

Committee(s)	Dated:
Resource Allocation Sub-Committee	10 th December 2020
Subject: 2021/22 Budget Setting Update	Public
Does this proposal require extra revenue and/or capital spending?	N
If so, how much?	N/A
What is the source of Funding?	N/A
Has this Funding Source been agreed with the Chamberlain's Department?	N/A
Report of: Chamberlain	For Decision
Report author: Caroline Al-Beyerty Chamberlain's Department	

Summary

The aim of the 2021/22 budget round is to set us on the flight path to achieving a sustainable budget over the medium-term. Based on a number of key assumptions around business rate income, progress on the Target Operating Model (TOM) and forecast COVID impact, this translates into a requirement for an average saving in Corporation funding of 12%, adding up to £22m, across 2021/22 City Fund and City's Cash budgets.

Since the flight path and savings target were discussed in Resource Allocation Sub Committee in July, there have been four key developments, which taken together mean that we can set budgets that will keep us on the flight path trajectory, despite facing very challenging external pressures:

- Departmental Bilaterals between Service Committee Chairs / Chief Officers with senior Members of Resource Allocation Sub Committee and the Chamberlain. These have demonstrated a shared commitment to achieving the 12% savings. We are now in a position to propose resource caps consistent with this – in the case of Barbican and GSMD the savings will be applied, but there will be an income loss adjustment to the budget to reflect the impact of Covid, and the release of this income support will be monitored carefully and released in agreement with Chamberlains.
- Members have now agreed the architecture of the TOM, but detailed plans are still being worked through. Anticipated savings will only start to come through in the latter part of 2021/22, which means that in practice this should be seen as a transition year. This in turn has delayed some Fundamental Review savings, which have been put on hold pending the further work on the TOM. Such cases will be rephased to 2022/23.
- External factors – the Spending Review announcement on 25 November confirmed that there will not be a significant uplift in government funding, but the Chancellor announced a Public Sector Pay Freeze for most workers. The further reduction in CPI inflation should ease the pressure of living with flat cash budgets, from which the 12% savings will need to be achieved.
- The anticipated removal of business rate income growth has been delayed, in part due to COVID. On current assumptions, it means for City Fund that the anticipated income loss for the Barbican, for example, and loss of rent income can be absorbed, without a further drawdown on reserves, which are being built up to finance the Major Projects. But there remain significant risks around property rental income and other sources of revenue next year, which this will help to mitigate against.

The purpose of this report is to agree the budget envelopes that service committees will use to deliver their services in 2021/22. It is intended that business planning will address how service committees intend to focus their resources to achieve key outcomes in year. Work will continue with this Committee to identify further savings that can underpin medium plans for 2022/23 and beyond.

Central risk resources have also been considered. A change in the delivery model for the cyclical works programme by Corporate Assets Sub Committee has yielded a one-off windfall saving of £8m, as slippage in the current programme is addressed through prioritisation into an annual programme. Reductions have also been identified from the review of City Fund and City's Cash grant giving, work continues to agree funding amounts with stakeholders before reporting back to this Committee in January.

Key follow up themes for 2022/23 include:

- The need for a fuller grants review, especially where rolled over
- Consider the balance of Academy/ independent school support with modelling underway
- Scope for further restructuring, removal of duplication as part of the TOM review, and scope for introduction of greater pay flexibilities.

Recommendation(s)

- Note that as a result of bilateral discussions and commitments given on delivering 12% savings, aggregate savings of around £26.6m are being proposed, consistent with the Resource Allocation Sub Committee brief.
- Agree that resource envelopes at departmental level will be adjusted by the sums shown in the proposed savings column in appendix 1; the application of the 12% police savings will take account of any material funding changes arising from the police funding settlement announcement later this month.
- Agree, in principle, that a support package will be provided to the Barbican and GSMD for COVID impact to commercial income sources; amounts to be confirmed in light of spending review announcements on extension of the compensation scheme for Local Government, and to be monitored and held for release by agreement with Chamberlains.
- Agree that Fundamental Review savings, which have been put on hold pending the further work on the TOM, are to be rephased to 2022/23.
- Approve £8m reduction in 2021/22 cyclical works programme, subject to Corporate Asset Sub Committee confirmation.
- Note that work will continue with this Committee to identify further savings that can underpin medium plans for 2022/23 and beyond.
- Note that rental income is at risk for 2021/22 and further support is likely to be required from reserves.
- Note that the City Fund/City's Cash grants review is progressing with the aim of reducing overall spend through grants and will report to this committee's January meeting.

Main Report

1. The aim of the 2021/22 budget round is to set us on the flight path to achieving a sustainable budget over the medium-term. Based on a number of key assumptions around business rate income, progress on the Target Operating Model (TOM) and forecast COVID impact, this translates into a requirement for an average saving in Corporation funding of 12%, adding up to £21m, across 2021/22 City Fund and City's Cash budgets. There remain however significant downside risks on rental incomes and in the Barbican

revenue streams, which can be better managed as a result of the delay in the business rate reset of income growth.

2. Since the flight path and savings target were discussed in Resource Allocation Sub Committee in July, there have been four key developments, which taken together mean that we can set budgets that will keep us on the flight path trajectory, despite facing very challenging external pressures.
3. Departmental bilaterals between Service Committee Chairs / Chief Officers with senior Members of Resource Allocation Sub Committee and the Chamberlain. These have demonstrated a shared commitment to achieving the 12% savings. We are now in a position to propose caps consistent with this: in the case of the Barbican and GSMD, there is a commitment to securing 12% savings, alongside the income support that will be provided to address the Covid impact into next year.
4. The purpose of this report is to agree the budget envelopes that service committees will use to deliver their services in 2021/22. It is intended that business planning will address how service committees intend to focus their resources to achieve key outcomes in year. Work will continue with this Committee to identify further savings that can underpin medium term plans for 2022/23 and beyond.
5. Appendix 1 shows the allocation of the 12% savings for each department (linked to service committees)
6. The Bilateral meetings have focused on the 12% reduction in resource base that will be necessary. The following points should be noted:
 - Barbican and GSMD where due to ongoing COVID impact to commercial income sources, further COL support of £8.2m is requested. It is recommended that a support package be agreed including appropriate monitoring and release arrangements; amounts to be confirmed in light of spending review announcements on extension of the compensation scheme for Local Government;
 - Children and Community Services- where 12% alongside side reductions from the fundamental review, carry significant risk to service delivery, a 6% savings is therefore being proposed.
 - Police; discussions will continue on how the City of London Police could deliver the 12% savings on its funding from the City.
7. Savings discussed amount to potentially £18.6m. The table below compares the proposed savings to the flight path of savings required in the July MTFP.

	£m		
	City Fund	City's Cash	Total
Incremental saving required in 21/22 in MTFP flightpath (excl fundamental review)	12.3	8.8	21.0
12% savings	12.5	6.1	18.6
Cyclical works programme- one off			8.0
Potential saving identified			26.6
Support requested- Barbican, GSMD	(7.0)*	(1.2)	(8.2)
Potential savings after support			18.4

*Subject to adjustment on Government compensation scheme for 1st quarter

Challenge for departments and local risk budgets

8. **Achieving both the fundamental review savings and 12% target:** The 12% savings come on top of the fundamental review savings already removed from budgets. For some departments such as Surveyors, Barbican and Chamberlain's, the combined impact would be significant in 2021/22.
9. Members have now agreed the architecture of the TOM, but detailed plans are still being worked through. Anticipated savings will only start to come through in the latter part of 2021/22, which means that in practice this should be seen as a transition year. This in turn has delayed some Fundamental Review savings, which have been put on hold pending the further work on the TOM. Such cases will be rephased to 2022/23.
10. **Ongoing COVID impact:** Given the amount of support required for ongoing COVID impact at e.g. the Barbican, GSMD and on our property investment income stream, some support will need to be provided from Corporation reserves; although the delay in the anticipated removal of business rate growth means the loss of income at the Barbican and from investment properties can be absorbed for City Fund, without a further drawdown on reserves, which will be applied to financing the Major Projects.
11. **Flat cash and CPI:** The starting point for the 201/22 budget is 'flat cash' from the previous resource allocation in 2020/21, although provision has been made for pay increases. The Spending Review announcement on 25 November confirmed that there will not be a significant uplift in government funding and the Chancellor announced a Public Sector Pay Freeze for most workers. The further reduction in CPI inflation should ease the pressure of living with flat cash budgets, from which the 12% savings will need to be achieved. The 2021 Pay Award will be subject to discussion in the Establishment Committee.

Central risk

12. Central resources have also been considered, in three key areas:
 - **Grants:** A review of the City Fund/City's Cash grant giving is progressing with the aim of reducing overall spend through grants. The most material items are outlined in Appendix 2 and have been discussed with Service Committee Chairmen as part of the bilateral process:
 - **Rental income from investment properties:** Likely to have ongoing COVID impact and losses will require further support from reserves for City's Cash and BHE.
 - **Cyclical Works Programme:** There is considerable slippage on the work programme largely due to a lack of capacity, but also reprofiling works into future periods. Given the need to resource the most essential work first, Corporate Asset Sub Committee has considered the best way to progress and is establishing an annual programme for 2021/22 to be delivered in year. This provides a one-off saving of £8m of earmarked resource. This should not materially impact on the bow-wave and should be accompanied by further efforts to dispose of non-essential operational assets.

Issues raised during bilateral process

13. Education: Following the Tomlinson review, a per pupil funding model is being developed and is being considered by the Education Working Group- findings from this work may influence the balance of the funding between state and independent sector in 2022/23. Recommendations will not impact on 2021/22.
14. Employer: Greater flexibility in the application of standard Corporation terms and conditions for employees; so that sector norms may be accommodated.

Potential further mitigations

15. There are other levers that can be 'pulled' such as tax raising opportunities. The full 5% council tax increase allowed for in the spending review for example would raise £0.3m but if applied over the medium term would rise to over £1m a year additional income. A Business Rate Premium increase would make a more significant contribution to the finances. Given the impact to business during the COVID crisis, Members may consider that this is not the time for increases in business rate bills.

Conclusion

16. The bilateral process has demonstrated a shared commitment to achieving the 12% savings and we are now in a position to propose resource caps consistent with this. Covid related income adjustments will however be needed for the Barbican and GSMD. And Members will wish to consider an adjustment for Children and Community Services.
17. Members have now agreed the architecture of the TOM, but detailed plans are still being worked through. Anticipated savings will only start to come through in the latter part of 2021/22, which means that in practice this should be seen as a transition year. This in turn has delayed some Fundamental Review savings, which have been put on hold pending the further work on the TOM. Those cases will be rephased to 2022/23.
18. Key follow up themes for 2022/23 include:
 - The need for a fuller grants review, especially where rolled over
 - Consider the balance of Academy/ independent school support with modelling underway
 - Scope for further restructuring, removal of duplication as part of the TOM review.

Appendices

- Appendix 1 – Bilateral summary

Caroline Al-Beyerty
Chamberlain's Department

T: 020 7332 1113

E: Caroline.Al-Beyerty@cityoflondon.gov.uk

Appendix 1 - Bilateral Summary

Department	12% £000	Proposed £000	FR- 2021/22 £000	Total cumulative FR by this point
CLS	227	227	0	0
CLSG	91	91	0	0
Freemens'	105	105	0	0
Education Board	126	126	190	190
Barbican		-7,000	850	850
DCCS	1,300	650	181	595
Barbican Residential Cttee	400	400	35	
Libraries	284	284		
Culture & Heritage	700	700	Inc in TCs	
Culture- open spaces	27	27	0	0
Markets & CP	427	427	197	747
Built Env't	2,423	2,423	478	821
Open spaces	1,556	1,556	5	30
Open spaces - crematorium	210	210	0	0
I&G	751	751	0	250
Mansion House & CCC	450	450	0	20
TC	1,142	1,142	96	185
Chamberlain's	2,890	2,890	1,165	1,212
Surveyors	3,600	3,600	500	1,448
City Solicitors	101	101	0	0
Remembrancers	200	200	0	85
TOTAL	17,010	9,360		

Department	12% £000	Proposed £000	FR- 2021/22 £000	Total cumulative FR by this point
RINGFENCED FUNDS				
GSMD		-1,200	440	500
Police		2,400 to 4,700	0	0
TOTAL LOCAL RISK		10,560 to 12,860		
OTHER- CENTRAL				
Grants		TBA		
CWP		8,000	0	1,000
TOTAL CENTRAL RISK		8,000		