

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

INTRODUCTION AND BACKGROUND

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

CORE PRINCIPLES THAT UNDERPIN THE CAPITAL PROGRAMME

6. The key principles for the capital programme are summarised below and shown in more detail as Annex A.
7. Capital investment decisions reflect the aspirations and priorities included within the City Corporation's Corporate Plan and supporting strategies.
8. Schemes to be included in the capital programme will be subject to a gateway process, currently overseen by Operational Property and Projects Sub Committee. The only exception to this is for the major projects that are dealt with by Capital Buildings Board and Policy and Resources Committee, and investment property acquisitions and disposals which are overseen by Property Investment Board. This oversight includes feasibility and option appraisal costs which are classified as supplementary revenue project expenditures. All schemes are prioritised according to availability of resources and scheme specific funding, and factors such as legal

Appendix F

obligations, health and safety considerations and their longer-term impact on the City Corporation's financial position.

9. A key consideration is affordability of the capital programme in terms of the City's Medium Term Financial Plans. In any programme presented to Members for agreement this issue will have been considered and, where resources are limited, new bids must be prioritised to ensure the optimum use of available funds.
10. Commissioning and procuring for capital schemes will comply with the requirements set out in the City Corporation's Standing Orders, Financial Regulations and Procurement Code.

GOVERNANCE FRAMEWORK

11. The City Corporation in its local authority capacity is required to agree the capital strategy annually in accordance with the Prudential Code. To be consistent with the City Corporation's Treasury Management Strategy Statement the capital strategy for City's Cash and the Bridge House Estates is being reported on the same basis.
12. The impact of the capital programmes for each fund, including the major projects and new schemes approved via the annual bid process is incorporated into the medium-term financial plans to demonstrate affordability, sustainability and prudence.
13. To assist in the resource allocation process, project proposals are prioritised and categorised, with only essential schemes within the following criteria being considered for central funding:
 - health and safety or statutory requirements
 - substantially reimbursable
 - spend to save/income generating (payback within 5 years)
 - major renewals of income generating assets
 - must address a risk on the Corporate Risk Register or that would otherwise be escalated to the register e.g., replacement of critical end of life assets, schemes required to deliver high priority policies and schemes with high reputational impact
 - must have a sound business case clearly demonstrating the negative impact of the scheme not going ahead such as material penalty costs or loss of income

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

Appendix F

to facilitate the strategic allocation of resources to the highest priority schemes.

14. Projects are one of the key ways that the City Corporation delivers its strategic aims and priorities. The City Corporation is committed to ensuring that projects are delivered efficiently and that the best use is made of the resources available to the organisation. Approval of projects is the responsibility of the Policy and Resources Committee through its Operational Property and Projects Sub Committee, which scrutinises individual projects, and the Resource Allocation Sub-Committee, which considers the overall programme of project activity and funding. Decisions about projects are made in conjunction with service committees and the Court of Common Council (for high value projects). Major Programmes (generally those over £100m) are managed directly through the Capital Buildings Board or Policy and Resources Committee.
15. Where the Town Clerk considers a scheme has policy implications, or where the Policy and Resources Committee has indicated it wishes to consider a particular project further, project reports will also be submitted to that Committee.
16. The Finance Committee is responsible for obtaining value for money, improving efficiency and overseeing procurement generally across the organisation. The Finance Committee therefore receives periodic reports on the City Corporation's capital expenditure.
17. The gateway process is contained in the Project Procedure, which is approved by the Policy and Resources Committee and the Court of Common Council. It applies to all projects over £50,000. The Town Clerk monitors the progress of reports from start to finish and project managers maintain information about the progress of projects on the Project Vision system. Project Boards are usually established for individual projects, particularly those that require officers from a number of departments to deliver them.
18. Inclusion of schemes in the capital programme is subject to agreement by the relevant City Corporation committees which, depending on value, will include the Court of Common Council.
19. All projects progressing to the capital programme comply with standing orders, financial regulations, and *generally* the project procedure (with the main exception of the major programmes under the direct control of the Capital Buildings Committee) and procurement code - and are subject to confirmation of funding.

SHORT, MEDIUM AND LONG-TERM CAPITAL PLANNING OBJECTIVES

20. The City Corporation maintains an approved capital programme that covers a five-year period which is agreed by the Court of Common Council as part of the annual budget setting process.
21. Going forward the intention is to extend the capital programme over a longer term, especially with regard to the major programmes, to aid in the financial planning process. Planning the capital programme over a ten-year+ period will ensure that the City Corporation does not over-commit to a capital programme that is not affordable, sustainable and prudent.
22. The impact of the major programmes on available funding over the medium to long term is significant and the importance of prioritising all capital spend to make best use of the limited resources available is key.
23. The City Corporation has substantial operational property and investment property portfolios. Strategic plans are produced for each fund for the investment properties which are agreed by either Property Investment Board or Bridge House Estates Board. Social Housing properties are overseen by the Community and Children's Services Committee. Other operational properties are overseen by Corporate Asset Sub Committee within the framework of the Corporate Property Asset Management Strategy 2020/25.
24. Such sizeable property portfolios require significant capital and revenue investment to maintain them and in the case of the investment property to maximise the returns. These schemes are therefore likely to make ongoing major calls on the City Corporation's limited capital resources.
25. To assist with managing this commitment, the City Corporation has commenced with an Operational Property Review programme. This programme, Chaired by the Financial Services Director, aims to further align our property estate with the priorities of the organisation. Through the delivery of this programme, the City should identify surplus assets and rationalise its property estate. Strategic investment property disposals will also be necessary to provide funding for the ongoing capital programme.

CAPITAL INVESTMENT PRIORITIES

26. Capital investment plans are driven by the City Corporation's Corporate Plan, the key strategic document that sets out the City Corporation's vision, ambitions, values and priorities. The Corporate Plan is underpinned through the departmental business plans which include assets required in their delivery and highlight capital investment requirements and aspirations. The latest draft capital and supplementary revenue project plans, which

Appendix F

include costs of feasibility and option appraisal and the indicative cost of schemes still under development, are as follows:

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

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

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

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

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

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

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

- Future Police Accommodation (City Fund)

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

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

27. These projects represent a substantial funding requirement of unprecedented scale in the context of the City Corporation's previous capital plans. They therefore present a significant challenge to the finances of the organisation, resulting in a step change in the previously debt-free status of City's Cash and also necessitating significant liquidation of investments for both funds. The revenue impact from loss of rental/investment income presents a further challenge to limited resources and our financial

Appendix F

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

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

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

29. New scheme provisions are intended to cover essential schemes relating to :

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

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

ASSET MANAGEMENT PLANNING

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

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

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

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

34. Corporate Property Asset Management Strategy 2020-25. This strategy has the following objectives relating to capital investment:
- Ensure capital and revenue investment into the operational estate is 'relevant and needed' to achieve Corporate Plan objectives.
 - Ensure capital and revenue projects are affordable, sustainable, prudent and directed to corporate priorities.
 - Ensure future capital investment in the operational estate is aligned with 'invest to save' outcomes, full life cycle and both financial and non-financial assessments.
35. The development of Asset Management Plans for non-housing properties across the operational portfolio assists in delivering the asset management component of service department business plans and strategies and supporting the aims of the Corporate Plan. In so doing, these plans support the prioritisation of future capital requirements and incorporation of corporate objectives across the operational portfolio.

COMMERCIAL ACTIVITY AND INVESTMENT PROPERTY

36. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as property held solely to earn rentals or for capital appreciation or both.
37. Returns from property ownership can be both income-driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth).
38. The combination of these is a consideration in assessing the attractiveness of a property for acquisition. In the context of the Capital Strategy, the City Corporation uses capital to invest in property to provide a positive surplus/financial return which is a key source of funding for the ongoing provision of services.
39. Investment properties may also be sold to provide capital to fund the capital programme. Some significant disposals are currently planned to provide funding for the major programmes. The resulting loss of rental returns needs to be carefully managed to ensure sufficient income to deliver services.
40. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. These risks are mitigated in part by the mixed lease structure of holdings with some properties directly managed with multiple lettings, some single lettings to tenants on fully repairing and insuring leases and some to tenants on geared ground rent leases where the City Corporation is guaranteed a minimum rent but also shares in the actual rent received over a certain threshold.

Appendix F

41. The property portfolio is overseen by Members through a dedicated Property Investment Board which meets on a monthly basis to receive reports on performance, set strategy, and agree major lettings, acquisitions and disposals.
42. Performance of each estate is benchmarked through MSCI against the overall MSCI Universe and against the MSCI "Greater London Properties including owner occupied" benchmark. The target set is to outperform the MSCI Return Benchmarks for Total Return on an annualised five-year basis. There is a subsidiary target to maintain rental income levels and to endeavour to secure rental income growth at least in line with inflation.
43. The properties forming the Strategic Property Estate have been acquired for large scale redevelopment. They are part of the strategy of supporting growth in the business cluster in the City Fringes by providing high quality floor space and returns from these properties are focussed on capital appreciation through their redevelopment.
44. The Property Investment Board receives quarterly five-year rental forecast reports and regular reports on the level of voids and debtor arrears. From time to time the Board also receives presentations, usually from major firms of surveyors, on the state of the UK and London property market and potential future trends.

REVENUE BUDGET IMPLICATIONS FROM CAPITAL INVESTMENT DECISIONS

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

Any capital expenditure not financed by the above will need to be funded by prudential borrowing which can be internal or external.
46. For City Fund, the City Corporation can utilise its temporary cash balances in lieu of external borrowing to fund capital expenditure. This is referred to as internal borrowing. External borrowing refers to loans from third parties e.g., banks.
47. To date, the City Corporation has funded its City Fund capital expenditure from the sources listed above or through internal borrowing. A programme of property disposals is currently being planned to fund the City Fund major projects in preference to external borrowing. City's Cash capital expenditure has been funded from cash balances supplemented by external borrowing through private placement for the City's Cash major programmes.

Appendix F

48. In approving the inclusion of schemes and projects within the capital programme, the City Corporation ensures all its capital and investment plans are affordable, prudent and sustainable. In the event of borrowing, the City Corporation will take into account the arrangements for the repayment of debt, through a prudent Minimum Revenue Provision (MRP) policy for City Fund in line with MRP guidance produced by the Department for Levelling Up, Housing and Communities. For City's Cash, provision will need to be made for the repayment of private placement borrowing (which falls due beyond the current medium term financial planning period).
49. The capital financing costs and any additional running costs arising from capital investment decisions are incorporated within the annual budget and medium-term financial plans. Loss of income resulting from property disposals are also incorporated into these plans. This enables members to consider the consequences of capital investment and disposal alongside other competing priorities for revenue funding.
50. As part of the appraisal process, and at the discretion of the Chamberlain, the financing costs of prudential borrowing, may be charged to the relevant service.
51. Capital investment decision making is not only about ensuring that the initial allocation of capital funds meets corporate and service priorities but ensuring the asset is fully utilised, sustainable and affordable throughout its whole life. This overarching commitment to long term affordability is a key principle in any capital investment appraisal decision. In making its capital investment decisions the City Corporation must have explicit regard to consider all reasonable options available.
52. The revenue implications of the major projects are significant. The cost of borrowing must be charged to the relevant revenue budget whether this is on an interest-only or repayment basis. The long-term nature of borrowing means these revenue sums are unavailable to fund other activity for a significant period of time. Likewise, loss of rental income arising from asset disposals impacts on funding to deliver services. By agreeing to fund capital schemes through external borrowing or asset disposals, Members are agreeing to divert this funding away from revenue activity in order to meet their priorities.

RISK MANAGEMENT

53. This section considers the City Corporation's risk appetite with regard to its capital investments and commercial activities, i.e., the amount of risk that the City Corporation is prepared to accept, tolerate, or be exposed to at any point in time. The City Corporation's Property Investment Strategies give due regard to risk, and this informs various aspects of our portfolio approach. It is important to note that risk will always exist in some measure and cannot be removed in its entirety.

Appendix F

54. A risk review is an important aspect of the consideration of any proposed capital or investment proposal. The risks will be considered in line with the City Corporation's corporate risk management strategies. Subject to careful due diligence, the City Corporation will consider the appropriate level of risk for strategic initiatives, where there is a direct gain to the City Corporation's revenues or where there is Member appetite to deliver high profile projects.
55. The City Corporation maintains a Corporate Risk Register and priority will be given to schemes that significantly and demonstrably mitigate a previously identified corporate risk.
56. The gateway approval process currently has three approval tracks: Complex, Regular and Light, with varying levels of member scrutiny. The decision about which track a project should follow depends on the estimated cost and level of risk. Projects can move between tracks at any stage if it becomes evident that a project is more or less complex than originally anticipated.
57. Maintenance of a costed risk register to identify and keep under review the risks associated with projects is Corporation best practice and most projects comply. Costed risks are informed by previous experience of similar projects and other factors, where relevant, such as the age of the asset, its size and its type. The risk register includes mitigations that will be taken to minimise the risk and a financial assessment of the likely cost should the mitigated risks crystallise. In addition, the costs of major programmes include an element of optimism bias in line with HM Treasury guidance to mitigate the financial implication of delays and/or increased costs.
58. The current level of inflation presents a significant risk to the cost and affordability of construction projects over the short to medium term. A risk assessment has been undertaken to quantify the potential financial impact on existing capital funding plans and contingency provisions included in the City Fund and City's Cash 2023/24 budgets to mitigate this.

TREASURY MANAGEMENT

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

Appendix F

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

KNOWLEDGE AND SKILLS

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

BACKGROUND DOCUMENTS

Strategic Property Estate (City Fund & City's Estate) Annual Update & Strategy for 2023/24 to 2027/28 February 2023

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

City's Estate 2023 Investment Property Portfolio Strategy

Treasury Management Strategy Statement 2023/24

Corporate Property Asset Management Strategy 2020/25

Corporate Project Procedure

City of London Corporate Plan

Corporate Risk Register

Appendix F

Annex A

CORE PRINCIPLES UNDERPINNING THE CAPITAL PROGRAMME

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

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