

SPORTING VENUES BUDGET 2020/21

Presented by Director of Finance & Resources

EXECUTIVE SUMMARY

At its meeting on 23 January 2020 Authority Members approved the temporary direct management of the six main sporting venues from 1 April 2020 at the end of the current contract and while legal matters regarding the new contract are resolved (Paper A/4277/20). This report seeks six months budget approval for those venues and associated support costs.

Appendix A to this report provides a financial summary of the proposed venue budgets which will meet the business requirements of those venues. Any mid-year transfer to the new contractor may reduce the direct budget requirements of the Authority but will most likely be matched by a third party payment to the new contractor.

Members will receive regular reports as part of the revenue monitoring process to ensure that expenditure and income falls within approved budgets and available resources.

RECOMMENDATION

Members Approve: (1) the budget and resourcing as set out from paragraph 12 of this report subject to changes based on the developing situation.

BACKGROUND

- 1 In January the Authority approved the temporary direct management of the six main sporting venues from 1 April 2020 at the end of the current contract and while legal matters regarding the new contract are resolved (Paper A/4277/20). This report sets out the detailed budget requirements to deliver this change and highlights the financial implications and potential risks over the next twelve months.
- 2 Subject to the budget approval Members will receive regular reports as part of the revenue monitoring process to ensure that expenditure and income falls within approved budgets and available resources. These will identify where

further mitigation is required to ensure overall resource levels are not breached.

- 3 The proposed total net budget for the six sporting venues and direct support costs for 2020/21 is estimated at £2.1 million. With gross estimated expenditure of £11.1 million and gross estimated income of £9.0 million.

SPECIFIC FINANCIAL RISK FACTORS

- 4 The main financial risk and impact on the Authority's budget is business rates. The current provider and any new contractor, assuming they are also a charitable organisation, is able to reclaim 80% charitable rate relief. The Authority is not entitled to this mandatory relief but possibly can receive (and is seeking) temporary discretionary relief. Table 1 below sets out the worst and best case scenarios for rate relief giving a potential annual increase of £1.7m in 2020/21 above that already provided for in the management fee.

Table 1

Venue	No Rate Relief 2020/21 (£'000)	80% Relief 2020/21 (£'000)	Progress in seeking rate relief
LV VeloPark	1,164	253	Discussions in progress
LV White Water Centre	399	80	Discussions in progress
LV H&TC	186	37	Discussions in progress
LV Ice Centre	44	8	Discussions in progress
LV Athletics Centre	394	79	Application submitted
LV Riding Centre	40	8	Discussions in progress
Total	2,227	465	

- 5 VAT arrangements for charities differ to public bodies like Lee Valley. Due to the transfer back from Lee Valley Leisure Trust Ltd (the Trust) to the Authority there will be a change in VAT liability, with most fees and charges no longer being VAT exempt. The fees and charges for the six sporting venues were approved at the last Executive Committee (Paper E/658/20) absorbing this VAT implication due to the anticipated short term transition expected - as the incoming Contractor is a charitable organisation and will be able to apply the VAT exemption on sporting activities in future. This will mean income the venues receive will be lower than previous years and this is estimated at £0.9 million.

As previously reported officers are currently exploring the possibility and impact on the Authority's VAT position of applying the VAT exemption on sporting activities so as to mitigate the £0.9 million loss, but any implementation of this will only be applied retrospectively and is on hold until after our current legal case regarding VAT is heard – this is based on the advice of our VAT advisors (KPMG) so as not to prejudice this long-standing legal claim.

- 6 Insurance costs will be higher than anticipated as the Authority must take on the Public/Employee Liability and Business Interruption insurance previously funded. We are seeking quotes through our existing insurance providers to provide the standard £20 million cover for a period of six months. This will take the Authority to its usual annual renewal date of 1 October each year. The estimated premium cost at this level of cover for six months is £121,000. Officers propose that this

one-off exceptional premium is funded via the insurance fund which currently sits at £700,000. Unfortunately the current insurance market only covers for known diseases and as such Corona virus (CORVID 19) is not coverable.

- 7 Other significant additional costs relating to the temporary transfer back to the Authority are set out in Table 2 below and include:

Table 2

Description	£'000	Notes
IT Costs	147	Clarity, Efin and Payroll Licence costs
Marketing	205	Support staff and operational costs
Finance/HR/Performance	222	Support staff and operational costs
Health & Safety	20	External Contract
Venues Management	399	Support staff and operational costs
Total	993	

- 8 With the lack of pre-contract marketing and the outbreak of Corona virus achieving previous levels of usage and therefore income levels within the budget may become more uncertain. Unfortunately, the current insurance market only covers for known diseases and as such Corona virus (COVID 19) is not coverable. Budgeted income levels are based upon previous levels of return less 20% due to VAT (see paragraph 5).

ENVIRONMENTAL IMPLICATIONS

- 9 There are no direct environmental implications arising from the recommendations in this report. However, within each project a full evaluation of environmental implications is undertaken and reported to Members as part of the overall project brief.

EQUALITY IMPLICATIONS

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

FINANCIAL IMPLICATIONS

- 11 The estimated annual budget is set out in more detail in Appendix A to this report – in summary the estimated annual cost is set out in table 3 below:

Table 3

Description	Budget 2020/21 £'000	Comments for budget 1 April to 30 September
Six Sport Venues (Net)	561	Includes Business Rates at 20%, no VAT exempt income and insurance
Support Cost	586	Six months cost except IT
Six Months Full Rates	649	½ Year Cost less 20% already incl.

Estimated Six Month Cost to Authority	1,796	
50% Management Fee	780	Assume 50% contractor from 1 October 2020
Total Annual Cost	2,576	

12 The impact on the 2020/21 budget and reserves is set out in table 4 below:

Table 4

Description	Budget 2020/21 £'000	Note
Total Annual Cost	2,576	
Approved LSC Budget	(1,557)	A/4276/20 Budget Paper
Estimated Shortfall	1,019	
Funded by:		
Savings in Small Venue Business Rates	(83)	Subject to criteria being met
General Fund	(816)	Additional resources
Insurance Fund	(120)	Reduces Balance to £580,000
	(1,019)	
General Reserves	(3,881)	A/4276/20 Budget Paper
Estimated Surplus	(313)	
Potential Transition Costs	700	One off transition costs at end of current LSC
Estimated Shortfall	816	
Revised General Fund	(2,678)	Estimated Balance at 31/03/2021

It is important to note that the potential estimated year end general fund is below the £3m to £4m range approved by Members as part of the Budget and Levy setting process. Potentially the Authority can mitigate this risk either through applying the VAT position described in paragraph 5 above and/or achieve some level of certainty regarding business rates described in paragraph 4.

There are however now multiple risks that may skew this positions if/as they materialise and these are described in the risk implications from paragraph 15.

HUMAN RESOURCE IMPLICATIONS

13 There are TUPE implications relating to staff who are returning to the Authority

LEGAL IMPLICATIONS

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

RISK MANAGEMENT IMPLICATIONS

- 15 The main financial risk implications to the budget are set out from paragraph 4. There are now however, multiple risks ahead that need to be managed not least the impact of Corona virus (COVID 19).

Failure to resolve the contract procurement position before 1 October 2020 may have further budgetary implications specifically through increased rates and insurance costs, subject to any rate relief position the Authority is able to resolve before then.

It is recommended that mitigation against the financial impact initially will be to utilise existing cash reserves currently (£9.6 million). This will have the effect of reducing cash backed reserves in the shorter term and may (if the situation deteriorated further) require temporary short term borrowing, for example, as a result of Corona virus persisting and majorly impacting income levels. Longer term the Authority has the ability under section 48 of the Lee Valley Regional Park Act 1966 to issue a supplementary levy at the year-end or it can consider future levy increases from 2021/22 as part of the normal budget round concluding in January 2021 to replenish shortfalls in cash reserves.

Officers are engaging with the boroughs where the key venues are located to seek discretionary relief for one year and mitigate any rate impact. If this is unsuccessful alternative structures for the management of the buildings is being considered to ensure that mandatory rate relief is secured. The bonus of potentially receiving a 100% rate relief on the smaller venues will provide an estimated saving of £83,406.

Officers are also exploring the potential of re-classifying the income as exempt for one year and exceeding our partial exemption limit which is legitimate under current VAT rules. The effect of this could be to improve the net VAT position. This can be applied retrospectively once the impact on income is known and so as not to prejudice our existing claim. Income as a whole (in the Authority generally and the six venues transferring) is vulnerable to the impact of the Corona virus and this will depend largely on how long and how far reaching it turns out to be. There is also the potential for positive returns, especially at the smaller venues, for example campsites may benefit from those holidaying at home due to uncertainties in travelling abroad.

The reduction in interest rates may in the short term impact negatively on our investment returns which are generally achieving about 1% (£80,000). However, this may be more than off-set if the decision to borrow for the Ice Centre is made whilst rates are low. The current medium term financial plan assumes the cost of borrowing £25m at 2.95% (£360K in 2020/21 and £1.4m from 2021/22) may materially reduce if long term rates reduce. Current Public Works Loan Board (PWLB) rates are 2.65% over 40 years giving an annual cost of £1.287m (2021/22 and a part year cost of £322K (2020/21) and are already lower than that included within the Medium Term Financial Plan. Equally Members can decide to defer any decision to borrow next year which would yield a £360,000 saving in the Medium Term Financial Plan.

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PREVIOUS COMMITTEE REPORTS

Authority	A/4276/20	2020/21/Revenue Budget & Levy	23 January 2020
Authority	A/4278/20	Options for management of the Six Sports Venues	20 January 2020
Executive	E/658/20	Fees & Charges Review	27 February 2020

APPENDIX ATTACHED

Appendix A Summary Budget Six Sporting Venues 202021

ABBREVIATIONS

LSC Leisure Services Contract

LSC Venues & Business Support 2020/21 Budget - Objective Analysis

Cost Centre	Proposed Annual Budget	Six Month Budget
SUPPORT		
HUMAN RESOURCES	£31,200	£15,600
CORPORATE TRAINING	£30,500	£15,250
PERFORMANCE MANAGEMENT	£140,300	£70,150
PR/COMMUNICATIONS	£204,600	£102,300
FINANCE	£20,400	£19,200
HEALTH AND SAFETY	£20,000	£20,000
INFORMATION TECHNOLOGY	£147,200	£142,950
VENUES MANAGEMENT	£399,300	£199,650
Total Business Support	£993,500	£585,100
LEE VALLEY VELOPARK	£675,100	£337,550
LV HOCKEY AND TENNIS CENTRE	£412,600	£206,300
LEE VALLEY RIDING CENTRE	(£65,600)	(£32,800)
LEE VALLEY VELOPARK CATERING	(£115,500)	(£57,750)
LV HOCKEY AND TENNIS CATERING	(£54,300)	(£27,150)
LEE VALLEY ICE CENTRE	(£120,000)	(£60,000)
LV ICE CENTRE CATERING	(£11,600)	(£5,800)
LEE VALLEY ATHLETICS CENTRE	£180,400	£90,200
LEE VALLEY WHITE WATER CENTRE	£283,100	£141,550
LV WHITE WATER CATERING	(£61,600)	(£30,800)
Total Venues	£1,122,600	£561,300
TOTAL BUDGET	£2,116,100	£1,146,400

Group	Proposed Annual Budget	Six Month Budget
EMPLOYEE DIRECT	£5,647,000	£2,823,500
EMPLOYEE INDIRECT	£94,200	£47,100
BUSINESS RATES	£466,400	£233,200
BUILDINGS AND ENGINEERING AGREEMENTS	£666,000	£333,000
EQUIPMENT AND MATERIALS	£243,300	£121,650
GROUND'S MAINTENANCE	£31,200	£15,600
CLEANING CONTRACT	£298,600	£149,300
ICT CONTRACTS	£138,700	£138,700
UTILITIES	£1,382,300	£691,150
CONSULTANTS	£96,000	£48,000
MARKETING	£235,700	£117,850
INSURANCE	£242,000	£121,000
RETAIL EXPENDITURE	£646,000	£323,000
RENTS	£33,400	£16,700
OTHER EXPENDITURE	£908,700	£473,350
TOTAL EXPENDITURE	£11,129,500	£5,653,100
FEES AND CHARGES	(£7,262,400)	(£3,631,200)
RENTS	(£13,500)	(£6,750)
RETAIL INCOME	(£1,737,500)	(£868,750)
TOTAL INCOME	(£9,013,400)	(£4,506,700)
TOTAL BUDGET	£2,116,100	£1,146,400