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| Committee: | Dated |
| Finance Committee | 13 October 2020 |
| Subject: Revenue Budget Monitoring to September 2020 (Quarter 2) | Public |
| Report of: Chamberlain | For Information |
| Report author: Laura Yeo, Senior Accountant, Financial Services Division | |

Summary

This report provides an update on the financial position and the impacts of COVID-19 on budgets up to the end of September.

The estimated overall forecast year-end overspend across all funds is an overspend position of £36.1m at the end of September (Quarter 2). This represents a worsening position of £7.7m when compared to £28.4m at the end of July (Period 4), primarily driven by adjustments to the Property Investment Income forecast (£5.9m) and target operating model savings yet to be achieved (£4.5m).

The impact of Covid-19 stands at around £16.8m (7%) on Chief Officer Cash Limited Budgets, mainly on City Fund, and £19.4m (32%) on Central Risk Budgets excluding The City Bridge Trust (CBT) grant giving and London Community Response Fund (LCRF) advance commitments, which is operates on a multi-year budget envelope.

To assist in mitigating the damage caused to the City's budgets by the pandemic, an in-year re-budgeting exercise been undertaken to set realistic but tightened budgets. For local risk, the approach has been to reduce spend as much as possible, informed by bilateral meetings between the Chamberlain and Chief Officers. At Quarter 2 local risk expenditure savings of £22.6m have been identified which partially offset predicted income losses of £39.4m.

On Central Risk, losses are currently being driven by property and investment income shortfalls which may prove difficult to mitigate and are likely to require a draw on reserve to make up the shortfall.

Reflecting on this position, the re-budgeting exercise has proposed a net £15.2m increase in budgets to provide a realistic baseline budget on which to monitor financial performance moving forward. Subject to approval at the December Court of Common Council meeting, the impact of these proposals is shown below.

| Impact of re-budgeting exercise | CF | CC | BHE | Total |
|----------------------------------------------------|--------------|---------------|--------------|---------------|
| | £m | £m | £m | £m |
| Month 6 Forecast (Local and Central Risk) | (19.0) | (12.4) | (4.7) | (36.1) |
| Budget increases proposed by re-budgeting exercise | 14.0 | 1.2 | 0.0 | 15.2 |
| | | | | |
| Adjusted Month 6 Forecast | (5.0) | (11.2) | (4.7) | (20.9) |

These additional budgets must however be funded. For City Fund, this will impact on the projected surplus for the year, which is earmarked as a contribution to the major projects reserve. For City's Cash this will impact the level of drawdown from the balance sheet. Whilst no budget changes have been put forward for Bridge House Estates, it is proposed that the deficit in Tower Bridge income (£3.1m) be offset with a reduction in transfer to the BHE reserves at year end.

The Government's income compensation scheme for Local Authorities is now open and a claim for income losses covering April to July has been submitted with a value of £1.5m. At the time of writing this claim was still subject to approval by Ministry of Housing, Communities and Local Government (MHCLG). The estimated full year value of the claim is £12.6m and has been incorporated into the below impact assessment.

| Financial Impact per Fund | CF | CC | BHE |
|-------------------------------------------------------------------|-------------|---------------|---------------|
| | £m | £m | £m |
| Original surplus/(deficit) for the year | 27.3 | (38.1) | (18.1) |
| Budget increases proposed by re-budgeting exercise | (14.0) | (1.2) | (0.0) |
| Adjusted Month 6 forecast deficit | (5.0) | (11.2) | (4.7) |
| Potential additional funding from Govt income compensation scheme | 12.6 | 0.0 | 0.0 |
| Overall Impact per Fund | 20.9 | (50.5) | (22.8) |

Additional actions are likely to be required to mitigate the impacts of COVID-19 further as well as realigning future spending plans to reflect on the current circumstances.

Recommendation

Members are asked:

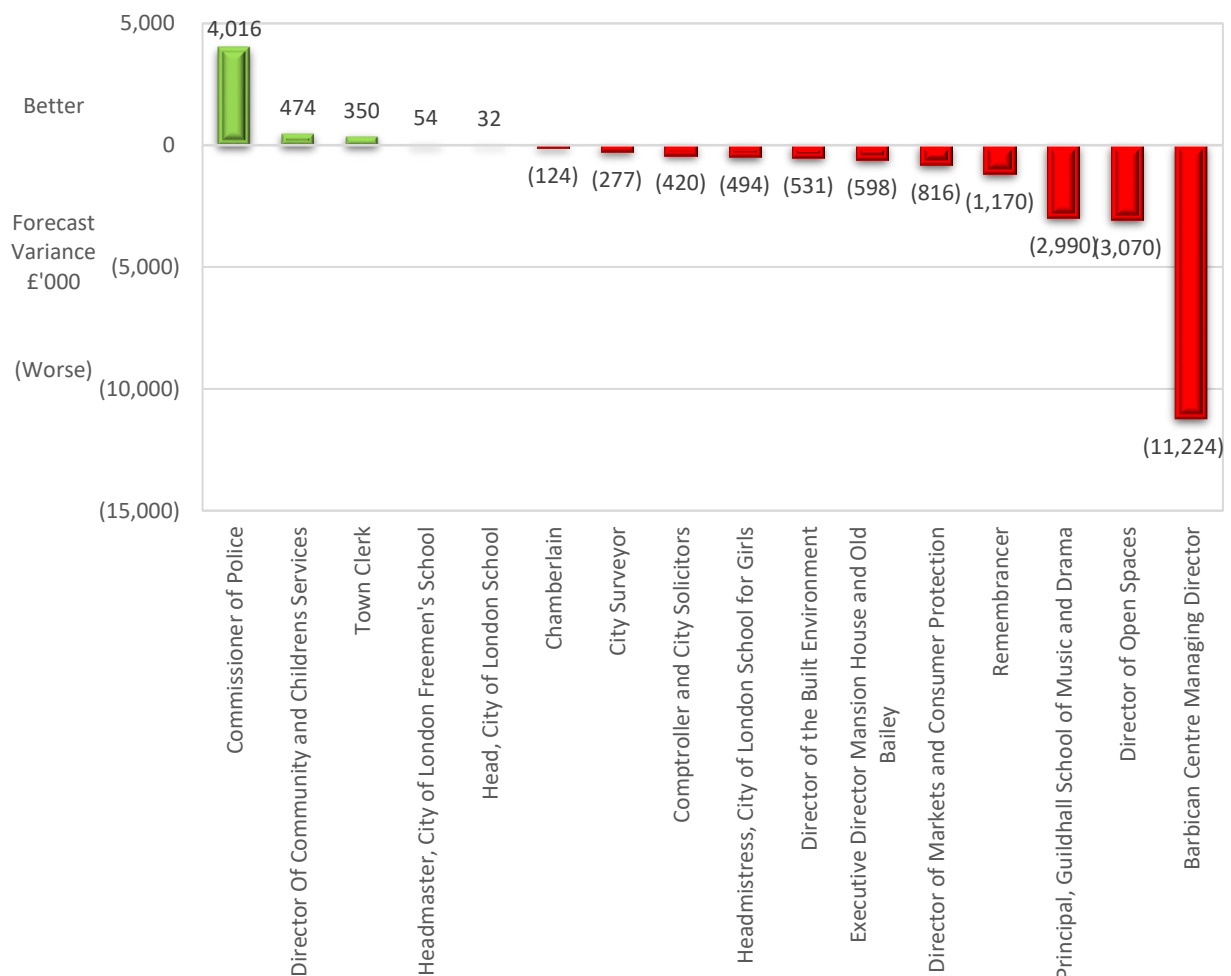
- i. to note the report, in particular the significant improvement in the forecast Barbican position which Members may wish to take in account when considering the budget 2020/21 reset paper, also on this Committee agenda.

Main Report

Chief Officer Cash Limited Budgets

- The current position for Chief Officer Cash Limited Budgets is a forecast overspend of £16.8m against the latest approved budget of £247.9m. This is an improved position of £1.1m compared to £17.9m reported at the end of July (Period 4).

Chief Officer variances against net local risk budgets are shown in the below chart and in Appendix 1 by Fund.



- Currently, the year-end forecast position comprises of an adverse variance of £39.4m against budgeted income of £294.7m, partially offset by a favourable variance of £22.6m on budgeted expenditure of £542.6m. Appendix 2 provides income and expenditure budget variances by Chief Officer. The impacts of Covid-19 on the most heavily affected Chief Officers Cash Limited Budgets have been detailed in the paragraphs below.

3. The Barbican Centre have been impacted heavily; forecasting an adverse variance of £11.2m at year end. This comprises a shortfall of £20.8m on income due to the centre being closed following Government guidelines, 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 £9.6m due to activity reductions as well as a hold on all non-essential expenditure. The forecast position has improved by £1.3m from period 4 due to the receipts for the furlough scheme for both salaries and casual staff.
4. The resetting of departmental budgets paper (also on this agenda) is proposing to increase the Barbican Centre budget by £12.5m, reflecting the anticipated shortfall as at month 4. With the improved forecast position, Members may wish to re-assess the level of budget adjustment proposed.
5. Open Spaces has also been heavily effected and are forecast to be overspent by £3.1m by year-end. The overspend is due to income shortfalls from closed attractions and facilities as a result of the ongoing pandemic, mainly in relation to Tower Bridge where a forecast net loss of £3.1m is anticipated for the year. The re-budgeting exercise has proposed that an adjustment is made to the year end transfer to BHE reserves to offset this deficit.
6. Guildhall School of Music and Drama (GSMD) is forecast to be £3.0m worse than budget, reflecting lost income due to Covid-19. Income generating activities such as short courses, letting student accommodation during summer term, letting out space during summer to external providers, removing bar and catering income, and reduced fees from under-18 provision have all ceased. 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 as a result of Covid-19. GSMD, as with the independent schools, maintains a reserve which can be used to offset these losses. Should the reserve and further cost reduction prove insufficient, additional financial support may need to be considered later in the year.
7. Remembrancer is overspent by £1.2m due to no private event hire taking place at Guildhall since the start of the financial year, until assuming late Autumn. As a result, three of the four most lucrative months in the year - May, June, September and November - will achieve nil or very nearly nil income. This is partially offset by cost savings associated with not hosting these events including staff time, equipment hire, printing and advertising.
8. The Commissioner of Police projected outturn is a significant underspend for the full year of £4.0m. The position will be monitored closely and a plan has been agreed to utilise the forecast underspend. The position is based on an escalated recruitment process and a number of new appointments. The projected attrition levels have been revised due to Covid-19, assuming there will be no leavers during the financial year. Police services have remained as business as usual during Covid-19 and a challenging savings target of £5.7m is expected to be achieved in this financial year. Covid-19 pressures do exist

for CoLP, however, losses can be claimed from the Home Office as part of the 'ring-fenced £1.2m uplift grant.' Wood street and New Street costs for 20/21 will also have to be managed and accommodated within existing budgets, including the significant delay in closure of Wood Street.

Central Risk Budgets

9. At the end of Quarter 2 the forecast position for Central Risk Budgets is an adverse variance of £19.4m against the latest approved budget of £60.3m, this is a worsening position of £8.9m compared to £10.5m at the end of July (period 4) and is primarily due to adjustments to the Property Investment Income forecast (£5.9m) and target operating model savings yet to be achieved (£4.5m).
10. The forecast position excludes CBT grant giving advance commitments (£48.6m) and London Community Response Fund commitments (£12.8m). These variances have been excluded as they are operating within the multi-year funding agreement. So, whilst they are generating in year variances, these are differences in the profile of grant giving spend, which are within the overall financial envelope agreed by Court, inclusion of which would distort in year performance. Further detail on CBT grant giving is given in paragraphs 16-19.
11. Covid-19 has had a severe impact on the Corporate Income Budgets leading to an adverse variance of £23.0m against budgeted income of £253.8m partially offset by a favourable variance of £7.0m on budgeted expenditure of £193.5m. The key budget areas are addressed in the following paragraphs.

Corporate Income Budgets

12. Property Investment income at the end of Quarter 2 is £14.2m worse than budget of £136.1m. This represents an adverse movement of £5.9m compared to the position at period 4. The worsening position is due to further adjustments for proposed September rent fees and rent smoothing (£2.5m) and the inclusion of the estimated increase in bad debt provision required for 2020/21 (£3.4m).

The latest forecast comprises:

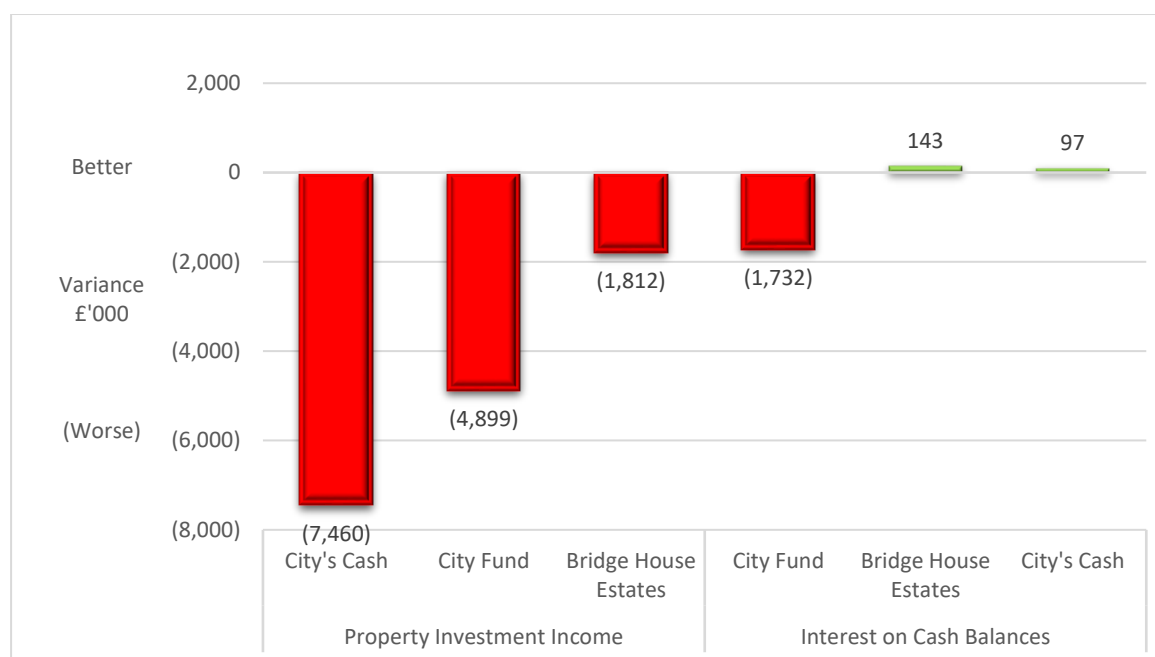
- City Fund £4.9m adverse variance
- City's Cash £7.5m adverse variance
- Bridge House Estates £1.8m adverse variance

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 £1.5m below budget of £8.9m at year-end. Elements of the forecast are subject to a lot of uncertainty, principally key assumptions 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.

14. 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

15. Members are asked to note that 2020/21 is an exceptional year for the activities of City Bridge Trust (CBT) within BHE. This includes the impact of the pandemic and the consequential establishment of the new BHE collaborative fund – the London Community Response Fund (LCRF) and the decision of the March 2020 Court of Common Council to agree an additional allocation of £200m to support delivery of the charity's ancillary objects. As a result, the reforecast for 2020/21 includes both the new LCRF's activity and an initial forecast commitment of £45m of the £200m allocation. Central risk activities for CBT have therefore increased from the original budget of £27.1m to £88.1m (net of grant income of £13.1m). This increase is fully funded from the unrestricted income reserve held by BHE.
16. CBT September 2020 Committee approved a £15m allocation from the agreed 5-year (2018- 2023) budget for expenditure in this financial year to support existing Bridging Divides grants portfolio and application pipeline.

17. As at the end of September 2020, £15.2m has been awarded in grants under the Bridging Divides programme, £23.9m for the LCRF and £0.1m for the Anniversary Programme Bridge to Work.
18. Since its inception, LCRF has received donations from third parties of £14.859m and a transfer of £11m from BHE, making total funds available to the programme of £25.859m. Administrative costs of £734k are forecast to be incurred in running the LCRF with £25.125m to be committed as grants by the end of the 2020/21 financial year.
19. At present the regular funding programmes operated by CBT have been 'paused' to enable staff to focus on the LCRF, provide support to the existing portfolio of 600+ grantees and work through the considerable number of applications that were already in the pipeline.



COVID-19 Mitigation, contingency and spend

20. On 23 July, Members of RASC instructed officers to conduct 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.
21. The 18 September Resource Allocation Sub Committee noted the steps already taken by officers to reduce the impact of COVID-19 and generate savings including recruitment controls, review of contracts and the review of the Cyclical Works Programme (CWP); and proposed the following:
 - (i) Adjust departmental budget totalling £15.2m to reflect to impact of COVID-19.
 - (ii) Continue work with departments to identify further savings where possible.
 - (iii) Approve continuation of recruitment controls aligned to the Target Operating Model (TOM) which may give further savings in the year.

22. The proposed budget adjustment is still subject to Court of Common Council approval, so will be formally incorporated into the budget once agreement has been received, but the indicative impact of this change is shown below.
23. The £15.2m net budget increase is split between City Fund (£14.0m), City's Cash (£1.2m). The City Fund element will be funded from reducing the £27.3m budgeted transfer to reserves, which had been earmarked for the major projects reserve, whilst the City's Cash increase will reduce its net asset position. The impact on the forecast is shown below.

| Impact of re-budgeting exercise | CF | CC | BHE | Total |
|----------------------------------------------------|--------------|---------------|--------------|---------------|
| | £m | £m | £m | £m |
| Month 6 Forecast (Local and Central Risk) | (19.0) | (12.4) | (4.7) | (36.1) |
| Budget increases proposed by re-budgeting exercise | 14.0 | 1.2 | 0.0 | 15.2 |
| | | | | |
| Adjusted Month 6 Forecast | (5.0) | (11.2) | (4.7) | (20.9) |

24. The Covid-19 contingency fund of £1.5m has at the time of writing this report has total commitments of £1,080,000 leaving a balance of £420,000. Details of the allocations is provided at Appendix 3.
25. 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. This is net of furlough support.

| | |
|------------------------|-------------------|
| City Fund Main Account | £952,042 |
| City's Cash | £1,617,829 |
| HRA | £359,791 |
| Bridge House Estates | £496,762 |
| Total | £3,426,424 |

Government Support Measures

26. For Local Authorities, the Government has announced financial support for lost income, for which final guidance has been received and a claim for losses incurred between April – July has been submitted to the value of £1.5m. The full year estimate for this claim is £12.6m.

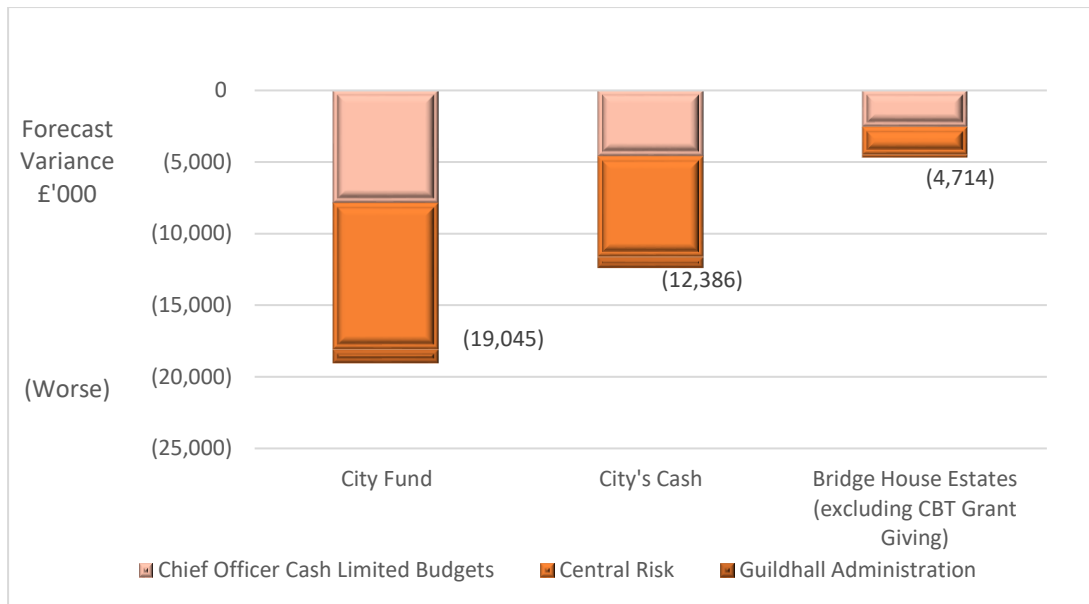
27. The scheme covers net income losses for income generating areas linked to service delivery. This will therefore not provide compensation for commercial income streams such as investment property income. Compensation will also not be provided where local decisions contradict Government guidance e.g. continuing to keep services closed where Government guidance allows them to be open.
28. All claims are subject to approval by MHCLG, so we are awaiting confirmation that our April-July claim has been accepted. In order to provide a comprehensive view of the financial position, these estimates have been incorporated into the fund summary
29. The Government has also announced 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 as Monument. Any such support will be factored into the forecast once agreed.

Business Rates

30. For Business Rates, the collection rate has fallen 6.8% below last year's rate at this time. We are continuing to monitor business rate collection closely, with informal recovery activity starting to take place and formal recovery due to start in January. It should be noted that in year losses in business rates will impact future year budgets as the statutory framework lags these impacts. The Government has also indicated that Local Authorities will be allowed to spread the impact of business rate losses across a 3-year period. We are awaiting full details of this flexibility.

Fund Position

31. Despite the mitigating actions being taken, as a result of COVID-19, the overall (Local and Central Risk) forecast year-end position reported at Quarter 2 is £36.1m worse than budget. With Guildhall Administration apportioned across the three funds gives adverse positions of £19.0m on City Fund, £12.4m on City's Cash and £4.7m on Bridge House Estates.



32. Reflecting on this position, the re-budgeting exercise has proposed a net £15.2m increase in budgets to provide a realistic baseline budget on which to monitor financial performance moving forward, subject to Court of Common Council approval. Government support for income losses incurred by City Fund services is estimated to contribute £12.6m to offset income losses.
33. Taking these changes into account, the overall position, by fund, is shown below.

| Financial Impact per Fund | CF | CC | BHE |
|-------------------------------------------------------------------|-------------|---------------|---------------|
| | £m | £m | £m |
| Original surplus/(deficit) for the year | 27.3 | (38.1) | (18.1) |
| Budget increases proposed by re-budgeting exercise | (14.0) | (1.2) | (0.0) |
| Adjusted Month 6 forecast deficit | (5.0) | (11.2) | (4.7) |
| Potential additional funding from Govt income compensation scheme | 12.6 | 0.0 | 0.0 |
| Overall Impact per Fund | 20.9 | (50.5) | (22.8) |

Conclusion

34. Members are asked to note the forecast year-end position at the end of September (Quarter 2) is £36.1m worse than budget. The impact of Covid-19 stands at around £16.8m on Chief Officer Cash Limited Budgets, mainly on City Fund, and £19.4m on Central Risk Budgets. This represents a worsening position of £7.7m when compared to the forecast at the end of July (Period 4 1). The forecast position will continue to be carefully monitored to reflect the mitigating measures being taken.

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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