City of London Corporation Committee Report

Committee(s): Finance Committee – For decision	**Dated:** 12/11/2024
Subject: Budget Monitoring Quarter 2 2024/25	**Public report:** For Information
This proposal: • **delivers Corporate Plan 2024-29 outcomes** • **provides statutory duties** • **provides business enabling functions**	The budget provides the funding to deliver all of the corporations corporate objectives either directly or indirectly.
Does this proposal require extra revenue and/or capital spending?	No
If so, how much?	£N/A
What is the source of Funding?	N/A
Has this Funding Source been agreed with the Chamberlain's Department?	N/A
Report of:	The Chamberlain
Report author:	Daniel Peattie, Assistant Director – Strategic Finance

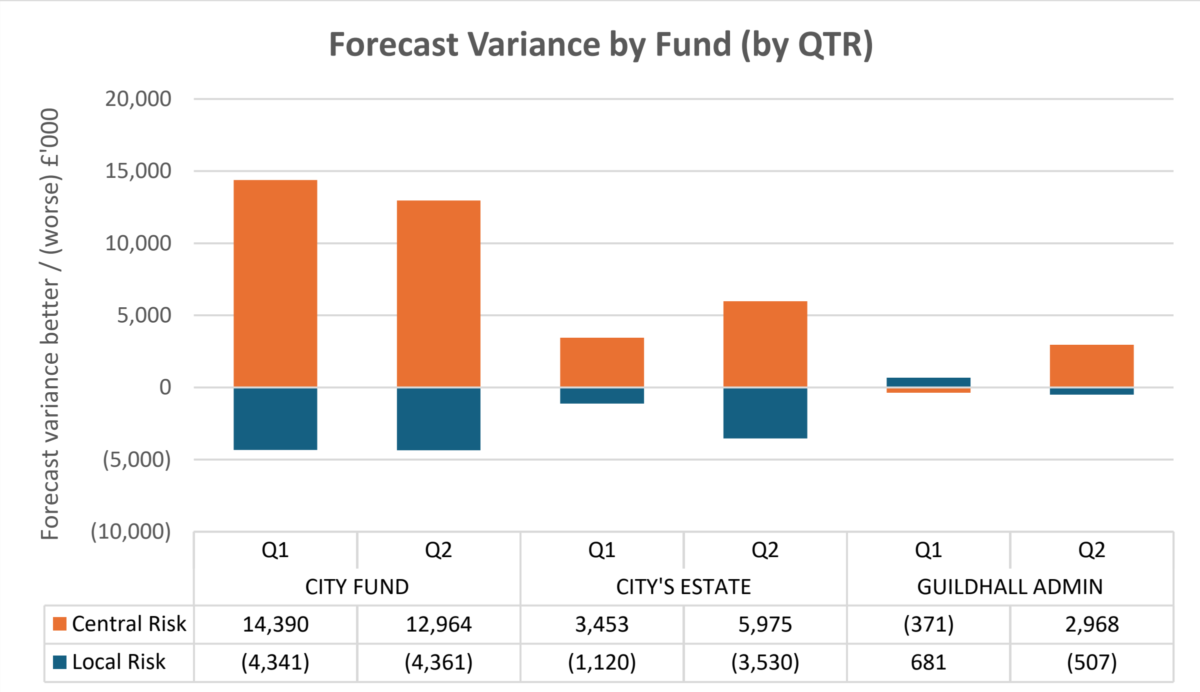
Summary

The report below outlines the forecast position for the 2024/25 financial year as at the end of Quarter 2 (September). This report combines the monitoring for both revenue and capital.

Revenue

At the end of Quarter 2, the 2024/25 forecast revenue outturn position is an **underspend of £13.5m** against budget which is **an increase of £0.8m to Quarter 1** (underspend of £12.7m against budget). This is split between a favourable variance on central risk amounting to £21.9m offset by an adverse variance on Local risk of £8.4m which is mainly due to Barbican Centre (£4.3m) , Guildhall School of Music & Drama (£2.8m) and City Surveyors (£0.9m). *In comparison, the forecast revenue outturn position at Q2 for last financial year was an underspend of £19.3m (£2.6m overspend on local risk offset by £21.9m underspend on Central risk).*

Chart 1: Forecast trend by Quarter



The forecast underspend of £13.5m comprises underspends of £8.6m, £2.4m and £2.5m on City Fund, City's Estate and Guildhall Administration respectively. Underspends on central risk budgets are largely due to increased interest receivable on Money Market Funds and higher than budgeted rental income on the investment properties. There are overspends on the local risk budgets for both City Fund and City's Estate, variances are explained in paragraph 2.

Capital

At the end of Q2, the City Fund is forecasting an in-year overspend of £42.9m, primarily caused by a £62.0m in year overspend on the major projects, partially offset by an £19.1m underspend on the BAU. These are related to the phasing of projects and overall, the program is broadly on budget although cost pressures of £60m are crystallising on Salisbury Square for the fit-out work. City's Estate has in-year underspend of £83.2m, split between £59.2m for major projects and £24.0m for the BAU. Table 2 and 3 provide a summary of the forecast expenditure at the end of the second quarter (Q2) for the current year and future years expenditure on Capital and Supplementary Revenue Projects (SRPs). This includes major projects and is across both City Fund and City Estate, against agreed budgets set and approved by the Court of Common Council in March 2024.

Table 2: Summary of City Fund Capital Forecast

CAPITAL PROGRAMME - CITY FUND	2024/25 Budget	2024/25 Actuals	2024/25 Forecast Q2	Forecast Variance	Future Years Budget	Future Years Forecast	Forecast vs Budget in Future Years	Total Budget vs Total Forecast
	£m	£m	£m	£m	£m	£m	£m	£m
Capital & SRP - BAU	188.8	35.5	169.7	(19.1)	284.6	306.7	22.1	3.0
Capital & SRP - Major Projects	200.3	90.2	262.2	62.0	623.6	532.2	(91.4)	1.9
Total	**389.0**	**125.7**	**431.9**	**42.9**	**908.2**	**838.9**	**(69.2)**	**4.9**

Table 3: City's Estate Capital Forecast

CAPITAL PROGRAMME - CITY'S ESTATE	2024/25 Budget	2024/25 Actuals	2024/25 Forecast Q2	Forecast Variance	Future Years Budget	Future Years Forecast	Forecast vs Budget in Future Years	Total Budget vs Total Forecast
	£m	£m	£m	£m	£m	£m	£m	£m
Capital & SRP - BAU	71.5	8.4	47.5	(24.0)	50.6	42.6	(8.0)	(32.0)
Capital & SRP - Major Projects	102.1	3.9	29.1	(59.2)	470.5	10.0	(460.5)	(533.5)
Total	**173.7**	**12.3**	**76.6**	**(83.2)**	**521.1**	**52.6**	**(468.5)**	**(565.6)**

Recommendation

Members are asked to:

- Note the report.

Main Report

1. As well as the analysis by Fund, the variance is split between a Central Risk favourable variance of £21.9m, which predominantly relates to increased interest receivable on Money Market Funds (£16m), and higher than budgeted rental income on investment properties (£1.3m) combined with receiving a higher grant from the Home Officer than the prudent estimate made in prior years (£1.5m), as the final grant allocation was made on the basis of a national fixed unit allocation rather than simple cost recovery partially offset by an adverse variance of £8.4m on Chief Officer Cash Limited Budgets.

2. The Chief Officer Cash Limited budget significant variances are;

- Barbican Centre (£4.3m) mainly relating to increase in corporate contracts including utilities (£1.3m) along with a trading income shortfall (£1.9m), and pressures incurred from sick and maternity leave and the need to bring in additional resources;

- City Surveyor is showing an overspend of (£0.9M), mainly due some residual ToM savings yet to be realised, the vacancy factor on the departmental salary budget is not forecast to be achieved and budget pressures on Smithfield Market due to closure of the Poultry Market;

- Guildhall School of Music & Drama (£2.8m) due to inflated contract costs and the associated costs with moving to the Guildhall. Additional posts have been included over and above those budgeted, however some of these relate to invest to save opportunities that will address future deficits and others that relate to compulsory roles to support the safeguarding at the school and Senior Project Manager helping to drive the strategic plan forward. The need to deliver a balances and sustainable financial model for the school remains acute and the new Head of Finance is working through establishing new processes to deliver this. Of these overspends £2.2m will be funded from contingency budgets held for inflationary pressures which would reduce the local risk overspend but also reduce the central risk underspend having a neutral impact on the overall variance.

3. Significant forecast variances by Chief Officer are summarised in the following paragraphs. Work is underway with department heads to consider potential mitigations to these pressures. The impact of any cuts and or mitigations identified will be reported back in future reports.

City Fund Revenue

a) <u>Managing Director Barbican Centre (£4.3m overspend which will reduce to £3m after use of the inflation contingency, negative movement of £0.7m from Q1)</u> – Barbican Centre are forecasting a possible overspend due to the continued pressures on energy. Based on last year's costs, it is estimated that there is a pressure of approx. £1.3m in relation to utilities alone which will be met by central contingencies. In addition, an overspend on visual arts due to increased costs, loss of trading income from partners and lower attendance is forecast.

b) <u>Executive Director Community & Children's Services (£0.9m underspend, positive movement of £1.2m from Q1)</u> – As highlighted in Q1, social care costs are forecast to exceed budget due to uplift in client placements agreed and backdated to 23/24, added pressures due to family support costs, adoption costs and short breaks for two new individuals however since Q1 a rent review has taken place which resulted in additional income being received which offsets the majority of these pressures. During the year, a large grant from the Home Office was received which was £1.5m higher than anticipated, which has offset pressures amounting to approx. £0.6m and has pushed the anticipated outturn into a favourable position. The remainder of the grant (£0.9m) will be transferred to reserves to offset pressures in future years.

c) <u>Chamberlain (£13.1m underspend, negative movement of £2.6m from Q1)</u> – Whilst still higher than budget in total, the Q2 forecast in interest receivable on cash balances, is lower than Q1 based on the current projections for the rest of the year. The overall underspend is due to capital underspends during 23/24, as per paragraph 16 below.

City's Estate Revenue

d) Chamberlain (£4.7m underspend, positive movement of £3.1m from Q1) – This favourable variance is due to £2.2m additional interest on cash balances as per paragraph 16. In addition, the forecast against central contingencies is showing an underspend of £2.2m which offsets the utilities pressures that departments have factored into their forecasts.

e) City Surveyor (£1,2m underspend, negative movement of £2.3m from Q1) – This is due to overspending particularly on the Departmental budget which is not achieving the assumed vacancy factor/residual ToM savings, and pressures at Smithfield Market due to closure of the Poultry Market and additional empty rates on City's Estate. This is partly offset by increased rental income of £2.5m as per paragraph 16

f) Principal Guildhall School of Music & Drama (£2.8m overspend, negative movement of £2.7m from Q1) –The forecast includes pressures on utilities (£0.6m), potential pay award (£0.6m), above-inflation impacts (i.e. LLW) projected for centrally-procured like-for-like cleaning and security contracts (£0.1m), increased reactive maintenance owing to the aging buildings and equipment at the School (£0.2m) and the cost of the North Wing move (£0.2m), whilst GSMD thought it could absorb these pressures current forecasts suggest this is now not possible and will need to be monitored throughout the year. Currently, the central vacancy factor remains £0.2m below the year-to-date target. The need to deliver a balanced and sustainable financial model for the school remains acute. The new Head of Finance is working on establishing new processes aimed at managing costs more effectively. This includes implementing a new recruitment approvals process designed to scrutinise and challenge the necessity of recruitment where possible, exploring options to repurpose existing resources and considering delays in recruitment start dates where possible. Additionally, please note that GSMD will be undergoing scrutiny from the Efficiency and Performance Working Party.

g) Deputy Town Clerk (£0.7m overspend, negative movement of £0.7m from Q1) - The vacancy factor has not yet been achieved, due to the necessity of employing casual staff to support event activity. Mansion House are looking to separate the Private Office and Operational areas to improve the review and management of the budgets and support income generation.

City Fund Capital

4. Appendix 3 shows the forecast expenditure for City Fund Capital and SRP Projects, split between Business as Usual (BAU) and Major Projects. The forecast for the year is £431.9m for the year, comprising £169.7m BAU projects and £262.2m across the City Fund Major Projects.

5. There is an underspend within the City Surveyor of £16m, primarily due to the Refurbishment and Extension 1-6 Broad Street Place and 15-17 Eldon Street, this project will come under budget and there are plans to repurpose the funding.

6. The in-year spend for Police is £6.3m ahead of profiled budget due to rephasing of Next Generation Fraud and Cyber Crime Reporting and Analysis Service (FCCRAS). The milestone payments have slipped from 2023/24 to 2024/25 because of the delayed go live, from March 2024 to September 2025. Total FCCRAS project spend is forecast to still be in line with the total budget of £31.0m.

7. The HRA projects are showing a projected underspend of £1.6m for 24/25 and overall overspend of £14.9m. This is primarily due to the Golden Lane Windows project requirements increasing by £12.5m. The HRA is a ringfenced fund, so any additional funding needs to be met from within the limited available sources of funding, so this overspend needs to be monitored closely. Funding solutions for this increased forecast will be considered as part of the HRA business plan update for 25/26 presented to Members in the Autumn 2024.

8. The overall forecast spend on the Barbican Centre has increased - an additional £16m was added to the capital programme for fire door safety works. This is to be funded through the business rates surplus income generated in 2023/24.

Major Projects

9. **Museum of London** – is showing an in-year variance of £34m which is due to slippage of spend from the prior year, but there is otherwise not a genuine pressure. The total project forecast has also removed the Museum's own fundraising element (£120m), as this will be managed and paid out directly by the museum, not via CoLC. Overall, the programme is on budget, though there is a risk that CoLC will need to fund some expenditure at risk, depending on the timing of third-party contributions – this is likely to occur during 2025/26, though could be deferred or eliminated if there is further slippage on the scheme.

10. **Salisbury Square Development / Future Police Estate Programme** – is showing a combined total overspend of c£87m, although some additional funding has been identified that is not yet reflected in the budget (pending approval), leaving a genuine net pressure of c£60m. This is due to provisional sum fit out costs / risks with the main contractor that are now beginning to crystallise. These cost pressures will be challenged, therefore could potentially go down; however other elements of the programme are still in their infancy (i.e. the tactical firing range, property store, GYE, mounted unit, and Eastern Base), therefore there remains a risk that future costs could still increase. The Chamberlain is currently assessing additional funding options to address this pressure; specifically, additional funding options are

being considered to support GYE and TFTF to allow for the fit-out costs to be contained within the current funding envelope. In parallel, project officers are considering how the programme could be rationalised to reduce costs.

City’s Estate Capital

11. Appendix 4 shows the breakdown of the forecast for City Estate of £76.6m, with £29.1m projected on major projects and a further £47.5m on BAU Capital and SRP.

12. The City Surveyor’s in-year (£19.3m) and overall underspend (£22.9m) is due to the descoping of the Alfred Place project with future plans now being considered. This is forecast to generate an underspend of £10m, with the remaining underspends across various small projects across the estate.

Major Projects

13. **Markets Co-location programme (MCP)** - the Court of Common Council has confirmed the cessation of option ‘10b’ and for other options to be explored. The forecast reflects this, with total spend to date of £308m largely for site purchase and remediation work, and the remaining residual forecast covering up to December 2024 (£310m total), and hence showing a large underspend against the original agreed funding envelope. Once a new way forward is agreed, the forecast will be updated accordingly to reflect this.

14. **Museum of London Landlord works** - the works are nearing completion; the spend represents the remaining draw down from the museum, and it is forecast to budget.

Additional Revenue information

15. Contingency budgets (including central provisions, Finance and P&R) are currently holding unallocated budgets of £16.3m (£8.9m City Fund and £7.4m City’s Estate) however work is being undertaken on departmental Local Risk overspends and it is anticipated that the majority of the contingency balance will be drawn down and utilised throughout the year. Any remaining funds at the end of the year will be transferred to reserves and is therefore showing a nil variance for QTR2.

16. Corporate Income Budgets are forecast to be better than budget by £17.4m and are summarised in the table below.

<u>Table 4: Major income budgets</u>

	Budget £'000	Forecast £'000	Forecast Variance Better / (Worse) £'000	%
Property Investment Income				
City Fund	40,919	39,689	(1,230)	(3%)
City's Estate*	60,036	62,575	2,539	4%
Total Property Investment Income	**100,955**	**102,264**	**1,309**	**1%**
Interest on Cash Balances				
City Fund	28,900	42,749	13,849	48%
City's Estate	(770)	1,428	2,198	285%
Total Interest on Cash Balances	**28,130**	**44,177**	**16,047**	**57%**
Grand Total	**129,085**	**146,441**	**17,356**	**13%**

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

17. Property Investment Income is forecast to be £102.3m which reflects the June-2024 rental estimates. City Fund's deficit reflects rent free periods granted to tenants for new lettings as well as existing tenants in return for removing break options. There is also a forecast reduction in income from vacant floors due to a tenant being in financial difficulty. The main reason for the higher income on City's Estate is due to tenants not activating their lease break options across a few properties, new leases starting earlier than anticipated and some sales (including South Molton Street Estate) that were due to complete by March 24 but completed slightly later and income was therefore received at the start of the current year.

18. Income from Interest on Money Market funds Income from interest on cash balances is currently forecast to exceed budget by £16m principally due to the increase in the level of average cash balances held, and hence available for investment, and upon which interest is applied, compared to what was anticipated when the budget was set in November 2023. This largely due to the rephasing of capital and the major project expenditure. Please note that the cashflow will be finalised following spending decisions to be taken at Resource Allocation Sub-Committee (RASC) at the end of October 2024. It should be noted that the forecast currently assumes the average split of cash held amongst funds to September 2024 will continue for the rest of the year. The assumption is most vulnerable to a rapid drawdown in City's Estate balances.

Cyclical Works Programme (CWP)

19. The CWP programme covers essential health and safety cyclical repairs and maintenance of the operational property portfolio. CWP spend tends to be revenue due to it being similar to regular repairs and maintenance, however programmes can grow and then be capitalised if they are over materiality thresholds. Table 5 below shows the current position per fund at the end of Q1. On a straight-line basis, it would be expected to show 50% committed and spent, but traditionally there is a mobilisation lag at the start which is

usually caught up later in the year. Should any schemes get delayed or cancelled there is an agreed list of schemes for later years that can be brought forward to utilise any spare money.

20. The City Surveyor is therefore anticipating all funds allocated to pre 24/25 approval, that he is tasked to deliver, will be expended by 31/03/25. The Barbican/GSMD have advised that the CWP projects that they are responsible for delivering may slip, in that situation, a request to Resource Allocation Sub Committee in December, to agree a carry-forward of funds into 2025/26 to allow completion will come forward. The City Surveyor has been reviewing the profile of spend of the new £133m CWP funding now his delivery team has been appointed and is in post and he will be submitting a report to RASC in December 2024 detailing the new delivery profile (which is still with the overall five-year envelope).

Table 5: CWP Quarter 2

QTR 1 Actuals & Commitments £'000		Budget £'000	Actual & Commitments £'000	Percent Spent %
(2,490)	City Fund	(17,279)	(4,018)	23.3%
(2,419)	City's Estate	(12,077)	(4,585)	37.9%
(851)	Guildhall Complex	(257)	(1,268)	493.4%
(5,760)	**Grand Total**	**(29,613)**	**(9,871)**	**33.3%**

Capital – observations on risks

21. The actual spend after Q2 is £138.0m, extrapolated evenly over the full year this is around £276.1m of spend. The current forecast estimates a spend of £508.1m. Capital spend is not always uniform, but it does indicate overestimation of work to be completed in year. These quarterly monitoring exercises inform treasury management decisions on the amount of cash to be held, and overestimates could cost the City of London as unrequired funds could have provided more income if invested rather than being held in highly liquid assets. To mitigate against this risk, additional training has been produced for project accountants and project managers and will be rolled out over the remainder of the year. Monthly cashflow monitoring is also being used to enhance the information used for decision making.

22. Appendix 5 shows the pattern of quarterly monitoring figures in 2023/24 against the actual spend and the current forecasts and year to date spend for 24/25.

This illustrates the continuing trend of higher forecasts made at the start of the year reducing at year end. Significant reductions in Capital forecasts across the year can impact decisions on the use and application of Corporation resources so the trend in forecasts will continue to be monitored within 24/25 along with additional support in forecasting to reduce this where possible.

23. For the Major Projects there is joint underwriting (alongside GLA) of up to £50m should the Museum not achieve their fundraising target or be unable to generate sufficient funds to repay their loan from the GLA. The Museum is due to spend the extra £50m in the next two years, but fundraising totals will be confirmed retrospectively, so they have requested another loan to cover this. This is yet to be approved, and discussions are continuing.

24. The Markets Co-location Programme (MCP) has now been put on hold, approved by Court of Common Council while affordability and other options are explored. A report back to Court of Common Council is expected in November which will provide further insight into the financial forecasts for the programme.

25. The on-going delays to completion and occupation of new flats at Black Raven Court (formerly COLPAI) has significant adverse implications for HRA income in the current year. These need to be considered as part of the HRA 5-year business plan and ability to remain in-balance.

26. Across the programme further delays could lead to an increase in costs (inflation, costs of mobilising etc) as well as potential stakeholder dissatisfaction due to works going on longer than planned. A range of schemes are also funded from time restricted contributions – excessive delays could mean some of these sources are no longer available to use as planned. In particular S106 has time limits, Chamberlain’s is currently doing an exercise to establish the funding at risk

Corporate & Strategic Implications

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

Financial implications – Contained within the body of the report

Resource implications – Contained within the body of the report

Legal implications – No direct implications

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

Equalities implications – No direct implications

Climate implications – No direct implications

Security implications – No direct implications

Conclusion

27. At the end of Quarter 2 2024/25 the overall revenue forecast position is an underspend of £13.5m. This is split with £8.6m. £2.4m and £2.5m on City Fund, City's Estate and Guildhall Administration respectively. All funds are forecasting underspends on central risk partially offset by adverse variances on Chief Officer Cash Limited budgets due to reasons outlined in the report. This is an increase of £0.8m when compared to the revenue position at Q1, a £1.4m reduction on City Fund, £0.1m increase on City's Estate and £2.1m increase on Guildhall Administration respectively.

28. City Fund is forecasting an in-year capital overspend of £42.9m and an in-year underspend for City's Estate of £83.2m. For City fund this reflects a change in profile of spend rather than increase in overall costs. Over the life of the projects the forecast is an overspend of £3.9m for City Fund and an underspend of £547.1m for City's Estate. For City Fund there has been a reduction in the overspend from £81m for 24/25, this is due to the in-year forecast for the major projects reducing and being profiled into future years. The City Estate underspend is due to the decision to suspend the markets consolidation programme and is reflected in the change from Q1 from an underspend of £34.7m in year to £83.2m for 24/25 and overall underspend of £22.4m to £547.1m.

Appendices

- Appendix 1 – Chief Officer Cash Limited Budgets by Fund
- Appendix 2 – Central Risk Budgets by Fund
- Appendix 3 – City Fund Capital breakdown by Service
- Appendix 4 – City's Estate Capital breakdown by Committee
- Appendix 5 - 2023/24 Capital Forecast vs Actual Spend

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