

Q3 REVENUE BUDGET MONITORING 2019/20

Presented by the Director of Finance & Resources

EXECUTIVE SUMMARY

This report summarises monitoring of revenue expenditure to 31 December 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 £121,500 over the approved budget for 2019/20. The major variations currently projected are summarised in the table below:

Service Description	Projected Variance 2019/20	Impact on budget in 2020/21
	£	£
Sponsorship Income	25,000	0
Legal Services	100,000	0
Property	28,000	0
Planning & Strategic Partnerships	(91,000)	0
Finance & Support plus Insurance	(104,700)	(110,000)
Car Parking Income	95,500	0
East India Dock and Gunpowder Park Rental	40,000	20,000
Section 106 Monies	(139,000)	85,000
Unachieved Savings	61,000	0
Leisure Services Contract – Clause 14	138,000	0
Other	(31,300)	0
Total Estimated Over Spend:	121,500	(5,000)

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 31 December 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 £121,500 (1.3%) against a net expenditure budget of £9.6m. Since the first two quarters' projections (£313,000 and £266,000 over-spend) officers have continued to identify one-off in-year savings to reduce the overall impact, also ensuring not to adversely affect the Authority in delivering its business priorities throughout the year. These savings are described within the report.
- 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 between 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, was implemented and included within the budget.

Members approved in May 2018 (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.

2020/21 negotiations are ongoing with the employers offer of 2% immediately rejected by the Unions. This position will be updated in future monitoring reports.

- 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 was 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. A tribunal appeal hearing was heard at the end of March 2019. A more favourable valuation was achieved and this 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 (February 2020) and further savings may accrue for the 2010/17 rating period and subsequently the new rating period of 2017/2021.

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 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 2020/21. 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 2020/21, although no firm date has yet been established for the lead case to be heard.
- 10 December's inflation for the Retail Price Index stood at 2.2% and Consumer Price Index at 1.3%.
- 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). Although work in this area will continue, Members (have previously discussed) agreed to remove this stretch income target from the base budget. This was adjusted as part of the 2020/21 budget setting, therefore removing the ongoing impact of not meeting this target.

CORPORATE SERVICES

13 Legal Services (£100,000 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, the development proposal at Picketts Lock, Eton Manor development and the current LSC contract and procurement challenge.

14 Property Management (£28,000 net Increase against budget)

There was a delay to the opening of College of World Sport at Lee Valley VeloPark 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 the lease will now commence on 1 August 2020. The rental income projection of £105,000 will now commence in 2020/21 as the first cohort of students are recruited.

The Authority is due to receive a one-off £100,000 of income by 31 March 2020 due to the re-gearing of the Odeon cinema lease at Picketts Lock.

Increased contributions to site and contractor investigation works were approved by Members (Paper E/627/19), some of these projected costs were anticipated to fall in next financial year but have become due now. There will be a corresponding saving in next year's budget.

15 Planning and Strategic Partnerships (£91,000 net saving)

Due to a recent vacancy it is anticipated that there will be a net saving in the budget whilst recruitment options and operational structure review is underway, some of the savings will be used to provide temporary cover where required.

FINANCE & SUPPORT SERVICES**16 Insurance Retender (Saving £110,000)**

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 (£17,000 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.

19 Increase in IT licences and support costs (£40,000)

Additional IT licence and support costs will need to be incurred to meet the cost of access and maintenance of systems as the main venues contract comes back to the Authority. This is to allow staff to access finance, intranet, booking and payroll systems to support the day to day operation of the business. Where it is possible we will try to negotiate quarterly rolling contracts but suppliers are often reluctant to negotiate short-term arrangements. Some of these costs may be chargeable next year and working with the new LSC contractor may be novated onwards when the new contract is implemented.

PARKLANDS & OPEN SPACES

20 Car Parking Charges – (£104,700 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 £128,800 against a budget of £204,500 – an estimated shortfall of £75,700.

In addition to reduced income, management fees, cash collection fees and additional cost relating to repeated vandalism of the parking machines have 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 will be installed in February.

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. The cost of these works is circa £30,000 but this investment would achieve ongoing savings of £28,000 per annum. For the fourth, Hooks Marsh, we have an indicative price of £200,000 to get power to the location, therefore other alternative options are being considered with ParkingEye. It is anticipated that this investment and approach will improve income and reduce costs improving performance.

Current vacancies within the Parklands team will provide in-year savings of £10,000 to reduce the projected shortfall.

21 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 Basin (£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 now working with a range of partners to deliver alternative options 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 new tenant has been identified and following planning permission for a change in use the tenant is now in occupation and following a rent free period will be paying the required rental. This will positively impact the budget in the new financial year.

22 Section 106 Agreements (£138,600 Income)

North London Reinforcement Project £85,000

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, Essex Wharf, and River Lynch restoration project (estimated at £100,000).

Section 106 Oxbow Island - £53,600

The Authority has received £53,600 with Waltham Forest Council for the restoration and habitat enhancement of Oxbow Island. The Authority is working in partnership with the Canal and River Trust, Thames 21 and Mace. The majority of the funds will be spent in the first year on landscaping and habitat works, with a rolling 4 year program to fund further improvements and support local volunteer groups with the ongoing management of the site,

All Section 106 monies are committed to be spent against the prescribed schemes and are included in future years' budget setting.

23 Savings Targets 2019/20 (£61,000 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. There is a provision for offsetting potential additional electricity costs incurred at Holyfield Hall Farm

(that may not be required) against this target which will leave the above savings target £61,000 below budget. 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.

24 Leisure Services Contract Potential Clause 14 Adjustments (£138,000)

As part of the 2018/19 Management Fee, Members approved Clause 14 adjustments (Papers E/613/19 and E/635/19) agreed with the Trust. Clause 14 adjustments become payable in the financial year after approval.

As part of 2019/20 LSC the Trust have identified (through their quarterly monitoring reported to Members in September (Paper E/636/19)), potentially £100,000 of further 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 as part of the year-end close down when actual income and expenditure at these sites is finalised. This will be subject to separate Member approval in May/June.

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 These are dealt with in the body of the report. The overall outturn projection if not reduced will leave general reserves at £4.0m (the approved level of £4m that was agreed as part of the 2019/20 budget). A one-off refund from the rates 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 the final position to Members as part of the revenue monitoring outturn report in May 2020.

- 28 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 further rates reimbursement is covered in paragraph 8, also further Section 106 monies as described in paragraph 19 could materialise

before the year-end (notwithstanding that these would be matched by future years spending) and these would result in a current year 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

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

LEGAL IMPLICATIONS

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

RISK MANAGEMENT IMPLICATIONS

31 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/645/19	Q2 Revenue Budget Monitoring 2019/20	19 September 2019
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	17 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: 09 (December 2019)

FINAL

	Actual To Date			Annual	Proposed	Variance	
	Income	Expenditure	Net	Net Budget	Net Outturn	£000s	%
OPERATIONAL SERVICES							
Chief Executive	0	491	491	676	703	27	4%
Corporate Services	-989	1,409	420	354	391	37	10%
Finance and Support Services	-10	1,273	1,263	1,752	1,705	-47	(3%)
Sport and Leisure	-229	900	671	1,076	1,059	-17	(2%)
Parklands and Open Spaces	-766	2,729	1,963	2,787	2,863	76	3%
	-1,994	6,802	4,808	6,645	6,721	76	1%
Leisure Trust Contract	0	751	751	1,435	1,573	138	10%
Growth & Savings	0	0	0	-61	0	61	100%
s106 North London Reinforcement Project	-85	0	-85	0	-85	-85	0%
s106 LB Waltham Forest / Oxbow Island	-54	0	-54	0	-54	-54	0%
FINANCING							
Interest Receivable	-15	0	-15	-80	-95	-15	(19%)
Bank Charges	0	2	2	6	6	0	0%
Contributions to Earmarked Reserves	0	-37	-37	787	787	0	0%
Financing of Capital Expenditure	0	0	0	931	931	0	0%
Levies on Local Authorities	-7,182	0	-7,182	-9,576	-9,576	0	0%
Movement in General Fund				87	208	121	139%
General Fund Balance Brought Forward					-4,223		
General Fund Balance Carried Forward					-4,015		

YEAR 2019/20

PERIOD: 09 (December 2019)

FINAL

	Actual To Date			Annual Net Budget	Proposed Net Outturn	Variance	
	Income	Expenditure	Net			£000s	%
CHIEF EXECUTIVE							
Chief Executive	0	217	217	253	280	27	11%
PR / Communications	0	274	274	423	423	0	0%
TOTAL CHIEF EXECUTIVE	0	491	491	676	703	27	4%
CORPORATE SERVICES							
Legal Service	-9	306	297	354	454	100	28%
Property Management	-980	505	-475	-897	-859	28	3%
Planning and Strategic Partnerships	0	210	210	371	280	-91	(25%)
Asset Protection, Maintenance & Development	0	311	311	411	411	0	0%
Committee Service	0	77	77	115	115	0	0%
TOTAL CORPORATE SERVICES	-989	1,409	420	354	391	37	10%
FINANCE AND SUPPORT SERVICES							
Finance Management	-10	847	837	1,224	1,227	3	0%
Audit/ Health & Safety	0	26	26	80	63	-17	(21%)
Non Distributed Costs	0	53	53	69	70	1	1%
Corporate Training / Apprenticeships	0	10	10	6	12	6	100%
Sport & Leisure Project Consultancy	0	220	220	297	295	-2	(1%)
Business Support (Trust)	0	0	0	-79	-79	0	0%
Leisure Contract Venues Insurance	0	117	117	155	117	-38	(25%)
TOTAL FINANCIAL SERVICES	-10	1,273	1,263	1,752	1,705	-47	(3%)
SPORT AND LEISURE							
Events	-101	188	87	144	162	18	13%
Sports Development	-13	25	12	70	57	-13	(19%)
Policy and Performance	0	403	403	577	566	-11	(2%)
Youth & Schools Service	-91	211	120	205	194	-11	(5%)
Community Access	0	73	73	80	80	0	0%
TOTAL SPORT AND LEISURE	-229	900	671	1,076	1,059	-17	(2%)

YEAR 2019/20

PERIOD: 09 (December 2019)

FINAL

	Actual To Date			Annual	Proposed	Variance	
	Income	Expenditure	Net	Net Budget	Net Outturn	£000s	%
PARKLANDS AND OPEN SPACES							
Management							
Operational Management	0	124	124	163	165	2	1%
Myddelton House Management	-3	269	266	346	335	-11	(3%)
Parklands							
River Lee Country Park	-34	335	301	418	479	61	15%
Gunpowder Park	-5	60	55	67	86	19	28%
Countryside Areas	-60	829	769	1,138	1,136	-2	(0%)
Abbey Gardens	-9	62	53	96	91	-5	(5%)
Three Mills	0	18	18	38	33	-5	(13%)
East India Dock and Bow Creek	0	51	51	34	57	23	68%
Leyton Marsh	0	0	0	0	0	0	0%
Broxbourne Riverside	-33	14	-19	-16	-18	-2	(13%)
Fisherles	-137	100	-37	-20	-21	-1	(5%)
Visitor Attractions							
Myddelton House	-26	150	124	201	195	-6	(3%)
Rye House Gatehouse	0	5	5	8	7	-1	(13%)
Park Projects							
Volunteers	-4	83	79	99	100	1	1%
Biodiversity	-29	135	106	166	166	0	0%
Farms							
Lee Valley Farm, Holyfieldhall	-368	482	114	89	95	6	7%
Initiatives and Partnerships							
King George Reservoir South	-8	6	-2	0	0	0	0%
Lee Valley Boat Centre	-40	4	-36	-33	-36	-3	(9%)
Broxbourne Chalets	-10	2	-8	-7	-7	0	0%
TOTAL PARKLAND AND OPEN SPACES	-766	2,729	1,963	2,787	2,863	76	3%
TOTAL OPERATIONAL SERVICES	-1,994	6,802	4,808	6,645	6,721	76	1%

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