Public Document Pack

Finance Committee

Date: **TUESDAY, 16 FEBRUARY 2021**

Time: **1.45 pm**

Venue: **VIRTUAL PUBLIC MEETING (ACCESSIBLE REMOTELY)**

Members:
Jeremy Mayhew (Chairman)
Deputy Jamie Ingham Clark (Deputy Chairman)
Munsur Ali
Rehana Ameer
Randall Anderson
Nicholas Bensted-Smith
Deputy Roger Chadwick
Dominic Christian
Graeme Doshi-Smith
Alderman Sir Peter Estlin
Alderman Prem Goyal
Caroline Haines
Michael Hudson
Deputy Wendy Hyde
Deputy Clare James
Alderman Gregory Jones QC
Angus Knowles-Cutler
Gregory Lawrence
Tim Levene
Oliver Lodge
Alderman Nicholas Lyons
Paul Martinelli
Andrew McMurtrie
Deputy Robert Merrett
Hugh Morris
Benjamin Murphy
Susan Pearson, Cripplegate
William Pimlott, Cripplegate
James de Sausmarez
John Scott
Ian Seaton
Sir Michael Snyder
Deputy James Thomson
Mark Wheatley
Deputy Philip Woodhouse
Deputy Catherine McGuinness, Policy and Resources Committee (Ex-Officio Member)
Sheriff Christopher Hayward, Policy and Resources Committee (Ex-Officio Member)
Deputy Tom Sleigh, Investment Committee (Ex-Officio Member)

Enquiries: **John Cater**
tel. no.: 020 7332 1407
john.cater@cityoflondon.gov.uk

Accessing the virtual public meeting
Members of the public can observe this virtual public meeting at the below link:
https://youtu.be/km82G3Mukvw
This meeting will be a virtual meeting and therefore will not take place in a physical location following regulations made under Section 78 of the Coronavirus Act 2020. A recording of the public meeting will be available via the above link following the end of the public meeting for up to one municipal year. Please note: Online meeting recordings do not constitute the formal minutes of the meeting; minutes are written and are available on the City of London Corporation's website. Recordings may be edited, at the discretion of the proper officer, to remove any inappropriate material.

John Barradell
Town Clerk and Chief Executive

AGENDA

Part 1 - Public Agenda

1. **APOLOGIES**

2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**

3. **MINUTES OF THE PREVIOUS MEETING**

   To agree the public minutes of the meeting held on 19th January 2021.

   For Decision
   (Pages 1 - 8)

4. **FINANCE COMMITTEE'S FORWARD PLAN**

   Report of the Chamberlain.

   For Information
   (Pages 9 - 10)

5. **REPORT OF THE WORK OF THE SUB-COMMITTEES**

   Report of the Town Clerk.

   For Information
   (Pages 11 - 12)

6. **DRAFT PUBLIC MINUTES OF THE JOINT MEETING OF THE EFFICIENCY AND PERFORMANCE SUB-COMMITTEE AND THE RESOURCE ALLOCATION SUB-COMMITTEE HELD ON 21 JANUARY 2021**

   To receive the public minutes of the joint meeting of the Efficiency and Performance Sub Committee and the Resource Allocation Sub-Committee with Committee Chairmen.

   For Information
   (Pages 13 - 14)

7. **TOMLINSON REVIEW UPDATE - APPOINTMENT OF FINANCE COMMITTEE MEMBERS TO THE CITY GRANTS EDUCATION SPENDING (CGES) WORKING PARTY**

   Report of the Town Clerk.

   For Decision
   (Pages 15 - 22)

8. **RISK MANAGEMENT - TOP RISKS**

Report of the Chamberlain.

For Information
(Pages 23 - 32)

9. **P9 BUDGET MONITORING**

Report of the Chamberlain.

To Follow.

For Information

10. **CITY FUND 2021/22 BUDGET**

Report of the Chamberlain.

For Decision
(Pages 33 - 116)

11. **2021/22 CITY'S CASH BUDGETS AND MEDIUM-TERM FINANCIAL PLAN**

Report of the Chamberlain.

For Decision
(Pages 117 - 130)

12. **BRIDGE HOUSE ESTATES (BHE) - REVENUE BUDGET 2021/22 AND MEDIUM-TERM FINANCIAL PLAN**

Report of the Chamberlain.

For Decision
(Pages 131 - 144)

13. **ADMINISTRATION COSTS AND RESERVES POLICIES AS APPLICABLE TO THE SUNDRY TRUSTS AND OPEN SPACES CHARITIES**

Report of the Chamberlain.

For Decision
(Pages 145 - 150)

14. **HOUSING REVENUE ACCOUNT**

Report of the Chamberlain.

For Decision
(Pages 151 - 160)

15. **ANNUAL ON-STREET PARKING ACCOUNTS 2019/20 AND RELATED FUNDING OF HIGHWAY IMPROVEMENTS AND SCHEMES**

Report of the Chamberlain.

For Information
(Pages 161 - 166)

16. **GOVERNANCE PROPOSAL FOR FRAUD AND CYBER CRIME REPORTING AND ANALYSIS SERVICE (FCCRAS)**

Report of the Town Clerk.

To Follow.

For Decision

17. **CITY PROCUREMENT QUARTERLY PROGRESS REPORT (FEBRUARY 2021)**

Report of the Chamberlain.

For Information
(Pages 167 - 170)

18. **CENTRAL CONTINGENCIES**

Report of the Chamberlain.

For Information
(Pages 171 - 172)

19. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

20. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

21. **EXCLUSION OF THE PUBLIC**

MOTION - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the Local Government Act.

For Decision

Part 2 - Non-Public Agenda

22. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**

To agree the non-public minutes of the meeting held on 19th January 2021.

For Decision
(Pages 173 - 176)

23. **REPORT OF THE WORK OF THE SUB-COMMITTEES - NON-PUBLIC ISSUES**

Report of the Town Clerk.

For Information

(Pages 177 - 178)

24. **DRAFT NON-PUBLIC MINUTES OF THE JOINT MEETING OF THE EFFICIENCY AND PERFORMANCE SUB-COMMITTEE AND THE RESOURCE ALLOCATION SUB-COMMITTEE HELD ON 21 JANUARY 2021**

To receive the non-public minutes of the joint meeting of the Efficiency and Performance Sub Committee and the Resource Allocation Sub-Committee with Committee Chairmen.

For Information
(Pages 179 - 182)

25. **INCREASE IN CONTRACT VALUE FOR THE PROVISION OF MECHANICAL AND ELECTRICAL MAINTENANCE AND BUILDING REPAIRS AND MAINTENANCE SERVICES**

Joint Report of the Chamberlain and the City Surveyor.

For Decision
(Pages 183 - 190)

26. **EXTENSION OF MANAGED SERVICE TEMPORARY AGENCY RESOURCE CONTRACT**

Report of the Director of Human Resources.

For Decision
(Pages 191 - 196)

27. **CENTRAL CONTINGENCIES - NON-PUBLIC APPENDIX**

Non-Public Appendix to ITEM 18 (Central Contingencies)

For Information
(Pages 197 - 200)

28. **NON-PUBLIC DECISIONS TAKEN UNDER DELEGATED AUTHORITY AND URGENCY PROCEDURES**

Report of the Town Clerk.

For Information
(Pages 201 - 204)

29. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**

30. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

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FINANCE COMMITTEE

Tuesday, 19 January 2021

Draft Minutes of the meeting of the Finance Committee held virtually on Tuesday, 19 January 2021 at 1.45 pm

Present

Members:
Jeremy Mayhew (Chairman)
Deputy Jamie Ingham Clark (Deputy Chairman)
Munsur Ali
Rehana Ameer
Randall Anderson
Nicholas Bensted-Smith
Graeme Doshi-Smith
Alderman Sir Peter Estlin
Alderman Prem Goyal
Michael Hudson
Deputy Wendy Hyde
Deputy Clare James
Alderman Gregory Jones QC
Angus Knowles-Cutler
Tim Levene
Alderman Nicholas Lyons
Deputy Robert Merrett
Hugh Morris
Susan Pearson
James de Sausmarez
John Scott
Ian Seaton
Sir Michael Snyder
Deputy James Thomson
Mark Wheatley
Deputy Philip Woodhouse
Deputy Catherine McGuinness (Ex-Officio Member)
Sheriff Christopher Hayward (Ex-Officio Member)

Officers:

John Cater	-	Committee Clerk
Bob Roberts	-	Director of Communications
Peter Kane	-	Chamberlain
Caroline Al-Beyerty	-	Chamberlain's Department
Christopher Bell	-	City of London Police
Michael Cogher	-	Comptroller and City Solicitor
Paul Wilkinson	-	City Surveyor
Karen Atkinson	-	Chamberlain's Department
Amelia Ehren	-	The City Bridge Trust
Nicholas Gill	-	City Surveyor's Department
Jack Joslin	-	The City Bridge Trust
Sean Green	-	Chamberlain's Department
Sanjay Odedra	-	Communications Team
James Rooke	-	City Surveyor
Peter Young	-	City Surveyor's Department

1. **APOLOGIES**
Apologies for absence were received from Deputy Roger Chadwick, Oliver Lodge, Paul Martinelli, Andrew McMurtrie, and William Pimlott.

2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**

Jamie Ingham Clark and Ian Seaton declared non-pecuniary interests in respect of item 9 due to holding positions at St Lawrence Jewry.

Mark Wheatley declared a non-pecuniary interest in respect of item 11 due to being the lead for the City of London for the British Red Cross.

3. **MINUTES OF THE PREVIOUS MEETING**

RESOLVED – that the public minutes of the meeting held on 8th December 2020 be approved as an accurate record.

4. **FINANCE COMMITTEE'S FORWARD PLAN**

The Committee received a joint Report of the Town Clerk and the Chamberlain concerning the Committee's workplan for the next ten months.

The Chairman informed Members that, depending on the level of business due to be submitted to the Committee, the FC meeting scheduled on 9th March may be cancelled. The Chairman and officers will review the situation in February and keep Members posted.

RESOLVED – that the Committee noted the Report.

5. **REPORT OF THE WORK OF THE SUB-COMMITTEES**

The Committee considered a report of the Town Clerk which advised Members of the key discussions which had taken place during recent meetings of the Committee's Sub-Committees.

After the Chairman of the Corporate Asset Sub-Committee informed the Finance Committee of CASC's decision to dispose of the remaining part of the Woodredon Estate in Epping Forest, namely, the Woodredon Farm. A Member of the Epping Forest and Commons Committee (who also sits on FC), asked whether the funds derived from the disposal could go back to support the vital work of maintaining Epping Forest.

The Chairman pointed out that, whilst departments and their Service Committees were perfectly entitled to make a case for funding, the sums from the disposals of Corporation assets were a matter, in the first instance, for the Corporate centre; in short, we needed to avoid the automatic assumption that funds from disposals reverted back to the department that was previously responsible for the asset.

RESOLVED – that the Committee noted the report.

6. **RISK MANAGEMENT - TOP RISKS**

The Committee considered a report of the Chamberlain which provided updates regarding the top risks within the Departmental Risk Register.

After a brief introduction from the Chamberlain, the Chairman noted that the recent Member–officer bilateral meeting with the Commissioner of the City of

London Police had been very positive, and, in terms of the broader outlook for budget allocations in 2021/22, we were in good shape going into the meeting of the Resource Allocation Sub-Committee on Thursday 21st January.

The Chamberlain informed Members that future iterations of the Risk Report would again go back to including a Heat Map.

RESOLVED – that the Committee noted the report.

7. **BUDGET MONITORING**

The Committee received a Report of the Chamberlain concerning Q3 Budget Monitoring.

In response to a query, the Chamberlain confirmed that all departmental underspends would be ringfenced; should these sums not be required by the department, they will, in effect, be clawed back by the centre to replenish City Fund reserves.

RESOLVED – that the Committee noted the Report.

8. **CHAMBERLAIN'S BUDGET ESTIMATE**

The Committee considered a Report of the Chamberlain concerning the Chamberlain's Departmental Budget Estimate.

The Chairman, noting that an element of confusion had emerged in recent weeks concerning the approval of budget envelopes, stressed that, whilst Service Committees should be informed of the size of their budget envelope, they were not there to approve (or reject) that envelope; their role was to prioritise and work within their envelope; this point needed to be emphasised, in future years, to avoid any further misunderstanding.

However, on the whole, the Chairman welcomed the constructive and realistic approach that many Chairmen and Deputy Chairmen of Sub-Committees had taken during this budget round; he hoped that this attitude would endure in coming years, as we continued to face up to the financial impact of the pandemic.

In response to a query, the Chamberlain informed Members that the department's salary costs were subject to the further implementation of the Target Operating Model, and a more accurate picture would emerge as the TOM matured later in 2021.

In response to a separate query, the Chamberlain assured Members that he was confident that the IT Division would continue to deliver to a high standard despite the cuts to its budget in 2021/22. He added that he was very proud of how the Team had stepped up during the pandemic. The Chairman responded that the investment made in recent years in IT had served us extremely well as we have faced the challenge of the pandemic.

In addition, the Chairman noted the changes and potential changes prompted by the TOM and Lisvane would present a useful opportunity to take stock in terms of Member/Committee governance and reporting lines on IT; we were not at that point yet, but it would be something to examine later in 2021.

RESOLVED – that the Committee approved the following:

i) review and approve the Chamberlain's Departmental proposed revenue budget for 2021/22 as set out in table 1 in the Report;

ii) review and approve the full operational budget (£62.676m) of the committee as set out in Appendix 1.

iii) note the approved capital and supplementary revenue projects budgets for 2021/22 (appendix 6);

iv) authorise the Chamberlain to revise these budgets to allow for any further implications arising from Corporate Projects, other reviews and changes to the Cyclical Works Programme;

v) agree that minor amendments for 2020/21 and 2021/22 budgets arising during budget setting be delegated to the Chamberlain.

9. **CAPITAL FUNDING - PRIORITISATION OF 2021/22 ANNUAL CAPITAL BIDS - STAGE 2 PROPOSALS**

The Committee considered a Report of the Chamberlain concerning the Prioritisation of 2021/22 Annual Capital Bids.

In response to a query around financial discipline, the Chamberlain stressed that if pressures arise, we will take stock. There was a great deal of uncertainty this year, not least around how the pandemic itself might play out, plus HMG's response to the crisis, notably around the contents of the Budget in the spring, and the level of ongoing immediate financial support for businesses. In short, flexibility was key, and he was confident that the proposals had sufficient contingency planning built in.

In response to a query around whether the £20m figure allocated for the installation of the Barbican Estate fire doors was accurate, the Chamberlain clarified that £20m had been put aside indicatively; the project still needed to be closely assessed by the Project Sub Committee to ensure we were maximising value for money - so it could be assumed that the figure will be reduced going forward. It was also noted that the figure includes the replacement of other fittings, in addition to the fire doors, in the communal areas of the buildings across the Barbican Estate.

Members on the Barbican Residential Committee (who also sit on FC) commented that due to historic agreements struck with the leaseholders, the Corporation, as the landlord, was responsible for the costs of the installation. The situation was compounded by the prohibition on our ability to establish a sinking fund to support these types of remedial and maintenance works.

RESOLVED – that the Committee approved the following:

1. Note and agree that the plans would be affordable, sustainable and prudent (refer to paragraphs 8-15).

2. Consider the green rated bids amounting to £83.5m detailed in the attached appendix, which represents the position agreed with Chief Officers and Service Committee Chairs, together with the re-ignited bid for loan funding of £15.6m for the City of London School for Girls.

3. Agree that provisions of £83.5m plus a loan facility of up to £15.6m (indicative at this stage) be made in the draft medium-term financial plans of the three funds and that appropriate contingencies be set aside for approval by the Finance Committee and Court of Common Council as part of the annual budget setting process.

4. Request that the Corporate Asset Sub and Projects Sub Committees closely scrutinise the scope of the St Lawrence Jewry repairs project to ensure that all value engineering opportunities are fully explored, with a keen eye on value for money.

5. Agree that the bids rated as amber, detailed in the appendix, be placed on a reserve list to be funded from savings in provisions for green rated schemes should their urgency escalate.

6. Agree that the financial disciplines currently in place be continued, whereby central funding will be withdrawn for schemes that slip by more than one year; and the operation of the 'one-in, one-out' approach to funding of bids outside of the annual process.

7. Agree to the carry- over of the unallocated provision of £32m of loan facilities previously agreed for the Police and HRA.

10. **FSD QUARTERLY UPDATE**
The Committee received a Report of the Chamberlain concerning the Financial Services Division.

RESOLVED – that the Committee noted the Report.

11. **FINANCE COMMITTEE INTERNATIONAL DISASTER FUND**
The Committee considered a Report of the Chief Grants Officer and Director of City Bridge Trust concerning the FC's International Disaster Fund.

The Chairman noted that, given the frequency with which the Fund had been utilised for domestic appeals in recent years, the somewhat blanket wording in the Report, namely, "the expectation was that the Fund will only be used for domestic causes in exceptional circumstances", was now misleading, and it would be helpful for both Members and officers to recognise that the picture was now, *de facto*, more nuanced, with a more equitable balance between international and domestic donations likely to endure for the foreseeable future given the unfolding damage from the pandemic in the UK.

Whilst stressing that City Bridge Trust provide significant philanthropic sums in support of domestic issues and that we should avoid duplication, officers took on board the Chairman's point and would ensure that our choices around donations were cognisant of the outlook domestically as well as internationally.

The Chairman also asked officers to, in effect, raise their game on our ability to provide leadership and test whether our interventions are making an effective impact in terms of getting others to donate. It was apparent that the donations we have made via the Fund are, all too often, too mechanical, and that follow-up, or impact analysis, was absent. He asked the CBT team to work with the Communications Team to look at ways in which we can be more active and improve our effectiveness over the coming year.

The Chairman also welcomed Mark Wheatley's intervention; Mr Wheatley is the lead for the City of London for the British Red Cross, he remarked that the Corporation was uniquely placed to provide leadership from both a domestic and international perspective given our relationships with multiple stakeholders. The Chairman asked officers to liaise with Mr Wheatley going forward and for an update to be provided in early 2022.

RESOLVED – that the Committee (with the caveat around domestic versus international donations) approved the following:

1. the criteria for dealing with donations from the IDF at Appendix 1.

2. an uplift in the budget for the IDF of £25,000 from savings within the City's Cash Grants budget.

12. **CENTRAL CONTINGENCIES**
The Committee received a Report of the Chamberlain which provided Members with information regarding the current balance of the Finance Committee Contingency Funds for the current year.

RESOLVED – that the Committee noted the report.

13. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
There were no questions.

14. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
There were no urgent items.

15. **EXCLUSION OF THE PUBLIC**
RESOLVED - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the Local Government Act.

16. **NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**
The non-public minutes of the meeting held on 8th December 2020 were approved as an accurate record.

17. **REPORT OF THE WORK OF THE SUB-COMMITTEES - NON-PUBLIC ISSUES**
The Committee noted a report of the Town Clerk which advised Members of the key discussions which had taken place during a non-public session at a recent meeting of one of the Committee's Sub-Committees.

18. **RECONCILIATION OF HISTORIC LIABILITIES ON THE CITIGEN CONTRACT**
The Committee considered a joint Report of the Chamberlain and the City Surveyor concerning the reconciliation of historic liabilities on the Citigen contract.

19. **CITIGEN CONTRACT EXTENSION**
The Committee considered a Report of the City Surveyor concerning the Citigen extension negotiations between E.ON (Citigen) and the City of London (CoL) to extend the agreement for the supply of heat and chill to contracted City properties.

20. **BRIDGE HOUSE ESTATES STRATEGIC GOVERNANCE REVIEW - UPDATE FIVE**
The Committee received a Report of the Chief Grants Officer & Director of City Bridge Trust concerning the Strategic Governance Review for Bridge House Estates.

21. **CITY FUND: ANNUAL UPDATE AND 2021 STRATEGY**
The Committee received a Report of the City Surveyor concerning the Annual Update and 2021 Strategy for the City Fund Estate.

22. **CITY'S ESTATE: ANNUAL UPDATE AND 2021 STRATEGY**
The Committee received a Report of the City Surveyor concerning the Annual Update and 2021 Strategy for the City's Estate fund.

23. **STRATEGIC PROPERTY ESTATE: ANNUAL UPDATE AND 2021 STRATEGY**
The Committee received a Report of the City Surveyor concerning the Annual Update and 2021 Strategy for the Strategic Property Estate.

24. **BRIDGE HOUSE ESTATES: ANNUAL UPDATE & 2021 STRATEGY**
The Committee received a Report of the City Surveyor concerning the Annual Update and 2021 Strategy for Bridge House Estates.

25. **APPENDIX - ALLOCATIONS FROM 2020/21 CONTINGENCIES**
The Committee noted the non-public appendix to ITEM 12 (Central Contingencies)

26. **NON-PUBLIC DECISIONS TAKEN UNDER DELEGATED AUTHORITY AND URGENCY PROCEDURES**
The Committee noted a report of the Town Clerk detailing two non-public decisions taken under delegated authority and urgency procedures since the last meeting.

27. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE COMMITTEE**
There were no non-public questions relating to the work of the Committee.

28. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**
The Committee considered an item of urgent business relating to Furlough.

The meeting ended at 3.45 pm

Chairman

Contact Officer: John Cater
tel. no.: 020 7332 1407
john.cater@cityoflondon.gov.uk

FINANCE COMMITTEE – WORK PROGRAMME 2021 – changes from January 2021 iteration highlighted in yellow

	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Budget Setting Process & Medium-Term Financial Planning						Update from RASC Away Day- budget setting 22/23			Chamberlain's Estimate Report Capital Funding- Prioritisation of 2022/23 Annual Capital Bids Autumn Budget- local government	
Effective Financial Management Arrangements for The City Corporation		Update of Finance Regulations	Interest Rates on Internal Loan Requests - Update and Review		Capital Outturn Report Q1 Budget monitoring Provisional outturn report	City Re Limited – Performance Monitoring Provision for Bad and Doubtful Debts	Q2 Budget monitoring			Q3 Budget monitoring
Financial Statements					Draft city fund and pension fund statement of accounts Draft BHE Annual Report & Financial Statements	City Fund and Pension fund financial statements – Audit completion		City's Cash Financial Statements Open Spaces and sundry trust annual reports and financial statements		
Finance Committee as a Service Committee	Central Contingencies Risk Management - Monthly Report	Central Contingencies Risk Management Monthly Report IT Division Q Update Business plan update	Central Contingencies Risk Management Monthly Report FSD Quarterly Update	Central Contingencies Risk Management – Quarterly Report City Procurement Q Update	Central Contingencies Risk Management - Monthly Report IT Division Q Update Business plan update	Central Contingencies Risk Management Monthly Report FSD Quarterly Update	Central Contingencies Risk Management – Quarterly Report City Procurement Q Update	Central Contingencies Risk Management - Monthly Report IT Division Q Update Business plan update	Central Contingencies Risk Management Monthly Report FSD Quarterly Update CHB 21-22 Business Plan	Central Contingencies Risk Management – Quarterly Report City Procurement Q Update

Updated as at: 08 February 2021

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Committee(s)	Dated:
Finance Committee	16 February 2021
Subject: Report of the Work of the Sub-Committee(s)	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	**N/A**
Does this proposal require extra revenue and/or capital spending?	**~~Y~~/N**
If so, how much?	**N/A**
What is the source of Funding?	**N/A**
Has this Funding Source been agreed with the Chamberlain's Department?	**N/A**
Report of: Town Clerk	**For Information**
Report author: John Cater, Committee Clerk, Finance Committee	

Summary

On 19 July 2016, the Finance Committee agreed that, in addition to draft minutes of Sub-Committee meetings, short reports be provided to advise the Committee of the main issues considered by the Sub-Committees at recent meetings. This report sets out some of the main public issues considered by the following Sub Committees since 19th January 2021:

<u>Finance Grants Oversight & Performance Sub-Committee – 19th January 2021</u>
The Sub-Committee received clarification on its terms of reference.

The Sub-Committee received an update of the Chief Grants Officer & Director of City Bridge Trust relative to the Central Grants Unit (CGU). COVID-19 had impacted grants, both in terms of the applications received and funds available, as well as having to take into consideration the safety of events. Members received an update regarding the various programmes within the Central Grants Programme (CGP), noting the budget reduction to the City's Cash elements of the CGP. Members were also informed that the Community Infrastructure Levy (CIL) had progressed well since it launched last year near the time of the Sub-Committee's last meeting.

As follow-up to a point that was raised at the previous meeting with respect to Benefits in Kind (BIK) reporting, officers were working with Mansion House, the Central Criminal Court and City of London Schools to ensure thorough BIK reports are provided, and emphasised the importance of providing nil returns where applicable to assess the impact of the pandemic on BIK reporting.

<u>Procurement Sub Committee – 11th February 2021</u>
PSC Meeting will be held after the publication of the FC agenda pack – a summary note will be circulated to FC Members in advance of our meeting on 16/02.

Recommendations

The Committee is asked to note the report.

John Cater
Senior Committee Services Officer, Town Clerk's Department
john.cater@cityoflondon.gov.uk

JOINT MEETING OF THE RESOURCE ALLOCATION SUB (POLICY AND RESOURCES) COMMITTEE AND THE EFFICIENCY AND PERFORMANCE SUB (FINANCE) COMMITTEE WITH COMMITTEE CHAIRMEN

Thursday, 21 January 2021

Minutes of the meeting of the Resource Allocation Sub (Policy and Resources) Committee and the Efficiency and Performance Sub (Finance) Committee with Committee Chairmen held as a virtual meeting on Thursday, 21 January 2021 at 11.00 am

Present

Members:
Deputy Catherine McGuinness (Chair)
Jeremy Mayhew (Deputy Chairman)
Randall Anderson
Deputy Keith Bottomley
Tijs Broeke
Deputy Roger Chadwick
Deputy Jamie Ingham Clark
James de Sausmarez
Karina Dostalova
Sir Peter Estlin
Anne Fairweather
Marianne Fredericks
Sheriff Christopher Hayward
Shravan Joshi
Alderman Vincent Keaveny
Oliver Lodge
Deputy Edward Lord
Alderman Ian Luder
Paul Martinelli
Hugh Morris
Deputy James Thomson
Deputy Philip Woodhouse
Alderman Sir David Wootton

Officers:

Caroline Al-Beyerty	-	Deputy Chamberlain
John Barradell	-	Town Clerk & Chief Executive
Michael Cogher	-	Comptroller & City Solicitor
Emma Cunnington	-	Town Clerks
James Gibson	-	IT
Peter Kane	-	Chamberlains
Peter Lisley	-	Assistant Town Clerk & Director of Major Projects
Greg Moore	-	Town Clerks
Angela Roach	-	Assistant Town Clerk & Director of Member Services
Bob Roberts	-	Director of Communications
Paul Wright	-	Deputy Remembrancer

1. **APOLOGIES**
Apologies were received by Deputy Tom Sleigh and Alderman Sir David Wootton.

2. **MEMBERS DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
There were no declarations.

3. **MINUTES**

The minutes of the meeting held on the 11 January 2021 were approved as a correct record.

<u>Matters arising</u>

The Policy Chair raised that following the last meeting, she had received some advice from the Remembrancer on whether the job title should change to "Leader of the Council" or "Political Leader of the Council". It was discussed that the Remembrancer would provide some advice in writing to the Sub-Committee so that they could consider these concerns.

4. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE SUB-COMMITTEE**

There were no questions.

5. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

There was no other business.

6. **EXCLUSION OF THE PUBLIC**

RESOLVED, that under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part I of the Schedule 12A of the Local Government Act.

Item No.	**Paragraph No.**
7	3

7. **OVERALL FINANCIAL POSITION AND MEDIUM-TERM FINANCIAL PLAN**

The Sub-Committee considered a report of the Chamberlain outlining decisions around the overall financial position and the medium-term financial plan.

8. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE SUB-COMMITTEE**

There were no questions.

9. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE SUB-COMMITTEE AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

There were no items of urgent business.

The meeting ended at 12.24 pm

Chair

Contact Officer: Emma Cunnington
emma.cunnington@cityoflondon.gov.uk

Agenda Item 7

Committee(s)	Dated:
Policy and Resources Committee Education Board Finance Committee	21 January 2021 28 January 2021 16 February 2021
Subject: Tomlinson Review Update	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	**3, 8 and 10**
Does this proposal require extra revenue and/or capital spending?	**N**
If so, how much?	**£n/a**
What is the source of Funding?	**n/a**
Has this Funding Source been agreed with the Chamberlain's Department?	**n/a**
Report of: The Town Clerk	**For Decision**
Report author: Polly Dunn, Senior Committee and Member Services Officer	

Summary

This report seeks to update Members on the work undertaken by the City Grants Education Spending (CGES) Working Party in response to the review conducted by Sir Mike Tomlinson and invites Members to consider how the City ought to progress with these recommendations.

Recommendation(s)

Members of the **Policy & Resources Committee and Education Board** are invited to:

- Note the progress made to date by the Working Party and relevant Departments;
- Consider how remaining work on the recommendations is continued, be that with the oversight of a Working Party or otherwise; and
- If a Working Party is considered the best way to progress recommendations of Sir Mike Tomlinson, agree the refreshed Terms of Reference and Membership of said body.

On the event a Working Party is approved with the Membership as proposed, the **Finance Committee** is invited to appoint **two** of its Members to the Working Party.

Main Report

Background

1. In 2019, Sir Mike Tomlinson was commissioned by the Policy & Resources Committee and Education Board to conduct a review into the City's spend on education provision. The scope was agreed as follows:

i) To review grant funding provided by the City of London Corporation for its Family of Schools, consulting the affiliated Working Party, Members, officers, Chairs of Governors and Principals of those schools as necessary;
ii) To assess and report on the impact of such funding and how it correlates to the City of London Corporation's strategic priorities;
iii) To provide recommendations to the Working Party on the method of City grant funding that will optimise impact for recipient children whilst respecting the City of London Corporation's historical links; and
iv) To report to Policy & Resources and the Education Board the recommendations as approved by the Working Party.

2. A joint Working Party was constituted to consult on the independent review and to approve the final recommendations of the review, for reporting to the Policy & Resources Committee and Education Board. It included Members from the Policy & Resources Committee, Education Board and Finance Committee. The Terms of Reference of this Committee were:

Composition:

- *The Chair of Policy & Resources Committee*
- *The Chair and Deputy Chair of the Education Board*
- *Three further Members of the Policy & Resources Committee*
- *Two further Members of the Education Board*
- *One Member of the Finance Committee*

Quorum:
The quorum shall be the Chairman and any three Members.

Terms of Reference:
The Joint City Education Grant Funding Working party will:-
(i) Consult on the independent review of City Education Grant Funding being conducted by the Chair of the review; and
(ii) have power by a simple majority of those present and voting at a meeting of the Working Party to approve the final recommendations of the review, for reporting to the Policy & Resources Committee and Education Board.

3. The final Review was submitted to the Education Board in January 2020 and to the Policy & Resources Committee in February 2020. All recommendations were supported, and a number were able to be implemented immediately by the relevant departments (listed later in the report). However, the more substantive issue within the review concerned the the need for a comprehensive policy and funding model to underpin the City Corporation's grant funding of schools.

Current Position

1. The ‘donut’ funding model proposed within the Review, was supported in principle by P&R and the Education Board. In early 2020, officers were tasked with producing a draft working model to eventually bring back to Committee. Members of the existing Working Party were consulted as this work initially developed, with Henry Colthurst (then Education Board Chairman) taking the lead.

2. Unfortunately, in Spring 2020, the Covid-19 pandemic caused much of this work to be put on hold until the autumn. In addition to this delay, the Working Party was not re-established at the start of the municipal year due to oversight. As a consequence, when work on the funding model was ready for sharing with Members in late 2020, a view was taken by the Chair of P&R and the acting Chair of the Education Board to hold an informal ‘sounding board’ type meeting of those previously elected to the Working Party, on 8 December 2020.

3. The purpose of this meeting was to consider the progress made and what the next steps should be. It was also felt necessary to meet as there had been a significant change in the Education Board’s representation at the Working Party following the resignation of the former Chairman, and current Chair from the Board in November 2020. Discussion at the meeting focussed on the need to develop a policy that fed into and helped determine the output of the proposed donut model.

Proposals

4. It was the view of those present that the best way to do this would be to reconstitute the Working Party but with updated Terms of Reference and Membership, and allow this body to continue to work on the issues at hand before finally presenting both the funding model and policy to the Education Board, Policy & Resources Committee and possibly to the Court of Common Council.

5. It was agreed that this report be submitted to formally update the committees concerned, to seek their endorsement of this way forward.

Options

4. The following options are available to the Policy & Resources Committee and Education Board:

   a) Reconstitute the Working Party (in a revised form) to continue to work on the outstanding recommendations of the Review, with a focus on a new funding model and policy that informs it, making a recommendation to Grand Committee for formal approval in due course;

   b) Do not reconstitute the Working Party and have all matters concerning the Tomlinson Review reported directly to Grand Committee; or

c) Do not progress with work on a revised funding model or other remaining recommendations from the Review that require further Committee engagement.

5. If a) is the preferred way forward, new Terms of Reference and Membership would need to be approved. As such, a draft has been set at **appendix 1,** in light of comments made at the meeting held on 8 December.

6. Previous membership was as follows:

   Deputy Catherine McGuinness (P&R)
   Randall Anderson (P&R)
   Alderman Timothy Hailes (P&R)
   Andrew McMurtrie (P&R)
   Henry Colthurst (EB)
   Ann Holmes (EB)
   Tijs Broeke (EB)
   Deputy Philip Woodhouse (EB)
   Deputy Jamie Ingham Clark (Finance)

7. If the composition remains as it was in 2019, Henry Colthurst and Ann Holmes would not be eligible to stand for appointment as they no longer sit on the Education Board. Having led much of the work to date, Members are invited to consider whether there should be some flexibility in the Working Party's composition in respect of the former Chairs of the Education Board, to allow for some continuity in the work.

8. Interest in reappointment has been expressed by all other Members of the Working Party with the exception of Andrew McMurtrie, who stepped back following the conclusion of his term as Chair of the City of London Academies Trust (COLAT).

9. It is proposed that the Chair of the Education Board act as Chair of the Working Party.

Key Data

10. Here is a table that surmises the recommendations of the independent review and provides an update on progress in respect of each.

Recommendation	Lead Department(s)	Progress
Change the method of funding the Family of Schools to a three-tied 'donut' model. Including consideration on the balance of funding between academies and independent schools.	Education Unit (DCCS) / Chamberlain's	A working version of the proposed model has been created. A policy on the funding balance is required in order to commence the process for any implementation.

Review the subvention system for the provision of services by the COL, allowing schools more autonomy in the purchase services from suppliers offering the best quality and price.	Chamberlain's / Town Clerk's / Independent Schools	To be considered within the work undertaken in response to the COL's Governance Review.
Change the means by which the impact of funding is evaluated and involve the CEO of COLAT within the process. Review of data collected from schools to ensure that they are capable of answering the questions of the Education Board/Unit in relation to outcomes and expenditure. To be systematic and consistent.	Education Unit (DCCS) / Chamberlain's / COLAT Education Unit (DCCS) / Chamberlain's / COLAT	This is already now successfully occurring. This is already now occurring. The Education Unit is working closely with Chamberlain's and the COLAT Director of Finance around tracking and reporting.
Closer alignment of school priorities and their bids for funding with the COL Strategic Plan to be an increasing requirement over time.	Education Unit (DCCS) / COLAT / Independent Schools	This is already now occurring. The Education Unit is working closely with Chamberlain's and the COLAT Director of finance around tracking and reporting. Independent schools are also working towards more aligned reporting.
Single point of reference for all education spending by the Corporation to avoid duplicate funding of activities and to ensure no school seeks such funding which should be part of their core curriculum.	Education Unit (DCCS) / Chamberlain's	This is occurring informally between the Education Unit, Chamberlain's, City Bridge and Education Charity and Culture Mile Learning working closely to ensure there is not double-ups of spending.
Education Board to be responsible for the funding given to the independent schools.	Chamberlain's / Town Clerk's / Independent Schools	To be considered within the work undertaken in response to the COL's Governance Review.
Review of Post-16 offer, given size of some sixth forms, to ensure a better offer that uses resources more efficiently. This review to include the provision of a high-quality technical pathway.	Education Unit (DCCS) / COLAT / Independent Schools Education Unit (DCCS) / COLAT	A Review of Sixth Form provision was undertaken in 2020 and reported to the Education Board in November. As above.
Additional funding/infrastructure for partnership work across the Family of Schools.	Education Unit (DCCS) / Independent Schools	A Partnership Officer has been appointed by the CoL girls and Boys school to start to progress this work. The Education Unit has made a temporary appointment at this stage around partnership working with the view of trialling this for longer term adoption.

Review thresholds for the award of bursaries funded entirely by the COL to ensure the most disadvantaged, but able students, receive them. Funding provided by the COL for bursaries in the three independent schools should be accounted for in reports to the Education Board. A more systematic programme to make known to parents and children in the Family of Schools, the availability of the bursaries and support provided to pupils and assist in preparation for entry tests.	Chamberlain's / Independent Schools Chamberlain's / Town Clerk's / Independent Schools Education Unit (DCCS) / Independent Schools / COLAT	Plans for the thresholds to be reviewed this year. Request to be considered by the three respective Governing Bodies. Work being undertaken by the Schools' Partnership Officer(s).
Changes to the governance arrangements for schools (most notably the independent schools – but not exclusively). Inc. limits to the number of terms a Governor can serve and reduce the number on each Local Governing Body to 12-15. Mechanism on how the Heads and Chairs can inform Court of skills gaps for vacancies.	Town Clerk's Town Clerk's / Independent Schools	In the case of independent Schools - to be considered within the work undertaken in response to the COL's Governance Review. The matter for academies was addressed by the Education Board's own 'internal' governance review in 2019. Skills audits of the Independent Schools are conducted annually and/or on the arising of a vacancy. Nomination Committees for each independent school have been established and these bodies consider skills gaps and how this can be fed into communications when committee vacancies are routinely advertised to Court Members.
Education Board and COL to produce an annual report on the "state of education in the City" to showcase some of the work to be found in the Family of Schools.	Education Unit (DCCS)	The Education Unit has produced the first of the Annual reports of Education activity and this went to Education Board. Tomlinson was keen for this to eventually be a glossier publication which could really highlight and amplify the great work happening across the City in Education. Although not happened yet, this could easily be developed from the report already completed.
Display work from the Family of Schools within and around Guildhall.	Education Unit (DCCS) / City Surveyor	No progress – delayed until further notice in light of COVID-19.

Corporate & Strategic Implications

11. This report has no immediate financial, legal or other implications, but seeks to establish a way forward on a matter that will in due course. Once a direction is agreed, these implications will be captured and reported back at the relevant stage(s).

Conclusion

12. This report seeks a clear steer from Members on how to proceed with work in response to the recommendations made by Sir Mike Tomlinson within his *Report of Inquiry into the funding of education by the City of London*.

Appendices

- Appendix 1 - Revised Draft Terms of Reference and Membership of the Joint City Education Grant Spending (Tomlinson) Working Party

Background Papers

- Report of Inquiry into the funding of education by the City of London, Sir Mike Tomlinson

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Appendix 1

Revised Draft Terms of Reference and Membership of the Joint City Education Grant Spending (Tomlinson) Working Party

Composition

- The Chair of the Policy & Resources Committee
- The Chair and Deputy Chair of the Education Board
- Three further Members of the Policy & Resources Committee
- Two further Members of the Education Board
- Two Members of the Finance Committee

The Chair of the Working Party will have the authority to invite Members and Officers to Working Party meetings in a consultative capacity.

Quorum:
The quorum shall be the Chairman and any three Members.

Terms of Reference
The Joint City Education Grant Spending (Tomlinson) Working Party will:

(i) Act as a sounding board to advise on the implementation of recommendations made within the *Report of Inquiry into the funding of education by the City of London,* with a focus on the proposed funding model and funding balance between independent schools and academies; and

(ii) Have power by a simple majority of those present and voting at a meeting of the Working Party, to make recommendations to the Policy & Resources Committee and Education Board for decision.

Committee(s)	Dated:
Finance Committee	16th February 2021
Subject: Chamberlain's Department Risk Management – Quarterly Report	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	7
Does this proposal require extra revenue and/or capital spending?	N
If so, how much?	n/a
What is the source of Funding?	n/a
Has this Funding Source been agreed with the Chamberlain's Department?	n/a
Report of: Chamberlain	**For Information**
Report author: Leah Woodlock	

Summary

This report is the quarterly update Finance Committee on the risks and their management by the Chamberlain's department. The Senior Leadership Team regularly review the risks as a part of the management of the Chamberlain's department. The Chamberlain's department currently has three corporate risks and one departmental risk on its risk register. There are two risks with red statuses:

- CR35 Unsustainable Medium-Term Finances
- CR23 Police Funding

There are two Amber rated risks that relate to IT, the Senior Leadership Team continues to closely monitor the progress being made to mitigate these risks.

Recommendation(s)

Members are asked to note the report and that the two corporate red risks will be reviewed after the March Court.

Main Report

Background

1. The Risk Management Framework of the City of London Corporation requires each Chief Officer to report regularly to Committee the key risks faced in their department. Finance Committee has determined that it will receive the Chamberlain's risk register on a quarterly basis with update reports on RED rated risks at the intervening Committee meetings.

2. Chamberlain’s risk management is reviewed on a monthly basis at Departmental Senior Leadership Team (SLT) meeting. Consideration is also given as to whether there are any emerging risks for inclusion in the risk register within Divisional updates on key issues from each of the Directors, ensuring that adequate consideration is given to operational risk.

3. Risk and control owners are regularly consulted regarding the risks for which they are responsible, with updates captured accordingly. Significant changes to existing risks are escalated to SLT when identified.

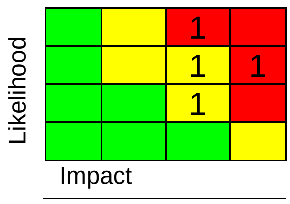
4. Since the last Quarterly Risk Register update in November 2020, the Chamberlain’s departments risks have reduced from seven (3 Corporate & 4 Departmental) to four (3 Corporate & 1 Departmental). The following risks have been successfully mitigated and removed from the departmental Risk Register:
   - **CHB CP001 Brexit risk to City Corporation procurement and supply chains;** No significant risks had been identified through the supplier survey conducted in 2020 and due to the Brexit Deal no further risks were highlighted.
   - **CHB IT 030 2020 - Managed Service Contract;** The new Agilisys contract was signed in December 2020 and all commercial issues resolved and implementation commenced 1st January 2021.

5. **CHB IT 001 Resilience - Power and infrastructure** was amalgamated into CHB IT 004 Business Continuity / Disaster Recovery Management due its similarity and identical mitigations.

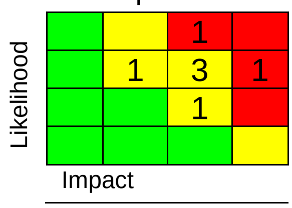
Summary of Risks

6. The heatmap for all Chamberlain’s corporate and departmental risks is as below:

Current heatmap



Previous quarter heatmap



7. The Chamberlain’s department currently has three corporate risks and one departmental risk on its risk register, attached as Appendix 1 to this report, assessed as 2 RED risks and 2 AMBER risks. The two red corporate risks will be reviewed after the Court of Common meets on 4 March to agree the 2021/22 budget plans and Medium Term Financial Plan and Members will be updated at their subsequent meeting. These are:

CR35 Unsustainable Medium-Term Finances (Current Risk: Red – no change)

8. The Financial Health risk has a number of mitigations in place to protect the medium-term financial plan. Income streams and spend is being monitored monthly throughout the 20/21 financial year, with actions being taken to reduce

spend where possible. In addition, it is estimated that up to £11.7m can be claimed in recovery from the government, £1.5m has been received, with £3.8m pending.

9. Business rates collection is now at 5.2% below the previous year, however it is an improvement from the 6% recorded in December 2020. The impact of the business rates appeal linked to COVID-19 is continuing to be monitored.

10. The savings from the implementation of the Target Operating Model and Fundamental Review proposals are expected to begin from the new financial year.

CR23 Police Funding (Current Risk: Red – no change)

11. The Commissioner has made the commitment to have a balanced budget over the medium-term. The balanced Police budget is being prepared taking into account the identified savings, future action fraud costs and impacts of COVID-19.

CR16 Information Security (formerly CHB IT 030) (Current Risk: Amber – no change**)**

12. Regular security updates have been throughout the COVID-19 impact, with staff training and awareness to continue through 2021. The Information Management Board oversee the security messages sent out to all staff to ensure best working practices in an effort to prevent adverse events. The Board are also planning a number of new security projects to be delivered across the organisation.

CHB IT 004 Business Continuity (Current Risk: Amber – no change)

1. On-premise computer equipment has been significantly reduced over the last 6 months and where still required migrated to the MS Azure Cloud which provides much higher levels of resilience and support than was previously possible. Business continuity plans will be reviewed with senior officers and application owners over the next few months to determine if the business continuity risk can be reduced.

Appendices

- Appendix 1 Chamberlain's Department Detailed Risk Register

Background Papers

Monthly Reports to Finance Committee: Finance Committee Risk

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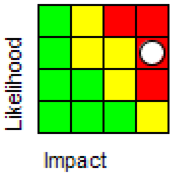
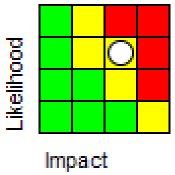
CHB Corporate and departmental risks - detailed report EXCLUDING COMPLETED ACTIONS

Report Author: Leah Woodlock
Generated on: 02 February 2021

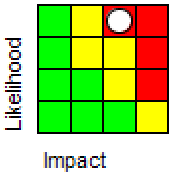
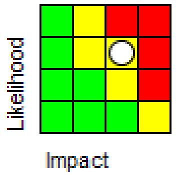
Rows are sorted by Risk Score

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
CR35 Unsustainable Medium Term Finances 19-Jun-2020 Caroline Al-	**Causes:** Anticipated decline in public sector funding (local government and Police), increasing demands (revenue and capital) and an ambitious programme of major project delivery threaten our ability to continue to deliver a vibrant and thriving Square Mile Normal course of business unable to function due to COVID 19 restrictions BREXIT compounding market uncertainty and exacerbating the economic downturn. Major contraction in key income streams and increase in bad debts.In particular that lower occupancy levels in city properties reduce investment property income over the medium term. Police Transform programme fails to realise the budget mitigations anticipated Reduction in the value of investments- property and securities- reduces available capital for major project financing. **Event:** Inability to contain financial pressures within year (2020/21) and compensatory savings and/or income generation to meet the Corporation's forecast medium term	 	**24**	Current annual estimated impact is an overspend of £35.9.4M at the end of period 7 across the three funds; £16.8m of which is City Fund. Driven mainly by income loss. Mitigations include spend reduction, furloughing of casual staff and permanent staff not able to work and recovery of lost CF income from the government's compensation scheme anticipated to be £11.7m. Cash flow position is holding up well. Balance Sheet- it is too early to assess any permanent re-valuation. Securities portfolio- after an initial drop has largely recovered the Dec 2019 valuation. **02 Feb 2021**	 	**12**	31-Mar-2021	Constant

Beyerty	financial deficit will not be realised. **Effects:** Additional savings over and above those identified through the Fundamental Review to meet this challenge are required and/or closure in some areas reserves are utilised and/or services stopped. The City Corporation's reputation is damaged due to failure to meet financial objectives or the need to reduce services / service levels to business and community. Being unable to set a balanced budget which is a statutory requirement for City Fund. Spend is not aligned to Corporate Plan outcomes resulting in suboptimal use of resources and/or poor performance. Capital projects stalled due to COVID restrictions. Stakeholders experiencing reduced services and service closures.							

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CR 35a	A reduction in key income streams and increase in bad debt	This is being monitored monthly, with action being taken to reduce spend where possible.	Sonia Virdee	02-Feb-2021	31-Mar-2021
CR 35b	To reduce strain on cash flow.	• The Corporation remains very liquid and the outlook for near term cash flows is robust. • Review major commitments, including options for re-profiling.	James Graham; Sonia Virdee	02-Feb-2021	31-Mar-2021
CR 35c	Increased expenditure related to COVID measures- maximise recovery from government	• Maximising recovery from government- spend is being coded and monitored. Estimated claim of up to £11.7m for loss of fees & charges on City Fund. Total claim made to date is £5.3m (£1.5m received for qtr1 and £3.8m pending). • Furloughing workers where appropriate has been done recovering £3.2m to end of August	Sonia Virdee	02-Feb-2021	31-Mar-2021
CR 35d	Inability of occupiers to pay rates as their income falls an business models are damaged. A reduction in demand for office space in the square mile, leading to lower occupation and business rate income. The Corporation is currently benefitting from growth in business rates retained income of c£40m. Non-payment of rates across London leading to difficulties in meeting cash flow payments as host of the pool.	• Monthly monitoring in place. The impact of COVID-19 has been to lower the collection rate for business rates. Collection now 5.2% below previous year, an improvement from 6% in December. • The Govt has recognised the cashflow impacts of business rates and has deferred its share for April-June, which has been re-profiled over the reminder of the year. The Govt is also allowing authorities to spread the impact of business rate deficits over 3 years. • The impact of business rate appeal linked to COVID could be significant. Not clear what	Phil Black; Neilesh Kakad	02-Feb-2021	31-Mar-2021

		the approach will be from the VoA. Risk to LG finance system flagged to MHCLG. Impacts will continue to be monitored.			
CR 35e	Impact on investments: securities/property	• The values of the three main financial investment portfolios have continued to grow steadily • COL's Pension Fund contributions are fixed until 2023, providing some protection, whilst the diversified asset allocation strategies and use of active management across all three funds should continue to deliver some stability if general market moves become extreme again. • Rent concessions (rent frees and rent deferrals) together with turnover rents for retail and food & beverage is aimed at retaining as many tenants as possible. If tenants default, there is a high risk of long periods (void marketing/ letting period and rent free incentives totalling up to 24 months) before properties are income producing again. Although some tenants have gone into administration, our voids have not increased significantly.	Nicholas Gill; James Graham	02-Feb-2021	31-Mar-2021
CR 35f	Impact on the MTFP	• FR proposals affecting staff put into abeyance during CoLC's response to Covid-19. • CHB currently reviewing achievability of savings built into the MTFP	Caroline Al-Beyerty; Alistair Cook	02-Feb-2021	31-Mar-2021
CR 35h	To implement the Fundamental Review project plan- TOM	• FR proposals affecting staff put into abeyance during CoLC's response to Covid-19. • The Flexible Retirement Scheme for those aged 60+ is currently being implemented. • Other savings relating to organisation design and an associated reduction in headcount are expected to begin from the new financial year.	Chrissie Morgan	02-Feb-2021	31-Mar-2021

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
CR23 Police Funding 21-Nov-2016 Ian Dyson; Peter Kane	**Cause:** Reduction in government funding, workforce costs and growing demand in Policing services leading to pressures for the City Fund -Police. **Event:** Reduction in government funding. Failure to deliver VfM savings. Budget deficit forecast for next 5 years requiring action to balance the budget **Effect:** Potential impact on security and safety in the City as need to make savings, prioritise activity, review funding City of London Police will be unable to maintain a balanced budget and current service levels as reflected in their Medium Term Financial Plan.		**16**	• Partially updated MTFP was prepared for December Police Authority Board. Assumes that future funding settlements not inflation linked and use of £4m underspend to advance repayment of Action Fraud loan. Shows growing deficits across medium-term. Commissioner has committed to balancing annual budgets through savings plans. • MTFP to be updated to take account of 21/22 settlement, which has funded a further officer uplift, and determination of savings targets through Senior Member bilateral discussions, then RASC. • Key risks to Police finances include savings identification and delivery, future Action Fraud costs and funding, and potential COVID 19 impacts on commercial income sources and Business Rate Premium intake. **28 Jan 2021**		**12**	31-Mar-2021	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CR23g	Implement sustainable medium-term financial settlement for CoLP: - Revenue position, Capital financing	Work in progress to ensure balanced budget is set for 21/22 and determine extent of savings targets through Senior Member bilateral process, then RASC. Once settled, savings plans for future years need to be identified. Loan based capital financing model implemented for 20/21.	Alistair Cook	02-Feb-2021	31-Mar-2021

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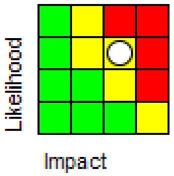
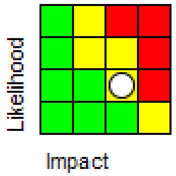
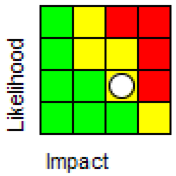
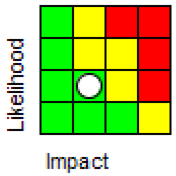
Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
CR16 Information Security (formerly CHB IT 030) 10-May-2019 Peter Kane	**Cause**: Breach of IT Systems resulting in unauthorised access to data by internal or external sources. Officer/ Member mishandling of information. **Event**: The City Corporation does not adequately prepare, maintain robust (and where appropriate improve) effective IT security systems and procedures. **Effect**: Failure of all or part of the IT Infrastructure, with associated business systems failures. Harm to individuals, a breach of legislation such as the Data Protection Act 2018. Incur a monetary penalty of up to €20M. Compliance enforcement action. Corruption of data. Reputational damage to Corporation as effective body.		**12**	Regular security updates have been provided to relevant people throughout COVID. Reviewing the National Cyber Security Training with the view to provide training to all staff. PSN remediation activities are complete and have been submitted to the Cabinet Office. **28 Jan 2021**		**8**	30-Apr-2021	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CR16j	CR16j An update IT Security Roadmap has been developed which has informed work activity for 20/21 and a capital bid for new security tools.	The staff training and awareness of IT security continues during 20/21 under the oversight of the Information Management Board led by our SIRO Michael Cogher.. During COVID regular security messages being sent out. The NCSC training to be rolled out to all staff.	Gary Brailsford-Hart	02-Feb-2021	31-Mar-2021
CR16k	Final stages of completing information security projects which will mean that we can assure Members that the City of London Corporation has implemented all the national government recommended security practices and technology achieving a maturity level of 4.	New Security Projects being planned to fit the funding of £250K that was allocated. Gateway paper has been submitted	Gary Brailsford-Hart	02-Feb-2021	31-Mar-2021

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date	Current Risk score change indicator
CHB IT 004 Business Continuity 30-Mar-2017 Sean Green	**Cause:** A lack of robust infrastructure and restore procedures are not in place on aging infrastructure. Secondly, there is a lack of resilient or reliable Power services or Uninterruptable Power Supply (UPS) provision in multiple Comms rooms and datacentres in COL and COLP buildings. **Event:** The IT Division cannot provide assurance of availability or timely restoration of core business services in the event of a DR incident or system failure. There will be intermittent power outages of varying durations affecting these areas/buildings. **Effect:** The disaster recovery response of the IT Division is unlikely to meet the needs of COL leading to significant business interruption and serious operational difficulties. • Essential/critical Systems or information services are unavailable for an unacceptable amount of time • Recovery of failed services takes longer than planned • Adverse user/member comments/feedback • Adverse impact on the reputation of the IT division/Chamberlain's Department		**8**	Due to the recent successful migration activities to the Azure public cloud, our business continuity and our disaster recovery response is significantly improved. A benefit of the move of services to Azure and an increase in remote working has meant that COL relies on the Guildhall power supplier increasingly less. Therefore, risks CHB IT 004 has been migrated into this risk which encompasses both aspects of Business Continuity being processes, plans procedures along with the reducing dependency on the power supply at Guildhall. **28 Jan 2021**		**4**	30-Jun-2021	Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB IT 004k	RPO and RTO of Critical Apps	Following the Migration into Azure of COL's applications and services, the RPO and RTO capabilities will be redefined once optimisation and consolidation has taken place. COL IT Believe these new capabilities will exceed the current requirements, but these will be confirmed with the business owner for each Critical application and adjustments made where required.	Matt Gosden	02-Feb-2021	30-Jun-2021
CHB IT 004l	Gateway paper to be drafted to release funds for UPS work	Gateway paper produced and submitted. Following approval, the remaining Comms rooms which require UPS protection will have these devices replaced. Due to BREXIT and supply chain issues this might be delayed	Matt Gosden	02-Feb-2021	31-Mar-2021

Committee(s):	Date(s):
Finance Committee – For decision Policy and Resources – For Information Court of Common Council – For decision	16 February 2021 18 February 2021 4 March 2021
Subject: City Fund 2021/22 Budget	**Public**
Report of: The Chamberlain	**For Decision**
Report author: Caroline Al-Beyerty, Deputy Chamberlain	

Summary

This report presents the overall financial position of the City Fund (i.e. the City Corporation's finances relating to Local Government, Police and Port Health services).

The significant effort across Corporation family to commit to the 12% savings required for 2021/22, is delivering a balanced budget and puts the Corporation on track for a sustainable Medium Term Financial Plan. But with a global pandemic and worsening economic position, pressures and risks for the City Corporation's finances will continue into the 2021/22 fiscal year. This is only the 'end of the beginning'; the task to secure the future savings 'flightpath' remains and there is a need to manage the significant remaining COVID risks and unprecedented range of external challenges e.g. Local Government and Police Spending Reviews and Business Rates income fluctuations.

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

- mitigate impact on vital front-line services in social care, rough sleeping and support to our Academies;
- finance the climate action strategy within the MTFP;
- re-prioritise existing resources to accommodate funding bids relating to policy initiatives: e.g. culture mile; and
- prioritise the 2021/22 capital programme enabling the funding for schemes totalling £32.9m in the Climate Action Strategy.

In December, Finance Committee approved the proposals to balance the budget for 2021/22 and adjustments have been made to departmental local risk budgets following Policy and Resources Committee approval, effectively creating a resource limit for each department and relevant service committee.

Further work will be needed to identify savings that meet the full extent of the financial gap over the medium-term and provide a build back better/new priorities fund for new policy initiatives, principally the Climate Action Strategy.

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

Surplus/(Deficit)	2020-21	2021-22	2022-23	2023-24	2024-25
	£m	£m	£m	£m	£m
Net City Fund position, after contribution to Build Back Better Fund	**32.9**	**4.1**	**(7.8)**	**(6.4)**	**(3.6)**
Revenue Reserves					
General Reserves*	**20**	**20**	**20**	**20**	**20**
Major Project Financing Reserve	**81.7**	**74.4**	**64.9**	**57.4**	**50.9**

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

The additional year of business rate growth retention benefits City Fund by £27m in 2021/22, producing a small surplus of £8m, giving a much-needed boost to the financial position and enabling a contribution of £3.9m to the Build Back Better Fund, used initially for the Climate Action Strategy. However, there is significant ongoing COVID impact on Barbican, requiring £7m support for continuing lost income and on other sources of income. Modelling of a more pessimistic view on retained business rates income removes almost all of the £27m growth - pushing City Fund into an estimated £19m deficit. Alongside potential impact of a more pessimistic rents position, we recommend holding back £30m of reserves in mitigation.

Turning to the **capital position**, under the annual process, bids for capital funding totalling £65.1m for City Fund were approved in principle by Resource Allocation Sub Committee. Whilst the £65m is much higher than the more usual £20m level, the sum includes climate action strategy and is considered manageable over the medium term, albeit that mitigating actions will be needed to provide funding for future capital spending requirements.

This report recommends a number of measures to stabilise the position in 2021/22 and that will support the steps that will need to be taken over the medium-term, through further work on identifying flightpath savings, building on collaboration between service committees, moving from a tactical response to COVID to service transformation and containing the cost of major projects and other programmes.

For 2021/22, Members will need to consider whether to:

- Levy a Social Care precept of 3%; but otherwise freeze council tax.
- Retain business rates premium at 0.8p in the £ /Increase the Business Rates Premium (against a backdrop of COVID impact on local businesses).

Members will also want to note that increased revenue pressures have been accommodated by reprioritising existing budgets and signal an expectation that additional pressures that might arise during 2021/22 will be absorbed within local risk budgets.

Recommendations

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

- Note the overall budget envelopes, incorporate the 12% savings (or 6% in the case of social care and children's services) as agreed by Resource Allocation Sub Committee and are consistent with approved savings flight path.
- Continue to monitor COVID income risk during 21/22 and maintain a COVID contingency fund, not releasing £30m of general fund reserves for major project spend.
- Approve the overall financial framework and the revised Medium-Term Financial Strategy (paragraph 18)
- Approve the Treasury Management Strategy Statement and Annual Investment Strategy for 2021/22, including the treasury indicators.
- Approve the City Fund Net Budget Requirement of £153.6m (paragraph 40)

Key decisions:

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

Council Tax

- To approve an increase in the Adult Social Care Precept of 3.00% (paragraph 25).
- To otherwise consider whether to freeze council tax (paragraph 27).
- Determine the amounts of Council Tax for the three areas of the City (the City, the Middle Temple and the Inner Temple to which are added the precept of the Greater London Authority (GLA) - appendix A.
- Determine that the relevant (net of local precepts and levies) basic amount of Council Tax for 2021/22 will not be excessive in relation to the requirements for referendum.
- Determine, the current 100% discount awarded to unoccupied and unfurnished and uninhabitable dwellings is continued at zero (0%) for the financial year 2021/22.
- Determine that the premium levied on long-term empty property for 2021/22 of 100% and 200% is continued and that for properties that have been empty for over ten years, a premium of 300% is levied.
- It is recommended that, having regard to the government guidance issued, the Chamberlain be given the discretion, delegated to the Head of Revenues, to reduce or waive the long-term empty premium charge in exceptional circumstances.
- Approve that the cost of highways, street cleansing, waste collection and disposal, drains and sewers, and road safety functions for 2021/22 be treated as special expenses to be borne by the City's residents outside the Temples (appendix A).

Business Rates

- Set a Non Domestic Rate multiplier of 52p and a Small Business Non-Domestic Rate Multiplier Rate of 50.7p for 2021/22.

- Note that, in addition, the GLA is levying a Business Rate Supplement in 2021/22 of 2.0p in the £ on properties with a rateable value of £70,000 and above (paragraph 47).
- Delegate to the Chamberlain the award of discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988 (paragraphs 48-52).

Capital Expenditure

- Approve the Capital Strategy (appendix E).
- Fund the court element of the Salisbury Square project from City's Cash, rather than City Fund- to better equalise the call on the Corporation's investment assets and to protect local authority fund. (paragraph 22)
- Approve the Capital Budgets for City Fund and the allocation of central funding from the appropriate reserves to meet the cost of the 2021/22 new bids– release of funding being subject to approval at the relevant gateway and specific agreement of the Resource Allocation Sub Committee at gateway 4(a) (paragraph 53)
- Approve the allocation of central funding in 2021/22 to provide internal loan facilities for police and the HRA, currently estimated at £4.9m and £19.2m respectively.
- Approve the Prudential Code indicators (appendix C).
- Approve the authorised limit for external debt (which is the maximum the City Fund may have outstanding by way of external borrowing) at £237.5m for 2021/22; and the Minimum Revenue Provision (MRP) for 2021/22 at £1.1m (MRP policy is included within appendix D – Treasury Management Strategy Statement and Investment Strategy Statement 2021/22 - appendix 2).

Treasury Management Strategy Statement and Investment Strategy Statement 2021/22 (Appendix D)

- Approve the following changes to the creditworthiness policy to ensure the Corporation can continue to access a wide enough range of counterparties of suitable credit standing when investing cash balances under the Treasury Management Strategy (appendix D, paragraphs 8.2 to 8.6):
    - Change the minimum acceptable Long Term credit rating for banks and other financial institutions from "A" to "A-" (appendix D, paragraph 8.2);
    - Change the minimum acceptable sovereign credit rating for approved counterparties from "AAA" to "AA+" (appendix D, paragraph 8.5);
    - Add an overall limit of £250m for outstanding lending to local authorities as a whole at any given time (appendix D, paragraph 8.6).

Chamberlain's Assessment

- Take account of the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves and contingencies (paragraphs 64-67 and appendices B and G respectively).

Main Report

Background

1. This report sets out the revenue and capital budgets for City Fund for the Finance Committee and Court of Common Council to approve. The effect of the COVID-19 has had a wide-ranging impact on the economy, including income losses from the closure of many services and facilities, and losses from rental income. With another national lockdown, delays in the economic recovery continue to be a significant risk for further income losses in 2021/22.

2. In setting the budget for 2021/22 and the Medium-Term Financial Strategy (MTFS) for future years, consideration has been given to the high degree of uncertainty and therefore risk in determining Local Government funding levels.

3. The Government recently confirmed the Local Government Finance Settlement for 2021/22 and the Policing Minister published the revenue allocations for Police forces for 2021/22.

4. Revenue streams are likely to be under considerable pressure as the Government intends to change current funding mechanisms to reflect an increased emphasis on need and to reset the current business rates retention system:

   - **The funding settlement one year only -** this year's settlement is again only a one-year deal; there remains a great deal of uncertainty regarding Local Government funding after March 2022.
   - The **Fair Funding Review** of local government funding is likely to shift resources away from London.
   - **Business Rates** – danger from a reset which would remove the City's recent growth receipts (forecast at £27m) in 2022/23. We are exploring with other affected London Boroughs whether a case can be made to MHCLG for transitional relief.

5. The forecast includes the revenue impact from funding £65.1m of second tier projects from capital reserves, with capital receipts reserves standing at £80m by 2024/25.

6. The forecasts also assume all approved Fundamental Review proposals are achieved.

7. Although the City Fund is forecast to be in surplus by £4m in 2021/22, it can only be balanced, over the next four years, with the use of general fund reserves. Despite the savings planned to date through the Fundamental Review and in line with the 12%, overall, City Fund faces substantial growing annual deficits over the planning period and the 10-year horizon.

8. Over the next year we will focus on making operational efficiencies through a new target operating model (TOM) as well as improving how we prioritise our resources to ensure:
   - That we are spending on key priorities; and
   - That our plans are sustainable in the medium-term.

9. There are three options to close the medium-term deficits, or more realistically a combination of the three:

- Further savings; and/or
- Revenue raising through taxation i.e. increases in Council Tax and Business Rate Premium; and
- Consideration of the financing strategy for the major projects, focusing on requirements from the investment portfolio.

Measures to the 2021/22 budget

10. The aim of the 2021/22 budget round is to set us on the flight path to achieving a sustainable budget over the medium-term. With the continuation of financial challenges, a general budgetary reduction of 12% has been applied in 2021/22, (or 6% in case of social care and children's services) - continuing to protect the most vulnerable services.12% savings have been applied to all grant budget heads over £100k except for where there are co-funding arrangements (e.g. the Museum of London) or where there are growth pressures (e.g. the Academies where pupil numbers are expected to rise).

11. At its December meeting, Resource Allocation Sub Committee approved the budget envelopes that service committees will use to deliver their services in 2021/22. It is intended that business planning will address how service committees intend to focus their resources to achieve key outcomes in year. Work will continue to identify further savings that can underpin medium plans for 2022/23 and beyond.

12. Chief Officers will now look at how any changes in services can be achieved. This will follow our normal policies and procedures in relation to reorganisations and restructurings. This will include consultation with staff and the Trade Unions on any proposals which may affect staff. Therefore, whilst the departmental budget "envelope" has now been set for departments, how these will actually be achieved is subject to consultation and the usual Committee approvals.

13. We have not yet identified savings that meet the full extent of the financial gap in the medium-term. However, for City Fund, our local authority fund, the Government has pushed back its reform of Business Rates to 2022/23. This means that we have an extra year of retained Business Rates income, albeit at a reduced level from COVID impact, before the regime is changed.

14. Key risks from COVID impact to our income streams continue into 2021/22, especially for rental income for the investment property portfolio and further support is likely to be required from reserves. Detailed stress testing and scenario analysis has been carried out on key income assumptions for all funds and more sophisticated funds modelling has enabled a holistic assessment of overall financial health, including ability of net assets and reserve balances to meet risks of potential funding shortfalls. We should nonetheless continue to monitor COVID income risk during 21/22.

15. Tough decisions have been needed but Members have worked together to:

- mitigate impact on vital front-line services in social care, rough sleeping and support to our academies.
- finance the climate action strategy within the MTFP; and
- Re-prioritise existing resources to accommodate bids for resources relating to policy initiatives: e.g. culture mile.

16. The budget structure will need to be translated into the new TOM in the new financial year.

17. Delivering the 21/22 budget will enable us to push ahead on reshaping City Corporation, through the TOM, to be able to respond in a more agile and flexible way to the challenges ahead. Key follow up themes for 2022/23 include:

    - The need to move from tactical COVID response to service transformation; building on the collaboration from the bi-lateral approach to identify flightpath savings.
    - Scope for further restructuring, removal of duplication as part of the TOM review, and scope for introduction of greater pay flexibilities.
    - The need for a fuller grants review.

Latest forecast position

18. City Fund is balanced, taking one year with the next over the five-year period. However, there are significant risks and a great deal of uncertainty. The Medium-Term financial position is shown in the table below:

Table 1

Surplus/(Deficit)	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
City Fund*	**32.9**	**(0.1)**	**(16.6)**	**(17.3)**	**(17.1)**
Fundamental Review savings		**0.9**	**4.7**	**9.3**	**11.8**
12% savings		**7.0**	**7.0**	**7.0**	**7.0**
Social Care Precept		**0.2**	**0.2**	**0.2**	**0.2**
City Fund forecast position	**32.9**	**8.0**	**(4.7)**	**(0.8)**	**1.9**
Contribution to Build Back Better Fund	**0.0**	**(3.9)**	**(3.1)**	**(5.6)**	**(5.6)**
City Fund Surplus/(Deficit)	**32.9**	**4.1**	**(7.8)**	**(6.4)**	**(3.6)**
General Reserves**	**20**	**20**	**20**	**20**	**20**
Major Project Financing Reserve***	**81.7**	**74.4**	**64.9**	**57.4**	**50.9**

* After major projects financing
**General fund reserve maintained at minimal prudent amount for working capital.
*** Major project financing reserve, holding back £30m reserves under major project financing for COVID mitigation measures

19. 2021/22, is forecasting a small surplus, largely due to additional year of business rates retention income (albeit at a much-reduced level to previous years). Key points to note include:

- Significant COVID impact on the Barbican, which will need continuing support for lost income as it puts in place a sustainable medium-term plan (£7m included, but more likely to be needed if there is an extended lockdown-government support yet to be confirmed may partially offset this);
- Mitigated limited number of service areas (e.g. Social Care saving at 6%) and rephased fundamental review savings delayed by work on TOM or by COVID impact;
- Significant risk on major income streams from business rates and rents. If a more pessimistic view is taken on retained business rates income, it removes the £27m growth- pushing City Fund into an estimated £19m deficit in 2021/22. Alongside potential impact of a more pessimistic rents position, we recommend holding back £30m of reserves in mitigation; and
- For medium term, assumes funding the Court's element of the Fleet Street project from City's Cash (for decision) to manage pressures across funds and create headroom should major refurbishment of operational property be required.

20. **Police** have committed to balancing the books in 21/22 and also to making 12% saving on Corporation funding to the Force. The Police Settlement included an additional increase in the precept grant. The Police budget forecast shows deficits across the period, but the Force has committed to closing the gap - so no provision has been made within City Fund for Police deficits.

21. Extra business rates income, combined with 12% budget reductions, efficiencies through the target operating model and additional interest on cash balances, has allowed cost pressures to be accommodated whilst still leaving the fund in surplus for 2020/21 and 2021/22. The fund is forecast, however, to move into deficit, from 2022/23 onwards due to the inclusion of financing costs for the Museum of London Relocation Project and Police Accommodation in the Salisbury Square Project.

22. Major Projects funding: For the medium term, recommend funding the Court element of the Salisbury Square project to City's Cash to help manage pressures across funds, in particular to reduce potential property disposal requirement over the long-term from £0.5bn to £0.3bn (representing one fifth of the property portfolio).

23. The 10-year financing strategy for major projects is being recast and financing requirements will be reported to Finance Committee in April to consider the financing options. The intention is for Investment Committee to advise Resource Allocation Sub Committee on how best to draw down from the investment portfolios.

24. Council Tax: The Council Tax for the current year, 2020/21, is £927.25, expressed at band D and excluding the GLA precept of £79.94. Given the pressures to City Fund, Members will wish to consider council tax increases. Local authorities are permitted to levy a social care precept of 3% to address funding pressures and this has been modelled in the 21/22 budget. Local Authorities are permitted a further

uplift of Council Tax by 1.99% within the referendum threshold. In this context, Members may wish to consider:

- There is not a pressing financial need to uplift Council Tax in 2021/22.

However,

- Current intelligence suggests that most authorities, including those at the lowest end of the Council Tax league table, are considering increases of up to 4.99%, including the social care precept. There is a risk that the Corporation will stand out if it does not increase and will move closer to the bottom of the table.
- There is a cumulative benefit in the medium-term.
- It could reduce any penalisation in the fair funding review, where an implied council tax level might be assumed (above our current level) which could result in a loss of funding.
- Those on lowest incomes will be eligible for council tax relief (Council Tax Reduction Scheme).

25. The City has seen increasing cost pressures in social care and tackling homelessness; and social care has been protected from the full impact of 12% reductions. **The recommendation is, therefore, to levy an Adult Social Care precept of 3%**.

26. The Adult Social Care precept of 3% would generate around £200k. An increase of 1.99% in council tax, would generate around £150k. For comparative purposes, Westminster band D excluding GLA precept is currently £448.21 (£780.28 including the GLA precept); Wandsworth, £461.49 (£793.56 including the GLA precept); and Hammersmith and Fulham £792.42 (£1124.49 including the GLA precept).

27. The steer from Resource Allocation Sub Committee **was to otherwise freeze council tax**. In making this decision, Members may wish to consider the points in paragraph 24 above.

28. Given the impact of COVID on City businesses**, an increase in the Business Rates Premium is not being recommended in 2021/22**.

29. The premium on City businesses was increased in 2020/21, from 0.6p to 0.8p in the £ which, while not formally hypothecated to policing, supported the funding of an uplift of 67 priority policing roles at a cost of £5.4m.

A strategic response to continuing challenges

30. This report recommends measures to stabilise the position in 2021/22 and that will support the steps that will need to be taken over the medium-term, through
    - further work on identifying flightpath savings, building on collaboration through the bi-lateral approach;
    - moving from a tactical response to COVID to service transformation;
    - a more in-depth review of non CBT grant giving; as well as
    - containing the cost of major projects and other programmes.

31. Further work to explore cost options should also provide mitigation for the substantial income generation risks. Members should note that the Investment Committee intend to set up a Working Group consider and report back to Resource Allocation Sub Committee on how best to:

- Address changing requirements for potential draw-down and re-balancing of asset portfolios; and
- Risk exposure in particular asset classes with consequent impact on investment strategy e.g. diversification of property portfolio from office space

32. In addition, there is a need to make sure the position does not get worse by reinforcing the cap on the major projects and securing third party capital where possible.

Key assumptions used in the forecast

33. The following paragraphs detail the key assumptions that have been used in the construction of the 2021/22 budget and Medium-Term Financial Strategy:

Income

34. The City Fund has two key income streams, rental and investment income. Detailed stress testing and scenario analysis has been carried out on key income assumptions for all funds and more sophisticated funds modelling has enabled a holistic assessment of overall financial health, including ability of net assets and reserve balances to meet risks of potential funding shortfalls.

- Property rental income is forecast on the expected rental income for each property, allowing for anticipated vacancy levels, expiry of leases and lease renewals. Throughout 2020/21, the effect of COVID-19 has had a wide-ranging impact on the economy. This has included income losses from rental income from our property investment portfolio. With another national lockdown, delays to economic recovery continues and further losses on income are expected to continue into 2021/22. It should be noted a further reduction in rental income is anticipated in later years as a consequence of the planned disposal of properties to fund the major projects. Outside these changes the City's rental income is protected to some extent in the short-term as our leases are long term with medium-term specified break clauses. Forecast rental income is regularly reviewed and any potential reduction will be factored into updates to the medium-term financial plan.

- Cash balances are invested in a diversified range of money market and fixed income instruments in accordance with the Treasury Management Strategy with the aim of providing a yield once security and liquidity requirements have been satisfied. The forecast for treasury management income takes account of the likely path of short-term interest rates (chiefly, the Bank of England base rate) over the upcoming financial year. Bank Rate is unlikely to rise from 0.10% for a considerable period given underlying economic expectations. In these circumstances it is likely that investment earnings from money market-related instruments will be below 0.50% for the foreseeable future. The actual path of short-term interest rates is likely to depend on (amongst other things) how the pandemic develops and the efficacy of vaccination programmes as well as the pace and trajectory of an economic recovery. A change of +/-0.25% to the base rate is expected to translate to approximately £1.6m additional/less income for the City Fund per year, based on current cash balances. Interest income is monitored throughout the year and any potential change to the forecast will be reported through updates to the medium-term financial plan.

Expenditure

35. The starting point for the 2021/22 budget is 'flat cash' from the previous resource allocation in 2020/21, with provision made for the pay award agreed by the December Establishment Committee. The Spending Review announcement on 25 November confirmed that there will not be a significant uplift in government funding and the Chancellor announced a Public Sector Pay Freeze for most workers. The reduction in CPI inflation should ease the pressure of living with flat cash budgets, from which the 12% savings will need to be achieved.

36. Policy and Resources Committee and Finance Committee have messaged clearly that cost pressures should be managed within existing resources (applying the 12% reduction). No new initiatives are permitted into the member arena without an identified funding source. Requests for funding are therefore being accommodated through re-prioritisation of existing resources. The Climate Action Strategy, Culture Mile, and training requests from the Tackling Racism Taskforce have all been accommodated through re-prioritisation.

37. Also underlines the need for additional unfunded revenue bids to be avoided during 2021/22.

Grant settlement – City Fund

34. The provisional local authority grant settlement was received before Christmas and confirmed in February. This funding settlement is for one year only following the conclusion of the previous four-year Spending Review period (2016/17 - 2019/20 and subsequent one year settlement in 2020/21). As this is a one-year settlement, there is a great deal of uncertainty regarding Local Government funding after March 2022.

Business Rates Retention

35. A further one-year delay on business rates reset enables the Corporation to continue to benefit from growth in office space over the years which has generated surpluses within the City. This growth in business rates income over the past six years has provided headroom, continuing in 2021/22 to fund investment in one-off projects, such as: the Museum of London relocation project; the Salisbury Square project; to deal with the backlog of outstanding repair works for City Fund operational properties; and more recently to mitigate the losses caused by a COVID-19. However, the growth is vulnerable to bad debts and appeals; and especially so for the London Business Rates Pool, where a collective decision to end the pilot has been taken.

36. The Government has announced additional support for business rate losses in 2020/21 in the form of a 75% compensation scheme for irrecoverable tax losses resulting from COVID-19. The Spending Review confirmed the business rates holiday for Retail, Hospitality and Leisure businesses would end in March 2021. If the current relief scheme is not extended, there could be significant reductions in business rates collected from businesses in these sectors.

City Police

37. Major deficits in the Police Medium-Term Financial Plan have, over the last two years, been significantly reduced through a combination of Police savings plans and additional Business Rate Premium funding. However, deficits continue to exist across the medium-term, particularly linked to an assumption that future funding will not be inflation-linked, and work continues to focus on mitigation strategies.

Revenue Spending Proposals 2021/22

38. The overall budget requirements have been prepared in accordance with the strategy and the requirements for 2020/21 and 2021/22 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)***	**2020/21 Original £m**	**2020/21 Latest £m**	**2021/22 Original £m**
Barbican Centre	(28.8)	(39.2)	(37.3)
Barbican Residential	(2.6)	(3.1)	(2.4)
Community and Children's Services	(13.7)	(15.7)	(14.2)
Culture Heritage and Libraries	(21.8)	(21.3)	(19.7)
Finance	7.4	2.2	2.2
Licensing	(0.1)	(0.3)	(0.1)
Markets	0.7	0.5	0.7
Open Spaces	(1.7)	(1.7)	(1.7)
Police (3)	(15.5)	(16.2)	(14.4)
Planning and Transportation	(84.9)	(84.9)	(85.1)
Policy and Resources	(5.0)	(6.1)	(4.2)
Port Health and Environmental Services	(17.2)	(17.3)	(14.7)
Property Investment Board	45.4	39.3	37.3
City Fund Requirement	**(137.8)**	**(163.8)**	**(153.6)**

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

39. 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 13].

Table 3: City Fund net budget requirement and financing

		2020/21 Original £m	2020/21 Latest £m	2021/22 Original £m
1	Net expenditure on services	(183.2)	(203.3)	(188.1)
2	Capital Expenditure funded from Revenue Reserves	(1.8)	(1.2)	(0.3)
3	Cyclical Works Programme expenditure financed from revenue	(13.5)	(12.6)	(11.0)
4	Requirement before investment income from the City's Assets	(198.5)	(217.1)	(199.4)
5	Interest on balances	8.5	6.5	2.6
6	Estate rent income	52.2	46.8	43.2
7	**City Fund Requirement**	**(137.8)**	**(163.8)**	**(153.6)**
	Financed by:			
8	Government formula grants	124.5	124.5	122.5
9	City offset	12.1	12.1	12.1
10	Council tax	8.7	8.7	8.4
11	NNDR premium	15.5	20.5	18.6
12	Total Government Grants and Tax Revenues	160.8	165.8	161.6
13	**Deficit/(Surplus)transferred from (to) reserves**	**23.0**	**2.0**	**8.0**

Line 8 is shown in further detail below:

Table 4: Analysis of Core Government Grants

	2020/21 Original £	**2021/22 Draft £**	**Variance £m**	**Variance %**
Rates Retention: baseline funding	16.7	16.7	0.0	0%
Rates Retention: growth	43	35.6	(7.4)	-17%
Subtotal:	**59.7**	**52.3**	**(7.4)**	**-17%**
Police	64.8	70.2	5.4	8%
Total Core Government Grants	**124.5**	**122.5**	**(2.0)**	**-9%**

40. The City Fund budget requirement for 2021/22 is £153.6m plus a contribution to reserves of £8.0m resulting in a net City Fund budget requirement of £161.6m, an increase of £0.8m on the previous year. The following table shows how this is financed and the resulting Council Tax requirement. Appendix A details the consequent determination of council tax by property band.

Table 5: Council Tax requirement

Council Tax Requirement	2020/21 Original £m	2021/22 Draft £m
Net Expenditure	(198.5)	(199.4)
Estate Rental Income	52.2	43.2
Interest on balances	8.5	2.6
Budget Requirement	(137.8)	(153.6)
Proposed contribution to reserves	(23.0)	(8.0)
Net City Fund Budget Requirement	**(160.8)**	**(161.6)**
Financing Sources:		
Business Rates Retention	59.6	52.3
Police Grant	64.9	70.2
City Offset	12.1	12.1
NDR Premium	15.5	18.6
Collection Fund Surplus (CoL share)	1.1	0.6
Council Tax Requirement	**(7.6)**	**(7.8)**

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

Business Rates

42. The Secretary of State has proposed a National Non-Domestic Rate multiplier of 51.2p and a small business National Non-Domestic Rate multiplier of £49.9p for 2021/22. These multipliers remain at the 2020/21 levels as Government have opted not to apply the usual inflationary increase. The actual amount payable by each business will depend upon its rateable value.

43. If the proposed Business Rate Premium remains 0.8p in the £, the proposed premium will result in a National Non-Domestic Rate multiplier of 52.0p and a small business National Non-Domestic Rate multiplier of 50.7p for the City for 2021/22.

44. As in previous years, authority is sought for the Chamberlain to award the following discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988:

- Supporting Small Business Relief – A discount for ratepayers who as a result of their rateable value changing as a result of the 2017 revaluation have lost some or all of their small business rate relief.

45. It is unclear if Government will announce a Retail Relief scheme for 2021/22. Clarification on a future scheme is not expected to be made until the Budget announcements on 3rd March 2021.

46. The current expanded Retail and Leisure relief scheme was increased to 100% as a result of the Covid-19 Pandemic. The expanded relief is claimed by 1,813 retail and leisure properties in the City. The cost of these reliefs is met in full through a government grant so there is no cost to the City Premium.

Business Rates Supplement

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

Council Tax - Long-Term Property Premiums

48. For council tax purposes a property is defined as empty if it is unoccupied and substantially unfurnished. Property that is furnished is treated as a second home.

49. The empty property premium was introduced in 2013/14 to encourage landlords to bring long-term empty property back into use. The City introduced the long-term empty premium for the first time in 2019/20, with a premium increase of 100% and it is estimated that this has resulted in additional income of approximately £200,000.

50. In 2021/22 properties that have been empty over 5 years can be charged a higher premium of up to 200% and we estimate this could raise around £7,000. Properties empty over 10 years can now be charged a premium of 300%. The report recommends that the premium is increased to 300% for properties that remain empty for more than ten years. The City currently has 7 properties that would fall into this category and it is estimated that this would result in additional income of approximately £13,500.

Council Tax Reduction Scheme

51. 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.

52. The Council Tax Reduction Scheme will therefore remain the same for 2021/22 as was administered in previous years subject to the annual uprating of amounts in line with Housing Benefit applicable amounts.

Capital

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

54. Capital expenditure is primarily financed from capital reserves derived from the sale of properties, earmarked reserves and grants or reimbursements from third parties. The City has historically not borrowed any money to finance these schemes, although some borrowing in future years is now anticipated for the major projects. Financing is summarised in the table below.

Table 6: Capital Financing

	2020/21 £m	2021/22 £m
Estimated Capital Expenditure	**123.9**	**245.1**
Financing Sources:		
Housing Revenue Account (HRA)	6.2	3.1
Disposal Proceeds	50.7	126.5
Earmarked and General Revenue Reserves	18.4	40.4
External Grants and Reimbursements	48.6	75.1
External borrowing	-	-
Total:	**123.9**	**245.1**

55. The main areas of capital expenditure in 2021/22 are as follows:

- Major Projects – Museum of London (£47.6m)
- Major Projects – Salisbury Square (£32.3m)
- Housing Revenue Account – decent homes* (£29.4m)
- Housing Revenue Account – new build (£35.7m)
- Highways and Transport (£23.0m)
- Investment Property Refurbishments (£9.6m)
- New Bids – Climate Action (£8.4m) and Other (£22.1m)

*includes loan facility of £19.2m

56. In order to ensure capital expenditure is aligned to key priorities, the City Corporation's Resource Allocation Sub Committee has carried out a robust review of all service's annual capital bids and prioritised funding approval. The Resource Allocation Sub Committee has granted approval in principle to central funding for a number of new bids with a total estimated cost of £65.1m, of which £30.5m is expected to fall within 2021/22. In addition, approval in principle was granted to provide central funding for internal loans for the police and HRA capital spending plans, which amount to £4.9m and £19.2m respectively in 2021/22. Allowance has been made in the City Fund MTFP for all of these items to demonstrate affordability; financial provision will need to be included within the City Fund revenue and capital budgets as appropriate as part of the 2021/22 budget setting process.

57. City of London Police need to prioritise investment in their capital programme and the resourcing of new activities. New arrangements for financing the Capital Programme were introduced in 2020/21, with capital expenditure (excluding Secure City and the Police Accommodation programme) being funded through a loan arrangement between the City Corporation and the Force, with an annual borrowing cap of £5m. The Police repay this loan with interest.

58. The Local Government Act 2003 requires the City to set prudential indicators as part of the budget setting process. The indicators that the Court of Common Council will be asked to set are:

- Ratio of financing costs to net revenue stream (City Fund and HRA)
- Gross debt and the capital financing requirement
- Estimates of capital expenditure 2021/22 to 2023/24
- Estimates of the capital financing requirement 2021/22 to 2023/24
- Times cover on Unencumbered Revenue Reserves.

59. The prudential indicators listed above have been calculated in appendix C. In addition, treasury-related prudential indicators are required to be set, and these are included within the 'Treasury Management Strategy Statement and Investment Strategy Statement 2021/22' at Appendix E.

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

61. Local authority borrowing is permitted for capital purposes within the current capital control regime, but the cost of borrowing must be charged to the relevant revenue budget, including interest and a statutory provision for repayment of principal known as the Minimum Revenue Provision (MRP). The MRP Policy Statement 2021/22 is set out in appendix 2 within the Treasury Management Strategy Statement and Investment Statement 2021/22 at appendix D. The typically long-term nature of borrowing means these revenue sums are unavailable to fund other activity for a significant period of time. By agreeing to fund capital schemes through borrowing, Members are agreeing to divert this funding away from other revenue activity in order to deliver the major projects. Borrowing can either be internal (use of internal cash balances) or external (third party loan finance).

62. Funding for the major projects is currently planned to come from external contributions, retained rates growth monies and property disposal proceeds, rather than external loans from third parties. However, there is an interim requirement for internal borrowing utilising City Fund general cash balances – effectively a bridging facility pending receipts from disposal of investment properties. Such short-term internal borrowing does not require an MRP to be made.
63. In addition, the funding of some other capital schemes is being met from cash received from long lease premiums which are deferred in accordance with accounting standards - this also counts as internal borrowing. To ensure that this cash is not 'used again' when the deferred income is released to revenue, the City Corporation will make a MRP equal to the amount released, resulting in an overall neutral impact on the revenue account bottom line.

Robustness of Estimates and Adequacy of Reserves and Contingencies

64. Section 25 of the Local Government Act 2003 requires the Chamberlain to report on the robustness of estimates and the adequacy of reserves underpinning the budget proposals.

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

- provision has been made for all known liabilities, together with indicative costs (where identified) of capital schemes yet to be evaluated, but continue to monitor COVID income risk during 21/22 and maintain a COVID contingency fund, not releasing £30m of general fund reserves for major project spend;
- the estimates and financial forecast have been prepared at this stage on the basis of the Corporation remaining debt free until such time as external borrowing may be needed to bridge the gap for major capital projects (the Museum of London relocation and the Combined Courts project);
- prudent assessments have been made regarding key assumptions;
- an annual capital bids process is in place seeking to ensure that capital expenditure is contained within affordable limits and that it can be demonstrated that each project is of the highest corporate priority;
- although the City Fund financial position is vulnerable to COVID income losses, rent levels and interest rates, it should be noted that:
    - the City Surveyor has carried out an in-depth review of rent incomes; and
    - the assumed interest rate remains low across the planning period;
- a strong track record in achieving budgets gives confidence on the robustness of estimates; and
- balancing 2021/22 with ‘one-off’ measures will give more time to implement the new Target Operating Model, enabling the creation of a build back better fund to deliver against our ambitions and financial objectives.

66. An analysis of usable City Fund Reserves is set out in Appendix C. Depletion of City Fund reserves is a consideration for the medium-term: although reserve balances are forecast to remain healthy in 2021/22, the potential call on reserves to support revenue and capital expenditure beyond 2021/22 reinforces the need for future savings and income generation.

67. In assessing the adequacy of contingency funds, the Chamberlain has reviewed the allocation and expenditure of contingency funds over the past four years and concluded that the estimates are robust. This takes account of the Finance Committee contingencies, the Policy and Resources Committee contingency and the Policy Initiatives Fund. In each of the past four years the provision of funds has been more than sufficient resulting in an uncommitted balance for each contingency fund in each year. On this basis the existing contingency provision will remain unchanged for 2021/22. A full analysis of contingency fund provision and expenditure is provided in Appendix I.

Risks- Summary

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

Within the City Corporation's control:

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

Outside the City Corporation's control:

- The effect of the COVID-19 has had a wide-ranging impact on the economy, including income losses from the closure of many services and facilities, and losses from rental income. With another national lockdown, foreseeable delays in the economic recovery continue to be a significant risk for further income losses in 2021/22;
- Business Rates income - volatility around the growth forecasts and appeals, dependent on full occupation of new builds; and
- Fair Funding review which could affect government support to fund services.

Equalities Implications

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

Conclusion

70. There has been a significant effort across Corporation family to commit to delivering on 12% savings required to get us to a balanced 21/22 budget and on track for sustainable MTFP. But this is only the 'end of the beginning'; there is a big task still ahead to secure future savings ('flightpath') and to manage the significant remaining COVID risks and unprecedented range of external challenges e.g. Spending Review, Business Rates and Brexit implications.

71. There are risks to the achievement of the 2021/22 budget position and MTFP, in particular income volatility impact from COVID; and tough decisions have been needed. But, Members have worked together to mitigate impact on vital front line services in social care, rough sleeping and support to our academies.

72. Delivering the 2021/22 budget enables us to push ahead on reshaping City Corporation, through the TOM, to be able to respond in a more agile and flexible way to the challenges ahead.

Appendices

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

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Calculating Council Tax

Appendix A

Determination of the Council Tax Requirement

- The 1992 Act prescribes detailed calculations that the City, as billing authority, has to make to determine Council Tax amounts. The four steps are shown in below. Although the process is somewhat laborious, it is a legislative requirement that these separate amounts be formally determined by resolutions of the Court of Common Council.
- After allowing for a proposed contribution to reserves, the final City Fund Council Tax requirement for 2021/22 is £7.8m. In accordance with the provisions in the Localism Act 2011, the Council Tax requirement allows for the Formula Grant, the City Offset, the City's Rate Premium and the estimated surplus on the Collection Fund at 31 March 2021.
- As detailed in Appendix A, the City's proposed Council Tax for 2021/22 at band D would be £952.91, before adding the Greater London Authority (GLA) precept and inclusive of a 3% increase for the Adult Social Care precept. To determine the City's Council Tax for each property band, nationally fixed proportions are applied to the average band D property.
- The GLA's 'provisional' precept for 2021/22 is £96.53 for a Band D property. This excludes the Metropolitan Police requirement and represents an increase of £16.59p compared with 2020/21.
- The total amounts of Council Tax for each category must be set by the City before 11 March. The proposed amounts are shown below.

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	635.27	741.15	847.03	952.91	1164.67	1376.43	1588.18	1905.82
GLA	64.35	75.08	85.80	96.53	117.98	139.43	160.88	193.06
Total	699.62	816.23	932.83	1049.44	1282.65	1515.86	1749.06	2098.88

- It is anticipated that the City's total Council Tax will remain one of the lowest in London. The Court of Common Council will be requested to formally determine that the relevant (net of local precepts and levies) basic amount of Council Tax for 2021/22 will not be excessive in relation to the new referendum requirements for any council tax increases.

Temple Precepts

	2020/21	**2021/22**
	£	**£**
Inner Temple	223,634	221,448
Middle Temple	160,559	158,481
Total:	**384,193**	**379,929**

Calculation of 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:

$$\text{'B1'} = \frac{£7,784,931.65}{8,169.64}$$

'B'1 = £952.91

Note: Item R consists of the following components:

	£	£
City Fund Net Budget Requirement		161,559,574
Less:		
Business Rates Retention	(52,290,000)	
Police Grant	(70,174,385)	
City's Offset	(12,064,000)	
Estimated Non-Domestic Rate Premium (Net)	(18,600,000)	
Estimated Collection Fund Surplus as at 31 March 2021 (City's share)	(646,257)	(153,774,642)
TOTAL COUNCIL TAX REQUIREMENT ®		**7,784,932**

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' – <u>A</u>

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:

$$‘B2’ = £952.91 - \frac{£21,186,928.70}{8,169.64}$$

‘B2’ = £1,640.46 CR

Note: Item A consists of the following components:

	£	£
Highways Net Expenditure	9,049,000.00	
Street Cleansing	6,924,000.00	
Waste Collection	2,569,000.00	
Waste Disposal	1,335,000.00	
Road Safety	414,000.00	
Drains and Sewers	516,000.00	
Total City’s Special Expenses		20,807,000.00
Inner Temple’s Precept	221,447.86	
Middle Temple’s Precept	158,480.84	379,928.70
Total Special Items		21,186,928.70

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

$$‘B3’ = £1{,}640.46\ CR + \frac{£20{,}807{,}000}{8{,}023.14}$$

$$‘B3’ = £952.91$$

Inner Temple

$$‘B3’ = £1{,}640.46\ CR + \frac{£221{,}447.86}{85.39}$$

$$‘B3’ = £952.91$$

Middle Temple

$$‘B3’ = £1{,}640.46\ CR + \frac{£158{,}480.84}{61.11}$$

$$‘B3’ = £952.91$$

Step Four

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

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

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

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

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

Council Tax per Property Band: calculated by applying nationally fixed proportions from Band D.

	£							
	A	B	C	D	E	F	G	H
Proportion	6	7	8	9	11	13	15	18
CoL	635.27	741.15	847.03	952.91	1164.67	1376.43	1588.18	1905.82
GLA	64.35	75.08	85.80	96.53	117.98	139.43	160.88	193.06
Total	699.62	816.23	932.83	1049.44	1282.65	1515.86	1749.06	2098.88

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Reserves

Forecast Movements in City Fund Usable Reserves 2021/22	Notes	Estimated Opening Balance 1 Apr 2021 £m	Forecast Net Movement in Year £m	Estimated Closing Balance 31 Mar 2022 £m
Revenue Usable Reserves				
General Reserve	a	20.0	-	20.0
Earmarked				
Major Projects Financing Reserve	b	94.3	(13.8)	80.5
Police Future Expenditure	c	0.0	-	0.0
Highways Improvements	d	30.0	8.2	38.2
VAT Reserve	e	4.2	-	4.2
Proceeds of Crime Act	f	0.0	-	0.0
Judges Pensions	g	1.1	-	1.1
Public Health	h	0.8	-	0.8
Renewals and Repairs	i	0.5	-	0.4
Service Projects	j	5.5	-	10.2
Total Revenue Earmarked		156.4	(5.6)	150.8
Housing Revenue Account (HRA)	k	(0.4)	(0.1)	(0.5)
Total Revenue Usable Reserves		**156.0**	**(5.7)**	**150.3**
Capital Usable Reserves				
Capital Receipts Reserve	l	102.4	(29.0)	73.4
Capital Grants Unapplied	m	20.7	(14.1)	6.6
HRA Major Repairs Reserve	k	0.2	0.0	0.2
Total Capital Usable Reserves		**123.3**	**(43.1)**	**80.2**
Total Usable Reserves		**279.3**	**(48.8)**	**230.5**

Notes

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

b. Major Projects Financing Reserve – This reserve will contain the balance of the general reserve above £20m to fund investment in major projects, either as a direct revenue contribution or to generate income to fund revenue costs.

c. Police Reserve - Revenue expenditure for the City Police service is cash limited. Underspends against this limit may be carried forward as a reserve to the following financial year and overspends are required to be met from this reserve.

d. Highway Improvements - Created from on-street car parking surpluses to finance future highways related expenditure and projects as provided by section 55 of the Road Traffic Regulation Act 1984, as amended by the Road Traffic Act 1991.

e. VAT Reserve – Should the City Corporation no longer be able to recover VAT incurred on exempt services as a result of exceeding the 5% partial exemption threshold, this reserve will be the first call for meeting the associated costs.

f. Proceeds of Crime Act – Cash forfeiture sums awarded to the City. Under the guidelines of the scheme, the funds must be ringfenced for crime reduction initiatives.

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

h. Public Health - established from ring-fenced grant allocations. The grant must be used on activities whose main or primary purpose is to improve the public health of local populations.

i. Renewals and Repairs – Sums obtained on the surrender of headleases and set aside to fund cyclical maintenance and repair works to the property and void costs.

j. A number of reserves for service specific projects and activities where the balance on each individual reserve is less than £0.5m have been aggregated under this generic heading.

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

l. The 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.

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

Appendix C

PRUDENTIAL INDICATORS

The following Prudential Indicators (and those included in Appendix (E) have been calculated in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities. In addition, a local indicator has been calculated to reflect the City's particular circumstances. Those indicators relating to estimates for the financial years 2021/22, 2022/23 and 2023/24 (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

	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Revised	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
HRA	0.71	0.29	0.26	0.24	**0.24**	**0.30**	**0.35**
Non-HRA	(0.40)	(0.49)	(0.46)	(0.30)	**(0.27)**	**(0.30)**	**(0.32)**
Total	(0.29)	(0.41)	(0.39)	(0.26)	**(0.23)**	**(0.25)**	**(0.26)**
At this time last year	*(0.29)*	*(0.04)*	*(0.35)*	*(0.42)*	*(0.33)*	*(0.18)*	-

This ratio is intended to represent the extent to which the net revenue consequences of capital financing and borrowing impact on the net revenue stream. Since the City Fund is currently a net lender in its Treasury operations and is in receipt of significant rental income from investment properties, the Non-HRA and Total ratios are usually negative. The fall in the Non-HRA ratios since 2019/20 reflects the reduction in investment income as a proportion of total revenue streams. The increase in HRA ratios from 2022/23 reflect the additional cost of internal borrowing to fund the HRA programme of capital works necessary to maintain the housing estates.

Prudential Indicator of Prudence

Gross Debt and the Capital Financing Requirement

Table 2

	Period 2020/21 to 2023/24
	£m
Gross External Debt	**13.302**
Capital Financing Requirement	**299.071**

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 2020/21 to 2023/24. The current plans for funding of the capital programme, including the major projects, do not anticipate any new external borrowing.

Prudential Indicators for Capital Expenditure and External Debt

Estimate of Capital Expenditure

Table 3

	2017/18 Actual £m	2018/19 Actual £m	2019/20 Actual £m	2020/21 Revised £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
HRA	6.974	10.854	10.867	**30.874**	**65.125**	**32.398**	**0.000**
Non-HRA	42.58	67.199	41.874	**93.041**	**179.993**	**201.331**	**232.469**
Total	49.549	78.053	52.741	**123.915**	**245.118**	**233.729**	**232.469**
At this time last year	*49.549*	*117.122*	*91.043*	*150.767*	*333.252*	*322.906*	-

This indicator is based on the capital budget, augmented to reflect the indicative cost of schemes which have been approved in principle but have yet to be formally agreed for progression. It should be noted that the figures represent gross expenditure and that a number of schemes are wholly or partially funded by external contributions. Comparisons with the figures calculated at this time last year are generally reflective of the re-phasing of capital expenditure, including more robust estimates relating to the major projects.

Estimate of the Capital Financing Requirement

Table 4

	2017/18 Actual £m	2018/19 Actual £m	2019/20 Actual £m	2020/21 Revised £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
HRA	0.000	0.000	0.000	**0.000**	**19.227**	**29.746**	**28.211**
Non-HRA	44.590	43.592	46.386	**64.877**	**104.755**	**232.140**	**270.860**
Total	44.590	43.592	46.386	**64.877**	**123.982**	**261.886**	**299.071**
At this time last year	*48.095*	*46.945*	*38.355*	*56.458*	*317.197*	*420.610*	-

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, from 2021/22 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 accordance with the guidance contained in the Prudential Code, the ‘Actual’ indicators are calculated directly from the Balance Sheet, whilst the method of calculating the HRA and Non-HRA elements is prescribed under Statute.

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

Local Indicators

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

Times Cover on Unencumbered Revenue Reserves

Table 5

	2020/21	2021/22	2022/23	2023/24
Times cover on unencumbered revenue reserves	**+35.4**	**+8.4**	**-13.1**	**-70.0**
At this time last year	7.1	3.9	1.1	-

This indicator is calculated by dividing the balance of forecast unencumbered general reserves by annual revenue deficits(-)/surpluses(+). For 2020/21 and 2021/22 revenue surpluses are forecast, with annual deficits from 2022/23 as the benefits of business rates retained growth ends. The revenue position is forecast to be much improved by 2023/24 as savings from the fundamental review are fully realised and incomes improve, albeit partially offset by the impact of major project financing.

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TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY

2021/22

Issue Date: 09/02/2021
Agreed by Court of Common Council: XX/XX/XXXX

Treasury Management Strategy Statement and Annual Investment Strategy 2021/22

1. Introduction

1.1. Background

The City of London Corporation (the City) is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the City's low risk appetite, providing adequate liquidity initially before considering investment return.

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

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. CIPFA Requirements

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by the Court of Common Council (the Court) on 3 March 2010. The Code of Practice was revised in November 2017.

The primary requirements of the Code are as follows:

(i) The City of London Corporation will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

(ii) This organisation (i.e. the Court of Common Council) will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

(iii) The Court of Common Council delegates responsibility for the implementation and regular monitoring of its treasury management policies to the Finance Committee and the Financial Investment Board; the execution and administration of treasury management decisions is delegated to the Chamberlain, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

(iv) The Court of Common Council nominates the Audit and Risk Management Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

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

1.4. Treasury Management Strategy for 2021/22

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 7 of this report) and to prepare an Annual Investment Strategy (section 8 of this report). The Investment Strategy sets out the City's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2021/22 in respect of the required aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the City's treasury adviser, Link Asset Services, Treasury Solutions.

The strategy covers:

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy
- the current treasury position
- treasury indicators which limit the treasury risk and activities of the City
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers.

These elements cover the requirements of the local Government Act 2003, the CIPFA Prudential Code, the MHCLG MRP Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

2. Capital Expenditure Plans and Prudential Indicators

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 2021/22 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.

2.1. Estimate of Capital Expenditure and Financing (City Fund)

Table 1	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Expenditure:					
Non-HRA	41.9	93.0	180.0	201.3	232.5
HRA	10.8	30.9	65.1	32.4	-
Total	**52.7**	**123.9**	**245.1**	**233.7**	**232.5**
Financed by:					
Capital grants	17.0	48.6	75.1	52.9	38.5
Capital reserves	18.3	50.7	65.7	5.8	127.4
Revenue	17.4	24.6	43.5	35.4	27.6
Total	**52.7**	**123.9**	**184.3**	**94.1**	**193.5**
Net financing need:	**-**	**-**	**60.8**	**139.6**	**39.0**

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 1), will increase the CFR.

2.2. Estimate of the Capital Financing Requirement (City Fund)

Table 2	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Non-HRA	45.3	64.9	104.8	232.1	270.9
HRA	0	0	19.2	29.8	28.2
Total	**45.3**	**64.9**	**124.0**	**261.9**	**299.1**

2.3. Minimum Revenue Provision (City Fund)

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used. The City's MRP Policy is detailed in Appendix 2.

2.4. City's Cash

As with the City Fund, any capital expenditure incurred by City's Cash which has not immediately been paid for through a revenue or capital resource, will increase the

City's Cash borrowing requirement. Table 3 summarises the planned City's Cash borrowing over the next few years.

2.5. City's Cash Borrowing

Table 3	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Borrowing	£250m	£250m	£450m	£450m	£450m

As with the MRP for the City Fund, borrowing for City's Cash will be reduced gradually over time through the application of a debt financing reserve as set out in the City's Cash Borrowing Policy Statement (Appendix 8).

3. Current Portfolio Position

The City's treasury portfolio position at 31 December 2020 comprised:

Treasury Portfolio				
	Actual	Actual	Current	Current
	31/03/20	31/03/20	31/12/20	31/12/20
Treasury investments	£m	%	£m	%
Banks	£475.5	47%	£460.0	44%
Building societies (rated)	£28.4	3%	£25.0	2%
Local authorities	£111.0	11%	£75.0	7%
Liquidity funds	£184.8	18%	£266.8	25%
Ultra-short dated bond funds	£65.0	6%	£85.0	8%
Short dated bond funds	£150.0	15%	£150.0	14%
Total treasury investments	**£1,014.7**	100%	**£1,061.8**	100%
Treasury external borrowing				
Long term market debt (City's Cash)	£250.0	100%	£250.0	100%
Total external borrowing	£250.0	100%	**£250.0**	**100%**

The overall weighted average rate of return on investments was 0.83% as at 31 December 2020 compared to 0.63% as at 31 March 2020.

4. Treasury Indicators for 2021/22 – 2023/24

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

5. Prospects for Interest Rates

The City of London has appointed Link Asset Services (Link) as its treasury advisor and part of their service is to assist the City to formulate a view on interest rates. Appendix 1 draws together a number of forecasts for both short term (Bank Rate – 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 2021	0.10	0.80	1.10	1.50	1.30
Jun 2021	0.10	0.80	1.10	1.60	1.40
Sep 2021	0.10	0.80	1.10	1.60	1.40
Dec 2021	0.10	0.80	1.10	1.60	1.40
Mar 2022	0.10	0.90	1.20	1.60	1.40
Jun 2022	0.10	0.90	1.20	1.70	1.50
Sep 2022	0.10	0.90	1.20	1.70	1.50
Dec 2022	0.10	0.90	1.20	1.70	1.50
Mar 2023	0.10	0.90	1.20	1.70	1.50
Jun 2023	0.10	1.00	1.30	1.80	1.60
Sep 2023	0.10	1.00	1.30	1.80	1.60
Dec 2023	0.10	1.00	1.30	1.80	1.60
Mar 2024	0.10	1.00	1.30	1.80	1.60

The Coronavirus outbreak has had a highly significant impact on the UK economy and economies around the world. The Bank of England took emergency action in March 2020 to reduce Bank Rate to 0.25% and then to 0.10%; the Governor of the Bank of England has made it clear that negative rates will do more damage than good and quantitative easing is favoured instead. The forecasts above show that no increase in Bank Rate is expected as the economic recovery is expected to be gradual and therefore prolonged.

Gilt yields spiked during March and since have fallen sharply to unprecedented lows as investors moved into safe haven assets. However major western central banks took rapid action and started quantitative easing purchases of government bonds. This acted by putting downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

As shown above there is expected to be little upward movement in PWLB rates over the next two years as it will take economies a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

Investment and borrowing rates

- Investment returns are likely to remain exceptionally low during 2021/22 with little increase in following two years.
- Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England. Borrowing rates have also been impacted by changes in Government policy. In October 2019, the Government increased the margin above Gilts that is used to set PWLB lending rates by 1%. The Government consulted on the future lending arrangements of the PWLB in 2020 and following the conclusion of the consultation the margin above gilts applied to new loans was reduced by 1%, restoring the status quo ante. However, alongside this change, a new prohibition was introduced on using PWLB borrowing to fund commercial investments: any local authority whose capital programme for the following three years includes plans to purchase assets for yield is now unable to borrow from the PWLB, with effect from 26 November 2020.
- Because borrowing rates are expected to be higher than investment rates, any new borrowing undertaken by the City will have a “cost of carry” (the difference between higher borrowing costs and low investment returns) which will cause a temporary increase in cash balances and will most likely incur a revenue cost.

6. 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.

7. Borrowing Strategy

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

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

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

7.1. City Fund

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

Therefore, against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Chamberlain will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. For example,

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates,* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

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

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

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

- The **authorised limit for external debt** is the maximum threshold for external debt for over 2021/22, 2022/23 and 2023/24. 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 2021/22 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 limit for all borrowing (i.e. both fixed rate and variable debt), and the proposed limits are detailed in Appendix 2.

7.2. City's Cash

The capital expenditure plans for City's Cash also create a borrowing requirement. City's Cash has issued fixed rate market debt totalling £450m to fund its capital programme. Of this total, £250m was received in 2019/20 and the remaining £200m will be received in 2021/22. It is not anticipated that any new external borrowing will be acquired by City's Cash in 2021/22. However, the Chamberlain will keep this position under review and in doing so will have regard for liquidity requirements, interest rate risk and the implications for the revenue budget.

The regulatory framework established through the CIPFA professional codes and MHCLG guidance pertains to the City's local authority function, the City Fund. To facilitate effective management of the City's Cash borrowing requirement, this organisation has adopted the City's Cash Borrowing Policy Statement (Appendix 8), which sets out the principles for effectively managing the risks arising from borrowing on behalf of City's Cash. Under this framework, the City has resolved to establish two further treasury indicators, which will help the organisation to ensure its borrowing plans remain prudent, affordable and sustainable:

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

The proposed indictors for 2021/22 are set out in Appendix 2 alongside the City Fund treasury indicators.

7.3. Policy on borrowing in advance of need

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

7.4. Debt rescheduling

The City does not anticipate any debt rescheduling in the near term. However, should any opportunities for debt rescheduling arise (through a decrease in borrowing rates, for instance), such cases will need to be considered in the context of the current treasury position and the size of the cost of debt repayment (i.e. any penalties incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;

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

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

7.5. Sources of borrowing

Historically, the main source of borrowing for UK local authorities has been the PWLB. Any new loans issued by the PWLB are subject to the PWLB's revised lending arrangements with effect from 26 November 2020. Currently the PWLB Certainty Rate is set at gilts + 80 basis points for new loans. Local authorities have recourse to other sources of external borrowing including financial institutions, other local authorities and the Municipal Bonds Agency.

8. Annual Investment Strategy

8.1. Investment Policy

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

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

The City's investment priorities are:

(a) security; and

(b) liquidity.

The City will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the City is low in order to give priority to 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 MHCLG and CIPFA, and in order to minimise the risk to investments, the City applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the City will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. Investment instruments identified for use in the financial year are listed in Appendix 3 under the ‘specified’ and ‘non-specified’ investments categories.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.

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

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

8.2. Creditworthiness policy

The primary principle governing the City’s investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the City will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the City’s prudential indicators covering the maximum principal sums invested.

The Chamberlain will maintain a counterparty list in compliance with the following criteria and will revise these criteria and submit them to the Financial Investment Board for approval as necessary. These criteria are separate to those which determine which types of investment instruments are classified as either specified or non-specified as it provides an overall pool of counterparties considered high quality which the City may use, rather than defining what types of investment instruments are to be used.

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

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

All credit ratings will be monitored 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.

- UK Government – including government gilts and the debt management agency deposit facility.

- Local authorities

A limit of £500m will be applied to the use of non-specified investments.
***European Money Market Reform.** Under EU money market reforms implemented in 2018/19, three new classifications of money market funds have been created:

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

Variable Net Asset Value ("VNAV") MMFs – price assets using market pricing and therefore offer a fluctuating dealing net asset value

8.3. 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

8.4. Time and monetary limits applying to investments.

The time and monetary limits for institutions on the Council'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

*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.

8.5. 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.

8.6. 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.

8.7. 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: Bank Rate is unlikely to rise from 0.10% for a considerable period given underlying economic expectations. In these circumstances it is likely that investment earnings from money market-related instruments will be below 0.50% for the foreseeable future. Bank Rate forecasts for financial year ends (March) are:

- 2020/21 0.10%
- 2021/22 0.10%
- 2022/23 0.10%
- 2023/24 0.10%
- 2024/25 0.25%

The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations.

8.8. Investment Treasury Indicator and Limit

Total principal funds invested for greater than 365 days are subject to a limit, set with regard to the City's liquidity requirements and to reduce the need for an early sale of an investment, and are based on the availability of funds after each year end. The Board is asked to approve the treasury indicator and limit:

Maximum principal sums invested for more than 365 days (up to three years)			
	2020/21 £M	2021/22 £M	2022/23 £M
Principal sums invested >365 days	500	500	500

8.9. Investment performance benchmarking

The City will monitor investment performance against Bank Rate and 3- and 6-month London Interbank Bid Rate (LIBID). The City is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to Members accordingly.

8.10. End of year investment report

At the end of the financial year, the City will report on its investment activity as part of its Annual Treasury Report.

8.11. External fund managers

A proportion of the City's funds, amounting to £501.8m as at 31 December 2020, 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.

9. Policy on the use of external service providers

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

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

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

10. Scheme of Delegation

Please see Appendix 6.

11. Role of the Section 151 officer

Please see Appendix 7.

12. Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. The training needs of members and treasury management officers are periodically reviewed. Training was most recently undertaken by Members in February 2019.

APPENDICES

1. Interest Rate Forecasts 2021-2024
2. Treasury Indicators 2021/22 – 2023/24 and Minimum Revenue Provision Statement
3. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
4. Current Approved Counterparties
5. Approved Countries for Investments
6. Treasury Management Scheme of Delegation

7. The Treasury Management Role of the Section 151 Officer

8. City's Cash Borrowing Policy Statement

LINK INTEREST RATE FORECASTS 2021 – 2024

Link Group Interest Rate View 9.11.20 These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

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

TREASURY INDICATORS 2021/22 – 2023/24 AND MINIMUM REVENUE PROVISION STATEMENT

TABLE 1: TREASURY MANAGEMENT INDICATORS	2019/20	2020/21	2021/22	2022/23	2023/24
	actual	probable outturn	estimate	estimate	estimate
	£m	£m	£m	£m	£m
Authorised Limit for external debt (City Fund) -					
Borrowing	145.3	164.9	224.0	361.0	399.1
other long-term liabilities	13.8	13.7	13.5	13.4	12.2
TOTAL	**113.8**	**178.6**	**237.5**	**375.3**	**411.3**
Operational Boundary for external debt (City Fund) -					
Borrowing	45.3	64.9	124.0	261.0	299.1
other long-term liabilities	13.8	13.7	13.5	13.4	12.2
TOTAL	**13.8**	**78.6**	**137.5**	**275.3**	**311.3**
Actual external debt (City Fund)*	0	0			
Upper limit for total principal sums invested for over 365 days (per maturity date)	£300m	£500m	£500m	£500m	£500m

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

TABLE 2: Maturity structure of borrowing during 2020/21	upper limit	lower limit
- under 12 months	50%	0%
- 12 months and within 24 months	50%	0%
- 24 months and within 5 years	50%	0%
- 5 years and within 10 years	75%	0%
- 10 years and above	100%	0%

TABLE 3: CITY'S CASH BORROWING INDICATORS	2019/20	2020/21	2021/22	2022/23	2023/24
	actual	probable outturn	estimate	estimate	estimate
	%	%	%	%	%
Estimates of financing costs to net revenue stream	5.1%	6.8%	11.1%	12.0%	10.9%
	£m	£m	£m	£m	£m
Overall borrowing limits	125	250	250	450	450

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2021/22

To ensure that capital expenditure funded by borrowing is ultimately financed, the City Fund is required to make a Minimum Revenue Provision (MRP) when the Capital Financing Requirement (CFR) is positive. A positive CFR is indicative of an underlying need to borrow and will arise when capital expenditure is funded by ‘borrowing’, either external (loans from third parties) or internal (use of cash balances held by the City Fund).

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

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

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

As in previous years, the City will continue to apply a separate MRP policy for that portion of the CFR which has arisen through the funding of capital expenditure from cash received from long lease premiums which are deferred in accordance with accounting standards. This deferred income is released to revenue over the life of the leases to which it relates, typically between 125 and 250 years.

The City’s MRP policy in respect of this form of internal borrowing is based on a mechanism to ensure that the deferred income used to finance capital expenditure is not then ‘used again’ when it is released to revenue. The amount of the annual MRP is therefore to be equal to the amount of the deferred income released, resulting in an overall neutral impact on the bottom line.

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

The MRP liability for 2020/21 is £1.1m and is estimated at £1.1m for 2021/22.

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 £500m 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*

*Short Dated Bonds Funds are buy and hold investments with no pre-determined maturity at time of funding, liquidity access is typically T + 3 or 4.

APPENDIX 4

APPROVED COUNTERPARTIES AS AT 31 DECEMBER 2020

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 (RFB) HSBC (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) 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	£260Bn	£100M	Up to 3 years
A-	F1	Yorkshire	£44Bn	£20M	Up to 1 year
A-	F1	Coventry	£50Bn	£20M	Up to 1 year
A-	F1	Skipton	£25Bn	£20M	Up to 1 year
A-	F1	Leeds	£21Bn	£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	£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
A+	**F1+**	Svenska Handelsbanken	£100M	Up to 3 years

MONEY MARKET FUNDS

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

ULTRA SHORT DATED BOND FUNDS

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

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

SHORT DATED BOND FUNDS

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

LOCAL AUTHORITIES

LIMIT OF £25M PER AUTHORITY AND £250M OVERALL
Any UK local authority

APPROVED COUNTRIES FOR INVESTMENT

This list is based on those countries which have sovereign ratings of AAA and AA+ as at 11 January 2021.

AAA

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

AA+

- Canada
- Finland

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:

(i) Court of Common Council

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

(ii) Financial Investment Board and Finance Committee

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

(iii) Audit & Risk Management Committee

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

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The Chamberlain

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

APPENDIX 8

CITY'S CASH BORROWING POLICY STATEMENT

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

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

3. To ensure that the benefits of capital expenditure are matched against the costs, a debt financing reserve will be established.

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

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

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

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

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

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

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

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

    - Estimates of financing costs to net revenue stream

    - Overall borrowing limits

Appendix E

DRAFT CAPITAL STRATEGY
Financial Years 2021/22 to 2024/25

INTRODUCTION AND BACKGROUND

1. This Capital Strategy is an overarching document which sets the policy framework for the development, management and monitoring of capital investment. The strategy focuses on core principles that underpin the City Corporation's capital programme. In particular it covers:

   - the short, medium and longer-term objectives;
   - the key issues and risks that will impact on the delivery of the programme;
   - and the governance framework in place to ensure the capital programme is delivered and provides value for money.

2. This capital strategy aligns with the priorities set out in the City Corporation's Corporate Plan and other key strategy documents such as those covering the investment estates.

3. The strategy is integrated with the medium-term financial plan and treasury management strategy.

4. The Court of Common Council will agree the capital strategy and programme at least annually and as necessary in the event of a significant change in circumstances.

CORE PRINCIPLES THAT UNDERPIN THE CAPITAL PROGRAMME

5. The key principles for the capital programme are summarised below and shown in more detail as Annex A.

6. Capital investment decisions reflect the aspirations and priorities included within the City Corporation's Corporate Plan and supporting strategies.

7. Schemes to be included in the capital programme will be subject to a gateway process overseen by Project Sub Committee. The only exception to this is for the major projects that are dealt with by Capital Buildings Committee and Policy and Resources Committee and investment property acquisitions and disposals which are overseen by Property Investment Board. This oversight includes feasibility and option appraisal costs which are classified as supplementary revenue project expenditures. All schemes are prioritised according to availability of resources and scheme specific funding, and factors such as legal obligations, health and safety considerations and their longer-term impact on the City Corporation's financial position.

8. A key consideration is affordability of the capital programme in terms of the City's Medium-Term Financial Plan. In any programme presented to

Members for agreement this issue will have been considered and, where resources are limited, new bids must be prioritised to ensure the best use of available funds.

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

GOVERNANCE FRAMEWORK

10. The City Corporation in its local authority capacity is required to agree the capital strategy annually in accordance with the Prudential Code. To be consistent with the City Corporation's Treasury Management Strategy Statement the capital strategy for City's Cash is being reported on the same basis. For the time being, capital plans of the Bridge House Estates Trust are excluded pending the outcome of the Bridge House Estates Governance review, although the general principles and framework described in this document will apply.

11. The impact of the capital programmes for each fund, including the major projects and new schemes approved via the annual bid process is incorporated into the medium-term financial plans to demonstrate affordability, sustainability and prudence.

12. To assist in the resource allocation process, project proposals are prioritised and categorised, with only essential schemes within the following criteria being considered for central funding:

- health and safety or statutory requirements
- substantially reimbursable
- spend to save/income generating (payback within 5 years)

- major renewals of income generating assets
- must address a risk on the Corporate Risk Register or that would otherwise be escalated to the register e.g. replacement of critical end of life assets, schemes required to deliver high priority policies and schemes with high reputational impact
- must have a sound business case clearly demonstrating the negative impact of the scheme not going ahead such as material penalty costs or loss of income

In preparation for the 2021/22 annual budget, the annual capital bids for new funding from 2021/22 have been agreed in principle in accordance with the process introduced to facilitate the strategic allocation of resources to the highest priority schemes.

13. Projects are one of the key ways that the City Corporation delivers its strategic aims and priorities. The City Corporation is committed to ensuring that projects are delivered efficiently and that the best use is made of the

resources available to the organisation. Approval of projects is the responsibility of the Policy and Resources Committee through its Project Sub-Committee, which scrutinises individual projects, and the Resource Allocation Sub-Committee, which considers the overall programme of project activity and funding. Decisions about projects are made in conjunction with service committees and the Court of Common Council (for high value projects). Major Projects are managed directly through the Capital Buildings Committee or Policy and Resources Committee.

14. Where the Town Clerk considers a scheme has policy implications, or where the Policy and resources Committee has indicated it wishes to consider a particular project further, project reports will also be submitted to that Committee.

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

16. The gateway process is contained in the Project Procedure, which is approved by the Policy and Resources Committee and the Court of Common Council. It applies to all projects over £50,000. The Town Clerk monitors the progress of reports from start to finish and project managers maintain information about the progress of projects on the Project Vision system. Project Boards are usually established for individual projects, particularly those that require officers from a number of departments to deliver them.

17. Inclusion of schemes in the capital programme is subject to agreement by the relevant City Corporation committees which, depending on value, will include the Court of Common Council.

18. All projects progressing to the capital programme comply with standing orders, financial regulations, project procedure (with the exception of the major projects under the control of the Capital Buildings Committee), procurement code and rules - and are subject to confirmation of funding.

<u>SHORT, MEDIUM AND LONG-TERM CAPITAL PLANNING OBJECTIVES</u>

19. The City Corporation maintains an approved capital programme that covers a five-year period which is approved by the Court of Common Council as part of the annual budget setting process.

20. Going forward the intention is to extend the capital programme over a longer term, especially with regard to the major projects, to aid in the financial planning process. Planning the capital programme over a ten-year period will ensure that the City Corporation does not over-commit to a capital programme that is not affordable, sustainable and prudent.

21. The impact of the major projects on available funding over the medium to long term will be significant and it will be a requirement to prioritise the remaining capital spend to make best use of the limited resources that will be available.

22. The City Corporation has substantial operational property and investment property portfolios. Strategic plans are produced for each fund for the investment properties which are agreed by Property Investment Board. Social Housing properties are overseen by the Community and Children's Services Committee. Other operational properties are overseen by Corporate Asset Sub Committee within the framework of the corporate property asset management plan.

23. Such a sizeable property portfolio requires significant capital and revenue investment to maintain it and in the case of the investment property to maximise the returns. These schemes are therefore likely to make ongoing major calls on the City Corporation's limited capital resources.

24. To assist with managing this commitment the City Corporation has conducted a fundamental review to focus capital investment on priorities and is also in the process of streamlining its activities in line with a target operating model. This is expected to result in the identification of surplus assets through rationalisation of the operational property estate.

<u>CAPITAL INVESTMENT PRIORITIES</u>

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

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Later Years £m	Total £m
City Fund	123.9	245.1	233.7	232.5	176.2	84.4	1,095.8
City's Cash	144.1	199.9	99.5	260.2	306.8	218.9	1,229.4
	268.0	445.0	333.2	492.7	483.0	303.3	2,325.2

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

	City Fund £m	City's Cash £m	Total £m
Major Projects	680.3	1,017.6	1,697.9
Capital and SRP Programme	350.4	178.5	528.9
New Bids including climate action	65.1	33.3	98.4
	1,095.8	1,229.4	2,325.2

26. There are four major projects at various stages of development:
    - Museum of London Relocation (City Fund and City's Cash)
    - Salisbury Square Development (City Fund and City's Cash)
    - Markets Consolidation Programme (City's Cash)
    - Centre for Music (City's Cash, future currently uncertain with expenditures largely on hold)

27. These projects represent a substantial funding requirement of unprecedented scale in the context of the City Corporation's more recent capital plans. They therefore present a significant challenge to the finances of the organisation, requiring a step change in the previously debt-free status of City's Cash and possibly City Fund. The revenue impact of interest payable on external borrowing results in significant revenue pressures, together with the additional statutory City Fund requirement for a Minimum Revenue Provision towards the repayment of principal if City Fund were to borrow. The final decision on progression of the major projects is based on the business cases and identification of a sustainable funding strategy.

28. Other significant schemes within the current capital programme include:
    - Investment Property refurbishments
    - Schools refurbishments
    - IT systems investment
    - Social Housing Decent Homes refurbishments and new affordable housing units
    - Capital contribution to Government Crossrail Project
    - Various highways and public realm projects

29. New bids include:
    - Cash flow financing for school expansion
    - Critical end of life asset replacements (mainly building infrastructure and IT)
    - Statutory compliance/health and safety projects
    - Spend to save schemes with payback < 5 years
    - 'Secure City' Infrastructure
    - Capital investment to deliver Climate Action Strategy.

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

<u>ASSET MANAGEMENT PLANNING</u>

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

32. The City Corporation’s overall property portfolio consists of both operational and investment property. The City has specific reasons for owning and retaining property:
    - Operational purposes e.g. assets that support core business and service delivery such as schools, social housing, office buildings, The Barbican Arts Centre, Central Criminal Court, cleansing depot, cemetery and crematorium, port health offices, wholesale markets, City Police, car parks, libraries, Mansion House and various open spaces across London.
    - Investment properties held to provide a financial return to the City Corporation to provide financial support for service provision.
    - Strategic investment to enable growth in the City fringe - the strategic property estate.

33. Asset management is an important part of the City Corporation’s business management arrangements and is crucial to the delivery of efficient and effective services. The ongoing management and maintenance of operational property assets is considered as part of the recently revised Corporate Property Asset Management Strategy. This strategy has the following objectives relating to capital investment:

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

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

35. Asset Management Plans and the core processes necessary to draft and implement effectively across the Operational Estate have been substantially developed through the now completed Asset Management Service Based Review (AM SBR). The implementation of the recommendations from the AM SBR is now incorporated into the recently approved Corporate Property Asset Management Strategy. Once fully implemented these recommendations will ensure the plans are better aligned with the respective Business Plan cycle and will also facilitate a detailed 'Asset Challenge’ to ensure targeted investment in operational assets that are fit for purpose. Further, to consider underutilised assets for alternative use and/or the potential of a capital receipt/lease income. Other outcomes from the AM SBR support improvements to financial sustainability, corporate policies and controls, data management, strategic asset management,

delivering asset management related projects, compliance and operational property management.

COMMERCIAL ACTIVITY AND INVESTMENT PROPERTY

36. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as property held solely to earn rentals or for capital appreciation or both.

37. Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth).

38. The combination of these is a consideration in assessing the attractiveness of a property for acquisition. In the context of the Capital Strategy, the City Corporation uses capital to invest in property to provide a positive surplus/financial return which is a key source of funding for the ongoing provision of services.

39. Investment properties may also be sold to provide capital to fund the capital programme. Some significant disposals are currently planned to provide funding for the major projects. The resulting loss of rental returns needs to be carefully managed to ensure sufficient income to deliver services.

40. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. These risks are mitigated in part by the mixed lease structure of holdings with some properties directly managed with multiple lettings, some single lettings to tenants on fully repairing and insuring leases and some to tenants on geared ground rent leases where the City Corporation is guaranteed a minimum rent but also shares in the actual rent received over a certain threshold.

41. The property portfolio is overseen by Members through a dedicated Property Investment Board appointed by Investment Committee which meets on a monthly basis to received reports on performance, set strategy, and agree major lettings, acquisitions and disposals.

42. Performance of each estate is benchmarked through MSCI against the overall MSCI Universe and against the MSCI "Greater London Properties including owner occupied" benchmark. The target set is to outperform the MSCI Return Benchmarks for Total Return on an annualised five-year basis. There is a subsidiary target to maintain rental income levels and to endeavour to secure rental income growth at least in line with inflation.

43. The properties forming the Strategic Property Estate have been acquired for large scale redevelopment. They are part of the strategy of supporting growth in the business cluster in the City Fringes by providing high quality

floor space and returns from these properties are focussed on capital appreciation through their redevelopment.

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

REVENUE BUDGET IMPLICATIONS FROM CAPITAL INVESTMENT DECISIONS

45. Capital expenditure for the City Corporation is financed through a variety of sources, typically
    - Receipts from the sale of capital assets
    - Capital grants
    - External contributions such as S106 or Community Infrastructure Levy
    - The use of general reserves or from revenue budget contributions
    - Earmarked reserves set aside for specific purposes.
    - Surplus cash balances (internal borrowing)

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

46. For City Fund, the City Corporation can utilise its temporary cash balances in lieu of external borrowing to fund capital expenditure. This is referred to as internal borrowing. External borrowing refers to loans from third parties e.g. banks.

47. To date, the City Corporation has funded its City Fund capital expenditure from the sources listed above or through internal borrowing. A programme of property disposals is currently being planned to fund the City Fund major projects in preference to external borrowing. City’s Cash capital expenditure has been funded from cash balances with external borrowing through private placement for the City’s Cash major projects.

48. In approving the inclusion of schemes and projects within the capital programme, the City Corporation ensures all its capital and investment plans are affordable, prudent and sustainable. In the event of borrowing, the City Corporation will take into account the arrangements for the repayment of debt, through a prudent Minimum Revenue Provision (MRP) policy in line with MRP guidance produced by the Ministry of Housing, Communities and Local Government.

49. The capital financing costs and any additional running costs arising from capital investment decisions are incorporated within the annual budget and medium term financial plans. Loss of income resulting from property disposals are also incorporated into these plans. This enables members to consider the consequences of capital investment and disposal alongside other competing priorities for revenue funding.

50. As part of the appraisal process, and at the discretion of the Chamberlain, the financing costs of prudential borrowing, may be charged to the relevant service.

51. Capital investment decision making is not only about ensuring that the initial allocation of capital funds meets corporate and service priorities but ensuring the asset is fully utilised, sustainable and affordable throughout its whole life. This overarching commitment to long term affordability is a key principle in any capital investment appraisal decision. In making its capital investment decisions the City Corporation must have explicit regard to consider all reasonable options available.

52. The revenue implications of the major projects are significant. The cost of borrowing must be charged to the relevant revenue budget whether this is on an interest-only or repayment basis. The long term nature of borrowing means these revenue sums are unavailable to fund other activity for a significant period of time. Likewise, loss of rental income arising from asset disposals impacts on funding to deliver services. By agreeing to fund capital schemes through external borrowing or asset disposals, Members are agreeing to divert this funding away from revenue activity in order to meet their priorities.

<u>RISK MANAGEMENT</u>

53. This section considers the City Corporation's risk appetite with regard to its capital investments and commercial activities, i.e. the amount of risk that the City Corporation is prepared to accept, tolerate, or be exposed to at any point in time. It is important to note that risk will always exist in some measure and cannot be removed in its entirety.

54. A risk review is an important aspect of the consideration of any proposed capital or investment proposal. The risks will be considered in line with the City Corporation's corporate risk management strategies. Subject to careful due diligence, the City Corporation will consider the appropriate level of risk for strategic initiatives, where there is a direct gain to the City Corporation's revenues or where there is Member appetite to deliver high profile projects.

55. The City Corporation maintains a Corporate Risk Register and priority will be given to schemes that demonstrably mitigate an identified risk.

56. The gateway approval process has three approval tracks: Complex, Regular and Light, with varying levels of member scrutiny. The decision about which track a project should follow depends on the estimated cost and level of risk. Projects can move between tracks at any stage if it becomes evident that a project is more or less complex than originally anticipated.

57. Maintenance of a costed risk register to identify and keep under review the risks associated with projects is Corporation best practice and most projects comply. Costed risks are informed by previous experience of similar projects and other factors, where relevant, such as the age of the asset, its size and its type. The risk register includes mitigations that will be taken to minimise

the risk and a financial assessment of the likely cost should the mitigated risks crystallise. In addition, the costs of major projects include an element of optimism bias in line with HM Treasury guidance to mitigate the financial implication of delays and/or increased costs.

TREASURY MANAGEMENT

58. The capital strategy is integrated with its treasury management activity as the City Corporation's capital expenditure plans and its approach to financing that expenditure will drive the organisation's need for borrowing.

59. The Treasury Management Strategy Statement outlines how the City Corporation will carry out its treasury management activities. This statement is reviewed annually by the Court of Common Council. Treasury management activity is scrutinised by the Audit and Risk Management Committee.

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

61. The City Corporation faces a number of key risks in terms of servicing its current and future debt requirement including interest rate risk, refinancing risk and liquidity risk. To control these risks, the City Corporation maintains treasury indicators which are set out in the Treasury Management Strategy Statement.

KNOWLEDGE AND SKILLS

62. The City Corporation has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.

63. The City Corporation establishes project teams from all the professional disciplines from across the City Corporation as and when required. External professional advice is taken where required and will generally be sought in consideration of any major commercial property investment decision.

64. Within the Court of Common Council there are also a number of Members who have substantial professional expertise which assist when making crucial capital investment decisions. Some specialist committees, such as Property Investment Board, co-opt external members with specific expertise to further inform the decision making process.

BACKGROUND DOCUMENTS

Strategic Property Estate (City Fund & City's Estate) Annual Update & Strategy for 2021 – 29th January 2021

City Fund Investment Portfolio Annual Update and Strategy 29th January 2021

City's Estate Annual Update & 2021 Strategy - 16thDecember 2019

Treasury Management Strategy Statement 2021/22

Corporate Property Asset Management Strategy

Corporate Project Procedure

City of London Corporate Plan

Corporate Risk Register

Annex A

CORE PRINCIPLES UNDERPINNING THE CAPITAL PROGRAMME

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

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

Medium Term Financial Strategy/Budget Policy

City Fund

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

(i) to aim to achieve as a minimum over the medium-term planning period the ‘golden rule’ of matching on-going revenue expenditures and incomes;

(ii) to implement budget adjustments and measures that are sustainable, on-going and focused on improving efficiencies;

(iii) in line with (ii), as far as possible to protect existing repairs and maintenance budgets from any efficiency squeezes or budget adjustments and to ring-fence all other non-staffing budgets (to prevent any amounts from these budgets being transferred into staffing budgets);

(iv) within the overall context of securing savings and budget reductions, to provide Chief Officers with stable financial frameworks that enable them to plan and budget with some certainty;

(v) for the Police service, ordinarily to set an annual cash limit determined from the national settlement allocation to the City Police together with the allocation from the Business Rates Premium;

(vi) to identify and achieve targeted/selective budget reductions and savings programmes;

(vii) to continue to review critically all financing arrangements, criteria and provisions relating to existing and proposed capital and supplementary revenue project expenditures;

(viii) to reduce the City Fund’s budget exposure to future interest rate changes by adopting a very prudent, constant annual earnings assumption in financial forecasts. If higher earnings are actually achieved, consideration to be given to only making the additional income available for non-recurring items of expenditure;

(ix) to accept that in some years of the financial planning period it may be necessary to make contributions from revenue balances to balance the revenue budget;

(x) to finance capital projects first from disposal proceeds rather than revenue resources and supplementary revenue projects from provisions set aside within the financial forecast followed by external borrowing (if required) in an affordable, prudent and sustainable way; and

(xi) to minimise the impact of rate/tax increases on City businesses and residents.

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Review of Contingency Funds

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

Finance Committee Contingencies							
		City's Cash £'000	City Fund £'000	Bridge House Estates £'000	Disaster Fund £'000	**Total £'000**
2020/21	Provision	950	800	50	100	1,900
	Provision brought forward	24	541	0	25	590
	Total Provision	974	1,341	50	125	2,490
	Less Allocations	(164)	(741)	(0)	(100)	(1,005)
	Uncommitted Balance as at 19/01/21	**810**	**600**	**50**	**25**	**1,485**
2019/20	Provision	950	800	50	100	1,900
	Provision brought forward	50	15	0	0	65
	Total Provision	1,000	815	50	100	1,965
	Less Allocations	(481)	(621)	0	(50)	(1,152)
	Uncommitted Balance	**519**	**194**	**50**	**50**	**813**
2018/19	Provision	950	800	50	100	1,900
	Provision brought forward	109	60	0	0	169
	Total Provision	1,059	860	50	100	2,069
	Less Allocations	(920)	(733)	(4)	(100)	(1,757)
	Uncommitted Balance	**139**	**127**	**46**	**0**	**312**
2017/18	Provision	950	800	50	100	1,900
	Provision brought forward	85	0	0	0	85
	Total Provision	1,035	800	50	100	1,985
	Allocations	(788)	(697)	(22)	(100)	(1,607)
	Uncommitted Balance	**247**	**103**	**28**	**0**	**378**

Policy Initiative Fund		
	City's Cash	
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 as at 25/01/2021	527
2019/20	Provision	1,250
	Provision brought forward for unspent provisions	105
	Provision brought forward for agreed allocations not yet completed	324
	Balance moved from P&R Contingency to cover multiyear allocations	100
	Total Provision	1,779
	Less Allocations	(1,342)
	Uncommitted balance	**437**
2018/19	Provision	1,250
	Provision brought forward for unspent provisions	161
	Provision brought forward for agreed allocations not yet completed	174
	Total Provision	1,585
	Less Allocations	(1,480)
	Uncommitted balance	**105**
2017/18	Provision	1,250
	Provision brought forward for unspent provisions	72
	Provision brought forward for agreed allocations not yet completed	38
	Allocation from P&R Contingency	200
	Total Provision	1,560
	Less Allocations	(1,399)
	Uncommitted balance	**161**

Policy and Resources Contingency		
	City's Cash	
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 as at 25/01/2021	**58**
2019/20	Provision	300
	Provision brought forward for unspent provisions	79
	Provision brought forward for agreed allocations not yet completed	302
	Balance moved to P&R Contingency to cover multiyear allocations	(100)
	Total Provision	581
	Less Allocations	(347)
	Uncommitted balance	**234**
2018/19	Provision	300
	Provision brought forward for unspent provisions	18
	Provision brought forward for agreed allocations not yet completed	193
	Total Provision	511
	Less Allocations	(432)
	Uncommitted balance	**79**
2017/18	Provision	300
	Provision brought forward for unspent provisions	152
	Provision brought forward for agreed allocations not yet completed	150
	Allocation to P&R Contingency	(200)
	Total Provision	402
	Less Allocations	(384)
	Uncommitted balance	**18**

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

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

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Committee(s)	Dated:
Finance Committee - For decision Policy and Resources - For information Court of Common Council – For decision	16 February 2021 18 February 2021 4 March 2021
Subject: 2021/22 City's Cash Budgets and medium-term financial plan	**Public**
Report of: The Chamberlain	**For Decision**
Report author: Sonia Virdee – Assistant Director, Strategic Finance	

Summary

This report covers the 2021/22 Budget and medium-term financial outlook for City's Cash and Guildhall Administration. The report should therefore be read in conjunction with the City Fund and Bridge House Estates Budget reports on your Committee's agenda.

City's Cash has been impacted financially as a result of COVID-19, with uncertainty in rental return and growth on financial investments. Prudent management of funds ensures losses can be accommodated within overall balance sheet growth. Over the planning period, the cumulative draw down on investments is £476m (including £134.9m for the capital programme). Balance Sheet forecasting indicates this sum is sustainable over the medium term, but not in the longer 10-year horizon when financing costs on major projects increase.

In response, to the financial challenges the City Corporation set a general budget reduction of 12% in 2021/22 across all funds, plus the implementation of the new target operating model to make organisational efficiencies. The savings are identified from 2021/22 to ensure that budgets are fully aligned with and support our Corporate Plan objectives and finances are put on to a sustainable footing over the medium-term. This report recommends a number of measures to stabilise the position in 2021/22 and that will support the steps that will need to be taken over the medium term through further work on identifying flightpath savings; building on collaboration through the bi-lateral approach; moving from a tactical response to COVID to service transformation; and a more in-depth review of grant giving, as well as containing the costs of major projects and other programmes.

Although, there are huge pressures arising from the impact of a global pandemic and significant expenditure through major projects, stress-testing indicates affordability on net assets over the Medium-Term Financial Plan; such that City's Cash could contribute to the court element of the Fleet Street project.

Guildhall Administration: the report also summarises the budgets for central support services within Guildhall Administration (which currently 'holds' such costs before these are wholly recovered). Consequently, after recovery of costs, the net expenditure on Guildhall Administration is nil.

The 2021/22 Summary Budget Book accompanies this report and will be available on the *Members' Committees and Papers* section of the City Corporation's website. PDF copies via email can be requested from sonia.virdee@cityoflondon.gov.uk.

Recommendations

Members are asked to:

1. Note the latest revenue budgets for 2020/21 (paragraphs 18 to 25).

2. Agree the 2021/22 revenue budgets, including the following measures:
   - Note the **overall budget envelope** for City Cash incorporates 12% savings as agreed by Finance Committee in December and are consistent with approved savings flight path.
   - **Unfunded additional revenue bids:** To be avoided during 2021/22 - 2024/25 and carry forwards from 2020/21 to be minimised.
   - **Grants**: Application of 12% savings, unless agreed co-funding arrangement.

3. Approve the 2021/22 Capital and Supplementary Revenue Project Budgets for City's Cash amounting to £33.3m (paragraph 27).

4. Approve the allocation of central funding of up to £17.7m for City's Cash to meet the cost of the 2021/22 capital schemes. Release of such funding being subject to approval at the relevant gateway and specific agreement of the Resource Allocation Sub-Committee at Gateway 4(a) (paragraph 29).

5. Approve the allocation of central funding to provide an internal loan facility of up to £15.6m for the City of London School (CLSG) to progress its masterplan – release of such funding being subject to approval at the relevant gateway and separate approval of the loan terms and conditions (paragraph 30).

6. Delegate authority to the Chamberlain to determine the final financing of capital and supplementary revenue project expenditure.

7. Endorse this report for onward approval to the Court of Common Council.

Main Report

Background

1. The primary purpose of this report is to summarise the latest budgets for 2020/21 and the proposed budgets for 2021/22 for City's Cash, which have all been prepared within agreed policy guidelines and allocations, for submission to the Court of Common Council in March.

2. During the autumn/winter cycle of meetings each Committee has received and approved a budget report which, except for Guildhall School of Music and Drama (which is committed to delivering 12% savings but has separate funding arrangements agreed with the Office for Students), has been prepared based on the planning framework for Chief Officers which included:
    - A 12% general budget reduction totalling £4.7m.
    - Rephased Fundamental Review of £2.1m.
    - A £4m reduction in the 2021/22 Cyclical Works Programme, confirmed by Corporate Asset Sub Committee.

3. Accompanying this report is the Summary Budget Book 2021/22 which will be available on the *Members' Committees and Papers* section of the City Corporation's website. PDF copies can be requested from sonia.virdee@cityoflondon.gov.uk.

   The Summary Budget Book provides:

    - all the budgets at a summary level in a single document;
    - service overviews - a narrative of the services for which each Chief Officer is responsible;
    - Chief Officer summaries - the net revenue expenditure by division of service, fund, type of expenditure and income; and
    - Fund summaries showing the net revenue requirement for each Fund supported by Committee summaries showing the net requirement for each Committee within the Fund.

Overall Financial Strategy

4. The City of London Corporation's overall financial strategy seeks to:
    - manage the effects/recovery of a global pandemic impacting on the economy and income;
    - maintain and enhance the financial strength of the City Corporation through its investment strategies for financial and property assets;
    - pursue budget policies which seek to achieve a sustainable level of revenue spending and create headroom for capital investment and policy initiatives, such as Climate Action;
    - create a stable framework for budgeting through effective financial planning; and
    - promote investment in capital projects which bring clear economic, policy or service benefits.

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

Current Position

6. With a global pandemic and worsening economic position, pressures and risks for the City Corporation's finances will continue into the 2021/22 fiscal year. The effect of the COVID-19 has had a wide-ranging impact on the economy, including income losses from the closure of many services and facilities, and losses from rental income. With another national lockdown, delays in the economic recovery continue to be a significant risk for further income losses in 2021/22.

12% Budget Reduction

7. In response, to the financial challenges the City Corporation set a general budget reduction of 12% in 2021/22, plus the implementation of the new target operating model to secure organisational efficiencies. £4.7m savings are identified from 2021/22. As a result of these factors the Corporation has been able to reduce the financial gap across the medium term.

Progress with the Fundamental Review

8. A Fundamental Review commenced during 2019/20 to better align spending to key priorities identifying opportunities to increase income and make savings in the medium-term between (2020/21 to 2024/25), which do not impact on front line services. However, the Resource Allocation Sub Committee approved the re-phasing of Fundamental Review savings due in 2021/22 into 2022/23 that have been put on hold either due to the impact of COVID or pending further work on the TOM. For City Cash this has meant £2.1m Fundamental Review savings will be achieved in later years.

Flat Cash

9. The starting point for the 2021/22 budget is 'flat cash' from the previous resource allocation in 2020/21, with provision made for the pay award agreed by the December Establishment Committee. The Spending Review announcement on 25 November confirmed that there will not be a significant uplift in government funding and the Chancellor announced a Public Sector Pay Freeze for most workers. The reduction in CPI inflation should ease the pressure of living with flat cash budgets, from which the 12% savings will need to be achieved.

Latest forecast position

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

TABLE 1

CITY'S CASH

£m	2020/21	2021/22	2022/23	2023/24	2024/25
Deficit, incl. capital programme, and 12% savings (excluding Major Projects)	(105.2)	(78.1)	(25.3)	(44.8)	(26.1)
Major Projects	(5.9)	(9.4)	(10.5)	(90.4)	(80.2)
City's Cash combined deficit	(111.1)	(87.4)	(35.8)	(135.2)	(106.3)
Net assets balance	2,388.7	2,200.1	2,280.0	2,252.4	1,982.0
Additional savings flightpath for new priorities fund			(4.5)	(7.5)	(9.5)

11. The impact of COVID-19 has resulted in income losses from the closure of many services and facilities, especially the cancellation of the summer school at Guildhall School of Music and Drama (GSMD) and rental income from our property investment portfolio forecast at a total loss of £4.1m. With another national lockdown, delays to economic recovery continues and further losses on income are expected to continue into 2021/22 with £1.2m support to GSMD for loss of income, potentially rising to £1.8m (adding £0.6m to the COVID contingency) and loss in rental income of £2.9m.

12. The forecast includes the capital bids of £33.3m (including £15.6m loan to be recovered from CLSG over an anticipated 7-year period) approved by January Finance Committee; as well as the 'business as usual' capital programme, financed through disposal of investment properties or securities; and the revenue costs of financing Major Projects.

13. Major Projects: The estimates include the revenue impact of financing the Markets project, although the business case is yet to be approved; and the courts element of the Fleet Street Project. Local authorities no longer provide accommodation for courts; but uniquely, the courts currently reside in City Fund. It is therefore time to review which fund should pay for the court element of Fleet Street, own it and decide on letting terms. Building a new court is to support London as a place to do business globally aligns with the remit of City's Cash. Additionally, given financial pressure, the case is less well made to spend taxpayers' money on a new courts building, given other priorities within City Fund's operational portfolio. Stress testing has shown that City's Cash is able to cover the costs. Police accommodation and investment property elements of the Fleet Street project remain with City Fund.

14. Over the period the cumulative draw down on investments is £476m (including the sums required for the capital programme). This represents a diminution of £407m

of the net asset balance on the balance sheet over the period. Financial modelling/stress testing indicates this sum is sustainable over the medium-term.

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

15. Before addressing the immediate pressures in 2021/22, it is important to respond to the scale of the medium-term challenge for City's Cash and to take the steps now to ensure that we can take a strategic and prioritised response to the big challenges that we expect to emerge in the longer term.

16. This requires action on both revenue, through additional flightpath savings, continuation of the Fundamental Review, and prudent capital budgets. On the major projects, Members will want to consider options, including
    - Consideration of current fund classification for each project, including the transfer of the court element of Fleet Street project.

Additional Revenue Requests

17. Policy and Resources Committee and Finance Committee have communicated clearly over the last six months that increased revenue pressures are to be accommodated by reprioritising existing budgets; and have signalled an expectation that additional pressures that might arise during 2021/22 will be absorbed within local risk budgets.

CITY'S CASH

18. The 2020/21 and 2021/22 budgets for City's Cash are set out below. They have been prepared within the planning frameworks agreed by the Resource Allocation Sub-Committee shown at Appendix 1.

City Cash Summary	2020/21 Original	2020/21 Latest	2021/22 Original
Gross Revenue Expenditure	**(102.3)**	**(115.5)**	**(113.5)**
Gross Revenue Income	**64.3**	**58.4**	**62.7**
Operating Deficit funded by drawdown	**(38.0)**	**(57.1)**	**(50.8)**

19. City's Cash net expenditure is £19.1m higher comparing the latest 2020/21 budget with the original budget. Other main movements comprise of: carry forwards £4.2m; impact of COVID £9.6m (including COVID support and loss in rental income), increase on capital expenditure £5.3m (£3.9m relating to Barking site goodwill).

20. The budget for 2021/22 reduces by £6.3m when comparing the 2021/22 Original budget to the 2020-21 Latest.

	£m
2020/21 Latest Budget	**(57.1)**
Release of Carry Forwards - 2019/20	4.1
Additional COVID support	(1.3)
Savings (including 12%, TOM and FR)	6.9
Increase in Supplementary Revenue Projects	(3.4)
2021/22 Original Budget	**(50.8)**

21. The net positions for 2020/21 and 2021/22 are summarised by Committee in Appendix 2. Reserves are available to meet the estimated deficit in the current year and in 2021/22.

GUILDHALL ADMINISTRATION

Overall Budget Position

22. Guildhall Administration encompasses most of the central support services for the City, with the costs being fully recovered from the three main City Funds, Housing Revenue Account, Museum of London and other external bodies in accordance with the level of support provided. Consequently, after recovery of costs, the net expenditure on Guildhall Administration is nil. The table below summarises the position.

23. The gross expenditure for Guildhall Administration is recovered across all funds. Increased costs in 2020/21 arose from carry forward requests.

24. The 2021/22 budget includes a decrease following a general 12% reduction in departmental savings.

25. The current policy of the City Corporation is to absorb within City's Cash the administrative costs applicable to the charities of which it is sole trustee. This covers expenditure such as the audit fee and time spent on accounts preparation and treasury management. Whilst considering the broader implications of its current financial position, it is considered appropriate for City's Cash to now recover the reasonable costs and expenses incurred on behalf each charity, as from 2021/22. The resulting savings for City's Cash will contribute to the 12% and efficiency savings. A report relating to this policy change is included within today's agenda.

26. Appendix 3 shows the budgets by committee.

Capital and Supplementary Revenue Project Forecast Expenditure and Funding

27. The City of London has a significant programme of property investments, works to improve the operational property estate and major capital projects to benefit wider

London. The total anticipated capital and supplementary revenue expenditure, including forecasts against approved budgets and the indicative cost of schemes awaiting approval is as follows:

City Cash Capital Programme	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Capital programme - BAU	**49.5**	**16.4**	**4.1**	**31.6**	**6.6**
Supplementary Revenue Project	**4.0**	**7.3**	**4.1**	**1.1**	**1.0**
New bids including loans	**0.0**	**20.2**	**3.2**	**0.5**	**0.0**
Climate Action	**0.0**	**2.5**	**1.7**	**1.5**	**1.6**
Total Capital Programme (excluding Major Projects)	**53.5**	**46.5**	**13.2**	**34.7**	**9.2**
Major Projects	**86.5**	**128.4**	**61.3**	**226.6**	**298.1**
Total Capital Programme (including Major Projects)	**140.0**	**174.8**	**74.5**	**261.3**	**307.2**

28. The City's Cash capital and supplementary revenue project budgets are being submitted to the Court of Common Council in March as part of the Summary Budget Book. They comprise forecasts of expenditure against budgets which have been approved to spend in accordance with the relevant governance arrangements e.g. corporate projects procedure, Capital Buildings Committee approvals etc. The latest forecasts of City's Cash 2021/22 capital and supplementary revenue project expenditure against approved budgets (included within the figures in the table above) amount to £33.3m (including loan facility to CLSG). This excludes the indicative costs of schemes awaiting approval.

29. In order to ensure future capital expenditure is aligned to key priorities an annual bid process was introduced for all potential schemes commencing 2021/22. The City Corporation's Resource Allocation Sub-Committee has carried out a robust review of all service capital bids and agreed those bids to be prioritised.

30. Central funding of up to £17.7m for City's Cash meets the cost of the 2021/22 new bids together. Release of such funding will be subject to approval at the relevant gateway and specific agreement of the Resource Allocation Sub-Committee at Gateway 4(a).

31. In addition, approval to the allocation of central funding to provide an internal loan facility of up to £15.6m for the City of London School to progress its masterplan is also requested – release of such funding also being subject to approval at the relevant gateway and separate approval of the loan terms and conditions.

32. The financing of the City's Cash capital and supplementary revenue projects programmes needs to reflect the optimum reserves position of each fund. Therefore, approval is sought for authority to be delegated to the Chamberlain to determine the *final* financing of capital and supplementary revenue project expenditure.

Risk

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

Within the City's control:

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

Outside the City's control:

- Delays in the economic recovery following impact of COVID-19, increasing the risk for further income losses in 2021/22
- rental income reduction from our commercial property as a result of increased voids.

Conclusion

34. There has been a significant effort across City's Cash to commit to delivering on 12% savings required to underpin a sustainable MTFP, the increased funding requirement flowing from the adoption of a major projects programme, impact of COVID-19. Pressures across a range of existing revenue and capital budgets, mean that deficits are forecast across the medium-term planning horizon. In 2021/22, we will, draw down on our reserves, to bring the fund into balance. This measure is sustainable in the short term, but not in the longer 10-year horizon when the financing costs on the major projects increase.

Appendices

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

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City's Cash Medium Term Financial Strategy/Budget Policy

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

- ensure that ongoing revenue expenditure is contained within revenue income over the medium term and sufficient surpluses are generated to finance capital investment on City's Cash services;

- continue to seek property investment opportunities to enhance income/seek capital appreciation during the year, subject to any financing being met from the City's Estate Designated Sales Pool; and

- sell either property or financial assets, which would need to be in addition to property disposals required to meet the financing requirements of the Designated Sales Pool, to meet City's Cash cash-flow requirements.

CITY'S CASH Budget

City's Cash 2020/21 and 2021/22 budgets shown by Committee in the table below:

City's Cash Summary by Committee ***Net Expenditure (Income)***	**2020/21 Original £m**	**2020/21 Latest £m**	**2021/22 Original £m**
Culture, Heritage & Libraries	(0.6)	(0.9)	(0.4)
Education Board	(2.8)	(3.2)	(2.5)
Finance	(28.4)	(36.6)	(43.3)
G. P. Committee of Aldermen	(4.1)	(4.1)	(3.8)
Guildhall School of Music and Drama	(12.9)	(12.3)	(14.1)
Markets	(0.6)	(0.8)	0.0
Open Spaces :-			
Open Spaces Directorate	0.0	0.0	0.0
Epping Forest and Commons	(8.6)	(8.4)	(6.9)
Hampstead, Queen's Pk, Highgate Wd	(7.7)	(7.4)	(6.1)
Bunhill Fields	(0.5)	(0.3)	(0.5)
West Ham Park	(1.3)	(1.3)	(1.1)
Policy and Resources	(17.9)	(20.7)	(17.6)
Property Investment Board	51.9	43.3	49.8
Schools :-			
City of London School (1)	(1.9)	(1.8)	(1.7)
City of London Freemen's School (1)	(1.8)	(1.9)	(1.8)
City of London School for Girls (1)	(0.8)	(0.7)	(0.8)
(Deficit) Surplus (from) to reserves	**(38.0)**	**(57.1)**	**(50.8)**

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

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

		2020/21 Original £m	**2020/21 Latest £m**	**2021/22 Original £m**
1	Net expenditure on services	(93.6)	(106.4)	(100.8)
2	Cyclical Works Programme and SRP's	(8.7)	(9.1)	(12.7)
3	Estate rent income	59.3	53.1	57.5
4	Non-property investment income	2.6	2.9	3.1
5	Interest on balances	0.3	0.8	0.4
6	**Operating (Deficit) Surplus**	**(40.1)**	**(58.7)**	**(52.5)**
7	Profit on asset sales/deferred income	2.1	1.6	1.7
8	**(Deficit) Surplus funded by drawdown**	**(38.0)**	**(57.1)**	**(50.8)**

2. The City’s Cash position in the current year is expected to be a deficit of £57.1m compared to £38.0m in the original budget. The deficit will be funded with a drawdown of investments.

GUILDHALL ADMINISTRATION

1. Shown by Committee is the table below:

Guildhall Administration by Committee *Net (Expenditure)*	**2020/21 Original £m**	**2020/21 Latest £m**	**2021/22 Original £m**
Establishment - Town Clerk & C&CS	(9.6)	(10.1)	(8.6)
Finance - Chamberlain	(39.0)	(39.4)	(36.8)
Finance - City Surveyor, Remembrancer and Town Clerk	(26.3)	(25.8)	(23.5)
Total Net Expenditure	**(74.9)**	**(75.3)**	**(68.9)**
Recovery of Costs	74.9	75.3	68.9
Total Guildhall Administration	0	0	0

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

The net expenditure for 2021/22 is £68.9m, a decrease of £6.0m from the 2020/21 original budget.

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Committees:	Dates:
Finance Committee – for decision Policy and Resources – for information Court of Common Council – for decision	16 February 2021 18 February 2021 04 March 2021
Subject: Bridge House Estates (BHE) (Reg. Charity No. 1035628) – Revenue Budget 2021/22 and Medium-Term Financial Plan	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly (insofar as they are considered to be in the best interests of BHE in taking these decisions)?	**n/a**
Does this proposal require extra revenue and/or capital spending?	**Y**
Report of: The Chamberlain	**For decision**
Report Author: Karen Atkinson, Head of Charity & Social Investment Finance	

Summary

This report covers an update on the 2020/21 forecast and presents the 2021/22 revenue budget and Medium-term Financial Plan (MTFP), covering 2022/23 – 2024/25, for Bridge House Estates.

The charity has been impacted financially as a result of Covid-19, with uncertainties on the level of rental income receivable, reductions in investment growth and the closure of Tower Bridge as a visitor attraction for lengthy periods. The Charity Commission expects Trustees to recognise at an early stage if a charity is facing financial difficulties and to undertake robust forecasting. Reconsidering financial plans as a result of scenario planning and taking appropriate decisions enables a Trustee to comply with its duties.

Prudent management of unrestricted income funds has nonetheless ensured that the charity has sufficient funds available to meet its primary objective, the support and maintenance of its five Thames bridges. In considering its ancillary purpose, that of charitable funding for broad charitable purposes for the general benefit of the inhabitants of Greater London under the charity's *Bridging Divides 2018-23* policy, this report presents a cautious approach to the release of funding designated for this purpose. Following detailed analysis and reflection, it is recommended that £20m of the £200m previously allocated be retained within this designated fund until such time as the charity is able to confirm if the original allocation of income reserves to charitable funding activities can be met. Alongside this, it is recommended that free reserves are maintained at between £33-55m above the approved policy level of £35m across the planning period as a further risk mitigation, as scenario planning suggests that these funds may be required to meet the primary objective or maintain the agreed free reserves amount. Members should note the potential future opportunity available in utilising investment growth within the permanent endowment fund as income, should the new Supplemental Royal Charter be adopted.

Recommendations

Members are asked, acting for the City Corporation as charity trustee of Bridge House Estates and solely in the charity's best interests, to:

1. Note the latest revenue forecast for 2020/21 (paragraphs 6 to 7)
2. Approve the 2021/22 revenue budget and Medium-Term Financial Plan for period 2022/23 – 2024/25 (paragraphs 8 to 10)
3. Approve that the additional allocation of income reserves available for charitable funding be held at £180m, a reduction of £20m from the sum allocated in March 2020, until a further forecast is presented for review (paragraph 12)
4. Approve that free reserves are maintained at between £33-55m over and above the agreed policy of £35m across the period of the Medium-Term Financial Plan as a mitigation against the uncertain period in which the charity is operating (paragraph 11)
5. Approve the 2021/22 capital and supplementary revenue project budgets (paragraph 16)
6. Note that a revised Medium-Term Financial Plan for the charity will be presented for approval, should the power for total return accounting for endowed charities be granted by Supplemental Royal Charter currently under consideration by the Privy Council's Office – timing to be confirmed (paragraph 15)
7. Endorse this report for onward approval to the Court of Common Council

Main Report

Background

1. Bridge House Estates (BHE) is an unincorporated charitable trust and a registered charity (Registered Charity Number 1035628). It is currently the 7th largest charity in the UK in terms of asset valuation. The charity is permanently endowed which imposes particular restrictions and legal duties on the charity's trustee. The City of London Corporation (the City Corporation), acting by its Court of Common Council, is BHE's sole corporate Trustee.

2. In acting as charity Trustee, the City Corporation has a legal obligation to always act solely in the best interests of BHE. Consistent with their duties, trustees are required to:
   a. administer their charity with reasonable care and skill;
   b. act responsibly and honestly and demonstrate that they are complying with the law.

   In the current crisis, the Charity Commission has issued guidance advising trustees to keep their charity's operations and finances under regular review and take any additional actions as necessary[1]. The starting point for this is stated as always being what is in the charity's best interests.

[1] Charity Commission Guidance "Manage financial difficulties in your charity caused by coronavirus"

3. The primary purpose of this report is to present an update on the BHE budget for 2020/21, the budget for 2021/22 and the Medium-Term Financial Plan (MTFP) covering the period 2022/23 – 2024/25. These have been prepared in line with the policy guidelines and assumptions as set out in Appendix 1.

4. The over-arching strategy for BHE '*Bridging London*', as approved by the Court of Common Council in October 2020, has the vision that '*Every person in London becomes truly connected*'. BHE wants to see a flourishing society, where every person in London is truly connected - physically by world-class sustainable bridges and connected socially and digitally through thriving communities that have access to a diversity of social, cultural and economic opportunities. To achieve this vision, BHE delivers upon its primary object by supporting and maintaining its five Thames bridges, and utilises any available surplus income each year to advance its ancillary purposes – being charitable funding under the '*Bridging Divides 2018-23'* funding policy aimed at tackling inequality. Prior to confirming the level of surplus income, free reserves of £35m are required to be maintained, as approved by Members in March 2020.

5. Members will be aware that this is a transitional period for BHE, as we await approval of the Supplemental Royal Charter (see Appendix 4), and implement agreed actions from the BHE Strategic Review whilst being mindful of the City Corporation's Lisvane Review and Target Operating Model (TOM) recommendations for changes to the Trustee's own internal governance arrangements which will impact upon the charity's management and operation by the City Corporation as Trustee. The new Supplemental Royal Charter is expected to grant powers which would enable gains on investments held within the permanent endowment fund to be utilised as income, with such gains currently not available to support the activities of the charity.

Current Position – update on 2020/21 budget

6. The original budget for BHE was approved prior to the impacts of the Coronavirus pandemic being felt which have had a significant impact on the financial position of the charity. Members are aware of the reductions in investment income alongside the closure of Tower Bridge as a visitor attraction, with the date for reopening in 2021 yet to be announced. The establishment of the London Community Response Fund (LCRF) within BHE's ancillary object has led to charitable funding activities increasing from the original budget of £27.1m to £46.3m (net of external grant income to date to the LCRF of £16.5m). This increase is funded from the unrestricted income fund held by BHE and will lead to a significant in-year deficit. Note that the external LCRF income & grants issued against this have not been included in the forecast figures presented, so as not to distort the financial position.

Table 1: Update on 2020/21 budget

Statement of Financial Activities	2019/20 Actual £m	2020/21 original budget £m	2020/21 latest forecast £m
Income	46.6	38.4	31.3
Expenditure	(62.8)	(56.5)	(84.6)
	(16.2)	(18.1)	(53.2)
Gains/(losses) on investments/pension scheme	57.9	60.0	(54.0)
Net movement in funds	41.7	41.9	(107.2)
Funds b/f as 01 April 2020	1,494.7	1,536.4	1,536.4
Total funds c/f	1,536.4	1,578.3	1,429.2
Funds of the charity:			
Permanent endowment funds	984.2	1,040.0	903.0
Restricted Funds	2.8	0.0	0.0
Designated funds	440.7	456.7	436.3
Free reserves	108.7	81.6	89.9
	1,536.4	1,578.3	1,429.2

7. The City Bridge Trust (CBT) budget of £125m set for expenditure on the charity's ancillary object under the *Bridging Divides 2018-23* strategy, was set over the five-year period with flexibility to spend those funds as the CBT Committee considered appropriate within that period, subject to annual review. This budget is funded from surplus income earned by BHE in each year. Earlier this year, in responding to the impact of Covid-19 upon the voluntary sector in London, CBT Committee agreed to "re-profile" their five-year *Bridging Divides* budget to increase the sums available for expenditure in 2020/21 (Year 3), thereby reducing the sums available for expenditure in Years 4 and 5. By omission, a decision on this in-year budget adjustment was not referred to P&R and Finance Committees, or to Court. This revised profile is included within the latest forecast for 20/21 (Table 1) and within the MTFP presented in Table 2. As this budget is funded from annual income, this change will require underpinning from the general reserves of BHE.

2021/22 Revenue budget and Medium-term forecast position

Forecast position within current governance arrangements

8. BHE delivers upon its primary object by supporting and maintaining its five Thames bridges, and utilises any available surplus income to advance its ancillary purposes. Gains made on investments representing the unrestricted income funds are available to support both primary and ancillary objectives.

9. The financial overview for 2021/22 and across the medium-term planning horizon is shown in

table 2 below:

Table 2:

Statement of Financial Activities	2020/21 latest forecast £m	2021/22 budget £m	2022/23 forecast £m	2023/24 forecast £m	2024/25 forecast £m
Surplus/(Deficit) prior to charitable giving	(3.6)	(4.5)	(1.7)	8.3	8.8
Charitable giving	(49.7)	(110.5)	(109.5)	(29.5)	(28.6)
	(53.2)	(115.1)	(111.3)	(21.2)	(19.8)
Gains/(losses) on investments/pension scheme	(54.0)	69.3	68.0	50.9	52.7
Net movement in funds	(107.2)	(45.8)	(43.3)	29.7	32.9
Funds b/f as 01 April 2020	1,536.4	1,429.2	1,383.4	1,340.1	1,369.7
Total funds c/f	1,429.2	1,383.4	1,340.1	1,369.7	1,402.7
Funds of the charity:					
Permanent endowment funds	903.0	946.0	991.0	1,023.0	1,055.0
Restricted Funds	0.0	0.0	0.0	0.0	0.0
Designated funds	436.3	355.9	272.2	275.3	280.1
Free reserves	89.9	81.5	76.9	71.4	67.6
	1,429.2	1,383.4	1,340.1	1,369.7	1,402.7

10. The 2021/22 budget presents a revenue deficit of £115.1m, driven by commitments funded from the grant-making designated fund. A similar deficit level is reported within the following year, with the overall net movement in funds (after gains/losses) also presenting a deficit in these 2 years before turning positive from 2023/24. The level of designated funds held reduces from 2021/22 due to these high levels of grant commitments, so reducing the total asset value of the charity. Members should note that the permanent endowment fund is forecast to have continued growth, which is not available to cover expenditure. Assumptions and key risks for 2021/22 and the planning period include:

Income

(a) Investment property income is included at levels forecast by the City Surveyor, which included a £600k provision for rent free periods within 2020/21. 2021/22 includes a provision of £1.4m for turnover rents, for tenant categories as defined by the Property Investment Board. Future years are currently maintained at original forecast levels. A potential scenario could be that forecast income reduces by 10%, at which BHE would suffer a £10.5m loss in unrestricted income across the planning period.

(b) A cautious recovery has been forecast for Tower Bridge tourism activities in 2021/22, with income at roughly 40% of levels prior to the pandemic. Furlough income is not included post 2020/21. A near break-even position is forecast in 2022/23 (after accounting for all applicable central recharges). Over the MTFP period, this equates to a £4.4m net draw on reserves to the charity. With the next reopening date for 2021 unknown as this report is written, caution is required.

Expenditure

(c) Within previous revenue budgets presented to Members, the annual maintenance costs for the five bridges have been separately stated within capital and supplementary revenue expenditure forecasts, the exception being operational costs for Tower Bridge. From 2021/22, internal reporting is to be brought in line with statutory reporting, with full costs now presented in revenue forecasts as part of the 'surplus/(deficit) prior to charitable giving' in Table 2 above, shown in detail within appendix 2 as part of charitable expenditure.

(d) Several additional/increased commitments for BHE have been confirmed during this year for 2021/22, including activities relating to policing (£305k) and enforcement activities (£134k) on the bridges. Of the £1.0m approved in 2018 for the BHE Strategic Review Fund, £959k has been committed. Of this, £155k is budgeted to be spent in 2021/22, with the fund now closed to new bids. Costs for the implementation of activities resulting from the Strategic Review are also budgeted within the year (£275k).

(e) The above 2021/22 budget and MTFP has assumed that the full £125m approved for the *Bridging Divides* funding policy over five years will be committed, covering up to March 2023. An annual allocation of £25m is currently recommended for the following two years within the MTFP period.

Funds

(f) Alongside the costs noted at (c), annual transfers to the Bridges Repair designated fund are provided for, to ensure that the charity maintains this fund at the higher of the next five years' forecast expenditure or five years average costs across the 50-year plan. With planned projects having slipped, due to issues such as the Thames Tideway works being accommodated, the balance on this fund currently represents the former.

(g) The 2021/22 budget and MTFP include an assumption of 4.95% growth (gross of fees) in financial investments, with the majority of this driving gains within the unrestricted income fund due to the basis upon which securities are held. To consider:

   a. Reductions in this rate of return have minimal impact on the annual deficit however result in lower gains and therefore less unrestricted income funds available to fund the activities of the charity.
   b. Reductions further create an immediate need to increase amounts set aside within certain designated funds, notably that for bridge replacement, to ensure that sufficient provision is held for the future in a lower return environment.
   c. The cumulative nature of the bridge replacement fund means that if current/future growth levels reduce, a higher base amount is required to be held.

   Appendix 3 sets out the financial impact of reductions in returns from securities for a couple of scenarios of future levels of charitable funding.

11. The above analysis of potential impacts highlights the complex and uncertain environment in which BHE exists. Minor movements in assumptions impact directly upon the level of free reserves held, alongside the amounts of unrestricted income required to be held within the established designated funds – notably for future needs of the bridges. The scenarios stated in Appendix 3 lead to the recommendation for Members to consider retaining between £33-

55m of unrestricted income reserves over and above the minimum policy requirement for free reserves of £35m, as agreed by Court in March 2020, as a mitigation against potential income and growth uncertainties across the planning period.

12. Of the additional £200m approved by Court in March 2020, £180m has been assumed to remain available for commitment to application or expenditure for the ancillary objective despite the above uncertainties, with the remaining balance of £20m being retained within the grants designated fund until such time as the charity is able to reconsider its financial position having reflected on the assumptions driving financial performance and undertaken further analysis. Members can be reassured that further review will not prevent CBT from continuing its activities, with a significant sum having been designated for charitable funding. Together, the recommendation here and in paragraph 11 will enable BHE to maintain appropriate levels of reserves to mitigate the risks highlighted in this report.

Impact of potential changes to the Charity's governing documents

13. As stated in Appendix 4, BHE expects to be granted the power to adopt total return accounting for endowment funds within the new Supplemental Royal Charter. The total return accounting approach to investments held within a permanent endowment fund allows any of the increase in the value of the capital investment to be utilised as income. Funds are invested to maximise the return on investment without regard to whether that return is in the form of income or capital appreciation. The trustees decide each year how much of that total return within the endowment fund is released to income for spending against the objectives and how much is retained for investment (within the scope of the powers available to the charity). The allocation is made on an equitable basis to balance the need to fund current activities as well as to invest returns for the future. Trustees can therefore unlock capital gains which would otherwise be retained within the endowment. The decision on how much to spend is subject to an ongoing duty for the trustees to manage their investments in a manner that enables the charity to further its aims both now and in the future, and appropriate limits have been incorporated into the drafting of the new Supplemental Charter provisions.

14. Where a charity holds permanent endowment funds, but does not adopt total return accounting, rigid rules are in place whereby capital gains are reinvested and are unavailable to be spent on objectives. A charity can become less able to meet current needs when income from dividends, rentals etc is low, yet capital gains are high. The term 'asset rich, yet cash poor' would apply, with the potential for less optimal investment decisions being made as a result. This is the current position for BHE, as presented in Table 2, with the permanent endowment fund continuing to grow and the unrestricted income fund reducing.

15. Should the request for total return accounting for endowment funds be approved, revised

financial modelling will be required for BHE. This will reflect the express duty for the Trustee to act in good faith in a manner that will not prejudice the charity's ability to further the primary objective now and in the future. Members are therefore requested to note that a revised MTFP will be prepared for BHE following approval of the new Supplemental Royal Charter. Revisions would also reflect any changes as a result of a revised investment strategy to be adopted for BHE.

Capital and supplementary revenue project forecast expenditure

16. The BHE capital and supplementary revenue project budgets are submitted to the Court of Common Council in March as part of the Summary Budget Book. They comprise forecasts of expenditure against budgets which have been approved to spend in accordance with the relevant governance arrangements. The majority of this expenditure relates to the programme of improvements relating to the charity's investment property portfolio, which includes costs relating to the Climate Action Plan. The total anticipated costs are as stated in Table 4. As stated in paragraph 10(c), bridge repair costs are now incorporated within annual revenue budgets, to match statutory reporting requirements.

Table 4: Capital & Supplementary Revenue Projects

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	Total £'000
Designated Sales Pool	36,836	43,053	23,400	5,800	2,240	1,840	920	114,089
Income Fund	179	454	171	93	91	91	0	1,079
Bridges Repairs	3,640	10,269	5,110	1,560	0	0	0	20,579
	40,655	**53,776**	**28,681**	**7,453**	**2,331**	**1,931**	**920**	**135,747**

Risk

17. There are risks to the achievement of the budget and forecasts presented, as noted within paragraph 10. Continued careful monitoring of reserve levels is required in mitigation, noting that the income funds available for the ancillary object (charitable funding) will only be that assessed within a financial year as being surplus to that required for the primary object (that required for the maintenance and support of the five bridges now and in the future).

Conclusion

18. The above sets out the uncertain times within which this forecast is presented and reflects on the fact that this is a transitional period for BHE as we await approval of the Supplemental Royal Charter. Members are recommended to approve the revenue budget for 2021/22 and the MTFP for the period 2022/23 – 2024/25 and to approve that the additional allocation of income reserves designated to charitable funding of £200m be maintained, but with £20m retained within the designated fund until a further forecast is presented for review and approval.

As a further mitigation against risk, Members are recommended to maintain unrestricted income funds at between £33-55m above the approved reserves policy of £35m.

Appendices

- Appendix 1 – Financial plan strategy & assumptions
- Appendix 2 – 2021/22 budget & medium-term financial plan
- Appendix 3 – Potential scenarios based on reduced growth rates on financial securities
- Appendix 4 – BHE Strategic Governance Review

Appendix 1

Medium Term Financial Strategy & Assumptions

The strategy and assumptions in relation to Bridge House Estates are all anchored in the best interests of the charity and are as follows:

1. Adhering to a planning framework which focuses on ensuring efficiency and effectiveness within all expenditure, rather than the budget reductions and savings programmes applied to other funds of the City Corporation.
2. With the maintenance and support of the five Thames bridges being the primary objective of the charity, sufficient net income is required to be generated over the medium term to finance both ongoing support and maintenance needs, and to set aside sufficient funds to cover the eventual replacement costs of each bridge in the long term.
3. After the responsibilities relating to the bridges have been met, free reserves are to be maintained at a minimum of £35m with surplus income being available to be utilised for other charitable purposes, undertaken by the City Bridge trust (CBT).
4. Continuing to seek property investment opportunities to enhance income/provide capital appreciation during the year subject to any financing being met from the BHE Designated Sales Pool (DSP). Requirements under the Climate Action Plan that are related to investment properties to be funded from the DSP.
5. Assumptions relating to inflation (as applied to costs relating to the bridges) and investment growth:

	2020-21	2021-22	2022-23	2023-24	Ongoing
Inflation - Pay	2.00%	0.00%	2.00%	2.00%	2.00%
Inflation - Other	2.00%	2.00%	2.00%	2.00%	2.00%
Bank Base Rate	0.10%	0.10%	0.10%	0.10%	0.10%
Securities Growth	4.95%	4.95%	4.95%	4.95%	4.95%
Securities fees	0.75%	0.75%	0.75%	0.75%	0.75%
Property Growth	-10.00%	5.00%	5.00%	3.10%	3.10%
Property Yields (Rental income)	Forecast	Forecast	Forecast	Forecast	Flat

Appendix 2

Medium term financial plan

	2019/20 actuals £m	2020/21 latest forecast £m	2021/22 forecast £m	2022/23 forecast £m	2023/24 forecast £m	2024/25 forecast £m
Voluntary income	1.8	0.0	0.0	0.0	0.0	0.0
Charitable activities - Tower Bridge	6.7	1.7	2.7	6.3	6.5	6.9
Investment income:						
- Property Investments	34.6	26.1	26.9	28.6	30.8	32.2
- Financial Investments	2.5	2.4	2.8	2.9	3.0	3.0
- Interest receivable	0.8	0.7	0.4	0.5	0.7	1.0
Total Investment income	37.9	29.2	30.1	31.9	34.5	36.2
Other income	0.2	0.4	0.4	0.4	0.4	0.4
Total income	**46.6**	**31.3**	**33.2**	**38.6**	**41.4**	**43.5**
Raising funds:						
- Property Investments	(10.2)	(9.8)	(9.3)	(9.5)	(9.7)	(9.9)
- Financial Investments	(5.1)	(6.1)	(5.1)	(4.5)	(3.8)	(3.9)
Total expenditure on raising funds	(15.3)	(15.9)	(14.5)	(14.0)	(13.5)	(13.8)
Charitable activities:						
- Repair & maintenance of bridges	(6.5)	(13.1)	(17.5)	(18.9)	(12.0)	(13.3)
- Tower Bridge	(6.2)	(4.8)	(4.7)	(6.3)	(6.4)	(6.5)
- Charitable funding	(33.7)	(49.7)	(110.5)	(109.5)	(29.5)	(28.6)
Total expenditure on charitable activities	(46.4)	(67.5)	(132.7)	(134.7)	(47.9)	(48.3)
Other expenditure - pension scheme costs	(1.1)	(1.1)	(1.1)	(1.2)	(1.2)	(1.2)
Total expenditure	**(62.8)**	**(84.6)**	**(148.3)**	**(149.9)**	**(62.6)**	**(63.3)**
Net (expenditure)/income	(16.2)	(53.2)	(115.1)	(111.3)	(21.2)	(19.8)
Gains/(losses) on investments/pension scheme	57.9	(54.0)	69.3	68.0	50.9	52.7
Net movement in funds	41.7	(107.2)	(45.8)	(43.3)	29.7	32.9
Funds b/f as 01 April	1,494.7	1,536.4	1,429.2	1,383.4	1,340.1	1,369.7
Total funds c/f	**1,536.4**	**1,429.2**	**1,383.4**	**1,340.1**	**1,369.7**	**1,402.7**
Funds of the charity:						
Permanent endowment funds	984.2	903.0	946.0	991.0	1,023.0	1,055.0
Restricted Funds	2.8	0.0	0.0	0.0	0.0	0.0
Designated funds:						
Bridges repairs	41.7	44.7	33.5	23.4	20.9	18.5
Bridges replacement	158.5	168.7	174.5	180.5	186.7	193.2
Grant-making	219.2	201.2	126.0	46.0	45.0	45.0
Social investment fund	20.9	21.3	21.5	21.9	22.3	22.9
Property dilapidations/service charges	0.4	0.4	0.4	0.4	0.4	0.4
	440.7	436.3	355.9	272.2	275.3	280.1
General funds	127.6	109.2	101.1	97.0	91.9	88.5
Pension reserve	(18.9)	(19.3)	(19.7)	(20.1)	(20.5)	(20.9)
Free reserves	108.7	89.9	81.5	76.9	71.4	67.6
	1,536.4	**1,429.2**	**1,383.4**	**1,340.1**	**1,369.7**	**1,402.7**

Appendix 3

Potential scenarios based on reduced growth rates on financial securities

Impact		Annual deficit	Unrealised gains	Designated funds	Free reserves
Regular charitable-funding at £25m pa 2023/24 onwards					
Reduction in growth by 1% to 3.95%		Minimal	Reduction of £6-8m pa	Year 1 increase in value required by £19m	Negative free reserves from 2023/24 onwards
Reduction in growth by 2% to 2.95%		Minimal	Reduction of £11-13m pa	Year 1 increase in value required by £44m	Negative free reserves from 2022/23 onwards

Impact		Annual deficit	Unrealised gains	Designated funds	Free reserves
Regular charitable-funding at £15m pa 2023/24 onwards					
Reduction in growth by 1% to 3.95%		Minimal	Reduction of £6-7m pa	Year 1 increase in value required by £19m	Remain postive throughout MTFP period
Reduction in growth by 2% to 2.95%		Minimal	Reduction of £11-12m pa	Year 1 increase in value required by £44m	Negative free reserves in 2022/23, returning to a positive balance of £10-35m

Appendix 4

BHE Strategic Governance Review: relevant updates

The BHE Strategic Governance Review was initiated to assess how the governance of BHE could be enhanced, to ultimately increase the reach and impact of the charity's activities and to model good practice. Relevant tasks to this report are:

Reconstitution of the permanent endowment fund

During the financial year 2017/18, BHE undertook a review of its funds held. This concluded that a substantial portion of the charity's assets were held as permanent endowment, a fund which was reconstituted within the financial statements of the charity. These capital funds must be retained and cannot be spent on the charity's purposes. At present, the endowment fund is invested in property, together with approximately 12% of financial securities held by BHE. Under the current governance powers held by BHE, any capital gains made on the assets that represent the endowment are required to be reinvested and are unavailable to be spent on its objectives. As a result, changes in the value of the investments held within the endowment fund do not impact upon the funding available for activities undertaken by BHE.

Supplemental Royal Charter

The current focus of the Strategic Governance Review is on the additional powers being sought through the Privy Council's Office (PCO) by grant of a new Supplemental Royal Charter. The changes being pursued intend to:

(a) provide clarity or remove obsolete provisions;
(b) provide greater flexibility in the application of funds;
(c) provide more modern and flexible powers in relation to administration; and
(d) reflect good governance practice.

Relevant to this report is the power being sought to take a total return approach to investments held within the permanent endowment fund, so enabling access to an element of the capital gains that have accrued over recent years. Paragraph 13 of the main report explains the concept of 'total return accounting for endowed charities' and clarifies the impact on a future MTFP. Alongside this is the request for the power to borrow in relation to projects related to the bridges, so providing increased flexibility to BHE in the manner in which it could decide to fund future significant expenditure.

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Committee:	Date(s):
Finance Committee	16 February 2021
Subject: Administration costs and reserves policies as applicable to the Sundry Trusts and Open Spaces Charities	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly	**n/a**
Does this proposal require extra revenue and/or capital spending?	**No**
Report of: The Chamberlain	**For Decision**
Report Author: Karen Atkinson, Head of Charity & Social Investment Finance	

Summary

This report considers the current policy for the allocation of administrative costs and expenses applicable to the charities for which the City Corporation is sole trustee (with the exception of Bridge House Estates), or where all the trustees are individuals appointed by or as a consequence of their position with the City Corporation which provides direct support to those charities. These costs and expenses are currently met by City's Cash. Charities usually reimburse their trustees the legitimate costs and expenses incurred by the charity trustee in carrying out their trustee duties.

In considering the broader implications of the City Corporation's current financial position and that current non-recovery of trustee costs and expenses is anomalous with practice in the sector, it is considered appropriate for the City Corporation to now recover such costs and expenses from each charity from 2021/22. The resulting savings for City's Cash will contribute to the Fundamental Review target.

Should the City Corporation approve a revised policy in relation to its recovery of administrative costs and expenses incurred in respect of the aforementioned charities, the City Corporation as charity trustee, or the individual trustee bodies themselves, in each case will be required, in the best interests of each charity, to consider this change in policy and its impact for each charity, and to approve revisions to each charity's reserves policy deriving from the City Corporation's policy change. Decisions for the Court of Aldermen will be referred to that assembly.

Recommendations:

Members are asked for the City Corporation acting in its general corporate capacity to:

1) Approve the change in policy such that each of the Sundry Trusts and Open Spaces charities listed in Appendix A bear the legitimate and reasonable costs and expenses incurred by the City Corporation in administering each charity, whether as charity trustee itself or where all the trustees are individuals appointed by, or as a consequence of their position with, the City Corporation (paragraph 6 to 7).

Subject to Recommendation 1 being agreed, Members are asked, acting independently for the City of London Corporation in its separate legal capacity as the sole charity Trustee of each of the charities listed in Appendix A Table A.1, and solely in the best interests of each charity, to:

2) To Note the change in policy by the City Corporation as charity trustee in each case, and approve the revised Reserves Policies for the charities as listed in Appendix B Table B.1 (paragraphs 8 to 13)

3) To delegate authority to the Chamberlain to determine with reference to the Charity's SORP and the particular circumstances in each case, the appropriate target level of free reserves for each of the charities listed in Appendix B Table B.1.

To Note that should recommendation 1 be agreed, decisions for those charities listed in Appendix A Tables A.2 and A.3, and Appendix B Tables B.2 and B.3 as relevant, will be referred to the responsible decision-making body in each case.

Main Report

Background

1. The City of London Corporation (City Corporation) is Trustee, or appoints the individual trustees, of a number of charities, known collectively as the Sundry Trusts and Open Spaces charities. The majority of charities are administered by the Court of Common Council, but some are the responsibility of the Court of Aldermen. Members have agreed that a comprehensive Corporate Charities Review should be undertaken of these charities, to ensure that each charity is well managed and governed and achieves maximum impact for beneficiaries.

2. As part of their review, officers identified that the current policy regarding the costs and expenses incurred in the administration of some of these charities, including the annual external audit fee, is that these costs are met by the City Corporation through City's Cash, rather than the charities themselves. There is however inconsistency, with specific exceptions to this being:

    (a) Internal management and administration costs relating to the Open Spaces charities are met from the Open Spaces Department's budget which is principally funded from City's Cash, and consistent with usual departmental re-charges of central support departments' costs the Chamberlain's, City Surveyor's, Comptroller & City Solicitor's and Town Clerk's Departments are re-charged to those departmental budgets.

    (b) Internal costs for administrative duties performed by Chamberlain's and Comptroller & City Solicitor's staff are recharged to the Samuel Wilson's Loan Charity.

    (c) Internal costs relating to the processing of hardship bursaries by Chamberlain's staff are charged to the City of London Freemen's School Bursary Fund and City of London School for Girls Bursary Fund.

    (d) The costs incurred by the Central Grants Unit (CGU) on behalf of those charities for which grant administration and management services are provided are recharged to the relevant charities.

3. As the Sundry Trusts and Open Spaces charities themselves do not meet either some or all relevant costs and expenses, many of these charities do not currently have a requirement to maintain free reserves to cover the operational costs of their charity. Their stated reserves policies do not therefore refer to a target level to be held, as is required by the Charities SORP[1]

4. The Charity Commission defines reserves as that part of a charity's unrestricted income funds that are freely available to spend on any of the charity's purposes. Free reserves exclude unrestricted income funds designated for specific purposes. Disclosures within

[1] Statement of Recommended Practice (SORP) Accounting and Reporting by Charities, published in 2015, Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102)

the Trustees' Annual Report relating to the reserves policy include the target amount of free reserves that a charity's trustees have agreed to hold, together with the actual amount held. Explanations should be stated where there is a significant difference between the two amounts.

5. If the charity's trustees have decided that holding free reserves is unnecessary, the report must disclose this fact and provide the reasons behind this decision (as permitted by the SORP).

Proposals

Recharging administrative costs

6. The Corporate Charities Review has kept abreast of the broader financial implications facing the City Corporation, notably the savings required by City's Cash within the Fundamental Review. It is therefore recommending that a decision be made by the City Corporation, in managing its own financial position, to revise its policy towards the recovery of legitimate and reasonable costs and expenses incurred through its administration of each of those charities as charity trustee. Charity trustees cannot profit from their relationship with their charity, but they have a right to be reimbursed for the legitimate and reasonable costs and expenses properly incurred while undertaking their duties. It is therefore considered that no conflict of interest arises in this case for the City Corporation in acting in two separate legal capacities taking these decisions – for itself and as charity trustee. However, it is right that the separate decisions which are required are properly recognised. It is recommended, in the interests of efficiency, that a consistent approach should be adopted for the recovery of all such costs and expenses from the charities concerned. This would also include a portion of the external annual audit fee. It is expected that economies of scale in place within the City Corporation will be to the benefit of the smaller charities, as compared to services externally procured.

7. The Corporate Charities Review has undertaken an appropriate level of consultation where required and will refer this recommendation to other committees and trustee bodies responsible for the administration and management of these charities as relevant (refer Appendix A Tables A.2 and A.3 in particular). The Corporate Charities Review will continue to consider operational administration costs and expenses for each charity when considering the level of funds available for future distribution by each charity, making appropriate recommendations to the responsible decision-making body for each charity where required. Officers therefore do not anticipate any issues with the proposed change in policy by the City Corporation. Such matters will, of course, be kept under review and proper scrutiny by the relevant decision-making body for each charity is expected to continue in the usual way.

Reserves Policy

8. The Charities SORP stipulates the basis for an appropriate Reserves Policy in holding funds so as to be sufficient to mitigate financial risk and to ensure resilience in the charity's operations. Levels of reserves held is a key issue for the regulator, the Charity Commission, with an expectation that a charity hold sufficient funds to ensure that it remains as a going concern in the future but at the same time unrestricted income funds are applied in furthering the charity's objects in a timely basis.

9. To arrive at an appropriate target amount to be held as free reserves, the trustee needs to consider the need to cover future operational costs, should a reduction in income occur. It is recommended that, should Members agree that all administrative costs should be applied to each charity, the following proposal is adopted:

(a) Open Spaces: continue with current policies whereby the holding of free reserves is not considered necessary due to the funding arrangement in place with City's Cash;

(b) Sundry Trusts (Appendix B. Table B.1): to revise current reserve policies held to include an appropriate target relevant for each individual charity to reflect the amount considered sufficient to cover working capital needs over a 12-month period. This will take account of a decision by the City Corporation to recover the reasonable costs and expenses of the charity's administration.

10. The proposed wording for a revised Reserves Policy will vary from charity to charity but should include the following:

"The free reserves of the charity are held to cover working capital needs. The Trustee believes that an amount of £xxx should be held at present, which will be subject to annual review."

11. In line with advice from the auditors (BDO) , the format of this policy is consistent with that of Bridge House Estates (BHE) (Charity Reg. No. 1035628), a very large charity also administered by the City Corporation as Trustee acting by the Court of Common Council. This also is in line with advice from the City Corporation's Corporate Charities Review to ensure that we take learnings from the BHE Governance Review currently underway and apply that for the better administration of other charities where the City Corporation is Trustee.

12. Adopting the recommended amended reserves policy will ensure that each charity maintains sufficient funds to cover costs, should there be any unexpected deviations to future income levels. Target levels held should be subject to regular review and are proposed to be delegated to the Chamberlain to determine in consultation with other committees responsible for the administration of each charity where applicable.

13. Appropriate recommendations will also be presented to the Court of Aldermen and to the three charities with individuals as charity trustees (Appendix B Tables B.2 and B.3).

Conclusion

14. In considering its own financial position, it is considered appropriate that the City Corporation recovers the reasonable costs and expenses incurred in its administration of the charities for which it is trustee. Whilst acting in its capacity as trustee, acting in the best interests of each charity, the City Corporation is required to ensure that suitable reserves policies are in place to enable resilience in the relevant charity's operations.

Appendices

Appendix A – Schedule of Open Spaces & Sundry Trust charities

Appendix B – Schedule of charities requiring revised reserve policies

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Appendix A - Schedule of Open Spaces & Sundry Trust charities

Table A.1 - Charities where the City Corporation is the sole corporate trustee acting by the Court of Common Council

Charity name	Charity number
Consolidated within City's Cash	
Ashtead Common	1051510
Burnham Beeches & Stoke Common	232987
Epping Forest	232990
Hampstead Heath	803392
Highgate Wood & Queen's Park Kilburn	232986
West Ham Park	206948
West Wickham & Coulsdon	232988
Sir Thomas Gresham Charity	221982
Keats House	1053381
Consolidated within City Fund	
King George's Field	1085967
Other	
City of London Charities Pool	1021138
Guildhall Library Centenary Fund	206950
City Educational Trust Fund	290840
CoL Combined Education Charity	312836
CoL Corporation Combined Relief of Poverty Charity	1073660
CLS Bursary and Awards Fund	276654
CLSG Bursary Fund	276251
CLSG Scholarships & Prizes Fund	276251-5
CLFS Bursary Fund	284769
Scholarships & Prizes Funds administered in connection with CLFS	312120
The City of London Almshouses	1005857
Hampstead Heath Trust Fund	803392-1

Table A.2 - Charities where the City Corporation is the sole corporate trustee acting by the Court of Aldermen

Charity name	Charity number
Emanuel Hospital	206952

Table A.3 – Charities with individual trustees

Charity name	Charity number
Sir William Coxen Trust Fund (Trustees are all Aldermen)	206936
Samuel Wilson's Loan Charity (Trustees are all Aldermen)	206964
Vickers Dunfee Memorial Benevolent Fund (Police & Special Constabulary Officers and elected Members, *ex officio*)	238878

Appendix B – Schedule of charities requiring revised reserve policies

Table B.1 – Charities where the City is the sole corporate trustee acting by the Court of Common Council

Charity name	Charity number
City of London Charities Pool	1021138
Hampstead Heath Trust Fund	803392-1
Guildhall Library Centenary Fund	206950
City Educational Trust Fund	290840
CoL Corporation Combined Education Charity	312836
CoL Corporation Combined Relief of Poverty Charity	1073660
CLS Bursary and Awards Fund	276654
CLSG Bursary Fund	276251
CLSG Scholarships & Prizes Fund	276251-5
CLFS Bursary Fund	284769
Scholarships & Prizes Funds administered in connection with CLFS	312120
The City of London Almshouses	1005857

Table B.2 – Charities where the City is the sole corporate trustee acting by the Court of Aldermen

Charity name	Charity number
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Table B.3 – Charities with individual trustees

Charity name	Charity number
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Samuel Wilson's Loan Charity (Trustees are all Aldermen)	206964
Vickers Dunfee Memorial Benevolent Fund (Police & Special Constabulary Officers and elected Members, *ex officio*)	238878

Committee(s)	Dated:
Finance Committee	16 February 2021
Subject: Housing Revenue Account	**Public**
Which Outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	1,2,3,4,5,8,9,10,11 & 12
Report of: The Chamberlain	**For Decision**
Report Author: Mark Jarvis	

Summary

This report sets out the financial difficulties around the ring-fenced Housing Revenue Account (HRA); particularly for loss of rental income on commercial properties during the COVID pandemic in the current financial year. The Account must be self-supporting and cannot use other City Fund resources of the Corporation to fund revenue expenditure. Approval is requested for support from City's Cash contingencies as a grant of £450k to ensure the HRA does not fall into deficit in the short term. There is no national compensation package forthcoming for lost HRA income, although this was requested by the Local Government Association as a response to the local government settlement in 2020-21. It also presents the longer term forecast which shows that reductions in the cost base are needed over the next two to three years to ensure that the HRA can meet all expenditure, including expected loan repayments and interest payments, from within the rental income generated by the properties in the Account.

Recommendation

Members are asked to:

i) Approve, exceptionally, a £450k grant from City's Cash 2020/21 contingencies to ensure the HRA remains in balance this year, covering commercial income losses.

ii) note the need for a review of the HRA cost base by the Housing department so that further support is not required in the medium term and the importance of the timely completion of new units to cover the cost of future loan repayments.

Main Report

Introduction

1. The HRA is a ring-fenced fund that means that the Account must be self-supporting and cannot use other City Fund resources of the Corporation to fund revenue expenditure. Note however the HRA can borrow from City Fund for Capital major works, but cannot borrow to fund revenue expenditure.

2. The HRA currently has no borrowing, but has for some time planned to borrow to upgrade the existing housing stock with works to roof replacement, window renewals, new fire doors and various decent home works.

3. The HRA Revenue Reserve position remains extremely difficult in the short term (see Budget Estimates Report at Appendix 1). Revenue reserves have been run down previously as a result of delays of up to two years in income generating new build projects, which has meant that more than £1.2m per annum in additional rental revenue has been foregone for this period. In addition, the proportion of the major works programme charged to revenue (as supplementary revenue projects) was higher than anticipated, which has further reduced revenue reserves. These issues have then been compounded by the in-year effect of COVID-19 causing a reduction in rental income, including thanke one quarter given rent free. The current forecasts show that £450k of support is currently needed in year. This figure may need to rise depending on the review of recoverability of deferred debts at the year end. Importantly, this assumes that there is no national compensation package forthcoming for lost HRA income, although this has been requested by the Local Government Association as a response to the local government settlement in 2020-21. Supporting the HRA through this period would be in line with support given to other restricted funds, however other HRA's across the country in similar positions do not have recourse to a fund like City Cash and are therefore having to make significant cuts to revenue expenditure and delaying borrowing for capital works in response.

4. In the medium term, the Budget Estimate report also makes clear that there is a need for a full review of the HRA cost base so that future planned expenditure can be contained within the envelope of the expected rental income stream. In year savings have been made on the HRA expenditure through the re-profiling of repair works and holding of staffing vacancies but these responses are only of a temporary nature and more substantial and longer-term efficiencies are needed. Furthermore, the affordability of the expected loan repayments is closely linked to the coming on stream of additional rental income of £1.2m from the new units expected at COLPAI and Sydenham Hill, so any additional delays will cause significant revenue funding issues.

Conclusion

5. This report identifies that immediate support is required from City's Cash contingencies to cover the loss of income from commercial properties in 2020/21. Action is needed by the Housing department to reduce revenue costs in the medium term.

Appendices

- Appendix 1 – HRA Budget estimates 2021/22

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Committee:	Dated:
Community and Children's Services	29 January 2021
Subject: HOUSING REVENUE ACCOUNT (HRA) AND CAPITAL BUDGETS 2020/21	**Public**
Report of: The Chamberlain The Director of Community & Children's Services	**For Decision**

Summary

1. This report is the annual submission of the revenue and capital budgets overseen by your Committee. In particular it seeks approval for the provisional revenue budget for 2021/22, for subsequent submission to the Finance Committee. Details of the HRA draft capital budget are also provided.

2. The provisional nature of the revenue budgets particularly recognises that further revisions might arise from the necessary budget adjustments resulting from corporate projects.

3. There is a significant planned investment in the next year in the major works capital programme to upgrade the fabric of existing HRA social housing. However, the Revenue Reserve position remains extremely difficult in the short term as a result of delays of up to two years in income generating new build projects, which has meant that more than £1.2m per annum in additional rental revenue has been foregone. In addition, the proportion of the major works programme charged to revenue (as supplementary revenue projects) was higher than anticipated, which has further reduced reserves. There is then in the year effect of COVID-19 causing a reduction in commercial rental income, including the quarter given rent free. These estimates have therefore had to assume that there will be a level of support from City Cash grant to make good any shortfall in the overall Reserve position at the year end.

4. The General Housing Revenue Reserve position is summarised below: -

Table 1 General Housing Revenue Reserve	Original Budget 2020/21 £000	Original Budget 2021/22 £000	Movement
Service Expenditure	(13,237)	(12,900)	337
Service Income	15,249	15,847	598
Other Movements	0	0	0
Transfer to Major Repairs Reserve	(2,878)	(3,064)	(186)
(Surplus)/deficit in year	(866)	(117)	749
Balance brought forward	1,978	134	(1,844)
Balance carried forward	1,112	17	(1,095)

5. Overall, the 2021/22 provisional budget indicates a deficit for the year of £117k a decrease of £749k over the 2020/21 budget. The decrease is mainly due to an increased estimate of service charge recovery costs, and reduced capital charges. Revenue Reserves at 31 March 2021 are now expected to be £17k.

6. The overall Major Repairs Reserve (MRR) position is summarised below: -

Table 2 Major Repairs Reserve	Original Budget 2020/21 £000	Orginal Budget 2021/22 £000	Movement
Transfer from General Housing Revenue Reserve (see contra Table 1)	2,878	3,064	186
Net capital expenditure after / grant funding	(24,383)	(22,320)	2,063
City Fund Loan	22,000	19,228	(2,772)
Movement in MRR in year	495	(28)	(523)
Balance brought forward	674	278	(396)
Balance carried forward	1,169	250	(919)

- The planned reduction in the Major Repairs Reserve reflects the very significant investment in the capital programme for major works across the 5-year asset management plan, including the decent homes program, window renewal, roof replacements and fire doors. The City Fund loan is now forecast to begin at the end of 2021/22 rather than in 2020/21. The borrowing requirement has been expected and included in the Corporations Medium Term Financial Plan for a number of years.

Recommendations

7. The Committee is requested to:
   - review the provisional 2021/22 revenue budget to ensure that it reflects the Committee's objectives and, if so, approve the proposed budget for submission to the Finance Committee.
   - review and approve the draft capital budget.
   - authorise the Chamberlain to revise these budgets to allow for further implications arising from departmental reorganisations and other reviews.

Main Report

<u>Management of the Housing Revenue Account</u>

8. The HRA is ring-fenced by legislation which means that the account must be financially self-supporting. To enable this, a 30-year plan has been produced and a more detailed 5 year plan (attached as Appendix B). The budgets in this report are included as an element of the plan. Although the "capital account'' is not ring fenced by law, the respective financial positions of the HRA and the City

Fund have meant that capital expenditure is financed without placing a burden on the use of City Fund resources. HRA related capital expenditure continues to be funded from the HRA, including the Major Repairs Reserve, a city fund loan and homeowners making their appropriate contributions.

Business Planning Priorities

9. A number of development opportunities and major works projects will require considerable resource input but will result in increased social housing capacity and improvements to our properties, particularly in terms of energy efficiency.

Proposed Budget Position 2020/21 and 2021/22

10. The detailed budgets are set out in table 3 over the page.

Actual 2019-20 £000	Table 3 - HOUSING REVENUE ACCOUNT	*Original Budget 2020-21 £000*	Latest Budget 2020/21 £000	Original Budget 2021-22 £000	Movement 2020-21 to 2021-22 £000	Paragraph Ref
	LOCAL RISK					
	Expenditure					
(3,556)	Repairs, Maintenance & Improvements	*(3,453)*	(2,976)	(2,976)	477	Appendix 1
(3,085)	Supplementary Revenue Budgets	*(816)*	(460)	(530)	286	12
(1,262)	Technical Services and City Surveyor's Costs	*(1,181)*	(1,262)	(1,262)	(81)	
(3,906)	Employee Cost	*(4,556)*	(4,231)	(4,535)	21	
(274)	Premises & Other Support Cost	*(530)*	(962)	(900)	(370)	13
(2,771)	Specialised Support Services	*(2,701)*	(2,688)	(2,697)	4	
(14,853)	**TOTAL Expenditure**	*(13,237)*	(12,579)	(12,900)	337	
	Income					
	Rent					
10,679	Dwellings	*10,705*	10,265	10,691	(14)	
469	Car Parking	*658*	634	638	(20)	
135	Baggage Stores	*130*	126	126	(4)	
1,322	Commercial	*1,609*	1,291	1,626	17	
	Charges for Services & Facilities				0	
130	Community Facilities	*112*	60	110	(2)	
1,607	Service Charges	*1,998*	2,272	2,301	303	14
23	Other & Support from City Cash	*37*	455	355	318	15
14,365	**TOTAL Income**	*15,249*	15,103	15,847	598	
(488)	**NET INCOME FROM SERVICES**	*2,012*	2,524	2,947	935	
0	Loan Charges – Interest	*0*	0	0	0	
52	Interest Receivable	*0*	52	0	0	
(436)	**NET OPERATING INCOME**	*2,012*	2,576	2,947	935	
0	Loan Charges – Principal	*0*	0	0	0	
(3,194)	Transfer to Major Repairs Reserve	*(2,878)*	(3,080)	(3,064)	(186)	
(3,630)	**(Surplus) / deficit FOR THE YEAR**	*(866)*	(504)	(117)	749	
4,268	Surplus brought forward	*1,978*	638	134	(1,844)	
638	**SURPLUS CARRIED FORWARD**	*1,112*	134	17	(1,095)	

11. Expenditure and unfavourable variances are presented in brackets. Only significant variances (generally those greater than £50,000) have been commented on in the following paragraphs.

12. The reduction of £286,000 in the Supplementary Revenue Property Projects cost reflects the change in the mix of the major works projects due to be undertaken in 2021/22 as the purely Capital element of the programme comes to the fore.

13. Premises Cost has increased by £370,000 mainly due to increases in support costs and the ending of the process of deducting commission charges from the cost of water rates.

14. The increase in income for service charges of £303,000 is due to a revision to the estimates of cost recovery in the 2020/21 original budget which was understated. The revised estimates reflect both actual levels of recovery and the revised estimates for 2021/22.

15. These budget estimates have had to include an expected level of City Cash grant revenue support to make good lost revenue income.

Actual 2019-20 £000	**Table 4 - HOUSING REVENUE ACCOUNT**	***Original Budget 2020-21 £000***	**Latest Budget 2020/21 £000**	**Original Budget 2021-22 £000**	**Movement 2020-21 to 2021-22 £000**	**Paragraph Ref**
	MAJOR REPAIRS RESERVE (MRR)					
	Balance Brought Forward					
3,194	Transfer from HRA	*2,878*	3,080	3,064	186	
(10,867)	Capital Expenditure	*(48,741)*	(30,874)	(65,125)	(16,384)	
5,413	Section 106 / Grants	*18,218*	22,338	35,321	17,103	
1,154	Reimbursements from homeowners	*6,140*	1,941	7,109	969	
1,000	RTB Receipts	*0*	375	375	375	
270	GLA Grant					
0	City Fund Loan	*22,000*	0	19,228	(2,772)	
164	**Transfer from/(to) reserve for year**	*495*	(3,139)	(28)	(523)	
3,253	Balance Brought Forward	*674*	3,417	278	(396)	
3,417	**MRR BALANCE CARRIED FORWARD**	***1,169***	**278**	**250**	**(919)**	

16. Analysis of the movement in manpower and related staff costs are shown in Table 5 below. These costs are spread across Direct Employee Cost, Technical Services and Specialised Support Services.

Table 5	Original Budget 2020/21		Original Budget 2021/22	
Manpower statement	**Manpower Full-time equivalent**	**Estimated cost £000**	**Manpower Full-time equivalent**	**Estimated cost £000**
Supervision and Management	36	(1,968)	35	(1,974)
Estate Officers	13	(504)	11	(481)
Porter/Cleaners	24	(919)	22	(939)
Gardeners	4	(127)	3	(117)
Wardens	0	(20)	0	(20)
Technical Services (Revenue and Capital)	42	(2,628)	42	(2,603)
TOTAL HOUSING REVENUE ACCOUNT	**119**	**(6,166)**	**113**	**(6,134)**

Potential Further Budget Developments

17. The provisional nature of the 2020/21 revenue budget recognises that further revisions may be required.

Revenue Budget 2021/22

18. The forecast outturn for the current year is in line with the Latest Approved Budget.

1. The latest estimated costs for the Committee's draft capital and supplementary revenue projects are summarised in the tables below.

2. Pre-implementation costs comprise feasibility and option appraisal expenditure which has been approved in accordance with the project procedure, prior to authority to start work.

3. The anticipated funding of this significant programme is indicated above, with the 2020/21 and 2021/22 financial impact on HRA resources being reflected in the revenue estimates figures included elsewhere in this report. In addition, the HRA will need to borrow from the City Fund in order to finance its current capital programme.

4. The latest Capital and Supplementary Revenue Project budgets will be presented to the Court of Common Council for formal approval in March 2021.

Draft Capital and Supplementary Revenue Projects

Estate	Exp. Pre 01/04/20	2020/21	2021/22	2022/23	2023/24	2024/25	Later Years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pre-implementation								
Avondale	-	-	-	-	-	-	-	-
Dron	22	272	1,300	-	-	-	-	1,594
Golden Lane	72	738	4,991	6,194	-	-	-	11,995
Holloway	32	425	1,370	1,370	-	-	-	3,197
HRA General - Various	158	684	7,823	8,103	-	-	-	16,768
Southwark	192	596	3,148	3,313	-	-	-	7,249
Sydenham	24	24	828	-	-	-	-	876
William Blake	53	49	1,915	-	-	-	-	2,017
Windsor	21	61	1,528	-	-	-	-	1,610
York Way	-	768	450	195	-	-	-	1,413
Sub-total Pre-implementation Costs	**574**	**3,617**	**23,353**	**19,175**	**-**	**-**	**-**	**46,719**

Authority to start work granted	Exp. Pre 01/04/20	2020/21	2021/22	2022/23	2023/24	2024/25	Later Years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Avondale	8,730	894	-	-	-	-	-	9,624
Dron	737	41	-	-	-	-	-	778
Golden Lane	14,223	718	2,970	-	-	-	-	17,911
Holloway	621	25	-	-	-	-	-	646
HRA General - Various	14,696	19,300	9,206	106	-	-	-	43,308
Isleden	118	593	947	-	-	-	-	1,658
Middlesex	3,925	2,269	3,112	-	-	-	-	9,306
Southwark	1,023	37	-	-	-	-	-	1,060
Sydenham	2,133	2,526	24,762	13,117	-	-	-	42,538
William Blake	1,036	51	-	-	-	-	-	1,087
Windsor	386	27	-	-	-	-	-	413
York Way	658	1,434	1,610	-	-	-	-	3,702
Sub-total Authority to Start Work	**48,286**	**27,915**	**42,607**	**13,223**	**-**	**-**	**-**	**132,031**

	Exp. Pre 01/04/19	2020/21	2021/22	2022/23	2023/24	2024/25	Later Years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
TOTAL COMMUNITY & CHILDREN'S SERVICES - HRA	**48,860**	**31,532**	**65,960**	**32,398**	**-**	**-**	**-**	**178,750**
Of this,								
Capital	45,371	30,874	65,125	32,398	-	-	-	173,768
Supplementary Revenue	3,489	658	835	-	-	-	-	4,982
	48,860	31,532	65,960	32,398	-	-	-	178,750
Funded by								
Long Lessee contributions		2,160	7,414	4,540	-	-	-	14,114
External contributions (S106, grants)		22,341	35,321	13,313	-	-	-	70,975
CIL		-	-	-	-	-	-	-
Borrowing		-	19,228	11,481	-	-	-	30,709
Right to Buy Receipts		375	375	-	-	-	-	750
HRA balances		460	530	-	-	-	-	990
Major Repairs Reserve		6,196	3,092	3,064	-	-	-	12,352
		31,532	65,960	32,398	-	-	-	129,890

Appendices:

Appendix A: Schedule of Repairs, Maintenance and Improvements.

Appendix B: 5 Year HRA Financial Forecast

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Appendix A

REPAIRS, MAINTENANCE AND IMPROVEMENTS Responsible Officer is the Director of Community and Children's Services		***Original Budget 2020/21 £000***	**Revised Budget 2020/21 £000**	**Original Budget 2021/22 £000**
GENERAL				
BREAKDOWN AND EMERGENCY REPAIRS				
Building	E	*(1,407)*	(1,000)	(1,000)
Electrical	E	*(285)*	(200)	(240)
Lifts	E	*(15)*	(10)	(10)
Heating and Ventilation	E	*(260)*	(130)	(130)
Recharge and Insurance Claims	E	*(50)*	(50)	(50)
		(2,017)	**(1,390)**	**(1,430)**
CONTRACT SERVICING				
Building	E	*(72)*	(72)	(72)
Electrical	E	*(200)*	(350)	(340)
Lifts	E	*(152)*	(160)	(140)
Boilers	E	*(150)*	(250)	(250)
Ventilation	E	*(500)*	(500)	(500)
Heating	E			
		(1,074)	**(1,332)**	**(1,302)**
CYCLICAL WORK AND MINOR IMPROVEMENTS				
Elderly/Disabled - Internal Redecorations	E	*(12)*	(12)	(12)
- Decoration Allowance	E			
Portable Appliance Testing	E	*(2)*	(2)	(2)
Asbestos Management Contingency	E	*(200)*	(130)	(120)
Redecorations for Elderly/Disabled	E			
Fees for Feasibility Studies	A	*(30)*	(30)	(30)
Energy Performance Certification Work	E	*(5)*	(5)	(5)
Water supply works	E	*(88)*	(60)	(60)
Asset Management plan	A	*(25)*	(15)	(15)
		(362)	**(254)**	**(244)**
TOTAL GENERAL		***(3,453)***	**(2,976)**	**(2,976)**

HRA 5 Year Projections						
	Actual 2019-20	Revised OB 2020-21	OB 2021-22	OB 2022-23	OB 2023-24	OB 2024-25
Income						
Rent	10,511	10,265	10,691	12,155	12,898	13,156
	469	634	638	549	560	571
	124	126	126	129	131	134
	1,489	1,291	1,626	1,659	1,692	1,726
Community Facilities	130	60	110	112	114	117
Service Charge	1,607	2,272	2,301	2,347	2,394	2,442
Other - Support from City Cash Grant (or further savings)	23	455	355	350	350	350
TOTAL	**14,353**	**15,103**	**15,847**	**17,300**	**18,139**	**18,495**
Expenditure						
Repairs & Maintenance	(3,556)	(2,976)	(3,176)	(3,200)	(3,200)	(3,200)
Supp revenue projects	(2,129)	(460)	(530)	(250)	(250)	(250)
Tech services + CS costs	(1,262)	(1,262)	(1,262)	(1,250)	(1,250)	(1,250)
Employee Cost	(4,803)	(4,231)	(4,535)	(4,626)	(4,718)	(4,813)
Premises & Other Support Cost	(274)	(962)	(900)	(900)	(900)	(900)
Revenue Savings/Efficiencies to be identified	0	0	200	200	200	200
Specialised Support Service	(2,818)	(2,688)	(2,697)	(2,700)	(2,700)	(2,700)
TOTAL	**(14,842)**	**(12,579)**	**(12,900)**	**(12,726)**	**(12,818)**	**(12,913)**
Loan Charges - Interest	0	0	0	(96)	(599)	(535)
Capital Repayment (4% Minimum Revenue Provision)	0	0	0	(769)	(1,198)	(1,123)
Int Receivable	52	52	0	0	0	0
	52	52	0	(865)	(1,796)	(1,658)
TOTAL NET INCOME	(437)	2,576	2,947	3,709	3,524	3,924
TSFR TO MRR (Depreciation)	(3,195)	(3,080)	(3,064)	(3,100)	(3,200)	(3,300)
Surplus/ Deficit	**(3,632)**	**(504)**	**(117)**	**609**	**324**	**624**
Bal b/f	3,768	636	132	15	624	948
Bal c/f	**136**	**132**	**15**	**624**	**948**	**1,572**
Capitalisation Adjustment		500				
MAJOR REPAIRS RESERVE						
MRR			278	250	286	1,486
Depn/tsfr from Rev			3,064	3,100	3,200	3,300
Capital Financing			(22,320)	(14,545)		
Loan Required			19,228	11,481	(2,000)	(3,000)
MRR			**250**	**286**	**1,486**	**1,786**
LOAN						
B/F			0	19,228	29,940	26,742
In Year			19,228	11,481	(2,000)	(3,000)
Repayments			0	(769)	(1,198)	(1,123)
C/F			**19,228**	**29,940**	**26,742**	**22,619**

Committee(s)	Dated:
Finance Planning & Transportation Streets and Walkways Sub Court of Common Council	16th February 2021 16th February 2021 18th February 2021 4th March 2021
Subject: Annual On-Street Parking Accounts 2019/20 and Related Funding of Highway Improvements and Schemes	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	**n/a**
Does this proposal require extra revenue and/or capital spending?	**N**
If so, how much?	**n/a**
What is the source of Funding?	**n/a**
Has this Funding Source been agreed with the Chamberlain's Department?	**n/a**
Report of: The Chamberlain	**For Information**
Report author: Simon Owen, Chamberlain's Department	

Summary

The City of London in common with other London authorities is required to report to the Mayor for London on action taken in respect of any deficit or surplus in its On-Street Parking Account for a particular financial year.

The purpose of this report is to inform Members that:

- the surplus arising from on-street parking activities in 2019/20 was £10.876m;
- a total of £5.005m, was applied in 2019/20 to fund approved projects; and
- the surplus remaining on the On-Street Parking Reserve at 31st March 2020 was £42.713m, which will be wholly allocated towards the funding of various highway improvements and other projects over the medium term.

Recommendation

Members are asked to:

- Note the contents of this report for their information before submission to the Mayor for London.

Main Report

Background

1. Section 55(3A) of the Road Traffic Regulation Act 1984 (as amended), requires the City of London in common with other London authorities (i.e. other London Borough Councils and Transport for London), to report to the Mayor for London on action taken in respect of any deficit or surplus in their On-Street Parking Account for a particular financial year.

2. Legislation provides that any surplus not applied in the financial year may be carried forward. If it is not to be carried forward, it may be applied by the City for one or more of the following purposes:

   a) making good to the City Fund any deficit charged to that Fund in the 4 years immediately preceding the financial year in question;

   b) meeting all or any part of the cost of the provision and maintenance by the City of off-street parking accommodation whether in the open or under cover;

   c) the making to other local authorities, or to other persons, of contributions towards the cost of the provision and maintenance by them, in the area of the local authority or elsewhere, of off-street parking accommodation whether in the open or under cover;

   d) if it appears to the City that the provision in the City of further off-street parking accommodation is for the time being unnecessary or undesirable, for the following purposes, namely:

      - meeting costs incurred, whether by the City or by some other person, in the provision or operation of, or of facilities for, public passenger transport services;

      - the purposes of a highway or road improvement project in the City;

      - meeting the costs incurred by the City in respect of the maintenance of roads at the public expense; and

      - for an “environmental improvement” in the City.

   e) meeting all or any part of the cost of the doing by the City in its area of anything which facilitates the implementation of the Mayor’s Transport Strategy, being specified in that strategy as a purpose for which a surplus can be applied; and

   f) making contributions to other authorities, i.e. the other London Borough Councils and Transport for London, towards the cost of their doing things upon which the City in its area could incur expenditure upon under (a)-(e) above.

3. In the various tables of this report, figures in brackets indicate expenditure, reductions in income or increased expenditure.

2019/20 Outturn

4. The overall financial position for the On-Street Parking Reserve in 2019/20 is summarised below:

	£m
Surplus Balance brought forward at 1st April 2019	36.842
Surplus arising during 2019/20	10.876
Expenditure financed during the year	(5.005)
Funds remaining at 31st March 2020, wholly allocated towards funding future projects	**42.713**

5. Total expenditure of £5.005m in 2019/20 was financed from the On-Street Parking Reserve, covering the following approved projects:

Revenue/SRP Expenditure:	**£000**
Highway resurfacing, maintenance & enhancements	(2,484)
Off-Street car parking contribution from reserves	(554)
Concessionary fares & taxi card scheme	(498)
West Smithfield Area Public Realm & Transportation	(177)
Thames Court footbridge	(115)
Special needs transport	(85)
Minories car park structural building report	(83)
Holborn Viaduct & Snow Hill pipe-subways	(44)
Aldgate	(40)
City Wayfinding Signage/Legible London	(39)
HVM security team	(33)
Bank Junction experimental safety scheme	(32)
Other Schemes	(7)
Total Revenue/SRP Expenditure	**(4,191)**
Capital Expenditure:	
Street lighting project	(650)
City Wayfinding Signage/Legible London	(359)
HVM security bollards	(403)
Bank Junction experimental safety scheme	(152)
Barbican Podium waterproofing – phase 2	(29)
Other Schemes	(10)
Aldgate – Highway Changes and Public Square	789
Total Capital Expenditure	**(814)**
Total Expenditure Funded in 2019/20	**(5,005)**

6. The surplus on the On-Street Parking Reserve brought forward from 2018/19 was £36.842m. After expenditure of £5.005m funded in 2019/20, a surplus balance of £5.871m was carried forward to future years to give a closing balance at 31st March 2020 of £42.713m.

7. Currently total expenditure of some £96.6m is planned over the medium term from 2020/21 until 2024/25 (as detailed in Table 1), by which time it is anticipated that the existing surplus plus those estimated for future years will be fully utilised.

8. The total programme covers numerous major capital schemes including funding towards the Barbican podium waterproofing; West Smithfield area public realm & transportation project; Bank Junction permanent improvement scheme; Lindsey Street Bridge strengthening; Holborn Viaduct & Snow Hill pipe-subways repairs; London Wall car park waterproofing, joint replacement & concrete repairs; London Wall car park ventilation, electrics, lighting & fire alarms; Dominant House footbridge repairs; Fire safety at the car parks; Public Realm climate action initiatives; Embed climate resilience measures into Public Realm works; Temple Area traffic review; St Pauls gyratory.

9. The programme also covers ongoing funding of future revenue projects, the main ones being highway resurfacing, enhancements & road maintenance projects; concessionary fares & taxi cards; contributions to the costs of Off-Street car parks; and special needs transport. The progression of each individual scheme is, of course, subject to the City's normal evaluation criteria and Standing Orders.

10. A forecast summary of income and expenditure arising on the On-Street Parking Account and the corresponding contribution from or to the On-Street Parking surplus, over the medium-term financial planning period, is shown below:

Table 1 **On-Street Parking Account Reserve Projections 2019/20 to 2024/25**	**2019/20** **Actual** **£m**	**2020/21** **Forecast** **£m**	**2021/22** **Forecast** **£m**	**2022/23** **Forecast** **£m**	**2023/24** **Forecast** **£m**	**2024/25** **Forecast** **£m**	**Total** **£m**
Income	16.6	15.5	16.8	17.0	14.2	13.9	94.0
Expenditure (*Note 1*)	(5.7)	(4.6)	(4.8)	(4.7)	(4.7)	(4.7)	(29.2)
Net Surplus arising in year	**10.9**	**10.9**	**12.0**	**12.3**	**9.5**	**9.2**	**64.8**
Capital, SRP and Revenue Commitments	(5.0)	(7.3)	(28.2)	(30.9)	(21.0)	(9.2)	(101.6)
Net in year contribution (from)/ to surplus	**5.9**	**3.6**	**(16.2)**	**(18.6)**	**(11.5)**	**0.0**	**(36.8)**
(Deficit) / Surplus cfwd at 1st April	36.8	42.7	46.3	30.1	11.5	0.0	
(Deficit) / Surplus cfwd at 31st March	**42.7**	**46.3**	**30.1**	**11.5**	**0.0**	**0.0**	

Note 1: On-Street operating expenditure relates to direct staffing costs, repair & maintenance of pay & display machines, Saba enforcement contractor costs, fees & services (covering cash collection, pay by phone, postage & legal), IT software costs for enforcement systems, provision for bad debts for on-street income and central support recharges.

11. A noticeable reduction in income is forecast from 2023/24 onwards, mainly relating to reduced income from traffic restriction enforcement through improved camera technology, including yellow box junctions and banned turns. Depending upon future motorist's compliance and return to normal business operating following COVID-19, these forecast future income streams may need further refining.

Conclusion

12. So that we can meet our requirements under the Road Traffic Regulation Act 1984 (as amended), we ask that the Court of Common Council notes the contents of this report, which would then be submitted to the Mayor of London.

Background Papers

13. Road Traffic Regulations Act 1984; Road Traffic Act 1991; GLA Act 1999 sect 282.

14. Final Accounts 2019/20.

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Committee(s)	Dated:
Procurement Sub Committee Finance Committee	11 February 2021 16 February 2021
Subject: City Procurement Quarterly Progress Report (February 2021)	**Public**
Report of: The Chamberlain	**For Information**
Report authors: Nick Richmond-Smith – Assistant Director Category Management and Sourcing Darran Reid – Assistant Director Commercial Contract Management	

Summary

The report updates Members on the work of City Procurement, key performance indicators and areas of progress.

Performance for Q1 – Q3 of 2020/21 financial year is summarised below:

- Procurement savings at end of December 2020 of £4.8m, made up of £1.3m Commercial Contract Management savings and £3.5m Sourcing & Category Management savings. We are expecting to meet and exceed FY target.

- Purchase order compliance was 98% (target of 97%).

- 93% of all supplier invoices were paid within 30 days (target of 97%).

- 87% of SME invoices were paid within 10 working days (target of 88%).

- Non-compliant waivers over £50k:
    - 5 Non-compliant waivers recorded for FY 20/21 so far.
    - A total of 3 Procurement Breach waivers have been recorded in FY 20/21 with a total value of £248k.

Recommendations

- Members are asked to note the report.

Main Report

Background

1. City Procurement has four main functions: Category Management/Sourcing, Commercial Contract Management, Accounts Payable, and Policy & Compliance. This report provides an update on the progress and current performance against the service KPIs set out in the Chamberlain’s Business Plan in April 2020.

Efficiency and Savings

2. City Procurement is set an annual savings target at the start of each year based on the contracts to be let during the financial year that have the potential to make efficiency or cost savings and contracts let in previous years that are generating guaranteed savings in the current year. Contracts are reviewed by Category and savings set using industry benchmarks. The 2020/21 City Procurement savings target is £6.1m.

2020/21 Efficiencies and savings as at 31 December 2020

3. Sourcing & Category Management achieved procurement savings of £3.5m at the end of Q3 FY 20/21. Additionally, Commercial Contract Management has achieved efficiencies and savings to the value of £1.3m, giving total savings for Q1 – Q3 of £4.8m.

4. These savings have been achieved despite the loss of some tendering during the COVID due supporting the services COVID response, and a depleted market in some categories.

Accounts Payable Performance – Compliance with No PO No Pay Policy

5. We continue to achieve high levels of compliance with 98% PO compliance for Period Q1 – Q3 FY 20/21, therefore exceeding our target of 97%.

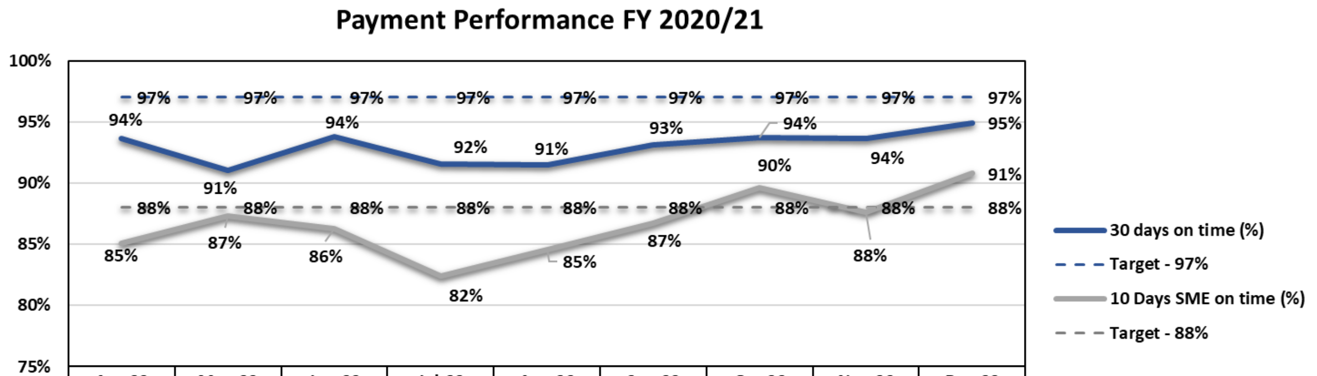
Payment Performance

6. The Corporation's 30-day invoices paid-on-time performance for Q1 – Q3 FY 20/21 is 93%, below the target of 97%. Our 10-day SME invoice payment performance for Q1 – Q3 FY 20/21 is 87%, falling just short of the 88% target. There have been a number of factors impacting results this year including increased work for Accounts Payable assisting other parts of the organisation (including all Covid-19 relief payments) and carrying vacancies to balance budget.

7. We are pleased to report that payment performance is steadily increasing and we are now achieving figures of 94% or 95% on a monthly basis, increasing our overall figure for FY 20/21, so the target of 97% for the year is still a possibility. The same can be said for the 10-day target for SME invoices, as we have achieved or exceeded the goal of 88% in the last few months.

8. Furthermore, a comparison of Q3 FY 19/20 and Q3 of the current year shows that our 10-day payment performance is actually better in the latter quarter, when we exceeded the 88% target in both October (90%) and December (91%), achieving 89% for quarter, 3 percentage points higher than Q3 FY 19/20, despite the challenges of additional work, reduced resources and a more testing working environment. This improvement can at least partly be attributed to our focus on protecting SME cashflows during the pandemic.

Figure A: 30-Day and 10-Day Payment Performance trend charts



	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
30 days on time (%)	94%	91%	94%	92%	91%	93%	94%	94%	95%
Target - 97%	97%	97%	97%	97%	97%	97%	97%	97%	97%
10 Days SME on time (%)	85%	87%	86%	82%	85%	87%	90%	88%	91%
Target - 88%	88%	88%	88%	88%	88%	88%	88%	88%	88%

Electronic Invoices Received

9. Of all the invoices received from suppliers in Q1 – Q3 FY 20/21, 95% were in the desired True PDF format, far exceeding the target of 75%.

10. All Accounts Payable staff continue to work from home due to the COVID-19 pandemic, so the necessity for invoices to be submitted electronically remains.

Non-compliant Waivers

11. No additional non-compliant waivers were issued in quarter three.

12. In total for FY 20/21 so far, we have recorded five non-compliant waivers (four have been approved/noted) as per the table below.

Waiver Reason	Total Number	Total Value (£)
Poor Operational Planning	2	175,000
Procurement Code Breach	3	248,670
Grand Total	**5**	**423,670**

13. Of the five waivers, the three Procurement Code Breaches were issued in the previous financial year. The breach values will be noted in this financial year as the reports go to the relevant spend committee, but effectively no new breaches have occurred.

Freedom of Information (FOI) Requests

14. City Procurement received 17 FOI requests between October and December 2020 totalling 22 hours of officer time. It was a busy quarter for FOI requests with almost the same number of requests received as in the two previous quarters added together.

15. Analysing the make-up of FOIs for this period gives the following categorisation:

Nature of FOI Query	Instances
Understanding our expenditure	6
Contract Specific	5
Policy queries	4
Seeking sales opportunities	2
Grand Total	**17**

16. City Procurement received a total of 35 FOI requests, amounting to 65 hours of officer time, during Q1 – Q3 FY 20/21.

Conclusion

17. City Procurement continues to achieve a high level of performance during an extremely challenging period. We are on track to achieve and exceed the savings target of £6.1m for the current financial year, having achieved savings of £4.8m in the first three quarters. The payment performance figures are falling short of their respective targets; however, the figures have improved over the last few months, e.g. the target of paying 88% of SME invoices within 10 working days was exceeded for Q3 as a whole. PO compliance remains high and we have seen a significant increase in the proportion of invoices received in the desired True PDF format, which made up 95% of all invoices received up to the end of Q3, well above the 75% target. Throughout this period, the impact of Covid-19 has created significant additional work, such as emergency procurement of PPE in a highly competitive environment, payment of grants to businesses affected by the pandemic, and compliance with a series of new government policy notices.

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END

Committee(s): Finance Committee	**Dated:** 16 February 2021
Subject: Central Contingencies 2020/21	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	n/a
Does this proposal require extra revenue and/or capital spending?	N
If so, how much?	n/a
What is the source of Funding?	n/a
Has this Funding Source been agreed with the Chamberlain's Department?	n/a
Report of: The Chamberlain	**For Information**
Report author: Laura Yeo, Senior Accountant, Financial Services Division	

Summary

This report has been produced to provide Members with an update on the Central Contingencies 2020/21 uncommitted balances.

Recommendation(s)

Members are asked to note the report.

Main Report

Background

1. Service Committee budgets are prepared within the resources allocated by the Policy and Resources Committee and, with the exception of the Policy and Resources Committee, such budgets do not include any significant contingencies. The budgets directly overseen by the Finance Committee therefore include central contingencies to meet unforeseen and/or exceptional items that may be identified across the City Corporation's range of activities. Requests for allocations from the contingencies should demonstrate why the costs cannot, or should not, be met from existing provisions.
2. In addition to the Central Contingencies, the Committee has a specific City's Cash Contingency of £100,000 to support humanitarian disaster relief efforts both nationally and internationally.

Current Position

3. The uncommitted balances that are currently available for 2020/21 are set out in the table below. At the time of writing this report there are no requests on the agenda.

2020/21 Contingencies – Uncommitted Balances 3 February 20201				
	City's Cash £'000	City Fund £'000	Bridge House Estates £'000	Total £'000
General Contingencies				
Total Provision	974	1,341	50	2,365
Previous allocations	(224)	(681)	0	(905)
Uncommitted Balances	**750**	**660**	**50**	**1,460**
National and International Disasters				
Total Provision	125	0	0	125
Previous allocations	(100)	0	0	(100)
Uncommitted Balance	**25**	**0**	**0**	**25**

4. The sums which the Committee has previously allocated from the 2020/21 contingencies are listed in Appendix 1. This includes allocations agreed under delegated authority since your last Committee.

Conclusion

5. Members are asked to note the Central Contingencies uncommitted balances.

Appendices

- Non- Public: Appendix 1 – Allocations from 2020/21 Contingencies

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Agenda Item 25

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Agenda Item 26

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