City of London Corporation Committee Report

Committee(s): Finance Committee – For information	**Dated:** 18/02/2025
Subject: Budget Monitoring Quarter 3 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 Corporation's 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 3 (December). This report combines the monitoring for both revenue and capital.

Revenue

For City Fund, at the end of quarter 3, the 2024/25 forecast revenue outturn is an underspend of £12.1m against budget which is an improved position of £3.6m from quarter 2. The local risk overspend has improved by £1m largely due to additional support provided for utilities inflation. Central risk shows a growing better than budget position over the year, largely due to an increased forecast of interest earned on money market funds. Unallocated contingencies, currently amounting to £9.7m will be transferred into reserves at year end and are therefore showing a nil variance in the forecast.

For City's Estate, at the end of quarter 3, the 2024/25 forecast revenue outturn is an underspend of £0.4m against budget which is a worsening position from both our Q1 and Q2 estimates of £2m. This includes a forecast overspend of £2m at Guildhall

School of Music and Drama, during January 2025 Efficiency and Performance Working Group has scrutinised the reasons for this overspend- largely caused by the government's freeze of tuition fees, well below the costs of course provision. The local risk position has improved over the last quarter as a result of the application of contingencies to offset utilities cost pressures. Central risk, although better than budget shows a worsening position over the year; most recently by £3m from Q2 to Q3. This is the offsetting impact of transferring £1.6m from contingencies to support inflationary pressures mentioned above, as well as a decrease in property income forecasts of £0.9m and additional audit fees of £0.4m with a number of other minor changes in variances. Unallocated contingencies currently amount to £8.9m and will be transferred into reserves at year end and therefore showing a nil variance in the forecast.

Guildhall Administration budgets are yet to be allocated to the relevant funds, these budgets are currently forecasting an overspend of £2m, a deterioration of £4.4m from Q2. This movement is largely a result of Q2 forecast for surveyors being revised by £3.1m after the monitoring report last quarter. £0.7m of the movement is within HR due to the pending People and HR restructure and the need to employ several high-cost interim officers to deliver services. The remaining movement is made up of a number of smaller variances.

Chart 1: Forecast trend by Quarter

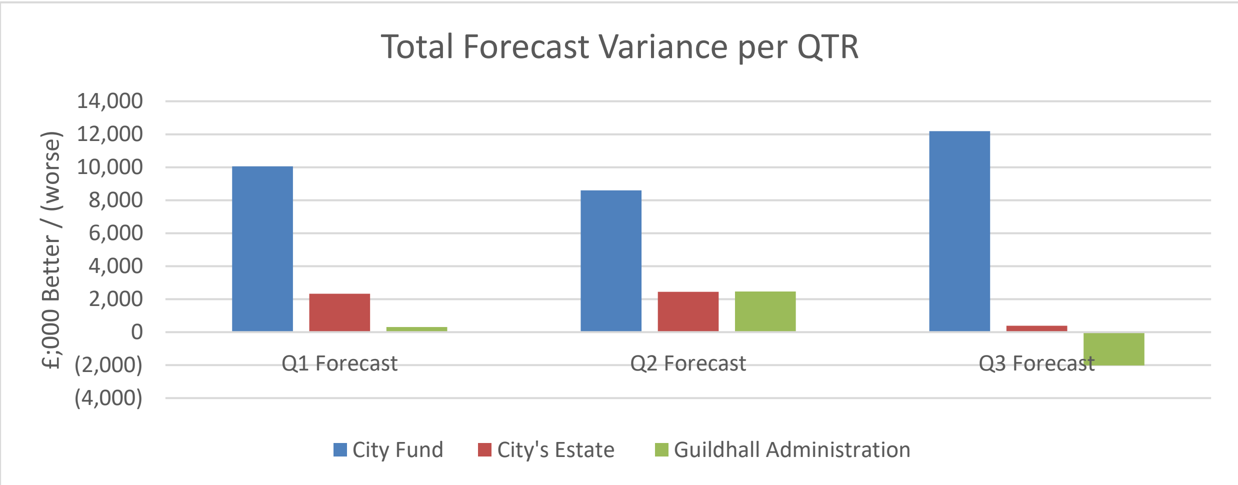


Chart 2: Forecast trend by quarter, local risk

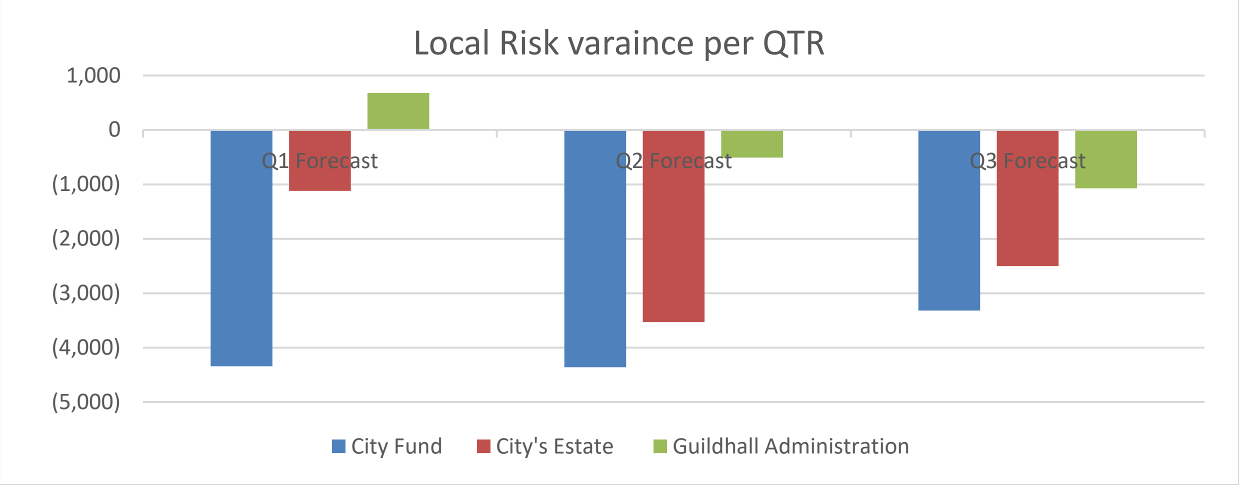
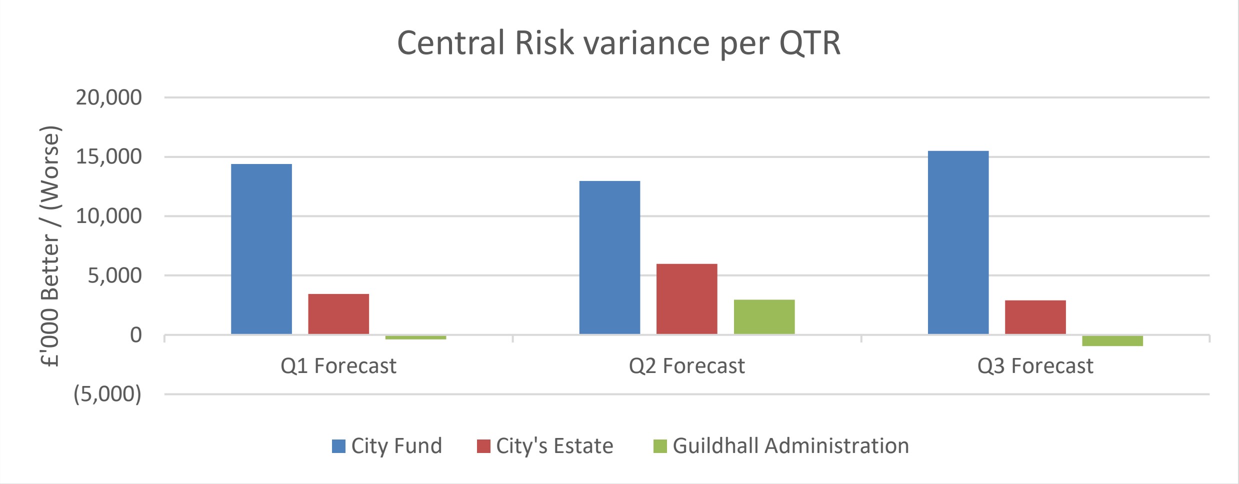


Chart 3: Forecast trend by quarter, central risk



Major variances are explained in paragraph 2.

Capital

At the end of Q3, the City Fund is forecasting an underspend of £28.6m for the financial year. This is primarily caused by a £14.9m in year overspend on major projects, partially offset by £43.5m of slippage on Business As Usual (BAU) capital programme. Over the life of the programme, there is a forecast overall overspend of £95m, due to inflationary increases on the major projects forecasts. These pressures are being considered as part of the 25/26 budget setting process, with recommendations proposed to address the financing gap.

City's Estate is forecasting an in-year underspend of £51.7m split between £20.7m for major projects and £30.9m for BAU.

There is an overall underspend of £143.3m, due to cessation of option '10b' for Markets Co location programme, with a variance to the original budget. 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 Q3	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	181.4	57.1	138.0	(43.5)	266.7	313.3	46.6	3.1
Capital & SRP - Major Projects	207.2	130.8	215.1	14.9	623.5	700.6	77	92.0
Total	**388.6**	**187.9**	**353.1**	**(28.6)**	**890.2**	**1,013.9**	**124**	**95.0**

Table 3: City's Estate Capital Forecast

CAPITAL PROGRAMME - CITY'S ESTATE	2024/25 Budget	2024/25 Actuals	2024/25 Forecast Q3	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	55.6	15.3	24.7	(30.9)	46.0	72.2	26	(4.8)
Capital & SRP - Major Projects	141.1	6.5	120.4	(20.7)	609.4	440.0	(169.4)	(190.1)
Total	**196.8**	**21.8**	**145.1**	**(51.7)**	**655.4**	**512.2**	**(143.3)**	**(194.9)**

Main Report

1) As well as the analysis by Fund, the overall variance for all funds is split between a Central Risk favourable variance of £17.5m, which predominantly relates to increased interest receivable on Money Market Funds (£18.8m), and higher than budgeted rental income on investment properties (£0.6m). This has helped meet various pressures including a shortfall of income at Hampstead Heath due to investment returns being behind budget resulting in increased deficit funding required from City Estate for the current year. There was an adverse variance of £6.9m on Chief Officer Cash Limited Budgets.

2) Significant variances on Chief Officer Cash Limited budget are;

- *Barbican Centre* (£3m) mainly relating to unidentified savings not yet found, additional building costs along with unforeseen staff costs such as sick and maternity cover and the need to bring in additional resources. These pressures have been partly offset by additional income achieved amounting to £1.4m.
- *City Surveyor* is showing an overspend of (£0.9m), mainly due to some residual 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 and cap on service charges; and
- *Guildhall School of Music & Drama (£2m)* Additional posts / redundancy costs (as a result of the closure of a programme) have been included over and above those budgeted along with backdated service charges for premises at Milton Court. The forecast has been updated in light of changes to student numbers and directly related spend including hourly paid teaching staff.

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 local risk pressures. The impact of any cuts and or mitigations identified will be reported back in future reports.

City Fund Revenue

a) Managing Director Barbican Centre (£3.2m overspend, positive movement of £1.1m from Q2) –The positive movement from Q2 is principally due to the additional support provided for utilities inflation. The unfavourable variance largely relates to the following one-off costs impacting this financial year: £0.8m of additional expenditure in salaries including CEO and crisis management cover, maternity cover, and increased pension for casuals, and additional cost of casuals to support increased activity at the Barbican Centre along with a loss of partnerships for The Imaginary Institute of India (£0.7m). During the year, the Barbican Centre has incurred an extra £1.2m of building related costs including additional cleaning and security. In addition, there is a £1.6m savings target set at the start of the year which has not been achieved. These pressures have been partly offset by additional income achieved from arts rentals (£0.9m), net audience income due to the strong performance trends from 23/24 continuing into 24/25 along with a 10% uplift in bar prices that were implemented at the start of December. The events team have been promoting the Barbican for venue hire and commercial events and this has resulting in additional £0.2m of income being received. The last 3 months of the year will see the Barbican Centre continuing to prioritise essential expenditure only in order to bring the overspend down.

b) Executive Director Community & Children's Services (£1.1m underspend, negative movement of £0.2m from Q2) – As highlighted in previous monitoring reports, 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. The costs associated with homelessness are continuing to add further pressures to the budget with an anticipated overspend of approx. £150k this year. During the year, an additional Home Office grant was received for prior years, reflecting a higher amount than previous prudent estimates. This amount totalled £1.5m more than previously forecasted, which has offset pressures amounting to approximately £0.4m and has pushed the anticipated outturn into a favourable position. The remaining underspend has been recommended to be earmarked to support pressures on Homelessness in the 2025/26 financial year.

c) Chamberlain (£16.1m underspend, positive movement of £3m from Q2) This is due to additional interest receivable on money market funds of £16.5m as per paragraph 18.

d) City Surveyor (£1.2m overspend, no movement from Q2) The City Surveyor is forecasting an underachievement on income on City Fund of

£1.2m which is primarily due to a reduction in rental income of £1.1m which reflects new rent-free periods granted to tenants and loss of income from voids.

City's Estate Revenue

e) Chamberlain (£1.5m underspend, negative £3.1m Q2) – This favourable variance is due to £2.2m additional interest from money market funds as per paragraph 18 offset by an increase in audit fees.

f) City Surveyor (£0.9m underspend, negative movement of £0.3m from Q2) – The City Surveyor is forecasting an overachievement of rental income on City's Estate of £1.7m as per para 17. The principal reason for the higher forecast income is due to tenants not activating their break option across a few properties, in addition to new leases starting earlier than anticipated. This is partly offset by overspending particularly on the Departmental budget which is not achieving the assumed vacancy factor/residual savings, and pressures at Smithfield Market due to closure of the Poultry Market and additional empty rates on City's Estate.

g) Principal Guildhall School of Music & Drama (£2m overspend, positive movement of £0.8m from Q2). Operating forecasts have been updated in light of changes to student numbers and directly related spend including hourly paid teaching staff. Unbudgeted redundancy costs have been incurred as a result of the closure of a programme, and back dated service charges related to our premises at Milton Court where we have been negotiating with the landlords for several years to agree a correct allocation of shared services costs. The impact of inflation on external contracts is also reflected in the forecast, partially offset by efficiency savings identified by our budget holders.

Guildhall Administration Revenue

h) Executive Director of HR and Chief People Officer - £1.2m overspent. (£0.6m negative movement from Q2) - Ahead of the People and HR restructure in 25/26 and to necessitate the HR team's ability to deliver a basic service in 24/25 the engagement of several high-cost agency worker interims has been essential. Approval for a further temporary budget investment uplift of £1.8m was approved for three years for the 2025/26 financial year to support a team restructure and additional posts going forward – to be funded from 2024/25 underspends to be carried forwarded. Staff Training is also overspent by £0.5m due to leadership and management training, corporate induction services, health, and safety, undertaking the staff survey and mandatory training reviews. A business case was submitted in Q3 2023 and again in April 2024 requesting this additional budget to support activity with the recommendation that transformation funding be explored to aid the pressures across the service whilst the restructure commences.

i) <u>City Surveyor - £0.8m overspent (£3.2m negative movement from Q2) -</u> Guildhall complex overspend on largely relates to an overspending on rates paid. There are some rating appeals outstanding which would improve the position but they are unlikely to be resolved before year end.

City Fund Capital

4) Appendix 3 shows the forecast expenditure for City Fund Capital and Supplementary Revenue Projects (SRP), split between Business as Usual (BAU) and Major Projects. The forecast for the year is £353.1m for the year, comprising £138m BAU projects and £262.2m across the City Fund Major Projects.

5) There is a forecast underspend within the City Surveyor of £28.7m, primarily due to the Refurbishment and Extension 1-6 Broad Street Place and 15-17 Eldon Street. The scope of this project has changed and the underspend will be used to the fund the inflationary pressures on Salisbury Square. This is to be reflected in the updated 2025/26 MTFP and so the underspend will be reallocated.

6) The HRA projects are showing a projected underspend of £1.6m for 24/25 and overall overspend of £8.5m. 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.

7) The overall forecast spend on the Children's and Community Services (Non-HRA) is a £10m overspend, this is due to the Barbican podium works not having sufficient funding. This shortfall will need to be addressed prior to the project commencing to Gateway five. The in-year underspend of £11.3m is due to slippage of barbican residential fire door works, which is now forecasted in 2025/26.

8) Chamberlain's have a projected underspend in year of £5.5m, this is due to City Fund share of corporate projects having large budget slippages, this includes the ERP project and Network Refresh. The slippage on the ERP programme is the result of additional time taken to finalise commercial arrangements with the ERP software supplier and System Implementation partner. Resulting slippage has no impact on the financing (since it is being met from earmarked reserves and capital resources), and there is no significant whole life cost variance or delayed delivery of activities. This is just the timing of payments between years not lining up with the original profiled budget. The Network refresh progress been delayed due to additional work on the feasibility stage than first planned, this includes additional market engagement and an assurance review of the Future Network Strategy implementation.

Major Projects

9) **Museum of London** – is showing an in-year variance of £2m which is due to slippage of spend from the prior year, but there is otherwise not a genuine pressure. The total project forecast now reflects the Museum's own fundraising element (£120m), as distinct to the Corporation. Overall, the programme is on budget, though there is a risk that the Corporation will need to underwrite or forward fund some expenditure should anticipated fundraising does not materialise to the quantum or timings forecast. This is likely to occur during 2026/27. Should this materialise, a report will be brought before Members for decision.

10) **Salisbury Square Development / Future Police Estate Programme** – is currently forecasting an overspend with additional funding sources identified and will be updated as part of the 2025/26 Budget Setting process. A summary of those funding sources is set out below:
   - Contributions of c£35m have been identified for specific workstreams, including contributions from CWP and Climate Action budgets; a contribution from City of London Police for fit out works and IT; and a potential contribution from a third party towards the Tactical Firearms Training Facility (TFTF) (subject to negotiation).
   - Investment Committee to fund additional pressures relating to the commercial building, including the significant rise in construction costs due to high inflation – total £34m. This option was approved by Investment Committee in December 2024.
   - Alternative funding sources for Guildhall Yard East (GYE) and the Tactical Firearms Training Facility (TFTF) – total £25m. The revenue funding currently allocated for the New Street lease will be repurposed upon the lease's planned conclusion in March 2028. Plus, the raising of additional funds through an increase in Business Rate Premium (BRP). This was supported at the Rate Payers meeting on 3rd February but is subject to the approval of the Court of Common Council and Ministers during the annual budget setting process in March 2025.
   - It should also be noted that some elements of the programme are still in their infancy, therefore, there remains a significant risk that future costs could still increase. To mitigate these risks an additional optimism bias/contingency is being considered as part of the 2025/26 budget setting process.

11) **Barbican Renewal –** This been added to the Major Projects section in appendix 4 following the approval of the £287m funding by the Court of Common Council in December 2024, the line also includes some funding which has previously been under the Barbican centre BAU capital programme.

City’s Estate Capital

12) Appendix 5 shows the breakdown of the forecast for City Estate of £85.4m, with £60.7m projected on major projects and a further £24.7m on BAU Capital and SRP.

13) The primary in year slippage is £32.2m in the Chamberlains area owing to delays in corporate projects, including ERP, these budgets will be spent in future financial years. As with City Fund, the slippage on the ERP programme has been explained under paragraph 8.

14) **Markets Co-location programme (MCP)** - the Court of Common Council ratified a decision to end the City Corporation’s interest in co-locating the wholesale food markets of Smithfield and Billingsgate to a new site at Dagenham Dock. A Bill has been deposited in Parliament that provides for the ending of the City Corporation’s responsibilities to operate a market at these sites. It is estimated that it could take up to 2 years for the Bill to progress through Parliament and so it is expected that Smithfield and Billingsgate will continue as they are until at least 2028. Forecasts have been updated accordingly.

15) **Museum of London Landlord works -** the works are nearing completion; the spend represents the remaining draw down from the museum.

Additional Revenue information

16) Contingency budgets (including central provisions, Finance and P&R) are currently holding unallocated budgets of £15.7m (£7.8m City Fund and £7.9m 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 QTR3.

17) Corporate Income Budgets are forecast to be better than budget by £19.4m and are summarised in the table below.

Table 4: Major income budgets

	Budget £’000	**Forecast £’000**	**Forecast Variance Better / (Worse) £’000**	**%**
Property Investment Income				
City Fund	40,919	39,825	(1,094)	(3%)
City's Estate*	60,036	61,777	1,741	3%
Total Property Investment Income	**100,955**	**101,602**	**647**	**1%**
Interest on Cash Balances				
City Fund	28,900	45,392	16,492	57%
City’s Estate	(770)	1,508	2,278	296%
Total Interest on Cash Balances	**28,130**	**46,900**	**18,770**	**67%**
Grand Total	**129,085**	**148,502**	**19,417**	**15%**

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

18) Property Investment Income is forecast to be £101.6m which reflects the September 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.

19) Income from Interest on Money Market funds Income from interest on cash balances is currently forecast to exceed budget by £18.8m 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. It should be noted that the forecast currently assumes the average split of cash held amongst funds to December 2024 will continue for the rest of the year.

Cyclical Works Programme (CWP)

20) 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. In 2024/25 Resource Allocation Sub-Committee and Finance Committee agreed to provide £133.7m funding over a five-year period to deal with the backlog and immediate urgent repairs works for the operational estate. Table 5 shows the Revenue budgets and actuals for the pre 2024/25 CWP along with year 1 programme of works for the £133.7m.

21) The City Surveyor advised all funds allocated to pre 2024/25 approval, that he is tasked to deliver, will be expended by 31/03/25. The Barbican/GSMD and Community & Children's Services have advised that the CWP projects that they are responsible for delivering may slip and this was addressed at Resource Allocation Sub Committee in December 2024. The City Surveyor has been reviewing the profile of spend of the new £133m CWP funding now the delivery team has been appointed and is in post and he reported this to RASC in December 2024 detailing the new delivery profile (which is still with the overall five-year envelope).

Table 5: CWP Quarter 3

QTR 2 Actuals & Commitments £'000		Budget £'000	Actual & Commitments £'000	Percent Spent %
(4,018)	City Fund	(6,463)	(6,938)	107
(4,585)	City's Estate	(6,719	(6,769)	101
(1,268)	Guildhall Complex	(2,117)	(2,429)	114
(9,871)	**Grand Total**	**(15,299)**	**(16,136)**	**106**

Capital – observations on risks

22) 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.

23) Appendix 5 shows the trend of spend vs forecast for 24/25 compared to 23/24 and how there seems to be an optimism bias in some of our forecasting. As we are in Q3 the forecasting should be more accurate.

24) The Court of Common Council on 26 November 24, ratified a decision to end the City Corporation's interest in co-locating the wholesale food markets of Smithfield and Billingsgate to a new site at Dagenham Dock. Instead, a new agreement has been reached with market traders that would see them receive financial support to relocate to new premises. The City Corporation is already actively supporting Traders to identify suitable new sites to ensure that they can continue their essential role in London's food supply chain and is in close dialogue with them and other wholesale markets about this already.

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.

Corporate and Strategic implications

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

Financial implications – Contained within the body of the report

Resource implications – Contained within the body of the report

Legal implications – No direct implications

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

Equalities implications – No direct implications

Climate implications – No direct implications

Security implications – No direct implications

Conclusion

26) At the end of Quarter 3 2024/25 the overall revenue forecast position is an underspend of £10.6m against budget comprising Central Risk Budget favourable variance of £17.5m partially offset by an adverse variance of £6.9m on Chief Officer Cash Limited Budgets. This is a decrease of £2.9m when compared to the revenue position at Q2. It should be noted that central contingencies are currently underspent by £18.6m (£8.9m City's Estate and £9.7m City Fund), however this will be transferred to reserves at the end of the year and therefore showing as nil variance in the monitoring.

27) City Fund is forecasting an in-year capital underspend of £28.6m and an in-year underspend for City's Estate of £80.7m. Over the life of the projects the forecast is an overspend of £95m for City Fund and an underspend of £254.6m for City's Estate. For City Fund this overspend is due to the inflationary pressures on the major projects. The City Estate underspend is due to the decision to suspend the markets consolidation programme.

Appendices

- Appendix 1 – Chief Officer Cash Limited Budgets by Fund
- Appendix 2 – Central Risk Budgets by Fund
- Appendix 3 – Chief Officer total Budgets by Fund
- Appendix 4 – City Fund Capital breakdown by Service
- Appendix 5 – City's Estate Capital breakdown by Committee

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