

Committee	Dated:
Finance Committee	19 January 2021
Subject: Revenue Budget Monitoring to November 2020	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	N/A
Does this proposal require extra revenue and/or capital spending?	N
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: Chamberlain	For Information
Report author: Laura Yeo, Senior Accountant, Financial Services Division	

Summary

This report provides an update on the financial position and the impact of COVID-19 on the City's budgets. The estimated overall forecast year-end position across all funds is an overspend of £30.8m at the end of November (Period 8). This is an improved position of £2.1m when compared to £32.9m overspend at the end of October (period 7).

The continued impact of COVID-19 is significant across all funds, with a larger impact on City's Cash and Bridge House estates reserves as Government income compensation is only available for City Fund.

To mitigate the losses caused by the City's budgets by the pandemic, Court of Common Council agreed to the resetting of budgets by a net £13.9m to provide realistic baseline budget on which to monitor financial performance moving forward. Similarly, the Property Investment Board agreed to realign the income budgets in November in line with resetting of budgets by a net £12.7m. This results in a net overspend of £4.2m, which mainly relates to TOM expenditure savings yet to be achieved (£4.5m).

The additional budgets will need to be funded from reserves. For City Fund, this will impact on the projected surplus for the year, which is earmarked as a contribution to the major projects reserve. For City's Cash this will impact the level of drawdown from the balance sheet. For Bridge House Estates, the deficit in Tower Bridge income will be offset with a reduction in transfer to the BHE reserves at year end.

The Government's income compensation scheme for Local Authorities is estimated to provide £11.7m of additional funding for the year, of which £1.5m has been received covering losses between April and July. This funding based on actual losses incurred so will vary with changing forecasts.

Month 8 Forecast per Fund (£m)	CF	CC	BHE	Total
Forecast (Local and Central Risk) without budget adjustment	(15.4)	(11.3)	(4.1)	(30.8)
Re-Budgeting adjustment	18.2	7.1	1.3	26.6
Forecast (Local and Central Risk) with budget adjustment	2.8	(4.2)	(2.8)	(4.2)

Financial Impact per Fund (£m)	CF	CC	BHE	Total
Original surplus/(deficit) for the year	27.3	(38.1)	(18.1)	(28.9)
Budget adjustments via resetting	(18.2)	(7.1)	(1.3)	(26.6)
Revised Forecast	2.8	(4.2)	(2.8)	(4.2)
Potential additional funding from Govt income compensation scheme	11.7	0.0	0.0	11.7
Net Impact per Fund after adjustments	23.6	(49.4)	(22.2)	(48.0)

Additional actions are likely to be required to mitigate the impacts of COVID-19 by identifying further savings.

Recommendation(s)

Members are asked:

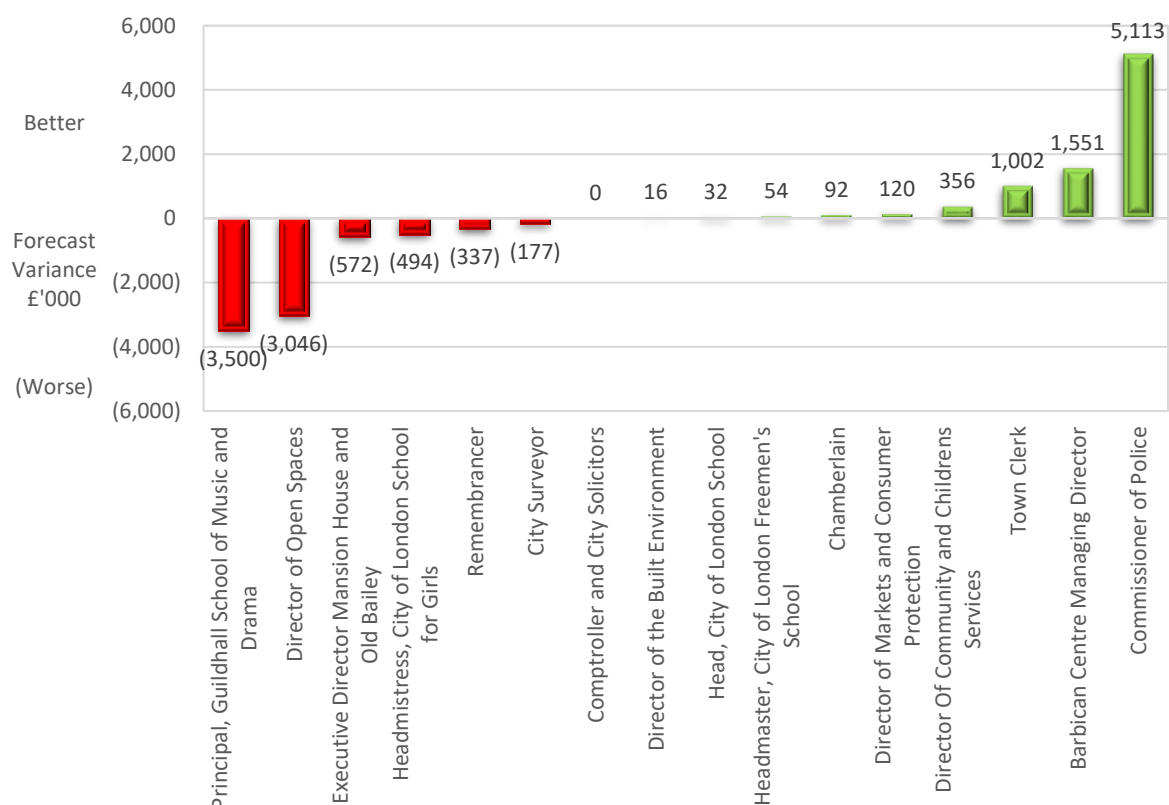
- i. to note the report.

Main Report

Current Position

Chief Officer Cash Limited Budgets

1. The current position for Chief Officer Cash Limited Budgets is a forecast underspend of £0.2m against the latest approved budget of £262.4m. This is an adverse position of £14.4m compared to £14.2m overspend reported at the end of October (Period 7) and is primarily driven by the resetting of budgets (£13.9m). Chief Officer variances against net local risk budgets are shown in the below chart and in Appendix 1 by Fund.



2. 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. Guildhall School of Music and Drama (GSMD) is forecast to be £3.5m worse than budget, no change from month 7, reflecting lost income due to Covid-19. 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.
4. Open Spaces has also been heavily affected and are forecast to be overspent by £3.0m by year-end, a reduction of £0.4m from month 7. 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. The re-budgeting exercise has proposed that an adjustment is made to the year-end transfer to BHE reserves to offset this deficit.

5. The Barbican Centre have been impacted heavily; forecasting an adverse variance of £9.8m at year end. Income losses are 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 due to activity reductions as well as a hold on all non-essential expenditure.
6. The resetting of departmental budgets saw an increase to the Barbican Centre budget by £11.4m, 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. The £1.6m surplus will be ringfenced with any unused funds returned to the City Fund Reserve.
7. Remembrancer is overspent by £0.3m, an improved position from month 7 by £0.9m. The reduction in overspent has improved following resetting of departmental budgets by £1.1m. The overspend is due to no private event hire at Guildhall taking place following further announcement of National lockdown. 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 £5.1m is projected for the City of London Police (CoLP) based on an escalated recruitment process and a number of new appointments with a further intake in November 2020. This is an improved position by £0.1m from period 7. 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 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 8 the forecast position for Central Risk Budgets is an adverse variance of £4.4m against the latest approved budget of £43.5m and mainly relates to TOM expenditure savings yet to be achieved (£4.5m). This is an improvement of £14.3m compared to £18.7m forecast at the end of October (Period 7) and is primarily driven by Property Investment income budget adjustments for revised estimates to reflect September rental forecasts (£14.2m).
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 £12.9m against budgeted income of £241.7m partially offset by a favourable variance of £8.5m on budgeted expenditure of £198.2m. The key budget areas are addressed in the following paragraphs.

Corporate Income Budgets

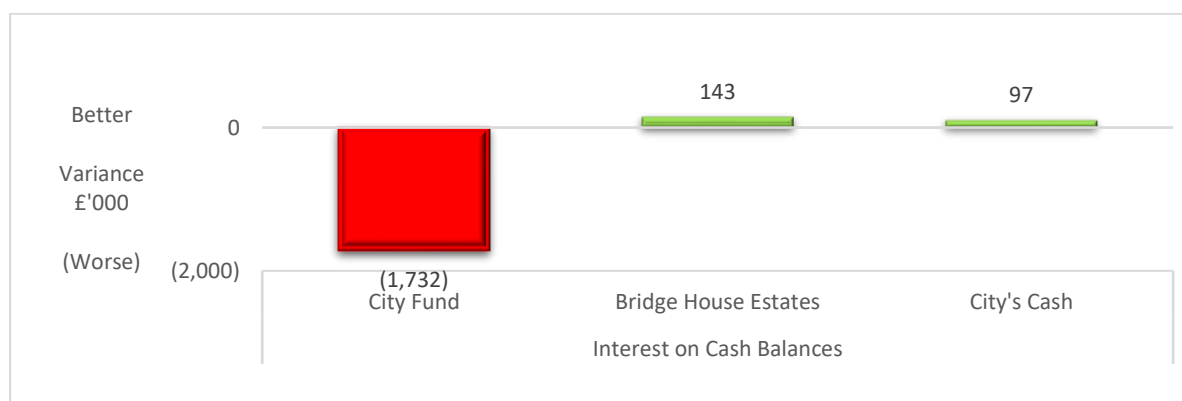
12. Property Investment income budgets have been adjusted for revised estimates in line with the September rental forecast reported to the November Property Investment Board leading to a movement of £14.2m from the position reported at period 7. This incorporates the effect of both June and September rent frees and a provision for turnover rent caps for the highest risk tenants.

The latest forecast of £123.3m comprises:

- City Fund £46.8m
- City's Cash £53.1m
- Bridge House Estates £23.4m

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.

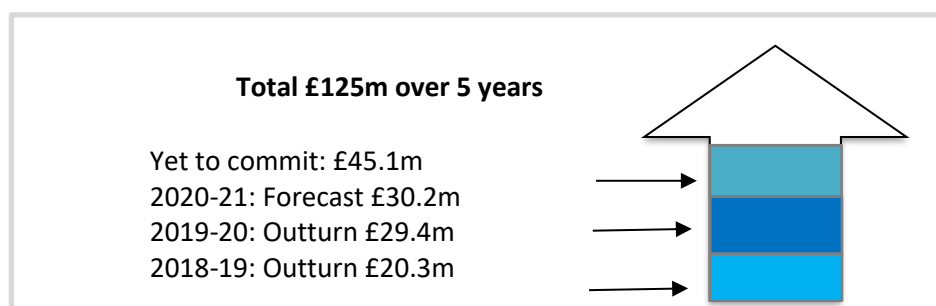


The City Bridge Trust Grants Budget

14. 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.

15. CBT September 2020 Committee approved a £15m allocation from the agreed 5-year (2018- 2023) budget for expenditure in the 2020/21 financial year to support existing Bridging Divides grants portfolio and application pipeline. CBT July 2020 Committee had already approved £5m from the same agreed 5-year budget.
16. As at the end of November 2020, £18.1m has been awarded in grants under the Bridging Divides programme, £25.04m for the LCRF and £0.1m for the Anniversary Programme Bridge to Work.
17. Third party voluntary donations for LCRF of £15.247m are expected to be received by the end of the 2020/21 financial year. With £1.8m already received in March 2020 and a transfer of £11.25m from BHE, total funds available for the programme is £28.297m. Administrative costs of £0.735m are forecast to be incurred in running the LCRF with £27.562m to be committed as grants by the end of the 2020/21 financial year.



COVID-19 Mitigation, contingency and spend

18. 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.
19. 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.
20. The Covid-19 contingency fund of £1.5m has at the time of writing this report has total commitments of £1.18m leaving a balance of £392k. Details of the allocations is provided at Appendix 3.
21. 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	1,799,474
City's Cash	2,841,901
HRA	368,014
Bridge House Estates	831,290
Total	5,840,679

Government Support Measures

22. 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 £11.7m, which is a £0.9m reduction from the previous estimate reflecting the improved position for the Barbican offset by further anticipated losses in parking income. The claim is based on actual losses incurred so is subject to changes in forecasts..
23. 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
24. In order to provide a comprehensive view of the financial position, these estimates have been incorporated into the below summary position by fund.

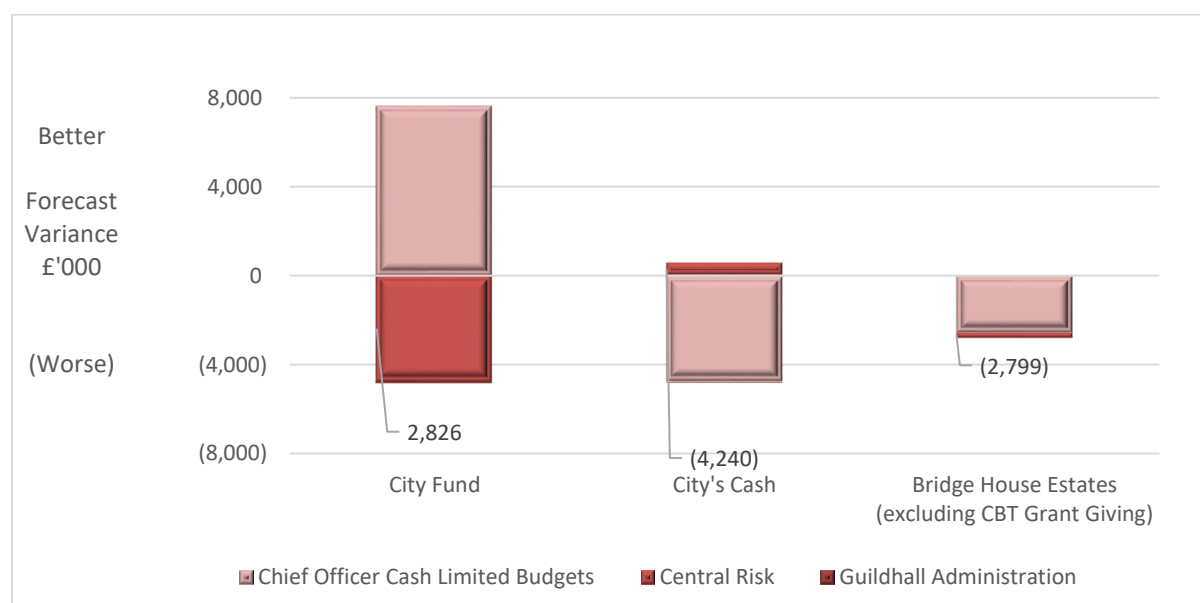
Financial Impact per Fund	CF	CC	BHE
	£m	£m	£m
Original surplus/(deficit) for the year	27.3	(38.1)	(18.1)
Adjusted month 8 forecast	2.8	(4.2)	(2.8)
Budget adjustments	(18.2)	(7.1)	(1.3)
Potential additional funding from Govt income compensation scheme	11.7	0.0	0.0
Net Impact per Fund	23.6	(49.4)	(22.2)

Business Rates

25. 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

26. 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 8 is £4.2m worse than budget. With Guildhall Administration apportioned across the three funds gives adverse positions of £4.2m on City's Cash and £2.8m on Bridge House Estates, partially offset by a favourable position of £2.8m on City Fund.



Conclusion

27. Members are asked to note the forecast year-end overspend position of £4.2m at the end of November (Period 8). 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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