

Q1 REVENUE BUDGET MONITORING 2019/20

Presented by the Director of Finance & Resources

EXECUTIVE SUMMARY

This report summarises monitoring of revenue expenditure to 30 June 2019. It compares actual income and expenditure to the budget. It also provides a projection indicating the likely out-turn position against the annual budget for the year ending 31 March 2020. The overall net operational expenditure at the year end is expected to be an estimated £313,000 over the approved budget for 2019/20. The major variations currently projected are summarised in the table below:

Service Description	Projected Variance 2019/20	Impact on budget in 2020/21
	£	£
Sponsorship Income	25,000	25,000
Legal Services	45,000	0
Property	81,000	0
Planning & Strategic Partnerships	(51,000)	0
Events	20,000	0
Car Parking Income	95,500	0
East India Dock & Gunpowder Park Rental	40,000	40,000
Section 106 Monies	(85,000)	85,000
Unachieved Savings	137,000	0
Other	6,000	0
Total Estimated Over Spend:	313,000	150,000

RECOMMENDATION

Members note (1) the report.

BACKGROUND

- 1 The Executive Committee recommended a budget for 2019/20 at its meeting in January 2019 (Paper E/604/19). This was approved by Members at the Authority meeting on 17 January 2019 (Paper A/4264/19). This report compares actual income and expenditure to 30 June 2019 with the approved budget.
- 2 The summary financial position of each Authority service or facility is shown in Appendix A to this report.

- 3 Currently the year-end position shows a projected net over spend of £313,000 (3%) against net expenditure budget of £9.6m.
- 4 Where significant over/under spends are projected at the year-end for particular facilities/services a brief explanation is provided below.

GENERAL ECONOMIC FACTORS

- 5 Certain financial and economic factors continue to impact on the budget during 2019/20 and will continue to do so into 2020/21 and future financial years and these are summarised in the following paragraphs. Overall uncertainty exists in financial markets as negotiations to leave the European Union continue and officers will monitor closely developments that may have a direct impact on the Authority's budget, for example inflation and interest rates.
- 6 Members received a paper in June 2016 (Paper E/452/16) which set out that agreement had been reached by employers and the relevant unions in respect of the pay award for National Joint Council (NJC) for local government services. The new pay scales and allowances, applicable from 1 April 2018 and 1 April 2019, including a 2% a year pay award each year has been implemented and included within the budget.

Members approved in May (Paper E/561/18) that Senior Officers on a pay grade above scale point 49 would also receive the 2% pay increase in line with NJC award for officers up to scale point 49.

- 7 Continued uncertainty in the banking sector has had an impact on investment returns and certainty around where investments are deposited. The Authority has significantly adjusted its base level of investment income downwards and this formed part of the budget setting process for 2019/20. The 2019/20 target rate of return agreed by Members as part of the Annual Report on Treasury Management was approved at 1.0% (Paper E/625/19).

The Director of Finance & Resources continues to monitor Authority investments and the institutions that they are invested and will keep Members updated on any variances in this position through quarterly monitoring reports in 2019/20.

- 8 The Authority has received the outcome of the 2010/17 rating appeal for Lee Valley VeloPark and Lee Valley Hockey & Tennis Centre. A tribunal appeal hearing was heard at the end of March 2019. A more favourable valuation has been achieved and this has yielded a one-off benefit for the Authority estimated at circa £180,000. The reduction in Rateable Value from £2.04m to £1.87m is still subject to another appeal (August 19) and further savings may accrue for the 2010/17 rating period and the new rating period from 2017/18.

All eligible centres that transferred to Lee Valley Leisure Trust Ltd (the Trust) received 80% mandatory relief for 2019/20. This amounted to a saving of £1.7million and this was again built into the 2019/20 budget and reflected through the Trust management fee.

- 9 There is a strong possibility that a VAT reduction will be applied to local authority sporting income. Our VAT consultants have been using a lead case in respect of non-business treatment and considered the impact of reclaiming VAT on the protective VAT claims previously lodged with HMRC and they believe there is merit in seeking a repayment of the VAT on the basis that this is non-

business income (this is a reclaim of VAT for the Authority business pre 2015 with no implications or impact on the Trust activity/VAT). The value of the potential VAT repayment could result in a significant windfall in 2019/20. Officers have submitted calculations to KPMG for review and they have submitted a claim and appeal to HMRC. It is anticipated that this matter will be concluded in 2019/20, although no firm date has yet been established for the lead case to be heard.

- 10 May's inflation for the Retail Price Index stood at 3.0% and Consumer Price Index at 2.0%.
- 11 The main variances against this year's budget are described below.

CHIEF EXECUTIVE

12 Sponsorship Income (£25,000 reduced income)

The Authority has been working in partnership with British Canoeing since 2018 to secure commercial partners for a package of assets across British Canoeing's and the Authority's interests.

The initiative has secured a range of commercial partner deals, in particular Jaffa as the Principal Partner for the 2019 ICF Canoe Slalom World Cup and 2020 ECA Canoe Slalom European Championships – the first ever commercial rights partner for British Canoeing events. While not securing income, or direct benefits, for the Authority immediately the process has created relationships with a number of potential partners for Lee Valley White Water Centre itself. These are currently being pursued and officers will update Members as and when opportunities reach a firm negotiation point.

Naming rights and sponsorship are areas reserved for the Authority under the new Leisure Services Contract (LSC) and following recent meetings with the London Legacy Development Corporation (LLDC) the Authority is also exploring opportunities for joint working with LLDC in this area.

CORPORATE SERVICES

13 Legal Services (£45,000 over spend)

The Authority is currently engaging external legal services in a number of matters where specialist expertise is required. This is on-going in the case of Abercrombie Lodge and the development proposal at Picketts Lock. In addition it is anticipated that circa £20,000 will be needed for external legal assistance relating to the Eton Manor proposed development opportunity approved by Members early in the year and is included in the projected over spend.

14 Property Management (£81,000 net shortfall in income)

There will be a small delay to the opening of College of World Sport due to the timeframe needed to complete the lease, obtain planning permission and the completion of works. The planning permission has been granted and it is anticipated that the lease will commence in December 2019. The rental income projection of £105,000 for this financial year will be greatly reduced.

Currently there are two residential properties vacant which are usually occupied by staff on service occupancies including the Lodge at Myddelton House and

Holyfield Hall Farm House. Recruitment is underway and it is anticipated that the Lodge will be occupied by the Autumn. This has reduced the rental income for these properties. The latter property will be marketed.

15 Planning and Strategic Partnerships (£51,000 net saving)

Due to a recent vacancy it is anticipated that there will be a net saving in the budget whilst recruitment options and a structure review is underway, some of the savings will be used to provide temporary cover where required.

SPORT & LEISURE

16 Events (£20,000 reduced income)

The events team has significantly developed its income generation over the previous two financial years, achieving a stretch target of £60,000 in 2017/2018 and exceeding a £90,000 stretch target in 2018/2019. A further stretch target of £120,000 was set for 2019/20 which officers believed was achievable given the previous year's performance and the positive trajectory the events programme had taken.

Over the past four months the team have had a number of departures whilst also focussing resources on delivery of the commercial events programme within the open spaces, the FIH Hockey Pro League and ICF Canoe Slalom World Cup.

In addition, the key corporate event hire at the temporary Campsite (WaterWorks Centre) which generated £30,000 of income each year for the past three years is no longer returning (the event is not coming back due to all the development taking place at Queen Elizabeth Olympic Park) and a replacement event(s) for this has not been found, mainly due to limited staff resources which has now been resolved.

For these reasons it is estimated that income for events will be below target in this financial year only. The estimated shortfall is a worst case scenario with the team still working on securing further bookings for the next three quarters to achieve further income.

PARKLANDS & OPEN SPACES

17 Car Parking Charges – (£95,500 Reduced Income/Increased Costs)

Revised parking tariffs commenced 1 April 2019, removing the free hour and replacing this with a £1 charge for the first hour and £2 for the rest of the day (this was a reduction from the original £2.50). It is still too early into the new charging structure however to fully see whether the impact of these changes will deliver the required income to meet budget. Based on current usage income from parking charges is forecast to achieve £138,000 against a budget of £204,500 – an estimated shortfall of £66,500.

In addition to reduced income, management fees, cash collection fees and additional cost relating to repeated vandalism of the parking machines has resulted in additional costs of £39,000. In response, officers working with our respective operators (Broxbourne Borough Council and Parking Eye) have taken the decision to remove the cash payment option when replacing vandalised machines, the first of these are due in the next six weeks.

Officers are also looking at providing mains power to four car parks - this will provide a further saving of circa £22,000 on the management fee. It is anticipated that these actions will improve the bottom line performance during the year.

Current vacancies within the Parklands team will provide in year savings of £10,000 to reduce the projected shortfall.

18 East India Dock Basin and Gunpowder Park Rentals – (£40,000 reduced income)

Two specific sites were identified to achieve commercial rental income and are included within the budget:

East India Dock (£20,000 reduced income)

Planning permission was granted in November 2017 for the location of builders cabins required to support Ballymore's construction of their Leamouth south development. Ballymore wanted the Authority to grant them an Option on the land to place a site compound should they wish, but also claimed they had alternatives that they were pursuing and would not increase the rent they originally offered of £27,500pa. As the Option they requested was to be for no consideration and at a rent that had already been rejected by Members officers have not pursued this matter further. Officers are seeking alternative options to generate a return for this site.

Gunpowder Park (£20,000 reduced income)

Member approval to lease to a cycle operator was granted in 2017 and subsequently planning permission was granted in September 2017 to proceed. However, the operator pulled out in December 2017 deciding to focus on online and international sales.

The property has been re-marketed due to lack of progress from the last interest. There has been encouraging feedback from the Agents marketing the property. Subsequently three interests have been identified and the agents are carrying out the necessary due diligence. Officers will be reviewing the proposed terms and uses with the possibility of presenting a report to Members should the interests progress further.

19 Section 106 North London Reinforcement Project (£85,000 income)

The Authority recently received £85,000 as a S106 agreement with National Grid for the North London Reinforcement Project which commenced this year. There is a suite of approved works outlined for delivery through this scheme over a five year period.

There are also a couple of additional S106 agreements that are due to be paid to the Authority this year in relation to the Cheshunt Lakeside development (the phasing of these payments is yet to be agreed), Britannia Meadows and Essex Wharf.

All section 106 monies are committed to be spent against the prescribed schemes and will need to be reflected in future year's budget setting, but will generate surplus income in this financial year.

20 Savings Targets 2019/20 (£137,000 unachieved savings)

As part of the budget setting process and savings targets for 2019/20, on-going savings from service reviews (£137,000 in 2019/20 growing to £217,000 by 2020/21) are unlikely to be concluded until later this year. These service reviews include the senior management structure, Active Communities, Property, Planning and Legal Services. These areas are being reviewed in the context of the new Business Plan for 2020 to 2025 and will complete a top to bottom organisational review commenced in 2017/18. Where vacancies and savings are identified in-year these will be utilised to mitigate these savings targets.

In the context of a busy and challenging 2020-25 work programme it is important that the Authority has the capacity to deliver a number of key projects. The service reviews and the original savings target will need to take this into account.

ENVIRONMENTAL IMPLICATIONS

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

EQUALITY IMPLICATIONS

- 22 There are no equality implications arising directly from the recommendations in this report.

FINANCIAL IMPLICATIONS

- 23 These are dealt with in the body of the report. The overall outturn projection if not reduced will leave general reserves at £3.9m (below the approved level of £4m that was agreed as part of the 2019/20 budget). A one-off refund from the VAT appeal may significantly alter the in-year bottom line to a favourable variance if it were to materialise but at this stage should not be relied upon as this is dependent on a third party giving a favourable ruling.

In light of this officers will seek to identify other in-year saving/income streams to offset the projected shortfall and will report back to Members as part of the quarter 2 and 3 monitoring reports in the coming months.

- 24 There are significant matters that are not included in the current year end projection that could, if they materialise, positively or adversely affect the estimated position by the year end.

The potential impact of a VAT reimbursement is covered in paragraph 9, also further Section 106 monies as described in paragraph 19 could materialise before the year end (not withstanding that these would be matched by future years spending) and these would result in a significant under spend.

Conversely the over spend projection could be potentially higher as the Authority/Trust are in dispute with Castle Water surrounding significant water consumption and related bills at the Picketts Lock site. The matter is currently in dispute as the facts around actual usage, a faulty meter, potential leaks and late billing are yet to be resolved before the actual liability can be established.

HUMAN RESOURCE IMPLICATIONS

25 These are dealt with in the body of the report.

LEGAL IMPLICATIONS

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

RISK MANAGEMENT IMPLICATIONS

27 Spending of the budget is important in achieving the Authority's corporate objectives. The currently projected net spend to the end of this financial year will impact on the Authority's budget in future years and will need to be incorporated into the Medium Term Financial Plan and budget setting going forward.

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ABBREVIATIONS

NJC	National Joint Council
the Trust	Lee Valley Leisure Trust Ltd (trading as Vibrant Partnerships)
LLDC	London Legacy Development Corporation

PREVIOUS COMMITTEE REPORTS

Executive Committee	E/624/19	Q4 Revenue Budget Monitoring 2018/19 – Provisional Outturn	23 May 2019
Executive Committee	E/625/19	Annual Report on Treasury Management Activity 2018/19 and Annual Investment Strategy 2019/20	23 May 2019
Authority	A/4264/19	2019/20 Revenue Budget & Levy	17 January 2019
Executive Committee	E/604/19	2019/20 Revenue Budget & Levy	18 January 2019

APPENDIX ATTACHED

Appendix A Details of the financial position of each Authority service or facility

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YEAR 2019/20

PERIOD: 03 (June 2019)

	Actual To Date			Annual Net Budget	Proposed Net Outturn	Variance	
	Income	Expenditure	Net			£000s	%
OPERATIONAL SERVICES							
Chief Executive	0	157	157	676	701	25	4%
Corporate Services	(407)	446	39	354	429	75	21%
Finance and Support Services	242	(32)	210	1,747	1,746	(1)	(0%)
Sport and Leisure	(102)	256	154	1,066	1,077	11	1%
Parklands and Open Spaces	(249)	1,018	769	2,733	2,884	151	6%
Leisure Trust Contract	0	0	0	1,435	1,435	0	0%
Growth & Savings	0	0	0	(61)	76	137	225%
s106 North London Reinforcement Project	(85)	0	(85)	0	(85)	(85)	0%
FINANCING							
Interest Receivable	(12)	1	(11)	(80)	(80)	0	0%
Bank Charges	0	0	0	6	6	0	0%
Contributions to Earmarked Reserves	0	0	0	787	787	0	0%
Financing of Capital Expenditure	0	0	0	931	931	0	0%
Levies on Local Authorities	(2,394)	0	(2,394)	(9,576)	(9,576)	0	0%
Movement in General Fund				18	331	313	1739%
General Fund Balance Brought Forward					(4,223)		
General Fund Balance Carried Forward					(3,892)		

YEAR 2019/20

PERIOD: 03 (June 2019)

	Actual To Date			Annual Net Budget	Proposed Net Outturn	Variance	
	Income	Expenditure	Net			£000s	%
CHIEF EXECUTIVE							
Chief Executive	0	78	78	253	278	25	10%
PR / Communications	0	79	79	423	423	0	0%
TOTAL CHIEF EXECUTIVE	0	157	157	676	701	25	4%
CORPORATE SERVICES							
Legal Service	(2)	80	78	354	399	45	13%
Property Management	(405)	177	(228)	(897)	(816)	81	9%
Planning and Strategic Partnerships	0	59	59	371	320	(51)	(14%)
Asset Protection, Maintenance & Development	0	104	104	411	411	0	0%
Committee Service	0	26	26	115	115	0	0%
TOTAL CORPORATE SERVICES	(407)	446	39	354	429	75	21%
FINANCE AND SUPPORT SERVICES							
Finance Management	83	187	270	1,224	1,223	(1)	(0%)
Audit / Health & Safety	0	(18)	(18)	80	79	(1)	(1%)
Non Distributed Costs	0	12	12	69	70	1	1%
Corporate Training / Apprenticeships	0	3	3	6	6	0	0%
Leisure Trust Employee Secondments	0	74	74	297	297	0	0%
Business Support (Trust)	159	(364)	(205)	(79)	(79)	0	0%
Leisure Contract Venues Insurance	0	74	74	150	150	0	0%
TOTAL FINANCIAL SERVICES	242	(32)	210	1,747	1,746	(1)	(0%)
SPORT AND LEISURE							
Events	(62)	32	(30)	134	154	20	15%
Sports Development	(4)	1	(3)	70	72	2	3%
Policy and Performance	0	138	138	577	577	0	0%
Youth & Schools Service	(36)	72	36	205	194	(11)	(5%)
Community Access	0	13	13	80	80	0	0%
TOTAL SPORT AND LEISURE	(102)	256	154	1,066	1,077	11	1%

YEAR 2019/20

PERIOD: 03 (June 2019)

	Actual To Date			Annual Net Budget	Proposed Net Outturn	Variance	
	Income	Expenditure	Net			£000s	%
PARKLANDS AND OPEN SPACES							
Management							
Operational Management	0	42	42	163	163	0	0%
Myddelton House Management	1	178	179	346	343	(3)	(1%)
Parklands							
River Lee Country Park	(17)	164	147	418	477	59	14%
Gunpowder Park	(2)	26	24	67	99	32	48%
Countryside Areas	(23)	175	152	1,138	1,171	33	3%
Abbey Gardens	(4)	19	15	96	103	7	7%
Three Mills	0	3	3	38	38	0	0%
East India Dock and Bow Creek	0	9	9	34	55	21	62%
Leyton Marsh	0	0	0	0	0	0	0%
Broxbourne Riverside	0	3	3	(16)	(16)	0	0%
Fisheries	(81)	35	(46)	(20)	(20)	0	0%
Visitor Attractions							
Myddelton House	(17)	55	38	206	206	0	0%
Rye House Gatehouse	0	4	4	8	8	0	0%
Park Projects							
Volunteers	0	27	27	99	101	2	2%
Biodiversity	(29)	77	48	107	107	0	0%
Farms							
Lee Valley Farm, Holyfieldhall	(59)	195	136	89	89	0	0%
Initiatives and Partnerships							
King George Reservoir South	(3)	0	(3)	0	0	0	0%
Lee Valley Boat Centre	(12)	4	(8)	(33)	(33)	0	0%
Broxbourne Chalets	(3)	2	(1)	(7)	(7)	0	0%
TOTAL PARKLAND AND OPEN SPACES	(249)	1,018	769	2,733	2,884	151	6%
TOTAL AUTHORITY	(516)	1,845	1,329	6,576	6,837	261	4%

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