Minutes of the Audit Committee meeting held on 14 September 2023

Minutes of the London Councils' Audit Committee held on 14 September 2023.

Councillor Peray Ahmet was in the Chair.

Members Present:

Cllr Peray Ahmet (LB Haringey)
Cllr David Gardner (RB Greenwich)
Cllr Stephen Alambritis MBE (LB Merton)
Cllr Robin Brown (LB Richmond)

In Attendance:

Michael Cogher, Comptroller, City Solicitor & Deputy Chief Executive, City of London Corporation (Agenda Item 4)
Emily Rimington, Chief Lawyer, Public and Corporate Law, City of London Corporation (Agenda Item 4)
Matt Lock, Head of Internal Audit, City of London Corporation
Alastair Duke, Partner, PKF Littlejohn (External Auditor)
London Councils' officers were in attendance.

1. Apologies for Absence

An apology for absence was received from Cllr Jonathan Cook (LB Wandsworth).

2. Declarations of Interest

There were no declarations of interest.

3. Minutes of the Audit Committee meeting held on 15 June 2023

The minutes of the Audit Committee meeting held on 15 June 2023 were approved as being an accurate record.

4. London Councils' Legal Structures – *Presentation by Michael Cogher, Comptroller and City Solicitor and Deputy Chief Executive, City of London Corporation and Emily Rimington, City of London Corporation*

Michael Cogher and Emily Rimington introduced themselves to the Committee and explained that the purpose of the presentation was to provide information on London Councils' legal strauctures and governance arrangements.

Michael Cogher made the following comments:

- It was important to remind everyone in the sector of the importance of good governance arrangements.
- Local authorities are statutory entities created by Parliament.
- The London boroughs were created by the London Government Act 1963
- The City of London Corporation is not a local authority but has most of the powers/duties of a London Borough.
- A local authority is a corporate body which is separate from the Members that comprise it and has a power of general competence. It can hold property and sue/and be sued in its own name.

- As creatures of statue, local authorities can only do what it is authorised to do by Parliament
- Judicial reviews can arise from the failure to follow established governance procedures
- There were currently three grounds for a judicial review: (i) irregularity (statutory power) – to make sure that a person who makes a decision is authorised to do so, (ii) irrationality – to ensure that it is a reasonable decision and no decision was made irrationally. Quality reports were required that were easy to understand, (iii) procedural impropriety – to ensure that procedural fairness was followed and to ensure that any consultation was carried out fairly and with enough time to consider. Operationally, these represented three sources for challenge.
- The powers and duties of a local authority are known as functions which can be delegated in a number of ways including to joint committees.
- Unlike a local authority, London Councils is no a corporate entity.

Emily Rimington made the following comments:

- London Councils is a collective reference for the three joint committees established by London's 32 boroughs and the City of London
- The legislation that underpins the formation of the joint committees are: s101 of the Local Government Act 1972; s73 of the Road Traffic Act 1991; and s48 of the Local Government Act 1985.
- The three committees are the: Leaders' Committee; Transport and Environment Committee (TEC); and Grants Committee.
- The Leaders' Committee has a strategic role in setting policy and representing the collective interests of the London local authorities (LLAs) as well as general oversight of the collective operation of 'London Councils'. It discharges functions that have been delegated to it by the LLAs. These functions are listed in Schedule 2 of the Leaders' Committee governing agreement.
- TEC is a statutory committee which undertakes functions relating to the appointment of parking adjudicators. It also discharges other operational functions which have been separately delegated to it by the LLAs and TfL. These functions are set out in the TEC governing agreement.
- The Grants Committee operates the Grants Scheme set out in s48 of the Local Government Act 1985 for awarding grants to eligible voluntary organisations in Greater London. The LLAs have delegated the statutory review of needs of Greater London to the Leaders' Committee.
- London Councils' governance framework includes its governing agreements, standing orders, financial regulations, scheme of delegations and terms of references.
- London Councils and its joint committees do not have a legal personality. It enters into contracts relying on the contractual arrangements between the 33 LLAs and the law of agency.
- London Councils cannot receive capital grants or into some types of deeds. It cannot hold property consisting of land and buildings.
- London Councils Ltd is a company limited by guarantee, its members comprise of the 33 LLAs.
- It has a legal personality and hold the lease for Southwark Street and Chancery Exchange (London Tribunals office). It also employs the political advisors which London Councils cannot do.
- London Councils acts as an agent for London Councils Ltd.
- The LLAs and London Councils cannot delegate functions to London Councils Ltd.
- The Leaders' Committee governing agreements dates back to 2001 and had not been substantially amended since then.
- The power of general competence did not apply to London Councils.

<u>Q and As</u>
Councillor Brown asked who was responsible for employing officers at London Councils. Michael Cogher said that London Councils employed its officers and had sought legal advice regarding this matter. Councillor Brown asked whether the boroughs were contractually obliged to pay their subscriptions to London Councils every year. Emily Rimington said that there were provisions included within the governing agreement regarding member subscriptions to London Councils.

Councillor Gardner asked what the best arrangement would be if all the 32 boroughs and the City wanted to start again from scratch. Michael Cogher said that he was aware that London Councils had explored the benefits of a combined authority. He said that there were limitations to operating as a joint committee.

Councillor Alambritis said that the borough of Merton was in the South London Legal Partnership (SLLP). He asked what was preventing this partnership expanding to cover all the boroughs of London. Michael Cogher said those arrangements could work across a larger number of authorities. Councillor Alambritis asked whether there were any heightened risks in terms of the control environment and good governance that the Audit Committee should be aware. Emily Rimington said that it was important to emphasise the role of the Audit Committee in London Councils governance arrangements. Michael Cogher said that similar presentations had been provided to members and officers of London Councils to improve awareness of the constitutional arrangements and governance frameworks across the organisation.

5. Annual Audit Report 2022/23

The Committee received a report that presented the annual audit report to those charged with governance (ISA260) prepared by PKF Littlejohn (PKF), London Councils' external auditor, in respect of the 2022/23 financial year.

David Sanni, Director of Corporate Resources, London Councils, said that the report had been prepared by the external auditors, PKF Littlejohn and sets out the status of the audit and details of the internal control weaknesses that have been identified.

Alastair Duke, PKF Littlejohn, said that the audit was substantially complete with outstanding matters listed on page 4 of the report. The main outstanding issue was the accounting treatment of the defined benefit pension scheme asset. The matter was not unique to London Councils and had arisen across the sector due to the outcome of the pension scheme triennial valuations carried out in 2022. The matter had been referred to the technical team to review the criteria that sets out when an asset can be recognised on the balance sheet to ensure the accounting treatment is in line with the financial reporting framework. Should the criteria not be met then the asset would be capped at zero. None of the other outstanding items were cause for concern.

Alastair Duke said that the audit plan presented to the Committee in June 2023 provided an outline of the key risks to be considered during the audit. There were no new risks identified during the course of the audit. PKF reviewed the key risks which included transaction testing, where appropriate, for journals, revenue recognition, opening balances, pension valuation assumptions, going concern and related party transactions and there were no issues of concern.

Alastair Duke said that a review of internal controls in connection with payroll arrangements had revealed control weaknesses with regard to unsigned employment contracts and lack of evidence to support the payment of PAYE liabilities. Two recommendations to improve controls had been included in the report, accordingly. Alastair Duke informed the Committee that a Letter of Representation would be required for each set of committee accounts.

Councillor Gardner said that the audit had appeared to go very smoothly. Alastair Duke said that it had, especially as it was PKF Littlejohn's first year of carrying out the London Councils' annual audit.

The Audit Committee noted the contents of the annual audit report included at Appendix A.

6. Financial Accounts 2022/23

The Committee received a report that presented the pre-audited statement of accounts for 2022/23 for approval. The accounts to be approved comprise of London Councils Consolidated Statement of Accounts for 2022/23, London Councils Transport and Environment Committee Statement of Accounts for 2022/23 and London Councils Grants Committee Statement of Accounts for 2022/23.

David Sanni, Director of Corporate Resources, introduced the report which presented members with the three sets of accounts to be approved, subject to the satisfactory conclusion of outstanding items. He said that the Consolidated Accounts show a combined surplus of £1.98 million across the three funding streams after including net transfer from reserves of £6 million. The position on Usable Reserves (table 5 of the report) showed a net reduction of £2 million over the course of the year resulting in a balance of approximately £10 million at the year end.

Councillor Gardner said that the use of £2 million of reserves to fund activity each year was unsustainable and asked what action was being taken to address the matter. David Sanni said that London Councils' Group Leaders had provided a clear steer to reduce the reliance on the use of reserves when setting annual budgets to ensure the organisations financial arrangements remain sustainable. This would be achieved by a combination of reviewing London Councils' operating model to identify savings and more efficient ways of working and moving to a smaller office to reduce premises costs. The progress on these measures will reported to Leaders as part of the next budget setting process. The Chair asked if the Audit Committee could have an update on these changes as well. David Sanni agreed to provide an update to the Committee.

The Chair asked whether Leaders' Committee had set a minimum level of reserves. David Sanni said the Grants Committee and TEC had agreed minimum level of reserves. The minimum level of reserves for the main joint committee is based on the relevant guidance. An assessment of the adequacy of reserves is undertaken during the budget setting process. David Sanni said that there were specific and earmarked reserves included in the overall reserves (Usable Reserves) figure. An example is the Freedom Pass Renewal Specific Reserve which funds the five-year card renewal programme. He also informed members that the outcome of the review of the operating model would require funds to implement the necessary changes to the organisation.

Councillor Brown said that the amount of £5.7 million included in the table on page 12 of the Consolidated Accounts appeared to indicate an overspend of over £3 million by London Councils. David Sanni said that the reason for the variance was due to the movements on the IAS19 net pension asset that go through the Income and Expenditure Account. These notional costs of £3.6 million are offset by a transfer from the Pension Reserve of the same amount resulting in a nil impact on the bottom line in accordance with Local Authority Accounting. He said that an explanation of the accounting treatment is provided in the notes to the accounts but it would be helpful to also include it in the Narrative Statement to make it clearer and more transparent to the reader of the accounts.

Councillor Brown asked if the current positive position on the fund creates an opportunity to reduce pension fund risk by hedging interest rate and inflation risks. David Sanni said that the LPFA is responsible for managing the pension fund risks and he would contact them to establish what action they are taking to mitigate the risks. Stephen Boon, Chief Operating Officer, London Councils, informed members that he was on the LPFA Local Pension Board and would raise this issue at the next meeting of the board.

The Audit Committee:

- Approved the statement of accounts, as detailed at Appendices A to C of this report subject to the satisfactory conclusion of outstanding audit work;

- Agreed that an explanation is included in the Narrative Statement in the accounts to clarify the accounting treatment of the notional IAS19 pension costs included in the Income and Expenditure Account which are offset by transfers from the Pension Reserve; and
- Agreed that management of pension scheme risk would be raised at the next Local Pension Board meeting.

7. Internal Audit Update

The Audit Committee received a report that provided members with an update in relation to the work of Internal Audit since the last update report made to the June 2023 meeting. The report also provided an overall status update on progress against the current Internal Audit Plan. One Audit review has been completed to draft report stage since the last meeting.

Matt Lock, Head of Internal Audit, City of London Corporation, introduced the report. He informed Committee that the City had been successful in making appointments to the Audit team and was now very confident that the work on behalf of London Councils could be delivered on time and within the set deadlines.

Councillor Brown asked if a new purchase order system was going to be acquired. David Sanni confirmed that it was and is in London Councils' Shared Ambition Roadmap. He said that a pilot exercise had been carried out on the City of London's finance system and the outcome was a decision to acquire an alternative system.

The Audit Committee noted the Internal Audit Update report.

8. Internal Audit Recommendations

The Audit Committee received a report that provided an update on the status of the 17 outstanding internal audit recommendations referred to in the Head of Internal Audit's annual opinion on the adequacy and effectiveness of London Councils' control, governance and risk management processes.

David Sanni said that 15 recommendations have either been implemented or had alternative mitigation arrangements put in place. One recommendation was partially implemented due to system upgrades not working as intended as well as a change in priorities. A revised implementation date of December 2023 has been set for this recommendation. The final recommendation had not been implemented due to a delays by the contractor in developing the performance measurement reports and a revised implementation date of October 2023 has been set.

Councillor Gardner asked how contract performance on the London Lorry Control Scheme (LLCS) contract was being monitored without effective monitoring processes in place. Stephen Boon said that the contract performance was being monitored by his team, however it could be done in a more efficient and effective manner using system generated performance reports. Unfortunately, the contractor had completed the development of the system reports. He said that the contractor had until the end of October to develop the reports and if this was not achieved, there was the option to go out to tender for an alternative supplier.

Councillor Brown asked whether the server operating system had been upgraded from Windows 16 to Windows 19. David Sanni said that London Councils was undertaking an IT modernisation and refresh programme and was migrating to Windows 11 for laptop computers. He said that he would check with the Head of ICT and facilities management what version of the server operating system was in place as there may have been and additional upgrade as part of the modernisation programme. David Sanni said he would send an email to Committee members to confirm the version of the operating system in place.

The Audit Committee:

- Noted the contents of the internal audit recommendations schedule which could be found at Appendix A of the report, and
- Agreed to receive confirmation of the current version of the operating system of London Councils' network server.

9. Review of Risk Management 2022/23

The Audit Committee considered a report that summarised the review of the current Risk Management Strategy & Framework.

Reuben Segal, Head of Governance & Data Protection, London Councils, introduced the report. He said that one of the recommendations arising from the internal audit review in early 2021 was to review the risk management strategy and framework. A review was carried out and nothing that required a fundamental change was identified. It was agreed that the risks in the strategic risk register should include a "direction of travel" (eg highlighting whether they had become higher risks, lower or stayed the same), as requested by Audit Committee in 2021.

Reuben Segal said that the risk management framework has been revised to reflect London Councils' Shared Ambitions that were adopted in 2021/22 as well as the changes in the organisation's structure. A strategic risk register was being developed by the corporate management team (CMT) following a workshop of senior managers held in April 2023 and input sought from the Corporate Governance Group, which has representatives across the organisation. Reuben Segal proposed that the strategic risk register continues to be presented to the Audit Committee on an annual basis and will include target risk ratings. Councillor Alambritis asked about induction training for employees. Reuben Segal said that a risk management "module" would be included in the annual online Information Governance & Cyber Security training which would be refreshed in November 2023, and which new staff would be required to complete as part of the corporate induction.

The Audit Committee:

- Approved the updated Risk Management Strategy & Framework; and
- Agreed the recommendation to receive an annual report on risk management, which will include the strategic risk register

10 & 11. London Councils' Policies to Combat Fraud, Bribery & Corruption & Whistleblowing

The Committee received two reports under agenda items 10 and 11 that would be taken together. Agenda item 10 sought approval of an updated policy for London Councils to combat fraud, bribery and corruption. Agenda item 11 sought approval of London Councils Whistleblowing, which had been updated with only minor changes.

Reuben Segal introduced the two reports. The policies had not been reviewed since 2019. The periodic review of the policies was undertaken to ensure they contain up to date information and reflect best practice.

Councillor Brown asked what route staff would have to report serious complaints like bullying or harassment in the workplace if it could not be done through the London Councils' whistleblowing policy. Matt Lock said that the policy aims to set out the reporting procedures for certain types of wrong doing (eg fraud, bribery and corruption) and the revised text aims to distinguish between these acts and employee related matters, such as personal grievances.

Councillor Brown asked how the Audit Committee would be made aware of personal grievances. Matt Lock said the Audit Committee could ask to see more information in relation to grievances, complaints and whistleblowing referrals, but it isn't part of the core remit of an Audit Committee. The exception to this would be issues of fraud, corruption and financial irregularity. The Committee may take wish to seek assurance that London Councils has appropriate procedures in place for receiving and addressing any issues raised regarding personal grievances.

The Chair agreed that it would be beneficial to have a briefing on the reporting of whistleblowing and grievances. Councillor Gardner said that there were areas that fell between HR and whistleblowing. Stephen Boon said that he was happy to take these concerns away and report back to the Audit Committee. The Chair said that it was important that staff were aware of the correct channels to report whistleblowing and personal grievances.

The Audit Committee:

- Approved London Councils Policy to Combat Fraud, Bribery and Corruption, as detailed in Appendix A to the report; and
- Approved the London Councils Policy on Whistleblowing, subject to a briefing being made available that gave clarification on the reporting of whistleblowing and grievances.

12. Provisional Proposed Dates of the Audit Committee Meetings for 2024/25

The Audit Committee received a report that notified members of the proposed provisional Audit Committee meeting dates for 2024/25.

Councillor Brown said that the 14 March 2024 Audit Committee meeting showed a start date of 10.30pm and this should be amended to read 10:30am.

Subject to the above minor amendment, the provisional proposed dates of the Audit Committee for 2024/25 were agreed.

The meeting finished at 12:09pm

<u>Action Points</u>

	Action	Progress
6. Financial Accounts	*An explanation is included in the Narrative Statement in the accounts to clarify the accounting treatment of the notional IAS19 pension costs included in the Income and Expenditure Account which are offset by transfers from the Pension Reserve*	**Actioned**
	The management of pension scheme risk will be raised at the next Local Pension Board meeting.	**Actioned**
8. Internal Audit Recommendations	*Confirm current version of the operating system of London Councils' network server.*	**Actioned**
11. Whistleblowing Policy	*To prepare a briefing on the reporting of whistleblowing and grievances. To also*	**Actioned**

replace the word “law” in the text with “procedure”.

Audit Committee

Annual report on Risk Management   Item no: 4

Report by:	Stephen Boon	**Job title:**	Chief Operating Officer
Date:	14 March 2024		
Contact Officer:	Reuben Segal		
Telephone:	020 7934 9803	**Email:**	Reuben.segal@londoncouncils.gov.uk

Summary: London Councils' Risk Management Framework provides that the the Audit Committee will receive an annual report from the Chief Operating Officer on risk management, which will include the current version of the corporate risk register.

Recommendations: The Audit Committee is asked to note:

- London Councils' Corporate Risk Register for 2024/25 which can be found attached at Appendix 2.
- The proposal to map operational risk registers around the five primary activity areas;

London Councils' Corporate Risk Register

1. Background

1.1 It is widely accepted that it is good governance and practice to have and maintain an organisational risk register. London Councils has had a Risk Management Strategy and Framework in place for a number of years and this was last reviewed by London Councils' Audit Committee in September 2023.

1.2 The approach is proportionate to the organisation and establishes a framework for identifying and periodically monitoring risk. The types and definitions of risks used in London Councils' risk assessments are attached at Appendix 1.

1.3 As set out in the Risk Management Framework, the Corporate Risk Register is reviewed annually by the Audit Committee.

1.4 The operational and Corporate Risk Registers are reviewed quarterly by the Corporate Governance Officer Group and half-yearly by London Councils' Corporate Management Team (CMT). This review process ensures that the risk registers continue to support London Councils' corporate priorities.

2. Corporate Risk Register

2.1 Following the Audit Committee's approval of the revised Risk Management Framework in September the Corporate Management Team held my two workshops to refresh the Corporate Risk Register around the six Shared Ambitions themes. The Corporate Risk Register is attached at Appendix 2. Although the Register has been annotated to show a column for the direction of change for key risks no risk directions have been included as the current version is essentially a new register.

2.2 The Corporate Risk Register will be referred to Internal Audit and our external Auditors for information as agreed by members.

3. Operational Risk registers

3.1 The report submitted to the Audit Committee in September on the Risk Management Review proposed that risks in the “operational risk registers” would be organised around the functions of the new organisational structure as follows:

- London’s Future and Places (including Climate Change)
- London’s Communities
- Local Government, Finance & Improvement
- Communications and Public Affairs (including LOTI)
- Transport & Mobility
- Corporate Governance (including Information Management)
- Corporate Resources (Finance, IT and Facilities)

3.2 Following further consideration and taking into account the current review of London Councils’ operating model the Corporate Management Team recommend that the operational risk registers are organised against London Councils primary activity areas rather than by directorate as follows:

- Policy
- Services (e.g. Transport & Mobility; Grants)
- Special Projects & Programmes (e.g. LOTI, LIIA, Climate Change)
- Public Affairs & Lobbying
- Corporate Services (Corporate Governance, Corporate Resources)

3.3 The change provides a more logical grouping of risks whilst streamlining the overall number of registers.

4. Implications

Financial Implications for London Councils

There are no financial implications arising from this report.

Legal Implications for London Councils

There are no legal implications arising from this report.

Equalities Implications for London Councils

12 There are no specific equalities implications arising from this report, although when compiling the operational and Corporate Risk Registers, equalities issues may be identified and will be recorded, reported and managed as necessary.

5. Recommendations

Audit Committee is asked to:

- Note London Councils' Corporate Risk Register for 2024/25 which can be found attached at Appendix 2.

Appendices:

- **Appendix 1** – Criteria for risks within London Councils;
- **Appendix 2** – Corporate Risk Register for London Councils for 2024/25.

Background Papers:

- London Councils Risk Management Strategy and Framework 2023;
- Review of Risk Management 2022/23 - report to Audit Committee - 14 September 2023

Appendix 1 – Criteria for risks within London Councils
(extract from London Councils Risk Management Strategy & Framework, approved September 2023)

The main types of risk that London Councils is likely to encounter are:

Risk	Definition
Compliance	Risk of failing to comply with statutory requirements.
External	Risks from changing public or government attitudes.
Financial	Risks arising from insufficient funding, losing monetary resources, spending, fraud or impropriety, or incurring unacceptable liabilities
Operational	Risks associated with the delivery of services to the public and boroughs arising, for example, from recruitment difficulties, diversion of staff to other duties, or IT failures, loss or inaccuracy of data systems or reported information
Project	Risks of specific projects missing deadlines or failing to meet stakeholder expectations.
Reputation all	Risks from damage to the organisation's credibility and reputation.
London	Risks to our stakeholders that need to be taken into account in our planning and service provision
Strategic	Risks arising from policy decisions or major decisions affecting organisational priorities; risks arising from senior-level decisions on priorities.
Contractual Risks	Risks related to the management of service contracts
Internal	Risks that relate to HR/People risks associated with employees, management and organisational development

Officers should note the difference between risks and issues. Risks MAY occur and you can put in place controls to stop that happening. Issues HAVE occurred and cannot be stopped so decisions must be made. The risk management process is focussed on issues that MAY occur.

Officers will identify risks applicable to their areas of work. Throughout the risk management process, the general rule of *escalation* will apply – if it cannot be managed satisfactorily at its current level, it needs to be passed up to the next level of management to be owned and addressed, and potentially placed on the directorate/divisional or corporate risk register. Officers may also decide that a separate risk register is required for an individual piece of work or project. This will be left to the discretion of individual Officers and their managers although guidance is available on the intranet and support is available from Corporate Governance. While project/team risk registers do not form part of the formal risk management process, Officers should follow the steps outlined in the framework to ensure consistency in our approach to risk across the organisation.

The decision on whether an individual risk should be included in the directorate or divisional risk register sits with the respective management teams. Decisions on risks to be included in the strategic risk register sits with the Corporate Management Team.

A 'risk owner' will be identified who will be responsible for reviewing and accepting the assessment that will be entered onto the risk register.

Assessing and scoring risks

To assess risks adequately London Councils will identify the *consequences* of a risk occurring and give each risk a score or *risk rating*.

A means of comparing risks is needed so that efforts can be concentrated on addressing those that are most important. Each risk will be given a score, depending on its likelihood and its impact, as shown below. A risk may meet some, or all, of a description of likelihood or impact. These descriptions provide guidance rather than a prescriptive formula for determining risk ratings. Scoring a risk is a judgement call based on knowledge, understanding and prediction based on past experience.

Any risks which are both very likely to occur and will have a high impact are the ones that demand immediate attention.

Note that emerging risks (ie risks around new areas of work, projects etc) may initially be scored higher on the register before scoring is adjusted once the risk is fully assessed.

Risk assessment			
Rating	**Likelihood**	**Impact**	**Rating**
Very High 4	**70% chance of occurrence** Almost certain (the risk is likely to occur within 6 months or at a frequent intervals). The event is expected to occur as there is a history of regular occurrence.	Huge financial loss; key deadlines missed or priorities unmet; very serious legal concerns (e.g. high risk of successful legal challenge, with substantial implications for London Councils); major impact on Boroughs or Londoners; loss of stakeholder public confidence.	*Very High 4*
High 3	**40% - 70% chance of occurrence** Probable, the risk is likely to occur more than once in the next 12 months. A reasonable possibility the event will occur as there is a history of frequent occurrence.	Major financial loss; need to renegotiate business plan priorities; changes to some organisational practices due to legislative amendments; potentially serious legal implications (e.g. risk of successful legal challenge); significant impact on the Boroughs or Londoners; longer-term damage to reputation.	*High 3*
Medium 2	**20% - 39% chance of occurrence** Possible, the risk may occur in the next 18 months. Not expected but there's a possibility it may occur as there is a history of casual occurrence.	Medium financial losses; reprioritising of services required; minor legal concerns raised; minor impact on the Boroughs or Londoners; short-term reputation damage.	*Medium 2*
Low 1	**<20% chance of occurrence** Rare, the risk may occur in exceptional circumstances.	Minimal financial losses; service delivery unaffected; no legal implications; unlikely to affect the Boroughs or Londoners; unlikely to damage reputation.	*Low 1*

Risk scores

Risk Assessment

Very High (4)	4	8	12	16
High (3)	3	6	9	12
Medium (2)	2	4	6	8
Low (1)	1	2	3	4
	Low (1)	**Medium (2)**	**High (3)**	**Very High (4)**

Impact

It is recognised that the scores at different levels of the register (project/team, directorate/ divisional, corporate) will reflect the importance of the risk in the context of the level of the register. For example, an individual officer's project register may reflect a high impact score on the project if an element is delivered late, but this will not necessarily correspond to a high impact on the organisation as a whole. This incremental approach to impact allows risks to be appropriately scored at each level to enable effective prioritisation of management and mitigation actions.

Controls in Place

For each risk a set of appropriate controls should be in place. Examples of controls might include:

- Regulations including Standing Orders, Financial Regulations
- Policies and Procedures
- Performance Indicators and reporting
- Business planning elements
- Staff (including training and development)
- Contracts with suppliers
- IT Systems
- Stakeholder involvement

Additional Controls

As well as existing controls, the practical management of risk may involve additional mitigation if the existing controls do not adequately mitigate against the risk. In addressing risks, a proportionate response will be adopted – reducing risks to 'As Low a Level as is Reasonably Practicable' in the particular circumstances (known as the ALARP approach).

Directorate	Corporate						Date Last Reviewed by Dept	05/02/2024					
							Date Reviewed By CGG	n/a					
No	**Risk**	**Risk Type**	**Risk description**	**Risk Rating without control (1-4)**			**Controls in place**	**Responsible Officer**	**Risk rating with control (1-4)**			**Target Risk Score**	**Direction of travel since last review**
				L	**I**	**O**			**L**	**I**	**O**		
	Major projects and procurements not delivered to quality, cost, and timeliness requirements.	Project, Financial, Operational & Reputation	London Councils is currently renewing its operating model. This involves several large projects: - office move - organisational restructure - new website; and - move to Sharepoint Poor execution of these projects could lead to disruption for members, staff and stakeholders.	**3**	**3**	**9**	Project planning and governance, including regular reporting and review at CMT, making time to consider lessons learned. Multi-channel staff engagement and involvement in relevant working groups, with the programme of activities being overseen by the organisational development working group. Commissioning external expertise where required and contract management of suppliers. Learning and development framework supporting development of relevant expertise within the organisation.	CMT	**2**	**2**	**4**	**4**	**=**
	Financial sustainability	Financial, Operational, & Reputation	Medium term viability uncertain. The risk that London Councils financial arrangements are not sustainable over the medium to long-term.	**4**	**3**	**12**	Review of London Councils' operating model, including move to smaller premises, to stop the use of General Reserves to balance annual budgets. Regular review of quarterly budget and forecast with London Councils Committees, CMT, and with London Councils Teams. Ensuring that CMT	David Sanni and CMT	**2**	**3**	**6**	**4**	**=**

Directorate	Corporate						Date Last Reviewed by Dept	05/02/2024					
							Date Reviewed By CGG	n/a					
No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)			Target Risk Score	Direction of travel since last review
				L	I	O			L	I	O		
							are well sighted on budget reports before they are circulated for committee meetings. Practicing sound financial management through transparent budgetary processes and robust reporting for budget holders, at the correct level. Ensure that London Councils demonstrates and communicates the value proposition added to boroughs and their decision-makers. Developing a Medium-term Financial Strategy which highlights financial pressures and the strategy for London Councils financial management over a three-year period. Reviewing the internal recharge methodology to ensure greater transparency of London Councils financial planning assumptions for staff and managers..						

Directorate	**Corporate**	**Date Last Reviewed by Dept**	05/02/2024
		Date Reviewed By CGG	n/a

No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)			Target Risk Score	Direction of travel since last review
				L	I	O			L	I	O		
	Business continuity (including disaster recovery, cyber-attacks)	Operational, Financial & Project	London Councils is unable to function. The risk that London Councils does not have effective business continuity plans which result in the inability to operate as a result of unexpected events.	4	3	12	Business continuity plan subject to regular review and testing. Maintain and implement up to date cyber security software. Periodic review by the corporate governance group. Contractual provisions around cyber security requiring contractors to meet cyber security essentials standards. Regular monitoring and review/testing. Develop communications disaster plans. Maintenance of relevant skills and learning and development for staff. Cyber security awareness training for staff – Hut Six. Audit/peer reviews.	Roy Stanley and David Sanni	2	2	4	2	=
	Ineffective recruitment and retention strategies	Compliance, Operational, Project, Reputation, Contractual & Internal	We are unable to attract and/or retain the capacity (number of staff) and capability (experience, knowledge and skills) needed to deliver Shared Ambitions and key services, and	3	3	9	- Continued development of internal HR expertise - Use of external recruitment expertise - Learning and development is shaped, visible and reviewed quarterly (to Summer 2024, post reorganisation and office move) - Maintain agreed timetable for Operating Model changes to establish certainty	Yo Burgess & Steve Davies	1	2	2	3	=

Directorate	Corporate						Date Last Reviewed by Dept	05/02/2024					
							Date Reviewed By CGG	n/a					
No	**Risk**	**Risk Type**	**Risk description**	**Risk Rating without control (1-4)**			**Controls in place**	**Responsible Officer**	**Risk rating with control (1-4)**			**Target Risk Score**	**Direction of travel since last review**
				L	**I**	**O**			**L**	**I**	**O**		
			represent and innovate for boroughs.				- CMT quarterly review of committed resources (budget review) - Develop agile ways of working to maximise available resources - Annual review of recognition/benefits - Communicating with partners, networks and alumni to support successful refcuitment.						
	Effective corporate oversight and compliance.		Corporate governance functions and policies do not identify risks to organisation and teams. Governance processes and procedures are not robust enough to track/identify challenges to the organisation, deliver priorities and services. Arrangements are inadequate or inadequately applied leading to legal or financial challenges.	3	4	12	Oversight and compliance built into business cycle and rhythm of the year. This includes: - CMT review (every six months) - Corporate governance group (four times a year - Team reviews - Programme of internal audit - Review of risk and audit arrangements by audit committee Clear policies and procedures available to all staff. Including (but not limited to): - Governing agreements, - Standing orders. - Financial regulations - Information governance - Business continuity	Stephen Boon & Joe Kinsella	1	2	2	2	=

Directorate		Corporate					Date Last Reviewed by Dept	05/02/2024					
							Date Reviewed By CGG	n/a					
No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)			Target Risk Score	Direction of travel since last review
				L	I	O			L	I	O		
	Fail to deliver Shared Ambitions and lobbying outcomes.	Strategic, Operational, Reputation	London Councils fails to deliver clear lobbying outcomes with new government. Shared Ambitions are insufficiently resourced and prioritised, leading to inability to meet agreed milestones and outcomes. New government goes to its think tanks for analysis and ideas, rather than London Councils. Politicians do not use London Councils expertise.	3	4	12	Identify the critical outcomes to ensure Shared Ambition's success. Share Ambitions update reports to Leaders and Executive Committees to set priorities and review progress. Use Viva goals to track progress and ensure expectations are widely understood. CMT regularly review progress against the Shared Ambition roadmap. Clearly address barriers to delivery and reprioritisation as required.	Ali Griffin and CMT	2	2	4	4	=

Directorate	Corporate	Date Last Reviewed by Dept	05/02/2024												
		Date Reviewed By CGG	n/a												
No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)			Target Risk Score	Direction of travel since last review
				L	I	O			L	I	O		
	Services contracts transition and delivery	Operational, Financial, Reputational	Over the next 18-months, London Councils will be procuring new contracts for key services such as Freedom Pass, Taxicard and the London Lorry Control Scheme. There is a risk that new contracts for services do not deliver objectives (i.e. financial/value for money, service levels).	3	4	12	Clear procurement strategy and outcomes set by Members in accordance with Financial Regulations. Development of a procurement pipeline visible to CMT. Early market engagement with suppliers. Staffing capacity and experience Clear articulation of cost, time and quality requirements in tender documentation and contracts. Agreements with incumbents regarding transition to ensure timely and accurate release of data and other work in progress. Use of external expertise – including contract advice from CoL legal team. Good project management of exit and implementation arrangements.	Stephen Boon & Kalpini Dave	2	2	4	4	

Directorate		Corporate					Date Last Reviewed by Dept	05/02/2024					
							Date Reviewed By CGG	n/a					
No	**Risk**	**Risk Type**	**Risk description**	**Risk Rating without control (1-4)**			**Controls in place**	**Responsible Officer**	**Risk rating with control (1-4)**			**Target Risk Score**	**Direction of travel since last review**
				L	**I**	**O**			**L**	**I**	**O**		
	Boroughs want to withdraw from London Councils.	External, Operational Financial	Due to ongoing financial pressures, boroughs decrease or end subscriptions as an area for savings. Key decision-makers in borough(s) do not consider London Councils provides sufficient value.	**2**	**3**	**6**	Regular CMT review and clear articulation of London Councils' value proposition to members and the value of London local government speaking with one voice to HMG. Regular and appropriate level of engagement with: - Lead Members - Backbench members - professional networks (SLT in particular) - stakeholders - government and parliament - users of our services. Seeking, receiving, and acting on feedback from the groups above. Capturing and communicating the outcomes of our work and their contribution to delivering the boroughs' shared ambitions and sharing with the groups above through an agreed communications plan Set out benefits of membership and update once a year to appropriate stakeholder groups – July following AGMs.	Ali Griffin and Paul Honeyben	**2**	**2**	**4**	**2**	

Directorate	Corporate						Date Last Reviewed by Dept	05/02/2024					
							Date Reviewed By CGG	n/a					
No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)			Target Risk Score	Direction of travel since last review
				L	I	O			L	I	O		
							Ensure that we can state what benefits each borough receives from London Councils. Understand who the budget holders for LC subscriptions are.						
	Breakdown in strategic partnerships and London relationships.	Strategic Reputational Operational Extenral	Political and financial strain and fatigue results in relationship breakdowns (e.g. with NHS, Met, GLA)	2	3	6	Regular engagement with members and stakeholders to manage expectations and ensure that changes in delivery of work are understood and identify areas of alignment. The development and communication of a roadmap of activities that our leaders, our people and stakeholders can understand and deliver. Regular engagement with stakeholders including the GLA, Government Departments, the NHS to ensure we understand their priorities and can develop trusted partner relationships. Developing an agile workforce that can be deployed to work on emerging	CMT	2	1	3	3	=

Directorate	Corporate						Date Last Reviewed by Dept	05/02/2024					
							Date Reviewed By CGG	n/a					
No	Risk	Risk Type	Risk description	Risk Rating without control (1-4)			Controls in place	Responsible Officer	Risk rating with control (1-4)			Target Risk Score	Direction of travel since last review
				L	I	O			L	I	O		
							priorities, ensuring flexibility in delivering London Councils Shared Ambitions. Managing our financial resources effectively, using strategic financial management. Using an operating model that supports London Councils to deliver against the agreed Shared Ambitions by Leaders.						

Audit Committee

Internal Audit Plan 2024/25 Item no: 5

Report by:	David Sanni	**Job title:**	Director of Corporate Resources
Date:	14 March 2024		
Contact Officer:	David Sanni		
Telephone:	020 7934 9704	**Email:**	david.sanni@londoncouncils.gov.uk

Summary

This report informs the Audit Committee of the draft internal audit plan for 2024/25, as proposed by the City of London's Internal Audit section under terms of the service level agreement for financial and payroll services. The report also provides details of the proposed rolling five-year programme covering the period up to 2028/29. Officers from the internal audit section will attend the meeting to answer any questions members may have on the plan.

Recommendations

The Audit Committee is asked to approve the internal audit programme for 2024/25 and the rolling five-year programme, as proposed by the City of London and detailed in Appendix A of this report.

Introduction

1. The Audit Committee has received an internal audit plan for 2024/25 and a revised five year rolling programme for the period 2024/25 to 2028/29 proposed for London Councils by the City of London's internal audit section.

2. During the planning process, the internal audit section invited London Councils' Corporate Management Team and Corporate Governance Group to recommend any areas for inclusion in the plan. The internal audit section considered the planned work of London Councils' external auditor to ensure that there were no areas of duplication. The internal audit section has also considered London Councils' corporate and divisional risk registers to assist in identifying areas which have been classified as exposing London Councils to a high level of risk.

Internal Audit Plan 2024/25

3. The proposed internal audit plan for 2023/24 is included at Appendix A of this report. The reviews proposed for 2024/25 are:

Full Assurance Reviews	**Planned Days**
• Pan London Mobility Schemes	15
• Parking and Traffic Contracts	15
• Central Recharges	5
• Employees	7
ICT Assurance Reviews	
• ICT Cyber Security	10
Follow-up reviews	
• Assess implementation of audit recommendations from prior year's reviews	5

4. The Audit Committee is asked to approve the plan for 2024/25.

Rolling Internal Audit Plan 2024/25 to 2028/29

5. The Audit Committee is also asked to approve the rolling five-year internal audit programme for the period 2024/25 to 2028/29 as detailed in Appendix A. This rolling plan will be reviewed and updated annually when firm proposals are made for the audit plan for the next financial year.

6. The cost of the internal audit work provided by the City of London is included within the annual cost of the service level agreement between London Councils and the City for financial and payroll services. In addition to the internal audit function, the service level agreement also covers the provision of an accounting and business system, the issue of invoices and payments, VAT accounting, treasury management, cashiers, cheque handling, and payroll services. The estimated cost of the service level agreement for 2024/25 is £105,000.

Financial Implications for London Councils

Included in the body of the report.

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A London Councils Proposed Internal Audit Plan for 2024/25 and five year rolling programme from 2024/25 to 2028/29.

Background Papers

Internal Audit work file 2024/25

London Councils - Proposed Internal Audit Plan for 2024/25
Last updated: 1/3/2024

AUDIT	Date of last audit	2024/25 no. of days	Key contact(s) LC	Qtr 1 Apr-Jun 2024	Qtr 2 Jul-Sep 2024	Qtr 3 Oct- Dec 2024	Qtr 4 Jan-Mar 2025
Full Assurance Reviews							
PAN LONDON MOBILITY SCHEMES	2021-22	15	Stephen Boon, Chief Operating Officer and Kalpini Dave, Assistant Director Commercial Contracts & Service Delivery				Q4
PARKING & TRAFFIC CONTRACTS	2021-22	15	Stephen Boon, Chief Operating Officer and Kalpini Dave, Assistant Director Commercial Contracts & Service Delivery	Q1			
CENTRAL RECHARGES	NEW	5	David Sanni, Director of Corporate Resources and Richard Merrington, Chief Accountant		Q2		
EMPLOYEES (includes Recruitment, Payroll adjustments, Pensions Administration, Gifts and Hospitality, Annual/Other Declarations)	2021-22	7	Steve Davies, HR Director & Regional Employer Secretary and David Sanni, Director Corporate Resources		Q2		
ICT CYBER SECURITY	2021-22	10	Roy Stanley, Head of ICT and Facilities Management			Q3	
FOLLOW UP Annual exercise to determine progress in implementing internal audit recommendations.	2022-23	5	Various - Richard Merrington, Chief Accountant to co-ordinate				Q4
TOTAL NUMBER OF COL INTERNAL AUDIT DAYS		**57**	*Note - not all of these days are on site, this includes planning, report writing and QA reviews.*				

London Councils Base Plan

AUDIT	DATE OF LAST AUDIT	YEAR 1 2024-25	YEAR 2 2025-26	YEAR 3 2026-27	YEAR 4 2027-28	YEAR 5 2023-24	COVERAGE IN FIVE YEARS
PAN LONDON MOBILITY SCHEMES	2021-22	15	0	0	10	0	25
FINANCIAL MANAGEMENT (INCL. BUDGET SETTING, BUDGET MONITORING & INCOME CONTROLS)	2022-23	0	10	0	10	0	20
GRANTS (INCLUDING PROBITY CHECKS)	2023-24	0	0	10	0	10	20
PARKING & TRAFFIC CONTRACTS	2021-22	15	0	10	0	0	25
PROCUREMENT OF GOODS AND SERVICES	2022-23	0	10	0	0	0	10
DISASTER RECOVERY AND BUSINESS CONTINUITY ARRANGEMENTS	2023-24	0	0	0	10	10	20
EMPLOYEES (includes Recruitment, Payroll adjustments, Gifts and Hospitality, Annual/Other Declarati	2021-22	7	0	5	0	0	12
RISK MANAGEMENT	2020-21	0	10	0	0	0	10
PENSION SCHEME ADMINISTRATION	2023-24	0	0	0	5	0	5
GOVERNANCE ARRANGEMENTS FOR EXTERNALLY FUNDED PROJECTS	2023-24	0	10	0	0	15	25
CENTRAL RECHARGES	New/one off	5	0	0	0	0	5
INFORMATION GOVERNANCE AND DATA SECURITY	2023-24	0	0	10	0	0	10
ICT REMOTE ACCESS AND MOBILE DEVICES	2023-24	0	0	0	0	10	10
ICT SHAREPOINT MIGRATION	New/one off	0	5	0	0	0	5
ICT CYBER SECURITY	2021-22	10	0	10	0	0	20
ICT STRATEGY	2022-23	0	0	0	10	0	10
							0
CONTINGENCY		0	0	0	0	0	0
FOLLOW-UP EXERCISE	Annual	5	5	5	5	5	25
TOTAL		**57**	**50**	**50**	**50**	**50**	257

Audit Committee

Internal Audit Update

Item no: 6

Report by: Matt Lock **Job title:** Head of Audit & Risk Management (City of London Corporation)

Date: 14 March 2024

Contact Officer: Matt Lock, Head of Audit & Risk Management (City of London Corporation)

Email: matt.lock@cityoflondon.gov.uk

Summary

The purpose of this report is to provide the Committee with an update in relation to the work of Internal Audit since the last update report made to the September 2024 meeting.

The report also provides an overall status update on progress against the current internal audit plan. One audit review has been completed to the final report stage since the last meeting and the fieldwork is complete on another audit.

Recommendations

The Audit Committee is asked to note and comment on the contents of the report.

Background

Internal Audit Plan 2023/24

1. This report provides an update on the overall status of delivery of the Audit Plan; since the last meeting, one audit has been delivered to final report stage, the fieldwork has been completed for one audit (anticipated that the final report will be issued before the Committee meets). The fieldwork is in progress for one audit and in one further case, the review has been initiated. The table below summarises the overall status of the plan:

Planned Audits	Status
Procurement of Goods and Services	Final Report Issued
Information Governance and Data Security	Fieldwork Complete
Grants (including probity checks)	Fieldwork in Progress
Pension Scheme Administration	Final Report Issued
Disaster Recovery and Business Continuity Arrangements	Not Started
Governance Arrangements for Externally Funded Projects	Not Started
ICT Remote Access and Mobile Devices	Initiated
Follow Up of Audit Recommendations	In progress

Internal Audit Reviews Completed Since the Last Update Report:

Pension Scheme Administration Audit – Substantial Assurance

2. This audit covered the following:
   - Compliance with auto enrolment pension regulations for adjudicators.
   - Record keeping and checks undertaken to ensure that opt-out requests and variances in deductions are authorised and appropriately applied.
   - Reconciliation controls in place between payroll, accounting, and pension administration records maintained by management.

3. **The Audit review found that:**

   - Pensions administration was found to have been undertaken in accordance with the requirements of auto enrolment legislation. Adjudicators were auto enrolled into the scheme when applicable and were informed of the details of the scheme. New adjudicators were also provided with the scheme details. All adjudicators currently enrolled in the scheme were within the mandated age range of 22 to 66.

   - Although all calculations relating to contributions were correct, detailed testing identified some transactional errors where the employee and employer contribution rates had been set up incorrectly on the payroll system. While the overall deduction of 8% has been correctly made and transferred to the Smart Pensions account, the employee and employer rates of 5% and 3% have been transposed for 8 Adjudicators. Internal Audit identified that this error occurred at the point of setting the contribution rates on the payroll system. The matter was raised directly with the payroll provider who has investigated and applied the correct contribution rates going forwards. While the correct sum has, in total, been paid over to Smart Pensions, and so the individual pensions account balances are correct, the composition of this amount is not correct ("employer" contributions are 2% higher than they should have been and "employee" contributions 2% lower than they should be). All other adjudicators contribution rates were found to be correct. Management undertook to discuss a reconciliation action with City of London payroll and make appropriate arrangements with the relevant adjudicators to ensure the correct pension contributions from backdated pay are achieved for reimbursement and reconciliation with London Councils overpayments.

   - Audit testing also identified that there are a small number of adjudicators that, while no longer "active" and are considered leavers, still appear on the payroll system. Management agreed to review this and remove the relevant individuals from the payroll.

Information Governance and Data Security – Fieldwork complete

4. The purpose of this Internal Audit was to determine the transparency and effectiveness of the information governance framework and channels used to manage information, including compliance with UK GDPR requirements. Fieldwork is recently completed and will result in a substantial assurance opinion, it is anticipated that the audit report will be issued and finalised before the Committee meets.

Conclusion

5. Members should note the status of work in relation to the 2023/24 Internal Audit Plan, while there is still a considerable amount of work to complete, it is anticipated that this will be sufficiently concluded to inform the Head of Internal Audit Annual Opinion.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

None

Audit Committee

External Audit Plan 2023/24 Item no: 7

Report by: Richard Merrington **Job title:** Chief Accountant

Date: 14 March 2024

Contact Officer: David Sanni

Telephone: 020 7934 9704 **Email:** david.sanni@londoncouncils.gov.uk

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Summary

This report presents the draft external audit plan for 2023/24 prepared by London Councils' external auditor, PKF Littlejohn. The draft audit plan informs the Audit Committee of the scope of the external audit for London Councils for 2023/24. Alastair Duke and Syed Ahmad from PKF Littlejohn will attend the meeting to present the plan and answer any questions the Audit Committee may have.

Recommendations

The Audit Committee is asked to

- Approve the draft external audit plan for the 2023/24 financial year (Appendix A).

Audit Plan 2023/24

Introduction

1. This report informs members of the proposed audit plan for the 2023/24 financial year, which is attached at Appendix A to this report. The purpose of the plan is to inform both the officers and the members of London Councils of the scope for the external audit of the 2023/24 financial accounts.

2. The provisions of the Local Audit and Accountability Act 2014 which replaced the Audit Commission Act 1998 do not require joint committees, such as London Councils, to produce audited accounts. However, London Councils has other legal obligations that require it to produce audited accounts outside of those derived from the Audit Commission Act. PKF Littlejohn was appointed as London Councils' external auditor by the Leaders' Committee in December 2022 following a procurement exercise and recommendation from this Committee. The 2023/24 accounts will be the second set of accounts audited by PKF Littlejohn.

Scope of the Audit

3. The audit plan provides details of the approach PKF Littlejohn intends to adopt in order to express an opinion on whether or not the financial statements represent a true and fair view of London Councils affairs for the year ended 31 March 2024. The audit will be conducted in accordance with the International Standards on Auditing (UK)("ISAs").

Significant Audit Risks

4. PKF Littlejohn has carried out an assessment of London Councils operations and identified potential audit risks that PKF need to understand, and evaluate the effectiveness of the design and implementation of controls that operate over those risks. The results of its assessment and its planned audit approach are detailed on pages 12 to 13 of the audit plan. In summary, the main risks identified are as follows:
   - Management override; and
   - Revenue recognition.

5. PKF Littlejohn has also identified other areas of assessed risk ,these are:
   - Going concern;
   - Defined benefit pension schemes; and
   - Related party transactions.

Materiality Levels

6. The materiality levels for the audit are set out on page 10 of the plan. The materiality levels set for the consolidated accounts are as follows:
   - Materiality: £1.03 million;
   - Trivial reporting materiality: £51,500.

   The materiality levels for the individual entities can also be found on page 10 of the plan.

Audit Fees

7. The audit fee is detailed on page 20 of the audit plan. A comparison of the proposed fees for 2023/24 with previous years are detailed in the table below.

	2023/24 (£) (Proposed)	**2022/23 (£) (Actual)**	**2021/22 (£) (Actual)**
Audit fee (including the limited company and AR27 certification)	55,850	53,253	65,000

Timing of the Audit

8. The proposed timetable for the audits has been set out in page 7 of the audit plan and has been prepared to meet London Councils' financial regulations requirement that officers present the audited Financial Statements to the Audit Committee by 30 September.

Audit Report

9. Following the conclusion of the final audit, PKF Littlejohn will issue an ISA(UK&I) 260 Report to those Charged with Governance which will be presented to the Audit Committee. The report will provide a summary of the results of the audit work and the detail of any significant matters, which have arisen.

Annual Governance Statement

10. The financial accounts include an Annual Governance Statement (AGS) which is prepared in accordance with the CIPFA/SOLACE Framework - *Delivering Good Governance in Local Government*. The framework requires authorities to review their governance arrangements at least annually to ensure continuing compliance with best practice. The audit will include a review of the AGS to consider the completeness of disclosures included in the statement. Along with the Chief Executive, those charged with governance will have to take ownership of this process and responsibility for the governance arrangements. As external auditor, PKF Littlejohn will need assurance that members are fully engaged in this process and with the governance of the organisation in general. This includes:

    - The process defined for the review of the effectiveness of internal control and the involvement of appropriate members and officers;
    - The arrangements for committee meetings at which corporate governance, internal control and risk management matters are considered; and
    - The expectation of a formal annual report to those charged with governance by the Head of Audit and Risk Management at the City of London, which includes an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;

11. In practical terms this means that London Councils Audit Committee will be required to be actively engaged in the assessment of corporate governance and internal controls within London Councils. The annual review of the governance arrangements will be carried out at the end of the 2023/24 financial year and the outcome and revised AGS for 2023/24 will be presented to the Audit Committee for review and approval at its meeting in June 2024.

Financial Implications for London Councils

As discussed in paragraph 7 of the report.

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A   London Councils Audit Planning Report 2023/24

Background Papers

Final Accounts working file 2023/24

Audit Planning Report

London Councils

Year Ending 31 March 2024

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Contents

Executive Summary

We are pleased to present our audit planning report. This report communicates our approach to the audit of the financial statements of London Councils Joint Committee ("the Group") and its committees for the year ending 31 March 2024. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process.

For the purposes of this report, the Group is defined as constituting the following entities:

- London Councils – Joint Committee;
- London Councils – Grants Committee;
- London Councils – Transport and Environment Committee; and
- London Councils Limited

Where required, we will refer to specific entities by their name in full in order to distinguish them from the Group.

Planning is an iterative and dynamic process and our plan, which is reflected in this report, will be reviewed, and updated as our audits progress. We will report any additional matters arising, or material changes in audit scope, either as the audit progresses or within our reporting documents at the end of the audit.

In planning the audit of the Group we have considered the following areas:

- The Group's objectives, strategies and business model, including the related business and financial risks relevant to the financial statements;
- The application of, and developments in, the financial reporting framework that the Group applies;
- The quality of the Group's system of internal control, including its information systems, processes and controls;
- Industry, regulatory and other external factors relevant to the Group; and
- Matters that management and the Audit Committee consider to be significant in relation to the financial statements and that they have requested we pay particular attention to.

We will carry out our audit of, and express an opinion on, the financial statements in accordance with International Standards on Auditing (UK) ("ISAs"). The audit of the financial statements does not relieve management, nor those charged with governance, of their responsibilities for the preparation of the financial statements.

This report is supplementary to our letter of engagement and contract, which sets out the scope of the audit as well as the respective responsibilities of ourselves as auditors, and yourselves as Committee Members and applies for the year ended 31 March 2024. The report has been prepared solely for the use of the Committee Members, being those charged with governance. We reserve the right to ask to present our findings to the Committee as a whole.

In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person to whom it is shown or into whose hands it may come, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

PKF Littlejohn LLP

Overall Audit Strategy

pkf-l.com

1. Overall Audit Strategy

Audit scope

Our scope consists of an audit in accordance with ISAs of the consolidated statutory financial statements of London Councils - Joint Committee, together with an audit of the other entities listed on page 3.

Our work on the financial statements is designed to form an opinion on whether:

1. The financial statements give a true and fair view of the state of the entity's affairs as at 31 March 2024, and of its expenditure and income for the year then ended; and
2. The financial statements have been prepared in accordance with the elected basis of accounting described in the General Principles.

We are also required, by ISA (UK) 700, to explain in our audit report the extent to which our audit was considered capable of detecting irregularities including fraud.

Our primary contact at London Councils Limited will be with Richard Merrington.

Our work is summarised as follows:

Entity	Overview of the type of work to be performed on the financial information
London Councils – Joint Committee	Audit of the non-statutory consolidated financial statements in accordance with the applicable regulations. The Committee has elected to prepare its accounts in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom except for the exception single entity financial statement for London Councils Joint Committee financial statements.
London Councils – Grants Committee	Audit of the entity's non-statutory financial statements in accordance with the applicable regulations. The Committee has elected to prepare its accounts in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.
London Councils – Transport and Environment Committee	Audit of the entity's non-statutory financial statements in accordance with the applicable regulations. The Committee has elected to prepare its accounts in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.
London Councils Limited	Audit of the entity's financial statements in accordance with the Companies Act 2006 and applicable regulations. Ensuring the entity's financial statements have been prepared under United Kingdom Generally Accepted Accounting Practice (UK GAAP).

We will ensure that, where modifications are required to our standard audit report, you are made aware of, and understand, the reasons for those modifications and do not dispute the facts of the matter(s) underlying the modifications prior to our report being finalised. In the event of any expected modifications to our audit report, we will discuss with you as Committee members and directors (of London Councils Limited) and members any matters that may give rise to such modifications, to allow you the opportunity to provide us with any further information or explanations necessary to prevent the modifications being made.

Audit engagement team

Responsible Individual (RI)	
Contact:	Alastair Duke, Partner
Tel:	+44 (0)20 7516 2285
Email:	aduke@pkf-l.com
Years as RI:	Second year as RI
Audit Manager	
Contact:	Syed Ahmad, Senior Manger
Tel:	+44 (0)20 7959 2630
Email:	sahmad@pkf-l.com
Years as Manager:	Second year as Audit Manager

All PKF staff are subject to checks to ensure their independence and ethical compliance in accordance with our normal procedures.

Timetable

Date	Key events
15 February 2024	**Planning meeting** Discuss developments in the year and update our understanding of activities undertaken by the Group.
25 March 2024 (London Councils Limited) 2 April 2024 (All Committees)	**Sample selections and initial planning work** • Updating our understanding of the Group and its environment including the applicable financial reporting framework • Updating our understanding of the Group's system of internal control including the IT environment • Documentation of systems and walk-through tests • Preliminary analytical review • Updating our understanding of the Group and its environment and internal controls • Interim sample selection
14 March 2024	**Audit Committee meeting** Presentation of our audit planning report.
26 April 2024 (London Councils Limited) 1 July 2024 (All Committees)	**Final sample selections by PKF**
7 May 2024 (London Councils Limited) 15 July 2024 (All Committees)	**Audit fieldwork** • Testing of reporting date balances and in-year transactions • Substantive tests of detail and analytical review procedures • Evaluating the appropriateness of the going concern basis of preparation including whether any material uncertainty related to going concern exists • Audit of disclosures • Review of draft annual reports and financial statements
TBC – Early June 2024 (London Councils Limited) Mid-August 2024 (All Committees)	**Audit closing meeting** • Review draft annual reports and financial statements with management • Discuss outstanding audit queries • Discuss and agree adjusted and unadjusted items • Presentation of the draft audit findings report • Representation and management letter points • Feedback on audit process
25 June 2024 (London Councils Limited) 19 September 2024 (All Committees)	**Board Meeting/Audit Committee meeting** Presentation of our audit findings report and letters of representation.

We operate on a paperless audit system; therefore, where possible, would you please ensure any documents provided are in electronic format to enable us to transfer them onto our system.

Audit Strategy

Audit process

The principal stages of our audit process are set out in the diagram below.

We will perform a risk-based audit on the financial statements of the Group. This enables us to focus our work on key areas.

Audit planning	Audit work	Completion and reporting
Understanding changes to the business during the period including those related to: • the system of internal control, information systems, control activities and key personnel; and • the financial reporting framework. Consideration of any new, or updated, risks which could have an implication on the audit. Enquiry of management concerning fraud, non-compliance with laws and regulations and related party transactions. Formulation of our audit plan and reporting to the Audit Committee.	Documentation and testing of relevant controls and consideration of their effectiveness. Substantive audit procedures. Review of the statutory financial statements and the other information presented in the Annual Report.	Drawing conclusions on audit work, Discussing findings with management (this is a continual process during the course of the audit). Reporting to the Audit Committee.

Our starting point is to document our understanding of the Group's activities and processes, including the internal and external 'business' risks being faced. We discuss any changes to the organisation and management's own view of potential audit risk, including those relating to fraud and non-compliance with laws and regulations. We use this understanding to determine which risks have a potential impact on the numbers and disclosures in the financial statements. We will continue to update this assessment throughout the audit.

Audit Approach

Our audit approach for the Group will be to perform substantive testing.

During our audit planning we will document our understanding of the information systems and controls in place at the Group in order to ensure their adequacy as a basis for the preparation of the financial statements and to ensure that proper accounting records have been maintained. We also perform a walk-through of the systems which feed into the financial statements to establish whether all relevant controls have been effectively designed and implemented in the year subject to audit. The outcome of this work will determine the extent to which we apply substantive tests and detailed analytical review procedures.

Substantive testing typically involves selecting a sample of transactions in the year and balances at the reporting date, and testing these against supporting documentation to ensure that the risk of material misstatement is reduced to an acceptable level. Substantive analytical procedures are based on expectations of relationships between figures in the financial statements and our detailed knowledge of the business.

Confirmation of our understanding of the Group will also cover the following areas:

- Organisational structure, ownership, governance, business model, industry, regulatory and other external factors;
- The applicable financial reporting framework and the Group's accounting policies;
- The components consisting of the Group's system of internal control;
- Compliance with laws and regulations;
- Fraud risk factors and the Group's assessment of, and process to identify and respond to, fraud risks;

- Events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern;
- Whether or not a material uncertainty related to going concern exists; and
- Accounting estimates.

The outcome of this work will determine the extent to which we identify specific risks for our audit as well as the timing and extent of the audit procedures that need to be performed in order to address such risks.

We will ensure the presentation of, and disclosures within, the financial statements meet, to a material level, the necessary requirements in line with applicable financial reporting standards and legislation. We will review the annual report strategic report, to confirm material consistency with the disclosures in the financial statements and our knowledge of the Group as obtained during the audit.

Fraud

The auditing standards require the auditor to obtain an understanding of the potential risks of material misstatement of the financial statements as a result of fraud through inquiries with management, including those within the Group who deal with allegations of fraud, and those charged with governance.

ISA (UK) 240 requires that such discussions with management includes a review of management's process and procedures for identifying and responding to the risks of fraud within the entity. We are also required to make specific inquiries of those charged with governance as to the risks of fraud in the entity, including those specific to the entity's business sector and whether they have knowledge of any actual, suspected, or alleged fraud affecting the entity. We must also inquire of those charged with governance on how they exercise oversight of:

- Management's processes for identifying and responding to the risks of fraud; and
- The controls that management has established to mitigate these risks.

We have discussed possible risks of fraud with David Sanni and Richard Merrington during our planning meeting, who confirmed that there were no instances of actual, alleged, or suspected fraud in the year, and that the processes in place to identify and respond to risks of fraud are appropriate because there are:

- Adequate segregation of duties between finance team members as well as between other departments;
- Strong controls in place over expenditure, payments, and access rights to the accounting systems;
- Little or no cash transactions and strong controls over bank transactions (all payments require more than one signatory);
- Regular oversight and review of financial information (i.e., preparation of accurate management accounts, actual vs forecast and budget, variance analysis) by the Board.

We request that those charged with governance confirm whether they are in agreement with management's assessment of the risk of fraud, and whether they are aware of any instances of actual, alleged, or suspected fraud. We also welcome any additional comments on the likelihood of fraud risks affecting the financial statements.

Materiality

Materiality is a key concept in the context of an audit. In providing an opinion on whether the financial statements give a 'true and fair' view, we are providing an opinion on whether the financial statements as a whole are free from material misstatement whether due to fraud or error.

Materiality is an expression of the relative significance of a particular matter in the context of the financial statements as a whole. An item, either individually or in aggregate, is considered material if omitting it or misstating it could reasonably be expected to influence decisions that users make on the basis of an entity's financial statements. Materiality has both quantitative and qualitative characteristics. It depends on the size or nature of the item or error judged in the particular circumstances of its omission or misstatement.

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and the design of our audit tests;
- Calculate sample sizes where we are undertaking substantive testing; and
- Assist in evaluating the effect of known and likely misstatements on the financial statements.

Materiality has been determined as follows based on the signed financial statements for the year ended 31 March 2023 and will be reviewed once draft financial statements are available for 2024:

Entity	Overall materiality	Clearly trivial threshold	Basis for Overall materiality
London Councils – Joint Committee (Consolidated)	£ 1,029,000	£ 51,500	2% of Turnover
London Councils – Joint Committee	£ 255,000	£ 12,750	2% of Turnover
London Councils – Grants Committee	£134,000	£6,700	2% of Turnover
London Councils – Transport and Environment Committee	£660,000	£33,000	2% of Turnover
London Councils Limited	£ 50,000	£ 2,500	2% of Turnover

We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of materiality if we had been aware.

Adjusted and unadjusted items

At the conclusion of the audit, we will discuss with you all errors or misstatements that we identify during our audit work and which we consider should be brought to your attention, having regard to your responsibilities for governance and the effectiveness of the system of internal control. We will not, however, bring to your attention matters that we consider to be clearly trivial.

In our audit findings report, we will provide a schedule setting out those errors or misstatements that we identify during our audit work which have not been adjusted for in the financial statements. This summary will not include errors that are clearly trivial. We will ask you to confirm that you have duly considered these unadjusted errors and that you have decided not to adjust for them in the financial statements as you believe the effects of the uncorrected misstatement are immaterial, individually and in aggregate. We will also seek your confirmation of this and your reasons for not correcting such misstatements in the letter of representation.

If you decide not to make an adjustment which, in our opinion, should be made in order for the financial statements to show a true and fair view or to comply with constitutional documents, it is likely that we will modify our audit report.

We may also bring to your attention errors or misstatements that have been corrected by management in the course of our audit if we believe you should be aware of them in your capacity as those charged with governance.

Communication of matters arising during the audit

There may be matters which arise during the audit which we wish to draw to your attention. This communication would normally be in writing. Where relevant, such matters may include:

- our views about significant qualitative aspects of your accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- significant difficulties encountered during the audit;
- significant deficiencies identified in relation to the entity's system of internal control;
- circumstances that affect the form and content of our audit report (if any); and
- other significant matters arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.

If there are no matters that we wish to draw to your attention, we will request you to confirm to us that you have been notified of no significant deficiencies in internal control. This should be included in the letter of representation.

Audit Risks

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2. Audit Risks

Audit risks

Under ISA (UK) 315 "*Identifying and assessing the risks of material misstatement*", we are required to assess the risk of material misstatement at both the financial statement level and the assertion level.

We are also required to consider which risks should be assessed as being significant. When making this assessment we consider the following:

- whether the risk is a risk of fraud;
- whether an identified risk is assessed as close to the upper end of the spectrum of inherent risk; and
- whether the risk involves significant related party transactions that are outside the normal course of business for the entity.

For significant risks, we are required to understand, and evaluate the effectiveness of the design and implementation of, controls that operate over those risks.

Significant risks and our planned audit approach

Based on our knowledge of your business, we have identified the following significant risks and other assessed risks for this year's audit. Those risks and our proposed audit responses are set out in the below tables.

Significant risk	Description	Audit Approach
Management override	Under ISA (UK) 240 *"The auditor's responsibilities relating to fraud in an audit of financial statements",* there is a presumed significant fraud risk of management override of controls. The primary responsibility for the detection and prevention of fraud rests with management and those charged with governance. They are responsible for the design, implementation, and maintenance of internal control designed to support the achievement of the policies, processes and objectives and to manage the risks facing the entity, including those relating to fraud. Our audit is designed to provide reasonable assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.	ISA (UK) 240 requires us to: • Obtain an understanding of the fraud risks relevant to the entity. • Identify risks of fraud as part of our risk assessment procedures. • Inquire of management about: their assessment of fraud risk; their process for identifying and responding to fraud risks; their communication to those charged with governance; and their communication to employees about its views on business practices and ethical behaviour. • Obtain an understanding of how those charged with governance exercise oversight of management's processes over fraud. • Inquire of those charged with governance of the risks of fraud in the entity, including those specific to the entity's business sector. • Obtain an understanding, and evaluate the effectiveness of the design and implementation, of the controls that address fraud risks. • Determine the appropriate response to address the identified risks of fraud. in addition to the above, and in specific response to the significant fraud risk of management override of controls, our work in this area will include: • Testing the appropriateness of manual or automated journals processed during the period, including those made at the end of the period and post-closing entries, to determine whether these were appropriate. This will also include inquiries of individuals with different levels of responsibility involved in the

Significant risk	Description	Audit Approach

		financial reporting process about in appropriate or unusual activity relating to the processing of journals.
		• Reviewing estimates, judgements, and assumptions within the financial statements for evidence of management bias, and agree to appropriate supporting documentation. In this context we view the key estimates as being:
		  • The calculation and adequacy of the dilapidation provision;
		  • Apportionment of shared service costs in line with the use of resources (all entities);
		  • The disclosures and accounting of the defined benefit pension schemes including consideration of assumptions used by the actuaries in the calculation of the liability;
		  • Completeness of expenditure; and
		  • Assessment of the useful economic life of the assets.
		• Evaluating whether there is a clear business rationale to support any significant transactions outside the normal course of the business of the entity, or transactions which otherwise appear to be unusual.

Revenue recognition	Under ISA (UK) 240, there is a presumption that revenue recognition is a significant fraud risk. For the Committees, the significant risk around fraud in revenue recognition is around the completeness, cut-off and allocation of contributions. For London Councils Ltd, the significant risk is viewed as relating to the completeness and cut-off of subscriptions income.	In addition to the procedures required by ISA (UK) 240 as set out above, our work in this area will include: • Documenting our understanding of the information system and related controls relevant to each material income stream. • Evaluating the appropriateness of the information system and the effectiveness of the design and implementation of the related controls. • Substantive transactional testing of income recognised in the financial statements, including deferred and accrued income balances recognised at year-end; and • A review of post year-end receipts to ensure completeness of income recorded in the accounting period.

Other assessed risks

Assessed risk	Description	Audit approach
Going concern	When preparing financial statements, those charged with governance should satisfy themselves as to whether the going concern basis is appropriate. ISA (UK) 570 "*Going concern*" specifically requires the auditor to conclude on: whether a material uncertainty related to going concern exists; the appropriateness of the Committee members use of the going concern assumption in the preparation of the financial statements; and the appropriateness of any relevant disclosures in the financial statements. We therefore require the Committee members to make their assessment of going concern at their meeting prior to the preparation of the financial statements which must cover a period of at least 12 months from the date the financial statements will be approved. In making this assessment they will need to consider budgets, cash flow forecasts and projections.	It is a requirement of the UK GAAP that, in determining that the going concern basis is appropriate, the Committee members must consider a period of at least 12 months from the date of approval of the financial statements. In order for us to satisfy the requirements of ISA (UK) 570 in our audit planning we would be grateful if you could provide us with the details of your assessment as soon as practicable. We will evaluate this assessment and consider its appropriateness in light of our understanding of the Group and the work we are required to perform under ISA (UK) 570.
Defined benefit pension schemes	London Councils is an admitted body to one defined benefit pension scheme, which is administered in accordance with the Local Government Pension Scheme Regulations 2013. The pension fund net assets reported in the Joint Committee balance sheet at 31 March 2023 was capped at £Nil (Actual net asset: £4,725k) The last full triennial review of the scheme was undertaken as at 31 March 2022. An actuarial update valuation will be performed as at 31 March 2024 for inclusion in the financial statements at that date. The disclosures and accounting of the defined benefit pension schemes, in accordance with Financial Reporting Framework.	Our procedures in respect of the above will include: • Assessing the work of the actuaries, including the assumptions they have used to assess liabilities, by engaging audit experts to provide input on the consistency and appropriateness of assumptions underpinning the valuation of the pension scheme liabilities; • Confirm the independence and relevant expertise of management's actuaries; • Understanding management's process for evaluating the pension assumptions and liability calculations; • Reconciling the actuarial reports to the accounting entries included in the financial statements; and Reviewing and testing the accounting entries and disclosures made within the Group's financial statements. This includes the treatment and disclosure of schemes in surplus.
Related party transactions	ISA (UK) 550 "Related Parties" requires us as auditors to obtain a sufficient understanding of related party relationships and transactions in order to be able to: • Recognise fraud risks factors arising that are relevant to the identification and assessment of risks relating to fraud; • Conclude, based on the audit evidence obtained, whether there is a fair presentation of material related party relationships and transactions in the	Our work in this area will include: • Inquiries of management regarding: the identity of related parties, including any changes from the prior period; the nature of the relationships between the entity and those related parties; and whether the entity has entered into any transactions with these related parties during the period. • Inquire with managements and others in the entity to obtain an understanding of the controls that have been established to: identify, account for, and disclose related party transactions in accordance with the applicable financial reporting framework; authorise

Assessed risk	Description	Audit approach
	financial statements which is not misleading; and • Obtain sufficient appropriate evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the financial statements in accordance with the applicable financial reporting framework. It will thus be necessary for management to identify all the related parties prior to the commencement of the audit fieldwork, so that we can incorporate this into our audit approach.	and approve significant transactions and arrangements with related parties; and authorise and approve significant transactions and arrangements outside the normal course of business. • Obtain sufficient appropriate audit evidence that related party transactions and arrangements have been appropriately identified, accounted for, and disclosed in line with the requirements of accounting regulations.

Limitation of work in relation to areas identified as lower risk

Our audit work is designed to provide us with sufficient audit evidence to conclude whether the financial statements as a whole are free from material misstatement. Our audit work may not examine areas of lower risk in detail, and our audit procedures are not designed to detect immaterial fraud or error. If you require detailed investigation to be undertaken in any particular area, please let us know and we can arrange to do this as a separate non-audit service.

Quality and Independence

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3. Quality and Independence

Independence

We are required, by the ethical and auditing standards that govern our work, to communicate at least annually to those charged with governance about our independence as auditors. In our opinion, and as confirmed by you, we consider that for these purposes it is the Board who are determined as those charged with governance for the Group.

We confirm that the Firm complies with the Financial Reporting Council's Revised Ethical Standard and the Code of Ethics issued by the ICAEW. Based on the enquiries we have made internally and externally, in our professional judgement, the Firm, each covered person, its partners, its senior managers, its staff and all other individuals involved in the audit (either within the Firm, the PKF network or organisations external to the Firm), are independent and objective within the meaning of the FRC's Ethical Standard and the ICAEW Code of Ethics.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to impact upon our objectivity, integrity, and independence as auditors. The principal statements of policies are set out in our Firm-wide guidance. In addition, we have embedded the requirements of the FRC's Ethical Standard and the ICAEW Code of Ethics in our methodologies, tools, and internal training programmes.

These procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to impact on the Firm's integrity, independence, and the objectivity. This report considers such matters in the context of our audit for the year ended 31 March 2024.

We confirm that, when preparing our report and performing our audit engagement, we have considered whether the ethical outcomes required by the overarching principles and supporting ethical provisions of the FRC's Ethical Standard have been met by reference to the perspective of an objective, reasonable and informed third party.

Relationships between PKF and the Group

Since the date of our appointment as auditors and the date of this report, we are not aware of any relationships between the Firm, the PKF network, the Group, its Committee members and directors, its senior management, its affiliates, or its connected parties that may reasonably be thought to have an impact on our integrity, independence, and objectivity.

Employment of firm staff by the Group

We have not identified any instances where, during the year, the Group employed a former member of staff of the Firm.

Long association

Both the Firm's policies and procedures and the FRC's Ethical Standard requires us to assess whether the threats arising from the long association of the audit engagement partner and other staff in senior positions, which includes the familiarity threat, would have an impact on the Firm's integrity, objectivity, and independence.

Where the audit engagement partner has held that role for a continuous period of 10 years, careful consideration is given as to whether it is probable that an objective, reasonable and informed third party would conclude that the Firm's independence is compromised.

Alastair Duke has held the role of audit engagement partner a collective period of 1 year.

Gifts and hospitality

We have not identified any gifts or hospitality, that is more than trivial or consequential, which has been provided to, or received from, an individual within the Group.

Services provided to the Group

During the year, we have not provided services other than audit to the Group or any of its significant affiliates.

Fees

The FRC's Ethical Standard deems the Firm to be economically dependent on an entity where it is expected that the total fees for the audit and all other permitted services from that entity, regularly exceed 15% or more of the total annual fees of the Firm. Where such fees are expected to regularly exceed that threshold, the Firm is not permitted to act as auditors of the entity. Where those fees are regularly expected to be between 10% and 15% of the total annual fees of the Firm, the audit engagement partner is required to disclose that expectation to the Firm's Ethics Function and those charged with governance of the Group.

We can confirm that the expected total fees for the audit and all other permitted services for this current year are not anticipated to exceed the 10% to 15% threshold.

Additionally, we are required to consider the level of the fees charged by the Firm, and members of the PKF network, in aggregate for the provision of permitted non-audit / additional services to the Group. Where those fees are substantial and greater than the annual fee for the audit, we are required to assess whether there is a perceived, or actual, loss of independence from the level of fees for those services, determine the threats arising and establish whether safeguards can be implemented to reduce those threats to a level where the Firm's independence is not compromised.

Breaches of ethical requirements

We are required to communicate to the those charged with governance any breaches of the requirements set out in the FRC's Ethical Standard.

We can confirm that there are no ethical breaches to report to you.

Conclusion

We confirm that, in our professional judgement as at the date of this report, in respect of the Firm, its partners, senior managers, staff conducting the audit and each covered person:

- We have complied with UK regulatory and professional requirements including the FRC's Ethical Standard; and
- Our integrity, objectivity and independence is not compromised.

We believe this report provides you with the information you require in relation to our independence, integrity, and objectivity as auditors for the 2024 audit. Please advise us if you require any further information or explanations concerning the above or any other matters relating to our independence.

Quality assurance

The consistent performance of quality audit work is supported by our system of quality management which establishes comprehensive quality assurance procedures. All of our audit work is subject to rigorous peer review within the audit team and then by the RI and Manager. We review files on-site wherever appropriate, enabling us to raise issues when both the audit team and management are present, ensuring that important issues are addressed early on and not overlooked. It also gives us an opportunity to identify and discuss wider business issues, thereby adding value through the audit process.

The key features of the PKF Littlejohn's quality assurance processes are set out in the Appendix.

Audit Fees

4. Audit Fees

Our proposed fees, excluding VAT and disbursements, for the year ended 31 March 2024 are:

	2024	2023
Audit of Group	55,850,	53,253
Total audit services	**£55,850**	**£53,253**

Fee invoices will be raised as set out below, following which our Firm's standard terms of business state that full payment is due within 14 days of receipt of invoice.

Billing stage	Fee to be billed (%)
On completion of planning	30
On conclusion of main audit fieldwork visit	50
On planned date of signing the financial statements	20

As is our usual practice, the fees are quoted on the basis that there is reasonable adherence to the agreed timetable and that documentation standards are of high quality throughout. These were set out in our engagement letter.

We will agree detailed information requests with management in advance of the audit such that documentation is prepared and available when we commence our work. If we encounter problems that lead to higher costs, we will discuss them with you at the earliest opportunity to agree an additional fee as appropriate.

Appendix – Quality Assurance

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Appendix – Quality Assurance

The key features of the Firm's quality assurance processes are:

1. **Regulatory oversight** – the Firm is regulated in the conduct of its services by the Financial Reporting Council (FRC) and the Institute of Chartered Accountants in England & Wales (ICAEW), including as a Designated Professional Body for investment business. The Firm is subject to periodic monitoring by the Audit Quality Review team (AQR) of the FRC and the Quality Assurance Department (QAD) of the ICAEW. The results of the reviews by the AQR and the QAD are used to inform improvements in the Firm's system of quality management which in turn can result in changes to the Firm's policies and procedures and inclusion in the Firm's internal training programme.
2. **Professional Standards Committee** – the Firm has set up this committee to establish the standards and procedures that all members of the Firm must adhere to in the conduct of their professional work. The standards and procedures include those relating to relevant ethical requirements, acceptance and continuance of client relationships and engagements (including anti-money laundering requirements), engagement and disengagement requirements and engagement quality reviews.
3. **Code of conduct** - the Firm has an established code of conduct which provides the framework of expected values and guiding principles that must be applied by every partner and member of staff in our day-to-day work. The code of conduct influences the Firm's culture and establishes high standards in quality and professional behaviour that are expected to be applied by all.
4. **Monitoring adherence to professional standards** – regular reviews of the work of each audit partner by an independent external organisation are undertaken to ensure the requirements of all applicable professional standards are met. The results of these reviews are made available to those individuals with assigned roles under the international standard on quality management (UK) 1, the Audit Compliance Partner, the Professional Standards Committee, the Firm's independent non-executives, the Board, and the Firm as a whole. Similar reviews on other areas of the practice are also performed. The results of these reviews inform the developments and improvements of the Firm's system of quality management which in turn can result in changes to the Firm's extant policies, procedures, and processes.
5. **Data protection and information security** – the Firm has developed a framework to meet the statutory and commercial requirements of data protection and information security. That framework document sets out the Firm's overall approach and outlines a review from each of the diverse ranges of practice areas and support services, and includes key risks and responses.
6. **Annual "fit and proper" declaration** – all individuals working within, and for, the Firm are required, as a condition of service, to provide an annual declaration of: independence; their understanding of client confidentiality; and of the need to be objective in all aspects of their work. In addition, they complete a detailed questionnaire designed to probe and assess their fitness to work in a professional business dealing with client affairs and often highly confidential and sensitive information.
7. **Appraisal procedures** - there is a formal annual appraisal system in place for all levels within the Firm. Partners are set measurable objectives on quality and risk. Audit partners and audit staff also have specific objectives set on audit quality. The results of the Firm's quality control reviews are also taken into consideration as part of the Firm's appraisal process.
8. **Training** – all members of the Firm engaged on client work must participate in the Firm's regular training programme, which consists of regular accounting, auditing, ethical and tax updates from external and internal trainers. Additional courses are delivered as required depending on particular developments as may arise from time to time. In addition, members of the Firm must formally consider their training needs at the start of each year, having regard to the particular type of clients that they are dealing with and the issues that will affect them. Having identified these needs, they must report them to the Training Department who will procure specific training as required. Compliance with the Firm's mandated training programme is monitored on an individual basis by the Professional Standards Committee.

For further information in relation to the Firm and its system of quality management, please refer to our transparency report which is included in the 'Our policies and reports' section of our website.

Audit Committee

Treasury Management Update Item no: 8

Report by: David Sanni **Job title:** Director of Corporate Resources

Date: 14 March 2024

Contact Officer: David Sanni

Telephone: 020 7934 9704 **Email:** david.sanni@londoncouncils.gov.uk

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Summary

This report provides the Audit Committee with an update on London Councils' treasury management strategy. London Councils' cash balances are held by the City of London under the service level agreement for the provision of financial support services. The investment of London Councils' cash balances are covered by the City of London's treasury management strategy as they are aggregated with the City of London's funds for investment purposes.

It was agreed at the meeting of the Audit Committee in September 2009, that the Committee will receive annual reports on the City of London's treasury management activities. The City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25 was presented to their Investment Committee for approval on 12 February 2024 and will be submitted to the Court of Common Council for formal adoption.

Recommendations The Audit Committee is asked

- to note the City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25 which can be found at Appendix A; and

- to note the City of London provide London Councils with an indemnity against potential future losses of cash balances.

Background

1. London Councils treasury management procedures are carried out by the City of London under the terms of the service level agreement for financial and support services. London Councils' cash balances are pooled with the City of London's funds for investment purposes. It was agreed at the meeting of the Audit Committee in September 2009, that the Committee will receive annual reports on the City of London's treasury management activities to comment on for feedback to the Chamberlain of the City of London.

City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25

2. The City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25 was presented to their Investment Committee on 12 February 2024 for approval and will then be submitted to the Court of Common Councils for formal adoption.

3. The City of London adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management which was revised in November 2009 following the problems with Icelandic Banks. There have been further revisions to the Code of Practice in 2017 and 2021. The primary requirements of the revised code implemented by the City of London are the:

    - creation and maintenance of a treasury management policy statement which sets out the policies, objectives and approach to risk management of its treasury management activities.

    - creation and maintenance of suitable treasury management practices which set out the manner in which the City of London will seek to achieve those policies and objectives and prescribe how it will manage and control those activities.

- receipt by the full Court of Common Council of reports on 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 covering activities during the previous year.

- delegation by the Court of Common Council of responsibilities for implementing and regular monitoring of treasury management policies to the Finance Committee and the Investment Committee and for the execution and administration of treasury management decisions to the Chamberlain.

- delegation by the Court of Common Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For the City the delegated body is the Audit and Risk Management Committee.

4. CIPFA published further revised versions of the Treasury Management Code of Practice and the Prudential Code for Capital Finance in Local Authorities on 20th December 2021. The revised Codes make several changes including:

    - an explicit ban on borrowing to invest primarily for financial return;

    - the adoption of a liability benchmark treasury indicator;

    - other revisions to key definitions and reporting requirements, including the requirement of the Chief Finance Officer to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly as part of the authority's integrated revenue, capital and balance sheet monitoring; and

- to maintain a formal and comprehensive knowledge and skills or training policy for those responsible for the scrutiny of treasury management.

5. A full copy of the Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25 report can be found at Appendix A.

6. **Table 1** below shows London Councils average cash balances, held by the City of London, across the 2023/24 financial year. The City are yet to provide the estimated final average rate of return for 2023/24, however, when applying the average yield rate received in 2022/23 of 1.83% against the average cash balances for 2023/24 the total interest is estimated at £287,000. Due to the market conditions in 2023/24, such as an increase to the base rate which directly impacts interest receivable, it is likely that the actual rate of return will be higher in 2023/24.

Table 1

Period end	**Cash Balance £**
April 2023	15,492,911
May 2023	19,154,447
June 2023	16,961,992
July 2023	16,610,375
August 2023	15,268,973
September 2023	16,203,373
October 2023	16,766,273
November 2023	18,985,872
December 2023	14,998,193
January 2023	14,973,403
February 2023	11,606,681
March 2023 forecast	11,026,347

7. The City of London provide London Councils with an indemnity against potential future losses of cash balances in the event of any losses incurred by the City itself. The City charges a premium of two basis points (0.02%) of the average balance of funds invested on behalf of third parties as compensation for taking on the risk of loss of capital and for providing such an indemnity. If the annual charge was applied to London Councils current average cash balance for 2023/24 of £16 million it would amount to £3,200.

8. Overall, the Director of Corporate Resources is satisfied that the City's treasury management function is run in a prudent manner and takes comfort from the indemnity against future capital losses which safeguards London Councils' funds.

Financial Implications for London Councils

As detailed in the body of the report.

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A - City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25 and cover report.

Background Papers

Audit Committee working file 2023/24

Committee:	Date:
Investment Committee Finance Committee* Investment Committee of the City Bridge Foundation Board Audit & Risk Management (For Information)	12 February 2024 20 February 2024 Delegated 26 February 2024
Subject: Treasury Management Strategy Statement and Annual Investment Strategy (relating to Treasury Management) 2024/25	**Public**
Report of: The Chamberlain	**For Decision**
Report author: Kate Limna – Chamberlain's Department	

* *This report is for information for the Finance Committee. The Treasury Management Strategy Statement and Annual Investment Strategy 2024/25 in included as an appendix to the City Fund 2024/25 Budget report, which will be for approval.*

Summary

The attached document sets out the Corporation's Treasury Management Strategy Statement and Annual Investment Strategy (relating to Treasury Management) (TMSS) for 2024/25. The Treasury Management Strategy and Annual Investment Statement (relating to Treasury Management) for 2024/25 has been updated taking account of the latest information concerning the organisation's capital plans and external factors, such as the prospects for interest rates.

The document includes various Treasury and Prudential Indicators required to be set for the City Fund to ensure that the Corporation's capital investment plans are affordable, prudent and sustainable and to help the organisation identify and control the risks around its treasury management activity.

As has historically been the case, this report covers the treasury management activity carried out across the organisation, including in respect of City's Estate (previously City's Cash) and City Bridge Foundation (previously Bridge House Estates). As City's Estate borrowing is not covered by the regulatory framework established for local authorities, the City has adopted its own formal policy in 2018/19 via the City's Estate Borrowing Policy Statement which is included in the TMSS at Appendix 8.

The main proposals within the document are incorporated within the separate report entitled "City Fund 2024/25 Budget" being considered by the Finance Committee on 20 February 2024 and by the Court of Common Council on 7 March 2024.

Responsibility for approving the Corporation's borrowing plans remains with the Court of Common Council, not the Investment Committee.

The Investment Committee of the City Bridge Foundation Board is responsible for approving the TMSS on behalf of City Bridge Foundation. A Supplemental Royal Charter was approved in June 2023, with various new powers being adopted. These included the power to borrow for the purposes of raising funds towards the cost of replacement, reconstruction and re-building of any of its Bridges. This may be undertaken without security or on the security of the permanent endowment fund or any part of it or its income. However, there are no current plans for borrowing to take

place in the short to medium term, and thus the most relevant section for the City Bridge Foundation Board is section 5, of the Annual Investment Strategy (for Treasury Management), which sets out how surplus cash balances will be managed in the forthcoming year (it does not apply to the Charity's longer term investments which are subject to City Bridge Foundation's Investment Strategy Statement). By adopting in the Corporation's treasury management policies, the City Bridge Foundation Board can ensure that treasury risks associated with the Charity's surplus cash balances are managed efficiently and effectively.

The key areas to highlight are:

Capital financing and borrowing

- The Corporation's capital plans create a borrowing requirement across both the City Fund and City's Estate. City's Estate has partially addressed this borrowing requirement through the issuance of £450m market debt in recent years. In addition, Stanhope Capital LLP has been appointed to provide a strategic investment advisory function working alongside the City's in-house Corporate Treasury and Investment Property teams, to provide expert advice on the investment strategy/allocation advice between property and financial investments; and advice on how to secure the best rates of return for the differing requirements for City Find and City's Estate: this work is currently on-going.
- The City Fund borrowing requirement is expected to increase to £345.5m and £359.0m by 2025/26 and 2026/27 respectively, falling to £227.2m in 2027/28. For the City Fund, there is no immediate requirement to take on external borrowing as it is expected that the City Fund can continue to temporarily use its own cash balances (internal borrowing) for the foreseeable future. Any new external borrowing would serve to increase cash balances and create additional revenue pressures through a "cost of carry", as the rate payable on external borrowing is higher than the interest receivable from treasury management investment activity. Therefore, the proposed treasury management strategy recommends that the City Fund borrowing requirement is managed through the prudent use of internal resources during 2024/25.
- The benefits of this strategy (lower financing costs and reduced counterparty risk) need to be carefully evaluated against the risk of incurring higher borrowing costs in future. Interest rates are now assumed to have peaked at 5.25%, and LINK, the City's treasury investment consultants, are currently forecasting no further changes in the rate until a decrease in the third quarter of 2024, reaching 4.25% by December 2024, and 3.0% by September 2025, where it is assumed to plateau, as inflationary pressures subside. However, there remains uncertainty surrounding the forecast, particularly around the timing of the Bank of England's decision on interest rate reductions, if reduced too soon and inflationary pressures may well build up further, but reduced too late and any downturn or potential recession may be prolonged. Interest rates are monitored daily and should circumstances change, the Chamberlain will maintain the flexibility to meet some or all of the City Fund borrowing requirement through external borrowing. As such the operational boundary and authorised limit for external debt (Appendix 2 of the TMSS) have been revised to enable the Corporation to secure external debt to meet some or all of the borrowing requirement.

- Local authorities are legally required to set aside a prudent amount for the provision of the repayment of prudential borrowing from revenue each year. It should be noted that this requirement applies for all unfunded City Fund capital expenditure (i.e. spending that is not immediately financed through capital grants, capital receipts etc.) not just for actual external borrowing. The Minimum Revenue Provision (MRP) Policy Statement for 2024/25 sets out this policy for the forthcoming year and is included at Appendix 2 in the TMSS.

Investments

- As at 31 December 2023, the Corporation has “cash” balances totalling £1,005.1m the majority of which is invested in money market funds and fixed income instruments. Cash is expected to decrease in 2024/25 as the Corporation progresses spending on the major projects programme. Most of the treasury cash balances pertain to the City Fund and comprise of liabilities on City Fund’s balance sheet (cash that needs to be paid out to third parties or used for a specific purpose at some point in the future) together with cash backed reserves.
- The Corporation currently manages significant short term investment cash balances. Although these balances are expected to decline in the next few years as the capital programme progresses, a level of core cash will persist for the next ten years based on current financial plans. One of the most acute challenges within the treasury management strategy is preventing the gradual erosion of the real value of these long-term cash balances from the effects of inflation. This is particularly important in the current external environment which is characterised by relatively high inflation and low investment returns (by historical standards).
- It is proposed that the City continues to be prepared to lend monies for up to three years’ duration based on risk assessments for each opportunity undertaken by Treasury Officers and discussed with the Chamberlain. No changes to the Corporation’s creditworthiness policy (as set out in section 5 of the TMSS) are proposed. Officers judge that the current criteria allow the Corporation to achieve adequate diversification amongst a range of high-quality counterparties.

  The main changes to the document from last year’s version are highlighted in yellow and underlined.

Training

- In November 2023, two Treasury Management training sessions were held for Members of the Investment Committee and Finance Committee.

Recommendations

It is recommended that the **Investment Committee** reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25 and submits it to the Finance Committee and the Court of Common Council as part of the City Fund 2024/25 Budget Report for formal adoption.

Under the delegated authority agreed at the **Investment Committee of the City Bridge Foundation Board** on 6 December 2023, the Town Clerk in consultation with the Chairman and Deputy Chairman of this Committee, is recommended to review and approve the Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25 on behalf of **City Bridge Foundation**.

Appendix - Treasury Management Strategy Statement and Annual Investment Strategy (relating Treasury Management) 2024/25 **(***for Finance Committee this appendix is within the City Fund 2024/25 Budget report*).

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TREASURY MANAGEMENT STRATEGY STATEMENT

AND

ANNUAL INVESTMENT STRATEGY (RELATING TO TREASURY MANAGEMENT)

2024/25

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

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

1. Introduction

1.1. Background

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

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

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

1.2. The Treasury Management Policy Statement

The City defines its treasury management activities as:

> *The management of the organisation's investments and cash flows, its banking, money market and capital market transaction; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*

The City regards the security of its financial investments through the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The City acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

1.3. Reporting Requirements

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by the Court of Common Council (the Court) on 3 March 2010, and is applied to all Funds held by the City. There have been subsequent revisions to the codes in 2017 and 2021.

The primary requirements of the Code are as follows:

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

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

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

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

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

The CIPFA 2021 Prudential Code for Capital Finance in Local Authorities and Treasury Management Code of Practice require all local authorities to prepare a capital strategy. The capital strategy provides a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services as well as an overview of how the associated risk is managed and the implications for future financial sustainability. The Treasury Management Strategy Statement is reported separately from the Capital Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles from the policy and commercial investments usually driven by expenditure on an asset. It is considered good practice by the City to include all of its Funds within these strategies.

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

CIPFA published revised versions of both the Treasury Management Code of Practice and the Prudential Code for Capital Finance in Local Authorities on 20 December 2021.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.5. Treasury Management Strategy for 2024/25

The Local Government Act 2003 (the Act) and supporting regulations require the City to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the City's capital investment plans are affordable, prudent and sustainable. The City's Prudential Indicators are set in its annual Budget Report and Medium-Term Financial Strategy, while Treasury Indicators are established in this report (Appendix 2).

The Act requires the Court of Common Council to set out its treasury strategy for borrowing (section 4 of this report) and to prepare an Annual Investment Strategy (section 5 of this report). The Investment Strategy sets out the City's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2024/25 in respect of the required aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the City's treasury adviser, Link Group, Link Treasury Services Ltd.

The strategy covers:

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy
- the current treasury position
- treasury indicators which limit the treasury risk and activities of the City

- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the DLUHC Minimum Revenue Provision (MRP) Guidance, the CIPFA Treasury Management Code and the DLUHC Investment Guidance.

1.6. Current Portfolio Position

The City's treasury portfolio position at 31 December 2023 compared to the position at 31 March 2023 comprised:

Table 1: Treasury Portfolio				
	Actual 31/03/2023		**Current 31/12/2023**	
Treasury investments	**£m**	**%**	**£m**	**%**
Banks	£655.0	63%	£490.0	49%
Building societies (rated)	£20.0	2%	£90.0	9%
Local authorities	£0.0	0%	£0.0	0%
Liquidity funds	£82.5	8%	£120.2	12%
Ultra-short dated bond funds	£139.2	13%	£145.1	14%
Short dated bond funds	£151.0	14%	£159.8	16%
Total treasury investments	**£1,047.7**	100%	**£1,005.1**	100%
Treasury external borrowing				
LT market debt (City's Estate)	£450.0	100%	£450.0	100%
Total external borrowing	**£450.0**	100%	**£450.0**	**100%**

2. Capital Expenditure Plans and Prudential Indicators

2.1. City Fund

The City's capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

The City's capital expenditure plans in respect of its local authority functions (the City Fund) are detailed in the 2024/25 Budget Report and Medium-Term Financial Strategy, which also contains the City's Prudential Indicators. The Prudential Indicators summarise the City Fund's annual capital expenditure and financing plans for the medium term. Table 2 summarises the capital expenditure and financing plans for City Fund for 2023/24 to 2027/28.

Estimate of Capital Expenditure and Financing (City Fund)

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

The Prudential Indicators also establish the City Fund's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the City Fund's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource (the net financing need in Table 2), will increase the CFR which is summarised in table 3 below.

Estimate of the Capital Financing Requirement (City Fund)

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

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

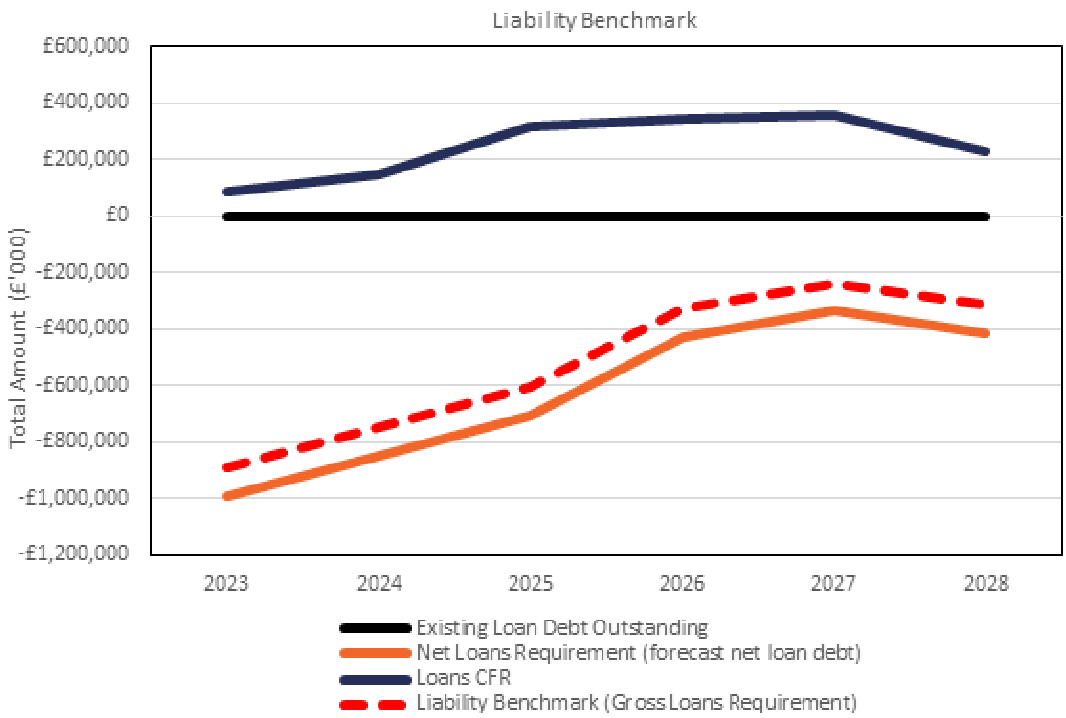
There are four components to the Liability Benchmark which should be represented in a chart. These are:

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

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

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

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



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

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

2.2. City's Estate

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

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

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

2.3. City Bridge Foundation

City Bridge Foundations' (CBF) financial plans focus on the charity's primary object, namely the support and maintenance of the five Thames bridges that the charity owns, alongside their future replacement. Any surplus income each year is available for its ancillary purposes, namely charitable funding. The charity's revenue expenditure plans over the short and medium term are currently funded from ongoing income and the returns on investments held within the unrestricted income fund. Capital spend on the charity's investment property portfolio is currently funded from the designated sales pool (DSP) held within the permanent endowment fund, with receipts from disposals or lease premiums which are deemed to be capital in nature being available for this. However, consideration is being given to reviewing the funding of potential capital plans on a case by case basis in comparison to other investment opportunities across the whole CBF investment portfolio due to a reduction in receipts of this nature.

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

Treasury Indicators for 2024/25 – 2026/27

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

3. Prospects for Interest Rates

The City of London has appointed Link Group (Link) as its treasury advisor and part of their service is to assist the City to formulate a view on interest rates. Appendix 1 draws together a number of forecasts for both short term (Bank Rate – also known as "the Bank of England base rate") and longer term interest rates. The following table and accompanying text below gives the Link central view.

	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 years	25 year	50 year
Mar 2024	5.25	4.50	4.70	5.20	5.00
Jun 2024	5.25	4.40	4.50	5.10	4.90
Sep 2024	4.75	4.30	4.40	4.90	4.70
Dec 2024	4.25	4.20	4.30	4.80	4.60
Mar 2025	3.75	4.10	4.20	4.60	4.40
Jun 2025	3.25	4.00	4.10	4.40	4.20
Sep 2025	3.00	3.80	4.00	4.30	4.10
Dec 2025	3.00	3.70	3.90	4.20	4.00
Mar 2026	3.00	3.60	3.80	4.20	4.00
Jun 2026	3.00	3.60	3.70	4.10	3.90
Sep 2026	3.00	3.50	3.70	4.10	3.90
Dec 2026	3.00	3.50	3.70	4.10	3.90
Mar 2027	3.00	3.50	3.70	4.10	3.90

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

Link expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their ongoing robustness). Timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

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

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

3.1. The balance of risks to the UK economy

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

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- **The Bank of England** acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **Geopolitical risks**, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

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

- Despite the tightening in Bank Rate to 5.25%, **The Bank of England allows inflationary pressures to remain elevated** for a longer period within the UK economy, which then necessitates the Bank Rate staying higher for longer than currently projected.
- **The pound** weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Projected **gilt issuance, inclusive of natural maturities and quantative tightening,** could be too much for the markets to comfortably digest without higher yields consequently.

3.2. Investment and borrowing rates

- The Bank Rate is expected to remain at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures. It is not expected that the MPC will increase the Bank Rate above 5.25%.
- The overall longer-run trend is for gilt yields and PWLB rates to fall back over the forecast timeline, as inflation continues to fall through 2024.
- Link's long-term, i.e. beyond 10 years, forecast for the Bank Rate remains at 3%, and as all PWLB certainty rates are currently above this level, borrowing strategies need to be reviewed in that context. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.
- Borrowing rates have also been impacted by changes in Government policy. In November 2020, the Chancellor introduced a prohibition to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme.
- Because borrowing rates are generally expected to be higher than investment rates, any new borrowing undertaken by the City will have a "cost of carry" (the

difference between higher borrowing costs and low investment returns) to any new borrowing that causes a temporary increase in cash balances.

3.3. Interest Rate Exposure

The City is required to set out how it intends to manage interest rate exposure.

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

4. Borrowing Strategy

The borrowing strategy is developed from the capital plans and prospect for interest rates outlined in sections 2 and 3 above, respectively.

For both the City Fund and City's Estate, the capital expenditure plans create borrowing requirements and the borrowing strategy aims to make sure that sufficient cash is available to ensure the delivery of the City's capital programme as planned. The City Bridge Foundation, as stated in section 2.3, now has the power to borrow in limited circumstances following the approval of the Supplemental Royal Charter in June 2023.

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

4.1. City Fund

The City Fund has a positive Capital Financing Requirement, and this is expected to grow over the next few years (see table 2 in section 2.1). As the City Fund currently has no external debt, it is therefore maintaining an under-borrowed position which is forecast to increase if the City Fund does not acquire external debt. This means that the capital borrowing need is being managed within internal resources, i.e. cash supporting the City Fund's reserves, balances and cash flow is being used as a temporary measure. This strategy is prudent because it helps the City Fund to minimise borrowing costs in the near term and because it leads to lower investment balances which reduces counterparty risk. Against these advantages the City is conscious of the increased exposure to interest rate risk that is inherent in internal borrowing (i.e. the risk that the City Fund will need to replace internal borrowing with external borrowing in the future when interest rates are high).

Therefore, against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Chamberlain will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. For example,

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

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

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

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

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

- The **authorised limit for external debt** is the maximum threshold for external debt for over 2024/25, 2025/26 and 2026/27. This limit is required by the Local Government Act 2003 and is set above the operational boundary to ensure that the City is not restricted in the event of a debt restructuring opportunity.

The proposed limits for 2024/25 are set out in Appendix 2.

The City is also required to set a treasury indicator in respect of the maturity structure of external debt to ensure that the external debt portfolio remains appropriately balanced over the long term. Under the revised Treasury Management Code of Practice, the City is required to set limits for all borrowing (i.e. both fixed rate and variable debt), and the proposed limits are detailed in Appendix 2.

4.2. City's Estate

The capital expenditure plans for City's Estate also create a borrowing requirement. City's Estate has issued fixed rate market debt totalling £450m to fund its capital programme. Of this total, £250m was received in 2019/20 and the remaining £200m was received in 2021/22. City's Estate is likely to have a further temporary borrowing requirement arising in 2024/25. However, the Chamberlain will keep this position under review and in doing so will have regard for liquidity requirements, interest rate risk and the implications for the revenue budget.

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

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

The proposed indictors for 2024/25 are set out in Appendix 2 alongside the City Fund treasury indicators.

4.3. City Bridge Foundation

The City Bridge Foundation has the power to borrow in limited circumstances following the approval of the Supplemental Royal Charter in June 2023. That is, City Bridge Foundation may borrow for the purposes of raising funds towards the cost of replacement, reconstruction and re-building of any of its Bridges. This may be undertaken without security or on the security of the permanent endowment fund or any part of it or its income. There are no current plans for borrowing to take place in the short to medium term.

4.4. Policy on borrowing in advance of need

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

4.5. Debt rescheduling

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

The reasons for any rescheduling to take place will include:

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

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

4.6. Sources of borrowing

Historically, the main source of borrowing for UK local authorities has been the PWLB. Any new loans issued by the PWLB are subject to the PWLB's revised lending arrangements with effect from 26 November 2020. Currently the PWLB Certainty Rate is set at gilts + 80 basis points for new loans. The PWLB guidance was updated on 15 June 2023, in particular publishing a new Housing Revenue Account (HRA) rate, at 40 basis points above prevailing gilts, available from 15 June 2023 for 1 year, with its continuation subject to review. This rate is solely intended for use by HRA and primarily for new housing delivery.

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

5. Annual Investment Strategy (relating to Treasury Management)

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

5.1. Investment Policy

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

The City of London's investment policy will have regard to the DLUHC's Guidance on Local Government Investments ("the Guidance"), the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes 2021 ("the CIPFA TM Code") and CIPFA Treasury Management Guidance Notes 2021.

The City's investment priorities are:

(a) security; and

(b) liquidity.

The City will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the City is low in order to give priority to the security of its investments.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and the City will not engage in such activity.

In accordance with the above guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the City applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in Appendix 3 under the ‘specified’ and ‘non-specified’ investments categories.

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

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

The City Fund will have exposure to Specified and Non-specified Invstments. All other participants in the Treasury Management Strategy Statement and Annual Investment Strategy 2024/25 will have exposure to Specified Investments only.

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

5.2. Expected investment balances

The City’s medium term financial plans for City Fund and City’s Estate imply that total investment balances within the treasury investment portfolio are expected to decline over the next few years as the capital programme is progressed (City Bridge Foundation’s cash balances are expected to remain consistent) but to remain above a minimum constant level of £412m.

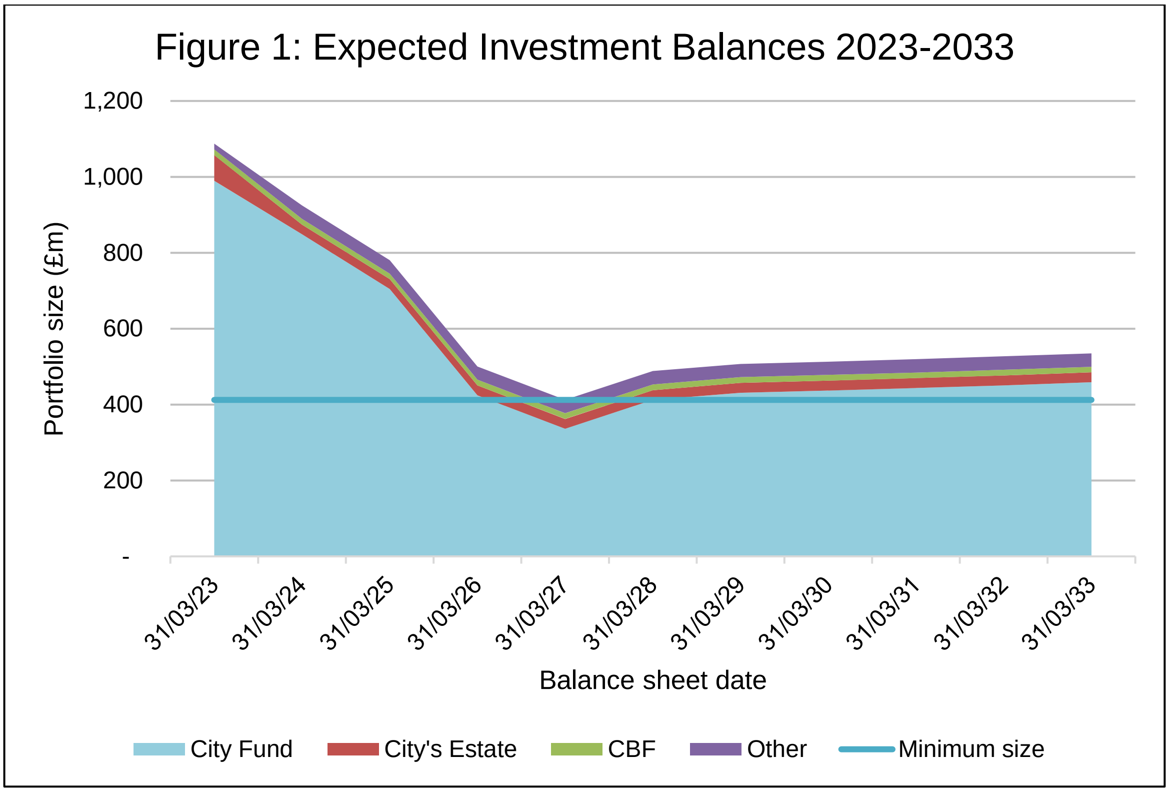


Figure 1 shows projected investment balances across the three funds and others over the coming years as at the end of each financial year.[1] Most of the investment balances relate to City Fund and it should be noted that generally investment balances are expected to be higher between reporting dates.

As the City, and the City Fund in particular, is expected to maintain cash balances over the forecast horizon, the treasury management strategy will duly consider how best to protect the capital value of resources, particularly in the context of elevated inflation. The City's liquidity requirements and will be subject to ongoing monitoring practices as the capital programme progresses as specified in paragraph 5.3 below.

5.3. Creditworthiness policy

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

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

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

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

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

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

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

All credit ratings will be monitored daily**.** The City is alerted to credit warnings and changes to ratings of all three agencies through its use of the Link creditworthiness service.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

- Banks 1 – good credit quality – the City will only use banks which:

  (i) are UK banks; and/or
  (ii) are non-UK and domiciled in a country which has a minimum sovereign long-term rating of AA+ (Fitch rating)

  and have, as a minimum the following Fitch, credit rating:

  (i) Short-term – F1
  (ii) Long-term – A-

- Banks 2 – Part nationalised UK banks – Royal Bank of Scotland ring-fenced operations. This bank can be included if it continues to be part nationalised, or it meets the ratings in Banks 1 above.

- Banks 3 – The City's own banker (Lloyds Banking Group) for transactional purposes and if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and duration.

- Bank subsidiary and treasury operation - The City will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above. This criteria is particularly relevant to City Re Limited, the City's Captive insurance company, which deposits funds with bank subsidiaries in Guernsey.

- Building Societies – The City may use all societies which:

  (i) have assets in excess of £10bn; or
  (ii) meet the ratings for banks outlined above

- Money Market Funds (MMFs) Constant Net Asset Value (CNAV)* – with minimum credit ratings of AAA/mmf

- Money Market Funds (MMFs) Low-Volatility Net Asset Value (LVNAV)* – with minimum credit ratings of AAA/mmf

- Money Market Funds (MMFs) Variable Net Asset Value (VNAV)* – with minimum credit ratings of AAA/mmf

- Ultra-Short Dated Bond Funds with a credit rating of at least AAA/f (previously referred to as Enhanced Cash Plus Funds)

- Short Dated Bond Fund – These funds typically do not obtain their own standalone credit rating. The funds will invest in a wide array of investment grade instruments, the City will undertake all necessary due diligence to ensure a minimum credit quality across the funds underlying composition is set out within initial Investment Manager Agreements and actively monitor the on-going credit quality of any fund invested.

- Multi-Asset Funds – these funds have the potential to provide above inflation returns with a focus on capital preservation, thus mitigating the erosion in value of long-term cash balances by investing in a range of asset classes that will typically include equities and fixed income. The value of these investments will fluctuate and they are not suitable for cash balances that are required in the near term. Before any investment is undertaken a rigorous due diligence process will be undertaken to identify funds that align with the City's requirements.

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

- Local authorities

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

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

- Constant Net Asset Value ("CNAV") MMFs – must invest 99.5% of their assets into government debt instruments and are permitted to maintain a constant net asset value.
- Low Volatility Net Asset Value ("LVNAV") MMFs – permitted to maintain a constant dealing net asset value provided that certain criteria are met,

including that the market net asset value of the fund does not deviate from the dealing net asset value by more than 20 basis points.

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

5.4. Environmental, Social and Governance Risks

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

5.5. Use of additional information other than credit ratings.

Additional requirements under the Code require the City to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

5.6. Time and monetary limits applying to investments.

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

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

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

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

5.7. Country limits

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

5.8. Local authority limits

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

5.9. Investment Strategy

In-house funds: The City's in-house managed funds are both cash-flow derived and also represented by core balances which can be made available for investment over a longer period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

Investment returns expectations: Based on our Treasury Consultant's latest forecasts, the Bank Rate is forecast to have peaked at 5.25%, where it will remain until the second half of 2024, then incrementally reduce to 3.00% in the second half of 2025. In these circumstances it is likely that investment earnings from money-market related instruments will decrease compared to the earnings in 2023/24, however they remain above the very low levels experienced in previous years. Bank Rate forecasts for financial year ends (March) are:-

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

5.10. Investment Treasury Indicator and Limit

Total principal funds invested for greater than 365 days are subject to a limit, set with regard to the City's liquidity requirements and to reduce the need for an early sale of an investment, and are based on the availability of funds after each year end, and this is set out in table 5 below.

Table 5: Maximum principal sums invested for more than 365 days (up to three years)			
	2023/24 £M	**2024/25 £M**	**2025/26 £M**
Principal sums invested >365 days	300	300	300

5.11. Investment performance benchmarking

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

5.12. End of year investment report

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

5.13. External fund managers

A proportion of the City's funds, amounting to £425.1m as at 31 December 2023, are externally managed on a discretionary basis by the following fund managers:

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

The City's external fund managers will comply with the Annual Investment Strategy, and the agreements between the City and the fund managers additionally stipulate guidelines and duration and other limits in order to contain and control risk.

The credit criteria to be used for the selection of the Money Market fund manager(s) is based on Fitch Ratings and is AAA/mmf. The Ultra-Short Dated Bond Fund managers (including the Payden & Rygel Sterling Reserve Fund, Federated Sterling Cash Plus Fund and Aberdeen Standard Liquidity Fund (Lux) Short Duration Sterling Fund) are all rated by Standard and Poor's as AAA.

The City also uses two Short Dated Bond Funds managed by Legal and General Investment Management and Royal London Asset Management. Both funds are unrated (as is typical of these instruments). The funds offer significant diversification by being invested in a wide range of investment grade instruments, rated BBB and above and limiting exposure to any one debt issuer or issuance. Exposure to these funds is ring-fenced to City Fund.

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

6. Policy on the use of external service providers

The City uses Link Group, Link Treasury Services Ltd as its external treasury management advisers.

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

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

7. Scheme of Delegation

Please see Appendix 6.

8. Role of the Section 151 officer

Please see Appendix 7.

9. Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

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

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

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

a) Record attendance at training and ensure action is taken where poor attendance is identified.

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

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

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

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

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

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

APPENDICES

1. Interest Rate Forecasts 2024 - 2027
2. Treasury Indicators 2024/25 – 2026/27 and Minimum Revenue Provision Statement
3. Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
4. Current Approved Counterparties
5. Approved Countries for Investments
6. Treasury Management Scheme of Delegation
7. The Treasury Management Role of the Section 151 Officer
8. City's Estate Borrowing Policy Statement

APPENDIX 1

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

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

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

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

APPENDIX 2

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

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

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

TABLE 2: Maturity structure of borrowing during 2024/25	upper limit	lower limit
- under 12 months	50%	0%
- 12 months and within 24 months	50%	0%
- 24 months and within 5 years	50%	0%
- 5 years and within 10 years	75%	0%
- 10 years and above	100%	0%

TABLE 3: CITY'S ESTATE BORROWING INDICATORS	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Probable Outturn	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%
Estimates of financing costs to net revenue stream	15.0%	16.1%	15.6%	15.5%	15.5%	15.6%
	£m	£m	£m	£m	£m	£m
Overall borrowing limits	450	450	450	450	450	450

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT 2023/24

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

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

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

For any new borrowing under the prudential financing system, the City Fund will apply the asset life method over the useful economic life of the relevant assets. MRP commences in the financial year following the one in which the expenditure was incurred. When borrowing to provide an asset, the asset life is deemed to commence in the year in which the asset first becomes operational. Therefore, MRP will first be made in the financial year following the one in which the asset becomes operational. 'Operational' here means when an asset transfers from Assets under Construction to an Assets in Use category under normal accounting rules.

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

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

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

The MRP liability for 2023/24 is £1.4m and is estimated at £1.4m for 2024/25.

APPENDIX 3

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

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

	Minimum 'High' Credit Criteria	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies, including part nationalised banks	Short-term F1, Long-term A-,	In-house via Fund Managers
Money Market Funds CNAV	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds LVNAV	AAA/mmf (or equivalent)	In-house via Fund Managers
Money Market Funds VNAV	AAA/mmf (or equivalent)	In-house via Fund Managers
Ultra-Short Dated Bond Fund	AAA/f (or equivalent)	In-house via Fund Managers
UK Government Gilts	UK Sovereign Rating	In-house & Fund Managers
Treasury Bills	UK Sovereign Rating	In-house & Fund Managers
Sovereign Bond issues (other than the UK government)	AA+	Fund Managers

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria. A maximum of £400m will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories set out below.

	Minimum Credit Criteria	**Use**	**Maximum**	**Maximum Maturity Period**
Term deposits – other LAs (with maturities in excess of one year)	-	In-house	£25m per LA	Three years
Term deposits, including callable deposits – banks and building societies (with maturities in excess of one year)	Long-term A+, Short-term F1,	In-house and Fund Managers	£300m overall	Three years
Certificates of deposits issued by banks and building societies with maturities in excess of one year	Long-term A+, Short-term F1,	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Government Gilts with maturities in excess of one year	AA-	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
UK Index Linked Gilts	AA-	In-house on a buy-and-hold basis and fund managers	£50m overall	Three years
Short Dated Bond Funds	--	In-house via Fund Managers	£100m per Fund	n/a*
Multi Asset Funds	--	In-house via Fund Managers	£50m overall	n/a*

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

APPENDIX 4

APPROVED COUNTERPARTIES AS AT 31 DECEMBER 2023

UK BANKS AND THEIR WHOLLY OWNED SUBSIDIARIES

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

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

BUILDING SOCIETIES

FITCH RATINGS		BUILDING SOCIETY	ASSETS	LIMIT PER GROUP	DURATION
A	F1	Nationwide	£275Bn	£100M	Up to 3 years
A-	F1	Yorkshire	£62Bn	£20M	Up to 1 year
A-	F1	Coventry	£62Bn	£20M	Up to 1 year
A-	F1	Skipton	£36Bn	£20M	Up to 1 year
A-	F1	Leeds	£27Bn	£20M	Up to 1 year

FOREIGN BANKS

(with a presence in London)

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

MONEY MARKET FUNDS

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

ULTRA SHORT DATED BOND FUNDS

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

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

SHORT DATED BOND FUNDS

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

LOCAL AUTHORITIES

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

APPENDIX 5

APPROVED COUNTRIES FOR INVESTMENT

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

AAA

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

AA+

- Canada
- Finland
- United States

AA-

- United Kingdom

APPENDIX 6

TREASURY MANAGEMENT SCHEME OF DELEGATION

The roles of the various bodies of the City of London Corporation with regard to treasury management are set out below.

(i) Court of Common Council

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

(ii) Investment Committee and Finance Committee

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

(iii) Audit & Risk Management Committee

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

(iv) Investment Committee of the City Bridge Foundation

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

APPENDIX 7

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The Chamberlain

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

APPENDIX 8

CITY'S ESTATE BORROWING POLICY STATEMENT

1. The City Corporation shall ensure that all of its City's Estate capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so, it will take into account its arrangements for the repayment of debt and consideration of risk and the impact, and potential impact, on the overall fiscal sustainability of City's Estate.
2. Borrowing shall be undertaken on an affordable basis and total capital investment must remain within sustainable limits. When assessing the affordability of its City's Estate investment plans, the City Corporation will consider both the City's Estate resources currently available and its estimated future resources, together with the totality of its City's Estate capital plans, income and expenditure forecasts.
3. To ensure that the benefits of capital expenditure are matched against the costs, a debt financing strategy will be established.
4. To the greatest extent possible, expected finance costs arising from borrowing are matched against appropriate revenue income streams.
5. The City Corporation will organise its borrowing on behalf of City's Estate in such a way as to ensure that financing is available when required to manage liquidity risk (i.e. to make sure that funds are in place to meet payments for capital expenditure on a timely basis). The City Corporation will only borrow in advance of need on behalf of City's Estate on the basis of a sound financial case (for instance, to mitigate exposure to rising interest rates).
6. The City Corporation will ensure debt is appropriately profiled to mitigate refinancing risk.
7. The City Corporation will monitor the sensitivity of liabilities to inflation and will manage inflation risks in the context of the inflation exposures across City's Estate (e.g. the City Corporation will be mindful of the potential impact of index-linked borrowing on the financial position of City's Estate).
8. The City Corporation will seek to obtain value for money in identifying appropriate borrowing for City's Estate. Where internal borrowing (i.e. from City Fund or City Bridge Foundation) is used as a source of funding, the City Corporation will keep under review the elevated risk of refinancing.
9. All borrowing is expected to be drawn in Sterling. Where debt is raised in foreign currencies, the City Corporation will consider suitable measures for mitigating the risks presented by fluctuation in exchange rates.
10. Interest rate movement exposure will be managed prudently, balancing cost against likely financial impact.
11. The City Corporation will maintain the following indicators which relate to City's Estate borrowing only:
    - Estimates of financing costs to net revenue stream
    - Overall borrowing limits