

Committee(s): Markets Board	Dated: 09/11/2022
Subject: Revenue and Capital Budgets 2023/24	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?	No
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: The Chamberlain Markets Director	For Decision
Report author: Clem Harcourt, Chamberlain's Department	

Summary

This report is the annual submission of the revenue and capital budgets overseen by your Board. It is asking Members to note the latest revenue budget for 2022/23 and approve the draft revenue and capital budgets for 2023/24, for subsequent submission to Finance Committee.

The 2022/23 Latest Budget totals net expenditure of (£249k), a decrease of (£778k) compared with the 2022/23 Original Budget of net income £529k. The decrease is primarily attributable to reduced income from Directorate recharges due to organisational structure changes, re-phasing of works related to the Cyclical Works Programme (CWP) at Smithfield Market and additional depreciation at New Spitalfields Market following the revaluation of the building.

The draft budget for 2023/24 has been prepared within the provisional resource envelope for Markets Board anticipated to be allocated to the Chief Operating Officer by Resource Allocation Sub Committee. The draft budget includes £412k in unidentified savings to be achieved during 2023/24 which has largely arisen as a result of the anticipated closure of the Poultry Market from August 2023.

The draft 2023/24 Original Budget totals net expenditure of (£773k) compared to the 2022/23 Original Budget of £529k net income, a decrease of (£1.302m). The decrease is primarily explained by reduced Directorate recharges due to changes in staffing structures, re-phasing of CWP works at Smithfield Market, reduced rent and service charge income following the closure of the Poultry Market in August 2023, and additional depreciation at New Spitalfields Market following a revaluation of the building.

The draft budget for 2023/24 has also been prepared on the assumption that the Poultry Market will become vacant from August 2023. Any changes to this date will

require a subsequent adjustment to the budget following agreement from Resource Allocation Sub Committee.

This draft budget does not include estimated energy price increases for 2023/24. The Corporation is currently reviewing these additional energy costs in light of changing market prices. A final agreement on energy cost forecasts for next year will be concluded in early 2023 at which point budgets for 2023/24 will be adjusted if required.

The report also presents the staffing statement for 2023/24 as well as the operating statement for the three wholesale markets. For 2023/24, the City is estimated to incur combined net expenditure of (£121k) for operating the three markets which can be primarily attributed to the cap on the service charge at Smithfield Market. Excluding the cap, the three wholesale markets would have budgeted total net income of £1.444m.

Recommendations

Members are asked to:

- i) note the latest revenue budget for 2022/23 for Markets Board;
- ii) critically review and approve the Markets Board draft revenue budget for 2023/24 for submission to Finance Committee;
- iii) review and approve the Markets Board draft capital and supplementary revenue projects budgets for 2023/24 for submission to Finance Committee;
- iv) note that the draft budget does not include the estimated increases in energy costs which are currently being reviewed in light of changing market prices with budgets to be adjusted once a final agreement on energy forecasts are made;
- v) agree that amendments for 2022/23 and 2023/24 budgets arising from changes to recharges or for any further implications arising from Corporate Projects, energy price increases and other reviews and changes to the CWP and capital charges during budget setting be delegated to the Chamberlain in consultation with the Chief Operating Officer.

Main Report

Background

1. This report sets out the latest budget for 2022/23 and the draft revenue and capital budgets for 2023/24 for your board and under the control of the Chief Operating Officer, analysed between:
 - a. **Local Risk Budgets** – these are budgets deemed to be largely within the Chief Officer's control.
 - b. **Central Risk Budgets** – these are budgets comprising specific items where a Chief Officer manages the underlying service, but where the

eventual financial outturn can be strongly influenced by external factors outside his/her control or are budgets of a corporate nature.

- c. **Support Services and Capital Charges** – these cover budgets for services provided by one activity to another. The control of these costs is exercised at the point where the expenditure or income first arises as local or central risk.

- 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.
- The latest 2022/23 budget and draft 2023/24 budget, summarised in Table 1 below, are analysed by risk, fund and Chief Officer in Appendix 1.

	Original Budget 2022/23 £'000	Latest Budget 2022/23 £'000	Original Budget 2023/24 £'000
Expenditure	(16,222)	(16,483)	(16,569)
Income	19,324	19,330	18,892
Net (Expenditure)/ Income	3,102	2,847	2,323
Support Services and Capital Charges	(2,573)	(3,096)	(3,096)
Total Net (Expenditure)/Income	529	(249)	(773)

Latest Revenue Budget for 2022/23

- Appendix 2 provides details on budget movements between the 2022/23 Original Budget as agreed by Markets Committee in November 2021 and the 2022/23 Latest Budget as reported at the end of September 2022. Total net income has decreased by (£778k) from a net income position of £529k to a net expenditure position of (£249k). Main reasons for the decrease are:

- (£351k) reduced income due to the costs of the Directorate no longer being recharged to the Port Health & Environmental Services and Licensing Committees following organisational structure changes after the introduction of the Target Operating Model (TOM). As a result of the TOM, the Directorate will see an overall reduction in its costs which will only be recharged to the three wholesale markets in future;
- (£311k) additional costs relating to the re-phasing of works under the CWP at Smithfield Market; and
- (£155k) additional depreciation charges at New Spitalfields Market following a revaluation of the building and roof with the market being depreciated based on its revised value over its remaining useful life.

- A detailed breakdown of the budget changes by expenditure and income category can be found within the notes section of Appendix 2.

Draft Revenue Budget for 2023/24

6. Total net expenditure for 2023/24 amounts to (£773k), a decrease of (£1.302m) compared with the Original Budget for 2022/23 of £529k net income as agreed by Markets Committee in November 2021.
7. In light of recommendations from Resource Allocation Sub Committee, the 2023/24 budget includes a 4% uplift for inflation offset by 2% efficiency savings (i.e. a 2% net increase on local risk budgets) and the full year impact of pay increases to staff arising from the pay deal effective from July 2022. The budget has been prepared within the draft resource envelope anticipated to be allocated to Markets Board by Resource Allocation Sub Committee with the following exceptions and assumptions:
 - The draft budget includes £412k in unidentified savings which have arisen primarily as a result of the anticipated closure of the Poultry Market in August 2023 which will require savings to be achieved during 2023/24. This will be reviewed by the Markets Director in due course and primarily relates to staffing and other costs which will need to be reduced as a result of the decreased level of activity following the closure of the Poultry Market.
 - The draft budget has been prepared on the assumption that the Poultry Market becomes surplus in August 2023 as agreed by Markets Board in July 2022 with the relevant local risk resource bases adjusted accordingly. Further adjustments to the Chief Operating Officer's local risk resource base for Markets Board may be required following agreement by Resource Allocation Sub Committee should this date slip.
 - Members should note this report does not include the estimated energy price increases for the 2023/24 financial year. At the time of compiling this report, these costs are estimated at £1.769m, though roughly 89% (£1.568m) should be recoverable from tenants. At present the Corporation is reviewing these additional energy costs in light of changing market prices. A final agreement on energy cost forecasts for next year will be concluded in early 2023 at which point estimates for 2023/24 will be adjusted if required.
 - Members should note that the CWP figures included in this report relate only to elements of previously agreed programmes, which will be completed in 2022/23 and 2023/24. The separate bid for CWP works programme for 2023/24 has not been included in this report. The report will be submitted to the Operational Property & Projects Sub Committee in November 2022 and will then require approval from Resource Allocation Sub Committee to agree the funding. Once both Sub-Committees have agreed the 2023/24 programme Members will be advised of the outcome

and Members are asked to authorise the Chamberlain to revise the budgets to allow for these approvals.

- It should also be noted that the Building Repairs and Maintenance & Facilities Management contract is currently being re-tendered and the new contract will commence on 1st April 2023. The original estimates for 2023/24 are based on the latest available asset price from the current contractors (SKANSKA, Amalgamated, ISS and Beaver). Any changes to these budgets arising from the new contract will be reported to Markets Board and Members are asked to authorise the Chamberlain to revise these budgets to allow for any further financial implications arising from the Building Repairs and Maintenance & Facilities Management contract tendering.
- Support services and capital charges budgets reflect the attribution and cost of central departments. However, the full budgets for these departments have not yet been finalised, so further changes to these budgets may be required. Members are asked to agree that the decision as to the changes required to these budgets are delegated to the Chamberlain in consultation with the Chief Operating Officer.

8. Main reasons for the (£1.302m) decrease in net income compared with the 2022/23 Original Budget agreed by Markets Committee in November 2021 are:

- (£512k) reduced income from rent and service charges at the Poultry Market due to the market's anticipated closure in August 2023;
- (£351k) reduced income due to the costs of the Directorate no longer being recharged to the Port Health & Environmental Services and Licensing Committees following organisational structure changes with the costs of the Directorate only being re-charged to the three wholesale markets in future;
- (£311k) increase in costs of the CWP at Smithfield Market as a result of re-phasing of works;
- (£155k) additional depreciation charges at New Spitalfields Market following a revaluation of the building and roof with the market being depreciated based on its revised value over its remaining useful life;
- (£150k) reduction in rent income at Smithfield Market due to interim rent no longer being charged after March 2023 in accordance with market leases;
- (£100k) decreased public car parking income at Billingsgate Market as a result of reduced levels of parking in Canary Wharf;
- (£100k) loss of rent income from the Oriole Bar at Smithfield as a result of the property becoming vacant; and
- £323k increase in unidentified savings being required at Smithfield Market during 2023/24 following the Poultry Market becoming vacant in August 2023.

9. A detailed breakdown of the budget changes by expenditure and income category can be found within the notes section of Appendix 3.

Operating Statement

10. The operating statement which shows the financial position of the individual Wholesale Markets (i.e. excluding the Rotunda Car Park and outside properties at Smithfield Market and the Markets Directorate) is shown in Appendix 4, with Appendix 5 detailing the reasons for all variances over £50k.
11. There is an overall net expenditure to the City for operating the Markets of (£121k) in 2023/24. The net expenditure can be primarily explained by the current cap on the service charge at Smithfield Market which is estimated to cost the City (£1.565m) in 2023/24. Excluding the cap, the three markets would have budgeted total net income of £1.444m.
12. The net expenditure shown on the Operating Statement is lower than the overall Markets Board total of (£773k) as the Operating Statement excludes a net cost of (£366k) for the operation of the Rotunda Car Park and outside properties at Smithfield Market as well as net expenditure of (£286k) for the Markets Directorate. The overall Markets net expenditure for 2023/24 includes costs for capital depreciation charges of (£1.6m).

Staffing Statement

13. The below table analyses the movement in manpower and related staff costs. This shows an increase in full-time equivalent posts from 118.4 to 119.3 and an increase in total employment costs of (£244k) from (£6.027m) to (£6.271m).

Table 2 - Staffing Statement OR 2022/23- OR 2023/24				
	Original Budget 2022/23		Original Budget 2023/24	
	Manpower Full-time Equivalent	Estimated Cost £'000	Manpower Full-time Equivalent	Estimated Cost £'000
Directorate	4.4	(369)	4.0	(358)
New Spitalfields Market	31.0	(1,627)	30.3	(1,641)
Smithfield Market	44.0	(2,070)	44.3	(2,155)
Billingsgate Market	39.0	(1,961)	40.7	(2,117)
Total Markets	118.4	(6,027)	119.3	(6,271)

Draft Capital Project Budgets for 2023/24

14. The latest estimated costs of the Board's current approved capital and supplementary revenue projects are summarised in the table below:

Service	Project	Exp. Pre 01/04/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Later Years £'000	Total £'000
CITY FUND							
Spitalfields	Entry Barrier	245	-	-	-	-	245
CITY'S CASH							
Billingsgate Market	Additional Fish Handling	17	173	1,450	-	-	1,640
Billingsgate Market	Billingsgate Action Plan CCTV	-	163	-	-	-	163
Smithfield Market	Smithfield M-Rplce Glazing	151	135	-	-	-	286
TOTAL Markets		413	471	1,450	-	-	2,334

15. It should be noted that the table above excludes the costs of the Markets Consolidation Programme.

16. The latest Capital and Supplementary Revenue Project forecast expenditure on approved schemes will be presented to the Court of Common Council for formal approval in March 2023.

Conclusion

17. This report presents the draft 2023/24 budgets for Markets Board for Members to consider and approve.

Appendices

- Appendix 1 – Board Summary Budget by Risk, Fund and Chief Officer
- Appendix 2 – Original Budget 2022/23 to Latest Budget 2022/23
- Appendix 3 – Original Budget 2022/23 to Original Budget 2023/24
- Appendix 4 – Wholesale Markets Operating Statement 2022/23 Latest Budget and 2023/24 Original Budget
- Appendix 5 – Wholesale Markets Operating Statement Movement Notes

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