



Lee Valley  
Regional Park Authority

## LEE VALLEY REGIONAL PARK AUTHORITY

### EXECUTIVE COMMITTEE

17 OCTOBER 2019 AT 11:30

**Agenda Item No:**

**7**

**Report No:**

**E/643/19**

## 2020/21 BUDGET – METHODOLOGY, ASSUMPTIONS AND TIMETABLE

Presented by the Director of Finance & Resources

### EXECUTIVE SUMMARY

The report sets out:

- the budget timetable for the 2020/21 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 2020/21 budget process as set out in Appendix A to this report; and
  - (2) the principles, assumptions and methodology for the 2020/21 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 (2020/21), 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 37.6% of the maximum chargeable compared to 63.3% in 2010/11. The current levy (2019/20) equates to £0.81p per head based on the latest population figures (census 2010 and the Mid-Year Population Estimates, Office for National Statistics, June 2018) 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 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 Herts via the levy from the maximum chargeable;
  - provide external funding for the capital programme;
  - investment programme for the venues to further reduce the Leisure Services Contract (LSC) management fee;
  - increase income through a range of investment opportunities both directly and with/or via third parties;
  - maximising the return on the Authority's estate;
  - reducing the LSC management fee.
- 5 The Authority approaches the challenges and opportunities of the Business Plan from a sound financial position. The un-earmarked revenue reserves currently stand at £4.2m. These are estimated to reduce to £3.8m by the end of 2019/20. Members set a minimum reserves policy of £4m in January 2019 as part of the budget setting process for 2018/19 (Paper A/4264/19). The capital receipts reserves total £13.9m as at 31 March 2019.
- 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. The current Medium Term Financial Plan assumes an ongoing reduction in the levy in real terms.
- 7 Over the last three to ten years the levy has been significantly below inflation with a real term decrease over 50%.

	3 Year Change	5 Year Change	10 Year Change
Levy decrease	-12.0%	-16.0%	-24.0%
RPI increase	9.2%	12.3%	29.3%
	-21.2%	-28.3%	-53.3%

- 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 delivery of its strategic objectives and fulfilling its statutory role.

#### **BUDGET METHODOLOGY & ASSUMPTIONS**

- 9 It is proposed that existing service levels and the latest approved forecast i.e., 2019/20 approved budget, should be maintained at a zero base increase for the preparation of the budgets for the coming year (2020/21). Existing service budgets should be reconstructed where appropriate to satisfactorily link to delivery of the Authority's Business Plan and Annual Service Plans.
- 10 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.

- 11 General inflation rises, to reflect expected 2019/20 (outturn) prices, will need to be taken into account. The Retail Price Index (RPI) to August 2019 is currently 2.6%. The Consumer Price Index (CPI), the Government's preferred indicator, is 1.7%.
- 2% increase in employee costs; the current pay claim put forward by the Unions is a 10% pay increase; a one-day increase in annual leave; and a two-hour reduction in the working week;
  - 0% increase in non-employer costs with the exception of contracted items, for example Grounds Maintenance or IT licences which will inflate by agreed contractual sums (either CPI or RPI);
  - electricity and gas prices are currently indicating increases in the wholesale market (October 2019 to September 2020); and therefore rises in these budgets – electricity and gas of 5% will be applied at existing usage levels. Water is projected to increase by RPI and will increase by 2.6 %);
  - insurance premiums have decreased significantly following a full retender of all policies and Insurance Premium Tax has remained at 12%. Future years are estimated to increase by 5% a year but on a significantly lower premium base;
  - fees and charges are a relatively small proportion of the Authority's budget, circa £1.2m, and are set to rise in line with inflation. The majority of 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 standstill levy for 2020/21 was built into the Medium Term Financial Plan and 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.
- 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 2020. Fees and charges will be the subject of a separate paper on the next Executive Committee agenda.
- 13 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:
- employee cost increases in the Medium Term Financial Plan are estimated at 2% for 2020/21 however current national pay negotiations are ongoing and yet to be finalised;
  - priority areas resulting from the realignment of resources to the priorities within the Authority's Business Plan;

- revenue financing of the capital programme – is proposed at £1.2m for 2020/21 and is in line with the current approved capital programme. 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 investments are securing on average a 0.68% return (2018/19 actual). It is unlikely that reinvestments will achieve much in excess of 1%. 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 based on existing balances and return rates; future investment into the sporting venues under the LSC will produce better return rates of potentially up to 4% where the contractor finances the cost of borrowing;
- stretch targets and one-off funding – the current financial plan has a number of income stretch targets built in e.g. sponsorship/naming rights, car parking income and further ahead, income from potential major developments at Picketts Lock and the potential redevelopment of the Ice Centre. These areas will be reviewed to ensure the financial plan reflects deliverability; other budget pressures include legal and property fees relating to these developments and delivering the Land & Property Strategy outcomes;
- LSC management fee will be determined by the outcome of the tender submission by the preferred contractor. Set against this will be potential liabilities arising from tendering the new LSC which is planned to commence from 2020.

#### **BUDGET UNCERTAINTIES**

- 14 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 changes in 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 tribunal appeal (scheduled for November) for Lee Valley VeloPark and a VAT claim for sporting exemption (to be concluded before March 2020).

#### **RESERVES POLICY**

- 16 It is important that with no contingency, budget uncertainties combined with the level of income generation that the Authority relies upon, that Members keep

the existing policy on reserves under annual review ensuring minimum levels of cash reserves are maintained to deal with unforeseen circumstances. The level Members have currently agreed is £4m.

- 17 The LSC transfers 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. This income is also protected to a certain degree by Business Interruption Insurance held by the contractor.
- 18 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 £0.7m 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;
  - 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.

- 20 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 be viewed as a legitimate short-term option, but it is not prudent to finance planned ongoing 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. Fluctuations from this policy in the short-term due to in-year budget pressures can be considered and approved, but Members should also ensure that the medium to long-term impact of any decisions that may deplete these reserves are accounted for in setting the new year's budget and levy to ensure the policy is achieved in the medium to longer term.

### **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 2020/21 at the Authority meeting on 23 January 2020.
- 24 Committee Terms of Reference and Financial Regulations require the Executive Committee to recommend a budget and Levy to the Authority. The Executive Committee is scheduled to consider the 2020/21 budget and levy options at their meeting on 23 January 2020 (following a Budget Workshop on 19 December 2019).

### **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.

### **RISK MANAGEMENT IMPLICATIONS**

- 29 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  
2019/2020

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	Lelsure Services Contract
CFO	Chief Financial Officer

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**LEE VALLEY REGIONAL PARK AUTHORITY**  
**2020/21 CAPITAL PROGRAMME &**  
**REVENUE BUDGET TIMETABLE**

Description	Lead Officer	Dates	Meeting Date
<b>1.</b> <b><u>Budget Timetable for 2020/21</u></b>			
(i) Prepare budget methodology paper & timetable for Executive Committee	SS	Oct 19	17 Oct 19
(ii) Finalise timetable and issue to SMT, HOS, Managers	SS	Oct 19	18 Oct 19
(iii) Authority sites Fees and Charges	JC/BF	Nov 19	21 Nov 19
<b>2.</b> <b><u>Medium Term Financial Forecast (MTFF) – 2020 to 2024</u></b>			
Update MTFF to take account of:	SS	Nov 19	05 Nov 19
(i) Review Management Fee from Retender			
(ii) Uplift all budgets for inflation as appropriate e.g. 2.0% salaries; 0% non-salaries,			
(iii) Levy options from 2020/21			
(iv) Revenue "growth" items i.e. income/expenditure items not already within the existing 2019/20 budget			
(v) Any significant variations in staffing/establishment			
(vi) Risks/areas of sensitivity			
(vii) Circulate updated MTFF to SMT for discussion			11 Nov 19
<b>3.</b> <b><u>Capital Programme – 2019/20 Revised to 2023/24</u></b>			
(i) Info from managers on the phasing of expend. over the next 5 years	SS	Oct 19	21 Oct 19
(ii) Info from managers on the phasing of grants over the next 5 years	SS	Dec 19	21 Oct 19
(iv) AMP programme finalized	GP		21 Oct 19
(v) Prepare annual prudential indicators	KK		04 Nov 19
(vi) Finalise capital programme & capital resourcing for SMT	SS		11 Nov 19
(vii) Circulate final capital programme for consideration by SMT	SS		18 Nov 19
(viii) Capital programme and resourcing for Members approval	KK		19 Dec 19
(ix) Prudential Indicators for Members approval	KK		19 Dec 19

	Description	Lead Officer	Dates	Meeting Date
4.	<u>Staffing Costs</u> (i) Budget sheets prepared based on establishment list as at 15/10/19 (ii) Full revenue/capital budget sheets completed by Finance	KK/VY/ SS/KK/MK	Nov 19	04 Nov 19 11 Nov 19
5.	Draft budgets reviewed by managers	All Managers Authority SMT	Nov 19	04 Nov 19
6.	Draft budgets to be sent to managers for final check/amendment review	MK/KK	Nov 19	28 Nov 19
7.	Revision to budgets to be produced following any changes requested by managers	SS/MK/KK	Dec 19	03 Dec 19
8.	Support service charges and capital charges to be calculated	KK	Nov 19	4 Nov 19
9.	Meeting with Chair/Vice Chair to discuss draft budget proposals for Member Budget Workshop	SD/SS	Dec 19	06 Dec 19
10.	Finalise revenue and capital financing & levy options (i) Final report to be circulated to SMT for consideration	SS	Dec 19	- 06 Dec 19
11.	Write to contributing authorities requesting their council tax base information	MK/KK	Dec 19	03 Dec 19
12.	<u>Member Budget Workshop</u> - Report on revenue & capital budgets, levy options	SS/KK	Dec 19	13 Dec 19
13.	<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	SS SS	Jan 20 Jan 20	09 Jan 20 23 Jan 20
14.	Write to contributing authorities to notify them of the Levy for 2019/20 * Under the Park Act section 49 (5) need to notify contributing councils by 15 February each year	KK/MK	Feb 20	03 Feb 20