

Committee(s)	Dated:
Finance Committee - For decision Policy and Resources - For information Court of Common Council – For decision	20 February 2024 22 February 2024 07 March 2024
Subject: 2024/25 City’s Estate Budgets and medium-term financial plan	Public
Report of: The Chamberlain	For Decision
Report author: Daniel Peattie, Assistant Director – Strategic Finance	

Summary

This report covers the 2024/25 budget and 5-year financial outlook for City's Estate and Guildhall Administration. The report should therefore be read in conjunction with the City Fund report on your Committee's agenda.

Recent years have seen major global events contribute to a very unstable economic environment. Interest rates have been at levels not seen for a number of decades. Whilst the City Corporation has benefited from higher interest rates, they have not been sufficient to offset embedded cost increases of price inflation.

There remains the risk of a recession, with the potential to impact **City’s Estate** key revenue streams of property rental income and growth in financial investments, potentially making City’s Cash income streams volatile in 2024/25. This cost pressure, combined with the scale of ambitions particularly for Major Projects result in City’s Estate continuing to produce an operating deficit across the 5-year financial plan as outlined in the table below. Without intervention and action these deficits will continue to erode available resources.

CITY'S ESTATE	2023/24 Budget £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Net cost of services	5.8	7.7	5.5	3.8	2.1
Financing and Capital costs	(62.9)	(82.2)	(53.1)	(54.2)	(54.8)
Surplus/(Deficit)	(57.2)	(74.4)	(47.6)	(50.4)	(52.6)
CrossRail contribution	-	(25.0)	(25.0)	-	-

Annual drawdowns in excess of assumed growth in financial assets are needed to cover exceptional items including the capital programme. Over the planning period, the cumulative deficit is forecast to be £332m. Balance Sheet forecasting indicates this sum is sustainable over the medium term, but more challenging in the longer term when financing costs on major projects increase and require significant asset disposal to fund. A focus on reviewing the operational budget and attracting involvement of third-party interest is needed. Officers are exploring opportunities to bring back to Members in Spring 2024.

Under the annual process, bids for capital funding totalling £4.8m for City’s Estate were approved in principle by Resource Allocation Sub Committee. This remains within the overall

recommended funding allocation of £5m, the sum is considered manageable over the medium term. Any further pressures are to be contained within agreed budgets through value engineering. Where this is not practicable it is recommended alternative sources of funding is explored (i.e. Grants, underspends from existing capital programmes, and or reprioritisation of already approved capital programmes).

In response, to the financial challenges the City Corporation has made significant cuts to budgets over the last decade, however, despite this there remains significant pressures as well as the scale of financing the major projects programme. In order to improve the operational deficit position, following discussion and steer as part of the 2024/25 budget setting and 5-year financial plan process, there needs to be a more radical review of how and what services the City Corporation operates if the scale of capital ambition is to remain sustainable. A commercial approach is also under review on our operational assets base, ensuring that we maximise operational effectiveness and only retain the buildings really needed to deliver services.

Options to stabilise the position has been outlined in City Fund and should be considered for City's Estate.

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

Recommendations

Members are asked to:

- 1.0 To note and approve the overall budget envelope for City's Estate 2024/25 revenue budgets.
 - 1.1 Additional funding is required for new on-going cost pressures and have been included as budget uplifts:
 - 1.1.1 Agreed pay award from 1st July 2023.
 - 1.1.2 Net 3% inflation uplift to local risk budgets.
 - 1.1.3 £2m central provision to cover assumptions for Ambition 25 (Reward Refresh) – subject to recommendations of the Corporate Services Committee.
 - 1.1.4 £100k increase in legal costs to support specialist advice.
 - 1.1.5 £540k contingency held centrally to support the increase in State Visits.
 - 1.1.6 £20k funding to support RASC away day.
 - 1.1.7 £113k provision set to support volunteering.
 - 1.1.8 £148k recognition of staff contribution through staff summer events and

annual lunch.

1.1.9 £380k funding for Corporate Graduate Scheme, increasing to £710k from 2025/26.

1.1.10 £10k support for on-going Benefits-in-Kind review and annual reporting.

1.1.11 Shortfall on Occupational Health Physician services (£56k split between funds).

1.1.12 £85k increase for Mayoralty and Shrievalty allowances as agreed at the Joint Deputation meeting on 20 March 2023. For 2024/25 an increase of £62k is being proposed – subject to Joint Deputation meeting on 28 March 2024.

1.1.13 £400k provision for possible increases to Members allowance.

1.2 For Cyclical Works Programme (CWP):

1.2.1 Funding of £71m has been allocated within City's Estate to address £28m backlog of works and £43m forward plan, towards delivery of programme across the next 5 years from 2024/25.

1.2.2 Following meeting with the Joint Resource Allocation Sub Committee and Service Committee Chairmen, additional headroom has been created to address urgent health and safety issues at the Guildhall School of Music and Drama over the 5-year forward plan totalling £12.5m (£8m to 2027/28).

1.2.3 Funding identified from reserves in City's Estate resulting in an additional draw on assets endorsed by Finance Committee in December, to be ringfenced to the programme. Delivery will need to be managed robustly to avoid cost creep.

1.3 To address inflationary pressures going forward assumptions include 2% uplift from 2025/26 onwards.

1.4 Savings still to be achieved from Commercial - procurement and implementation of the Enterprise Resource Planning system have been profiled (£0.3m) to 2025/26 and (£0.6m) in 2026/27 respectively. Permanent savings from previous savings programme are expected to crystallise by 2024/25.

1.5 Other one-off pressures and opportunities for transformation in 2024/25 outlined in paragraph 11 to be funded from forecast carry forward underspends from 2023/24.

1.6 Unfunded additional revenue bids (paragraph 10) to be avoided during 2024/25, unless these can be prioritised from savings or income generated from the Corporation's Transformation Programme.

2.0 Approve the overall financial framework and the revised 5-year Financial Strategy (paragraphs 4-30).

6.0 Approve the 2024/25 Capital and Supplementary Revenue Project Budgets for City's Estate

amounting to £218.3m (paragraph 27).

- 7.0 Approve the allocation of central funding of up to £218.3m for City's Estate to meet the cost of 2024/25 approved capital schemes. Release of such funding being subject to approval at the relevant gateway and specific agreement of the Resource Allocation Sub-Committee at Gateway 4(a). Note the agreed capital envelope for new bids of £5m in 2024/25 (paragraph 27-30).
- 8.0 Delegate authority to the Chamberlain to determine the final financing of capital and supplementary revenue project expenditure.
- 9.0 Endorse this report for onward approval to the Court of Common Council.

Main Report

Background

1. The primary purpose of this report is to summarise the proposed budgets for 2024/25 for City's Estate, which have all been prepared within agreed policy guidelines and allocations, for submission to the Court of Common Council in March.
2. During the autumn/winter cycle of meetings, each Committee has received and approved a budget report, which has been prepared based on the planning framework for Chief Officers:
 - 3% increase in net local risk budgets;
 - The July 2023 pay award to be funded in addition to the local risk increase;
 - Reprofiting of previously agreed savings for 2024/25 to be pushed out to future years, providing sufficient time to embed permanent savings;
 - All other inflationary pressures to be contained within the budget envelopes.
 - 2023/24 underspends to be carried forward (subject to consultation with the Chairman and Deputy Chairman of Resource Allocation Sub Committee) to address one-off budget pressure and fund transformation opportunities.
 - Progress with the Resources and Priorities Refresh (RPR) to align spend with corporate priorities and manage on-going pressures within existing resources - where this is not possible to create headroom to reallocate funds through RPR workstreams.
 - The Cyclical Works Programme (CWP) continued to build a backlog. There is a significant risk of not addressing the CWP, increasing deterioration in operational properties subsequently posing health hazards and leading to an increase in major projects programmes – funding has been allocated for 2024/25, and the wider 5-year financial plan, for urgent health and safety works, and to catch up on the backlog of works and forward plan.
3. The overall financial strategies and budget policies for City's Estate are set out in Appendix 1. City Fund's medium-term financial strategy is included in the separate City

Fund report.

Current Position

4. The last few years have been particularly challenging with global events causing hyper inflationary pressures as well as impacts on the wider global economy. Whilst inflation has begun to fall sharply and is expected to return to around 2% by 2025, the impact of previous price increases continues to be felt as and when contracts come up for re-procurement or tendering. In addition, the likelihood of a recession in 2024 remains high within the following financial year increases the levels of risk when developing the 5-year financial plan.
5. As with the 5-year financial forecast last year, despite significant cuts to budgets over the last decade, there remains significant pressure across City's Estate – caused mainly by the financing of major projects programme and inflationary increases. This means there needs to be a more radical review of how and what services the City Corporation operates if the scale of capital ambition remains to remain sustainable.
6. Whilst individual budgets have changed, the overarching messages from the 2023/24 MTFP remain the same. Those being:
 - a. City's Estate runs with an annual operating deficit requiring the draw down of assets (property or financial), need to avoid running down the balance sheet.
 - b. The scale of the Capital programme, major projects for City's Estate, is placing significant pressure on the resources available.
7. When considering the competing pressures and priorities, the newly developed Corporate Plan provides a framework to ensure decisions are aligned to the approved key outcomes (refer to paragraphs 18 to 20 of City Fund Budget report).

Budget Response

8. The budget approach for 2024/25 has been to stabilise the position, acknowledging the headwinds in play, with a net 3% uplift in local risk budget, whilst also looking to reprioritise spend to priority areas via the RPR which will seek to address resourcing pressure within the overall envelope of funds available.
9. However, following the star chambers and ongoing discussions a number of pressures were identified to either align funding to more appropriate source or support the Corporation's ambitions. These have been added to the budget and are set out in Appendix 2 and further supported by Resource Allocation Sub away day:
 - Assumptions for **Ambition 25** (Reward Refresh) – it is essential that the Corporation adopts a new reward strategy and pay grading structure, failure to do so will put the delivery of the Corporation's strategic objectives at risk given the notable recruitment and retention challenges we currently have, and the risk of equal pay concerns. It is recommended assumptions are held centrally, totalling £2m p.a.
 - The Corporation is transforming across all areas which has seen a notable increase in **legal costs** supporting the Corporation's ambitions and journey. It is recommended

an increase of £100k is included to address the funding gap for specialist advice in line with current requirements.

- The **State Visit** programme was reduced to one visit per year under the late Queen Elizabeth II, and provision in the budget was adjusted accordingly, but the indications are that the programme will be restored, and initially enhanced, under the King. Recommended additional funding is made available annually to cover the expected costs of State Visits, with £540k contingency held centrally to support the increase.
- Funding to support strategic Member and Senior Officer engagement at **RASC away day** – £20k.
- Budget correction to support the **Corporation's Volunteering Strategy** – £113k ongoing costs cannot be supported by City Bridge Foundation and should be transferred to City's Estate.
- Recognition of staff contribution through **Staff Summer Events and Annual Lunches**, aligning budgets to costs of £148k p.a., supported by Corporate Services Committee.
- The reintroduction of the **Graduate Scheme** can enhance our organisational capacity and serve as a platform to nurture and develop talented individuals, aligning with the City Corporation's corporate plan and commitment to social mobility, diversity and inclusivity. Recommendation to include an uplift of £380k in 2024/25 increasing to £710k from 2025/26, subject to business case approval by Corporate Services Committee.
- On-going funding to support **Benefits-in-Kind review and annual reporting**. Supported by Finance Committee, Resource Allocation Sub Committee approved on 24 January 2024 additional £10k p.a. support to the Central Grants Unit to enable on-going BIK review and annual reporting. Recommended this is added in.
- **Occupational Health Physician Services** shortfall of £56k p.a. (split across City Fund and City's Estate), provides statutory function and expert advice to the City of London in relation to health risk management and complex clinical issues. The absence of this role would mean that the statutory health surveillance function would not be fulfilled, and the organisation would lack expert medical advice on complex disability, legal and ill health cases - Recommendation this is added in.
- Budget correction to the **Mayoralty and Shrievalty Budget** as approved at the Joint Deputation Meeting on 20 March 2023 – Recommendation £85k p.a. is added in. For 2024/25 an increase of £62k p.a. is being proposed at its next Joint Deputation meeting on 28 March 2024.
- Provision for likely change in **Member allowance** to be held centrally £400k, subject to endorsement from Civic Affairs, Policy and Resources Committees and onward approval to Court of Common Council.

10. Cost pressures or bids for new activities have been identified in individual services by their service committee, these costs need to be funded within the overall envelope, or through the increase in income generation:

- As outlined in City Fund budget report, paragraph 26, the following pressures will be shared across both funds:
 - i. Additional funding to support Health and Safety team to meet statutory obligations.
 - ii. EDI pressures.
 - iii. Alignment of budgets for Corporate Communications and External Affairs. One-off funding maybe required in 2024/25 until resources are aligned, to be addressed through 2023/24 carry forwards.
 - iv. New Commercial, Change and Portfolio delivery, from 2025/26 this will be offset through income generation, and thus be cost neutral, however in

2024/25 this income will not have been generated so the cost will be a pressure across both City Fund and City's Estate – see recommendations in paragraph 11 below.

- Guildhall Club – as with all other departments the Guildhall Club has been subject to flat cash and unable to balance its budget. Recommended one-off funding is applied to 2024/25 (though carry forwards) pending review of pay and prices bringing these in line, including a proposal to address wastage though no show – review to be bought back in 6 months.
- Over a number of years, the Lord Mayor Show has been aided through absorption of costs across several departments, following saving programmes over the last few years, this is no longer sustainable – a review is currently underway through the income generation workstream which will seek to bring in opportunities to put the Lord Mayor Show on a sustainable footing. Additional income is expected to be achieved from 2025/26 onwards, however, in 2024/25 this income will not have been generated so recommended one-off funding is applied from 2023/24 carry forwards – see recommendations in paragraph 11 below.
- Additional pressures from inflation have impacted a number of areas, this is still being felt in GSMD - £0.75m and Remembrancers office - £133k. However, saving initiatives/income generation opportunities are being developed and will be delivered in 2024/25 to combat these pressures.

11. When setting the budget for 2024/25, the intention has been to capture and consider pressures as part of that process. Therefore, the use of 2023/24 underspends to fund additional pressures has been considered for exceptional and one-off events. The wider intention is that any underspend on 2023/24 go into reserves reducing the amount required on deficit funding. We are currently forecasting underspends of c£4m on City's Estate. The below one-off or time limited funding has been requested by Committees or recommended:

- Recommended transformation funding is ringfenced to support the radical shift in how we deliver our services and continued support required to support the cultural change needed – sums to be confirmed by likely in the region of £1m to £2m in 2024/25, to be funded from 2023/24 underspends.
- As per paragraph 10 above for 2024/25 only, additional amounts of: £701k (shared across City Fund and City's Estate) to fund the new Commercial Change and Portfolio delivery; support for Corporate Communications and External Affairs (shared across City Fund and City's Estate), Guildhall Club and Lord Mayor Show (amounts to be confirmed).
- Charity Review. Finance Committee approved additional time-limited support to complete the Natural Environment Charities Review, this was recommended to be funded from 2023/24 underspends – £635k in 2024/25.
- Recommended a reasonable amount is carried forward from 2023/24 underspends to support inflationary pressures which cannot be contained with allocated budgets.

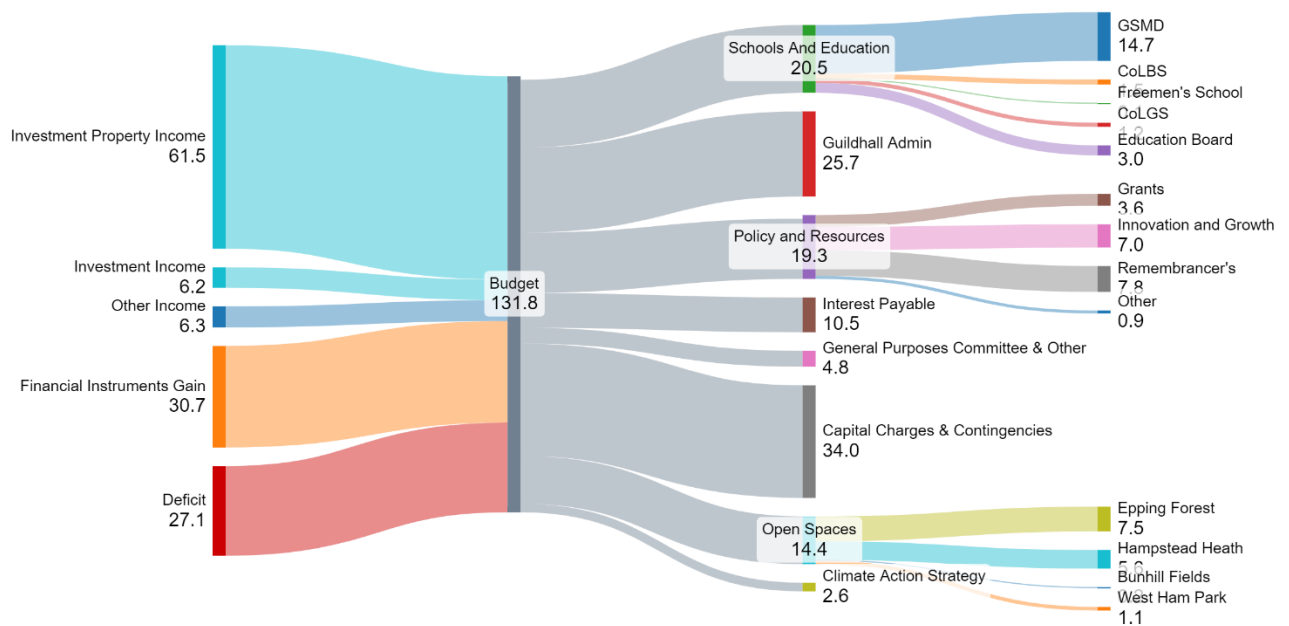
Latest forecast position

12. City's Estate does not fall under the same financial regulation as City Fund. However, we still need to maintain a sustainable financial outlook, of which a balanced annual position should be the aim. **All City's Estate reserves are invested to maximise return. Therefore, any deficits being incurred require assets to be disposed.** Chart 1 below,

sets out the 2023/24 net budget position for City's Estate, to show in broad terms where the funding comes from and where it is spent.

13. The Sankey Chart 1 shows that at present, City's Estate operates with an annual deficit. It should be noted this already assumes a notional drawdown of financial asset gain of c£30m per annum.

Sankey Chart 1: 2023/24 net budget



14. The current approved plan by Court of Common Council is for the City Corporation to proceed with the construction of the combined market at Dagenham Docks. The construction itself would be c£400m and require financing through the disposal of assets (property or financial investments). These disposals would then result in reduced income in the region of £10-15m per annum based on high level estimates. Table 1 below sets out the estimated 5-year financial position with the assumption that the City Corporation build the market itself.

Table 1: City's Estate 5-year financial plan

CITY'S ESTATE	2023/24 Revised £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Net cost of services	5.8	7.7	5.5	3.8	2.1
Projects					
Supplementary Revenue Projects	(10.0)	(5.8)	(4.7)	(1.8)	-
Cyclical Works Programme	(3.9)	(15.4)	(15.5)	(15.5)	(15.5)
Climate Action	(2.6)	(2.5)	(1.0)	(0.7)	-
Major Projects Revenue Implication	-	-	(1.4)	(8.5)	(14.4)
Capital Programme Funding (Reserves/RCCO)	(23.1)	(33.6)	(5.6)	(2.9)	-
Surplus/(Deficit)	(33.8)	(49.6)	(22.8)	(25.5)	(27.8)
Depreciation	(12.8)	(14.3)	(14.3)	(14.3)	(14.3)
Loan interest cost	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)
Surplus/(Deficit)	(57.2)	(74.5)	(47.6)	(50.4)	(52.6)
CrossRail	-	(25.0)	(25.0)	-	-
Surplus/(Deficit)	(57.2)	(99.5)	(72.6)	(50.4)	(52.6)

15. Over the 5-year financial plan the cumulative deficit is £332m (including the planned £50m to finance Crossrail payments). This assumes an estimated drawdown on financial asset gain of £158m, meaning the overall operating deficit is in fact £490m before any assumed asset disposal or liquidation. The result produces an estimated overall net asset reduction (from 2023/24 to 2027/28) on the balance sheet over the medium-term – takes into account the drawn down on financial investments, steady growth in assets, plus the impact of approved Major Projects (assuming the Corporation delivers the construction of the Markets Co-location Programme).

16. The following areas are significant changes from the prior year's 2024/25 5-year forecast position:

- Increase in CWP costs due to bow wave and additional funding (£8.8m)
- Addition of GSMD CWP costs (£0.5m)
- Additional cost pressures as per appendix 2 (£5.9m)
- Increase in SRP schemes following a review and rephasing of the capital programme (£2.4m)
- Loss of income on balances due to revised funding requirements (£10.9m)

17. Due to the scale of the pressures, on City's Estate in particular, an informal Resource Allocation Sub-Committee (RASC) meeting was held in November 2023 to consider potential solutions. The key outcomes being the need to prioritise health and safety work, consider the elements of the Markets Co-Location programme that constituted an investable 'product' to attract external investment and consider the scale and impact of asset disposals to ensure these are factored into forecasts.

18. Over a number of years, a significant backlog of works as part of the cyclical works programme (CWP) has built up, also referred to as the "bow wave". In response to this, members directed for total funding of backlog of works including forward plan, totalling £71m approved by Finance Committee in December 2023. Following Joint Resource Allocation Sub Committee and Service Committee Chairmen meeting in January 2024, additional headroom has been created to address urgent health and safety issues at the Guildhall School of Music and Drama over the next 5 years totalling £12.5m. The 5-year financial plan includes £65.3m in total of which £28.0m relates to backlog and £36.1m with forward plan and £1.2m ringfenced to resource to deliver the works (City Fund MTFP Appendix A paragraphs 22 to 28), amounts allocated for year 6 is recommended to be ringfenced against the financial year 2028/29.

19. The forecast includes capital bids of £4.8m approved by January Finance Committee; as well business as usual capital programmes forecast at £210.2m (excluding supplementary revenue programme) over the 5-year financial plan and is detailed in table 3 below.
20. **Major Projects:** Three major projects have been forecast under the 5-year financial plan. It is currently assumed these projects will be financed through borrowing (£450m private placement already in place); planned capital receipts; plus, a drawdown on non-financial investments. Drawdown on non-financial investments for Major Projects impacts on the rental income which currently supports the City's Cash revenue expenditure, which have been included in forecasts. Based on these assumptions, there is an interim requirement for internal borrowing utilising City Fund general cash balances – pending receipts from disposal of investment properties. Interest payments to City Fund have been forecasted based on losses to City Fund from investing cash balances. On the assumption that an external partner is engaged for the delivery of the MCP construction works, this could potentially reduce the overall operating deficit draw down by £24m over the 5-year financial plan, effectively removing the revenue loss from asset liquidation. The major projects are listed within the capital strategy.

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

21. This report recommends a number of measures to stabilise the position in 2024/25, however significantly more will be needed to shore up the medium to long-term. This will include: ensuring continuation of permanent year on year savings; major changes or stoppages to existing services provision and reduction in grants; building on collaboration breaking silos and increasing efficient ways of working; progressing with service transformation and RPR workstreams – supporting the change in the operating model which includes a review and disposals of operational properties, opportunities for income generation. This will require a renewed approach to transformation underpinned by a clear communication to all Members, so they are aware of the challenges ahead progressing with service transformation workstreams.
22. In addition, there is a need to make sure the position does not get worse by reinforcing the cap on the major capital projects and securing third party capital where possible.

Additional Revenue Requests

23. Policy and Resources Committee and Finance Committee have messaged clearly that cost pressures should be managed within existing resources. Significant additional investment to fund the backlog of works for the CWP have been added this year which add further pressure to the existing operating deficit. When setting the budget for 2024/25, the intention has been to capture and consider pressures as part of that process. Therefore, the use of 2023/24 underspends to fund additional pressures has been considered for exceptional and one-off events. The wider intention is that any underspend on 2023/24 go into reserves in order to reduce the draw down required to fund the deficit.

GUILDHALL ADMINISTRATION

Overall Budget Position

24. Guildhall Administration encompasses most of the central support services for the City,

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

Table 2 – Guildhall Administration Revenue Budget

Guildhall Administration	2023/24	2024/25
by Committee	Budget	Budget
Net (Expenditure)	£m	£m
Corporate Services	(9.1)	(8.1)
Digital Services	(16.2)	(12.9)
Finance	(53.8)	(55.1)
Total Net Expenditure	(79.1)	(76.1)
Recovery of Costs	79.1	76.1
Total Guildhall Administration	0	0

25. The 2023/24 budget benefits from carry forwards from 2022/23 underspends and transfers from centrally held contingencies.

26. Appendix 3 shows the Guildhall Administration budgets by committee.

City's Estate Capital

27. The City of London has a significant programme of property investments, works to improve the operational property estate and major capital projects to benefit wider London. The total anticipated capital and supplementary revenue expenditure, including forecasts against approved budgets and the indicative cost of schemes awaiting approval is as follows:

Table 3 – City's Estate Capital Programme

CAPITAL PROGRAMME - CITY'S ESTATE	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	TOTAL £m
CAPITAL & SRP - BAU							
Barbican Centre	-	0.0	-	-	-	-	0.0
Chamberlain and Chief Finance Officer	30.1	34.6	-	-	-	-	64.7
City of London Freeman's School	2.2	0.6	-	-	-	-	2.8
City of London School	1.2	0.0	-	-	-	-	1.2
City of London School For Girls	4.4	0.2	-	-	-	-	4.6
City Surveyor and Property	55.7	28.3	7.4	-	-	-	91.5
Community and Children'S Services (Exl HRA)	0.6	0.2	-	-	-	-	0.8
Environment	4.0	3.9	5.8	3.8	-	-	17.6
Innovation and Growth	2.6	7.6	4.8	4.7	-	-	19.7
Principal GSMD	2.8	1.6	2.1	0.8	-	-	7.3
Sub-Total	103.5	77.2	20.1	9.4	-	-	210.2
CAPITAL & SRP - MAJOR PROJECTS							
Markets Consolidation	127.2	78.7	144.7	117.4	123.0	51.5	642.5
Museum of London	28.8	23.5	-	-	-	-	52.2
City Fund (Combined Courts)	30.4	39.0	95.9	31.0	2.7	-	198.9
Sub-Total	186.4	141.1	240.6	148.4	125.7	51.5	893.7
CAPITAL & SRP - CONTINGENCY & NEW BIDS							
Contingency and New Bids	-	-	5.0	5.0	5.0	5.0	20.0
TOTAL CAPITAL PROGRAMME	289.9	218.3	265.7	162.8	130.7	56.5	1,123.9

28. The City's Estate capital and supplementary revenue project budgets are being submitted to the Court of Common Council in March as part of the Summary Budget Book. Further detail is contained within the Capital Strategy (Appendix F of the City Fund Budget report).

29. Members are asked to **note** that the July Resource Allocation Sub Committee agreed an envelope of £5m for new capital bids for 2024/25 which has been maintained each year of the 5-year financial plan. As part of the 2024/25 Budget setting process all applicable bids were contained within the £5m envelope. A further £20m funding allocation is included for contingency and new bids over the 5-year financial plan.

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

Key risks and uncertainties – there are risks to achievement of the latest forecasts.

31. Within the City Corporation's Control:

- Ensuring permanent year on year permanent savings from existing savings programme and income schemes are delivered;
- Radical thoughts now needed for future as to how best to bring down the annual operating deficit, including major changes or stoppages to existing services provision and/or reductions in grants;
- Delay in RPR workstreams - unable to reprioritise resources to corporate prioritise and or create headroom to reallocate resource;
- Ability to retain / recruit staff under the current salaries structure;
- Major capital projects not being delivered within estimated costs; and
- Scale of ambition cannot be met through existing resources, radical decisions now required as cannot do everything.

32. Outside the City Corporation's control:

- Economists warning of a UK (global) recession during 2024, impact on income streams is unknown, particularly: rental income, event bookings, and student intakes – needs close monitoring.
- Inflation and interest rates – levels in recent years have been above anything seen in over a decade so long-term projections come with greater uncertainty.
- Political situation – the fixed term nature of current Parliamentary cycles mean that a general election will occur in the next financial year. Whilst the outcome of that election is not known, current polling suggests there is a high probability of a change in government. This brings with it significant uncertainty in a number of areas such as the wider economy as well as potential policy changes.

Conclusion

33. Recent years have seen major global events contribute to a very unstable economic environment. Interest rates have been at levels not seen for a number of decades, and whilst the City Corporation has benefited from higher interest rates over this period, they have not been sufficient to offset the growing price inflation which has now been built into contracts and ongoing costs.

34. Additional funding will be required across the medium term for cost pressures to accommodate changes in pay and price uplift assumptions; and to address the growing backlog of cyclical works and plan for a forward plan on our operational properties.

35. This cost pressure, combined with the scale of the ambition, within Major Projects in particular, of the capital programme result in City's Estate continuing to have an operative deficit across the five-year financial plan. Therefore, without intervention and action these deficits will continue to erode available resources limiting the capacity of the City Corporation in future years.

Appendices

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

Daniel Peattie

Assistant Director – Strategic Finance

T: 07743 187215

E: Daniel.Peattie@cityoflondon.gov.uk