ITEM 7(B)

Report – Finance Committee

City’s Estate 2025/26 Budget and Medium-Term Financial Plan

To be presented on Thursday, 6th March 2025

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

SUMMARY

This report covers the 2025/26 budget and 5-year financial outlook for City's Estate and Guildhall Administration. The report should therefore be read in conjunction with the City Fund report on the Court’s agenda.

After a period of significant economic volatility and the effects of high-inflation, the past twelve months have seen a gradual return to stability. However, the high inflation's impact continues to exert pressure as increased costs are now embedded in contracts and wages. Despite stagnation last year, the broader economy is projected to grow by only 1-2% through to 2028. Whilst the City Corporation has benefited from higher interest rates, they have not been sufficient to offset embedded cost increases of price inflation.

The overall position of City's Estate has improved this year due to the decision to halt the Markets Co-location Programme. Although significant sums will still be incurred under the revised approach, these are expected to be offset by capital receipts. This decision alleviates some of the previous need for substantial asset disposals to cashflow the capital programme. However, City's Estate continues to rely on the growth of its investment assets to support the annual deficit position. In recent years, due to significant external events, asset values have not kept pace with the annual deficit, necessitating close attention to future projects and the level of capacity available within City's Estate. A new Investment Strategy has been adopted which will be crucial for future sustainability. In the interim, increased focus is needed on the income generation proposals and potentially a new savings programme.

The potential for a recession in 2025 is being examined by experts. There are varying perspectives, with some uncertainty and risk surrounding the economic forecast for that year. This could impact the City’s Estate key revenue streams, particularly: rental income from investment properties, event bookings, student intakes at the Guildhall School Music and Drama (GSMD), potentially making City’s Estate income streams volatile in 2025/26. Furthermore, the Government’s imposition of VAT at 20% on independent school fees may lead to a reduction in income for the four City Corporation fee paying schools. This change comes at a delicate time for City Schools, particularly for those like City of London Girls School (CLGS), which are just recovering their pupil numbers.

Table 1: Summary position of City's Estate

CITY'S ESTATE	2024/25 Budget £m	2025/26 Budget £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m
Net cost of services*	6.5	4.5	2.5	0.8	(2.6)
Financing and Capital costs**	(122.7)	(7.9)	(178.5)	2.2	(88.3)
Surplus/(Deficit)	**(116.2)**	**(3.4)**	**(176.0)**	**3.1**	**(90.9)**

*Net cost of services includes, business as usual income and expenditure, plus a draw down from financial gain.

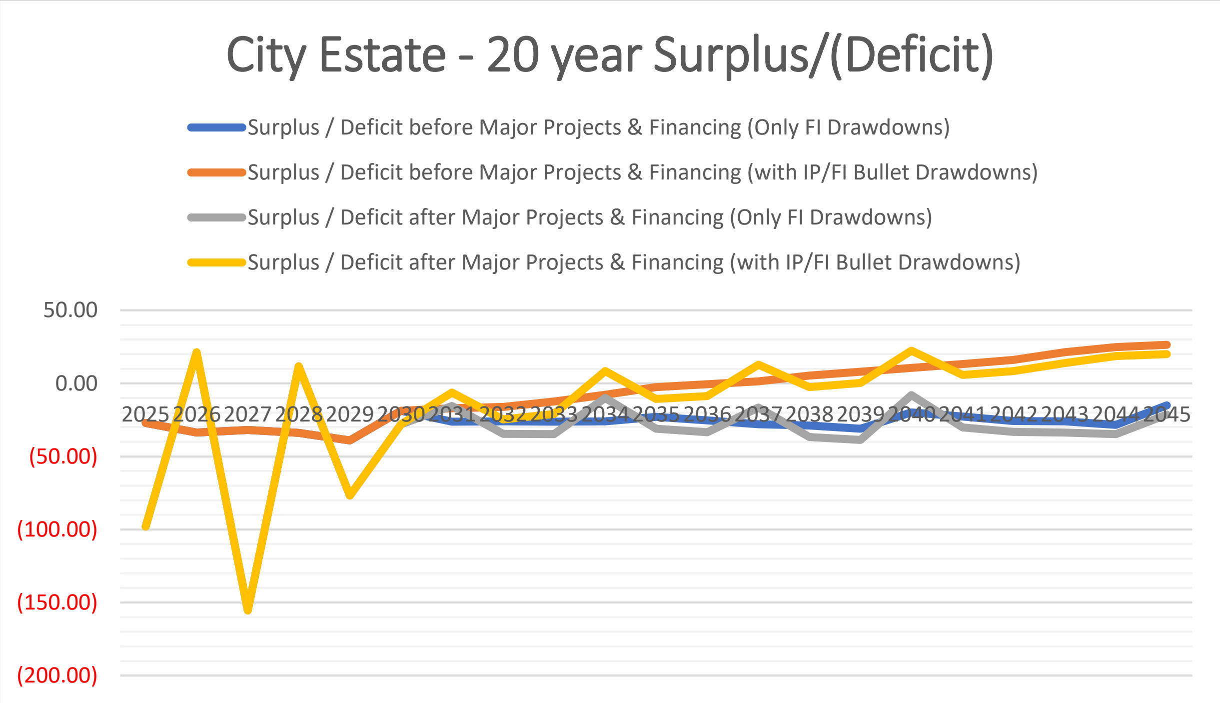
** Financing and capital costs – includes financing costs, loss of rental income from asset disposals, compensation and profit from sale of receipts in relation to the major projects programme. Plus, approved cyclical works programme and business as usual capital programmes. Note, capital expenses for major projects are excluded from the revenue budgets which affects the balance sheet.

Over the five-year financial plan, the net cost of services is anticipated to move into a small deficit from 2028/29 due to additional pressures and assumptions updated to include a 2% increase in net local risk budgets in 2028/29. Financing and capital costs over this period will involve significant expenditures and profits from capital receipts, associated with the completion of the market's co-location programme. This will require additional annual drawdowns beyond the assumed growth in financial assets needed to cover exceptional items, including the capital programme. Over the planning period, the cumulative deficit is forecast to be £383.4m. Balance Sheet forecasting indicates this sum is sustainable over the medium term.

City's Estate heavily relies on the growth in asset values to support the balance sheet, while also requiring the disposal or release of assets to maintain cashflow. This applies to both property and non-property. Stopping the Markets Co-location Programme has strengthened net assets, supporting the sustainability of the City's Estate fund and investment portfolio. This will in turn allow the Corporation to progress with implementing the investment strategy in diversifying its investment assets, which, according to longer term modelling, suggests recovery and a transition into surplus in 15 years, which is crucial for future sustainability. In the interim, increased focus is needed on the income generation proposals and not adding any additional pressure on City's Estate investment assets, to allow time for the strategy to be embedded.

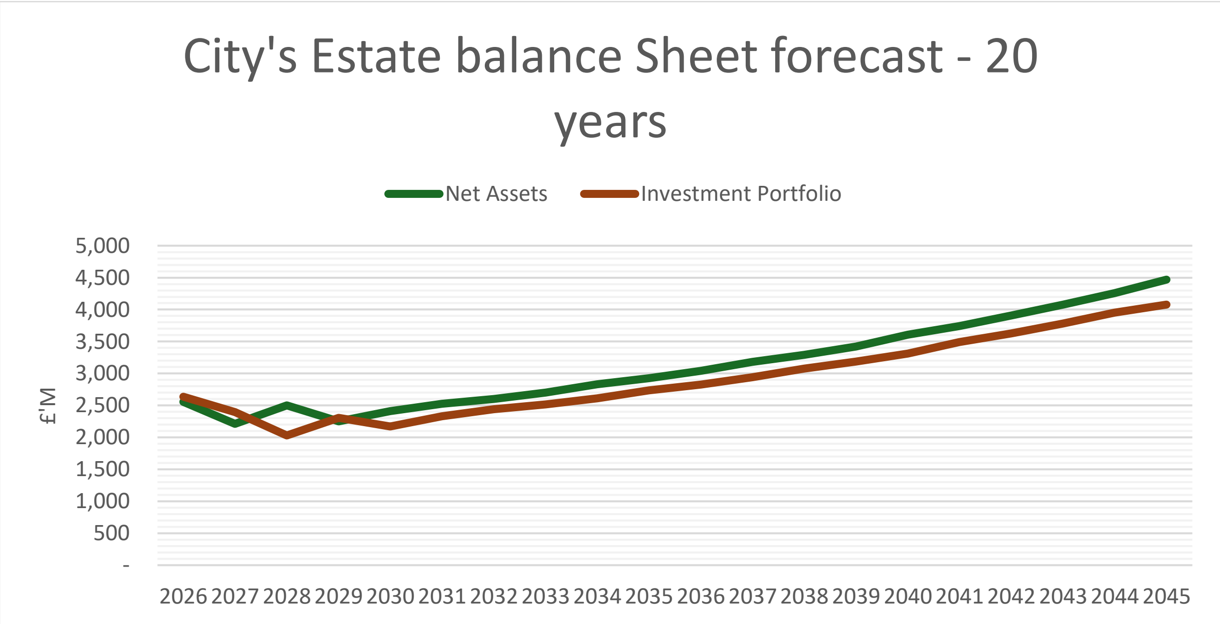
Chart 1 below shows the impact of the revenue position over the next 20 years, both with and without the implementation of the investment strategy (IP – Investment Property; FI – Financial Investments).

Chart 1: City's Estate revenue position over the next 20 years



In relation to the Balance Sheet, while net assets are projected to decline by £386m over the medium term, it is anticipated that the City's Estate will restore its sustainability to current levels by year nine. Based on current assumptions, net assets are expected to exceed £4bn in 20 years, with the first tranche of the private placement loan repayment due in 2044.

Chart 2: City's Estate balance sheet forecast over 20 years



The Resource Allocation Sub Committee has provisionally approved allocations for new capital programmes of £2m in City's Estate. Given the broader financial constraints within City's Estate, no new proposals were solicited as part of the 2026/27 MTFP process, instead, it is recommended that these amounts be maintained as contingencies to address unforeseen pressures. A re-prioritisation of existing allocations is also recommended to identify future capacity to avoid overstretching available resources.

In response, to the financial challenges the City Corporation has made significant cuts to budgets over the last decade, however, despite this there remains significant pressures as well as the scale of financing the major projects programme. A commercial approach is under review on our operational assets base, ensuring that we maximise operational effectiveness and only retain the buildings really needed to deliver services. While significant decisions have been made this year to cease its involvement in co-locating the markets, thereby improving the long-term sustainability of City's Estates balance sheet, these measures alone are insufficient to address the ongoing deficits. Therefore, it is recommended that no further funding be sanctioned for new major capital projects at least for the next 5 years, allowing time to establish the newly approved Investment Strategy. Continued emphasis on efficiencies and reducing deficit funding for charities will require support and progress to ensure the sustainability and future viability of both Charities and City's Estate.

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

- **-off spends** addressed within resource envelope/added to MTFP, with exceptional items funded from underspends of approximately £15m projected to be carried forward from 2024/25 (including inflation contingency - paragraph 12);
- **Medium-term savings plans** – While significant decisions have been made this year to cease its involvement in co-locating the markets, thereby improving the long-term sustainability of City's Estates balance sheet, these measures alone are insufficient to address the ongoing deficits. Therefore, it is recommended that no further funding be sanctioned for new major capital projects at least for the next 5 years, allowing time to establish the newly approved investment strategy. Continued emphasis on efficiencies and reducing deficit funding for charities will require support and progress to ensure the sustainability and future viability of both Charities and City's Estate.

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

RECOMMENDATION

Following your Finance Committee's consideration of this City's Estate report, the Court of Common Council is recommended to: -

1.0 approve the overall budget envelope for City's Estate 2025/26 revenue budgets.

1.1 Additional funding is required for new on-going cost pressures and have been included as budget uplifts (paragraphs 9 – 10):

1.1.1 Net 2% inflation uplift to local risk budgets.

1.1.2 £165k for increased internal control (split between funds)

1.1.3 £1.93m for increase in employees National Insurance

1.2 Other one-off pressures and opportunities for transformation in 2025/26 are outlined in paragraph 12 to be funded from forecast carry forward underspends from 2024/25.

1.3 Additional revenue bids (paragraph 11) have been accommodated by savings identified during the 2025/26 budget setting process.

1.4 Consideration given to uplift the Mayoralty and Shrievalty allowances by £22k subject to agreement at the Joint Deputation meeting in April 2025.

2.0 Medium Term Corporate Plan Alignment and Financial Sustainability

2.1 To address inflationary pressures going forward assumptions include 2% uplift from 2026/27 onwards.

2.2 The impact of decisions from the Court of Common Council regarding the conclusion of the markets co-location programme has been updated over the 5 year financial plan.

2.3 For Cyclical Works Programme (CWP) (paragraph 19):

2.3.1 £7.5m p.a. built in from 2028/29 onwards to support ongoing works and avoid a further backlog.

2.3.2 Note additional funding requires an additional draw on assets (modelled).

3.0 Approve the overall financial framework and the revised 5-year Financial Strategy (paragraphs 4-32).

4.0 Approve the Capital and Supplementary Revenue Project Budgets, over the five-year period for City's Estate amounting to £385.1m (paragraphs 20-22).

5.0 Approve the allocation of central funding of up to £175.7m for City's Estate to meet the cost of 2025/26 approved capital schemes. Release of such funding being subject to approval at the relevant gateway and specific agreement of the Resource Allocation Sub-Committee at Gateway 4(a). Note the agreed capital envelope for new bids of £2m in 2025/26 (paragraph 29-30).

6.0 Authorise the Chamberlain to determine the final financing of capital and supplementary revenue project expenditure.

MAIN REPORT

Background

1. The primary purpose of this report is to summarise the proposed budgets for 2025/26 for City's Estate, which have all been prepared within agreed policy guidelines and allocations.

2. During the autumn/winter cycle of meetings, each Committee has received and approved a budget report, which has been prepared based on the planning framework for Chief Officers:

   - 2% increase in net local risk budgets.
   - All other inflationary pressures to be contained within the budget envelopes.
   - 2024/25 underspends to be carried forward (subject to consultation with the Chairman and Deputy Chairman of Resource Allocation Sub Committee) to address one-off budget pressure and fund transformation opportunities.
   - Continued work on workstreams to review operational property utilisation and income generation.
   - While the Court of Common Council approved funding to address the back log of Cyclical Works Programme (CWP), proposal also included to add a further £15m p.a. split across City Fund and City's Estate from 2028/29 onwards. Members should consider whether this is still included to avoid a future backlog of works. There is a significant risk of not addressing the CWP, increasing deterioration in operational properties subsequently posing health hazards and leading to an increase in major projects programmes – funding has been allocated for 2025/26, and the wider 5-year financial plan, for urgent health and safety works, and to catch up on the backlog of works and forward plan.

3. The overall financial strategies and budget policies for City's Estate are set out in Appendix 1. City Fund's medium-term financial strategy is included in the separate City Fund report.

Current Position

4. After a period of significant economic volatility and the effects of high inflation, the past twelve months have seen a gradual return to stability. However, the high inflation's impact continues to exert pressure as increased costs are now embedded in contracts and wages. Despite stagnation last year, the broader economy is projected to grow by only 1-2% through 2028. Inflation has been highly volatile and significantly above the Bank of England's 2% target in recent years, reaching levels over 11% in 2022/23 but currently down to c2%. In 2025/26 this is expected to drop below 2% before rising back to around 2% during 2027.

5. The potential for a recession in 2025 is a subject of considerable discussion among experts. Opinions differ widely, with a notable degree of uncertainty and risk surrounding the economic forecast for that year. Several factors continue to influence this outlook. While the labour market has shown signs of softening, significant global events such as geopolitical tensions and economic policies in other countries may contribute to economic instability. There remains a risk on income streams, particularly: rental income from investment properties, event bookings, student intakes at the Guildhall School Music and Drama (GSMD)

Furthermore, the Government's imposition of VAT at 20% on independent school fees may lead to a reduction in income for the four City Corporation fee paying schools. This change comes at a delicate time for City Schools, particularly for those like City of London Girls School (CLGS), which are just recovering their pupil numbers.

6. The overall position of City's Estate has improved this year due to the decision to halt the Markets Co-location Programme. Although significant sums will still be incurred under the revised approach, these are expected to be offset by capital receipts. This decision alleviates some of the previous need for substantial asset disposals to cashflow the capital programme. However, City's Estate continues to rely on the growth of its investment assets to support the annual deficit position. In recent years, due to significant external events, asset values have not kept pace with the annual deficit, necessitating close attention to future projects and the level of capacity available within City's Estate. A new Investment Strategy has been adopted which will be crucial for future sustainability. In the interim, increased focus is needed on the income generation proposals and potentially a new savings programme.

7. Whilst individual budgets have changed, the overarching messages from the 2024/25 MTFP remain the same. Those being:

    a. City's Estate runs with an annual operating deficit with planned draw down of assets (property or financial).

    b. The scale of the Capital programme and major projects for City's Estate continues to place significant pressure on the resources available over the medium term and is reliant on future receipts to cover expenditure.

8. When considering the competing pressures and priorities, the newly developed Corporate Plan provides a framework to ensure decisions are aligned to the approved key outcomes (refer to paragraphs 11 to 15 of City Fund Budget report).

Budget Response

9. The budget approach for 2025/26 has been to stabilise the position, acknowledging the headwinds in play, with a net 2% uplift in local risk budget, whilst also looking to review operational property utilisation and income generation.

10. However, following the star chambers and ongoing discussions a number of pressures were identified to either align funding to more appropriate source or support the Corporation's ambitions. These have been added to the budget and are set out in Appendix 2 and further supported by Resource Allocation Sub away day:

    - Following the Government's announcement to increase employers **National Insurance** from April 25, an additional £1.93m has been factored into the budget.

    - Funding allocated to strengthen the Corporation's **Internal Audit Team** to deliver the extensive audit programme - £80k. This is allocated to reinforce the internal audit team and ensure the successful execution of the comprehensive audit programme.

11. Cost pressures or bids for new activities have been identified in individual services by their service committee, these costs need to be funded within the overall envelope, or through the increase in income generation. £1.5m savings have been identified during the 2025/26 budget process and it is recommended that these new pressures be reprioritised from these savings to support the cost pressures:

- As outlined in City Fund budget report, paragraph 17, the following pressures will be shared 50:50 across both funds:

  i. Following the project governance review, the Policy and Resources Committee endorsed the proposals for the new Commercial, Change, and Portfolio Delivery (CCPD) at its meeting in December 2023. Therefore, it is recommended that the £701k of identified savings be allocated to the CCPD budget starting from the fiscal year 2025/26 to support the progress of income generation.

  ii. Last year, it was indicated that an assessment of EEDI pressures was in progress. A total of £401k (across funds) has been allocated from the identified savings for EEDI and added to their budget for the fiscal year 2025/26.

  iii. £300k has been added to DiTS budget to realign where savings from the Agilysys contract relating to Police services were formerly received. This cost pressure has been offset against the original Agilysys savings achieved.

- The following pressures fall under City's Estate:

  iv. The Mayoralty and Shrievalty Budget has experienced additional inflationary costs exceeding the planned 2% due to London Living Wage and related catering costs. It is recommended that an increase of £22k p.a., in the budget is approved, from City's Estate, subject to approval at the Joint Deputation Meeting in April 2025.

  v. The Corporate Charities review has been vital in addressing over 100 years of unresolved governance and understanding charity assets. Temporary funding has been provided over several years to manage this initiative. Given charities are regulated by the Charity Commission, it is recommended that a dedicated charity support hub be established on a permanent basis to support any changes to regulations to ensure compliance and to compete the remaining tasks of the review. The estimated total cost for this endeavour would be £170k, with £130k being recoverable from the charities and the remaining **£40k** is recommended to be funded from City's Estate. This was approved by your Finance and Policy and Resources Committees at their February meetings.

  vi. There is an increase in Gresham College grant of **£97k** (City's Estate) bringing the total annual grant to £840k. Whilst the figure of £840k represents an uplift from the current level of financial support (£743k), the flat-fee basis over the five-year period represents a diminishing sum in real-terms year on year. Both the City Side (approved by Policy and Resources Committee) and the Mercers' Side are fully aligned entirely in this matter and the Mercers' Company has approved identical proposal through its own governance structures.

vii. Additional pressures from London Living Wage inflation have impacted a number of areas, this is still being felt in GSMD mainly, **£423k** It is recommended additional funding is provided offset by savings delivered.

12. When setting the budget for 2025/26, the intention has been to capture and consider pressures as part of that process. Therefore, the use of 2024/25 underspends to fund additional pressures has been considered for exceptional and one-off events. The wider intention is that any underspend on 2024/25 go into reserves reducing the amount required on deficit funding. Underspends of c£15m are currently forecast on City's Estate. The below one-off or time limited funding has been requested by Committees or recommended:

- As outlined in the City Fund budget report, paragraph 18 the following pressures will be shared 50:50 across both funds:

  i. It is recommended that the current transformation funding agreed for 2024/25 be reviewed and, if necessary, supplemented to continue supporting the shift service delivery and cultural change required. The estimated amount needed is likely to be an additional £2m to £3m in 2025/26, to be funded from 2024/25 underspends.

  ii. The current budget allocated to the Human Resources department is insufficient to cover essential business operations, let alone advance the new people strategy. The Corporate Services Committee, Finance Committee, and Policy and Resources Committee have acknowledged that budget cuts in previous years have severely impacted services. Consequently, they have supported temporary funding of £1.8m p.a. for up to three years to assist in revitalising the department. The implementation of the new Enterprise Resource Planning (ERP) system will significantly enhance efficiency and improve service delivery. It is therefore recommended that the temporary funding be supported through the underspend carried forward from the 2024/25 budget.

  iii. With the Learning & Development Strategy now embedded as a core component of the People Strategy, each element presents essential training demands. Work is underway to review the total training costs being incurred across the Corporation, however, appreciate that this could take some time to get underway as it involves collating and negotiating with Chief Officers. Recommendation is that Transformation funding be explored for the current year and next - c£810k.

  iv. £3m funding is required over three years to bring in a strategic partner to support the Town Clerk's Transformation Programme. This programme aligns with the Five Years vision and aims to promote organisational excellence, financial sustainability, and prepare the City Corporation for a digitally focused, AI-driven future. It is recommended that this be funded through the transformation fund.

  v. £447k p.a. for the next three years has been temporarily added to the DITS budget for the ERP Support team and out of hours services, funded by Agilysys savings. Ongoing allocations for the new ERP system will be reviewed and updated post implementation.

vi. £300k. As highlighted last year, 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. In addition to interim Chief Officer arrangements being in place (commencing Oct 2024), there is a focus on greater efficiency and effectiveness seeing a reduction in overspends, wholesale reform is still required. Therefore, the recommendation for one-off funding is supported for 2025/26 from 2024/25 underspends with permanent funding solution addressed under the 2026/27 budget setting process.

- The following pressures fall under City's Estate:

i. The Lord Mayor's Show has historically been profitable, but post-Covid financial challenges have made traditional revenue streams less reliable, and there is a need to establish a more sustainable funding model. This in addition to the 12% budget reduction imposed by the previous savings programme which has meant Corporation departments providing services in support of the Show are no longer able to absorb costs within their own local budgets. This has resulted in significant activity over the last year to provide an evidenced baseline and gap analysis to underpin future commercial opportunities. Funding for the next five years is recommended through transformation funds or carry forwards starting from 2025/26.

ii. The Guildhall Club has been operating under a flat cash budget and continues to face financial pressure. There is an upcoming review that will include measures agreed to address wastage, which is anticipated to result in some improvement. Additionally, the contract for the club and catering services is due to go out for tender imminently. In the interim, it is recommended that one-off funding be applied to the 2025/26 period through carry forwards. The pending review aims to align pay and prices and address wastage due to no-shows. The review results are expected to be presented in 2025.

iii. The nature of Mansion House involves both political and fiscal decisions. Previous savings programs have required Mansion House to assume costs previously supported by other departments. The ongoing work to commercialise Mansion House will always be restricted by the venue's multiple uses for other national political, City civic, and international efforts to project UK soft power, which result in significant financial and commercial opportunity costs for it. It is therefore recommended that these pressures be addressed. Budget pressure discussions have occurred with both the Chamberlain and Efficiency and Performance Working Party. As work is ongoing, it is recommended that temporary funding between £0.8m to £1m, from 2024/25 carry forwards, be provided to address pressures during 2025/26, with a detailed proposal for a permanent measure to be presented during the 2026/27 budget setting process.

iv. Last year, the Court of Common Council approved funding for the Natural Environment Charities Review. Progress has been made in exploring potential improvements, and recommendations will be presented to the

Finance Committee, Resource Allocation Sub Committee and Policy and Resources Committee during its January/February meetings. An additional funding request of £1.57m over two years is proposed to support the implementation of changes in the management, governance, and funding of the Natural Environment Charities, aiming to make them more sustainable in the future. It is recommended this funding is requested from the existing transformation fund.

v. One off additional funding of £187k required for the Gresham Almshouses for repair works as approved by Finance Committee in October 2024.

vi. The Guildhall School of Music and Drama (GSMD) has experienced fixed student fees over the past 13 years, while costs have increased with inflation. However, this increase has not been reflected in student fees. Projections indicate an increasing financial pressure amounting to £2.5m for the 2025/26 financial year. Although mitigating strategies are being considered, it is recommended that temporary funding by provided to GSMD from underspends carried forward from 2024/25, The exact amount will be determined during the carry forward process in May 2025.

vii. The City of London Girls School (CLGS) has made significant changes to its operating model, educational programme and facilities, and increased its pupil roll to close the gap with the experience of boys at City of London School (CLS). However, the recent introduction of VAT may affect progress if this growth cannot continue through recruiting enough sufficiently able pupils to perpetuate results, the principal marketing element of academic schools of this standing. Raising school fees beyond current proposal would have serious consequences and require significant cost savings, which are not feasible. Since the Service Based Review in 2014, the reduction in the Corporation’s grant for bursary support has led to a reprioritisation of school fees to maintain bursaries, with approximately 6% - now funded through school fees. While it is common for private schools to allocate fees to supplement bursaries, the extent to which CLGS is doing so is unprecedented. Reducing bursary places could offset financial impacts but contradicts the school’s ethos of diversity and accessibility. Though external funding is ongoing, it will take years to sufficiently support this reallocation. Members should note that CLGS was the only school to deliver annual savings of £598k against the Service Based Review. The Schools Board of Governors agreed to these savings with the understanding that they would be reinstated after seven years, following which the Tomlinson review occurred without considering the already delivered savings. Therefore, it is recommended that transitional relief be provided from an equality’s perspective. This requires further work and discussions, during January, on the amount and duration of the relief to address financial challenges, noting that the Court of Common Council has already established the level of education funding following the Tomlinson Review.

viii. Two budget pressures have been identified by the Markets Board for Smithfield Market totalling £698k. These relate to the freeze in service charge cap at Smithfield, which has been in place since 2018/19 and ongoing residual costs following the Poultry market closure. Up to the financial year 2023/24 these pressures have been managed within the Chief

Officer’s overall local risk budget but 2024/25 shows an overspend which will significantly worsen in 2025/26. It is, therefore, no longer possible to contain this pressure within the local risk budget without making significant savings in the service, which would be on top of the £334k savings already planned for 2025/26 for Smithfield Market. Given the decisions made in December 2024 around the future of the markets, Members may wish to consider providing temporary funding for the period of three to four years to alleviate the financial strain until the market is formally dissolved.

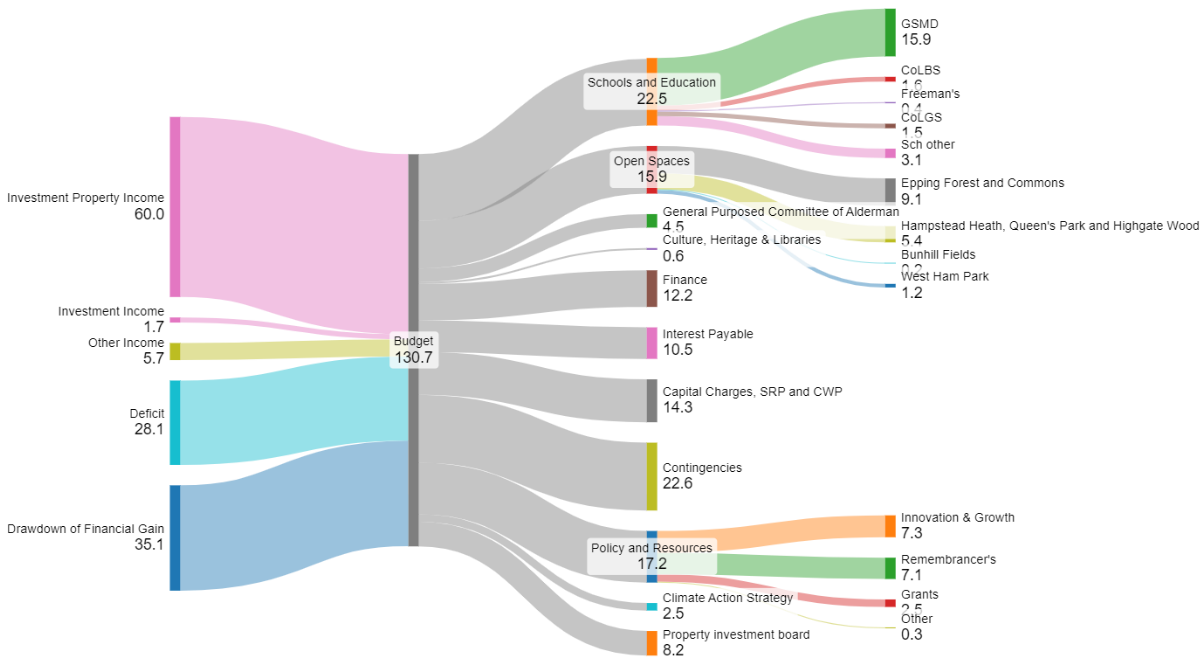
ix. It is advisable to carry forward an amount from 2024/25 underspends to mitigate inflationary pressures, such as energy costs and unforeseen contract increases due to the rise in London Living Wage. Members should note that a review of energy budgets will be conducted during 2025/26, with proposals to address any budgetary gaps to be presented during the 2026/27 budget setting process.

Latest forecast position

13. City’s Estate does not fall under the same financial regulation as City Fund. However, we still need to maintain a sustainable financial outlook, of which a balanced annual position should be the aim. **All City’s Estate reserves are invested to maximise return**. **Therefore, any deficits being incurred require assets to be disposed.** Chart 3 below, sets out the 2024/25 net budget position for City’s Estate, to show in broad terms where the funding comes from on the left-hand side and where it is spent on the right-hand side.

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

Chart 3: 2024/25 net budget



15. Following the November Court decision to end the Markets Co-location programme, the budgets have been updated to reflect plans agreed upon in

principle to provide market traders with financial support for relocation to new premises. Although there are costs associated with this new approach, they are anticipated to be offset by capital receipts. These costs will impact the revenue budgets, resulting in a notable variance from one year to the next over the five-year financial plan. Chart 4 and table 2 below illustrates that City's Estate income and expenditure (excluding major project financing, CWP and business as usual (BAU) capital programmes), will start to show a small deficit beginning in 2028/29. However, when including major project financing, compensation, CWP and BAU capital costs, significant fluctuations occur over the five-year financial plan, influenced by the timing of expenditure and profits received from existing sites related to the markets programme.

Chart 4: City Estate surplus/deficit

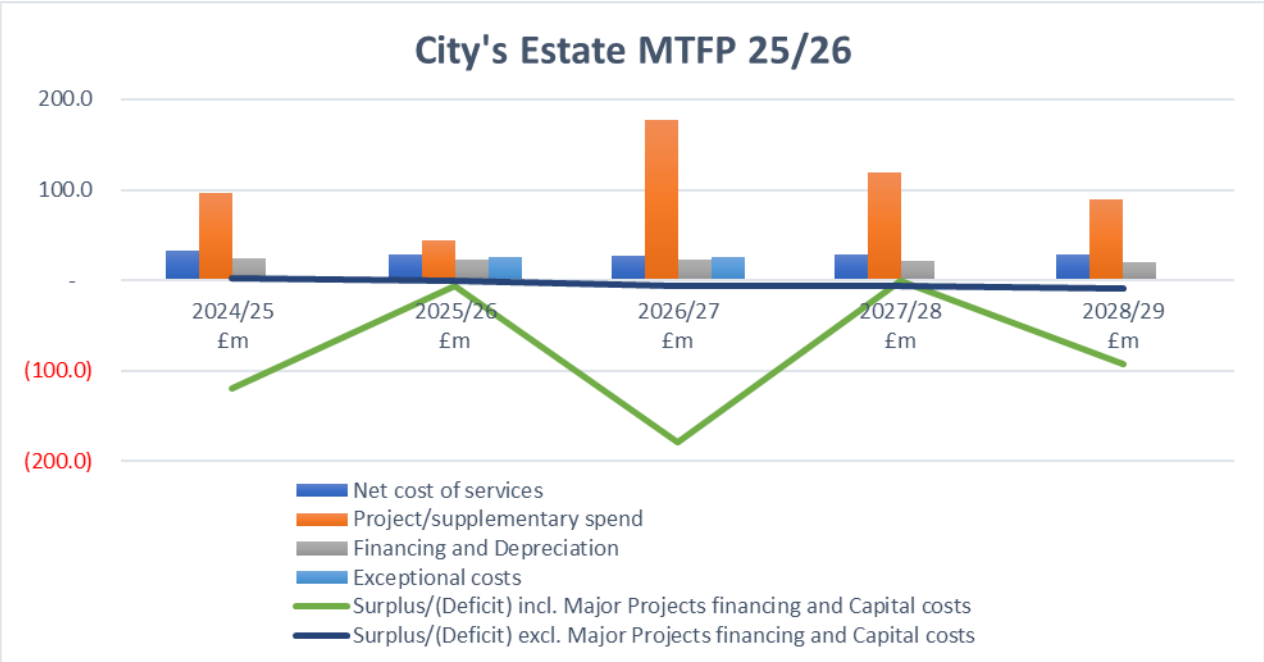


Table 2: City's Estate 5-year financial plan

CITY'S ESTATE	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Net cost of services*	6.5	4.5	2.5	0.8	(2.6)
Projects					
Supplementary Revenue Projects	(5.8)	(5.9)	(0.1)	-	-
Cyclical Works Programme	(10.4)	(17.5)	(22.2)	(23.2)	(26.4)
Climate Action	(2.5)	(1.0)	(0.7)	-	-
Major Projects Revenue Implication	(60.4)	65.4	(112.9)	56.1	(27.2)
Capital Programme Funding	(18.8)	(25.5)	(19.0)	(8.7)	(15.1)
Surplus/(Deficit) before capital financing	**(91.3)**	**20.1**	**(152.5)**	**25.0**	**(71.4)**
Depreciation	(14.3)	(12.9)	(12.9)	(11.4)	(9.0)
Loan interest cost	(10.5)	(10.5)	(10.5)	(10.5)	(10.5)
Surplus/(Deficit)**	**(116.2)**	**(3.4)**	**(176.0)**	**3.1**	**(90.9)**

*Net cost of services includes, business as usual income and expenditure, plus a draw down from financial gain.
** Note, capital expenses for major projects are excluded from the revenue budgets which affects the balance

sheet.

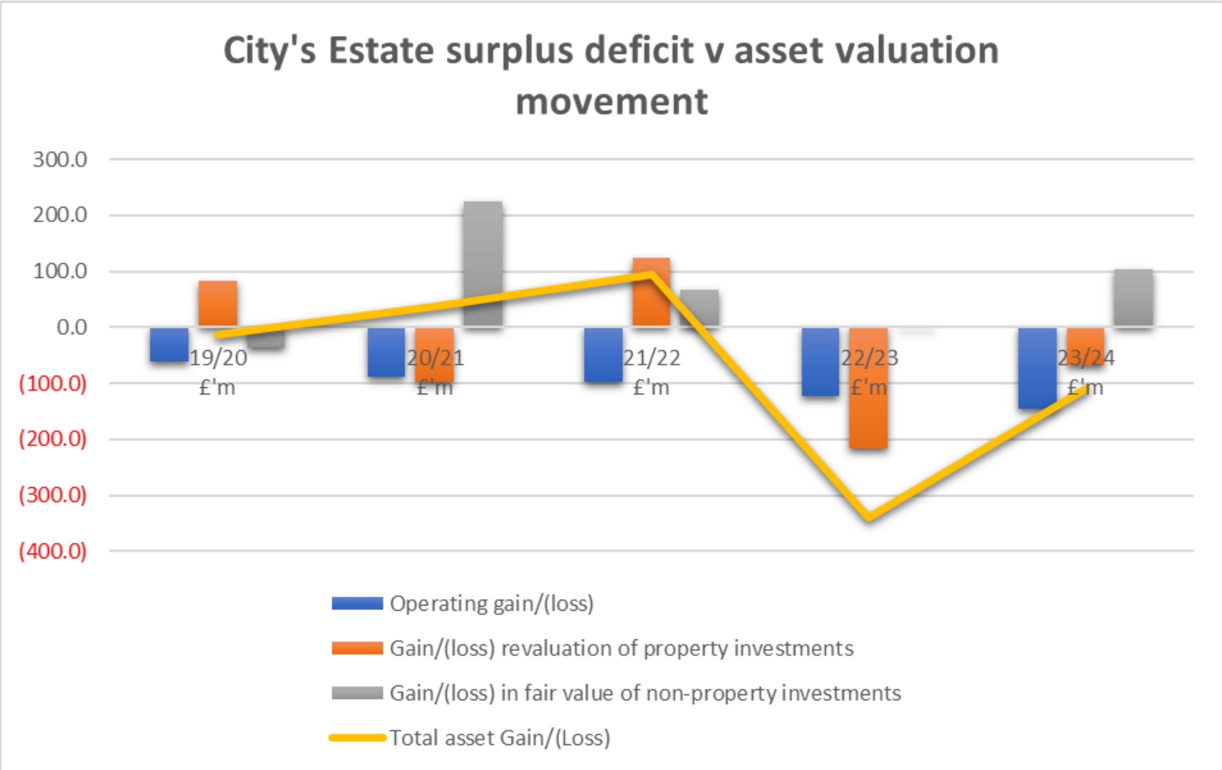
16. The following areas are significant changes from the prior year's 2025/26 MTFP position:

    - Change in funding requirements for BAU Capital programme through slippage and reprofiling (£19.8m)
    - Decrease in revenue costs for major projects through reprofiling (£4.7m)
    - Increase in income (£4m)

17. Over the 5-year financial plan the cumulative deficit is £383.4m. This is in addition to an estimated drawdown on financial asset gain of £177m included within net cost of services. The ongoing annual deficits on City's Estate has a significant cashflow implications over the 5-year financial plan, for which the Corporation will need asset disposals to offset. This is expected to be a combination of both property and non-property investments and is being considered as part of the investment strategy presented to Investment Committee in February 2025.

18. Chart 5 below shows a comparison of the growth in asset values over the past five years. It shows that for the past two years the deficits incurred have not been offset by valuation increases in property and non-property investments. The investment strategy is therefore key to reversing this trend and ensuring the investment growth is sufficient to cover operating deficits. Short term volatility is to be expected in investment asset valuation and the investment strategy requires a return of CPI+4% over a 10-year period. The long-term target is being met by the investment portfolio, but with more challenging market conditions ahead, implementation of the strategy will involve greater diversification in the investment portfolio.

<u>Chart 5: City Estate surplus/deficit v asset valuation movement over the past five years</u>



19. Cyclical Works Programme: Over a number of years, a significant backlog of works as part of the cyclical works programme (CWP) has built up, also referred to as the "bow wave". In response to this, Court of Common Council approved funding of £133m and to add a further £15m p.a. split across City Fund and City's Estate from 2028/29 onwards.as progress on delivering these projects has been slowed as the delivery team has just been appointed but this is now in place. The funding has been reprofiled over this updated MTFP.

20. Capital Business As Usual: The Resource Allocation Sub Committee has provisionally approved allocation of £2m for new capital programmes in City's Estate. Given the broader financial constraints within City Fund and City's Estate no new proposals were solicited as part of the 2026/27 MTFP process, instead, it is recommended that these amounts be maintained as contingencies to address unforeseen pressures. A re-prioritisation of existing allocations is also recommended to identify future capacity to avoid overstretching available resources.

21. Table 3 below includes the above contingency and reprofile of the capital programme over 5 years. For further information please refer to Appendix F (City Fund report, page 15 - 16).

<u>Table 3: City's Estate BAU Capital Programme</u>

CITY's ESTATE	**Budget 2024/25 £'m**	**Budget 2025/26 £'m**	**Budget 2026/27 £'m**	**Budget 2027/28 £'m**	**Budget 2028/29 £'m**	**Total Budget £'m**
BAU Capital and SRP	53.5	70.5	22.0	13.7	20.1	**179.8**

22. <u>Major Projects Programmes</u>: The budgets for major projects programmes have been updated to reflect recent decision and presented in Table 4 below. Funding is currently assumed through planned capital receipts from the disposal of investment property; plus, a drawdown on financial investments. The implications of disposal of these investments, which currently support the City's Estate revenue position, has been included in forecasts. For further information please refer to Appendix F (City Fund report).

<u>Table 4: City's Estate Major Projects</u>

CITY ESTATE – Gross Exp	**F'cast spend 24/25 £'m**	**Budget 25/26 £'m**	**Budget 27/28 £'m**	**Budget 27/28 £'m**	**Budget 28/29 £'m**	**Total Budget £'m**
Museum of London Landlord works	23.8	(9.9)	(0.1)	-	-	13.8
Grant to CF for SSD	45.3	105.2	35.5	5.5	-	191.5
Total	**69.1**	**105.2**	**35.5**	**5.5**	**-**	**205.3**

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

23. While significant decisions have been made this year thereby improving the long-term sustainability of City's Estates balance sheet, these measures alone are

insufficient to address ongoing deficits. This report read in conjunction with the City Fund 2025/26 budget report recommends a number of measures to stabilise the position over the medium and longer term. This includes: No further funding be sanctioned for new major capital projects at least for the next 5 years, allowing time to establish the newly approved Investment Strategy; Developing a savings plan under the Town Clerk's Transformation Programme; Reducing deficit funding for charities to ensure the sustainability and future viability of both Charities and City's Estate.

24. The considerable costs required to bring the Markets consolidation programme to a close are anticipated to be offset by capital receipts that have already been factored into the MTFP for City's Estate. Delivering these receipts in line with projected values and timing is key.

Additional Revenue Requests

25. Your Policy and Resources and Finance Committees have messaged clearly that cost pressures should be managed within existing resources. When setting the budget for 2025/26, the intention has been to capture and consider pressures as part of that process. Therefore, the use of 2024/25 underspends to fund additional pressures has been considered for exceptional and one-off events. The wider intention is that any underspend on 2024/25 go into reserves in order to reduce the draw down required to fund the deficit.

GUILDHALL ADMINISTRATION

Overall Budget Position

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

Table 5 – Guildhall Administration Revenue Budget

Guildhall Administration	**2024/25**	**2025/26**
by Committee ***Net (Expenditure)/Income***	**Budget** **£m**	**Budget** **£m**
Corporate Services	(8.1)	(8.6)
Digital Services	(13.1)	(13.1)
Finance	(55.6)	(60.3)
Total Net Expenditure	**(76.8)**	**(82.0)**
Recovery of Costs	76.8	82.0
Total Guildhall Administration	0	0

27. The 2024/25 budget benefits from carry forwards from 2023/24 underspends and transfers from centrally held contingencies. The 2025/26 Budget includes higher CWP budgets due to reprofiling.

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

City’s Estate Capital

29. Members are asked to **note** that the Resource Allocation Sub Committee has provisionally approved allocations of £2m in City’s Estate. Given the broader financial constraints within City Fund and City’s Estate no new proposals were solicited as part of the 2026/27 MTFP process, instead, it is recommended that these amounts be maintained as contingencies to address unforeseen pressures. A re-prioritisation of existing allocations is also recommended to identify future capacity to avoid overstretching available resources.

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

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

31. Within the City Corporation’s Control:

    - Ensuring permanent year on year permanent savings from existing savings programme and income schemes are delivered;
    - Radical thoughts now needed for future as to how best to bring down the annual operating deficit;
    - ERP Implementation - The Corporation must adopt best practice processes. Key benefits are to support a more mobile workforce; automate processes and introduce AI capabilities through a modern platform; provide direct access to staff and free up strategic capacity; provide a single source of the truth with enhanced analytics. If the Corporation fails to adopt to new ways of working the consequence will be that the current manually intensive processes with inbuilt failure demand will continue and the directly planned benefits of £600k pa (which are planned to commence in 2026/27 full finance go live) will not be realised in additional to impact the wider organisation transformation planned benefits of £500k pa.
    - Ability to retain / recruit staff under the current salaries structure; Our Ambition 25 programme of change will create solutions to address this risk.
        - Create a new total reward strategy designed to meet the ambitions of a world class organisation, attracting, and retaining the best talent.
        - Create a job family framework that supports the Corporation’s Head of Profession approach, tackles existing silos, and promotes transferable skills.
        - Implement a proven, robust job evaluation method to enable risk management, equity, and fairness.
        - Create and implement new pay and grading structures that address current challenges regarding market competitiveness and prevalence of allowances, with the appropriate controls to manage risk.
    - Climate Action - with the current budget envelope expiring at the end of 2026/27, additional funding will be required to support delivery of the 2040 net zero and climate resilience targets between 2027/28 and 2039/40. Your Policy

and Resources Committee approved a paper developing the next evolution of the Climate Action Strategy at its January 2025 meeting. Costed options for the future strategy will be presented in summer 2025, with initial estimates between £10-22m annually.

- 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.
- Ongoing operational building upkeep and renewal – whilst the CWP programme address the historic backlog of cyclical works required for those assets within this programme (excludes ringfenced schools, service charged assets and CoLP), a forward look is also needed to consider the financial cost of future building upgrade and fabric refurbishment in line with property lifecycles. Due to the post war age of much of the portfolio and funds available focussed on cyclical works this means a significant proportion of the estate require upgrading works over the next twenty-year period. Consideration of the ongoing costs and benefits of properties and the services delivered from them need to therefore be carefully considered to ensure any such investment is aligned to corporate plans and strategies.

32. Outside the City Corporation's control:

- Inflation and interest rates – over recent years the impact of inflation has been the single biggest external driver of financial pressures. Having peaked at over 10%, inflation has now fallen significantly to reach 2% by Q2 of 2024. However, the price increases incurred are now embedded in a number of areas. The Office for Budget Responsibility (OBR) are forecasting that inflation will fall further to a level below 2% before stabilising at around 2% from 2027 onwards. Conversely over this period the increase in interest rates has provided additional income which has supported both City Fund and City Estate. Forecasts are again that interest rates will stabilise continue to reduce in 2025 so this additional income cannot be seen as ongoing. The resource requirements for the Capital programme also mean that investment and cash balances which are benefiting from these increased rates are likely to deplete over the MTFP period.
- Economists warning of a UK (global) recession during 2025, impact on income streams is unknown, particularly: rental income, event bookings, and student intakes – this needs close monitoring.
- VAT for schools - the imposition of VAT at 20% on school fees will likely lead to a reduction in income for schools, as VAT will account for 20% of all school fees collected. This change comes at a delicate time for City Schools, particularly for those like City of London Girls School (CLGS), which are just recovering their pupil numbers. Your Finance Committee noted that this had been raised as an equalities implication as it could impact what could be used for bursary funds, and a future report requesting funding would return to the Committee.

Conclusion

33. Despite an overall trend towards a more stable economy given recent global events and high-inflation, there are still significant pressures impacting on the City Corporation.

34. Additional funding will be required across the medium term to accommodate changes in pay (national insurance) and price uplift assumptions. Decisions are also required as to the approach to addressing the projected future cyclical works and forward plan on the City Corporation's operational properties following the resolution of the backlog.

35. The overall position of City's Estate has improved this year due to the decision on the future of the markets and although significant sums will be incurred under the revised approach, these are expected to be offset by capital receipts. This does alleviate some of the need for substantial asset disposals to cashflow the capital programme however City's Estate continues to rely on investment growth to maintain balance sheet stability and support the annual deficit position. A new Investment Strategy has been adopted which will be crucial for future sustainability and in the interim focus is needed on income generation and potentially a new savings programme.

Appendices

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

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

DATED this 18th Day of February 2025.

SIGNED on behalf of the Committee.

Deputy Henry Nicholas Almroth Colthurst
Chairman, Finance Committee