

Committee(s):	Date(s):
Markets Committee	26 November 2014
Subject: REVENUE AND CAPITAL BUDGETS - 2014/15 and 2015/16	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 2015/16, 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 2015/16 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>	

Summary Of Table 1	Latest Approved Budget 2014/15 £'000	Original Budget 2015/16 £'000	Movement £'000
Expenditure	14,786	14,109	(677)
Income	(16,474)	(16,538)	(64)
Net (Surplus)/Deficit	(1,688)	(2,429)	(741)
Support Services and Capital Charges	2,195	2,147	(48)
Total Net Expenditure	507	(282)	(789)

Overall, the 2015/16 provisional revenue budget is a surplus of (£282,000), an improvement of (£789,000) compared with the latest approved budget for 2014/15 of £507,000.

The reasons for this decrease are:

- One off carry forwards from 2013/14 totalling (£213,000) for Smithfield Market that are included in the 2014/15 estimate.
- Service Based Review savings of (£347,000) as detailed in the Non-Public report which is reported elsewhere on the agenda.
- Net reduction in City Surveyor's repairs and maintenance estimate of (£135,000) as detailed in Table 2.
- Decrease in capital charges of (£48,000).
- Net reduction in various categories of (£46,000).

Recommendations

The Committee is requested to:

- Review the provisional 2015/16 revenue budget including the service based review proposals, to ensure that it reflects the Committee's objectives. If it does reflect the Committees objectives, to approve the budget for submission to the Finance Committee.
- If specific service based review proposals included within this budget are rejected by your Committee, or other Committees request that further proposals are pursued, that the substitution of

other suitable proposals for a corresponding amount is delegated to the Town Clerk in discussion with the Chairman and Deputy Chairman of your Committee. If the substituted saving is not considered to be straight forward in nature, then the Town Clerk shall also consult with the Chairman and Deputy Chairman of the Policy and Resource Committee prior to approving an alternative proposal(s).

- 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 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 New 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 2015/16. The revenue budget management arrangements are to:
 - Provide a clear distinction between local risks, central risk and recharge budgets.
 - Place responsibility for budgetary control on departmental Chief Officers.
 - Apply a cash limit policy to Chief Officers' budgets.
 - Provide information regarding the service based review proposals.
3. The proposed budget for 2015/16 has been analysed by the service expenditure and compared with the latest approved budget for the current year.

Business Planning Priorities

4. Business priorities for 2015/16 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.
5. Other priorities will include:
 - Implementing decisions from the Service Based Reviews and 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.
 - Concluding 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.

Projects

- Phase 1 of the Billingsgate roof replacement project was completed in mid-2014 and the evaluation of Phase 2 is underway with a view to the next Gateway report being presented to Committees in spring 2015.
- The Billingsgate Additional Facilities project will be progressed in parallel with Phase 2 of the Billingsgate roof replacement. The operational requirement is currently being re-evaluated and the fish merchants are being fully involved in its compilation.

- 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.
- The possibility of installing photo-voltaic (PV) cells on the market hall roof at Spitalfields is at the concept stage and will be progressed to Gateway 1 during the year.
- These projects are not yet included in the Draft Capital and Supplementary Revenue Budgets at paragraph 23, as they have yet to gain Gateway approval.

Proposed Revenue Budget for 2015/16

6. The proposed Revenue Budget for 2015/16 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.
7. The provisional 2015/16 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 Service Based Review savings.

TABLE 1

MARKETS COMMITTEE SUMMARY – ALL FUNDS

Analysis of Service Expenditure	Local or Central Risk	Actual 2013-14 £'000	Latest Approved Budget 2014-15 £'000	Original Budget 2015-16 £'000	Movement 2014-15 to 2015-16 £'000	Paragraph Reference
EXPENDITURE						
Employees	L	4,947	5,220	5,213	(7)	i
Premises Related Expenses (see note a)	L	3,850	5,381	4,836	(545)	ii
Premises Related Expenses (see note b)	C	182	165	130	(35)	vii
City Surveyor – Repairs & Maintenance	L	939	1095	960	(135)	iii
Transport Related Expenses	L	70	57	50	(7)	vii
Supplies & Services (see note c)	L	838	866	892	26	vii
Supplies & Services (see note d)	C	105	195	90	(105)	iv
Waste & Cleaning Contract at New Spitalfields Market	L	1,765	1,807	1,857	50	v
Capital Charges	C	0	0	0	0	vii
Transfer from Reserves	L	-52	0	81	81	vi
Transfer to Service Charge Reserves	C	0	0	0	0	
Total Expenditure		12,644	14,786	14,109	(677)	
INCOME						
Other Grants, Reimbursements and Contribution	L	(191)	(456)	(492)	(36)	xi
Other Grants, Reimbursements and Contribution	C	(179)	0	0	0	
Customer, Client Receipts (see note e)	L	(9,980)	(11,022)	(11,390)	(368)	viii, ix
Customer, Client Receipts (see note e)	C	(918)	(758)	(793)	(35)	xi
Customer, Client Receipts (Rent)	C	(3,832)	(3,711)	(3,711)	0	
Investment Income	L	(17)	(8)	(4)	4	xi
Investment Income	C	0	0	0	0	
Transfer from Service Charge Reserves	L	(56)	(463)	(112)	351	x
Transfer from Service Charge Reserves	C	(115)	(56)	(36)	20	xi
Total Income		(15,288)	(16,474)	(16,538)	(64)	
TOTAL EXPENDITURE/ (INCOME) BEFORE SUPPORT SERVICES AND CAPITAL CHARGES		(2,644)	(1,688)	(2,429)	(741)	
SUPPORT SERVICES AND CAPITAL CHARGES						
Central Support Services and Capital Charges		2,450	2,625	2,569	(56)	
Recharges within Committees		0	(0)	0	0	
Recharges within Fund		(39)	(84)	(84)	0	
Recharges Across Funds		(328)	(346)	(338)	8	
Total Support Services and Capital Charges		2,083	2,195	2,147	(48)	xii
TOTAL NET EXPENDITURE/(INCOME)		(561)	507	(282)	(789)	

Notes - Examples of types of service expenditure:-

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

- 8. 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.
- 9. An analysis of revenue expenditure by service managed is provided in Appendix 1.
- 10. There is a reduction of (£789,000) in the overall budget between the 2014/15 latest approved budget and the 2015/16 original budget. This movement is explained by the variances outlined below:

(A) Expenditure Budgets

A total decrease in expenditure of (£677,000) as follows:

- I. A net decrease in employment costs of (£7,000) which is made up of the following:
 - Proposed Service Based Review savings of (£100,000).
 - Increases in employment costs due to pay increments of £93,000.
- II. A reduction in premises related expenditure of (£545,000) as follows:
 - Reduction in repairs and maintenance budgets of (£461,000) due to the completion and re-phasing of planned work in the 20 year plan funded from the markets reserve funds.
 - A one off carry forward budget of (£213,000) for repair work at Smithfield Market from 2013/14 to 2014/15.
 - This is partly offset by increases for energy, insurances, waste and rates of £129,000.

- III. A net reduction of (£135,000) for the City Surveyor's repairs and maintenance programme which reflects changes in the composition and phasing of the works as outlined in Table 2 below.
- IV. A reduction of (£105,000) for supplies and services which includes the following:
 - Food Standards Agency Inspection fees of (£45,000) for Smithfield have been reduced.
 - Analysis fees have been reduced by (£25,000) at Smithfield Market.
 - Professional fee savings for the Billingsgate satellite unit of (£40,000).
 - Net increase of £5,000, due to inflationary increases for waste removal and CCTV maintenance.
- V. A retail price increase of £50,000 for the Waste contract at New Spitalfields Market.
- VI. Increase transfer to the New Spitalfields reserve fund of £81,000 due to an excess of contribution due to the reduction in cyclical repairs.
- VII. There is a net decrease of (£16,000) for various small variances on several expenditure items.

(B) Income Budget

There is a net increase of (£64,000) in income as follows:

- VIII. Expected increases in income under the Service Based Review total (£196,000), mainly due to the expected increased rental income on the advertising hoarding at Billingsgate of (£100,000), reduction in the City's liability for service charges at Smithfield and Billingsgate of (£65,000) as voids will be reduced and increased car park income of (£31,000).
- IX. Increase in service charge income which will reimburse increased costs under the service charges for employment, rates, insurance, waste and utilities of (£172,000).
- X. A reduction in transfers to fund repairs and maintenance from the Markets reserve funds has resulted in a reduction of income to the revenue account of £351,000.
- XI. Various net increases in contributions, investment interest and reserve transfers of (£47,000).

(C) Recharges

- XII. There is a net reduction in capital and recharged costs of (£48,000) due mainly to a reduction in capital charges at Billingsgate Market of (£56,000) and increased charges for central support costs of £8,000.
11. Recharge details can be reviewed at Appendix 2. The Chamberlain recharge apportionment has increased by £10,000 from £336,000 in 2014/15 to £346,000 in 2015/16. This is mainly due to an overspend of £346,000 to be recovered through reductions in 2014/15 as agreed by Finance Committee on 22 July 2014 together with inflation of £163,000 and Service Based Review savings of £298,000.

City Surveyors Repairs and Maintenance

12. Budgets have provisionally been included for the 2015/16 additional works programme based on bids considered by the Corporate Asset Sub Committee in June 2014. However, a decision on funding of the programme is not due to be made by the Resource Allocation Sub Committee until December 2014. It may therefore be necessary to adjust budgets to reflect the Resource Allocation Sub Committee's decision.
13. The main elements for the decrease in the additional works programme is that the value of work identified in the City Surveyor's 20 year programme for 2015/16 has reduced in comparison with the combined value of various programmes in 2014/15.

TABLE 2 - CITY SURVEYOR LOCAL RISK	Latest Approved Budget 2014/15 £'000	Original Budget 2015/16 £'000	Movement
Repairs and Maintenance			
Additional Works Programme	663	440	(223)
Planned, Re-active & Cyclical Works			
Billingsgate	151	164	13
Smithfield	250	325	75
Spitalfields	31	31	0
Total City Surveyor	1,095	960	(135)

14. Analysis of the movement in manpower and related staff costs are shown in Table 3 below.

Table 3 - Manpower statement	Latest Approved Budget 2014/15		Original Budget 2015/16	
	Manpower Full-time equivalent	Estimated cost £000	Manpower Full-time equivalent	Estimated cost £000
Directorate	6.4	434	5.4	403
Spitalfields Market	29.0	1,276	29.0	1,276
Smithfield Market	52.0	1,912	49.0	1,876
Billingsgate Market	39.6	1,598	41.0	1,658
TOTAL MARKETS	127.0	5,220	124.4	5,213

Potential Further Budget Developments

15. The provisional nature of the 2015/16 revenue budget recognises that further revisions may be required, including in relation to:

- Possible budget adjustments relating to Service Based Reviews.
- Decisions on funding of the Additional Work Programme by the Resource Allocation Sub Committee.
- Central and department recharges, which have not yet been finalised for the forthcoming year.
- The lease negotiations at New Spitalfields are currently ongoing between the Spitalfields Tenants Association and their representatives and the City Surveyor. The current lease expires for the majority of tenants in May 2015 and as a prudent course of action, the Chamberlain in consultation with the Director of Markets and Consumer Protection has not increased the rental income for New Spitalfields for 2015/16. When the outcome of these negotiations is complete a revision will be required.

Revenue Budget 2014/15

16. The forecast outturn for the current year is £507,000, which is in line with the latest approved budget. It is anticipated that the Director of Markets and Consumer Protection will remain within his resource allocation.

Members Format – Operating Summary

17. 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.
18. On this basis, there is an overall cost to the City of London Corporation of operating the Markets of £460,000 in 2014/15 and a surplus of £301,000 in 2015/16.
19. The surplus of £301,000 on the Operating Statement in 2015/16 is higher than the overall Committee total of £282,000 as shown on Table 1 as the excluded items of the Car Park, Other Properties and the Directorate produced a small net surplus of (£19,000).
20. The costs of the Markets include capital charges and depreciation for 2015/16 totalling £734,000.
21. 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 2015/16 are:

Market	£
Spitalfields	556,000
Billingsgate	162,000
Smithfield	16,000
Total	734,000

22. Appendix 4 details the reason for adverse variances and favourable variances over £100,000 or where savings are required in accordance with the Service Based Review.

Draft Capital and Supplementary Revenue Budgets

23. The latest estimated costs for the Committee's current capital and supplementary revenue projects are summarised in the Table below.

Service Managed	Project	Exp. Pre 01/04/14 £'000	2014/15 £'000	2015/16 £'000	Later Years £'000	Total £'000
<u>Pre-implementation</u>						
Billingsgate	Additional Fish Handling Facilities	17	15	-	-	32
Billingsgate	Venting and Cooling Phase 2	82	-	-	-	82
Smithfield	Poultry Market Repairs	19	85	-	-	104
<u>Authority to Start Work</u>						
Billingsgate	Flat Roof and Ceiling Renewal	55	834	-	-	889
TOTAL MARKETS		173	934	-	-	1,107

24. Pre-implementation costs comprise feasibility and option appraisal expenditure which has been approved in accordance with the project procedure, prior to authority to start work.
25. The Flat Roof Renewal works at Billingsgate were completed earlier this year. The later phases of the Roof Renewal project and the Additional Fish Handling Facilities project are anticipated to commence in 2015/16, subject to approval. These projects are not included in the table due as the projects have yet to gain Gateway approval. The Venting and Cooling Phase 2 project has been put on hold for the time being due to lack of funding.
26. The implementation of the Poultry Market Repairs project, which is being funded by the City, is anticipated to commence in 2015.
27. The latest Capital and Supplementary Revenue Project budgets will be presented to the Court of Common Council for formal approval in March 2015.

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APPENDIX 1

Analysis by Service Managed	Actual 2013-14 £'000	Latest Approved Budget 2014-15 £'000	Original Budget 2015-16 £'000	Movement 2014-15 to 2015-16 £'000
CITY FUND				
Spitalfields Market				
- Service Charge Account	2	25	26	1
- City Account	(778)	(832)	(846)	(14)
- Repairing and Repairs Fund	0	0	0	0
Total Spitalfields Market	(776)	(807)	(820)	(13)
TOTAL CITY FUND	(776)	(807)	(820)	(13)
CITY'S CASH				
Smithfield Market				
- Service Charge Account	1,351	1,700	1,713	13
- Non-Service Charge Account	(502)	(78)	(623)	(545)
- Other Services	(86)	47	19	(28)
Total Smithfield Market	763	1,669	1,109	(560)
Billingsgate Market				
- Service Charge Account	0	0	0	0
- Non-Service Charge Account	(548)	(355)	(571)	(216)
- Repairing and Special Works Account	0	0	0	0
Total Billingsgate Market	(548)	(355)	(571)	(216)
Markets Directorate	0	0	0	0
TOTAL CITY'S CASH	215	1,314	538	(776)
TOTAL	(561)	507	(282)	(789)

APPENDIX 2

Support Service and Capital Charges from/to Markets Committee	Actual 2013/14 £000	Latest Approved Budget 2014/15 £000	Original Budget 2015/16 £000	Para Ref
Support Service and Capital Charges				
Administrative Buildings	25	34	37	
City Surveyor's Employee Recharge	292	210	194	
Insurance	453	474	496	
IS Recharges – Chamberlain	229	210	199	
CLPS Recharges - Chamberlain	18	18	18	
Capital Charges	775	775	734	
Support Services -				
Chamberlain	246	336	346	11
Comptroller and City Solicitor	117	120	116	
Town Clerk	235	237	228	
City Surveyor	122	129	128	
Corporate (e.g. sustainability & contingency planning)	40	48	39	
Liability Insurance	49	34	34	
Total Support Services and Capital Charges	2,601	2,625	2,569	
Recharges Within Funds				
Corporate and Democratic Core – Finance Committee	(77)	(77)	(77)	
Directorate Recharge – Port Health and Environmental Services Committee	(20)	(10)	(10)	
Recharges Across Funds				
Directorate Recharge - Markets – City Fund	0	0	0	
Directorate Recharge – Licensing Committee	(20) (401)	(22) (321)	(24) (311)	
Directorate Recharge – Port Health and Environmental Services Committee				
TOTAL SUPPORT SERVICE AND CAPITAL CHARGES	2,083	2,195	2,147	

The Capital Charges within this Committee total £734,000 in 2015/16. These relate to depreciation charges at Spitalfields Market (£556,000) depreciation at Smithfield Market and the Car Park (£16,000); and depreciation charges at Billingsgate Market (£162,000) based on the estimated value as at 1 April 2013 divided by anticipated lives of assets. This is in accordance with the City adopting the UK GAAP accounting standards.