

Committee(s):	Date(s):
Markets	20 November 2013
Subject: REVENUE AND CAPITAL BUDGETS - 2013/14 and 2014/15	Public
Report of: The Chamberlain Director of Markets and Consumer Protection	For Decision
<p><u>Summary</u></p> <p>This report is the annual submission of the revenue and capital budgets overseen by your Committee. In particular it seeks approval to the provisional revenue budget for 2014/15, for subsequent submission to the Finance Committee. Details of the Committee's draft capital budget are also provided. The budgets have been prepared within the resources allocated to the Director.</p> <p>Business priorities for 2014/15 will focus on maintaining the present high quality of service to our tenants and developing new services within a cash- limited resource allocation. As all the Markets now have service charges, albeit with Smithfield's being phased in over five years, consultation with the respective Tenants' Associations on the level of services and their costs will be important to demonstrate value for money, whilst still ensuring that the City's responsibilities as landlord and property owner are protected.</p> <p>Other priorities will include; seeking to identify new sources of income and increasing revenue from existing income streams; reducing energy consumption in the City's areas to reduce costs and the carbon footprint; continuing to improve safety and reduce accidents at the Markets; preparing for lease negotiations at Spitalfields; continuing to ensure that the commitments in the new Smithfield leases are fully implemented by both the tenants and the City; improving the state of the infrastructure and cleaning standards at Billingsgate; providing leadership and management training for our middle managers.</p>	

Summary Of Table 1	Latest Approved Budget 2013/14 £'000	Original Budget 2014/15 £'000	Movement £'000
Expenditure	13,190	14,470	1,280
Income	(15,267)	(16,215)	(948)
Support Services and Capital Charges	2,157	2,112	(45)
Total Net Expenditure	80	367	287

Overall, the 2014/15 provisional revenue budget totals £367,000, an increase of £287,000 compared with the latest approved budget for 2013/14 of £80,000.

The main reasons for this increase are:

- An increase in City Surveyor's repairs and maintenance costs of £277,000 and additional works programme of £400,000. A total increase of £677,000.
- Total premises related costs have increased by £463,000
- Total employee costs have increased by £95,000.
- Increase in the waste and cleaning contract at Spitalfields market of £37,000.
- Small adverse variances totalling £8,000.
- Increased income of (£948,000), which relates to additional costs that are recoverable through the service charges.
- Reduction in support services and capital charges of (£45,000).

Recommendations

The Committee is requested to:

- Review the provisional 2014/15 revenue budget to ensure that it reflects the Committee's objectives and, if so, approve the budget for submission to the Finance Committee.
- Review and approve the draft capital budget.

- Authorise the Chamberlain to revise these budgets to allow for further implications arising from potential budget developments including any changes from Markets service reviews, City of London procurement initiative savings, changes to the Additional Works Programme, implications arising from carbon trading allowances and changes in respect of recharges. If the revisions vary by more than 10% of total net expenditure, a further report will be submitted to this committee for approval.

Main Report

Introduction

1. The City of London Corporation owns and manages Billingsgate Market (fish) in Docklands, Smithfield Market (meat) in the City and Spitalfields Market (fruit, vegetables and flowers) in Leyton. Smithfield and Billingsgate Markets are funded from City's Cash and Spitalfields Market is funded from City Fund.
2. This report sets out the proposed revenue budget and capital budgets for 2014/15. The revenue budget management arrangements are to:
 - Provide a clear distinction between local risk, central risk and recharge budgets.
 - Place responsibility for budgetary control on departmental Chief Officers.
 - Apply a cash limit policy to Chief Officers' budgets.
3. The provisional budget for 2014/15 has been analysed by the service expenditure (see Table 1) and compared with the latest approved budget for 2013/14 which has undergone significant changes due to the Smithfield lease agreement and the City of London's adoption of the UK Generally Accepted Accounting Standards (UK GAAP). The provisional Latest Approved Budget compared to the Original Budget for 2013/14 will be presented to your Committee for approval as a separate report.
4. The report also compares the current year's latest approved budget with the forecast outturn.

Business Planning Priorities

5. Business priorities for 2014/15 will focus on maintaining the present high quality of service to our tenants and developing new services within cash limited resource allocation. As all the Markets now have service charges, albeit with Smithfield's being phased in over five years, consultation with

the respective Tenants' Associations on the level of services and their costs will be important to demonstrate value for money, whilst still ensuring that the City's responsibilities as landlord and property owner are protected.

6. Other priorities will include; seeking to identify new sources of income and increasing revenue from existing income streams; reducing energy consumption in the City's areas to reduce costs and the carbon footprint; continuing to improve safety and reduce accidents at the Markets; preparing for lease negotiations at Spitalfields; continuing to ensure that the commitments in the new Smithfield leases are fully implemented by both the tenants and the City; improving the state of the infrastructure and cleaning standards at Billingsgate; providing leadership and management training for our middle managers.
7. Phase 1 of the Billingsgate roof replacement project should be completed during mid-2014 and, depending on the current evaluation, phase 2 may be conducted immediately afterwards. Depending on the funding available after the roof replacement is completed, the Billingsgate additional facilities project, which is currently suspended, may be progressed. The Smithfield Poultry Market roof repairs and electrical re-wiring project has been initiated and will be progressed as rapidly as possible. Other 'historic works' at Smithfield will be progressed by the City Surveyor in line with the approved Additional Works Programme. Consideration will be given to initiating a project to use part of the market hall roof at Spitalfields for solar power.

Proposed Revenue Budget for 2014/15

8. The proposed Revenue Budget for 2014/15 is shown in Table 1 below analysed between:
 - Local Risk budgets – these are budgets deemed to be largely within the Chief Officer's control.
 - 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 of his control or are budgets of a corporate nature (e.g. interest on balances and rent incomes from investment properties).
 - 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.
9. The provisional 2014/15 budgets, being presented to your Committee, and under the control of the Director of Markets and Consumer

Protection have been prepared in accordance with guidelines agreed by the Policy & Resources and Finance Committees. These include the 2% inflation allowance and the final 1% of the total 2% efficiency savings required by 2014/15.

TABLE 1 MARKETS COMMITTEE SUMMARY – ALL FUNDS						
Analysis of Service Expenditure	Local or Central Risk	Actual 2012-13 £'000	Latest Approved Budget 2013-14 £'000	Original Budget 2014-15 £'000	Movement 2013-14 to 2014-15 £'000	Paragraph Reference
EXPENDITURE						
Employees	L	4,932	5,055	5,150	95	13
Premises Related Expenses (see note i)	L	4,058	3,910	4,373	463	14
Premises Related Expenses (see note ii)	C	172	144	135	(9)	18
City Surveyor – Repairs & Maintenance	L	745	1,193	1,870	677	15
Transport Related Expenses	L	42	54	39	(15)	} 18
Supplies & Services (see note iii)	L	965	847	817	(30)	
Supplies & Services (see note iv)	C	879	180	150	(30)	
Waste & Cleaning Contract at New Spitalfields Market	L	1,714	1,773	1,810	37	
Capital Charges	L					
Transfer to Service Charge Reserves	L	184	34	126	92	
Total Expenditure		13,691	13,190	14,470	1,280	
INCOME						
Other Grants, Reimbursements and Contribution	L	(362)	(244)	(462)	(218)	} 19
Customer, Client Receipts (see note v)	L	(8,060)	(9,777)	(10,171)	(394)	
Customer, Client Receipts (see note vi)	C	(1,175)	(1,097)	(1,169)	(72)	
Customer, Client Receipts (Rent)	C	(4,697)	(3,721)	(3,748)	(27)	
Investment Income	L	(28)	(21)	(10)	11	
Transfer from Service Charge Reserves	L	(22)	(27)	0	27	
Transfer from Service Charge Reserves	C	(21)	(380)	(655)	(275)	
Total Income		(14,365)	(15,267)	(16,215)	(948)	
TOTAL EXPENDITURE/ (INCOME) BEFORE SUPPORT SERVICES AND CAPITAL CHARGES		(674)	(2,077)	(1,745)	332	
SUPPORT SERVICES AND CAPITAL CHARGES						
Central Support Services and Capital Charges		6,652	2,469	2,393	(76)	} Appendix 2
Recharges within Committees		0	0	0	0	
Recharges within Fund		(45)	(30)	6	36	
Recharges Across Funds		(259)	(282)	(287)	(5)	
Total Support Services and Capital Charges		6,348	2,157	2,112	(45)	
TOTAL NET EXPENDITURE/(INCOME)		5,674	80	367	287	

Notes - Examples of types of service expenditure:-

- (i) Premises Related Expenses, Local Risk (L) – includes repairs & maintenance, energy costs, rates, water services, cleaning and domestic supplies
- (ii) Premises Related Expenses, Central Risk (C) – estimated car park rates liability at Billingsgate Market
- (iii) Supplies and Services, Local Risk (L) – Equipment, furniture, materials, uniforms, printing, stationary, professional fees, grants & subscriptions
- (iv) Supplies and Services, Central Risk (C) – actual includes legal fees for Smithfield Market, current year estimates include rates and professional fees for Billingsgate.
- (v) Customer, Client Receipts, Local Risk (L) – service charge and car parking income and reimbursements for electricity and water
- (vi) Customer, Client Receipts, Central Risk (C) – car park hoarding, car parking income.

10. On Table 1 income and favourable variances are presented in brackets. Only significant variances (generally those greater than £100,000) have been commented on in the following paragraphs.
11. An analysis of revenue expenditure by Service Managed is provided in Appendix 1.
12. There is a reduction of £287,000 in the overall budget between the 2013/14 latest approved budget and the 2014/15 original budget. This movement is explained by the variances outlined below.
13. There is an increase in the employment costs of £95,000 which is due to inflationary increases, incremental increases and additional pension costs.
14. The increase in local risk premises related expenditure of £463,000 is mainly a result of;
 - increases in energy costs £89,000, repairs £31,000 and additional contributions from local risk service charge expenditure to the service charge reserve fund at Spitalfields Market of £50,000.
 - increases in energy costs of £12,000, repairs of £45,000 and additional contributions from the local risk service charge to the service charge reserve fund at Billingsgate Market of £171,000.
 - increases in energy and carbon of £73,000 at Smithfield Market.
 - various decreases of £8,000.
15. Increased costs are funded via the service charge for each market and/or by drawing funds from the Markets service charge reserve accounts.

The total increase of £677,000 in the budget for the City Surveyor's repairs and maintenance programme reflects changes in the composition and phasing of the works as outlined in Table 2 overleaf.

TABLE 2 - CITY SURVEYOR LOCAL RISK	Latest Approved Budget 2013/14 £'000	Original Budget 2014/15 £'000	Movement
Repairs and Maintenance			
Additional Works Programme	419	819	400
Planned, Reactive & Cyclical Works			
Billingsgate	291	396	105
Smithfield	276	276	0
Spitalfields	207	379	172
Total City Surveyor	1,193	1,870	677

16. Budgets have provisionally been included for the 2014/15 additional works programme based on bids considered by the Corporate Asset Sub Committee in June 2013. However, a decision on funding of the programme is not due to be made by the Resource Allocation Sub Committee until December. It may therefore be necessary to adjust budgets to reflect the Resource Allocation Sub Committee's decision.
17. The main elements for the increase in the additional works programme is that the value of work identified in the City Surveyor's 20 year programme for 2014/15 has increased in comparison with the combined value of various programmes in 2013/14.
18. The balance relating to all other costs of (£45,000) is a combination of adverse and favourable variances as shown in the expenditure section of Table 1.
19. The increased income of (£948,000) is mainly due to additional service charge income and increased transfers from the service charge reserves for New Spitalfields and Billingsgate Markets to fund increases in the service charge expenditure as detailed in paragraphs 13 to 18 above.
20. Analysis of the movement in manpower and related staff costs are shown in Table 3 overleaf.

Table 3 - Manpower statement	Latest Approved Budget 2013/14		Original Budget 2014/15	
	Manpower Full-time equivalent	Estimated cost £000	Manpower Full-time equivalent	Estimated cost £000
Directorate	6.4	425	6.4	432
Spitalfields Market	29.0	1,235	29.0	1,265
Smithfield Market	49.0	1,835	49.0	1,851
Billingsgate Market	39.6	1,560	39.6	1,602
TOTAL MARKETS	124.0	5,055	124.0	5,150

Potential Further Budget Developments

21. The provisional nature of the 2014/15 revenue budget recognises that further revisions may be required, including in relation to:
- budget adjustments relating to the City of London Procurement initiatives savings;
 - budget adjustments relating to Markets service reviews;
 - decisions on funding of the Additional Work Programme by the Resource Allocation Sub Committee;
 - implications arising from Carbon Trading Allowances; and
 - changes in respect of recharges.

Revenue Budget 2013/14

22. The forecast outturn for the current year is £80,000, which is in line with the latest approved budget. Your Committee will be presented with a separate report regarding the 2013/14 latest approved budgets. It is anticipated that the Director of Markets and Consumer Protection will remain within his resource allocation.

Members Format – Operating Summary

23. Members have, in the past, expressed interest in the financial performance of individual Wholesale Markets (i.e. excluding the car park and outside properties at Smithfield). This is set out in Appendix 3, which has not been prepared in accordance with conventional City of London format but where expenditure and adverse variances are presented in brackets.

24. On this basis, there is an overall cost to the City of London Corporation of operating the Markets of £76,000 in 2013/14 and £339,000 in 2014/15. The costs are lower this year than the overall Committee total as the excluded items produced a small net surplus of (£4,000) in 2013/14 and (£28,000) in 2014/15. The costs of the Markets include capital charges and depreciation for 2014/15 totalling £775,000.
25. The City of London Corporation has adopted the Generally Accepted Accounting Practices UK (GAAP UK) which has resulted in the notional capital costs at Smithfield Market and Billingsgate Market being written down and depreciation of the building and plant being charged to the revenue account. The charges for 2014/15 are:

Market	£
Spitalfields	555,000
Billingsgate	204,000
Smithfield	16,000
Total	775,000

Draft Capital and Supplementary Budgets

26. The Committee's draft capital and supplementary revenue project latest estimated costs are summarised in the Tables below. These items are approved but not yet contractually committed.

	Exp. Pre 01/04/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	Later Years £'000	Total £'000
Billingsgate Market: Satellite Unit 1 compensation		1,350						1,350
Flat roof & Ceiling renewal		97						97
Venting & Cooling Phase 2	82		361	161				604
Total	82	1,447	361	161	0	0	0	2,051

	Exp. Pre 01/04/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	Later Years £'000	Total £'000
Billingsgate Market: Fish Handling Facilities, options appraisal costs	17	15						32
Smithfield Market: Poultry Market repairs, option appraisal costs		25						25
Total	17	40	0	0	0	0	0	57

27. In addition to the approved budget items above, the implementation phases of three schemes are also planned within the next two years. Of these, the roof and ceiling renewal at Billingsgate Market together with the fish handling facilities are to be financed from the Sinking Fund and/or grant from DEFRA. The City has undertaken to fund repairs to the Poultry Market at Smithfield.
28. The latest Capital and Supplementary Revenue Project budgets will be presented to the Court of Common Council for formal approval in March 2014.

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APPENDIX 1

Analysis by Service Managed	Actual 2012-13 £'000	Latest Approved Budget 2013-14 £'000	Original Budget 2014-15 £'000	Movement 2013-14 to 2014-15 £'000	Paragraph Reference
CITY FUND					
Spitalfields Market					
- Service Charge Account	26	26	25	(1)	
- City Account	(875)	(816)	(822)	(6)	
- Repairing and Repairs Fund	0	0	0	0	
Total Spitalfields Market	(849)	(790)	(797)	(7)	
TOTAL CITY FUND	(849)	(790)	(797)	(7)	
CITY'S CASH					
Smithfield Market					
- Wholesale	6,731	0	0	0	
- Service Charge Account	0	1,755	1,785	30	
- Non-Service Charge Account	0	(550)	(215)	335	
- Other Services	(24)	4	28	24	
Total Smithfield Market	6,707	1,209	1,598	392	
Billingsgate Market					
- Service Charge Account	0	0	0	0	
- Non-Service Charge Account	(184)	(339)	(434)	(95)	
- Repairing and Special Works Account	0	0	0	0	
Total Billingsgate Market	(184)	(339)	(434)	(95)	
Markets Directorate	0	0	0	0	
TOTAL CITY'S CASH	6523	870	1164	294	
TOTAL	5,674	80	367	287	

APPENDIX 2

Support Service and Capital Charges from/to Markets Committee	Actual 2012/13 £000	Latest Approved Budget 2013/14 £000	Original Budget 2014/15 £000
Support Service and Capital Charges			
Administrative Buildings	37	39	39
City Surveyor's Employee Recharge	180	179	189
Insurance	455	458	468
IS Recharges - Chamberlain	202	220	211
Capital Charges (see note i)	4993	846	775
Support Services -			
Chamberlain	159	144	141
Comptroller and City Solicitor	146	156	149
Town Clerk	239	243	236
City Surveyor	170	113	114
Corporate (e.g. sustainability & contingency planning	38	40	40
Liability Insurance	33	31	31
Total Support Services and Capital Charges	6,652	2,469	2,393
Recharges Within Funds			
Corporate and Democratic Core – Finance Committee	(77)	(77)	(39)
Unfit meat disposal charges – Port Health and Environmental Services Committee	48	62	62
Directorate Recharge – Port Health and Environmental Services Committee	(16)	(17)	(17)
Recharges Across Funds			
Directorate Recharge - Markets – City Fund	0	0	0
Directorate Recharge – Licensing Committee	(17)	(15)	(15)
Directorate Recharge – Port Health and Environmental Services Committee	(242)	(265)	(272)
TOTAL SUPPORT SERVICE AND CAPITAL CHARGES	6,348	2,157	2,112

Notes

(i) The Capital Charges within this Committee total £775,000 in 2014/15. These relate to depreciation charges at Spitalfields Market (£555,000), depreciation at Smithfield Market and the Car Park (£16,000), and depreciation charges at Billingsgate Market (£204,000), based on the estimated value as at 1 April 2013 divided by anticipated life of the assets. This is in accordance with the City adopting the UK GAAP accounting standards.