



## Finance Committee – Late Supplementary Pack

**Date:** TUESDAY, 15 FEBRUARY 2022  
**Time:** 1.45 pm  
**Venue:** COMMITTEE ROOM - 2ND FLOOR WEST WING, GUILDHALL

9. **CITY FUND 2022/23 BUDGET AND MEDIUM-TERM FINANCIAL PLAN**  
Report of the Chamberlain.
10. **CITY'S CASH 2022/23 BUDGET AND MEDIUM-TERM FINANCIAL PLAN**  
Report of the Chamberlain.
22. **MUSEUM OF LONDON PAY AWARD**  
Report of the Director of the Museum of London.
23. **MICROSOFT LICENSES**  
Report of the Chief Operating Officer.

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

**John Barradell**  
**Town Clerk and Chief Executive**

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<b>Committee(s):</b> Finance Committee – For decision Policy and Resources – For Information Court of Common Council – For decision	<b>Date(s):</b> 15 February 2022 17 February 2022 10 March 2022
<b>Subject:</b> City Fund 2022/23 Budget	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
<b>Report author:</b> Sonia Virdee, Acting Financial Services Director	

## 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 last year has been a huge catalyst for change, shaping a very different set of priorities for the Corporation – focusing on recovery following the pandemic and rebuilding the Square Mile as a destination for residents, workers, students and visitors. However, there is still a need to manage significant remaining COVID risks and an unprecedented range of external challenges as the economy recovers from a global pandemic e.g. Fair Funding Review, Business Rates income volatility, supply chain problems and inflationary pressures.

For 2021/22, the Corporation family committed to a 12% budgetary reduction (or 6% in the case of social care and children services) continuing to protect the most vulnerable services. In addition, the Corporation committed to Fundamental Review savings approved in 2019/20 to be delivered across five years from 2020/21 to 2024/25. Resource Allocation Sub Committee signalled that 2022/23 should be a year of consolidation to bed down the 12% savings and take stock on fundamental review proposals.

Tough decisions have been needed, but Members have worked to:

- maintain a flat cash in 2022/23;
- re-prioritise existing resources to accommodate funding bids relating to additional resources within the Target Operating Model (TOM);
- prioritising the 2022/23 capital programme within the recommended funding allocation for schemes totalling £17.0m; and
- continuing to invest in major projects.

The Local Government financial settlement assumes local authorities use locally levied taxes to support rising pressures, for example in social care, with the exception of additional one-off funding to support increase in national insurances. This is also the case for the Police funding settlement, where a flat cash has been applied with support for additional officer uplift and slight increase to support increase in national insurances. The Government's assumption is that Policing cost pressures would be covered through the levy on council taxpayers.

The settlement also included an application for a single year only '8 Authority Pool' with 7 neighbouring billing authorities, which will enable the pool partners to keep more of the business rate growth they generate – this pool will cover 4 of the 6 most deprived boroughs. For City Fund this will potentially yield £12m. This pool is for one year only, after which the Corporation intends to return to a pan London Pooling. Approval was received from the Secretary of State on 7<sup>th</sup> February to proceed. Income from the pool has not been factored into plans as it is volatile. However, should the City benefit from the income the arrangement could provide significant upside which would cover growth bids as part of the TOM and Destination City.

The medium-term financial outlook is summarised in the table 1 below:

**Table 1**

Surplus/ (Deficit)	2021/22	2022/23	2023/24	2024/25	2025/26
£m					
<b>City Fund position</b>	<b>13.4</b>	<b>10.7</b>	<b>(13.4)</b>	<b>(8.5)</b>	<b>(4.3)</b>
<b>City of London Police deficit</b>	<b>-</b>	<b>(3.9)</b>	<b>(10.6)</b>	<b>(8.4)</b>	<b>(10.5)</b>
<b>City Fund position including Police deficit</b>	<b>13.4</b>	<b>6.8</b>	<b>(24.0)</b>	<b>(16.9)</b>	<b>(14.8)</b>
<b>*General Fund Reserve – working capital</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>
<b>**Major Project Financing Reserve</b>	<b>90.7</b>	<b>74.9</b>	<b>45.9</b>	<b>37.7</b>	<b>33.7</b>
<b>***Build Back Better Fund Reserve</b>	<b>16.7</b>	<b>15.0</b>	<b>13.4</b>	<b>11.8</b>	<b>10.3</b>
<b>****Security Reserve</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>

\*General fund reserve maintained at minimal prudent amount in line with other Local Authorities and the law, to provide funds for emergencies and other unexpected requirements for funds.

\*\*Major project financing reserve, holding back £30m reserves under major project financing for COVID mitigation measures.

\*\*\*Build Back Better fund set up in 2021/22 to support Climate Action savings in the previous period.

\*\*\*\*Security Reserve recommended in light of reallocation of revenue security contingency.

The Government has pushed back its reform of Business Rates to 2023/24. This means that we have an extra year of retained Business Rates growth of £27m, which is very welcome. In addition, City Fund has benefited from one-off funding of £1.88m in 2022/23, producing a small surplus of £10.7m, giving a much-needed boost to the financial position across the medium-term financial plan. However, despite the additional income, the medium-term clearly highlights City Fund finances including Police are on a knife edge with significant deficits forecast across the remainder of the medium-term financial plan. Deficits are largely caused by the reset in retained business rates growth in 2023/24 and forecast annual deficits in Police.

Increasing demands on Police services for protest activity; increasing violence and disorder; creating a safe and secure environment for Destination City; and increasing cyber threats. These demands sit within the context of a notable shift in the balance of central funding towards locally levied taxes, provided elsewhere through increases in Council Tax.

There is a statutory duty to remain balanced across the medium-term taking one year with the next over the five-year period. There are two options to close the medium-term deficits:

- Further savings, potentially through zero based budget exercise; and /or

- Revenue raising i.e. increases in Council Tax and Business Rate Premium. City Fund can be balanced across the medium-term plan if Business Rate Premium is increased by 0.4p in the £, or a combination of up to 0.4p and further savings.

However, this leaves very little margin to support unforeseen financial challenges. Modelling of a more pessimistic view on retained business rates income removes almost all of the £27m growth - pushing City Fund into an estimated £16m deficit. Alongside potential impact of a more pessimistic rents position, we recommend not releasing the £30m of general fund reserves for major project spend in mitigation – to be assessed in December 2023.

Turning to the **capital position**, under the annual process, bids for capital funding totalling £17.0m for City Fund were approved in principle by Resource Allocation Sub Committee. This remains within the overall recommended funding allocation of £20m, the sum is considered manageable over the medium term. Given the pressures on construction and labour inflation rising up to 15%, it is recommended a contingency is held under the capital programme up to the allocated amount - £3.0m, this takes into account capital programmes in flight and due to be delivered over the next 1-2 years. However, optimism bias/costed risk is presumed to contain inflationary pressures within the overall capital programmes. If the contingency is approved a business case will be required for approval under the correct governance process.

This report recommends a number of measures to stabilise the position in 2022/23 and that will support the steps that will need to be taken over the medium-term, supported by:

- Zero based budgeting – prioritising within the overall envelope – supporting the change in the operating model, plus a review of operational property and income generation.
- The need to move to service transformation; and pin down the fundamental review proposals – through an officer Star Chamber led by the Town Clerk and Chamberlain.
- Scope for embedding change, removal of duplication as part of the TOM review, and introduction of greater ways of working.
- Barbican renewal programme included, also subject to business case approval and future net spending benefit targets in City Fund.

For 2022/23, Members will need to consider whether to:

- Levy a Social Care precept of 1%; but otherwise freeze council tax.
- Increase business rates premium up to 0.4p in the £ / increasing the Business Rates Premium to 1.2p in the £ .

Members will also want to note that increased revenue pressures have been accommodated by reprioritising existing budgets and signal an expectation that additional pressures that might arise during 2022/23 will be absorbed within local risk budgets. However, where one-off cost pressures have been approved by Members these have been built into the medium-term.

## **Recommendations**

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

- Note the overall budget envelopes, this incorporates additional one-off funding from Government of £1.88m and retained business rates growth of £27m in 2022/23. For Police, an increase of additional grant to support the officer uplift plus £6.1m mitigations combined with £2.3m Business Rate Premium reinstated – noting this leaves the Police budget in deficit for 2022/23.
- Continue to monitor COVID income risk during 2022/23 and maintain a COVID contingency fund, not releasing £30m of general fund reserves for major project spend – to be reassessed in December 2023.
- Approve the overall financial framework and the revised Medium-Term Financial Strategy (paragraph 25).
- Approve the Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23, including the treasury indicators.
- Approve the City Fund Net Budget Requirement of £167.3m (paragraph 57)

### **Key decisions:**

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

#### **Council Tax**

- To approve an increase in the Adult Social Care Precept of 1.00% (paragraph 38).
- To otherwise consider whether to freeze council tax (paragraph 39).
- 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 2022/23 will not be excessive in relation to the requirements for referendum.
- Determine, the current 100% discount awarded to unoccupied and unfurnished and uninhabitable dwellings is continued at zero (0%) for the financial year 2022/23 and future years.
- Determine that the premium levied on long-term empty property for 2022/23 and future years of 100% and 200% is continued and that for properties that have been empty for over ten years, a premium of 300% is levied.
- It is recommended that, having regard to the government guidance issued, the Chamberlain be given the discretion, delegated to the Head of Shared Services, to reduce or waive the long-term empty premium charge in exceptional circumstances.
- Approve that the cost of highways, street cleansing, waste collection and disposal, drains and sewers, and road safety functions for 2022/23 be treated as special expenses to be borne by the City's residents outside the Temples (appendix A).

## **Business Rates**

- To approve an increase of up to 0.4p in the £ in Business Rate Premium (paragraph 40).
- Set a Non-Domestic Rate multiplier of 52.4p and a Small Business Non-Domestic Rate Multiplier Rate of 51.1p for 2022/23.
- Note that, in addition, the GLA is levying a Business Rate Supplement in 2022/23 of 2.0p in the £ on properties with a rateable value of £70,000 and above (paragraph 62).
- Delegate to the Chamberlain the award of discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988 (paragraphs 61).

## **Capital Expenditure**

- Approve the Capital Strategy (appendix E).
- Approve the Capital Budgets for City Fund and the allocation of central funding from the appropriate reserves to meet the cost of the 2022/23 new bids– release of funding being subject to approval at the relevant gateway and specific agreement of the Resource Allocation Sub Committee at gateway 4(a) (paragraph 68).
- Approve the continuation of the allocation of central funding in 2022/23 to provide internal loan facilities for police and the HRA, currently estimated at £4.9m and £19.0m respectively (paragraph 71).
- Approve the Prudential Code indicators (appendix C).
- Approve the authorised limit for external debt (which is the maximum the City Fund may have outstanding by way of external borrowing) at £216.6m for 2022/23; and the Minimum Revenue Provision (MRP) for 2022/23 at £1.2m (MRP policy is included within appendix D – Treasury Management Strategy Statement and Investment Strategy Statement 2022/23 - appendix 2).

## **Treasury Management Strategy Statement and Investment Strategy Statement 2022/23 (Appendix D)**

- Approve the addition of multi-asset funds to the list of permitted non-specified investments subject to an overall limit of £50m (Appendix D, sub appendix 3). The Corporation is expected to maintain significant surplus cash balances for the foreseeable future. Multi-asset funds enable the Corporation to mitigate the gradual erosion of the real value of these long-term cash balances from the effects of inflation.
- Approve the new policy for managing environmental, social and governance (ESG) risks within treasury investment activity (Appendix D, paragraph 5.4).

## Chamberlain's Assessment

- Take account of the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves and contingencies (paragraphs 79-82 and appendices B and G respectively).

## 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.
2. The last year has been a huge catalyst for change, shaping a very different set of priorities for the Corporation:
  - The City Corporation has a crucial role to play in helping London in its recovery following the pandemic, through:
    - providing an ecosystem for businesses to access talent and capital;
    - creating a vibrant place to spend time; and
    - providing adaptable workspace underpinned by excellent digital infrastructure, renewable energy networks and a sustainable and resilient built environment across the Square Mile.
  - Ensuring the Square Mile is a more compelling place to visit, work and invest – Destination City sets out a renewed vision for the Square Mile to become the world's most attractive destination for residents, workers, students and visitors.
  - It is a sign of this ambition for the future of London that we are investing in major projects such as the new courts and City of London Police HQ complex at Salisbury Square, the relocation of the wholesale markets to Dagenham Dock and the relocation of the Museum of London at West Smithfield. Furthermore, consideration is also being given to include the Barbican renewal.
  - Tackling climate change, with ambitious climate action to achieve our net zero targets; and influencing action across the country.
  - Progressing with the new target operating model across the Corporation family, incorporating the design principles and permanent savings required to meet the 12% (6% in the case of community and children services) budget reductions from 2021/22 budgets.
  - With the global pandemic and challenging economic position, pressures and risks to the City Corporation's finances are likely to continue into the 2022/23 financial year. Resource Allocation Sub Committee signalled that 2022/23 should be a year of consolidation to bed down the 12% savings and take stock on fundamental review proposals. Additionally, there is a need to manage significant remaining COVID risks and unprecedented



range of external challenges e.g. Fair Funding Review, Business Rates income volatility, supply chain problems and inflationary pressures.

3. Tough decisions have been needed to maintain flat cash in 2022/23 which has meant additional resources are prioritised within the overall envelope. Bilateral meetings have taken place during the Autumn – providing an opportunity for service committees to highlight risks and opportunities.
4. Existing resources have been reprioritised to accommodate bids for additional resources within the Target Operating Model (TOM). For one-off pressures to support corporate initiatives, which cannot be accommodated within the overall envelope, time limited resource uplifts have been included under the medium-term.
5. Aggressive assumptions have been made in respect of inflationary pressures - where inflation is expected to be significantly above the Bank of England's 2% target in the near future reaching 5% in 2022/23 before gradually returning to target in 2024/25. The current upward pressure on inflation is expected to subside over the medium-term as supply chains recover, global demand rebalances, and the effects of energy price increases wear off.
6. In setting the budget for 2022/22 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.
7. The Government recently confirmed the Local Government Finance Settlement for 2022/23 and the Policing Minister published the revenue allocations for Police forces for 2022/23. The Local Government finance assumes local authorities use locally levied taxes to support rising pressures, for example in social care, with the exception of additional one-off funding to support increase in national insurances. This is also the case for the Police funding settlement, where a flat cash has been applied with support for additional officer uplift and slight increase to support increase in national insurances. The Government's assumption is that Policing cost pressures would be covered through the levy on council taxpayers.
8. 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:
  - **One Year Settlement** – the 2022/23 Local Government Finance Settlement is a one-year settlement, no information is available on how the planned increase in grant funding will be distributed to local authorities.
  - The **Fair Funding Review** of local government funding is likely to shift resources away from London.
  - **Business Rates** – danger from a reset which would remove the City's recent growth receipts (forecast at £27m) in 2023/24.
9. The settlement also included an application for a single year only '8 Authority Pool' with 7 neighbouring billing authorities, which will enable the pool partners

to keep more of the business rate growth they generate. For City Fund this will potentially yield £12m. Following the collective decision not to form a London wide business rates pool for 2022/23, the opportunity was still available for authorities to form their own pool groupings. Having considered the experience from the London Pool, which whilst challenging in 2020/21, did produce significant financial gains in previous years, the City of London alongside Brent, Barnet, Enfield, Hackney, Haringey, Tower Hamlets and Waltham Forest, have applied to form a tactical pool in 2022/23. The pool is formed with the aim of keeping the levy payments the City of London and Tower Hamlets make to Government, in London. This pool will cover 4 of the 6 most deprived boroughs, which supports the Government's levelling up agenda. This pool is for one year only, after which the Corporation intends to return to a pan London Pooling. Approval was received from the Secretary of State on 7<sup>th</sup> February to proceed. Income from the pool has not been factored into plans as it is volatile. However, should the City benefit from the income the arrangement could provide significant upside which would cover growth bids as part of the TOM and Destination City.

10. The forecast includes the revenue impact from funding £17.0m of second tier projects from capital reserves, with capital receipts reserves standing at £50m by 2025/26.
11. Although the City Fund excluding Police is forecast to be in surplus by £10.7m in 2022/23, it can only be balanced, over the next four years, with the use of general fund reserves and further savings and/or revenue raising by increasing Council Tax and Business Rate Premium. Despite the savings planned to date through the Fundamental Review, 12% (6% in case of community and children services) budget reductions, and mitigations in place under Police - overall, City Fund including Police are on an absolute knife edge with significant deficits over the planning period and the 10-year horizon.
12. Over the next year we will focus on making operational efficiencies through the target operating model (TOM) as well as improving how we prioritise our resources to ensure:
  - That we are spending on key priorities; and
  - That our plans are sustainable in the medium-term.

The coming year will see the work for the next Corporate plan highlighting our priorities post pandemic for the City alongside this we will engage in a zero based budgeting exercise to ensure we have the right resources to support our post pandemic priorities.

13. There are two options to close the medium-term deficits, or more realistically a combination of the two:
  - Further savings, potentially through zero based budget exercise; and/or
  - Revenue raising through taxation i.e. increases in Council Tax and Business Rate Premium; and

## **Overall Financial Strategy**

14. The City of London Corporation's overall financial strategy seeks to:

- manage the effects/recovery of a global pandemic impacting on the economy and income;
- 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, such as Destination City – renewed vision for the square mile;
- create a stable framework for budgeting through effective financial planning;
- promote investment in capital projects which bring clear economic, policy or service benefits;
- manage the affordability to support major projects programmes now and in the future; and
- financial strategy to be developed following review of the investment asset base and fund income requirements during 2022.

## **Measures to the 2022/23 budget**

15. At its December meeting, Resource Allocation Sub Committee approved the budget envelopes that service committees will use to deliver their services in 2022/23. It is intended that business planning will address how service committees intend to focus their resources to achieve key outcomes in year. Zero based budgeting will be needed to reprioritise current resources in line with new corporate priorities requiring investment, rather than being able to deliver significant savings – supporting the change in the operating model, plus a review of operational property and income generation.

16. For City Fund, our local authority fund, the Government has pushed back its reform of Business Rates for another year to 2023/24, which is very welcome. This means that we have an extra year of retained Business Rates income.

17. Key risks from COVID impact to our income streams are expected to continue into 2022/23, especially for rental income for the investment property portfolio and further support is likely to be required from reserves. Detailed stress testing and scenario analysis has been carried out on key income assumptions for City Fund and more sophisticated funds modelling has enabled a holistic assessment of overall financial health, including ability of net assets and reserve balances to meet risks of potential funding shortfalls. We should nonetheless continue to monitor COVID income risk during 2022/23.

18. Tough decisions have been needed to maintain flat cash in 2022/23, but Members have worked together to re-prioritise the following cost pressures within existing resources, such as:

- New Chief Officer teams;

- Growth bids under the Target Operating Model to support corporate initiatives;
- Change in financing model for IT equipment from capital to revenue (e.g. E5 licences).

Measures include reallocating the Transformation Fund monies and headroom within the security contingencies.

19. Time limited additional resources have been included within the budget for policy initiatives such as:

- Destination City (£2.3m\* in 2022/23, thereafter split equally between City Fund and City's Cash in 2023/24 and 2024/25 – For City Fund £1.15m p.a.).

\*This amount has been updated from the report received by the Joint Resource Allocation and Efficiency & Performance Sub Committee's – full costs to be borne by City Fund in the first year, thereafter reviewed - depending on how the strategy is developed this will determine the amounts under each fund. For the purpose of this report the amounts for 2023/24 and 2024/25 are split equally between City Fund and City's Cash).

20. Additional funding is required for new on-going cost pressures and have been included under the medium-term, these include:

- Pay award added back for 2022/23, including agreed pay award for A-C grade from 1st July 2021;
- Increase in National Insurance at 1.25%;
- Extended Member Support Scheme;
- Additional pressure on audit fees – rising by 307% (uplift of £170k p.a.);
- Support to high hostel agreed in 2021/22 now included in MTFP; and
- Secure City pressures from 2023/24 - £1 p.a.

21. In light of pressures on construction and labour inflation rising up to 15%, it is recommended a contingency is held under the capital programme up to £3m from Major Projects reserve. However, optimism bias/costed risk is presumed to contain inflationary pressures within the overall capital programmes. If the contingency is approved a business case will be required for approval under the correct governance process.

22. With reallocation of revenue security contingency to support additional pressures within the envelope – it is recommended the earmarked security reserve retains £1m as a minimum to support future revenue security pressures and is reviewed regularly to ensure sufficient funds are available at all times.

23. Increasing demands on Police services for protest activity; increasing violence and disorder; creating a safe and secure environment for 'Destination City'; and increasing cyber threats. These demands sit within the context of a notable shift in the balance of central funding towards local funding, provided elsewhere through continued increases on Council Tax.

24. Delivering the 2022/23 budget will enable us to push ahead on reshaping the City Corporation and re-aligning resources to new Corporate priorities in a post pandemic world. Key follow up themes for 2022/23 include:

- Zero based budgeting – prioritising within the overall envelope – supporting the change in the operating model, plus a review of operational property and income generation.

- The need to move to service transformation; and pin down the fundamental savings through an officer Star Chamber led by the Town Clerk and Chamberlain.
- Scope for embedding change, removal of duplication as part of the TOM review, and introduction of greater ways of working.
- Barbican renewal - future net spending benefit targets in City Fund, subject to business case approval
- Guildhall masterplan – delivering future savings across City Fund and City Cash, subject to business case subject to business case approval.

### **Latest forecast position**

25. Whilst City Fund (excluding Police) is in surplus in 2022/23, the medium term is in overall deficit by £2.2m, taking one year with the next over the five-year period. Despite taking measures set out under paragraphs 17-18, City Fund is struggling to accommodate the £3m cost pressures under Secure City after accommodating the Barbican renewal – a much needed investment subject to business case approval.
26. The City Fund position is exacerbated when including Police increasing the overall deficit by £35.5m across the medium-term.
27. Going forward, there are significant risks and a great deal of uncertainty. The overall medium-term financial position is shown in the table 2 below. Despite the additional income from retained Business Rates growth and one-off funding, the medium-term clearly highlights City Fund finances including Police are absolutely on the knife edge with significant deficits forecast across the remainder of the medium-term financial plan.
28. City Fund including police cannot be balanced without further measures put in place, either through further flightpath savings or through the levy on council taxpayers. City Fund (including Police) has a statutory requirement to remain balanced over the medium-term. The Medium-Term financial position is shown in the table 2 below, illustrated by funding from an increase in social care percept and increase in Business Rate Premium. Replacing this with flightpath savings requires a further £35.5m savings across the medium term - £2.2m for City Fund and £33.3m for Police:

**Table 2**

Surplus/ (Deficit)	2021/22	2022/23	2023/24	2024/25	2025/26
£m					
<b>City Fund*</b>	<b>4.2</b>	<b>(1.3)</b>	<b>(25.3)</b>	<b>(23.2)</b>	<b>(19.0)</b>
<b>Fundamental Review savings</b>	<b>2.0</b>	<b>2.6</b>	<b>2.6</b>	<b>5.4</b>	<b>5.4</b>
<b>12% incl. TOM</b>	<b>7.2</b>	<b>9.3</b>	<b>9.3</b>	<b>9.3</b>	<b>9.3</b>
<b>City Fund before Police deficit</b>	<b>13.4</b>	<b>10.6</b>	<b>(13.4)</b>	<b>(8.5)</b>	<b>(4.3)</b>
<b>City of London Police</b>	<b>-</b>	<b>(3.9)</b>	<b>(10.6)</b>	<b>(8.4)</b>	<b>(10.5)</b>
<b>City Fund position including Police deficit before additional funding required</b>	<b>13.4</b>	<b>6.7</b>	<b>(24.0)</b>	<b>(16.9)</b>	<b>(14.8)</b>
<b>Social Care Percept</b>	<b>-</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
<b>Proposed 0.4p increase in BRP</b>	<b>-</b>	<b>9.2</b>	<b>9.2</b>	<b>9.2</b>	<b>9.2</b>
<b>City Fund, incl. Police after increase in taxes</b>	<b>13.4</b>	<b>16.0</b>	<b>(14.7)</b>	<b>(7.6)</b>	<b>(5.5)</b>
<b>City Fund Reserves</b>					
<b>*General Fund Reserve – working capital</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>
<b>**Major Project Financing Reserve</b>	<b>90.7</b>	<b>71.9</b>	<b>42.9</b>	<b>34.7</b>	<b>30.7</b>
<b>***Build Back Better Fund Reserve</b>	<b>16.7</b>	<b>15.0</b>	<b>13.4</b>	<b>11.8</b>	<b>10.3</b>
<b>****Security Reserve</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>

\*After Major Projects financing

\*\*General fund reserve maintained at minimal prudent amount for working capital.

\*\*\*Major project financing reserve, holding back £30m reserves under major project financing for COVID mitigation measures

\*\*\*\*Build Back Better fund set up in 2021/22 to support Climate Action

\*\*\*\*\*Security Reserve recommended in light of reallocation of revenue security contingency

29. 2022/23, is forecasting a small surplus, largely due to an extra year of business rates retention income (albeit at a much-reduced level to previous years). Key points to note include:

- Revenue streams are likely to be under considerable pressure as COVID-19 continues to impact businesses through Government restrictions. In addition, all indications are that the business rates reset due in 2023/24 will be a hard reset and the Medium-Term Financial Plan has been compiled on this basis. If a more pessimistic view is taken on retained business rates income, it removes the £27m growth- pushing City Fund into an estimated £16m deficit in 2022/23. Alongside potential impact of a more pessimistic rents position, we recommend holding back £30m of reserves in mitigation; and
- Significant pressures highlighted by departments through Member bilateral meetings will require close monitoring and mitigations to be put in place. This is also the case for further requests for fundamental review savings to be pushed out – giving time to pin down the TOM.
- The Police commitment to secure £6.1m savings in 2022/23 will need to be reviewed to ensure savings are sustainable across the medium-term.
- In parallel with the external threats, the City Fund revenue budget will start to come under increasing pressure from major projects financing costs and opportunity costs – through loss in rental income/asset growth. This takes into

account the Barbican renewal programme, however, does not include any costs or potential savings reaped in from the Guildhall Master Plan.

- It should be noted the latest forecast position under City Fund has been updated since the report to the Joint Resource Allocation and Efficiency & Performance Sub Committees. These changes have reduced the overall deficit over the medium-term financial plan by £0.6m and have impacted the following areas:
  - City Fund to include the full cost of Destination City in year 1 – 2022/23;
  - Guildhall recharges updated with final estimate budgets received by departments;
  - Capital and Supplementary Revenue Programme (SRP) updated with latest forecast and carry forwards into subsequent years;
  - Major Projects programme updated with latest forecast – subsequently reprofiling the required funding to later year(s).

## **Police**

30. The Force is under increasing pressure despite having implemented £9m savings over the last two years and have committed to implement a further £6.1 mitigations in 2022/23, alongside reinstatement of £2.3m funding from City Fund (which had been reduced in 2021/22 following a dip in Business Rate Premium Income). Additionally, funding for Cyber Griffin (which provides City businesses with bespoke training and advice on countering a range of cyber threats) is included in the medium-term financial plan.
31. The Police Settlement is flat cash with a ringfenced amount to support the additional officer uplift and slight increase to support national insurance measures. This amount is less than assumed and required in the Police MTFP. The Police budget is facing significant medium-term pressures at a time of increasing demand on Police services.
32. The Police Settlement also enables Forces to set up to a £10 precept on Council Taxpayers to cover rising cost pressures. The City Corporation's small residential population does not yield anywhere near the sums provided by local funding for other police forces and City Fund funding to the Force is now substantially out of kilter with the local funding allocations of other forces, with City of London Police local funding (including rent-free benefit) being £7.5m less than it would be at the national average proportion. Not addressing this gap now will increase further pressures over the next 3 years.
33. To sustain and improve vital policing services, including building a highly visible Sector Policing service, in the context of increasing demand will require an aggregate medium-term deficit of £33m in the Police MTFP. The Police bilateral on 15th December acknowledged the structural problem and Finance Committee Members at their December committee meeting largely supported an increase in BRP in 2022/23 to resolve this and other City Fund pressures. Committee members noted that the Police local funding % is well below the national average and a significant hike in GLA council tax precept is likely for the Metropolitan Police Force.

34. The Rate Payers consultation took place on 25<sup>th</sup> February 2022 where the Chair of Policy, Chairman of Finance and Chairman Police Authority Board, alongside Assistant Commissioner Betts presented a compelling narrative to ratepayers in support of an increase in Business Rate Premium. The responses from those that attended was not unduly hostile.
35. City Fund's overall financial position include significant risks and a great deal of uncertainty. Despite the extra income from retained Business Rates growth, one-off funding combined with 12% budget reductions in 2021/22, mitigations in place City Fund finances including Police are on a knife edge with significant deficits forecast across the remainder of the medium-term financial plan. The fund is forecast, to move into deficit, from 2023/24 onwards due to the inclusion of financing costs of major projects: the Museum of London Relocation Project, Police Accommodation in the Salisbury Square Project and Barbican Renewal (subject to approval) together with the increase in Police pressures.
36. **Council Tax:** The Council Tax for the current year, 2021/22, is £952.91, expressed at band D and excluding the GLA precept of £95.53. Given the pressures to City Fund, Members will wish to consider council tax increases. Local authorities are permitted to levy a social care precept of 1% to address funding pressures and this has been modelled in the 2022/23 budget. Local Authorities are permitted a further uplift of Council Tax by 2.0% within the referendum threshold. In this context, Members may wish to consider:
- There is not a pressing financial need to uplift Council Tax in 2022/23.

However,

- Current intelligence suggests that most authorities, including those at the lowest end of the Council Tax league table, are considering increases of up to 3.00%, including the social care precept. There is a risk that the Corporation will stand out if it does not increase and will move closer to the bottom of the table.
  - There is a cumulative benefit in the medium-term.
  - It could reduce any penalisation in the fair funding review, where an implied council tax level might be assumed (above our current level) which could result in a loss of funding.
  - Those on lowest incomes will be eligible for council tax relief (Council Tax Reduction Scheme).
37. The City has seen increasing cost pressures in social care and tackling homelessness; and social care has been protected from the full impact of 12% reductions. **The recommendation is, therefore, to levy an Adult Social Care precept of 1%.**
38. The Adult Social Care precept of 1% would generate around £70k. An increase of 2.0% in council tax, would generate around £140k. For comparative purposes, Westminster band D excluding GLA precept is currently £463.90 (£780.28 including the GLA precept); Wandsworth, £475.44 (£793.56 including the GLA precept); and Hammersmith and Fulham £831.96 (£1227.55 including the GLA precept).



39. The steer from Resource Allocation Sub Committee was undecided on this matter with a range of views reflecting that although the sums involved were small, there are wider considerations in positioning for the fair funding review. In making this decision, Members may wish to consider the points in paragraph 36 above.

40. Business Rates Premium - The premium on City businesses was last increased in 2020/21, from 0.6p to 0.8p in the £ which, while not formally hypothecated to policing, supported the funding of an uplift of 67 priority policing roles at a cost of £5.4m. Given the pressures on security and Policing, Members may wish to consider increasing the Business Rate Premium up to 0.4p in the £, raising up to circa £9.2m p.a. in particular to enable the provision of vital policing services as set out in paragraphs 50-55 to be sustained and enhanced.

However,

- Police funding settlement enables most Forces in the country to levy a £10 local precept to support rising pressures; due to the very small residential population, the City of London Police Authority does not have the ability to raise local funding through this route.
- There is a statutory requirement to balance City Fund (including Police), if we do not increase the BRP by 0.4p over the medium term we cannot balance City Fund, without new significant savings targets, changes to major project assumptions and/or service impact.

## **A strategic response to continuing challenges**

41. This report recommends measures to stabilise the position in 2022/23 and that will support the steps that will need to be taken over the medium-term, through

- further work on securing permanent year on year savings;
- securing flight path savings through an officer Star Chamber led by the Town Clerk and Chamberlain.;
- building on collaboration through the bi-lateral approach; progressing with service transformation and a zero based review – supporting the change in the operating model plus a review of operational property and income generation; as well as
- containing the cost of major projects and other programmes.

## **Key assumptions used in the forecast**

42. The following paragraphs detail the key assumptions that have been used in the construction of the 2022/23 budget and Medium-Term Financial Strategy:

## **Income**

43. The City Fund has two key income streams, investment property rental and treasury income. Detailed stress testing and scenario analysis has been carried

out on key income assumptions for all funds and more sophisticated funds modelling has enabled a holistic assessment of overall financial health, including ability of net assets and reserve balances to meet risks of potential funding shortfalls.

- Property rental income is forecast on the expected rental income for each property, allowing for anticipated vacancy levels, expiry of leases and lease renewals. Throughout 2020/21 and 2021/22, the effect of COVID-19 has had a wide-ranging impact on the economy. This has included income losses from rental income from our property investment portfolio, plus further pressure on void costs where properties are not fit for relet. With the Government's moratorium for non-payment of rent being lifted on 1<sup>st</sup> April 2022 there is a significant risk on rental income and early termination of tenancy agreements, where tenants have gone into liquidation, to continue into 2022/23. It should be noted a further reduction in rental income is anticipated in later years as a consequence of the planned disposal of properties to fund the major projects. Outside these changes, the City's rental income is protected to some extent in the short-term as our leases are long term with medium-term specified break clauses. Forecast rental income is regularly reviewed and any potential reduction will be factored into updates to the medium-term financial plan.
- Cash balances are invested in a diversified range of money market and fixed income instruments in accordance with the Treasury Management Strategy with the aim of providing a yield once security and liquidity requirements have been satisfied. The forecast for treasury management income takes account of the likely path of short-term interest rates (chiefly, the Bank of England base rate) over the upcoming financial year. Base rates are expected to increase incrementally over the next few years from 0.50% today to 1.25% in 2024/25. The actual path of short-term interest rates is likely to depend on how the pandemic develops; whether labour and supply shortages prove to be persistent; the fiscal and monetary responses to managing inflation; as well as global economic developments (particularly in the US). A change of +/-0.25% to the base rate is expected to translate to approximately £1.5m additional/less income for the City Fund per year, based on current cash balances. Interest income is monitored throughout the year and any potential change to the forecast will be reported through updates to the medium-term financial plan.

## **Expenditure**

44. The starting point for the 2022/23 budget is 'flat cash' from the previous resource allocation in 2021/22, with provision made for the third year of the pay award. The Spending Review announcement on 17 December confirmed that there will not be a significant uplift in government funding. The increase in CPI inflation has meant 3% central inflationary contingency is held to ease the pressure of living with flat cash budgets. In particular, the Environment Department and the Barbican are exposed to inflationary increases through e.g. energy prices.
45. Policy and Resources Committee and Finance Committee have messaged clearly that cost pressures should be managed within existing resources. Requests for funding have been accommodated through re-prioritisation of

existing resources relating to policy initiatives and the TOM. Where one-off funding is required, this is accommodated through time limited resource uplifts.

46. Also underlines the need for additional unfunded revenue bids to be avoided during 2022/23.

### **Grant settlement – City Fund**

47. The provisional local authority grant settlement was received before Christmas and debated in the Commons early February. The final settlement was published on 7<sup>th</sup> February, stating the funding settlement is for three years with one year funding confirmed for 2022/23, this still leaves a great deal of uncertainty regarding Local Government funding after March 2023.

### **Business Rates Retention**

48. A further one-year delay on business rates reset enables the Corporation to continue to benefit from growth in office space over the years which has generated surpluses within the City. This growth in business rates income over the past six years has provided headroom, continuing in 2022/23 to fund:
- Much needed investment in one-off projects, such as: the Museum of London relocation project; the Salisbury Square project; and Barbican renewal (subject to Member approval)
  - Support the rise in inflationary pressures;
  - Helping London in its recovery following the pandemic
  - Destination City – setting out a renewed vision for the Square Mile to become the world's most attractive destination for residents, workers, students and visitors – whilst retaining as a leading centre for financial and professional services.
49. However, the growth is vulnerable to bad debts, appeals and potential changes to office demand as we move out of the pandemic. Following the demise of the pan London business rate retention pool, the Corporation has applied to establish a small-scale business rate pool with 7 neighbouring billing authorities, enabling partners to keep more of the business rate growth it has generated – this pool will cover 4 of the 6 most deprived boroughs. This pool is for a single year only, after which the Corporation intends to move to pan London Pooling. Approval was received from the Secretary of State on 7<sup>th</sup> February to proceed. Income from the pool has not been factored into plans as it is volatile. However, should the City benefit from the income the arrangement could provide significant upside which would cover growth bids as part of the TOM and Destination City.

## City Police

50. The Police is facing significant medium-term pressures at a time of increasing demand.
51. This increasing demand is experienced both day and night. Daytime, the City is experiencing increased levels of protest activity. Night-time, we see a changing economy with increasing violence and disorder.
52. The ambition of Destination City relies on the force providing a safe and secure environment. This is especially important at a time when policing needs to build trust and confidence; and create safe spaces to prevent Violence Against Women and Girls. It is also essential to acknowledge the threat from terrorism which remains in the City. The current sector and servitor models provide a solid foundation to build on, however the force must continue to evolve and develop its services to keep pace with modern threats, including those that are cyber related (Cyber Griffin is an excellent example of how the force is keeping businesses safe in the virtual world).
53. Nationally, the force's responsibilities have grown significantly; recent examples are the adoption of lead status for cyber and business crime. It is well documented that the threat from economic and cybercrime, particularly fraud, are the fastest growing threats in the UK. Whilst these National responsibilities bring demand, they also bring opportunity for the force to work closer with the City's Financial and Professional Services sectors. This is essential if the City is to be a safe place to do business and remain the economic heart of the UK. These increasing demands are in the context of a notable shift of balance from central towards local Police funding. This is provided elsewhere through continuing precept increases on Council Tax. Comparatively speaking, City of London is behind the curve in this regard. The City Corporation's small residential population does not yield anywhere near the sums provided by local funding for other police forces and City Fund funding to the Force is now substantially out of kilter with the local funding allocations of other forces, with Force local funding (including rent-free benefit) being 25% compared to 34% nationally. Instead, the City is uniquely able to levy a business rate premium as part of its strategy for allocating local funding to the Police.
54. In addition, there are other needs which is appropriate to fund through the Business Rates Premium. These include strengthening the Police Authority function in line with the policing ambitions of the City, and comparisons across other Home Office Forces; and the running of a more sophisticated technological Secure City infrastructure – using technology to create safe spaces and compliment the policing presence.
55. As addressed under paragraph 30, despite efficiencies playing a significant part in securing fiscal sustainability, the Force is forecasting significant deficits across the Police medium-term financial plan in supporting the pressures highlighted above.

## Revenue Spending Proposals 2022/23

56. The overall budget requirements have been prepared in accordance with the strategy and the requirements for 2021/22 and 2022/23 are summarised by Committee in the table below. Explanations for significant variations were contained in the budget reports submitted to service committees.

**Table 3: City Fund Summary Budget**

<b>City Fund Summary by Committee</b>	<b>2021/22 Original £m</b>	<b>2021/22 Latest £m</b>	<b>2022/23 Original £m</b>
<b><i>Net Expenditure (Income)</i></b>			
Barbican Centre*	(37.3)	(36.0)	(26.5)
Barbican Residential	(2.4)	(2.4)	(2.2)
Community and Children's Services	(14.2)	(15.6)	(15.5)
Culture Heritage and Libraries	(19.7)	(20.9)	(19.7)
Finance**	2.2	6.2	(2.9)
Licensing	(0.1)	(0.1)	(0.2)
Markets	0.7	0.1	0.4
Open Spaces	(1.7)	(1.8)	(1.6)
Planning and Transportation	(14.4)	(15.6)	(13.3)
Police	(85.1)	(86.2)	(91.1)
Policy and Resources	(4.1)	(4.5)	(4.2)
Port Health and Environmental Services	(14.7)	(16.9)	(14.3)
Property Investment Board	37.3	37.2	33.4
<b>City Fund Requirement</b>	<b>(153.5)</b>	<b>(156.5)</b>	<b>(157.7)</b>

\* Significant variance under the Barbican Centre relates to one-off Covid support (£7m) received in 2021/22 with 12% savings recognised in 2022/23.

\*\* Finance includes changes to: capital revenue expenditure, supplementary revenue programme, additional one-off cost pressure highlighted in this report.

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

57. 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 5] and investment property rent income [line 6])
- the funding received from government grants and from taxes [lines 8 to 11]; and
- the estimated surpluses to be transferred to reserves, or deficits to be funded from reserves [line 14].

**Table 4: City Fund net budget requirement and financing (excluding Police)**

City Fund Revenue Requirements 2021/22 and 2022/23					
		2021/22 Original £m	2021/22 Latest £m	2022/23 Original £m	Para. No.
1	Net expenditure on services	(185.1)	(193.5)	(189.6)	
2	Capital Expenditure funded from Revenue Reserves	(3.3)	(2.5)	(3.9)	
3	Cyclical Works Programme expenditure financed from revenue	(11.0)	(8.5)	(10.3)	
4	Requirement before investment income from the City's Assets	(199.4)	(204.5)	(203.8)	
5	Interest on balances	2.6	4.8	6.4	
6	Estate rent income	43.2	43.2	39.7	
7	<b>City Fund Requirement</b>	<b>(153.6)</b>	<b>(156.5)</b>	<b>(157.7)</b>	
	Financed by:				
8	Government formula grants	122.5	122.5	128.5	
9	City offset	12.1	12.1	12.1	
10	Council tax	8.4	8.4	8.3	
11	NNDR premium	18.6	18.6	18.4	
12	Total Government Grants and Tax Revenues	161.6	161.6	167.3	
13	Drawdown on Reserves	0.0	6.7	0.0	
14	<b>(Deficit)/Surplus transferred (from)/to reserves</b>	<b>8.0</b>	<b>11.8</b>	<b>9.6*</b>	

\*Excludes transfer from major projects reserves to support 21 New St Rent

Line 8 in table 4 is shown in further detail below:

**Table 5: Analysis of Core Government Grants**

	2021/22 Original £m	2022/23 Draft £m	Variance £m	Variance %
Revenue Support Grant	6.3	8.2	1.9	
Rates Retention: baseline funding	16.7	16.7	0.0	
Rates Retention: growth	29.3	29.3	0.0	
<b>Subtotal:</b>	<b>52.3</b>	<b>54.2</b>	<b>1.9</b>	
Police	70.2	74.3	4.1	
<b>Total Core Government Grants</b>	<b>122.5</b>	<b>128.5</b>	<b>6.0</b>	<b>5%</b>

58. The City Fund budget requirement for 2022/23 is £157.7m plus a contribution to reserves of £9.6m resulting in a net City Fund budget requirement of £167.3m, an increase of £4.1m on the previous year. The following table shows how this

is financed and the resulting Council Tax requirement. Appendix A details the consequent determination of council tax by property band.

**Table 6: Council Tax requirement**

<b>Council Tax Requirement</b>	<b>2021/22 Original £m</b>	<b>2022/23 Original £m</b>
Net Expenditure	(199.4)	(203.8)
Estate Rental Income	43.2	39.7
Interest on balances	2.6	6.4
Budget Requirement	(153.6)	(157.7)
Proposed contribution to reserves	(8.0)	(9.6)
<b>Net City Fund Budget Requirement</b>	<b>(161.6)</b>	<b>(167.3)</b>
<u>Financing Sources:</u>		
Business Rates Retention	52.3	54.2
Police Grant	70.2	74.3
City Offset	12.1	12.1
NDR Premium	18.6	18.4
Collection Fund Surplus (CoL share)	0.6	0.3
<b>Council Tax Requirement</b>	<b>(7.8)</b>	<b>(8.0)</b>

59. 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 A).

## **Business Rates**

60. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 51.2p and a small business National Non-Domestic Rate multiplier of 49.9p for 2022/23. These multipliers remain at the 2021/22 levels as Government have opted not to apply the usual inflationary increase. They exclude the City's Business Rate Premium. The actual amount payable by each business will depend upon its rateable value.

61. It is proposed the Business Rate Premium is increased up to 0.4p in the £, the proposed premium will result in a National Non-Domestic Rate multiplier of 52.4p and a small business National Non-Domestic Rate multiplier of 51.1p for the City for 2022/23.

- 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:
- The 2022/23 Retail, Hospitality and Leisure Business Rates Relief scheme will provide eligible, occupied, retail, hospitality and leisure properties with a 50% relief, up to a cash cap limit of £110,000 per business.

- Covid-19 Additional Relief Fund (CARF) Scheme. - This is new relief. This government scheme requires local authorities to provide an allowance against ratepayer NNDR liabilities, rather than pay as a cash grant to the business. The City's proposed scheme will provide relief of around £64m against the net 2021/22 NNDR Liability. The full proposals and recommendation for the scheme will be the subject of a future report to Finance Committee

62. **Business Rates Supplement** - 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.

### **Council Tax - Long-Term Property Premiums**

63. For council tax purposes a property is defined as empty if it is unoccupied and substantially unfurnished. Property that is furnished is treated as a second home.
64. The empty property premium was introduced in 2013/14 to encourage landlords to bring long-term empty property back into use. The City introduced the long-term empty premium for the first time in 2019/20, with a premium increase of 100%.
65. From 20/21 properties that have been empty over 5 years can be charged a higher premium of up to 200%. From 21/22 properties empty over 10 years can be charged a premium of 300%. The introduction of the Empty Property Premium has resulted in additional income of approximately £400k since 20/21.

### **Council Tax Reduction Scheme**

66. 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.
67. The Council Tax Reduction Scheme will therefore remain the same for 2022/23 as was administered in previous years subject to the annual uprating of amounts in line with Housing Benefit applicable amounts.

### **Capital**

68. The City Corporation has a significant programme of works to the operational property estate (including residential), investment property redevelopments and highways infrastructure, together with significant expenditure on the major programmes. Spending on these types of activity is classified as capital expenditure.



69. 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 used external loans to finance these schemes and current plans do not envisage borrowing from third parties. Financing is summarised in the table below.

**Table 7: Capital Financing**

	2021/22 £m	2022/23 £m
<b>Estimated Capital Expenditure</b>	<b>156.6</b>	<b>217.1</b>
<u>Financing Sources:</u>		
Housing Revenue Account (HRA) Major Repairs Reserve	4.7	3.0
Disposal Proceeds	52.4	65.5
Earmarked and General Revenue Reserves	25.1	65.6
External Grants and Reimbursements	74.4	83.0
External borrowing	-	-
<b>Total:</b>	<b>156.6</b>	<b>217.1</b>

70. The main areas of capital expenditure in 2022/23 are as follows:

- Major Projects – Museum of London (£37.8m)
- Major Projects – Salisbury Square (£25.0m)
- Housing Revenue Account – decent homes\* (£28.9m)
- Housing Revenue Account – new build (£23.3m)
- Highways and Transport (£17.5m)
- Investment Property Refurbishments (£8.8m)
- New Bids (£17.0m)

\*includes loan facility of £19.0m

71. In order to ensure capital expenditure is aligned to key priorities, the City Corporation's Resource Allocation Sub Committee has carried out a robust review of all service's annual capital bids and prioritised funding approval. The Resource Allocation Sub Committee has granted approval in principle to central funding for a number of new bids with a total estimated cost of £17.0m, of which £13.4m is expected to fall within 2022/23. In addition, approval in principle was granted for the continuation of central funding for internal loans for the police and HRA capital spending plans, which amount to £4.9m and £19.0m respectively in 2022/23. Allowance has been made in the City Fund MTFP for all of these items to demonstrate affordability; financial provision will need to be included within the City Fund revenue and capital budgets as appropriate as part of the 2022/23 budget setting process.

72. City of London Police need to prioritise investment in their capital programme and the resourcing of new activities. New arrangements for financing the Capital Programme were introduced in 2020/21, with capital expenditure (excluding Secure City and the Police Accommodation programme) being funded through

a loan arrangement between the City Corporation and the Force, with an annual borrowing cap of £5m. The Police repay this loan with interest.

73. 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 2022/23 to 2025/26
- Estimates of the capital financing requirement 2022/23 to 2025/26
- Times cover on Unencumbered Revenue Reserves.

74. The prudential indicators listed above have been calculated in appendix C. 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 2022/23' at Appendix E.

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

76. Local authority borrowing is permitted for capital purposes within the current capital control regime, but the cost of borrowing must be charged to the relevant revenue budget, including interest and a statutory provision for repayment of principal known as the Minimum Revenue Provision (MRP). The MRP Policy Statement 2022/23 is set out in appendix 2 within the Treasury Management Strategy Statement and Investment Statement 2022/23 at appendix D. The typically 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 other revenue activity in order to deliver the major projects. Borrowing can either be internal (use of internal cash balances) or external (third party loan finance).

77. Funding for the major projects is currently planned to come from external contributions, retained rates growth monies and property disposal proceeds, rather than external loans from third parties. However, there is an interim requirement for internal borrowing utilising City Fund general cash balances – effectively a bridging facility pending receipts from disposal of investment properties. Such short-term internal borrowing does not require an MRP to be made.

78. In addition, the funding of some other capital schemes is being met from cash received from long lease premiums which are deferred in accordance with accounting standards - this also counts 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**

79. 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.

80. 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:

- provision has been made for all known liabilities, together with indicative costs (where identified) of capital schemes yet to be evaluated, but continue to monitor COVID income risk during 22/23 and maintain a COVID contingency fund, not releasing £30m of general fund reserves for major project spend;
- 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);
- prudent assessments have been made regarding key assumptions;
- an annual capital bids process is in place seeking to ensure that capital expenditure is contained within affordable limits and that it can be demonstrated that each project is of the highest corporate priority;
- although the City Fund financial position is vulnerable to COVID income losses, 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 remains low across the planning period;
- a strong track record in achieving budgets gives confidence on the robustness of estimates; and
- balancing 2022/23 with 'one-off' measures will give more time to implement the Target Operating Model - securing permanent year on year savings, and enabling support to recovery in the square mile and renewed vision.
- zero based budgeting will realign existing resources to new corporate priorities.

81. 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 2022/23, the potential call on reserves to support revenue and capital expenditure beyond 2022/23 reinforces the need for flight path savings and income generation.

82. In assessing the adequacy of contingency funds, the Chamberlain has reviewed the allocation and expenditure of contingency funds over the past four years and concluded that the estimates are robust. This takes account of 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 2022/23. A full analysis of contingency fund provision and expenditure is provided in Appendix G.

## **Risks- Summary**

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

### Within the City Corporation's control:

- Securing permanent year on year permanent savings from the 12% savings programme and income schemes under the Fundamental Review;
- Achievement of Police savings targets needed to mitigate the Force deficit; and Action Fraud overspending and changes in cash flow requirement; and
- Major projects not being delivered within estimated costs.

### Outside the City Corporation's control:

- Significant remaining COVID risks including income losses from the closure of many services and facilities, and losses from rental income. There continues to be a significant risk for further income losses in 2022/23 as the economy recovers;
- Business Rates income - volatility around the growth forecasts and appeals, are dependent on full occupation of new builds and potential changes to office demand as we move out of the pandemic; and
- Fair Funding review which could affect government support to fund services.

## **Equalities Implications**

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. An update will be provided to the Finance Committee.

## **Conclusion**

84. There has been a significant effort across the Corporation family to commit to delivering year on year permanent savings against the 12% savings required to get us to a balanced 22/23 budget, and on track for a sustainable MTFP, and we appreciate Officers efforts in achieving this. But this is only the 'end of the beginning'; there is a big task still ahead to secure future savings ('flightpath') and to manage the significant remaining COVID risks and unprecedented range of external challenges e.g. Spending Review and Business Rates reset, as well as supply chain issues and inflationary pressures.

85. There are risks to the achievement of the 2022/23 budget position and MTFP, in particular income volatility impact from COVID; significant pressures highlighted by departments through bilateral meetings and tough decisions have been needed. But, Members have worked together to mitigate on-going pressures through re-prioritisation.
86. The Local Government Financial Settlement intends that taxes are levied locally to support rising pressures. The Government's assumption is that Policing cost pressures would be covered through the levy on council taxpayers. There is a statutory requirement for the City Fund including Police to remain balanced across the medium-term-financial plan.
87. Delivering the 2022/23 budget enables us to push ahead on reshaping City Corporation, through implementation of the TOM, to be able to respond in a more agile and flexible way to the challenges ahead.
88. This report recommends a number of measures to stabilise the position in 2022/23. Increases in Social Care, Council Tax and Business Rate Premium should be considered in view of wider developments across London, Government expectations to maximise taxes locally, the Fair Funding Review and pressures on security and Police budgets.

## **Appendices**

- Appendix A – Calculating Council Tax
- Appendix B – City Fund Useable Reserves
- Appendix C – Prudential Indicators
- Appendix D – Treasury Management Strategy Statement and Investment Strategy Statement 2021/22
- Appendix E – Capital Strategy
- Appendix F – City Fund Budget Policy
- Appendix G – Review of contingency funds

### **Sonia Virdee**

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## 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:

$$'B1' = \frac{\pounds 7,952,253.70}{8,317.30}$$

$$'B1' = \pounds 956.11$$

**Note:** Item R consists of the following components:

	£	£
City Fund Net Budget Requirement		167,183,396
Less:		
Business Rates Retention	(45,979,000)	
Government Grant Funding	(8,191,000)	
Police Grant	(74,328,654)	
City's Offset	(12,064,000)	
Estimated Non-Domestic Rate Premium (Net)	(18,400,000)	
Estimated Collection Fund Surplus as at 31 March 2021 (City's share)	(268,489)	(159,231,143)
<b>TOTAL COUNCIL TAX REQUIREMENT ®</b>		<b>7,952,253</b>

### 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:

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

Where:

'B2' is the Basic Amount 'Two';

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

A is the Aggregate of all special items;

T is the Council Tax base for the whole area

The above calculation is as follows:

$$\text{'B2'} = \text{£}956.11 - \frac{\text{£}18,646,024.63}{8,317.30}$$

$$\text{'B2'} = \text{£}1,285.73 \quad \underline{\text{CR}}$$

**Note:** Item A consists of the following components:

	£	£
Highways Net Expenditure	8,159,000.00	
Street Cleansing	5,933,000.00	
Waste Collection	2,138,000.00	
Waste Disposal	1,212,000.00	
Road Safety	356,000.00	
Drains and Sewers	510,000.00	
Total City's Special Expenses		18,308,000.00
Inner Temple's Precept	196,138.58	
Middle Temple's Precept	141,886.05	338,024.63
Total Special Items		<u>18,646,024.63</u>

### Step Three 'B3'

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

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

Where:



'B3' is the Basic Amount 'Three'

'B2' is the Basic Amount 'Two'

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

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

### **City Area Excluding the Temples**

$$\text{'B3'} = \text{£1,285.73 CR} + \frac{\text{£18,308,000}}{8,166.52}$$

$$\text{'B3'} = \text{£956.11}$$

### **Inner Temple**

$$\text{'B3'} = \text{£1,285.73 CR} + \frac{\text{£196,138.58}}{87.49}$$

$$\text{'B3'} = \text{£956.11}$$

### **Middle Temple**

$$\text{'B3'} = \text{£1,285.73 CR} + \frac{\text{£141,886.05}}{63.29}$$

$$\text{'B3'} = \text{£956.11}$$

### **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	637.41	743.64	849.88	956.11	1168.58	1381.05	1593.52	1912.22
GLA	78.97	92.14	105.30	118.46	144.78	171.11	197.43	236.92
Total	716.38	835.78	955.18	1074.57	1313.36	1552.16	1790.95	2149.14

## Reserves

Forecast Movements in City Fund Usable Reserves 2022/23				
	Notes	Estimated Opening Balance  01-Apr-22  £m	Forecast Net Movement in Year   £m	Estimated Closing Balance  31-Mar-23  £m
<b>Revenue Usable Reserves</b>				
General Reserve	a	20.0	0.0	20.0
Earmarked				
Major Projects Financing Reserve	b	60.7	(21.8)	44.9
Business Rate Equalisation	c	10.2	(10.2)	0.0
Highways Improvements	d	47.8	(14.7)	33.1
Risk Reserve	e	30.0	0	30.0
Build Back Better Fund	f	16.7	(1.7)	15.0
London Pool Strategic Investment Pot	g	8.8	(8.8)	0.0
Police Future Expenditure	h	3.5	0.0	3.5
VAT Reserve	i	4.2	0.0	4.2
Renewals and Repairs	j	3.5	0.0	3.5
Proceeds of Crime Act	k	2.2	0.0	2.2
Judges Pensions	l	1.1	0.0	1.1
Service Projects	m	9.6	0.0	9.6
Total Revenue Earmarked		<b>218.3</b>	<b>(57.2)</b>	<b>167.1</b>
Housing Revenue Account (HRA)	n	0.6	0.2	0.8
<b>Total Revenue Usable Reserves</b>		<b>218.9</b>	<b>(57.0)</b>	<b>167.9</b>
<b>Capital Usable Reserves</b>				
Capital Receipts Reserve	o	157.1	(38.3)	118.8
Capital Grants Unapplied	p	30.6	(10.8)	19.8
HRA Major Repairs Reserve	q	0.3	0.0	0.3
<b>Total Capital Usable Reserves</b>		<b>188.0</b>	<b>(49.1)</b>	<b>138.9</b>
<b>Total Usable Reserves</b>		<b>406.9</b>	<b>(106.1)</b>	<b>306.8</b>

## 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. Business Rate Equalisation Reserve - Will be used to fund collection fund deficits that will be accounted for in future years following govt support for business during the COVID-19 pandemic.
- 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. Risk Reserve – Additional fund set aside to manage the uncertainties stemming from COVID-19 on income and expenditure.
- f. Build Back Better Fund – funds set aside to support the economic recovery following the pandemic and climate action goals.
- g. London Pool Strategic Investment Pot - This relates to yet to be allocated SIP funds generate through the London NNDR Pool. The City Corporation acts a lead authority for the pool and in that role holds these fund on behalf of London.
- h. 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.
- i. 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.
- j. Renewals and Repairs – Sums set aside for future repairs and maintenance costs.
- k. 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.
- l. Judges Pensions - Sums set aside to assist with the City of London's share of liabilities.
- m. 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.
- n. These reserves are ringfenced by statute to the Housing Revenue Account.
- o. The capital receipts reserve will be exhausted due to the City's commitment to Major projects over the life of the MTFP, subject to further receipts being received.

- p. Capital grants and contributions received for specific purposes. This includes receipts from the City's Community Infrastructure Levy.
- q. HRA Major Repair Reserve – funds set aside to finance HRA capital expenditure.

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## **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's particular circumstances. Those indicators relating to estimates for the financial years 2022/23, 2023/24 and 2024/25 (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**

	2018/19 Actual	2019/20 Actual	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
HRA	0.29	0.26	0.25	0.22	<b>0.24</b>	<b>0.31</b>	<b>0.30</b>
Non-HRA	-0.49	-0.46	-0.35	-0.28	<b>-0.24</b>	<b>-0.29</b>	<b>-0.30</b>
Total	-0.41	-0.39	-0.30	-0.24	<b>-0.20</b>	<b>-0.24</b>	<b>-0.24</b>
<i>At this time last year</i>	-0.41	-0.39	-0.26	-0.23	-0.25	-0.26	-

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 fall in the Non-HRA ratios from 2019/20 until 2021/22 reflects the reduction in investment income as a proportion of total revenue streams. The increase in HRA ratios from 2023/24 reflect the additional cost of internal borrowing from City Fund to finance 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 2021/22 to 2024/25
	£m
Gross External Debt	<b>13.399</b>
Capital Financing Requirement	<b>138,013</b>

To ensure that, over the medium term, borrowing will only be for capital purposes, this indicator demonstrates that gross external debt will not exceed the capital financing requirement over the

period 2021/22 to 2024/25. The current plans for funding of the capital programme, including the major projects, do not anticipate any new external borrowing.

## **Prudential Indicators for Capital Expenditure and External Debt**

### **Estimate of Capital Expenditure**

**Table 3**

	2018/19 Actual £m	2019/20 Actual £m	2020/21 Actual £m	2021/22 Revised £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
HRA	10.854	10.867	13.233	52.561	<b>52.169</b>	<b>15.068</b>	<b>0.560</b>
Non-HRA	67.199	41.874	48.524	104.001	<b>164.885</b>	<b>283.212</b>	<b>260.439</b>
Total	78.053	52.741	61.757	156.562	<b>217.054</b>	<b>298.280</b>	<b>260.999</b>
<i>At this time last year</i>	<i>78.053</i>	<i>52.741</i>	<i>123.915</i>	<i>245.118</i>	<i>233.729</i>	<i>232.469</i>	-

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 formally agreed for progression. 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, including more robust estimates relating to the major projects.

### **Estimate of the Capital Financing Requirement**

**Table 4**

	2018/19 Actual £m	2019/20 Actual £m	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
HRA	0.000	0.000	0.000	6.080	<b>24.819</b>	<b>28.019</b>	<b>23.842</b>
Non-HRA	43.592	46.386	53.455	45.606	<b>78.264</b>	<b>188.169</b>	<b>114.171</b>
Total	43.592	46.386	53.455	51.686	<b>103.083</b>	<b>216.188</b>	<b>138.013</b>
<i>At this time last year</i>	<i>46.592</i>	<i>46.386</i>	<i>64.877</i>	<i>123.982</i>	<i>261.886</i>	<i>299.071</i>	-

The capital financing requirement (CFR) reflects the underlying need to borrow to finance capital expenditure and is calculated by identifying the shortfall in capital financing sources (e.g. capital receipts, grants, revenue reserves etc) to be applied. Borrowing can either be internal (use of internal cash balances) or external (third party loan finance).

Since 2016/17, 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'. In addition, in 2023/24 some of the major project expenditure will be funded from internal borrowing, using general City Fund cash balances on an interim basis pending the application of disposal proceeds from the sale of investment properties in 2024/25.

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 D.

### **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**

	2021/22	2022/23	2023/24	2024/25
Times cover on unencumbered revenue reserves	+1.5	<b>+3.0</b>	<b>-0.8</b>	<b>-1.2</b>
<i>At this time last year</i>	+8.4	-13.1	-70.0	-

This indicator is calculated by dividing the balance of forecast unencumbered general reserves by annual revenue deficits(-)/surpluses(+). For 2021/22 and 2022/23 revenue surpluses are forecast, with annual deficits from 2023/24 as the benefits of business rates retained growth ends. Ratios below -1.0 indicate insufficient general reserves to cover the deficit in a particular financial year, which is not sustainable. However, the revenue position is forecast to be much improved by 2025/26 as savings from the fundamental review are fully realised and incomes improve, albeit partially offset by the impact of major project financing.

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# **TREASURY MANAGEMENT STRATEGY STATEMENT**

**AND**

# **ANNUAL INVESTMENT STRATEGY**

**2022/23**

Issue Date: 09/02/2022  
Agreed by Court of Common Council: XX/XX/2022

# Treasury Management Strategy Statement and Annual Investment Strategy 2022/23

## 1. Introduction

### 1.1. Background

The City of London Corporation (the City) is required in its local authority capacity 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 where permitted for individual Funds of the City, 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.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

### 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. Reporting 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, and is applied to all Funds held by the City.

The primary requirements of the Code are as follows:

- (i) The City of London Corporation will create and maintain, as the cornerstones for effective treasury management:
  - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
  - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- (ii) This organisation (i.e. the Court of Common Council) will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.
- (iii) The Court of Common Council delegates responsibility for the implementation and regular monitoring of its treasury management policies to the Finance Committee and the Financial Investment Board (which currently acts in an advisory capacity on behalf of the BHE 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 2017 Prudential Code for Capital Finance in Local Authorities and Treasury Management Code of Practice require 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. It is considered good practice by the City to include all of its Funds within these strategies.

#### **1.4. Recent changes to the CIPFA Treasury Management and Prudential Codes**

CIPFA published revised versions of both the Treasury Management Code of Practice and the Prudential Code for Capital Finance in Local Authorities on 20<sup>th</sup> December 2021. Formal adoption is not required until the 2023/24 financial year and the Treasury Management Strategy for 2022/23 has been prepared in accordance with the 2017 editions of both Codes.

The revised codes will have the following implications:

- All investments and investment income must be categorised into one of three types:

##### **Treasury management**

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

##### **Service delivery**

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

##### **Commercial return**

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a local authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

- a requirement to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address ESG issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;

- a requirement to effectively manage liquidity and longer term cash flow requirements;
- a requirement to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report.

Furthermore it should be noted that any new requirements are mandatory for the City Fund only.

Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 TMSS report.

## **1.5. Treasury Management Strategy for 2022/23**

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 2).

The Act requires the Court of Common Council to set out its treasury strategy for borrowing (section 4 of this report) and to prepare an Annual Investment Strategy (section 5 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 2022/23 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 DLUHC MRP Guidance, the CIPFA Treasury Management Code and the DLUHC Investment Guidance.

## 1.6. Current Portfolio Position

The City's treasury portfolio position at 31 December 2021 compared to the position at 31 March 2021 comprised:

<b>Table 1: Treasury Portfolio</b>				
	<b>Actual</b>	<b>Actual</b>	<b>Current</b>	<b>Current</b>
	<b>31/03/21</b>	<b>31/03/21</b>	<b>31/12/21</b>	<b>31/12/21</b>
<b>Treasury investments</b>	<b>£m</b>	<b>%</b>	<b>£m</b>	<b>%</b>
Banks	£495.0	52%	£655.0	50%
Building societies (rated)	£25.0	3%	£60.0	5%
Local authorities	£15.0	2%	£10.0	1%
Liquidity funds	£138.5	17%	£278.8	21%
Ultra-short dated bond funds	£112.6	12%	£137.6	11%
Short dated bond funds	£161.0	17%	£160.8	12%
<b>Total treasury investments</b>	<b>£947.1</b>	<b>100%</b>	<b>£1,302.2</b>	<b>100%</b>
<b>Treasury external borrowing</b>				
LT market debt (City's Cash)	£250.0	100%	£450.0	100%
<b>Total external borrowing</b>	<b>£250.0</b>	<b>100%</b>	<b>£450.0</b>	<b>100%</b>

## 2. Capital Expenditure Plans and Prudential Indicators

### 2.1. City Fund

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 2022/23 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 and financing plans for the medium term.



### Estimate of Capital Expenditure and Financing (City Fund)

<b>Table 2</b>	<b>2020/21 Actual £m</b>	<b>2021/22 Estimate £m</b>	<b>2022/23 Estimate £m</b>	<b>2023/24 Estimate £m</b>	<b>2024/25 Estimate £m</b>
<b>Capital Expenditure:</b>					
Non-HRA	48.5	104.0	164.9	283.2	260.3
HRA	13.2	52.6	52.2	15.1	0.1
<b>Total</b>	<b>61.7</b>	<b>156.6</b>	<b>217.1</b>	<b>298.3</b>	<b>260.4</b>
<b>Financed by:</b>					
Capital grants	16.4	74.4	83.0	50.1	34.6
Capital reserves	20.4	52.4	12.4	90.3	288.4
Revenue	15.7	29.8	68.5	43	14.4
<b>Total</b>	<b>52.5</b>	<b>156.6</b>	<b>163.9</b>	<b>183.4</b>	<b>337.4</b>
<b>Net financing need:</b>	<b>9.2</b>	<b>0.0</b>	<b>53.2</b>	<b>114.9</b>	<b>-77.0</b>

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 (the net financing need in Table 2), will increase the CFR.

### Estimate of the Capital Financing Requirement (City Fund)

<b>Table 3</b>	<b>2019/20 Actual £m</b>	<b>2020/21 Estimate £m</b>	<b>2021/22 Estimate £m</b>	<b>2022/23 Estimate £m</b>	<b>2023/24 Estimate £m</b>
Non-HRA	53.4	45.6	78.3	188.2	114.2
HRA	0	6.1	24.8	28.0	23.8
<b>Total</b>	<b>53.4</b>	<b>51.7</b>	<b>103.1</b>	<b>216.2</b>	<b>138.0</b>

### Minimum Revenue Provision (City Fund)

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 2.

## **2.2. City's Cash**

As with the City Fund, any capital expenditure incurred by City's Cash which has not immediately been paid for through a revenue or capital resource, will increase the City's Cash borrowing requirement. **The medium term financial plan for City's Cash**

includes an increase in capital expenditure in the coming years, primarily relating to the major projects programme. All projected capital expenditure in 2022/23 will be financed from the existing £450m stock of debt or other sources. Table 3 summarises the planned City's Cash borrowing over the next few years.

<b>Table 4</b>	<b>2020/21 Actual £m</b>	<b>2021/22 Estimate £m</b>	<b>2022/23 Estimate £m</b>	<b>2023/24 Estimate £m</b>	<b>2024/25 Estimate £m</b>
Borrowing	£250m	£450m	£450m	£450m	£450m

A debt financing strategy will be established to ensure borrowing for City's Cash is reduced gradually over time as set out in the City's Cash Borrowing Policy Statement (Appendix 8).

### **2.3. Bridge House Estates**

The Bridge House Estates' financial plans focus on the charity's primary object, namely the support and maintenance of the five Thames bridges that the charity owns, alongside their future replacement. Any surplus income each year is available for its ancillary purposes, namely charitable funding undertaken in the name of the City Bridge Trust. The charity's revenue expenditure plans over the short and medium term are funded from ongoing income and the returns on investments held within the unrestricted income fund. Capital spend on the charity's investment property portfolio is funded from the designated sales pool, with receipts from disposals or lease premiums being available for this. The current governing documents for BHE do not include powers to access the gains on investments held within the endowment fund, nor to undertake borrowing. The charity is anticipating approval of its Supplemental Royal Charter during 2022, which will amend these powers. This strategy will reflect these new powers once in place.

### **2.4. Treasury Indicators for 2022/23 – 2024/25**

Treasury Indicators (as set out in Appendix 2) are relevant for the purposes of setting an integrated treasury management strategy.

## **3. 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 – also known as “the Bank of England base rate”) and longer term interest rates. The following table and accompanying text below gives the Link central view.

	Bank Rate <sup>1</sup> %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 years	25 year	50 year
Dec 2021	0.25	1.40	1.60	1.80	1.50
Mar 2022	0.25	1.50	1.70	1.90	1.70
Jun 2022	0.50	1.50	1.80	2.00	1.80
Sep 2022	0.50	1.60	1.80	2.10	1.90
Dec 2022	0.50	1.60	1.90	2.10	1.90
Mar 2023	0.75	1.70	1.90	2.20	2.00
Jun 2023	0.75	1.80	2.00	2.20	2.00
Sep 2023	0.75	1.80	2.00	2.20	2.00
Dec 2023	0.75	1.80	2.00	2.30	2.10
Mar 2024	1.00	1.90	2.10	2.30	2.10
Jun 2024	1.00	1.90	2.10	2.40	2.20
Sep 2024	1.00	1.90	2.10	2.40	2.20
Dec 2024	1.00	2.00	2.20	2.50	2.30
Mar 2025	1.25	2.00	2.30	2.50	2.30

Over the last two years, the coronavirus outbreak has had a significant impact on the UK economy and on economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged before raising it to 0.25% at its meeting on 16th December 2021, and again to 0.50% on 3<sup>rd</sup> February 2022.

As shown in the forecast table above, the forecast for Bank Rate now includes three further increases (see footnote 1 below), one in quarter 1 of 2023 to 0.75%, then in quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

### 3.1. Significant risks to the forecasts

There is a high level of uncertainty surrounding the forecast tabled above. Some of the key risks to the forecasts are as follows:

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns. The pace and extent of vaccine take up may also have an impact.
- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.

<sup>1</sup> Link's forecast was compiled on 21 December 2021 and as such does not take account of the Bank of England's change to Bank Rate at its meeting on 3 February 2022, which at the time of writing was expected to occur in quarter 2.

- **The Monetary Policy Committee** acts 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. Alternatively, the MPC tightens monetary policy too late to ward off building inflationary pressures.
- **The Government** acts too quickly to cut expenditure to balance the national budget.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in resolving significant remaining issues.
- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast. While monetary policy in the UK will have a major impact on gilt yields, there has traditionally been a positive correlation between US and UK borrowing rates. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that the Federal Reserve's actions to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.
- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.
- **Geopolitical risks**, for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

### 3.2. Investment and borrowing rates

- Investment returns are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate increases, actual economic circumstances may see the MPC fall short of these expectations.
- Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England. Borrowing rates have also been impacted by changes in Government policy. In November 2020, the Chancellor announced the conclusion to a review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme.
- Because borrowing rates are expected to be higher than investment rates, any new borrowing undertaken by the City will have a "cost of carry" (the difference between higher borrowing costs and low investment returns) to any new borrowing that causes a temporary increase in cash balances.

### **3.3. Interest Rate Exposure**

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.

## **4. Borrowing Strategy**

The borrowing strategy is developed from the capital plans and prospect for interest rates outlined in sections 2 and 3 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. Bridge House Estates, as stated in section 2.3, does not currently hold the power to borrow.

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.

### **4.1. City Fund**

The City Fund has a positive Capital Financing Requirement, and this is expected to grow over the next few years (see table 2 above). As the City Fund currently has no external debt, it is therefore maintaining an under-borrowed position which is forecast to increase if the City Fund does not acquire external debt. This means that the capital borrowing need is being managed within internal resources, i.e. cash supporting the City Fund's reserves, balances and cash flow is being used as a temporary measure. This strategy is prudent because it helps the City Fund to minimise borrowing costs in the near term and because it leads to lower investment balances which reduces counterparty risk. Against these advantages the City is conscious of the increased exposure to interest rate risk that is inherent in internal borrowing (i.e. the risk that the City Fund will need to replace internal borrowing with external borrowing in the future when interest rates are high).

Therefore, against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. 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 borrowing will be postponed.*
- *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 2022/23, 2023/24 and 2024/25. 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 2022/23 are set out in Appendix 2.

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 limits for all borrowing (i.e. both fixed rate and variable debt), and the proposed limits are detailed in Appendix 2.

## 4.2. City's Cash

The capital expenditure plans for City's Cash also create a borrowing requirement. City's Cash has issued fixed rate market debt totalling £450m to fund its capital programme. Of this total, £250m was received in 2019/20 and the remaining £200m was received in 2021/22. City's Cash is likely to have a further temporary borrowing requirement arising in 2023/24. It is not anticipated that any new external borrowing will be acquired by City's Cash in 2022/23. However, the Chamberlain will keep this position under review and in doing so 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 8), 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 2022/23 are set out in Appendix 2 alongside the City Fund treasury indicators.

#### **4.3. Bridge House Estates**

Bridge House Estates does not currently hold the power to borrow. The changes to its governing documents being sought by way of a Supplemental Royal Charter will address this, enabling borrowing to take place for specific purposes relating to its primary objective. There are no current plans for borrowing to take place in the short to medium term.

#### **4.4. 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 City can ensure the security of such funds.

#### **4.5. 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.

#### **4.6. Sources of borrowing**

Historically, the main source of borrowing for UK local authorities has been the PWLB. Any new loans issued by the PWLB are subject to the PWLB's revised



lending arrangements with effect from 26 November 2020. Currently the PWLB Certainty Rate is set at gilts + 80 basis points for new loans. Local authorities have recourse to other sources of external borrowing including financial institutions, other local authorities and the Municipal Bonds Agency. Our advisors will keep us informed as to the relative merits of each of these alternative funding sources

## **5. Annual Investment Strategy**

The Annual Investment Strategy sets out how the City will manage its surplus cash balances for the forthcoming year (i.e. investments held for treasury management purposes). It does not apply to other long-term investment assets, which are dealt with variously by other strategy documents (for instance the Capital Strategy for City Fund, or the Investment Strategy Statement for Bridge House Estates).

### **5.1. Investment Policy**

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This strategy deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The City of London's investment policy will have regard to the DLUHC's Guidance on Local Government Investments ("the Guidance"), the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes 2017 ("the CIPFA TM Code") and CIPFA Treasury Management Guidance Notes 2018.

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 the 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 DLUHC 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 3 under the ‘specified’ and ‘non-specified’ investments categories.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.

The City will also set a limit for the amount of its investments which are invested for longer than 365 days (see Appendix 2).

## 5.2. Expected investment balances

The City’s medium term financial plans for City Fund and City’s Cash imply that total investment balances within the treasury investment portfolio are expected to decline over the next few years as the capital programme is progressed (Bridge House Estates’ cash balances are expected to remain consistent) but to remain above a minimum constant level of £422m.

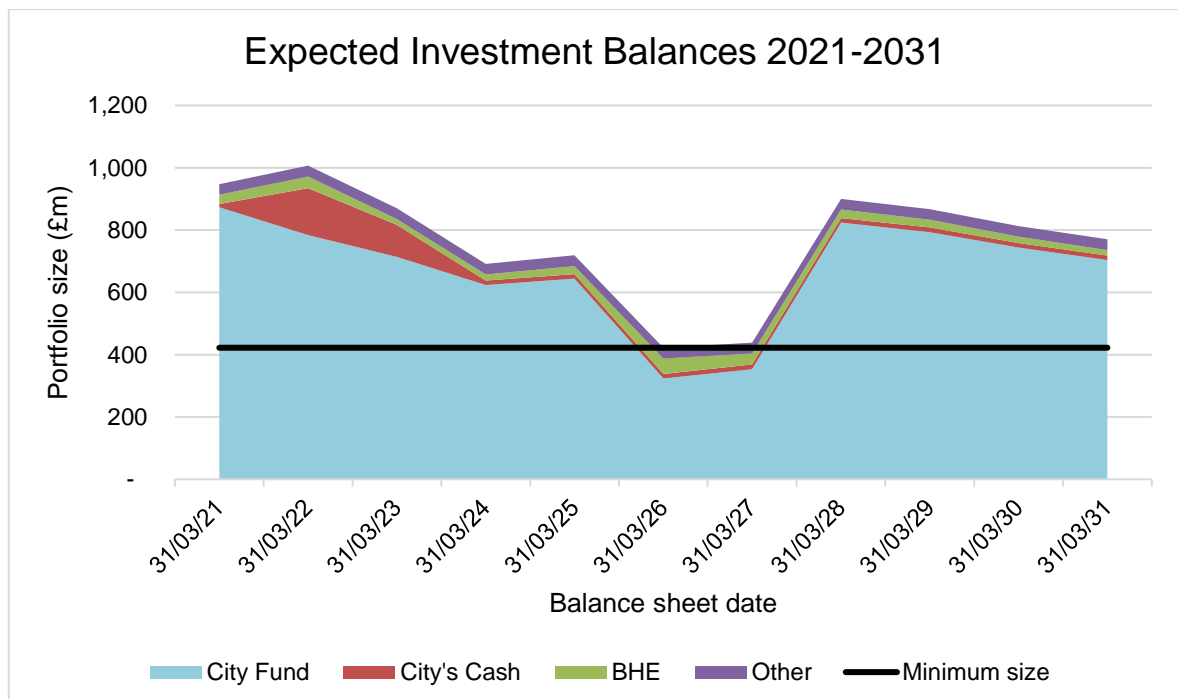


Figure 1 shows projected investment balances across the three funds and others over the coming years as at the end of each financial year.<sup>2</sup> Most of the investment balances relate to City Fund and it should be noted that generally investment balances are expected to be higher between reporting dates.

As the City, and the City Fund in particular, is expected to maintain significant cash balances over the forecast horizon, the treasury management strategy will duly consider how best to protect the capital value of resources, particularly in the context of elevated inflation and low (by historical standards) investment returns. This will include, where appropriate, exposure to investments with an expected investment horizon in excess of one year such as short dated bond funds and multi asset funds. Such investments will only be conducted following a thorough assessment of the City's liquidity requirements and will be subject to ongoing monitoring practices as specified in paragraph 5.13 below.

### 5.3. 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

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<sup>2</sup> "Other" refers to other entities for whom the City provides treasury management services.

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 daily. 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 AA+ (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 and 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 £10bn; or
  - (ii) meet the ratings for banks outlined above
- Money Market Funds (MMFs) Constant Net Asset Value (CNAV)\* – with minimum credit ratings of AAA/mmf
- Money Market Funds (MMFs) Low-Volatility Net Asset Value (LVNAV)\* – with minimum credit ratings of AAA/mmf
- Money Market Funds (MMFs) Variable Net Asset Value (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.
- Multi-Asset Funds – these funds have the potential to provide above inflation returns with a focus on capital preservation, thus mitigating the erosion in value of long-term cash balances by investing in a range of asset classes that will typically include equities and fixed income. The value of these investments will fluctuate and they are not suitable for cash balances that are required in the near term. Before any investment is undertaken a rigorous due diligence process will be undertaken to identify funds that align with the City's requirements.
- UK Government – including government gilts and the debt management agency deposit facility.
- Local authorities

A limit of £400m will be applied to the use of non-specified investments.

\*Under EU money market reforms implemented in 2018/19, three classifications of money market funds exist:

- 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

#### **5.4. Environmental, Social and Governance Risks**

The City of London Corporation is committed to being a responsible investor. It expects this approach to protect and enhance the value of the assets over the long term. The City recognises that the failure to identify and manage financially material environmental, social and governance risks can lead to adverse financial and reputational consequences. The City will incorporate ESG risk monitoring into its ongoing counterparty monitoring processes, alongside traditional creditworthiness monitoring. This risk analysis will be consistent with the City's investment horizon, which in many cases will be short term (under one year) in nature.

## 5.5. 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

## 5.6. Time and monetary limits applying to investments.

The time and monetary limits for institutions on the City's counterparty list are as follows (these will cover both specified and non-specified investments):

	<b>Minimum Creditworthiness Criteria</b>	<b>Money Limit</b>	<b>Time Limit</b>
<b>Banks 1 higher quality</b>	Fitch Rating Long Term: A+ Short Term: F1	£100m	3 years
<b>Banks 1 medium quality</b>	Fitch Long Term Rating Long Term: A Short Term: F1	£100m	1 year
<b>Banks 1 lower quality</b>	Fitch Long Term Rating Long Term: A- Short Term: F1	£50m	6 months
<b>Banks 2 – part nationalised</b>	N/A	£100m	3 years
<b>Banks 3 – City's banker (transactions only, and if bank falls below above criteria)</b>	N/A	£150m	1 working day
<b>Building Societies higher quality</b>	Fitch Long Term Rating A or assets of £150bn	£100m	3 years
<b>Building Societies medium quality</b>	Fitch Long Term Rating A- or assets of £10bn	£20m	1 year
<b>UK Government (DMADF, Treasury Bills, Gilts)</b>	UK sovereign rating	unlimited	3 years
<b>Local authorities</b>	N/A	£25m	3 years
<b>External Funds*</b>	<b>Fund rating</b>	<b>Money and/or % Limit</b>	<b>Time Limit</b>
<b>Money Market Funds CNAV</b>	AAA	£100m	liquid

<b>Money Market Funds LVNAV</b>	AAA	£100m	liquid
<b>Money Market Funds VNAV</b>	AAA	£100m	liquid
<b>Ultra-Short Dated Bond Funds</b>	AAA	£100m	liquid
<b>Short Dated Bond Funds</b>	N/A	£100m	liquid
<b>Multi Asset Funds</b>	N/A	£50m	liquid

\*An overall limit of £100m for each fund manager will also apply.

A list of suitable counterparties conforming to this creditworthiness criteria is provided at Appendix 4. The Chamberlain will review eligible counterparties prior to inclusion on the approved counterparty list and will monitor the continuing suitability of existing approved counterparties.

## 5.7. Country limits

The City has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ (Fitch) or equivalent. The country limits list, as shown in Appendix 5, will be added to or deducted from by officers should individual country ratings change in accordance with this policy. The UK (which is currently rated as AA-) will be excluded from this stipulated minimum sovereign rating requirement.

## 5.8. Local authority limits

The City will place deposits up to a maximum of £25m with individual local authorities. In addition the City imposes an overall limit of £250m for outstanding lending to local authorities as a whole at any given time. Although the overall credit standing of the local authority sector is considered high, officers perform additional due diligence on individual prospective local authority borrowers prior to entering into any lending.

## 5.9. 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 longer 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). Where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

**Investment returns expectations:** Based on our treasury consultant's latest forecasts, Bank Rate is projected to rise incrementally from 0.50% to 1.25% over the medium term. In these circumstances it is likely that investment earnings from money market-related instruments will increase from the very low levels experienced in recent years. Bank Rate forecasts for financial year ends (March) are:

- 2021/22 0.50%

- 2022/23    0.75%
- 2023/24    1.00%
- 2024/25    1.25%

#### 5.10. 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:

<b>Maximum principal sums invested for more than 365 days (up to three years)</b>			
	<b>2021/22 £M</b>	<b>2022/23 £M</b>	<b>2023/24 £M</b>
Principal sums invested >365 days	500	400	300

#### 5.11. Investment performance benchmarking

The City will monitor investment performance against Bank Rate and 3- and 6-month compounded SONIA (Sterling Overnight Index Average).

#### 5.12. 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.

#### 5.13. External fund managers

A proportion of the City's funds, amounting to £577.2m as at 31 December 2021, are externally managed on a discretionary basis by the following fund managers:

- Aberdeen Standard Investments
- CCLA Investment Management Limited
- Deutsche Asset Management (UK) Limited
- Federated Investors (UK) LLP
- Invesco Global Asset Management Limited
- Legal and General Investment Management
- Payden & Rygel Global Limited
- 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.

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 the Payden & Rygel Sterling Reserve Fund, Federated Sterling Cash Plus Fund and Aberdeen Standard Liquidity Fund (Lux) Short Duration Sterling Fund) are all rated by Standard and Poor's as AAA.

The City also uses two Short Dated Bond Funds managed by Legal and General Investment Management 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.

The City fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund managers. In order to aid this assessment, the City is provided with a suite of regular reporting from its managers. This includes monthly valuations and fund fact sheets as well as quarterly and annual reports. In addition to formal reports, officers also meet with representatives of the fund manager on a regular basis. These meetings allow for additional scrutiny of the manager's activity as well as discussions on the outlook for the fund as well as wider markets.

## **6. Policy on the use of external service providers**

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

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

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

## **7. Scheme of Delegation**

Please see Appendix 6.

## **8. Role of the Section 151 officer**

Please see Appendix 7.

## **9. 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. Training was most recently undertaken by Members in February 2019 and will be renewed in 2022/23.



## **APPENDICES**

1. Interest Rate Forecasts 2022-2025
2. Treasury Indicators 2022/23 – 2024/25 and Minimum Revenue Provision Statement
3. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
4. Current Approved Counterparties
5. Approved Countries for Investments
6. Treasury Management Scheme of Delegation
7. The Treasury Management Role of the Section 151 Officer
8. City's Cash Borrowing Policy Statement

**LINK INTEREST RATE FORECASTS 2022 – 2025 (Dated 2021-12-21)**

Link Group Interest Ra 20.12.21													
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
<b>BANK RATE</b>	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
<b>Bank Rate</b>													
Link	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.50	0.75	0.75	1.00	1.25	1.25	1.25	1.25	-	-	-	-	-
<b>5yr PWLB Rate</b>													
Link	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
Capital Economics	1.80	1.90	2.10	2.20	2.20	2.30	2.40	2.40	-	-	-	-	-
<b>10yr PWLB Rate</b>													
Link	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
Capital Economics	2.00	2.10	2.20	2.30	2.30	2.40	2.50	2.50	-	-	-	-	-
<b>25yr PWLB Rate</b>													
Link	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
Capital Economics	2.20	2.30	2.50	2.70	2.70	2.70	2.80	2.90	-	-	-	-	-
<b>50yr PWLB Rate</b>													
Link	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Capital Economics	1.90	2.00	2.20	2.40	2.50	2.60	2.70	2.90	-	-	-	-	-

**Note:** The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective since 1<sup>st</sup> November 2012.

**TREASURY INDICATORS 2022/23 – 2024/25 AND MINIMUM REVENUE PROVISION STATEMENT**

<b>TABLE 1: TREASURY MANAGEMENT INDICATORS</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>actual</b>	<b>probable outturn</b>	<b>estimate</b>	<b>estimate</b>	<b>estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Authorised Limit for external debt (City Fund) -</b>					
Borrowing	153.4	151.7	203.1	316.2	238.0
other long-term liabilities	13.7	13.6	13.5	13.4	13.3
<b>TOTAL</b>	<b>167.1</b>	<b>165.3</b>	<b>216.6</b>	<b>329.6</b>	<b>251.3</b>
<b>Operational Boundary for external debt (City Fund) -</b>					
Borrowing	53.4	51.7	103.1	216.2	138.0
other long-term liabilities	13.7	13.6	13.5	13.4	13.3
<b>TOTAL</b>	<b>67.1</b>	<b>65.3</b>	<b>116.6</b>	<b>229.6</b>	<b>151.3</b>
<b>Actual external debt (City Fund)*</b>	0	0			
<b>Upper limit for total principal sums invested for over 365 days (per maturity date)</b>	£500m	£500m	£400m	£400m	£300m

*\*Actual external debt at the end of the financial year*

<b>TABLE 2: Maturity structure of borrowing during 2021/22</b>	<b>upper limit</b>	<b>lower limit</b>
- 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%

<b>TABLE 3: CITY'S CASH BORROWING INDICATORS</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>actual</b>	<b>probable outturn</b>	<b>estimate</b>	<b>estimate</b>	<b>estimate</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>Estimates of financing costs to net revenue stream</b>	7.7%	9.4%	7.5%	6.9%	8.0%
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Overall borrowing limits</b>	250	450	450	450	450

## MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2022/23

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. MRP commences in the financial year following the one in which the expenditure was incurred. When borrowing to provide an asset, the asset life is deemed to commence in the year in which the asset first becomes operational. Therefore, MRP will first be made in the financial year following the one in which the asset becomes operational. 'Operational' here means when an asset transfers from Assets under Construction to an Assets in Use category under normal accounting rules.

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 2021/22 is £1.2m and is estimated at £1.2m for 2022/23.

**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.

	<b>Minimum ‘High’ Credit Criteria</b>	<b>Use</b>
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 via 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	In-house & Fund Managers
Sovereign Bond issues (other than the UK government)	AA+	Fund Managers

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the Specified Investment criteria. A maximum of £400m 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.

	<b>Minimum Credit Criteria</b>	<b>Use</b>	<b>Maximum</b>	<b>Maximum Maturity Period</b>
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	AA-	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Index Linked Gilts	AA-	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 per Fund	n/a*
<b>Multi Asset Funds</b>	<b>--</b>	<b>In-house via Fund Managers</b>	<b>£50m overall</b>	<b>n/a*</b>

\*Short Dated Bonds Funds and Multi Asset 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 2021**

**UK BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES**

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

**BUILDING SOCIETIES**

<b>FITCH RATINGS</b>		<b>BUILDING SOCIETY</b>	<b>ASSETS</b>	<b>LIMIT PER GROUP</b>	<b>DURATION</b>
<b>A</b>	<b>F1</b>	Nationwide	£285Bn	£100M	Up to 3 years
<b>A-</b>	<b>F1</b>	Yorkshire	£49Bn	£20M	Up to 1 year
<b>A-</b>	<b>F1</b>	Coventry	£53Bn	£20M	Up to 1 year
<b>A-</b>	<b>F1</b>	Skipton	£29Bn	£20M	Up to 1 year
<b>A-</b>	<b>F1</b>	Leeds	£21Bn	£20M	Up to 1 year

**FOREIGN BANKS**

(with a presence in London)

<b>FITCH RATINGS</b>		<b>COUNTRY AND BANK</b>	<b>LIMIT PER GROUP</b>	<b>DURATION</b>
<b>A+</b>	<b>F1</b>	<b>AUSTRALIA (AAA)</b> Australia and New Zealand Banking Group Ltd	£100M	Up to 3 years
	<b>F1</b>	National Australia Bank Ltd	£100M	Up to 3 years
<b>AA-</b>	<b>F1+</b>	<b>CANADA (AA+)</b> Bank of Montreal	£100M	Up to 3 years
<b>AA-</b>	<b>F1+</b>	Royal Bank of Canada	£100M	Up to 3 years
<b>AA-</b>	<b>F1+</b>	Toronto-Dominion Bank	£100M	Up to 3 years
<b>A+</b>	<b>F1+</b>	<b>GERMANY (AAA)</b> Landesbank Hessen-Thueringen Girozentrale	£100M	Up to 3 years
<b>A+</b>	<b>F1</b>	<b>NETHERLANDS (AAA)</b> Coöperatieve Rabobank U.A.	£100M	Up to 3 years
<b>AA-</b>	<b>F1+</b>	<b>SINGAPORE (AAA)</b> DBS Bank Ltd.	£100M	Up to 3 years
<b>AA-</b>	<b>F1+</b>	United Overseas Bank Ltd.	£100M	Up to 3 years
<b>AA-</b>	<b>F1+</b>	<b>SWEDEN (AAA)</b> Skandinaviska Enskilda Banken AB	£100M	Up to 3 years
<b>A+</b>	<b>F1</b>	Swedbank AB	£100M	Up to 3 years
<b>AA</b>	<b>F1+</b>	Svenska Handelsbanken	£100M	Up to 3 years



### **MONEY MARKET FUNDS**

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

### **ULTRA SHORT DATED BOND FUNDS**

<b>FITCH RATINGS (or equivalent)</b>	<b>ULTRA SHORT DATED BOND FUNDS Limit of £100M per fund</b>	<b>DURATION</b>
AAA/f	Payden Sterling Reserve Fund	Liquid
AAA/f	Federated Sterling Cash Plus Fund*	Liquid
AAA/f	Aberdeen Standard 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 and Aberdeen Standard

### **SHORT DATED BOND FUNDS**

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

**LOCAL AUTHORITIES**

<b>LIMIT OF £25M PER AUTHORITY AND £250M OVERALL</b>
--

Any UK local authority
------------------------

**APPROVED COUNTRIES FOR INVESTMENT**

This list is based on those countries which have sovereign ratings of AAA and AA+ from Fitch Ratings as at 28 January 2022.

**AAA**

- Australia
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- United States

**AA+**

- Canada
- Finland

**AA-**

- United Kingdom

**TREASURY MANAGEMENT SCHEME OF DELEGATION**

The roles of the various bodies of the City of London Corporation with regard to treasury management are set out below. **Financial Investment Board and the Audit & Risk Management Committee current hold on oversight role on behalf of Bridge House Estates in line with formal references agreed with the Bridge House Estates Board.**

**(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, a debt financing strategy will be established.
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

**DRAFT CAPITAL STRATEGY**  
**Financial Years 2022/23 to 2025/26**

**INTRODUCTION AND BACKGROUND**

1. This Capital Strategy is an overarching document covering City Fund and City's Cash activities 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.
5. Note that the governance review currently underway may impact on the committee and departmental responsibilities stated below.

**CORE PRINCIPLES THAT UNDERPIN THE CAPITAL PROGRAMME**

6. The key principles for the capital programme are summarised below and shown in more detail as Annex A.
7. Capital investment decisions reflect the aspirations and priorities included within the City Corporation's Corporate Plan and supporting strategies.
8. Schemes to be included in the capital programme will be subject to a gateway process, currently overseen by Projects Sub Committee (likely to be replaced with a new combined Operational Property, Projects and Procurement Sub Committee). The only exception to this is 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. This oversight includes feasibility and option appraisal costs which are classified as supplementary revenue project expenditures. 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.

9. A key consideration is affordability of the capital programme in terms of the City's Medium Term Financial Plans. 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 optimum use of available funds.
10. 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

11. 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. The Bridge House Estates charity is excluded.
12. The impact of the capital programmes for each fund, including the major projects and new schemes approved via the annual bid process is incorporated into the medium-term financial plans to demonstrate affordability, sustainability and prudence.
13. 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/income generating (payback within 5 years)
  - major renewals of income generating assets
  - must address a risk on the Corporate Risk Register or that would otherwise be escalated to the register e.g., replacement of critical end of life assets, schemes required to deliver high priority policies and schemes with high reputational impact
  - must have a sound business case clearly demonstrating the negative impact of the scheme not going ahead such as material penalty costs or loss of income

In preparation for the 2022/23 annual budget, the annual capital bids for new funding from 2022/23 have been agreed in principle in accordance with the process introduced to facilitate the strategic allocation of resources to the highest priority schemes.



## Appendix E

14. 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 Project Sub-Committee, which scrutinises individual projects, and the Resource Allocation Sub-Committee, which considers the overall programme of project activity and funding. Decisions about projects are made in conjunction with service committees and the Court of Common Council (for high value projects). Major Programmes (generally those over £100m) are managed directly through the Capital Buildings Committee or Policy and Resources Committee.
15. 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.
16. 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.
17. 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 all 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.
18. 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.
19. All projects progressing to the capital programme comply with standing orders, financial regulations, and *generally* the project procedure (with the main exception of the major programmes under the direct control of the Capital Buildings Committee) and procurement code - and are subject to confirmation of funding.

### SHORT, MEDIUM AND LONG-TERM CAPITAL PLANNING OBJECTIVES

20. The City Corporation maintains an approved capital programme that covers a five-year period which is agreed by the Court of Common Council as part of the annual budget setting process.
21. Going forward the intention is to extend the capital programme over a longer term, especially with regard to the major programmes, to aid in the

## Appendix E

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.

22. The impact of the major programmes 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.
23. 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. Social Housing properties are overseen by the Community and Children's Services Committee. Other operational properties are overseen by Corporate Asset Sub Committee within the framework of the Corporate Property Asset Management Strategy 2020/25.
24. Such sizeable property portfolios require significant capital and revenue investment to maintain them and in the case of the investment property to maximise the returns. These schemes are therefore likely to make ongoing major calls on the City Corporation's limited capital resources.
25. To assist with managing this commitment the City Corporation has conducted a fundamental review to focus capital investment on priorities and is also in the process of streamlining its activities in line with a target operating model. This is expected to result in the identification of surplus assets through rationalisation of the operational property estate.

### CAPITAL INVESTMENT PRIORITIES

26. 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 and supplementary revenue project plans, which include costs of feasibility and option appraisal and the indicative cost of schemes still under development, are as follows:

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Later Years £m	Total £m
City Fund	175.3	231.9	305.2	264.3	150.2	209.4	1,336.3
City's Cash	130.3	91.2	139.3	245.9	320.2	450.9	1,377.8
	305.6	323.1	444.5	510.3	470.4	660.3	2,714.2

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

	City Fund £m	City's Cash £m	Total £m
Major Programmes	891.6	1,219.7	2,111.3
Capital and SRP Programme	427.7	149.1	576.8
New Bids	17.0	9.0	26.1
	1,336.3	1,377.8	2,714.2

27. There are currently five potential major programmes at various stages of development:

- Museum of London Relocation (City Fund and City's Cash)
- Salisbury Square Development (City Fund and City's Cash)
- Markets Co- location Programme (City's Cash)
- Guildhall Redevelopment (City's Cash)
- Barbican Centre Renewal (City Fund)

28. 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, resulting in a step change in the previously debt-free status of City's Cash and also necessitating significant liquidation of investments for both funds. The revenue impact from loss of rental/investment income presents a further challenge to limited resources and the need to demonstrate financial sustainability. Therefore, the progression of the major programmes is dependent on the business cases and demonstration of sustainable funding strategies.

29. Other significant schemes within the current capital programme include:

- Investment Property refurbishments
- School refurbishment/expansion projects (including a new Junior School building)
- IT systems investment
- Social Housing Decent Homes refurbishments and new affordable housing units
- Remaining capital contribution to Government Crossrail Project
- Capital Investment to deliver Climate Action Strategy targets
- Various highways and public realm projects.

30. New bids include:

- Critical end of life asset replacements (mainly building infrastructure and IT)
- Statutory compliance/health and safety projects
- 
- 'Secure City' Infrastructure

31. Following the progression of the new corporate target operating model, revised prioritisation criteria may ensue to inform future resource allocation.

### ASSET MANAGEMENT PLANNING

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

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

- Operational purposes e.g., assets that support core business and service delivery such as schools, social housing, office buildings, Barbican Arts Centre, Central Criminal Court, cleansing depot, cemetery and crematorium, port health offices, wholesale markets, City Police, car parks, libraries, Mansion House and various 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.

34. 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 Property Asset Management Strategy 2020-25. This strategy has the following objectives relating to capital investment:

- Ensure capital and revenue investment into the operational estate is 'relevant and needed' to achieve Corporate Plan objectives.
- Ensure capital and revenue projects are affordable, sustainable, prudent and directed to corporate priorities.
- Ensure future capital investment in the operational estate is aligned with 'invest to save' outcomes, full life cycle and both financial and non-financial assessments.

35. The development of Asset Management Plans for non-housing properties across the operational portfolio assists in delivering the asset management component of service department business plans and strategies and supporting the aims of the Corporate Plan. In so doing, these plans support

the prioritisation of future capital requirements and incorporation of corporate objectives across the operational portfolio.

### 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 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. Investment properties may also be sold to provide capital to fund the capital programme. Some significant disposals are currently planned to provide funding for the major programmes. The resulting loss of rental returns needs to be carefully managed to ensure sufficient income to deliver services.
40. 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.
41. 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.
42. Performance of each estate is benchmarked through MSCI against the overall MSCI Universe and against the MSCI "Greater London Properties including owner occupied" benchmark. The target set is to outperform the MSCI Return Benchmarks for Total Return on an annualised five-year basis. There is a subsidiary target to maintain rental income levels and to endeavour to secure rental income growth at least in line with inflation.
43. 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.

44. The Property Investment Board receives quarterly 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

45. 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 by the above will need to be funded by prudential borrowing which can be internal or external.

46. For City Fund, 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.
47. To date, the City Corporation has funded its City Fund capital expenditure from the sources listed above or through internal borrowing. A programme of property disposals is currently being planned to fund the City Fund major projects in preference to external borrowing. City's Cash capital expenditure has been funded from cash balances supplemented by external borrowing through private placement for the City's Cash major programmes.
48. In approving the inclusion of schemes and projects within the capital programme, the City Corporation ensures all its capital and investment plans are affordable, prudent and sustainable. In the event of borrowing, the City Corporation will take into account the arrangements for the repayment of debt, through a prudent Minimum Revenue Provision (MRP) policy for City Fund in line with MRP guidance produced by the Department for Levelling Up, Housing and Communities. For City's Cash, provision will need to be made for the repayment of private placement borrowing (which falls due beyond the current medium term financial planning period).
49. 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. Loss of income resulting from property disposals are also incorporated into these plans. This enables members to

consider the consequences of capital investment and disposal alongside other competing priorities for revenue funding.

50. 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.
51. 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. In making its capital investment decisions the City Corporation must have explicit regard to consider all reasonable options available.
52. 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. Likewise, loss of rental income arising from asset disposals impacts on funding to deliver services. By agreeing to fund capital schemes through external borrowing or asset disposals, Members are agreeing to divert this funding away from revenue activity in order to meet their priorities.

### 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. Subject to careful due diligence, the City Corporation will consider the appropriate 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 significantly and demonstrably mitigate a previously identified corporate risk.
56. The gateway approval process currently 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 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. Maintenance of a costed risk register to identify and keep under review the risks associated with projects is Corporation best practice and most projects comply. Costed risks are 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, the costs of major programmes include an element of optimism bias in line with HM Treasury guidance to mitigate the financial implication of delays and/or increased costs.
58. The current level of inflation presents a significant risk to the cost and affordability of construction projects over the short to medium term. A risk assessment has been undertaken to quantify the potential financial impact on existing capital funding plans and contingency provisions included in the City Fund and City's Cash 2022/23 budgets to mitigate this.

### TREASURY MANAGEMENT

59. 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.
60. 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.
61. The Treasury Management Strategy Statement outlines the organisation's borrowing strategy, which aims to make sure that sufficient cash is available to ensure the delivery of the City Corporation's capital programme as planned. Any borrowing decision will be undertaken in the context of managing interest rate exposure in order to contain the organisation's interest costs.
62. 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

63. 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.

64. 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 generally be sought in consideration of any major commercial property investment decision.
65. 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 Estate (City Fund & City's Estate) Annual Update & Strategy for 2022 January 2022

City Fund Investment Portfolio Annual Update and Strategy January 2022

City's Estate Annual Update & 2021 Strategy - January 2022

Treasury Management Strategy Statement 2022/23

Corporate Property Asset Management Strategy 2020/25

Corporate Project Procedure

City of London Corporate Plan

Corporate Risk Register

**Annex A****CORE PRINCIPLES UNDERPINNING THE CAPITAL PROGRAMME**

In considering schemes for inclusion in the capital programme, regard will be paid 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 (except major programmes) follow the gateway process which ensure they are affordable and sustainable. This includes careful consideration of value for money and options appraisal.
- mobilisation of the major projects is subject to scrutiny of the Capital Buildings Committee.
- 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 to implementation 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 and strategic investment disposals.
- 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
- a Project Management Academy is being rolled out to ensure appropriate project management skills are applied.
- 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.

The Bridge House Estates (BHE) Contingency is now overseen by the BHE Board and is no longer reported to Finance Committee.

<b>Finance Committee Contingencies</b>						
		City's Cash £'000	City Fund £'000	Bridge House Estates £'000	Disaster Fund £'000	<b>Total £'000</b>
<b>2021/22</b>	Provision	950	800	0	125	1,875
	Provision brought forward	0	206	0	0	206
	Total Provision	950	1,006	0	125	2,081
	Less Allocations	(773)	(749)	0	(75)	(1,597)
	<b>Uncommitted Balance</b>	<b>177</b>	<b>257</b>	<b>0</b>	<b>50</b>	<b>484</b>
<b>2020/21</b>	Provision	950	800	50	100	1,900
	Provision brought forward	24	541	0	25	590
	Total Provision	974	1,341	50	125	2,490
	Less Allocations	(164)	(741)	(0)	(100)	(1,005)
	<b>Uncommitted Balance</b>	<b>810</b>	<b>600</b>	<b>50</b>	<b>25</b>	<b>1,485</b>
<b>2019/20</b>	Provision	950	800	50	100	1,900
	Provision brought forward	50	15	0	0	65
	Total Provision	1,000	815	50	100	1,965
	Less Allocations	(481)	(621)	0	(50)	(1,152)
	<b>Uncommitted Balance</b>	<b>519</b>	<b>194</b>	<b>50</b>	<b>50</b>	<b>813</b>
<b>2018/19</b>	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	(920)	(733)	(4)	(100)	(1,757)
	<b>Uncommitted Balance</b>	<b>139</b>	<b>127</b>	<b>46</b>	<b>0</b>	<b>312</b>
<b>2017/18</b>	Provision	950	800	50	100	1,900
	Provision brought forward	85	0	0	0	85
	<b>Total Provision</b>	<b>1,035</b>	<b>800</b>	<b>50</b>	<b>100</b>	<b>1,985</b>
	Allocations	(788)	(697)	(22)	(100)	(1,607)
	<b>Uncommitted Balance</b>	<b>247</b>	<b>103</b>	<b>28</b>	<b>0</b>	<b>378</b>

Policy Initiative Fund		
	<b>City's Cash</b>	
2020/21	Provision	1,250
	Provision brought forward for unspent provisions	437
	Provision brought forward for agreed allocations not yet completed	282
	Total Provision	1,969
	Less Allocation	(1,442)
	<b>Uncommitted balance as at 25/01/2021</b>	<b>527</b>
2019/20	Provision	1,250
	Provision brought forward for unspent provisions	105
	Provision brought forward for agreed allocations not yet completed	324
	Balance moved from P&R Contingency to cover multiyear allocations	100
	Total Provision	1,779
	Less Allocations	(1,342)
	<b>Uncommitted balance</b>	<b>437</b>
2018/19	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	(1,480)
	<b>Uncommitted balance</b>	<b>105</b>
2017/18	Provision	1,250
	Provision brought forward for unspent provisions	72
	Provision brought forward for agreed allocations not yet completed	38
	Allocation from P&R Contingency	200
	Total Provision	1,560
	Less Allocations	(1,399)
	<b>Uncommitted balance</b>	<b>161</b>

<b>Policy and Resources Contingency</b>		
2020/21	City's Cash	
	Provision	300
	Provision brought forward for unspent provisions	234
	Provision brought forward for agreed allocations not yet completed	131
	Total Provision	665
	Less Allocations	(607)
	<b>Uncommitted balance as at 25/01/2021</b>	<b>58</b>
2019/20	Provision	300
	Provision brought forward for unspent provisions	79
	Provision brought forward for agreed allocations not yet completed	302
	Balance moved to P&R Contingency to cover multiyear allocations	(100)
	Total Provision	581
	Less Allocations	(347)
	<b>Uncommitted balance</b>	<b>234</b>
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	(432)
	<b>Uncommitted balance</b>	<b>79</b>
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
	Less Allocations	(384)
	<b>Uncommitted balance</b>	<b>18</b>

<b>Brexit Contingency</b>		
	<b>City's Cash</b>	
2020/21	Provision brought forward for unspent provisions	640
	Total Provision	640
	Less Allocations	-
	<b>Uncommitted balance as at 25/01/2021</b>	<b>640</b>
2019/20	Extra provision provided by MHGL	210
	Provision brought forward for unspent provisions	2,017
	Provision brought forward for agreed allocations not yet completed	-
	Provision moved to create COVID Contingency	(1,500)
	Total Provision	727
	Less Allocations	(87)
	<b>Uncommitted balance</b>	<b>640</b>
2018/19	Provision	2,000
	Extra provision provided by MHGL	105
	Provision brought forward for unspent provisions	-
	Provision brought forward for agreed allocations not yet completed	-
	Total Provision	2,105
	Less Allocations	(88)
	<b>Uncommitted balance</b>	<b>2,017</b>



<b>COVID Contingency</b>		
	<b>City's Cash</b>	
2020/21	Provision brought forward for unspent provisions	1,500
	Provision brought forward for unspent provisions	
	Total Provision	1,500
	Less Allocations	(1,108)
	<b>Uncommitted balance as at 25/01/2021</b>	<b>392</b>
2019/20	Provision moved to create COVID Contingency	1,500
	Total Provision	1,500
	Less Allocations	-
	<b>Uncommitted balance</b>	<b>1,500</b>

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<b>Committee(s)</b>	<b>Dated:</b>
Finance Committee - For decision Policy and Resources - For information Court of Common Council – For decision	15 February 2022 17 February 2022 10 March 2022
<b>Subject:</b> 2022/23 City's Cash Budgets and medium-term financial plan	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
<b>Report author:</b> Neilesh Kakad – Group Accountant	

## Summary

This report covers the 2022/23 Budget and medium-term financial outlook for City's Cash and Guildhall Administration. The report should therefore be read in conjunction with the City Fund report on your Committee's agenda.

**City's Cash** continues to have a greater degree of uncertainty due to COVID-19 on its key revenue streams of property rental income and growth in financial investments. The additional risk brought about by higher inflation adds to these uncertainties in the short to medium term. Prudent management of funds ensures losses can be accommodated within overall balance sheet growth over the medium-term.

Over the planning period, the cumulative draw down on investments is £339.4m (including £188.6m for the capital programme and Crossrail contribution). Balance Sheet forecasting indicates this sum is sustainable over the medium term, but not in the longer 10-year horizon when financing costs on major projects increase. Annual drawdowns across the medium term are in excess of assumed growth in financial assets, this is due to including exceptional items such as capital programmes and Crossrail contributions.

In response, to the financial challenges the City Corporation set a general budget reduction of 12% in 2021/22 across all funds, the implementation of the new target operating model to make organisational efficiencies, plus agreed Fundamental Review savings in 2019/20 to be delivered across five years (2021 to 2024/25). The savings are identified from 2021/22 to ensure that budgets are fully aligned with and support our Corporate Plan objectives and finances are put on to a sustainable footing over the medium-term.

**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 through allocation to services within each fund, the net expenditure on Guildhall Administration is nil.

## Recommendations

Members are asked to:

1. Note the latest revenue budgets for 2021/22 (paragraphs 19 to 22).
2. Agree the 2022/23 revenue budgets, including the following measures:
  - Note the **overall budget envelope** for City Cash.
  - Approve the overall financial framework and the revised Medium-Term Financial Strategy (paragraphs 2-18).
  - **Unfunded additional revenue bids:** To be avoided during 2022/23 - 2025/26 with a zero-based budget review to take place to reprioritise spend in line with new Corporate priorities.
  - Carry forwards from 2021/22 to be minimised, however where significant pressures have been highlighted by departments these are reviewed in light of on-going challenges.
3. Approve the 2022/23 Capital and Supplementary Revenue Project Budgets for City's Cash amounting to £20.4m (paragraph 27).
4. Approve the allocation of central funding of up to £9.0m for City's Cash to meet the cost of the 2022/23 capital schemes. Release of such funding being subject to approval at the relevant gateway and specific agreement of the Resource Allocation Sub-Committee at Gateway 4(a). In addition, a contingency is held under the capital programme up to £1.0m - given the pressures on construction and labour inflation rising up to 15% (paragraph 30).
5. Delegate authority to the Chamberlain to determine the final financing of capital and supplementary revenue project expenditure.
6. 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 2021/22 and the proposed budgets for 2022/23 for City's Cash, 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 has been prepared based on the planning framework for Chief Officers which included:
  - Securing permanent year on year permanent savings from the 12% savings programme totalling £4.1m - initiated in 2021/22.
  - Fundamental Review savings included in 2022/23 total £1.4m.
  - Cash flat budget provision with centrally held inflation contingency recognising the potential impact of higher levels of inflation predicted in

2022/23.

- Carry out a zero based budget review to reprioritise within the overall envelope – supporting the change in the operating model, plus a review of operational property and income generation.

## **Overall Financial Strategy**

3. The City of London Corporation's overall financial strategy seeks to:

- manage the effects/recovery of a global pandemic impacting on the economy and income;
- 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, such as Destination City – renewed vision for the square mile;
- create a stable framework for budgeting through effective financial planning;
- promote investment in capital projects which bring clear economic, policy or service benefits;
- manage the affordability to support major projects programmes now and in the future; and
- financial strategy to be developed following review of the investment asset base and fund income requirements during 2022.

4. The medium-term financial strategies and budget policies for City's Cash are set out in Appendix 1. City Fund's medium-term financial strategy is included in the separate City Fund report.

## **Current Position**

5. With the continued uncertainty of the global pandemic and economic position, pressures and risks for the City Corporation's finances will continue into the 2022/23 fiscal year. With the UK beginning to recover from the effects of COVID-19 but still facing headwinds from high levels of inflation, interest rate rises and global events, risks persist in the key revenue streams that support the activity of City's Cash. In addition, the City Corporation is undergoing its own period of significant change in response to these events and its ambition to deliver on its key policy priorities such as its move to net zero and support to major projects.

## **Budget Reductions**

6. In response to the financial challenges the City Corporation implemented a 12% reduction in budget in 2021/22 alongside a new target operating model to secure organisational efficiencies. This has yielded savings of £4.1m under City's Cash. This was in addition to the Fundamental Review programme, which began in 2020/21 with the aim of better aligning spend with policy priorities as well as seeking efficiencies. Savings delivered in 2022/23 under City's Cash are a total of £1.4m savings.

7. Following this period of change, 2022/23 will be used to bed down these savings to ensure they continue to be delivered and support a sustainable financial position for City's Cash across the medium term.

## Flat Cash

8. The starting point for the 2022/23 budget is 'flat cash' from the previous resource allocation in 2021/22, with provision made for the pay award. However, in recognition of the high level of inflation predicted during 2022/23, a central inflation contingency has been incorporated into the budget to mitigate the risk of higher costs that cannot be contained within budget envelopes (£2.1m). This includes specific provision for energy cost increases (£0.3m). Delegations to the Chamberlain for use of this contingency will increase the accuracy in forecasting.

## Latest forecast position

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

Table 1

### CITY'S CASH

£m	2021/22	2022/23	2023/24	2024/25	2025/26
City's Cash Surplus/(Deficit) before savings, capital and major projects	(24.7)	(18.6)	(15.8)	(11.9)	(10.5)
Build Back Better Fund	-	(4.5)	(7.5)	(9.5)	-
Fundamental review savings	1.1	1.4	1.4	1.4	1.4
12% inc TOM	4.1	4.1	4.1	4.1	4.1
Deficit, before capital and major projects financing	(19.5)	(17.6)	(17.8)	(15.9)	(5.0)
Financing major projects- markets & landlord MOL	(8.5)	(10.5)	(10.5)	(10.5)	(15.7)
Deficit, incl major projects financing	(28.0)	(28.1)	(28.3)	(26.4)	(20.7)
Exceptional items- BAU projects Capital incl. SRP* and CWP**	(57.8)	(40.8)	(62.9)	(40.1)	(33.3)
Crossrail	-	-	(25.0)	(25.0)	-
Draw down on Financial Gain	42.8	40.4	34.3	22.7	20.8
City's Cash deficit	(43.0)	(28.5)	(81.9)	(68.8)	(33.2)
Net assets balance	3,203.6	3,214.7	3,281.1	3,316.3	3,383.3

\*SRP – Supplementary Revenue Programme; \*\*CWP – Cyclical Works Programme

10. Whilst the economy has begun to recover, risks persist in key areas of the City's Cash medium term financial plan. The Government's moratorium for non-payment of commercial rents is due to be lifted on 25 March 2022, which may crystallise bad debt on rental income and early termination of tenancy agreements where tenants have gone into liquidation may produce further pressure on void costs where properties are fit for relet. To mitigate the latter, it is recommended £1.8m is set aside from the City's Estate Designated Sales Pool to manage refurbishment costs of properties identified as being at risk. The impact of bad debt is assessed as part of the monitoring and closing process where appropriate provision will be set aside.
11. The forecast includes new capital bids of £9.0m approved by January Finance Committee, which is within the recommended allocation of £10m p.a.; as well as the 'business as usual' capital programme, financed through disposal of investment properties or securities; and the revenue costs of financing Major Projects. Given the pressures on construction and labour inflation rising up to 15%, it is recommended a contingency is held under the capital programme up to the allocated amount - £1.0m, this takes into account capital programmes in flight and due to be delivered over the next 1-2 years.
12. Major Projects: Four major projects have been forecast under the medium-term financial plan. It is currently assumed these projects will be financed through borrowing (£450m already in place); planned capital receipts; plus, a drawdown on financial investments. Draw down on financial investments for Major Projects impacts on the draw down available on financial gain which currently supports the City's Cash revenue expenditure. The major projects are listed below:
- Museum of London Landlord works;
  - Fleet Street Estate – combined court (transferred from City Fund in 2021/22).
  - Markets consolidation programme, subject to business case approval- estimates include the revenue impact of financing the Markets project, although the business case is yet to be approved the Markets programme has been pushed back a year and reflected under the medium-term.
  - Guildhall Master plan, subject to business case approval, has now been modelled under the medium-term and assumes capital receipts in 2025/26. The Guildhall Master plan is expected to achieve future savings which will benefit both City Fund and City's Cash.
13. Over the period, the cumulative draw down on investments is £339.4m (including the planned £50m to finance Crossrail payments and sums required for the capital programme). Overall net asset on the balance sheet has grown by £179.7m over the medium-term, this includes the drawdown on financial investments, steady growth in assets, plus the impact of the Major Projects – including Guildhall Master Plan. Balance Sheet forecasting indicates this sum is sustainable over the medium-term, overall increasing net assets by £406m over 10 years.

14. However, the gain in future financial investments is unable to support the longer term draw down of c£35m p.a. (including future capital and cyclical works programmes) and therefore requires careful rebalancing of portfolios over the medium to longer term. This also includes the full impact of major projects - the need to look at the operating models, for example Markets consolidation and how this impacts the longer-term sustainability of City's Cash. A financial strategy is to be developed following review of investment asset base and fund income requirements during 2022.

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

15. Before addressing the immediate pressures in 2022/23, 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 the longer term.
16. This requires action on: 1) revenue - through achievement of Fundamental Review savings, and prudent capital budgets. 2) major projects - Members will want to consider options to ensure the longer-term affordability, financing strategy, funding from 3<sup>rd</sup> parties as well as improving commercial propositions.

## **Additional Revenue Requests**

17. Policy and Resources Committee and Finance Committee continue to signal that revenue pressures are to be accommodated by reprioritising existing budgets; and an expectation that additional pressures that might arise during 2022/23 will be absorbed within local risk budgets.
18. However, time limited additional resources have been included within the budget for policy initiatives such as: Green Finance Institute and The City UK.

## **CITY'S CASH**

19. The 2021/22 and 2022/23 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.

**Table 2**

<b>City Cash Summary</b>	<b>2021/22 Original</b>	<b>2021/22 Latest</b>	<b>2022/23 Original</b>
<b>Gross Revenue Expenditure</b>	<b>(113.5)</b>	<b>(119.3)</b>	<b>(119.0)</b>
<b>Gross Revenue Income</b>	<b>62.7</b>	<b>62.8</b>	<b>62.6</b>
<b>Operating Deficit funded by drawdown*</b>	<b>(50.8)</b>	<b>(56.5)</b>	<b>(56.4)</b>

\*Operating Deficit funded by drawdown row excludes capital programmes, however, includes CWP and SRP.

20. City's Cash net expenditure is £5.7m higher comparing the latest 2021/22 budget with the original budget. Other main movements comprise of 2020/21



carry forwards of £4.3m and additional central support costs £1.9m.

21. The budget for 2022/23 reduces by £0.1m when comparing the 2022/23 Original budget to the 2021-22 Latest.

**Table 3**

	£m
<b>2021/22 Latest Budget</b>	<b>(56.5)</b>
Release of Carry Forwards - 2020/21	4.3
Reduction in COVID provisions	3.7
Reduction in recharges	2.4
2% Efficiencies and FR savings	0.9
Members Financial Support Scheme	(0.5)
Inflationary Provision	(2.1)
Additional Loan interest	(2.1)
Pay and 2% price inflation increase	(2.3)
Contribution to build back better fund	(4.5)
Other minor changes	0.3
<b>2022/23 Original Budget</b>	<b>(56.4)</b>

22. The net positions for 2021/22 and 2022/23 are summarised by Committee in Appendix 2. Reserves are available to meet the estimated deficit in the current year and in 2022/23.

## **GUILDHALL ADMINISTRATION**

### **Overall Budget Position**

23. 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.

**Table 4**

<b>Guildhall Administration by Committee Net (Expenditure)</b>	<b>2021/22 Original £m</b>	<b>2021/22 Latest £m</b>	<b>2022/23 Original £m</b>
Establishment - Town Clerk & C&CS	(8.6)	(10.9)	(10.7)
Finance - Chamberlain	(24.6)	(24.4)	(23.6)
Finance - Chief Operating Officer	(12.3)	(13.0)	(10.1)
Finance - City Surveyor	(22.1)	(23.5)	(21.1)
Finance - Town Clerk	(1.4)	(1.4)	(1.4)
<b>Total Net Expenditure</b>	<b>(69.0)</b>	<b>(73.2)</b>	<b>(66.9)</b>
Recovery of Costs	69.0	73.2	66.9
<b>Total Guildhall Administration</b>	<b>0</b>	<b>0</b>	<b>0</b>

24. The gross expenditure for Guildhall Administration is recovered across all funds. Increased costs in 2021/22 arose from carry forward requests and contingency allocation to fund transformation spend.

25. The 2022/23 budget will reduce by £6.3m from the latest 2021/22 position following further fundamental review savings of £3.1m and removal of one-off contingency funding allocated during the current year.

26. Appendix 3 shows the budgets by committee.

### **Capital and Supplementary Revenue Project Forecast Expenditure and Funding**

27. The City of London has a significant programme of property investments, works to improve the operational property estate and major capital projects to benefit wider London. The total anticipated capital and supplementary revenue expenditure, including forecasts against approved budgets and the indicative cost of schemes awaiting approval is as follows:

**Table 5**

<b>City Cash Capital Programme</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>
Capital Programme BAU - incl. Crossrail	27.0	8.7	55.9	31.7	-
Supplementary Revenue Programme	8.5	8.0	4.2	4.4	3.8
New Bids - profiled	-	2.0	5.0	10.0	10.0
Climate Action	2.5	1.7	1.5	1.6	2.1
<b>Total Capital Programme (exclu. Major Projects)</b>	<b>38.0</b>	<b>20.4</b>	<b>66.6</b>	<b>47.7</b>	<b>15.9</b>
<b>Major Projects</b>	<b>63.9</b>	<b>47.8</b>	<b>103.5</b>	<b>236.3</b>	<b>317.4</b>

28. The City's Cash capital and supplementary revenue project budgets are being submitted to the Court of Common Council in March as part of the Summary Budget Book. They comprise forecasts of expenditure against budgets which have been approved to spend in accordance with the relevant governance arrangements e.g. corporate projects procedure, Capital Buildings Committee approvals etc. The latest forecasts of City's Cash 2022/23 capital and supplementary revenue project expenditure against approved budgets (included within the figures in the table above) amount to £18.4m. This excludes the indicative costs of schemes awaiting approval.
29. To ensure future capital expenditure is aligned to key priorities, an annual bid process was introduced for all potential schemes commencing 2021/22. The City Corporation's Resource Allocation Sub-Committee has carried out a robust review of all service capital bids and agreed those bids to be prioritised.
30. Central funding of up to £9.0m for City's Cash meets the cost of the 2022/23 new bids together. Release of such funding will be subject to approval at the relevant gateway and specific agreement of the Resource Allocation Sub-Committee at Gateway 4(a). Given the pressures on construction and labour inflation rising up to 15%, it is recommended a contingency is held under the capital programme up to the allocated amount - £1.0m, this takes into account capital programmes in flight and due to be delivered over the next 1-2 years.
31. The financing of the City's Cash capital and supplementary revenue projects programmes needs to reflect the optimum reserves position of each fund. Therefore, approval is sought for authority to be delegated to the Chamberlain to determine the *final* financing of capital and supplementary revenue project expenditure.

## **Risk**

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

Within the City's control:

- Delays in delivery of the new target operating model, delaying organisational efficiencies.
- Further delays in delivery of income generation schemes under the Fundamental Review.

Outside the City's control:

- Delays in the economic recovery following impact of COVID-19, increasing the risk of income losses in 2022/23
- rental income reduction from our commercial property as a result of increased voids.
- Impact of inflation materially increasing costs.

## **Conclusion**

33. There has been a significant effort across City's Cash to commit to delivering year on year permanent savings against the 12% savings required to underpin

a sustainable MTFP and the increased funding requirement flowing from the adoption of a major projects programme. Pressures across a range of existing revenue and capital budgets, mean that deficits are forecast across the medium-term planning horizon. In 2022/23, we will, draw down on our reserves, to bring the fund into balance. This measure is sustainable in the short term, but not in the longer 10-year horizon when the financing costs on the major projects increase.

## **Appendices**

- Appendix 1 - Medium Term Financial Strategy/Budget Policy
- Appendix 2 - City's Cash Budget
- Appendix 3 - Guildhall Administration Budget

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## **City's Cash Medium Term Financial Strategy/Budget Policy**

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.

## CITY'S CASH Budget

City's Cash 2021/22 and 2022/23 budgets shown by Committee in the table below:

<b>City's Cash Summary by Committee</b>	<b>2021/22 Original £m</b>	<b>2021/22 Latest £m</b>	<b>2022/23 Original £m</b>
<b><i>Net Expenditure (Income)</i></b>			
Culture, Heritage & Libraries	(0.4)	(0.4)	(0.3)
Education Board	(2.5)	(2.6)	(3.0)
Finance	(43.3)	(44.1)	(51.9)
G. P. Committee of Aldermen	(3.8)	(3.9)	(3.7)
Guildhall School of Music and Drama	(14.1)	(13.4)	(13.2)
Markets	0.0	(0.5)	(0.3)
Open Spaces:-			
Open Spaces Directorate	0.0	0.0	0.0
Epping Forest and Commons	(6.9)	(7.5)	(6.3)
Hampstead, Queen's Pk, Highgate Wood	(6.1)	(6.4)	(5.1)
Bunhill Fields	(0.5)	(0.6)	(0.2)
West Ham Park	(1.1)	(1.2)	(1.0)
Policy and Resources	(17.6)	(20.6)	(17.3)
Property Investment Board	49.8	49.3	49.0
Schools :-			
City of London School (1)	(1.7)	(1.7)	(1.3)
City of London Freeman's School (1)	(1.8)	(1.3)	(0.5)
City of London School for Girls (1)	(0.8)	(1.2)	(1.0)
City of London Junior School (1)	0.0	(0.4)	(0.3)
<b>(Deficit) Surplus (from) to reserves (2)</b>	<b>(50.8)</b>	<b>(56.5)</b>	<b>(56.4)</b>

1. Shows City Support rather than net expenditure by the schools
2. Deficit to reserves row excludes capital programmes, however includes CWP and SRP.

1. 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).

		2021/22 Original £m	2021/22 Latest £m	2022/23 Original £m
1	Net expenditure on services	(101.0)	(106.2)	(108.9)
2	Cyclical Works Programme			
3	and SRP's	(12.7)	(12.9)	(10.1)
4	Estate rent income	57.5	57.5	56.9
5	Non-property investment			
6	income	3.1	3.4	3.9
7	Interest on balances	0.4	0.2	0.1
8	<b>Operating (Deficit) Surplus</b>	<b>(52.7)</b>	<b>(58.0)</b>	<b>(58.1)</b>
	Profit on asset sales/deferred			
	income	1.7	1.7	1.7
	<b>(Deficit) Surplus funded by</b>			
	<b>drawdown*</b>	<b>(51.0)</b>	<b>(56.3)</b>	<b>(56.4)</b>

\*Deficit to reserves row excludes capital programmes, however includes CWP and SRP.

2. The City's Cash position in the current year is expected to be a deficit of £56.3m compared to £51.0m in the original budget. The deficit (less non-cash items such as depreciation) will be funded with a drawdown from the gain in financial investments.

**GUILDHALL ADMINISTRATION**

1. Shown by Committee is the table below:

<b>Guildhall Administration by Committee Net (Expenditure)</b>	<b>2021/22 Original £m</b>	<b>2021/22 Latest £m</b>	<b>2022/23 Original £m</b>
Establishment - Town Clerk & C&CS	(8.6)	(10.9)	(10.7)
Finance - Chamberlain	(24.6)	(24.4)	(23.6)
Finance - Chief Operating Officer	(12.3)	(13.0)	(10.1)
Finance - City Surveyor	(22.1)	(23.5)	(21.1)
Finance - Town Clerk	(1.4)	(1.4)	(1.4)
<b>Total Net Expenditure</b>	<b>(69.0)</b>	<b>(73.2)</b>	<b>(66.9)</b>
Recovery of Costs	69.0	73.2	66.9
Total Guildhall Administration	0	0	0

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

The net expenditure for 2022/23 is £66.9m, a decrease of £2.1m from the 2021/22 original budget.



By virtue of paragraph(s) 3, 4 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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