

Committee	Dated:
Finance Committee	16 February 2021
Subject: Revenue Budget Monitoring to December 2020	Public
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	N/A
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 Information
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Summary

This report provides an update on the financial position and the impact of COVID-19 on the City's budgets against the revised budget adopted by Court of Common Council in December 2020. Total agreed budget adjustments of £29.9m across all funds have been incorporated into the budget, reflecting changes agreed as part of the financial response to COVID-19 (£17.2m) and adjustments to property investment income forecast (£12.7m).

Post budget changes, the estimated overall forecast year-end position across all funds is an overspend of £1.8m at the end of December (Quarter 3) comprising an overspend of £5.8m on Central Risk partially offset by an underspend of £4.0m on Local Risk. This represents an improved position of £2.4m when compared to £4.2m overspend at the end of November (period 8) and is driven by the realignment of budget for Tower Bridge forecast income losses of £3.3m. The forecast per Fund is shown below.

Month 9 Forecast per Fund (£m)	CF	CC	BHE	Total
Forecast (Local and Central Risk) with budget adjustment	2.6	(4.7)	0.3	(1.8)

The continued impact of COVID-19 is significant across all funds, with a larger impact on City's Cash and Bridge House Estates reserves as Government income compensation is only available for City Fund. The Government's income compensation scheme for Local Authorities is estimated to provide £11.7m of additional funding for the year, of which £5.3m has been submitted as a claim covering losses between April to November (£1.5m has been received and £3.8m is pending approval). This funding based on actual losses incurred so will vary with changing forecasts. Efforts will continue to mitigate the financial impacts of the pandemic. See paragraph 25 for the resulting estimated net summary position by Fund.

On Central Risk, there is an exceptional income item in year, not budgeted for, which improves the position by £19.2m. Following the conclusion of the 2019/20 City Fund audit, £19.2m of one-off prior year adjustments to estimated business rate retained income will be released into the current year. Court of Common Council earmarked any growth in business rate retained income for financing the City Fund major projects, and this amount will be transferred to the major project reserve. The additional income, is very timely in restoring the planned contribution to major projects reserve in 2020/21, which had been reduced to mitigate the impact of COVID-19 in year. The £19.2m is reflected in the estimated major project reserve in the 2021/22 budget and Medium Term Financial Plan report for City Fund, also on your Committee's agenda.

Recommendation(s)

Members are asked:

- i. to note the report.

Main Report

Current Position

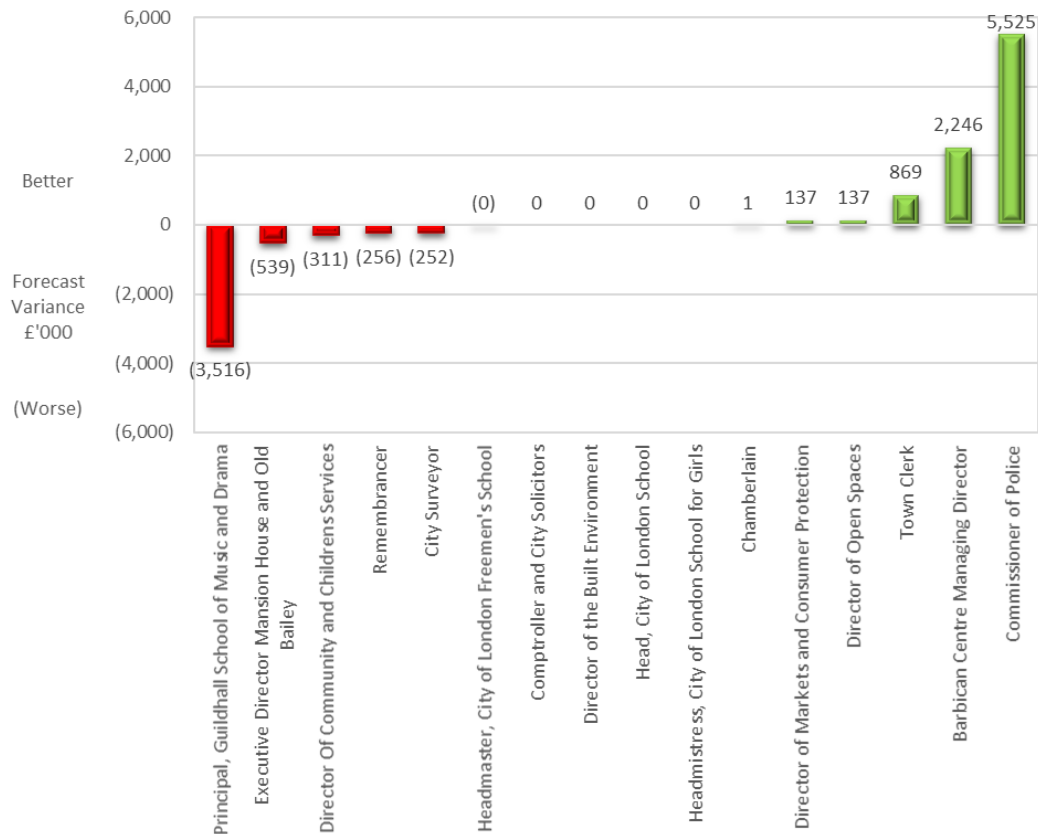
Budget reset

1. To mitigate the losses caused by the City's budgets by the pandemic, Court of Common Council in December 2020 reset City Fund and City's Cash budgets by a net £13.9m and realigned Bridge House Estates Tower Bridge income budget by £3.3m. This is to provide a realistic baseline budget on which to monitor financial performance moving forward. Similarly, the Property Investment Board agreed to realign the income budgets in November 2020 in line with resetting of budgets by a net £12.7m. Resulting in total agreed budget adjustments of £29.9m across all Funds.
2. The additional budgets are funded from reserves. For City Fund, the impact on the projected surplus for the year, will effectively reduce the planned contribution to the major projects reserve. For City's Cash this will increase the level of drawdown from financial investments. For Bridge House Estates, the deficit in Tower Bridge income will be offset with a reduction in transfer to the Bridge House Estates reserves at year end.

Chief Officer Cash Limited Budgets

3. The current position for Chief Officer Cash Limited Budgets is a forecast underspend of £4.0m against the latest approved budget of £265.9m. This primarily comprises underspends for Barbican Centre (£2.2m) and Police (£5.5m), partially offset by an overspend for Guildhall School of Music and Drama (£3.5m).

4. This represents an improved position of £3.8m compared to an £0.2m underspend reported at the end of November (period 8) and is primarily driven by the resetting of budget for Tower Bridge to realign its income budget for forecast income losses (£3.3m).



5. 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.
6. Guildhall School of Music and Drama (GSMD) is forecast to be £3.5m worse than budget, no change from month 8, before the use of reserves or any additional funding. Income generating activities such as short courses, letting of space and accommodation, removing bar and catering income, and reduced fees from under-18 provision have all ceased due to COVID-19. GSMD will incur additional costs for space, equipment and staffing to support socially distanced onsite as well as online teaching as a result of the pandemic. GSMD, as with the other independent schools, maintains a reserve, which stood at £2.38m at 31 March 2020, and will be used to offset some of the forecast loss. In addition, the City has agreed an extraordinary grant of £1.335m for the year to 31 March 2021 towards the forecast loss, in recognition of the impact of COVID-19 on the Schools income streams and the additional costs incurred in order to operate during the pandemic.

7. Open Spaces has also been heavily affected by income shortfalls from closed attractions and facilities as a result of the ongoing pandemic and is anticipating a net loss of £3.0m at year end. The resetting of department budgets has realigned the Tower Bridge income budget for the forecast deficit of £3.3m, anticipated at month 4. At period 9 this results in a £0.1m forecast surplus at year end and represents an improved position of £2.9m compared to period 8.
8. The Barbican Centre have been impacted heavily; forecasting an adverse variance of £9.0m at year end. Income losses are 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 the current lockdown measures. This is partially offset by expenditure savings due to activity reductions as well as a hold on all non-essential expenditure.
9. Resetting the Barbican Centre budget saw an increase to the Barbican Centre budget by £11.4m, reflecting the shortfall as at month 6. With the improved forecast position at month 9, Chamberlain's will work closely with the Barbican Centre to monitor the position and release funds on an agreed basis. The £2.2m surplus will be ringfenced with any unused funds returned to the City Fund Reserve.
10. A full year underspend of £5.5m is projected for the City of London Police (CoLP). A 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.'

Central Risk Budgets

11. At the end of Quarter 3 the forecast position for Central Risk Budgets is an adverse variance of £5.8m against the latest approved budget of £43.7m and primarily relates to TOM expenditure savings yet to be achieved (£4.5m) and below budget interest on cash balances income (£1.5m). This represents a worsening position of £1.4m compared to £4.4m forecast at the end of November (period 8) relating to minor changes across a number of Chief Officers.
12. The forecast position excludes The City Bridge Trust (CBT) grant giving advance commitments (£48.4m) 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 differences reflect the profile of grant giving, which is within the overall financial envelope agreed by Court of Common Council. Further detail on CBT grant giving is given in paragraphs 17-20.
13. Following the conclusion of the 2019/20 City Fund audit, £19.2m of one-off prior year adjustment to estimated retained business rate income will be released into the current year. Court of Common Council has agreed to earmark growth

in retained business rate income for to financing the City Fund major projects, and this amount will be transferred to the major project reserve. This, therefore, does not impact the current year forecast, but does impact and has been factored into, the financing of the City Fund major projects, this can be seen in the City Fund Medium Term Finance Plan paper also on this agenda.

14. COVID-19 has had a severe impact on the Corporate Income Budgets leading to an adverse variance of £13.3m against budgeted income of £241.7m. This represents a worsening position of £0.4m compared to month 8 which is likely to increase further by year end. This income shortfall is partially offset by a favourable variance of £7.4m on budgeted expenditure of £198.1m, a worsening position of £1.1m compared to month 8. The key budget areas are addressed in the following paragraphs.

Corporate Income Budgets

15. Property Investment income budgets have been adjusted for revised estimates in line with the September rental forecast reported to the November 2020 Property Investment Board. This incorporates the effect of both June and September rent frees and a provision for turnover rent caps for the highest risk tenants.

The latest forecast of £123.3m comprises:

- City Fund £46.8m
- City's Cash £53.1m
- Bridge House Estates £23.4m

These figures come with a big health warning and forecasts will be closely monitored and revised at each quarter.

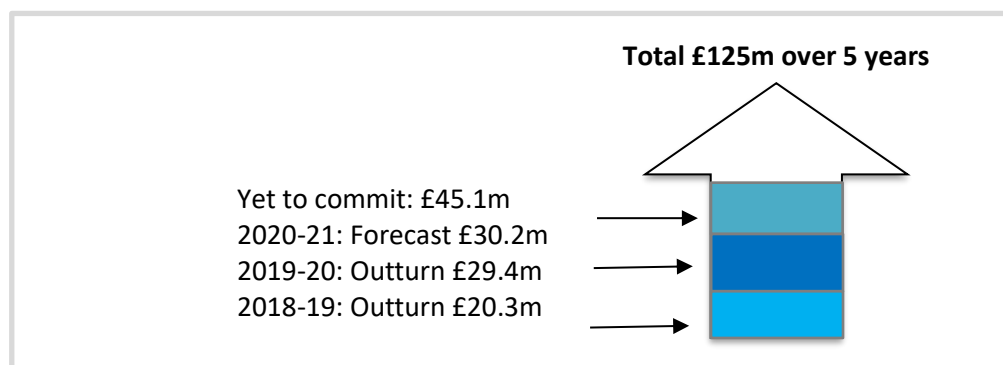
16. Interest on cash balances in money market funds is anticipated to be £1.5m below budget of £8.9m at year-end. Elements of the forecast are subject to key assumptions around interest rates and cash balances. At the moment, it is assumed, in line with our treasury advisors, that Bank of England's base 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 and a fresh attempt at monetary support is required. Naturally, this would reduce interest income even further.

The City Bridge Trust Grants Budget

17. Members are asked to note that 2020/21 is an exceptional year for the activities of City Bridge Trust (CBT) within Bridge House Estates (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, subject

to the recommendation to Finance Committee to retain £20m in the designated fund, temporarily, for COVID impact mitigation measures. 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 £88.6m (net of grant income of £14.9m). This increase is fully funded from the unrestricted income reserve held by BHE.

18. CBT September 2020 Committee approved a £15m allocation from the agreed 5-year (2018-2023) budget for expenditure in the 2020/21 financial year to support existing Bridging Divides grants portfolio and application pipeline. CBT July 2020 Committee had already approved £5m from the same agreed 5-year budget.
19. As at the end of December 2020, £18.1m has been awarded in grants under the Bridging Divides programme, £26.9m for the LCRF and £0.1m for the Anniversary Programme Bridge to Work.
20. Third party voluntary donations for LCRF of £14.75m are expected to be received by the end of the 2020/21 financial year. With £1.8m already received in March 2020 and a transfer of £11.25m from BHE, total funds available for the programme is £27.80m. Administrative costs of £0.735m are forecast to be incurred in running the LCRF with £27.065m to be committed as grants by the end of the 2020/21 financial year.



COVID-19 Mitigation, contingency and spend

21. The COVID-19 contingency fund of £1.5m has, at the time of writing this report, total commitments of £1,108,000 leaving a balance of £392,000. Details of the allocations is provided at Appendix 3.
22. 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 £7.1m, net of furlough support, an increase of £1.3m since period 8. See break down in the table below.

City Fund Main Account	2,347,126
City's Cash	3,198,552
HRA	369,853
Bridge House Estates	1,205,498
Total	7,121,029

23. For Local Authorities, the Government has announced financial support for lost income, for which claims totalling £5.3m have been submitted covering losses between April – November, of which £1.5m has been received and £3.8m is pending approval. The full year estimate for this compensation is £11.7m. The claim is based on actual losses incurred so is subject to changes in forecasts.
24. 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. All claim is subject to approval by MHCLG.
25. In order to provide a comprehensive view of the financial position, these estimates, alongside the impact of budget changes, have been incorporated into the below table , giving the overall surplus/deficit for each fund.

Financial Impact per Fund (£m)	CF	CC	BHE	Total
Original surplus/(deficit) for the year	27.3	(38.1)	(18.1)	(28.9)
Budget adjustments via resetting	(18.2)	(7.1)	(4.6)	(29.9)
Revised Forecast	2.6	(4.7)	0.3	(1.8)
Potential additional funding from Govt income compensation scheme	11.7	0.0	0.0	11.7
Net Impact per Fund after adjustments	23.4	(49.9)	(22.4)	(48.9)

Business Rates

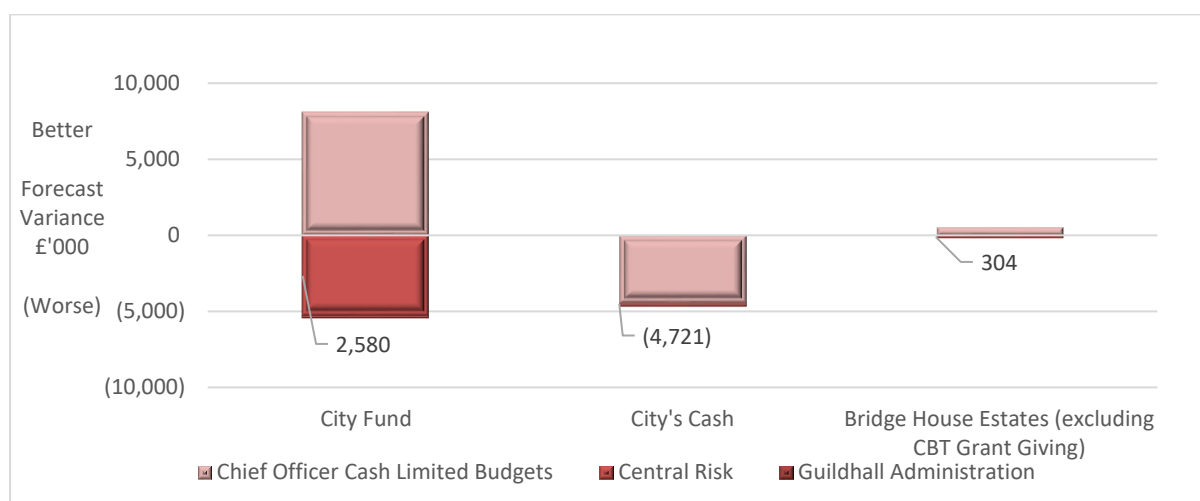
26. For Business Rates, the collection rate has fallen 5.2% below last year's rate at this time, an improvement of 0.8% from the previous month. We are continuing to monitor business rate collection closely, with formal recovery activity starting to take place. It should be noted that in-year losses 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.

27. There is an emerging issue relating to the impact of COVID-19 on rateable values, which are used to determine the level of business rate income. There has been an increase in the number of appeals lodged against the current rateable values which are awaiting judgement by the Valuation Office Agency (VoA). Any significant reductions in rateable value would impact the funds retained by CoL as well as those distributed to Govt and the Greater London Authority (GLA) through the business rate system. Discussions have been held with MHCLG regarding the potential impact and support measure that may be available should this occur, which is still unclear. We are monitoring the position closely

Fund Position

28. Despite the mitigating actions being taken, as a result of COVID-19, the overall (Local and Central Risk) forecast year-end position reported at month 9 is £1.8m worse than budget. With Guildhall Administration apportioned across the three funds this gives adverse positions of £4.7m on City's Cash partially offset by favourable positions of £2.6m on City Fund and £0.3m on Bridge House Estates. However, this does not take into account the additional cost pressures on GSMD (referenced in paragraph 6 above), which will require a further drawdown of £1.335m on City Cash reserves over and above the £4.7m reported.



Conclusion

29. Members are asked to note the forecast year-end overspend position of £1.8m at the end of December (period 9). 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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