

Committee(s): Finance Committee	Date: 20 February 2024
Subject: Budget Monitoring Quarter 3 2023/24 update	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	All
Does this proposal require extra revenue and/or capital spending?	N
If so, how much?	N/A
What is the source of Funding?	N/A
Has this Funding Source been agreed with the Chamberlain's Department?	N/A
Report of: The Chamberlain	For information
Report author: Daniel Peattie – Assistant Director, Strategic Finance	

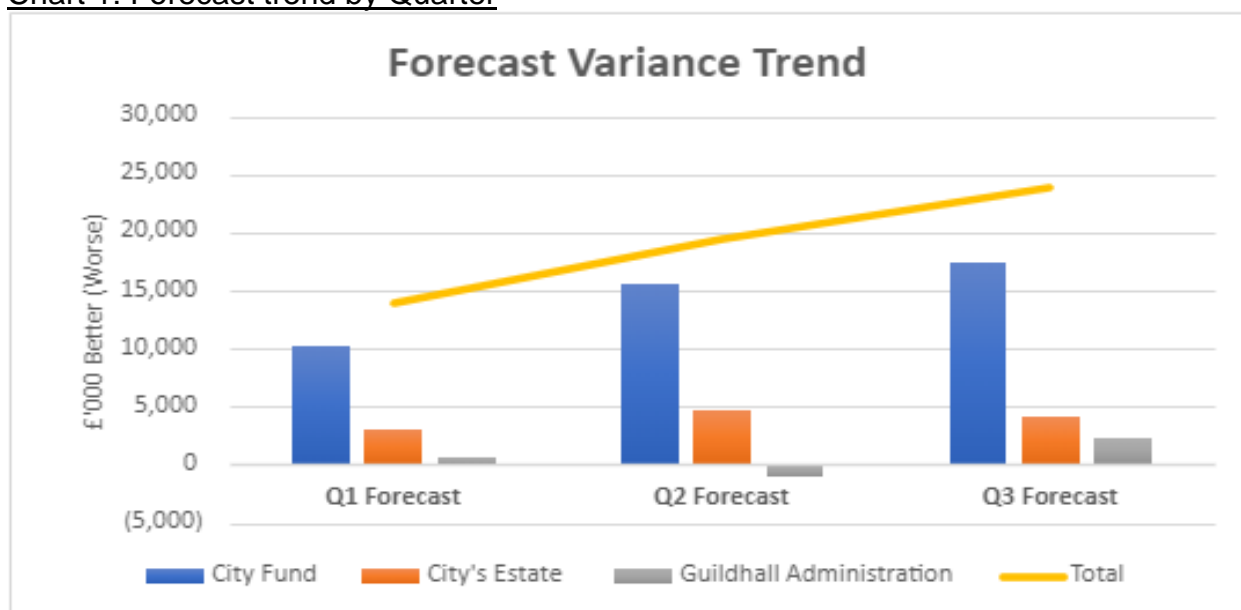
Summary

The report below outlines the latest forecast position for the 2023/24 financial year as at the end of Quarter 3 (December). This report, for the first time, combines the monitoring for both revenue and capital.

Revenue

At the end of Quarter 3, the 2023/24 revenue forecast outturn position is an underspend of £23.9m against budget which is an improvement of £5.9m compared to Quarter 2.

Chart 1: Forecast trend by Quarter



The forecast underspend of £23.9m comprises underspends of £17.5m, £4.1m and £2.3m on City Fund, City's Estate and Guildhall Administration respectively.

Table 1: Revenue forecast by Fund Variance Better/(Worse)

As at 30 Sept 2023		As at 31 December 2023			
Total		City Fund	City's Estate	Guildhall Administration	Total
£'000		£'000	£'000	£'000	£'000
(2,648)	Chief Officer Cash Limited Budgets	(1,179)	(1,415)	509	(2,085)
21,995	Central Risk Budgets	18,660	5,516	1,796	25,971
19,347	Total	17,481	4,101	2,305	23,887

Capital

At the end of Q3, the capital forecast for the financial year is an underspend of £219m which represents c28% of the opening budget. This variance is most likely caused by slippage rather than reductions in project costs, but further work is being undertaken with project managers to review and close down projects where applicable to crystallise any genuine underspend. City Fund is forecasting a capital underspend of £142m (34%) and City's Estate £77m (21%). Table 2 and 3 provide summary of the forecast expenditure at the end of the third quarter (Q3), for the current year and future years expenditure on Capital and Strategic Revenue Projects (SRPs) – including the major projects – across both City Fund and City's Estate, against agreed budgets set and approved by the Court of Common Council in March 2023.

Table 2: Summary of City Fund Capital Forecast

CITY FUND	Budget 23/24	Current Year Actuals at 31/12/23	Current Year Forecast at Q3	Forecast vs Budget in year	Future years budget	Future years forecast	Forecast vs Budget future years	Total budget vs Total Forecast
	£m	£m	£m	£m	£m	£m	£m	£m
BAU and SRP	161.7	43.2	103.2	(58.5)	258	264.9	6.9	(51.6)
Major Projects	256.9	75.2	173.7	(83.2)	565.9	643.7	77.8	(5.4)
Total	418.6	118.3	276.9	(141.7)	823.9	908.6	84.7	(57.0)

Table 3: City's Estate Capital Forecast

CITY's ESTATE	Budget 23/24	Current Year Actuals at 31/12/23	Current Year Forecast at Q3	Forecast vs Budget in year	Future years budget	Future years forecast	Forecast vs Budget future years	Total budget vs Total Forecast
	£m	£m	£m	£m	£m	£m	£m	£m
BAU and SRP	110.3	51	108.1	(2.3)	139.6	150.3	10.7	8.4
Major Projects	254	103	179.7	(74.3)	695.9	714.1	18.1	(56.2)
Total	364.3	154	287.7	(76.6)	835.5	864.3	28.8	(47.8)

Main Report

1. As well as the analysis by Fund, the variance is split between a Central Risk favourable variance of £26m, which predominantly relates to increased interest received on Money Market Funds (£17.0m), partially offset by an adverse variance of £2m on Chief Officer Cash Limited Budgets. The Chief Officer Cash Limited budget significant variances are Barbican Residential (£1.2m) mainly relating to a new provision for a legal challenge from leaseholders along with a reduction in car parking income. The Chief Officer Cash Limited Budgets forecast is an improved position of £0.7m compared to Quarter 2, predominantly due to the Destination City Programme being put on hold whilst an external review of the programme is conducted.
2. Significant forecast variances by Chief Officer are summarised in the following paragraphs. Please note that the data has not been fully remapped to the new Chief Officer structure (Chief Strategy Officer and Executive Director Corporate Communications) due to timing of this change, however work is underway to resolve this and will be in place for the final outturn.

City Fund Revenue

- a) Director of Community and Children's Services (£1.5m overspend, **adverse movement of £0.2m from Q2**) – Barbican Residents Committee is forecasting a possible overspend as a result of making a provision of £935k for a legal challenge from leaseholders regarding costs allocated for temporary staff to the service charge over the last 6 years. Counsel opinion has been sought and we are waiting for an update, should the provision materialise, we would look to cover from Finance Committee contingency. Income from the Barbican car parks is lower than budget by £0.1m. In addition, the children's social care budget is showing an overspend of £0.4m due to two new clients arriving since the budget was set, one of which has very high needs. This pressure will need to be addressed going forward and the proposals to Finance Cttee in February includes an uplift of £470k, any additional clients over and above the ones highlighted will add further pressure.
- b) Executive Director Innovation and Growth (£1m underspend, **positive movement of £1m from Q2**) – there is an anticipated underspend against the Destination City growth bid of over £700k due in the main to activity being put on hold whilst an external review of the programme is conducted. Continuation of Destination City may result in the ringfenced funding to be carried forward.
- c) Executive Director Environment (£0.5m overspend, **positive movement of £1.5m from Q2**) – The projected outturn for City Fund is currently on target, subject to revised income forecasts remaining stable, which is a positive movement of £1.5m from Q2. The previous projected overspend which was primarily due to a significant loss in trade of c£1.8m at Heathrow Animal Reception Centre has now been offset by a variety of increased income streams throughout the department, with the

favourable movement from Q2 to Q3 being predominantly due to increased Planning Application and Pre-Planning Advice income projections (£0.7m improvement) along with staff vacancies (£0.6m)

City's Estate Revenue

- d) Executive Director Environment (£0.6m overspend, **adverse movement of £0.8m from Q2**) The projected overspend (and adverse movement since Q2) is mainly due to increased costs in relation to professional and consultant fees for the Parliament Hill masterplan (£0.1m), health & safety and swimming pool cleaning equipment (£0.1m), Constabulary contract fees (£0.2m), and increased water usage (£0.1m). In addition, the Monument still has a forecast overspend of £0.2m due to ongoing reduced income making the revised target unachievable following COVID.
- e) City Surveyor (£4m underspend, **positive movement of £0.3m from Q2**) – This is principally due to increased rental income as per below partly offset by overspending on the departmental salary budget as a result of the vacancy factor not being achieved and residual unidentified savings yet to be achieved. Other minor variances across services largely offset each other.

3. Corporate Income Budgets are forecast to be better than budget by £22.4m, a positive movement of £0.3m from quarter 2.

Table 4: Major income budgets

	Budget	Forecast	Forecast Variance Better / (Worse)	
	£'000	£'000	£'000	%
<u>Property Investment Income</u>				
City Fund	41,245	40,839	(406)	(1%)
City's Estate*	56,840	62,803	5,963	10%
Total Property Investment Income	98,085	103,642	5,557	6%
<u>Interest on Cash Balances</u>				
City Fund	27,026	48,296	21,270	79%
City's Estate	5,507	1,179	(4,328)	(77%)
Total Interest on Cash Balances	32,533	49,475	16,942	52%
Grand Total	130,618	153,117	22,449	17%

*Recommendation all surplus income under City's Estates is ringfenced to repay back the private placement loan.

4. Property Investment Income is forecast to be £103.6m which reflects the September 2023 rental estimates, **a negative movement of £1.5m from quarter 2**. City's Estate £6m forecast surplus reflects the acquisition of two industrial estates, the delay to the sale of 55-61 Charterhouse Street and assumes that a number of leases are renewed rather than expire on the

Tottenham Court Road Estate. The change in forecast is a combination of lease terminations and rent reviews being determined by 3rd party experts at rents lower than expected.

5. Income from Interest on Money Market funds Income from interest on cash balances is currently forecast to exceed budget by £16.9m due to higher than anticipated interest rates (n.b. the Bank of England base rate has increased from 3% in November 2023 to 5.25% in August 2023 and currently remains at this level). **This is a positive movement of £0.3m from Q2.** The return on investments and valuations will be volatile throughout the year due to changes in interest rate expectation. These changes will be reviewed as part of the budget setting process for 24/25 and 5-year forecast.

Cyclical Works Programme (CWP)

6. The CWP programme covers essential health and safety cyclical repairs and maintenance of the operational property portfolio. CWP spend tends to be revenue due to it being similar to regular repairs and maintenance, however programmes can grow and then be capitalised if they are over materiality thresholds. To improve visibility, CWP forecasts are being included in the consolidated monitoring report for the first time. Table 5 below shows the current position per fund. Unspent balances have previously been rolled over to subsequent years if the projects are still within the lifetime of the project. The City Surveyor is working towards delivering his projects before 31st March 2024. Table 5 below sets out the position as at the end of quarter 3.

Table 5: CWP Forecast Quarter 3

	Budget	Actual & Commitments	Variance Better / (worse)
	£'000	£'000	£'000
City Fund	6,048	3,894	2,154
City's Estate	3,326	3,634	(308)
Guildhall Administration	1,294	1,081	214
Grand Total	10,668	8,608	2,060

Capital Programme

7. Regular monitoring and reporting of the Capital programme has been on hold for a number of years due to resourcing constraints within the organisation. During 2023/24 this has been reintroduced to provide transparency on progress and variances to senior officers and members. The Q3 forecast represents the second iteration of reporting this financial year and saw a significant increase in the number of forecasts completed by programme managers reflecting the collaborative engagement with members of Chamberlains in producing this information.

8. Appendix 4 shows the forecast expenditure for City Fund Capital and SRP Projects, split between Business as Usual (BAU) and Major Projects. The forecast for the year is £276.9m for the year, comprising £103.2m BAU projects and £173.7m across the City Fund Major Projects. This represents a forecast slippage of £141.7m during the current year, or £57.0m across all years. Appendix 5 shows the latest major projects update.

9. There are significant underspends identified against Planning and Transportation (£8.0m) and the HRA (£23.7m). These underspends are expected to be slippage rather than genuine project underspend. Planning is an area predominantly financed by grants and contributions, and assumptions around future grant income will be aligned to current expenditure plans for the forthcoming MTFs review. The HRA is a statutory ringfenced account, and the planned schemes will be incorporated as part of the continued review of the 30-year business plan. Other spend committees with significant projected underspends include.
 - a. Police with an aggregated forecast £8m underspend. The Police service recognise the capacity to deliver against agreed capital projects and are enhancing their Project Management Office (PMO) capability to support a longer-term view of their capital investment requirements.
 - b. Barbican Residential (£1.9m) represents agreed funding blocks for ringfenced areas, for which individual schemes are being developed to draw down against.
 - c. Investment Committee (£6.4m) includes significant slippage against the 1-6 Broad Street Refurbishment scheme.
 - d. Policy and Resource Committee (£7.4m) slippage relating primarily to various works on the Central Criminal Court.

10. Appendix 4 shows the breakdown of the forecast for City's Estate of £287.7m, with £179.7m projected on major projects and a further £108.1m on BAU Capital and SRP. This represents a forecast net slippage of £62.5m in year, and £122.4m including future years. Appendix 5 shows the latest update on major projects.

11. The main areas of underspend relate to:
 - a. Museum of London Landlord works within the major project's portfolio, is currently forecasting an underspend of £56.9m. Works are expected to be completed by the end of this calendar year except for further works on the Annex. The underspend includes an amount of unutilised costed risk provision. This is being removed as part of the MTFP for 2024/25.
 - b. Investment Committee is currently projecting a £3.7m underspend relating to an approved allocation for planned future investment property purchases, to be funded from the Designated Sales Pool. The variance represents the agreed funding envelope, for which future Investment property purchases are to be drawn down against, subject to successful bid appraisals.
 - c. City of London School future years projection of £19.2m relates to a forecast for the CLS phase 2 & 3.

Corporate and Strategic implications

Strategic implications – The budget is developed in conjunction with corporate plans to ensure it aligns with strategic objectives. Any variances and impacts on delivery are noted within the report.

Financial implications – Contained within the body of the report

Resource implications – Contained within the body of the report

Legal implications – No direct implications

Risk implications – Financial variances highlighted and contained within the body of the report

Equalities implications – None

Climate implications – No direct implications

Security implications – No direct implications

Conclusion

12. At the end of Quarter 3 2023/24 the overall revenue forecast position is an underspend of £23.5m against budget comprising Central Risk Budget favourable variance of £25.6m partially offset by an adverse variance of £2m on Chief Officer Cash Limited Budgets.

13. The Capital programme is forecasting an underspend of £219m. This is split between City Fund and City's Estate by £141.7m and £76.6m.

Appendices

- Appendix 1 – Chief Officer Cash Limited Budgets by Fund
- Appendix 2 – Central Risk Budgets by Fund
- Appendix 3 – Capital Forecast by Committee
- Appendix 4 – Capital Forecast by Service
- Appendix 5 – Major Projects monitoring dashboard

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