

<b>Committee(s):</b> Finance Committee	<b>Date(s):</b> 19 July 2022
<b>Subject:</b> Capital and Supplementary Revenue Project Outturn 2021/22 for City Fund and City's Cash and Prudential Indicators	<b>Public</b>
<b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b>	Capital and SRP projects impact across most areas of service delivery and property investment
<b>Does this proposal require extra revenue and/or capital spending?</b>	No
<b>If so, how much?</b>	N/A
<b>What is the source of Funding?</b>	N/A
<b>Has this Funding Source been agreed with the Chamberlain's Department?</b>	N/A
<b>Report of:</b> The Chamberlain	<b>For Information</b>
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## Summary

This report provides a summary of the 2021/22 outturn for Capital and Supplementary Revenue Projects (SRPs) for City Fund and City's Cash, together with the Prudential Indicators for the City Fund. In accordance with changes arising from the governance review, the Bridge House Estates figures have been excluded and will be reported direct to the Bridge House Board.

Actual capital and SRP expenditure in 2021/22 amounted to £205.6m, a net £129.5m less than the approved programmes of £335.1m. This reduction was largely due to the rephasing of expenditure to later years although a significant amount (£28.5m) related to a change in the accounting structure of a proposed property transaction.

The Resource Allocation Sub Committee has agreed financial disciplines which include that central project funding may be withdrawn for schemes that slip by more than one year. A review is underway to identify any centrally funded schemes that are not progressing with a view to reallocating the funding to higher priority projects - to be brought to members after the recess.

The CIPFA Prudential Code provides the statutory framework for ensuring that capital expenditure is affordable, prudent and sustainable and requires the calculation of certain prudential indicators in respect of City Fund *capital* activities *only*. The 2021/22

actual indicators, drawn from the end of year balance sheet, highlight that the City Fund held no external debt as at 31 March 2022.

### **Recommendation**

Members are asked to note the contents of this report.

### **Main Report**

#### **Background**

1. In March each year, the Court of Common Council approves the Capital and SRP programmes as part of the annual budget setting process.
2. Chief Officers, in liaison with the Town Clerk's Programme Office, provide regular reports on the progress of individual schemes against milestones.
3. Capital expenditure generally results in an increase in asset values and typically relates to acquisitions/new build and enhancements, whereas supplementary revenue projects are one-off items which do not fulfil the capital criteria e.g. feasibility and option appraisal costs, major cyclical repairs and maintenance.
4. The Court of Common Council has delegated to the Chamberlain authority to determine the methods of financing capital and supplementary revenue project expenditure. In making such decisions consideration is taken of the strategic and tactical interests of the three funds.
5. The purpose of this report is to provide a summary of the 2021/22 actual expenditure for City Fund and City's Cash against the programmes approved by the Court of Common Council in March and to set out the actual Prudential Indicators for the City Fund.

#### **2021/22 Outturn**

6. Significant items of Capital and Supplementary Revenue Project expenditure in 2021/22 include investment property acquisitions and refurbishments, continued progression of the major projects and expenditure on operational assets including highways and public realm improvements, HRA cyclical works and new construction, corporate IT and Guildhall works, and works at the City's three private schools.
7. The total expenditure incurred in 2021/22 was £205.6m, a net £129.5m less than the approved programmes of £335.1m. A breakdown of expenditure analysed by fund is set out below:

2021/22 Actual Capital and Supplementary Revenue Project Expenditure and Financing						
	City Fund	City's Cash	Total	March 2022 Approved	Variation	
	£m	£m	£m	£m	£m	£m
<b>Capital/SRP Expenditure</b>						
Investment Property	31.3	21.0	52.3	97.94	-	45.6
Major Projects	51.6	28.3	80.0	120.08	-	40.1
Operational	55.1	18.2	73.3	117.06	-	43.8
	138.0	67.5	205.6	335.1	-	129.5
<b>Funded by</b>						
External Grants and Contributions	41.3	4.6	46.0			
Internal Resources	96.7	62.9	159.6			
	138.0	67.5	205.6			
March 2022 Approved	179.8	155.2	335.1			
Variation	- 41.8	- 87.7	- 129.5			

8. The following table analyses the variations between the approved capital/SRP programmes and actual expenditures, together with the resulting impact on financing in 2021/22.

Analysis of Variations			
	City Fund	City's Cash	Total
	£m	£m	£m
<b>Expenditure Variations</b>			
Net Rephrasing of Expenditure to later years	-41.8	-59.2	-101.0
Net Savings	0.0	-28.5	-28.5
	-41.8	-87.7	-129.5
<b>Impact of Variations on Financing</b>			
External contributions	-9.6	-2.2	-11.8
Internal Resources	-32.2	-85.5	-117.7
	- 41.8	- 87.7	- 129.5

The net underspend of £129.5m is largely comprised of deferred expenditure of £101.0m, together with net savings of £28.5m occurring as a result of a change to the accounting treatment of a proposed property transaction rendering the budget surplus to requirements.

9. This magnitude of deferred expenditure is unusually high (39% compared with a more typical level of 15% in recent years). The major projects have been subject to delays which account for a significant proportion of the underspend (£40.1m or 31%). The ongoing repercussions of the pandemic have also

caused delays to project programmes, although this cannot be easily quantified.

10. The deferred expenditure of £101.0m relates mainly to the following areas:

- Major Projects – 40.1m
- Highways and public realm - £9.9m
- Investment property - £17.1m
- Housing schemes - £21.2m
- City Schools' schemes - £3.0m
- Corporate schemes (IS, Guildhall) - £5.8m

It should be noted that such deferred expenditure impacts on cash flows but does not reduce the overall cost or funding requirement.

11. The Resource Allocation Sub Committee has agreed financial disciplines which include that central project funding may be withdrawn for schemes that slip by more than one year. A review is underway to identify any centrally funded schemes that are not progressing with a view to reallocating funding to higher priority projects - to be brought to members after the recess.

### **Prudential Indicators**

12. The CIPFA Prudential Code provides a framework for ensuring that capital expenditure and financing (in particular borrowing) is affordable, prudent and sustainable, and requires the calculation and monitoring of certain prudential indicators in respect of City Fund capital activities.
13. In addition to setting indicators for the forthcoming year during each budget cycle, the Code requires authorities to calculate certain indicators drawn from the end of year balance sheet. The appendix contains the actual indicators for 2021/22, including commentaries which highlight, in particular, that there was no underlying need to borrow externally.
14. The City Fund total expenditure figures used for the indicators vary from the figures in the tables above as the indicators relate only to capital, not supplementary revenue expenditure.
15. In the context of borrowing, it should also be noted that City's Cash has previously drawn down a loan of £450m; £200m for general purposes and £250m to support 'green' spend on major projects.

### **Appendix: 2021/22 Actual Prudential Indicators**

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