LEE VALLEY REGIONAL PARK AUTHORITY EXECUTIVE COMMITTEE 22 OCTOBER 2015 AT 10:30	Agenda Item No: 8 Report No: E/418/15

2016/17 BUDGET – METHODOLOGY, ASSUMPTIONS AND TIMETABLE

Presented by the Director of Finance & Resources

EXECUTIVE SUMMARY

The report sets out:

- the draft budget timetable for the 2016/17 budget process; and
- the proposed methodology and assumptions for the preparation of the revenue and capital budgets for the year ahead.

RECOMMENDATIONS

Members Approve:

(1) the budget timetable for the 2016/17 budget process as set out in Appendix A to this report;

(2) the principles, assumptions and methodology for the 2016/17 revenue and capital budgets as set out in paragraphs 9 to 13 of this report; and

(3) the minimum general reserve level at £4m.

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 (2016/17), 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 47.9%. 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 (2015/16) equates to £0.98p per head based on the latest population figures (census 2010 and the Mid 2013 Population Estimates, Office for National Statistics, June 2014), 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 Chief Executive and management team are currently developing the Authority's 3 year business plan for 2016/17-2018/19. A discussion paper will be presented to Members as part of the Budget Workshop in December with formal approval In January 2016, alongside the 2016/17 budget and levy paper.

Some of the key financial themes for the next 3 years are as follows:

- continue to reduce the cost of the Lee Valley Regional Park to the taxpayers of London, Essex and Hertfordshire via the levy;
- provide an 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.

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 £4.8m, these are estimated to reduce to £4.5m by the end of 2015/16. Members set a minimum reserves policy of £4m in January 2015 as part of the budget setting process for 2015/16 (Paper A/4200/15). The capital receipts reserves total £17.5m as at 31 March 2015, which is currently earmarked to deliver and provide investment income returns to support the revenue funding required by legacy facilities.

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 2% 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 in 2013/14, 2014/15 and 2015/16. The Medium Term Financial Plan (MTFP) assumes an ongoing 2% reduction in the levy until 2020.

7 Over the last 10 years the annual average annual levy has decreased by 0.10% with Retail Price Index (RPI) averaging at 3.05% and local authority funding settlements averaging at 0.27%. In real terms the Authority has seen a reduction

in its levy compared to RPI of 30%. The table below sets out the three, five and ten year averages for headline indicators.

Table of Key Benchmarking Indicators

	3Yr Average %	5Yr Average %	10Yr Average %
FSS/SSA for levied Authorities	-2.70	-3.36	0.27
National Council Tax Band D	0.20	0.12	1.91
Increase in RPI (September)	2.70	3.66	3.05
Change in LVRPA Levy	-2.00	-2.00	-0.10

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., 2015/16 approved budget, should be maintained at a zero base increase for the preparation of the budgets for the coming year (2015/16). 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 2016/17 as part of the 2015/16 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 2015/16 (outturn) prices, will need to be taken into account. The RPI to September 2015 is currently **0.8%.** The Consumer Price Index (CPI), the Government's preferred indicator is **-0.1%.**

- **1% increase** in employee costs;
- **0% increase** in non-employer costs in line with CPI;
- Electricity costs are currently indicating increases in the wholesale market (October 2015 to September 2016); and therefore these budgets need to increase above the existing inflation levels by 4.3% at the Lee Valley White Water Centre (LVWWC) and by 2.5% at all other venues. Gas prices are more stable and are showing a decrease in the wholesale market, therefore these costs will remain at current budgeted levels. The current budget for electricity and gas are £1.2m and £0.1m respectively. Water is projected to increase by RPI and will increase by 0.8% (current budget £157,000);
- Insurance premiums have increased this year 2015/16 following the annual premium renewal exercise (and also run from October 2015 to September 2016). These increases will be contained within the existing budgetary provision for the second part of the 2015/16 financial year and an estimated further 5.0% increase in 2016/17;

> A proposed levy decrease of -2% for 2016/17 and further 2% target decreases in each year from 2017 to 2020, will be built into the MTFP. Actual future changes in the levy will 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 the levy reduction, RPI and the existing fees and charges policy. The majority of fees and charges will commence from March/April 2016. Fees and charges are currently under review as part of the annual exercise and will be subject to discussion at the Members' Fees and Charges Workshop on 26 November 2015.

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:

- priority areas resulting from the realignment of resources to the priorities within the Authority's new three year Business Plan;
- revenue financing of the capital programme – proposed for next year at **£1.9m.** The capital programme is a separate item on this agenda;
- decreases in investment income are anticipated as longer/medium term investments mature in April 2015. Currently these investments are securing on average a 1.0% return. It is unlikely that similar reinvestments will achieve much in excess of 1%, although a staggered 0.25% is built in annually for future years in the MTFP. 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. Investment returns are currently estimated at £160,000;
- stretch targets and one-off funding – the current MTFP has a number of income stretch targets built in e.g., break-even operating budgets (excluding central overheads) for venues, sponsorship and naming rights. These areas will be reviewed to ensure the MTFP reflects deliverability;
- 2012 Games legacy venues - the current MTFP has efficiencies built in to rationalise the net operating costs for both the Lee Valley VeloPark and the Lee Valley Hockey & Tennis Centre and Lee Valley Athletics Centre. The Lee Valley VeloPark is estimated to reduce its net operating cost by £200,000, Lee Valley Hockey & Tennis Centre by £100,000 and Lee Valley Athletics Centre by £150,000.
- Leisure Services Contract Management Fee will be determined by the agreed method of uplift set out in Schedule 3 of the contract (Appendix B to this report) and in line with the indicators described above. 2015/16 is the first year of operation of this contract and, as has become clear through the revenue monitoring, certain budgets have been realigned across the Authority and the Trust during the year as operational requirements become clearer. These adjustments have a net nil impact on the overall budget but can cause the base Management Fee to fluctuate (either up or down). It will take a full year of operation to understand the full impact on the Management Fee and to create a "steady-state" base Management Fee going forward.

BUDGET UNCERTAINTIES

14 There are often 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 have 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 Outstanding business rate appeals can have a positive impact. Locally the Authority is still awaiting the outcome of the 2010/17 rating appeal for some of its facilities, specifically in relation to the Lee Valley White Water Centre (LVWWC). It is possible that this could lead to a reduction in the rateable value (RV) by up to a half for the period it was open from 2011 to 2015. This could result in a retrospective rebate of up to £850,000. Any reduction in the RV would also have a downward effect on the rates bill going forward with a consequential reduction in the Management Fee required by the Trust. The Lee Valley VeloPark rates are also subject to appeal.

16 In addition the Authority's VAT advisors have challenged VAT charged on sporting activities prior to the transfer to the Trust which are deemed non-business. In the past where this challenge has been successful it has provided for a "wind-fall" VAT reclaim in the region of £1m. The Authority sits behind specific test cases which are laid before HMRC – if successful the Authority could receive a "wind-fall" payment over the next few years, however the timing and amount of this is uncertain and cannot be treated with any degree of certainty when setting the levy.

RESERVES POLICY

17 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.

18 The Authority currently generates circa £14m across all it sites, through fees and charges, catering, lettings, leases etc. The LVWWC and Lee Valley VeloPark between them generate circa £2.5m and £2m from sales and catering and the 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.

19 The CIPFA bulletin 99 "Local Authority Reserves and Balances" seeks to provide guidance in this area. The requirement for financial reserves is acknowledged in statute, requiring Members to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

20 There are statutory safeguards to prevent over-commitment of financial resources. These are:

- the balanced budget requirement;
- Chief Financial Officers' (CFO) duty to report on robustness and adequacy of reserves;
- the legal requirement for the Authority to ensure proper administration of its financial affairs;
- the prudential code; and
- the requirement for the CFO to report on unlawful expenditure or an unbalanced budget.

In addition the external auditors will assess as part of their annual audit that there are no material uncertainties about going concern.

21 The MTFP review requires Members and the 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, can be 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.

22 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.

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.

23 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 by drawing on general reserves, but is not prudent to finance planned on-going expenditure in this way.

24 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.

25 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. As a guide Appendix C to this report shows how other similarly sized organisations have set their reserve, notwithstanding that their own risk assessments, demands and statutory requirements may differ.

It is recommended at this time to retain the £4m minimum reserve level but that this is monitored (and reviewed if necessary) as part of the ongoing quarterly revenue monitoring.

BUDGET APPROVAL

26 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 2016/17 at the Authority meeting on 21 January 2015.

27 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 2016/17 budget and levy options at their meeting on 21 January 2016 (following a Budget Workshop on 17 December 2015).

ENVIRONMENTAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

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

HUMAN RESOURCE IMPLICATIONS

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

LEGAL IMPLICATIONS

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

RISK MANAGEMENT IMPLICATIONS

32 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 a thorough review of 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/4200/15	Proposed Budget & Levy 2015/2016	22 January 2015

APPENDICES ATTACHED

Appendix A	Proposed Budget Timetable 2016/17
Appendix B	Schedule 3 of Leisure Services Contract
Appendix C	Comparator Reserve Data

LIST OF ABBREVIATIONS

CPI	Consumer Price Index
RPI	Retail Price Index
MTFP	Medium Term Financial Plan
HMRC	HM Revenue & Customs
RV	Rateable Value
CIPFA	Chartered Institute of Public Finance and Accountancy
CFO	Chief Financial Officer
LVWWC	Lee Valley White Water Centre

LEE VALLEY REGIONAL PARK AUTHORITY
2016/17 CAPITAL PROGRAMME & REVENUE BUDGET TIMETABLE

	Description	Lead Officer	Dates	Meeting Date
1.	**Budget Timetable for 2016/17**			
	(i) Prepare budget methodology paper & timetable for Executive Committee	SS	Oct 15	22 Oct 15
	(ii) Finalise timetable and issue to SMT, HOS, Managers	SS	Oct 15	22 Oct 15
2.	**5 year Revenue Medium Term Financial Forecast (MTFF) – 2016 to 2020**			
	Update MTFF, to take account of:	SS	Nov 15	09 Nov 15
	(i) 2012 Olympic Legacy Venues			
	(ii) Uplift all budgets for inflation as appropriate e.g. 1.0% salaries; 0% non-salaries,			
	(iii) Reduce Levy by 2.0% annually from 2016/17			
	(iv) Revenue "growth" items i.e. income/expenditure items not already within the existing 2015/16 budget			
	(v) Any significant variations in staffing/establishment			
	(vi) Risks/areas of sensitivity			
	(vii) Circulate updated MTFF to SMT for discussion			10 Nov 15
3.	**Capital Programme – 2015/16 Revised to 2019/20**			
	(i) Info from managers on the phasing of expend. over the next 5 years	SS	Oct 15	02 Oct 15
	(ii) Info from managers on the phasing of grants over the next 5 years	SS		02 Oct 15
	(iii) AMP programme finalized	GP		02 Oct 15
	(iv) Prepare annual prudential indicators	KK		14 Oct 15
	(v) Finalise capital programme & capital resourcing for SMT	SS		5 Oct 15
	(vi) Circulate final capital programme for consideration by SMT	SS		6 Oct 15
	(vii) Prepare capital programme and resourcing for Members approval	SS		14 Oct 15
4.	**Staffing Costs**			
	(i) Budget sheets prepared based on establishment list as at 09/10/15	KK/VY/	Oct 15	02 Oct 15
	(ii) Full revenue/capital budget sheets completed by Finance	SS/MK/KK		09 Oct 15

5.	<u>Draft Revenue Budgets</u> (i) Draft budgets reviewed by managers (ii) Fees & charges reviewed by officers **(iii) Members/Trust Fees & Charges Workshop**	All Managers Trust/Authority SMTs	Oct 15 Nov 15	23 Oct 15 13 Oct 15 26 Nov 15
6.	SMT to consider medium term levy options for 2016/17 and levy strategy	SS	Nov 15	24 Nov 15
7.	Draft budgets to be sent to managers for final check/amendment review	MK/KK	Nov 15	6 Nov 15
8.	Revision to budgets to be produced following any changes requested by managers	SS/MK/KK	Nov 15	13 Nov 15
9.	Support service charges and capital charges to be calculated	KK	Nov 15	20 Nov 15
10.	Meeting with Chair/Vice Chair to discuss draft budget proposals for Member Budget Workshop	SD/SS	Dec 15	01 Dec 15
11.	Finalise revenue and capital financing & levy options (i) Final report to be circulated to SMT for consideration	SS	Dec 15	- 09 Dec 15
12.	Write to contributing authorities requesting their council tax base information	MK/KK	Dec 15	01 Dec 15
13.	**<u>Member Budget Workshop</u>** - Report on revenue & capital budgets, levy options, borrowing limits	SS	Dec 15	17 Dec 15
14.	**<u>Executive/Authority Meetings</u>** - 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	Jan 16	21Jan 16
15.	Write to contributing authorities to notify them of the Levy for 2015/16 **** Under the Park Act section 49 (5) need to notify contributing councils by 15 February each year***	MK/KK/SS	Feb 16	01 Feb 16

Schedule 3

Management Fee

Introduction

The Management Fee has been calculated by apportioning the approved 2015/16 revenue budget of the Authority across all of the Services and then by allocating within the overall budget of the Authority relevant budget items that relate to the services the Trust are required to deliver. This has informed the calculation of the amount required for the Trust's first year of operation. It is accepted that this process results in an estimate of the amount that might reasonably be required by the Trust and that it will be necessary to reassess the accuracy of the budget allocations during the six months from the Commencement Date. Without prejudice to the operation of clause 14 of the Agreement the Authority and Trust will re-evaluate the budget allocation over the coming 6 months against actual income and expenditure and the Management Fee may be adjusted accordingly to a more accurate allocation of the overall budget of the Authority (taking account the budgetary requirements of the continuing operations of the Authority and the Trust). This allocation excludes any apportionment or transfer of funds relevant to the specific Services being transferred eg Repairs and Renewal Funds.

1 First Service Year

The Management Fee in respect of the first Service Year shall be three million five hundred and thirty-nine thousand and four hundred pounds (£3,539,400) and shall be paid as follows:

Date Payable	Amount (£)
First Quarter Day (Commencement Date)	[£1,539,400]
Second Quarter Day	[£500,000]
Third Quarter Day	[£500,000]
Fourth Quarter Day	[£1,000,000]

2 Subsequent Service Years

2.1 The Management Fee in respect of each Service Year after the first Service Year shall be calculated in accordance with the following principles:

2.1.1 To aim for all venues to achieve operational break-even and/or operational budget surplus by the fifth (5th) year after the Commencement Date.

2.1.2 To investigate and develop plans to reduce central support overheads through new contracts and/or shared business.

2.1.3 To ensure VAT and tax efficiency.

2.1.4 To support the Authority's aspiration to reduce the burden on tax payer.

2.1.5 To demonstrate value for money and business efficiency from Authority funds.

2.1.6 To ensure efficiency/maximisation on investment income through implementation of a treasury management policy and annual investment strategy.

2.2 Without prejudice to the generality of paragraph 2.1, the annual calculation and negotiation of the Management Fee shall be based on the following formula:

The Authority's base budget as approved (split Authority/Trust)

Plus an adjustment for inflation using relevant indices, (for example utility inflation/insurance inflation/staffing costs and any other relevant indices) as per any budget assumptions agreed between the parties

Less the impact of approved stretch targets (as agreed between the parties)

Less reduction in funding target (for example levy direction set by Members)

Plus approved business/service development plans (e.g. growth)

Plus adjustment for any new capital investment (by instalment - annual capital charge and interest)

Plus/Minus adjustment for previous Service Year's over/under funding.

Comparison of General Fund Balances (excluding earmarked reserves)

Authority	Year	Fixed Asset Value £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	General Fund Reserve £'000
LVRPA	2014/15	230,355	37,006	19,440	17,566	4,805
Broxbourne	2014/15	98,882	69,021	50,103	18,918	4,442
Epping Forest	2014/15	645,710	67,842	46,700	21,142	9,293
East Herts	2014/15	50,971	69,871	50,984	18,887	3,854
Lake District National P	2013/14	16,136	14,918	15,105	-187	714
Snowdonia	2014/15	16,747	8,298	2,349	5,949	400