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CITY OF LONDON

Finance Committee
APPENDIX PACK

Date: **TUESDAY, 20 FEBRUARY 2024**

Time: 12.45 pm

Venue: **COMMITTEE ROOMS – 2ND FLOOR WEST WING, GUILDHALL**

7. **CITY FUND 2024/25 BUDGET & MEDIUM-TERM FINANCIAL PLAN**

Appendices to the Report of the Chamberlain.

For Decision
(Pages 3 - 98)

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Key assumptions used in the forecast

The following paragraphs detail the key assumptions that have been used in the construction of the 2024/25 budget and Medium-Term Financial Strategy (MTFP):

Income

1. The City Fund has two key income streams, investment property rental and treasury income. Detailed 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 2023/24 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. 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 reported, with 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 Statement 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 a high of 5.25% in August 2023. It has remained at this rate into 2024 and is forecast to fall through late 2024 to 3% by September 2025. 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 linger, 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 £1.24m 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

2. The starting point for the 2024/25 budget is 3% inflationary uplift and additional uplift for the agreed pay award from 2023/24;. The provisional settlement in December 2023 confirmed a small increase in the level of funding for social care, with the expectation more will be raised from local taxpayers. £470k pressures on adult social care and children services has been included.

3. Policy and Resources Committee and Finance Committee have messaged clearly that cost pressures should be managed within existing resources. Additional funding has been provided for as outlined in the table 1 below. Following previous concerns raised around the backlog of regular maintenance for the operational estate, the CWP budget has been inflated to reflect the expected need over the five-year period. Where one-off funding/time limited resource is required, this is accommodated through underspends from 2023/24 carried forward.

Table 1: Additional pressures included within the City Fund budget

CITY FUND	2023/24 £'m	2024/25 £'m	2025/26 £'m	2026/27 £'m	2027/28 £'m
Re-profile of FR savings	(0.51)	(3.30)	(0.60)	0.00	0.00
Childrens Social Care (CSC) placements	0.00	(0.16)	(0.16)	(0.16)	(0.16)
Adult Social Care (ASC) placements	0.00	(0.31)	(0.31)	(0.31)	(0.31)
Legal costs, internal recharges	0.00	(0.21)	(0.21)	(0.21)	(0.21)
Electoral Services	0.00	(0.33)	(0.33)	(0.33)	(0.33)
Ambition 25	0.00	(2.00)	(2.00)	(2.00)	(2.00)
Occupational Health	0.00	(0.03)	(0.03)	(0.03)	(0.03)
Member Allowances	0.00	(0.40)	(0.40)	(0.40)	(0.40)
MoL and LSO uplift	0.00	(0.22)	(0.22)	(0.22)	(0.22)
City Fund additional pressures	**(0.51)**	**(6.96)**	**(4.26)**	**(3.66)**	**(3.66)**

Revenue Spending Proposals 2024/25

4. The overall budget requirements have been prepared in accordance with the strategy and the requirements for 2023/24 and 2024/25 are summarised by Committee in the table below. Explanations for significant variations were contained in the budget reports submitted to service committees.

Table 2: City Fund Summary Budget

City Fund Summary by Committee ***Net Expenditure (Income)***	**2023/24 Budget £m**	**2024/25 Budget £m**
Barbican Centre	(29.6)	(27.7)
Barbican Residential	(3.1)	(3.4)
Community and Children's Services	(17.7)	(17.9)
Culture Heritage and Libraries	(20.7)	(21.8)
Finance*	14.7	(2.9)
Licensing	(0.4)	(0.4)
Markets	0.1	(0.1)
Open Spaces	(1.9)	(2.3)
Planning and Transportation	(17.9)	(16.9)
Police	(101.0)	(114.1)
Police Authority Board	(1.0)	(1.0)
Policy and Resources	(4.4)	(5.7)
Port Health and Environmental Services	(15.5)	(16.6)
Property Investment Board	35.2	34.3
City Fund Requirement	**(163.2)**	**(196.5)**

* Finance includes changes to: capital revenue expenditure, supplementary revenue programme, additional one-off cost pressure highlighted in this report. The 23/24 budget has 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.

5. Approved budget for 2023/24 includes additional allocations as set out below:

Changes	**£'m**
2023/24 Original Budget	**(160.5)**
Carry forwards from 2023/24 underspends	(17.5)
Supplementary Revenue Projects	(2,3)
Interest on cash balances	17.1
2023/24 Revised Approved Budget	**(163.2)**

6. 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 3: City Fund net budget requirement and financing (excluding Police)

		2023/24 Budget £m	2024/25 Budget £m	Para. No.
1	Net expenditure on services	(232.8)	(241.8)	
2	Capital Expenditure funded from Revenue Reserves	(3.4)	(5.5)	
3	Cyclical Works Programme expenditure financed from revenue	(12.4)	(19.1)	
4	Requirement before investment income from the City's Assets	(248.6)	(266.3)	
5	Interest on balances	44.3	28.9	
6	Estate rent income	41.2	40.9	
7	**City Fund Requirement**	**(163.2)**	**(196.5)**	
	Financed by:			
8	Government formula grants	135.5	148.7	
9	City offset	12.5	12.8	
10	Council tax	9.7	9.0	
11	NNDR premium	28.0	31.3	
12	Total Government Grants and Tax Revenues	185.7	201.8	
13	Drawdown on Reserves	19.6*	16.4**	
14	**(Deficit)/Surplus transferred (from)/to reserves**	**42.1**	**21.7**	

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

Line 8 in table 3 is shown in further detail below:

Table 4: Analysis of Core Government Grants

	2023/24 Original £m	2024/25 Draft £m	Variance £m	Variance %
Revenue Support Grant	9.1	9.1	(0.3)	(3.3)
Rates Retention: baseline funding	14.5	19.0	4.5	31.0
Rates Retention: growth	35.2	35.2	0.0	0.0
Subtotal:	**58.8**	**63.5**	**4.7**	8.0
Police	76.7	85.4	8.7	11.3
Total Core Government Grants	**135.5**	**148.7**	**12.9**	**9.5%**

7. The City Fund budget requirement for 2024/25 is £266.3m plus a contribution to reserves of £21.8m resulting in a net City Fund budget requirement of £201.8m, an increase of £16.1m 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 5: Council Tax requirement

Council Tax Requirement	**2023/24 Original £m**	**2024/25 Original £m**
Net Expenditure	(229.2)	(266.3)
Estate Rental Income	41.2	40.9
Interest on balances	27.5	28.9
Budget Requirement	(160.6)	(196.5)
Drawdown from Earmarked reserves	(2.0)	16.4
Proposed contribution to reserves	(23.3)	(21.8)
Net City Fund Budget Requirement	**(185.7)**	**(201.8)**
Financing Sources:		
Business Rates Retention	58.8	63.3
Police Grant	76.7	85.4
City Offset	12.5	12.8
NDR Premium	28.0	31.3
Collection Fund Surplus (CoL share)	0.8	0.0
Council Tax Requirement	**(8.9)**	**(9.0)**

8. 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

9. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 54.6p and a small business National Non-Domestic Rate multiplier of 49.9p for 2024/25. The increase to the standard multiplier is in line with September CPI (6.7%). The small business multiplier remains at the 2021/22 levels as Government have opted not to apply the usual inflationary increase. The multipliers both exclude the City's Business Rate Premium.

10. It is proposed the Business Rate Premium is increased up to 0.4p in the £, the proposed premium will result in a National Non-Domestic Rate multiplier of 56.4p and a small business National Non-Domestic Rate multiplier of 51.7p for the City for 2024/25.

11. Authority is sought for the Chamberlain to award the following discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988:

    - **Retail Hospitality and Leisure Relief Scheme:** is extended by Government for a fifth year into 2024/25 and remains at 75 % (up to a cap of £110,000 per business).
    - A new **Nursery Discoun**t - Under S47 Local Government Finance Act for qualifying Nursery Schools of up to 100%. This is a local discount and is not a national scheme.

12. **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.

Council Tax - Long-Term Property Premiums and Second Homes Premium

13. For council tax purposes a property is defined as empty if it is unoccupied and substantially unfurnished.
14. 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%. It has subsequently levied the Premium on long-term empty property of 100%, 200% and 300% on properties that have been empty for 2, 5 and 10 years respectively.
15. From 2024/25 the City is recommending the introduction of a new long-term empty property premium of 100% for properties that have been empty for longer than 12 months.
16. Government have also introduced legislation to permit a Local Authority to charge a Second Home Premium from 2025/26. 12 months' notice is required to introduce this additional charge. A recommendation has been made to determine that a Second Home Premium is introduced in 2025/26.

Council Tax Reduction Scheme

17. 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.

18. The Council Tax Reduction Scheme will therefore remain the same for 2024/25 as was administered in previous years subject to the annual uprating of amounts in line with Housing Benefit applicable amounts.

Capital

19. 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.

20. 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.

21. Appendix F to the main City Fund MTFP report sets out the detail of the Capital programme, funding sources and prudential indicators.

Cyclical Works Programme

22. Over a number of years, a significant backlog of works as part of the cyclical works programme (CWP) has built up, also referred to as the “bow wave”. In response to this, members directed for total funding of £133m (across both City Fund and City’s Estate) to be included within the ongoing MTFP assumptions to address the backlog and provide sufficient resources for the following three-year period. This is broken down into £55m for the “bow wave” and £75m for the forward plan with c£3m ringfenced to resource to deliver the works.

23. A proposal as to how this could be funded was taken to, and endorsed at, Finance Committee on the 12th December 2023. It should be noted this £133m excludes Housing and Institutional property with ring fences budgets (i.e. Independent Schools, City of London Police, City Bridge Foundation, Billingsgate and Spitalfields Market). This amount also excludes the Barbican Arts.

24. The Barbican Arts Centre received £25m approved by Court of Common Council in March 2023 to support critical health and safety needs, and conditioning surveys which will enable the Barbican Arts Centre to carry out works over the next two years.

25. Whilst the funding approach was approved, it should be noted this has significant impact on both City Fund and City Estate budgets. Around 70% of the costs are revenue as set out in the table below.

Table 6: CWP five-year programme

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Total £m
City Fund						
City Fund Capital	4.0	4.0	4.0	4.0	4.0	**19.8**
City Fund Revenue	7.5	7.7	7.8	7.8	7.7	**38.5**
City Fund OSPR	2.6	1.1	0.8	-	-	**4.4**
City Fund Total	**14.1**	**12.7**	**12.5**	**11.8**	**11.6**	**62.7**
City Cash						
City Cash Capital	3.3	3.3	3.3	3.3	3.3	**16.7**
City Cash Revenue	10.7	10.8	10.9	11.0	10.8	**54.3**
City Cash Total	**14.1**	**14.2**	**14.3**	**14.3**	**14.2**	**71.0**
Combined Total	**28.1**	**26.9**	**26.8**	**26.1**	**25.8**	**133.7**

26. Within the City Fund the funding is set to come from reserves so the in-year impact is significantly mitigated.

27. There are a number of reasons for the build-up of the “bow wave” of works which have now required specific action. One of the reasons was linked to the uncertainty of funding due to the annual CWP bid process which required a new programme to be formally submitted and approved each year. As per the above Table 6, the majority of this expenditure is revenue, and this type of governance is not undertaken in the same way for other revenue areas. It is therefore proposed for a review of the governance processes linked to CWP funding to ensure this is not a barrier to effective medium-term planning. This does not mean there cannot still be a formal approval of the annual programme, but this could be completed separately to the funding if the above envelopes are taken as the available funds in each year. Whilst the additional funding has been added to the MTFP period, consideration also needs to be given to the period beyond. It is expected at least c£15m per annum will need to be included split across both funds on an ongoing basis to support the future forward plans to ensure a similar backlog does not develop.

28. In addition to the figures included in Table 6, a further £12.5m of funding has been included within City’s Estate for works at the Guildhall School of Music and Drama (GSMD). This includes £0.5m in 2024/25 to being the scoping and preparation for further works in 2025/26 to (2028/29).

Key risks and uncertainties

29. As well as those elements more within the City Corporation’s sphere of control, there are a number of significant areas of risk and uncertainty which have the potential to impact significantly on future projections. These include;

    a. Inflation and interest rates – over recent years the impact of inflation has been the single biggest external driver of financial pressures. Having peaked inflation has now fallen significantly over the latter half of 2023 however, the price increases incurred over the last two years are now embedded in a number of areas. The Office for Budget Responsibility

(OBR) are forecasting that inflation will return to c2% in 2025 but this is unlikely to remove the pressure that has built up. Conversely over this period the increase in interest rates has provided additional income which has supported both City Fund and City Estate. Forecasts are again that interest rates will stabilise and start to reduce in 2024 so this additional income cannot be seen as ongoing. The resource requirements for the Capital programme also mean that investment and cash balances which are benefiting from these increased rates are likely to deplete over the MTFP period.

b. <u>Business Rate reforms</u> – Business Rate growth provides c£28m of additional income to the City Fund each year. Should the proposed reform to business rates take place and a "reset" occur, the expectation is that this growth would be taken back and redistributed across the country. Current assumptions are for this to occur in 2026/27. Previously the working assumption was that the growth would not be used to subsidise ongoing expenditure and would be set aside to support the major projects programme. However, recent inflationary pressures and projected reductions in property income have meant that this policy is not possible in 2025/26.

c. <u>Collection Fund surplus/deficit timing</u> – The Collection Fund is the mechanism by which Council Tax and Business Rates income is collected and processed through the City Fund accounts. The timing of when changes in collection rates, provisions and appeals are made and impact can make the amounts flowing through revenue budget fluctuate significantly. Recent changes to the business rate appeals provision are anticipated to see a spike in income for 2024/25 and potentially 2025/26. The detail behind these estimates are being worked through with external consultants to ensure they are accurate and reflected appropriately.

d. <u>Political situation</u> – the fixed term nature of current Parliamentary cycles mean that a general election will occur in the next financial year. Whilst the outcome of that election is not known, current polling suggests there is a high probability of a change in government. This brings with it significant uncertainty in a number of areas such as the potential for rate reform, local government financial support and also potential VAT charging on private school fees which are a significant income stream within City's Estate.

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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:

$$\text{'B1'} = \frac{£9{,}015{,}033.48}{8{,}572.52}$$

'B'1 = £1,051.62

Note: Item R consists of the following components:

	£	£
City Fund Net Budget Requirement		201,880,416
Less:		
Business Rates Retention	(54,279,000)	
Government Grant Funding	(9,123,600)	
Police Grant	(85,406,497)	
City's Offset	(12,765,000)	
Estimated Non-Domestic Rate Premium	(31,340,503)	
Estimated Collection Fund Deficit as at 31 March 2024 (City's share)	49,217	(192,865,383)
TOTAL COUNCIL TAX REQUIREMENT ®		**9,015,033**

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:

$$'B2' = £1,051.62 - \frac{£20,536,420.20}{8,572.52}$$

'B2' = £1,343.99 CR

Note: Item A consists of the following components:

	£	£
Highways Net Expenditure	8,927,000.00	
Street Cleansing	5,950,000.00	
Waste Collection	2,817,000.00	
Waste Disposal	1,621,000.00	
Road Safety	332,000.00	
Drains and Sewers	525,000.00	
Total City's Special Expenses		20,172,000.00
Inner Temple's Precept	210,837.64	
Middle Temple's Precept	153,582.56	364,420.20
Total Special Items		20,536,420.20

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

$$\text{‘B3’} = £1{,}343.99\ \text{CR} + \frac{£20{,}172{,}000}{8{,}420.40}$$

‘B3’ = £1,051.62

Inner Temple

$$\text{‘B3’} = £1{,}343.99\ \text{CR} + \frac{£210{,}837.64}{88.01}$$

‘B3’ = £1,051.62

Middle Temple

$$\text{‘B3’} = £1{,}343.99\ \text{CR} + \frac{£153{,}582.56}{64.11}$$

‘B3’ = £1,051.62

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.

Appendix B

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	701.08	817.93	934.77	1,051.62	1,285.31	1,519.01	1,752.70	2,103.24
GLA	110.85	129.32	147.80	166.27	203.22	240.17	277.12	332.54
Total	811.93	947.25	1,082.57	1,217.89	1,488.53	1,759.18	2,029.82	2,435.78

Reserves

Forecast Movements in City Fund Usable Reserves 2024/25				
	Notes	Estimated Opening Balance	Forecast Net Movement in Year	Estimated Closing Balance
		01-Apr-24		31-Mar-25
		£m	£m	£m
<u>Revenue Usable Reserves</u>				
General Reserve	a	20.0	0.0	20.0
<u>Earmarked</u>				
Major Projects Financing Reserve	b	77.4	(0.4)	77.0
Business Rate Equalisation	c	0.0	0.0	0.0
Highways Improvements	d	47.7	(11.0)	36.7
Climate Action Reserve	e	14.8	(1.1)	13.7
Police Future Expenditure	f	9.1	0.0	9.1
VAT Reserve	g	4.2	0.0	4.2
CWP Reserve	h	68.0	(15.3)	52.7
Proceeds of Crime Act	i	7.4	0.0	7.4
Judges Pensions	j	1.1	0.0	1.1
Service Projects	k	15.7	0.0	15.7
Total Revenue Earmarked		**245.4**	**(27.8)**	**217.6**
Housing Revenue Account (HRA)	l	0.8	0.4	1.2
Total Revenue Usable Reserves		**266.2**	**(27.4)**	**238.8**
Capital Usable Reserves				
Capital Receipts Reserve	m	198.7	(39.0)	159.7
Capital Grants Unapplied	n	69.1	(1.1)	68.0
HRA Major Repairs Reserve	o	0.3	0.2	0.5
Total Capital Usable Reserves		**268.1**	**(39.9)**	**228.2**
Total Usable Reserves		**534.3**	**(67.3)**	**467.0**

<u>Notes</u>

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. Climate Action Reserve – 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. CWP Reserve – 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 2024/25, 2025/26 and 2026/27 (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

	2022/23	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA	- 0.39	- 0.49	**- 0.32**	**- 0.49**	**- 0.42**
Non-HRA	0.00	0.00	**- 0.02**	**- 0.08**	**- 0.10**
Total	- 0.39	- 0.49	**- 0.34**	**- 0.57**	**- 0.52**
At this time last year	- 0.20	- 0.24	- 0.24	0.00	0.00

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 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 2023/24 to 2026/27
	£m
Gross External Debt*	**12.5**
Capital Financing Requirement	**359.0**

*Gross External Debt is based on Finance Lease (Lessee) liability

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 2023/24 to 2027/28. 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

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Non-HRA	95.3	264.2	327.3	394.6	133.7	44.8
HRA	11.3	50.8	66.3	31.8	10.0	0
Total	**106.6**	**315.0**	**393.6**	**426.4**	**143.7**	**44.8**
At this time last year	*158.8*	*444.2*	*469.0*	*219.0*	*0.00*	*0.00*

This indicator is based on the capital budget (excluding supplement revenue programme), 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

	2022/23 Actual £m	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**	**2027/28 Estimate £m**
Non-HRA	90.4	148.3	305.6	339.7	356.8	227.2
HRA	0	2.0	14.6	5.8	2.2	0
Total	**90.4**	**150.3**	**320.2**	**345.5**	**359.0**	**227.2**
At this time last year	*94.3*	*252.4*	*276.2*	*299.8*	-	-

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 2027/28.

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 the Treasury Management Strategy Statement and Annual Investment Strategy - Appendix E.

Local Indicators

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

Times Cover on Unencumbered Revenue Reserves

Table 5

	2023/24	2024/25	2025/26	2026/27
Times cover on unencumbered revenue reserves	2.1	1.1	0.0	-0.9
At this time last year	3.0	-0.8	-1.2	0.0

This indicator is calculated by dividing the balance of forecast unencumbered general reserves by annual revenue deficits (-)/surpluses (+). For 2023/24 to 2025/26 revenue surpluses are forecast but reducing year on year. Deficits are then forecast from 2026/27 as the benefits of business rates retained growth is forecast to end and the impact of high inflation continues to impact on costs. 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 (RELATING TO TREASURY MANAGEMENT)

2024/25

Issue Date: 12/02/2024
Agreed by Court of Common Council: XX/XX/2024

Treasury Management Strategy Statement and Annual Investment Strategy (relating to Treasury Management) 2024/25

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 Investment Committee with the Investment Committee of the City Bridge Foundation Board having responsibility on behalf of the charity; 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 from the Capital Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles from the policy and commercial investments usually driven by expenditure on an asset. It is considered good practice by the City to include all of its Funds within these strategies.

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

CIPFA published revised versions of both the Treasury Management Code of Practice and the Prudential Code for Capital Finance in Local Authorities on 20 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 requires an authority to implement the following: -

1. **Adopt a 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 2024/25

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 2024/25 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 Group, Link Treasury Services Ltd.

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 Minimum Revenue Provision (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 2023 compared to the position at 31 March 2023 comprised:

Table 1: Treasury Portfolio				
	Actual 31/03/2023		**Current 31/12/2023**	
Treasury investments	**£m**	**%**	**£m**	**%**
Banks	£655.0	63%	£490.0	49%
Building societies (rated)	£20.0	2%	£90.0	9%
Local authorities	£0.0	0%	£0.0	0%
Liquidity funds	£82.5	8%	£120.2	12%
Ultra-short dated bond funds	£139.2	13%	£145.1	14%
Short dated bond funds	£151.0	14%	£159.8	16%
Total treasury investments	**£1,047.7**	100%	**£1,005.1**	100%
Treasury external borrowing				
LT market debt (City's Estate)	£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 2024/25 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. Table 2 summarises the capital expenditure and financing plans for City Fund for 2023/24 to 2027/28.

Estimate of Capital Expenditure and Financing (City Fund)

Table 2	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Capital Expenditure:						
Non-HRA	95.3	264.2	327.3	394.6	133.7	44.8
HRA	11.3	50.8	66.3	31.8	10.0	0
Total	**106.6**	**315.0**	**393.6**	**426.4**	**143.7**	**44.8**
Financed by:						
Capital grants	36.7	125.6	139.4	167.3	64.4	18.6
Capital reserves	11.4	110.3	42.8	209.2	45.4	147.6
Revenue	54.8	19.2	41.5	24.6	20.4	10.4
Total	**102.9**	**255.1**	**223.7**	**401.1**	**130.2**	**176.6**
Net financing need:	**3.7**	**59.9**	**169.9**	**25.3**	**13.5**	**(131.8)**

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 which is summarised in table 3 below.

Estimate of the Capital Financing Requirement (City Fund)

Table 3	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Non-HRA	90.4	148.3	305.6	339.7	356.8	227.2
HRA	0	2.0	14.6	5.8	2.2	0
Total	**90.4**	**150.3**	**320.2**	**345.5**	**359.0**	**227.2**

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 Estate external borrowing.

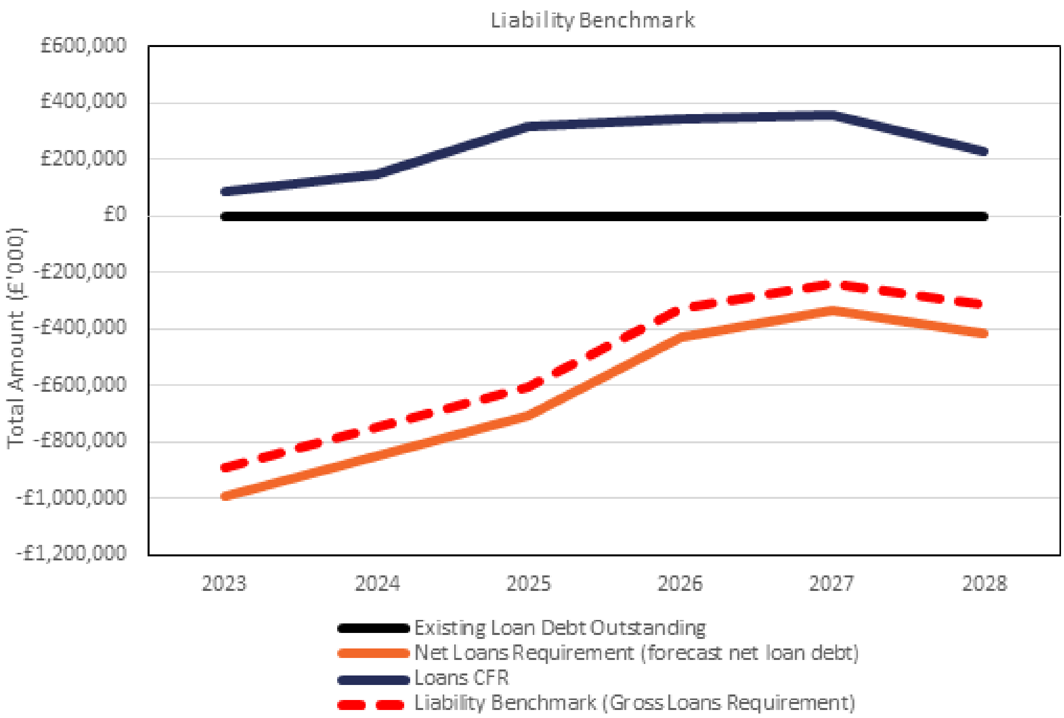
There are four components to the Liability Benchmark which should be represented in a chart. These are:

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.



<u>Minimum Revenue Provision (City Fund)</u>

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 Estate

As with the City Fund, any capital expenditure incurred by City's Estate which has not immediately been paid for through a revenue or capital resource, will increase the City's Estate borrowing requirement. The medium term financial plan for City's Estate includes an increase in capital expenditure in the coming years, primarily relating to the major projects programme. All projected capital expenditure in 2024/25 will be financed from the existing £450m stock of debt or other sources. Table 4 summarises the planned City's Estate borrowing over the next few years.

Table 4	**2022/23 Actual £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
Borrowing	£450m	£450m	£450m	£450m	£450m

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

2.3. City Bridge Foundation

City Bridge Foundations' (CBF) 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. 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 currently funded from the designated sales pool (DSP) 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. However, consideration is being given to reviewing the funding of potential capital plans on a case by case basis in comparison to other investment opportunities across the whole CBF investment portfolio due to a reduction in receipts of this nature.

A Supplemental Royal Charter was approved in June 2023, with various new powers being adopted as a result. These included the power to borrow in limited circumstances (see section 4.3) and the power to apply the total return approach to the permanent endowment fund. Put simply, this approach allows any increase in the value of an investment within the permanent endowment to be utilised as income. CBF has an approved policy that applies to the use of returns held within the permanent endowment fund, which ensures that the trustee considers the requirements of beneficiaries both now and in the future within its expenditure plans.

Treasury Indicators for 2024/25 – 2026/27

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 Group (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 2024	5.25	4.50	4.70	5.20	5.00
Jun 2024	5.25	4.40	4.50	5.10	4.90
Sep 2024	4.75	4.30	4.40	4.90	4.70
Dec 2024	4.25	4.20	4.30	4.80	4.60
Mar 2025	3.75	4.10	4.20	4.60	4.40
Jun 2025	3.25	4.00	4.10	4.40	4.20
Sep 2025	3.00	3.80	4.00	4.30	4.10
Dec 2025	3.00	3.70	3.90	4.20	4.00
Mar 2026	3.00	3.60	3.80	4.20	4.00
Jun 2026	3.00	3.60	3.70	4.10	3.90
Sep 2026	3.00	3.50	3.70	4.10	3.90
Dec 2026	3.00	3.50	3.70	4.10	3.90
Mar 2027	3.00	3.50	3.70	4.10	3.90

Link's central forecast for interest rates was updated on 08 January 2024 and reflected a view that the Monetary Policy Committee (MPC) would be keen to further demonstrate its anti-inflation credentials by keeping the Bank Rate at 5.25% until at least the second half of 2024.

Link expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their ongoing robustness). Timing on this matter will remain 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.

Future forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

For PWLB rates, the short and medium part of the gilt curve has rallied since the start of November, as markets price in a quicker reduction in Bank Rate through 2024 and 2025. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone.

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, could keep gilt yields high for longer).

- **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.

- **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:

- Despite the tightening in Bank Rate to 5.25%, **The Bank of England allows inflationary pressures to remain elevated** for a longer period within the UK economy, which then necessitates the Bank Rate staying higher for longer than currently projected.

- **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.

- 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

- The Bank Rate is expected to remain at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures. It is not expected that the MPC will increase the Bank Rate above 5.25%.
- The overall longer-run trend is for gilt yields and PWLB rates to fall back over the forecast timeline, as inflation continues to fall through 2024.
- Link's long-term, i.e. beyond 10 years, forecast for the Bank Rate remains at 3%, and as all PWLB certainty rates are currently above this level, borrowing strategies need to be reviewed in that context. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.
- 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 Estate, the capital expenditure plans create borrowing requirements and the borrowing strategy aims to make sure that sufficient cash is available to ensure the delivery of the City's capital programme as planned. The City Bridge Foundation, as stated in section 2.3, now has the power to borrow in limited circumstances following the approval of the Supplemental Royal Charter in June 2023.

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 in section 2.1). 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 2024/25 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 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 2024/25, 2025/26 and 2026/27. 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 2024/25 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 Estate

The capital expenditure plans for City's Estate also create a borrowing requirement. City's Estate 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 Estate is likely to have a further temporary borrowing requirement arising in 2024/25. 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 Estate borrowing requirement, this organisation has adopted the City's Estate Borrowing Policy Statement (Appendix 8), which sets out the principles for effectively managing the risks arising from borrowing on behalf of City's Estate. 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 Estate 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 2024/25 are set out in Appendix 2 alongside the City Fund treasury indicators.

4.3. City Bridge Foundation

The City Bridge Foundation has the power to borrow in limited circumstances following the approval of the Supplemental Royal Charter in June 2023. That is, City Bridge Foundation may borrow for the purposes of raising funds towards the cost of replacement, reconstruction and re-building of any of its Bridges. This may be undertaken without security or on the security of the permanent endowment fund or any part of it or its income. 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. The PWLB guidance was updated on 15 June 2023, in particular publishing a new Housing Revenue Account (HRA) rate, at 40 basis points above prevailing gilts, available from 15 June 2023 for 1 year, with its continuation subject to review. This rate is solely intended for use by HRA and primarily for new housing delivery.

Local authorities have recourse to other sources of external borrowing including financial institutions, other local authorities and the Municipal Bonds Agency. Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

5. Annual Investment Strategy (relating to Treasury Management)

The Annual Investment Strategy (relating to Treasury Management) 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 The City Bridge Foundation).

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 2024/25 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 Estate 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 (City Bridge Foundation’s cash balances are expected to remain consistent) but to remain above a minimum constant level of £412m.

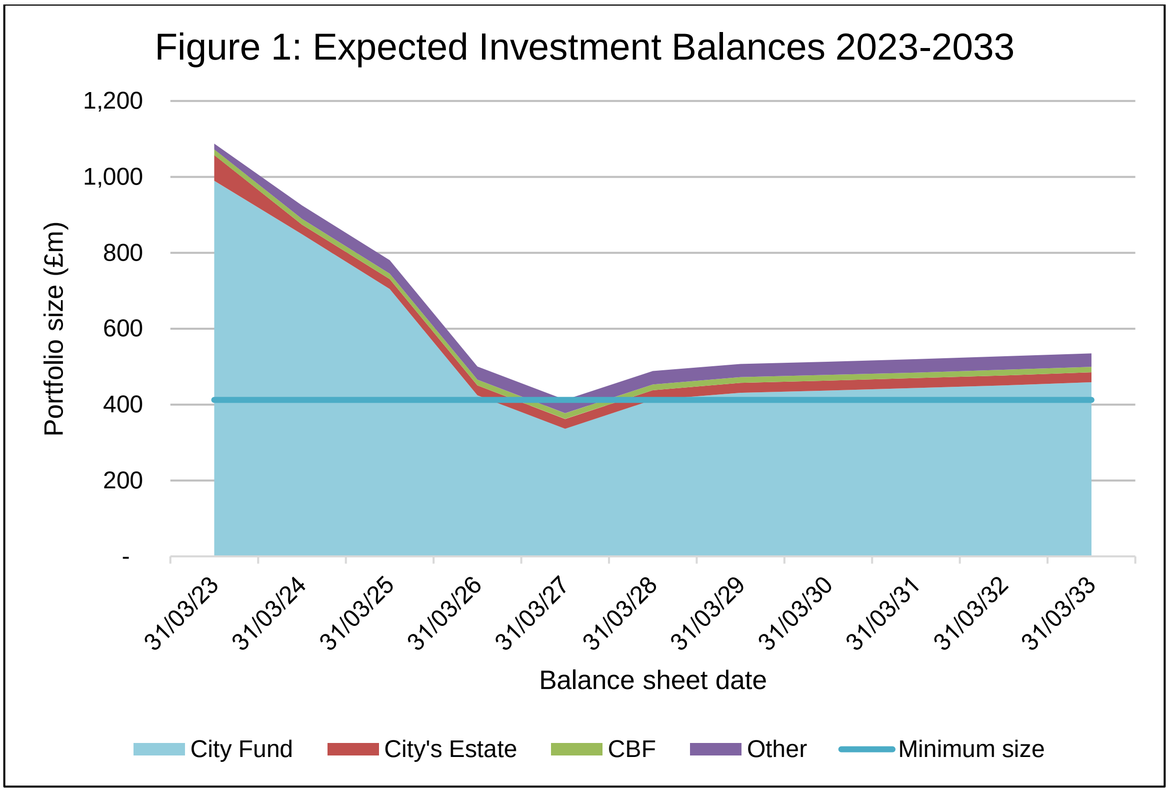


Figure 1 shows projected investment balances across the three funds and others over the coming years as at the end of each financial year.[1] Most of the investment balances relate to City Fund and it should be noted that generally investment balances are expected to be higher between reporting dates.

As the City, and the City Fund in particular, is expected to maintain 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. 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 Investment Committee 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 Group, 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, the Bank Rate is forecast to have peaked at 5.25%, where it will remain until the second half of 2024, then incrementally reduce to 3.00% in the second half of 2025. In these circumstances it is likely that investment earnings from money-market related instruments will decrease compared to the earnings in 2023/24, however they remain above the very low levels experienced in previous years. Bank Rate forecasts for financial year ends (March) are:-

- 2023/24 5.25%
- 2024/25 3.75%
- 2025/26 3.00%

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, and this is set out in table 5 below.

Table 5: Maximum principal sums invested for more than 365 days (up to three years)			
	2023/24 £M	**2024/25 £M**	**2025/26 £M**
Principal sums invested >365 days	300	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 £425.1m as at 31 December 2023, 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. Exposure to these funds is ring-fenced to City Fund.

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 Group, Link Treasury Services Ltd 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, the Code 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 committee/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 committee/council members.
c) Require treasury management officers and committee/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 committee/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.

In November 2023 two training sessions were held, aimed at Members of the Investment Committee and Finance Committee, as each year it is the responsibility of these two committees to review and approve the Treasury Management Strategy before review by the Court of Common Council.

The first session was held on 13 November and provided an appreciation of what Treasury management involves, how it is undertaken, the roles of Members and Officers, and the risks in Treasury Management and how they should be managed, to develop the skills and knowledge for Member scrutiny of Treasury Management decisions.

The second session was held on 27 November and covered developing the Treasury Management Strategy - notably prudential indicators, cashflow forecasts, investment strategy, credit worthiness, counterparty list, ESG considerations – and a review of the investment portfolio and an economic outlook.

Both sessions were led by the Managing Director of Link Treasury Services and were well attended by Members. Further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

APPENDICES

1. Interest Rate Forecasts 2024 - 2027
2. Treasury Indicators 2024/25 – 2026/27 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 Estate Borrowing Policy Statement

APPENDIX 1

LINK INTEREST RATE FORECASTS 2024 – 2027 (Dated 08/01/2024)

Link Group Interest Rate View	08.01.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.80	4.30	3.80	3.30	3.20	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.60	4.10	3.70	3.20	3.20	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Interest Rate Forecasts								
Bank Rate	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Link	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	3.00%	3.00%
Cap Econ	5.25%	5.00%	4.50%	4.00%	3.50%	3.00%	3.00%	3.00%
5Y PWLB RATE								
Link	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	3.80%	3.70%
Cap Econ	4.50%	4.30%	4.20%	4.00%	3.90%	3.80%	3.80%	3.70%
10Y PWLB RATE								
Link	4.70%	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	3.90%
Cap Econ	4.50%	4.40%	4.20%	4.10%	4.10%	4.10%	4.10%	4.10%
25Y PWLB RATE								
Link	5.20%	5.10%	4.90%	4.80%	4.60%	4.40%	4.30%	4.20%
Cap Econ	5.10%	4.80%	4.60%	4.30%	4.40%	4.40%	4.50%	4.60%
50Y PWLB RATE								
Link	5.00%	4.90%	4.70%	4.60%	4.40%	4.20%	4.10%	4.00%
Cap Econ	4.70%	4.60%	4.50%	4.30%	4.30%	4.30%	4.40%	4.40%

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

APPENDIX 2

TREASURY INDICATORS 2024/25 – 2026/27 AND MINIMUM REVENUE PROVISION STATEMENT

TABLE 1: TREASURY MANAGEMENT INDICATORS	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Probable Outturn	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Authorised Limit for external debt (City Fund) -						
Borrowing	190.4	250.3	420.2	445.5	459.0	327.2
other long-term liabilities	12.8	12.7	12.6	12.5	12.4	12.3
TOTAL	**203.2**	**263.0**	**432.8**	**458.0**	**471.4**	**339.5**
Operational Boundary for external debt (City Fund) -						
Borrowing	90.4	150.3	320.2	345.5	359.0	227.2
other long-term liabilities	12.8	12.7	12.6	12.5	12.4	12.3
TOTAL	**103.2**	**163.0**	**332.8**	**358.0**	**371.4**	**239.5**
Actual external debt (City Fund)*	0	0				
Upper limit for total principal sums invested for over 365 days (per maturity date)	£300m	£300m	£300m	£300m	£300m	£300m

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

TABLE 2: Maturity structure of borrowing during 2024/25	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 ESTATE BORROWING INDICATORS	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Probable Outturn	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%
Estimates of financing costs to net revenue stream	15.0%	16.1%	15.6%	15.5%	15.5%	15.6%
	£m	£m	£m	£m	£m	£m
Overall borrowing limits	450	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 2023/24 is £1.4m and is estimated at £1.4m for 2024/25.

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 2023

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	£275Bn	£100M	Up to 3 years
A-	F1	Yorkshire	£62Bn	£20M	Up to 1 year
A-	F1	Coventry	£62Bn	£20M	Up to 1 year
A-	F1	Skipton	£36Bn	£20M	Up to 1 year
A-	F1	Leeds	£27Bn	£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

APPENDIX 5

APPROVED COUNTRIES FOR INVESTMENT

This list is based on those countries which have sovereign ratings of AAA and AA+ from Fitch Ratings as at 12 January 2024.

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- United States

AA-

- United Kingdom

APPENDIX 6

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.

(i) Court of Common Council

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

(ii) Investment Committee 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.

(iv) Investment Committee of the City Bridge Foundation

- Review of the Treasury Management Strategy Statement on behalf of the Charity.

APPENDIX 7

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 ESTATE BORROWING POLICY STATEMENT

1. The City Corporation shall ensure that all of its City's Estate 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 Estate.
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 Estate investment plans, the City Corporation will consider both the City's Estate resources currently available and its estimated future resources, together with the totality of its City's Estate 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 Estate 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 Estate 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 Estate (e.g. the City Corporation will be mindful of the potential impact of index-linked borrowing on the financial position of City's Estate).
8. The City Corporation will seek to obtain value for money in identifying appropriate borrowing for City's Estate. Where internal borrowing (i.e. from City Fund or City Bridge Foundation) 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 Estate borrowing only:
    - Estimates of financing costs to net revenue stream
    - Overall borrowing limits

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 City Bridge Foundation (CBF) Contingency is now overseen by the CBF Board and is no longer reported to Finance Committee.

General Contingencies		**City's Estate**	**City Fund**	**Disaster Fund**	**Total**
		£'000	£'000	£'000	**£'000**
2023/24	Provision	950	800	125	1,875
	Provision brought forward	931	1,050	0	1,981
	Total Provision	1,881	1,850	125	3,856
	Less Allocations	(1,298)	(633)	(50)	1,981
	Uncommitted Balance as at 08/02/2024	**583**	**1,217**	**75**	**1,875**
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	**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**

Policy Initiative Fund – City's Estate		£'000
2023/24	Provision	1,200
	Provision brought forward for unspent provisions	701
	Provision brought forward for agreed allocation not yet completed	368
	Total Provision	2,269
	Less Allocation	(1,755)
	Uncommitted Balance as at 08/02/2024	**514**
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	(1,709)
	Uncommitted Balance	**701**
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	**2,216**

Policy and Resources Contingency – City's Estate		£'000
2023/24	Provision	300
	Provision brought forward for unspent provisions	357
	Provision brought forward for agreed allocations not yet completed	121
	Total Provision	778
	Less Allocations	(759)
	Uncommitted Balance as at 08/02/2024	**19**
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	(247)
	Uncommitted Balance	**357**
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**

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Capital Strategy 2023/24 – 2028/29

DOMINE DIRIGE NOS
CITY OF LONDON

Contents

Foreword

2023 was an extraordinary chapter in the City's story, marked by the coronation of a new King, historic moves, and ground-breaking initiatives.

We embraced fresh leadership at the City of London Corporation, with our new Town Clerk and Chief Executive, Ian Thomas.

We announced a major capital investment to refurbish the windows of the Golden Lane Estate, ensuring our commitment to enhancing the living experience for our residents.

We made progress on our relocation of Billingsgate Fish Market and Smithfield Meat Market to Barking and Dagenham, making way for the new London Museum at the historic site.

We launched our Vision for Economic Growth – a roadmap to unlocking £225 billion of investment and economic growth into the UK – benefitting your local City neighbourhoods and households across the country.

Our global reach extended even further with the inauguration of two US offices, forging new partnerships, and strengthening our international presence.

We unveiled a new City of London visitor brand and website – https://www.thecityofldn.com; showcasing the best of the Square Mile's consumer offer to London, UK, and international visitors – and promoting its world-leading culture, heritage, attractions, experiences, hotels, pubs, bars, and restaurants.

And our City Belonging Project was launched to create a world-leading business environment where organisations and communities come together to promote diversity and inclusion.

The return of workers to the Square Mile brought with it an influx of talent, and we now proudly host more than 615,000 people, a testament to the magnetic pull of our vibrant city.

Meanwhile, our parks and gardens – spanning 11,000 acres in London and southeast England – were awarded 15 Green Flags and five prestigious London in Bloom prizes.

And as we stand at the threshold of 2024, our gaze is fixed on the promise of continued transformation. We continue to work at pace to help the Square Mile reach net zero by 2040, cut air pollution even further, and create a first-class street environment for our residents, workers, and visitors to enjoy.

And working closely with you, our Local Plan will guide the evolution of the Square Mile, securing its place as a dynamic hub of commerce, leisure, and innovation.

As we step into the year ahead, I eagerly anticipate the momentous changes it promises. Together, we will contribute to building a brighter and more prosperous City, London, and country, for everyone. Filled with determination and optimism, we stand ready to script the next chapter in the captivating story of the City of London.

The City of London is recognised across the world as a vital engine of business and economic growth. Now more than ever, the City needs to invest in its future to maintain its worldwide status. Our ambitious capital investment programme sets out how we will be spending £2.1bn over the next 5 years to achieve that.

1. Introduction and Background

The City of London, also known as the Square Mile, is the financial district of London. The City of London forms part of London as a whole, along with the 32 London boroughs who have responsibility for local government services within their local area.

It is the ancient core from which the rest of London developed. It has been a centre for settlement, trade, commerce, and ceremony since the Roman period, producing a unique historic environment of exceptional richness and significance.

One of the reasons the Square Mile is unique, is the number of people who live, work and visit. In just 1.12 square miles, the City of London counts around 8,000 residents, 513,000 daily commuters and 10m annual visitors. The City of London boundaries stretch from Temple to the Tower of London, on the River Thames including, from west to east Chancery Lane and Liverpool Street.

The City of London Corporation

Based in Guildhall, the City Corporation looks after and promotes the City of London. It is headed by the Lord Mayor with the Court of Common Council being its main decision-making body. We are a uniquely diverse organisation, with a role that goes beyond that of an ordinary local authority. We have our own government (the oldest in the country with origins pre-dating Parliament), our own Lord Mayor and independent police force.

By strengthening the connections, capacity and character of the City, London and the UK for the benefit of people who live, work, study and visit here. Our reach extends far beyond the Square Mile's boundaries and across private, public, and voluntary sector responsibilities. This, along with our independent and non-party political voice and convening power, enables us to promote the interests of people and organisations across London and the UK.

What we are responsible for

We provide local government services for residents and City workers based in the Square Mile. Our unique role means that our reach does extend beyond the City to include:

- More than 11,000 acres of green spaces, including Hampstead Heath and Epping Forest and Epping Forest
- Billingsgate, Smithfield and New Spitalfields wholesale food markets
- The Heathrow Animal Reception Centre
- Housing across London
- A range of schools and academies
- And we are London's Port Health Authority

City of London Funds

The City Fund

This Fund meets the cost of the City of London Corporation's local authority, Police Authority and Port Health Authority activities. The Fund generates rental and interest income to help finance these activities. In addition, in common with other local authorities, it receives grants from central government, a share of business rates income and the proceeds of the local council tax.

The City Corporation retains only a small proportion of the business rates collected from its area, in accordance with the national arrangements. The remainder has to be paid over to the national non-domestic rates pool and is redistributed to local authorities throughout the country by central government.

Because of its special circumstances – notably its very low resident population and high daytime population – the City Corporation is allowed uniquely to set its own business rate. The Business Rate Premium is used to support the City of London Police.

City's Estate

This is an endowment fund built up over the last eight centuries. Its incomes are derived mainly from property, supplemented by investment earnings and the fund is now used to finance activities mainly for the benefit of London as a whole, but also of relevance nationwide. The management and conservation of over 10,000 acres of open space, all of the Lord Mayor's activities, Smithfield, Billingsgate, and Leadenhall markets, three of the highest achieving independent schools in the country and the Guildhall School of Music & Drama – supported by grants from City Estate at no cost to the public.

City Bridge Foundation

The City Corporation is the sole trustee of City Bridge Foundation, a charity whose origins date back more than 900 years. City Bridge Foundation owns and maintains five of London's most iconic Thames bridges: Tower Bridge, London Bridge, Southwark Bridge, the Millennium Bridge and Blackfriars Bridge.

The maintenance and replacement of these bridges is the primary objective of the charity. However, since 1995 the charity's large investment portfolio has also supported an extensive grant-making operation. The charity is now the largest independent funder in London, under the trusteeship of the City Corporation.

This Capital Strategy pertains to the capital investment activity of City Fund and City's Estate only.

Further detail about City Bridge Foundation, including its 25-year strategy, *Bridging London,* can be found at https://www.citybridgefoundation.org.uk

2. Corporate Plan 2024-2029

The Corporate Plan 2024-2029 was agreed in principle by the Court of Common Council on 11th January 2004, and provides the strategic framework to guide the City of London Corporation's thinking and decision-making over the next five years. Key strategic pillars are set out as follows.

The Corporate Plan is a framework containing six strategic outcomes* ensuring everything we do aligns to delivering a fantastic five years and ambition to be world-class. Equity, equality, diversity and inclusion is integral to delivering the Corporate Plan outcomes.

Diverse Engaged Communities
Across our residents, workers, businesses, and visitors, everyone should feel that they belong. Connecting people of all ages and backgrounds will help build diverse, engaged communities that are involved in co-creating great services and outcomes.

Leading Sustainable Environment
We have a responsibility to ensure that we act as a leader on environmental sustainability and strive to enhance it in all aspects of how we work. Climate action, resilience, air quality, and sustainability are all facets of ambitious targets for the entire City to be net zero by 2040.

Providing Excellent Services
Supporting people to live healthy, independent lives, and achieve their ambitions, is dependent on excellent services. Vital to that continued pursuit is enabling access to effective adult and children's social care, outstanding education, lifelong learning, quality housing, and combatting homelessness.

Dynamic Economic Growth
The City of London is the engine in the country's economy. Driving dynamic economic growth in financial and professional services at local, national, and international levels will create jobs, attract investment, and support businesses across communities and the country.

Vibrant Thriving Destination
Attracting businesses and people to a safe, secure, and dynamic location is vital to our future. A world-leading culture and leisure offer is integral to creating that vibrant thriving destination where everyone prospers.

Flourishing Public Spaces
From our historic wholesale markets and cultural icons, such as the Barbican, to our world-famous bridges and amazing green spaces, we are stewards of unique national assets. Major capital investment into our civic fabric will secure flourishing public spaces, enabling a more successful London overall.

Delivery
Progress reported and published annually. Regular reviews and tracking through business plans and major programmes. Measures developing throughout including creating scorecards and dashboards. The People Strategy, Digital Strategy, and Transformation all run in tandem alongside the Corporate Plan.

3. Purpose of the Capital Strategy

The City of London recognises the significant contribution its Capital Investment Strategy makes to supporting the local economy, and delivery of each of the six strategic pillars outlined in the Corporate Plan 2024-2029.

The importance of having a meaningful and comprehensive capital investment strategy is recognised in The Chartered Institute of Public Finance & Accountancy's (CIPFA) revised Prudential Code (December 2021). The updated code strengthened the important requirement that all Councils should have a Capital Investment Strategy which aligns capital delivery plans to their organisational objectives and ensures that the capital strategy forms part of The City's revenue, capital, balance sheet and medium- and long-term financial planning, demonstrating an affordable and sustainable Capital Investment Programme.

Figure 1 illustrates the integration and alignment of our Capital Investment Strategy to enable delivery of corporate priorities and the cross-Council enabling policies and strategies which also support their delivery.

Fig 1: Alignment of Corporate Plan through to delivery

This Capital Strategy sets out the capital investment plans for the next five years. It gives a high-level, long-term overview of how capital expenditure and capital financing contribute to the delivery of services/objectives; gives an overview of governance and risk management; and the implications for future financial sustainability. Ultimately the aim of this capital strategy is to ensure Members and Senior Leaders understand the long-term policy objectives and capital strategy requirements, governance procedures and risk appetite.

This strategy forms an important part of The City's revenue, capital, balance sheet, and medium and longer-term financial strategies, demonstrating alignment with strategic priorities and affordability/sustainability.

The corporation faces a number of financial challenges that it needs to overcome and is also going further with a number of ambitious plans over the next five years. This document sets out how the council will deliver on these objectives.

The objectives of the Capital Strategy are to;

- Maintain an affordable rolling multi-year capital programme;
- Ensure capital resources are aligned with the council's strategic vision and corporate priorities;
- Prioritise the use of Capital resources to maximise outcomes;
- Ensure capital resources are first matched against priorities;
- Maximise available resources by actively seeking external from the Community Infrastructure Levy (CIL), Section 106, and Grant income.
- Undertake prudential borrowing only when there is enough money to meet, in full, the implications of capital expenditure, both borrowing and running costs.

The Capital Strategy will be reviewed and revised annually, to ensure it reflects the needs and priorities of The City.

4. Capital Programme

What is capital?
A capital budget covers money spent on investing in buildings, infrastructure, expensive pieces of equipment, as well as software and intangible assets.
Capital spending is mainly for buying, constructing, or improving assets such as:

- buildings – schools, houses, libraries, museums, police and fire stations, etc
- land – for development, roads, playing fields, etc
- vehicles, plant and machinery – refuse collection vehicles, fire engines, police cars, etc.

It can also include grants made to the private sector or the rest of the public sector for capital purposes, such as advances to housing associations.
In order to count as capital expenditure, new assets or additions to assets must have a life of more than one year.
At the discretion of the secretary of state, certain revenue costs can also be treated as if they are capital costs (known as a capitalisation direction), e.g. typically for large one-off items such as redundancy costs.
Source: The Chartered Institute of Public Finance and Accountancy (CIPFA).

Table 1 below summarises the latest draft of our ambitious capital investment plans totalling £2.53bn, summarised by fund. This include the indicative cost of schemes still under development and due to be approved by the Court of Common Council in March 2024.

CAPITAL PROGRAMME	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	TOTAL £m
CAPITAL & SRP							
City Fund	324.2	409.5	439.1	144.2	45.0	39.2	1,401.2
City Estate	289.9	218.3	265.7	162.8	130.7	56.5	1,123.9
TOTAL CAPITAL PROGRAMME	614.1	627.8	704.8	307.0	175.7	95.7	2,525.1

Table 1: Summary of Capital Programme by Fund

City Fund Capital Programme

The City Fund capital programme totals £1.4bn over the next five years is summarised in table 2. It comprises £817.4m on flagship Major Projects, £523.8m across 'business as usual' capital programmes across the divisional areas, and additional £60m headroom to meet contingency requirements and any urgent new bids for future years.

CAPITAL PROGRAMME - CITY FUND	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	TOTAL £m
CAPITAL & SRP - BAU							
Barbican Centre	3.1	12.7	12.6	-	-	-	**28.4**
Chamberlain and Chief Finance Officer	5.6	21.0	-	-	-	-	**26.6**
City Surveyor and Property	25.2	28.5	6.8	4.0	4.0	4.0	**72.4**
Community and Children'S Services (Non Hra)	8.7	15.1	8.1	-	-	-	**31.9**
Community Services - HRA	50.8	66.3	31.8	10.0	-	-	**158.9**
City of London Police	21.8	8.4	5.0	5.0	5.0	-	**45.2**
Environment	25.5	39.5	35.1	11.2	2.4	8.8	**122.5**
Innovation and Growth	9.1	17.8	5.7	5.3	-	-	**37.8**
Sub-Total	**149.9**	**209.2**	**105.1**	**35.4**	**11.4**	**12.8**	**523.8**
CAPITAL & SRP - MAJOR PROJECTS							
Museum of London	95.8	96.5	58.8	9.1	3.3	-	**263.4**
Salisbury Square Development	78.5	103.8	260.2	84.7	15.4	11.4	**554.0**
Sub-Total	**174.3**	**200.3**	**319.0**	**93.8**	**18.6**	**11.4**	**817.4**
CAPITAL & SRP - CONTINGENCY & NEW BIDS							
Contingency and New Bids	-	-	15.0	15.0	15.0	15.0	**60.0**
TOTAL CAPITAL PROGRAMME	**324.2**	**409.5**	**439.1**	**144.2**	**45.0**	**39.2**	**1,401.2**

Table 2: City Fund Capital Programme 2023/24 to 2028/29

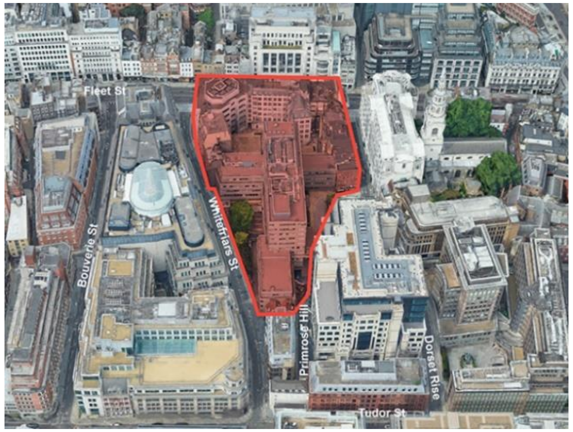
Within City Fund, there are currently two flagship major projects; the Museum of London relocation, and Salisbury Square Development including the Future Police Estate Programme.

<u>Museum of London (MoL)</u>

With a total budget of £337m (City Fund's contribution totals £197m with contributions from the GLA £70m and MoL £70m). In addition, supported by Landlord works from City's Estate - £140m, this project involves the relocation and creation of a new museum for London. It is linked to The City's Market's Relocation Programme above in that it will be moving into the current Smithfield market building.

It represents a once-in-a-generation opportunity to reconceive what a museum for London can be. The new site will enable us to offer much more, and for many more people. It will give us street-level entrances, better transport links courtesy of the Elizabeth line, and the opportunity to create innovative new galleries, exhibitions, and events. The images on the left show artist's impressions of the planned new museum venue.

Following on from a festival curated by Londoners, the London Museum will open in 2026 in the General Market and West Poultry Avenue, where the many diverse stories of London and its people will be shared in new and innovative ways within immersive and interactive permanent galleries. Further details can be found on our dedicated micro site at https://museum.london.



Salisbury Square Development / Future Police Estate Programme

With a total budget of £656m, this is a major redevelopment programme and a unique opportunity to create modern facilities for both the City of London Police and Her Majesty's Courts and Tribunals Service (HMCTS) within Square Mile. The programme will deliver a new, purpose-built 18-courtroom legal facility called the City of London Law Courts and an industry leading City of London police headquarters, equipped to combat, amongst other things, fraud and economic crime across the UK.

City Fund will receive a contribution of £210m from City's Estate to cover the costs relating to the combined courts element.

The Salisbury Square development is expected to create the following benefits for the wider locale.

2,100 jobs

Be a civic hub for justice, policing and commercial activity, supporting 2,100 jobs directly;

£51 million

Generate around £51 million per year once complete and operational;

c.£10 million

Generate c.£10 million in productivity benefits (GVA) per year during construction;

400 new jobs

Create around 400 brand new jobs in the City of London and an estimated 280 more through the supply chain and related economic activity;

£5.4 million

Generate in excess of £5.4 million per annum in business rates receipts for the public purse of which approximately £1.6 million could be retained by the City Corporation for investment in local spaces and services;

150 direct construction jobs

Create 150 direct construction jobs through the life of the build and a further 80 jobs through the supply chain;

Key role in the future of Fleet Street

Play a key role in the future of Fleet Street as a thriving part of the historic Square Mile, especially as part of the to be formed Fleet Street Business Improvement District;

Enhanced and enlarged

An enhanced and enlarged Salisbury Square and creation of new pedestrian routes through the site, providing high quality hard and soft landscaping.

Further detail on this exciting and unique development can be found on our dedicated website: https://salisburysquaredevelopment.co.uk.

The 'business as usual' (BAU) portfolio of City Fund's Capital Programme totals £523.8m. Key highlights are set out in this section.

Within the **Housing Revenue Account (HRA) block of Community & Childrens services**, the City is planning to invest almost £96.0m across two large social housing schemes at Sydenham Hill estate and York Way Estate respectively.

Sydenham Hill Estate

Located within the borough of Lewisham, a further £45.9m is allocated to Sydenham Hill Estate to provide 110 truly affordable homes for people, comprising a mix of 1, 2, 3 and 4-bed homes to reflect the local need and make a positive contribution towards answering the borough's housing shortage. Alongside much-needed new homes, the scheme will provide a community room, estate office, amenity and play space as well as a wide range of landscaping and ecological enhancements for the benefit of all residents.

Work started on-site in 2023, and further details can be found on the following website: https://www.sydenhamhillproject.com.

York Way Estate

The City of London Corporation will be investing £50.0m to delivering a scheme which provides

- 91 new homes all available for social rent
- High-quality landscaping and greenery
- Enhancement to public realm
- New improved community centre
- Improved entrances of Lambfold House, Penfields House and Shepherd House, and Kinefold House
- Introduction of high-quality public art
- New children's play spaces*
- A resident growing garden behind Shepherd House.

Further details can be found on the following website: https://www.yorkwayestate.com.

Within the **City Surveyors** portfolio;

- £22.2m has been earmarked for redevelopment and refurbishment works at the Central Criminal Court, including replacement of key plant and machinery.
- A further £13.3m has been allocated for the refurbishment of 1 – 6 Broad Street Place.

Within the **Environment** directorate:

- £18.8m has been set aside for the St Paul's Gyratory project, which aims to transform the streets and public realm between the old Museum of London site and St. Paul's Underground station through the partial removal of the 1970's gyratory. It is a priority project for delivery by 2030 as identified in the City's Transport Strategy.
- £10.6m has been earmarked for a once-in-a-generation opportunity to transform over four hectares of public realm located at West Smithfield, into a world class 24-hour cultural destination.

In **Community and Childrens Services**, a total of £23.9m is to be invested in crucial health and safety related works at Barbican Residential, and Barbican Podium Phase Two, will be undertaking waterproofing and drainage refurbishment on the podium.

City's Estate Capital Programme

City's Estate capital programme totals £1.12bn over the next five years is summarised in table 3. It comprises £893.7m on flagship Major Projects, £210.2m across 'business as usual' capital programmes across the divisional areas, and an additional £20m headroom to meet contingency requirements and any urgent new bids for future years.

CAPITAL PROGRAMME - CITY'S ESTATE	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	TOTAL £m
CAPITAL & SRP - BAU							
Barbican Centre	-	0.0	-	-	-	-	0.0
Chamberlain and Chief Finance Officer	30.1	34.6	-	-	-	-	64.7
City of London Freeman's School	2.2	0.6	-	-	-	-	2.8
City of London School	1.2	0.0	-	-	-	-	1.2
City of London School For Girls	4.4	0.2	-	-	-	-	4.6
City Surveyor and Property	55.7	28.3	7.4	-	-	-	91.5
Community and Children'S Services (Exl HRA)	0.6	0.2	-	-	-	-	0.8
Environment	4.0	3.9	5.8	3.8	-	-	17.6
Innovation and Growth	2.6	7.6	4.8	4.7	-	-	19.7
Principal GSMD	2.8	1.6	2.1	0.8	-	-	7.3
Sub-Total	**103.5**	**77.2**	**20.1**	**9.4**	-	-	**210.2**
CAPITAL & SRP - MAJOR PROJECTS							
Markets Consolidation	127.2	78.7	144.7	117.4	123.0	51.5	642.5
Museum of London	28.8	23.5	-	-	-	-	52.2
City Fund (Combined Courts)	30.4	39.0	95.9	31.0	2.7	-	198.9
Sub-Total	**186.4**	**141.1**	**240.6**	**148.4**	**125.7**	**51.5**	**893.7**
CAPITAL & SRP - CONTINGENCY & NEW BIDS							
Contingency and New Bids	-	-	5.0	5.0	5.0	5.0	20.0
TOTAL CAPITAL PROGRAMME	**289.9**	**218.3**	**265.7**	**162.8**	**130.7**	**56.5**	**1,123.9**

Table 3: City's Estate Capital Programme 2023/24 to 2028/29

Markets Co-Location Programme (MCP)

This is a major regeneration programme, which will see London's historic wholesale markets, Smithfield and Billingsgate, relocated to a purpose-built site in Dagenham Dock.

This has a total budget of £841m. The relocation will stimulate economic growth, generating around £14.5 billion in cumulative productivity benefits (Gross Value Added) for the UK economy to 2049. It will bring an estimated 2,700 new jobs to Barking and Dagenham and support 7,850 jobs across the UK.

Relocating Smithfield Market also offers the opportunity to reinvigorate an historic part of the Square Mile, preserving and opening up the listed buildings for the public to enjoy. The site will become home to the new London Museum, alongside a complementary cultural and commercial offer. The land at Canary Wharf that will be unlocked by relocating Billingsgate could provide around 2,000 new homes and other social infrastructure.

The following artists impression represents what the new site could look like. The final design is subject to a range of options that are currently being appraised.

Also included within City's Estate Major projects, are:

- £140m relating to the refurbishment and redevelopment of the premises vacated by the Museum of London, located at Bastion House, for future alternate use.
- £210m relating to City's Estates' contribution to the Salisbury Square development, in relation to the Combined Courts element of the wider programme. Further details of the Salisbury Square Development are disclosed above.

The 'business as usual' (BAU) portfolio of City's Estates Capital Programme totals £210.2m. Key highlights are set out in this section.

Within the **City Surveyor's** portfolio;

- £40m has been allocated for the purchase of commercial property, in line with the principles of the Investment Strategy, summarised in section 8 of this document.
- £22.4m has been earmarked for the refurbishment of 1 Alfred Place. The building previously housed a private members club, restaurant, serviced office space, co-working spaces, a digital upskilling centre and BT Business support, who vacated the building during the COVID lockdown.

Cross-Fund Programmes

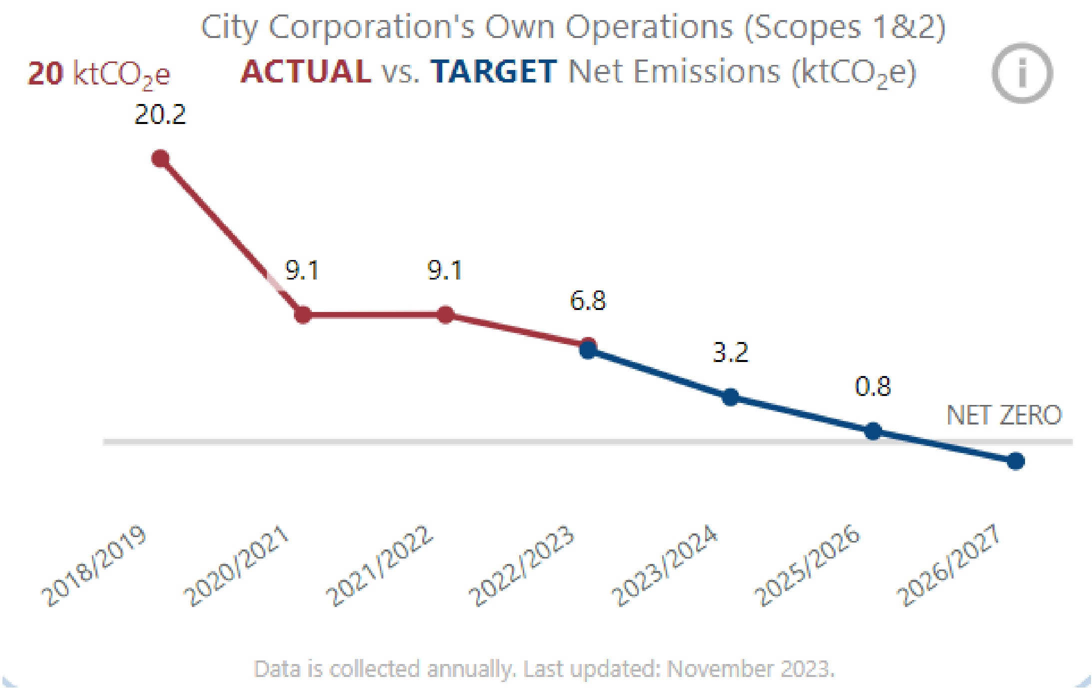
There are also a number of schemes within the capital programme which encompass all funds. Some key highlights are summarised below.

Climate Action Strategy

The City of London Corporation has adopted a radical Climate Action Strategy which breaks new ground and sets out how the organisation will achieve net zero, build climate resilience and champion sustainable growth, both in the UK and globally, over the next two decades.
By adopting the strategy, the City Corporation has committed to:

- Achieve net zero carbon emissions from our own operations by 2027.
- Achieve net zero carbon emissions across our investments and supply chain by 2040.
- Support the achievement of net zero for the Square Mile by 2040.
- Invest £68m over six years to support these goals, of which £15m is dedicated to preparing the Square Mile for extreme weather events.

This follows an extensive study of our activities and assets and puts a plan in place to address emissions from our financial and property investments and full supply chain. As shown in the chart below, we are currently on track to achieve net zero by 2027.



HR, Payroll, Finance Solution - ERP (Enterprise Resource Planning)

This programme will establish a new, single cloud-based platform that can be used across The City, and replace the legacy IT systems used for Finance, HR, Payroll for 20 years which are out of date.

Whilst this is a significant IT implementation programme, it will transform the enterprise-wide management of key business processes and elevate the provision and use of data to ensure officers and members are making informed decisions.

The aims of the project are:

- to provide The City with a fully integrated HR, Payroll, Finance and Procurement solution
- to enable modern, fit for purpose systems and the right tools for services teams to deliver their key objectives for The City, and
- to enable transformation, increase efficiencies and reduce IT costs.

Cyclical Works Programme

The City's significant number of properties Operational Property portfolio across City Fund and City Estate, has fallen into a state of disrepair because of funding constraints over several years. Included within the MTFP, is a funding allocation totalling £145m for the next five years to address the accumulated backlog of maintenance, and prevent further dilapidation and degradation of property, and failure to meet statutory compliance requirements. £31.1m of the allocated funding is included within the Capital Strategy, pending final approval by the Court of Common Council in March 2024.

5. Capital Financing

Tables 4 & 5 below show how the capital programme is financed across City Fund and City's Estate.

FINANCING SOURCES - CITY FUND	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	TOTAL £m
CAPITAL & SRP - CITY FUND							
Revenue/Earmarked Reserves	108.2	36.3	40.0	16.5	10.3	8.4	219.8
HRA	50.8	66.3	31.8	10.0	-	-	158.9
Asset Disposal Proceeds	75.6	156.2	213.3	50.5	15.9	26.4	537.9
Grants and Contributions	89.6	150.7	154.0	67.2	18.8	4.4	484.6
TOTAL CAPITAL PROGRAMME	324.2	409.5	439.1	144.2	45.0	39.2	1,401.2

Table 4: Summary financing schedule for City Fund Capital Programme 2023/24 to 2028/29

FINANCING SOURCES - CITY'S ESTATE	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	TOTAL £m
CAPITAL & SRP - CITY ESTATE							
Revenue/Earmarked Reserves	45.2	50.9	17.6	14.4	5.0	5.0	138.0
Asset Disposal Proceeds	82.0	160.7	244.7	147.9	125.2	47.5	808.0
External Borrowing	152.9	-	-	-	-	-	152.9
Grants and Contributions	9.9	6.8	3.4	0.5	0.5	4.0	25.1
TOTAL CAPITAL PROGRAMME	289.9	218.3	265.7	162.8	130.7	56.5	1,123.9

Table 5: Summary financing schedule for City Fund Capital Programme 2023/24 to 2028/29

Revenue/Earmarked Reserves
Earmarked funding for the capital programme, this is specific revenue funding which has been set aside to fund asset spend.

Grants and Contributions

This includes:

- Community Infrastructure Levy (CIL) - a set charge, based on the gross internal area floorspace of buildings, on most new development to help fund the infrastructure needed to address the cumulative impact of development across the City of London. A development is liable for a CIL charge if it is creating one or more dwellings, or new floorspace of 100sqm or more. When a CIL liable development is granted planning permission, the amount of CIL required is calculated and sent to the planning applicant and/or landowner of the development on a CIL Liability Notice.

- Section 106 - Planning obligations (often called S106 agreements) are legal agreements with developers for the provision of, for example, affordable housing, local training and jobs, and sites specific mitigation measures to alleviate the impacts of a development proposal. A S106 agreement is intended to make a development acceptable that would otherwise be deemed as unacceptable, by offsetting the impact by making specific location improvements.

- Section 278 Agreements are a legal agreement between a developer and the Local Highway Authority (LHA) which allows the developer to make permanent alterations to the adopted highway as part of a valid planning permission. The Section 278 Agreements are outlined within the Highways Act . The Section 278 Agreement process ensures that all works are designed and constructed to the satisfaction of the Highway Authority.

- Others can include ring fenced grants from governmental departments or other public sectors bodies such as the GLA or TFL.

HRA
The Housing Revenue Account (HRA) is the expenditure and income on running a council's own housing stock and closely related services or facilities, which are provided primarily for the benefit of the council's own tenants. It is a ring-fenced account of certain defined transactions, relating to local authority housing, within the General Fund, the main items of expenditure included in the account are management and maintenance costs, major repairs and large capital projects, loan charges, and depreciation costs with the main sources of income are from tenants in the form of rents and service charges.

Asset Disposal Proceeds
This is the proceeds from the city's asset disposal programme used to fund the capital programme, this includes the Dedicated Sales Pool which funds City Estate Asset Investment. Capital receipts can only be used to fund capital expenditure, and not revenue.

External Borrowing
The capital expenditure plans for City's Estate also create a borrowing requirement. City's Estate has issued fixed rate market debt totalling £450m to fund its capital programme.

Capital Financing Requirement

City Fund expenditure financed by borrowing (internal or external) is represented by the Capital Financing Requirement (CFR), which measures the City's underlying borrowing need; it will increase with unfunded capital expenditure and decrease as the Council makes minimum revenue provision (MRP) contributions. The table below shows the actual figure for 22/23 and the estimated figure for the upcoming years, currently the borrowing is all internal.

	CITY FUND
Non-HRA	
HRA	
Total	

Table 6: Projected Capital Financing Requirement analysed by Fund type

Treasury Management Indicators

The following two treasury indicators represent the upper limits for the total amount of external debt for City Fund. These limits are required under the Prudential Code 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 from 2024/25 onwards, 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.

TREASURY MANAGEMENT INDICATORS	2022/23 Actual £m	2023/24 Estimated Outturn £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Authorised Limit for external debt (City Fund)						
Borrowing	190.4	250.3	420.2	445.5	459	327.2
other long-term liabilities	12.8	12.7	12.6	12.5	12.4	12.3
TOTAL	**203.2**	**263**	**432.8**	**458**	**471.4**	**339.5**
Operational Boundary for external debt (City Fund)						
Borrowing	90.4	150.3	320.2	345.5	359	227.2
other long-term liabilities	12.8	12.7	12.6	12.5	12.4	12.3
TOTAL	**103.2**	**163**	**332.8**	**358**	**371.4**	**239.5**
Actual external debt (City Fund)*	0	0				
Upper limit for total principal sums invested for over 365 days (per maturity date)	300.0	300.0	300.0	300.0	300.0	300.0

Table 7: Summary of Projected debt, and forecast operational debt boundary (City Fund) 2023/24 to 2027/289

Table 8 below sets out the % of financing costs to net revenue and the approved borrowing limits for City Estate, designed to ensure that it remains prudent and sustainable.

CITY'S ESTATE BORROWING INDICATORS	2022/23 Actual	2023/24 Estimated Outturn	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	%	%	%	%	%	%
Estimates of financing costs to net revenue stream	15.0%	16.1%	15.6%	15.5%	15.5%	15.6%
	£m	£m	£m	£m	£m	£m
Overall borrowing limits	450.0	450.0	450.0	450.0	450.0	450.0

Table 8: Projected financing costs as a proportion of revenue income (City's Estate) 2023/24 to 2027/28

6. Governance

Resource Allocation Process (Principles)

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
- 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.

New Capital Schemes

The annual capital bid process was introduced as a means of prioritising the allocation of central funding for capital schemes. Due to hyperinflationary pressures, this was paused during 2023/24 with a contingency sum held to meet urgent works within City Fund and City's Estate. Requirements applicable to CBF continue to be considered through the lens as to what is in the best interests of the charity. The current bids are for programmes commencing in 2024/25.

Policy and Resources Committee and Finance Committee have recommended a central funding envelope of £20m for City Fund and £5m for City Estate in relation to new bids for 2024/25. This level of spend is affordable alongside the approved major project spend/ investment, which currently sits at £2.1bn across City Fund and City Estate, and are detailed in earlier sections of this document.

Depending on the nature of the funding, the approved bids currently progress from Resource Allocation Sub Committee (RASC), Finance Committee, Policy & Resources (P&R) Committee and, where relevant, the CBF Board to provide in principle funding approval to the schemes.

The indicative costs of agreed schemes are incorporated into the medium-term financial plans/ financial forecasts to assess the financial impact in context of each corporation fund and were confirmed at the joint informal meeting of RASC and the service committee chairs in January 2024. The final approval before these bids are incorporated in the capital programme is in February and March by Finance Committee, and the Court of Common Council respectively.

Committees

Approvals for projects with a total budget of less than £100m are set out in the City Corporation's Projects Procedure. Approval of projects is currently the responsibility of the respective service committees and are recommended to the Court of Common Council where total project expenditure is due to exceed £5m. The service committee is responsible for scrutinising individual projects to ensure the proposals are meeting the business need. Following this step, the Resource Allocation Sub-Committee (RASC) will in turn recommend the release (or 'draw down') of funding for each respective project to P&R, both consider the overall programme of project activity and funding to maintain an overview. Projects and Procurement Sub Committee (PPSC) considers the overall portfolio of projects and programmes and reports into the Finance Committee, with the exception of Major Programmes.

Major Programmes (i.e. capital programmes exceeding £100m) are managed directly through the Capital Buildings Board (CBB), a sub of P&R, and is authorised to approve budget drawdowns within the approved funding envelope.

Projects involving expenditure from the City Bridge Foundation must be approved by the City Bridge Foundation Board, or via any appropriate agreed delegations to their Managing Director.

Where a scheme concerns matters of policy and strategic importance to the City of London Corporation, project reports will also be submitted to that Committee.

The Finance Committee is responsible for obtaining value for money, improving efficiency and overseeing projects and procurement generally across the organisation. The Finance Committee therefore receives periodic reports on the City Corporation's capital expenditure.

New Gateway Process

In July 2023, the City Corporation agreed to review its approach to project management. An interim projects procedure has been put in place whilst the final proposals are developed for the Spring of 2024. Any revised proposals will be subject to PPSC and Finance Committee approval. This contains five phases and is outlined in the flow diagram below. This also sees all capital schemes separated into tiers, according to value, with each tier having different requirements and governance arrangements.

Inclusion of schemes in the capital programme will be subject to agreement by the relevant City Corporation committees which, depending on value, will include the Court of Common Council. Project Boards are usually established for individual projects, particularly those that require officers from several departments to deliver them.

All projects progressing to the capital programme must 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 Board) and procurement code - and are subject to confirmation of funding.

Programme Delivery Assurance

To strengthen oversight of our capital projects and programmes, we are currently updating our approach to enterprise-wide portfolio management. This new approach will take a strategic view of delivery, provide oversight of project and programme delivery and will aim to reduce risk.

The key characteristics of the new approach will include:

- The construction of a series of portfolios containing the corporation's projects and programmes – embedding accountability and responsibility for delivery
- Development of a revised gateways and programme lifecycle support framework
- Developing strategic governance – including the provision of portfolio board chaired by the Town Clerk
- A new EMPO system to embed new ways of working for project and programme management - supporting the reporting of project delivery to boards
- Revising project and programme management training to project managers so that they are better enabled to deliver

The new approach will be embedded through the implementation of a proactive EPMO organisation to support the provision of oversight and to drive the reporting cycle.

7. Corporate Property Asset Management Strategy '20-25

- The Corporate Property Asset Management Strategy outlines the overriding objectives for managing the operational estate (excluding Housing)
- Decisions on all operational property assets (excluding Housing) are guided by this strategy and the objectives within
- The Corporate Property Asset Management Strategy supports the Corporate Plan and is in turn supported by specific, individual property Asset Management Plans

Efficient

- Seek to rationalise the operational estate through better utilisation to ensure a more efficient, effective and sustainable asset base
- Ensure capital and revenue investment into the operational estate is 'relevant and needed' to achieve Corporate Plan objectives.
- Develop the curent risk based approach to maintenance and renewal (subject to available budget)
- Ensure capital and revenue projects are affordable, sustainable, prudent and directed to corporate priorities
- Ensure annual revenue expenditure is efficiently managed to deliver value for money and reduce operational asset running costs
- 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.

Effective

- Ensure operational assets are maintained to a good, safe and statutory compliant condition
- Maximise third party income for leased out property, including targetting effective support for businesses impacted by Covid-19
- Develop and mature the management of the portfolio by embedding the Asset Management (Service Based Review) recommendations
- Incorporate 'smart building technology', modern working practices post Covid-19 and improve connectivity for occupiers within the portfolio
- Create added value through the property Asset Management Plan process
- Ensure operational assets are relevant, fit for purpose and meet service delivery needs through a comprehensive Asset Challenge Process
- Ensure asset management activity is aligned with Service Committee's business plans through the Asset Management Plan process to deliver asset related corporate and business objectives

Sustainable

- Support the proposed Climate Action Strategy; including the achievement of net zero carbon emissions, to build resilience and to champion sustainable growth
- Achieve 40% energy savings by 2025/26
- Optimise the sustainability performance of the existing property portfolio (subject to available budget)
- Target BREEAM of excellent on all new buildings
- Maintain Heritage assets through investment and prevent their inclusion on the Heritage at Risk Register wherever possible (subject to available budget)
- Ensure where Heritage assets are not in the sole ownership of the City to drive the collective responsibility to maintain and prevent their inclusion on the Heritage at Risk Register

Further information on the Corporate Property Asset Management Strategy and supporting information including Asset Management Plans, Asset Challenge Process, Asset Management (Service Based Review) recommendations is available from the Corporate Property Group. Contact Paul Friend, Head of Corporate Asset Management (paul.friend@cityoflondon.gov.uk).

8. Investment Property

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.

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).

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.

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.

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.

The property portfolio is overseen by Members through a dedicated Investment Committee which overviews performance, sets strategy, and agree major lettings, acquisitions and disposals.

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.

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.

The Investment Committee receives quarterly five-year rental forecast reports and regular reports on the level of voids and debtor arrears. From time to time the Comm also receives presentations, usually from major firms of surveyors, on the state of the UK and London property market and potential future trends.

9. Risk Identification and Management

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 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.

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.

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.

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.

Recent levels of inflation have presented 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.

10. Knowledge and Skills

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.

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.

Within the Court of Common Council there are also several 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.

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