

**Q2 REVENUE BUDGET MONITORING 2019/20**

Presented by the Director of Finance & Resources

**EXECUTIVE SUMMARY**

This report summarises monitoring of revenue expenditure to 30 September 2019. It compares 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 £266,000 over the approved budget for 2019/20. The major variations currently projected are summarised in the table below:

<b>Service Description</b>	<b>Projected Variance 2019/20</b>	<b>Impact on budget in 2020/21</b>
	<b>£</b>	<b>£</b>
Sponsorship Income	25,000	0
Legal Services	55,000	0
Property	103,000	0
Planning & Strategic Partnerships	(90,000)	0
Finance & Support	(90,000)	(60,000)
Events	0	0
Youth & Schools Income	(15,000)	
Car Parking Income	95,500	0
East India Dock and Gunpowder Park Rental	40,000	20,000
Myddelton House Gardens	(23,000)	0
Section 106 Monies	(85,000)	85,000
Unachieved Savings	127,000	0
Leisure Services Contract – Clause 14	100,000	0
Other	23,500	0
<b>Total Estimated Over Spend:</b>	<b>266,000</b>	<b>45,000</b>

**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 income and expenditure to 30 September 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 £266,000 (2.8%) against a net expenditure budget of £9.6m. Since the first quarter's projection (£313,000 over-spend ) officers have been identifying one-off in-year savings to reduce the overall impact which should not adversely affect the Authority in delivering its business priorities throughout the year. These savings are described below.
- 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 the agreement that had been reached by employers/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, have 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 the 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 at 1.0% (Paper E/625/19).

The Director of Finance & Resources continues to monitor Authority investments and the institutions that they are invested in 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 of £180,000 in 2018/19. The reduction in Rateable Value from £2.04m to £1.87m is still subject to another final appeal (November 2019) and further savings may accrue for the 2010/17 rating period and subsequently 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's management fee.

9. There is a strong possibility that a VAT reduction could 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. 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. Augusts' inflation for the Retail Price Index stood at 2.6% and Consumer Price Index at 1.7%.
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). Following recent meetings with the London Legacy Development Corporation (LLDC) the Authority is exploring opportunities for joint working with LLDC in this area. The initial discussions have proved fruitful and the Authority is in the early stages of developing an approach with LLDC to jointly market some category rights across Queen Elizabeth Olympic Park (QEOP).

## **CORPORATE SERVICES**

### **13 Legal Services (£55,000 over spend)**

The Authority is currently engaging external legal services in a number of matters where specialist expertise is required. This is ongoing 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 (£103,000 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. Planning permission was granted, the conversion works completed and it is anticipated that the lease will commence in December 2019. The rental income projection of £105,000 will slip for this financial year and is anticipated to start next financial year.

Currently there is one residential property vacant at Holyfield Hall Farm House which is usually occupied by staff on a service occupancy agreement. However, this has not been required for staff purposes since January 2018 when the previous staff occupant left. External agents currently marketing the property have found a prospective tenant and are currently undergoing referencing checks. It is anticipated the property will be occupied by December 2019. Myddelton House Lodge, which was previously vacant, is now occupied by the new Head Gardner.

**15 Planning and Strategic Partnerships (£90,000 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.

**FINANCE & SUPPORT SERVICES****16 Insurance Retender (Savings £40,000)**

September saw the completion of a full OJEU retender of our insurance contracts covering Public Liability, Buildings and Vehicle policies for a three year contract with options to extend for a further two years. The competitive nature of the retender; the recognition of a significantly decreased risk profile due to the out-sourced LSC and the Authority's low claim experience have produced a significantly lower premium – especially in the area of Public Liability. This will also have a positive impact on next year's budget and will be built into the Medium Term Financial Plan.

**17 Insurance Fund Excess & Storm Fund Contribution (£35,000)**

The Authority currently has an insurance fund (£0.7m) to deal with excesses on our policies described above. Each year £25,000 is contributed to meet potential excesses and £10,000 to deal with low level storm damage and smaller uninsured items. Clearly from the lower risk profile highlighted above and the fact that drawn-down monies from the insurance fund barely exceed £20,000 a year, officers believe that not making the contribution this year will expose the Authority to no additional risk. It is therefore prudent to use these monies to offset the in-year overspend and resume contributions in future years.

**18 Internal Audit and General Consultancy Savings (£15,000 net saving)**

The internal audit contract is a draw-down contract under the Croydon Framework agreement and the Authority pays for Audit days used. Historically we have utilised 135 to 145 of the budgeted planned days of 155 days. As in all years key core financial audits will be undertaken and spot check audits under the LSC have already been completed. A further 32 days have been included for procurement, the management of change and contract management. It is

likely that the plan can be adjusted downwards in these audit areas to be included as part of next year's audit plan to produce a £10,000 saving in-year. These audits e.g. management of change, will be more relevant next year to coincide with the new business plan 2020-25 and the letting of the new LSC. The auditors have already been assisting this year with the procurement of the new LSC. Further one-off savings in the consultant budget will produce an additional £5,000 in savings.

## **SPORT & LEISURE**

### **19 Events (£20,000 reduced income and £20,000 in-year savings)**

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 QEOP. A replacement event(s) for this has not yet been found, mainly due to limited staff resources that have 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 two quarters to achieve further income. Due to vacancies it is likely that in-year savings of £20,000 can be achieved to offset this loss of income and so contribute to the overall bottom line.

### **20 Youth & Schools (increased income £5,000 and saving £10,000)**

The service income target was temporarily increased from £48,000 in 2018/19 to £86,000 in 2019/20 due to securing an additional £37,700 partnership project grant funded by the L&Q Housing Foundation. The Service expects to exceed income target by £5,000 due to continued high demand for its standard offer and achieve £10,000 saving due to L&Q project funding.

## **PARKLANDS & OPEN SPACES**

### **21 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). 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 November.

Officers are also looking at providing mains power to four car parks - this work has come to the conclusion that three of the car parks are a possibility and therefore these are being pursued. For the fourth, Hooks Marsh, we have an indication price of £200,000 to get power to the location, therefore we are considering other alternative options with ParkingEye. 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.

**22 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. A potential new tenant has been identified and subject to planning permission for a change in use the tenant is likely to be in occupation from the new year, and following a rent free period will be paying the required rental. This will positively impact the budget shortfall in the new financial year.

**23 Myddelton House Gardens (£23,000 savings)**

Due to the in-year vacancy of the Head Gardener post that has now been recruited to, the employee budget will be under-spent at year end.

**24 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.

**25 Savings Targets 2019/20 (£127,000 unachieved savings)**

As part of the budget setting process and savings targets for 2019/20, ongoing 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 new vacancies materialise and further savings are identified in-year these will be utilised to mitigate this savings target and updated as part of the quarter 3 monitoring to Members.

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.

**26 Leisure Services Contract Potential Clause 14 Adjustments (£100,000)**

As part of the LSC the Trust identified (through their quarterly monitoring reported to Members in September (Paper E/636/19)), potentially £100,000 of Clause 14 adjustments to the management fee.

These are due to the potential shortfall in income as the instalment of the lodges at Dobbs Weir were delayed, also, the impact of site investigation works at Picketts Lock reducing the golf and camping facilities income on that site. These requests for adjustment will be analysed and reviewed later in the year when actual income and expenditure at these sites is finalised. This will be subject to Member approval.

**ENVIRONMENTAL IMPLICATIONS**

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

**EQUALITY IMPLICATIONS**

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

## **FINANCIAL IMPLICATIONS**

- 29 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 3 monitoring report in February 2020.

- 30 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**

- 31 These are dealt with in the body of the report.

## **LEGAL IMPLICATIONS**

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

## **RISK MANAGEMENT IMPLICATIONS**

- 33 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
QEOP	Queen Elizabeth Olympic Park
OJEU	Official Journal of the European Union



**PREVIOUS COMMITTEE REPORTS**

Executive Committee	E/636/19	Leisure Services Contract Monitoring Q1 2019/20	19 September 2019
Executive Committee	E/631/19	Q1 Revenue Budget Monitoring 2019/20	18 July 2019
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: 05 (August 2019)

	Actual To Date			Annual Net Budget	Proposed Net Outturn	Variance	
	Income	Expenditure	Net			£000s	
<b>OPERATIONAL SERVICES</b>							
Chief Executive	0	277	277	676	704	28	4%
Corporate Services	-463	710	247	354	422	68	19%
Finance and Support Services	-2	713	711	1,752	1,660	-92	(5%)
Sport and Leisure	-194	421	227	1,076	1,061	-15	(1%)
Parklands and Open Spaces	-379	1,604	1,225	2,787	2,922	135	5%
Leisure Trust Contract	0	0	0	1,435	1,535	100	7%
Growth & Savings	0	0	0	-61	66	127	208%
s106 North London Reinforcement Project	-85	0	-85	0	-85	-85	0%
<b>FINANCING</b>							
Interest Receivable	-12	2	-10	-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	-3,990	0	-3,990	-9,576	-9,576	0	0%
<b>Movement in General Fund</b>				<b>87</b>	<b>353</b>	<b>266</b>	<b>306%</b>
General Fund Balance Brought Forward					-4,223		
General Fund Balance Carried Forward					-3,870		

YEAR 2019/20

PERIOD: 05 (August 2019)

	Actual To Date			Annual Net Budget	Proposed Net Outturn	Variance	
	Income	Expenditure	Net			£000s	%
<b>CHIEF EXECUTIVE</b>							
Chief Executive	0	124	124	253	281	28	11%
PR / Communications	0	153	153	423	423	0	0%
<b>TOTAL CHIEF EXECUTIVE</b>	<b>0</b>	<b>277</b>	<b>277</b>	<b>676</b>	<b>704</b>	<b>28</b>	<b>4%</b>
<b>CORPORATE SERVICES</b>							
Legal Service	-6	144	138	354	409	55	16%
Property Management	-457	241	-216	-897	-794	103	11%
Planning and Strategic Partnerships	0	84	84	371	281	-90	(24%)
Asset Protection, Maintenance & Development	0	198	198	411	411	0	0%
Committee Service	0	43	43	115	115	0	0%
<b>TOTAL CORPORATE SERVICES</b>	<b>-463</b>	<b>710</b>	<b>247</b>	<b>354</b>	<b>422</b>	<b>68</b>	<b>19%</b>
<b>FINANCE AND SUPPORT SERVICES</b>							
Finance Management	-2	483	481	1,224	1,141	-83	(7%)
Audit / Health & Safety	0	8	8	80	69	-11	(14%)
Non Distributed Costs	0	18	18	69	71	2	3%
Corporate Training / Apprenticeships	0	5	5	6	9	3	50%
Leisure Trust Employee Secondments	0	122	122	297	297	0	0%
Business Support (Trust)	0	0	0	-79	-79	0	0%
Leisure Contract Venues Insurance	0	77	77	155	152	-3	(2%)
<b>TOTAL FINANCIAL SERVICES</b>	<b>-2</b>	<b>713</b>	<b>711</b>	<b>1,752</b>	<b>1,660</b>	<b>-92</b>	<b>(5%)</b>
<b>SPORT AND LEISURE</b>							
Events	-110	51	-59	144	144	0	0%
Sports Development	-11	2	-9	70	70	0	0%
Policy and Performance	0	229	229	577	577	0	0%
Youth & Schools Service	-55	120	65	205	190	-15	(7%)
Community Access	0	19	19	80	80	0	0%
<b>TOTAL SPORT AND LEISURE</b>	<b>-194</b>	<b>421</b>	<b>227</b>	<b>1,076</b>	<b>1,061</b>	<b>-15</b>	<b>(1%)</b>

YEAR 2019/20

PERIOD: 05 (August 2019)

	Actual To Date			Annual Net Budget	Proposed Net Outturn	Variance	
	Income	Expenditure	Net			£000s	
<b>PARKLANDS AND OPEN SPACES</b>							
<b>Management</b>							
Operational Management	0	68	68	163	164	1	1%
Myddelton House Management	0	203	203	346	346	0	0%
<b>Parklands</b>							
River Lee Country Park	-22	292	270	418	477	59	14%
Gunpowder Park	-3	40	37	67	98	31	46%
Countryside Areas	-37	355	318	1,138	1,174	36	3%
Abbey Gardens	-6	38	32	96	103	7	7%
Three Mills	0	7	7	38	38	0	0%
East India Dock and Bow Creek	0	13	13	34	55	21	62%
Leyton Marsh	0	0	0	0	0	0	0%
Broxbourne Riverside	0	6	6	-16	-16	0	0%
Fisheries	-95	56	-39	-20	-19	1	5%
<b>Visitor Attractions</b>							
Myddelton House	-17	81	64	201	178	-23	(11%)
Rye House Gatehouse	0	4	4	8	7	-1	(13%)
<b>Park Projects</b>							
Volunteers	0	45	45	99	101	2	2%
Biodiversity	-29	96	67	166	166	0	0%
<b>Farms</b>							
Lee Valley Farm, Holyfieldhall	-135	294	159	89	90	1	1%
<b>Initiatives and Partnerships</b>							
King George Reservoir South	-5	0	-5	0	0	0	0%
Lee Valley Boat Centre	-24	4	-20	-33	-33	0	0%
Broxbourne Chalets	-6	2	-4	-7	-7	0	0%
<b>TOTAL PARKLAND AND OPEN SPACES</b>	<b>-379</b>	<b>1,604</b>	<b>1,225</b>	<b>2,787</b>	<b>2,922</b>	<b>135</b>	<b>5%</b>
<b>TOTAL AUTHORITY</b>	<b>-1,038</b>	<b>3,725</b>	<b>2,687</b>	<b>9,663</b>	<b>9,929</b>	<b>266</b>	<b>3%</b>

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