

**2018/19 BUDGET –
METHODOLOGY, ASSUMPTIONS AND TIMETABLE**

Presented by the Director of Finance & Resources

EXECUTIVE SUMMARY

The report sets out:

- the draft budget timetable for the 2018/19 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 2018/19 budget process as set out in Appendix A to this report; and
 - (2) the principles, assumptions and methodology for the 2018/19 revenue and capital budgets as set out in paragraphs 9 to 13 of this report.

BACKGROUND

- 1 The Authority's ten year Business Strategy (2010-2020) performs a dual role in relation to the Business and Annual Service Plan. Firstly, it secures the finance necessary to fund the Authority's revenue operations and capital development programme. Secondly, by ensuring that the resources allocated through the budget process reflect the priorities in the three year Business Plan 2016-2019 and the Annual Service Plan (2018/19), it provides a means of positively influencing the overall direction of the organisation.
- 2 One of the key objectives within the Authority's ten year Business Strategy is for it to continue to reduce its reliance on the levy – i.e. reduction in the actual levy from 63% to 53% of the maximum chargeable. This objective was achieved ahead of target and is currently 42.9%. This target was reviewed as part of the three year Business Plan 2013-2016. Members indicated that they wished a stretch target to be set with a levy headline rate of 99p per head of population within the current ten year Business Strategy to 2020. The current levy (2017/18)

equates to £0.88p per head based on the latest population figures (census 2010 and the Mid 2013 Population Estimates, Office for National Statistics, June 2016) 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 three year Business Plan (2016-19) incorporates the following financial targets:
 - continue to reduce the cost of Lee Valley Regional Park to the taxpayers of London, Essex and Herts via the levy from 48% of the maximum chargeable;
 - provide a 50% external funding target for the capital programme;
 - investment programme for the venues to increase income/reduce costs;
 - increase income through a range of investment opportunities both directly and with/or via third parties;
 - continue to develop new operational models for its services as the Authority moves to being more of an enabling organisation;
 - maximising the return on the Authority's estate; and
 - reducing the Leisure Services Contract (LSC) Management Fee.
- 5 The Authority approaches the challenges and opportunities of the Business Strategy from a sound financial position. The un-earmarked revenue reserves currently stand at £4.1m. These are estimated to reduce to £3.9m by the end of 2017/18. Members set a minimum reserves policy of £4m in January 2017 as part of the budget setting process for 2017/18 (Paper A/4236/17). The capital receipts reserves total £17.4m as at 31 March 2016.
- 6 Having carefully considered the continuing financial pressures on public spending, the current economic climate, the Authority's strategic objectives, demands on the organisation and its financial position, the Authority has approved an annual decrease in the levy since 2011/12. There is currently no medium term levy policy in place, the last policy was approved in January 2011 (Paper A/4110/11):
 - a 2% decrease in the levy for 2011/12; and
 - 2% decrease in the levy for 2012/13, subject to inflation and other prevailing economic factors at that time.

Subsequent annual levy reductions of 2% were approved from 2013/14 up to 2016/17 with a further 6% reduction approved in 2017/18. The current Medium Term Financial Plan (MTFP) assumes an ongoing reduction in the levy until 2020/21 – a total 25% reduction including the 6% decrease in 2017/18.

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

- 7 Over the last three to ten years the levy has been significantly below inflation with a real term decrease of 40%.

	3 Year Change	5 Year Change	10 Year Change
Levy decrease	-10.0%	-14.0%	-15.0%
RPI increase	5.1%	10.9%	25.7%
	-15.1%	-24.9%	-40.7%

- 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.

BUDGET METHODOLOGY & ASSUMPTIONS

- 9 It is proposed that existing service levels and the latest approved forecast i.e., 2017/18 approved budget, should be maintained at a zero base increase for the preparation of the budgets for the coming year (2018/19). Existing service budgets should be re-constructed where appropriate to satisfactorily link to the delivery of the Authority's Business Strategy, Business Plan and Annual Service Plans.
- 10 Any priority items, savings and additional income already approved by Members for 2018/19 as part of the 2017/18 budget will be reviewed to ensure that they still meet the business objectives of the Authority and are deliverable.
- 11 General inflation rises, to reflect expected 2017/18 (outturn) prices, will need to be taken into account. The Retail Price Index (RPI) to August 2017 is currently **3.6%**. The Consumer Price Index (CPI), the Government's preferred indicator, is **2.6%**.
- **1%** increase in employee costs;
 - **0%** increase in non-employer costs;
 - electricity and gas prices are currently indicating increases in the wholesale market (October 2017 to September 2018); and therefore rises in these budgets – electricity 13% and gas 7% will be applied at existing usage levels. Water is projected to increase by RPI and will increase by 4%);
 - insurance premiums and Insurance Premium Tax have increased this year (2017/18) following the annual premium renewal exercise (and also run from October 2017 to September 2018). Insurance Premium Tax has also increased twice over the last two years rising from 6% to 9.5% and then 9.5% to 12%. Some of these increases will be contained within the existing budgetary provision for the second part of the 2017/18 financial year and an estimated further 5% increase in 2018/19;
 - Fees and Charges are a relatively small proportion of the Authority's budget, circa £0.5m and are set to rise on average by 3%. The majority of income is raised by commercial rents and leases and through 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 levy decrease for 2018/19 was put forward by the Levy Strategy Working Group from 2017/18 to 2020/21 (4% in 2018/19) and formed part of the MTFP. Actual future changes in the levy will still be determined annually and be subject to the prevailing budget and economic circumstances at that time.
- 12 Overall income from fees and charges is estimated to rise in line with inflation and the existing fees and charges policy. The majority of fees and charges will commence from March/April 2018. Fees and charges are the subject of a separate paper on this agenda.
- 13 In addition there are a number of other factors which need to be taken into account as they could significantly affect the budget requirement for next year. At this stage these include:
- employee cost increases in the MTFP are estimated at 1% for 2018/19. The current pay award approved by Members (Paper E/452/16) was in line with the two year pay award (ending in 2017/18) agreed by the National Joint Council (NJC) for local government services and in-line with central government's public pay sector freeze at 1% for four years up to 2020. Current public sector pay awards for prison staff (1.7%) and the police (2%). Trade Unions are indicating that increases should be nearer 5% and that NHS staff should be receiving an increase around 3.9%;
 - priority areas resulting from the realignment of resources to the priorities within the Authority's three year Business Plan;
 - revenue financing of the capital programme is proposed at **£1.3m** for 2018/19 and is in line with the current approved capital programme. 2017/18 saw a significant reduction from £1.8m to £1.3m. With ongoing 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 anticipated. Currently investments are securing on average a 0.5% return. It is unlikely that reinvestments will achieve much in excess of 0.5%, although a staggered 0.25% is built in for future years in the financial plan. Actual returns will be dependent on how much of the existing funds are reinvested; the period of time they are invested for and the demands for capital expenditure in future years alongside any potential land sales that materialise. Investment returns are currently estimated at £80,000;
 - stretch targets and one-off funding – the current financial plan has a number of income stretch targets built in e.g. break-even operating budgets (excluding central overheads) for Lee Valley Leisure Trust Ltd (the Trust) venues, sponsorship/naming rights and car parking income. These areas will be reviewed to ensure the financial plan reflects deliverability;

- LSC Management Fee will be determined by the agreed method of uplift set out in Schedule 3 of the contract and in line with the indicators described above. 2018/19 will be the fourth year of operation of this contract and the current Management Fee in 2017/18 is £2.8m. The Trust will put forward a service development plan with proposed changes to fees and charges in November. Within this plan they will set out how they intend to achieve a reduction to the Management Fee to £1.6m by 2020/21.

BUDGET UNCERTAINTIES

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

- 15 Locally the Authority is still awaiting the outcome of the 2010/17 rating appeal for Lee Valley VeloPark/Lee Valley Hockey & Tennis Centre.

All eligible centres that transferred to the Trust received 80% mandatory relief for 2015/16. This amounted to a saving of £1.7m and this was again built into the 2016/17 and 2017/18 budget and Trust Management Fee.

Nationally a major revaluation of business rates has been completed and implemented from April 2017 (delayed from April 2015). This has seen increases in business rates at some Authority and Trust venues. The Management Fee incorporates funding for 20% of business rates at Trust venues and although transitional relief is likely to apply in year one, the MTFP will need to account for this change.

RESERVES POLICY

- 16 It is important that with no contingency, budget uncertainties combined with the level of income generation that the Authority relies upon (and relies on via the Trust to keep the levy on its downward trend), that Members keep the existing policy on reserves under review, ensuring minimum levels of cash reserves are maintained to deal with unforeseen circumstances. The level Members have currently agreed is £4m.
- 17 The Authority and Trust currently generate income circa £18m across all sites, through fees and charges, catering, lettings, leases, etc. The Lee Valley White Water Centre and Lee Valley VeloPark between them generate circa £3.0m and £2.5m from sales and catering and Lee Valley Ice Centre and Lee Valley Riding Centre a further £1m each. This income is protected to a certain degree by Business Interruption Insurance. However exclusions on this insurance only protect the Authority under certain circumstances, bad weather or other negative circumstances, e.g., bad publicity that could cause a fall in consumer demand are not insurable and can leave the Authority vulnerable.

- 18 The MTFP review requires Members and the Chief Financial Officer (CFO) to establish and maintain a general reserve to help cushion the impact of uneven cash flows to avoid temporary borrowing and to provide a cushion for unexpected events or emergencies. Other earmarked reserves, e.g., the insurance fund, are established to deal with specific matters. The Authority currently has an insurance fund of £0.6m that deals with excesses on the existing policies, i.e. £10,000 or uninsured/self-insured items.
- 19 In order to assess the adequacy of the general fund reserve when setting the budget the CFO and Members should take account of the strategic, operational and financial risks facing the Authority. This should assess external risks e.g. emergencies, and internal risks e.g. ability to deliver financial efficiencies in the organisation. All operational and financial risks should be properly assessed and effective controls put in place to manage these. Financial Risks should be assessed and these include:
- assumptions around inflation and interest rates;
 - estimates and timing of capital receipts and expenditure;
 - the treatment of demand led pressures;
 - the treatment of planned efficiency savings;
 - the availability of existing reserves; and
 - the general economic climate.

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

- 20 The level of general reserve should be considered in terms of the MTFP and the risks identified in the corporate risk register. Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option, but it is not prudent to finance planned on-going expenditure in this way.
- 21 Other factors such as Government support in emergencies can be considered when setting reserves, especially in extreme cases of weather, flooding, etc. However insurance and managing local emergencies through the reserves generally rest with the Authority itself.
- 22 Therefore current guidance sets the framework for consideration when setting reserves but does not prescribe amounts that the Authority should allocate. It is therefore important that Members assess the risk impact themselves and set a level of reserves accordingly.

The £4m minimum reserve level remains as approved policy and this is monitored (and reviewed if necessary) as part of the ongoing quarterly revenue monitoring.

BUDGET APPROVAL

- 23 The Authority is required to determine its Levy, by 15 February in each year. This requirement will be met as Members are scheduled to consider and approve a Revenue Budget and Levy for 2018/19 at the Authority meeting on 18 January 2018.

- 24 Committee Terms of Reference and Financial Regulations require the Executive Committee to recommend a budget and Levy to the Authority. The Levy Strategy Working Group will put forward proposals to Executive Committee. The Executive Committee are scheduled to consider the 2018/19 budget and Levy options at their meeting on 18 January 2018 (following a Budget Workshop on 14 December 2017).

ENVIRONMENTAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

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

HUMAN RESOURCE IMPLICATIONS

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

LEGAL IMPLICATIONS

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

EQUALITY IMPLICATIONS

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

RISK MANAGEMENT IMPLICATIONS

- 30 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 MTFP. 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/4236/17	Proposed Budget & Levy	21 January 2017
		2017/2018	

APPENDIX ATTACHED

Appendix A	Proposed Budget Timetable 2018/19
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LIST OF ABBREVIATIONS

CPI	Consumer Price Index
RPI	Retail Price Index
MTFP	Medium Term Financial Plan
LSC	Leisure Services Contract
CFO	Chief Financial Officer
the Trust	Lee Valley Leisure Trust Ltd (trading as Vibrant Partnerships)

LEE VALLEY REGIONAL PARK AUTHORITY

2018/19 CAPITAL PROGRAMME & REVENUE BUDGET TIMETABLE

	Description	Lead Officer	Dates	Meeting Date
1.	<u>Budget Timetable for 2018/19:</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	SS SS JC/BF	Oct 17 Oct 17 Oct 17	19 Oct 17 19 Oct 17 23 Nov 17
2.	<u>Medium Term Financial Forecast (MTFF) – 2018 to 2022</u> - Update MTFF to take account of: (i) Review Management Fee with Trust (ii) Uplift all budgets for inflation as appropriate e.g. 1.0% salaries; 0% non-salaries, (iii) Reduce Levy by X.X% annually from 2018/19 (iv) Revenue “growth” items i.e. income/expenditure items not already within the existing 2017/18 budget (v) Any significant variations in staffing/establishment (vi) Risks/areas of sensitivity (vii) Circulate updated MTFF to SMT for discussion	SS	Nov 17	07 Nov 17
3.	<u>Capital Programme – 2017/18 Revised to 2021/22:</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 (iv) AMP programme finalized (v) Prepare annual prudential indicators (vi) Finalise capital programme & capital resourcing for SMT (vii) Circulate final capital programme for consideration by SMT (viii) Prepare capital programme and resourcing for Members approval	SS SS GP KK SS SS SS	Oct 17	20 Oct 17 20 Oct 17 20 Oct 17 07 Nov 17 10 Nov 17 10 Nov 17 14 Dec 17
4.	<u>Staffing Costs:</u> (i) Budget sheets prepared based on establishment list as at 15/10/17 (ii) Full revenue/capital budget sheets completed by Finance	KK/MY/ SS/MK/	Nov 17	03 Nov 17 10 Nov 17

5.	<u>Draft Revenue Budgets:</u> (i) Draft budgets reviewed by managers (ii) Members/Trust Service delivery plan presentation including Trust Fees and Charges	All Managers Trust/Authority SMTs	Nov 17 Nov 17	24 Nov 17 23 Nov 17
6.	Levy Strategy Working group to propose medium term levy options for 2018/19 levy onwards	SS	Nov 17	23 Nov 17
7.	Draft budgets to be sent to managers for final check/amendment review	MK/KK	Nov 17	27 Nov 17
8.	Revision to budgets to be produced following any changes requested by managers	SS/MK/KK	Dec 17	01 Dec 17
9.	Support service charges and capital charges to be calculated	KK	Nov 17	17 Nov 17
10.	Meeting with Chair/Vice Chair to discuss draft budget proposals for Member Budget Workshop	SD/SS	Dec 17	05 Dec 17
11.	Finalise revenue and capital financing & levy options (i) Final report to be circulated to SMT for consideration	SS	Dec 17	- 05 Dec 17
12.	Write to contributing authorities requesting their council tax base information	MK/KK	Dec 17	01 Dec 17
13.	<u>Member Budget Workshop</u> - Report on revenue & capital budgets, levy options, borrowing limits	SS	Dec 17	14 Dec 17
14.	<u>Executive/Authority Meetings:</u> Provisional second budget workshop if required - Report on revenue and capital budgets, Levy options, borrowing limits and fees & charges * Under Park Act section 48 (1) need estimates approved by 24 January each year	SS SS	Jan 18 Jan 18	04 Jan 18 18 Jan 18
15.	Write to contributing authorities to notify them of the Levy for 2018/19 * Under the Park Act section 49 (5) need to notify contributing councils by 15 February each year	SS/MK/KK	Feb 18	01 Feb 18