

<b>Committee:</b>	<b>Date:</b>
Finance Committee Court of Common Council	21 February 2017 9 March 2017
<b>Subject:</b> Revenue and Capital Budgets 2016/17 and 2017/18	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
<b>Report author:</b> John James, Chamberlain's Department	

### Summary

This report should be read in conjunction with the separate report to your Committee entitled 'City Fund – 2017/18 Budget Report and Medium Term Financial Strategy' which recommends that:

- the Council Tax for 2017/18 remains unchanged from 2016/17 and;
- Members agree to recommend no increase in the Business Rates Premium to the Court of Common Council.

The 2016/17 and 2017/18 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>2016/17 Original £m</b>	<b>2016/17 Latest £m</b>	<b>2017/18 Original £m</b>
<b>City Fund</b>			
Gross Expenditure	344.5	396.7	383.0
Gross Income	(242.0)	(255.7)	(268.7)
Net Expenditure before Government Grants and Taxes	102.5	141.0	114.3
Government Grants and Taxes	(107.0)	(115.7)	(118.5)
<b>Deficit/ (Surplus) from (to) Reserves</b>	<b>(4.5)</b>	<b>25.3</b>	<b>(4.2)</b>
Less one-off items planned to be funded from revenue reserves	(1.4)	(32.5)	(6.7)
<b>Underlying Deficit/(Surplus)</b>	<b>(5.9)</b>	<b>(7.2)</b>	<b>(10.9)</b>
<b>City's Cash</b>			
Gross Revenue Expenditure	172.8	185.3	196.8
Gross Revenue Income	(173.5)	(175.9)	(181.9)
<b>Operating Deficit (Surplus)</b>	<b>(0.7)</b>	<b>9.4</b>	<b>14.9</b>
Profit on asset sales	(3.7)	(1.1)	(2.0)
<b>Deficit/ (Surplus) from (to) Reserves</b>	<b>(4.4)</b>	<b>8.3</b>	<b>12.9</b>
<b>Bridge House Estates</b>			
Gross Expenditure	47.9	56.8	51.3
Gross Income	(47.8)	(49.4)	(49.6)
<b>Operating Deficit (Surplus)</b>	<b>0.1</b>	<b>7.4</b>	<b>1.7</b>
Profit on asset sales	0.0	0.0	(2.0)
<b>Deficit/ (Surplus) from (to) Reserves</b>	<b>0.1</b>	<b>7.4</b>	<b>(0.3)</b>

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

## City Fund

- The latest budget for the current year is an underlying surplus of £7.2m which compares to a surplus of £5.9m in the original budget. For 2017/18 a surplus of £10.9m is indicated. In particular, this surplus takes account of the City's share of growth in the retained National Non Domestic rates income which feeds, increased incomes from rents and interest earnings, and further savings/increased incomes agreed for the Service Based Review. Other reasons for the main variations are set out in paragraphs 11 to 31.
- The subsequent years of the medium term financial forecast (2018/19 to 2020/21) show a breakeven position in 2018/19 and the Fund then moves into deficit from 2019/20 due to inclusion of costs for the Museum of London relocation project. Funding options for the Museum at that point are being considered.
- 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. The Government core grant settlement for 2017/18 the Police was marginally worse, being £51.4m some £0.7m lower than anticipated. Overall the fund moved into deficit in 2016/17 and the Police Medium Term Financial Plan sought to address this deficit in the short term through a combination of additional support from the City and use of the Police reserve, which will now be fully utilised in 2017/18.
- Despite these mitigations substantial deficits are still anticipated for 2018/19 and 2019/20. In response to this an external value for money review has been commissioned to address the problem. It is intended that initial findings from the review will be reported back to Members prior to the Summer recess. The police medium term financial position is considered in detail in the separate report to your Committee entitled 'City Fund – 2017/18 Budget Report and Medium Term Financial Strategy'.

## City's Cash

- The City's Cash deficit in the current year is anticipated to be £8.3m compared to a surplus of £4.4m in the original budget. This movement largely relates to budgets carried forward from 2015/16; additional cyclical works; lower disposal receipts due to slippage; and provision for the "Promoting the City" initiative. These additional costs are in part offset by extra rental income. Details of significant budget variations are set out in paragraphs 37 to 45.
- For 2017/18, the City's Cash deficit increases due to some additional costs such as an increase in the employers' pension contribution but also to increased investment in repairs and maintenance projects and the 'Promoting the City' initiative. Some of these costs are offset by additional rental income.
- As indicated in the table above, these bottom line figures are after anticipated profits on asset sales of £1.1m and £2.0m respectively. If the profits on asset

sales are excluded, there is an estimated operating deficit of £9.4m in the current year and £14.9m in 2016/17.

- With regard to the subsequent years of the medium term financial forecast, City's Cash has a reducing deficit in 2018/19 and 2019/20 and returns to surplus in 2020/21.

### **Bridge House Estates**

- For the current year, the deficit is estimated to increase from £0.1m to £7.4m mainly due to an increase in expenditure on cyclical repairs projects such as Tower Bridge Bascules.
- For 2017/18, the fund is expected to break even in broad terms. Surpluses are forecast for the remaining planning period of 2018/19 to 2020/21 even after allowing for the £5m increase to the City Bridge Trust grants budget to be extended to the end of the period. Details of significant budget variances are set out in paragraphs 50 to 60.

### **Guildhall Administration**

- 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. Details of significant budget variances are set out in paragraphs 62 to 63.
- The 2017/18 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 [john.james@cityoflondon.gov.uk](mailto:john.james@cityoflondon.gov.uk).

### **Recommendations**

- It is recommended that Members:
  - note the latest revenue budgets for 2016/17;
  - agree the 2017/18 revenue budgets, subject to any amendments on the City Fund that may be agreed in relation to the report on 'City Fund – 2017/18 Budget Report and Medium Term Financial Strategy';
  - agree the capital budgets;
  - delegate authority to the Chamberlain to determine the financing of the capital budgets; and
  - submit this report to the Court of Common Council for its approval.

## **MAIN REPORT**

### **Background**

1. The primary purpose of this report is to summarise the latest budgets for 2016/17 and the proposed budgets for 2017/18 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.

2. 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;
  - an allowance towards pay and price increases of 1%;
  - inclusion of 3.5% increase across all funds in employer's pension contributions to tackle the pension fund deficit; and
  - the inclusion of the Service Based Review expenditure reductions and/or increased incomes agreed by the Policy and Resources Committee.
3. 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 exhausting its reserves in 2017/18. In addition, because of the Police's worsening financial position, the City has agreed to fund some specific additional cost pressures relating to IT, additional employers pension contribution as well as the marginal reduction in grant from the Police core grant settlement. An external value for money review has been commissioned with a view to addressing financial pressures in future years.
4. For Bridge House Estates, the 1% allowance towards inflationary pressures and the resources for the 3.5% increase in employer's national insurance have been provided, but, as the fund remains in a reasonably buoyant position, no Service Based Review budget reductions have been required. Savings have been made in the fund however, through the reduction of central departmental costs which are then apportioned to the fund.
5. Accompanying this report is the Summary Budget Book 2017/18 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 [john.james@cityoflondon.gov.uk](mailto:john.james@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**

6. 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.

7. The medium term financial strategies/budget policies for each of the funds are set out in Appendix 1.

## CITY FUND

### Overall Budget Position

8. The overall budgets have been prepared in accordance with the strategy and the requirements for 2016/17 and 2017/18 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>2016/17 Original £m</b>	<b>2016/17 Latest £m</b>	<b>2017/18 Original £m</b>
<b><i>Net Expenditure (Income)</i></b>			
Barbican Centre	24.7	26.4	26.6
Barbican Residential	2.8	2.9	2.3
Community and Children's Services	11.7	12.1	12.0
Culture Heritage and Libraries	20.6	20.1	20.7
Finance <sup>(2)</sup>	(11.8)	20.6	(5.3)
Licensing	0.1	0.1	0.1
Markets	(0.7)	(1.7)	(1.2)
Open Spaces	1.7	1.7	1.7
Planning and Transportation	14.5	13.8	15.4
Police <sup>(3)(4)</sup>	58.3	65.1	64.0
Policy and Resources	3.9	4.6	4.0
Port Health and Environmental Services	13.6	13.5	13.6
Property Investment Board	(36.9)	(38.2)	(39.6)
<b>City Fund Requirement<sup>(5)</sup></b>	<b>102.5</b>	<b>141.0</b>	<b>114.3</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 £11.8m surplus in the 2016/17 original budget to £20.6m deficit in the 2016/17 latest budget primarily relates to the purchase of an investment property (133 Whitechapel High Street) from reserves plus the funding of some agreed supplementary revenue projects

3. The increase in Police net expenditure from £58.3m in the original budget to £65.1 in the latest budget relates to a £5.2m carry forward of unused budget for the Action Fraud Service provided to assist with its cash flow. It should be repayable over the life of the project.

4. The increase in Police net expenditure from £58.3m in the original budget 2016/17 to £64.0m in the original budget 2017/18 comprises £2.0m extra expenditure funded by the headroom on business rates plus the agreed additional City Fund

support for 2017//18 for Police IT, employer's pension contribution, capital schemes and deficit after utilisation of Police reserves  
5. Reconciles to line 9 in the following table.

9. 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 7, and investment property rent income – line 8);
- the funding received from Government formula grants and from taxes (lines 10 to 13); and
- the estimated surpluses to be transferred to reserves, or deficits to be funded from reserves (lines 15 to 17)

City Fund Revenue Requirements 2016/17 and 2017/18					
		2016/17 Original £m	2016/17 Latest £m	2017/18 Original £m	Para. No.
1	Net expenditure on services	141.9	148.1	163.1	11,19
2	Property Investments funded from Revenue Reserves	1.9	27.3	6.7	12,20
3	City Police - Action Fraud	(0.5)	5.2	0.0	13
4	Cyclical Works Programme and capital expenditure financed from revenue	4.0	8.9	13.7	14,21
5	Drawdown retained business rates	-	-	(21.2)	22,23
6	Requirement before investment income from the City's Assets	147.3	189.5	162.3	
7	Interest on balances	(2.5)	(4.0)	(3.0)	15,24
8	Estate rent income	(42.3)	(44.5)	(45.0)	16,25
9	<b>City Fund Requirement</b>	<b>102.5</b>	<b>141.0</b>	<b>114.3</b>	
	Financed by:				
10	Government formula grants	(80.5)	(88.7)	(90.1)	17,26
11	City offset	(11.0)	(11.0)	(11.3)	
12	Council tax	(7.4)	(7.4)	(6.6)	29
13	Business rates premium	(8.1)	(8.6)	(10.5)	30
14	Total Government Grants and Tax Revenues	(107.0)	(115.7)	(118.5)	
15	<b>Deficit/(Surplus)transferred from (to) reserves</b>	<b>(4.5)</b>	<b>25.3</b>	<b>(4.2)</b>	
16	Less one-off items planned to be funded from revenue reserves	1.4	32.5	6.7	18,31
17	<b>Underlying Deficit/(Surplus)</b>	<b>(5.9)</b>	<b>(7.2)</b>	<b>(10.9)</b>	

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

10. The latest budget for the current year is an underlying surplus of £7.2m which compares to a surplus of £5.9m in the original budget. For 2017/18 a surplus of £10.7m is indicated. The subsequent years of the medium term financial forecast (2018/19 to 2020/21) show a breakeven position in 2018/19 and the Fund then moves into deficit from 2019/20 due to inclusion of costs for the

Museum of London relocation project. Funding options for the Museum project at that point are being considered.

## **Revenue Budget 2016/17**

### **Net Expenditure on Services**

11. Net expenditure on City Fund services in 2016/17 was originally budgeted at £141.9m, whereas the latest budget totals £148.1m, an increase of £6.3m. The main reasons for this increase are:

- £3.2m approved budgets brought forward from 2015/16;
- £1.3m investment in Information Technology (IT) to ensure we have modernised, robust and reliable IT systems and services
- £0.5m for Barbican Centre equipment previously funded from the its capital cap which has now been replaced by the Cyclical Works programme (CWP)
- £1.8m additional support for the Police largely relating to IT and slippage on the Action Fraud Scheme repayment (see para 21 below).
- £0.8m reduction in costs funded from the On Street Parking Reserve.
- £0.3m agreed adjustment for planned service based review savings.
- £0.3m for contribution pay awards

*partly offset by*

- £1.3m addition rental income from Markets
- £0.4m refund on business rates

### **Property Investments Funded from Revenue Reserves**

12. The purchase of an investment property (133 Whitechapel High Street) during the year was funded from reserves.

### **City Police Action Fraud**

13. 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 which could not be met from Police reserves. The costs were originally envisaged all to fall in 2016/17 but due to slippage on the project £5.2m of this budget was carried forward to 2016/17. Repayments will now fall into later financial years.

## Cyclical Works Programme and Capital Expenditure Financed from Revenue

14. The increase from £4.0m to £8.9m largely relates to expenditure on the Police accommodation project.

### Interest on Balances

15. The latest budget for 2016/17 anticipates an increase of £1.5m in interest earnings to £4.0m. This reflects a more beneficial cash flow, particularly from larger business rate receipts and capital transactions. The assumed average interest rate for the year is unchanged at 0.5%.

### Investment Estate Rent Income

16. Rent income from investment properties is forecast to be £44.5m, an increase of £2.2m compared to the original budget. Significant variances include additional rent arising from the purchase of a new property at 133-137 Whitechapel High Street and a substantial increase in rent following a rent review at Baynard House

### Government Formula Grants

17. The increase from £80.5m to £88.7m mainly relates to the City's share of growth in national non domestic rates which feeds through to income in 2016/17 and 2017/18.

### Transfer from Reserves

18. The £32.5m 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 13).

## **Revenue Budget 2017/18**

### Net Expenditure on Services

19. Net expenditure on City Fund services in 2017/18 is £163.1m an increase of £21.2m on the Original Budget for 2016/17. The main reason for the increases are:
- £10.5m funding in 2017/18 for the Museum of London relocation project based on the latest profiled project spend;
  - £1.8m investment in Information Technology (IT) to ensure we have modernised, robust and reliable IT systems and services
  - £5.3m additional funding for the City Police covering additional IT costs, the shortfall in HO grant, additional employer's pension contribution and revenue funding of capital schemes. There is also additional expenditure funded by the increased headroom on business rate premium.
  - £1.9m as a result of the 3.5% increase in the rate for employer's pension contribution
  - £0.6m allowance for pay and prices
  - £0.8m for the apprentices scheme including £0.5m provision for the levy.
  - £0.5m for additional security works on City Fund operational buildings

- £0.4m provision for marketing and other costs connected with the Cultural Hub
- £0.4m provision for additional expenditure on adult social care, and £0.4m for additional expenditure for the rough sleeper initiative. Funds to be drawn down subject to a report to Policy & Resources committee
- £0.5m for Barbican Centre equipment

*partly offset by:*

- £2.4m for the next tranche of service based review savings/increased incomes;
- £0.7m additional rental income from Markets

#### Property Investments Funded from Revenue Reserves

20. The planned expenditure principally comprises £5m works for the Cultural Hub 'Look and Feel' Strategy (for which a further report to Policy Committee will be submitted) and £1.5m of works for Exhibition Hall 1.

#### Cyclical Works Programme and Capital Expenditure Financed from Revenue

21. The increase in budget for 2017/18 relates mainly to feasibility costs for the Centre for Music, further expenditure on the Police accommodation project and the latest phasings of the cyclical works and additional works programmes. It also includes an additional £2m provision for some substantial refurbishment projects.

#### Drawdown Retained Business Rates

22. The City has benefitted from an increase business rates, arising from growth in business occupation, which under the Government scheme can be retained by the City. An element of these retained rates, from previous years, has been drawn down to fund some items of expenditure and in particular for the Museum of London relocation project.
23. The recent revaluation exercise of business properties has led to an average 30% increase the rateable values of businesses in the square mile. However, the exercise will not see any 'windfall' for the City Corporation, as additional income from revaluations is not retained locally.

#### Interest on Balances

24. Income is anticipated to increase from £2.5m in the 2016/17 original budget to £3.0m in 2016/17. This reflects a more beneficial cash flow, particularly business rate receipts, capital transactions and higher reserves. The assumed average interest rate for the year remains at 0.5%.

#### Investment Estate Rent Income

25. The latest rental forecasts for 2017/18 assume an increase of £2.7m to £45m compared to the original budget for 2016/17. Significant variances include additional rent arising from the purchase of a new property at 133-137 Whitechapel High Street and a substantial increase in rent following a rent review at Baynard House

## Core Government Grants

26. Overall, there is an estimated increase of £9.6m in core Government grants but, as indicated below, the position is somewhat complex.

<b>Table 4: Analysis of Core Government Grants</b>					
		2016/17	2017/18	Reduction (Increase) on 2016/17	
		Original £m	Original £m	£m	%
1	Police	52.1	51.4	0.7	1.3%
2	Non-Police	10.6	8.8	1.8	17.0%
3	<b>Total before Rates Retention Scheme and grants Rolled In</b>	<b>62.7</b>	<b>60.2</b>	<b>2.5</b>	<b>4.0%</b>
4	Baseline	15.3	15.6	(0.3)	(2.0%)
5	Growth	2.5	14.3	(11.8)	(472.0%)
6	<b>Total before Grants Rolled In</b>	<b>80.5</b>	<b>90.1</b>	<b>(9.6)</b>	<b>(11.9%)</b>
7	Grants Rolled In	(0.4)	(0.4)	0.0	NA
8	<b>Total Core Government Grants</b>	<b>80.1</b>	<b>89.7</b>	<b>(9.6)</b>	<b>(12.0%)</b>

27. Lines 1 to 3 are the basic formula grants which have reduced by £2.5m in total.
28. Lines 4 to 7 reflect the impact of the Rates Retention Scheme for which the outturn does not generally feed through until subsequent years.

## Council Tax

29. There is an estimated decrease of £0.8m in 2017/18 compared to 2016/17 due to the recognition of surpluses from previous years. The underlying income base of £6m remains unchanged. 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.

## Business Rates Premium

30. The City premium is affected by the revaluation as the yield will increase in line with rateable values.

## Transfer from Reserves

31. The net £6.7m planned transfer from reserves is to fund the property works detailed above (para 21)

## CITY'S CASH

### Overall Budget Position

32. The budgets have been prepared in accordance with the budget policy set out in Appendix 1 and the net positions for 2016/17 and 2017/18 are summarised by Committee in the table below. Reserves are available to meet the estimated deficit in the current year and in 2017/18.

<b>City's Cash Summary by Committee</b>	<b>2016/17 Original £m</b>	<b>2016/17 Latest £m</b>	<b>2017/18 Original £m</b>
<b><i>Net Expenditure (Income)</i></b>			
Culture, Heritage & Libraries	0.0	0.0	0.0
Education Board	1.0	1.0	1.3
Finance <sup>(1)(2)</sup>	(9.4)	6.5	3.3
G. P. Committee of Aldermen	3.2	3.5	3.4
Guildhall School of Music and Drama	10.1	10.2	12.1
Markets	1.0	0.0	1.0
Open Spaces :-		0.0	0.0
Open Spaces Directorate	0.0	0.2	0.0
Epping Forest and Commons	7.7	7.0	8.4
Hampstead, Queen's Pk, Highgate Wd	7.7	6.8	8.3
Bunhill Fields	0.5	0.3	0.3
West Ham Park	1.2	1.1	1.2
Policy and Resources	11.7	14.1	14.8
Property Investment Board	(42.9)	(46.1)	(45.0)
Schools :-			
City of London School <sup>(3)</sup>	1.4	1.4	1.5
City of London Freeman's School <sup>(3)</sup>	1.8	1.7	1.7
City of London School for Girls <sup>(3)</sup>	0.6	0.6	0.6
<b>Deficit (Surplus) from (to) reserves</b>	<b>(4.4)</b>	<b>8.3</b>	<b>12.9</b>

1. For Finance Committee, the significant variations between the 2016/17 original budget (£9.4m credit) and the 2016/17 latest (£6.5m debit) mainly comprise expected slippage £2.6m in disposal receipts largely for Queens Bridge House, £1.8m deferred income accounting adjustment in accordance UKGAAP, £8.9m for agreed supplementary revenue projects and a £1.1m carry-forward relating to the Cultural Hub
2. For Finance Committee, the significant variations between the 2016/17 original budget (£9.4m credit) and the 2017/18 original budget (£3.3m debit) principally comprises £1.4m provision for employer's pension contribution increase, £1.8m deferred income accounting adjustment in accordance UKGAAP, £7.8m for agreed supplementary revenue projects and £0.5m for provision for extra security works
3. Shows City support rather than net expenditure by the schools.

33. 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 2016/17 and 2017/18					
		2016/17 Original £m	2016/17 Latest £m	2017/18 Original £m	Para. No.
1	Net expenditure on services	64.9	71.6	73.5	37,42
2	Cyclical Works Programme	4.6	11.4	14.2	38,43
3	Estate rent income	(50.4)	(53.8)	(53.0)	39,44
4	Non-property investment income (net)	(19.5)	(19.5)	(19.5)	40
5	Interest on balances	(0.3)	(0.3)	(0.3)	
6	<b>Operating Deficit (Surplus)</b>	<b>(0.7)</b>	<b>9.4</b>	<b>14.9</b>	
7	Profit on asset sales	(3.7)	(1.1)	(2.0)	41,45
8	<b>Deficit (Surplus) from (to) reserves</b>	<b>(4.4)</b>	<b>8.3</b>	<b>12.9</b>	

34. The City's Cash deficit in the current year is anticipated to be £8.3m compared to a surplus of £4.4m in the original budget. This movement largely relates to incorporation of agreed budget carry forwards, additional cyclical works, lower disposal receipts due to slippage, provision for the 'Promoting the City' Initiative and an accounting adjustment for deferred income. This is in part offset by additional rental income.
35. For 2017/18, City's Cash the deficit increases due to some additional costs such as an increased employers' pension contribution but also due to increased investment in repairs and maintenance projects and for the 'Promoting the City' initiative. Some of these costs are offset by additional rental income.
36. With regard to the subsequent years, the medium term financial forecast has a reducing deficit in 2018/19 and 2019/20 and returns to surplus in 2020/21.

### Revenue Budget 2016/17

#### Net Expenditure on Services

37. Net expenditure on City's Cash services for 2016/17 was originally budgeted at £64.9m. The latest budget of £71.6m is an increase of £6.7m which is primarily due to:
- £3.4m of agreed budget carry forwards from 2015/16
  - £1.5m for the "Promoting the City" initiative
  - £1.8m deferred income accounting adjustment of £1.8m as a result of adoption of the new UKGAAP accounting standard (FRS102)

#### Cyclical Works Programme

38. The increase from £4.6m to £11.4m includes expenditure on Museum of London relocation project, Crossrail Art and slippage on works at the Guildhall School of Music & Drama, in part offset by a reduction in the additional works programme due to rephasing of projects.

## Investment Estate Rent Income

39. Rent income from investment properties is forecast to be £53.8m which is an increase of £3.4m on the original budget. The positive variance is mainly due to a new lease with increased rents at 220-226 Tottenham Court Road, new lettings at 53 New Broad St following refurbishment and rent from a newly acquired property at 37/39 Creechurch Lane.

## Non-Property Investment Income

40. 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 2016/17 and 2017/18, after the deduction of management fees, remains at the £19.5m assumed in the 2016/17 original budget.

## Profit on Asset Sales

41. The profit on the sale of assets is anticipated to reduce from £3.7m to £1.1m due to slippage of anticipated disposal receipts mainly relating to Queensbridge House.

## Revenue Budget 2017/18

### Net Expenditure on Services

42. Net expenditure on City's Cash services for 2017/18 is budgeted at £73.5m, an increase of £8.6m compared to the original budget for 2016/17. The main reasons for the increased requirement are:
- £1.4m provision for the increase in employers' pension contribution
  - £1.8m deferred income accounting adjustment as a result of adoption of the new UKGAAP accounting standard (FRS102)
  - £2.5m for the "Promoting the City" initiative
  - £0.5m for additional security works on the City's operational properties
  - £0.4m allowance for pay and prices
  - £0.8m extra staffing for apprentices posts and for additional City Surveyor's staff working on the expanded cyclical works programme and investment properties
  - £0.9m increase in depreciation charge for capital schemes relating to IT and Hampstead Heath ponds.
  - £0.4m for additional business rates at Hamilton House
  - £0.4m for equipment at the Guildhall School of Music & Drama
- partly offset by*
- £1.2m of savings/increased income relating to the Service Based Review

## Cyclical Works Programme

43. The £9.6m increase in budget to £14.2m mainly relates to health and safety works to the Smithfield market site to facilitate the Museum of London relocation and external repairs to the Magistrates' Court at 1 Queen Victoria Street.

## Investment Estate Rent income

44. Rent income from investment properties is forecast to be £53.0m which is an increase of £2.6m on the 2016/17 original budget. There is a general improvement in the forecast due to a new lease with increased rents at 220-226 Tottenham Court Road; new lettings at 53 New Broad St and 85 Gresham Street; and rent from a newly acquired property at 37/39 Creechurch Lane. This has been in part offset by a reduction in rent due to a lease expiry at 209/212 Tottenham

## Profit on Asset Sales

45. The estimate of £2.0m for profits on asset sales relates to the disposal of surplus operational assets, rights of light compensation and investment property overage receipts.

## BRIDGE HOUSE ESTATES

### Overall Budget Position

46. The budgets have been prepared in accordance with the budget policy set out in Appendix 1 and the requirements for 2016/17 and 2017/18 are summarised in the table below.

<b>Bridge House Estates Summary by Committee <i>Net Expenditure (Income)</i></b>	<b>2016/17 Original £m</b>	<b>2016/17 Latest £m</b>	<b>2017/18 Original £m</b>
The City Bridge Trust	21.4	23.0	22.6
Culture, Heritage and Libraries	(0.3)	(0.5)	(0.9)
Finance	(10.5)	(3.9)	(10.3)
Planning and Transportation	3.9	4.4	4.1
Property Investment Board	(14.4)	(15.6)	(15.8)
<b>Deficit (Surplus) from (to) reserves</b>	<b>0.1</b>	<b>7.4</b>	<b>(0.3)</b>

47. 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 7 respectively); and
- the budgets for charitable grants (line 9)

Bridge House Estates Requirements 2016/17 and 2017/18					
		2016/17 Original £m	2016/17 Latest £m	2017/18 Original £m	Para. No.
1	Net expenditure on services	9.8	11.3	10.4	50,56
2	Cyclical Works Programme	0.5	7.0	1.9	51,57
3	Bridges repairs, maintenance and major works fund contribution	1.1	1.6	1.1	52,53
4	Estate rent income	(19.0)	(20.2)	(20.4)	54,58
5	Non-property investment income (net)	(12.2)	(12.2)	(12.2)	55
6	Interest on balances	(0.1)	(0.1)	(0.1)	
7	Profit on asset sales	0.0	0.0	(2.0)	59
8	<b>Revenue surplus</b>	<b>(19.9)</b>	<b>(12.6)</b>	<b>(23.3)</b>	
9	Charitable grants	20.0	20.0	21.0	60
10	<b>Deficit (Surplus) from (to) reserves</b>	<b>0.1</b>	<b>7.4</b>	<b>(0.3)</b>	

48. For the current year, the deficit is estimated to increase from £0.1m to £7.4m mainly due to expenditure on cyclical works relating to Tower Bridge bascules.
49. For 2017/18, the fund is expected to break even in broad terms. A return to surpluses is forecast for 2018/19, 2019/20 and 2020/21 despite the three year increase to the City Bridge Trust grants budget being extended to the end of the planning period.

### Revenue Budget 2016/17

#### Net Expenditure on Services

50. The increase from £9.8m to £11.3m in 2016/17 is due to approved budgets brought forward from 2015/16.

#### Cyclical Works Programme

51. The latest estimate includes an additional £6.5m for cyclical works mainly relates to the Tower Bridge bascules redecking and waterproofing project.

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

52. 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.
53. 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 £1.6m for 2016/17– an increase of £0.5m. The assessed contribution returns to £1.1m for 2017/18. 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

54. Rent income from investment properties is forecast to be £20.2m which is an increase of £1.2m on the original budget arising from a number of properties but principally 24-25 New Bond Street.

#### Non-Property Investment Income

55. 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 amount to be drawn down in 2016/17 and 2017/18, after the deduction of management fees, remains at the £12.2m assumed in the 2016/17 original budget.

### **Revenue Budget 2017/18**

#### Net Expenditure on Services

56. The estimate for 2017/18 of £10.4m is an increase of £0.6m on the original budget for 2016/17. This increase primarily relates to increases in employer's national insurance contributions, apprentices costs and an increase in costs for "strategic initiatives" under City Bridge Trust

#### Cyclical Works Programme

57. The estimate of £1.9m is an increase of £1.4m on the original budget for 2016/17 and relates to additional void costs associated with the redevelopment of 181 Queen Victoria Street and also funding for the enhanced river camera provision.

#### Investment Estate Rent Income

58. The increase in rental income, from £19m to £20.4m, arises from a number of properties but notably from improved rents at 24-25 New Bond Street.

#### Profit on Asset Sales

59. This relates to the £2m overage payment due from the developer as part of the Bridge Master Phase 1 project

#### Charitable Grants

60. The reason for the increase of £1m to £21m is the full effect of the agreed three year increase in the grant budget. The original budget 2016/17 already contains an agreed increase of £3m and this further £1m increase takes the additional funding to the £4m agreed for 2017/18. The forecasts assume this additional funding will now continue to the end of the planning period in 2020/21

## GUILDHALL ADMINISTRATION

61. 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>2016/17 Original £m</b>	<b>2016/17 Latest £m</b>	<b>2017/18 Original £m</b>
Establishment - Town Clerk & C&CS	11.2	11.5	10.9
Finance - Chamberlain	32.5	34.3	34.7
Finance - City Surveyor, Remembrancer and Town Clerk	21.1	20.0	22.3
<b>Total Net Expenditure</b>	<b>64.8</b>	<b>65.8</b>	<b>67.9</b>
Recovery of Costs	(64.8)	(65.8)	(67.9)
Total Guildhall Administration	0	0	0

### Revenue Budget 2016/17

62. The net budget has increased by £1.0m overall to £65.8m. The main variations are as follows:

- £1.9m approved uplift in the IT budget
- £1.0m approved budgets brought forward from 2015/16;
- £0.2m for contribution pay

*partly offset by*

- £1.2m reduction relating to the rephasing of the additional repairs and maintenance works programmes;
- £0.6m reduction in insurance premiums mainly due to revaluations and lower excess payments.

### Revenue Budget 2017/18

63. The net expenditure for 2017/18 is £67.9m, an increase of £3.1m from 2016/17. The main variations are as follows:

- £2.7m approved uplift in the IT budget
- £0.3m allowance for pay and prices;
- £0.4m agreed by Policy Committee for the new contract management team
- £0.5m net increased expenditure on the additional works/cyclical works programme
- £0.5m for increased business rates as a result of revaluation

*partly offset by*

- £0.9m of savings/increased income relating to the Service Based Review;

- £0.4m reduction in insurance premiums partly due to revaluations and to lower excess payments.

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

64. The City Fund, City's Cash and Bridge House Estates capital and supplementary revenue project budgets are being submitted to the Court of Common Council in March are included in the Summary Budget Book.
65. The "Supplementary Revenue Projects" classification was created where the costs for some projects do not comply with the accounting definition of capital expenditure. This is an accounting treatment and does not change the projects themselves, which continue to be controlled in the same way as capital projects. The relevant expenditure and income on such projects is posted to revenue accounts, rather than capitalised at year end.

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

66. The latest City Fund capital and supplementary revenue projects budgets total £282.5m for 2016/17 and £30.4m for 2017/18. The budgets for both years include schemes relating mainly to existing HRA stock improvements and construction of new affordable housing, 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 and the purchase of an investment property. 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**

67. The latest City's Cash capital and supplementary revenue projects budgets total £53.1m for 2016/17 and £7.4m for 2017/18. The budgets include property investments, the flood mitigation scheme at Hampstead Heath and the new swimming pool at the Freeman's school.

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

68. The latest Bridge House Estates capital and supplementary revenue projects budgets total £29.4m for 2016/17 and £4.0m in 2017/18 mainly related to investment property acquisitions and developments and works at Tower Bridge.

### **Financing Capital Expenditure**

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

**Dr Peter Kane  
Chamberlain**

## **Appendices**

- Appendix 1 – Medium Term Financial Strategy/Budget Policy

John James – Interim Deputy Financial Services Director

T: 020 7332 1284

E: [john.james@cityoflondon.gov.uk](mailto:john.james@cityoflondon.gov.uk)

### 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.