

<b>Committee(s)</b>	<b>Dated:</b>
Finance Committee – For decision Policy and Resources – For information Court of Common Council – For decision	19 February 2019 21 February 2019 7 March 2019
<b>Subject:</b> Revenue Budgets 2018/19 and 2019/20: City's Cash and Bridge House Estates	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
<b>Report author:</b> Caroline Al-Beyerty- Deputy Chamberlain	

### Summary

This report should be read in conjunction with the separate report on your agenda entitled 'City Fund – 2019/20 Budget Report and Medium-Term Financial Strategy' This report covers the 2019/20 Budget and financial outlook for City's Cash and Bridge House Estates.

Looking at the forecasts for the individual funds:

**City's Cash:** the increased funding requirement flowing from the adoption of a major projects programme, in addition to pressures across a range of existing revenue and capital budgets, mean that deficits are forecast across the medium-term planning horizon. The cumulative draw down on equities is £221m (including the planned £50m to finance the two Crossrail payments), when historically we would have drawn down £115m over the period. This represents a diminution of £106m of the net asset balance on the current balance sheet over the period. Whilst in the short term the position is benign, the medium-term financial budget position will become increasingly challenging.

This challenging position, coupled with the scale of the financial uncertainties and challenge from City Fund, mean that the City of London will need to undertake a fundamental review of its priorities and expenditure over the next year to ensure that budgets are fully aligned with and support our Corporate Plan objectives and our finances are put on to a sustainable footing over the medium-term. It is a question of addressing both the medium-term financial challenge and how best to use our resources to achieve a Corporate Plan with maximum impact.

**Bridge House Estates** is in a strong financial position, with surpluses forecast across the period, before additional funding requests. Initial financial modelling shows that potentially £374m of the general fund could be released to support charitable funding activities. However, the immediate priority is to clarify ongoing bridge maintenance needs and future replacement costs/timings; it is key that that these costs are fully understood and provided for, prior to committing additional funds towards charitable funding.

**Guildhall Administration:** the report also summarises the budgets for central support services within Guildhall Administration (which currently 'holds' such costs before

these are wholly recovered). Consequently, after recovery of costs, the net expenditure on Guildhall Administration is nil.

The 2018/19 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 copies can be requested from [Philip.Gregory@cityoflondon.gov.uk](mailto:Philip.Gregory@cityoflondon.gov.uk).

## **Recommendation(s)**

Members are asked to:

1. Note the latest revenue budgets for 2018/19 (paragraphs 14, 19 and 26).
2. Agree the 2019/20 revenue budgets, including the following measures:
  - **Efficiency Savings:** Maintain the 2% efficiency saving across all Corporation departments, which together with the pay and inflation uplift of 2% would result in flat cash budgets (paragraph 2).
  - **Additional resource requests:** to establish an in-year provision pending further consideration by the Resource Allocation Sub Committee (paragraph 12).
3. Medium Term Corporate Plan Alignment and Financial Sustainability
  - **Revenue:** Establish a fundamental review of priorities to align resources to the Corporate Plan and deliver a sustainable medium-term financial plan and receive a report on the framework and timing in March (paragraph 12)
  - **Capital:** cash limits for the major projects and explore options for further streamlining, joint ventures/private sector capital, a process for prioritising other capital projects, and the disposal of non-income earning surplus operational property as identified from the operational property review and approved by the Policy and Resources Committee (paragraph 12).
4. Endorse this report for onward approval to the Court of Common Council.

## **Main Report**

### **Background**

1. The primary purpose of this report is to summarise the latest budgets for 2018/19 and the proposed budgets for 2019/20 for City's Cash and Bridge House Estates, 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 Guildhall School of Music

and Drama and Bridge House Estates, has been prepared on the basis of the planning framework for Chief Officers which included:

- A reduction in resource base of 2% to deliver the previously approved Efficiency and Sustainability plan, which together with a pay and prices uplift of 2%, results in flat cash baselines.
  - Cyclical Works Programme budgets were excluded from the 2% reduction.
3. For Bridge House Estates the budget strategy remains to maintain a surplus over and above the funding required for the ongoing maintenance and improvement of the bridges to sustain the grant-giving programme through the City Bridge Trust.
  4. Accompanying this report is the Summary Budget Book 2019/20 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 copies can be requested from [Philip.Gregory@cityoflondon.gov.uk](mailto:Philip.Gregory@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 – the 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**

5. The City of London 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.
6. The medium-term financial strategies and budget policies for City's Cash and Bridge House Estates are set out in Appendix 1. City Fund's medium-term financial strategy is included in the separate the City Fund report.

## Financial overview

7. The financial overview across the medium-term planning horizon is shown in table 1 below:

**TABLE 1**

### CITY'S CASH

Surplus/ (Deficit)	2018/19	2019/20	2020/21	2021/22	2022/23
(Deficit)/ Surplus with planned equity drawdown	(11.6)	(2.9)	(2.4)	(2.6)	3.5
Major Project Financing	0	(4.5)	(7.5)	(9.3)	(12.4)
Budget uplift revenue requests	0	(5.3)	(4.8)	(3.7)	(3.4)
<b>City's Cash combined deficit</b>	<b>(11.6)</b>	<b>(12.7)</b>	<b>(14.7)</b>	<b>(15.6)</b>	<b>(12.3)</b>
<b>Financed by:</b>					
Reserves (excluding required income generating fund reserves) *	44.7	26.2	31.1	35.3	43.3
<b>Or savings requirement</b>	<b>11.6</b>	<b>12.7</b>	<b>14.7</b>	<b>15.6</b>	<b>12.3</b>

\*Assumes continued average 6.7% rate of return on securities backed reserves; all property reserves designated for income generation

### BRIDGE HOUSE ESTATES

Surplus/ (Deficit)	2018/19	2019/20	2020/21	2021/22	2022/23
Surplus with planned equity drawdown	2.1	0.8	0.8	1.5	0.3
Budget uplift revenue requests	0	(1.5)	(1.4)	(1.4)	(1.4)
<b>BHE combined surplus/ (deficit)</b>	<b>2.1</b>	<b>(0.7)</b>	<b>(0.6)</b>	<b>0.1</b>	<b>(1.1)</b>

8. Although City's Cash income streams are stable, we are already drawing down on recent balance sheet growth to support the revenue position. In the immediate short-term the financial position is more benign, but both the medium term and the longer-term views are problematic, particularly if the City's Cash potential major projects (Markets Consolidation, Centre for Music) start to ramp up. The medium-term financial budget position will therefore become increasingly challenging.
9. The cumulative draw down on equities is £221m (including the planned £50m to finance the two Crossrail payments), when historically we would have drawn down £115m over the period. This represents a diminution of £106m of the net asset balance on the current balance sheet over the period.
10. For City's Cash, the potential impact of capital projects (Markets and C4M) would be considerable with annual revenue costs of £18m by 2023/24 and a gearing of 22% long term debt to net asset ratio. The revenue impact from borrowing to fund £138m of second tier projects would be c£5m, giving a total revenue pressure of £23m pa.

## **A Strategic Response to Match the Scale of the Challenges for City's Cash**

11. Before addressing the immediate pressures in 2019/20, it is important to respond to the scale of the medium-term challenge for City's Cash and to take the steps now to ensure that we can take a strategic and prioritised response to the big challenges that we expect to emerge in 2020/21.
12. The separate report on City Fund shows that although City Fund is forecast to be in surplus by £19m for 2019/20, it can only be balanced over the next four years, with the use of general reserves. Over the medium term, savings potentially up to £50m p.a. need to be taken out of budgets (£27m on City Fund and £23m on City's Cash) which equates to a 27.5% cut to net expenditure on City Fund and 24.4% on City's cash net expenditure. This requires action on both revenue and capital budgets, which could be approached by simply applying an across the board reduction in departmental budgets. But the **recommended** approach is to:

*Establish a fundamental review that will seek to ensure that funding is aligned with the Corporation's Corporate Plan objectives and ensure a sustainable budget position over the medium and longer term.*

*As agreed by the December Policy and Resources Committee, cash limit the agreed major projects and seek opportunities to streamline, draw in private sector capital and prioritise other capital requests.*

### **Approach to current year revenue requests**

- i. There have been a large number of additional funding requests for 2019/20, for City's Cash totalling £5.3m and BHE totalling £1.5m p.a. These are shown in appendix 5.
- ii. The items shaded in grey have already been approved by Policy and Resources Committee.
- iii. For City's Cash, the majority of the fixed term (between one and five years) additional spend requests have already been agreed by Policy and Resources, but over £1m is discretionary and for Member consideration. Given that City's Cash is already drawing down on the growth in the balance sheet, before the impact of these funding pressures, there is only limited scope to approve ongoing base budget adjustments.
- iv. A provision will be created to ringfence funds for base budget uplifts in 2019/20, as listed in Appendix 5, which will require authorisation from Resource Allocation Sub-committee to release.
- v. In advance of the **prioritisation process**, which will form a central element of the fundamental review for budgets for 2020/21 onwards, an option is to include a provision within the 2019/20 budget, subject to Resource Allocation Sub Committee's scrutiny of these requests. Agreeing base budget uplifts increases correspondingly the savings targets in future years.

It also underlines the **need for additional unfunded revenue bids to be avoided during 2019/20**, which could pre-empt the outcome of the fundamental review.

## CITY'S CASH

13. The 2018/19 and 2019/20 budgets for City's Cash are set out below. They have been prepared within the planning frameworks agreed by the Resource Allocation Sub-Committee shown at Appendix 1.

City's Cash Summary			
	2018/19 Original £m	2018/19 Latest £m	2019/20 Original £m
Gross Revenue Expenditure	(238.3)	(237.5)	(237.8)
Gross Revenue Income	169.9	177.8	181.5
<b>Operating (Deficit) Surplus funded by drawdown</b>	<b>(68.4)</b>	<b>(59.7)</b>	<b>(56.3)</b>

14. City's Cash net expenditure is £8.7m lower comparing the latest 2018/19 budget with the 2018/19 original budget. The gross expenditure above includes a £25m Crossrail contribution in each year in 2018/19 and 2019/20. The main movements comprise central risk budget adjustments and carry forwards, reduced SRP expenditure, revised rental income from investment properties offset by the creation of the Brexit contingency pot of £2m and the re-introduction of the capped service charge at Smithfield market.
15. The budget for 2019/20 includes further additional rental income from investment property and additional budget allocations to the Economic Development Office (£1.8m), the Green Finance Institute (£0.7m) and to fund increasing costs including the energy contract (£0.3m).
16. The net positions for 2018/19 and 2019/20 are summarised by Committee in Appendix 2 with the budget funding requests for 2019/20 in Appendix 5. Reserves are available to meet the estimated deficit in the current year and in 2019/20.
17. The City's Cash deficit is funded through a planned drawdown on non-property investments. Historically around £23m has been drawn down each year to fund the deficit (as a proxy for dividend income from total return investment funds). If the £25m Crossrail payments are excluded from the deficits above, the drawdown amounts are around £12m higher than historic levels in each year. If drawdown amounts continue at this rate there is a risk that the strength of the balance sheet may be diminished over the medium term.

## BRIDGE HOUSE ESTATES

### Overall Budget Position

18. A strong financial position, with surpluses forecast across the period, before additional funding requests. Initial financial modelling shows that potentially £374m of the general fund could be released to support charitable funding activities. However, the immediate priority is to clarify ongoing bridge maintenance needs and future replacement costs/timings; these costs must be fully understood and provided for prior to committing additional funds towards charitable funding.
19. The Bridge House Estates outturn position in the current year is expected to be a surplus of £2.1m compared to a balanced original budget. This is mainly due to increased rental income from investment properties.
20. The budget for 2019/20 includes a reduction in rental income from investment property and additional costs to support the delivery of the Philanthropy strategy.
21. The primary purpose of the charity is to ensure the bridges are maintained and repaired appropriately. The current budget includes a total commitment of £100m from 2018/19 over the next 5 years to fund the City Bridge Trust 'Bridging Divides' strategy for charitable giving.
22. With regard to future years of the financial forecast Bridge House Estates has a small draw down requirement, although as the increased costs are largely due to recharges from Guildhall administration, savings in these budgets will reduce that requirement.
23. The budgets have been prepared in accordance with the budget policy set out in Appendix 1 and the requirements for 2018/19 and 2019/20 are summarised in the table below:

Bridge House Estates Summary			
	2018/19 Original £m	2018/19 Latest £m	2019/20 Original £m
Gross Expenditure	(53.1)	(53.7)	(54.7)
Gross Income	37.5	40.2	38.4
<b>Operating (Deficit) Surplus funded by drawdown</b>	<b>(15.6)</b>	<b>(13.5)</b>	<b>(16.3)</b>

24. Appendix 3 shows the budgets by committee with the budget funding requests for 2019/20 in Appendix 5.

## GUILDHALL ADMINISTRATION

### Overall Budget Position

25. 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 Summary</b>			
	<b>2018/19 Original £m</b>	<b>2018/19 Latest £m</b>	<b>2019/20 Original £m</b>
Gross Expenditure	(70.1)	(72.9)	(74.0)
Gross Income	70.1	72.9	74.0
<b>Operating (Deficit) Surplus funded by drawdown</b>	-	-	-

26. The gross expenditure for Guildhall Administration is recovered across all funds. Increased costs in 2018/19 arose from increased buildings insurance premiums (£1.1m), carry forward requests and inflation costs.
27. The 2019/20 budget includes increased energy costs and additional staff within the corporate centre in addition to almost £1m in increased running costs for the Guildhall complex.
28. Appendix 4 shows the budgets by committee with the budget funding requests for 2019/20 in Appendix 5.

**Dr Peter Kane**

**Chamberlain**

## **Appendices**

- Appendix 1 – Medium Term Financial Strategy/Budget Policy
- Appendix 2 – City's Cash Budget
- Appendix 3 – Bridge House Estates Budget
- Appendix 4 – Guildhall Administration Budget
- Appendix 5 – Additional Resource Requests by Fund

## **Background Papers**

- Q3 Budget Monitoring – Finance Committee: 22 January 2019

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## **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.

## CITY'S CASH

City's Cash 2018/19 and 2019/20 budgets shown by Committee in the table below:

City's Cash Summary by Committee	2018/19 Original £m	2018/19 Latest £m	2019/20 Original £m
<b>Net (Expenditure) Income</b>			
Culture, Heritage & Libraries	(0.1)	(0.2)	(0.1)
Education Board	(2.3)	(2.4)	(2.6)
Finance	(58.4)	(50.0)	(52.7)
G. P. Committee of Aldermen	(3.6)	(4.3)	(3.9)
Guildhall School of Music and Drama	(11.8)	(11.6)	(12.2)
Markets	0.9	(0.8)	(0.1)
Open Spaces :-	0.0	0.0	0.0
Open Spaces Directorate	0.0	0.0	0.0
Epping Forest and Commons	(9.1)	(8.4)	(7.6)
Hampstead, Queen's Pk, Highgate Wd	(8.9)	(7.8)	(7.9)
Bunhill Fields	(0.4)	(0.3)	(0.2)
West Ham Park	(1.6)	(1.4)	(1.3)
Policy and Resources	(14.3)	(17.3)	(14.8)
Property Investment Board	45.3	48.9	51.5
Schools :-	0.0	0.0	0.0
City of London School (1)	(1.6)	(1.6)	(1.7)
City of London Freeman's School (1)	(1.8)	(1.8)	(1.8)
City of London School for Girls (1)	(0.7)	(0.7)	(0.9)
	0.0	0.0	0.0
<b>(Deficit) Surplus (from) to reserves</b>	<b>(68.4)</b>	<b>(59.7)</b>	<b>(56.3)</b>

1. Shows City Support rather than net expenditure by the schools.

- 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 2018/19 and 2019/20					
		2018/19 Original £m	2018/19 Latest £m	2019/20 Original £m	Para. No.
1	Net expenditure on services	(105.8)	(111.6)	(111.0)	
2	Cyclical Works Programme and SRP's	(20.4)	(10.6)	(9.5)	
3	Estate rent income	53.1	57.8	59.5	
4	Non-property investment income	2.3	2.3	2.3	
5	Interest on balances	0.3	0.3	0.3	
6	<b>Operating (Deficit) / Surplus</b>	<b>(70.5)</b>	<b>(61.8)</b>	<b>(58.4)</b>	
7	Profit on asset sales/deferred income	2.1	2.1	2.1	
8	<b>(Deficit) / Surplus funded by drawdown</b>	<b>(68.4)</b>	<b>(59.7)</b>	<b>(56.3)</b>	

2. The City's Cash position in the current year is expected to be a deficit of £59.7m compared to £68.4m in the original budget; the deficit will be funded with a draw-down of investments. The forecasts for 2018/19 and 2019/20 include a payment of £25m in each year for Crossrail.

## BRIDGE HOUSE ESTATES

Bridge House Estates 2019/20 budgets shown below:

<b>Bridge House Estates Summary by Committee Net (Expenditure) Income</b>	<b>2018/19 Original £m</b>	<b>2018/19 Latest £m</b>	<b>2019/20 Original £m</b>
The City Bridge Trust	(23.8)	(23.5)	(23.3)
Culture, Heritage and Libraries	0.8	0.5	0.6
Finance	(4.3)	(4.1)	(5.6)
Planning and Transportation	(4.6)	(5.0)	(5.0)
Property Investment Board	16.3	18.5	17.0
<b>(Deficit) Surplus (from) to reserves</b>	<b>(15.6)</b>	<b>(13.6)</b>	<b>(16.3)</b>

1. Figures in brackets denote expenditure, increases in expenditure, or shortfalls in income.

3. 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 budget for charitable grants (line 9).

<b>Bridge House Estates Requirements 2018/19 and 2019/2020</b>					
		<b>2018/19 Original £m</b>	<b>2018/19 Latest £m</b>	<b>2019/20 Original £m</b>	<b>Para. No.</b>
1	Net expenditure on services	(19.0)	(19.2)	(20.5)	
2	Cyclical Works Programme	0.0	0.0	0.0	
3	Bridges repairs, maintenance and major works fund contribution	(1.1)	(1.1)	(1.1)	
4	Estate rent income	21.2	23.5	21.8	
5	Non-property investment income (net)	4.7	4.7	4.7	
6	Interest on balances	0.1	0.1	0.1	
7	Profit on asset sales	0.0	0.0	0.0	
8	<b>Revenue surplus</b>	<b>5.9</b>	<b>8.0</b>	<b>5.0</b>	
9	Charitable grants	(21.5)	(21.5)	(21.3)	
10	<b>Deficit (Surplus) funded by drawdown</b>	<b>(15.6)</b>	<b>(13.5)</b>	<b>(16.3)</b>	

1. Figures in brackets denote expenditure, increases in expenditure, or shortfalls in income.

4. The Bridge House Estates position in the current year is expected to be a surplus of £8.0m compared to a surplus of £5.9m.
5. For 2018/19 and 2019/20, the Bridge House Estates budget will be funded by a drawdown on reserves after charitable grantmaking; and this continues across the planning horizon.

**GUILDHALL ADMINISTRATION**

6. Shown by Committee is the table below:

<b>Guildhall Administration by Committee Net Expenditures</b>	<b>2018/19 Original £m</b>	<b>2018/19 Latest £m</b>	<b>2019/20 Original £m</b>
Establishment - Town Clerk & C&CS	(11.7)	(12.7)	(12.6)
Finance - Chamberlain	(35.4)	(37.8)	(38.4)
Finance - City Surveyor, Remembrancer and Town Clerk	(23.0)	(22.4)	(23.0)
<b>Total Net Expenditure</b>	<b>(70.1)</b>	<b>(72.9)</b>	<b>(74.0)</b>
Recovery of Costs	70.1	72.9	74.0
Total Guildhall Administration	0	0	0

1. *Figures in brackets denote expenditure, increases in expenditure, or shortfalls in income.*

The net revenue budget for 2018/19 has increased by £2.8 overall to £72.9m.

The net expenditure for 2019/20 is £74.0m, an increase of £3.9m from the 2018/19 original budget.