

Committee(s): Resource Allocation Sub Committee Policy and Resources Committee	Date(s): 18 September 2020 24 September 2020
Subject: Resetting of departmental Budgets 2020/21	Public
Report of: Chamberlain	For Decision
Report author: Julie Smith	

Summary

On 23rd July Members of this Committee instructed officers to undertake an in-year re-budgeting exercise to assist in repairing the damage to the City's budgets arising from the COVID-19 pandemic. This was seen as a vital step in ensuring that we put our finances on a sustainable footing for the Medium Term.

This report sets out the approach taken by officers and recommends budget adjustments totalling £15.6m to some departmental local risk budgets to address the deficit in lost income due to the COVID-19 pandemic, and set realistic budgets that Chief officers can be held to this financial year (2020/21).

The mitigating steps leading up to the recommended budget adjustments include a thorough year end budget forecast exercise as at the end of July, informed by bilateral meetings between the Chamberlain and Chief Officers, reaching a common understanding of the need for tight budgeting. This tight budgeting has resulted in expenditure savings in local risk budgets of £21.3m, partially offsetting an income deficit of (£39.2m).

The impact of COVID-19 stands at around (£28.4m) across all risks and funds of which (£17.9m) relates to Chief Officers local risk budgets. We are hopeful of recovering an estimated £13.6m from the government's compensation for lost fees and charges of 75p in the pound net of associated expenditure reductions which will be used to offset the appropriate budget adjustments. The remaining City Fund COVID deficit would then need to be covered by scaling back the planned addition to the major projects reserve.

Further steps proposed are to maintain recruitment controls, including the use of Consultants, aligned to the roll out of the Target Operating Model (TOM) yet to be announced and continue to press for further savings where possible to preserve the reserves position. Any residual COVID deficit will then be covered, in the case of City Fund, through an offsetting reduction in the Reserve.

Recommendation(s)

Members are asked to:

- Note the steps already taken by officers to reduce the financial impact of the COVID-19 pandemic.
- Endorse the adjusted departmental budgets totalling £15.6m for onward approval of the Court of Common Council.
- Approve proposals to continue working with departments to identify further savings where possible.
- Approve continuation of recruitment controls aligned to the TOM which may give further savings in the year.

Main Report

Background

1. At the meeting of your committee on 23rd July 2020 Members instructed officers to carry out a re budgeting exercise in the Autumn to assist in repairing the unprecedented damage to the City's budgets arising from the COVID-19 pandemic. This was seen as a vital step in ensuring that we put our finances on a sustainable footing for the Medium Term.
2. The following mitigating actions have been undertaken: -
 - Restriction of carry forwards from 2019/20 to protect the reserves position;
 - Recruitment controls; requiring a business case to recruit agreed by the Town Clerk
 - A review of high value contracts with City Procurement to see where any possible savings could be achieved and on-going monitoring to ensure value for money
 - An in-depth departmental re-forecasting exercise undertaken as at the end of July, crystallising expenditure reductions to limit COVID impact;
 - Collaborative bi-lateral meetings between the Chamberlain and Chief Officers took place resulting in a common understanding of the need for continued tight budgeting;
 - Member bi-laterals (Chair/Deputy Chairman of RA Sub) with some Service Committee Chairmen and Chief Officers.
 - A review of the Cyclical Works Programme (CWP) with the City Surveyor as unlikely to complete a significant amount of work in year due to suspension during the lockdown period; and

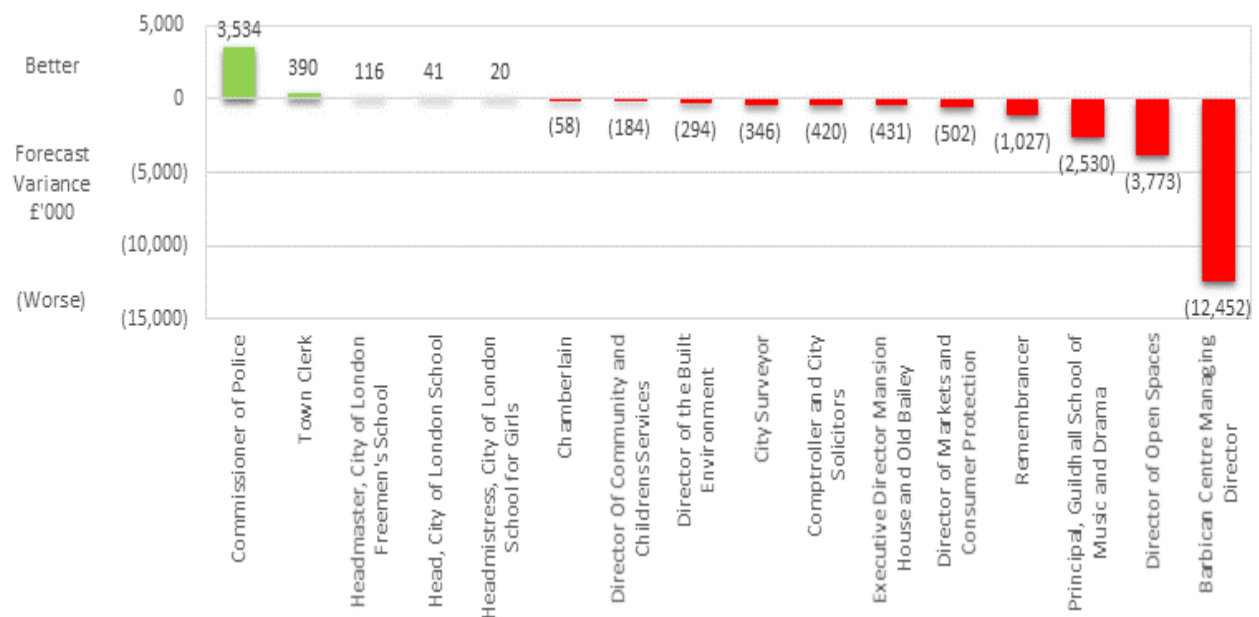
- Seeking government funding where possible through compensation on lost fees and charges of 75p in the pound on City Fund income.

Current Position

3. Despite the mitigating actions being taken, we face, as a result of COVID-19, a major challenge to the health of our finances. The forecast deficit at the end of July currently stands at (£28.4m) across the funds before government compensation for income lost from fees and charges. The breakdown by fund across both central and local risk is (£16.8m) City Fund, (£7.0m) City's Cash and (£4.6m) Bridge House Estates.
4. For Chief officers' cash limited budgets, a year-end forecast over spend of (£17.9m) is forecast against a budget of (£247.9m) (7.2%).
5. The table below shows the high-level year end forecast position for Chief officer's local risk budgets by fund

£'000	Original budget 2020/21	Latest budget 202/21 (including carry forwards)	Forecast as at end of July	Variance
City Fund (CF) (excl. Police)	(72,503)	(74,668)	(87,919)	(13,251)
City's Cash (CC)	(43,679)	(43,967)	(48,206)	(4,239)
Bridge House Estates (BHE)	(6,186)	(6,186)	(8,741)	(2,555)
Guildhall Administration (GA)	(37,938)	(38,206)	(39,611)	(1,405)
Total (excluding Police)	(160,306)	(163,027)	(184,477)	(21,450)
Police	(84,884)	(84,884)	(81,350)	3,534
Grand Total	(245,190)	(247,911)	(265,827)	(17,916)

6. The forecast position comprises a reduction in income of (£39.2m) on an income budget of £294m, partially offset by a reduction of £21.3m on budgeted expenditure of (£542.1m); demonstrating the action taken by Chief Officers to reduce expenditure to limit the impact as far as possible of reductions in income.
7. Chief officers' variances against net local risk budgets are shown in the chart below. The detailed breakdown by Chief Officer by Fund is shown at Appendix 1.



8. The most heavily impacted is the Barbican Centre; forecasting an overall overspend of (£12.5m) at year end. This comprises a shortfall of (£22.0m) on income due to the centre being closed, and limited activity being forecast for the remainder of the financial year due to social distancing measures. Expenditure has however, been reduced by £9.6m due to activity reductions and a hold on all non-essential expenditure. **It is proposed to reset the budget envelope from (£17,389) to (£29,841)**
9. Open Spaces is forecasting an overspend of (£3.7m) broken down as follows:-
 - (£3.1m) BHE due to income shortfalls relation to Tower Bridge. It is proposed that the Tower Bridge shortfall is covered by a reduction in transfer to BHE reserves at year end.
 - (£858k) City's Cash forecast income deficit on City's Cash. **It is proposed to rest the latest approved budget from (£11,852) to (£12,710).**
 - £148k City Fund forecast under spend of £148K is due to additional income from the City of London Cemetery activity. **It is proposed to rest this budget from £564k to £712k to be utilised towards the additional costs to City Fund.**
10. GSMD is forecast to be (£2.5m) worse than budget reflecting lost income from short courses, letting student accommodation and space to external providers during summer term, removing bar and catering income and reduced fees from under-18 provision. Further losses may arise depending on the number of students returning for the new academic year. In addition, GSMD will incur additional costs for space, equipment and staffing to support socially distanced onsite as well as online teaching. The City is a joint funder with the Office for Students and there is an agreement not to reduce the City's contribution to continue to secure HESA Funding. It is anticipated that GSMD continue to call on their reserves; the same approach as for the City's Independent Schools (see paragraph 19).

11. Remembrancer has a forecast deficit due to loss in income of (£1.0m) due to no private event hire taking place at Guildhall since the start of the financial year. Three of the four most lucrative months in the year - May, June, September and November - will achieve nil or very nearly nil income. **It is proposed to reset the budget from £274k to (£810k) to cover the loss of income.**
12. The Director of Markets and Consumer Protection is forecasting an overspend of (£502k), mainly on City Fund activity (£457K) due to increased costs at the Ports in preparation for Brexit and loss of income at the Animal Reception Centre. The balance on City's Cash relates to lost income from car parking charges at Billingsgate and Smithfield Markets. **It is proposed to reset City Fund budget from (£2,240k) to (£2,697k) to cover the income deficit.**
13. Mansion House and Old Bailey forecast overspend of (£431K) includes recovery of an overspend of (£248K) from 2019/20. At the bilateral meeting with the Executive Director further expenditure savings were discussed, **therefore no budget reset is proposed at this time.**
14. The Comptroller and City Solicitor is forecasting an external income deficit of (£420K) due to a lack of property deals. **It is proposed to reset the budget from (£845k) to (£1,265k) to cover the income shortfall.**
15. The City Surveyor is forecasting a net overspend across the funds of (£346K), this includes a carry forward of (£320K) from 2019/20. **It is not proposed to reset the budget for 2020/21 at this time.**
16. The Director of the Built Environment (DBE) forecast an overspend of (£310K), mainly relates to a forecast income shortfall of (£2.5m), most significantly within off street parking, traffic management, public conveniences, drains & sewers and building control services. However, expenditure reductions of some £2.3m through reduction in highways repairs and maintenance, early removal of Automated public conveniences and contract savings have reduced the impact considerably. **It is proposed to reset the budget from (£20,243K) to (£20,553K) to cover the net deficit.**
17. The Director of Community and Children's services is forecasting an overspend of (£184K), the largest pressure is on rough sleepers and homelessness budget due to COVID-19, at an estimated cost of (£1.4m) until 31st March 2021. The majority of the extra costs are being absorbed by a current underspend on adults/older people social care. Income levels are estimated to be around 30% once services reopen. **It is proposed to reset the Director's budget from (£12,791K) to (£12,975K) to address the shortfall.**
18. The Chamberlain is forecasting a net overspend across the funds of (£58K). This is due to various additional essential unbudgeted expenditure, including additional staff resource for essential financial modelling work. There is also income loss in Freedom ceremonies due to the COVID 19 pandemic. **It is not proposed to reset the Chamberlain's budget at this time.**

19. The Independent Schools are managing within their reserves as shown by their breakeven position. No budget resets are therefore proposed.
20. The Town Clerks overall forecast position is a net underspend of £350K. However, this includes additional P&R income of £990k expected in relation to COVID related grants to reimburse expenditure for works undertaken by the Strategic COVID Group, which is offset by income shortfalls in Cultural Heritage. **It is not proposed, therefore, to reset the Town Clerk's budgets.**
21. The Commissioner of Police is currently forecasting an underspend of £3.5m. It is proposed to continue to monitor the Police position and agree a plan to utilise the underspend, recognising that any underspend against the (£5.4m) additional corporate funding made available this year for growth in Police Officers from the Business Rate Premium is ringfenced for repayment of the Action Fraud loan to the City Corporation.

Proposals

22. It is proposed that local risk budgets are reset for the following departments as summarised in the table below: -

£'000

Department	From	To	(Increase) /Reduction	Fund
Barbican Centre	(17,389)	(29,841)	(12,452)	CF
Open Spaces	(11,852)	(12,710)	(858)	CC
Open Spaces	564	712	148	CF
Remembrancer	274	(810)	(1,084)	GA
Markets & Consumer Protection	(2,240)	(2,697)	(457)	CF
Comptroller & City Solicitor	(845)	(1,265)	(420)	GA
DBE	(20,243)	(20,553)	(310)	CF
Community & Children's services	(12,791)	(12,975)	(184)	CF
Total	(64,522)	(80,139)	(15,617)	

23. Our current estimates indicate support from the government for lost fees and charges on City Fund income could be in the region of £13.6m. The first claim from April until end of July is expected to be submitted later in September. The income recovered will be used to offset the appropriate budget adjustments proposed.
24. It is also proposed to continue with the current recruitment constraint, including the use of Consultants, aligned to the rollout of the Target Operating Model to secure further savings by the end of the financial year.

25. Further savings will also continue to be explored with departments to reduce the overall impact on the reserves position.
26. The budget in the Medium-Term Financial Plan (MTFP) for the CWP in 2020/21 is £22.8m. The latest forecast estimate for works anticipated to be completed is £10.7m. A report is being prepared by the City Surveyor outlining proposals for a revised annual programme from 2021/22.

Financial Implications

27. The overall 2020/21 City Fund starting position would have added £27.3m to reserves to contribute to the future financing of the major projects.
28. The proposed COVID adjustments to Chief Officers local risk budgets total £15.6m (£14m City Fund and £1.6m City's Cash). The £14m City Fund adjustment can be met by scaling back the addition to the major projects reserve to £13.3m. The City Cash adjustment of £1.6m can be funded but will impact the net asset position.

Conclusion

29. Despite the mitigating actions being taken, we face, as a result of COVID-19, a major challenge to the health of our finances. Proposals to reset budgets for Chief Officers most impacted by loss of local risk income will provide realistic budgets for them to be held to.

Appendices

- Appendix 1 – Chief Officers local risk end of year forecast at end of July 2020 by fund

Background Papers

- Briefing 2 – Financial impact of COVID 19 – Finance Committee 19 May 2020

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