

 <p>Lee Valley Regional Park Authority</p> <p>LEE VALLEY REGIONAL PARK AUTHORITY</p> <p>EXECUTIVE COMMITTEE</p> <p>18 OCTOBER 2018 AT 11:30</p>	<p><u>Agenda Item No:</u></p> <p>6</p> <p><u>Report No:</u></p> <p>E/589/18</p>
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**2019/20 BUDGET –
METHODOLOGY, ASSUMPTIONS AND TIMETABLE**

Presented by the Director of Finance & Resources

EXECUTIVE SUMMARY

The report sets out:

- the draft budget timetable for the 2019/20 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 2019/20 budget process as set out in Appendix A to this report; and
 - (2) the principles, assumptions and methodology for the 2019/20 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 (2019/20), 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 38.8%. 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 (2018/19)

equates to £0.81p per head based on the latest population figures (census 2010 and the Mid 2013 Population Estimates, Office for National Statistics, June 2017) 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 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;
 - 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 £3.7m by the end of 2018/19. Members set a minimum reserves policy of £4m in January 2018 as part of the budget setting process for 2018/19 (Paper A/4252/18). The capital receipts reserves total £15.2m as at 31 March 2018.
- 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 assumes an ongoing reduction in the levy until 2020/21 – a total 25% reduction including the 6% decrease in 2017/18 and 2018/19.

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 approaching 50%.

	3 Year Change	5 Year Change	10 Year Change
Levy decrease	-14.0%	-18.0%	-22.5%
RPI increase	6.7%	12.2%	24.6%
	-20.7%	-30.2%	-47.1%

- 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 and fulfilling its statutory role.

BUDGET METHODOLOGY & ASSUMPTIONS

- 9 It is proposed that existing service levels and the latest approved forecast i.e., 2018/19 approved budget, should be maintained at a zero base increase for the preparation of the budgets for the coming year (2019/20). 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 2019/20 as part of the 2018/19 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 2018/19 (outturn) prices, will need to be taken into account. The Retail Price Index (RPI) to August 2018 is currently **3.5%**. The Consumer Price Index (CPI), the Government's preferred indicator, is **2.7%**.
- **2%** increase in employee costs;
 - **0%** increase in non-employer costs;
 - electricity and gas prices are currently indicating increases in the wholesale market (October 2018 to September 2019); 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 3.5 %);
 - insurance premiums have increased by 4% and Insurance premium tax has remained at 12% this year (2018/19) following the annual premium renewal exercise (which also runs from October 2018 to September 2019). Some of these increases will be contained within the existing budgetary provision for the second part of the 2018/19 financial year and an estimated further 4% increase in 2018/19;
 - 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 levy decrease for 2019/20 was built into the Medium Term Financial Plan put forward by the Levy Strategy Working Group from 2017/18 to 2020/21 (6% in 2018/19) and formed part of the Medium Term Financial Plan. 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 2019. 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 2019/20 and are in line with the current two year pay award approved by Members (Paper E/561/18);
 - 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 **£1.2m** for 2019/20 and is in line with the current approved capital programme. 2017/18 saw a significant reduction from £1.8m to £1.3m and a further reduction by £0.1m in 2018/19. 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 0.56% return (2017/18 actual). It is unlikely that reinvestments will achieve much in excess of 0.75%, 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 Trust venues, 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 agreed method of uplift set out in Schedule 3 of the contract and in line with the indicators described above. 2019/20 will be the fifth and final year of operation of this contract and the current management fee in 2018/19 is £2.3m. 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 an on-going reduction to the management fee to £1.6m by 2020/21.

Set against this will be potential liabilities arising from tendering the new LSC which is planned to commence from 2020. Ahead of this exercise it is hard to determine what price/return will be generated from the re-letting of this contract although it is anticipated to deliver material savings in the years beyond 2020.

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 and 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 Medium Term Financial Plan 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 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 £0.6m 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;
 - 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 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 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. 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 2019/20 at the Authority meeting on 17 January 2019.
- 24 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 2018/19 budget and levy options at their meeting on 17 January 2019 (following a Budget Workshop on 13 December 2018).

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/4252/18	Proposed Budget & Levy 2018/2019	18 January 2018
Executive	Paper E/561/18	2018/19 and 2019/20 Pay Award	24 May 2018

APPENDIX ATTACHED

Appendix A Proposed Budget Timetable 2019/20

LIST OF ABBREVIATIONS

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

LEE VALLEY REGIONAL PARK AUTHORITY
2019/20 CAPITAL PROGRAMME &
REVENUE BUDGET TIMETABLE

	Description	Lead Officer	Dates	Meeting Date
1.	<u>Budget Timetable for 2019/20:</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 18 Oct 18 Nov 18	18 Oct 18 19 Oct 18 22 Nov 18
2.	<u>Medium Term Financial Forecast (MTFF) – 2019 to 2023</u> Update MTFF to take account of: (i) Review Management Fee with Trust (ii) Uplift all budgets for inflation as appropriate e.g. 2.0% salaries; 0% non-salaries, (iii) Levy options from 2019/20 (iv) Revenue “growth” items i.e. income/expenditure items not already within the existing 2018/19 budget (v) Any significant variations in staffing/establishment (vi) Risks/areas of sensitivity (vii) Circulate updated MTFF to SMT for discussion	SS	Nov 18	05 Nov 18
3.	<u>Capital Programme – 2018/19 Revised to 2022/23:</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) Capital programme and resourcing for Members approval (ix) Prudential indicators for Members approval	SS SS GP KK SS SS SS KK/SS	Oct 18 - Dec 18	19 Oct 18 19 Oct 18 19 Oct 18 05 Nov 18 12 Nov 18 19 Nov 18 13 Dec 18 13 Dec 18
4.	<u>Staffing Costs:</u> (i) Budget sheets prepared based on establishment list as at 15/10/18 (ii) Full revenue/capital budget sheets completed by Finance	KK/VY/ SS/MK/	Nov 18	05 Nov 18 12 Nov 18

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 18 Nov 18	19 Nov 18 22 Nov 18
6.	Levy Strategy Working Group to propose medium term levy options for 2018/19 levy onwards	SS	Nov 18	22 Nov 18
7.	Draft budgets to be sent to managers for final check/amendment review	MK/KK	Nov 18	26 Nov 18
8.	Revision to budgets to be produced following any changes requested by managers	SS/MK/KK	Dec 18	03 Dec 18
9.	Support service charges and capital charges to be calculated	KK	Nov 18	19 Nov 18
10.	Meeting with Chair/Vice Chair to discuss draft budget proposals for Member Budget Workshop	SD/SS	Dec 18	05 Dec 18
11.	Finalise revenue and capital financing & levy options (i) Final report to be circulated to SMT for consideration	SS	Dec 18	05 Dec 18
12.	Write to contributing authorities requesting their council tax base information	MK/KK	Dec 18	03 Dec 18
13.	<u>Member Budget Workshop</u> - Report on revenue & capital budgets, levy options, borrowing limits	SS	Dec 18	13 Dec 17
14.	<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 19 Jan 19	07 Jan 19 17 Jan 18
15.	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	SS/MK/KK	Feb 19	01 Feb 19