Finance Committee – Appendices Pack

Date: **TUESDAY, 21 FEBRUARY 2023**

Time: **1.15 pm**

Venue: **COMMITTEE ROOM - 2ND FLOOR WEST WING, GUILDHALL**

8b. **CITY FUND BUDGET REPORT AND MEDIUM-TERM FINANCIAL STRATEGY APPENDICES (PAGES 227 – 310)**

Report of the Chamberlain.

11. **TARGET OPERATING MODEL (TOM) - INTERIM UPDATE REPORT (PAGES 311 – 345)**

Report of the Chief Strategy Officer.

Ian Thomas
Town Clerk and Chief Executive

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Key assumptions used in the forecast

1. The following paragraphs detail the key assumptions that have been used in the construction of the 2023/24 budget and Medium-Term Financial Strategy (MTFP):

Income

2. 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 underspends from 2022/23 carried forward 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. This has included further pressure on void costs where properties are not fit for relet. 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: 1) through investing in a diversified property portfolio - reducing the risk, and 2) 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. The Bank of England's Monetary Policy Committee (MPC) raised the base rate incrementally from 0.25% which was applicable at 31 December 2021, to 3.5% in December 2022, and more recently to 4.0% in February 2023, which was the tenth successive rise since December 2021, with a terminal peak of 4.5% expected by June 2023. It is estimated to remain at this rate until December 2023 when it will fall to 4.25%, and then continue to incrementally fall as inflationary pressures subside, settling at 2.5% by the end of the 2025/26 financial year. However, there is uncertainty surrounding the forecast, particularly around the timing of the Bank of England's decision on interest rate reductions, reduced too soon and inflationary pressures may well build up further, but reduced too late and any downturn or recession may be prolonged. 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 an update to the medium-term financial plan.

Expenditure

3. The starting point for the 2023/24 budget is 4% inflationary uplift with 2% efficiency savings from the previous resource allocation in 2022/23; additional uplift for the agreed pay award from 2022/23; with provision made for the 2023/24 pay award – held centrally. The Spending Review announcement on 19 December confirmed a small increase in the level of funding for social care, with the expectation more will be raised from local taxpayers. £1.2m pressures on adult social care and children services has been included. The increase in CPI inflation is above previously anticipated and has meant central inflationary contingency is held to ease the pressure of living with budgets, this is to be met from underspends from 2022/23 carry forward.

4. Policy and Resources Committee and Finance Committee have messaged clearly that cost pressures should be managed within existing resources. Additional funding for the Health and Safety Team has been accommodated through increase in income from RPR workstreams. Furthermore, headroom has been created to fund urgent health and safety works for the CWP. Where one-off funding/time limited resource is required, this is accommodated through underspends from 2022/23 carried forward.

5. Also underlines the need for additional unfunded revenue bids to be avoided during 2023/24, unless these can be reprioritised through RPR workstreams.

Grant settlement – City Fund

6. The Provisional Local Authority Grant Settlement was received before Christmas and debated in the Commons early February. The final settlement was published on 6th February, stating the funding settlement, year two of the three year spending review, with one year funding confirmed for 2023/24, this still leaves a great deal of uncertainty regarding Local Government funding after March 2024.

Business Rates Retention

7. A further two years 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 seven years has provided headroom, continuing in 2023/24 and 2024/25 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;
   - Continued support to 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.

8. However, the growth is vulnerable to bad debts, appeals and potential changes to office demand with the likelihood of a recession looming in 2023. The Secretary of State approved the extension of the 8 Authority Pool on 6th February to proceed. Income from the pool has not been factored into plans as it is volatile, besides this is one-off funding and should not be applied against on-going costs. Therefore any gains from the pool is ringfenced to the major projects programme, reducing the impact on City Fund deficits in later years.

City Police

9. The Police is facing significant medium-term pressures at a time of increasing demand.

10. The City of London Police (CoLP) has both national and local responsibilities- It is the National Lead Force for Fraud and also holds the National Police Chiefs Council (NPCC) Portfolio for Cyber Crime. It also provides local policing services for the City Community in order to support the City of London Corporation Corporate Plan objective to ensure 'People are Safe and Feel Safe'.

11. As we have moved through 2022 to 2023 and are now post Covid restrictions, the Police have seen a significant increase in demand for services. This increasing demand is experienced both day and night. Daytime, the City is experiencing increased levels of protest activity. Policing in the City (and indeed nationally) has seen significant increases in the use of the Night-time Economy, in particular the use of licensed premises - we see a changing economy with increasing violence and disorder.

12. The force now has national strategies to deliver on in keeping women and girls in particular, safe in the City, which has resulted in an increase in visible policing response. The Cost-of-Living crisis has also brought fresh challenges to policing in 2022 and will continue into 2023. The City particularly experiences the impact of this through increases in calls for service around vulnerability, national policing trends will also anticipate a rise in acquisitive crime. Wider national public dissatisfaction is also felt across the City through transport strikes and increased protests which disrupt our residents, students, and those that visit and work in the City. Various parts of the UK, including the City of London have been focal points for several protest groups engaging in criminal activity over the past year, which has caused disruption to the daily lives of our residents, students, business communities and visitors. In addition to our specialist capabilities to respond to the public order threats, CoLP's existing protocol arrangements with the Metropolitan Police, British Transport Police and Ministry of Defence (under Operation Benbow) has ensured there has been sufficient resources available to flex our response quickly to any escalation of disorder as well as resourcing pre-planned large-scale events. The City will benefit over the coming months from 123 student officer recruits as part of the Police Uplift programme to

improve public safety and security. This additional resource will largely be used to greatly enhance our overall visibility and response to crime.

13. The CoLP is working with the Corporation to deliver its 'Destination City' Strategy which will aim to meet the increases in demand as the leisure sector in the City enhances. The Police will continue to work closely with the City of London Corporation through the Safer City Partnership, to ensure that we appropriately manage the impact of rising attractiveness of our daytime and night-time economies.

14. Nationally, the force has responsibilities as 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. The City Corporation's small residential population does not yield anywhere near the sums provided by local funding for other police forces. Instead, the City is uniquely able to levy a business rate premium as part of its strategy for allocating local funding to the Police.

15. As addressed under paragraph 40 in the main report, 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 2023/24

16. The overall budget requirements have been prepared in accordance with the strategy and the requirements for 2022/23 and 2023/24 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

City Fund Summary by Committee *Net Expenditure (Income)*	2022/23 Original £m	2022/23 Latest £m	2023/24 Original £m
Barbican Centre	(26.5)	(29.2)	(28.0)
Barbican Residential	(2.2)	(2.2)	(2.7)
Community and Children's Services*	(15.5)	(14.9)	(17.1)
Culture Heritage and Libraries	(19.7)	(22.2)	(20.7)
Finance**	(14.8)	(0.9)	12.7
Licensing	(0.2)	(0.3)	(0.3)
Markets	0.4	0.4	0.1
Open Spaces	(1.6)	(1.8)	(1.7)
Planning and Transportation	(14.2)	(13.7)	(16.6)
Police	(91.9)	(92.9)	(101.0)
Police Authority Board	0	(1.0)	(1.0)
Policy and Resources	(4.2)	(4.3)	(4.5)
Port Health and Environmental Services	(14.3)	(15.2)	(15.3)
Property Investment Board	34.3	34.2	35.6
City Fund Requirement	**(169.6)**	**(164.2)**	**(160.5)**

* Significant variance under Community & Children's Services due to budget uplift to accommodate pressures within the adults & children's social care including the Unaccompanied Asylum-seeking children.
** Finance includes changes to: capital revenue expenditure, supplementary revenue programme, additional one-off cost pressure highlighted in this report. The 22/23 latest budget and 23/24 budget have benefited from increased income on cash balances due to the higher interest rates.
Figures in brackets denote expenditure, increases in expenditure, or shortfalls in income.

17. 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 2022/23 and 2023/24					
		2022/23 Original £m	**2022/23 Latest £m**	**2023/24 Original £m**	**Para. No.**
1	Net expenditure on services	(201.5)	(214.7)	(215.8)	
2	Capital Expenditure funded from Revenue Reserves	(3.9)	(3.6)	(2.2)	
3	Cyclical Works Programme expenditure financed from revenue	(10.3)	(10.4)	(11.2)	
4	Requirement before investment income from the City's Assets	(215.7)	(228.7)	(229.2)	
5	Interest on balances	6.4	24.8	27.5	
6	Estate rent income	39.7	39.7	41.2	
7	**City Fund Requirement**	**(169.6)**	**(164.2)**	**(160.5)**	
	Financed by:				
8	Government formula grants	140.4	136.7	135.5	
9	City offset	12.1	12.1	12.5	
10	Council tax	8.3	8.3	9.7	
11	NNDR premium	18.4	19.4	28.0	
12	Total Government Grants and Tax Revenues	179.2	176.5	185.7	
13	Drawdown on Reserves	0.0	14.9*	(2.0)*	
14	**(Deficit)/Surplus transferred (from)/to reserves**	**9.6**	**27.2**	**23.2**	

*Includes transfer from reserves to support 21 New St Rent, climate action and carry forward requests from previous years underspend

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

Table 5: Analysis of Core Government Grants

	2022/23 Original £m	**2023/24 Draft £m**	**Variance £m**	**Variance %**
Revenue Support Grant	8.2	9.1	0.9	
Rates Retention: baseline funding	16.7	16.7	0.0	
Rates Retention: growth	41.2	33.0	(8.1)	
Subtotal:	**66.1**	**58.8**	**(7.2)**	
Police	74.3	76.7	2.4	
Total Core Government Grants	**140.4**	**135.5**	**(4.8)**	**3.4%**

18. The City Fund budget requirement for 2023/24 is £160.5m plus a contribution to reserves of £23.2 resulting in a net City Fund budget requirement of £185.7m, an increase of £6.5m on the previous year. The following table shows how this is financed and the resulting Council Tax requirement. Appendix B details the consequent determination of council tax by property band.

Table 6: Council Tax requirement

Council Tax Requirement	**2022/23 Original £m**	**2023/24 Original £m**
Net Expenditure	(215.7)	(229.2)
Estate Rental Income	39.7	41.2
Interest on balances	6.4	27.5
Budget Requirement	(169.6)	(160.6)
Drawdown from Earmarked reserves	0	(2.0)
Proposed contribution to reserves	(9.6)	(23.2)
Net City Fund Budget Requirement	**(179.2)**	**(185.7)**
Financing Sources:		
Business Rates Retention	66.2	58.8
Police Grant	74.3	76.7
City Offset	12.1	12.5
NDR Premium	18.4	28.0
Collection Fund Surplus (CoL share)	0.3	0.8
Council Tax Requirement	**(7.9)**	**(8.9)**

19. 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 B).

Business Rates

20. 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 2023/24. 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.

21. It is proposed the Business Rate Premium is increased up to 0.2p in the £, the proposed premium will result in a National Non-Domestic Rate multiplier of 52.6p and a small business National Non-Domestic Rate multiplier of 51.3p for the City for 2023/24.

- 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:
- During 2022/23, the Government supported businesses with business rate relief for Retail, Hospitality and Leisure businesses at 50% with an RV cap of £110,000. This support has been extended into 2023/24 but increased to 75% with the same £110,000 cap.
- A new Supporting Small Business (SSB) relief scheme which will cap bill increases at £600 per year for any business losing eligibility for Small Business Rate Relief. The scheme also provides support for those previously eligible for the 2022/23 SSB scheme and facing large increases in 2023/24. Further details of the various relief schemes will be published on the City of London Website in due course.

22. **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 £75,000 and above to fund Crossrail.

23. **Revaluation of Properties** The revaluation of properties set by the Government's Valuation Office (VOA), Agency for Business Rates have now completed the 2023 revaluation. Subject to publication of the final valuation list, business premises within the City will see an overall rateable value increase of about 1.5%. Businesses can check their property valuations for 2023 at www.gov.uk/find-business-rates. Where the rateable value has increased, a Transitional Relief scheme will operate with significant increases phased in over the life of the list. Any business that benefits from a rateable valuation decrease will receive the full benefit of the decrease in 2023.

24. Details of the transitional scheme and other reliefs can be found at www.gov.uk/government/publications/autumn-statement-2022-business-rates-factsheet .

Council Tax - Long-Term Property Premiums

25. 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.

26. The empty property premium was introduced by Government 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%.

27. From 2020/21 properties that have been empty over 5 years can be charged a higher premium of up to 200%. From 2021/22 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 £0.3m in 2022/23.

Council Tax Reduction Scheme

28. 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.

29. The Council Tax Reduction Scheme will therefore remain the same for 2023/24 as was administered in previous years subject to the annual uprating of amounts in line with Housing Benefit applicable amounts.

Capital

30. 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.

31. 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

	2022/23 £m	**2023/24 £m**
Estimated Capital Expenditure	**158.8**	**444.2**
Financing Sources:		
Housing Revenue Account (HRA) Major Repairs Reserve	4.1	3.3
Disposal Proceeds	23.4	92.2
Earmarked and General Revenue Reserves	84.9	183.2
External Grants and Reimbursements	46.4	165.5
External borrowing	0.0	0.0
Total:	**158.8**	**444.2**

32. The main areas of capital expenditure in 2023/24 are as follows:
- Major Projects – Museum of London (£88.7m)
- Major Projects – Salisbury Square (£186.1m)
- Major Projects – London Wall West (£5m)

- Housing Revenue Account* – decent homes & new build (£72.7m)
- Highways and Transport (£33.6m)
- Investment Property Refurbishments (£17.7m)
- Police loan (£9.8m)
- No New Bids, instead contingency held for urgent health and safety capital programmes (£3.0m)

*Includes loan facility of £23.3m

33. Resource Allocation Sub Committee approved in principle no new capital bids for 2023/24 at its July meeting, with £3m contingency held for urgent health and safety capital programmes. Giving an opportunity to catch up on delivering existing approved capital programmes, in which there is considerable slippage. 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 £9.8m and £13.5m respectively in 2023/24. 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 2023/24 budget setting process.

34. In light of inflationary pressures, a capital review took place in the Autumn where officers were given the opportunity to put forward revised forecasts for inflationary pressures, as this exercise is now complete it is recommended further pressures are contained through value engineering. Where this is not practicable it is recommended alternative sources of funding are explored - potentially CIL, OSPR, 3rd party contributions, underspends from existing capital projects, and / or reprioritisation of projects within the wider capital programme.

35. CoLP 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 equated borrowing cap of £5m up to a loan ceiling of £35m (actual drawdown may vary depending on Police financing requirement). The Police repay this loan with interest.

36. The Local Government Act 2003 requires the City to set prudential indicators as part of the budget setting process. The indicators that the Court of Common Council 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 2023/24 to 2026/27
    - Estimates of the capital financing requirement 2023/24 to 2026/27
    - Times cover on Unencumbered Revenue Reserves.

37. The prudential indicators listed above have been calculated in Appendix D. In addition, treasury-related prudential indicators are required to be set, and these

are included within the 'Treasury Management Strategy Statement and Annual Investment Strategy 2023/24' at Appendix E.

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

39. 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 2023/24 is set out in appendix 2 within the Treasury Management Strategy Statement and Investment Statement 2023/24 at appendix E. 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 their priorities. Borrowing can either be internal (use of internal cash balances) or external (third party loan finance).

40. Funding assumptions for the major projects is currently planned to come from external contributions, retained rates growth monies (including income from 8 Authority Pool), and property disposal proceeds, rather than external loans from third parties. Based on these assumptions, there is an interim requirement for internal borrowing utilising City Fund general cash balances –pending receipts from disposal of investment properties. Such short-term internal borrowing does not require an MRP to be made, however losses from investing cash balances has been accounted for. Nonetheless, wider thinking is now needed on how best to secure 3rd party capital investment on the major projects and our asset base to relieve the pressure on our own capital resources.

41. 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.

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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:

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

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:

$$\text{'B1'} = \frac{£8,895,033.88}{8,862.95}$$

'B'1 = £1,003.62

Note: Item R consists of the following components:

	£	£
City Fund Net Budget Requirement		185,732,138
Less:		
Business Rates Retention	(49,779,000)	
Government Grant Funding	(9,072,676)	
Police Grant	(76,705,382)	
City's Offset	(12,515,000)	
Estimated Non-Domestic Rate Premium (Net)	(27,960,717)	
Estimated Collection Fund Surplus as at 31 March 2023 (City's share)	(804,329)	(175,837,104)
TOTAL COUNCIL TAX REQUIREMENT ®		**8,895,034**

Step Two ('B2')

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

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

Where:

‘B2’ is the Basic Amount ‘Two’;

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

A is the Aggregate of all special items;

T is the Council Tax base for the whole area

The above calculation is as follows:

$$'B2' = £1,003.62 - \frac{£22,050,423.81}{8,862.95}$$

‘B2’ = £1,484.31 CR

Note: Item A consists of the following components:

	£	£
Highways Net Expenditure	10,738,000.00	
Street Cleansing	6,612,000.00	
Waste Collection	2,258,000.00	
Waste Disposal	1,224,000.00	
Road Safety	342,000.00	
Drains and Sewers	500,000.00	
Total City’s Special Expenses		21,674,000.00
Inner Temple’s Precept	220,281.32	
Middle Temple’s Precept	156,142.49	376,423.81
Total Special Items		22,050,423.81

Step Three ‘B3’

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

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

Where:

‘B3’ is the Basic Amount ‘Three’

‘B2’ is the Basic Amount ‘Two’

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

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

City Area Excluding the Temples

$$\text{‘B3’} = £1{,}484.31\text{ CR} + \frac{£21{,}674{,}000}{8{,}711.65}$$

‘B3’ = £1,003.62

Inner Temple

$$\text{‘B3’} = £1{,}484.31\text{ CR} + \frac{£220{,}281.32}{88.54}$$

‘B3’ = £1,003.62

Middle Temple

$$\text{‘B3’} = £1{,}484.31\text{ CR} + \frac{£156{,}142.49}{62.76}$$

‘B3’ = £1,003.62

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	669.08	780.59	892.11	1,003.62	1,226.65	1,449.67	1,672.70	2,007.24
GLA	94.67	110.45	126.23	142.01	173.57	205.13	236.68	284.02
Total	763.75	891.04	1,018.34	1,145.63	1,400.22	1,654.80	1,909.38	2,291.26

Reserves

Forecast Movements in City Fund Usable Reserves 2023/24				
	Notes	Estimated Opening Balance	Forecast Net Movement in Year	Estimated Closing Balance
		01-Apr-23		31-Mar-24
		£m	£m	£m
Revenue Usable Reserves				
General Reserve	a	20.0	0.0	20.0
Earmarked				
Major Projects Financing Reserve	b	50.2	6.4	56.6
Business Rate Equalisation	c	0.0	0.0	0.0
Highways Improvements	d	37.2	(10.5)	26.7
Build Back Better Fund	e	13.7	(4.1)	9.6
Police Future Expenditure	f	4.0	0.0	4.0
VAT Reserve	g	4.2	0.0	4.2
Renewals and Repairs	h	0.7	0.0	0.7
Proceeds of Crime Act	i	9.0	0.0	9.0
Judges Pensions	j	1.1	0.0	1.1
Service Projects	k	13.5	0.0	13.5
Total Revenue Earmarked		**133.6**	**(8.2)**	**125.4**
Housing Revenue Account (HRA)	l	0.1	0.2	0.3
Total Revenue Usable Reserves		**153.7**	**(8)**	**145.7**
Capital Usable Reserves				
Capital Receipts Reserve	m	107.3	(52.1)	55.2
Capital Grants Unapplied	n	30.9	(2.6)	28.3
HRA Major Repairs Reserve	o	0.3	0.0	0.3
Total Capital Usable Reserves		**138.5**	**(54.7)**	**83.8**
Total Usable Reserves		**292.2**	**(62.7)**	**229.5**

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. Build Back Better Fund – funds set aside to support the economic recovery following the pandemic and climate action goals.

f. 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.

g. 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.

h. Renewals and Repairs – Sums set aside for future repairs and maintenance costs.

i. 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.

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

k. 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.

l. These reserves are ringfenced by statute to the Housing Revenue Account.

m. 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.

n. Capital grants and contributions received for specific purposes. This includes receipts from the City's Community Infrastructure Levy.

o. HRA Major Repair Reserve – funds set aside to finance HRA capital expenditure.

PRUDENTIAL INDICATORS

The following Prudential Indicators (and those included in Appendix (F) 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 2023/24, 2024/25 and 2025/26 (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

	2019/20 Actual	2020/21 Actual	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
HRA	0.26	0.25	-0.17	0.07	**-0.02**	**-0.02**	**-0.21**
Non-HRA	-0.46	-0.35	-0.37	-0.39	**-0.43**	**-0.30**	**-0.30**
Total	-0.39	-0.30	-0.40	-0.44	**-0.47**	**-0.33**	**-0.30**
At this time last year	-0.39	-0.26	-0.24	-0.20	-0.24	-0.24	-

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 2022/23 to 2025/26
	£m
Gross External Debt	**12.593**
Capital Financing Requirement	**299.823**

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 2022/23 to 2025/26. The current plans for funding of the capital programme, including the major projects, do not anticipate any external borrowing.

Prudential Indicators for Capital Expenditure and External Debt

Estimate of Capital Expenditure

Table 3

	2019/20 Actual £m	2020/21 Actual £m	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
HRA	10.867	13.233	24.843	20.652	72.892	54.635	10.625
Non-HRA	41.874	48.524	106.505	138.128	371.276	414.317	208.378
Total	52.741	61.757	131.348	158.780	444.168	468.952	219.003
At this time last year	52.741	61.757	156.562	217.054	298.280	260.999	-

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 several 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

	2019/20 Actual £m	2020/21 Actual £m	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
HRA	-	-	-	0.271	13.533	4.232	-
Non-HRA	46.386	53.455	87.865	94.064	238.837	271.921	299.823
Total	46.386	53.455	87.865	94.335	252.370	276.153	299.823
At this time last year	*46.386*	*53.455*	*51.686*	*103.083*	*216.188*	*138.013*	-

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

	2022/23	2023/24	2024/25	2025/26
Times cover on unencumbered revenue reserves	0.8	0.9	2.3	-0.9
At this time last year	1.5	3	-0.8	-1.2

This indicator is calculated by dividing the balance of forecast unencumbered general reserves by annual revenue deficits (-)/surpluses (+). For 2022/23 to 2024/25 revenue surpluses are forecast, with annual deficits from 2025/26 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. This will need to be addressed through additional savings and/or income.

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TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY

2023/24

Issue Date: 17/02/2023
Agreed by Court of Common Council: XX/0XX/2023

Treasury Management Strategy Statement and Annual Investment Strategy 2023/24

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. There have been subsequent revisions to the codes in 2017 and 2021.

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 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 2021 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 form 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 December 2021.

The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes:-

- 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.

The revised Treasury Management Code will require an authority to implement the following: -

1. **Adopt a new liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; the authority is required to estimate and measure the Liability Benchmark for the forthcoming financial year, and the following two financial years as a minimum; this is to be shown in chart form, with material differences between the liability benchmark and actual loans to be explained;

2. **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;

3. **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year;

4. Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;

5. **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital and balance sheet monitoring;

6. **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices (TMP1).

The main requirements of the Prudential Code relating to service and commercial investments are:

1. The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;
2. An authority must not borrow to invest for the primary purpose of commercial return;
3. It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;
4. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;
5. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream;
6. Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

An authority's Capital Strategy or Annual Investment Strategy should include:

1. The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;

2. An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);

3. Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;

4. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);

5. Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy);

6. State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return;

As this Treasury Management Strategy Statement and Annual Investment Strategy deals ***soley*** 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.

1.5. Treasury Management Strategy for 2023/24

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 2023/24 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 2022 compared to the position at 31 March 2022 comprised:

Table 1: Treasury Portfolio				
	Actual 31/03/2022		Current 31/12/2022	
Treasury investments	**£m**	**%**	**£m**	**%**
Banks	£765.0	63%	£795.0	63%
Building societies (rated)	£40.0	3%	£20.0	2%
Local authorities	£0.0	0%	£0.0	0%
Liquidity funds	£127.5	10%	£151.2	12%
Ultra-short dated bond funds	£137.1	11%	£137.9	11%
Short dated bond funds	£156.4	13%	£148.5	12%
Total treasury investments	**£1,226.0**	100%	**£1,252.5**	100%
Treasury external borrowing				
LT market debt (City's Cash)	£450.0	100%	£450.0	100%
Total external borrowing	**£450.0**	100%	**£450.0**	**100%**

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 2023/24 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)

Table 2	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Capital Expenditure:					
Non-HRA	106.5	138.1	371.3	414.3	208.4
HRA	24.8	20.7	72.9	54.7	10.6
Total	**131.3**	**158.8**	**444.2**	**469.0**	**219.0**
Financed by:					
Capital grants	39.6	50.7	167.6	188.7	142.5
Capital reserves	46.9	15.5	48.7	227.5	44.8
Revenue	10.3	86.1	69.9	29.0	8.0
Total	**96.8**	**152.3**	**286.2**	**445.2**	**195.3**
Net financing need:	**34.5**	**6.5**	**158.0**	**23.8**	**23.7**

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)

Table 3	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Non-HRA	87.9	94.1	238.9	272.0	299.8
HRA	0	0.3	13.5	4.2	0
Total	**87.9**	**94.3**	**252.4**	**276.2**	**299.8**

A new prudential indicator for 2023/24 is the Liability Benchmark. The City is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum. The prudential indicator for the liability benchmark is only relevant for City Fund, and therefore does not include City's Cash external borrowing.

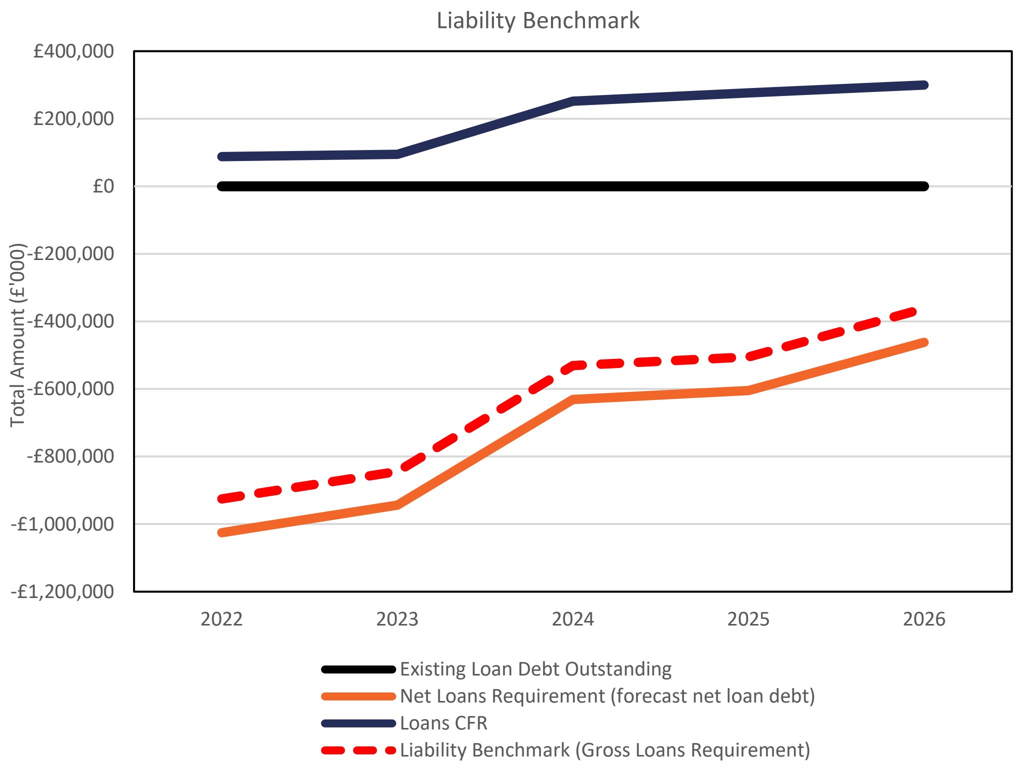
There are four components to the Liability Benchmark which should be represented in a chart. These are:

1. **Existing Loan Debt Outstanding**: The City's existing loans that are outstanding into future years. This City Fund currently has no external loans, so this will not need to be shown.

2. **Loans Capital Financing Requirement**: calculated in accordance with the Prudential Code and projected into the future based on approved prudential borrowing and planned Minimum Revenue Provision.

3. **Net Loans Requirement**: The City Fund gross loan debt less treasury management investments, projected into the future and based on approved prudential borrowing, planned MRP and any other major cash flow forecasts. As the City plans to not undertake external borrowing the net loan requirement is shown as a negative and plots the expected cash balances across the years.

4. **Liability benchmark** (or **Gross Loans Requirement**): equals Net Loans Requirement plus a short-term liquidity allowance to allow for a level of excess cash to provide liquidity if needed.



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 2023/24 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.

Table 4	**2020/21 Actual £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**
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 currently 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 held within the permanent endowment fund, with receipts from disposals or lease premiums which are deemed to be capital in nature 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 early 2023, which will amend these powers and provide the power to adopt total return investment for the permanent endowment fund. This strategy will reflect these new powers once in place.

2.4. Treasury Indicators for 2023/24 – 2025/26

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 %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 years	25 year	50 year
Mar 2023	4.25	4.00	4.20	4.60	4.30
Jun 2023	4.50	4.00	4.20	4.60	4.30
Sep 2023	4.50	3.90	4.10	4.40	4.20
Dec 2023	4.25	3.80	4.00	4.30	4.10
Mar 2024	4.00	3.70	3.90	4.20	3.90
Jun 2024	3.75	3.60	3.80	4.10	3.80
Sep 2024	3.25	3.50	3.60	3.90	3.60
Dec 2024	3.00	3.40	3.50	3.80	3.60
Mar 2025	2.75	3.30	3.50	3.70	3.40
Jun 2025	2.75	3.20	3.40	3.60	3.30
Sep 2025	2.50	3.10	3.30	3.50	3.20
Dec 2025	2.50	3.10	3.30	3.40	3.20
Mar 2026	2.50	3.10	3.20	3.40	3.10

Link's central forecast for interest rates was updated on 07 February 2023 and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the Government's continuing policy of emphasising fiscal rectitude will probably mean Bank Rate will not need to increase further than 4.5%. The Bank Rate stands at 4.0% currently and is expected to reach a peak of 4.5% by June 2023.

Further down the road, Link anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

PWLB rates yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.75%. Link's view is that markets as have built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

3.1. The balance of risks to the UK economy

The overall balance of risks to economic growth in the UK is to the downside.

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields.

- **The Bank of England** acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate).

- **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 sorting out significant remaining issues.

- **Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

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

- **The Bank of England** is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.

- **The pound** weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term **US treasury** yields rise strongly and pull gilt yields up higher than currently forecast.

- Projected **gilt issuance, inclusive of natural maturities and Quantative tightening,** could be too much for the markets to comfortably digest without higher yields consequently.

3.2. Investment and borrowing rates

- Investment returns are expected remain elevated, against recent historical rates, in 2023/24. However, actual economic circumstances may see the MPC fall short of these expectations.
- Links's long-term, i.e. beyond 10 years, forecast for Bank Rate stands at 2.5%, and as all PWLB certainty rates are currently above this level, borrowing strategies need to be carefully reviewed. Temporary borrowing rates are likely, however, to remain near Bank Rate and may prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.
- Borrowing rates have also been impacted by changes in Government policy. In November 2020, the Chancellor introduced a prohibition 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 generally 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 2023/24 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 2023/24, 2024/25 and 2025/26. 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 2023/24 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 DLUHC 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 indictors for 2023/24 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

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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 2021 ("the CIPFA TM Code") and CIPFA Treasury Management Guidance Notes 2021.

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 Fund will have exposure to Specified and Non-specified Invstments. All other participants in the Treasury Management Strategy Statement and Annual Investment Strategy 2023/24 will have exposure to Specified Investments only.

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 £529m.

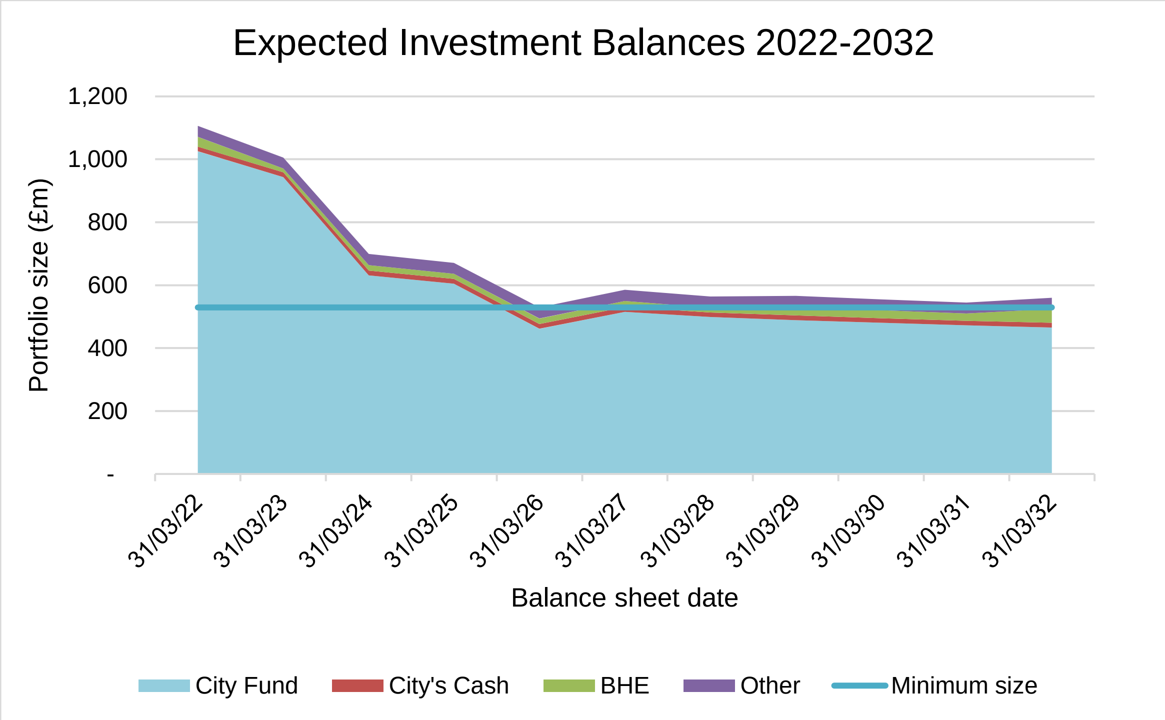

Figure 1 shows projected investment balances across the three funds and others over the coming years as at the end of each financial year.[1] Most of the investment balances relate to City Fund and it should be noted that generally investment balances are expected to be higher between reporting dates.

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. The City's liquidity requirements and will be subject to ongoing monitoring practices as the capital programme progresses as specified in paragraph 5.3 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.

[1] "Other" refers to other entities for whom the City provides treasury management services.

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 Financial Services Director, Corporate Treasurer and members of the Treasury team, where the suitability of prospective counterparties and the optimum duration for lending is discussed and agreed.

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

All credit ratings will be monitored 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):

	Minimum Creditworthiness Criteria	Money Limit	Time Limit
Banks 1 higher quality	Fitch Rating Long Term: A+ Short Term: F1	£100m	3 years
Banks 1 medium quality	Fitch Long Term Rating Long Term: A Short Term: F1	£100m	1 year
Banks 1 lower quality	Fitch Long Term Rating Long Term: A- Short Term: F1	£50m	6 months
Banks 2 – part nationalised	N/A	£100m	3 years
Banks 3 – City's banker (transactions only, and if bank falls below above criteria)	N/A	£150m	1 working day
Building Societies higher quality	Fitch Long Term Rating A *or* assets of £150bn	£100m	3 years
Building Societies medium quality	Fitch Long Term Rating A- *or* assets of £10bn	£20m	1 year
UK Government (DMADF, Treasury Bills, Gilts)	UK sovereign rating	unlimited	3 years
Local authorities	N/A	£25m	3 years
External Funds*	**Fund rating**	**Money and/or % Limit**	**Time Limit**
Money Market Funds CNAV	AAA	£100m	liquid
Money Market Funds LVNAV	AAA	£100m	liquid
Money Market Funds VNAV	AAA	£100m	liquid
Ultra-Short Dated Bond Funds	AAA	£100m	liquid
Short Dated Bond Funds	N/A	£100m	liquid
Multi Asset Funds	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 to 4.25% by March 2023 with a peak of 4.5% by June 2023, and then incrementally reduce 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: -

- 2022/23 4.25%
- 2023/24 4.00%
- 2024/25 2.75%

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:

Maximum principal sums invested for more than 365 days (up to three years)			
	2022/23 £M	**2023/24 £M**	**2024/25 £M**
Principal sums invested >365 days	400	300	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 £437.5m as at 31 December 2022, 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. This especially applies to members responsible for scrutiny.

Furthermore, a new introduction within the Code for 2023/24 states that they expect *"all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making"*.

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

a) Record attendance at training and ensure action is taken where poor attendance is identified.
b) Prepare tailored learning plans for treasury management officers and board/council members.

c) Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
d) Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

APPENDICES

1. Interest Rate Forecasts 2023 - 2026
2. Treasury Indicators 2023/24 – 2025/26 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

APPENDIX 1

LINK INTEREST RATE FORECASTS 2023 – 2026 (Dated 07/02/2023)

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

Interest Rate Forecasts								
Bank Rate	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**	**Sep-24**	**Dec-24**
Link	4.25%	4.50%	4.50%	4.25%	4.00%	3.75%	3.25%	3.00%
Cap Econ	4.25%	4.50%	4.50%	4.50%	4.25%	4.00%	3.50%	3.00%
5Y PWLB RATE								
Link	4.00%	4.00%	3.90%	3.80%	3.70%	3.60%	3.50%	3.40%
Cap Econ	3.75%	3.65%	3.60%	3.50%	3.45%	3.35%	3.30%	3.25%
10Y PWLB RATE								
Link	4.20%	4.20%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%
Cap Econ	3.80%	3.70%	3.65%	3.55%	3.50%	3.40%	3.35%	3.30%
25Y PWLB RATE								
Link	4.60%	4.60%	4.40%	4.30%	4.20%	4.10%	3.90%	3.80%
Cap Econ	4.13%	4.00%	3.93%	3.80%	3.75%	3.65%	3.60%	3.55%
50Y PWLB RATE								
Link	4.30%	4.30%	4.20%	4.10%	3.90%	3.80%	3.60%	3.60%
Cap Econ	3.80%	3.80%	3.80%	3.80%	3.75%	3.65%	3.60%	3.55%

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

TREASURY INDICATORS 2023/24 – 2025/26 AND MINIMUM REVENUE PROVISION STATEMENT

TABLE 1: TREASURY MANAGEMENT INDICATORS	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Probable Outturn	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Authorised Limit for external debt (City Fund) -					
Borrowing	187.9	194.3	352.4	376.2	399.8
other long-term liabilities	12.9	12.8	12.7	12.6	12.5
TOTAL	**200.8**	**207.1**	**365.1**	**388.8**	**412.3**
Operational Boundary for external debt (City Fund) -					
Borrowing	87.9	94.3	252.4	276.2	299.8
other long-term liabilities	12.9	12.8	12.7	12.6	12.5
TOTAL	**100.8**	**107.1**	**265.1**	**288.8**	**312.3**
Actual external debt (City Fund)*	0	0			
Upper limit for total principal sums invested for over 365 days	£400m	£300m	£300m	£300m	£300m
(per maturity date)					

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

TABLE 2: Maturity structure of borrowing during 2023/24	upper limit	lower limit
- under 12 months	50%	0%
- 12 months and within 24 months	50%	0%
- 24 months and within 5 years	50%	0%
- 5 years and within 10 years	75%	0%
- 10 years and above	100%	0%

TABLE 3: CITY'S CASH BORROWING INDICATORS	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Probable Outturn	Estimate	Estimate	Estimate
	%	%	%	%	%
Estimates of financing costs to net revenue stream	14.1%	16.1%	19.7%	21.7%	20.1%
	£m	£m	£m	£m	£m
Overall borrowing limits	450	450	450	450	450

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2023/24

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).

DLUHC 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 2022/23 is £1.3m and is estimated at £1.3m for 2023/24.

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

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

	Minimum 'High' Credit Criteria	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A-,	In-house 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.

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

*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.

APPENDIX 4

APPROVED COUNTERPARTIES AS AT 31 DECEMBER 2022

UK BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES

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

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

BUILDING SOCIETIES

FITCH RATINGS		BUILDING SOCIETY	ASSETS	LIMIT PER GROUP	DURATION
A	F1	Nationwide	£280Bn	£100M	Up to 3 years
A-	F1	Yorkshire	£56Bn	£20M	Up to 1 year
A-	F1	Coventry	£56Bn	£20M	Up to 1 year
A-	F1	Skipton	£31Bn	£20M	Up to 1 year
A-	F1	Leeds	£24Bn	£20M	Up to 1 year

FOREIGN BANKS

(with a presence in London)

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

MONEY MARKET FUNDS

FITCH RATINGS	MONEY MARKET FUNDS Limit of £100M per fund	DURATION
AAA/mmf	CCLA - Public Sector Deposit Fund	Liquid
AAA/mmf	Federated Hermes Short-Term Sterling Prime Fund*	Liquid
AAA/mmf	Aberdeen Sterling Liquidity Fund	Liquid
AAA/mmf	Invesco Liquidity Funds Plc - Sterling Liquidity Portfolio	Liquid
AAA/mmf	DWS Deutsche Global Liquidity Series Plc – Sterling Fund	Liquid

ULTRA SHORT DATED BOND FUNDS

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

SHORT DATED BOND FUNDS

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

LOCAL AUTHORITIES

LIMIT OF £25M PER AUTHORITY AND £250M OVERALL
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 27 January 2023.

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 oversite role on behalf of Bride 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

CAPITAL STRATEGY (CITY FUND and CITY'S CASH)
Financial Years 2023/24 to 2026/27

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 Operational Property and Projects Sub Committee. The only exception to this is for the major projects that are dealt with by Capital Buildings Board 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 and the Bridge House Estates is being reported on the same basis.

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 recognition of the financial pressures arising from unprecedented levels of construction inflation, the usual allocation of additional central resources to fund new capital projects has been paused for 2023/24, replaced with modest provisions set aside to cater for any urgent new projects required to address unforeseen health and safety issues. In a normal year, as part of the preparation for the annual budget, the annual capital bids for new funding are agreed in principle in accordance with the process introduced to facilitate the strategic allocation of resources to the highest priority schemes.

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 Operational Property and Projects 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 Board 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 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 is significant and the importance of prioritising all capital spend to make best use of the limited resources available is key.

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 either Property Investment Board or Bridge House Estates 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 commended with an Operational Property Review programme. This programme, Chaired by the Financial Services Director, aims to further align our property estate with the priorities of the organisation. Through the delivery of this programme, the City should identify surplus assets and rationalise its property estate. Strategic investment property disposals will also be necessary to provide funding for the ongoing capital programme.

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:

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Later Years £m	Total £m
City Fund	169.6	453.2	471.4	219.6	52.8	13.1	1,379.7
City's Cash	226.0	275.2	105.9	45.8	271.4	291.1	1,215.4
	395.6	728.4	577.3	265.4	324.2	304.2	2,595.1

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

	City Fund £m	City's Cash £m	Total £m
Major Programmes	879.5	832.5	1,712.0
Capital and SRP Programme	500.1	383.0	883.1
New Bids*	0.0	0.0	0.0
	1,379.6	1,215.5	2,595.1

*Note that there have been no new bids approved in 23/24 as a result of the Capital review

There are currently four major programmes in flight for which full provision has been included in the table above:

- Museum of London Relocation (City Fund and City's Cash)
- Salisbury Square Development (City Fund and City's Cash)
- London Wall West (City Fund)
- Markets Co- location Programme (City's Cash)

Provision has also been made for the future estimated cost of:

- Future Police Accommodation (City Fund)

There are also a further two schemes at early stages of development for which the full cost of implementation have been excluded from the above figures:

- Guildhall Redevelopment (City's Cash)
- Barbican Centre Renewal (City Fund)

27. These projects represent a substantial funding requirement of unprecedented scale in the context of the City Corporation's previous 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 our financial

sustainability. Therefore, the progression of the major programmes is dependent on the business cases to demonstrate sustainable funding.

28. Other significant schemes within the current (BAU) capital programme include:

- Investment Property purchases and refurbishments
- School refurbishment/expansion projects (including the new Junior School fit-out)
- 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.

29. New scheme provisions are intended to cover essential schemes relating to :
    - Statutory compliance/health and safety projects
    - Critical end of life asset replacements (mainly building infrastructure and IT)

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

<u>ASSET MANAGEMENT PLANNING</u>

31. 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.

32. 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.

33. Asset management is an important part of the City Corporation's business management arrangements and is crucial to the delivery of efficient and effective services. The ongoing management and maintenance of operational property assets is considered as part of the

34. 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 which meets on a monthly basis to received 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. The City Corporation’s Property Investment Strategies give due regard to risk, and this informs various aspects of our portfolio approach. 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 2023/24 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 2023/24 to 2027/28February 2023

City Fund Property Investment Portfolio Annual Update and Strategy Report February 2023

City's Estate 2023 Investment Property Portfolio Strategy

Treasury Management Strategy Statement 2023/24

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 progressed 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.

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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.

General Contingencies		**City's Cash**	**City Fund**	**Disaster Fund**	**Total**
		£'000	£'000	£'000	**£'000**
2022/23	Provision	950	800	125	1,875
	Provision brought forward	234	608	0	842
	Total Provision	1,184	1,408	125	2,717
	Less Allocations	(680)	(748)	(100)	1,528
	Uncommitted Balance as at 09/02/2023	**504**	**660**	**25**	**1,189**
2021/22	Provision	950	800	125	1,875
	Top Up	0	0	250	250
	Provision brought forward	0	206	0	206
	Total Provision	950	1,006	375	2,331
	Less Allocations	(869)	(756)	(375)	(2,000)
	Uncommitted Balance	**81**	**250**	**0**	**331**
2020/21	Provision	950	800	100	1,850
	Provision brought forward	24	541	25	590
	Total Provision	974	1,341	125	2,440
	Less Allocations	(164)	(741)	(100)	(1,005)
	Uncommitted Balance	**810**	**600**	**25**	**1,435**
2019/20	Provision	950	800	100	1,850
	Provision brought forward	50	15	0	65
	Total Provision	1,000	815	100	1,915
	Less Allocations	(481)	(621)	(50)	(1,152)
	Uncommitted Balance	**519**	**194**	**50**	**763**
2018/19	Provision	950	800	100	1,850
	Provision brought forward	109	60	0	169
	Total Provision	1,059	860	100	2,019
	Less Allocations	(920)	(733)	(100)	(1,753)
	Uncommitted Balance	**139**	**127**	**0**	**266**

Policy Initiative Fund – City's Cash		**£'000**
2022/23	Provision	1,200
	Provision brought forward for unspent provisions	137
	Provision brought forward for agreed allocations not yet completed	1,073
	Total Provision	2,410
	Less Allocation	(2,146)
	Uncommitted Balance as at 09/02/2023	**264**
2021/22	Provision	1,200
	Provision brought forward for unspent provisions	527
	Provision brought forward for agreed allocations not yet completed	477
	Transferred to Covid Contingency	(200)
	Transferred to Disaster Fund Contingency	(125)
	Total Provision	1,879
	Less Allocation	(1,742)
	Uncommitted Balance	**137**
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)
	Uncommitted Balance	**527**
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)
	Uncommitted Balance	**437**
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)
	Uncommitted Balance	**105**

Policy and Resources Contingency – City's Cash		**£'000**
2022/23	Provision	300
	Provision brought forward for unspent provisions	211
	Provision brought forward for agreed allocations not yet completed	93
	Total Provision	604
	Less Allocations	(257)
	Uncommitted Balance as at 09/02/2023	**347**
2021/22	Provision	300
	Provision brought forward for unspent provisions	1
	Provision brought forward for agreed allocations not yet completed	383
	Total Provision	684
	Less Allocations	(473)
	Uncommitted Balance	**211**
2020/21	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)
	Uncommitted Balance	**58**
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)
	Uncommitted Balance	**234**
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)
	Uncommitted Balance	**79**

Brexit Contingency – City's Cash		£'000
2020/21	Provision brought forward for unspent provisions	640
	Provision brought forward for agreed allocations not yet completed	12
	Transferred to Covid Contingency	(652)
	Total Provision	0
	Less Allocations	0
	Uncommitted Balance	**0**
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	0
	Provision moved to create COVID Contingency	(1,500)
	Total Provision	727
	Less Allocations	(87)
	Uncommitted Balance	**640**
2018/19	Provision	2,000
	Extra provision provided by MHGL	105
	Provision brought forward for unspent provisions	0
	Provision brought forward for agreed allocations not yet completed	0
	Total Provision	2,105
	Less Allocations	(88)
	Uncommitted Balance	**2,017**

COVID Contingency – City's Cash		£'000
2022/23	Provision	0
	Provision brought forward for unspent provisions	727
	Total Provision	727
	Less Allocations	(555)
	Uncommitted Balance as at 09/02/2023	**172**
2021/22	Provision	0
	Provision brought forward for unspent provisions	479
	Additional Funds (previously ring-fenced for GSMD)	600
	Transferred from PIF & Finance Contingency	500
	Total Provision	1,579
	Less Allocations	(852)
	Uncommitted Balance	**727**
2020/21	Provision	1,500
	Provision brought forward for unspent provisions	0
	Transferred from Brexit Contingency	652
	Total Provision	2,152
	Less Allocations	(1,673)
	Uncommitted Balance	**479**
2019/20	Provision moved to create COVID Contingency	1,500
	Total Provision	1,500
	Less Allocations	0
	Uncommitted Balance	**1,500**

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Target Operating Model: Interim Report - December 2022

Contents

Executive summary

Since Target Operating Model (TOM) activity started in 2020, departments in the City of London Corporation (CoLC) have undergone, and are in some cases still undergoing, restructuring. The TOM process is likely to complete in late 2023. This is an interim report on the TOM: it recaps what was set out for the TOM, where CoLC has reached to date and what is left to complete, including work on savings.

The intention of the TOM was to put in place organisational structures that will enable CoLC to become more agile and efficient, to make cost savings and break down silos. With new structures in place and when the TOM is embedded, the intention was that the organisation would be able to focus on transformational change. This report covers what has been achieved to date, outstanding activity and learning against those objectives.

The TOM has created outward facing or service and cross-cutting enabling departments, new departments (including that of the Chief Operating Officer, Chief Strategy Officer and office of the Chair of Policy and Resources) have been formed, and new institutions created (Bridge House Estate). The Executive Leadership has undergone profound change, with a new, diverse team now in place.

The TOM is a complex programme of structural change, and the original completion date of March 2022 was, with hindsight, unrealistic. It was suboptimal for business areas that were required to provide critical transition support to other departments (such as HR) to undergo their own restructuring while doing so. Recruitment of new Chief Officers took time, and in some cases delayed the start of developing departmental TOM proposals, as these could not usually be developed until the relevant Chief Officer was in post. Large departments such as Environment have also required significantly more time than originally allocated to implement the TOM. The disbanding of the TOM programme management team in March 2022 also slowed the pace of progress. However, at the end of 2022 only a small number of areas are yet to complete their TOM and much has been achieved since activity launched.

TOM governance processes have proven successful, with scrutiny mechanisms providing assurance that Organisational Design Principles have been implemented consistently.

Wraparound facets of the TOM are incomplete: new business areas have been created, but do not have operational funding, meaning limited ability to function as desired. The Culture programme remained unresourced and was not delivered. However, this has led to new opportunities for corporate culture with the arrival of a new Town Clerk and Chief Executive.

In addition to the TOM, the Court of Common Council approved a general budgetary reduction of 12% against 2021/22 budgets, 6% for the Department of Social Care and Children Services (DCCS), in March 2021. Efforts have been made across the Corporation to identify sustainable savings. The 12% budget reductions applied to 2021/22 budgets: totalling £18m (£9m City Fund, £4m City's Cash, and £5m Guildhall Admin). Of this total £13.9m permanent savings have been realised, with a further £2.6m savings achieved through temporary measures such as holding vacancies, as departments complete their TOM.

Perceptions of the success of the TOM vary across CoLC, from highly successful in delivering a new, diverse, leadership team and new departmental structures, to a disruptive process that has not achieved what it set out to do. Much is still required to meet the original TOM objectives. Some of this will not be possible to complete within the timeframe of the programme.

TOM activity will continue during 2023 until the programme becomes business as usual; a final TOM report will follow later this year.

Part 1: The Target Operating Model (TOM)

1.1 Introduction

This report provides an update on the state of play of the Target Operating Model (TOM) programme as at the end of the 2022 calendar year. It recaps the original intentions and proposed outcomes of the programme, as set out in the programme overview documents prepared in 2020.

The report highlights what activity has been completed, either wholly or in part, and what remains outstanding at the time of writing.

In addition to reviewing the outcomes of the TOM process, this report captures lessons learnt over the past two years to inform best practice for further iterations of any transformational change within the organisation. It also aims to outline what programme completion will require, after which point the TOM programme will be subsumed into business as usual.

Departmental restructuring, officer leadership and management structures are in scope for this report, as well as programme processes and governance. Committee structures and other Member structures and operations are out of scope.

This is an interim report; at the time of writing parts of the organisation are still developing proposals under the TOM programme. A final report is planned for summer 2023.

1.2 TOM background & programme objectives

The TOM programme was designed to transform the City of London Corporation's (CoLC) leadership and management structures with the intention of rendering the organisation fit for purpose. Completing this transformation would put CoLC on a footing that should allow it to embrace new ways of working and drive collaboration, agility and culture change throughout the organisation. As well as updating leadership and management structures, cost savings of 12% were required for parts of the organisation where efficiencies could be made (further detail in section 2.7).

At that point the TOM ceased to exist as a programme. However, the leadership and management structures, departmental/institutional design and principles underpinning it would continue to exist as part of business as usual. These outcomes are captured within the original programme objectives:

a. Ability to respond with purpose, focus and agility to challenges and opportunities
b. A simplified organisational structure and a reduction in management layers
c. Join up corporate departments and service areas to streamline our operations
d. Provide greater autonomy for our institutions and build on our collective strengths
e. Increased collaboration achieving maximum value & impact

f. Evaluate and improve ways of working, processes, and technology, clarifying accountabilities, ownership and efficiency
g. Make financial savings and be on the path to achieve a balanced financial plan

1.3 TOM context

Several independent reviews identified opportunities to streamline and improve how CoLC worked. Findings included that a headcount reduction would be beneficial due to duplication of roles and responsibilities, and the management team being too large[1]. The Fundamental Review reported on the need to develop a new operating model. It identified financial opportunities including a need to balance the budget over the medium term and configure the organisation in relation to its functions.

The TOM programme was approved by the Court of Common Council in December 2020. Activity started in early 2021 and was originally due to complete by 31 March 2022. After this date the TOM was planned to be embedded within business as usual. Transformation activity was predicated upon structural design and transformation taking place simultaneously across departments and institutions.

Two years on from the creation of the TOM programme, most foundations of the new operating model are in place. Some work remains outstanding as a number of areas continue to develop, consult on and implement Organisational Design Principles. This report communicates the progress to date, ahead of a final report in summer 2023.

[1] Independent Management Review – McLean Partnership, March 2020

Part 2: TOM structures & delivery process

2.1 Organisational design & TOM design principles

To modernise CoLC the decision was made to restructure business areas by arranging the organisation by types of department, resulting in a split between service departments (those providing frontline services) and enabling departments (those providing cross-cutting business support to the organisation). To streamline this, a number of existing operational and service departments were brought together as a new department, under the oversight of the Chief Operating Officer. Institutions were, where agreed, given increased powers of independence to decrease bureaucracy and improve their ability to operate in their specialism.

Restructuring provided an opportunity to review business areas, including those that required increased investment (such as the Corporate Strategy function, and Office of the Chair of Policy & Resources), and for most of the organisation a drive to identify cost savings of 12% (6% for DCCS[2]). However, no overall costing was made for the new structure to be delivered by the TOM, or where budget would be found beyond absorption into existing funding, or temporary funding through Transformation funds.

To underpin the restructure, TOM Organisational Design (OD) principles were developed to provide consistency of management, oversight and officer accountability. They were chosen with the intention of delivering a staffing structure that would promote more effective working across the organisation.

The table below sets out the intended outcomes for the TOM programme alongside the OD Principles that were developed. Proposals for changes in business areas have been reviewed through officer governance processes for alignment with OD principles, with Chief Officer sign-off required for any divergences[3]. Detailed clarification of the OD Principles is set out in Annex B.

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[2] See Section 2.7 for detail on finance / cost savings
[3] See sections 2.2 & 2.3 on Governance

Intended outcomes

- Enable us to respond to, and be proactive in anticipating external changes
- Align activity and resources to our corporate outcomes
- Build competence and capability to deliver our Corporate Plan
- Increase the pace of decision making
- Increase evidence-based decision making
- Enable us to deliver cross cutting outcomes
- Prioritise effective front-line services
- Position us as leaders and at the cutting edge of the three sectors we operate in
- Achieve cost savings to resolve budget deficit

OD principles

- Create no more than six layers in the organisation (excluding Town Clerk and Chief Executive)
- Create shared management objectives for all senior management grades
- Ensure spans of managerial control will be equalised to one manager per six employees in most circumstances
- Phase out all one to one management responsibility
- Organise our services to create the new operating model, for example reviewing duplication of roles
- Use agreed designations for the most senior three tiers in the organisation
- Create an agreed Establishment for each department and workforce plan so that vacancies are managed and not left unfilled without planned activity

2.2 Officer Governance

To drive and guide the TOM programme and ensure organisational consistency, two officer governance committees were set up: the TOM Steering Group and the Design Advisory Board (DAB).

2.2.1 TOM Steering group

The Steering Group was set up to advocate for and drive the TOM process and define the scope of the programme and its delivery (in accordance with the OD principles). The group received recommendations from the DAB and programme team as and when required.

2.2.2 TOM Design Advisory Board (DAB)

The DAB continues to manage day to day governance of the programme, providing advice and support on proposals developed by business areas. Its function is to:

- Guide design and delivery approaches
- Own the design integrity of the model
- Uphold core design principles and approaches
- Assure savings proposed are categorized appropriately

- Advise on funding requests
- Identify and escalate variations and issues
- Assure cross-functional engagement on design
- Assure inclusiveness of design

The DAB is required to advise on whether TOM proposals conform to OD principles, and implementing DAB recommendations is required in order for new proposed structures to progress to implementation stage.

Officer governance design structures and processes have delivered assurance to Members that all proposals have consistently passed through OD scrutiny processes by the time they reach their Committee stage(s).

2.3 Member Governance

Member Governance has taken place in three stages. The first stage was via the agreement and sign-off of the OD principles and set-up of the officer governance processes, completed in early 2021.

The second, more detailed, stage of governance happens through individual Committees responsible for departments and institutions. Final signoff was then through Corporate Services Committee (Establishment Committee as was) given the potential redundancy impact in some proposals and broader workforce impacts. Restructure proposals, once they have passed the officer governance stage, are required to be considered and approved off by the relevant committee(s) prior to consultation with employees and recognised Trades Unions. Member Governance is completed when approval has been achieved at this stage, subject to consultation, and it is only once this has been secured can activity progress.

The third oversaw the achievement of savings being delivered through the Efficiency and Performance Sub Committee, together with the Corporate Services Committee. This scrutinised the achievement of TOM savings, the impact of flexible retirement policies and translation of vacancies into permanent savings, alongside costs of the scheme. Since early 2022 this has been reported through Finance Committee and Policy and Resources Committee.

2.4 Programme workstreams & sequencing

To deliver this wide-ranging set of plans workstreams were originally envisaged, covering:

1. Tier 1 restructure, talent & leadership
2. Organisational design
3. Enabling functions
4. Ways of working, institutions, behaviours & culture

Each of these areas will be covered in more detail later in this section. Ultimately, workstream resourcing has focused primarily on delivery of the restructure (1-3 of the list above, plus reviewing the independence of institutions). The culture and people workstreams were deferred until restructuring was implemented, due to the complex nature of developing and implementing the TOM across City Corporation and a limitation on resources in HR and in the TOM programme team. The latter was disbanded when funding ceased at the end of March 2022 despite TOM work still ongoing.

Chief Officer restructure activity was sequenced first, as the driver for further restructure within business areas. The restructure, and most Chief Officer recruitment, was completed in 2021. Chief Officers then led the next stages of change and delivery of TOM structures. Delivery of these structures is necessary for the subsequent delivery of concepts included under workstream 4 ‘ways of working’.

2.5 Delivery processes

Development and delivery of TOM structural changes was split into phases for each department or institution. Once these stages have been completed, a department is viewed as having competed its TOM, and is in a position where transformational change can start to be unlocked.

Departments may need to repeat this sequence at different levels to complete the TOM process - first at Chief Officer/Senior Leader level, then subsequently for other leadership or management posts. The full change sequence runs as follows:

1. Proposal design: Chief Officers and other senior leaders (where relevant) design and develop proposals for their areas to meet OD principles and make savings
2. Officer Governance: Proposals are scrutinised at officer level (by DAB) for compliance with OD principles, EDI and Public Sector Equality Duty implications, 12% savings proposals (where relevant) and wider consistency within the organisation
3. Committee scrutiny: Proposals are considered by the committee(s) relevant to the department or business area being restructured as well as Corporate Services Committee
4. Consultation: once proposals have been agreed at officer and member level, staff within the relevant area are consulted
5. Implementation: Following staff consultation (and implementation of any subsequent changes, if identified) structural implementation of the new proposals takes place unless changes to the proposals are significant

Most departments have completed stages 1-5, though some activity remains outstanding. The table below summarises where TOM activity has reached at the end of 2022.

Area	**TOM Status**
Comptroller and City Solicitor’s	Completed 2021

Innovation & Growth	Completed 2021
City Surveyor's	Phase 1 (Leadership team) completed 2022; Phase 2 implemented from December 2022. TUPE consultations to commence in early 2023 with impacted staff following the award of Integrated Facilities Management contracts in December 2022
Deputy Town Clerk functions	Completed 2022
Community & Children's Services (DCCS)	Completed 2021
Chamberlain's	Completed 2022 and implemented except for Financial Services Division, following recruitment implementation underway
Remembrancer's	Completed 2021
Chief Operating Officer's	Partially completed 2022, with Human Resources in implementation phase
Environment	Phase 1 (Leadership team) completed 2022 Phase 2 midway through process with proposals agreed by Committees. Staff consultation launched on 25 January, implementation to follow with completion expected mid/late-2023.
Bridge House Estates	Phase 1 completed 2022 (creation of Leadership Team), including increased autonomy; phase 2 under review, proposals expected in Q1 2023, with completion by late 2023.
City of London School City of London Girls School City of London Freemens School	Phase 1 (Leadership team) completed 2021 Phase 2: Proposals for shared services between City of London School, City of London School for Girls and City Junior School under development (stage 1), expected completion and implementation by September 2023.
Barbican	Phase 1 (Leadership team) completed 2022; second phase currently being scoped
Guildhall School of Music and Drama (GSMD)	Completed 2022
City of London Police (CoLP)	Developing proposals for CoLP Corporate Services; anticipated completion end 2023
London Metropolitan Archive	Completed 2022

Table 1: TOM status by department/institution

2.6 TOM workstreams: delivery to date

As described above, the TOM programme was split into four workstreams that covered the different themes needed to achieve the restructure intended for City Corporation. This section gives further detail on the workstreams, what they have achieved to date and any relevant lessons learnt. Delivery of the savings that were identified in the TOM programme is also addressed in this section.

2.6.1 Workstream 1: Tier 1 restructure, talent & leadership

Core objectives of the Tier 1 restructure focussed on slimming down direct reporting for the Town Clerk and Chief Executive, restructuring Tier 1 and Tier 2 management structures and recruiting a diverse group of leaders representative of City Corporation communities. Overall, this workstream has been implemented and is considered completed.

Tier 1 structure was approved by Members, and the majority of Tier 1 and 2 senior management post were recruited by summer 2021. To promote collaboration and coherence across the organisation City Corporation leadership groups were refreshed. These comprise of the Executive Leadership Board (ELB) and the Senior Leaders Forum (SLF)[4].

It should be noted that since this structure was approved changes have been made, specifically:

- The Executive Director of Corporate Communications and External Affairs and the Chief Strategy Officer (previously Tier 2 but now Tier 1) will now report to the Town Clerk & Chief Executive and not the Deputy Town Clerk
- The remit of the Deputy Town Clerk & Chief Executive has been split between an amended role of Deputy Town Clerk and a newly created Deputy Chief Executive function; the latter was added to an existing Tier 1 Chief Officer role (determined by recruitment process), currently the Comptroller and City Solicitor

Executive Leadership Board

This group is the top tier officer leadership group for City Corporation and replaces the previous Summit Group. Activity, including synopses of meeting notes, leadership composition are shared on the City Corporation intranet dedicated ELB page. The group is responsible for:

a. Taking collective ownership and demonstrating inclusive leadership discharging the aggregate set of accountabilities delegated to Officers by Members
b. Creating the right conditions for support, challenge, collaboration, integration and cohesion at a senior leadership level – as an essential foundation for creating a high performing ‘top team’

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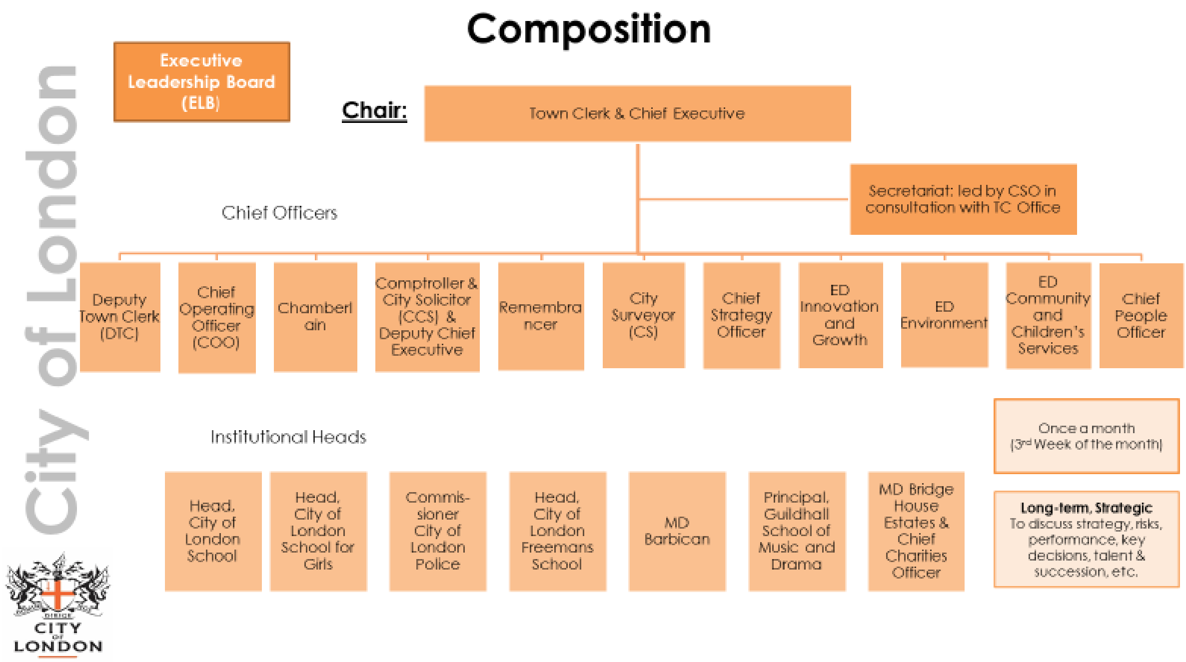
[4] See pg 12: Senior Leaders Forum

c. Setting, refreshing and aligning cross-cutting strategies and high-level initiatives, ensuring items covered have a clear ask (e.g. Discussion, Information, Decision, Action)
d. Managing cross cutting corporate risks - public (disclosed) and restricted (closed)
e. Assessing and analysing the performance of the organisation against the Corporate Plan
f. Spotting opportunities for developing talent & succession including Equality, Diversity and Inclusion (EDI) considerations
g. Connecting opportunities for collaboration across the organisation
h. Challenging ourselves on D&I; people related issues and equality impact of decisions



Senior Leaders Forum

The Senior Leaders Forum (SLF) was set up in tandem with the ELB to provide a quarterly forum for tier one and two leaders, including those within institutions. Its strategic intentions were to connect leaders across City Corporation and enable communication on plans across the organisation, and to help shape strategy, initiatives and decisions before these are escalated to ELB. A number of sessions had taken place by summer 2022, at which stage the SLF was paused.

Activity is now underway to improve and refine how this group operates: a working group is reviewing and updating the SLF looking at frequency, content and outcomes. The Forum will be led by the Communications team, the content decided by ELB and the session facilitated by the Learning & Development team in HR.

Talent & Leadership

The final part of this workstream focussed on developing talent and leadership within City Corporation. Developing consistent objectives for Chief Officers and ELB members was identified as a key deliverable and means of ensuring consistent leadership and organisational coherence. This is not complete.

It is expected that Chief Officer reporting will be themed around consistent objectives for 2023, this will be considered once the culture, values and behaviours have been reviewed. This is likely to be developed further in due course by the new Chief Executive once in post.

The top tier restructure uncovered only limited strategy focussed on talent management and leadership progression or succession planning. This is beyond the scope of the TOM programme but is included in consideration for the upcoming People Strategy and further activities planned by HR in early 2023. A 'Talent Management' module will also be considered as part of the ERP system offer in 2023/4.

2.6.2 Workstream 2: Organisational Design Processes

Redesigning business areas to conform to OD principles has been the most complex aspect of delivering the TOM programme and, as highlighted above, is not yet complete for all parts of the organisation.

The process has taken place in stages, with the Chief Officer and Director (or equivalent level) roles being redesigned first for each business area, then the second stage of redesign taking place for the whole business area following this where necessary.

All departments and institutions produced reports for Establishment Committee (as was) by the end of 2021, aligning senior management structures with OD principles. Implementation including consultation with staff followed and will continue into 2023 for some departments. Where there were exceptions to the OD principles these had to be justified after rigorous challenge. They are primarily related to number of reports per manager.

Proposals for new business area and institutional structures have passed through DAB to ensure they met OD principles, thereby significantly reducing 1:1 management chains and restructuring inefficient layers of management.

The DAB has been instrumental in driving honest discussions around the service offer of business areas, challenging design and structuring to drive efficiencies and remove inefficiencies such as duplication of roles. It has also provided a challenge function on impacts of structural redesign, including on equality, diversity and inclusion.

DAB assurance has also looked across City Corporation to share best practise, ensure alignment across departments and institutions and enforce consistent terminology and designations for the most senior three tiers of management.

OD Design delivery

Launching simultaneous organisational change across the organisation has affected the delivery of the TOM programme, due to the resources required to deliver this. It has also impacted morale negatively. The tight timescales originally anticipated also affected the quality of proposals, and resulted in less time for DAB to scrutinise and provide quality feedback on structural redesign. OD design delivery has resulted in two key challenges: on siloed working and on budgets.

Designing each department and institution in isolation has reinforced existing silos. Departments were not required to think about cross-cutting impacts of their restructuring activity, or how decisions may affect other departments. Siloed restructuring plans also meant that staff were displaced in one department at a time when posts in other departments that would become vacant could not be recruited to.

OD sequencing did not identify the timescales or budget/costs that would be needed to design and deliver updated structures. Consequently, there was no budget to pay for programme support beyond March 2022. Nor is there budget for growth areas and new departments needing investment – including the Corporate Strategy function and other growth areas that exist under the Deputy Town Clerk function.

Departments central to delivery, such as HR, did not have the resource to deliver the required support to the overall programme while simultaneously going through the redesign process, which has impacted on the pace of progress and the quality of departmental proposals. It has also led to a subsequent temporary transformation bid from HR.

There has also been limited resource to manage communications on TOM progress. Investing in early and extensive communications on the programme may have shortened the timelines required for the individual consultation processes within departments/institutions. Regular proactive comms are necessary to maintain buy-in to the programme, something that is crucial to its success. Anecdotal evidence indicates staff are not aware the TOM programme is still ongoing, and staff survey results have shown that City Corporation performs badly on communications.

OD principles and delivery summary

OD Principle	Responsible	Action delivered?
Create no more than 6 layers in the organisation excluding the Town Clerk and Chief Executive	Ongoing shared oversight from Chief Officers; TOM programme governance through DAB (and Steering Group)	Incomplete until all business areas have finalised TOM proposals
Create shared management objectives	Town Clerk & Chief Executive / HR	Reporting on performance: consistent corporate themes

for all senior management grades		requested for 2022-23 reporting year
Ensure spans of managerial control will be equalised to 1 manager per 6 employees in most circumstances	OD delivery with assurance through DAB (and Steering Group if required)	All proposals to date scrutinised for this: delivered with a small number of exceptions where service has required divergence (eg. shift work)
Phase out all 1:1 management responsibility	OD delivery with assurance through DAB (and Steering Group if required)	Actioned with OD proposals to date
Organise our services to create the new operating model, for example reviewing duplication of roles	Chief Officers responsible for business area design; DAB provide scrutiny and advice	Actioned with OD proposals to date
Use the agreed designations for our most senior 3 tiers in the organisation	DAB scrutiny across all OD proposals; Steering Group sign off specific exceptions	Actioned in all OD proposals; sign off agreed for exceptional titles (e.g. Chief of Staff roles)
Create an agreed Establishment for each department and workforce plan so that vacancies are managed and not left unfilled without planned activity	Chief Officer responsibility	To be delivered as part of programme closure. This will take at least six months to baseline before workforce planning can commence.

Table 2: OD principles delivery summary

2.6.3 Workstream 3: Enabling functions

Central to the TOM programme was defining the different areas of CoLC as service (outward, customer-facing) or enabling (cross-cutting, support) functions.

Enabling functions were identified and assigned across the organisation: this allowed OD proposals to be developed with consistency and quality of service across the organisation in mind. In practice this did not translate to co-design of core functions (such as HR, DITS, H&S, EDI, fleet, FM) between the centre and Institutions/departments, which have their own teams for several of these. As a consequence opportunities for hub and spoke, centralisation or conscious decentralisation (or alternative structures) was not achieved and remains to be reviewed from a strategic and practical standpoint.

Reviews were undertaken in 2021 for legal, security, corporate comms marketing, business planning, financial services, internal audit, commercial, programme management, philanthropic and charitable activities, estates and facilities management and events. These mapped and increased awareness of business area needs and services that are supplied across City Corporation.

To improve consistency of cross-cutting services, key changes were identified and implemented, including:

- Increased robustness (including new Chief Officer role) of the Corporate Strategy function to centralise, coordinate and drive the overarching direction of travel for City Corporation
- The Head of Profession (HoP) function was created to drive operational standards for delivery in their profession, creating consistency throughout the organisation (for detailed HoP role description see annex C)

Head of Profession – Role Development

The role of Head of Profession is to lead and champion their specific profession and the professionals within Departments, Services and Institutions. The Head of Profession HoP is responsible for representing the interests of their profession and professionals on a range of issues, such as pay and grading. They also ensure work relevant to their profession follows the profession-specific guidance. The HoP holds their HoP function alongside their day to day role.

At the time of writing, the development of HoP roles and responsibilities vary in their maturity. Some are grounded in corporate or national standards, memberships and compliances, while others are being driven internally by our own organisational knowledge and expectations. Many HoPs have only recently been recruited to CoLC or are still due to be recruited. At this stage it is too early to assess the impact of developing a HoP function, and it is likely that each function will be managed very differently.

The HoP is a new function for the organisation, and its development follows on from TOM restructuring activity. Further thinking will be required on how the roles can benefit the organisation and consolidate existing activity. HoP activity will be taken forward as business as usual, though further thought will need to be given to how accountability of HoP functions will be managed and optimal reporting channels can be constructed into ELB, relevant committees and other relevant groups.

The table below sets out the function and responsible person for each Head of Profession.

Head of Profession functions and activity to date

HoP Function	HoP Lead	HoP in place	Activity Description

Commercial	Commercial Director	Yes	Discussions on HoP scope underway; specific guidance planned
Legal	Comptroller & City Solicitor	Yes	Currently unspecified
Estates & Facilities Management	City Surveyor	Yes	This HoP function will centralise facilities and estates management under the City Surveyor – this was previously provided locally across departments. It is part of the move to the Integrated Facilities Management (IFM) approach, due to go live from April 2023. All of this will contributed to a consistent and coordinated Estates and Facilities management process for the organisation. Activity is envisaged to cover specialist training and support, development of asset registers and common operating procedures amongst other activities currently being scoped.
Corporate Comms & Marketing	Executive Director of Comms & External Affairs	Yes	Corporate Comms & Marketing HoP function has been centralised under the ED for Comms & External affairs. Further activity will take place once recruitment has taken place.
Security	Strategic Security Director	Yes	HoP role development underway
Business Planning	Chief Strategy Officer	Yes	This portfolio was expanded to include risk and strategy development. Work ongoing to review and update the business planning process and recruit an officer to help lead development and alignment of HoPs
Events	Remembrancer	Yes	Currently unspecified
Financial Services	Chamberlain	Yes	The Chamberlain has statutory responsibilities to ensure the

			effective financial management of the City Corporation's affairs in its public (inc. charitable) and private capacities. As HoP for finance ensure adequate resourcing and delivery of an effective finance function. Overseeing adherence to financial regulations and procedures, managing financial risk and issues, developing capability of finance staff and enabling decision making. Thereby enhancing collective value of the function. The Financial Services Director chairs the Finance Leadership Group- drawing together all finance leads for departments and institutions alongside the Corporate Treasurer, Assistant Director, Financial Shared Services, the Head of Internal Audit and key posts within corporate accounting for professional oversight and to build strong and collaborative relationships to deliver the above responsibilities and drive improvements within the finance service The Bridge House Estates and Charities Finance Director is the professional lead for charities finance
Internal Audit	Head of Internal Audit	Yes	All Internal Audit activity across all operations of the City of London Corporation is delivered by a single team under the leadership and line management of the HoP. Other ongoing and forward activity relates to work with second line assurance functions: developing approach to improve effectiveness and support upskilling of these teams.
Health & Safety	Corporate Head of Health & Safety	Yes	HoP role development underway; guidance and further activity planned during 2023

IT	Data Information, Technology Systems Director	Yes	HoP role development underway; guidance and further activity planned during 2023
HR	Chief People Officer	Yes	HoP role development underway; guidance and further activity planned As part of the People Strategy, the Head of HR Profession role will be set out, including guidance, engagement and dotted line responsibility for all Institutional Directors/ Heads of HR across the Corporation. There is an opportunity to create a HR Profession Centre of expertise and to share and drive HR best practice. Gaps identified are consistency of practice and risks of setting precedence which jeopardise single employer status.
Programme Management	Project Governance Director	No	To be established as part of the current project governance review/appointment of Project Governance Director.
Business Support	Chief Operating Officer	Yes	The business support area is poorly defined, with further activity due in 2023.This role would likely require a cross-cutting, horizontal TOM process which is not felt to be appropriate or beneficial following the team/vertical TOM processes already completed.
Fleet Management	Chief Operating Officer	Yes	Discussions on HoP scope underway; specific guidance planned
Philanthropic & Charitable Activities	Bridge House Estate Managing Director	Yes	Further development to take place
Arts	Artistic Director – Barbican Centre	Yes	An audit of all cultural activity across the City will take place, in order to understand the current position. Once consolidated, there will be a clear link the Destination City strategy to ensure that there is a

			robust, effective, and efficient delivery against the strategy.
Equality Diversity and Inclusion	Director of EDI	Yes	Discussions on HoP scope underway; specific guidance planned

Table 3: HoP functions and delivery

2.6.4 Workstream 4: Ways of working, Institutions, Behaviours & Culture

Delivery in this workstream has focussed primarily on institutions.

Before TOM changes, departmental leads reported into the Town Clerk and Chief Executive alongside their relevant Boards and Committees. Refreshed structures have created institutions (including BHE) and granted them increased independence, with the exception of the London Metropolitan Archives[5], which was moved under the Deputy Town Clerk Department with other corporate enabler teams/functions. In practical terms this means they are directly accountable to their relevant Boards, and report into the corporate centre through a presence at the ELB. Increased independence is seen to drive down bureaucracy, increases agility and the ability for specialism in their field for Institutions, while ostensibly allowing them to retain strong links to core City Corporation identity.

Ways of Working & Culture

This workstream was the least defined at the start of the programme, while also being one of the most complex to deliver. It has not been prioritised by Officers or Members so has received limited focus.

The focus on achieving savings within teams has stifled activity on innovation, transformation and continuous improvement activity, particularly between parts of the Corporation. Transformational funding is required to take this work forward.

The Culture aspects of the programme were unable to make significant headway with no HR resource to lead it. Some work took place to look at different ways of working and continuous improvement before the programme team was disbanded at the end of March 2022. This focussed on small pilot projects to trial collaborative technology on Committee reports and a City of London school pilot on organisational agility.

Separately, a Continuous Improvement capability was identified as missing from CoLC and a pilot project was requested and delivered in the Chief Operating Officer area to establish the value and best route for this to be used for CoLC. As a result of this work a permanent team of three people has been confirmed within Project Governance for

[5] It was agreed by the Culture, Heritage and Libraries Committee that London Metropolitan Archives (LMA) would remain part of City Corporation (link to Agenda & Minutes for 31 January)

Transformation. The new team will be responsible for establishing a transformation framework to support future business change and delivering process improvement projects across CoLC.

The lack of activity in this workstream to date is also an opportunity. Since the TOM launched there has been a fundamental shift in economic outlook. Activity originally envisaged within the culture change workstream of the TOM, will become a workstream of the People strategy, led by the Chief People Officer. Part of this workstream will be a refresh of our vision, values and behaviours, to be led by the incoming Town Clerk & Chief Executive.

Separate to the TOM, the Resources and Priorities Refresh (RPR) Programme aims to embed a holistic approach to the allocation and deployment of CoLC's resources, so that actions and spend are aligned to corporate values (our priorities). This programme will support key strands of transformation through four workstreams: Corporate Plan Annex, Productivity, Commercial and Operational Property.

RPR activities will inform and be informed by the People Strategy work led by HR (the CPO is on the RPR board), as well as feed into the next Corporate Plan 2025-30, which will further clarify the future priorities for the organisation. Development of Corporate Plan 2025-30 is in the initial stages, led by the expanded Corporate Strategy function. It will take account of the People Strategy to create the necessary ways of working and culture within the organisation, as this is progressed.

2.7 TOM Cost Savings

On 4 March 2021, the Court of Common Council approved a general budgetary reduction to resolve the budget deficit: comprising of 12% savings against departmental budgets, and 6% in case of social care and children services (DCCS), allowing DCCS to maintain services to the most vulnerable. This affected most departments and institutions, with the exception of Bridge House Estates.

The general 12% savings applied to budgets totalling £18m (£9m City Fund, £4m City's Cash and £5m Guildhall Admin). The TOM savings target (linked to staffing reductions) agreed by Court of Common Council in 2020/21 was £4.5m (£3m City Fund and £1.5m City's Cash).

At the time, it was not possible to estimate what the overall new TOM structure might cost, the cost of delivering the TOM, or what the savings would be, and allocate a target to departments. Each department has a different cost base: for some departments staff costs dominate overall spend, for others this is not the case. The TOM target is therefore a range with a minimum value of £4.5m and is part of the overall 12% reduction totalling £18m.

This report does not currently distinguish between TOM savings (staffing cost savings) and the 12% savings (general savings), neither does it cover the total TOM costs as this is not possible until TOM activity is complete. An update on this will be provided in the final TOM report.

It should be noted that the financial situation has changed since this decision was made. Further cost savings options and measures are now required to support new cost pressures being identified through the RPR programme. These are separate from the 12% savings and savings required as part of the TOM.

The tables below summarises progress on identification of TOM savings for the departments that have gone through the initial organisational design process (where permanent year on year savings are achieved and delivered), against those departments where the process is still ongoing (highlighted within the OD principles and delivery summary table above) and that are currently achieving one-off savings in-year (2022/23) by holding vacancies.

Permanent savings delivered through the TOM total £13.9m. Temporary savings made by departments total £2.6m, achieving 90% savings against target.

Key points to note for the tables below:

- Budget top sliced for 12% savings or 6% in case of DCCS from 1 April 2021, equating to £16.171m – this excludes City of London Police (CoLP), Guildhall School of Music and Drama (GSMD) and Barbican; Bridge House Estates was excepted from savings requirements
- It is not yet possible to quantify a permanent split between TOM and non-pay savings until all departments transition into their new structure
- Amber shading denotes departments will continue proposals throughout 2022/23 to be agreed by Committee/Members under the TOM process
- The 12% reduction is shown in the second column from the right: ‘Total TOM Savings Agreed’
- Due to COVID impact the Barbican Centre was permitted to defer its 12% savings until after 2021/22; 12% savings are now deducted from the Barbican Centre’s 2022/23 budget, taking the overall savings target to £18.258m
- Savings are confirmed as at 31 December 2022; departments must deliver within the overall envelope
- Departmental /Member bilateral meetings have been used to identify how unidentified savings will be delivered, except for Deputy Town Clerk function and DCCS where Star Chambers were carried out
- ‘Other’ savings (penultimate row) require review: due to changes in Chief Officer portfolios this has been missed, and requires reallocation under the correct Chief Officer
- CoLP and GSMD savings are ringfenced to the Police and School’s reserves respectively under the funding agreement
- The comments column provides an explanation of savings to be delivered and/or areas that are being explored

Department	Total TOM Savings Agreed £000's	Total Permanent Savings Achieved £000's	Total Temporary Savings Achieved in year £000's	Total Unachieved Savings for 2022/23 £000's	TOM Permanent Savings still to be identified £000's	Comments
Barbican	2,087	1,387	0	700	700	The Barbican are developing initiatives to deliver the remaining savings including: ticket pricing reviews, staff targets, operational reviews (technical), optimisation the membership programme and driving commercial income maximisation. The Barbican anticipate on delivering full savings by 2023/24.
Environment	2,679	605	1,906	168	2,074	For 2023/24 onwards, to address the circa £2m shortfall for 23/24, Environment have proposals spanning several years of which some will need committee approval but also have a RAG status and some fall in central risk. For 23/24 only £2.290m are rated green and the bulk will need committee approval/and Priorities Board agreement to use OSPR funding.
Chamberlain's	1,324	1,324	0	0	0	
Chief Operating Officer	2,106	2,106	0	0	0	
Community & Children Services	1,451	1,292	0	159	159	Outstanding car parking initiative, this will require Member support and sign-off. If this initiative is not supported then the department will need to rethink how else they will make the savings.
City of London Freemen's School	105	105	0	0	0	
City of London School	227	227	0	0	0	
City of London School for Girls	91	91	0	0	0	
City Surveyor's	3,599	3,448	0	151	151	£151k intending to charge one post to major projects with remainder coming from staff turnover. Anticipated in achieving from 2023/24.

Comptrollers and City Solicitor's	101	101	0	0	0	
DTC Functions	1,227	580	647	0	647	Holding vacancies to address funding gap in year, further work is required to ensure sustainable year on year savings are achieved.
Innovation & Growth	950	950	0	0	0	
Natural Environment	1,793	1,464	67	262	329	TOM savings non-pay only, of which £1.464m is permanent; Further budgetary pressures are extant – however, Environment TOM proposals are currently subject to staff consultation and final figures will be included in final TOM report.
Remembrancer	200	199	0	1	1	
Other	318	0	0	318	318	Due to significant changes in Chief Officer portfolio this needs to be reallocated
Total	**18,258**	**13,879**	**2,620**	**1,759**	**4,379**	

Table 3: TOM savings to 31 December 2022

Department	Total TOM Savings Agreed £000's	Total Permanent Savings Achieved £000's	Total Temporary Savings Achieved in year £000's	Total Unachieved Savings for 2022/23	TOM Permanent Savings still to be identified £000's	Comments
Bridge House Estate	N/A	N/A	N/A	N/A	N/A	
City of London Police	2,300	2,300	0	0	0	
GSMD	832	832	0	0	0	
Total	**3,132**	**3,132**	**0**	**0**	**0**	

Table 4: TOM savings to 31 December 2022 – exempt / ringfenced areas

Key to tables 3 & 4:

- Column 1: department delivering savings

- Column 2: Total TOM Savings Agreed – this is the amount deducted from local risk budgets
- Column 3: Total Permanent Savings Achieved – this is the total amount of permanent (year on year) savings identified and achieved by department(s)
- Column 4: Total Temporary Savings Achieved in year – Where departments are yet to identify or reap the benefits of a full years savings, they have made temporary savings elsewhere to remain deliver their savings target - i.e. by holding vacancies
- Column 5: Total Unachieved Savings for 2022/23 - this is the total amount of savings not being delivered against target savings by department(s)
- Column 6: TOM Permanent Savings still to be identified – this is the total amount of permanent savings yet to be identified by department(s)

Part 3: Next steps

As previously stated, this is an interim report to update on where the TOM programme has reached at year end 2022. This will be followed by a final report in summer 2023. This report does not cover the whether the TOM has achieved its desired results, however, some impacts can potentially be gauged through the 2022 staff survey.

3.1 Staff Survey

The TOM has had a significant structural impact on the organisation to date. It has also impacted employees. Although no specific questions related to the TOM were asked in the 2022 Staff Survey, there are some indicators that could be used as a proxy for understanding how the TOM has impacted day to day activity so far.

General findings from the 2022 Staff Survey indicate that City Corporation performs less successfully on senior leaders managing change well, and communicating this to staff, on ensuring staff feel appropriately supported through change, and on communicating how the organisation is doing against its objectives – which could be extrapolated to include TOM objectives.

When describing corporate culture, words such as low morale, lack of transparency, siloed and bureaucratic still feature heavily, and although this question was not asked in the context of the TOM, it implies there is still work to do on achieving its goals. In engagement sessions with staff the prevailing sentiment is that the TOM was “done to” staff rather than developed with them.

Conversely, words such as diverse and inclusive also feature heavily. Again, this is not in specific relation to the TOM, but do provide an indicator that aspirations to make the organisation more representative and diverse at a senior level are potentially being perceived as successful.

Inference can be drawn from the results of the staff survey in relation to managing this change, and monitoring staff sentiment in relation to key TOM outcomes in future will provide a relevant dataset to indicate success measures for the intentions of the programme.

3.2 TOM as business as usual

Once the TOM programme has been completed, and all departments have new structures agreed, it will be assimilated into normal day to day operations. OD principles will be assumed to be the norm for the organisation, and structuring business areas in this way business as usual. Support and governance structures set up specifically for the TOM will cease to exist, with accountability to ensure that corporate structures are compliant with OD principles to be overseen by HR, with ultimate accountability held by ELB and Chief Officers.

Operationally, this will open a new chapter for City Corporation: it is at the starting point for achieving the outcomes that were intended in the design of the OD principles described above.

Measures will need to be developed by which organisational success can be measured in the context of these outcomes. This activity feeds into the overall monitoring of whether the organisation is functionally fit for purpose. This activity is led by the Chief Strategy Officer, in collaboration with various leads across the organisation.

The table below sets out those original outcomes, with a short description on suggestions for how this work will be delivered and monitored in future.

Outcome	**Suggested ways of monitoring**	**Contributors**
Enable us to respond to, and be proactive in anticipating external changes	tbc	Corporate Strategy & Performance Team (CSPT) horizon scanning function with input from whole organisation
Align activity and resources to our corporate outcomes	To follow and align with prioritisation work currently underway which aims to enable the identification of priorities options for decision through the 2024/25 annual business planning and budget setting cycle, commencing Summer 2023	CSPT and Chamberlains with input from all departments / institutions
Build competence and capability to deliver our Corporate Plan	Complete in relation to TOM (once all areas have restructured) Performance measures to be developed as part of new Corporate Plan 2025-30 for future activity	CSPT with input from all departments / institutions
Increase the pace of decision making	Through Chief Officer & staff surveys / input	Relevant to whole organisation
Increase evidence-based decision making	As above, with input from Members/Committees on the evidence/data requirements	Relevant to whole organisation

Enable us to deliver cross cutting outcomes	Through Chief Officer & staff surveys / input on collaboration	Relevant to whole organisation, especially to identify potentially cross-cutting projects / activity
Prioritise effective front-line services	Complete: no monitoring required – organisation split between service and enabling departments	n/a
Position us as leaders and at the cutting edge of the three sectors we operate in	Benchmarking against relevant external activity	Service departments and relevant institutions – requires quantitative and qualitative measurement
Achieve cost savings to resolve budget deficit	Via finance and budget holders (Chief Officers)	Once TOM proposals are complete this will be closed; further financial initiatives are being considered through RPR activity

3.3 Conclusion

Although the TOM programme is not yet complete, the organisation has already undergone profound structural change since activity started. CoLC now comprises critical cross-cutting enabling functions which support the front facing service departments and institutions. Institutions themselves have, with some exceptions, gained more independence and autonomy, improving agility but not resolving inefficiencies or inconsistencies with central policies and teams.

Senior leadership roles have been reviewed and updated, with a more diverse and streamlined Chief Officer team now in post. The next tier of changes to senior leadership structure has brought about streamlining and better organisation of business areas.

Where activity has not been completed, this is due, in part, to the complexity and size of the required changes to be implemented. This activity will continue into 2023 and is not expected to conclude until late in the year. There is a risk that the longer TOM implementation takes, the more it may lose momentum, and the longer it will be before CoLC can realise any benefits, with an associated potential impact on staff morale where restructuring is still underway or has not yet taken place.

The TOM has successfully delivered new corporate structures that bring the organisation to the starting line: it should now be better able to identify and deliver transformational change (or will be once the programme is complete).

Some workstreams were deprioritised once it had become clear how much resource was required to deliver the structural changes. This has become an unexpected opportunity and bonus for City Corporation. When the programme was started the extent of changes in local, national and international economic circumstances were not known – now these are becoming clear financial activity to manage them can be fine-tuned for the future and are not reliant on revisiting TOM activity. Similarly for corporate culture and staffing, activity driven by the new Chief People Officer can reflect the new circumstances and structures of City Corporation.

Challenges remain around breaking down siloes, improving evidence based decision-making, ensuring critical work is being prioritised and ensuring activity is aligned with resource and outputs. This requires monitoring over time, as outcomes will not be clear in the short term.

3.4 Next steps

This is an interim report intended as an update while the TOM programme is completed.

A number of deliverables, such as Establishment plans and measures and metrics to clarify and ensure City Corporation is fit for purpose, will be developed as part of the closure of the programme. Some gaps have also been identified during programme delivery, where the organisation may benefit from further review to see if efficiency savings can be made.

Finally, lessons have been learnt from which the organisation can benefit when undertaking future programmes. All of these outstanding activities, gaps and lessons are described in the table below in annex A. Where relevant, these will be followed up in the final TOM closure report due later in 2023.

Annex A: Lessons learnt, opportunities & upcoming deliverables

No	Detail
1	Lesson - Scope & Project/programme management: Complex organisational change needs adequate time and resource: significantly more than was set out in the original TOM plans – timelines were too short to achieve all original intentions given complex nature of CoLC. All workstreams should be fully scoped and resourced when the programme starts.
2	Lesson - Support and sequencing: Change programmes require significant support from specific corporate functions such as HR and programme management – these functions should be adequately resourced for the full duration of the programme, and should not undergo change processes at the same time as the areas they are supporting, especially the HR function.
3	Lesson - Governance: Officer governance structures added significant value to TOM process and provided valuable assurance to Members and Committees that OD principles were being followed while avoiding repetition / duplication of work
4	Lesson - Comms: Communication of change programmes is key to success: internal comms should be significantly more extensive and staff more engaged in any future programme to improve ability to deliver successfully
5	Lesson - Cross-cutting programme: new structures have been developed with limited input from across the organisation. This means that siloes have been reinforced; future activity should specifically be reviewed to prevent reinforcement of siloes
6	Lesson - Performance & success criteria: no criteria were set out at the start of the programme, so there is no way of clearly indicating the extent of the success (or not) of the programme. Performance measures will need to be developed retrospectively which will not be able to take the change delivered by the programme into consideration.
7	Lesson - Structure: splitting the organisation between front line and corporate support services has improved clarity within the organisation and helped break down some siloes. Awareness should not be lost that both types of function are critical to the effective and successful operation of the organisation and require funding and resource commensurate to the function they perform across the organisation.
8	Lesson - Structure & Income generation: this was not included in the TOM programme; given the change in economic circumstances, departments who are income generating may benefit from reviewing opportunities to further

	develop funding streams and the organisational support/design required to achieve this.
9	Opportunity - chauffeuring and fleet management has been identified as areas where further cost savings could be made. A review into this may support cost saving efforts under the HoP
10	Lesson - Process: Reviewing organisational structures uncovered that in some cases job descriptions had not been reviewed for many years (in some cases in excess of a decade). Structures should be put in place to ensure these are reviewed and kept up to date at a frequency that is relevant to the role/department.
11	Opportunity – Performance: staff sentiment in relation to key TOM outcomes should be monitored in future staff surveys to develop a dataset to indicate success measures for the intentions of the programme
12	Opportunity - London Metropolitan Archives did not become an independent institution as part of the TOM process; if, in future, benefits could be realised as a result of increased independence, this decision may be revisited and a cost benefits analysis/business case review could take place.
13	Opportunity – Digital, technology and data systems: A review of digital, technology and data systems across the corporation may identify opportunities to delivery more efficient, leaner services through technology. It may also support transforming ways of working.
14	Deliverable - Establishment Control: overall final establishment should be produced alongside programme closure. Department plans are owned and activity to develop them led by Chief Officers.
15	Deliverable – Measures for TOM as BAU: Measures and metrics to be developed to understand and monitor organisational success in the context of TOM outcomes. Oversight of TOM as BAU is held by the Chief Strategy Officer; activity on metrics will require input from across the organisation.
16	Deliverable – HoP: further development of the Head of Profession function, and planning for scoping these roles to ensure effectiveness for City Corporation.

Annex B: OD Principles - detail

Below is a detailed definition of TOM OD principles specifically regarding agreed designations for the most senior three tiers in the organisation and permissible titles. These designations were agreed at the TOM Steering Group in May 2021.

1. Tier 1 (Senior Management Grade - SMG): titled Executive Director and/or appropriate Professional Title
2. Tier 2 (SMG): titled Executive Director and/or appropriate Professional Title
3. Tier 2: (Grade I&J, non-SMG) generally titled Director except where a Professional Title is used or point 7 applies. In that instance the title is Assistant Director or appropriate Professional Title. On the rare the occasion that a Tier 2 is graded H, they may be titled Director (provided point 7 below does not apply)
4. Tier 3: (Grade G, H & I) titled Assistant Director, Head of Service or an appropriate Professional Title
5. 'Deputy' will not be used at any tier unless there are justifiable reasons (e.g. Deputy Remembrancer, Deputy Town Clerk)
6. Existing job titles can remain where requested by the department with justification but to change in line with principles wherever possible when post is vacated. Justification can include external impact.
7. If there is an Executive Director of a named service within the City Corporation, there will not be a Director of the same named service in whole or in part (with the exception of Institutions where justification is provided or where point 6 applies). For example:
   a. There will not be a Director of HR if there is an Executive Director of HR
   b. There will not be a Director of Events and Communications if there is an Executive Director of Communications & External Affairs

The City Corporation's Job Evaluation Scheme defines responsibility for people at varying levels:

Level 1: At this level, postholders have no, or very limited, responsibility for people. The limited responsibility may include the requirement to assist new Corporation or contractor/agency staff or others in receipt of training from the Corporation with procedural guidance and working practices. This requirement will be in relation to induction or 'on the job' training with no ongoing, medium- or long-term requirement to train specific individuals or groups

Level 2: At this level there will be an ongoing requirement for the postholder to give training and guidance, which may include the allocation of work, to any of the categories of person identified in Level 1 or to less senior Corporation, contractor or agency staff in the same group or section. "Less senior Corporation staff" may, for example, be officers on a career grade shared by the postholder but on which the postholder is at a higher level. The ongoing requirement will usually be in relation to the same individuals or groups of people but there may be an ongoing requirement to give training and guidance to, for example, volunteer groups where the individuals within the groups may change from week to week or over longer periods of time.

Level 3: At this level, the postholder must have formal ongoing organisational responsibility to line-manage staff, which will involve the allocation, supervision and checking of work but will also include additional management responsibilities such as:

- Disciplinary action up to and including first written warning
- Participation in the recruitment process, including interviews, but without leading on or authorising or making formal recommendation for recruitment
- Appraisals
- Recommendations for training and learning and development opportunities for staff managed or supervised.

Level 4: At this level, the postholder will have ongoing line-management responsibilities for staff which must include

- Leadership of recruitment processes
- Appraisal
- Determination and authorisation of training and learning and development programmes for staff managed
- Formal disciplinary action up to and including final written warning and recommendation to dismiss permanent staff.

The postholder must have management responsibility for all of these matters to qualify for this level.

Level 5: At this level, the postholder must possess authority to exercise the full range of management responsibilities, including that of terminating the employment of permanent staff.

- Levels 1 and 2 are not definitions of ‘management’ in respect of the Organisational Design Principles.
- Whilst level 2 is not ‘management’, it is helpful as a definition as many managers rely on their staff to do some of the work allocation and checking for them, without relinquishing their “management” responsibilities when they do so. It is proposed that a dotted line on organisational design structures reflects this requirement.
- Level 3 will be adopted as a ‘definition’ of management by default, unless clear justification in individual circumstances can be provided. These will be scrutinised by TOM programme governance.
- Levels 4 and 5 are adopted as ‘definitions’ of management in all circumstances for the purposes of the Organisational Design Principles
- Support and supervision will not be classed as management responsibility within these definitions

Annex C: Head of Profession

Heads of Profession (HoP) are expected to lead the ongoing transformation in their service areas. This varies across different roles, but HoP are typically responsible for:

- Understanding demand: engaging with stakeholders across the Corporation to define and refine the requirements for their function, categorised as:
    - Core requirements to enable delivery of the Corporate Plan and the long-term ambitions of the Corporation
    - Local requirements that apply to an individual (or group) of departments, Service Areas or Institutions
- Developing functional strategy and policy: defining the strategy for the profession (based on demand), establishing core priorities, measurable outcomes and the service delivery approach(es) to achieve them; developing Corporation-wide policies that define functional standards
- Ensuring service delivery: identifying, confirming and agreeing the most appropriate mechanisms to deliver the function through consultation with Chief Officers. Heads of Profession and Chief Officers should typically agree the most appropriate approach from the following modes:
    - Central: where the Head of Profession has direct responsibility for delivery and it is conducted from the Corporate Department
    - Collective: where delivery is the responsibility of a Chief Officer, and provided on behalf of other departments
    - Devolved: where delivery is the responsibility of a Chief Officer and delivered just for themselves
- Overseeing adherence to policies and standards: regardless of the delivery mode, the Head of Profession will have accountability for overseeing compliance with professional standards (and policy); matrix reporting may be necessary to ensure staff are managed effectively, in consultation with Chief Officers
- Managing and escalating risks and issues: identifying and managing risks and issues associated with the quality-of-service provision or adherence to policy and escalating where these are not resolvable. Escalation will be to a relevant T1 role, the Executive Leadership Board or the Town Clerk and Chief Executive
- Developing capability: building a professional network across the Corporation; creating training and development opportunities; overseeing workforce planning, including the approval of senior appointments into the profession; and supporting the development of career pathways
- Enabling decision-making: simplify and clarify how decisions relevant to the profession’s policies are made
- Enabling collective value: articulating the value of the profession, providing clarity over costs (including at service and customer-levels), and supporting collaboration between departments

Heads of Profession will typically be senior individuals within the Corporate Department, though exceptions may occur.