

<b>Committee(s): Markets</b>	<b>Dated: 13/07/2022</b>
<b>Subject:</b> Markets Revenue Outturn 2021/22	<b>Public</b>
<b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b>	n/a
<b>Does this proposal require extra revenue and/or capital spending?</b>	<b>No</b>
<b>If so, how much?</b>	n/a
<b>What is the source of Funding?</b>	n/a
<b>Has this Funding Source been agreed with the Chamberlain's Department?</b>	n/a
<b>Report of:</b> The Chamberlain Markets Director	<b>For Information</b>
<b>Report author:</b> Clem Harcourt, Chamberlain's Department	

### Summary

This report compares the 2021/22 revenue outturn for the services overseen by your Board with the final budget for the year. The outturn for the year shows net expenditure of (£641k), compared to the final budget of (£624k), representing a net overspend of (£17k).

The overspend was due to increased service charge voids as well as the costs of debts being written off for two tenants at New Spitalfields Market who ceased trading during the Covid-19 pandemic. This was in addition to increased bad debt provisions at both New Spitalfields and Billingsgate Markets as well as reduced income from public car parking at Billingsgate Market. The overspend was partly offset by underspends in employment and additional income generated from filming and parking at Smithfield in addition to underspends on the Cyclical Works Programme managed by the City Surveyor.

Both the Chief Operating Officer and the City Surveyor were overspent on their local risk budgets overall and are not in a position to request carry forward funding for 2022/23. The Chamberlain in consultation with the Chairman and Deputy Chairman of the Resource Allocation Sub-Committee has agreed that no departmental overspendings will be carried forward into 2022/23.

The report also presents the Wholesale Markets Operating Statement for 2021/22 which shows combined net operating income of £2.777m for the three wholesale markets, an underspend of £150k compared with the final net income budget of £2.627m. Once capital charges and other central costs are accounted for, total net expenditure amounted to (£634k), an overspend of (£412k) compared with the final budget of (£222k). The majority of this deficit can be attributed to the capped service charge at Smithfield Market.

### Recommendation(s)

Members are asked to:

- Note the report.

## Main Report

### Revenue Outturn for 2021/22

1. This report compares the 2021/22 revenue outturn for services overseen by your Board with the final budget for the year. Appendix A3 details the budget movements between the original budget agreed by Markets Committee on the 13th January 2021 and the year-end final budget. The outturn position for your Board's services during 2021/22 totalled net expenditure of (£641k), an overspend of (£17k) compared to the final budget of (£624k) net expenditure. A summary comparison with the final budget for the year is tabulated below. In this and subsequent tables, figures in brackets indicate expenditure, decreases in income or increases in expenditure. Figures without brackets represent income, increases in income or decreases in expenditure.

<b>Table 1 - Detailed Summary Comparison of 2021/22 Revenue Outturn with Final Budget</b>						
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Revenue Outturn</b>	<b>Variance Better/ (Worse)</b>	<b>Variance Better/ (Worse)</b>	<b>Notes</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>	
<b>Local Risk</b>						
Chief Operating Officer	(1,196)	(1,346)	(1,512)	(166)	(12.4%)	A
City Surveyor						
- Repairs and Maintenance	(795)	(802)	(720)	82	10.2%	
- Cyclical Works Programme*	(448)	(752)	(533)	219	29.2%	
City Surveyor Total	(1,243)	(1,554)	(1,253)	301	19.4%	B
<b>Total Local Risk</b>	<b>(2,439)</b>	<b>(2,900)</b>	<b>(2,765)</b>	<b>135</b>	<b>4.6%</b>	
<b>Central Risk</b>						
Chief Operating Officer	5,767	5,142	5,083	(59)	(1.2%)	C
<b>Total Local and Central Risk</b>	<b>3,328</b>	<b>2,242</b>	<b>2,317</b>	<b>75</b>	<b>3.4%</b>	
<b>Capital and Support Services</b>	<b>(2,513)</b>	<b>(2,866)</b>	<b>(2,958)</b>	<b>(92)</b>	<b>(3.2%)</b>	D
<b>Overall Total</b>	<b>815</b>	<b>(624)</b>	<b>(641)</b>	<b>(17)</b>	<b>(2.7%)</b>	

\* Please note that underspends on the Cyclical Works Programme can be carried forward over the lifetime of the programme.

2. The total overspend of (£17k) for Markets Board comprises the following variances:

#### **A. Chief Operating Officer (£166k) overspend:**

The overspend on the local risk budget was primarily attributable to the following:

- (£147k) service charge and sundry debts being written off for two tenants at New Spitalfields Market who entered liquidation during the pandemic;

- (£130k) net increase in bad debt provisions for service charge and sundry debts at all markets;
- (£119k) additional service charge voids attributable to two tenants at New Spitalfields Market who entered liquidation during 2021/22;
- £126k net income related to savings from employment costs and additional filming income net of efficiency savings.

#### **B. City Surveyor £301k underspend:**

This includes a £219k underspend due to the costs of two projects forming part of the Cyclical Works Programme (CWP) at Smithfield Market being capitalised in addition to the rephasing of other projects. The CWP does not form part of the City Surveyor's local risk budget and any variances will be carried over to 2022/23. This is a three-year rolling programme reported to the Operational Property and Projects Sub Committee (OPPSC) quarterly, where the City Surveyor will report on financial performance and phasing of the projects. Under the governance of the programme, variances on budgets are adjusted for the life of the programme to allow for the completion of works which span multiple financial years. Projects which fall under the CWP have been reviewed under the Forward Maintenance Plan between the General Manager and the City Surveyor to ensure assets are extended in service for as long as possible. The underspend was in addition to £82k savings relating to the Building, Repairs and Maintenance contract managed by the City Surveyor's Department due to lower than anticipated general breakdown repairs and contract servicing costs.

#### **C. Central Risk (£59k) overspend:**

The overspend was mainly due to (£96k) less income from public car parking at Billingsgate Market due to reduced occupancy during the pandemic and a (£49k) reduction in rent income at all markets as a result of vacant premises. This was partly offset by a £104k underspend in professional fees relating to the lease renewals at Billingsgate Market and rent reviews at New Spitalfields Market.

#### **D. Capital and Support Services overspend (£92k):**

This mainly related to (£52k) in additional central recharges covering support services departments. This was largely due to additional net recharges from the Chamberlain's Department relating to the insurance team due to lower insurance commission being achieved during the pandemic. The overspend was in addition to a (£37k) reduction in Directorate recharges to other areas of the Department of Markets and Consumer Protection based on the spend of the Markets Directorate during 2021/22.

3. Appendix A1 and A2 provide a more detailed comparison of the local and central risk outturn against the final budget.
4. Appendix A3 shows the movement from the 2021/22 original budget (as agreed by Markets Committee in January 2021) to the final budget.

#### **Local Risk Carry Forward to 2022/23**

5. The Chief Operating Officer had local risk overspends of (£166k) on the activities overseen by your Board. The Chief Operating Officer also had local risk overspending totalling (£566k) on activities overseen by other Committees. As a

result, the Chief Operating Officer will not be requesting funding to carry forward local risk budgets into 2022/23.

6. In addition, although there was an underspend on Markets Board, the City Surveyor was overspent overall on his local risk budget and the underspend on Markets Board should be seen within the context of overspends incurred on other committees.
7. Any deficit on the total of a Chief Officers local risk budget is required to be carried forward and recovered from within the department's budget allocation for the following year unless specifically waived. This year the Chamberlain in consultation with the Chairman and Deputy Chairman of the Resource Allocation Sub-Committee has agreed that no departmental overspendings will be carried forward into 2022/23.

### Financial Performance of the Markets

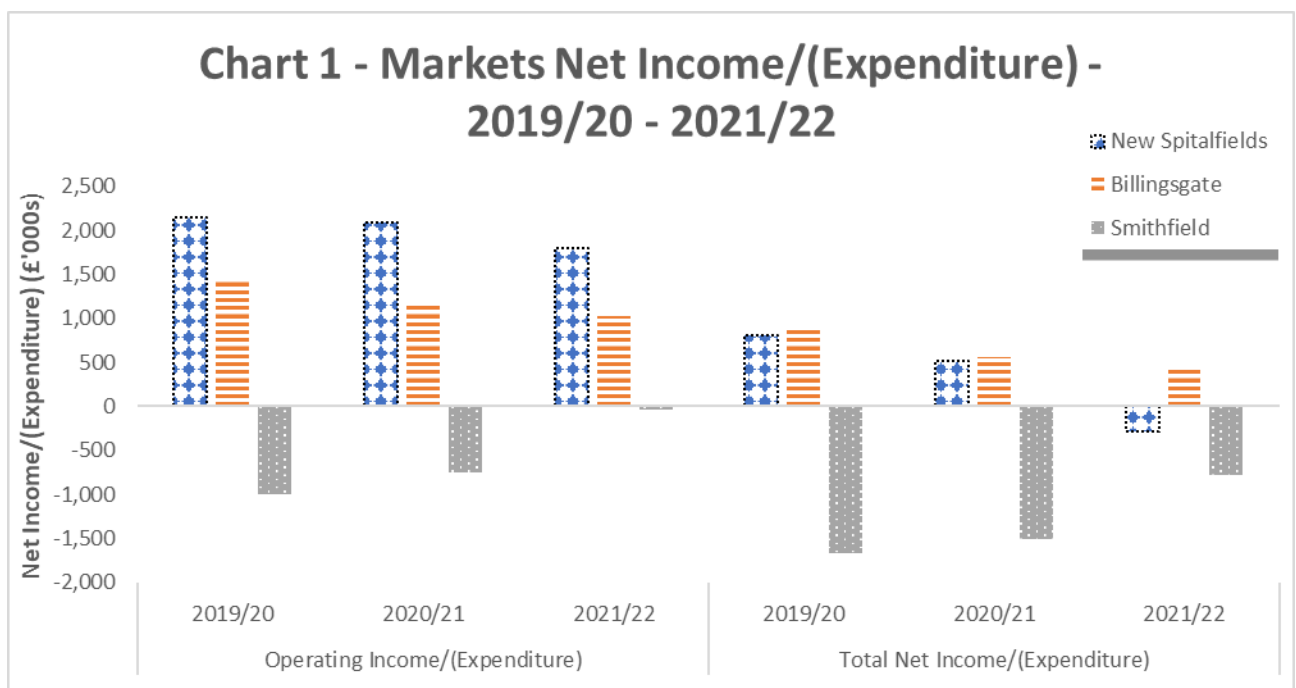
8. For 2021/22, as tabulated in the below summary operating statement, there was a combined net operating income of £2.777m for the three wholesale markets. When capital charges and central support costs of (£3.411m) are added, there is a consolidated net expenditure to the City of London Corporation of (£634k).

<b>Table 2 - Summary Operating Statement 2021/22</b>				
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Revenue Outturn</b>	<b>Variance Better/ (Worse)</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Total Operating Expenditure	(15,268)	(15,699)	(15,032)	667
Total Operating Income	18,732	18,326	17,809	(517)
<b>Total Net Operating (Expenditure)/Income</b>	<b>3,464</b>	<b>2,627</b>	<b>2,777</b>	<b>150</b>
Total Central Costs	(2,345)	(2,849)	(3,411)	(562)
<b>Total Markets (Expenditure)/Income</b>	<b>1,119</b>	<b>(222)</b>	<b>(634)</b>	<b>(412)</b>

9. A breakdown of the financial performance of individual wholesale markets (excluding the Rotunda car park and outside properties at Smithfield) is set out in the operating statement in Appendix A4 which shows the net operating income/(expenditure) for each market. For 2021/22, there was net operating income of £1.798m at New Spitalfields Market and £1.021m at Billingsgate Market, which was offset by net operating expenditure of (£43k) at Smithfield Market to produce a combined net operating income of £2.777m, an underspend of £150k compared to the final budget of £2.627m. This is explained by underspends in employment, utilities and the waste and recycling contract at New Spitalfields Market offset by increased bad debts and reduced income from car parking and tenant service charges.
10. Total net expenditure amounted to (£634k) after capital charges and other central costs are accounted for. This equates to an overspend of (£412k) compared to the final budget of (£222k) net expenditure. This was largely due to increased transfers

to tenant reserves at both New Spitalfields and Billingsgate Markets to fund future works.

11. The difference between total market net expenditure of (£634k) (shown in Appendix A4) and revenue outturn of (£641k) net expenditure (shown in Table 1) is the (£7k) net expenditure for the outside properties at Smithfield, including the Rotunda car park, which are not included in Appendix A4.
12. Chart 1 below sets out both the net operating income/(expenditure) and total net income/(expenditure) position for each market for the previous three financial years. This indicates that Billingsgate Market was the only market to generate a surplus in 2021/22. The market achieved net income of £441k which was offset by net expenditure of (£787k) at Smithfield Market and (£288k) at New Spitalfields Market.
13. The deficit at New Spitalfields Market was largely attributable to the impact of the Covid-19 pandemic with the market incurring additional service charge voids and debt write-offs because of two tenants entering liquidation. The market generated a surplus in both 2019/20 and 2020/21. Chart 1 shows that in most years both Billingsgate Market and New Spitalfields Market have generated surpluses.
14. Chart 1 also shows that Smithfield Market has incurred deficits in each of the previous three financial years. This is largely attributable to the current cap on the service charge meaning that service charge expenditure is not fully recoverable from tenants.



15. Appendix A6 provides Members with information on balances held on various repair funds for each market as at 31 March 2022.

## Appendices

- **Appendix A1** - Comparison of 2021/22 Local Risk Outturn with Final Budget
- **Appendix A2** - Comparison of 2021/22 Central Risk Outturn with Final Budget
- **Appendix A3** - Reconciliation of Original Budget to Final Budget – 2021/22

- **Appendix A4** - Wholesale Markets Operating Statement 2021/22
- **Appendix A5** - Wholesale Markets Operating Statement Variance Notes – 2021/22
- **Appendix A6** - Wholesale Markets Reserves Balances – 31 March 2022

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## Appendix A1 – Comparison of 2021/22 Local Risk Outturn with Final Budget

The local risk underspend of £135k comprises the following variances:

### Chief Operating Officer (£166k) overspend:

- i. **New Spitalfields Market** – overspend of (£416k) was mainly due to:
  - (£147k) relating to the writing off of service charge and sundry debts for two catering supply tenants who entered liquidation as a result of the Covid-19 pandemic;
  - (£119k) additional service charge voids for empty premises attributable to two tenants who went into liquidation during 2021/22;
  - (£84k) service charge concession as agreed by Markets Committee as part of the City's measures to support tenants through the pandemic;
  - (£51k) increase in bad debt provisions for outstanding service charge and sundry debts.
- ii. **Billingsgate Market** – overspend of (£47k) was primarily due to:
  - (£123k) increase in bad debt provisions for outstanding service charge and sundry debts;
  - (£24k) reduction in public parking income due to reduced occupancy of the car park as a result of Covid-19 restrictions;
  - £76k net income generated from filming projects following the lifting of Covid-19 restrictions and income generated from issuing a licence to a third party at the car park net of efficiency savings;
  - £22k decrease in supplies and services expenditure primarily due to a reduction in the level of internal legal fees required.
- iii. **Smithfield Market** – underspend of £230k was largely due to:
  - £52k underspend on water expenditure as a result of reduced consumption;
  - £46k net income relating to savings achieved from employment costs as a result of staff vacancies and flexible retirement as well as additional income generated from the Rotunda car park. This was net of efficiency savings;
  - £44k decrease in bad debt provisions required for outstanding service charge and sundry debts;
  - £40k reduced fees and services expenditure largely due to savings in the contract for the management of the Rotunda car park and less internal legal fees being required;
  - £37k savings from electricity costs at the Rotunda car park due to energy efficiency measures;
  - £28k underspend on locally managed repairs and maintenance costs.
- iv. **Markets Directorate** – underspend of £67k was largely due to £74k savings in employment costs related to staff vacancies and flexible retirement.

## **City Surveyor £301k underspend:**

This underspend relates to:

- £219k underspend due to the costs of two projects forming part of the Cyclical Works Programme (CWP) at Smithfield Market being capitalised in addition to the rephasing of other projects which form part of the CWP. The underspend comprised £198k in projects relating to works at the Rotunda car park and the Smithfield Outside Properties and £21k in works for the main market. The CWP does not form part of the City Surveyor's local risk budget and any variances will be carried over to 2022/23. This is a three-year rolling programme reported to the Operational Property and Projects Sub Committee (OPPSC) quarterly, where the City Surveyor will report on financial performance and phasing of the projects. Under the governance of the programme, variances on budgets are adjusted for the life of the programme to allow for the completion of works which span multiple financial years. Projects which fall under the CWP have been reviewed under the Forward Maintenance Plan between the General Manager and the City Surveyor to ensure assets are extended in service for as long as possible.
- £82k underspend relating to the Building, Repairs and Maintenance contract managed by the City Surveyor's Department due to lower than anticipated general breakdown repairs and contract servicing costs. This comprised underspends of £67k at Smithfield Market and £16k at New Spitalfields Market offset by an overspend of (£1k) at Billingsgate Market.



## Appendix A2 – Comparison of 2021/22 Central Risk Outturn with Final Budget

### Central Risk (£59k) overspend:

- i. **Billingsgate Market** – overspend of (£124k) was mainly due to:
  - (£96k) less income from public car parking due to reduced occupancy of the car park during the pandemic;
  - (£40k) increased provisions for outstanding rent debts;
  - (£21k) additional service charge voids for vacant premises;
  - (£14k) reduction in rent income related to the letting out of containers at the market;
  - £58k underspend in professional fees relating to the lease renewals.
  
- ii. **Smithfield Market** – underspend of £61k was largely due to a £67k reduction in the provision for outstanding rent debts as well as an underspend of £10k in professional fees. This was partly offset by a (£19k) reduction in rent income at the Poultry Market owing to vacant premises for part of 2021/22.
  
- iii. **New Spitalfields Market** – underspend of £4k was mainly due to a £46k underspend in professional fees relating to costs associated with the rent reviews as well as an additional £7k in transfers from reserves to fund City Surveyors employee recharges. This was partly offset by (£20k) in rent debts being written off during 2021/22 as well as a (£16k) reduction in rent income and a (£12k) increase in provisions for outstanding rent debts.

<b><u>Markets Board - Reconciliation of Original Budget to Final Budget - 2021/22</u></b>	
	<b>£'000s</b>
<b>Original 2021/22 Budget (All Risks)</b>	<b>815</b>
<b>Local Risk including City Surveyors Repairs and Maintenance</b>	
Original Budget 2021/22 - as agreed by Markets Committee on 13th January 2021	(2,439)
Budget changes relating to the re-phasing of works as part of the Cyclical Works Programme at Smithfield Market.	(304)
Centrally funded salary costs	(95)
Centrally funded apprenticeship costs	(42)
Carry forward funding to cover purchase of forklift truck at Smithfield Market	(20)
Centrally funded budget uplift for pay award for staff on grades A-C from July 2021 onwards and payments to staff for working on-site during the Covid-19 pandemic	(10)
Budget adjustments relating to the Building, Repairs and Maintenance contract managed by City Surveyors across all markets	10
<b>Final 2021/22 Local Risk Budget including City Surveyors Repairs and Maintenance</b>	<b>(2,900)</b>
<b>Central Risk</b>	
Original Budget 2021/22 - as agreed by Markets Committee on 13th January 2021	5,767
Centrally funded pension strain costs	(357)
Professional fees costs related to rent reviews at New Spitalfields Market and lease renewals at Billingsgate Market as reported to Markets Committee on 3rd November 2021	(175)
Reductions in rent income at New Spitalfields Market as a result of two tenants entering liquidation as reported to Markets Committee on 3rd November 2021	(103)
Increased income from service charges and transfers from reserves as a result of adjustments to recharges and costs from the Building, Repairs and Maintenance contract	6
Supplementary Revenue Project funding for Deconstruction of Poultry Market Canopy and Gutter at Smithfield Market	3
Adjustments to capital charges budget at Billingsgate Market	1
<b>Final 2021/22 Central Risk Budget</b>	<b>5,142</b>
<b>Support Services and Capital Charges</b>	
Original Budget 2021/22 - as agreed by Markets Committee on 13th January 2021	(2,513)
Revisions to capital charges at New Spitalfields Market	(334)
Increase in central support and insurance recharge budgets	(139)
Centrally funded Film Liaison Staff Costs at Billingsgate Market and Smithfield Market	(28)
Adjustments to Directorate recharges raised to other areas of the Department of Markets & Consumer Protection	148
<b>Final 2021/22 Support Services and Capital Charges Budget</b>	<b>(2,866)</b>
<b>Final 2021/22 Budget (All Risks)</b>	<b>(624)</b>