

**2021/22 BUDGET –
METHODOLOGY, ASSUMPTIONS AND TIMETABLE**

Presented by the Head of Finance

EXECUTIVE SUMMARY

The report sets out:

- the budget timetable for the 2021/22 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 2021/22 budget process as set out in Appendix A to this report; and
 - (2) the principles, assumptions and methodology for the 2021/22 revenue and capital budgets as set out in paragraphs 9 to 13 of this report.

BACKGROUND

- 1 The Authority's Business Strategy performs a dual role in relation to the Business and Annual Service Plans. 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 Business Plan 2020-2025 and the Annual Service Plan (2021/22), it provides a means of positively influencing the overall direction of the organisation.
- 2 One of the key objectives within the Authority's Business Strategy is for it to continue to reduce its reliance on the levy. This objective is being achieved with the levy currently 36.7% of the maximum chargeable compared to 59.3% in 2011/12. The current levy (2020/21) equates to £0.80p per head based on the latest population figures (census 2010 and the Mid-Year Population Estimates, Office for National Statistics, June 2019) 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 draft new Business Plan (2020-25) incorporates the following financial targets:

- continue to reduce the cost of Lee Valley Regional Park to the taxpayers of London, Essex and Hertfordshire via the levy from the maximum chargeable;
- provide external funding for the capital programme;
- deliver an investment programme for the venues to increase income/reduce costs;
- increase income through a range of new investment opportunities both directly and with/or via third parties;
- maximising the return on the Authority's estate;
- finalising the Leisure Services Contract (LSC) Management Fee, to enable the delivery of sport and leisure at venues in line with the new contract

The draft 2020-25 Business Plan will need to be revised in light of the impact of the pandemic and a revised business plan will be produced for the Spring 2021.

5 The Authority approaches the coming financial year from a challenging position. The impact of the Coronavirus Covid-19 pandemic in 2020 has had a significant impact on the Authority's cash resources. The General Fund (revenue cash reserves) is anticipated to fall by around 50% to £2.4m, and it is estimated that total cash reserves which include some commitments, e.g. Repairs and Renewals, will be around £5m at the end of the 2020/21 financial year. Members set a minimum reserves policy of £4m for the General Fund in January 2019 as part of the budget setting process for 2018/19 (Paper A/4264/19).

6 Having each year carefully considered the continuing financial pressures on the precepted Boroughs, the general current economic climate, the Authority's strategic objectives, demands on the organisation and its financial position, the Authority has approved an annual decrease in the levy since 2011/12. It is now necessary for the Authority to look to rebuild its reserves, and to mitigate against potential further coronavirus waves over the coming years or other impacts on its financial position. The current Medium Term Financial Plan assumes an ongoing reduction in the levy in real terms over the mid-term.

7 Over the last three to ten years the levy has been significantly below inflation with a real term decrease of over 50%.

| | 3 Year Change | 5 Year Change | 10 Year Change |
|---------------|---------------|---------------|----------------|
| Levy decrease | -6.0% | -14.0% | -24.0% |
| RPI increase | 9.6% | 12.4% | 30.7% |
| | -15.6% | -26.4% | -54.7% |

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 and fulfilling its statutory role.

- 9 The Chancellor was due to present his Spending Review on 25 November 2020, to set out the Government's spending plans for the coming year. Officers will review in line with any impact on the Authority, and will present a verbal update to Members at Executive Committee on 3 December.

KEY BUDGET OBJECTIVES

- 10 The budget for 2021/22 needs to address the impact on the Authority's reserves in 2020/21 and the strong likelihood of reduced income across the Park's activities continuing into 2021/22. The focus for 2021/22 budget is recovery and resilience.
- 11 The main objectives of the 2021/22 budget are:
- develop budget capacity in response to a projected fall in income;
 - achieve a cash reserves position which enables the Authority to deal with further financial shocks;
 - increase income where possible e.g. non LSC venues; and
 - minimise expenditure across all activities.

BUDGET METHODOLOGY & ASSUMPTIONS

- 12 It is proposed that existing service levels should be reviewed along with the latest approved forecast, the 2020/21 Emergency Budget and base budgets constructed accordingly, to ensure a satisfactory link to the delivery of the Authority's Business Plan and Annual Service Plans.

There will be reduced demand and income as a result of lower operating capacities, customer caution regarding indoor venues, and the general economic climate. This needs to be factored in, along with looking at possible areas for income growth.

- 13 Any priority items, savings and additional income already approved by Members for 2020/21 as part of the 2019/20 budget will be reviewed to ensure that they still meet the business objectives of the Authority and are deliverable.

However, it will still be necessary for the Authority to look for significant efficiencies and savings within the organisation. The key areas of focus will be staffing and office accommodation efficiencies.

- 14 General inflation rises, to reflect expected 2020/21 (outturn) prices, will need to be taken into account. The Retail Price Index (RPI) to September 2020 is currently 1.1%. The Consumer Price Index (CPI), the Government's preferred indicator, is 0.5%. CPI inflation is expected to remain around 0.5% - 1.0% for the remainder of the year, before rising to around 2% in two years' time.

- 2% increase in employee costs, to include increments and rises in National Insurance contributions;
- 0% increase in non-employer costs;
- electricity and gas prices are currently indicating increases in the wholesale market (October 2020 to September 2021); and therefore rises in these budgets – electricity and gas of 5% will be applied at existing

usage levels. Water is projected to increase at above inflation rates too, and an increase of 5% will be built into the budgets;

- whilst insurance premiums have decreased significantly following a full tender of all policies and Insurance Premium Tax has remained at 12%, it is estimated that in 2021/22 premiums will increase by around 15%, with future years estimated to increase by 5% a year;
 - Fees and Charges make up a significantly higher proportion of the Authority's income with the return to in-house operation of marinas and campsites. We are in a position now to review pricing structures at these venues, although increases at inflation rates will be built in. Other income is raised by commercial rents and leases; car parking charges; event space hire; and the farm sales of milk and arable crops which are market dependent and subject to the terms set out in the lease/rent/contract agreements;
 - a proposed single year increase to the levy for 2021/22 has been built into the Medium Term Financial Plan, which is an increase to that approved by Authority last year. Actual future changes in the levy will still be determined annually and be subject to the estimated budget requirements for the year ahead and economic circumstances at that time. Provisionally future levy changes are shown at 0%.
- 15 Overall income from fees and charges is estimated to rise in line with inflation and the existing fees and charges policy. This approach reflects the pressures that will exist on demand for the Authority's activities in 2021/22. The majority of fees and charges will commence from March/April 2021. Fees and charges will be the subject of a separate paper on the next Executive Committee agenda.
- 16 In addition, there are a number of other factors which will need to be taken into account before setting the levy as they could significantly affect the budget requirement for next year. At this stage these include:
- need to rebuild cash reserves that have been depleted as a result of the Covid pandemic;
 - priority areas resulting from the realignment of resources to the priorities within the Authority's Business Plan;
 - revenue financing of the capital and asset maintenance programme – is proposed at £0.8m for 2021/22. With future requirements for asset maintenance, IT investment and small scheme business investments capital reserves are being depleted. Future major investment schemes will require funding from other sources, for example, land sale receipts, borrowing and third party contributions. A revised capital programme will be considered by Members at Executive Committee in December;
 - low returns from investment income are continuing. Currently short term (1 month) investments are securing on average a 0.07% return, with mid-term (< 1 year) 0.2% (2020/21 actual). It is unlikely that reinvestments will achieve much in excess of 0.2%. 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 on cash for both revenue and capital expenditure in future years alongside any potential land sales that materialise. Investment returns are currently estimated at £25,000 based on existing balances and return rates; future investment into the sporting venues under the LSC could produce better return rates of potentially up to 4% where the contractor finances the cost of borrowing;

- LSC Management Fee will be finalised with GLL for the contract to start in April 2021. Set against this will be potential liabilities arising from tendering the new LSC.

BUDGET UNCERTAINTIES

- 17 The Coronavirus Covid-19 pandemic and the subsequent national lockdowns and local regulations, present significant uncertainty in the upcoming year. Whilst the Government's Job Retention Furlough scheme has meant that we have been able to claim up to 80% of furloughed employees wages, and this has been extended until March 2021, there is currently no indication of what will happen following this. In addition, the Authority has benefitted from both the business rates holiday and a reduction in VAT on holiday accommodation and hospitality, these are also due to end in March 2021.

As recent events have shown, there may be future spikes and local/national lockdowns and/or restrictions that will have a financial impact on the Authority, and the economy as a whole.

- 18 Additionally, there are always a number of issues which can have an impact on the Authority's budget during a year, but the size and/or timing of the financial impact tends to be uncertain. For example, increases in utility, fuel/travel costs. 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. It may be prudent to allow a buffer contingency in the coming years, to offset some of these events.
- 19 The Authority is still awaiting the outcome of the 2010/17 rating tribunal appeal (scheduled for November) for Lee Valley VeloPark appeal and further savings may accrue for the 2010/17 rating period and subsequently the new rating period of 2017/2021.
- 20 There is still a 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. The value of the potential VAT repayment could result in a significant windfall in 2021/22. Officers have submitted calculations to KPMG for review and they have submitted a claim and appeal to HMRC.

LEISURE SERVICES CONTRACT

- 21 Authority officers are working with GLL on finalising the Management Fee for the first year of the LSC, due to commence in April 2021.
- 22 The LSC transfers the majority of the risk for income from the Authority to the

contractor and minimises the need to consider shortfalls at these major venues as an ongoing risk. For next year, there will be tolerances (for over or under performance) which will be agreed as the LSC contract is finalised with GLL. The final details of this will come back to Members for consideration prior to the contract being entered into. This income is also protected to a certain degree by Business Interruption Insurance held by the contractor.

RESERVES POLICY

- 23 It is important that without any contingency, budget uncertainties combined with the level of income generation that the Authority relies upon, that Members keep the existing policy on revenue reserves under annual review ensuring minimum levels of cash reserves are maintained to deal with unforeseen circumstances. The level Members have currently agreed for the general fund is £4m.
- 24 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 £0.4m that deals with excesses on the existing policies, i.e. £10,000 or uninsured/self-insured items.
- 25 In order to assess the adequacy of the general fund reserve when setting the 2021/22 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:
- Coronavirus Covid-19 pandemic;
 - assumptions around inflation and interest rates;
 - estimates and timing of capital receipts and expenditure;
 - the treatment of demand led pressures;
 - the treatment of planned efficiency savings;
 - the availability of existing reserves;
 - the general economic climate; and
 - the impact of Brexit.

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.

- 26 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 have been a legitimate short-term option, but with the reduction to cash reserves in 2020/21, it is not now prudent to finance planned on-going expenditure in this way.
- 27 Other factors such as Government support in emergencies can be considered when setting reserves, especially in extreme cases such as Covid-19, and potentially weather, flooding, etc. However insurance and managing local

emergencies through the reserves generally rest with the Authority itself:

- 28 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.

BUDGET APPROVAL

- 29 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 2021/22 at the Authority meeting on 21 January 2021.
- 30 Committee Terms of Reference and Financial Regulations require the Executive Committee to recommend a budget and Levy to the Authority. The Executive Committee are scheduled to consider the 2021/22 budget and levy options at their meeting on 21 January 2021 (following a Budget Workshop on 17 December 2020).

ENVIRONMENTAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

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

HUMAN RESOURCE IMPLICATIONS

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

LEGAL IMPLICATIONS

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

RISK MANAGEMENT IMPLICATIONS

- 35 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 reviewing 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/4264/19 Proposed Budget & Levy 2019/20 17 January 2019

APPENDIX ATTACHED

Appendix A Proposed Budget Timetable 2020/21

LIST OF ABBREVIATIONS

| | |
|------|----------------------------|
| CPI | Consumer Price Index |
| RPI | Retail Price Index |
| MTFP | Medium Term Financial Plan |
| RV | Rateable Value |
| LSC | Leisure Services Contract |
| CFO | Chief Financial Officer |

LEE VALLEY REGIONAL PARK AUTHORITY
2021/22 CAPITAL PROGRAMME &
REVENUE BUDGET TIMETABLE

| Description | Lead Officer | Dates | Meeting Date |
|---|--|--------------------------------|--|
| 1. <u>Budget Timetable for 2021/22:</u> (i) Prepare budget methodology paper & timetable for Executive Committee (ii) Finalise timetable and issue to SMT, HOS, Managers (iii) Authority Sites Fees and Charges | KK KK JC | Nov 20 Nov 20 Dec 20 | 19 Nov 20 20 Nov 20 17 Dec 20 |
| 2. <u>Medium Term Financial Forecast (MTFF) – 2021 to 2025</u> Update MTFF to take account of: (i) Review Management Fee from Retender (ii) Uplift all budgets for inflation as appropriate (iii) Levy options from 2021/22 (iv) Revenue “growth” items i.e. income/expenditure items not already within the existing 2020/21 budget (v) Any significant variations in staffing/establishment (vi) Risks/areas of sensitivity (vii) Circulate updated MTFF to SMT for discussion | KK | Oct 20 | 28 Oct 20 09 Nov 20 |
| 3. <u>Capital Programme – 2020/21 Revised to 2024/25:</u> (i) Info from managers on the phasing of expend. over the next 5 years (ii) Info from managers on the phasing of grants over the next 5 years (iii) AMP programme finalized (iv) Prepare annual prudential indicators (v) Finalise capital programme & capital resourcing for SMT (vi) Circulate final capital programme for consideration by SMT (vii) Capital programme and resourcing for Members approval (viii) Capital Strategy and Prudential Indicators for Members approval | KK KK MS KK KK KK KK KK | Oct 20 Dec 20 | 30 Oct 20 30 Oct 20 30 Oct 20 03 Nov 20 10 Nov 20 17 Nov 20 17 Dec 20 17 Dec 20 |
| 4. <u>Staffing Costs:</u> (i) Budget sheets prepared based on establishment list as at 15/11/20 (ii) Full revenue/capital budget sheets completed by Finance | LR/VY KK/MK | Nov 20 | 20 Nov 20 04 Dec 20 |

| | | | | |
|-----|---|-------------------------------|------------------|------------------------|
| 5. | Draft budgets reviewed by managers | All Managers Authority SMT | Jan 21 | 07 Jan 21 |
| 6. | Meeting with Chair/Vice Chair to discuss draft budget proposals for Member Budget Workshop | SD/KK | Nov 20 | 24 Nov 20 |
| 7. | Finalise revenue and capital financing & levy options (i) Final report to be circulated to SMT for consideration | KK | Dec 20 | 04 Dec 20 |
| 8. | Write to contributing authorities requesting their council tax base information | MK | Dec 20 | 04 Dec 20 |
| 9. | <u>Member Budget Workshop</u> - Report on revenue & capital budgets, levy options | SD/KK | Dec 20 | 17 Dec 20 |
| 10. | <u>Executive/Authority Meetings:</u> Provisional second budget workshop if required - Report on revenue and capital budgets and Levy options - * Under Park Act section 48 (1) need estimates approved by 24 January each year | SD/KK SD/KK | Jan 21 Jan 21 | 07 Jan 21 21 Jan 21 |
| 11. | Write to contributing authorities to notify them of the Levy for 2021/22 * Under the Park Act section 49 (5) need to notify contributing councils by 15 February each year | KK/MK | Feb 21 | 05 Feb 21 |