ITEM 8(A)

Report – Finance Committee

2024/25 City Fund Budget & Medium-Term Financial Plan

To be presented on 7 March 2024

To the Right Honourable The Lord Mayor, Aldermen and Commons of the City of London in Common Council assembled.

SUMMARY

This report presents the overall Financial position of the City Fund (i.e. the City Corporation's finances relating to Local Government, Police and Port Health services).

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 increase of price inflation.

Additional funding will be required to cover children and community services; potential uplifts changes in pay and address properly the growing backlog of cyclical works for operational properties.

The huge pressure on our finances from delivering our ambitious capital programme also constrains the ability for future investment. Wider thinking is needed on how best to secure third party investment on the major capital projects and our asset base to relieve the pressure on our own capital resources.

Additionally, a commercial approach to revenue generation is required and under review e.g. advertising income. A commercial approach is also under review on our operational asset base, ensuring that we maximise operational effectiveness and only retain the buildings really needed to deliver services.

Although the Local Government Financial Settlement includes a welcome increase in the level of funding for social care, the expectation continues from Government that more will be raised from local taxpayers. This same applies for the Police funding settlement. Government's assumption is that Policing cost pressures would be covered through the levy on council taxpayers of up to £13 (decreased from £15 from prior year). Following the steer from Resource Allocation Sub Committee in the summer, and in a joint meeting with Service Committee Chairman in January, potential tax increases have been modelled for member consideration.

The final settlement also approved the extension of the '8 Authority Pool' with 7 neighbouring billing authorities, which will enable the pool partners to keep more of the business rate growth they generate – this pool will cover 4 of the 6 most deprived boroughs. For City Fund this will potentially yield £8m. This pool is an extension for one year only, after which the Corporation intends to return to a pan London Pooling. This is one-off funding and is not recommended to support business as usual and needed to support the major projects programme, reducing the impact on City Fund deficits in later years.

Tough decisions have been needed to remain within the overall envelope for 2024/25.

The medium-term financial outlook, with no tax increases, is summarised in table 1 below:

Table 1: City Fund five-year outlook

Surplus/ (Deficit)	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	£'m	**£'m**	**£'m**	**£'m**	**£'m**
City Fund surplus (deficit)	**41.7**	**21.3**	**(0.4)**	**(18.9)**	**(33.6)**
City of London Police surplus/(deficit)	**0.0**	**(2.9)**	**(2.2)**	**(4.3)**	**(6.6)**
City Fund position including Police deficit	**41.7**	**18.4**	**(2.6)**	**(23.2)**	**(40.2)**
***General Fund Reserve – working capital**	**20.00**	**20.00**	**20.00**	**20.00**	**20.00**
****Major Project Financing Reserve**	**77.4**	**77.0**	**67.0**	**38.4**	**5.3**
*****Cyclical Works Programme Reserve**	**68.0**	**52.7**	**38.9**	**25.5**	**12.7**
******Climate Action Reserve**	**14.8**	**13.7**	**13.0**	**12.5**	**11.0**

* General fund reserve maintained at minimal prudent amount for working capital.
** Major project financing reserve includes adjustments for financing the revenue element of major projects which is not included in the deficit/surplus.
*** Cyclical Works Programme Reserve includes ring-fenced funds to support the essential funding needed on backlog and forward plan over the next 5 years from 2024/25 and included in the surplus/deficit.
****Climate Action Reserve includes adjustments for financing the revenue element of climate action and revenue savings from climate action and similar programmes.

City Fund (excluding Police) is balanced over the medium-term financial plan (MTFP) producing a small £10.1m surplus. Government has pushed back its reform of Business Rates by another year and expectation is this will be pushed back by a further year. The result generates extra retained Business Rates growth of c£28m in 2024/25 and c£28m in 2025/26 which is helpful but cannot be regarded as permanent. In addition, City Fund has benefited from an increase of £1.9m in baseline funding in 2024/25. Interest returns have also been beneficial in countering inflationary and other pressures. Yet pressures in future years remain. Further action is required to ensure City Fund remains in balance beyond 2025/26. Previously the business rate growth had been kept separate to fund the major projects. However, due to increases in inflation, reductions in property income, continued pressures in adult and children's services, inflationary pressures in Police pay and prices such separation is not possible in 2025/26. Without that growth the City Fund falls into a greater deficit by £27.6m (taking 2025/26 deficit position £0.4m less Business Rates growth c£28m). Later year forecast deficits endanger the statutory duty to remain balanced across the 5-year medium-term with little margin to support unforeseen financial challenges.

The Police have seen a significant increase in demand for services. Fraud and cyber-crime have continued to rise. The cost-of-living crisis has brought challenges including increases in calls for service linked to vulnerability and rises in theft. Wider national public dissatisfaction has been felt through increased protests which require significant resource to police. The growing nighttime economy has led to increases in crime and disorder, particularly violence and sexual offences. Maintaining a safe and secure environment in the City is key to the success of Destination City, while continuing to ensure the City remains an attractive place to do business. More visitors to the City requires a focus on public safety, not only by deterring criminality, but also on the threat from terrorism. These demands sit within the context of a notable shift in the balance of central funding towards locally levied taxes, provided elsewhere through increases in Council Tax.

There is a statutory duty to remain balanced across the medium-term taking one year with the next over the five-year period. There are several options being recommended within this report to close the medium-term deficits, however this leaves very little margin to support unforeseen financial challenges.

For 2024/25, Members will need to consider whether to:

- Increase Adult Social Care precept by 2% which raises £165k p.a. - to address £310k pressures within Adult Social Care and position the City Corporation better for the Fair Funding Review.
- Increase in core Council Tax by 2.99% which raises £247k p.a.- to address £160k pressure on children services (children’s placements) and other services.
- Increase again Business Rates Premium up to 0.4p in the £ which raises c£8.1m p.a. - to support security on City Fund and Police inflationary pressures. The Corporation is unable to levy taxes in the same way other Police Crime Commissioner Offices through precept on Council Tax – for 2024/25 up to £13 without needing a referendum. Unless BRP is increased by 0.4p - City Fund can only be balanced across the medium-term from the retained business rates growth and aggressive savings within Police.
- Increase rents for social tenants within the Housing Revenue Account by 7.7%. Inflation is now embedded in pay and prices - those increases put HRA into deficit. In order, to balance HRA across the MTFP a 7.7% increase in rent is permitted which appears to match likely increases from other London boroughs

Capital - Business as usual

Turning to the **capital position**, under the annual process, bids for capital funding totalling £14.4m for City Fund were approved in principle by Resource Allocation Sub Committee. This remains within the overall recommended funding allocation of £20m, 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. Community Infrastructure Levy (CIL), On Street Parking Reserves (OSPR), Grants, underspends from existing capital programmes, and or reprioritisation of already approved capital programmes.

Options to stabilise the position

This report recommends a number of measures to stabilise the position in 2024/25 and that will support the steps that will need to be taken over the medium-term, supported by:

- **Tax increases** – Resource Allocation Sub Committee agreed to model tax rises.
- **Increased property investment returns** - review underway by Investment Committee;
- **Income generation opportunities** – update in March 2024, but realistic projections total £3m - £8m;

- **Operational Property** – update in March 2024 unlikely to generate substantial contributions excess of c£500m;
- **Medium-term savings plan** – 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. This will require a renewed approach to transformation underpin by a clear communication to all members, so they are aware of the challenges ahead.
- **One-off spends** addressed within resource envelope/added to MTFP, with exceptional items funded from underspends of up to £10m projected to be carried forward from 2023/24 (including inflation contingency - paragraph 27);
- **Major Projects:**
  - Development opportunities to attract investment must be prioritised;
  - Given that ambitions and current commitments exceed resources, priority otherwise to be directed towards statutory or health and safety needs, alongside the Cyclical Works Programme – see Appendix A paragraphs 22 to 28.
  - £25m has been committed over 2023/24 and 2024/25 to support critical health and safety needs of the Barbican Centre which has reached the end of its economic life. The full cost of essential works is estimated to be £451m, subject to formal surveys and cost assessments. Such amount is not budgeted for and will not generate any material change to revenue or cost and is not supportable by external grants. Informal Resource Allocation Sub Committee requested a full business plan that reduces annual support from the Corporation and places Barbican Centre on a sustainable footing. A funding strategy will need to be developed. Finding the full £451m will add further cost pressures on City Fund in the region of between £13m-£25m p.a.

Members will also want to note that increased revenue pressures have been accommodated by reprioritising existing budgets and signal an expectation that additional pressures that might arise during 2024/25 will be absorbed within local risk budgets. However, where one-off cost pressures have been approved by Members these have either been built into the medium-term or accommodated through underspends from 2023/24.

RECOMMENDATION

Following your Finance Committee’s consideration of this City Fund Report, it is recommended that the Court of Common Council is requested to:-

1.0 To note and approve the overall budget envelopes for City Fund.

1.1 Additional funding is required to be approved 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 £470k for City Fund Adult Social Care and Children Services.

1.1.4 £2m central provision to cover assumptions for Ambition 25 (Reward Refresh) – subject to recommendations of the Corporate Services Committee.

1.1.5 £210k increase in legal costs to support specialist advice.

1.1.6 £330k on-going City Fund support to Electoral Services.

1.1.7 £400k provision for possible increases to members allowance – subject to recommendations of the Civic Affairs committee.

1.1.8 £56k shortfall (split across City Fund and City's Estate) to Occupational Health Physician Services.

1.1.9 £59k (3%) uplift to the London Symphony Orchestra grant.

1.1.10 £189k (3.47%) increase to the Museum of London grant.

1.2 For Cyclical Works Programme (CWP):

1.2.1 Additional funding totalling £62.7m to address the backlog of works £27.1m, forward plan £34.0m, plus £1.6m towards delivery of the programme across the next 5 years from 2024/25 (Appendix A, paragraphs 22 to 28).

1.2.2 Funding identified from reserves in City Fund, endorsed by Finance Committee in December, to be ringfenced to the programme (paragraph 50). Delivery will need to be managed robustly to avoid cost creep.

1.2.3 £25m was allocated to the Barbican Centre, approved by Court of Common Council 9 March 2023 to address critical health and safety needs and to fund the development of a business case to consider replacement of more fundamental infrastructure than is covered in a cyclical works programme.

1.2.4 Any further funding for the Barbican Centre to be considered separately and as part of its own strategic business plan (paragraph 29).

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

1.4 Savings still to be achieved from Development of City commercial income streams through Barbican Management, Commercial - procurement, and from implementation of the Enterprise Resource Planning system have been reprofiled to (£3.3m) 2025/26 and (£0.6m) in 2026/27 respectively. Permanent savings from previous savings programmes are expected to crystallise by 2024/25 see paragraphs 63 and 64.

1.5 Other one-off pressures and opportunities for transformation in 2024/25 outlined in paragraph 27 to be funded from forecast carry forward underspends from 2023/24.

1.6 Unfunded additional revenue bids (paragraph 26) to be avoided during 2024/25, unless these can be prioritised from savings or income generated from the Corporation's Resource Prioritisation Refresh Programme (RPR).

1.7 Increase the rents for social tenants within the Housing Revenue Account by 7.7% for 2024/25, as supported by Childrens & Community Services Committee on 25 January in order to balance the HRA across the MTFP.

1.8 As in previous years, it is recommended the earmarked security reserve retains £1m as a minimum and is reviewed regularly.

1.9 Approve the overall financial framework and the revised Medium-Term Financial Strategy (paragraphs 17 to 73).

1.10 Approve the City Fund Net Budget Requirement of £201.8m (Appendix A, paragraph 7)

Key decisions:

The key decisions are in setting the levels of Council Tax and National Non-Domestic rates:

2.0 <u>Council Tax</u> – paragraphs 54 to 57

2.1 To approve an increase of 2% social care precept, raising c£165k p.a. in response to the ongoing pressures in homelessness and adult social care. This is recommended given the pressures within adult social care totalling £310k p.a.

2.2 To approve an increase of 2.99% on core Council Tax raising c£247k p.a. This is recommended to address £160k pressure on children social care and bridge the gap on adult social care as above.

2.3 To note if both increases are approved, the 4.99% increase will increase income by £412k and raise Band D rate by c£48.00 to £1,051.62 (before GLA precept). This increase is not excessive and is below the threshold to require a referendum and much needed for continued support to vulnerable members of society.

2.4 To determine that a fully funded means tested council tax reduction scheme will continue in place for those on low incomes and least able to pay more. This means that those that are least able to afford it will continue to receive 100% support with their council tax bills.

2.5 To determine the Local Discretionary discount for Care Leavers between the ages of 18 to 25 is continued for 2024/25.

2.6 Determine the amounts of Council Tax for the three areas of the City (the City, the Middle Temple and the Inner Temple to which are added the precept of the Greater London Authority (GLA) - Appendix B.

2.7 Determine, that as in previous years no discount (0%) is awarded to unoccupied and unfurnished and uninhabitable dwellings for 2024/25.

2.8 Determine that a premium is levied on long-term empty property for 2024/25 of 100%, 200% and 300% on properties that have been empty for 2, 5 and 10 years respectively. This is a continuation of the Premiums charged in 2023/24.

2.9 Introduce a new long-term empty property premium of 100% for properties that have been empty for longer than 12 months in 2024/25.

2.10 Determine that a Second Home Premium is introduced in 2025/26. 12 months' notice is required to introduce this additional charge.

2.11 It is recommended that, having regard to the government guidance issued, the Chamberlain be given the discretion, delegated to the Assistant Director, Financial Shared Services, to reduce or waive the long-term empty premium charge in exceptional circumstances.

2.12 Approve that the cost of highways, street cleansing, waste collection and disposal, drains and sewers, and road safety functions for 2024/25 be treated as special expenses to be borne by the City's residents outside the Temples (Appendix B).

3.0 Business Rates – paragraphs 58 to 61

3.1 To approve an increase of up to £0.04p in the £ in Business Rate Premium raising up to c£8.1m p.a. to support the ongoing pressures on the Police and security costs (paragraphs 40 to 43, 52).

3.2 Award a Discretionary Discount under S47 Local Government Finance Act for qualifying Nursery Schools of up to 100%.

3.3 Note that the Non-Domestic Rate multiplier of 54.6p and a Small Business Non-Domestic Rate Multiplier Rate of 49.9p have been set by Central Government for 2024/25 (Appendix A, paragraph 9).

3.4 Note that, in addition, the GLA is levying a Business Rate Supplement in 2024/25 of 2.0p in the £ on properties with a rateable value of £75,000 and above (Appendix A, paragraph 12).

3.5 Delegate to the Chamberlain the award of discretionary rate reliefs under Section 47 of the Local Government Finance Act 1988 (Appendix A, paragraph 11).

4.0 Capital Expenditure

4.1 Approve the Capital Strategy (Appendix F).

4.2 Approve the Capital budgets for City Fund and the allocation of central funding from the appropriate reserves to meet the cost of the 2024/25 bids – release of funding being subject to approval at the relevant gateway and specific agreement of the Resource Allocation Sub Committee at gateway 4(a) (paragraphs 70 to 73)

4.3 Approve the continuation of the allocation of central funding in 2024/25 to provide internal loan facilities for the HRA, currently estimated at £14.6m respectively.

4.4 Approve the Prudential Code indicators (Appendix D).

4.5 Delegate authority to the Chamberlain to determine the final financing of capital and supplementary revenue project expenditure.

5.0 Treasury Management Strategy Statement and Annual Investment Strategy 2024/25 (Appendix E)

5.1 Approve the Treasury Management Strategy Statement and Annual Investment Strategy for 2024/25, including the treasury indicators – Appendix E.

5.2 Approve the authorised limit for external debt (which is the maximum the City Fund may have outstanding by way of external borrowing) at £432.8m for 2024/25; and the Minimum Revenue Provision (MRP) for 2024/25 at £1.4m (MRP policy is included within Appendix E – Treasury Management Strategy Statement and Annual Investment Strategy Statement 2024/25 - Appendix 2).

6.0 Chamberlain's Assessment

6.1 Take account of the Chamberlain's assessment of the robustness of estimates and the adequacy of reserves and contingencies (paragraphs 76-80 and Appendices A, C and H respectively).

MAIN REPORT

Background

1. This report sets out the revenue and capital budgets for City Fund for the Finance Committee and Court of Common Council to approve.

2. 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.

3. The likelihood of a recession in 2024 remains high and the political uncertainty around the upcoming general election within the following financial year increases the levels of risk when developing the MTFP.

4. Nationally, the macro shift in the financial burden for local government funding to the council taxpayer continues e.g. the allowable precept for Policing is £13 for 2024/25.

5. More positively, the Fair Funding Review remains politically and logistically difficult to implement unless there is more money in the system – potentially impacting the Business Rates growth reset which is reflected in the assumptions that it will be delayed by a further year, possibly two years.

6. As with the MTFP last year, despite significant cuts to budgets over the last decade, there remains significant pressures across City Fund – caused by the financing of major projects programme, inflation increases and inability to retain/recruit staff under the current salaries structure. 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.

7. Whilst individual budgets have changed, the overarching messages from the 2023/24 MTFP remain the same. Those being:

   - City Fund (including Police) is expected to fall into deficit within the MTFP period.
   - The scale of the Capital programme, major projects is placing significant pressure on the resources available.
   - The HRA remains finely balanced for the next two years, with the outlook expected to improve from 2026/27 when additional properties come on stream at the completion of new developments.

8. To mitigate the risks:

   - For revenue pressures additional contingencies are held centrally for Ambition 25, however it is recommended underspends from 2023/24 is carried forward to support known one-off pressures impacted by inflation.
   - A review of the scale of ambition particularly for Major Capital Projects was presented to Policy and Resources Committee in January 2024 which highlights the need to prioritise essential, statutory, or urgent health and safety works – But we cannot do everything and must prioritise.

- There is significant risk of not addressing the CWP, increasing deterioration in operational properties subsequently posing health hazards and leading to an increase in major capital projects.
- There is also a significant risk of not addressing the Barbican Centre, pending full business case.

9. In setting the budget for 2023/24 and the MTFS for future years, consideration has been given to the high degree of uncertainty and therefore risk in determining Local Government funding levels.

10. The Government recently confirmed the Local Government Finance Settlement for 2024/25 and the Policing Minister published the revenue allocations for Police forces for 2024/25. The Local Government finance assumes local authorities use locally levied taxes to support rising pressures. This is also the case for the Police funding settlement, where a small increment has been applied. The Government’s assumption is that Policing cost pressures would be covered through the levy on council taxpayers.

11. The final settlement also approved the extension of the ‘8 Authority Pool’ with 7 neighbouring billing authorities, which will enable the pool partners to keep more of the business rate growth they generate – see paragraph 39.

12. Revenue streams are likely to be under considerable pressure as the Government intends to change current funding mechanisms to reflect an increased emphasis on need and to reset the current business rates retention system:

    - **Second Year of Two-Year Settlement** – the 2024/25 Local Government Finance Settlement is the second year of a two-year settlement, final allocations were confirmed on the 5th February.
    - The **Fair Funding Review** of local government funding is likely to shift resources away from London. Potentially impacting the Business Rates growth reset which is reflected in the assumptions that it will be delayed by a further year, possibly two years – forecast at £28m.

13. Although the City Fund including Police is forecast to be in surplus by £18.4m in 2024/25, it can only be balanced, over the next four years, with the use of general fund reserves and further savings and/or revenue raising by increasing Council Tax and Business Rate Premium. Despite significant savings made over the last decade, planned savings and mitigations are in place. City Fund including Police faces substantial growing annual deficits over the planning period and the 10-year horizon – estimated at £40.2m p.a. from 2027/28 onwards without raising taxes.

14. The HRA is under increasing pressure, heavily impacted by inflation and major capital projects. There is a statutory requirement for the HRA budget to be balanced across the MTFP. Increases in costs will put HRA into deficit and there are no reserves available. A 7.7% increase in rent is permitted. Modelling an increase on pay and prices (in line with City Fund assumptions) and increase in rent to 7.7% moves 2024/25 into a small surplus of £0.4m. Intelligence from London boroughs indicate that most local authorities will be increasing rents by the full 7.7%.

15. Over the next few years, we will focus on making operational efficiencies through our Resources and Priorities Refresh (RPR), Climate Action Strategy, People Strategy, Digital Services Strategy, Asset Management Strategy, Local City Plan, underpinned by the Corporate Plan - improving how we prioritise out resources to ensure:

- Service transformation and culture shift
- That we are spending on key priorities; and
- That our plans are sustainable in the medium and longer term

16. There are several options being recommended to close the medium-term deficits, however this leaves very little margin to support unforeseen financial challenges:

- **Tax increases –** Resource Allocation Sub Committee agreed to model tax rises. It is recommended an increase in Council Tax by 4.99% and in Business Rates Premium by up to 0.4p in the £ is levied to support on-going pressures.
- **Increased property investment -** review underway by Investment Committee;
- **Income generation opportunities** – update in March 2024 but realistic projections total £3m - £8m;
- **Operational Property** – update in March 2024 unlikely to generate substantial contributions over the c£500m already in financing plans;
- **Medium-term savings plan** – 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. This will require a renewed approach to transformation underpin by a clear communication to all members, so they are aware of the challenges ahead.
- **One-off spends** addressed within resource envelope/added to MTFP, with exceptional items funded from underspends to be carried forward from 2023/24 (including inflation contingency).
- **Major Projects:**
    - Development opportunities to attract investment is under way and must be prioritised;
    - Given that ambitions and current commitments exceeds resources priority otherwise to be directed towards statutory or health and safety needs, alongside the Cyclical Works Programme.
    - A fundamental look at how to meet the requirements of the Barbican Centre is now needed pending full business case.

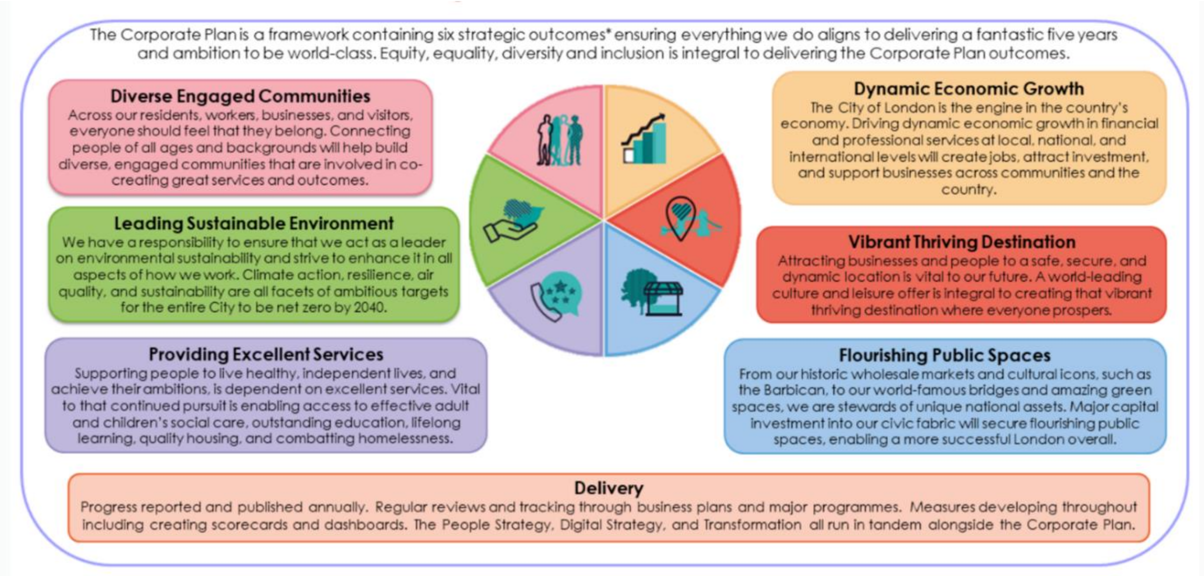
Overall Financial Strategy

17. The City of London Corporation's overall financial strategy seeks to:

- manage inflation impacting on the economy and income;

- maintain and enhance the financial strength of the City Corporation through its investment strategies for financial and property assets;
- pursue budget policies which seek to achieve a sustainable level of revenue spending and create headroom for capital investment and policy initiatives,
- create a stable framework for budgeting through effective financial planning;
- promote investment in capital projects which bring clear economic, policy or service benefits;
- manage the affordability to support major capital projects now and in the future; and
- financial strategy to be developed following review of the investment asset base and fund income requirements during 2024.

18. 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. Following approval by Court of Common Council on the 11th January, with final sign off delegated to Policy and Resources Committee in February, the six key outcomes are set out in the diagram below, with no specific order of importance.



19. Aligning budgets, in particular capital budgets (as set out in Appendix F), to these outcomes will ensure that medium-term funding decisions are delivering the desired benefits. Having been approved in January 2024, the Corporate Plan is therefore in its infancy and will take time to embed. However, ensuring a clear link between the MTFP and Corporate Plan will support the effective allocation of resources and provide a framework for discussions around prioritisation and moving away from silos. If expenditure cannot be linked to one of the outcomes there should be scrutiny as to why we are incurring it and potentially the need to stop doing it in order to ensure efficient allocation of resources.

20. The corporate plan may also be a useful framework if considering activities which the City Corporation feels it should stop doing in order to manage financial

resources. Noting the fact that some services also fall under statutory legislation which needs to be considered.

Measures to the 2024/25 budget

21. The budget setting process for 2024/25 and beyond began back in summer 2023 with a series of officer led star chamber meetings reviewing pressures and potential savings within each service area.

22. At its July meeting, Resource Allocation Sub Committee approved the budget envelopes that service committees will use to deliver their services in 2024/25. It is intended that business planning will address how service committees intend to focus their resources to achieve key outcomes in year. The RPR will need to realign resources to corporate priorities; for new corporate priorities requiring investment (including pressures highlighted by departments through star chambers) the expectation is for the RPR Programme and Digital Strategy to create headroom to reallocate funds, rather than being able to deliver further significant savings – supporting the change in the operating model, which includes a review and disposals of operational property, and opportunities for income generation.

23. The Government has pushed back its reform of Business Rates for another year to 2025/26, which is very welcome. Expectations are it will be delayed until 2026/27. This means that we have extra retained Business Rates growth for 2024/25 and possibly in 2025/26, which has been modelled.

24. Tough decisions have been needed to remain within the overall envelope in 2024/25. Although the following, on-going resourcing is required for:

    - Agreed pay award from 1st July 2023;
    - Assumptions include 3% increase in net local risk budgets for 2024/25; before
    - Returning to 2% uplift from 2025/26 onwards;
    - Reprofiling of previously agreed savings for 2024/25 to be pushed out to future years, providing sufficient time to embed permanent savings;
    - Cyclical Works Programme (paragraph 50) – backlog and forward plan included, although this is to be funded from reallocation of reserves.

Cost pressures included to align funding or support Corporation’s ambitions

25. 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 A and further supported by Resource Allocation Sub away day:

    - **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.

- 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 £210k is included to address the funding gap for specialist advice in line with current requirements.
- £470k pressure on **Adult Social Care and Children Services**, principally for placements. It is proposed that funding is provided through tax setting measures, significantly supporting vulnerable members of society.
- Budget correction to support **Electoral Services** equating to £330k. This is a statutory function and appropriate funding is needed to support the on-going service, therefore recommended to be included.
- **Occupational Health Physician Services** shortfall of £56k, 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 split across City Fund and City's Estate.
- **Grants to Museum of London and London Symphony Orchestra** (LSO). The Museum of London requested an uplift of 3.47%, (£189k) to match the uplift from the GLA in their funding. LSO, have received flat cash over the last 3 years, recommended an uplift of 3% (£59k) is granted. These are on-going pressures and will need to be added in.
- 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.

Cost Pressures of bids for new activities

26. 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 an increase in income generation:

    - During 2023/24 additional funding was approved to support the new Health and Safety team offset against an income target. The outcome of an independent Health & Safety Review means there may be some expenditure required to bring the Corporation up to the level to meet statutory obligations. At the time of writing this report, this information is still outstanding and will need further review.
    - Discussions at EDI Sub Committee in December and Corporate Services Committee in January have highlighted cost pressures and work is underway. Recommendations will be assessed during 2024/25 in consultation with the Town Clerk and Chamberlain including proposals for funding.
    - The current budget for Corporate Communications and External Affairs is insufficient to cover core basic BAU obligations and roles (with even some statutory obligations that are currently unfunded) - the transformation required of the team and across the City Corporation, or key priority areas, such as the Town Clerk's engagement and People Strategy, due to the lack

of any operational budget across many areas of the division. This is due to the disaggregation of budgets during the target operating model and the Chamberlain's team is working closely with the Executive Director of Corporate Communications and External Affairs to allow for critical elements of the business plan to be delivered in the upcoming year and through the cross-City Corporation Communications and External Affairs Finance review to support plans to ensure resources are realigned and can be used to support City Corporation priorities in a more strategic way which also achieves value for money. One-off funding maybe required in 2024/25 until resources are aligned, to be addressed through 2023/24 carry forwards.

- Following the project governance review, Policy and Resources at its December Committee supported the proposals for the 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 27 below.
- Additional pressures from inflation have impacted a number of areas, this is still being felt in Environment c£1.20m. However, saving initiatives are being developed and will be delivered in 2024/25 to combat these pressures.

One-off or time limited funding

27. 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 to support the funding of major projects and the capital programme. We are currently forecasting underspends of c£17m on City Fund. 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 but likely in the region of £2m to £3m in 2024/25, to be funded from 2023/24 underspends.
- As per paragraph 26 above for 2024/25 only, additional amounts, split across City Fund and City’s Estate, of: £701k to fund the new Commercial Change and Portfolio delivery; support for Corporate Communications and External Affairs (amount to be confirmed).
- Recommended a reasonable amount is carried forward from 2023/24 underspends to support inflationary pressures which cannot be contained with allocated budgets.

28. There is a significant risk of not addressing the CWP, increasing deterioration in operational properties subsequently posing health hazards and adding more pressure on major capital projects. Proposals to fund the backlog of works and forward plan was endorsed by Finance Committee in December, releasing

reserves to fund CWP within City Fund - £62.7m over the next five years from 2024/25.

29. There is also a significant risk of not addressing the Barbican Centre, which has reached the end of its economic life. £25m has been committed over 2023/24 and 2024/25 to support critical health and safety needs and surveys. The criticality of the works has become clearer over the course of 2023, as the detailed building surveys are completed. Urgent works are likely to be needed in 2025/26 estimated c£30 to renew air handling, electrics and ventilation in the Art Gallery, and drainage, pumps, pipes, values and fire equipment, none of which are included as part of the CWP. We recommend the business case is reviewed as part of the Gateway process, we anticipate funding will be available from a potential upside in business rates (paragraph 51). Further detail on full cost of essential works can be found in Appendix A.

30. As in previous years, it is recommended the earmarked security reserve retains £1m as a minimum to support future revenue security pressures and is reviewed regularly to ensure sufficient funds are available at all times.

31. Whilst not specific updated for 2024/25, each year additional funding requests are made and approved for one-off funding through sources such as the Policy and Resources and Finance Contingency funds. Greater emphasis is to be placed on ensuring these allocations create either a financial return or avoid additional cost, to ensure funds are being allocated in as efficient way as possible. Future transformation allocations will have a similar focus on return on investment and follow a monitoring regime similar to that used for savings.

32. As well as the budget setting process, in-year monitoring of the capital programme has been reinstated during 2023/24 to ensure appropriate scrutiny of the in-year position. Furthermore, this process will enable underspends to be reprioritised earlier on.

33. Every effort should be made to avoid further revenue pressures during 2024/25, and any that do arise should be contained within local risk. ***Policy and Resources Committee and Finance Committee have given a very clear direction that new on-going pressures are contained within local risk, where prioritisation is not possible services will need to be reviewed in line with Corporate Priorities or through the RPR workstreams.*** However, finding sustainable efficiencies will likely require time, capacity, and upfront investment.

34. Delivering the 2024/25 budget will enable us to push ahead on reshaping the City Corporation and re-aligning resources to the new Corporate Plan.

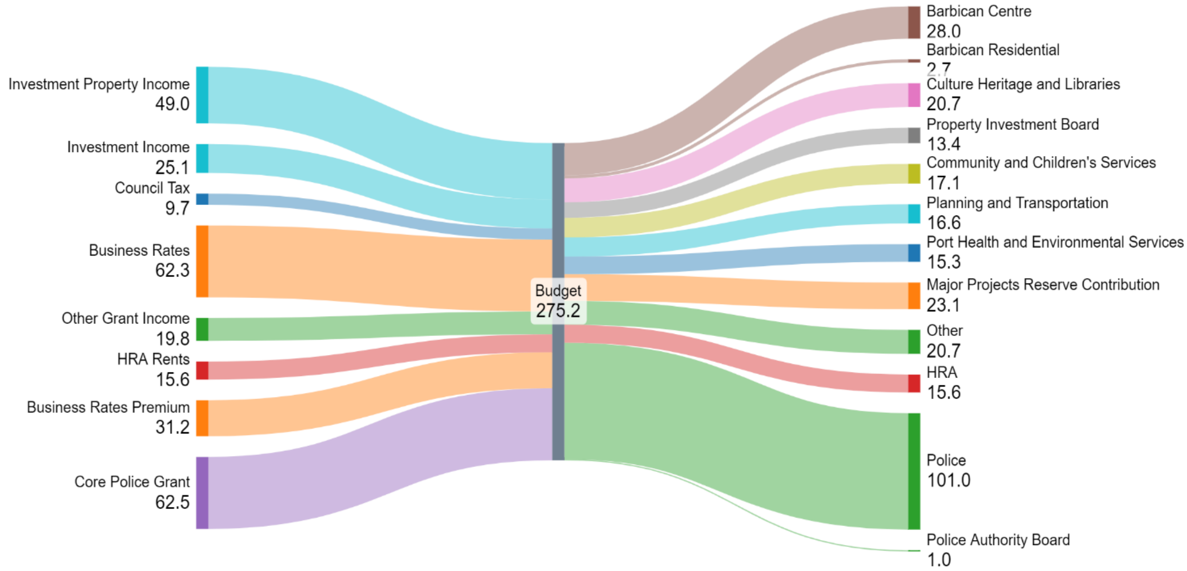
Latest forecast position

35. The City Fund covers the local authority aspects of the City Corporation and as a result has a statutory requirement to set a balanced budget on an annual basis and also across the MTFP period. Whilst this can be achieved using the application of reserves, ensuring an appropriate level of reserves is maintained is crucial to mitigate risks.

36. Chart 1 below demonstrates, based on the 2023/24 net budgets, where the funding (left hand side) comes from and where the expenditure (right hand side)

is incurred. Some of the income streams such as the HRA rents and Police grants are ringfenced for specific types of expenditure so cannot be used to cross subsidise other services.

<u>Sankey Chart 1: 2023/24 net budget</u>



37. Looking ahead, whilst City Fund (excluding Police) is in surplus in 2024/25 by £21.3m, the forecasts very quickly more info deficit in later years. The 2024/25 surplus is generated by the c£28m of estimated business rate growth. This is expected to be lost when a planned reset of the business rates system is expected in 2026/27. Previously the assumption had been that the £28m would not be used to subsidise ongoing revenue spend and would instead be transferred to reserves to support the funding of the major projects. However, in 2025/26 the impact of price increases and reductions in income mean that this is not possible. Whilst overall, the City Fund is in surplus by £10.1m (taking one year with the next over the 5 years), City Fund is struggling to accommodate on-going pressures.

38. The Local Government Financial Settlement intends that taxes are levied locally to support rising pressures. The referendum limit for council tax increases of 5% means that funding has not kept pace with inflation. Due to the balance of funding sources within the City Corporation, this has less impact than other local authorities, however in general the sectors' response to the December Finance Settlement was that the additional funding was woefully insufficient to cover service demands. Overall, the City Corporation has now had its Core Spending Power confirmed to increase by £1.9m in 2024/25 (£0.2m less than assumed on release of the provisional statement – December 2023) which represents a 5.1% change, the lowest level of increase guaranteed by government.

39. The Final settlement also approved the extension of the '8 Authority Pool' to 2024/25 – which will potentially yield £8m for City Fund. The City of London alongside Brent, Barnet, Enfield, Hackney, Haringey, Tower Hamlets and Waltham Forest, formed a tactical pool in 2022/23 with the aim of keeping the levy payments the City of London and Tower Hamlets make to Government, in

London. This pool will cover 4 of the 6 most deprived boroughs, which supports the Government's levelling up agenda. This pool is for one year only, after which the Corporation intends to return to a pan London Pooling. Approval was received from the Secretary of State on 5th February to proceed. Income from the pool has not been factored into plans as it is volatile, besides this is one-off funding and should not be applied against on-going costs. It is therefore recommended any gains from the pool is ringfenced to the major capital projects, reducing the impact on City Fund deficits in later years.

40. Police is under increasing pressure forecasting £16m deficits across the MTFP, despite having implemented c£15m mitigations already built in, have committed to implement a further £7.0m mitigations in 2024/25. This will need to be monitored carefully to ensure deliverability, particularly in light of the proportion of City of London Police (CoLP) savings being well above national average over at least the last two years. The Police Settlement has slightly increased by £0.3m (over and above assumptions already in place) but this will not cover inflationary/unforeseen pressures, it also does not take into account the requirement to replace the current firing range. The settlement also enables Forces to set up to a £13 precept on Council Taxpayers to cover rising cost pressures. The City Corporation's small residential population does not yield anywhere near the sums provided by local funding for other police forces and therefore the precept mechanism on the council taxpayer is not applied.

41. Also, taking account of the Precept Grant CoLP receives in lieu of City's inability to precept and the benefit of rent-free accommodation, CoLP still falls below the national average % for local funding, in the context of the precept flexibilities provided to other forces over a number of years (including £15 in 2023 and £13 in 2024). It should also be noted that the settlement does not provide increased funding of City's national work to offset pay award, pensions increase and other inflationary pressures. Engagement is taking place with the Home Office on this matter.

42. CoLP is unable to sustain inflationary pressures over and above the small increase in the funding settlement and mitigations in place – further mitigations will impact on services and inability to maintain the officer uplift, which will impact ringfenced funding. Government's assumption is that Policing cost pressures would be covered through taxes locally. In addition, CoLP no longer receives any funding to support capital programmes, the expectation from Government this is financed through disposal of assets/revenue. CoLP has previously supported its capital programme through a loan from City Fund and now needs to start repaying this, as well as start planning future capital programmes within CoLP MTFP.

43. The Court of Common Council in March 2022 and 2023 approved an increase in Business Rates Premium by 0.4p and 0.2p (in the £) respectively, to move towards parity in local funding allocations and address the structural deficits which have arisen in the Forces finances. A continued rise in inflation on pay and prices has put Policing pressures back into significant deficit by £16m across the medium term. The pay deal in September 2023 on officers and staff added a further pressure of £8.1m on top of the £2.3m already forecast. It should be noted officer pay is nationally set – every 1% increase will add a further £0.8m p.a. The GLA are expected to levy a percept of £13 for the Metropolitan

Police Force, this will again put City of London Police out of kilter with the local funding allocations of other forces, without an increase in the Business Rate Premium – smaller and regular increases are needed to support security on City Fund and Police inflationary pressures.

Table 2: City Fund MTFP overview

CITY FUND	**2023/24 Revised £m**	**2024/25 Budget £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**	**2027/28 Forecast £m**
Net cost of services (exc police and security)	(46.4)	(54.8)	(65.8)	(72.4)	(77.0)
Projects					
Supplementary Revenue Projects	(5.5)	(1.8)	(2.3)	(2.0)	(2.0)
Cyclical Works Programme (Existing Revenue)	(6.8)	(2.0)	0.0	0.0	0.0
Cyclical Works Programme (Bow Wave & Forward Plan)	0.0	(15.3)	(13.8)	(13.5)	(12.7)
Major Projects Revenue Implication	0.0	0.0	(4.7)	(6.1)	(6.1)
Direct Revenue Financing	(3.4)	(5.5)	(2.6)	0.0	0.0
Surplus/(Deficit) Before Funding	**(62.2)**	**(79.4)**	**(89.2)**	**(94.0)**	**(97.8)**
Financing	84.3	87.4	77.7	50.7	53.5
Surplus/(Deficit) After Funding, before use of reserves	**22.1**	**8.0**	**(11.5)**	**(43.4)**	**(44.3)**
Drawdown of Reserves for Revenue	19.6	16.4	14.4	27.8	14.2
Surplus/(Deficit) after Revenue use of reserves	**41.7**	**24.4**	**2.9**	**(15.5)**	**(30.1)**
Proposed - Adult Social Care 2%	0.0	0.2	0.2	0.2	0.2
Proposed - Council Tax 2.99%	0.4	0.2	0.2	0.2	0.2
Surplus/(Deficit) after the application of potential CT increase	**42.1**	**24.8**	**3.3**	**(15.1)**	**(29.7)**

City of London Police surplus/(deficit)	***0.0***	***(6.7)***	***(6.0)***	***(10.3)***	***(13.2)***
Further Mitigations proposed	0.0	3.0	3.0	5.2	5.8
Increase in Police Precept Grant	0.0	0.8	0.8	0.8	0.8
City of London Police Total	**0.0**	**(2.9)**	**(2.2)**	**(4.3)**	**(6.6)**
Proposed - Increase in Business Rate Premium 0.4p to £	0.0	8.1	8.1	8.1	8.1
City Security Pressures*	0.0	(3.1)	(3.3)	(3.4)	(3.5)
Police loan repayment**	0.0	(0.5)	(0.5)	(1.0)	(1.0)
City Fund total including Police	**42.1**	**26.4**	**5.4**	**(15.7)**	**(32.7)**

*City security pressures include New Street rent costs incurred on behalf of the Police and increase in security costs – these amounts are not included under City Fund surplus/deficits.
**The repayment of Police outstanding loan.

44. Going forward, there are significant risks and a great deal of uncertainty. The medium-term financial position is shown in table 2 above. Despite the additional income from retained Business Rates growth (over the next two years - £28m in 2024/25 and £28m in 2025/26) and additional funding, the medium-term clearly highlights City Fund finances including Police remain challenging with the significant deficits forecast across the remainder of the medium-term financial plan.

45. Even after forecasting these potential increases in income, the pressures in future years remain and further action is required to ensure City Fund remains in balance beyond 2026/27. Previously the business rate growth had been kept separate to fund the major projects and not relied on to balance the in-year position. However, due to increases in inflation and reductions in property income forecasts this is not possible in 2025/26 and when the growth is removed the City Fund falls into deficit. The current assumptions also include the significant use of reserves to fund capital expenditure.

46. The following areas are significant movements from last year's MTFP position for 2024/25:

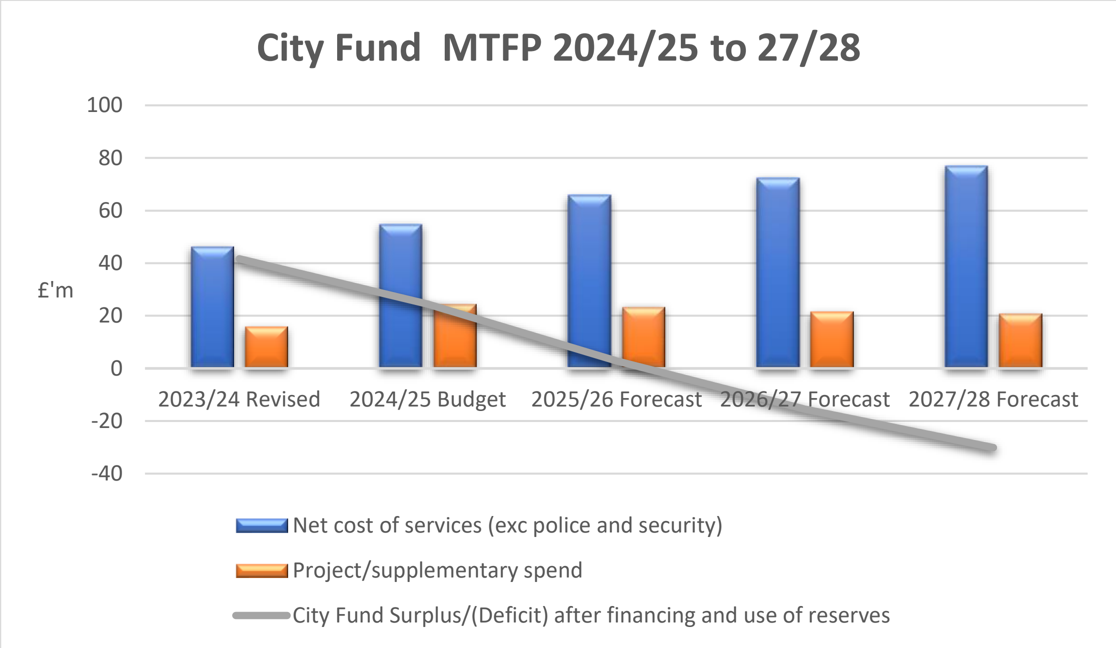
- Increased income from interest on balances due to projected higher interest rates (£13.4m)

- Increased investment property income based on latest projections (£3.3m)
- Additional pressures as set out in Appendix A (£6.96m)

47. Looking beyond 2024/25, one of the major income streams within City Fund is investment property. Rents forecasts reduced over the MTFP period from £209m over a five-year period last year, to £184m. A significant contributor to the reduction relates to 5 properties where leases are expected to come to an end or need refurbishing in 2027/28- annual income forecast to be £8.5m lower. Alongside the reductions in rental income, interest on balances is forecast to reduce as balances are utilised in financing the capital programme. These two reductions are the main contributors to the increase in net cost within table 2 above.

48. The projected expenditure and income over the MTFP period is summarised in chart 2 below. This shows the deficit position is significantly driven by the rise in net cost of services caused by the reduction in property income noted above.

<u>Chart 2: City Fund MTFP (Surplus)/Deficit</u>



49. The HRA position remains finely balanced for the next two years in advance of additional revenue coming on stream from the completion of new developments. However, this is reliant on rent increases in line with inflation. For 2023/24 the rent increase was below the maximum cap limit, to balance the impact on residents while supporting the HRA, but for 2024/25 the social rents are to be uplifted by 7.7% which is the cap limit.

50. Changes to future funding sources has been made to support the increase in the CWP. The Court of Common Council approved the release of £30m general 'risk reserves' in March 2023 to fund the CWP backlog of works. Report to Finance Committee in December recommended a further £30m from the Major Projects reserve is released by offsetting the use of £30m of CIL funding for the Museum of London project approved by Resource Allocation Sub Committee and Policy Resources Committee at their January meetings. In addition to these

amounts, On Street Parking Reserve (OSPR) funding has also been added to support relevant car parks expenditure within the CWP programme.

51. At the time of writing this report, detailed stress testing and scenario analysis is currently being carried out on Business Rate income. There is the potential for a substantial increase in 2023/24 and 2024/25 due to improvements in appeals impacting the level of provision required. These would be one off benefit so further work is being undertaken to establish their scale, but they could benefit the City Fund by between £20m to £40m over the MTFP period. These are not included in the MTFP and should not be seen as ongoing income streams due to the uncertainty around Business Rates retention and the potential for a system reset. Therefore, any additional amounts are proposed to be allocated to supporting the Major Projects programme – funding gap of c£200m is currently reliant on disposal of investment properties, plus additional pressures on the Barbican Centre is unfunded. On the contrary, the impact of a Business Rate growth reset sooner would reduce the income forecast in 2025/26 by c£28m moving from an overall surplus of £10.1m to an overall deficit of £17.9m over the MTFP.

52. It should be noted the latest forecast position under City Fund has been updated since the report to the Joint Resource Allocation Sub Committee and Service Committee Chair/men. These changes have reduced the overall surplus over the MTFP by £16.5m and have impacted the following areas:

- Reduction in central government funding against assumptions modelled - £300k one-off
- A reduction in Band D council tax against future collection £100k p.a.
- Occupational Health physician service - £28k p.a.
- Museum of London grant uplift (3.47%) £189k p.a.
- London Symphony Orchestra 3% uplift - £59k p.a.
- Member allowances increase - £400k p.a.
- Pressures on future years mean we can no longer support City Fund security pressures previously modelled to be funded through Major Projects reserves, therefore it is recommended these are funded via Business Rates Premium uplift c£3.3m p.a. and further supported by Resource Allocation Sub away day.

53. The Annual Business Rate Payers consultation took place on 30th January 2024, where the Chairman of Policy and Chairman of Finance, alongside the Commissioner presented a compelling narrative to ratepayers and residents in support of an increase in Business Rate Premium. The responses from those that attended did not push back on the proposals.

54. **Council Tax** is a relatively small proportion of the overall funding. However, given the limited measures available to increase income to offset inflation and expenditure pressures, Members will wish to consider council tax increases. Local authorities are permitted to levy a social care percept of 2% and uplift of Council Tax by 2.99% to address funding pressures and this has been modelled in the 2024/25 budget. Local Authorities are permitted these uplifts without a referendum. In this context, Members may wish to consider:

- Reminder of paragraph 10 – where Local Government financial settlement has been set with the intentions for maximum taxes are levied locally in order to support rising pressures.
- Current intelligence suggests that most authorities, including those at the lowest end of the Council Tax league table, are considering increases of up to 4.99%, including the social care precept. There is a risk that the Corporation will stand out if it does not increase and will move closer to the bottom of the table.
- There is a cumulative benefit in the medium-term.
- It could reduce any penalisation in the fair funding review, where an implied council tax level might be assumed (above our current level) which could result in a loss of funding.
- Those on lowest incomes will be eligible for council tax relief (Council Tax Reduction Scheme). The City continues to operate a fully funded 100% relief scheme.
- The Council Tax for the current year, 2023/24, is £1,145.63, expressed at band D and including the GLA precept of £142.01.
- Maintaining the Local Discretionary discount for Care Leavers between the ages of 18 to 25 in 2024/25.

55. The City has seen increasing cost pressures in social care, tackling homelessness, and children services. **The recommendation is, therefore, to levy an Adult Social Care precept of 2% as well as increase the core Council Tax by 2.99%**.

56. The Adult Social Care precept of 2% would generate c£165k. An increase of 2.99% in council tax, would generate around £247k. For comparative purposes, Westminster band D including the GLA precept of £434.14 is currently £912.05; Wandsworth, £914.14; and Hammersmith and Fulham £1306.00.

57. Two New Council Tax Premiums introduced:

- Government have recently introduced a new long-term empty property premium of 100% for properties that have been empty for longer than 12 months in 2024/25. This is to encourage empty property back into use. There are currently 29 properties that would be liable for this Premium which would equate to an additional £40k of Council Tax being charged. It is recommended that this Premium is introduced in 2024/25 – as this is volatile it is currently not budgeted for.
- A new Second Home Premium of 100% has also been introduced and is chargeable from 2025/26. If the City intends to charge this Premium it must make the determination 12 months in advance. The City has 1744 properties currently registered as second homes which is around 20% of the residential properties in the City. Based on current figures this would result an additional charge of £2.4m. However, it is expected that the number of second homes will reduce significantly before implementation for a variety of reasons and therefore is not budgeted for.

58. **Business Rates Premium** – The premium on City businesses was last increased in 2023/24 from 1.2p to 1.4p in the £, to address the structural deficits

which was risen in the Forces finances as a result of hyperinflation. Given the continued pressures on security and Policing, Members may wish to consider increasing the Business Rate Premium by 0.4p in the £, raising c£8.1m p.a. in particular to enable the provision of vital policing and security services and repayment of outstanding loan (paragraphs 40 to 43 and 52) moving towards a sustainable footing.

59. Members are reminded, due to the very small residential population, the Corporation is unable to levy taxes in the same way other Police Crime Commissioner Offices do through precept on Council Tax – for 2024/25 flexibility has been increased to £13 without needing a referendum for other authorities.

60. There is a statutory requirement to balance City Fund (including Police), and currently City Fund is only balanced due to the delay in reset in Retained Business Rates growth and increase in interest income from treasury balances. These increases are **not** permanent and do not support on-going pressures, therefore if we do not increase the BRP by up to 0.4p now, City Fund will not be able to address significant deficits in later years and only pushes the problem further out with anticipated deficits of circa £24.2m p.a. from 2026/27 (assuming everything stays the same). Smaller and regular increases are much needed, without new significant savings targets, changes to major capital project assumptions and/or service impact.

61. The steer from the Joint Resource Allocation Sub Committee and Service Committee members was supportive unanimously in increasing Council tax by 4.99% and BRP up to 0.4p in the £. In making this decision, Members may wish to consider the points in paragraph 58, 59 and 60 above.

62. Key assumptions used in the forecast have been set out in Appendix A.

Savings Programmes

63. Significant progress has been made against the Corporation's savings programmes. Two main savings programmes have been undertaken in the City Corporation to try and reduce the pressure on the revenue budgets. These were the Fundamental Review Savings and Target Operating Model (TOM) /12% savings programmes. These have been built into the budgets of both City Fund and City Estate over a number of years.

64. Having two separate savings programmes has led to a lack of clarity around how delivery of these savings has progressed and has been commented on by external auditors as an area to improve. Current assessment of the position indicates that c£4.33m of savings are still unidentified over the MTFP, of which £3.3m savings are planned to be achieved by 2024/25, and £0.6m by 2025/26 (see recommendations in the table below to push out the savings by another year). Leaving £0.43m to be achieved in year. At present this is not resulting in an in-year overspend, as these are being mitigated by achieving one-off savings. More detailed monitoring and reporting on the savings programme will be submitted through quarterly budget monitoring to committees, with a consolidated position presented to Finance Committee.

<u>Table 3: Update on savings programmes</u>

Department	£m	Savings Programme	Feedback - from Star Chambers
Barbican	2.80	Fundamental Review - due 2024/25	Fundamental Review Savings of which £1.5m relate to cross cutting business events, need time to embed savings - recommendation savings are pushed out to 2025/26
Chamberlains	0.60	Fundamental Review - due 2025/26	Fundamental Review Savings to be delivered as part of Enterprise Resource Planning (ERP) implementation – implementation timeline means savings is reprofiled to 2026/27.
Chamberlains	0.50	Fundamental Review - due 2024/25	Fundamental Review Savings - Income Generation under Commercial, need time to realise these savings - recommendation savings are pushed out to 2025/26
City Surveyors	0.15	12% savings	Savings initiatives are being worked on and expect to be delivered in 2024/25
Town Clerks	0.28	12% savings	Unable to meet savings due to a number of pressures, recommendation to meet savings through income generation - filming
Total	**4.33**		

Resources and Priorities Refresh Programme

65. Work is underway to review the operational property portfolio to try and identify assets with high operating costs or inefficient layouts to ensure building occupation is optimised. The programme has completed the data collation stage, and analysis has now commenced. Detailed plans are yet to be developed so no financial benefits have been aligned to the programme. These could be in the form of revenue savings from operating costs or capital receipts from disposals.

66. The second key workstream within the current RPR is to review income generation levels and opportunities. This programme is underway with some areas such as the Lord Mayor's Show, Covent Garden Markets and Environment/Ports Authority already having considered opportunities. So far £3-8m of income generation opportunities have been identified. The programme is now being expanded to other areas including the Film Office, advertising and retail opportunities. A broader review of fees and charges is being supported by consultants.

67. The RPR is also in the design phase of a programme with the aim to drive out savings and efficiencies with clear targets built into the 2025/26 budget setting process.

68. Work has also begun with colleagues across the City of Corporation to co-create a new Digital, Data and Technology Strategy which will enable and accelerate the delivery of the Corporate plan.

69. From an MTFP perspective, further work needs to be undertaken to align these programmes to future assumptions to ensure potential opportunities and savings are captured within the forecasts. Any assumptions need to be compared against previous RPR projections as some elements were included within existing savings programmes. Resource Allocation Sub Committee will be considering options at its March meeting.

Capital programme

70. 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 4: City Fund Capital Programme

CAPITAL PROGRAMME - CITY FUND		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		3.1	12.7	12.6	-	-	-	28.4
Chamberlain and Chief Finance Officer		5.6	21.0	-	-	-	-	26.6
City Surveyor and Property		25.2	28.5	6.8	4.0	4.0	4.0	72.4
Community and Children'S Services (Non Hra)		8.7	15.1	8.1	-	-	-	31.9
Community Services - HRA		50.8	66.3	31.8	10.0	-	-	158.9
City of London Police		21.8	8.4	5.0	5.0	5.0	-	45.2
Environment		25.5	39.5	35.1	11.2	2.4	8.8	122.5
Innovation and Growth		9.1	17.8	5.7	5.3	-	-	37.8
	Sub-Total	**149.9**	**209.2**	**105.1**	**35.4**	**11.4**	**12.8**	**523.8**
CAPITAL & SRP - MAJOR PROJECTS								
Museum of London		95.8	96.5	58.8	9.1	3.3	-	263.4
Salisbury Square Development		78.5	103.8	260.2	84.7	15.4	11.4	554.0
	Sub-Total	**174.3**	**200.3**	**319.0**	**93.8**	**18.6**	**11.4**	**817.4**
CAPITAL & SRP - CONTINGENCY & NEW BIDS								
Contingency and New Bids		-	-	15.0	15.0	15.0	15.0	60.0
TOTAL CAPITAL PROGRAMME		324.2	409.5	439.1	144.2	45.0	39.2	1,401.2

Table 2: City Fund Capital Programme 2023/24 to 2028/29

71. The City Fund capital and supplementary revenue project budgets are being submitted to the Court of Common Council in March. Further detail is contained within the Capital Strategy (Appendix F).

72. Members are asked to note that the July Resource Allocation Sub Committee agreed an envelope of £15m for new capital bids for 2024/25 which has been maintained each year of the MTFP. As part of the 2024/25 Budget setting process all applicable bids were contained within the £20m envelope.

73. The financing of the City Fund 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.

A strategic response to continuing challenges

74. As set out throughout the report there are significant financial pressures impacting City Fund over the MTFP period which have the potential to require significant intervention. This report recommends a number of measures to stabilise the position in 2024/25 and that will support the steps that will need to be taken to shore up the medium-term, through: tax rises; 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 property, 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, as well as containing the cost of major projects and other programmes.

75. Another significant contributing factor to the financial pressures is the scale of the major projects programme. The majority of these schemes have been underway for a number of years, over which cost inflation has been at particularly high levels. The need to drawdown on other assets has grown. Consideration therefore needs to be given to considering how these schemes are delivered and the scope of ambition, balanced against the potential returns at the end of the programme, as well as containing the cost of existing major projects programme.

Robustness of Estimates and Adequacy of Reserves and Contingencies

76. Section 25 of the Local Government Act 2003 requires the Chamberlain to report on the robustness of estimates and the adequacy of reserves underpinning the budget proposals.

77. In coming to a conclusion on the robustness of estimates, the Chamberlain needs to assess the risk of over or under spending the budget. To fulfil this requirement the following comments are made:

- as part of preparing this budget all services were asked to identify cost pressures as well as deliverable savings and these were robustly challenged;
- provision has been made for all known liabilities, together with indicative costs (where identified) of capital schemes yet to be evaluated. In particular, provision has been made to support the growing backlog and forward plan of cyclical works on our operational properties through reprioritisation of reserves;
- the estimates and financial forecast have been prepared at this stage on the basis of the Corporation remaining debt free until such time as external borrowing may be needed to bridge the gap for major capital projects (the Museum of London relocation and the Salisbury Square Development project);
- prudent assessments have been made regarding key assumptions;
- an annual capital bids process is in place seeking to ensure that capital expenditure is contained within affordable limits and that it can be demonstrated that each is of the highest corporate priority;
- The likely impact form economic risks have been evaluated in so far as that is possible and a contingency fund is to be carried forward from 2023/24;
- although the City Fund financial position is vulnerable to inflationary pressures and a potential recession, impacting - income, rent levels and student numbers, it should be noted that:
    - the City Surveyor has carried out an in-depth review of rent incomes; and
    - an increase in interest rate on Treasury balances has been very beneficial in countering inflationary and other pressures;

- a strong track record in achieving budgets gives confidence on the robustness of estimates;
- balancing 2024/25 with 'one-off' measures will give more time to move to service transformation and culture shift, plus ensuring permanent year on year savings;
- workstreams within the transformation programme will realign existing resources to new corporate priorities, where this is not possible to create headroom to reallocate funds – noting finding sustainable efficiencies will require time, capacity ad upfront investment.
- support for a more radical approach to bring down the annual operating deficits through a renewed approach to transformation underpinned by a clear communication strategy to all Members so they are aware of the challenges ahead.

78. With the exception of £25m, no further provision has been made to support the full cost of essential works at the Barbican Centre estimated to be £451m. It is recognised that a further £30m is required to support the urgent health and safety works planned as part of the original £25m commitment. Surveys are expected to be completed by spring, which will inform the full business case for the Barbican Centre. The Chamberlain recommends this is reviewed as part of the Gateway process, at which point funding can be considered from any upside in Business Rate income (as per paragraph 51). However, a fundamental review on how to meet the extensive refurbishment needs at the Barbican Centre is now needed.

79. An analysis of usable City Fund Reserves is set out in Appendix C. Depletion of City Fund reserves is a consideration for the medium-term: although reserve balances are forecast to remain healthy in 2024/25, the potential call on reserves to support revenue and capital expenditure beyond 2024/25 reinforces the need for further efficiencies and income generation.

80. In assessing the adequacy of contingency funds, the Chamberlain has reviewed the allocation and expenditure of contingency funds over the past four years and concluded that the estimates are robust. This takes account of the Finance Committee contingencies, the Policy and Resources Committee contingency and the Policy Initiatives Fund. In each of the past four years the provision of funds has been more than sufficient resulting in an uncommitted balance for each contingency fund in each year. On this basis the existing contingency provision will remain unchanged for 2024/25. A full analysis of contingency fund provision and expenditure is provided in Appendix H.

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

81. Within the City Corporation's control:

   - ➢ Ensuring permanent year on year permanent savings from existing savings programme and income schemes are delivered;
   - ➢ Maximising taxes locally, not doing this increases pressure to make further savings/cuts in services in later years;

- 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 transformational 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;
- Achievement of Police savings targets needed to mitigate the Force deficit;
- 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.

82. 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 events at the Barbican – 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.
    - Business Rate reforms – This has the potential to significantly impact the amounts retained by the City Corporation and reform has already been delayed making projecting the timing of this difficult.
    - Collection Fund surplus/deficit timing – Fluctuations in collection rates and appeals make applying the year end deficits and surpluses over the MTFP more complex.
    - Political situation – an election is due within the 2024/25 financial year with the potential for a change in governing party and government policies.

Equalities Implications

83. During the preparation of this report, all Chief Officers were asked to consider and have now confirmed there would not be any potential adverse impact of the various budget policy proposals on equality of service. This was with particular regard to service provision and delivery that affects people, or groups of people, in respect of disability, gender and racial equality.

Conclusion

84. 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.

85. Additional funding will be required across the medium term for cost pressures within children and community services; 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.

86. Income from Business Rates, in particular, is expected to fluctuate significantly within the MTFP, including the expected reset and funding reforms, so ensuring future budgets have sufficient resilience to absorb this will be key.

87. This cost pressure, combined with the scale of the ambition, within Major Projects in particular, of the capital programme result in City Fund moving into deficit by 2026/27 onwards. Therefore, without intervention and action these deficits will impact on the financial position of the City Corporation.

Appendices:

- Appendix A – Key Assumptions
- Appendix B – Calculating Council Tax
- Appendix C – City Fund Useable Reserves
- Appendix D – Prudential Indicators
- Appendix E – Treasury Management Strategy Statement and Annual Investment Strategy 2024/25
- Appendix F – Capital Strategy
- Appendix G – City Fund Budget Policy
- Appendix H – Review of contingency funds

All of which we submit to the judgement of this Honourable Court.

DATED this 22nd day of February 2024.

SIGNED on behalf of the Committee.

Henry Nicholas Almroth Colthurst
Chairman, Finance Committee