

<b>Committee</b>	<b>Dated:</b>
Finance Committee	8 December 2020
<b>Subject:</b> Revenue Budget Monitoring to October 2020	<b>Public</b>
<b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b>	<b>N/A</b>
<b>Does this proposal require extra revenue and/or capital spending?</b>	<b>N</b>
<b>If so, how much?</b>	<b>N/A</b>
<b>What is the source of Funding?</b>	<b>N/A</b>
<b>Has this Funding Source been agreed with the Chamberlain's Department?</b>	<b>N/A</b>
<b>Report of:</b> Chamberlain	<b>For Information</b>
<b>Report author:</b> Laura Yeo, Senior Accountant, Financial Services Division	

### Summary

This report provides an update on the financial position and the impact of COVID-19 on budgets up to the end of October.

The estimated overall forecast year-end position across all funds is an overspend of £32.9m at the end of October (Period 7) and mainly relates to Barbican Centre (£9.9m), Open Spaces (£3.4m), Guildhall School of Music and Drama (£3.5m) and Property Investment income (£10.8m).

This represents an improved position of £3.2m when compared to £36.1m at the end of September, primarily driven by a reduction in expenditure for Barbican Centre (£1.4m) and additional income for the City of London Police (£1.0m).

The Government's income compensation scheme for Local Authorities is now open and a claim for income losses covering April to July has now been agreed and received worth £1.5m. The estimated full year value of the claim is £12.6m and has been incorporated into the below impact assessment by Fund.

<b>Financial Impact per Fund</b>	<b>CF</b>	<b>CC</b>	<b>BHE</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Original surplus/(deficit) for the year	27.3	(38.1)	(18.1)
Period 6 forecast deficit	(19.0)	(12.4)	(4.7)
Change in forecast for Period 7	3.7	(0.3)	(0.2)
Potential additional funding from Govt income compensation scheme	12.6	0.0	0.0
<b>Net Impact per Fund</b>	<b>24.6</b>	<b>(50.8)</b>	<b>(23.0)</b>

Additional actions are likely to be required to mitigate the impacts of COVID-19 further as well as realigning future spending plans to reflect on the current circumstances.

## Recommendation(s)

Members are asked:

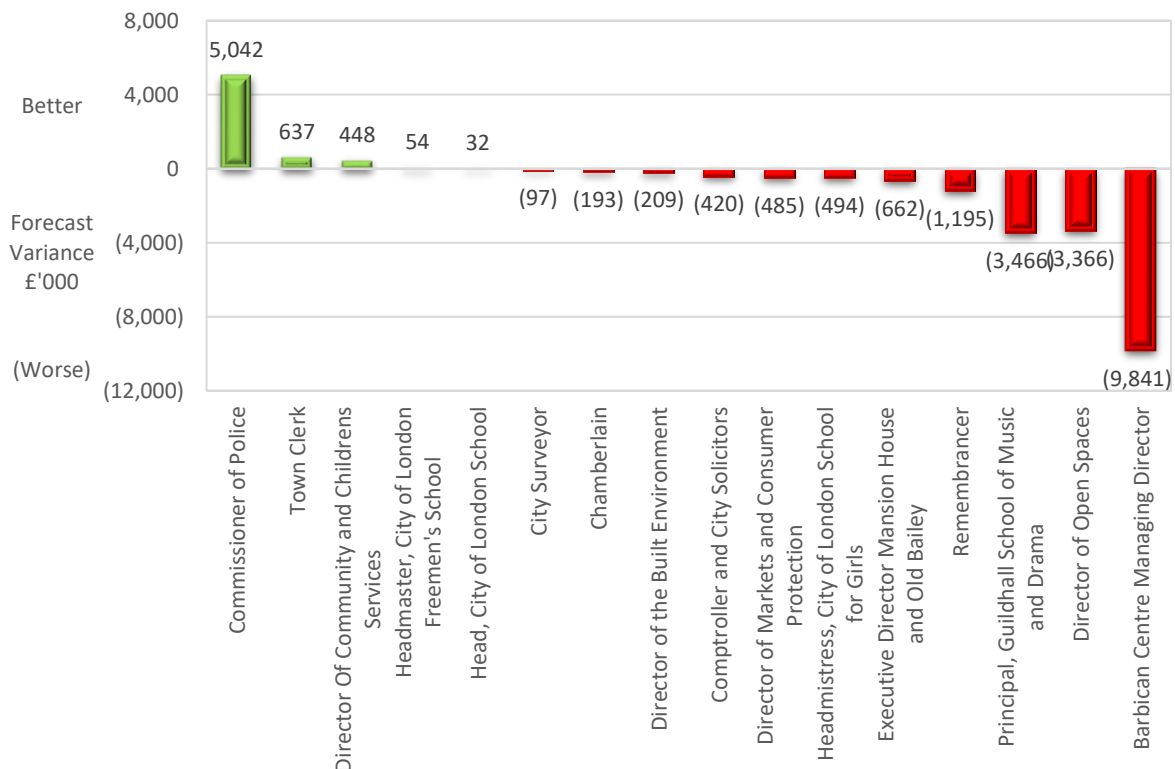
- i. to note the report.

## Main Report

### Current Position

#### Chief Officer Cash Limited Budgets

1. The current position for Chief Officer Cash Limited Budgets is a forecast overspend of £14.2m against the latest approved budget of £248.7m. This is an improved position of £2.6m compared to £16.8m reported at the end of September (Period 6) and is primarily driven by a reduction in expenditure for Barbican Centre (£1.4m) and additional income for City of London Police (£1.0m). Chief Officer variances against net local risk budgets are shown in the below chart and in Appendix 1 by Fund.



2. Currently, the year-end forecast position comprises an adverse variance of £42.2m against budgeted income of £295.5m, partially offset by a favourable variance of £28.0m on budgeted expenditure of £544.2m. Appendix 2 provides income and expenditure budget variances by Chief Officer. The impacts of Covid-19 on the most heavily affected Chief Officers Cash Limited Budgets have been detailed in the paragraphs below.

3. The Barbican Centre have been impacted heavily; forecasting an adverse variance of £9.8m at year end. This comprises a shortfall of £21.2m on income due to the centre being closed following Government guidelines, 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 £11.4m due to activity reductions as well as a hold on all non-essential expenditure. This represents an improvement of £1.4m from Period 6 as a result of further reductions in activity due to the second lockdown closure and the phased reopening.
4. The resetting of departmental budgets paper is proposing to increase the Barbican Centre budget by £11.2m, reflecting the anticipated shortfall as at month 6. With the improved forecast position at month 8, Chamberlain's will work closely with the Barbican Centre to monitor the position and release funds on an agreed basis, with any unused funds returned to the City Fund Reserve.
5. Open Spaces has also been heavily affected and are forecast to be overspent by £3.4m by year-end. The overspend is due to income shortfalls from closed attractions and facilities as a result of the ongoing pandemic, mainly in relation to Tower Bridge where a forecast net loss of £3.3m is anticipated for the year.
6. Guildhall School of Music and Drama (GSMD) is forecast to be £3.5m worse than budget reflecting lost income due to Covid-19, and a worsening position compared to the £3.0m forecast at Period 6. Income generating activities such as short courses, letting of space and accommodation, removing bar and catering income, and reduced fees from under-18 provision have all ceased. Further losses may arise depending on the number of students returning for the new academic year. In addition, GSMD will incur additional costs for space, equipment and staffing to support socially distanced onsite as well as online teaching as a result of Covid-19. GSMD, as with the independent schools, maintains a reserve which can be used to offset these losses. Should the reserve and further cost reduction prove insufficient, additional financial support may need to be considered later in the year.
7. Remembrancer is overspent by £1.2m due to no private event hire taking place at Guildhall and the anticipation no income will be received this financial year. The income shortfall will be partially offset by cost savings associated with not hosting these events including staff time, equipment hire, printing and advertising.
8. A full year underspend of £5.0m is projected for the City of London Police (CoLP), which is an additional £1.0m underspend from Period 6. This is due to the inclusion of full ringfenced Police Uplift Programme (PUP) funding, Tactical Firearm Training grant and additional 'Surge Funding' from the Home Office in enforcing the current restrictions arising from Covid-19. The position is based on an escalated recruitment process and a number of new appointments with a further intake in November 2020. The projected attrition levels have been revised due to Covid-19, assuming there will be no leavers during the financial

year. Police services have remained as business as usual during Covid-19 and a challenging savings target of £5.7m is expected to be achieved in this financial year. Covid-19 pressures do exist for CoLP, however, losses can be claimed from the Home Office as part of the 'ring-fenced £1.2m uplift grant.'

## **Central Risk Budgets**

9. At the end of Period 7 the forecast position for Central Risk Budgets is an adverse variance of £18.7m against the latest approved budget of £60.6m, this is an improvement of £0.7m compared to £19.4m forecast at the end of September (Period 6).
10. The forecast position excludes CBT grant giving advance commitments (£48.6m) and London Community Response Fund commitments (£12.8m). These variances have been excluded as they are operating within the multi-year funding agreement. So, whilst they are generating in year variances, these differences reflect the profile of grant giving, which is within the overall financial envelope agreed by Court. Further detail on CBT grant giving is given in paragraphs 15-19.
11. Covid-19 has had a severe impact on the Corporate Income Budgets leading to an adverse variance of £24.0m against budgeted income of £253.8m partially offset by a favourable variance of £5.3m on budgeted expenditure of £193.2m. The key budget areas are addressed in the following paragraphs.

## **Corporate Income Budgets**

12. Property Investment income at the end of Period 7 is £10.8m worse than budget of £136.1m due to impact of COVID-19 and assessment of tenant rent free periods.

The latest forecast comprises:

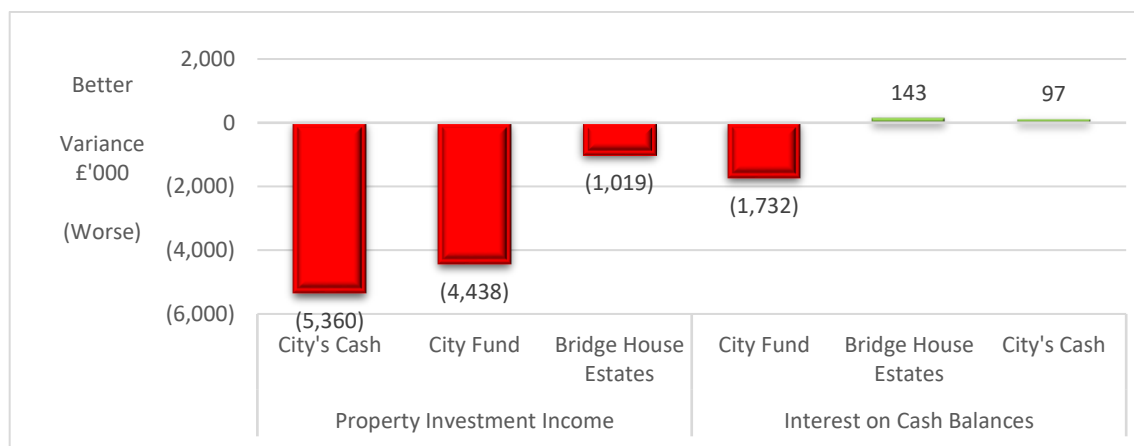
- City Fund £4.4m adverse variance
- City's Cash £5.4m adverse variance
- Bridge House Estates £1.0m adverse variance

These figures come with a big health warning and forecasts will be closely monitored and revised at each quarter.

13. Interest on cash balances in money market funds are anticipated to be £1.5m below budget of £8.9m at year-end. Elements of the forecast are subject to key assumptions around interest rates and 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 and a fresh attempt at monetary support is required. Naturally, this would reduce interest income even further.

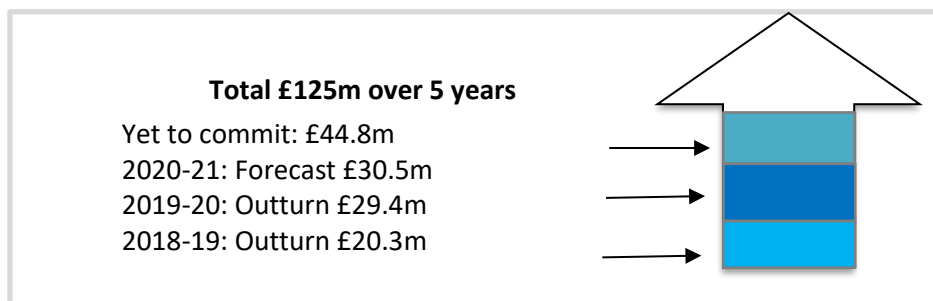
14. Property Investment Income and Interest on Cash Balances variances against net local risk budgets are shown in the below chart.



### The City Bridge Trust Grants Budget

15. Members are asked to note that 2020/21 is an exceptional year for the activities of City Bridge Trust (CBT) within BHE. This includes the impact of the pandemic and the consequential establishment of the new BHE collaborative fund – the London Community Response Fund (LCRF) and the decision of the March 2020 Court of Common Council to agree an additional allocation of £200m to support delivery of the charity's ancillary objects. As a result, the reforecast for 2020/21 includes both the new LCRF's activity and an initial forecast commitment of £45m of the £200m allocation. Central risk activities for CBT have therefore increased from the original budget of £27.1m to £88.1m (net of grant income of £13.1m). This increase is fully funded from the unrestricted income reserve held by BHE.
16. CBT September 2020 Committee approved a £15m allocation from the agreed 5-year (2018- 2023) budget for expenditure in this financial year to support existing Bridging Divides grants portfolio and application pipeline.
17. As at the end of October 2020, £15.2m has been awarded in grants under the Bridging Divides programme, £25.0m for the LCRF and £0.1m for the Anniversary Programme Bridge to Work.
18. Since its inception, LCRF has received donations from third parties of £14.9m and a transfer of £11m from BHE, making total funds available to the programme of £25.9m. Administrative costs of £0.8m are forecast to be incurred in running the LCRF with £25.1m to be committed as grants by the end of the 2020/21 financial year.
19. At present the regular funding programmes operated by CBT have been 'paused' to enable staff to focus on the LCRF, provide support to the existing

portfolio of 600+ grantees and work through the considerable number of applications that were already in the pipeline.



### COVID-19 Mitigation, contingency and spend

20. On 23 July, Members of RASC instructed officers to conduct an in-year re-budgeting exercise to assist in repairing the damage to the City's budgets arising from the COVID-19 pandemic. This was a vital step in ensuring that we put our finances on a sustainable footing for the Medium Term. The proposed budget adjustment is still subject to Court of Common Council approval, so will be formally incorporated into the budget once agreement has been received.
21. The 18 September Resource Allocation Sub Committee noted the steps already taken by officers to reduce the impact of COVID-19 and generate savings including recruitment controls, review of contracts and the review of the Cyclical Works Programme (CWP); and proposed the following:
  - a. Adjust departmental budget totalling £13.9m to reflect to impact of COVID-19.
  - b. Continue work with departments to identify further savings where possible.
  - c. Approve continuation of recruitment controls aligned to the Target Operating Model (TOM) which may give further savings in the year.
22. The Covid-19 contingency fund of £1.5m has at the time of writing this report has total commitments of £1,108,000 leaving a balance of £392,000. Details of the allocations is provided at Appendix 3.
23. Chief Officers are asked to contain COVID expenditure within existing local risk budgets where possible. The expenditure is separately coded to keep a total of all COVID spend not covered by the COVID Contingency. The total spends across all departments included within their local risk projections in 2020/21 is shown in the table below. This is net of furlough support.

City Fund Main Account	1,537,729
City's Cash	2,207,290
HRA	362,723
Bridge House Estates	660,861
<b>Total</b>	<b>4,768,603</b>

## Government Support Measures

24. For Local Authorities, the Government has announced financial support for lost income, for which the first claim has been accepted covering losses between April – July to the value of £1.5m. The full year estimate for this compensation is £12.6m but is subject to change dependant on actual losses incurred.
25. The scheme covers net income losses for income generating areas linked to service delivery. This will therefore not provide compensation for commercial income streams such as investment property income. Compensation will also not be provided where local decisions contradict Government guidance e.g. continuing to keep services closed where Government guidance allows them to be open. All claim is subject to approval by MHCLG
26. In order to provide a comprehensive view of the financial position, these estimates have been incorporated into the below summary position by fund.

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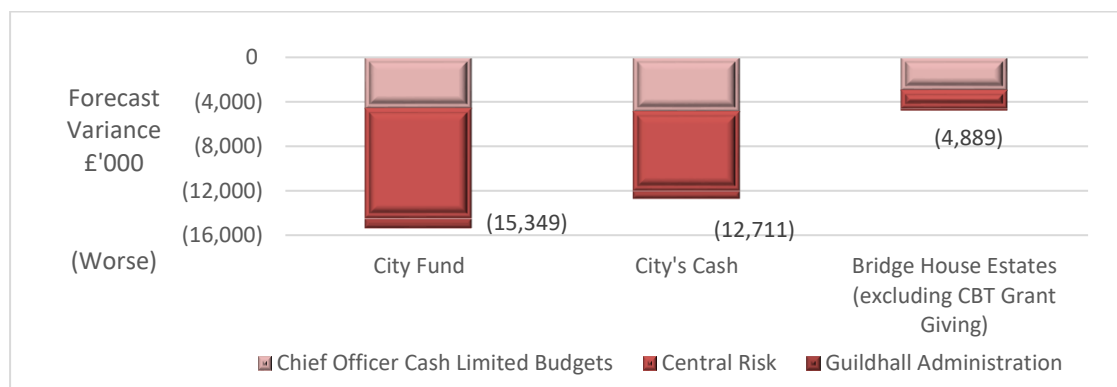
## Business Rates

27. For Business Rates, the collection rate has fallen 6.0% below last year's rate at this time. We are continuing to monitor business rate collection closely, with formal recovery activity starting to take place. It should be noted that in year losses in business rates will impact future year budgets as the statutory framework lags these impacts. The Government has also indicated that Local Authorities will be allowed to spread the impact of business rate losses across a 3-year period.

## Fund Position

28. Despite the mitigating actions being taken, as a result of COVID-19, the overall (Local and Central Risk) forecast year-end position reported at Period 7 is £32.9m worse than budget. With Guildhall Administration apportioned across

the three funds gives adverse positions of £15.3m on City Fund, £12.7m on City's Cash and £4.9m on Bridge House Estates.



## Conclusion

29. Members are asked to note the forecast year-end overspend position of £32.9m at the end of October (Period 7). The forecast position will continue to be carefully monitored to reflect the mitigating measures being taken.

## Appendices

- Appendix 1: Chief Officers Cash Limited Budgets by Fund
- Appendix 2: Chief Officers Cash Limited Budgets – Income and Expenditure Budget Variances
- Appendix 3: COVID Contingency Allocations

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