

Committee: Resource Allocation Sub-Committee	Date: 18 September 2020
Subject: 2021/22 Revenue Budget setting	Public
Report of: Chamberlain	For Decision
Report author: Caroline Al-Beyerty, Deputy Chamberlain	

Summary

This paper sets out the size of challenge for, and proposed high-level approach to, setting 21/22 revenue budgets.

The context could not be more challenging: external funding for the Corporation and Police is likely to be squeezed after the Government's autumn spending review and damage to our finances from COVID pandemic is unlikely to be restored by 2021/22. We are likely to see a continued impact on income, including in the Barbican; on our rental income; and on a number of the fundamental review previously agreed initiatives. It will be a year of transition to a new operating model. And yet the scale of budget reductions required will still be significantly less than those faced by many local authorities and public sector organisations more generally.

The flight path agreed by Members means that incremental savings of about 12% corporately need to be achieved. Making early progress on the implementation of the target operating model (TOM) will play an important part in delivering the required savings, but further savings will be needed.

The key consideration for Members is how to best distribute the 12% reduction across our services by making some difficult choices and prioritising spend.

In view of the challenges and the fact that 'one size does not fit all', it is proposed to set an 'envelope' for each service committee to deliver within, prioritising their service delivery through business planning over the winter and early spring. Recommendations for the size of resourcing 'envelopes' to be underpinned with bilateral meetings (building on the constructive initial round between RASC Chair and Deputy, with those Chairmen and services most impacted by COVID), encouraging open and collaborative discussion between Chair and Deputy Chairmen of this Committee with Service Committee Chairmen and Chief Officers on how our services can be delivered more smartly and efficiently, informed by our COVID experience and different ways of working.

In recent years some service committees have also asked for additional resources. This year, given the unprecedented financial challenges, it is proposed that the 'envelope' is the 'envelope'- reprioritisation is critical to maintain the integrity of the

MTFP. Any carry forwards from the 2020/21 budget should also be kept to a minimum.

Recommendations

Members are asked to:

- Note the extremely challenging financial context for 21/22 budget setting, as discussed at recent Resource Allocation Sub Committees and the transition period to a new target operating model.
- Approve the proposed approach to set financial envelopes for each Service Committee to prioritise their own service delivery through the business planning process later in the year.
- Approve the proposed approach using bilateral meetings with service committee chairmen to inform the reduced budgetary envelopes in 21/22, together with a report back to the December RASC on proposed allocations.

Main Report

Medium-Term Context

1. The Medium Term Financial Plan (MTFP) update for July Resource Allocation Sub Committee away day and subsequent confirmation of a savings resulted in a flightpath to put the Corporation's finances onto a sustainable footing and to meet our statutory requirement to balance the City Fund. This results in the following summary position:

City Fund	20/21 £m	21/22 £m	22/23 £m	23/24 £m	24/25 £m
Cumulative flightpath	4.6	18.5	25.0	33.9	36.2
Residual surplus / (deficit)	26.9	(6.5)	0	(4.0)	0
City's Cash					
Cumulative flightpath	2.0	11.8	17.3	20.7	22.7
Revised surplus / (deficit)	(16.6)	(8.2)	2.9	2.2	0.1

** Subject to successful £13.6m claim to MHCLG for sales, fees & charges compensation*

2. City Fund reserves – the Major Projects reserve is expected to be fully utilised on Fleet Street Estate and Museum project by end of 2022. The general reserve is held at £20m, which we consider to be prudent for the size and complexity of fund, and particularly given the risks set out in para 15. Any drawdown of reserves, which can only be spent once, in 2020/21 or next year would therefore potentially leave a major projects financing gap, and impact on financing costs. City's Cash holds no cash backed general reserve- instead reserves are invested in either property or financial investments. Achieving the above 'flight paths' to saving would enable an additional £17m to be released across the

medium-term for Build Back Better / Climate Action Strategy purposes. The current balance of this fund is £0.

3. These numbers are estimated in the context of extreme uncertainty, and significant risks exist to the Corporation's medium-term finances, with ongoing COVID impacts potentially compounded by a 2nd wave.

2021/22 budget envelope

4. The context of the 2021/22 budgetary envelope could not be more challenging: external funding for the Corporation and Police is likely to be squeezed after the Government's autumn spending review; and damage to our finances from COVID pandemic is unlikely to be restored by 2021/22. We are likely to see a continued impact on income, including in the Barbican; on our rental income from the investment property estate; on business rates and on a number of the fundamental review previously agreed initiatives.
5. Incremental savings of about 12% corporately are needed to stay on track with the agreed flight path. Making early progress on the implementation of the TOM will play an important part in delivering the required savings, but further savings will be needed. This is in addition to the trajectory of existing fundamental review commitments and a flat cash starting position.
6. The key consideration for Members is how to best distribute this reduction across our services by making some difficult choices and prioritising spend; tackling the extent to which savings requirements are differentiated by department/service committee vs implemented across the board. Experience to date suggests that a 'bottom-up' approach by service committee doesn't yield results without a target; whilst it is challenging for Resource Allocation Sub Committee to prioritise where savings sit without a clear indication of impact on services and support from service committees.
7. 2021/22 is also a year of change, with the implementation of a new TOM and recommendations agreed following Lord Lisvane's governance review.
8. In view of these challenges and the fact that 'one size does not fit all', it is proposed to adopt a blended approach by setting an 'envelope' for each service committee to deliver within, prioritising their service delivery through business planning over the winter and early spring. Recommendations for the size of resourcing 'envelopes' to be underpinned with bilateral meetings, encouraging open and collaborative discussion between Chair and Deputy Chairman of this Committee with Service Committee Chairmen and Chief Officers on how our services can be delivered more smartly and efficiently, informed by our COVID experience and different ways of working. Your Chair and Deputy Chairman have encouraged all Members to get closely involved in helping to scrutinise budgets and prioritising spend.
9. In recent years some service committees have also asked for additional resources. This year, given the unprecedented financial challenges, it is proposed that the 'envelope' is the 'envelope'- reprioritisation is critical to

maintain the integrity of the MTFP. The exception to this though is the climate action strategy for which a possible financing strategy has been produced, subject to member consideration in the annual capital bids round.

Proposed approach

10. The proposed approach is to run targeted bilateral meetings in the current service committee and departmental structures to help determine the optimal resource allocation strategies, identify where TOM savings will be made and support a more “top-down” approach to budget setting. The expectation is for 12% saving generally, unless a service area is partially/fully ringfenced from making that saving- exceptions likely to include:

City Fund

- Barbican- zero based budget, currently anticipating COVID related deficit of £7m, due to social distancing measures impacting on key income streams and additional resource requirement already estimated in the MTFP. The Barbican is building a new operating model for the ‘new normal’.
- DCCS – given likely cost pressures on front line public services- maintain flat cash budget, adjusted by any savings that can be made and pass member scrutiny in star chamber.
- Grants to be reviewed both in terms of £ and in light of outcomes required (For both City Fund and City’s Cash).

City’s Cash

- GSMD- under the funding agreement with the Office for Students, the Corporation is required to give four years notice of reduction in funding levels. The School anticipates exhausting its reserves this year; and is building a new operating model with a potential call on Corporation and Office for Student funding in 2021/22.
- Review City Corporation support for the education provision, including grants, following the Tomlinson review.

11. **Bridge House Estates (BHE)** is in a better position across the MTFP than City Fund and City’s Cash; the MTFP is currently being refreshed. However, in the short term the Charity faces significant loss of income in the current year - £3.1m due to shortfalls at Tower Bridge and lower rental income. This is likely to continue to impact on 2021/22. The intention is to maintain the £125m charitable funding over the five year period 2018 - 2023 as approved by Court of Common Council, if necessary drawing on the recently agreed £200m draw down from the unrestricted income fund in line with the Bridging Divides Strategy. BHE is therefore exempted from the 12% saving reduction, although the Charity will require all service committees responsible for BHE activities to focus on value for money and appropriate spend levels as a result of reductions

in income, plus may benefit from cost reductions secured within central departments.

12. For City Fund and City's Cash, the approach outlined may not raise the requisite amount of funding, requiring further measures to close the gap including: major projects and capital works programming implications, and tax (Business Rate Premium) increases. Over the longer-term changes in investment strategy income targets differentiated by Fund needs may be part of the wider solution.
13. Significant risks remain to the financial position, which are not quantifiable at this stage:
 - Largest is rental income which may be far larger than £5.4m losses currently estimated. We will be able to firm up in the late autumn as September - December quarter payment trends and occupation levels come on stream.
 - Achieving flightpath/TOM savings- largely unidentified at the moment. Whilst it is acceptable to cash flow finance delivery of savings from reserves in the earlier periods of the MTFP, the overall cumulative total savings requirement over the period needs to be achieved.
 - Achieving a reduction in the continuing COVID impacts on the 21/22 budget below the £7m additional costs provided in the MTFP, which was set mainly with Barbican in mind. Equally there is a risk of this amount being insufficient to offset continuing COVID impacts, and further pressure being added.

Capital

14. The deadline for submission in the annual bid process was 28th August 2020. Guidance circulated emphasises the need for only the most critical schemes to come forward. We have also added a green 'lens'. We will set a clear capital envelope this year, which will assist this Committee in prioritising schemes. The intention is for the Committee to have early sight of these schemes and the financial envelope at the October meeting, with the 2021/22 capital programme being approved at the December meeting.

Next Steps

- Run the bilaterals – between now and November 2020
- Revert to Resource Allocation Sub Committee in December 2020 on the consequential proposed allocation of savings requirement.

Appendices

Appendix A- timeline

Caroline Al-Beyerty
Deputy Chamberlain

T: 020 7332 1113

E: caroline.al-beyerty@cityoflondon.gov.uk