

Committee(s):	Date(s):	Item no.	
Markets Committee	20 November 2012		
Subject: REVENUE AND CAPITAL BUDGETS - 2012/13 and 2013/14		Public	
Report of: The Chamberlain Director of Markets and Consumer Protection		For Decision	
<u>Summary</u>			
<p>This report is the annual submission of the revenue and capital budgets overseen by your Committee. In particular it seeks approval to the provisional revenue budget for 2013/14, for subsequent submission to the Finance Committee. Details of the Committee's draft capital budget are also provided. The budgets have been prepared within the resources allocated to the Director.</p> <p>Business priorities for the forthcoming year include maintaining the same high level of service or developing new services within a cash limited resource allocation; identifying new income streams; reducing energy costs and carbon footprint; supporting the procurement to pay initiative in order to deliver savings through improved procurement and to review our tenant's service charge accounts to ensure that we continue to deliver cost effective services. Two priority projects for 2013/14 at Billingsgate Market are the creation of additional fish handling facilities and the renewal of the roof, subject to future gateway reports.</p>			
Summary Of Table 1	Latest Approved Budget 2012/13 £'000	Original Budget 2013/14 £'000	Movement £'000
Expenditure	14,059	13,282	(777)
Income	(14,317)	(14,558)	(241)
Support Services and Capital Charges	6,305	6,185	(120)
Total Net Expenditure	6,047	4,909	(1,138)

Overall, the 2013/14 provisional revenue budget totals £4.909m, a decrease of £1.138m compared with the latest approved budget for 2012/13 of £6.047m.

The main reasons for this reduction are:

- One off carry forwards from 2011/12 totalling £20,000 are included in the 2012/13 latest approved budget.
- Increase in planned works of £169,000 mainly at New Spitalfields Market
- Reduction in City Surveyor's repairs and maintenance costs of £108,000 and additional works programme of £101,000. A total reduction of £209,000
- Reduction in lease renewal fees of £722,000, which includes a carry forward of £142,000 from 2011-12 under-spend
- Reduction in support services and capital charges of £120,000
- An increase in income of £241,000, of which £103,000 is being used to partially offset the increase in planned works at New Spitalfields.

- **Recommendations**

The Committee is requested to:

- Review the provisional 2013/14 revenue budget to ensure that it reflects the Committee's objectives and, if so, approve the budget for submission to the Finance Committee
- Review and approve the draft capital budget
- Authorise the Chamberlain to revise these budgets to allow for further implications arising from PP2P reviews, the implementation of the City of London Procurement Service, changes to the Additional Works Programme, implications arising from Carbon Trading Allowances and changes in respect of recharges.

Main Report

Introduction

1. The City of London Corporation is the largest provider of Wholesale Markets in the country. It owns and manages Billingsgate Market (fish) in Docklands, Smithfield Market (meat) in the City and Spitalfields

Market (fruit, vegetables and flowers) in Leyton. Smithfield and Billingsgate Markets are funded from City's Cash and Spitalfields Market is funded from City Fund.

2. This report sets out the proposed revenue budget and capital budgets for 2013/14. The revenue budget management arrangements are to:
 - Provide a clear distinction between local risk, central risk and recharge budgets
 - Place responsibility for budgetary control on departmental Chief Officers
 - Apply a cash limit policy to Chief Officers' budgets
3. The provisional budget for 2013/14 has been analysed by the service expenditure and compared with the latest approved budget for 2012/13 (see Table 1).
4. The report also compares the current year's latest approved budget with the forecast outturn.

Business Planning Priorities

5. The business planning priorities for 2012/13 include managing lease renewals at Smithfield. This work is on-going throughout 2012/13 and the outcome of the court review in September 2012, which has previously been briefed by the Director of Markets and Consumer Protection at your last Committee meeting, was that a service charge will be implemented. Negotiations are underway with the Smithfield Market Tenants Association (SMTA) to agree an exclusive charge for rent and operational costs of running Smithfield Market and new leases.
6. The budget for legal costs for the lease renewal process at Smithfield Market in 2012/13 was £722,000 made up from carrying forward £142,000 from 2011/12 departmental under-spends and £580,000 from Finance Committee's contingency fund. The project is forecast to be concluded by March 2013 as, if a negotiated settlement cannot be reached and it is necessary to return to the High Court, the full court hearing should be complete before the next financial year. Therefore no budget is currently proposed in 2013/14.
7. A further business priority in 2012/13 was the renewed working practices agreement at Billingsgate Market. This agreement was completed successfully during the early part of 2012/13 with the result that there is a net increase in the City's income streams for rent and car parking, after accounting for increased rates expenditure at the car park.

8. Business priorities in 2013/14 include maintaining the same high level of service or developing new services within a cash limited resource allocation.; identifying new income streams; reducing energy and costs and carbon footprint; supporting the Procure to Pay (PP2P) initiative in order to deliver savings through improved procurement and to review our tenants service charge accounts to ensure that we are delivering cost effective services and value for money.
9. At Billingsgate there are two priority projects for 2013/14. They are to implement works for renewing the roof and the creation of additional fish handling building facilities. It is anticipated that there will be no impact on revenue as the project is expected to be funded from grants and the reserves in the “sinking fund”. Future ‘gateway’ reports will be prepared to keep your Committee updated on the latest developments.

Proposed Revenue Budget for 2013/14

10. The proposed Revenue Budget for 2013/14 is shown in Table 1 below analysed between:
 - Local Risk budgets – these are budgets deemed to be largely within the Chief Officer’s control
 - Central Risk budgets – these are budgets comprising specific items where a Chief Officer manages the underlying service, but where the eventual financial outturn can be strongly influenced by external factors outside of his/her control or are budgets of a corporate nature (e.g. interest on balances and rent incomes from investment properties)
 - Support Services and Capital Charges – these cover budgets for services provided by one activity to another. The control of these costs is exercised at the point where the expenditure or income first arises as local or central risk
11. The provisional 2013/14 budgets, being presented to your Committee, and under the control of the Director of Markets and Consumer Protection have been prepared in accordance with guidelines agreed by the Policy & Resources and Finance Committees. These include the first 1% of the total 2% efficiency savings required by 2014/15 as well as the policy of transfers of non-staffing budget to staffing budgets. The remaining 1% efficiency savings will be applied to the 2014/15 budgets. The budget has been prepared within the resources allocated to the Director.

TABLE 1 MARKETS COMMITTEE SUMMARY – ALL FUNDS						
Analysis of Service Expenditure	Local or Central Risk	Actual 2011-12 £'000	Latest Approved Budget 2012-13 £'000	Original Budget 2013-14 £'000	Movement 2012-13 to 2013-14 £'000	Paragraph Reference
EXPENDITURE						
Employees	L	4,725	5,077	5,061	(16)	
Premises Related Expenses (see note i)	L	4,064	4,125	4,294	169	15&16
Premises Related Expenses (see note ii)	C	0	107	107	0	
City Surveyor – Repairs & Maintenance	L	937	1,237	1,028	(209)	17 to 20
Transport Related Expenses	L	39	47	39	(8)	
Supplies & Services (see note iii)	L	1,286	862	823	(39)	
Supplies & Services (see note iv)	C	140	872	150	(722)	21
Waste & Cleaning Contract at New Spitalfields Market	L	1,648	1,732	1,780	48	22
Capital Charges	L	0	0	0	0	
Transfer to Reserve	L	252	0	0	0	
Total Expenditure		13,091	14,059	13,282	(777)	
INCOME						
Other Grants, Reimbursements and Contribution	L	(450)	(250)	(275)	(25)	
Customer, Client Receipts (see note v)	L	(7,894)	(8,167)	(8,235)	(68)	
Customer, Client Receipts (mainly Rent)	C	(5,182)	(5,777)	(5,819)	(42)	
Investment Income	L	(26)	(22)	(20)	2	
Transfer from Reserves	L	(0)	(84)	(187)	(103)	
Transfer from Reserve	C	(40)	(17)	(22)	(5)	
Total Income		(13,592)	(14,317)	(14,558)	(241)	22
TOTAL EXPENDITURE/ (INCOME) BEFORE SUPPORT SERVICES AND CAPITAL CHARGES		(501)	(258)	(1,276)	(1,018)	
SUPPORT SERVICES AND CAPITAL CHARGES						
Central Support Services and Capital Charges		6,406	6,597	6,472	(125)	Appendix 2
Recharges within Committees		0	0	0	0	
Recharges within Fund		(29)	(36)	(31)	5	
Recharges Across Funds		(222)	(256)	(256)	0	
Total Support Services and Capital Charges		6,155	6,305	6,185	(120)	
TOTAL NET EXPENDITURE/(INCOME)		5,654	6,047	4,909	(1,138)	

Notes - Examples of types of service expenditure:-

- (i) Premises Related Expenses, Local Risk (L) – includes repairs & maintenance, energy costs, rates, water services, cleaning and domestic supplies
- (ii) Premises Related Expenses, Central Risk (C) – estimated car park rates liability at Billingsgate Market
- (ii) Supplies and Services, Local Risk (L) – Equipment, furniture, materials, uniforms, printing, stationary, professional fees, grants & subscriptions
- (iv) Supplies and Services, Central Risk (C) – estimated legal fees at Smithfield Market
- (v) Customer, Client Receipts Local risk (L) – service charge and car parking income and reimbursements for electricity and water

12. Income and favourable variances are presented in brackets. Only significant variances (generally those greater than £100,000) have been commented on in the following paragraphs.
13. An analysis of revenue expenditure by Service Managed is provided in Appendix 1.
14. There is a reduction of £1.138m in the overall budget between the 2012/13 latest approved budget and the 2013/14 original budget. This movement is explained by the variances outlined below.
15. Increase in local risk premises related expenditure of £169,000 which is mainly a result of increases in New Spitalfields Markets local planned works programme which is payable from the Repainting and Repair Fund reserves.
16. However, the movement in premises related expenditure between 2012/13 and 2013/14 budgets of £169,000 will be reduced by £121,000 to £48,000 as the adjustment was too late to be included in the detailed financial recharges affecting this report. The revised total for expenditure and income for New Spitalfields Market will be reflected in the budget book for 2013/14 to be published in March 2013.
17. The total decrease of £209,000 in the budget for the City Surveyor's repairs and maintenance programme reflects changes in the composition and phasing of the works as outlined in Table 2 below.

TABLE 2 - CITY SURVEYOR LOCAL RISK			
Repairs and Maintenance	Latest Approved Budget 2012/13 £'000	Original Budget 2013/14 £'000	Movement
Additional Works Programme	784	683	(101)
Planned, Re-active & Cyclical Works			
Billingsgate	93	77	(16)
Smithfield	307	205	(102)
Spitalfields	53	63	10
Total City Surveyor	1,237	1028	(209)

18. Budgets have provisionally been included for the 2013/14 additional works programme based on bids considered by the Corporate Asset Sub Committee in June 2012. However, a decision on funding of the programme is not due to be made by the Resource Allocation Sub Committee until December. It may therefore be necessary to adjust budgets to reflect the Resource Allocation Sub Committee's decision.
19. The main elements for the decrease in the additional works programme is that the value of work identified in the City Surveyor's 20 year programme for 2013/14 has reduced in comparison with the combined value of various programmes in 2012/13.
20. Following the implementation of the MITIE and APEX contracts in July 2012, budgets have been re-aligned to reflect the tendered cost of the new contracts. The 2012/13 latest approved budget and the 2013/14 original budgets, therefore reflect these changes.
21. The decrease in the central risk budget for supplies and services between 2012/13 and 2013/14 of £722,000 is due to the anticipated completion of the lease renewal at Smithfield Market in the current year. The court hearing is set for March 2013, and it is anticipated that all costs should be expended in 2012/13 as outlined in paragraph 6. However, an application will be made to Finance Committee to carry forward any unspent funds to 2013/14 should this be required.
22. The increased income of £241,000 is mainly due to additional service charge income for New Spitalfields and Billingsgate Markets to fund increases in the service charge expenditure, such as the £48,000 expected

increase for the waste contract and additional budget required as a contribution from reserves to fund the increase in works at New Spitalfields Market.

23. Analysis of the movement in manpower and related staff costs are shown in Table 3 below.

Table 3 - Manpower statement	Latest Approved Budget 2012/13		Original Budget 2013/14	
	Manpower Full-time equivalent	Estimated cost £000	Manpower Full-time equivalent	Estimated cost £000
Directorate	5.6	386	5.4	377
Spitalfields Market	29.0	1,283	29.0	1,283
Smithfield Market	49.0	1,785	49.0	1,797
Billingsgate Market	41.0	1,623	41.0	1,604
TOTAL MARKETS	124.6	5,077	124.4	5,061

1. The full time equivalent total for the Directorate will be increased by one post to 6.4 by a transfer of an existing post from within the Markets and Consumer Protection. A budget transfer of £36,000 will be made in the budget book when it is published in March 2013. This is an agreed transfer from the departmental restructure that took place in 2011.

Potential Further Budget Developments

24. The provisional nature of the 2013/14 revenue budget recognises that further revisions may be required, including in relation to:

- budget reductions to capture savings arising from the on-going PP2P reviews
- budget adjustments relating to the implementation of the City of London Procurement Service
- decisions on funding of the Additional Work Programme by the Resource Allocation Committee

Revenue Budget 2012/13

25. The forecast outturn for the current year is £6.047m, which is in line with the latest approved budget. It is anticipated that the Director of Markets and Consumer Protection will remain within his resource allocation.

Members Format

26. Members have, in the past, expressed interest in the financial performance of individual Wholesale Markets (i.e. excluding the car park and outside properties at Smithfield). This is set out in Appendix 3, which has not been prepared in accordance with conventional City of London format but where expenditure and adverse variances are presented in brackets.

27. On this basis, the overall cost to the City of London Corporation of operating the Markets is £6.136m in 2012/13 and £4.992m in 2013/14. The costs are higher than the overall Committee total as the excluded items produce a small net income. The costs of the Markets include capital charges for 2013/14 totalling £4.883m, primarily relating to Smithfield refurbishment.
28. The operating statement has been reviewed and some changes have been made to the allocation of costs. Notes are included on the operating statement to explain significant differences.

Draft Capital Budget

29. No new bids were submitted recently by the Committee to the Policy and Resources Committee for resources to evaluate new capital or supplementary revenue projects.
30. The Committee's draft capital and supplementary revenue project budgets are summarised in the Tables below. Estimated expenditure is analysed as follows:
- Committed – Projects which are contractually committed
 - Uncommitted – Projects which have been the subject of an evaluation report but are not yet contractually committed
 - Pre-evaluation costs – the costs of evaluating all other schemes approved to proceed to that stage

TABLE 4 – City's Cash Draft Capital Budget								
	Exp. Pre 01/04/ 2012 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	Later Years £'000	Total £'000
<u>Evaluated Schemes</u>								
- Committed								
Billingsgate Porters		2,500						2,500
- Uncommitted								
<u>Unevaluated Schemes</u>								
Billingsgate Market - Venting and Cooling Ph. 2	81			332	191			604
TOTAL	81	2,500	0	332	191	0	0	3,104
TABLE 5 – City's Cash Draft Supplementary Revenue Budget								

	Exp. Pre 01/04/20 12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	Later Years £'000	Total £'000
<u>Unevaluated schemes</u> Billingsgate Market – Fish-Handling Facilities, options appraisal costs	16	2						18
TOTAL	16	2						18

	Exp. Pre 01/04/2011 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	Later Years £'000	Total £'000
<u>Evaluated Schemes</u> - Uncommitted Rainwater Harvest	2	60	65					127
TOTAL	2	60	65	0	0	0	0	127

31. The latest updated information on the capital project budgets is being submitted in a progress monitoring report to the Finance Committee on 11 December 2012. Summaries of these budgets will subsequently be used to determine overall financing, with the full capital and supplementary revenue project budgets being presented to the Court of Common Council for approval in March 2013.
32. The £2.5m for the Billingsgate porters buyout, is as previously reported to your committee funded by various methods. £900,000 is being repaid by the tenants, of which some traders have elected to pay the loan in full and avoid interest payments and others are repaying the loan and interest each month. The balance of the capital sum will be repaid from projected additional income generated by commercial car park trade and advertising hoardings.

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APPENDIX 1

Analysis by Service Managed	Actual 2011-12 £'000	Latest Approved Budget 2012-13 £'000	Original Budget 2013-14 £'000	Movement 2012-13 to 2013-14 £'000	Paragraph Reference
CITY FUND					
Spitalfields Market					
- Service Charge Account	15	25	25	0	
- City Account	(732)	(792)	(797)	(5)	
- Repairing and Repairs Fund	0	0	0	0	
Total Spitalfields Market	(717)	(767)	(772)	(5)	
TOTAL CITY FUND	(717)	(767)	(772)	(5)	
CITY'S CASH					
Smithfield Market					
- Wholesale Market	6,397	7,180	6105	(1,075)	16 & 20
- Other Services	(88)	(89)	(83)	6	
Total Smithfield Market	6,309	7,091	6,022	(1,069)	
Billingsgate Market					
- Service Charge Account	0	0	0	0	
- Non-Service Charge Account	61	(277)	(341)	(64)	
- Repairing and Special Works Account	0	0	0	0	
Total Billingsgate Market	62	(277)	(341)	(64)	
Markets Directorate	0	0	0	0	
TOTAL CITY'S CASH	6,371	6,814	5,681	(1,133)	
TOTAL	5,654	6,047	4918	(1,138)	

APPENDIX 2

Support Service and Capital Charges from/to Markets Committee	Actual 2011/12 £000	Latest Approved Budget 2012/13 £000	Original Budget 2013/14 £000
Support Service and Capital Charges			
Administrative Buildings	30	39	40
City Surveyor's Employee Recharge	151	173	189
Insurance	495	489	490
IS Recharges - Chamberlain	83	171	170
Capital Charges	4845	4992	4883
Support Services -			
Chamberlain	194	156	140
Comptroller and City Solicitor	109	94	90
Town Clerk	269	227	215
City Surveyor	153	162	162
Liability Insurance	77	94	93
Total Support Services and Capital Charges	6,406	6,597	6472
Recharges Within Funds			
Corporate and Democratic Core – Finance Committee	(77)	(77)	(77)
Unfit meat disposal charges – Port Health and Environmental Services Committee	48	57	62
Directorate Recharge – Port Health and Environmental Services Committee	0	(16)	(16)
Recharges Across Funds			
Directorate Recharge - Markets – City Fund	0	0	0
Directorate Recharge – Licensing Committee	(13)	(14)	(14)
Directorate Recharge – Port Health and Environmental Services Committee	(209)	(242)	(242)
TOTAL SUPPORT SERVICE AND CAPITAL CHARGES	6,155	6,305	6,185

The Capital Charges within this Committee total £4.883m in 2013/14. These relate to depreciation charges at Spitalfields Market (£0.562m) based on the estimated value as at 1 April 2012 divided by anticipated lives of assets; principal and interest payments on loans for major works at Smithfield Market and the Car Park (£3.940m); and principal and interest payments on loans for improvements and essential works at Billingsgate Market (£0.381m).