

<b>Committee</b>	<b>Dated:</b>
Finance Committee	16 February 2016
<b>Subject:</b>	<b>Public</b>
Revenue and Capital Budgets 2015/16 and 2016/17	
<b>Report of:</b>	
The Chamberlain	
<b>Report author:</b>	<b>For Decision</b>
Stephen Telling – Deputy Financial Services Director	

### Summary

- This report should be read in conjunction with the separate report to your Committee entitled 'City Fund – 2016/17 Budget Report and Medium Term Financial Strategy' which recommends that:
  - the Council Tax for 2016/17 remains unchanged from 2015/16 and;
  - Members discuss whether to recommend an increase in the Business Rates Premium to the Court of Common Council and, if so, what proportion of the additional income should be allocated to the Police.
- The 2015/16 and 2016/17 budgets for each of the City Corporation's three main funds are set out below. They have been prepared within the planning frameworks agreed by the Resource Allocation Sub Committee.

<b>Budgets by Fund</b>			
	<b>2015/16 Original £m</b>	<b>2015/16 Latest £m</b>	<b>2016/17 Original £m</b>
<b>City Fund</b>			
Gross Expenditure	338.2	372.9	342.9
Gross Income	(236.6)	(249.9)	(242.0)
Net Expenditure before Government Grants and Taxes	101.6	123.0	100.9
Government Grants and Taxes	(101.8)	(103.4)	(105.4)
<b>Deficit/ (Surplus) from (to) Reserves</b>	<b>(0.2)</b>	<b>19.6</b>	<b>(4.5)</b>
Less one-off items planned to be funded from revenue reserves	0.0	(19.0)	(1.4)
<b>Underlying Deficit/(Surplus)</b>	<b>(0.2)</b>	<b>0.6</b>	<b>(5.9)</b>
<b>City's Cash</b>			
Gross Revenue Expenditure	170.9	173.0	172.8
Gross Revenue Income	(161.5)	(164.8)	(173.5)
<b>Operating Deficit (Surplus)</b>	<b>9.4</b>	<b>8.2</b>	<b>(0.7)</b>
Profit on asset sales	(12.0)	(7.3)	(3.7)
<b>Deficit/ (Surplus) from (to) Reserves</b>	<b>(2.6)</b>	<b>0.9</b>	<b>(4.4)</b>
<b>Bridge House Estates</b>			
Gross Expenditure	40.6	46.7	47.9
Gross Income	(44.2)	(47.8)	(47.8)
<b>Deficit (Surplus) from (to) Reserves</b>	<b>(3.6)</b>	<b>(1.1)</b>	<b>0.1</b>

*NB: Figures in brackets indicate income or in hand balances, increases in income or decreases in expenditure.*

### 3. City Fund

- The latest budget for the current year is an underlying deficit of £0.6m which compares to a surplus of £0.2m in the original budget. For 2016/17 a surplus of £5.9m is indicated. In particular, this surplus takes account of the City's share of growth in National Non Domestic rates income for 2014/15 which feeds through to income in 2015/16 and 2016/17, increased incomes from rents and interest earnings, the second tranche of savings/increased incomes agreed for the Service Based Review, and an increase in residential accommodation feeding through to additional council tax income. Other reasons for the main variations are set out in paragraphs 19 to 38.
- The subsequent years of the medium term financial forecast (2017/18 to 2019/20) also indicate surpluses across the period (albeit reducing) the achievement of which are similarly dependent on delivery of the savings/increased incomes from the Service Based Review.
- The City Fund capital budget includes the £200m contribution payable to Crossrail which is anticipated to become due in March 2017 although the timing will depend upon the completion of certain project milestones. The funding for the £200m has been assembled over the past few years from a planned strategy in relation to investment properties and is now in place.
- The budget for the City of London Police is contained within the overall City Fund budget. Whilst the Government funding settlement for the Police is better than anticipated, and accords with the Chancellor's announcement that police spending would be protected in real terms over the Spending Review period when precepts are taken into account, deficits are still forecast from 2017/18 with reserves potentially being exhausted by 2018. Furthermore, since preparation of the Police Budget and approval by the Police Committee there are a number of emerging cost pressures for 2016/17. The police medium term financial position is considered in detail in the separate report to your Committee entitled 'City Fund – 2016/17 Budget Report and Medium Term Financial Strategy'.

### 4. City's Cash

- The City's Cash deficit in the current year is anticipated to be £0.9m compared to a surplus of £2.6m in the original budget. This movement largely relates to budgets carried forward from 2014/15 and asset sales being completed at the end of 2014/15 rather than in 2015/16 as assumed in the budget – partly offset by increased rent income. For 2016/17, City's Cash returns to a surplus of £4.4m due mainly to increased rent income and the phasing of repairs, maintenance and improvements programmes.
- As indicated in the table above, these bottom line figures are after anticipated profits on asset sales of £7.3m and £3.7m respectively. If the profits on asset sales are excluded, there is an estimated operating deficit of £8.2m in the current year and a reduced surplus of £0.7m in 2016/17.

- With regard to the subsequent years of the medium term financial forecast, modest surpluses are indicated after taking account of profits on asset sales. As with City Fund, these forecasts are predicated on the achievement of the savings/increased incomes from the Service Based Review.
  - There is, however, a risk in relation to the Guildhall School which faces a potential funding gap of £3.5m by 2017/18. Consequently, it is intended to commission a review of the School's operating model.
  - Details of significant budget variations are set out in paragraphs 43 to 52.
5. Bridge House Estates
- For the current year, the surplus is estimated to reduce from £3.6m to £1.1m mainly due to an increase in the City Bridge Trust grants budget.
  - For 2016/17, the fund is expected to break even in broad terms. Break-even is also forecast for 2017/18, whilst 2018/19 and 2019/20 indicate a return to surpluses as the three year increase to the City Bridge Trust grants budget comes to an end.
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 2016/17 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](mailto:steve.telling@cityoflondon.gov.uk).

## Recommendations

8. It is recommended that Members:
- (i) note the latest revenue budgets for 2015/16;
  - (ii) agree the 2016/17 revenue budgets, subject to any amendments on the City Fund that may be agreed in relation to the report on 'City Fund – 2016/17 Budget Report and Medium Term Financial Strategy';
  - (iii) agree the capital budgets;
  - (iv) delegate authority to the Chamberlain to determine the financing of the capital budgets; and
  - (v) submit this report to the Court of Common Council for its approval.

## MAIN REPORT

### Background

9. The primary purpose of this report is to summarise the latest budgets for 2015/16 and the proposed budgets for 2016/17 respectively together with the capital budgets, which have all been prepared within agreed policy guidelines and allocations, for 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, with the exception of City Police and Bridge House Estates, took account of the general planning framework for Chief Officers which provided for;
  - allowances towards pay and price increases of 1.5%;
  - increases in employer's national insurance contributions due to the impact of no longer receiving the rebate on contracted out workplace pension schemes from April 2016; and
  - the inclusion of the Service Based Review expenditure reductions and/or increased incomes agreed by the Policy and Resources Committee.
11. For the City Police, the annual cash limit continues to be determined by the national settlement plus support from the City's Business Rate Premium, 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 1.5% allowance towards inflationary pressures and the resources for the increase in employer's national insurance have been provided and no Service Based Review budget reductions have been required.
13. Accompanying this report is the Summary Budget Book 2016/17 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](mailto:steve.telling@cityoflondon.gov.uk). The Summary Budget Book provides:
  - (i) all the budgets at a summary level in a single document;
  - (ii) service overviews – a narrative of the services for which each Chief Officer is responsible;
  - (iii) Chief Officer summaries showing net revenue expenditure by division of service, fund, type of expenditure and income;
  - (iv) 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
  - (v) the capital and supplementary revenue project budgets by Fund.

### **Overall Financial Strategy**

14. 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;
  - create a stable framework for budgeting through effective financial planning; and

- promote investment in capital projects which bring clear economic, policy or service benefits.
15. The medium term financial strategies/budget policies for each of the funds are set out in Appendix 1.

## CITY FUND

### Overall Budget Position

16. The overall budgets have been prepared in accordance with the strategy and the requirements for 2015/16 and 2016/17 are summarised by Committee in the table below. Explanations for significant variations were contained in the budget reports submitted to service committees.

<b>City Fund Summary by Committee</b>	<b>2015/16 Original</b>	<b>2015/16 Latest</b>	<b>2016/17 Original</b>
<i>Net Expenditure (Income) (1)</i>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Barbican Centre	25.0	24.6	24.7
Barbican Residential	1.0	3.0	2.8
Community and Children's Services	11.4	11.8	11.7
Culture Heritage and Libraries	20.1	20.8	20.6
Finance (2)	(10.2)	(2.0)	(11.8)
Licensing	0.1	0.0	0.1
Markets	(0.8)	(0.6)	(0.7)
Open Spaces	1.6	1.6	1.7
Planning and Transportation	13.7	13.1	14.5
Police (3)	57.5	67.4	56.7
Policy and Resources	3.9	4.0	3.9
Port Health and Environmental Services	14.4	14.6	13.6
Property Investment Board	(36.1)	(35.3)	(36.9)
<b>City Fund Requirement (4)</b>	<b>101.6</b>	<b>123.0</b>	<b>100.9</b>

1. Figures in brackets indicate income or in hand balances, increases in income or decreases in expenditure.
2. The reduction in net income on Finance Committee from £10.2m in the 2015/16 original budget to £2m in the 2015/16 latest budget primarily relates to the planned purchase of investment properties from revenue reserves.
3. The increase in Police net expenditure from £57.5m in the original budget to £67.4m in the latest budget relates to cashflow assistance for the Action Fraud Service.
4. Reconciles to line 8 in the following table.

17. 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 6, and investment property rent income – line 7);
- the funding received from Government formula grants and from taxes (lines 9 to 13); and
- the estimated surpluses to be transferred to reserves, or deficits to be funded from reserves (lines 14 to 16).

City Fund Revenue Requirements 2015/16 and 2016/17					
		2015/16	2015/16	2016/17	Para.
		Original	Latest	Original	No.
		£m	£m	£m	
1	Net expenditure on services	140.2	141.3	140.3	19, 27
2	Property Investments funded from Revenue Reserves	0.0	9.1	1.9	20, 28
3	City Police - Action Fraud	0.0	9.9	(0.5)	21, 29
4	Cyclical Works Programme and capital expenditure financed from revenue	4.5	6.0	4.0	22, 30
5	Requirement before investment income from the City's Assets	144.7	166.3	145.7	
6	Interest on balances	(1.6)	(2.4)	(2.5)	23, 31
7	Estate rent income	(41.5)	(40.9)	(42.3)	24, 32
8	<b>City Fund Requirement</b>	<b>101.6</b>	<b>123.0</b>	<b>100.9</b>	
	Financed by:				
9	Government formula grants	(78.3)	(79.9)	(80.5)	25, 33
10	City offset	(11.0)	(10.9)	(11.0)	
11	Council tax	(6.0)	(6.1)	(7.4)	37
12	NNDR premium	(6.5)	(6.5)	(6.5)	
13	Total Government Grants and Tax Revenues	(101.8)	(103.4)	(105.4)	
14	<b>Deficit/(Surplus)transferred from (to) reserves</b>	<b>(0.2)</b>	<b>19.6</b>	<b>(4.5)</b>	
15	Less one-off items planned to be funded from revenue reserves	0.0	19.0	1.4	26, 38
16	<b>Underlying Deficit/(Surplus)</b>	<b>(0.2)</b>	<b>0.6</b>	<b>(5.9)</b>	

18. The latest budget for the current year is an underlying deficit of £0.6m which compares to a surplus of £0.2m in the original budget. For 2016/17 a surplus of £5.9m is indicated. The subsequent years of the medium term financial forecast (2017/18 to 2019/20) also indicate surpluses across the period (albeit reducing) the achievement of which continues to be dependent on delivery of the savings/increased incomes from the Service Based Review.

### Revenue Budget 2015/16

#### Net Expenditure on Services

19. Net expenditure on City Fund services in 2015/16 was originally budgeted at £140.2m, whereas the latest budget totals £141.3m, an increase of £1.1m. The main reasons for this increase are:

- £2.1m approved budgets brought forward from 2014/15;
- £0.5m for possible severance costs resulting from the implementation of service based review proposals;  
*partly offset by*
- £1.6m reduction for the release of a balance sheet provision relating to a liability that is considered unlikely to be required.

## Property Investments Funded from Revenue Reserves

20. As rent yields significantly exceed interest earned on cash balances, Policy and Resources Committee agreed that £110m of cash backed revenue reserves should be used to purchase investment properties. An estimated £9.1m will be used in 2015/16 following which the balance of the £110m remaining will be £17.8m.

## City Police Action Fraud

21. The City Fund is providing cash flow assistance in relation to the Action Fraud Service provided by the City Police. This service was transferred by the Home Office from the National Fraud Authority to the City Police with effect from 1 April 2014. Subsequently, the service was subject to a procurement process which was won by IBM. The phasing of contract payments reflects IBM's significant mobilisation costs during the first year which could not be managed within Police reserves. The amount and timing of the cash flow advance to the Police from City Fund and its subsequent recovery is set out below.

Police 'Action Fraud' Service - Cash Flow Assistance from City Fund							
	15/16	16/17	17/18	18/19	19/20	20/21	Total
	£m	£m	£m	£m	£m	£m	£m
Advance to Police Revenue	9.9						9.9
Recovered through Home Office Capital Grant - Reflected in a lower requirement for use of City Fund capital receipts	(3.3)						(3.3)
Recovered from Police Revenue		(0.5)	(1.0)	(1.6)	(1.9)	(1.6)	(6.6)
<b>Total</b>	<b>6.6</b>	<b>(0.5)</b>	<b>(1.0)</b>	<b>(1.6)</b>	<b>(1.9)</b>	<b>(1.6)</b>	<b>0.0</b>

## Cyclical Works Programme and Capital Expenditure Financed from Revenue

22. The increase from £4.5m to £6m largely relates to expenditure on the supplementary revenue project elements of the police accommodation programme.

## Interest on Balances

23. The latest budget for 2015/16 anticipates an increase of £0.8m in interest earnings to £2.4m. This reflects a more beneficial cash flow, particularly business rate receipts, capital transactions and higher reserves. The assumed average interest rate for the year is unchanged at 0.5%.

## Investment Estate Rent Income

24. Rent income from investment properties is forecast to be £40.9m, a reduction of £0.6m compared to the original budget. This mainly relates to a decrease in income following the sale of Alie Street and accounting adjustments for rent

incentives (e.g. rent free periods), partly offset by increased rent at 15/17 Eldon Street and from a new acquisition at 10 Bonhill Street.

#### Government Formula Grants

25. The increase from £78.3m to £79.9m mainly relates to the City's share of growth in national non domestic rates for 2014/15 which feeds through to income in 2015/16 and 2016/17.

#### Transfer from Reserves

26. The £19m planned transfer from reserves is to fund the costs of the investment property purchases (para 20) and the cash flow assistance to the Police for Action Fraud (para 21).

### **Revenue Budget 2016/17**

#### Net Expenditure on Services

27. Although the net expenditure of £140.3m on City Fund services for 2016/17 is little changed from the 2015/16 original budget, there are a number of largely compensating movements:

- £1.2m allowance for pay and prices;
- £1.2m increases in employer's national insurance contributions due to the impact of no longer receiving the rebate on contracted out workplace pension schemes from April 2016;
- £0.5m provision has been included for a transformation fund – £0.5m p.a. from 2016/17 to 2018/19. The purpose of the funds is to implement the cross cutting changes needed for the service based review, and to invest in developing skill sets and service transformation which will generate additional efficiency savings and income;
- £0.5m for possible severance costs resulting from the implementation of service based review proposals;
- £0.4m for security measures in response to the heightened security environment. Requirements have been reviewed across the estate and, at this stage, the £0.4m is a preliminary estimate. A £3m provision has also been included in the capital budget for various works.
- £0.3m net increase in insurance premiums after having deducted estimated sums recoverable from third parties;
- £0.2m for an increased allocation of City Surveyor staff time to the City Fund investment estate;

*largely offset by*

- £2.7m for the second tranche of service based review savings/increased incomes;
- £0.8m relating to the cessation of the annual contribution to the Crossrail reserve as funds for the City Fund contribution are now in place;
- £0.4m increase in non-core Government grants; and
- £0.3m reduction in the City Police cash limit to reflect the cut in core Government grant.



## Property Investments Funded from Revenue Reserves

28. Further to paragraph 20, an estimated £1.9m will be used in 2016/17 following which the balance remaining will be £15.9m.

## City Police Action Fraud

29. As indicated in the table above, the first annual repayment of the cashflow assistance provided to the Police will be £0.5m in 2016/17.

## Cyclical Works Programme and Capital Expenditure Financed from Revenue

30. The budget of £4m reflects the latest phasings of the additional works programme, other revenue works projects, and contributions to capital projects from revenue. By their natures, these costs and contributions tend to be 'lumpy'.

## Interest on Balances

31. Income is anticipated to increase from £1.6m in the 2015/16 revenue budget to £2.5m in 2016/17. This is largely due to the deferral of the £200m City Fund contribution to Crossrail. The contribution is due on completion of specific milestones which were originally timetabled for March 2016 but are now unlikely to be completed until March 2017. The assumed average interest rate for the year remains at 0.5%.

## Investment Estate Rent Income

32. The latest rental forecasts for 2016/17 assume an increase of £0.8m to £42.3m compared to the original budget for 2015/16. Increased rental incomes from Mansell Court, 15/17 Eldon Street, 36 Carter Lane and 31 Worship Street have been partly offset by the loss of rental following the sale of Alie Street.

## Core Government Grants

33. Overall, there is an estimated increase of £1.8m in core Government grants but, as indicated below, the position is somewhat complex.

Analysis of Core Government Grants					
		2015/16	2016/17	Reduction (Increase)	
		Original	Original	on 2015/16	
		£m	£m	£m	%
1	Police	52.4	52.1	0.3	0.6%
2	Non-Police	11.9	10.6	1.3	10.9%
3	<b>Total before Rates Retention Scheme and grants Rolled In</b>	<b>64.3</b>	<b>62.7</b>	<b>1.6</b>	<b>2.5%</b>
Rates Retention Scheme					
4	Baseline	15.2	15.3	(0.1)	(0.7%)
5	2013/14 Safety Net	(1.2)		(1.2)	NA
6	2014/15 Growth		2.5	(2.5)	NA
7	<b>Total before Grants Rolled In</b>	<b>78.3</b>	<b>80.5</b>	<b>(2.2)</b>	<b>(2.8%)</b>
8	Grants Rolled In		(0.4)	0.4	NA
9	<b>Total Core Government Grants</b>	<b>78.3</b>	<b>80.1</b>	<b>(1.8)</b>	<b>(2.3%)</b>

34. Lines 1 to 3 are the basic formula grant which have reduced by £1.6m in total.

35. Lines 4 to 7 reflect the impact of the Rates Retention Scheme for which the outturn does not generally feed through until subsequent years. Consequently in 2013/14, although the national non domestic rates for the City did not achieve the Government set threshold, losses were limited to £1.2m due to the operation of a safety net, the payment of which has to be accounted for in 2015/16 (line 5). Conversely, in 2014/15 the City did benefit from rates growth and the majority of its share (£2.5m) has to be accounted for in 2016/17 (line 6).
36. The final complication is that in setting the basic formula grant for non-police services (line 2), the Government has rolled £0.4m of specific grants into the formula thus effectively further reducing the grants receivable by the City. These reductions to specific grants are included in the net cost of services.

#### Council Tax

37. There is an estimated 'one-off' increase of £1.4m, from £6m in the 2015/16 original budget to £7.4m in 2016/17, following the transfer of the estimated accumulated surplus on the collection fund. The accumulated surplus is due to an increase over the years in the residential properties in the City combined with a reduction in the number of residential properties assumed to be reclassified as commercial and therefore switch from council tax to non-domestic rates. The estimated Band D equivalents are 7,042 for 2016/17 compared to 6,240 assumed in 2015/16.

#### Transfer from Reserves

38. The net £1.4m planned transfer from reserves is to fund £1.9m of investment property purchases (para 28) less the first annual repayment (£0.5m) of the cashflow assistance provided to the Police for Action Fraud (para 29).

## CITY'S CASH

### Overall Budget Position

39. The budgets have been prepared in accordance with the budget policy set out in Appendix 1 and the net positions for 2015/16 and 2016/17 are summarised by committee in the table below. Reserves are available to meet the estimated deficit in the current year.

<b>City's Cash Summary by Committee</b>	<b>2015/16</b>	<b>2015/16</b>	<b>2016/17</b>
<b>Net Expenditure (Income)</b>	<b>Original</b>	<b>Latest</b>	<b>Original</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Culture, Heritage & Libraries	0.0	0.3	0.0
Education Board	1.0	1.0	1.0
Finance (1)	(15.1)	(6.9)	(9.4)
G. P. Committee of Aldermen	3.2	3.3	3.2
Guildhall School of Music and Drama	9.9	10.3	10.1
Markets	0.6	1.2	1.0
Open Spaces :-			
Epping Forest and Commons	7.7	7.5	7.7
Hampstead, Queen's Pk, Highgate Wd	7.9	7.7	7.7
Bunhill Fields	0.3	0.2	0.5
West Ham Park	1.2	1.3	1.2
Policy and Resources	11.3	12.2	11.7
Property Investment Board	(35.1)	(41.1)	(42.9)
Schools :-			
City of London School (2)	1.6	1.4	1.4
City of London Freeman's School (2)	2.1	1.9	1.8
City of London School for Girls (2)	0.8	0.6	0.6
<b>Deficit (Surplus) from (to) reserves</b>	<b>(2.6)</b>	<b>0.9</b>	<b>(4.4)</b>

1. For Finance Committee, the significant variations between the 2015/16 original budget (£15.1m credit) and the 2015/16 latest (£6.9m credit) and 2016/17 original (£9.4m credit) budgets largely relates to the estimated profits on the sale of assets together with the phasing of expenditure on the Cyclical Works Programme.
2. Shows City Support rather than net expenditure by the schools.

40. 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). It also indicates the underlying deficits or surpluses on City's Cash before the anticipated profits on the sale of assets are taken into account (lines 6 to 8).

City's Cash Requirements 2015/16 and 2016/17					
		2015/16	2015/16	2016/17	Para.
		Original	Latest	Original	No.
		£m	£m	£m	
1	Net expenditure on services	64.6	66.6	64.9	43, 48
2	Cyclical Works Programme	7.2	9.8	4.6	44, 49
3	Estate rent income	(42.8)	(48.4)	(50.4)	45, 50
4	Non-property investment income (net)	(19.5)	(19.5)	(19.5)	46
5	Interest on balances	(0.1)	(0.3)	(0.3)	
6	<b>Operating Deficit (Surplus)</b>	<b>9.4</b>	<b>8.2</b>	<b>(0.7)</b>	
7	Profit on asset sales	(12.0)	(7.3)	(3.7)	47, 51
8	<b>Deficit (Surplus) from (to) reserves</b>	<b>(2.6)</b>	<b>0.9</b>	<b>(4.4)</b>	

41. The City's Cash deficit in the current year is anticipated to be £0.9m compared to a surplus of £2.6m in the original budget. This movement largely relates to budgets carried forward from 2014/15 and asset sales being completed at the end of 2014/15 rather than in 2015/16 as assumed in the budget – partly offset by increased rent income. For 2016/17, City's Cash returns to a surplus of £4.4m.
42. With regard to the subsequent years of the medium term financial forecast, modest surpluses are indicated after taking account of profits on asset sales. As with City Fund, these forecasts are predicated on the achievement of the savings/increased incomes from the Service Based Review.

### Revenue Budget 2015/16

#### Net Expenditure on Services

43. Net expenditure on City's Cash services for 2015/16 was originally budgeted at £64.6m. The latest budget of £66.6m is an increase of £2m which is primarily due to:
- £2.5m approved budgets brought forward from 2014/15;
  - £0.3m for possible severance costs resulting from the implementation of service based review proposals;
- partly offset by*
- £0.6m reduction in property operating costs following the sales of London Fruit and Wool Exchange and Whites Row car park;

#### Cyclical Works Programme

44. The increase from £7.2m to £9.8m primarily relates to slippage from 2014/15 on Guildhall School and investment property projects.

#### Investment Estate Rent Income

45. Rent income from investment properties is forecast to be £48.4m which is an increase of £5.6m on the original budget. This improvement relates to lease renewals of properties in Tottenham Court Road, backdated rent review increases for properties in New Bond Street and Smithfield Commercial offices, new lettings in North Road and Brewery Road, together with accounting

adjustments required to recognise the impact of both agreed and anticipated rent incentives (e.g. rent free periods).

#### Non-Property Investment Income

46. As most of the managed funds are held in pooled investment vehicles, income is drawn down from the investments as necessary rather than being received as dividend income. The amounts to be drawn down in 2015/16 and 2016/17, after the deduction of management fees, remains at the £19.5m assumed in the 2015/16 original budget.

#### Profit on Asset Sales

47. The profit on the sale of assets is anticipated to reduce from £12m to £7.3m. The original budget assumed the sale of two properties which were completed earlier than anticipated, in 2014/15. The latest budget reflects estimated profits from the disposal of a further three investment properties.

### **Revenue Budget 2016/17**

#### Net Expenditure on Services

48. Net expenditure on City's Cash services for 2016/17 is budgeted at £64.9m, an increase of £0.3m compared to the original budget for 2015/16. The main reasons for the increased requirement are:

- £1m provision has been included for a transformation fund – £1m p.a. for 2016/17 and 2017/18 and £0.75m in 2018/19. The purpose of the funds is to implement the cross cutting changes needed for the service based review, and to invest in developing skill sets and service transformation which will generate additional efficiency savings and income;
- £0.8m allowance for pay and prices;
- £0.8m increases in employer's national insurance contributions due to the impact of no longer receiving the rebate on contracted out workplace pension schemes from April 2016;
- £0.5m additional funding for Economic Development relating to the City office in Brussels;
- £0.3m for possible severance costs resulting from the implementation of service based review proposals;

*partly offset by*

- £2.2m of savings/increased income relating to the Service Based Review;
- £0.6m reduction in property operating costs following the sales of London Fruit and Wool Exchange and Whites Row car park; and
- £0.5m reduction in the GSMD revenue budget as the temporary increase from resources transferred from the capital cap comes to an end.

#### Cyclical Works Programme

49. The £4.6m budget for 2016/17 relates mainly to anticipated expenditure on the additional works programmes approved by the Corporate Asset and Resource Allocation Sub Committees.

## Investment Estate Rent income

50. Rent income from investment properties is forecast to be £50.4m which is an increase of £7.6m on the 2015/16 original budget. The reasons for this improvement are as set out in paragraph 45 together with rent increases for Tallis House, Devlin House, and properties in New Broad Street, Temple Chambers and Store Street.

## Profit on Asset Sales

51. The estimate of £3.7m for profits on asset sales relates to the disposal of surplus operational assets, rights of light compensation and investment property overage receipts.

## Guildhall School Potential Funding Gap

52. Modelling of new student numbers indicates that the School faces a potential funding gap of £3.5m by 2017/18. HEFCE is currently considering 'Specialist Institution' funding allocations and an announcement is anticipated in March on whether additional funding of around £1m will be made available. However, even with such funding, there is still likely to be a deficit and, consequently, it is intended to commission a fundamental review of the School's operating model.

## BRIDGE HOUSE ESTATES

### Overall Budget Position

53. The budgets have been prepared in accordance with the budget policy set out in Appendix 1 and the requirements for 2015/16 and 2016/17 are summarised in the table below.

<b>Bridge House Estates Summary by Committee</b>	<b>2015/16 Original</b>	<b>2015/16 Latest</b>	<b>2016/17 Original</b>
<b>Net Expenditure (Income)</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
The City Bridge Trust	17.2	20.9	21.4
Culture, Heritage and Libraries	(0.2)	(0.3)	(0.3)
Finance	(10.6)	(10.3)	(10.5)
Planning and Transportation	3.6	3.8	3.9
Property Investment Board	(13.6)	(15.2)	(14.4)
<b>Deficit (Surplus) from (to) reserves</b>	<b>(3.6)</b>	<b>(1.1)</b>	<b>0.1</b>

54. 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 4 to 6 respectively); and
- the budgets for charitable grants (line 8).

Bridge House Estates Requirements 2015/16 and 2016/17					
		2015/16 Original £m	2015/16 Latest £m	2016/17 Original £m	Para. No.
1	Net expenditure on services	9.1	10.0	9.8	57, 63
2	Cyclical Works Programme	0.5	0.7	0.5	
3	Bridges repairs, maintenance and major works fund contribution	1.1	1.1	1.1	58, 59
4	Estate rent income	(18.0)	(19.6)	(19.0)	60, 64
5	Non-property investment income (net)	(12.2)	(12.2)	(12.2)	61
6	Interest on balances	(0.1)	(0.1)	(0.1)	
7	<b>Revenue surplus</b>	<b>(19.6)</b>	<b>(20.1)</b>	<b>(19.9)</b>	
8	Charitable grants	16.0	19.0	20.0	62, 65
9	<b>Deficit (Surplus) from (to) reserves</b>	<b>(3.6)</b>	<b>(1.1)</b>	<b>0.1</b>	

55. For the current year, the surplus is estimated to reduce from £3.6m to £1.1m mainly due to an increase in the City Bridge Trust grants budget.
56. For 2016/17, the fund is expected to break even in broad terms. Break-even is also forecast for 2017/18, whilst 2018/19 and 2019/20 indicate a return to surpluses as the three year increase to the City Bridge Trust grants budget comes to an end.

### Revenue Budget 2015/16

#### Net Expenditure on Services

57. The increase from £9.1m to £10m in 2015/16 is primarily due to approved budgets brought forward from 2014/15.

#### Bridges Repairs, Maintenance and Major Works Fund

58. 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.
59. 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 2016/17 contributions required has been assessed as £1.1m – unchanged from the current year. The 50 year maintenance programme and the levels of contributions required to smooth the costs over this period will continue to be reviewed annually.

#### Investment Estate Rent Income

60. Rent income from investment properties is forecast to be £19.6m which is an increase of £1.6m on the original budget. This improvement relates to 1-5 London Wall Buildings due to retention of tenants and quicker letting of refurbished space, Colechurch House due to retention of tenants, and rent increases to various other properties.

## Non-Property Investment Income

61. As most of the managed funds are held in pooled investment vehicles, income is drawn down from the investments as necessary rather than being received as dividend income. The amounts to be drawn down in 2015/16 and 2016/17, after the deduction of management fees, remains at the £12.2m assumed in the 2015/16 original budget.

## Charitable Grants

62. The increase of £3m to £19m is the first of three years of additional funding. The budget for 2016/17 is £20m and for 2017/18 is £21m. The forecasts for 2018/19 and 2019/20 revert to £16m pending further consideration of future grant levels.

## **Revenue Budget 2016/17**

### Net Expenditure on Services

63. The estimate of £9.8m is an increase of £0.7m on the original budget for 2015/16. This increase primarily relates to allowances for pay and price increases, employer's national insurance contributions and increased allocations of staff time to the investment property estate and maintenance of bridges.

### Investment Estate Rent Income

64. The reasons for the increase in income, from £18m to £19m, are as set out in paragraph 60 together with higher rents at Millennium Bridge House and 24-25 New Bond Street; partly offset by anticipated void periods at properties in Gresham Street and Wood Street.

### Charitable Grants

65. The reason for the increase is outlined in paragraph 62.



## GUILDHALL ADMINISTRATION

66. 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.

<b>Guildhall Administration by Committee Net Expenditures</b>	<b>2015/16 Original £m</b>	<b>2015/16 Latest £m</b>	<b>2016/17 Original £m</b>
Establishment - Town Clerk & C&CS	11.0	11.7	11.2
Finance - Chamberlain	31.8	32.2	32.5
Finance - City Surveyor, Remembrancer and Town Clerk	19.8	19.6	21.1
Culture, Heritage and Libraries - City Records Office	0.9	0.0	0.0
<b>Total Net Expenditure</b>	<b>63.5</b>	<b>63.5</b>	<b>64.8</b>
Recovery of Costs	<i>(63.5)</i>	<i>(63.5)</i>	<i>(64.8)</i>
Total Guildhall Administration	0	0	0

### Revenue Budget 2015/16

67. Although the 2015/16 latest budget is unchanged from the original, there are a number of largely compensating variations:

- £0.7m reduction in dividend income from the City's Reinsurance Captive Company as a result of potentially high value claims;
- £0.6m approved budgets brought forward from 2014/15;
- £0.5m increase in insurance premiums for the part year effect of revaluations across the operational and investment property portfolio (the rates applied by insurers remain the same), an increase in Insurance Premium Tax from 6% to 9.5% and a restructure of the terrorism insurance provided by PoolRe which has increased premium charges.

*offset by*

- £0.9m reduction relating to the rephasing of the additional repairs and maintenance works programmes;
- £0.9m of costs relating to the City Records Office have been allocated directly to the three funds as the activity is now treated as a direct service rather than an apportioned support service.

### Revenue Budget 2016/17

68. The net expenditure for 2016/17 is £64.8m, an increase of £1.3m from 2015/16. The main variations are as follows:

- £1.9m increase in insurance premiums as explained above. All insurances, with the exception of employees and public liability, are being tendered during 2016;
- £0.5m allowance for pay and prices;

- £0.5m increases in employer's national insurance contributions due to the impact of no longer receiving the rebate on contracted out workplace pension schemes from April 2016;
- £0.4m increased expenditure on the additional works programme  
*partly offset by*
- £1.3m of savings/increased income relating to the Service Based Review;
- £0.9m of costs relating to the City Records Office have been allocated directly to the three funds as the activity is now treated as a direct service rather than an apportioned support service.

## **CAPITAL AND SUPPLEMENTARY REVENUE PROJECT BUDGETS**

69. The City Fund, City's Cash and Bridge House Estates capital and supplementary revenue project budgets being submitted to the Court of Common Council in March are included in the Summary Budget Book.
70. The "Supplementary Revenue Projects" classification has been created as certain projects do not comply with definitions of capital expenditure. This is an accounting treatment and does not change the projects themselves, which will be controlled in the same way as capital projects. All expenditure and income on such projects is posted to revenue accounts.

### **City Fund Capital and Supplementary Revenue Project Budgets**

71. The latest City Fund capital and supplementary revenue projects budgets total £52.1m for 2015/16 and £235.5m for 2016/17. The budgets for both years include schemes relating to investment properties, works to existing HRA stock and construction of new affordable housing, the Barbican Centre, works to the Central Criminal Court and highways/streetscene schemes, most notably the highway and public realm scheme at Aldgate. In addition, the 2016/17 budget reflects the capital contribution of £200m payable towards Crossrail. After allowing for external contributions and the use of revenue reserves, the remainder of the City Fund capital budget is anticipated to be financed largely from disposal proceeds in line with budget policy.

### **City's Cash Capital and Supplementary Revenue Project Budgets**

72. The latest City's Cash capital and supplementary revenue projects budgets total £69.0m for 2015/16 and £18.1m for 2016/17. The budgets for both years include property investments and the flood mitigation scheme at Hampstead Heath.

### **Bridge House Estates Capital and Supplementary Revenue Project Budgets**

73. The latest Bridge House Estates capital and supplementary revenue projects budgets total £27.4m for 2015/16 and £15.0m in 2016/17 mainly related to investment property acquisitions and developments.

## **Financing Capital Expenditure**

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

**Peter Kane  
Chamberlain**

## **Appendices**

- Appendix 1 – Medium Term Financial Strategy/Budget Policy

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## **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 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 together with the allocation from the Business Rates Premium and to allow the Force to draw from its reserves on a phased basis, subject to a minimum level being retained;
- (vi) to identify and achieve targeted/selective budget reductions and savings programmes;
- (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;
- (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, consideration to be given to only making the additional income 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 revenue balances to balance the revenue budget;
- (xi) ordinarily to finance capital projects from disposal proceeds 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.