

Report – Finance Committee

2022/23 City's Cash Budgets and Medium-Term Financial Plan

To be presented on Thursday, 10th March 2022

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

SUMMARY

This report covers the 2022/23 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 continues to have a greater degree of uncertainty due to COVID-19 on its key revenue streams of property rental income and growth in financial investments. The additional risk brought about by higher inflation adds to these uncertainties in the short to medium term. Prudent management of funds ensures losses can be accommodated within overall balance sheet growth over the medium-term.

Over the planning period, the cumulative draw down on investments is £339.4m (including £188.6m for the capital programme and Crossrail contribution). 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. Annual drawdowns across the medium term are in excess of assumed growth in financial assets, this is due to including exceptional items such as capital programmes and Crossrail contributions.

In response, to the financial challenges the City Corporation set a general budget reduction of 12% in 2021/22 across all funds, the implementation of the new target operating model to make organisational efficiencies, plus agreed Fundamental Review savings in 2019/20 to be delivered across five years (2021 to 2024/25). The savings are identified from 2021/22 to ensure that budgets are fully aligned with and support our Corporate Plan objectives and finances are put on to a sustainable footing over the medium-term.

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 through allocation to services within each fund, the net expenditure on Guildhall Administration is nil.

The 2022/23 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 2021/22 (paragraphs 19 to 22).
2. Agree the 2022/23 revenue budgets, including the following measures:
 - Note the **overall budget envelope** for City Cash.
 - Approve the overall financial framework and the revised Medium-Term Financial Strategy (paragraphs 2-18).
 - **Unfunded additional revenue bids:** To be avoided during 2022/23 - 2025/26 with a zero-based budget review to take place to reprioritise spend in line with new Corporate priorities.
 - Carry forwards from 2021/22 to be minimised, however where significant pressures have been highlighted by departments these are reviewed in light of on-going challenges.
3. Approve the 2022/23 Capital and Supplementary Revenue Project Budgets for City's Cash amounting to £20.4m (paragraph 27).
4. Approve the allocation of central funding of up to £9.0m for City's Cash to meet the cost of the 2022/23 capital schemes. Release of such funding being subject to approval at the relevant gateway and specific agreement of the Resource Allocation Sub-Committee at Gateway 4(a). In addition, a contingency is held under the capital programme up to £1.0m - given the pressures on construction and labour inflation rising up to 15% (paragraph 30).
5. 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 2021/22 and the proposed budgets for 2022/23 for City's Cash, which have all been prepared within agreed policy guidelines and allocations, for submission to the Court of Common Council in March.
2. During the autumn/winter cycle of meetings, each Committee has received and approved a budget report, which has been prepared based on the planning framework for Chief Officers which included:
 - Securing year on year permanent savings from the 12% savings programme totalling £4.1m - initiated in 2021/22.
 - Fundamental Review savings included in 2022/23 total £1.4m.
 - Cash flat budget provision with centrally held inflation contingency recognising the potential impact of higher levels of inflation predicted in 2022/23.

- Carry out a zero-based budget review to reprioritise within the overall envelope – supporting the change in the operating model, plus a review of operational property and income generation.

Overall Financial Strategy

3. The City of London Corporation's overall financial strategy seeks to:
 - manage the effects/recovery of a global pandemic impacting on the economy and income;
 - 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 Destination City – renewed vision for the square mile;
 - create a stable framework for budgeting through effective financial planning;
 - promote investment in capital projects which bring clear economic, policy or service benefits;
 - manage the affordability to support major projects programmes now and in the future; and
 - financial strategy to be developed following review of the investment asset base and fund income requirements during 2022.
4. 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 City Fund report.

Current Position

5. With the continued uncertainty of the global pandemic and economic position, pressures and risks for the City Corporation's finances will continue into the 2022/23 fiscal year. With the UK beginning to recover from the effects of COVID-19 but still facing headwinds from high levels of inflation, interest rate rises and global events, risks persist in the key revenue streams that support the activity of City's Cash. In addition, the City Corporation is undergoing its own period of significant change in response to these events and its ambition to deliver on its key policy priorities such as its move to net zero and support to major projects.

Budget Reductions

6. In response to the financial challenges the City Corporation implemented a 12% reduction in budget in 2021/22 alongside a new target operating model to secure organisational efficiencies. This has yielded savings of £4.1m under City's Cash. This was in addition to the Fundamental Review programme, which began in 2020/21 with the aim of better aligning spend with policy priorities as well as seeking efficiencies. Savings delivered in 2022/23 under City's Cash are a total of £1.4m savings.

7. Following this period of change, 2022/23 will be used to bed down these savings to ensure they continue to be delivered and support a sustainable financial position for City's Cash across the medium term.

Flat Cash

8. The starting point for the 2022/23 budget is 'flat cash' from the previous resource allocation in 2021/22, with provision made for the pay award. However, in recognition of the high level of inflation predicted during 2022/23, a central inflation contingency has been incorporated into the budget to mitigate the risk of higher costs that cannot be contained within budget envelopes (£2.1m). This includes specific provision for energy cost increases (£0.3m). Delegations to the Chamberlain for use of this contingency will increase the accuracy in forecasting.

Latest forecast position

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

Table 1

CITY'S CASH

£m	2021/22	2022/23	2023/24	2024/25	2025/26
City's Cash Surplus/(Deficit) before savings, capital and major projects	(24.7)	(18.6)	(15.8)	(11.9)	(10.5)
Build Back Better Fund	-	(4.5)	(7.5)	(9.5)	-
Fundamental review savings	1.1	1.4	1.4	1.4	1.4
12% inc TOM	4.1	4.1	4.1	4.1	4.1
Deficit, before capital and major projects financing	(19.5)	(17.6)	(17.8)	(15.9)	(5.0)
Financing major projects- markets & landlord MOL	(8.5)	(10.5)	(10.5)	(10.5)	(15.7)
Deficit, incl major projects financing	(28.0)	(28.1)	(28.3)	(26.4)	(20.7)
Exceptional items- BAU projects Capital incl. SRP* and CWP**	(57.8)	(40.8)	(62.9)	(40.1)	(33.3)
Crossrail	-	-	(25.0)	(25.0)	-
Draw down on Financial Gain	42.8	40.4	34.3	22.7	20.8
City's Cash deficit	(43.0)	(28.5)	(81.9)	(68.8)	(33.2)
Net assets balance	3,203.6	3,214.7	3,281.1	3,316.3	3,383.3

*SRP – Supplementary Revenue Programme; **CWP – Cyclical Works Programme

10. Whilst the economy has begun to recover, risks persist in key areas of the City's Cash medium term financial plan. The Government's moratorium for non-payment of commercial rents is due to be lifted on 25 March 2022, which may crystallise bad debt on rental income, and early termination of tenancy agreements, where tenants have gone into liquidation, may produce further pressure on void costs where properties are fit for relet. To mitigate the latter, it is recommended £1.8m is set aside from the City's Estate Designated Sales Pool to manage refurbishment costs of properties identified as being at risk. The impact of bad debt is assessed as part of the monitoring and closing process where appropriate provision will be set aside.
11. The forecast includes new capital bids of £9.0m approved by January Finance Committee, which is within the recommended allocation of £10m p.a.; 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. Given the pressures on construction and labour inflation rising up to 15%, it is recommended a contingency is held under the capital programme up to the allocated amount - £1.0m, this takes into account capital programmes in flight and due to be delivered over the next 1-2 years.
12. Major Projects: Four major projects have been forecast under the medium-term financial plan. It is currently assumed these projects will be financed through borrowing (£450m already in place); planned capital receipts; plus, a drawdown on financial investments. Draw down on financial investments for Major Projects impacts on the draw down available on financial gain which currently supports the City's Cash revenue expenditure. The major projects are listed below:
 - Museum of London Landlord works;
 - Fleet Street Estate – combined court (transferred from City Fund in 2021/22).
 - Markets consolidation programme, subject to business case approval- estimates include the revenue impact of financing the Markets project, although the business case is yet to be approved, the Markets programme has been pushed back a year and reflected under the medium-term.
 - Guildhall Master plan, subject to business case approval, has now been modelled under the medium-term and assumes capital receipts in 2025/26. The Guildhall Master plan is expected to achieve future savings which will benefit both City Fund and City's Cash.
13. Over the period, the cumulative draw down on investments is £339.4m (including the planned £50m to finance Crossrail payments and sums required for the capital programme). Overall net asset on the balance sheet has grown by £179.7m over the medium-term, this includes the drawdown on financial investments, steady growth in assets, plus the impact of the Major Projects – including Guildhall Master Plan. Balance Sheet forecasting indicates this sum is sustainable over the medium-term, overall increasing net assets by £406m

over 10 years.

14. However, the gain in future financial investments is unable to support the longer term draw down of c£35m p.a. (including future capital and cyclical works programmes) and therefore requires careful rebalancing of portfolios over the medium to longer term. This also includes the full impact of major projects - the need to look at the operating models, for example Markets consolidation and how this impacts the longer-term sustainability of City's Cash. A financial strategy is to be developed following review of investment asset base and fund income requirements during 2022.

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

15. Before addressing the immediate pressures in 2022/23, 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: 1) revenue - through achievement of Fundamental Review savings, and prudent capital budgets. 2) major projects - Members will want to consider options to ensure the longer-term affordability, financing strategy, funding from 3rd parties as well as improving commercial propositions.

Additional Revenue Requests

17. Policy and Resources Committee and Finance Committee continue to signal that revenue pressures are to be accommodated by reprioritising existing budgets; and an expectation that additional pressures that might arise during 2022/23 will be absorbed within local risk budgets.
18. However, time limited additional resources have been included within the budget for policy initiatives such as: Green Finance Institute and The City UK.

CITY'S CASH

19. The 2021/22 and 2022/23 budgets for City's Cash are set out below. They have been prepared within the planning frameworks agreed by the Resource Allocation Sub-Committee shown at Appendix 1.

Table 2

City Cash Summary	2021/22	2021/22	2022/23
	Original	Latest	Original
Gross Revenue Expenditure	(113.5)	(119.3)	(119.0)
Gross Revenue Income	62.7	62.8	62.6
Operating Deficit funded by drawdown*	(50.8)	(56.5)	(56.4)

*Operating Deficit funded by drawdown row excludes capital programmes, however, includes CWP and SRP.

20. City's Cash net expenditure is £5.7m higher comparing the latest 2021/22 budget with the original budget. Other main movements comprise of 2020/21 carry forwards of £4.3m and additional central support costs £1.9m.
21. The budget for 2022/23 reduces by £0.1m when comparing the 2022/23 Original budget to the 2021-22 Latest.

Table 3

	£m
2021/22 Latest Budget	(56.5)
Release of Carry Forwards - 2020/21	4.3
Reduction in COVID provisions	3.7
Reduction in recharges	2.4
2% Efficiencies and FR savings	0.9
Members Financial Support Scheme	(0.5)
Inflationary Provision	(2.1)
Additional Loan interest	(2.1)
Pay and 2% price inflation increase	(2.3)
Contribution to build back better fund	(4.5)
Other minor changes	0.3
2022/23 Original Budget	(56.4)

22. The net positions for 2021/22 and 2022/23 are summarised by Committee in Appendix 2. Reserves are available to meet the estimated deficit in the current year and in 2022/23.

GUILDHALL ADMINISTRATION

Overall Budget Position

23. 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.

Table 4

Guildhall Administration by Committee <i>Net (Expenditure)</i>	2021/22 Original £m	2021/22 Latest £m	2022/23 Original £m
Establishment - Town Clerk & C&CS	(8.6)	(10.9)	(10.7)
Finance - Chamberlain	(24.6)	(24.4)	(23.6)
Finance - Chief Operating Officer	(12.3)	(13.0)	(10.1)
Finance - City Surveyor	(22.1)	(23.5)	(21.1)
Finance - Town Clerk	(1.4)	(1.4)	(1.4)
Total Net Expenditure	(69.0)	(73.2)	(66.9)
Recovery of Costs	69.0	73.2	66.9
Total Guildhall Administration	0	0	0

24. The gross expenditure for Guildhall Administration is recovered across all funds. Increased costs in 2021/22 arose from carry forward requests and contingency allocation to fund transformation spend.
25. The 2022/23 budget will reduce by £6.3m from the latest 2021/22 position following further fundamental review savings of £3.1m and removal of one-off contingency funding allocated during the current year.
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:

Table 5

	2021/22	2022/23	2023/24	2024/25	2025/26
City Cash Capital Programme	£m	£m	£m	£m	£m
Capital Programme BAU - incl. Crossrail	27.0	8.7	55.9	31.7	-
Supplementary Revenue Programme	8.5	8.0	4.2	4.4	3.8
New Bids - profiled	-	2.0	5.0	10.0	10.0
Climate Action	2.5	1.7	1.5	1.6	2.1
Total Capital Programme (exclu. Major Projects)	38.0	20.4	66.6	47.7	15.9
Major Projects	63.9	47.8	103.5	236.3	317.4

28. The City's Cash capital and supplementary revenue project budgets are submitted to the Court of Common Council as part of 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 2022/23 capital and supplementary revenue project expenditure against approved budgets (included within the figures in the table above) amount to £18.4m. This excludes the indicative costs of schemes awaiting approval.
29. To ensure future capital expenditure is aligned to key priorities, an annual bid process was introduced for all potential schemes commencing 2021/22. The City Corporation's 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 £9.0m for City's Cash meets the cost of the 2022/23 new bids together. 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). Given the pressures on construction and labour inflation rising up to 15%, it is recommended a contingency is held under the capital programme up to the allocated amount - £1.0m, this takes into account capital programmes in flight and due to be delivered over the next 1-2 years.
31. 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

32. 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 of income losses in 2022/23
- rental income reduction from our commercial property as a result of increased voids.
- Impact of inflation materially increasing costs.

Conclusion

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

year on year permanent savings against the 12% savings required to underpin a sustainable MTFP and the increased funding requirement flowing from the adoption of a major projects programme. Pressures across a range of existing revenue and capital budgets, mean that deficits are forecast across the medium-term planning horizon. In 2022/23, 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 15th day of February 2022.

SIGNED on behalf of the Committee.

Jamie Ingham Clark
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.

Appendix 2

CITY'S CASH Budget

City's Cash 2021/22 and 2022/23 budgets shown by Committee in the table below:

City's Cash Summary by Committee	2021/22 Original £m	2021/22 Latest £m	2022/23 Original £m
<i>Net Expenditure (Income)</i>			
Culture, Heritage & Libraries	(0.4)	(0.4)	(0.3)
Education Board	(2.5)	(2.6)	(3.0)
Finance	(43.3)	(44.1)	(51.9)
G. P. Committee of Aldermen	(3.8)	(3.9)	(3.7)
Guildhall School of Music and Drama	(14.1)	(13.4)	(13.2)
Markets	0.0	(0.5)	(0.3)
Open Spaces:-			
Open Spaces Directorate	0.0	0.0	0.0
Epping Forest and Commons	(6.9)	(7.5)	(6.3)
Hampstead, Queen's Pk, Highgate			
Wood	(6.1)	(6.4)	(5.1)
Bunhill Fields	(0.5)	(0.6)	(0.2)
West Ham Park	(1.1)	(1.2)	(1.0)
Policy and Resources	(17.6)	(20.6)	(17.3)
Property Investment Board	49.8	49.3	49.0
Schools :-			
City of London School (1)	(1.7)	(1.7)	(1.3)
City of London Freeman's School			
(1)	(1.8)	(1.3)	(0.5)
City of London School for Girls (1)	(0.8)	(1.2)	(1.0)
City of London Junior School (1)	0.0	(0.4)	(0.3)
(Deficit) Surplus (from) to reserves			
(2)	(50.8)	(56.5)	(56.4)

- Shows City Support rather than net expenditure by the schools
- Deficit to reserves row excludes capital programmes, however includes CWP and SRP.

- 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).

Appendix 2

		2021/22 Original £m	2021/22 Latest £m	2022/23 Original £m
1	Net expenditure on services	(101.0)	(106.2)	(108.9)
2	Cyclical Works Programme and SRP's	(12.7)	(12.9)	(10.1)
3	Estate rent income	57.5	57.5	56.9
4	Non-property investment income	3.1	3.4	3.9
5	Interest on balances	0.4	0.2	0.1
6	Operating (Deficit) Surplus	(52.7)	(58.0)	(58.1)
7	Profit on asset sales/deferred income	1.7	1.7	1.7
8	(Deficit) Surplus funded by drawdown*	(51.0)	(56.3)	(56.4)

*Deficit to reserves row excludes capital programmes, however includes CWP and SRP.

- The City's Cash position in the current year is expected to be a deficit of £56.3m compared to £51.0m in the original budget. The deficit (less non-cash items such as depreciation) will be funded with a drawdown from the gain in financial investments.

Appendix 3

GUILDHALL ADMINISTRATION

1. Shown by Committee is the table below:

Guildhall Administration by Committee Net (Expenditure)	2021/22 Original £m	2021/22 Latest £m	2022/23 Original £m
Establishment - Town Clerk & C&CS	(8.6)	(10.9)	(10.7)
Finance - Chamberlain	(24.6)	(24.4)	(23.6)
Finance - Chief Operating Officer	(12.3)	(13.0)	(10.1)
Finance - City Surveyor	(22.1)	(23.5)	(21.1)
Finance - Town Clerk	(1.4)	(1.4)	(1.4)
Total Net Expenditure	(69.0)	(73.2)	(66.9)
Recovery of Costs	69.0	73.2	66.9
Total Guildhall Administration	0	0	0

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

The net expenditure for 2022/23 is £66.9m, a decrease of £2.1m from the 2021/22 original budget.