support growth. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank ended all further purchases in December 2018. In its January 2019 meeting, it made a point of underlining that it will be fully reinvesting all maturing debt for an extended period of time past the date at which it starts raising the key ECB interest rates.

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. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan – has been struggling to stimulate consistent significant GDP 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. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries. Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in section 5 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement is likely to lead to a boost to the rate of growth in 2020 which could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there was a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

However, there would appear to be a majority consensus in the Commons against any form of non-agreement exit so the chance of this occurring has now substantially diminished.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, 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.
- A resurgence of the **eurozone sovereign debt crisis**, possibly in **Italy**, due to its high level of government debt, low rate of economic growth and vulnerable banking system,

and due to the election in March of a government which has made a lot of anti-austerity noise. The EU rejected the initial proposed Italian budget and demanded cuts in government spending which the Italian government initially refused. However, a fudge was subsequently agreed, but only by *delaying* the planned increases in expenditure to a later year. This has therefore only been kicked down the road to a later time. The rating agencies have started on downgrading Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold it. Unsurprisingly, investors are becoming increasingly concerned by the words and actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance large amounts of debt maturing in 2019.

- **Weak capitalisation of some European banks.** Italian banks are particularly vulnerable; one factor is that they hold a high level of Italian government debt – debt which is falling in value. This is therefore undermining their capital ratios and raises the question of whether they will need to raise fresh capital to plug the gap.
- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD is reviewing whether it can continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018, (a new party leader has now been elected). However, this makes little practical difference as she is still expected to aim to continue for now as the Chancellor. However, there are five more state elections coming up in 2019 and EU parliamentary elections in May/June; these could result in a further loss of electoral support for both the CDU and SPD which could also undermine her leadership.
- **Other minority eurozone governments.** Spain, Portugal, Ireland, the Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile. Sweden is also struggling to form a government due to the anti-immigration party holding the balance of power, and which no other party is willing to form a coalition with. The Belgian coalition collapsed in December 2018 but a minority caretaker government has been appointed until the May EU wide general elections.
- **Austria, the Czech Republic and Hungary** now form a strongly anti-immigration bloc within the EU while **Italy**, in 2018, also elected a strongly anti-immigration government. Elections to the EU parliament are due in May/June 2019.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. Throughout the last quarter of 2018, we saw sharp falls in equity markets interspersed with occasional partial rallies. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is now rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.

- **Geopolitical risks**, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **Brexit** – if both sides were to agree by 29 March a compromise that quickly removed all threats of economic and political disruption and so led to an early boost to UK economic growth.
- **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 QE, 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.
- 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**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Brexit timetable and process

- If an agreement is reached with the EU on the terms of Brexit, then this will be followed by a proposed transitional period ending around December 2020.
- 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 may leave the single market and tariff free trade at different times during the 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.

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

TABLE 1: TREASURY MANAGEMENT INDICATORS	2017/18	2018/19	2019/20	2020/21	2021/22
	actual	probable outturn	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt -					
Borrowing	-	146,945	227,290	324,637	499,843
other long-term liabilities	14,006	13,888	13,770	13,653	13,536
TOTAL	14,006	160,833	241,060	338,290	513,379
Operational Boundary for external debt -					
Borrowing	-	46,945	127,290	224,637	399,843
other long-term liabilities	14,006	13,888	13,770	13,653	13,536
TOTAL	14,006	60,833	141,060	238,290	413,379
Actual external debt*	£0	£0	-	-	-
Upper limit for total principal sums invested for over 365 days (per maturity date)	£200m	£300m	£300m	£300m	£300m

*Actual external debt at the end of the financial year

TABLE 2: Maturity structure of borrowing during 2019/20	upper limit	lower limit
- under 12 months	50%	0%
- 12 months and within 24 months	50%	0%
- 24 months and within 5 years	50%	0%
- 5 years and within 10 years	75%	0%
- 10 years and above	100%	0%

TABLE 3: CITY'S CASH BORROWING INDICATORS	2017/18	2018/19	2019/20	2020/21	2021/22
	actual	probable outturn	estimate	estimate	estimate
	%	%	%	%	%
Estimates of financing costs to net revenue stream	0.0%	0.3%	5.2%	8.3%	10.3%
	£'000	£'000	£'000	£'000	£'000
Overall borrowing limits	0	225,000	355,840	415,850	528,350

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2019/20

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 and 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).

MHCLG regulations have been issued which require the Court of Common Council to approve **an MRP Statement** in advance of each year. The regulatory guidance recommends four options for local authorities. Options 1 and 2 relate to government supported borrowing prior to 2008. As the City Fund does not have any outstanding borrowing from this period, these options are not relevant. For any prudential borrowing undertaken after 2008, options 3 and 4 apply:

- **Option 3: Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);
- **Option 4: Depreciation method** – MRP will follow standard depreciation accounting procedures;

For any new borrowing under the prudential financing system, the City Fund will apply the asset life method over the useful economic life of the relevant assets. However, as loan repayments will commence in advance of the assets becoming operational, additional provision will be made in the early years so that MRP is at least equal to the amount of the loan principal repaid. This option provides for a reduction in the borrowing need over the approximate life of the assets.

As in previous years, the City will continue to apply a separate MRP policy for that portion of the CFR which has arisen through the 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 this form 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.

MRP will fall due in the year following the one in which the expenditure is incurred, or the year after the asset becomes operational.

The MRP liability for 2018/19 is £1,056k and is estimated at £1,152k for 2019/20

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	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds LVNAV	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds VNAV	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

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 Funds	--	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 is typically T + 3 or 4.

APPROVED COUNTERPARTIES as at 31 DECEMBER 2018

BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES

FITCH RATINGS		BANK*	LIMIT PER GROUP	DURATION
A+	F1	Barclays Bank PLC (NRFB)	£100M	Up to 3 years
A+	F1	Barclays Bank UK PLC (RFB)		
A	F1	Goldman Sachs International Bank	£100M	Up to 3 years
AA-	FI+	HSBC (RFB)	£100M	Up to 3 years
AA-	FI+	HSBC (NRFB)		
A	F1	Lloyds Bank Corporate Markets PLC (NRFB)	£150M	Up to 3 years
A+	F1	Lloyds Bank PLC (RFB)		
A+	F1	Bank of Scotland PLC (RFB)		
A	F1	NatWest Markets PLC (NRFB)	£100M	Up to 3 years
A+	F1	National Westminster Bank PLC (RFB)		
A+	F1	Royal Bank of Scotland PLC (RFB)		
A+	F1	Santander UK PLC (RFB)	£100M	Up to 3 years

*Under the ring-fencing initiative, the largest UK banks are now legally required to separate the core retail business into a ring-fenced bank (RFB) and to house their complex investment activities into a non-ring-fenced bank (NRFB). See section 8.2 above for further details.

BUILDING SOCIETIES

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

MONEY MARKET FUNDS

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

SHORT DATED BOND FUNDS

FITCH RATINGS (or equivalent)	SHORT DATED BOND FUNDS Limit of £100M per fund	DURATION
-	Legal and General Short Dated Sterling Corporate Bond Index Fund	Liquid
-	Royal London Investment Grade Short Dated Credit Fund	Liquid

FOREIGN BANKS

(with a presence in London)

FITCH RATINGS		COUNTRY AND BANK	LIMIT PER GROUP	DURATION
AA-	F1+	<u>AUSTRALIA</u>		
		AUSTRALIA AND NEW ZEALAND BANKING GROUP LTD	£25M	Up to 3 years
AA-	F1+	NATIONAL AUSTRALIA BANK LTD	£25M	Up to 3 years
AA	F1+	<u>SWEDEN</u>		
		SVENSKA HANDELSBANKEN	£25M	Up to 3 years

LOCAL AUTHORITIES

LIMIT OF £25M PER AUTHORITY
Any UK local authority

APPROVED COUNTRIES FOR INVESTMENT

This list is based on those countries which have sovereign ratings of AAA as at 21 January 2019

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

TREASURY MANAGEMENT SCHEME OF DELEGATION

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

(i) Court of Common Council

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

(ii) Financial Investment Board and Finance Committee

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

(iii) Audit & Risk Management Committee

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

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The Chamberlain

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

CITY'S CASH BORROWING POLICY STATEMENT

1. The City Corporation shall ensure that all of its City's Cash capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so, it will take into account its arrangements for the repayment of debt and consideration of risk and the impact, and potential impact, on the overall fiscal sustainability of City's Cash.

2. Borrowing shall be undertaken on an affordable basis and total capital investment must remain within sustainable limits. When assessing the affordability of its City's Cash investment plans, the City Corporation will consider both the City's Cash resources currently available and its estimated future resources, together with the totality of its City's Cash capital plans, income and expenditure forecasts.

3. To ensure that the benefits of capital expenditure are matched against the costs, borrowing will be amortised over the life of the associated asset.

4. To the greatest extent possible, expected finance costs arising from borrowing are matched against appropriate revenue income streams.

5. The City Corporation will organise its borrowing on behalf of City's Cash in such a way as to ensure that financing is available when required to manage liquidity risk (i.e. to make sure that funds are in place to meet payments for capital expenditure on a timely basis). The City Corporation will only borrow in advance of need on behalf of City's Cash on the basis of a sound financial case (for instance, to mitigate exposure to rising interest rates).

6. The City Corporation will ensure debt is appropriately profiled to mitigate refinancing risk.

7. The City Corporation will monitor the sensitivity of liabilities to inflation and will manage inflation risks in the context of the inflation exposures across City's Cash (e.g. the City Corporation will be mindful of the potential impact of index-linked borrowing on the financial position of City's Cash).

8. The City Corporation will seek to obtain value for money in identifying appropriate borrowing for City's Cash. Where internal borrowing (i.e. from City Fund or Bridge House Estates) is used as a source of funding, the City Corporation will keep under review the elevated risk of refinancing.

9. All borrowing is expected to be drawn in Sterling. Where debt is raised in foreign currencies, the City Corporation will consider suitable measures for mitigating the risks presented by fluctuation in exchange rates.

10. Interest rate movement exposure will be managed prudently, balancing cost against likely financial impact.

11. The City Corporation will maintain the following indicators which relate to City's Cash borrowing only:

- Estimates of financing costs to net revenue stream
- Overall borrowing limits

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2019/20

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 and 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).
2. MHCLG regulations have been issued which require the Court of Common Council to approve **an MRP Statement** in advance of each year. The regulatory guidance recommends four options for local authorities. Options 1 and 2 relate to government supported borrowing prior to 2008. As the City Fund does not have any outstanding borrowing from this period, these options are not relevant. For any prudential borrowing undertaken after 2008, options 3 and 4 apply:
 - **Option 3: Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);
 - **Option 4: Depreciation method** – MRP will follow standard depreciation accounting procedures;
3. For any new borrowing under the prudential financing system, the City Fund will apply the asset life method over the useful economic life of the relevant assets. However, as loan repayments will commence in advance of the assets becoming operational, additional provision will be made in the early years so that MRP is at least equal to the amount of the loan principal repaid. This option provides for a reduction in the borrowing need over the approximate life of the assets.
4. As in previous years, the City will continue to apply a separate MRP policy for that portion of the CFR which has arisen through the 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.
5. The City's MRP policy in respect of this form 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.
6. MRP will fall due in the year following the one in which the expenditure is incurred, or the year after the asset becomes operational.
7. The MRP liability for 2018/19 is £1,056k and is estimated at £1,152k for 2019/20.

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DRAFT CAPITAL STRATEGY

Financial Years 2019/20 to 2023-24

INTRODUCTION AND BACKGROUND

1. This Capital Strategy is an overarching document which sets the policy framework for the development, management and monitoring of capital investment. The strategy focuses on core principles that underpin the City Corporation's capital programme. In particular it covers:
 - the short, medium and longer-term objectives;
 - the key issues and risks that will impact on the delivery of the programme;
 - and the governance framework in place to ensure the capital programme is delivered and provides value for money.
2. This capital strategy aligns with the priorities set out in the City Corporation's Corporate Plan and other key strategy documents such as those covering the investment estates.
3. The strategy is integrated with the medium-term financial plan and treasury management strategy.
4. The Court of Common Council will agree the capital strategy and programme at least annually and as necessary in the event of a significant change in circumstances.

CORE PRINCIPLES THAT UNDERPIN THE CAPITAL PROGRAMME

5. The key principles for the capital programme are summarised below and shown in more detail as Annex A.
6. Capital investment decisions reflect the aspirations and priorities included within the City Corporation's Corporate Plan and supporting strategies.
7. Schemes to be added to the capital programme will be subject to a gateway process overseen by Project Sub Committee. The only exceptions to this are for the major projects that are dealt with by Capital Buildings Committee and Policy and Resources Committee and investment property acquisitions and disposals which are overseen by Property Investment Board. All schemes are prioritised according to availability of resources and scheme specific funding, and factors such as legal obligations, health and safety considerations and their longer-term impact on the City Corporation's financial position.
8. A key consideration is affordability of the capital programme in terms of the City's Medium Term Financial Plan. In any programme presented to Members for agreement this issue will have been considered and, where resources are limited, new bids must be prioritised to ensure the best use of available funds.

9. Commissioning and procuring for capital schemes will comply with the requirements set out in the City Corporation's Standing Orders, Financial Regulations and Procurement Code.

GOVERNANCE FRAMEWORK

10. The City Corporation in its local authority capacity is required to agree the capital strategy annually in accordance with the Prudential Code. To be consistent with the City Corporation's Treasury Management Strategy Statement the capital strategy for City's Cash is being reported on the same basis. For the time being, capital plans of the Bridge House Estates Trust are excluded pending the outcome of the Bridge House Estates Governance review, although the general principles and framework described in this document will apply.
11. The impact of the capital programmes for each fund is incorporated into the medium-term financial plans to demonstrate affordability, sustainability and prudence.
12. To assist in the resource allocation process, project proposals are prioritised and categorised, with only essential schemes within the following criteria being considered for central funding:
 - health and safety or statutory requirements,
 - substantially reimbursable
 - spend to save (payback within 5 years)
 - income generating
 - major renewals of income generating assets.

Due to the large volume of pipeline schemes, a more stringent set of criteria are being developed to assist Policy & Resources Committee to decide whether resources should be allocated.

13. Projects are one of the key ways that the City Corporation delivers its strategic aims and priorities. The City Corporation is committed to ensuring that projects are delivered efficiently and that the best use is made of the resources available to the organisation. Approval of projects is the responsibility of the Policy and Resources Committee through its Projects Sub-Committee, which scrutinises individual projects, and the Resource Allocation Sub-Committee, which considers the overall programme of project activity and its funding. Decisions about projects are made in conjunction with service committees and the Court of Common Council (for high value projects). Major Projects are managed directly through the Capital Buildings or Policy and Resources Committees.
14. Where the Town Clerk considers a scheme has policy implications, or where the Policy and Resources Committee has indicated it wishes to consider a particular project further, project reports will also be submitted to that Committee.
15. The Finance Committee is responsible for obtaining value for money, improving efficiency and overseeing procurement generally across the organisation. The

Finance Committee therefore receives periodic reports on the City Corporation's capital expenditure.

16. The gateway process is contained in the Project Procedure, which is approved by the Policy and Resources Committee and the Court of Common Council. It applies to capital projects over £50,000. The Town Clerk monitors the progress of reports from start to finish and project managers maintain information about the progress of projects on the Project Vision system. Project Boards are usually established for individual projects, particularly those that require officers from a number of departments to deliver them.
17. Inclusion of schemes in the capital programme is subject to agreement by the relevant City Corporation committees which, depending on value, will include the Court of Common Council.
18. All projects included in the capital programme must comply with standing orders, financial regulations, the project procedure, the procurement code and rules and are subject to confirmation of funding.

SHORT, MEDIUM AND LONGER-TERM CAPITAL PLANNING OBJECTIVES

19. The City Corporation maintains an approved capital programme that covers a five-year period which is approved by the Court of Common Council as part of the annual budget setting process.
20. Going forward the plan is to extend the capital programme over a longer term, especially with regard to the major projects, to aid in the financial planning process. Planning the capital programme over a ten-year period will ensure that the City Corporation does not over-commit to a capital programme that is not affordable, sustainable and prudent.
21. The impact of the major projects on available funding over the medium to long term will be significant and it will be a requirement to prioritise the remaining capital spend to make best use of the limited resources that will be available.
22. The City Corporation has substantial operational property and investment property portfolios. Strategic plans are produced for each fund for the investment properties which are agreed by Property Investment Board. Operational properties are overseen by Corporate Asset Sub Committee with a corporate asset management plan being overseen by this committee.
23. Such a sizeable property portfolio requires significant capital and revenue investment to maintain it and, in the case of the investment property, maximise the returns. These schemes are therefore likely to make ongoing major calls on the City Corporation's limited capital resources.
24. To assist with managing this commitment the City Corporation is conducting an operational property review with a view to disposing surplus assets through rationalising the operational property estate.

CAPITAL INVESTMENT PRIORITIES

25. Capital investment plans are driven by the City Corporation's Corporate Plan, the key strategic document that sets out the City Corporation's vision, ambitions, values and priorities. The Corporate Plan is underpinned through the departmental business plans which include assets required in their delivery and highlight capital investment requirements and aspirations. The latest draft capital plans, which include the indicative cost of schemes still under development, are as follows:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Later years £m	Total £m
City Fund	117	211	183	286	210	460	1,541.2
City's Cash	201	174	156	139	81	881	1,695.7
Bridge House Estates							120.4
	318	385	339	425	291	1,341	3,357.3

The draft plans have been further analysed into three main groups:

	City Fund £m	City's Cash £m	Bridge House Estates £m	Total £m
Major Projects	950.9	1,365.1	-	2,316.0
Capital and SRP Programmes	365.3	180.1	120.4	665.8
Pipeline/Funding Unconfirmed	225.0	150.5	-	375.5
TOTAL:	1,541.2	1,695.7	120.4	3,357.3

26. There are four major projects at various stages of development:

- Museum of London Relocation (City Fund and City's Cash)
- Combined Courts (City Fund)
- Market Consolidation Programme (City's Cash)
- Centre for Music (City's Cash, largely beyond the medium-term financial planning period)

27. These projects represent a substantial funding requirement of unprecedented scale in the context of the City Corporation's more recent capital plans. They therefore present a significant challenge to the finances of the organisation, requiring a step change in the previously debt-free status of both City Fund and City's Cash.

28. Other significant commitments within the current capital programme include:

- Investment Property refurbishments
- Infrastructure improvements at the Old Bailey
- Guildhall Complex new acquisition and refurbishment
- Social Housing Decent Homes refurbishments and new affordable housing units

29. Pipeline schemes include:

- City of London Schools Improvement Programmes (cash flow financing)
- Major refurbishment works to the Guildhall Complex

- Highways and Public Realm improvements
- IT modernisation and transformation

30. More stringent criteria are being developed to assist Policy & Resources Committee to decide resource allocation for these unfunded schemes. This may result in some schemes being cancelled or deferred.

ASSET MANAGEMENT PLANNING

31. The overriding objective of asset management within the City Corporation is to achieve a corporate portfolio of property assets that is appropriate, fit for purpose and affordable.

32. The City Corporation's property portfolio consists of both operational and investment property. The City Corporation has specific reasons for owning and retaining property:

- Operational purposes e.g. assets that support core business and service delivery such as schools, office buildings, The Barbican Arts Centre, Central Criminal Court, cleansing depot, cemetery and crematorium, port health offices, markets, Mansion House and open spaces across London.
- Investment properties held to provide a financial return to the City Corporation to provide financial support for service provision.
- Strategic investment to enable growth in the City fringe - the strategic property estate.

33. Asset management is an important part of the City Corporation's business management arrangements and is crucial to the delivery of efficient and effective services. The ongoing management and maintenance of operational property assets is considered as part of the Corporate Asset Management Strategy. The asset management planning includes an objective to optimise the City Corporation's operational estate.

34. The development of Asset Management Plans across the operational estate assists in delivering the asset management component of service department business plans. In so doing, these plans support the prioritisation of future capital requirements and incorporation of corporate objectives across the operational estate.

35. There is a strong link between Asset Management Plans and the Asset Management Service Based Review, which seeks to improve asset management processes and deliver future efficiencies. Recommendations from this review have now received committee approval and will support improvements to financial sustainability, corporate policies and controls, data management, strategic asset planning, delivering asset management related projects, compliance and property management process.

COMMERCIAL ACTIVITY AND INVESTMENT PROPERTY

36. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as property held solely to earn rentals or for capital appreciation or both.
37. Returns from our investment property ownership can be both income-driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth).
38. The combination of these is a consideration in assessing the attractiveness of a property for acquisition. In the context of the Capital Strategy, the City Corporation uses capital to invest in property to provide a positive surplus/financial return which is a key source of funding for the ongoing provision of services.
39. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. These risks are mitigated in part by the mixed lease structure of holdings with some properties directly managed with multiple lettings, some single lettings to tenants on fully repairing and insuring leases and some to tenants on geared ground rent leases where the City Corporation is guaranteed a minimum rent but also shares in the actual rent received over a certain threshold.
40. The property portfolio is overseen by Members through a dedicated Property Investment Board appointed by Investment Committee which meets on a monthly basis to receive reports on performance, set strategy, and agree major lettings, acquisitions and disposals.
41. Performance of each estate is benchmarked through MSCI against the overall MSCI Universe and against the MSCI "Greater London Properties including owner occupied" benchmarks. The target set is to outperform the MSCI benchmarks for Total Return on an annualised five-year basis. There is also a subsidiary target to maintain rental income levels and to endeavour to secure rental income growth at least in line with inflation.
42. The properties forming the Strategic Property Estate have been acquired for large scale redevelopment. They are part of the strategy of supporting growth in the business cluster in the City Fringes by providing high quality floor space and returns from these properties are focussed on capital appreciation through their redevelopment.
43. The Property Investment Board receives quarterly rent five-year rental forecast reports and regular reports on the level of voids and debtor arrears. From time to time the Board also receives presentations, usually from major firms of surveyors, on the state of the UK and London property market and potential future trends.

REVENUE BUDGET IMPLICATIONS FROM CAPITAL INVESTMENT DECISIONS

44. Capital expenditure for the City Corporation is financed through a variety of sources, typically
- Receipts from the sale of capital assets
 - Capital grants

- External contributions such as S106 or Community Infrastructure Levy
- The use of general reserves or from revenue budget contributions
- Earmarked reserves set aside for specific purposes.

Any capital expenditure not financed from the above sources will need to be funded by prudential borrowing, which can either be internal or external.

45. The City Corporation can utilise its temporary cash balances in lieu of external borrowing to fund capital expenditure. This is referred to as internal borrowing. External borrowing refers to loans from third parties e.g. banks or the Public Works Loans Board.
46. To date, the City Corporation has funded all of its capital expenditure from the sources listed above or through internal borrowing. Going forward the impact of the major projects means that external borrowing will be required.
47. In approving the inclusion of schemes and projects within the capital programme, the City Corporation ensures all of the capital and investment plans are affordable, prudent and sustainable. In doing so the City Corporation will take into account the arrangements for the repayment of debt, through a prudent Minimum Revenue Provision (MRP) policy in line with MRP guidance produced by the Ministry of Housing, Communities and Local Government.
48. The capital financing costs and any additional running costs arising from capital investment decisions are incorporated within the annual budget and medium term financial plans. This enables Members to consider the consequences of capital investment alongside other competing priorities for revenue funding.
49. As part of the appraisal process, and at the discretion of the Chamberlain, the financing costs of prudential borrowing, may be charged to the relevant service.
50. Capital investment decision making is not only about ensuring that the initial allocation of capital funds meets corporate and service priorities but ensuring the asset is fully utilised, sustainable and affordable throughout its whole life. This overarching commitment to long term affordability is a key principle in any capital investment appraisal decision and is particularly challenging in relation to the four Major Projects. In making its capital investment decisions the City Corporation must have explicit regard to consider all reasonable options available.
51. The revenue implications of the major projects are significant. The cost of borrowing must be charged to the relevant revenue budget whether this is on an interest-only or repayment basis. The long-term nature of borrowing means these revenue sums are unavailable to fund other activity for a significant period of time. By agreeing to fund capital schemes through borrowing, Members are agreeing to divert this funding away from revenue activity in order to meet their priorities.
52. The City Corporation must ensure that a MRP is set aside for all City Fund related borrowing. This is managed by borrowing on an annuity basis for long term borrowing which repays the capital and interest over the term of the borrowing. The MRP is aligned to the interest repaid over the term of the loan.

RISK MANAGEMENT

53. This section considers the City Corporation's risk appetite with regard to its capital investments and commercial activities, i.e. the amount of risk that the City Corporation is prepared to accept, tolerate, or be exposed to at any point in time. It is important to note that risk will always exist in some measure and cannot be removed in its entirety.
54. A risk review is an important aspect of the consideration of any proposed capital or investment proposal. The risks will be considered in line with the City Corporation's corporate risk management strategies and commensurate with the City Corporation's low risk appetite. Subject to careful due diligence, the City Corporation may consider a moderately higher level of risk for strategic initiatives, where there is a direct gain to the City Corporation's revenues or where there is Member appetite to deliver high profile projects.
55. The City Corporation maintains a Corporate Risk Register and priority will be given to schemes that mitigate an identified risk.
56. The gateway approval process has three approval tracks: Complex, Regular and Light, with varying levels of member scrutiny. The decision about which track a project should follow depends on the estimated cost and the level of risk. Projects can move between tracks at any stage if it becomes evident that a project is more or less complex than originally anticipated.
57. For each project a costed risk register is prepared to consider the risks associated with the project. This is informed by previous experience of similar projects and other factors, where relevant, such as the age of the asset, its size and its type. The risk register includes mitigations that will be taken to minimise the risk and a financial assessment of the likely cost should the mitigated risks crystallise. In addition, major projects include an element of optimism bias in line with HM Treasury guidance to mitigate the financial implication of delays and/or increased costs.

TREASURY MANAGEMENT

58. The capital strategy is integrated with its treasury management activity as the City Corporation's capital expenditure plans and its approach to financing that expenditure will drive the organisation's need for borrowing.
59. The Treasury Management Strategy Statement outlines how the City Corporation will carry out its treasury management activities. This statement is reviewed annually by the Court of Common Council. Treasury management activity is scrutinised by the Audit and Risk Management Committee.

60. The Treasury Management Strategy Statement outlines the organisation's borrowing strategy, which aims to make sure that sufficient cash is available to deliver the City Corporation's capital programme as planned. Consideration will be given to obtaining new external debt to meet some or all of the City Corporation's borrowing requirement in 2019/20. Any borrowing decision will be undertaken in the context of the managing interest rate exposure in order to contain the organisation's interest costs.
61. The City Corporation faces a number of key risks in terms of servicing its current and future debt requirement including interest rate risk, refinancing risk and liquidity risk. To control these risks, the City Corporation maintains treasury indicators which are set out in the Treasury Management Strategy Statement.

KNOWLEDGE AND SKILLS

62. The City Corporation has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills. In addition, the Projects Sub Committee is instigating an accredited programme of training for project managers.
63. The City Corporation establishes project teams from all the professional disciplines from across the City Corporation as and when required. External professional advice is taken where required and will always be sought in consideration of any major commercial property investment decision.
64. Within the Court of Common Council there are also a number of Members who have substantial professional expertise which assist when making crucial capital investment decisions. Some specialist committees, such as Property Investment Board, co-opt external members with specific expertise to further inform the decision-making process.

BACKGROUND DOCUMENTS

Strategic Property Annual Update & Strategy for 2019

City Fund Portfolio Update and Strategic Review January 2019

City's Estate Annual Strategy Review December 2018

Treasury Management Strategy Statement & Annual Investment Strategy
2019/20

Corporate Asset Management Strategy

Corporate Project Procedure

City of London Corporate Plan

Corporate Risk Register

CORE PRINCIPLES UNDERPINNING THE CAPITAL PROGRAMME

In considering schemes for inclusion in the capital programme, regard will be had to the following principles:

- schemes to be included in the Capital Programme, in accordance with the Project Procedure, follow an appropriate level of due diligence and assurance regarding deliverability/practicable
- prior to mobilisation, all projects complete the gateway process which ensure they are affordable and sustainable. This includes careful consideration of value for money and options appraisal
- capital appraisal should promote schemes which provide a direct gain to the City Corporation's revenues within agreed risk appetite, e.g. commercial investment return, "invest to save" or "income generation" outcomes or attract external investment.
- environmental and social sustainability issues should be built into project appraisal
- the financial implications of capital investment decisions is considered at Gateway 4 and will be properly appraised as part of the determination process
- projects will not proceed unless full funding has been identified and approved as part of the Gateway process.
- available capital funding will be optimised e.g. through surplus asset disposal strategy,
- maximising available capital resources through use of planning gain, corporately pooling capital receipts and by exploring external financing sources
- that capital funding decisions minimise or mitigate the ongoing revenue implications of capital investment decisions
- the financial implications of capital investment decisions should be fully integrated into revenue budget and longer-term financial plans
- robust governance arrangements through the Corporate project procedure and other member oversight are in place for all programmes and projects, clearly defining responsibility for the delivery of individual schemes within the capital programme
- all capital schemes follow appropriate project management arrangements
- there are effective working relationships with partners
- that projects are reviewed on completion to ensure key learning opportunities are maximised

Medium Term Financial Strategy/Budget Policy

City Fund

The main constituents of the City Fund medium term financial strategy/budget policy are as follows:-

- (i) to aim to achieve as a minimum over the medium-term planning period the 'golden rule' of matching on-going revenue expenditures and incomes;
- (ii) to implement budget adjustments and measures that are sustainable, on-going and focused on improving efficiencies;
- (iii) in line with (ii), as far as possible to protect existing repairs and maintenance budgets from any efficiency squeezes or budget adjustments and to ring-fence all other non-staffing budgets (to prevent any amounts from these budgets being transferred into staffing budgets);
- (iv) within the overall context of securing savings and budget reductions, to provide Chief Officers with stable financial frameworks that enable them to plan and budget with some certainty;
- (v) for the Police service, ordinarily to set an annual cash limit determined from the national settlement allocation to the City Police together with the allocation from the Business Rates Premium;
- (vi) to identify and achieve targeted/selective budget reductions and savings programmes;
- (vii) to continue to review critically all financing arrangements, criteria and provisions relating to existing and proposed capital and supplementary revenue project expenditures;
- (viii) to reduce the City Fund's budget exposure to future interest rate changes by adopting a very prudent, constant annual earnings assumption in financial forecasts. If higher earnings are actually achieved, consideration to be given to only making the additional income available for non-recurring items of expenditure;
- (ix) to accept that in some years of the financial planning period it may be necessary to make contributions from revenue balances to balance the revenue budget;
- (x) to finance capital projects first from disposal proceeds rather than revenue resources and supplementary revenue projects from provisions set aside within the financial forecast followed by external borrowing (if required) in an affordable, prudent and sustainable way; and
- (xi) to minimise the impact of rate/tax increases on City businesses and residents.

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Review of Contingency Funds

The following tables support the review of contingency funds within the City Corporation. They demonstrate that in each of the last four years the provision of funds has been sufficient to result in an uncommitted balance remaining.

Finance Committee Contingencies

Finance Committee Contingencies						
		City's Cash £'000	City Fund £'000	Bridge House Estates £'000	Disaster Fund £'000	Total £'000
2018/19	Provision	950	800	50	100	1,900
	Provision brought forward	109	60	0	0	169
	Total Provision	1,059	860	50	100	2,069
	Less Allocations	(788)	(583)	(4)	(70)	(1,445)
	Uncommitted Balance 2018/19 @ 22/1/19	271	277	46	30	624
2017/18	Provision	950	800	50	100	1,900
	Provision brought forward	85	0	0	0	85
	Total Provision	1,035	800	50	100	1,985
	Allocations	(788)	(697)	(22)	(100)	(1,607)
	Uncommitted Balance	247	103	28	0	378
2016/17	Provision	950	800	50	100	1,900
	Provision brought forward	310	118	0	80	508
	Total Provision	1,260	918	50	180	2,408
	Allocations	(956)	(227)	(2)	(180)	(1,365)
	Uncommitted Balance	304	691	48	0	1,043
2015/16	Provision	950	800	50	100	1,900
	Provision brought forward	170	83	0	30	283
	Total Provision	1,120	883	50	130	2,183
	Allocations	(880)	(730)	(15)	(50)	(1,675)
	Uncommitted Balance	240	153	35	80	508

Policy and Resources Committee Contingency

Policy and Resources Contingency		
		City's Cash £'000
2018/19	Provision	300
	Provision brought forward for unspent provisions	18
	Provision brought forward for agreed allocations not yet completed.	193
	Total Provision	511
	Less Allocations	(433)
	Uncommitted Balance 2018/19 @ 22/1/19	78
2017/18	Provision	300
	Provision brought forward for unspent provisions	152
	Provision brought forward for agreed allocations not yet completed.	150
	Allocation to P&R Contingency	-200
	Total Provision	402
	Allocations	(384)
	Uncommitted Balance	18
2016/17	Provision	300
	Provision brought forward for unspent provisions	124
	Provision brought forward for agreed allocations not yet completed.	179
	Total Provision	603
	Allocations	(451)
	Uncommitted Balance	152
2015/16	Provision	800
	Allocation to P&R Contingency	-253
	Provision brought forward from 14/15	181
	Total Provision	728
	Allocations	(604)
	Uncommitted Balance	124

Policy Initiatives Fund

Policy and Resources Policy Initiative Fund		
		City's Cash £'000
2018/19	Base Provision	1,250
	Provision brought forward for unspent provisions	161
	Provision brought forward for agreed allocations not yet completed.	174
	Total Provision	1,585
	Less Allocations	(1,479)
	Uncommitted Balance 2018/19 @ 22/1/19	106
2017/18	Base Provision	1,250
	Allocation from P&R Contingency	200
	Provision brought forward for unspent provisions	72
	Provision brought forward for agreed allocations not yet completed.	38
	Total Provision	1,560
	Allocations	(1,399)
	Uncommitted Balance	161
2016/17	Base Provision	1,250
	Provision brought forward for unspent provisions	133
	Provision brought forward for agreed allocations not yet completed.	136
	Total Provision	1,519
	Allocations	(1,447)
	Uncommitted Balance	72
2015/16	Base Provision	750
	Allocation from P&R Contingency	253
	Additional Allocation	300
	Provision brought forward from 14/15	193
	Total Provision	1,496
	Allocations	(1,363)
	Uncommitted Balance	133

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Committee(s)	Dated:
Finance Committee – For decision Policy and Resources – For information Court of Common Council – For decision	19 February 2019 21 February 2019 7 March 2019
Subject: Revenue Budgets 2018/19 and 2019/20: City's Cash and Bridge House Estates	Public
Report of: The Chamberlain	For Decision
Report author: Caroline Al-Beyerty- Deputy Chamberlain	

Summary

This report should be read in conjunction with the separate report on your agenda entitled 'City Fund – 2019/20 Budget Report and Medium-Term Financial Strategy' This report covers the 2019/20 Budget and financial outlook for City's Cash and Bridge House Estates.

Looking at the forecasts for the individual funds:

City's Cash: the increased funding requirement flowing from the adoption of a major projects programme, in addition to pressures across a range of existing revenue and capital budgets, mean that deficits are forecast across the medium-term planning horizon. The cumulative draw down on equities is £221m (including the planned £50m to finance the two Crossrail payments), when historically we would have drawn down £115m over the period. This represents a diminution of £106m of the net asset balance on the current balance sheet over the period. Whilst in the short term the position is benign, the medium-term financial budget position will become increasingly challenging.

This challenging position, coupled with the scale of the financial uncertainties and challenge from City Fund, mean that the City of London will need to undertake a fundamental review of its priorities and expenditure over the next year to ensure that budgets are fully aligned with and support our Corporate Plan objectives and our finances are put on to a sustainable footing over the medium-term. It is a question of addressing both the medium-term financial challenge and how best to use our resources to achieve a Corporate Plan with maximum impact.

Bridge House Estates is in a strong financial position, with surpluses forecast across the period, before additional funding requests. Initial financial modelling shows that potentially £374m of the general fund could be released to support charitable funding activities. However, the immediate priority is to clarify ongoing bridge maintenance needs and future replacement costs/timings; it is key that that these costs are fully understood and provided for, prior to committing additional funds towards charitable funding.

Guildhall Administration: the report also summarises the budgets for central support services within Guildhall Administration (which currently 'holds' such costs before

these are wholly recovered). Consequently, after recovery of costs, the net expenditure on Guildhall Administration is nil.

The 2018/19 Summary Budget Book accompanies this report and will be available on the *Members' Committees and Papers* section of the City Corporation's website. Copies will also be available in the Members' Reading Room and copies can be requested from Philip.Gregory@cityoflondon.gov.uk.

Recommendation(s)

Members are asked to:

1. Note the latest revenue budgets for 2018/19 (paragraphs 14, 19 and 26).
2. Agree the 2019/20 revenue budgets, including the following measures:
 - **Efficiency Savings:** Maintain the 2% efficiency saving across all Corporation departments, which together with the pay and inflation uplift of 2% would result in flat cash budgets (paragraph 2).
 - **Additional resource requests:** to establish an in-year provision pending further consideration by the Resource Allocation Sub Committee (paragraph 12).
3. Medium Term Corporate Plan Alignment and Financial Sustainability
 - **Revenue:** Establish a fundamental review of priorities to align resources to the Corporate Plan and deliver a sustainable medium-term financial plan and receive a report on the framework and timing in March (paragraph 12)
 - **Capital:** cash limits for the major projects and explore options for further streamlining, joint ventures/private sector capital, a process for prioritising other capital projects, and the disposal of non-income earning surplus operational property as identified from the operational property review and approved by the Policy and Resources Committee (paragraph 12).
4. Endorse this report for onward approval to the Court of Common Council.

Main Report

Background

1. The primary purpose of this report is to summarise the latest budgets for 2018/19 and the proposed budgets for 2019/20 for City's Cash and Bridge House Estates, which have all been prepared within agreed policy guidelines and allocations, for submission to the Court of Common Council in March.
2. During the autumn/winter cycle of meetings each Committee has received and approved a budget report which, with the exception of Guildhall School of Music

and Drama and Bridge House Estates, has been prepared on the basis of the planning framework for Chief Officers which included:

- A reduction in resource base of 2% to deliver the previously approved Efficiency and Sustainability plan, which together with a pay and prices uplift of 2%, results in flat cash baselines.
 - Cyclical Works Programme budgets were excluded from the 2% reduction.
3. For Bridge House Estates the budget strategy remains to maintain a surplus over and above the funding required for the ongoing maintenance and improvement of the bridges to sustain the grant-giving programme through the City Bridge Trust.
 4. Accompanying this report is the Summary Budget Book 2019/20 which will be available on the *Members' Committees and Papers* section of the City Corporation's website. Copies will also be available in the Members' Reading Room and copies can be requested from Philip.Gregory@cityoflondon.gov.uk. The Summary Budget Book provides:
 - i. all the budgets at a summary level in a single document;
 - ii. service overviews – a narrative of the services for which each Chief Officer is responsible;
 - iii. Chief Officer summaries – the net revenue expenditure by division of service, fund, type of expenditure and income;
 - iv. Fund summaries showing the net revenue requirement for each Fund supported by Committee summaries showing the net requirement for each Committee within the Fund; and
 - v. the capital and supplementary revenue project budgets by Fund.

Overall Financial Strategy

5. The City of London Corporation's overall financial strategy seeks to:
 - maintain and enhance the financial strength of the City Corporation through its investment strategies for financial and property assets;
 - pursue budget policies which seek to achieve a sustainable level of revenue spending and create headroom for capital investment and policy initiatives;
 - create a stable framework for budgeting through effective financial planning; and
 - promote investment in capital projects which bring clear economic, policy or service benefits.
6. The medium-term financial strategies and budget policies for City's Cash and Bridge House Estates are set out in Appendix 1. City Fund's medium-term financial strategy is included in the separate the City Fund report.

Financial overview

7. The financial overview across the medium-term planning horizon is shown in table 1 below:

TABLE 1

CITY'S CASH

Surplus/ (Deficit)	2018/19	2019/20	2020/21	2021/22	2022/23
(Deficit)/ Surplus with planned equity drawdown	(11.6)	(2.9)	(2.4)	(2.6)	3.5
Major Project Financing	0	(4.5)	(7.5)	(9.3)	(12.4)
Budget uplift revenue requests	0	(5.3)	(4.8)	(3.7)	(3.4)
City's Cash combined deficit	(11.6)	(12.7)	(14.7)	(15.6)	(12.3)
Financed by:					
Reserves (excluding required income generating fund reserves) *	44.7	26.2	31.1	35.3	43.3
Or savings requirement	11.6	12.7	14.7	15.6	12.3

*Assumes continued average 6.7% rate of return on securities backed reserves; all property reserves designated for income generation

BRIDGE HOUSE ESTATES

Surplus/ (Deficit)	2018/19	2019/20	2020/21	2021/22	2022/23
Surplus with planned equity drawdown	2.1	0.8	0.8	1.5	0.3
Budget uplift revenue requests	0	(1.5)	(1.4)	(1.4)	(1.4)
BHE combined surplus/ (deficit)	2.1	(0.7)	(0.6)	0.1	(1.1)

8. Although City's Cash income streams are stable, we are already drawing down on recent balance sheet growth to support the revenue position. In the immediate short-term the financial position is more benign, but both the medium term and the longer-term views are problematic, particularly if the City's Cash potential major projects (Markets Consolidation, Centre for Music) start to ramp up. The medium-term financial budget position will therefore become increasingly challenging.
9. The cumulative draw down on equities is £221m (including the planned £50m to finance the two Crossrail payments), when historically we would have drawn down £115m over the period. This represents a diminution of £106m of the net asset balance on the current balance sheet over the period.
10. For City's Cash, the potential impact of capital projects (Markets and C4M) would be considerable with annual revenue costs of £18m by 2023/24 and a gearing of 22% long term debt to net asset ratio. The revenue impact from borrowing to fund £138m of second tier projects would be c£5m, giving a total revenue pressure of £23m pa.

A Strategic Response to Match the Scale of the Challenges for City's Cash

11. Before addressing the immediate pressures in 2019/20, it is important to respond to the scale of the medium-term challenge for City's Cash and to take the steps now to ensure that we can take a strategic and prioritised response to the big challenges that we expect to emerge in 2020/21.
12. The separate report on City Fund shows that although City Fund is forecast to be in surplus by £19m for 2019/20, it can only be balanced over the next four years, with the use of general reserves. Over the medium term, savings potentially up to £50m p.a. need to be taken out of budgets (£27m on City Fund and £23m on City's Cash) which equates to a 27.5% cut to net expenditure on City Fund and 24.4% on City's cash net expenditure. This requires action on both revenue and capital budgets, which could be approached by simply applying an across the board reduction in departmental budgets. But the **recommended** approach is to:

Establish a fundamental review that will seek to ensure that funding is aligned with the Corporation's Corporate Plan objectives and ensure a sustainable budget position over the medium and longer term.

As agreed by the December Policy and Resources Committee, cash limit the agreed major projects and seek opportunities to streamline, draw in private sector capital and prioritise other capital requests.

Approach to current year revenue requests

- i. There have been a large number of additional funding requests for 2019/20, for City's Cash totalling £5.3m and BHE totalling £1.5m p.a. These are shown in appendix 5.
- ii. The items shaded in grey have already been approved by Policy and Resources Committee.
- iii. For City's Cash, the majority of the fixed term (between one and five years) additional spend requests have already been agreed by Policy and Resources, but over £1m is discretionary and for Member consideration. Given that City's Cash is already drawing down on the growth in the balance sheet, before the impact of these funding pressures, there is only limited scope to approve ongoing base budget adjustments.
- iv. A provision will be created to ringfence funds for base budget uplifts in 2019/20, as listed in Appendix 5, which will require authorisation from Resource Allocation Sub-committee to release.
- v. In advance of the **prioritisation process**, which will form a central element of the fundamental review for budgets for 2020/21 onwards, an option is to include a provision within the 2019/20 budget, subject to Resource Allocation Sub Committee's scrutiny of these requests. Agreeing base budget uplifts increases correspondingly the savings targets in future years.

It also underlines the **need for additional unfunded revenue bids to be avoided during 2019/20**, which could pre-empt the outcome of the fundamental review.

CITY'S CASH

13. The 2018/19 and 2019/20 budgets for City's Cash are set out below. They have been prepared within the planning frameworks agreed by the Resource Allocation Sub-Committee shown at Appendix 1.

City's Cash Summary			
	2018/19 Original £m	2018/19 Latest £m	2019/20 Original £m
Gross Revenue Expenditure	(238.3)	(237.5)	(237.8)
Gross Revenue Income	169.9	177.8	181.5
Operating (Deficit) Surplus funded by drawdown	(68.4)	(59.7)	(56.3)

14. City's Cash net expenditure is £8.7m lower comparing the latest 2018/19 budget with the 2018/19 original budget. The gross expenditure above includes a £25m Crossrail contribution in each year in 2018/19 and 2019/20. The main movements comprise central risk budget adjustments and carry forwards, reduced SRP expenditure, revised rental income from investment properties offset by the creation of the Brexit contingency pot of £2m and the re-introduction of the capped service charge at Smithfield market.
15. The budget for 2019/20 includes further additional rental income from investment property and additional budget allocations to the Economic Development Office (£1.8m), the Green Finance Institute (£0.7m) and to fund increasing costs including the energy contract (£0.3m).
16. The net positions for 2018/19 and 2019/20 are summarised by Committee in Appendix 2 with the budget funding requests for 2019/20 in Appendix 5. Reserves are available to meet the estimated deficit in the current year and in 2019/20.
17. The City's Cash deficit is funded through a planned drawdown on non-property investments. Historically around £23m has been drawn down each year to fund the deficit (as a proxy for dividend income from total return investment funds). If the £25m Crossrail payments are excluded from the deficits above, the drawdown amounts are around £12m higher than historic levels in each year. If drawdown amounts continue at this rate there is a risk that the strength of the balance sheet may be diminished over the medium term.

BRIDGE HOUSE ESTATES

Overall Budget Position

18. A strong financial position, with surpluses forecast across the period, before additional funding requests. Initial financial modelling shows that potentially £374m of the general fund could be released to support charitable funding activities. However, the immediate priority is to clarify ongoing bridge maintenance needs and future replacement costs/timings; these costs must be fully understood and provided for prior to committing additional funds towards charitable funding.
19. The Bridge House Estates outturn position in the current year is expected to be a surplus of £2.1m compared to a balanced original budget. This is mainly due to increased rental income from investment properties.
20. The budget for 2019/20 includes a reduction in rental income from investment property and additional costs to support the delivery of the Philanthropy strategy.
21. The primary purpose of the charity is to ensure the bridges are maintained and repaired appropriately. The current budget includes a total commitment of £100m from 2018/19 over the next 5 years to fund the City Bridge Trust 'Bridging Divides' strategy for charitable giving.
22. With regard to future years of the financial forecast Bridge House Estates has a small draw down requirement, although as the increased costs are largely due to recharges from Guildhall administration, savings in these budgets will reduce that requirement.
23. The budgets have been prepared in accordance with the budget policy set out in Appendix 1 and the requirements for 2018/19 and 2019/20 are summarised in the table below:

Bridge House Estates Summary			
	2018/19 Original £m	2018/19 Latest £m	2019/20 Original £m
Gross Expenditure	(53.1)	(53.7)	(54.7)
Gross Income	37.5	40.2	38.4
Operating (Deficit) Surplus funded by drawdown	(15.6)	(13.5)	(16.3)

24. Appendix 3 shows the budgets by committee with the budget funding requests for 2019/20 in Appendix 5.

GUILDHALL ADMINISTRATION

Overall Budget Position

25. Guildhall Administration encompasses most of the central support services for the City, with the costs being fully recovered from the three main City Funds, Housing Revenue Account, Museum of London and other external bodies in accordance

with the level of support provided. Consequently, after recovery of costs, the net expenditure on Guildhall Administration is nil. The table below summarises the position.

Guildhall Administration Summary			
	2018/19 Original £m	2018/19 Latest £m	2019/20 Original £m
Gross Expenditure	(70.1)	(72.9)	(74.0)
Gross Income	70.1	72.9	74.0
Operating (Deficit) Surplus funded by drawdown	-	-	-

26. The gross expenditure for Guildhall Administration is recovered across all funds. Increased costs in 2018/19 arose from increased buildings insurance premiums (£1.1m), carry forward requests and inflation costs.
27. The 2019/20 budget includes increased energy costs and additional staff within the corporate centre in addition to almost £1m in increased running costs for the Guildhall complex.
28. Appendix 4 shows the budgets by committee with the budget funding requests for 2019/20 in Appendix 5.

Dr Peter Kane

Chamberlain

Appendices

- Appendix 1 – Medium Term Financial Strategy/Budget Policy
- Appendix 2 – City's Cash Budget
- Appendix 3 – Bridge House Estates Budget
- Appendix 4 – Guildhall Administration Budget
- Appendix 5 – Additional Resource Requests by Fund

Background Papers

- Q3 Budget Monitoring – Finance Committee: 22 January 2019

Caroline Al-Beyerty

Deputy Chamberlain

T: 0207 332 1113

E: caroline.al-beyerty@cityoflondon.gov.uk

Philip Gregory

Deputy Director, Financial Services

T: 020 7332 1284

E: Philip.Gregory@cityoflondon.gov.uk

City's Cash

The main constituents of the current budget policy for City's Cash services reflect the general elements within the City Fund strategy together with the following specific objectives:

- ensure that ongoing revenue expenditure is contained within revenue income over the medium term and sufficient surpluses are generated to finance capital investment on City's Cash services;
- continue to seek property investment opportunities to enhance income/seek capital appreciation during the year, subject to any financing being met from the City's Estate Designated Sales Pool; and
- sell either property or financial assets, which would need to be in addition to property disposals required to meet the financing requirements of the Designated Sales Pool, to meet City's Cash cash-flow requirements.

Bridge House Estates

Budget policy in relation to Bridge House Estates is as follows:

- adhering to a planning framework which provides cash limit allowances towards inflationary pressures rather than the budget reductions and savings programmes applied to other funds;
- ensuring that ongoing revenue expenditure is contained within revenue income over the medium term and that sufficient surpluses are generated to finance expenditure on the Bridges with surplus funds allocated to charitable grants; and
- continuing to seek property investment opportunities to enhance income/provide capital appreciation during the year subject to any financing being met from the Bridge House Estates Designated Sales Pool.

CITY'S CASH

City's Cash 2018/19 and 2019/20 budgets shown by Committee in the table below:

City's Cash Summary by Committee	2018/19 Original £m	2018/19 Latest £m	2019/20 Original £m
Net (Expenditure) Income			
Culture, Heritage & Libraries	(0.1)	(0.2)	(0.1)
Education Board	(2.3)	(2.4)	(2.6)
Finance	(58.4)	(50.0)	(52.7)
G. P. Committee of Aldermen	(3.6)	(4.3)	(3.9)
Guildhall School of Music and Drama	(11.8)	(11.6)	(12.2)
Markets	0.9	(0.8)	(0.1)
Open Spaces :-	0.0	0.0	0.0
Open Spaces Directorate	0.0	0.0	0.0
Epping Forest and Commons	(9.1)	(8.4)	(7.6)
Hampstead, Queen's Pk, Highgate Wd	(8.9)	(7.8)	(7.9)
Bunhill Fields	(0.4)	(0.3)	(0.2)
West Ham Park	(1.6)	(1.4)	(1.3)
Policy and Resources	(14.3)	(17.3)	(14.8)
Property Investment Board	45.3	48.9	51.5
Schools :-	0.0	0.0	0.0
City of London School (1)	(1.6)	(1.6)	(1.7)
City of London Freeman's School (1)	(1.8)	(1.8)	(1.8)
City of London School for Girls (1)	(0.7)	(0.7)	(0.9)
	0.0	0.0	0.0
(Deficit) Surplus (from) to reserves	(68.4)	(59.7)	(56.3)

1. Shows City Support rather than net expenditure by the schools.

- The following table further analyses the budget to indicate the income produced from the City's assets (investment property rent income, non-property investment income and interest on balances, at lines 3 to 5 respectively). It also indicates the underlying deficits or surpluses on City's Cash before the anticipated profits on the sale of assets are taken into account (lines 6 to 8).

City's Cash Requirements 2018/19 and 2019/20					
		2018/19 Original £m	2018/19 Latest £m	2019/20 Original £m	Para. No.
1	Net expenditure on services	(105.8)	(111.6)	(111.0)	
2	Cyclical Works Programme and SRP's	(20.4)	(10.6)	(9.5)	
3	Estate rent income	53.1	57.8	59.5	
4	Non-property investment income	2.3	2.3	2.3	
5	Interest on balances	0.3	0.3	0.3	
6	Operating (Deficit) / Surplus	(70.5)	(61.8)	(58.4)	
7	Profit on asset sales/deferred income	2.1	2.1	2.1	
8	(Deficit) / Surplus funded by drawdown	(68.4)	(59.7)	(56.3)	

2. The City's Cash position in the current year is expected to be a deficit of £59.7m compared to £68.4m in the original budget; the deficit will be funded with a draw-down of investments. The forecasts for 2018/19 and 2019/20 include a payment of £25m in each year for Crossrail.

BRIDGE HOUSE ESTATES

Bridge House Estates 2019/20 budgets shown below:

Bridge House Estates Summary by Committee Net (Expenditure) Income	2018/19 Original £m	2018/19 Latest £m	2019/20 Original £m
The City Bridge Trust	(23.8)	(23.5)	(23.3)
Culture, Heritage and Libraries	0.8	0.5	0.6
Finance	(4.3)	(4.1)	(5.6)
Planning and Transportation	(4.6)	(5.0)	(5.0)
Property Investment Board	16.3	18.5	17.0
(Deficit) Surplus (from) to reserves	(15.6)	(13.6)	(16.3)

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

3. The following table further analyses the budget to indicate:

- the income produced from the City's assets (investment property rent income, non-property investment income and interest on balances at lines 4 to 7 respectively); and
- the budget for charitable grants (line 9).

Bridge House Estates Requirements 2018/19 and 2019/2020					
		2018/19 Original £m	2018/19 Latest £m	2019/20 Original £m	Para. No.
1	Net expenditure on services	(19.0)	(19.2)	(20.5)	
2	Cyclical Works Programme	0.0	0.0	0.0	
3	Bridges repairs, maintenance and major works fund contribution	(1.1)	(1.1)	(1.1)	
4	Estate rent income	21.2	23.5	21.8	
5	Non-property investment income (net)	4.7	4.7	4.7	
6	Interest on balances	0.1	0.1	0.1	
7	Profit on asset sales	0.0	0.0	0.0	
8	Revenue surplus	5.9	8.0	5.0	
9	Charitable grants	(21.5)	(21.5)	(21.3)	
10	Deficit (Surplus) funded by drawdown	(15.6)	(13.5)	(16.3)	

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

4. The Bridge House Estates position in the current year is expected to be a surplus of £8.0m compared to a surplus of £5.9m.
5. For 2018/19 and 2019/20, the Bridge House Estates budget will be funded by a drawdown on reserves after charitable grantmaking; and this continues across the planning horizon.

GUILDHALL ADMINISTRATION

6. Shown by Committee is the table below:

Guildhall Administration by Committee Net Expenditures	2018/19 Original £m	2018/19 Latest £m	2019/20 Original £m
Establishment - Town Clerk & C&CS	(11.7)	(12.7)	(12.6)
Finance - Chamberlain	(35.4)	(37.8)	(38.4)
Finance - City Surveyor, Remembrancer and Town Clerk	(23.0)	(22.4)	(23.0)
Total Net Expenditure	(70.1)	(72.9)	(74.0)
Recovery of Costs	70.1	72.9	74.0
Total Guildhall Administration	0	0	0

1. *Figures in brackets denote expenditure, increases in expenditure, or shortfalls in income.*

The net revenue budget for 2018/19 has increased by £2.8 overall to £72.9m.

The net expenditure for 2019/20 is £74.0m, an increase of £3.9m from the 2018/19 original budget.

	One off/ ongoing	Funded?	£'000	Detail	Comments
ALREADY APPROVED					
Cyber Griffin	2 years	No	505.0	Budget uplift for EDO/CoLP for 2 years (£925k in 2018/19) only	P&R - 7 June 2018: already approved
Green Finance Institute	3 years	Match	650.0	£2m over 3 years, match funded by HMT	RA Sub - June 2018- already approved
Wellbeing: Sports Strategy	3 years	No	250.0	£75k P&R contingency in 2018/19	P&R - 5 July 2018: already approved
Wellbeing: Mental Health Centre	3 years	Yes	35.0	Initial PIP bid for 2018/19 of £60k. Funding for 3 years in total	PIP- already approved
Wellbeing: Mental Health Centre	one-off	External	32.0	HRA compensation for void periods (one off)	P&R - 5 July 2018: already approved
Wellbeing: Mental Health Centre	3 years	External	192.0	HRA compensation for rent free period (three years)	P&R - 5 July 2018: already approved
Uplift to Mayoral / Shrieval budgets	Ongoing	No	279.0	Increase to Mayoral and Shrieval budgets to ensure that there is sufficient budget to fund events at the Old Bailey and to ensure that there are sufficient resources in place to ensure that an Alderman is not required to expend personal money to take on the discharge of offices of Alderman, Sheriff (including non-Aldermanic Sheriff) and Lord Mayor.	Joint Deputation of Aldermen, Finance Committee and Policy & Resources Committee 15th October 2018: already approved.
Corporate Energy contract	Ongoing	No	254.0	Corporate energy contract has been relet from 1 Oct 18 with an average increase in cost of 32%. It was agreed that calculated inflation would be provided for 19-20 for the major corporate properties (excluding services recharged to third parties).	Finance and Court under Urgency July 2018 Already approved
Borrowing costs	one-off	Yes	200.0	Estimated costs of borrowing advice due to Private Placement (additional fees may be incurred)	P&R & Finance Cttee approved in principle in Dec 2018. Was to be financed from Finance Cttee contingencies, but moved out to later in 2019, with bank facility in 2018/19.
Supporting the City: City Week 2019 Sponsorship	One-off	Yes-PIF	25.0	£25k in PIF 2019/20	P&R - 5 July 2018: Already approved
Supporting the City: CityUK Funding	5 years	No	100.0	Base budget uplift to fund contribution to CityUK.	P&R Dec 18. Already approved
Supporting the City: Strengthening the work on global competitiveness	Ongoing	No	1,800.0	Base budget uplift in EDO of £2m with 10% efficiency saving	P&R Dec 18. Already approved. Included in forecast
Already approved subtotal			4,322.0		
OPEN SPACES:					
Open Spaces Learning Programme	Ongoing	No	395.0	£395k previously funded via City Bridge Trust grant	
Oak Processionary Moth (OPM) Tree Pests & Diseases	Ongoing	No	200.0	£200k in 19/20, £250k thereafter	Open Spaces - Dec 2018
Open Spaces Subtotal:			595.0		
INCOME					
Rental Income - adjustment to budget	Ongoing	N/A	-1,716.0	Additional estimated rental income	Additional income
Income Subtotal:			-1,716.0		
OPERATIONAL PROPERTY RUNNING COSTS:					
5 New Posts City Surveyor Projects Group	Linked to projects	Recharged to Projects	367.0	£50k recruitment (one-off) £317k ongoing	CASC 1st November; Establishment 3rd Dec. Recharge projects
Operational Estate - Asset Maintenance	Ongoing	No	271.0	Cost of maintaining assets identified through the Asset verification exercise. Net cost, after savings on the contract retender, is £515k. BHE made saving on investment property but has no extra cost on operational property hence contribution.	CASC 5th September and P&R 4th October: growth in asset base. Part included forecasts.
Operations subtotal:			638.0		
Subtotal:			3,839.0		
DIMINIMUS ITEMS: less than £100k			£'000	Detail	Recommended for Approval
Gresham College		No	29.5	2.5 FTE posts - funded from Finance Committee contingency in 18/19	Finance - 8 May 2018. Recommended for approval
City Surveyors -Market Forces Supplements for teams	Ongoing	No	68.0	£30k Commercial Group;£25k Operations Group; £13k Projects Group	CASC 1st November; Establishment 3rd Dec. Not able to absorb within local risk (overspending in year)
Education Board - Careers Week	Ongoing	PIF?	60.0	Annual Careers Week event in the City	
Education Board - Fusion Skills Tracking tool	One-off?	No	80.0	Implement a fusion skills assessment tracking tool	
Sustainable Buildings review	One-off	No	43.0	Develop plans to make our operational and investment properties more environmentally sustainable	PIB 12th Dec. RASC 17th January. Discretionary one off spend, the review may lead to future resource requests unless otherwise contained.
St Lawrence Jewry – extension to grant arrangements	three years	no	9.5	Additional costs of the MOU between the CoL, Guildhall Church Council and Diocese	P&R - Feb 2019.
Subtotal:			290.0		
TOTAL:			4,129.0		
Reapportion Guildhall Admin			1,122.5		
Cost per fund			5,251.5		

	One off/ ongoing	Funded?	£'000	Detail	Comments
GOVERNANCE:					
Philanthropy Strategy/City Bridge Trust	Ongoing	Yes	94.0	To support the delivery of the agreed Philanthropy strategy	Included in forecast
INCOME					
Rental Income - BHE	Ongoing	N/A	1,326	Decrease in expected rental income	Included in forecast
OPERATIONAL PROPERTY RUNNING COSTS:					
Corporate Energy contract	Ongoing	Yes	94.0	Corporate energy contract has been relet from 1 Oct 18 with an average increase in cost of 32%. It was agreed that calculated inflation would be provided for 19-20 for the major corporate properties (excluding services recharged to third parties).	Finance and Court under Urgency July 2018 Already approved
Operational Estate - Asset Maintenance	Ongoing	Yes	-88.0	Cost of maintaining assets identified through the Asset verification exercise. Net cost, after savings on the contract retender, is £515k. BHE made saving on investment property but has no extra cost on operational property hence contribution.	CASC 5th September and P&R 4th October: growth in asset base. Part included forecasts.
Operations subtotal:			6.0		
Subtotal:			1,426.0		
DIMINIMUS ITEMS: £100k and under					
City Bridge Trust	One-off	Yes	35.0	To support the delivery of the agreed CBT Strategy	Included in forecast
Subtotal:			35.0		
TOTAL:			1,461.0		

	One off/ ongoing	Funded?	£'000	Detail	Comments
ALREADY APPROVED:					
Renewable Energy Strategy	One-off	No	50.0	£25k in P&R contingency in 2018/19	P&R - 7 June 2018: already approved
Corporate Energy contract	Ongoing	No	321.0	Corporate energy contract has been relet from 1 Oct 18 with an average increase in cost of 32%. It was agreed that calculated inflation would be provided for 19-20 for the major corporate properties (excluding services recharged to third parties).	Finance and Court under Urgency July 2018 Already approved
Diversity and Business Engagement	Ongoing		90.0	£76k in P&R contingency in 2018/19 - HR budget uplift	P&R - 5 July 2018: already approved and included in forecast.
Corporate Treasury	Ongoing		70.0	salary cost of additional staff member to support investment and borrowing	FC - 11 Dec 2018, P&R 13 Dec 2018 already approved
Already Approved subtotal:			531.0		
GOVERNANCE:					
TC new posts	Ongoing	No	190.0	3 new posts in Committee and Member Services	Establishment - 9 July 2018
Funding to support earlier close of financial accounts	One-off	No	300.0	One-off costs of project to streamline accounts closure process during 18/19 and 19/20	
Governance subtotal:			490.0		
OPERATIONAL PROPERTY RUNNING COSTS:					
Guildhall Complex Running Costs	Ongoing	No	946.0	To cover additional costs of running the building due to age and increased usage	CASC - 1st November. Although this is technically unfunded, the opportunity cost should be considered in the Guildhall trading account for the pricing of events. Recommended for approval.
Operational Estate - Asset Maintenance	Ongoing	No	218.0	Cost of maintaining assets identified through the Asset verification exercise. Net cost, after savings on the contract retender, is £515k. BHE made saving on investment property but has no extra cost on operational property hence contribution.	CASC 5th September and P&R 4th October: growth in asset base. Part included forecasts.
Guildhall Complex Running Costs	Ongoing	No	60.0	Citygen - Guildhall complex incl Wood St heat supplies	
Operational Property subtotal:			1,224.0		

TOTAL:	2,245.0
Reapportion Guildhall Admin - City Fund	-1,122.5
Reapportion Guildhall Admin - City's Cash	-1,122.5
Balance:	0.0

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Committee(s): Finance Committee – For decision Policy and Resources – For decision Court of Common Council – for decision	Date(s): 19 February 2019 21 February 2019 7 March 2019
Subject: Capital and Supplementary Revenue Project Funding – Fundamental Review and Interim Revised Prioritisation Process	Public
Report of: The Chamberlain	For Decision
Report author: Caroline Al-Beyerty, Deputy Chamberlain	

Summary

Whilst the City Corporation is able to fund the projects (major and second-tier) that are currently in flight during 2019/20, resources are significantly constrained beyond next year. Furthermore, there are a large number of projects coming through the pipeline requesting funding, but not yet at the stage when funding decisions would be made. Members may consider some of these pipeline projects to be more essential than those already in the capital programme, which are a mixture of essential, advisable and desirable. If all the projects currently in flight and planned in the medium term are funded, capital and revenue reserves would be exhausted by 2022/23. We would be unable to fund the capital programme beyond March 2023 without extending external borrowing plans or disposing of investment assets (both of which will deteriorate the revenue position still further).

The need to maintain tight control of the major project budgets and operate within a definitive cash limit on each project is imperative if the City Corporation is to be able to afford the ambition of its capital programme; both major and second-tier. Operating strict cash limits on the major projects will require strict discipline throughout the life-cycle of each project.

The depletion of capital reserves for projects which are not categorised as essential raises the following questions:

1. whether the right projects are being progressed- i.e. those projects which strategically have the most impact or are the most essential; and
2. what constitutes 'essential'.

In June 2012, Policy and Resources Committee faced with a similar gap between ambition and funding, agreed that only essential projects should be progressed, and which fit within the following categories:

- a) Health and safety compliance
- b) Statutory compliance
- c) Fully/ substantively reimbursable

- d) Spend to save or income generating with a short pay-back period (five years or less)
- e) Major renewal of income generating assets

However, there may be a need to define what essential is for the second-tier projects in deciding which to progress first as the existing criteria have not been applied in a sufficiently robust manner to contain capital and SRP plans within affordable or sustainable limits – this is no longer fit for purpose in the context of the Prudential Code. Logically, this prioritisation process needs to align with the priorities identified from the fundamental review of revenue budgets. However, the consequent criteria will take time to formulate and as the need for prioritisation is immediate; it is proposed that the following approach be adopted, in the interim, to the second-tier capital projects:

- a. A hold on gateway 5 approvals in the project procedure and all new projects pending the review. Resource Allocation Sub-Committee could defer projects that are not critical for 1 year; and only
- b. Approve essential schemes that:
 - i. Address a risk on the corporate risk register, and
 - ii. Have a sound business case that clearly demonstrates the negative impact of deferring the scheme, i.e. penalty costs or loss of income, where these are material (if any schemes are deferred, cancelled or scope reduced there will inevitably be some abortive costs).

To avoid any unnecessary delays in funding being allocated to essential projects, it is recommended that a special meeting of Resource Allocation Sub Committee takes place in March using the above criteria, amended as necessary, to scrutinise the bids and prioritise resources.

To facilitate this process, officers will prepare a proposed prioritisation of schemes for Member consideration.

Recommendation(s)

Members are asked to:

- Approve the incorporation of pipeline/all new capital and SRP projects within the fundamental review for spend for 2020/21 and beyond (paragraph 26).
- Approve the prioritisation of existing capital schemes in 2019/20 that have not yet entered Gateway 5 of the Projects Procedure (paragraph 15), using the criteria outlined at paragraph 24.
- Approve the prioritisation of new capital projects in 2019/20 in accordance with the criteria in paragraph 24.
- Delegate authority to the Chamberlain to determine financing of the capital budgets (paragraph 26).

Policy and Resources Committee members are asked to approve that:

- a special meeting of Resource Allocation Sub Committee takes place in March using the criteria outlined at paragraph 24, amended as necessary, to scrutinise the bids and prioritise resources.

Main Report

Background

1. The City Corporation has a significant programme of major projects together with property investments and works to improve the operational property estate and the public realm. Spending on these types of activity is classified as capital expenditure.
2. The “Supplementary Revenue Projects” (SRP) classification was created to cover project expenditure controlled in the same way as capital projects that does not meet the accounting definition of capital expenditure, e.g. does not produce an asset, such as preliminary project costs for feasibility and option appraisal. The relevant expenditure and income on such projects is posted to revenue accounts, rather than capitalised at year end.
3. The City Fund, City’s Cash and Bridge House Estates capital and supplementary revenue project budgets are being submitted to the Court of Common Council in March and are included in the Summary Budget Book. They include only those budgets which are approved to spend in accordance with the corporate project procedures.
4. The current capital and SRP programme has not required the City Corporation to enter into external borrowing to fund projects, being able to fund projects from internal resources or external funding. With the inclusion of the Major Projects, the City Corporation will need to take on external borrowing on both City Fund and City’s Cash. There are also a significant number of pipeline projects for which funding has yet to be determined. Such projects would previously have been funded from reserve balances of the relevant City Corporation Fund.
5. In light of the scale of potential capital requirements, which exceed available resources, in terms of both funding and officer capacity, it will be essential to prioritise effectively which capital projects should progress. Funding will need to be allocated in a measured way, by applying a process of prioritisation that ensures the right schemes are progressed in order to meet corporate objectives.
6. In June 2012, when the City Corporation faced a considerable reduction in funding levels, the Policy and Resources Committee agreed that only projects that are considered essential and which fit within the following categories should be allocated funding:
 - a. Health and Safety compliance.
 - b. Statutory compliance.
 - c. Fully/substantively reimbursable.

- d. Spend-to-save or income-generating, generally with a short payback period (e.g. 5 years or less).
 - e. Major renewals of income generating assets.
7. In addition, under exceptional circumstances, other projects considered to be a priority by the Resource Allocation Sub-Committee were allowed to proceed.
 8. In recent years the criteria have been relaxed somewhat, with projects considered 'advisable' or even merely 'desirable' going ahead. However, in view of the scale of requests for funding and resourcing constraints for essential schemes, it is now timely to reflect on these criteria once more.

Current Position

9. The latest forecasts of capital and supplementary revenue expenditure are set out below and have been analysed as follows:
 - Major Projects – Museum Relocation, Combined Court facilities, Markets Consolidation Programme and, (beyond the current planning period) the Centre for Music
 - Capital and SRP Programmes – schemes both pre and post gateway 5 (authority to start work) for which funding sources have already been confirmed
 - Pipeline/Funding unconfirmed (“Pipeline schemes”) - comprising both those schemes which have yet to enter the gateway process and also pre-gateway 5 projects for which funding has not been confirmed. They are dependent on the allocation of central resources held under the control of the Resource Allocation and Policy and Resources Committees

Table 1: Capital and Supplementary Revenue forecast expenditure from 2018/19 onwards

	City Fund £m	City's Cash £m	Bridge House Estates £m	Total £m
Major Projects	950.9	1,365.1	-	2,316.0
Capital and SRP Programmes	365.3	180.1	120.4	665.8
Pipeline/Funding Unconfirmed	225.0	150.5	-	375.5
TOTAL:	1,541.2	1,695.7	120.4	3,357.3

10. The total cost of capital and SRP schemes is currently forecast at £3.4bn as summarised above. The latest medium-term financial plans cover the period from 2018/19 to 2022/23, and already anticipate significant external borrowing being required to meet the costs of the major projects on the basis that these are one-off, once in a generation, projects.
11. However, in addition to the financial pressures arising from the major schemes, the capital and SRP forecast expenditure includes a significant number of pipeline

schemes with a current cost (at the time of preparing this report) estimated at some £375.5m (see details in Appendix 1, noting that this is an indicative estimate due to the immature status of these projects and will exclude some unforeseen schemes). A number of these pipeline schemes (totalling £106m) are providing repayable loan financing to internal departments, e.g. City Corporation schools, which will be repaid. The repayment terms are up to 20 years so represent a significant commitment of capital funding which cannot be used for other schemes.

12. If all these projects were to be allowed to progress, it is anticipated that by the end of the current MTFP period (2022/23) virtually all the available reserves for both City Fund and City's Cash would be exhausted without external funding or borrowing. This would leave a shortfall in financing available to complete/progress future capital and SRP spend from 2023/24 onwards, placing City Fund and City's Cash in a financially unsustainable position. It would also leave both funds lacking the capacity to finance future unforeseen but essential projects, including for instance the replacement of major components of the property estate (which are not fully quantified in the current plans).
13. Through the preparation of the MTFP it has already been demonstrated that the servicing of external debt for the major projects poses a significant financial challenge for the City and will require a fundamental review. Therefore, it would be imprudent and unaffordable to plan a blanket extension of external borrowing to fund these 'business as usual' projects and moreover would be a change in funding strategy, as such projects have traditionally been met from existing reserves.

Addressing the Funding Shortfall for Pipeline/Unconfirmed Funding Capital and SRP Projects

14. The majority of projects working their way through the early gateways are generally funded either from internal existing local risk budgets and ring-fenced sources such as the City Surveyor's Designated Sales Pools or from external sources such as Section 106 deposits and Government/Transport for London grants which are restricted for specific purposes.
15. Ad hoc funding for small one-off schemes is through the £3m annual provisions for new schemes and therefore the need for a more robust prioritisation process applies in particular to focus on larger value requests (>£1m) which cannot generally be accommodated within the annual provisions.
16. To differentiate between these pipeline schemes and to demonstrate the impact of the capital requirement, officers have grouped the schemes into the following categories:
 - a. Corporate schemes: includes corporate IT system and corporate building investment (mainly Guildhall complex) projects;
 - b. Service schemes: cover a wide range of service areas and range from replacement of essential infrastructure (e.g. cremators) to improvements and new initiatives; and

- c. Repayable loans: investments generating a payback and therefore providing cash flow finance. A significant proportion relates to the City's three private schools. It is proposed that funding should be allocated to these schemes in a ring-fenced provision (which may be funded by external borrowing), subject to the relevant robust business case.

17. The table below sets out the pipeline capital schemes in the categories described above across the medium-term planning period. Of the £375.5m total, £224.1m would be funded in City Fund and £151.1m would be funded in City's Cash (some corporate schemes cross over funds and have been apportioned accordingly).

Table 2: Pipeline capital and SRP schemes - Summary from 2018/19 onwards

ALL FUNDS	Essential	Advisable	Desirable	Total
	£m	£m	£m	£m
Corporate Schemes	43.5	48.4	3.0	94.9
Service schemes	93.5	67.9	13.4	174.8
	137.0	116.3	16.4	269.7
Repayable Loans	47.5	58.3	-	105.8
Total Pipeline	184.5	174.6	16.4	375.5

18. If the prioritisation criteria detailed in paragraph 6 above are applied to the pipeline schemes, a relatively small proportion (15%) would be eligible. This demonstrates that there is a need to revise the prioritisation criteria to make them fit for purpose by providing a better balance between corporate priorities and affordability, sustainability and prudence.

19. The table below separates out the pipeline capital schemes within City Fund.

Table 2(a): Pipeline City Fund Capital & SRP schemes summary from 2018/19 onwards

CITY FUND	Essential	Advisable	Desirable	Total
Corporate Schemes	24.4	28.8	1.5	54.7
Service schemes	90.4	50.0	2.8	143.2
	114.8	78.8	4.3	197.9
Repayable Loans	11.5	15.0	-	26.5
Total Pipeline	126.3	93.8	4.3	224.4

20. Within City Fund, there are two sources of funding that are under the control of the Resource Allocation Sub-Committee which could provide funding for some of the City Fund schemes; the On-Street Parking Reserve (OSPR) and the Community Infrastructure Levy (CIL). Some £82m of the schemes within the pipeline list above could be eligible for funding from one or both these sources.

21. Based on the latest OSPR and CIL forecast receipts, there is a potential sum of £88m available to finance eligible schemes. However, there may be elements of the major projects that could be funded from these sources, e.g. public realm works and therefore a robust prioritisation process to ensure resources are appropriately allocated will need to be applied.

22. The table below separates out the pipeline capital schemes within City's Cash.

Table 2(b): Pipeline City's Cash Capital & SRP schemes -Summary from 2018/19 onwards

CITY'S CASH	Essential	Advisable	Desirable	Total
Corporate Schemes	19.0	19.7	1.5	40.2
Service schemes	3.1	17.9	10.6	31.6
	22.1	37.6	12.1	71.8
Repayable Loans	36.0	43.3	-	79.3
Total Pipeline	58.1	80.9	12.1	151.1

23. If all the pipeline schemes with a total cost of £375m were to be funded, assuming that the OSPR and CIL funding of £88m was applied in full, there would be a funding requirement of £287m. If external borrowing was the source of funding for this requirement the revenue impact would be £10.4m p.a. by 2022/23 across City Fund and City's Cash. As noted in paragraph 14 above, this would be an unsustainable pressure on revenue budgets and does not allow for the capital schemes that will emerge and require funding in future years.

Proposals

24. It is suggested that the fundamental review recommended on the revenue position is widened to also include capital and supplementary revenue. Pending the application of revised criteria to capital requirements for 2020/21 onwards, some interim criteria will be required to address urgent capital requirements in 2019/20; these may include:

- a. A hold on gateway 5 approvals in the project procedure and all new projects pending the review, with the possible exception of schemes requiring internal loan funding (subject to the ability to repay being clearly demonstrated as part of a robust business case). Resource Allocation Sub-Committee could defer projects that are not critical for 1 year.
- b. The definition of 'critical' in this context to be defined as essential schemes that:
 - i. Address a risk on the corporate risk register, and
 - ii. Have a sound business case that clearly demonstrates the negative impact of deferring the scheme, i.e. material penalty costs or loss of income.

25. To avoid any unnecessary delays in funding being allocated to essential projects, it is recommended that a special meeting of Resource Allocation Sub Committee takes place in March using the above criteria, amended as necessary, to scrutinise the bids and prioritise resources. This meeting would be in addition to the scheduled Sub Committee. To facilitate this process, officers will prepare a proposed prioritisation of schemes for Member consideration.
26. As in previous years, it is proposed that the Chamberlain should determine the final financing of the capital budgets.

Conclusion

27. The current prioritisation criteria for capital schemes are not effectively determining which projects should be funded. A revised set of criteria need to be agreed with Members. This will form part of the fundamental review.
28. In the meantime, schemes progressing in 2019/20 will be subject to interim prioritisation criteria, deferring projects where possible to be assessed by the revised criteria.

Appendices

- Appendix 1 – Pipeline Capital Projects

Background Papers

- Capital Programme – Project Funding: Policy and Resources Committee, 7 June 2012 (Non-Public)
- Risk Management Update – Audit and Risk Management Committee, 15 January 2019 (Public)

Caroline Al-Beyerty
Deputy Chamberlain

T: 020 7332 1113

E: Caroline.Al-Beyerty@cityoflondon.gov.uk

CASHFLOW FINANCING

Project Description	Service	Status	Category	Status of Requirement	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Later Years £m	Timing Uncertain £m	Total £m	Fund	Payback Period
Expansion (Prep intake and Science) - loan	Girls' School	Essential	3. Spend 2 Save/Income Gen	Agreed subject to funding	0.5	0.6	6.6	6.8	0.8	-	-	15.3	City's Cash	11
Upgrade of facilities - loan	Boys' School	Essential	7a.Enhance/improve-CAP	Early gateway	-	-	-	2.0	3.0	15.0	-	20.0	City's Cash	tbc
Masterplan 2008 Loan - Main House	Freemens School	Advisable	7a.Enhance/improve-CAP	In gateways	4.8	12.4	0.8	-	-	-	-	18.0	City's Cash	tbc
Masterplan 2016 Loan	Freemens School	Advisable	7a.Enhance/improve-CAP	In gateways	-	0.3	5.5	7.0	8.0	3.5	-	24.3	City's Cash	18
Electric Vehicle Replacements Internal Loan facility : Police	Corporate	Essential	7a.Enhance/improve-CAP	Subject to member approv	-	1.8	-	-	-	-	-	1.8	City Fund	3
" : Other City Fund	Corporate	Essential	7a.Enhance/improve-CAP	Subject to member approv	-	-	-	-	-	-	-	0.0	City Fund	3
" : City's Cash	Corporate	Essential	7a.Enhance/improve-CAP	Subject to member approv	-	0.7	-	-	-	-	-	0.7	City's Cash	3
Beech Street Exhibition Halls	Barbican Centre	Advisable	3. Spend 2 Save/Income Gen	In gateways	0.1	0.9	14.0	-	-	-	-	15.0	City Fund	tbc
26-31 Shoreditch High St - Strategic Investment Estate	Investment	Advisable	3. Spend 2 Save/Income Gen	In gateways	1.0	-	-	-	-	-	-	1.0	City's Cash	tbc
Loan to HRA to fund decent homes programme	HRA	Essential	3. Spend 2 Save/Income Gen	HRA capital funding shortf	3.1	6.4	0.2	-	-	-	-	9.7	City Fund	tbc
Subtotal:					9.5	23.1	27.1	15.8	11.8	18.5	-	105.8		

CORPORATE SCHEMES

Project Description	Service	Status	Category		2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Later Years £m	Timing Uncertain £m	Total £m	Fund	Payback Period
IT Modernisation	Police	Essential	6. Productivity/efficiency	Early gateway	0.4	7.9	2.6	0.2	-	-	-	11.1	City Fund	n/a
IT Transformation Phase II	Corporate	Essential	6. Productivity/efficiency	Early gateway	0.1	5.9	10.2	1.3	-	-	-	17.5	Mixed	n/a
Guildhall Smart Working	Corporate	Essential	3. Spend 2 Save/Income Gen	Early gateway	-	-	2.5	-	-	0.7	-	3.2	Mixed	n/a
Great Hall and Old Library	Guildhall Complex	Essential	1. Health & Safety	Subject to member approv	3.0	3.5	-	-	-	-	-	6.5	City's Cash	n/a
Electric Vehicle charging points in City Fund Buildings	Corporate	Essential	7a.Enhance/improve-CAP	Subject to member approv	-	3.0	-	-	-	-	-	3.0	City Fund	n/a
Cross-cutting Security in City Fund Buildings - top-up	Various	Essential	1. Health & Safety	Subject to member approv	-	2.2	-	-	-	-	-	2.2	City's Cash	n/a
Guildhall Yard East	Guildhall Complex	Advisable	7a.Enhance/improve-CAP	Subject to member approv	-	3.0	2.5	-	-	3.8	-	9.3	Mixed	n/a
West Wing	Guildhall Complex	Advisable	7a.Enhance/improve-CAP	Subject to member approv	-	6.5	7.4	-	-	-	-	13.9	Mixed	n/a
West Wing Mezzanine	Guildhall Complex	Advisable	7a.Enhance/improve-CAP	Subject to member approv	-	0.3	0.6	-	-	-	-	0.9	City's Cash	n/a
North Wing	Guildhall Complex	Advisable	7a.Enhance/improve-CAP	Subject to member approv	-	4.5	9.8	-	-	-	-	14.3	Mixed	n/a
65&65a Basinghall Street redevelopment	Guildhall Complex	Advisable	3. Spend 2 Save/Income Gen	In gateways	-	-	-	-	-	-	10.0	10.0	City Fund	n/a
Information Management	Corporate	Desirable	6. Productivity/efficiency	Subject to member approv	-	-	3.0	-	-	-	-	3.0	Mixed	n/a
Subtotal:					3.5	36.8	38.6	1.5	-	4.5	10.0	94.9		

Project Description	Service	Status	Category	Status of Requirement	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Later Years £m	Timing Uncertain £m	Total £m	Fund	Payback Period
SERVICE SCHEMES														
Project Description	Service	Status	Category	Status of Requirement	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Later Years £m	Timing Uncertain £m	Total £m	Fund	Payback Period
Secure City	Police	Essential	5.Other priority devs	Subject to member approv	-	-	-	-	-	-	30.0	30.0	City Fund	n/a
Barbican Conservatory	Barbican Centre	Essential	1. Health & Safety	Subject to member approv	-	-	-	-	-	-	15.0	15.0	City Fund	n/a
Cremator Replacement	PHES	Essential	6. Productivity/efficiency	In gateways	-	1.1	-	-	-	-	-	1.1	City Fund	n/a
Finsbury Circus Garden and Pavilion - funding deficit	City Gardens	Essential	4.Substantially Reimb'le	In gateways	-	1.1	-	-	-	-	-	1.1	City Fund	n/a
Baldwin's Pond and Deer Sanctuary	Epping Forest	Essential	1. Health & Safety	In gateways	-	2.5	-	-	-	-	-	2.5	City's Cash	n/a
Public Realm Security	P&T Highways and Put	Essential	1. Health & Safety	In gateways	-	-	-	-	-	-	-	0.0	City Fund	n/a
Bank Junction Permanent Scheme	P&T Highways and Put	Essential	7a.Enhance/improve-CAP	In gateways	-	-	-	3.3	8.4	4.5	-	16.2	City Fund	n/a
Barbican Highwalks	P&T Highways and Put	Essential	7a.Enhance/improve-CAP	In gateways	-	11.0	9.0	4.0	-	-	-	24.0	City Fund	n/a
Dominant House Footbridge	P&T Highways and Put	Essential	7b.Major renewals-SRP	In gateways	-	-	0.3	0.7	-	-	-	1.0	City Fund	n/a
London Wall Car Park Waterproofing, Joint Replacement, Concrete Repairs	P&T Highways and Put	Essential	7b.Major renewals-SRP	In gateways	-	2.0	-	-	-	-	-	2.0	City Fund	n/a
3000 new homes initiative	Affordable Housing	Desirable	5.Other priority devs	Subject to member approv	-	-	-	-	-	-	-	0.0	City Fund	n/a
Temple Area Traffic Review	P&T Highways and Put	Desirable	5.Other priority devs	Early gateway	-	2.8	-	-	-	-	-	2.8	City Fund	n/a
PH Athletics Track Refurb	Hampstead Heath	Desirable	7a.Enhance/improve-CAP	In gateways	-	-	2.0	-	-	-	-	2.0	City's Cash	n/a
Monument Visitor Centre	Culture	Desirable	3. Spend 2 Save/Income Gen	In gateways	0.2	1.4	-	-	-	-	-	1.6	City's Cash	n/a
Beech Street Tunnel Transport and Public Realm	P&T Highways and Put	Advisable	7a.Enhance/improve-CAP	In gateways	-	-	-	-	0.2	11.1	-	11.3	City Fund	n/a
Holborn Viaduct and Snow Hill Pipe Subways over Thameslink Repairs	P&T Highways and Put	Advisable	7a.Enhance/improve-CAP	In gateways	-	5.7	-	-	-	-	-	5.7	City Fund	n/a
Museum of London Gyratory for C4M	P&T Highways and Put	Advisable	7a.Enhance/improve-CAP	Big Project Enabler - in gat	-	-	-	11.5	11.5	-	-	23.0	City Fund	n/a
Museum of London Smithfield Public Realm	P&T Highways and Put	Advisable	7a.Enhance/improve-CAP	Big Project Enabler - in gat	-	-	-	10.0	-	-	-	10.0	City Fund	n/a
C4M site demolition etc	C4M	Advisable	7a.Enhance/improve-CAP	Big Project Enabler - in gat	-	-	-	-	-	15.0	-	15.0	City's Cash	n/a
Mansion House Cleaning and Lighting Upgrade	Mayoralty	Advisable	7b.Major renewals-SRP	In gateways	-	1.2	-	-	-	-	-	1.2	City's Cash	n/a
Wanstead Flats Artificial Grass Pitches - City Contribution	Epping Forest	Advisable	3. Spend 2 Save/Income Gen	In gateways	-	1.7	-	-	-	-	-	1.7	City's Cash	n/a

Project Description	Service	Status	Category	Status of Requirement	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Later Years £m	Timing Uncertain £m	Total £m	Fund	Payback Period
West Ham Park Playground	West Ham Park	Essential	7a.Enhance/improve-CAP	In gateways	-	0.6	-	-	-	-	-	0.6	City's Cash	n/a
West Ham Park Nursery Site	West Ham Park	Desirable	7a.Enhance/improve-CAP	In gateways	-	1.9	-	-	-	-	-	1.9	City's Cash	n/a
Hampstead Heath East Heath Car Park Resurfacing	Hampstead Heath	Desirable	7a.Enhance/improve-CAP	In gateways	-	0.3	-	-	-	-	-	0.3	City's Cash	n/a
St Paul's External Lighting	Public Realm	Desirable	5.Other priority devs	In gateways	-	1.0	0.2	-	-	-	-	1.2	City's Cash	n/a
St Lawrence Jewry Church Repairs	Policy	Desirable	5.Other priority devs	In gateways	-	-	-	1.1	-	-	-	1.1	City's Cash	n/a
C4M additional feasibility	Culture	Desirable	5.Other priority devs	Agreed subject to funding	0.7	1.8						2.5	City's Cash	n/a
Subtotal:					0.9	36.1	11.5	30.6	20.1	30.6	45.0	174.8		
TOTAL:					13.9	96.0	77.2	47.9	31.9	53.6	55.0	375.5		

KEY:

PRIORITY

	Essential £m	Advisable £m	Desirable £m	Total £m
Corporate Schemes	43.5	48.4	3.0	94.9
Service schemes	93.5	67.9	13.4	174.8
	137.0	116.3	16.4	269.7
Repayable Loans	47.5	58.3	-	105.8
Total unfunded	184.5	174.6	16.4	375.5

CATEGORY:	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Later Years £m	Timing Uncertain £m	Total £m
1 Health & Safety	3.0	8.2	-	-	-	-	15.0	26.2
3 Spend2Save/Income Generation	4.9	11.0	23.3	6.8	0.8	0.7	10.0	57.5
4 Substantially Reimbursable	-	1.1	-	-	-	-	-	1.1
5 Other priority developments	0.7	5.6	0.2	1.1	-	-	30.0	37.6
6 Productivity/Efficiency	0.5	14.9	15.8	1.5	-	-	-	32.7
7a Enhance/improve-CAPITAL	4.8	52.0	37.6	37.8	31.1	52.9	-	216.2
7b Major renewals - Supplementary	-	3.2	0.3	0.7	-	-	-	4.2
	13.9	96.0	77.2	47.9	31.9	53.6	55.0	375.5

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