

Committee:	Dated
Finance Committee	23 rd June 2020
Subject: Impacts of COVID -19 on Revenue Budgets at Period 2 2020-21	Public
Report of: Chamberlain	For Information
Report author: Laura Yeo, Senior Accountant, Financial Services Division	

Summary

A full budget monitoring exercise has taken place with all Chief Officers asked to provide year end forecasts estimating the impact of COVID-19 on their 2020/21 budgets. Early estimates for services most impacted by loss of income and increased expenditure were reported to your Committee on 19th May and indicated a monthly net of loss at the end of April of some £5.0m with potential year end net overspend of between £50m and £70m when taking into account potential loss from rents. It was therefore important to undertake a full budget monitoring exercise at the earliest opportunity to gain a better estimate of the impact across all departments.

The estimated overall forecast year-end overspend across all the funds is an improved position of £30.4m (average £3m per month across the year). This comprises an adverse variance of £21.6m (9%) on Chief Officer Cash Limited Budgets mainly on City Fund, and an adverse variance of £8.8m (20%) on Central Risk Budgets excluding The City Bridge Trust (CBT) grant giving and London Community Response Fund (LCRF) advance commitments.

Chief Officer Cash Limited Budgets

The year-end forecast for Chief Officer Cash Limited Budgets is an overspend of £21.6m against the latest approved budget of £243.8m. This includes significant forecast overspends for the Barbican Centre (£13.3m) and Open Spaces (£5.0m). This is partially offset by the underspend for the City of London Police (CoLP) (£4.0m).

Central Risk Budgets

At Period 2 the year-end Central Risk Budgets are forecast to be £8.8m worse than the latest approved budget of £44.6m. The forecast excludes CBT grant giving and LCRF advance commitments.

Fund Position

The overall (Local and Central Risk) forecast year-end position is £30.4m worse than budget, with Guildhall Administration apportioned across the three funds gives adverse positions of £20.8m on City Fund, £5.6m on City's Cash and £4.0m on Bridge House Estates.

Recommendation

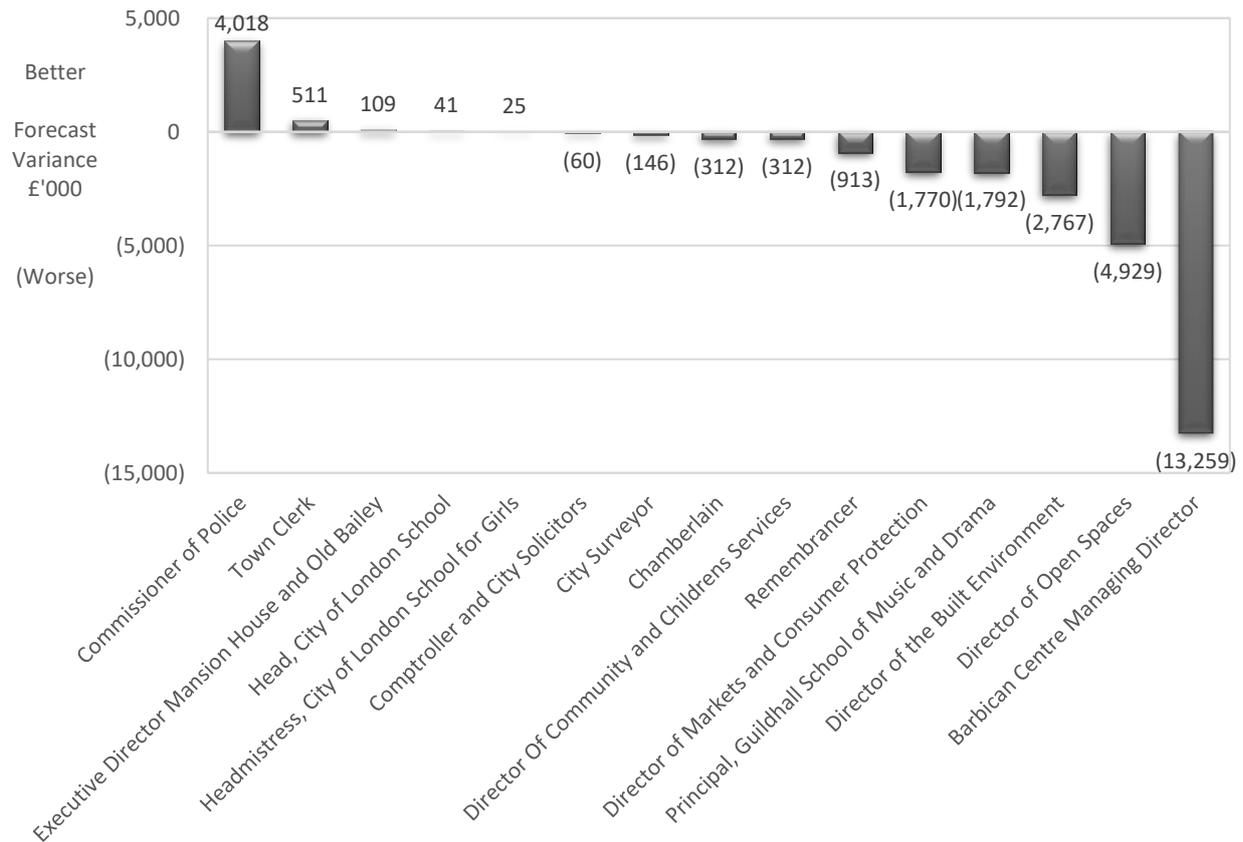
Members are asked:

- i. to note the report.

Main Report

Chief Officer Cash Limited Budgets

1. A full budget monitoring exercise has taken place with all Chief officers asked to provide their year-end forecasts and take account of the following: -
 - Firm up on the estimated direct COVID-19 net impact on your 2020/21 budget arising from lost income or additional costs. Including their best estimates, based on what we know now, of the continuing impact in the next financial year and possibly beyond. Where this is uncertain provide a range of impacts i.e. best/ most likely/ worst case.
 - Any indirect cost impacts, arising from cost saving initiatives that it has not been possible to progress due to COVID-19, and any 'windfall' savings that have emerged or are likely to emerge, as a result of activity not happening or delayed recruitment, for example
 - Any additional savings that can be identified from stopping or reducing discretionary spend during the remaining part of the year to help address the significant overall emerging deficit. Also, to flag any income opportunities that might be possible to take forward in the current climate, recognising that the prospects are likely to be limited.
2. The year-end forecast is an overspend of £21.6m against the latest approved budget of £243.8m. Chief Officer variances against net local risk budgets are shown in the below chart and in Appendix 1 by Fund.



3. The forecast position comprises an adverse variance of £42.4m on budgeted income of £288.8m, partially offset by a favourable variance of £20.8m on budgeted expenditure of £532.6m. Appendix 2 provides income and expenditure budget variances by Chief Officer.
4. Note there is very little change to the departments most hit by income reduction.
5. The Barbican Centre are forecasting an adverse variance of £13.3m at year end. This comprises a shortfall of £22.4m on income due to the centre being closed following the effect of Covid-19, in addition to limited activity being forecast for the remainder of the financial year due to social distancing measures. This is partially offset by expenditure savings of £9.1m due to activity reductions as well as a hold on all non-essential expenditure.
6. Open Spaces is forecast to be overspent by £5.0m due to reduced income from the ongoing pandemic. This comprises losses from closed attractions and facilities, shortfalls in rental income and reductions in projects that are being delivered in the City.
7. The Built Environment had budgetary pressures before COVID-19. Their forecast overspend of £2.8m includes an overspend carry forward of £236k. Their projected loss has further significant impacts due to COVID-19 on income streams across the department, most significantly within off-street parking, traffic management, public conveniences and building control services,

together with a reduction in income from staff recharges to capital projects, also due to COVID-19.

8. Guildhall School of Music and Drama is forecast to be £1.8m worse than budget. Forecast changes to date reflect latest estimates for lost income as a result of cancelled programmes and activities due to Covid-19. It also includes a number of currently vacant posts that are likely to be removed pending further review in the coming months, along with additional costs incurred as a result of Covid-19.
9. The majority of the adverse forecast in Markets and Consumer Protection relates to a substantial decrease in income generation from Heathrow Animal Reception Centre, which has resulted in a projected overspend of £1.8m. Additionally, there has been loss of income from car parking at Smithfield Market Rotunda and not charging business rates to Smithfield Market tenants, and costs related to additional staff at the Ports for Brexit preparations
10. Remembrancer is also overspent by £0.9m due to no private event hire at Guildhall since the start of the financial year. No events are likely until at least late autumn. 3 of the 4 most lucrative months in the year - May, June, September and November - will achieve nil or very nearly nil income.
11. CoLP are forecasting an underspend of £4.0m by the end of the year. This is primarily due to a pay underspend of £7.6m , based on current workforce and recruitment plans. CoLP are also able to claim losses as a result of COVID-19 from the Home Office as part of the 'ring-fenced £1.2m uplift grant'.
12. Whilst there are some forecast underspends on local risk budgets e.g. within Town Clerks (Innovation and Growth £200k), there has not been any significant 'windfall' sums identified that can be offered up from within the departments local risk budgets towards the forecast deficit.

Central Risk Budgets

13. At Period 2 the forecast for Central Risk Budgets is an adverse variance of £8.8m against the latest approved budget of £44.6m. This figure excludes CBT grant giving advance commitments (£36.6m) and London Community Response Fund commitments (£7.8m).
14. This comprises an adverse variance of £15.9m against budgeted income of £256.3m, partially offset by a favourable variance of £7.1m against budgeted expenditure of £211.7m. The key budget areas are addressed in the following paragraphs.

Corporate Income Budgets

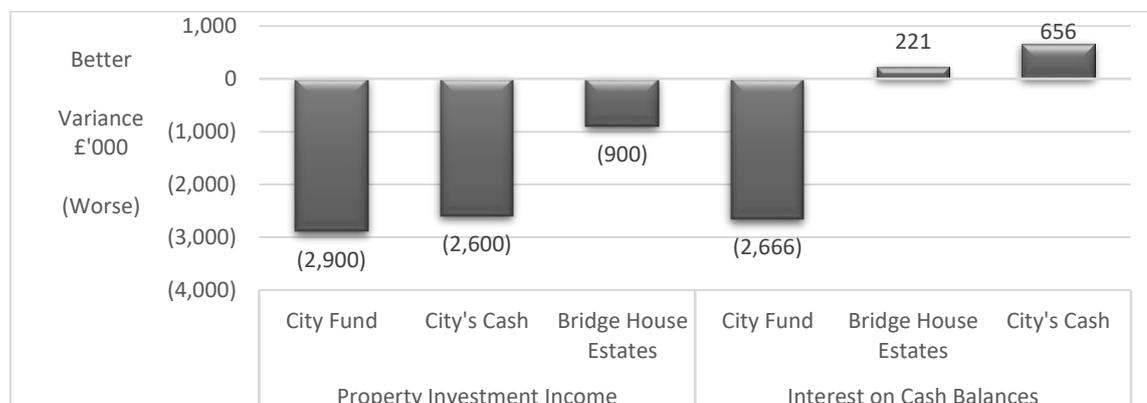
15. Property Investment income at Period 2 is forecast to be £6.4m worse than budget of £136.1m and comprises:

- City Fund £2.9m adverse – Due to COVID-19 assessment of tenant rent frees and rent deferrals (£1.4m), a further provision for rent and lease expiries for strategic micro businesses (£0.5m), and assumption that the stretch rent target (£1.0m) will not be met.
- City's Cash £2.6m adverse – Due to COVID-19 assessment of tenant rent frees and rent deferrals (£2.1m) and assumption that the stretch rent target (£0.5m) will not be met.
- Bridge House Estates £0.9m adverse – Due to COVID-19 assessment of tenant rent frees and rent deferrals (£0.8m) plus an allowance for a further rent free for serviced office provider at 23 Finsbury (£0.1m).

These figures come with a big health warning and forecasts will be revised at the end of the June quarter.

16. Interest on cash balances in money market funds are anticipated to be £1.8m below budget of £8.3m at year-end. Elements of the forecast are subject to a lot of uncertainty, principally around the likely direction of interest rates but also over cash balances. At the moment, it is assumed, in line with our treasury advisors, that Bank of England's base rate will stay at 0.10% for the remainder of the year and that our returns will gradually gravitate towards that level over the course of 20/21. It is at least possible that rates could be reduced to zero or go negative in the coming months as the economic damage of Covid-19 is revealed or in the event of a second wave and a fresh attempt at monetary support is required. Naturally, this would reduce interest income even further.

17. Property Investment Income and Interest on Cash Balances variances against net local risk budgets are shown in the below chart.



The City Bridge Trust Grants Budget

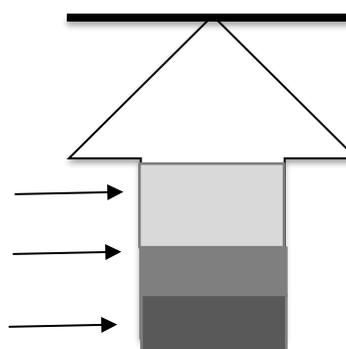
18. An additional £25m was approved under the Bridging Divides programme bringing the total sum approved to £125m over 5 years. In March 2020, Court also approved £200m (from BHE free reserves) to be disbursed as Main Grants. CBT are forecasting to commit £62.5m by the end of March 2021, £45m of this from the new £200m and the balance from the existing £125m Bridging Divides programme.
19. Within the original budget for 20/21, CBT included £26.2m under its Bridging Divides programme for in-year grant commitments. This amount now stands at £23.5m due to additional commitments having already been made in the latter months of 2019/20 from this 5-year funding programme.
20. Of the £200m unrestricted income funds held in reserves that were allocated to CBT by Court in March 2020, the latest forecast is to commit approx. £45m of these during 2020/21. These amounts are not included in the original 20/21 budget.
21. Following the Covid-19 pandemic, a total of £7.6m has been donated to BHE for the London Community Response Fund (LCRF), a restricted fund within BHE. In addition to this, CBT has redirected £6m of the allocation under its Bridging Divides programme to the LCRF, giving a total £13.6m for this programme. £1.8m of this income was received in late 2019/20, so is held in the year-end reserves awaiting spend in 20/21. The LCRF will therefore have £7.5m of new grant commitments within 20/21 expenditure, that have been excluded from the Central Risk Budget. At present the regular funding programmes operated by CBT have been 'paused' for a few months to enable staff to focus on the LCRF. Due to this, resources are being redirected where possible, however some additional costs are required within the forecast (such as staffing & legal fees) to administer these additional funds.

**Total £125m over 5 years plus
additional £200m**

2020-21: Forecast £62.5m

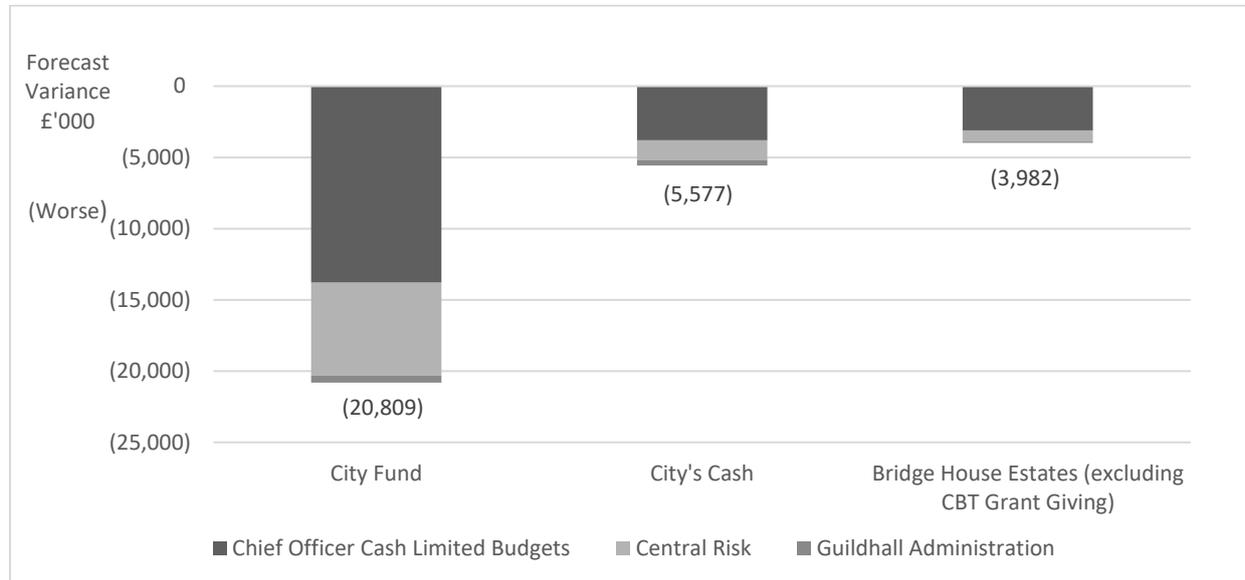
2019-20: Outturn £29.4m

2018-19: Outturn £20.3m



Fund Position

22. The overall (Local and Central Risk) forecast year-end position is £30.4m worse than budget, with Guildhall Administration apportioned across the three funds gives adverse positions of £20.8m on City Fund, £5.6m on City's Cash and £4.0m on Bridge House Estates.



Business Rates

23. For Business Rates, the impact on non-payment due to COVID-19 will not hit our budgets until 2021/22. The Collection rate is down by 12% compared to our original estimate of 40%.
24. There could be an impact on business rate premium in this financial year, with the worst-case scenario of a reduction in income of £1.5m.

Conclusion

25. Members are asked to note the Period 2 forecast year-end position of £30.4m worse than budget position comprising adverse variances of £21.6m on Chief Officer Cash Limited Budgets and £8.8m on Central Risk Budgets. This is an improved position on earlier forecasts of between £50m and £70m.

Background Papers

Briefing 2 – Financial impact of COVID 19 on 2020/21 at month end of April 2020: Finance Committee – Non-Public on 19th May 2020

Appendices

- Appendix 1: Chief Officers Cash Limited Budgets by Fund
- Appendix 2: Chief Officers Cash Limited Budgets – Income and Expenditure Budget Variances

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