Committee:	Dated
Finance Committee	21 July 2020
Subject: Revenue Budget Monitoring to June 2020	**Public**
Report of: Chamberlain	**For Information**
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Summary

This report provides Members with an update on the financial position and the impacts of COVID-19 on budgets since the last update as at end of May reported to your Committee in June.

The estimated overall forecast year-end overspend across all funds is an improved position of £27.6m as at the end of June (Quarter 1), representing a reduction of £2.8m when compared to £30.4m at the end of May. This comprises an adverse variance of £20.3m (8%) on Chief Officer Cash Limited Budgets mainly on City Fund, and an adverse variance of £7.3m (13%) on Central Risk Budgets excluding The City Bridge Trust (CBT) grant giving and London Community Response Fund (LCRF) advance commitments.

Chief Officer Cash Limited Budgets

The year-end forecast for Chief Officer Cash Limited Budgets is an overspend of £20.3m against the latest approved budget of £246.7m. This includes significant forecast overspends for the Barbican Centre (£12.7m); an improved position from last month (£13.2m) and Open Spaces (£5.0m). This is partially offset by an underspend for the City of London Police (CoLP) (£4.0m).

Central Risk Budgets

At Quarter 1 the year-end Central Risk Budgets are forecast to be £7.3m worse than the latest approved budget of £47.4m. The forecast excludes CBT grant giving and LCRF advance commitments.

Fund Position

The overall (Local and Central Risk) forecast year-end position of £27.6m worse than budget, with Guildhall Administration apportioned across the three funds gives adverse positions of £18.9m on City Fund, £4.7m on City’s Cash and £4.0m on Bridge House Estates.

City Fund had a £27.3m start of year surplus. The current forecast deficit of £18.9m reduces the end of year surplus (net of COVID-19 impacts) to £8.4m.

The Government has announced further support for Local Authorities with respect to lost income, for which we are awaiting further details. Early estimates indicate this support could be in the region of £14.2m, which would improve the City Fund position from an £18.9m to a £4.7m deficit and increase the year end surplus position. Once details are confirmed this funding will be incorporated into the forecast position.

Recommendation

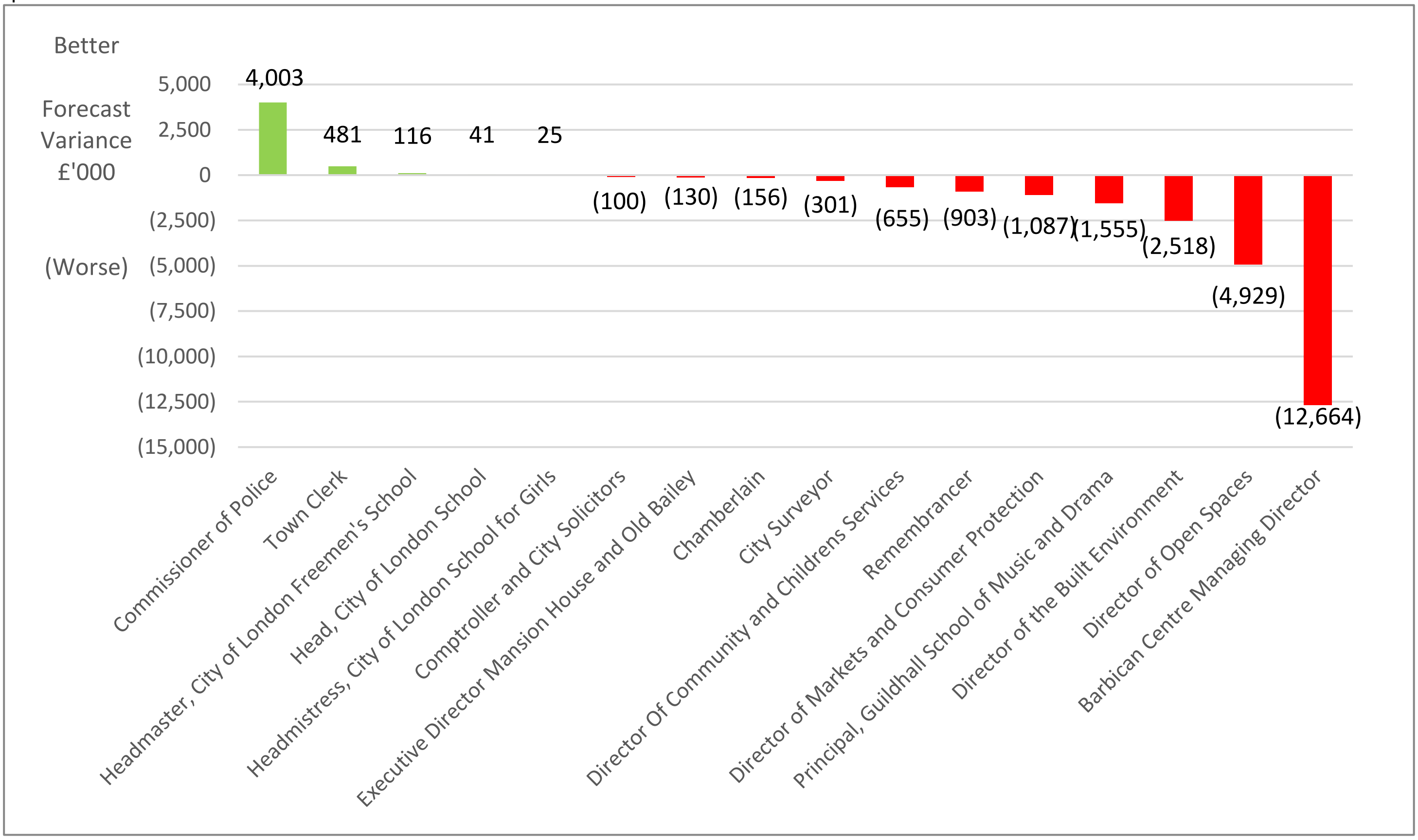
Members are asked:

i. to note the report.

Main Report

Chief Officer Cash Limited Budgets

1. The year-end forecast is an overspend of £20.3m against the latest approved budget of £246.7m. Chief Officer variances against net local risk budgets are shown in the below chart and in Appendix 1 by Fund.



2. The forecast position comprises an adverse variance of £42.5m on budgeted income of £293.5m, partially offset by a favourable variance of £22.2m on

budgeted expenditure of £540.2m. Appendix 2 provides income and expenditure budget variances by Chief Officer.

3. The Barbican Centre are forecasting an adverse variance of £12.7m at year end, an improved position from £13.2m at period 2. This comprises a shortfall of £22.0m on income due to the centre being closed following the impact of COVID-19, in addition to limited activity being forecast for the remainder of the financial year due to social distancing measures. This is partially offset by expenditure savings of £9.4m due to activity reductions as well as a hold on all non-essential expenditure. Improvement in the forecast position from the last period is due to the backdated funding from the furlough of casual staff.

4. Open Spaces is forecast to be overspent by £5.0m due to reduced income as a result of the ongoing pandemic; no change from period 2. This comprises losses from closed attractions and facilities, shortfalls in rental income and reductions in projects being delivered in the city.

5. The Built Environment forecast an £2.5m adverse variance due to the significant impact of COVID-19 on income streams across the department, most significantly within off-street parking, traffic management, public conveniences and building control services, together with a reduction in income from staff recharges to capital projects, also due to COVID-19. This compares to £2.8m at period 2. Since the last report expenditure has reduced by some £300k due to a reduction in the contract costs for parking enforcement, staff vacancies and savings from the early removal of Automatic public conveniences no longer in use.

6. Guildhall School of Music and Drama is forecast to be £1.6m worse than budget. Forecast changes to date reflect latest estimates for lost income as a result of cancelled programmes and activities due to COVID-19. It also includes a number of currently vacant posts that are likely to be removed pending further review in the coming months, along with additional costs incurred as a result of COVID-19. This is an improved position on period 2 forecast of £1.8m worse than budget.

7. The majority of the adverse forecast in Markets and Consumer Protection relates to a substantial decrease in income generation from Heathrow Animal Reception Centre (HARC) and the Ports, which are each currently forecasting a shortfall of £0.5m. Additionally, there has been a loss of income from car parking at Smithfield Market Rotunda and extra costs have been incurred in relation to COVID-19 for adaptions to HARC facilities to meet social distancing requirements. However, their overall position has improved by £621k due to savings on vacancies and reduced casual staff and use of overtime at the HARC and reductions in energy costs and car park contract costs at New Spitalfields Market.

8. Remembrancer is also continuing to forecast an overspend of £0.9m due to no private event hire at Guildhall since the start of the financial year. No events are likely until at least late autumn. Three of the four most lucrative months in the year - May, June, September and November - will achieve nil or very nearly nil income.

9. CoLP are also forecasting a similar position to last month being an underspend of £4.0m by the end of the year. This is primarily due to a pay underspend of £7.6m, based on current workforce and recruitment plans. CoLP are also able to claim losses as a result of COVID-19 from the Home Office as part of the 'ring-fenced £1.2m uplift grant'.

Central Risk Budgets

10. At Quarter 1 the forecast for Central Risk Budgets is an adverse variance of £7.3m against the latest approved budget of £47.4m. This figure excludes CBT grant giving advance commitments (£36.4m) and London Community Response Fund commitments (£12.8m).

11. This comprises a favourable variance of £6.7m against budgeted expenditure of £198.8m and an adverse variance of £14.0m against the budgeted income of £253.4m. The key budget areas are addressed in the following paragraphs.

<u>Corporate Income Budgets</u>

12. Property Investment income at Quarter 1 is forecast to be £5.1m worse than budget of £136.1m and comprises:

- City Fund £2.7m adverse – Due to COVID-19 assessment of tenant rent frees and rent deferrals (1.4m), a further provision for lease expiries of (306k) and rent stretch target of (1.0m) which is no longer achievable.

  City's Cash £1.7m adverse – Due to COVID-19 assessment of tenant rent frees and rent deferrals (2.1m) offset by rental growth (£0.5m).

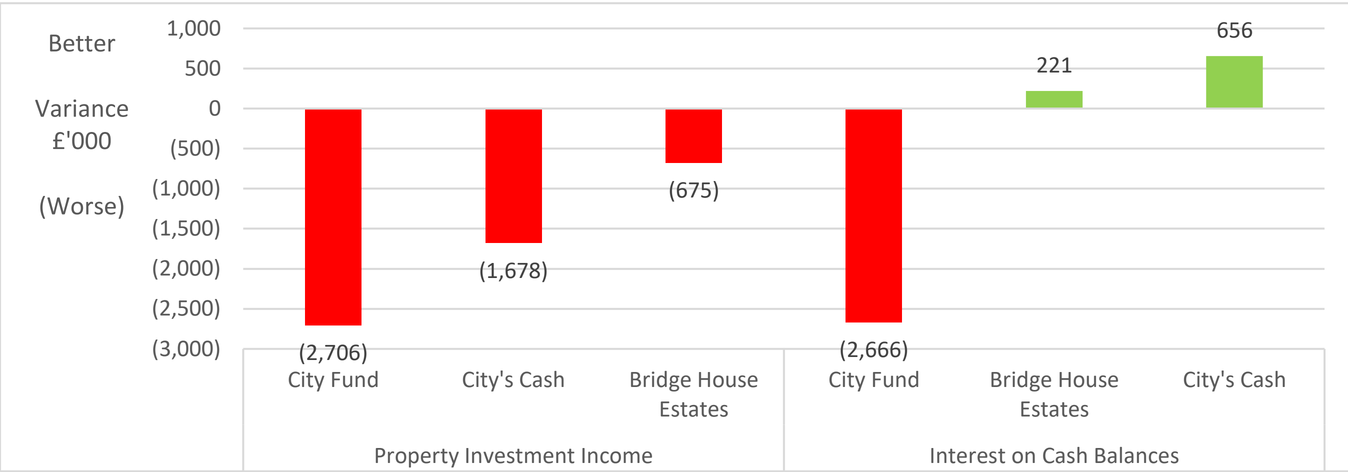
- Bridge House Estates £0.7m adverse – Due to COVID-19 assessment of tenant rent frees and rent deferrals (0.7m).

These figures come with a big health warning and forecasts will be closely monitored and revised at each quarter.

13. Interest on cash balances in money market funds are anticipated to be £1.8m below budget of £8.3m at year-end.

14. Elements of the forecast are subject to a lot of uncertainty, principally around the likely direction of interest rates but also over cash balances. At the moment, it is assumed, in line with our treasury advisors, that Bank of England's base rate will stay at 0.10% for the remainder of the year and that our returns will gradually gravitate towards that level over the course of 20/21. It is at least possible that rates could be reduced to zero or go negative in the coming months as the economic damage of COVID-19 is revealed or in the event of a second wave and a fresh attempt at monetary support is required. Naturally, this would reduce interest income even further.

15. Property Investment Income and Interest on Cash Balances variances against net local risk budgets are shown in the below chart.

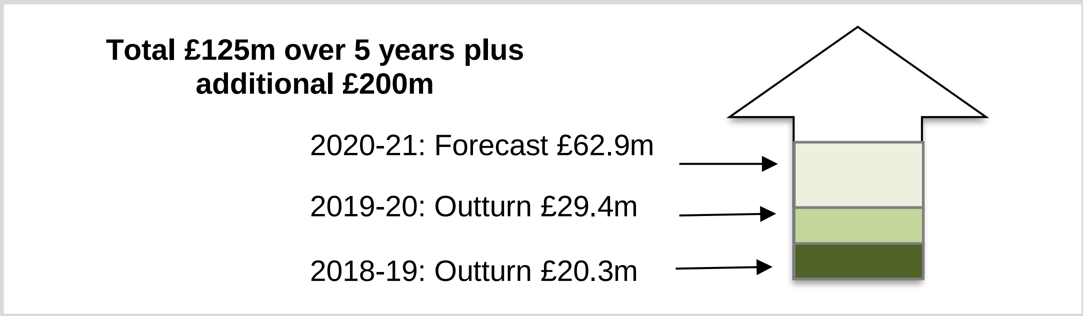


The City Bridge Trust Grants Budget

16. An additional £25m was approved under the Bridging Divides (BD) programme bringing the total sum available to £125m over 5 years. In March 2020, Court also approved £200m for allocation under BD. CBT are forecasting to commit £62.9m by the end of March 2021 from total funds available, with £45m of this not having been included within the original 20/21 budget.

17. Following the COVID-19 pandemic, a total of £7.6m has been donated to BHE for the London Community Response Fund (LCRF). In addition to this, CBT redirected £6.0m of the allocation under its BD programme to the LCRF, giving a total of £13.6m. £1.8m of this income was received in late 2019/20, so is held in the year-end reserves awaiting spend in 20/21.

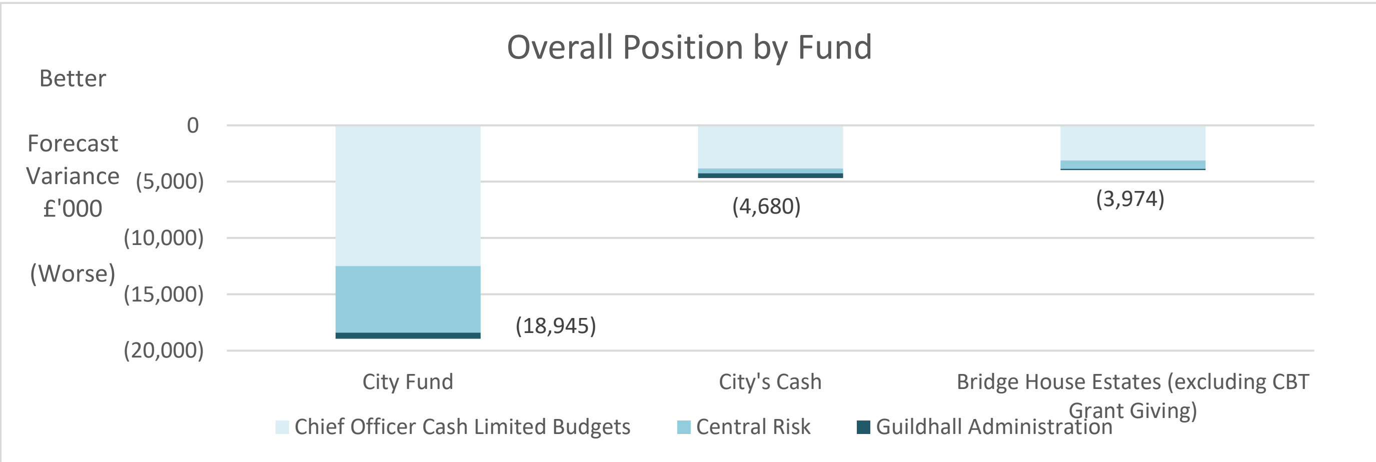
18. At present the regular funding programmes operated by CBT have been 'paused' for a few months to enable staff to focus on the LCRF. Due to this, resources are being redirected where possible, alongside the costs relating to these. Whilst the pause in applications is helping to slow down demand for CBT funds, there are significant levels of these in the pipeline. The July 2020 CBT Committee will be considering the appropriate use of funds available to CBT across the coming years.



Fund Position

19. The overall (Local and Central Risk) forecast year-end position is £27.6m worse than budget, with Guildhall Administration apportioned across the three funds gives adverse positions of £18.9m on City Fund, £4.7m on City's Cash and £4.0m on Bridge House Estates.

20. City Fund had a £27.3m start of year surplus. The current forecast deficit of £18.9m reduces the end of year surplus (net of COVID-19 impacts) to £8.4m.



COVID-19 Contingency and spend

21. The CoviD-19 contingency fund of £1.5m has at the time of writing this report total commitments of £664,000 leaving a balance of £836,000. Details of the allocations is provided at Appendix 3.

22. Chief Officers are asked to contain COVID expenditure within existing local risk budgets where possible. The expenditure is separately coded to keep a total of all COVID spend not covered by the COVID Contingency. The total spends across all departments included within their local risk projections in 2020/21 is shown in the table below: -

City Fund Main Account	£1,689,462
City's Cash	£1,143,932
HRA	£350,818
Bridge House Estates	£376,157
Total	**£3,560,369**

Note: the above spend is included within the overall forecast outturn position.

Government Support Measures

23. The Government has recently announced further support measures for Local Authorities and cultural, arts and heritage institutions. Full details of how these schemes will operate have yet to be released, but it is likely that these will have a positive impact on the projected deficits above.

24. For Local Authorities, the Government has announced financial support for lost income. This has been the major cause of the City Fund deficit. An indicative estimate of additional funding is in the region of £14.2m. This has not been factored into the above forecast as we are awaiting full details of how the scheme will operate, but should this prove to be an accurate estimate, the City Fund deficit would reduce to a £4.7m overspend.

25. The Government has also announcement financial support for cultural, arts and heritage institutions via grants and loan facilities. Full details of how the scheme will operate have yet to be released but this scheme may be applicable to services such a Tower Bridge. Again, such support has not be factored into the current forecast as we await full details of the scheme.

Business Rates

26. For Business Rates, the collection rate has continued to improve, which now stands 4.6% below the previous year. This will continue to be carefully monitored reflecting on the fast-changing business environment.

Conclusion

27. Members are asked to note the Quarter 1 forecast year-end position of £27.6m worse than budget position comprising adverse variances of £20.3m on Chief Officer Cash Limited Budgets and £7.3m on Central Risk Budgets. This is an improved position on the last period forecast of £30.4m. The impact of COVID-19 on City Fund reduces the start of year surplus from £27.3m to £8.4m based on the latest forecast position.

Appendices

- Appendix 1: Chief Officers Cash Limited Budgets by Fund

- Appendix 2: Chief Officers Cash Limited Budgets – Income and Expenditure Budget Variances

- Appendix 3: COVID Contingency Allocations

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