

Report – Finance Committee

Resetting of Departmental Budgets 2020/21

To be presented on Thursday, 3rd December 2020

*To the Right Honourable The Lord Mayor, Aldermen and Commons
of the City of London in Common Council assembled.*

SUMMARY

At your Resource Allocation Sub-Committee on 18th September 2020, Members considered and approved recommendations for budget adjustments of £15.6m, following a request at their meeting in July for 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 a vital step in ensuring that the Corporation put its finances on a sustainable footing for the medium term.

Members of your Finance Committee were asked to recommend to the Court of Common Council the budget adjustments outlined below, totalling £14.2m, to departmental local risk budgets (including a reduction of £400K to the original proposal to Resource Allocation Sub Committee for Open Spaces and a £1m downward revision agreed by the October Finance Committee following an improvement in the Barbican position), 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).

Members of the relevant Service Committees were asked to note the recommended budget adjustments which, subject to the agreement of the Court of Common Council in December, will be reflected in detailed Revised Estimates for 2020/21.

The impact of COVID-19 stands at around £28.4m across all risks and funds in 2020/21, of which £17.9m relates to Chief Officers local risk budgets. Officers are hopeful of recovering an estimated £13.6m from the Government's compensation for lost fees and charges. The remaining City Fund COVID deficit would then need to be covered by scaling back the planned addition to the major projects reserve.

The mitigating steps leading up to the recommended budget adjustments included a thorough year-end budget forecast exercise as at the end of July, which was informed by bilateral meetings between the Chamberlain and Chief Officers. Tight budgeting resulted in expenditure savings in local risk budgets of £21.3m, partially offsetting an income deficit of £39.2m. This process was followed by a number of Member led bilateral meetings in September with those service areas most affected by COVID in year.

It is also proposed to continue with the current recruitment constraints (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. Any residual COVID deficit will then be covered, in the case of City Fund, through an offsetting reduction in the Reserve.

RECOMMENDATION

That Members: -

- Note the steps already taken by officers to reduce the financial impact of the COVID-19 pandemic.
- Approve the adjusted departmental budgets totalling £14.2m outlined in this report, including a downward revision of £1m for the Barbican explained at paragraph 7 and a reduction of £400K to the original proposal to Resource Allocation Sub Committee for the Open Spaces Department explained at paragraph 9.
- Approve proposals to continue working with departments to identify further savings where possible.
- Approve continuation of recruitment controls aligned to the Target Operating Model (TOM) which may give further savings in the year.

MAIN REPORT

1. On 18 September 2020, Members of your Resource Allocation Sub Committee considered and approved recommendations for budget adjustments totalling £15.6m, following their instruction to officers at their meeting in July, 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 a vital step in ensuring that the Corporation put its 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 before agreement 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 the impact of COVID.
 - Collaborative bilateral meetings between the Chamberlain and Chief Officers, resulting in a common understanding of the need for continued tight budgeting.
 - Member bilateral meetings (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 it was anticipated that it was unlikely that the Surveyor's would complete a significant amount of work in-year due to suspension during the lockdown period.
 - Seeking government funding where possible through compensation on lost fees and charges of 75p in the pound on City Fund income.

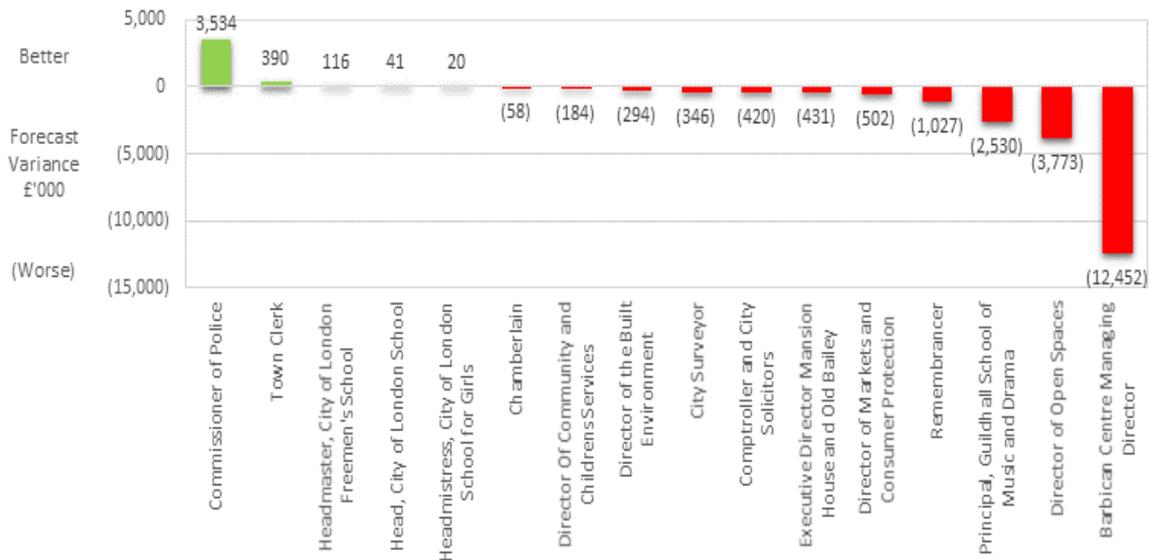
Current Position

3. Despite the mitigating actions being taken, the City faces, as a result of COVID-19, a major challenge to the health of its finances. The forecast deficit at the end of July stood 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 for City Fund, £7m for City's Cash, and £4.6m for Bridge House Estates.
4. For Chief Officers' cash limited budgets, a year-end forecast overspend of £17.9m (7.2%) is forecast against a budget of £247.9m.
5. The forecast position comprises a reduction in income of £39.2m on an income budget of £294m, partially offset by an underspend 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.

The table below shows the high-level year end forecast position for Chief Officers' local risk budgets by fund:

£'000	Original budget 2020/21	Latest budget 2020/21 (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

Chief Officers' variances against net local risk budgets for month 5 are shown in the chart below. The detailed breakdown by Chief Officer by Fund is shown at Appendix 1.



5. The most heavily affected 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. The October Finance Committee considered the later month 6 forecast which improved the Barbican forecast by £1m. **It is proposed to reset the budget envelope from £17,389 to £28,841.**

6. The Open Spaces Department is forecasting an overspend of £3.7m, broken down as follows: -
 - £3.1m on 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 forecast income deficit on City's Cash. Following a Senior Member led bilateral meeting with the Director of Open Spaces and the Chamberlain, and subsequent discussion at Resource Allocation Sub Committee on 18th September, it was concluded that there was scope to reduce expenditure and increase income further at Epping Forest; **it is therefore, proposed to reduce the Open Spaces budget adjustment by £400K, and reset the latest approved budget from £11,852 to £12,310 to cover the Monument income shortfall of £392K. The balance of £66K will be utilised for other income shortfalls at Open Spaces.** It is recognised that there is pressure on Epping Forest budgets, on which officers will continue to focus, with an understanding this might lead to a year-end overspend.
 - The City Fund forecast underspend of £148K is due to additional income from the City of London Cemetery activity. **It is proposed to reset this budget from £564k to £712k to be utilised towards the additional costs falling on City Fund.**

7. The Guildhall School of Music & Drama (GSMD) is forecast to be £2.5m worse than budget; this reflects lost income from short courses, letting student accommodation

and space to external providers during the summer term, loss of 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 teaching, and tools to provide 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 Higher Education Statistics Agency (HESA) funding. It is anticipated that GSMD continue to call on its reserves; this is the same approach as the City's Independent Schools (see paragraph 19).

8. The Remembrancer's Department has a forecast deficit due to loss in income of (£1m) 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.**
9. 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.**
10. Mansion House and Old Bailey forecast an overspend of £431k; this includes recovery of an overspend of £248k from 2019/20. Further expenditure savings were discussed at the bilateral meeting with the Executive Director, **no budget reset is proposed at this time.**
11. 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.**
12. 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.**
13. The Director of the Built Environment (DBE) forecast an overspend of £310k; this 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. Expenditure reductions, however, 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.**
14. The Director of Community and Children's Services is forecasting an overspend of £184k, the largest pressure is on rough sleepers and the 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% of budget once services

reopen. **It is proposed to reset the budget from £12,791k to £12,975k to address the shortfall.**

15. 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.**
16. The Independent Schools are managing within their reserves as shown by their breakeven position. **No budget resets are therefore proposed.**
17. The Town Clerk’s overall forecast position is a net underspend of £350k. This, however, 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 and Libraries. **It is not proposed, therefore, to reset the Town Clerk’s budgets.**
18. The Commissioner of Police is currently forecasting an underspend of £3.5m. It is proposed to continue to monitor the Police position, recognising that any underspend will be directed to repayment of the Action Fraud loan to the City Corporation.
19. Departmental local risk budget resets are 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)	(12,310)	(458)	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)	(79,739)	(15,217)	

20. Where Chief Officers local risk budgets are not recommended for adjustment, but significant efforts have been made to mitigate the position/deliver savings, it is proposed discussions take place at year-end regarding the handling of any overspend positions.
21. 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 was submitted at the end of September. The income recovered will be used to offset the appropriate budget adjustments proposed.

22. It is also proposed to continue with the current recruitment constraints (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.
23. Further savings will also continue to be explored with departments to reduce the overall impact on the reserves position.
24. The budget in the Medium-Term Financial Plan (MTFP) for the Cyclical Works Programme 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

25. 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.
26. The proposed COVID adjustments to Chief Officers local risk budgets total £15.2m (£14m City Fund and £1.2m 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 £1.2m can be funded but will affect the net asset position.

Conclusion

27. 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 affected by the loss of local risk income will provide realistic budgets for them to be held accountable.

All of which we submit to the judgement of this Honourable Court.

DATED this 13th day of October 2020.

SIGNED on behalf of the Finance Committee.

Jeremy Paul Mayhew
Chairman, Finance Committee