Lee Valley Regional Park Authority **LEE VALLEY REGIONAL PARK AUTHORITY** **EXECUTIVE COMMITTEE** **20 OCTOBER 2016 AT 11:00**	**Agenda Item No:** **7** **Report No:** **E/464/16**

2017/18 BUDGET – METHODOLOGY, ASSUMPTIONS AND TIMETABLE

Presented by the Director of Finance & Resources

EXECUTIVE SUMMARY

The report sets out:

- the draft budget timetable for the 2017/18 budget process; and
- the proposed methodology and assumptions for preparation of the revenue and capital budgets for the year ahead.

RECOMMENDATIONS

Members Approve:

(1) the budget timetable for the 2017/18 budget process as set out in Appendix A to this report; and

(2) the principles, assumptions and methodology for the 2017/18 revenue and capital budgets as set out in paragraphs 9 to 13 of this report.

BACKGROUND

1 The Authority's ten year Business Strategy (2010-2020) performs a dual role in relation to the Business and Annual Service Plan. Firstly it secures the finance necessary to fund the Authority's revenue operations and capital development programme. Secondly, by ensuring that the resources allocated through the budget process reflect the priorities in the three year Business Plan 2016-2019 and the Annual Service Plan (2017/18), it provides a means of positively influencing the overall direction of the organisation.

2 One of the key objectives within the Authority's ten year Business Strategy is for it to continue to reduce its reliance on the levy – i.e., reduction in the actual levy from 63% to 53% of the maximum chargeable. This objective was achieved ahead of target and is currently 46.5%. This target was reviewed as part of the three year Business Plan 2013-2016. Members indicated that they wished a stretch target to be set with a levy headline rate of 99p per head of population within the current ten year Business Strategy to 2020. The current levy (2016/17)

equates to £0.95p per head based on the latest population figures (census 2010 and the Mid 2013 Population Estimates, Office for National Statistics, June 2015) for Hertfordshire, Essex and London.

3 The Funding Strategy in place has enabled the Authority to achieve its current levy objective, whilst ensuring adequate resourcing is available to deliver its key statutory and business/service priorities.

4 The new three year Business Plan (2016-19) incorporates the following financial targets:

- continue to reduce the cost of Lee Valley Regional Park to the taxpayers of London, Essex and Herts via the levy from 48% of the maximum chargeable;
- provide a 50% external funding target for the capital programme;
- investment programme for the venues to increase income/reduce costs;
- increase income through a range of investment opportunities both directly and with/or via third parties;
- continue to develop new operational models for its services as the Authority moves to being more of an enabling organisation;
- maximising the return on the Authority's estate;
- reducing the Leisure Services Contract (LSC) management fee.

5 The Authority approaches the challenges and opportunities of the Business Strategy from a sound financial position. The un-earmarked revenue reserves currently stand at £4.7m. These are estimated to reduce to £4.1m by the end of 2016/17. Members set a minimum reserves policy of £4m in January 2016 as part of the budget setting process for 2016/17 (Paper A/4222/16). The capital receipts reserves total £17.4m as at 31 March 2016, which is currently earmarked to deliver and provide investment income returns to support the revenue funding required by legacy facilities.

6 Having carefully considered the continuing financial pressures on public spending, the current economic climate, the Authority's strategic objectives, demands on the organisation and its financial position, the Authority has approved an annual 2% decrease in the levy since 2011/12. There is currently no medium term levy policy in place, the last policy was approved in January 2011 (Paper A/4110/11):

- a 2% decrease in the levy for 2011/12; and
- 2% decrease in the levy for 2012/13, subject to inflation and other prevailing economic factors at that time.

Subsequent annual levy reductions of 2% were approved from 2013/14 up to 2016/17. The current Medium Term Financial Plan (MTFP) assumes an ongoing 2% reduction in the levy until 2020.

The Levy Strategy Working Group is reviewing the levy and budget to set a financial plan that delivers the statutory objectives of Lee Valley Regional Park Authority, whilst reducing the burden on the tax payer and is looking for a significant reduction of the levy during the period 2017/18 to 2020/21.

7 Over the last three to ten years the levy has been significantly below inflation with a real term decrease of nearly 30%.

	3 Year Change	5 Year Change	10 Year Change
Levy decrease	-6.00%	-10.00%	-6.00%
RPI increase	6.30%	14.50%	27.70%
	-12.30%	-24.50%	-33.70%

8 The Authority has a number of inflationary and budget pressures (which are set out below) facing it in the coming years. However it continues to be mindful of the financial pressures facing contributing authorities and will continue to strive to minimise the impact of the levy; whilst balancing this against the delivery of its strategic objectives.

BUDGET METHODOLOGY & ASSUMPTIONS

9 It is proposed that existing service levels and the latest approved forecast i.e., 2016/17 approved budget, should be maintained at a zero base increase for the preparation of the budgets for the coming year (2017/18). Existing service budgets should be re-constructed where appropriate to satisfactorily link to the delivery of the Authority's Business Strategy, Business Plan and Annual Service Plans.

10 Any priority items, savings and additional income already approved by Members for 2017/18 as part of the 2016/17 budget will be reviewed to ensure that they still meet the business objectives of the Authority and are deliverable.

11 General inflation rises, to reflect expected 2016/17 (outturn) prices, will need to be taken into account. The Retail Price Index (RPI) to August 2016 is currently **1.8%.** The Consumer Price Index (CPI), the Government's preferred indicator, is **0.6%.**

- **1%** increase in employee costs;

- **0%** increase in non-employer costs;

- electricity and gas prices are currently indicating no increases in the wholesale market (October 2016 to September 20017); and therefore these budgets can be maintained at existing levels. The current budgets for electricity and gas are £1.2m and £0.1m respectively. Water is projected to increase by RPI and will increase by 2% (current budget £157,000);

- insurance premiums and Insurance premium tax have increased this year (2016/17) following the annual premium renewal exercise (and also run from October 2016 to September 2017). Insurance premium tax has also increased twice over the last year from 6% to 9.5% and then 9.5% to 10%. These increases will be contained within the existing budgetary provision for the second part of the 2016/17 financial year and an estimated further 5% increase in 2017/18;

- a proposed levy decrease for 2017/18 will be put forward by the Levy Strategy Working Group from 2017/18 to 2020/21 and if agreed will need to be built into the Medium Term Financial Plan. Actual future changes in the levy will still be determined annually and be subject to the prevailing budget and economic circumstances at that time.

12 Overall income from fees and charges is estimated to rise in line with inflation and the existing fees and charges policy. The majority of fees and charges will commence from March/April 2017. Fees and charges are the subject of a separate paper on this agenda.

13 In addition there are a number of other factors which need to be taken into account as they could significantly affect the budget requirement for next year. At this stage these include:

- priority areas resulting from the realignment of resources to the priorities within the Authority's new three year Business Plan;

- revenue financing of the capital programme – proposed for next year at **£1.8m** and is in line with the current approved capital programme. A revised capital programme will be considered by Members at Executive Committee in December;

- decreases in investment income are anticipated as medium term investments mature in the coming months. Currently these investments are securing on average a 1.0% return. It is unlikely that similar reinvestments will achieve much in excess of 0.5%, although a staggered 0.25% is built in for future years in the financial plan. Actual returns will be dependent on how much of the existing funds are reinvested; the period of time they are invested for and the demands for capital expenditure in future years. Investment returns are currently estimated at £170,000;

- stretch targets and one-off funding – the current financial plan has a number of income stretch targets built in e.g., break-even operating budgets (excluding central overheads) for Trust venues, sponsorship and naming rights. These areas will be reviewed to ensure the financial plan reflects deliverability;

- Leisure Services Contract Management Fee will be determined by the agreed method of uplift set out in Schedule 3 of the contract and in line with the indicators described above. 2017/18 will be the third year of operation of this contract and the current management fee is £3.2m. The Trust will put forward a service development plan with proposed changes to fees and charges in November. Within this plan they will set out how they intend to achieve a reduction to the management fee to £1.6m by 2020/21;

- pension triennial valuation - every three years the pension fund assets and liabilities are revalued. This is a more comprehensive valuation than that carried out at the year-end for final accounts purposes. The purpose of the revaluation is to estimate the net liability over the life of the scheme and ensure contributions made by employers meet their obligations under the scheme. The current employer contribution covers the future and past obligations for employees (including those who transferred under TUPE to the Trust) and is 23.5%. A 1% increase in the employers' contribution will equate to £30,000.

BUDGET UNCERTAINTIES

14 There are always a number of issues which can have an effect on the Authority's budget during a year, but the size and/or timing of the financial impact tends to be uncertain. For example changes in insurance premiums (reviewed in October each year); utility, fuel/travel costs; and unforeseen health and safety issues caused by weather. Members have previously agreed that rather than allocate a sum from reserves to a contingency for such events all requests for additional resources will require Member approval and, subject to that approval, will allocate resources on a one-off basis from reserves.

15 Locally the Authority is still awaiting the outcome of the 2010/17 rating appeal for Lee Valley VeloPark. The Lee Valley White Water Centre rating appeal was settled in May 2016 with a rebate resulting in a one-off refund of £250,000. The Valuation Office noted the significant investment carried out by the Authority post Olympics without an upward change occurring in the assessment. This sum was accrued into the accounts in 2015/16.

All eligible centres that transferred to the Trust received 80% mandatory relief for 2015/16. This amounted to a saving of £1.7m and this was again built into the 2016/17 budget and Trust management fee.

Nationally a major revaluation of business rates has been completed for implementation from April 2017 (delayed from April 2015). This could see a large increase in business rates at Authority and Trust venues. The management fee incorporates funding for 20% of business rates at Trust venues and although transitional relief is likely to apply in year one, the medium term financial plan will need to account for this change.

RESERVES POLICY

16 It is important that with no contingency, budget uncertainties combined with the level of income generation that the Authority relies upon (and relies on via the Trust to keep the levy on its downward trend), that Members keep the existing policy on reserves under review ensuring minimum levels of cash reserves are maintained to deal with unforeseen circumstances. The level Members have currently agreed is £4m.

17 The Authority and Trust currently generate circa £14m across all sites, through fees and charges, catering, lettings, leases, etc. The Lee Valley White Water Centre and Lee Valley VeloPark between them generate circa £3.0m and £2.5m from sales and catering and the Ice Centre and Riding Centre a further £1m each. This income is protected to a certain degree by Business Interruption Insurance. However exclusions on this insurance only protect the Authority under certain circumstances, bad weather or other negative circumstances, e.g., bad publicity that could cause a fall in consumer demand are not insurable and can leave the Authority vulnerable.

18 The medium term financial plan review requires Members and the Chief Financial Officer (CFO) to establish and maintain a general reserve to help cushion the impact of uneven cash flows to avoid temporary borrowing and to provide a cushion for unexpected events or emergencies. Other earmarked reserves, e.g., the insurance fund, are established to deal with specific

matters. The Authority currently has an insurance fund of £0.6m that deals with excesses on the existing policies, i.e. £10,000 or uninsured/self-insured items.

19 In order to assess the adequacy of the general fund reserve when setting the budget the CFO and Members should take account of the strategic, operational and financial risks facing the Authority. This should assess external risks e.g., emergencies and internal risks e.g., ability to deliver financial efficiencies in the organisation. All operational and financial risks should be properly assessed and effective controls put in place to manage these. Financial Risks should be assessed and these include:

- assumptions around inflation and interest rates;
- estimates and timing of capital receipts and expenditure;
- the treatment of demand led pressures;
- the treatment pf planned efficiency savings;
- the availability of existing reserves;
- the general economic climate.

These factors are inherently considered at the time of approving the budget and levy and the assumptions in this paper help to deal with accounting for these risks.

20 The level of general reserve should be considered in terms of the Medium Term Financial Plan and the risks identified in the corporate risk register. Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option, but it is not prudent to finance planned on-going expenditure in this way.

21 Other factors such as Government support in emergencies can be considered when setting reserves, especially in extreme cases of weather, flooding, etc. However insurance and managing local emergencies through the reserves generally rest with the Authority itself.

22 Therefore current guidance sets the framework for consideration when setting reserves but does not prescribe amounts that the Authority should allocate. It is therefore important that Members assess the risk impact themselves and set a level of reserves accordingly.

The £4m minimum reserve level remains as approved policy and this is monitored (and reviewed if necessary) as part of the ongoing quarterly revenue monitoring. Again this area will be reviewed by Members of the Levy Strategy Working Group.

BUDGET APPROVAL

23 The Authority is required to determine its Levy by 15 February in each year. This requirement will be met as Members are scheduled to consider and approve a Revenue Budget and Levy for 2017/18 at the Authority meeting on 19 January 2017.

24 Committee Terms of Reference and Financial Regulations require the Executive Committee to recommend a budget and Levy to the Authority. The Levy Strategy Working Group will put forward proposals to Executive Committee. The

Executive Committee are scheduled to consider the 2017/18 budget and levy options at their meeting on 19 January 2017 (following a Budget Workshop on 15 December 2016).

ENVIRONMENTAL IMPLICATIONS

25 There are no environmental implications arising directly from the recommendations in this report.

FINANCIAL IMPLICATIONS

26 The financial implications arising directly from the recommendations in this report are dealt with within the main body of the report.

HUMAN RESOURCE IMPLICATIONS

27 There are no human resource implications arising directly from the recommendations in this report.

LEGAL IMPLICATIONS

28 There are no legal implications arising directly from the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

29 The strategic risk register SR3 highlights the risk of insufficient and/or inappropriate allocation of future resources to meet objectives. This risk can to a certain degree be mitigated by a thorough review of the Medium Term Financial Plan. The external auditor has previously highlighted the unsustainability of relying on general reserves to fund any ongoing projected funding gaps.

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PREVIOUS COMMITTEE REPORTS

Authority	Paper A/4222/16	Proposed Budget & Levy 2016/2017	21 January 2016

APPENDIX ATTACHED

Appendix A Proposed Budget Timetable 2016/17

LIST OF ABBREVIATIONS

CPI	Consumer Price Index
RPI	Retail Price Index
MTFP	Medium Term Financial Plan
RV	Rateable Value
LDC	Leisure Services Contract
CFO	Chief Financial Officer
TUPE	Transfer of Undertakings (Protection of Employment) Regulations

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LEE VALLEY REGIONAL PARK AUTHORITY
2017/18 CAPITAL PROGRAMME & REVENUE BUDGET TIMETABLE

	Description	Lead Officer	Dates	Meeting Date
1.	**Budget Timetable for 2017/18:**			
	(i) Prepare budget methodology paper & timetable for Executive Committee	SS	Oct 16	20 Oct 16
	(ii) Finalise timetable and issue to SMT, HOS, Managers	SS	Oct 16	20 Oct 16
	(iii) Authority Sites Fees and Charges	SS	Oct 16	20 Oct 16
2.	**4 year Revenue Medium Term Financial Forecast (MTFF) – 2017 to 2021**			
	- Update MTFF to take account of:	SS	Nov 16	07 Nov 16
	(i) Review Management Fee with Trust			
	(ii) Uplift all budgets for inflation as appropriate e.g. 1.0% salaries; 0% non-salaries,			
	(iii) Reduce Levy by X.X% annually from 2016/17			
	(iv) Revenue "growth" items i.e. income/expenditure items not already within the existing 2016/17 budget			
	(v) Any significant variations in staffing/establishment			
	(vi) Risks/areas of sensitivity			
	(vii) Circulate updated MTFF to SMT for discussion			10 Nov 16
3.	**Capital Programme – 2016/17 Revised to 2020/21:**			
	(i) Info from managers on the phasing of expend. over the next 5 years	SS	Oct 16	20 Oct 16
	(ii) Info from managers on the phasing of grants over the next 5 years	SS		20 Oct 16
	(iv) AMP programme finalized	GP		20 Oct 16
	(v) Prepare annual prudential indicators	KK		03 Nov 16
	(vi) Finalise capital programme & capital resourcing for SMT	SS		10 Nov 16
	(vii) Circulate final capital programme for consideration by SMT	SS		11 Nov 16
	(viii) Prepare capital programme and resourcing for Members approval	SS		15 Dec 16

4.	Staffing Costs: (i) Budget sheets prepared based on establishment list as at 09/10/15 (ii) Full revenue/capital budget sheets completed by Finance	KK/VY/ SS/MK/KK	Oct 15	04 Nov 16 11 Nov 16
5.	Draft Revenue Budgets: (i) Draft budgets reviewed by managers (ii) Members/Trust Service delivery plan presentation including Trust Fees and Charges	All Managers Trust/Authority SMTs	Nov 16 Nov 16	25 Nov 16 24 Nov 16
6.	Levy Strategy Working group to propose medium term levy options for 2017/18 levy onwards	SS	Nov 16	24 Nov 16
7.	Draft budgets to be sent to managers for final check/amendment review	MK/KK	Nov 16	28 Nov 16
8.	Revision to budgets to be produced following any changes requested by managers	SS/MK/KK	Nov 16	05 Dec 16
9.	Support service charges and capital charges to be calculated	KK	Nov 16	18 Nov 16
10.	Meeting with Chair/Vice Chair to discuss draft budget proposals for Member Budget Workshop	SD/SS	Dec 16	05 Dec 16
11.	Finalise revenue and capital financing & levy options (i) Final report to be circulated to SMT for consideration	SS	Dec 16	- 07 Dec 16
12.	Write to contributing authorities requesting their council tax base information	MK/KK	Dec 16	01 Dec 16
13.	**Member Budget Workshop** - Report on revenue & capital budgets, levy options, borrowing limits	SS	Dec 16	15 Dec 16
14.	**Executive/Authority Meetings:** Provisional second budget workshop if required - Report on revenue and capital budgets, Levy options, borrowing limits and fees & charges * Under Park Act section 48 (1) need estimates approved by 24 January each year	SS SS	Jan 17 Jan 17	wc 09 Jan 17 19 Jan 17
15.	Write to contributing authorities to notify them of the Levy for 2015/16 **** Under the Park Act section 49 (5) need to notify contributing councils by 15 February each year***	MK/KK/SS	Feb 17	01 Feb 17