



Report – Finance Committee Revenue and Capital Budgets 2013/14 and 2014/2015

*To be presented on Thursday, 6th March 2014
To the Right Honourable The Lord Mayor, Aldermen and Commons
of the City of London in Common Council assembled.*

Summary

1. This report should be read in conjunction with the separate report to your Committee entitled “City Fund: 2014/2015 Budget and Medium Term Financial Strategy” which sets the 2014/15 City Fund budget within the context of the Medium Term Financial Strategy and financial forecast and recommends that the City’s business rate premium and council tax for 2014/15 remain unchanged.
2. The 2013/14 and 2014/15 budgets for each of the City Corporation’s three main funds have been prepared within the planning frameworks agreed by the Resource Allocation Sub Committee which, in particular, took account of a £6.9m (7.3%) cut in Government Grants receivable by the City Fund in 2014/15.
3. City Fund
 - The surplus in the current year is anticipated to reduce from £5.7m to £5.4m. For 2014/15 a surplus of £6.8m is indicated. Whilst the changes between these headline figures are relatively insignificant, there are a number of largely compensating variations as set out in paragraphs 20 to 28.
 - In 2013/14, £83m of cash backed revenue reserves have been used towards the funding of investment property purchases totalling £117.4m – the majority of which are from City’s Cash and Bridge House Estates (Project B.E.). The budgets reflect the intended revenue consequences whereby the increases in rental income more than offset the reduction in interest on cash balances.
 - Average annual interest rates assumed on cash balances have reduced from 1.5% to 1.15% in the current year and to 0.75% in 2014/15. These changes affect all three funds.
 - The impact of the significant and continuing cuts in Government funding is forecast to reduce the City Fund revenue account to a broadly break even position in 2015/16 followed by deficits in subsequent years.
 - A service based review is underway to provide savings and budget reduction proposals for Members’ consideration.

4. City's Cash

- Following the preparation of the 2012/13 City's Cash financial statements on the basis of United Kingdom Generally Accepted Accounting Practice (UKGAAP), the preparation of the budgets is also being moved to this basis.
- The City's Cash deficit is anticipated to be £2.2m in the current year and £6.1m in 2014/15. Deficits are also indicated for the other years of the medium term financial forecast.
- The service based review to identify savings and budget reduction proposals also includes City's Cash.
- As indicated in the table above, these deficits are after allowing for profits on the sales of assets. In the 2013/14 original budget the profit on sale of assets was not separately identified – being treated under the previous basis of preparation as part of capital income. Under UKGAAP, such profit is treated as revenue income. Based on the experience of recent years, a prudent assumption of £2m a year had been included in the financial forecasts. However, following the approval of the 'Project B.E.' property transfers to City Fund, the total profit on sale of assets is anticipated to be £9m, a £7m increase on the initial assumption.
- Without the benefit of the profits on asset sales, the operating deficits for 2013/14 and 2014/15 are £11.2m and £8.1m respectively.
- £50m of cash backed revenue reserves have been invested in stocks and shares and the budgets reflect the intended revenue consequences whereby the increases in investment income more than offset the reduction in interest on cash balances.
- Details of other significant budget variations are set out in paragraphs 34 to 41.

5. Bridge House Estates

- The estimated deficit for the current year has increased from £0.9m to £3.9m due mainly to the approved carrying forward of unused grants and other budgets from 2012/13.
- The fund is expected to return to surplus in 2014/15 with the medium term financial forecast also indicating healthy surpluses for subsequent years.
- £90m of cash backed revenue reserves have been invested in stocks and shares and the budgets reflect the intended revenue consequences whereby the increases in investment income more than offset the reduction in interest on cash balances.
- Details of other significant budget variations are set out in paragraphs 45 to 54.

6. The report also summarises the budgets for central support services within Guildhall Administration (which initially 'holds' such costs before these are wholly recovered) and the capital budgets for the three Funds.

7. The 2014/15 Summary Budget Book accompanies this report and will be available on the *Members' Committees and Papers* section of the City

Corporation's website. Copies will also be available in the Members' Reading Room and individual copies can be requested from steve.telling@cityoflondon.gov.uk. The book provides the complete revenue and capital budgets for the City Corporation in a single document.

Recommendations

8. We therefore recommended that the Court:-
- (i) notes the latest approved revenue budgets for 2013/14;
 - (ii) agrees the 2014/15 budgets;
 - (iii) agrees the capital budgets; and
 - (iv) delegates authority to the Chamberlain to determine the financing of the capital budgets.

MAIN REPORT

Background

9. The 2013/14 and 2014/15 budgets for each of the City Corporation's three main funds are set out below.

Budgets by Fund			
	2013/14 Original	2013/14 Latest Approved	2014/15 Original
	£m	£m	£m
City Fund			
Gross Expenditure	313.3	326.0	325.6
Gross Income	(202.1)	(214.5)	(222.0)
Net Expenditure before Government Grants and Taxes	111.2	111.5	103.6
Government Grants and Taxes	(116.9)	(116.9)	(110.4)
Surplus to Reserves	(5.7)	(5.4)	(6.8)
City's Cash			
Gross Revenue Expenditure	154.2	165.8	157.8
Gross Revenue Income	(152.7)	(154.6)	(149.7)
Operating Deficit	1.5	11.2	8.1
Profit on asset sales	0.0	(9.0)	(2.0)
Deficit from Reserves	1.5	2.2	6.1
Bridge House Estates			
Gross Expenditure	39.5	44.3	36.4
Gross Income	(38.6)	(40.4)	(39.2)
Deficit (Surplus) from (to) Reserves	0.9	3.9	(2.8)

NB: Members are reminded that figures in brackets indicate income or in hand balances, increases in income or decreases in expenditure.

The primary purpose of this report is to summarise the latest approved and proposed revenue budgets for 2013/14 and 2014/15 respectively

together with the capital budgets, which have all been prepared within agreed policy guidelines and allocations, for your submission to the Court of Common Council in March.

10. During the autumn/winter cycle of meetings each Committee has received and approved a budget report which has generally been prepared against a background of significant cuts in Government Grants. With the exception of Bridge House Estates and the Guildhall School of Music and Drama, budget reports for Non-Police Services took account of the general planning framework for Chief Officers which provided for:-
 - allowances towards inflationary pressures of 1% and 2% for 2013/14 and 2014/15 respectively on net local risk budgets; but
 - offset by 2% efficiency reductions across the period (i.e. by 2014/15 the base budget should be a net 1% higher than in 2012/13 – allowances towards inflationary pressures of 3% less efficiency reductions of 2%).
11. For the City Police, the annual cash limit continues to be determined by the national settlement allocation with the Force using its reserves on a phased basis subject to a minimum level being retained.
12. As Bridge House Estates remains in a reasonably buoyant position, the allowances towards inflationary pressures are being provided but the 2% efficiency reduction has not been required. The same arrangement also applies to the Guildhall School of Music and Drama due to the particularly difficult financial situation being addressed at the School.
13. Accompanying this report is the Summary Budget Book 2014/15 which will be available on the *Members' Committees and Papers* section of the City Corporation's website. Copies will also be available in the Members' Reading Room and individual copies can be requested from steve.telling@cityoflondon.gov.uk. The Summary Budget Book provides:
 - (v) all the budgets at a summary level in a single document;
 - (vi) service overviews – a narrative of the services for which each Chief Officer is responsible;
 - (vii) Chief Officer summaries showing net revenue expenditure by division of service, fund, type of expenditure and income;
 - (viii) Fund summaries showing the net revenue requirement for each Fund supported by Committee summaries showing the net requirement for each Committee within the Fund; and
 - (ix) the capital and supplementary revenue project budgets by Fund.
14. During the preparation of this report all Chief Officers have been asked to consider whether there would be any potential adverse impact of the various budget policy proposals on the equality of service with regard to service

provision and delivery that affects people, or groups of people, in respect of disability, gender and racial equality. None are anticipated but they are expected to confirm this by the date of the Committee.

Overall Financial Strategy

15. The City Corporation's overall financial strategy seeks to:
- maintain and enhance the financial strength of the City Corporation through its investment strategies for financial and property assets;
 - pursue budget policies which seek to achieve a sustainable level of revenue spending and create headroom for capital investment and policy initiatives;
 - encourage competition for resources;
 - create a stable framework for budgeting through effective financial planning; and
 - promote investment in capital projects which bring clear economic, policy or service benefits.
16. The medium term financial strategy/budget policies for each of the funds are set out in Annex 1.

CITY FUND

Overall Budget Position

17. The overall budgets have been prepared in accordance with these strategies and the requirements for 2013/14 and 2014/15 are summarised by Committee in the table below. Explanations for significant variations were contained in the budget reports submitted to service committees.

City Fund Summary by Committee	2013/14 Original	2013/14 Latest Approved	2014/15 Original
<i>Net Expenditure (Income) - Note 1</i>	£m	£m	£m
Barbican Centre	23.3	24.2	24.0
Barbican Residential	0.2	0.2	0.1
Community and Children's Services	11.3	11.5	11.2
Culture Heritage and Libraries	20.1	19.9	20.1
Finance - Note 2	(8.1)	75.8	(7.7)
Licensing	0.1	0.1	0.0
Markets	(0.8)	(0.8)	(0.8)
Open Spaces	1.4	1.4	1.4
Planning and Transportation	13.2	12.5	12.6
Police	62.9	62.9	60.4
Policy and Resources	4.2	3.8	3.7
Port Health and Environmental Services	14.0	14.0	14.1
Property Investment Board	(30.6)	(30.8)	(34.4)
City Fund Requirement - Note 3	111.2	194.7	104.7

1. Members are reminded that figures in brackets indicate income or in hand balances, increases in income or decreases in expenditure.
2. The 2013/14 latest approved budget for Finance Committee includes £83m of revenue funding towards the purchase of investment properties (para 24).
3. Reconciles to line 8 in the table overleaf.

18. The following table further analyses the budget to indicate:

- the contributions made from the City's own assets towards the City Fund requirement (interest on balances – line 4, and investment property rent income – line 5);
- the inclusion of an extraordinary item for use of revenue reserves to fund capital expenditure, primarily the purchase of investment property purchases (lines 7 and 14);
- the funding received from Government formula grants and from taxes (lines 9 to 12); and
- the estimated surpluses to be transferred to reserves (line 15).

City Fund Revenue Requirements 2013/14 and 2014/15					
		2013/14 Original £m	2013/14 Latest Approved £m	2014/15 Original £m	Para. No.
1	Net expenditure on services	149.2	150.9	144.5	20, 25
2	Supplementary revenue projects and capital expenditure financed from revenue	1.1	1.7	1.6	21
3	Requirement before investment income from the City's Assets	150.3	152.6	146.1	
4	Interest on balances	(4.4)	(4.9)	(2.1)	22, 26
5	Estate rent income	(34.7)	(36.0)	(39.3)	23, 27
6	City Fund Requirement before Extraordinary item	111.2	111.7	104.7	
7	Extraordinary Item - Investment Property Purchases	0.0	83.0	0.0	24
8	City Fund Requirement	111.2	194.7	104.7	
	Financed by:				
9	Government formula grants	(94.3)	(94.3)	(87.4)	28
10	City offset	(10.5)	(10.5)	(10.7)	
11	Council tax	(5.6)	(5.6)	(5.8)	
12	NNDR premium	(6.5)	(6.5)	(6.5)	
13	Deficit (Surplus) before use of revenue reserves to fund capital	(5.7)	77.8	(5.7)	
14	Revenue reserves applied to capital	0.0	(83.2)	(1.1)	24
15	Underlying Operating Surplus transferred to reserves	(5.7)	(5.4)	(6.8)	

19. The surplus in the current year is anticipated to reduce from £5.7m to £5.4m. For 2014/15 a surplus of £6.8m is indicated. However, the impact of significant and continuing cuts in Government funding is forecast to reduce the City Fund revenue account to a broadly break even position in 2015/16 followed by deficits in subsequent years. A service based review is therefore underway to provide savings and budget reduction proposals for Members' consideration.

Revenue Budget 2013/14

Net Expenditure on Services

20. Net expenditure on City Fund services in 2013/14 was originally budgeted at £149.2m, whereas the latest approved budget totals £150.9m, an increase of £1.7m. The main reasons for this increase are:

- approved budgets of £2.3m brought forward from 2012/13;
- an increase of £0.8m for the City Fund element of the additional support service costs set out in paragraph 56;
- an increase of £0.6m for the Barbican Centre (in addition to £0.3m within the brought forward budgets above) for the London Living Wage and compensation to preserve the neutrality principle in relation to the relocation of the cinemas to the exhibition halls;
- a reduction of £0.5m in the transfer to the Crossrail reserve to reflect the decrease in interest rates on cash balances and the short term use of Crossrail receipts for reinvestment;
- a contingency of £0.5m transferred to City's Cash to match the decisions on funding;
- an increase of £0.4m in unringfenced grant income; and
- additional income of £0.3m from planning application fees.

Supplementary Revenue Projects and Capital Expenditure Funded from Revenue

21. The increase from £1.1m to £1.7m largely relates to Barbican Centre projects that were rephased from 2012/13.

Interest on Balances

22. The latest budget for 2013/14 anticipates an increase of £0.5m in interest earnings to £4.9m. This is the net impact of:

- a more beneficial cash flow, particularly business rate receipts, capital expenditure and higher reserves; partly offset by
- the recent reduction in the assumed interest rate, from 1.5% to 1.15% due to the lower returns available for the reinvestment of maturing money market deposits; and
- the part year impact of using cash backed reserves to purchase investment properties as agreed by the Policy and Resources Committee - to generate higher returns than interest on cash balances.

Investment Estate Rent Income

23. Rent income from investment properties is forecast to be £36m, an increase of £1.3m on the original budget due mainly to the part year impact of the purchase of investment properties as indicated above.

Extraordinary Item – Investment Property Purchases

24. Following the Policy and Resources Committee's decision to invest cash backed revenue reserves into investment properties, purchases totalling £117.4m have been agreed, comprising purchases from City's Cash and Bridge

House Estates together with 21 Garlick Hill. These purchases were funded from £34.4m of capital receipts and £83.0m of cash backed revenue reserves. This latter figure is required to be routed through the revenue account.

Revenue Budget 2014/15

Net Expenditure on Services

25. Net expenditure on City Fund services for 2014/15 is budgeted at £144.5m, a reduction of £4.7m compared to the 2013/14 original budget. The main variations are:

- a reduction of £2.6m in the City Police cash limit to reflect the cut in core Government grant;
- savings of £1.7m relating to efficiency and budget reviews;
- a reduction of £1.3m in the transfer to the Crossrail reserve to reflect the decrease in interest rates on cash balances and the short term use of Crossrail receipts for reinvestment;
- a contingency of £0.5m transferred to City's Cash to match the decisions on funding;
- an increase of £0.5m in unringfenced grant income;
- a reduction of £0.5m in the fees payable on the procurement transformation project;
- additional income of £0.3m from planning application fees;
- the inclusion of a £0.6m provision for the London Living Wage;
- an increase of £0.6m for the City Fund element of the additional support service costs set out in paragraph 57; and
- an increase of £1.7m for pay and prices.

Interest on Balances

26. Income is anticipated to reduce to £2.1m from the £4.9m forecast in the current year due to a decrease in the assumed average interest rate for the year from 1.15% to 0.75% together with the full year impact of using cash backed reserves to purchase investment properties.

Investment Estate Rent Income

27. The latest rental forecasts for 2014/15 assume an increase of £3.3m to £39.3m compared to the latest budget for 2013/14. This increase relates to the full year impact of the rental income from the properties purchased from cash backed reserves together with the impact of the latest assumptions on availability, occupancy and rent levels for the rest of the estate.

Government Formula Grant

28. There is a reduction of £6.9m in core Government Grants from £94.3m in the current year to £87.4m in 2014/15. This reduction is split between Police and Non-Police services as follows:

Analysis of the City's National Formula Grant				
	2013/14	2014/15	Reduction on 2013/14	
	£m	£m	£m	%
Police	57.8	55.2	2.6	4.5
Non-Police	36.5	32.2	4.3	11.8
Total	94.3	87.4	6.9	7.3

CITY'S CASH

Overall Budget Position

29. The budgets have been prepared in accordance with the budget policy set out in Annex 1 and the requirements for 2013/14 and 2014/15 are summarised by committee in the table below. Sufficient reserves are available to meet these total requirements.

City's Cash Summary by Committee <i>Net Expenditure (Income)</i>	2013/14 Original	2013/14 Latest Approved	2014/15 Original
	£m	£m	£m
Culture, Heritage & Libraries	0.1	0.3	0.4
Finance	(4.7)	(8.4)	(5.9)
G. P. Committee of Aldermen	3.1	3.3	3.1
Guildhall School of Music and Drama	6.0	8.4	9.0
Markets	1.4	0.9	1.2
Open Spaces :-			
Open Spaces Directorate	0.0	0.0	0.0
Epping Forest and Commons	7.1	6.4	7.2
Hampstead, Queen's Park and Highgate	6.9	6.5	7.4
Bunhill Fields	0.3	0.3	0.3
West Ham Park	1.2	1.0	1.2
Planning and Transportation	0.1	0.1	0.1
Policy and Resources	9.7	11.2	10.6
Port Health and Environmental Services	0.0	0.2	0.1
Property Investment Board	(34.4)	(32.8)	(33.5)
Schools :-			
City of London School #	1.4	1.4	1.5
City of London Freeman's School #	1.0	1.1	1.1
City of London School for Girls #	2.3	2.3	2.3
Total net requirement to be met from reserves	1.5	2.2	6.1

* Fully recharged to the Opens Spaces

Shows City support rather than net expenditure by the schools.

30. The following table further analyses the budget to indicate the income produced from the City's assets (investment property rent income, non-property investment income and interest on balances at lines 3 to 5 respectively).

City's Cash Requirements 2013/14 and 2014/15					
		2013/14 Original £m	2013/14 Latest Approved £m	2014/15 Original £m	Para. No.
1	Net expenditure on services	62.6	70.0	69.8	34,40
2	Supplementary revenue projects	2.3	3.8	2.4	35
3	Estate rent income	(43.0)	(41.8)	(41.8)	36
4	Investment income	(19.7)	(20.5)	(22.2)	41
5	Interest on balances	(0.7)	(0.3)	(0.1)	38
6	Operating Deficit	1.5	11.2	8.1	
7	Profit on asset sales	0.0	(9.0)	(2.0)	39
8	Deficit after Profit on Asset Sales	1.5	2.2	6.1	

31. The City's Cash operating deficit is anticipated to increase from £1.5m to £11.2m in the current year and then reduces to £8.1m in 2014/15. Deficits are also indicated for the other years of the medium term financial forecast.
32. Following the preparation of the 2012/13 City's Cash financial statements on the basis of United Kingdom Generally Accepted Accounting Practice (UKGAAP), the preparation of the budgets is also being moved to this basis. Consequently, depreciation, a measure of the loss in value of operational assets due to age, wear and tear, deterioration or obsolescence, is now charged to expenditure and is a major contributor to the operating deficits.
33. The service based review is identifying savings and budget reduction proposals to balance the City's Cash revenue account over the medium term.

Revenue Budget 2013/14

Net Expenditure on Services

34. Net expenditure on City's Cash services for 2013/14 was originally budgeted at £62.6m. The latest approved budget of £70.0m is an increase of £7.4m which is primarily due to:
- depreciation charges of £4.8m which, under UKGAAP, impact on the bottom line;
 - the transfer of £1.5m to the GSMD revenue budget from its capital cap;
 - approved budgets of £1.2m brought forward from 2012/13;
 - an increase of £0.7m for the City's Cash element of the additional support service costs set out in paragraph 56;
 - a contingency of £0.5m transferred from City Fund to match the decisions on funding;
 - additional income of £1.0m relating to Smithfield Market following the commencement of new leases from 1 April this year; and
 - release of £0.6m deferred income relating to grants and contributions received towards capital projects. UKGAAP requires such income to be released to revenue over the anticipated lives of the assets rather than being applied to match expenditure as it is incurred;

Supplementary Revenue Projects

35. The increase from £2.3m to £3.8m primarily relates to a change in accounting treatment required by UKGAAP whereby contributions from designated funds are no longer included in the income and expenditure account.

Investment Estate Rent Income

36. Rent income from investment properties is forecast to be £41.8m which is a decrease of £1.2m on the original budget. This decrease relates to the part year effect of the sale of properties to the City Fund together with the impact of the latest assumptions on availability, occupancy and rent levels for the rest of the estate.

Non-Property Investment Income

37. Income from non-property investments is forecast to increase by £0.8m to £20.5m due to the part year effect of the Policy and Resources Committee's decision to invest £50m of cash backed reserves into stocks and shares in order to achieve a rate of return that is higher than interest on cash balances.

Interest on Cash Balances

38. The net impact of the reduction in the assumed interest rate from 1.5% to 1.15%, the cash invested in stocks and shares, and the part year effect of the cash received from the sale of investment properties to City Fund are projected to reduce interest earnings from £0.7m to £0.3m.

Profit on Asset Sales

39. In the 2013/14 original budget the profit on sale of assets was not separately identified – being treated instead as part of capital income. Under UKGAAP, such profit is treated as revenue income. Following the approval of the 'Project B.E.' property transfers, the profit on sale of assets is anticipated to be £9m, a £7m increase on the annual assumption of £2m which had been included in the initial medium term financial forecasts.

Revenue Budget 2014/15

Net Expenditure on Services

40. Net expenditure on City's Cash services for 2014/15 is budgeted at £69.8m, an increase of £7.2m compared to the original budget for 2013/14. The main reasons for the increased requirement are:

- depreciation charges of £5.8m which, under UKGAAP, impact on the bottom line;
- an increase of £1.2m for pay and prices;
- the transfer of £1m to the GSMD revenue budget from its capital cap;
- an increase of £0.8m for the City's Cash element of the additional support service costs set out in paragraph 57;
- a contingency of £0.5m transferred from City Fund to match the decisions on funding;
- expenditure of £0.5m relating to repairs and maintenance programmes;

- the inclusion of a £0.4m provision for the London Living Wage;
- additional income of £1.0m relating to Smithfield Market following the commencement of new leases from 1 April this year;
- savings of £0.8m relating to efficiency and budget reviews;
- release of £0.6m deferred income relating to grants and contributions received towards capital projects. UKGAAP requires such income to be released to revenue over the anticipated lives of the assets rather than being applied to match expenditure as it is incurred; and
- a reduction of £0.3m in the fees payable on the procurement transformation project.

Non-Property Investment Income

41. Income is anticipated to increase by a further £1.7m to £22.2m reflecting the full year impact of the decision to invest £50m of cash backed reserves into stocks and shares in order to achieve a rate of return that is higher than interest on cash balances.

BRIDGE HOUSE ESTATES

Overall Budget Position

42. The budgets have been prepared in accordance with the budget policy set out in Annex 1 and the requirements for 2013/14 and 2014/15 are summarised in the table below.

Bridge House Estates Summary by Committee	2013/14 Original	2013/14 Latest Approved	2014/15 Original
<i>Net Expenditure (Income)</i>	£m	£m	£m
The City Bridge Trust	20.2	23.4	16.9
Culture, Heritage and Libraries	(0.3)	0.0	(0.3)
Finance	(9.2)	(9.6)	(10.6)
Planning and Transportation	3.6	3.8	3.7
Property Investment Board	(13.4)	(13.7)	(12.5)
Deficit (Surplus) from (to) reserves	0.9	3.9	(2.8)

43. The estimated deficit for the current year has increased from £0.9m to £3.9m but 2014/15 is expected to return to surplus with the medium term financial forecast also indicating healthy surpluses for subsequent years.
44. The following table further analyses the budget to indicate;
- the income produced from the City's assets (investment property rent income, non-property investment income and interest on balances at lines 3 to 5 respectively); and
 - the budgets for charitable grants (line 7).

Bridge House Estates Requirements 2013/14 and 2014/15					
		2013/14 Original	2013/14 Latest Approved	2014/15 Original	Para. No.
		£m	£m	£m	
1	Net expenditure on services	10.6	12.1	11.2	45, 51
2	Bridges repairs, maintenance and major works fund contribution	1.0	1.0	1.1	46, 47
3	Estate rent income	(17.6)	(17.9)	(16.3)	52
4	Investment income	(11.3)	(13.3)	(14.7)	48, 53
5	Interest on balances	(1.0)	(0.3)	(0.1)	49
6	Revenue surplus	(18.3)	(18.4)	(18.8)	
7	Charitable grants	19.2	22.3	16.0	50, 54
8	Deficit (Surplus) from (to) reserves	0.9	3.9	(2.8)	

Revenue Budget 2013/14

Net Expenditure on Services

45. The increase from £10.6m to £12.1m in 2013/14 is primarily approved budgets brought forward from 2012/13 together with an increase in the estimated fees payable to non-property investment fund managers.

Bridges Repairs, Maintenance and Major Works Fund

46. The objective for the Bridges Repairs, Maintenance and Major Works Fund is to provide sufficient resources to meet the enhanced maintenance costs of the five bridges over a period of at least 50 years.

47. Having compared the costs of the City Surveyor's 50 year maintenance programme with the projections for income to be earned by the Fund, the contributions required have been assessed as £1m in the current year and £1.1m in 2014/15. The 50 year maintenance programme and the levels of contributions required to smooth the costs over this period will continue to be reviewed annually.

Non-Property Investment Income

48. Income from non-property investments is forecast to increase by £2m to £13.3m. This is due to the part year effect of the Policy and Resources Committee's decision to invest £90m of cash backed reserves into stocks and shares in order to achieve a rate of return that is higher than interest on cash balances together with the forecast for investment returns being higher than originally budgeted by fund managers.

Interest on Balances

29. The net impact of the reduction in the assumed interest rate from 1.5% to 1.15%, the cash transferred to stocks and shares, and the part year effect of the cash received from the sale of investment properties to City Fund are projected to reduce interest earnings from £1m to £0.3m.

Charitable Grants

50. The increase of £3.1m relates to budgets brought forward from 2012/13 relating to the various grants programmes.

Revenue Budget 2014/15

Net Expenditure on Services

51. The estimate of £11.2m is an increase of £0.6m on the original budget for 2013/14 and primarily relates to the estimated fees payable to non-property investment fund managers

Investment Estate Rent Income

52. Rent income from investment properties is forecast to be £16.3m which is a decrease of £1.3m on the original budget. This decrease relates to the sale of properties to the City Fund together with the impact of the latest assumptions on availability, occupancy and rent levels for the rest of the estate.

Non-Property Investment Income

53. Income is anticipated to increase by a further £1.4m to £14.7m reflecting the full year impact of the decision to invest £90m of cash backed reserves into stocks and shares.

Charitable Grants

54. The 2014/15 budget is £16m and comprises

- the £15m base budget for charitable grants; and
- £1m towards the 'Employability Partnership' with Central London Forward to provide pre-employment training and mentoring for young people (£2m in total split equally over 2013/14 and 2014/15).

GUILDHALL ADMINISTRATION

55. 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, Museum of London 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.

Guildhall Administration by Committee	2013/14 Original	2013/14 Latest Approved	2014/15 Original
Net Expenditures	£m	£m	£m
Culture, Heritage and Libraries - City Records Office	0.9	0.9	0.9
Establishment - Town Clerk & C&CS	11.4	12.0	11.6
Finance - Chamberlain	30.2	31.8	31.3
Finance - City Surveyor, Remembrancer and Town Clerk	19.5	19.1	19.9
Total Net Expenditure	62.0	63.8	63.7
Recovery of Costs	(62.0)	(63.8)	(63.7)
Total Guildhall Administration	0	0	0

Revenue Budget 2013/14

56. The 2013/14 latest approved budget for net expenditure (before recovery of costs) is £63.8m, an increase of £1.8m compared to the original budget. The additional requirement primarily relates to the following:

- an increase of £0.9m for the first year of the IS managed service contract. However, across the seven year contract period there is an overall revenue saving of £1.6m;
- approved budgets of £0.7m brought forward from 2012/13;
- a £0.5m reduction in the anticipated profit from the City's reinsurance arrangements following poor claims experience this year;
- an increase of £0.4m for IS projects – disaster recovery, wide area network and Members' equipment;
- a reduction of £0.7m relating to the rephrasing of repairs and maintenance programmes; and
- a £0.4m reduction in insurance premiums.

Revenue Budget 2014/15

57. Net expenditure for 2014/15 (before recovery of costs) is budgeted at £63.7m. This is an increase of £1.7m compared to the 2013/14 original budget. The main variations are as follows:

- an increase of £0.7m for the second year of the IS managed service contract. However, across the seven year contract period there is an overall revenue saving of £1.6m;
- an additional £0.6m for the City of London Procurement Service following the early cessation of the contract with the procurement transformation partner.
- an increase of £0.6m for pay and prices;
- an increase of £0.2m relating to the rephrasing of repairs and maintenance programmes;
- an increase of £0.2m for IS projects – disaster recovery, wide area network and Members' equipment;
- savings of £0.5m relating to efficiency and budget reviews; and
- a £0.4m reduction in insurance premiums.

CAPITAL AND SUPPLEMENTARY REVENUE PROJECT BUDGETS

58. The City Fund, City's Cash and Bridge House Estates approved capital and supplementary revenue project budgets being submitted to the Court of Common Council in March are included in the Summary Budget Book.

City Fund Capital and Supplementary Revenue Project Budgets

59. The latest City Fund approved capital and supplementary revenue projects budgets total £197.4m for 2013/14 and £33.6m for 2014/15. The budgets for both years include property investments in relation to the City's Crossrail commitment, a number of schemes relating to affordable housing, the Barbican Centre and highway/streetscene schemes. In addition, the 2013/14 budget reflects significant property investments arising from the decision to divert revenue balances from cash to property. After allowing for external contributions and the investment of revenue cash balances, the remainder of the City Fund capital budget is anticipated to be financed largely from capital receipts in line with budget policy.

City's Cash Capital and Supplementary Revenue Project Budgets

60. The latest City's Cash capital and supplementary revenue projects budgets total £34.7m for 2013/14 and £11.8m for 2014/15. The budgets for 2013/14 include expenditures on property investments, the Guildhall School – in particular the new facilities at Milton Court, and the MasterPlan work at the Freeman's School. The 2014/15 budgets include further expenditures on property investments, completion of Phase 1 of the Freeman's School MasterPlan, works at Billingsgate Market and Highams Park lake in Epping Forest.

Bridge House Estates Capital and Supplementary Revenue Project Budgets

61. The latest Bridge House Estates approved capital and supplementary revenue projects budgets total £3.1m for 2013/14 and £4.4m in 2014/15 mainly related to investment property development

Financing Capital Expenditure

62. As in previous years, it is proposed that the Chamberlain should determine the final financing of the capital budgets.

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

DATED this 18th day of February 2014.

SIGNED on behalf of the Committee.

ROGER ARTHUR HOLDEN CHADWICK
Chairman of the Finance Committee

Medium Term Financial Strategy/Budget Policy

City Fund

The main constituents of the City Fund medium term financial strategy/budget policy are as follows:-

- (i) to aim to achieve as a minimum over the medium term planning period the 'golden rule' of matching on-going revenue expenditures and incomes;
- (ii) to implement budget adjustments and measures that are sustainable, on-going and focused on improving efficiencies;
- (iii) in line with (ii), as far as possible to protect existing repairs and maintenance provisions and budgets from any efficiency squeezes or budget adjustments and to ring-fence all other non-staffing budgets (to prevent any amounts from these budgets being transferred into staffing budgets);
- (iv) within the overall context of securing savings and budget reductions, to provide Chief Officers with stable financial frameworks that enable them to plan and budget with some certainty;
- (v) for the Police service, ordinarily to set an annual cash limit determined from the national settlement allocation to the City Police and to allow the Force to draw from its reserves on a phased basis, subject to a minimum level being retained;
- (vi) to achieve the existing targeted/selective budget reductions and savings programme and to identify further savings together with the potential financial benefits arising from new corporate-wide procurement arrangements;
- (vii) to ring-fence sufficient assets (cash and investment property) to accumulate, via revenue and/or capital growth, the amount required to meet the City Corporation's Crossrail direct funding commitment of £200m in 2015/16;
- (viii) to continue to review critically all financing arrangements, criteria and provisions relating to existing and proposed capital and supplementary revenue project expenditures;
- (ix) to reduce the City Fund's budget exposure to future interest rate changes by adopting a very prudent, constant annual earnings assumption in financial forecasts. If higher earnings are actually achieved, these should ordinarily only be available for non-recurring items of expenditure;
- (x) to accept that in some years of the financial planning period it may be necessary to make contributions from the revenue budget to revenue balances;
- (xi) ordinarily to finance capital projects from capital rather than revenue resources and supplementary revenue projects from provisions set aside within the financial forecast; and
- (xii) to minimise the impact of rate/tax increases on City businesses and residents.

City's Cash

The main constituents of the current budget policy for City's Cash services reflect the general elements within the City Fund strategy together with the following specific objectives:

- ensure that ongoing revenue expenditure is contained within revenue income over the medium term and sufficient surpluses are generated to finance capital investment on City's Cash services;

- continue to seek property investment opportunities to enhance income/seek capital appreciation during the year, subject to any financing being met from the City's Estate Designated Sales Pool; and
- sell either property or financial assets, which would need to be in addition to property disposals required to meet the financing requirements of the Designated Sales Pool, to meet City's Cash cash-flow requirements.

Bridge House Estates

Budget policy in relation to Bridge House Estates is as follows:

- adhering to a planning framework which provides cash limit allowances towards inflationary pressures rather than the budget reductions and savings programmes applied to other funds;
- ensuring that ongoing revenue expenditure is contained within revenue income over the medium term and that sufficient surpluses are generated to finance expenditure on the Bridges with surplus funds allocated to charitable grants; and
- continuing to seek property investment opportunities to enhance income/provide capital appreciation during the year subject to any financing being met from the Bridge House Estates Designated Sales Pool.