

REVENUE BUDGET 2015/16 PERFORMANCE MONITORING

Presented by the Director of Finance & Resources

EXECUTIVE SUMMARY

This report provides monitoring of revenue expenditure to 29 December 2015. 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 2016. The overall net operational expenditure at the year end is expected to be an estimated £440,000 under the approved budget for 2015/16. The major variations are summarised in the table below:

Service Description	Variance 2015/16	Impact in 2016/17
	£	£
PR/Communications	(15,000)	15,000
Legal Services	(41,000)	0
Property Management	(259,000)	(165,000)
Planning & Strategic Partnerships	(12,000)	0
Operational Management	(20,000)	20,000
Leyton Marsh	(16,000)	16,000
Myddelton House	(41,000)	(18,000)
Community Access Fund	(63,000)	63,000
Lee Valley Farm Holyfield Hall	23,000	0
Other	4,000	0
Total Estimated Under Spend:	(440,000)	(69,000)

RECOMMENDATIONS

- Members Approve :
- (1) the carry forwards for the 50th anniversary of £15,000 (paragraph 11), operational management of £20,000 (paragraph 15) and £63,000 of the Community Access Fund (paragraph 18);
 - (2) £20,000 of the under spend be utilised to invest in direct milk vending as set out in paragraph 19; and

Members Note: (2) the report.

BACKGROUND

- 1 The Executive Committee recommended a budget for 2015/16 at its meeting in January 2015 (Paper E/389/15). This was approved by Members at the Authority meeting on 22 January 2015 (Paper A/4200/15). This report compares actual income and expenditure to 29 December 2015 with the budget and projected net expenditure through to the year end (31 March 2016).
- 2 Details of the financial position of each service or facility are shown in Appendix A to this report.
- 3 Currently it is estimated that at the year-end there will be a projected under spend of £440,000.
- 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 will impact on the budget during 2015/16 and next financial year and these are summarised in the following paragraphs.
- 6 Members received a paper in December 2014 (Paper E/381/14) 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 agreed pay award of 2.2% formed part of a national agreement and was applied to all officers up to scale point 49 with effect from 1 January 2015. In addition Members approved that posts above scale point 49 would also receive this inflationary increase. These increases have been met from the original 1% provision in 2014/15 as the increase only applied for a part year and an additional 1.2% was built in to the 2015/16 budget to cover the increased costs. There will be no further pay award impacts during the year.

For future years the Chancellor announced in his budget a public sector pay freeze at 1% for the next four years. In addition he announced a new living wage for those over 25 rising to £7.20 per hour from April 2016 to a minimum of £9.00 per hour by 2020 subject to sustained economic growth. These changes have been factored into the budget assumptions and approved as part of the 2016/17 budget approved by Members at full Authority in January 2016.

- 7 Continued uncertainty in the banking sector and European economies as a whole have an impact on investment returns and certainty around where investments are deposited. The Authority has significantly adjusted its base level of investment income downwards for this year and this formed part of the budget setting process for 2015/16. The 2015/16 target rate of return agreed by Members as part of the Annual Report on Treasury Management was approved at 1.0% (Paper A/4214/15).

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

- 8 Locally the Authority is still awaiting the outcome of the 2010/17 rating appeal for some of its facilities, specifically in relation to the Lee Valley White Water Centre (LVWWC). It is possible that this could lead to a reduction in the rateable value (RV). The appeal hearing is scheduled for the 22 February 2016. Our rates consultant has advised that a significant rebate is not currently on offer. In addition the Valuation Office is aware of the significant and costly improvements carried out by the Authority post Olympics without a change occurring in the current assessment.

On 10 April 2015 the Authority received the rating valuation for 2015/16 for the Lee Valley VeloPark (RV £2,040,000) with a gross rates bill of £1,046,550. The 2015/16 bill was received shortly after (£1.046m) against a current budget of £1million. A small adjustment to the Management Fee of £9,300 (20% of £46,550) was approved to cover this budgeted sum.

All eligible centres that transferred to the Trust have applied for and received 80% mandatory relief going into 2015/16. This amounts to a saving of £1.7million and this was built into the 2015/16 budget.

- 9 Inflation rates have remained low so far during the year. December inflation for the Retail Price Index stood at 1.2% and Consumer Price Index at 0.2%.
- 10 Variances against this year's budget are described in more detail below.

CHIEF EXECUTIVE

11 PR/Communications (£15,000 under spend)

This underspend has mainly been achieved through savings by amalgamating and changing some printed materials, particularly the merging of the events guide with the main destination guide. Officers request a carry forward of £15,000 into 2016/17 from the Communications budget for the Authority's 50th anniversary.

DIRECTOR OF CORPORATE SERVICES

12 Legal Services (£41,000 Under spend)

This budget has been carrying a vacancy following the retirement of a Management Support Officer on 31 March 2015. This post supported the property, planning and legal functions. In addition, different ways of working have been tested and the legal service has been engaging a legal support officer via an agency and a property solicitor 2 days a week via a secondment arrangement with the London Borough of Barking and Dagenham. Due to the split in the organisation it was also necessary to re-assess the needs of the legal service. The intention is to recruit a legal support officer who will also offer some support to the property team and explore the possibility of a shared property solicitor post with a local authority.

13 Property Management (£270,000 Increased Income, £11,000 Increased Expenditure)

The Authority has settled the Three Mills rent review due from December 2014. The rent previously paid was £240,000 pa, and a new rent of £425,000 pa has been negotiated. This settlement therefore results in increased income in

2015/16 of £270,000 against budget (including arrears for the last quarter of 2014/15) with an ongoing saving of £165,000 from 2016/17 against the base budget. In addition net costs of £11,000 incurred in relation to land valuations, agency staff cover and management fees for rental lettings have reduced the favourable projected net variance to £259,000.

14 Planning & Strategic Partnerships (£12,000 Under spend)

Underspends on the Planning budget of £47,000 in the main have been caused by two staff vacancies and delayed consultancy costs following the decision by this Committee (Minute 671) to delay work on the Park Development Framework (PDF). The staff underspends will be utilised in 2015/16 to fund £35,000 of legal fees to support the Authority's action in the Court of Appeal.

PARKLANDS & OPEN SPACES

15 Operational Management (Under spend £21,000)

As part of the split between the Authority and Trust and the subsequent senior management restructuring a one-off sum of £80,000 was set aside to allow consultancy support against specific projects, which included, but was not limited to, the Ice Centre development and the reinstatement of the former allotment site at Eton Manor. It is estimated that £20,000 of the original £80,000 will remain unspent at the year end and is required in 2016/17 to complete the briefs in both project areas. Members are therefore requested to carry forward this sum into 2016/17 to allow completion in these and other areas.

16 Leyton Marsh (£16,000 Under spend)

Two expenditure items that were planned this for year's spend can now only be delivered in 2016/17. These are:

1. £6,000 for screening planting to the Ice Centre boundary with Leyton Marsh. This is on hold pending decision on the future of the Ice Centre;
2. £10,000 for an art project to improve the Lea Bridge Road underpass:
 - selection of the winning artist to do the work was carried out by a panel made up of Save Leyton Marsh, Friends of Walthamstow Marsh and Lee Valley staff;
 - this process was drawn out due to the logistics of involving the panel and due to the type of tender process agreed on – i.e., a two stage process;
 - the winning artist was selected unanimously by the panel due mainly to their robust engagement process which was inclusive of the whole community and would ensure a genuine connection and learning about the site;
 - the engagement process will last for a year to take in all the four seasons so would need to run well in to 2016/17.

To accommodate the above, a carry forward of up to £16,000 will be needed into 2016/17 for this budget. Spend of the remaining budget is well underway.

17 Myddelton House Heritage Centre (£41,000 Under spend)

The Visitor Centre Café has proactively managed staffing rotas with one less full time seasonal member of staff and only covering peak periods with casuals. This has resulted in an under spend against the approved budget, which is an

approach and saving that has been built into future years budget projections.

18 Community Access Fund (CAF) (£63,000 Under spend)

Members of this Committee received an update report in November 2015 (Paper E/426/15) regarding the CAF. At this meeting details of progress to date and potential outcomes up to the end of the summer were discussed. As initial progress was developing it was agreed to carry forward any under spent sums in 2015/16 to 2016/17 with a full review brought back to the Executive following a review by Scrutiny which will start in May 2016. It is therefore requested that Members approve the carry forward of £63,000 into 2016/17.

19 Lee Valley Farm – Holyfield Hall (£23,000 Reduced Income)

The milk market price continues to be volatile with another recent price reduction keeping the price under 24ppl (pence per litre), therefore the income of the Farm is still under performing and is estimated to reduce total milk income receipts by £23,000. Remedial measures to mitigate this impact include reduction of production costs and increased yield per cow. Current yields are ahead of prediction at present so this will reduce the impact of the price reduction.

The national cost of production is 28ppl whilst the Farm is 26.7ppl, placing it in the top quartile in the UK. Average yield per cow in the UK is 7,600 litres whilst the Farm is averaging 9,200 litres per cow - again placing it in the top quartile for the UK. Feed prices are constantly monitored for best value and dialogue with our feed suppliers and milk contractor continues.

Officers have been exploring measures to mitigate the shortfall in income through the sale of our milk direct to the public to maximize potential added value. A potential solution has come on the market known as direct milk vending. A system to the scale we could operate has become available and a small number of dairy farmers have introduced the system, with very positive results.

The machine and associated equipment would cost an estimated £25,000 with an estimated payback on investment of less than 2 years. Officers are recommending that part of the overall under spend from the Authority's current budget is used to fund this investment. As this project is so new officers are currently working on the detailed business case and in discussions with our milk processor, Arla, to clarify the method of reducing our supply to them.

TRUST BUDGET

- 20 In March 2015 the Leisure Services Contract (LSC) was signed with an agreed net Management Fee of circa £3.5m to fulfil the requirements of the LSC, which included major assumptions regarding 80% mandatory rate relief on all the eligible venues and an improved VAT position as estimated from the financial model. The 80% rate relief has been secured from 1 April 2015 achieving the target saving of circa £1.7m as set out in the financial model. However there is currently less certainty around the level of VAT benefits that will accrue from the transfer, mainly due to the amount of exempt VAT income collected by the Authority following the opening of the Lee Valley VeloPark and due to the level of uncertainty around the level of standard rated expenditure the Trust is likely to incur going forward that could potentially be reclaimed. The VAT benefit is

also intrinsically linked to the volume and type of sales that are transacted over the year.

Certainty in this area is only likely to materialise as the Trust submits its quarterly VAT claims over the next two quarters. Officers view is that a prudent estimate of £250,000 against a targeted £500,000 saving is more likely for this year and may improve as the Trust continues to develop its own business model.

- 21 Another key area that has also changed since agreeing the Management Fee and which will have a bearing on the final fee claimed by the Trust in 2015/16 is due to reduced employer pension contributions. The total budget was set assuming an employer rate of 18.4% across all employees (Authority & Trust). Following decisions regarding the pension scheme by Members in November 2014 (Paper A/4198/14) it was approved that a nominated pension scheme would apply to the Trust and that all past liabilities would remain with the Authority. A revised calculation for employers' contribution rates for both the Authority and the Trust was undertaken by the London Pension Fund Authority (LPFA). This was completed in April and therefore was not reflected through the original Management Fee. The revised calculation assumed a Trust employer contribution rate of 12.7% and an Authority contribution rate of 21.7%. The effect of this rate applied to existing scheme members has resulted in the total contribution required by the Trust reducing by £241,000, whilst the Authority's contribution has increased by £93,000. This has produced an estimated net saving of £148,000.
- 22 The impact of budget adjustments on the LSC Management Fee were reported and approved as part of the first quarter's revenue monitoring to Executive Committee and is repeated below for information. Further adjustments between the two organisations are likely in the coming months and these will be reported to Executive for approval as part of the quarterly budget monitoring. These adjustments will include apprenticeship/training budgets, recharges between departments, additional audit costs and repairs and renewals transfers. These are unlikely to affect the total budget (as approved by Members in January 2015), but could result in the Management Fee either increasing or decreasing.

	Identified Commitments	Estimated £'000
1.	Management Fee 1 April 2015	3,539
2.	Pension Contribution Savings	(241)
3.	Carry Forwards from Authority into Trust	105
4.	Net cost of business support recharges	180
5.	External Audit Fee	5
6.	Employee Related Costs misallocation	(1)
7.	Investment Income	(10)
8.	Additional Business rates Lee Valley VeloPark	9
9.	Cycle Surgery Business Rates at Lee Valley VeloPark	21
	Revised Management Fee (approved 30 July 2015)	3,607

Item 2. Will result in a net Authority budget saving of £148,000 as described in paragraph 21 as the Authority has picked up the additional cost of the higher contribution.

Items 3. Is already agreed as a contribution from reserves and is for one-off carry forwards agreed from the 2014/15 under spend to complete specific

projects. There is no overall budgetary impact. This item has been deleted from the 2016/17 Management Fee.

Items 4-7 were contained within the existing overall budget and relate to adjustments between both organisations, therefore there is no overall bottom line budgetary impact.

Items 8. and 9. will both have a small budgetary impact as these items were not included within the original budget.

DUAL RUNNING COSTS

- 23 Included within the Trust and Authority's budget are additional costs relating to dual running costs. As part of the approved budget for 2015/16 Members approved £250,000 to meet ongoing dual running costs that were anticipated to be required following the establishment of the Trust. The current demands on this budget are set out in the table below:

Description	Authority £'000	Trust £'000	Total £'000
Marketing	50,000	55,000	105,000
Health & Safety Event Management	0	10,000	10,000
Finance Support	0	66,000	66,000
Insurance Support	0	4,000	4,000
Additional Insurance Premium	0	35,000	35,000
Legal Support	0	25,000	25,000
Events Management	0	5,000	5,000
Total	50,000	200,000	250,000

- 24 Currently dual running costs are likely to fall within the total provision of £250,000 in this financial year. Officers are finalising the requirements for future year's commitments to stay within the originally allocated sum.

ENVIRONMENTAL IMPLICATIONS

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

EQUALITY IMPLICATIONS

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

FINANCIAL IMPLICATIONS

- 27 Work on the baseline budget for the Trust and the Authority is ongoing as apportionments between the Authority and Trust are being refined as the working relationship between the two bodies is being developed. The major adjustments between the Authority and Trust are set out in paragraph 22 and any future adjustments will be brought to Executive and the Trust Board. The overall financial position shows the Authority is still on target to fall within its forecast budget as approved by Members in January 2015 with major adjustments between the two organisations not affecting the overall bottom line or general reserves over and above that which has been already agreed.

If the projected variation (£250,000) within the Trust materialises by the year end the Authority may be approached by the Trust to discuss a further contract adjustment (in line with clause 14 of the contract).

HUMAN RESOURCE IMPLICATIONS

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

LEGAL IMPLICATIONS

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

RISK MANAGEMENT IMPLICATIONS

30 Spending of the budget is important in achieving the Authority's corporate objectives. The projected spend to the end of this financial year will have an impact on the Authority's budget in future years and will be incorporated into future resource planning.

Author: Simon Sheldon 01992 709859, ssheldon@leevalleypark.org.uk

PREVIOUS COMMITTEE REPORTS

Executive Committee	E/426/15	Community Access Fund	26 November 2015
Executive Committee	E/421/15	Revenue Budget 2015/16 Performance Monitoring	22 October 2015
Executive Committee	E/411/15	Revenue Budget 2015/16 Performance Monitoring	30 July 2015
Executive Committee	E/408/15	Revenue Budget 2014/15 Performance Provisional Outturn	21 May 2015
Authority	A/4214/15	Annual Report on Treasury Management Activity 2014/15 and Annual Investment Strategy 2015/16	09 July 2015
Authority	A/4201/15	Leisure Services Contract For the Operation & Delivery of Services at Authority Venues.	5 February 2015
Authority	A/4200/15	Proposed Budget & Levy 2015/2016	22 January 2015
Executive Committee	E/389/15	Proposed Budget & Levy 2015/2016	22 January 2015
Executive Committee	E/381/14	2014/16 Pay Award	18 December 2014

APPENDIX ATTACHED

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

ABBREVIATIONS

LVWWC	Lee Valley White Water Centre
RV	Rateable Value
LSC	Leisure Services Contract
PDF	Park Development Framework
ppl	Pence Per Litre
CAF	Community Access Fund

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YEAR 2015/16

PERIOD: 09 (December 2015)

	Actual To Date			Annual Net Budget	Proposed Net Outturn	Variance	
	Income	Expenditure	Net			£000s	%
OPERATIONAL SERVICES							
Chief Executive	-15	522	507	780	764	-16	(2%)
Corporate Services	-947	1,065	118	507	195	-312	(62%)
Financial Services	-46	290	244	530	530	0	0%
Parklands and Open Spaces	-660	3,317	2,657	3,792	3,680	-112	(3%)
Leisure Trust Contract	0	2,539	2,539	3,608	3,608	0	0%
FINANCING							
Interest Receivable	14	0	14	-165	-165	0	0%
Interest Payable	0	0	0	32	32	0	0%
Contributions to Earmarked Reserves	0	0	0	832	832	0	0%
Financing of Capital Expenditure	0	0	0	1,550	1,550	0	0%
Levies on Local Authorities	-8,294	0	-8,294	0	0	0	0%
Movement in General Fund				11,466	11,026	-440	(4%)
General Fund Balance Brought Forward					-4,805		
General Fund Balance Carried Forward					6,221		

	Actual To Date			Annual Net Budget	Proposed Net Outturn	Variance	
	Income	Expenditure	Net			£000s	%
CHIEF EXECUTIVE							
Chief Executive	-4	192	188	256	252	-4	(2%)
Committee Service	0	67	67	97	98	1	1%
PR / Communications	-11	263	252	377	364	-13	(3%)
Lee Valley Ice Centre - Feasibility Study	0	0	0	50	50	0	0%
TOTAL CHIEF EXECUTIVE	-15	522	507	780	764	-16	(2%)
CORPORATE SERVICES							
Legal Service	-6	213	207	348	307	-41	(12%)
Property Management	-941	342	-599	-630	-889	-259	(41%)
Planning and Strategic Partnerships	0	233	233	385	373	-12	(3%)
Asset Protection, Maintenance & Developr	0	277	277	404	404	0	0%
TOTAL CORPORATE SERVICES	-947	1,065	118	507	195	-312	(62%)
FINANCIAL SERVICES							
Finance Management	0	155	155	281	281	0	0%
Audit	0	26	26	97	97	0	0%
Non Distributed Costs	0	57	57	77	77	0	0%
Sports Development	-46	52	6	75	75	0	0%
TOTAL FINANCIAL SERVICES	-46	290	244	530	530	0	0%
PARKLANDS AND OPEN SPACES							
Management							
Operational Management	0	264	264	260	239	-21	(8%)
Policy and Performance	0	336	336	444	454	10	2%
Myddelton House Management	-8	202	194	331	334	3	1%
Parklands							
River Lee Country Park	-26	492	466	736	736	0	0%
Gunpowder Park	-1	144	143	192	192	0	0%
Countryside Areas	-50	557	507	796	790	-6	(1%)
Abbey Gardens	-1	82	81	152	152	0	0%
Three Mills	0	19	19	31	31	0	0%
East India Dock and Bow Creek	-1	27	26	52	54	2	4%
Leyton Marsh	0	9	9	43	27	-16	(37%)
Broxbourne Riverside	-14	18	4	-4	-4	0	0%
Fisheries	-140	94	-46	-22	-22	0	0%
Visitor Attractions							
Myddelton House	-135	257	122	264	223	-41	(16%)
Rye House Gatehouse	-1	6	5	9	9	0	0%

	Actual To Date			Annual Net Budget	Proposed Net Outturn	Variance		
	Income	Expenditure	Net			£000s	%	
Park Projects								
Youth & Schools Service	-37	155	118	172	172	0	0%	
Volunteers	-2	73	71	95	95	0	0%	
Biodiversity	0	68	68	97	97	0	0%	
Countryside Live	0	17	17	20	18	-2	(10%)	
Community Access	0	0	0	113	50	-63	(56%)	
Farms								
Lee Valley Farm, Holyfieldhall	-199	487	288	39	62	23	59%	
Initiatives and Partnerships								
King George Reservoir South	-8	5	-3	0	0	0	0%	
Lee Valley Boat Centre	-37	3	-34	-30	-32	-2	(7%)	
Broxbourne Chalets	0	2	2	2	3	1	50%	
TOTAL PARKLAND AND OPEN SPACES	-660	3,317	2,657	3,792	3,680	-112	(3%)	

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