

Report – Finance Committee

2021/22 City's Cash Budgets and Medium-Term Financial Plan

To be presented on Thursday, 4th March 2020

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

SUMMARY

This report covers the 2021/22 Budget and the medium-term financial outlook for City's Cash and Guildhall Administration. The report should therefore be read in conjunction with the City Fund and Bridge House Estates Budget reports on your agenda.

City's Cash has been affected financially as a result of COVID-19, with uncertainty in rental return and growth on financial investments. Prudent management of funds ensures losses can be accommodated within overall balance sheet growth. Over the planning period, the cumulative draw-down on investments is £476m (including £134.9m for the capital programme). Balance Sheet forecasting indicates this sum is sustainable over the medium-term, but not in the longer 10-year horizon when financing costs on major projects increase.

In response to the financial challenges, the City Corporation set a general budget reduction of 12% in 2021/22 across all funds, plus the implementation of the new target operating model to make organisational efficiencies. The savings are identified from 2021/22 to ensure that budgets are fully aligned with, and support, our Corporate Plan objectives, and our finances are put on to a sustainable footing over the medium-term.

This report recommends a number of measures to stabilise the position in 2021/22, which will, in turn, support the steps that will need to be taken over the medium-term, namely; through further work on identifying flightpath savings; building on collaborative working between the Chair of Policy & Resources Committee and the Chairman of the Finance Committee (and their deputies) and service committee Chairmen; moving from a tactical response to COVID to service transformation; a more in-depth review of grant giving, and; containing the costs of major projects and other programmes.

Although there are huge pressures arising from the impact of COVID, and significant expenditure through the major projects, stress-testing indicates affordability on net assets over the Medium-Term Financial Plan, such that City's Cash could contribute to the Court element of the Fleet Street project.

Guildhall Administration: the report also summarises the budgets for central support services within Guildhall Administration (which currently 'holds' such costs before these are wholly recovered). Consequently, after recovery of costs, the net expenditure on Guildhall Administration is nil.

The 2021/22 Summary Budget Book is available via the *Members' Committees and Papers* section of the City Corporation's website. PDF copies via email can be requested from sonia.virdee@cityoflondon.gov.uk

Recommendations

Following your Finance Committee's consideration of this report, it is recommended that Members of the Court of Common Council:

1. Note the latest revenue budgets for 2020/21 (paragraphs 18 to 25).
2. Agree the 2021/22 revenue budgets, including the following measures:
 - Note the **overall budget envelope** for City Cash incorporates 12% savings as agreed by your Finance Committee in December and are consistent with the approved savings flightpath.
 - **Unfunded additional revenue bids:** To be avoided during 2021/22 - 2024/25 and carry forwards from 2020/21 to be minimised.
 - **Grants:** Application of 12% savings, unless agreed co-funding arrangement is in place.
3. Approve the 2021/22 Capital and Supplementary Revenue Project Budgets for City's Cash amounting to £33.3m (paragraph 27).
4. Approve the allocation of central funding of up to £17.7m for City's Cash to meet the cost of the 2021/22 capital schemes. Release of such funding being subject to approval at the relevant Gateway and specific agreement of your Resource Allocation Sub-Committee at Gateway 4(a) (paragraph 29).
5. Approve the allocation of central funding to provide an internal loan facility of up to £15.6m for the City of London School (CLSG) to progress its masterplan – release of such funding being subject to approval at the relevant Gateway and separate approval of the loan terms and conditions (paragraph 30).
6. Delegate authority to the Chamberlain to determine the final financing of capital and supplementary revenue project expenditure.

Main Report

Background

1. The primary purpose of this report is to summarise the latest budgets for 2020/21 and the proposed budgets for 2021/22 for City's Cash, which have all been prepared within agreed policy guidelines and allocations.
2. During the autumn/winter cycle of meetings each of your spending Committees have received and approved a budget report which, except for Guildhall School of Music and Drama (which is committed to delivering 12% savings, but has separate funding arrangements agreed with the Office for Students), has been prepared based on the planning framework for Chief Officers which included:

- A 12% general budget reduction totalling £4.7m.
 - Rephased Fundamental Review of £2.1m.
 - A £4m reduction in the 2021/22 Cyclical Works Programme, confirmed by your Corporate Asset Sub Committee.
3. The 2021/22 Summary Budget Book is available via the Members' Committees and Papers section of the City Corporation's website. PDF copies via email can be requested from sonia.virdee@cityoflondon.gov.uk

The Summary Budget Book provides:

- All the budgets at a summary level in a single document;
- Service overviews - a narrative of the services for which each Chief Officer is responsible;
- Chief Officer summaries - the net revenue expenditure by division of service, fund, type of expenditure and income; and
- Fund summaries showing the net revenue requirement for each Fund supported by Committee summaries showing the net requirement for each Committee within the Fund.

Overall Financial Strategy

4. The City of London Corporation's overall financial strategy seeks to:
- Manage the effects/recovery of COVID-19s impact on the economy and the Corporation's income streams;
 - Maintain and enhance the financial strength of the City Corporation through its investment strategies for financial and property assets;
 - Pursue budget policies which seek to achieve a sustainable level of revenue spending and create headroom for capital investment and policy initiatives, such as Climate Action;
 - Create a stable framework for budgeting through effective financial planning, and;
 - Promote investment in capital projects which bring clear economic, policy or service benefits.
5. The medium-term financial strategies and budget policies for City's Cash are set out in Appendix 1. City Fund's medium-term financial strategy is included in the separate the City Fund report.

Current Position

6. With a global pandemic and worsening economic position, pressures and risks for the City Corporation's finances will continue into the 2021/22 fiscal year. The effect of COVID-19 has had a wide-ranging impact on the economy, including income losses from the closure of many services and facilities, and losses from rental income. With another national lockdown, delays in the economic recovery continue to be a significant risk for further income losses in 2021/22.

12% Budget Reduction

7. In response to the financial challenges, the City Corporation set a general budget reduction of 12% in 2021/22, plus the implementation of the new target operating model to secure organisational efficiencies. £4.7m savings are identified from 2021/22. As a result of these factors the Corporation has been able to reduce the financial gap across the medium term.

Progress with the Fundamental Review

8. A Fundamental Review commenced during 2019/20 to better align spending to key priorities identifying opportunities to increase income and make savings in the medium-term between (2020/21 to 2024/25), which do not impact on front line services. However, your Resource Allocation Sub Committee approved the re-phasing of Fundamental Review savings due in 2021/22 into 2022/23 because of the impact of COVID or pending further work on the TOM. For City Cash this has meant that £2.1m of Fundamental Review savings will be achieved in later years.

Flat Cash

9. The starting point for the 2021/22 budget is 'flat cash' from the previous resource allocation in 2020/21, with provision made for the pay award agreed by the December Establishment Committee. 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 reduction in CPI inflation should ease the pressure of living with flat cash budgets, from which the 12% savings will need to be achieved.

Latest forecast position

10. The financial overview across the medium-term planning horizon is shown in table 1 below:

TABLE 1

CITY'S CASH

£m	2020/21	2021/22	2022/23	2023/24	2024/25
Deficit, incl. capital programme, and 12% savings (excluding Major Projects)	(105.2)	(78.1)	(25.3)	(44.8)	(26.1)
Major Projects	(5.9)	(9.4)	(10.5)	(90.4)	(80.2)
City's Cash combined deficit	(111.1)	(87.4)	(35.8)	(135.2)	(106.3)
Net assets balance	2,388.7	2,200.1	2,280.0	2,252.4	1,982.0
Additional savings flightpath for new priorities fund			(4.5)	(7.5)	(9.5)

11. The impact of COVID-19 has resulted in income losses from the closure of many services and facilities, especially the cancellation of the summer school at Guildhall School of Music and Drama (GSMD), and rental income from our property investment portfolio (forecast at a total loss of £4.1m). With another national lockdown, delays to economic recovery continues, and further losses on income are expected to continue into 2021/22, with £1.2m support to GSMD for loss of income, potentially rising to £1.8m (adding £0.6m to the COVID contingency) and loss in rental income of £2.9m.
12. The forecast includes the capital bids of £33.3m (including £15.6m loan to be recovered from CLSG over an anticipated 7-year period) approved by your January Finance Committee; as well as the 'business as usual' capital programme, financed through disposal of investment properties or securities; and the revenue costs of financing Major Projects.
13. Major Projects: The estimates include the revenue impact of financing the Markets project, although the business case is yet to be approved; and the courts element of the Fleet Street Project. Local authorities no longer provide accommodation for courts; but uniquely, the courts currently reside in City Fund. It is therefore time to review which fund should pay for the court element of Fleet Street, own it and decide on letting terms. Building a new court is to support London as a place to do business and, therefore, aligns with the remit of City's Cash. Additionally, given financial pressure, the case is less well made to spend taxpayers' money on a new court building, given other priorities within City Fund's operational portfolio. Stress testing has shown that City's Cash is able to cover the costs. Police accommodation and investment property elements of the Fleet Street project remain with City Fund.
14. Over the period the cumulative draw down on investments is £476m (including the sums required for the capital programme). This represents a diminution of £407m of the net asset balance on the balance sheet over the period. Financial modelling/stress testing indicates this sum is sustainable over the medium-term.

A Strategic Response to Match the Scale of the Challenges for City's Cash

15. Before addressing the immediate pressures in 2021/22, it is important to respond to the scale of the medium-term challenge for City's Cash and to take the steps now to ensure that we can take a strategic and prioritised response to the big challenges that we expect to emerge in the longer-term.
16. This requires action on both revenue; through additional flightpath savings, continuation of the Fundamental Review, and prudent capital budgets. On the major projects, Members will want to consider options, including
 - Consideration of current fund classification for each project, including the transfer of the court element of Fleet Street project.

Additional Revenue Requests

17. Your Policy and Resources Committee and Finance Committee have communicated clearly over the last six months that increased revenue pressures are to be accommodated by reprioritising existing budgets; and have signalled an expectation that additional pressures that might arise during 2021/22 will be absorbed within local risk budgets.

CITY'S CASH

18. The 2020/21 and 2021/22 budgets for City's Cash are set out below. They have been prepared within the planning frameworks agreed by your Resource Allocation Sub-Committee shown at Appendix 1.

City Cash Summary	2020/21	2020/21	2021/22
	Original	Latest	Original
Gross Revenue Expenditure	(102.3)	(115.5)	(113.5)
Gross Revenue Income	64.3	58.4	62.7
Operating Deficit funded by drawdown	(38.0)	(57.1)	(50.8)

19. City's Cash net expenditure is £19.1m higher comparing the latest 2020/21 budget with the original budget. Other main movements comprise of: carry forwards of £4.2m; impact of COVID currently at £9.6m (including COVID support and loss in rental income), increase on capital expenditure of £5.3m (£3.9m relating to Barking site goodwill).
20. The budget for 2021/22 reduces by £6.3m when comparing the 2021/22 Original budget to the 2020-21 Latest.

	£m
2020/21 Latest Budget	(57.1)
Release of Carry Forwards - 2019/20	4.1
Additional COVID support	(1.3)
Savings (including 12%, TOM and FR)	6.9
Increase in Supplementary Revenue Projects	(3.4)
2021/22 Original Budget	(50.8)

21. The net positions for 2020/21 and 2021/22 are summarised by Committee in Appendix 2. Reserves are available to meet the estimated deficit in the current year and in 2021/22.

GUILDHALL ADMINISTRATION

Overall Budget Position

22. Guildhall Administration encompasses most of the central support services for the City, with the costs being fully recovered from the three main City Funds, Housing Revenue Account, Museum of London and other external bodies in accordance with the level of support provided. Consequently, after recovery of costs, the net expenditure on Guildhall Administration is nil. The table below summarises the position.
23. The gross expenditure for Guildhall Administration is recovered across all funds. Increased costs in 2020/21 arose from carry forward requests.
24. The 2021/22 budget includes a decrease following a general 12% reduction in departmental savings.
25. The current policy of the City Corporation is to absorb within City's Cash the administrative costs applicable to the charities of which it is sole trustee. This covers expenditure such as the audit fee and time spent on accounts preparation and treasury management. Whilst considering the broader implications of its current financial position, it is considered appropriate for City's Cash to now recover the reasonable costs and expenses incurred on behalf of each charity, as from 2021/22. The resulting savings for City's Cash will contribute to the 12% and efficiency savings.
26. Appendix 3 shows the budgets by committee.

Capital and Supplementary Revenue Project Forecast Expenditure and Funding

27. The City of London has a significant programme of property investments, works to improve the operational property estate and major capital projects to benefit wider London. The total anticipated capital and supplementary revenue expenditure, including forecasts against approved budgets and the indicative cost of schemes awaiting approval is as follows:

City Cash Capital Programme	2020-21	2021-22	2022-23	2023-24	2024-25
	£m	£m	£m	£m	£m
Capital programme - BAU	49.5	16.4	4.1	31.6	6.6
Supplementary Revenue Project	4.0	7.3	4.1	1.1	1.0
New bids including loans	0.0	20.2	3.2	0.5	0.0
Climate Action	0.0	2.5	1.7	1.5	1.6
Total Capital Programme (excluding Major Projects)	53.5	46.5	13.2	34.7	9.2
Major Projects	86.5	128.4	61.3	226.6	298.1
Total Capital Programme (including Major Projects)	140.0	174.8	74.5	261.3	307.2

28. The City's Cash capital and supplementary revenue project budgets are contained within the Summary Budget Book. They comprise forecasts of expenditure against budgets which have been approved to spend in accordance with the relevant governance arrangements e.g. corporate projects procedure, Capital Buildings Committee approvals etc. The latest forecasts of City's Cash 2021/22 capital and supplementary revenue project expenditure against approved budgets (included within the figures in the table above) amount to £33.3m (including the loan facility to CLSG). This excludes the indicative costs of schemes awaiting approval.
29. In order to ensure future capital expenditure is aligned to key priorities, an annual bid process was introduced for all potential schemes commencing 2021/22. Your Resource Allocation Sub-Committee has carried out a robust review of all service capital bids and agreed those bids to be prioritised.
30. Central funding of up to £17.7m for City's Cash meets the cost of the 2021/22 new bids. Release of such funding will be subject to approval at the relevant Gateway and specific agreement of the Resource Allocation Sub-Committee at Gateway 4(a).
31. In addition, approval to the allocation of central funding to provide an internal loan facility of up to £15.6m for the City of London School to progress its masterplan is also requested – release of such funding also being subject to approval at the relevant Gateway and separate approval of the loan terms and conditions.
32. The financing of the City's Cash capital and supplementary revenue projects programmes needs to reflect the optimum reserves position of each fund. Therefore, approval is sought for authority to be delegated to the Chamberlain to determine the final financing of capital and supplementary revenue project expenditure.

Risk

33. There are risks to the achievement of the latest forecasts:

Within the City's control:

- Delays in delivery of the new target operating model, delaying organisational efficiencies.
- Further delays in delivery of income generation schemes under the Fundamental Review.

Outside the City's control:

- Delays in the economic recovery following impact of COVID-19, increasing the risk for further income losses in 2021/22
- rental income reduction from our commercial property as a result of increased voids.

Conclusion

34. There has been a significant effort across City's Cash to commit to delivering on

12% savings required to underpin a sustainable MTFP, meet the increased funding requirement flowing from the adoption of a major projects programme, and mitigate the impact of COVID-19. Pressures across a range of existing revenue and capital budgets mean that deficits are forecast across the medium-term planning horizon.

In 2021/22, we will draw down on our reserves to bring the fund into balance. This measure is sustainable in the short term, but not in the longer 10-year horizon when the financing costs on the major projects increase.

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

DATED this 16th day of February 2021.

SIGNED on behalf of the Committee.

Jeremy Paul Mayhew
Chairman, Finance Committee

Appendices

- Appendix 1 - Medium Term Financial Strategy/Budget Policy
- Appendix 2 - City's Cash Budget
- Appendix 3 - Guildhall Administration Budget

City's Cash Medium Term Financial Strategy/Budget Policy

The main constituents of the current budget policy for City's Cash services reflect the general elements within the City Fund strategy together with the following specific objectives:

- ensure that ongoing revenue expenditure is contained within revenue income over the medium term and sufficient surpluses are generated to finance capital investment on City's Cash services;
- continue to seek property investment opportunities to enhance income/seek capital appreciation during the year, subject to any financing being met from the City's Estate Designated Sales Pool; and
- sell either property or financial assets, which would need to be in addition to property disposals required to meet the financing requirements of the Designated Sales Pool, to meet City's Cash cash-flow requirements.

CITY'S CASH Budget

City's Cash 2020/21 and 2021/22 budgets shown by Committee in the table below:

City's Cash Summary by Committee	2020/21 Original £m	2020/21 Latest £m	2021/22 Original £m
<i>Net Expenditure (Income)</i>			
Culture, Heritage & Libraries	(0.6)	(0.9)	(0.4)
Education Board	(2.8)	(3.2)	(2.5)
Finance	(28.4)	(36.6)	(43.3)
G. P. Committee of Aldermen	(4.1)	(4.1)	(3.8)
Guildhall School of Music and Drama	(12.9)	(12.3)	(14.1)
Markets	(0.6)	(0.8)	0.0
Open Spaces :-			
Open Spaces Directorate	0.0	0.0	0.0
Epping Forest and Commons	(8.6)	(8.4)	(6.9)
Hampstead, Queen's Pk, Highgate Wd	(7.7)	(7.4)	(6.1)
Bunhill Fields	(0.5)	(0.3)	(0.5)
West Ham Park	(1.3)	(1.3)	(1.1)
Policy and Resources	(17.9)	(20.7)	(17.6)
Property Investment Board	51.9	43.3	49.8
Schools :-			
City of London School (1)	(1.9)	(1.8)	(1.7)
City of London Freeman's School (1)	(1.8)	(1.9)	(1.8)
City of London School for Girls (1)	(0.8)	(0.7)	(0.8)
(Deficit) Surplus (from) to reserves	(38.0)	(57.1)	(50.8)

1. Shows City Support rather than net expenditure by the schools.

1. The following table further analyses the budget to indicate the income produced from the City's assets (investment property rent income, non-property investment income and interest on balances, at lines 3 to 5 respectively). It also indicates the underlying deficits or surpluses on City's Cash before the anticipated profits on the sale of assets are taken into account (lines 6 to 8).

		2020/21 Original £m	2020/21 Latest £m	2021/22 Original £m
1	Net expenditure on services	(93.6)	(106.4)	(100.8)
2	Cyclical Works Programme and SRP's	(8.7)	(9.1)	(12.7)
3	Estate rent income	59.3	53.1	57.5
4	Non-property investment income	2.6	2.9	3.1
5	Interest on balances	0.3	0.8	0.4
6	Operating (Deficit) Surplus	(40.1)	(58.7)	(52.5)
7	Profit on asset sales/deferred income	2.1	1.6	1.7
8	(Deficit) Surplus funded by drawdown	(38.0)	(57.1)	(50.8)

2. The City's Cash position in the current year is expected to be a deficit of £57.1m compared to £38.0m in the original budget. The deficit will be funded with a drawdown of investments.

GUILDHALL ADMINISTRATION

1. Shown by Committee is the table below:

Guildhall Administration by Committee Net (Expenditure)	2020/21 Original £m	2020/21 Latest £m	2021/22 Original £m
Establishment - Town Clerk & C&CS	(9.6)	(10.1)	(8.6)
Finance - Chamberlain	(39.0)	(39.4)	(36.8)
Finance - City Surveyor, Remembrancer and Town Clerk	(26.3)	(25.8)	(23.5)
Total Net Expenditure	(74.9)	(75.3)	(68.9)
Recovery of Costs	74.9	75.3	68.9
Total Guildhall Administration	0	0	0

1. *Figures in brackets denote expenditure, increases in expenditure, or shortfalls in income.*

The net expenditure for 2021/22 is £68.9m, a decrease of £6.0m from the 2020/21 original budget.