Lee Valley Regional Park Authority **LEE VALLEY REGIONAL PARK AUTHORITY** **EXECUTIVE COMMITTEE** **18 NOVEMBER 2021 AT 10:30**	**Agenda Item No:** **5** **Report No:** **E/742/21**

2022/23 REVENUE BUDGET – METHODOLOGY, ASSUMPTIONS AND TIMETABLE

Presented by the Head of Finance

EXECUTIVE SUMMARY

The report sets out:

- the budget timetable for the 2022/23 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 2022/23 budget process as set out in Appendix A to this report; and

(2) the principles, assumptions and methodology for the 2022/23 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 2022-2027 and the Annual Service Plan (2022/23), 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 37.0% of the maximum chargeable compared to 59.3% in 2011/12. The current levy (2021/22) 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 2020) 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 current business objectives incorporate the following financial targets:

- continue to work to reduce the cost of Lee Valley Regional Park to the taxpayers of London, Essex and Hertfordshire via the levy from the maximum chargeable;
- seek external funding for the capital programme;
- deliver an investment programme for the venues to increase income/reduce costs;
- continually look to increase income through a range of new investment opportunities both directly and with/or via third parties;
- maximising the return on the Authority's estate; and
- finalising the Leisure Services Contract (LSC) Management Fee, to enable the delivery of sport and leisure at venues in line with the new contract.

The Authority's Business Plan will be revised for the period 2022-2027 in light of the impact of the pandemic and will be produced for Spring 2022.

5 The Authority approached the coming financial year from a stable financial position, having been able to weather the impact of the Covid-19 pandemic in 2020-21 on its cash resources, with a robust, resilient, and rebuilt approach to the 2021/22 financial year. Whilst we are still only two thirds of the way through this financial year, the General Fund (revenue cash reserve) is anticipated to stand at £4.3m at year end. This is in line with the approved policy of maintaining a general reserve of between £3m-£4m, and reflects an improved position against the budget for the year.

6 Having each year carefully considered the continuing financial pressures on the precepted Boroughs, the general current economic climate, the Authority's strategic objectives, demands on the organisation and its financial position, the Authority had approved an annual decrease in the levy since 2011/12. As the Authority needed to look to rebuild its reserves, and to mitigate against potential further coronavirus waves or other impacts on its financial position, it increased the levy by 2% for 2021/22. However, the current Medium Term Financial Plan (MTFP) assumes working towards an ongoing reduction in the levy in real terms over the mid-term.

7 Over the last three to ten years the levy has been significantly below inflation with a real term decrease of nearly 50%.

	3 Year Change	5 Year Change	10 Year Change
Levy change	2.0%	-10.0%	-20.0%
RPI increase	6.8%	12.7%	27.2%
	-4.8%	-22.7%	-47.2%

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.

KEY BUDGET OBJECTIVES

9 The budget for 2022/23 needs to continue to address the impact on the Authority's reserves from 2020/21, whilst taking into account the change in risk profile associated with the commencement of the LSC with GLL in April 2022. The focus for the 2022/23 budget is to create further resilience, whilst continuing to rebuild for the future.

10 The main objectives of the 2022/23 budget are:

- develop budget capacity to allow for any possible fall in income;
- achieve a cash reserves position which enables the Authority to deal with further financial shocks;
- increase income where possible e.g. non LSC venues; and
- continue to deliver efficiencies across all activities.

BUDGET METHODOLOGY & ASSUMPTIONS

11 It is proposed that existing service levels should be reviewed along with the latest approved forecast, with the 2022/23 base Budget constructed accordingly, to ensure a satisfactorily link to delivery of the Authority's Business Plan and Annual Service Plans.

There may remain reduced demand and income as a result of lower operating capacities and the general economic climate. This needs to be factored in along with looking at possible areas for income growth.

Budgets should also take account of efficiency savings found within the 2021/22 budgets, and additional income targets generated as a result of any approved capital investment projects.

12 Any priority items, savings and additional income already approved by Members for 2022/23 as part of the 2021/22 budget will be reviewed to ensure that they still meet the business objectives of the Authority and are deliverable.

However, it will still be necessary for the Authority to look for any areas where efficiencies and savings can be found within the organisation.

13 General inflation rises, to reflect expected 2021/22 (outturn) prices, will need to be taken into account. The Retail Price Index (RPI) to September 2021 is currently **4.9%.** The Consumer Price Index (CPI), the Government's preferred indicator, is **3.1%.** CPI inflation is expected to increase to a peak of around 5.0% in early 2022, before falling to around 2.5% late 2022, and returning to the target rate of 2% in late 2023.

- **2%** increase in employee costs;

- An additional **1.25%** to incorporate increase to Employers National Insurance contribution for Health and Social Care Levy;

- agreed rises in contracted items, for example Grounds Maintenance or ITC licences, which will inflate by agreed contractual sums (usually CPI or RPI rate as at a specified month);

- inflation increases in non-employer costs, although services levels should be reviewed from a zero base to ensure appropriate budget allowance;

- electricity and gas prices are currently indicating significant increases in the wholesale market of around 50% for gas supply and 30% for electricity. However, the contract the Authority signed for accessing the 2020-2024 Laser framework, was secured with fixed prices for the initial 24 months, so the market price movements will not affect us until October 2022, when we will join the flexible basket price arrangements and therefore see rises in these costs – electricity and gas of 5% will be applied at existing usage levels. Electricity and gas budgets will be increased in line with the Laser projections to reflect these updated prices. Water is projected to increase at above inflation rates too, and a prudent increase of 5% will be built into the budgets;

- whilst insurance premiums have decreased significantly following a full retender of all policies in September 2020 it is estimated that in 2022/23 premiums will increase by around 4%-5%, with future years estimated to remain at around 5% a year;

- Fees and Charges make up a significantly lower proportion of the Authority's income in 2022/23 with commencement of the LSC from April 2022. However, we will continue to review pricing structures at the remaining operational venues – marinas and campsites, and increases at inflation rates will be built in;

- other 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;

- additional income growth and/or efficiency savings could be achieved through minor capital investment projects at venues;

- a proposed standstill levy for 2022/23 has been built into the MTFP, which was 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. Provisionally future levy changes are shown to continue with real term reduction to reliance on the Levy for Authority funding.

14 Overall income from Fees and Charges is estimated to rise in line with inflation and the existing Fees and Charges Policy. This approach reflects the pressures that will exist on demand for the Authority's activities in 2022/23. The majority of fees and charges will commence from March/April 2022. Fees and charges will be the subject of a separate paper on the next Executive Committee agenda.

15 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:

- need to continue to rebuild cash reserves that have been depleted as a result of the Covid pandemic;

- employee cost increases in the MTFP are estimated at 2% for 2021/22, however current pay negotiations are still 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 and asset maintenance programme is proposed at £1.3m for 2022/23. With future requirements for asset maintenance, IT investment, land, open spaces and infrastructure projects, 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 January 2022;

- low returns from investment income are continuing. Currently short term (1 month) investments are securing on average a 0.06% return, with mid-term (< 1 year) 0.1% (2021/22 actual). It is unlikely that reinvestments will achieve much in excess of 0.15%. 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 on cash for both revenue and capital expenditure in future years alongside any potential land sales that materialise. Investment returns are currently estimated at £6,000 based on existing balances and return rates;

- LSC Management Fee has been finalised with GLL for the contract to start in April 2022. The proposed fee for year 1, along with provision for utilities and ICT mobilisation, has been included in the base budget for 2022/23.

BUDGET UNCERTAINTIES

16 The Coronavirus Covid-19 pandemic and the subsequent national lockdowns and local regulations, since March 2020, continue to present significant uncertainty in the upcoming year. The Government's Job Retention Furlough scheme has meant that we have been able to claim up to 80% of furloughed employees wages, and this continued until September 2022, there is currently no indication of what will happen should the country enter further periods of lockdown. In addition, the Authority has benefitted from both the business rates holiday/reductions and a reduction in VAT on holiday accommodation and hospitality, these are also due to end in March 2022.

17 Additionally, 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, further increases in utility, fuel/travel costs. Members agreed for 2021/22 to allocate a contingency for such events that impact operations, and it may be prudent to continue to allow a buffer contingency in the coming years to offset some of these events.

18 There is still 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. The value of the potential VAT repayment could result in a significant windfall in 2022/23. Officers have submitted calculations to KPMG for review and they have submitted a claim and appeal to HMRC.

LEISURE SERVICES CONTRACT

19 Authority officers worked with GLL on finalising the Management Fee for the first year of the LSC, due to commence in April 2022. Members approved a Year 1 fee at the Authority meeting on 21 October 2021 (paper A/4308/21).

20 The LSC transfers the majority of 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. For next year there will be tolerances (for over or under performance) which will be agreed as the LSC contract is finalised with GLL. This income is also protected to a certain degree by Business Interruption Insurance held by the contractor.

RESERVES POLICY

21 It is important that without any contingency, budget uncertainties combined with the level of income generation that the Authority relies upon, that Members keep the existing policy on revenue reserves under annual review ensuring minimum levels of cash reserves are maintained to deal with unforeseen circumstances. The level Members have currently agreed for the general fund is between £3m-£4m.

22 The MTFP 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 £0.4m that deals with excesses on the existing policies, i.e. £10,000 or uninsured/self-insured items.

23 In order to assess the adequacy of the general fund reserve when setting the 2022/23 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:

- Coronavirus Covid-19 pandemic;
- 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;
- the increase in utility costs; 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.

24 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 have been a legitimate short-term option, but it is not now prudent to finance planned on-going expenditure in this way.

25 Other factors such as Government support in emergencies can be considered when setting reserves, especially in extreme cases such as Covid-19, and potentially weather, flooding, etc. However, insurance and managing local emergencies through the reserves generally rest with the Authority itself.

26 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.

BUDGET APPROVAL

27 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 2021/22 at the Authority meeting on 20 January 2022.

28 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 2022/23 budget and Levy options at their meeting on 20 January 2022 (following a Budget Workshop on 16 December 2021).

ENVIRONMENTAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

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

HUMAN RESOURCE IMPLICATIONS

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

LEGAL IMPLICATIONS

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

RISK MANAGEMENT IMPLICATIONS

33 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 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/4292/20	Proposed Budget & Levy 2021/22	21 January 2021

APPENDIX ATTACHED

Appendix A Proposed Budget Timetable 2021/22

LIST OF ABBREVIATIONS

CPI	Consumer Price Index
RPI	Retail Price Index
MTFP	Medium Term Financial Plan
LSC	Leisure Services Contract
CFO	Chief Financial Officer

LEE VALLEY REGIONAL PARK AUTHORITY
2022/23 CAPITAL PROGRAMME & REVENUE BUDGET TIMETABLE

	Description	Lead Officer	Dates	Meeting Date
1.	**Budget Timetable for 2022/23:**			
	(i) Prepare budget methodology paper & timetable for Executive Committee	KK	Nov 21	18 Nov 21
	(ii) Finalise timetable and issue to SMT, HOS, Managers	KK	Nov 21	19 Nov 21
	(iii) Authority Sites Fees and Charges	JC	Dec 21	16 Dec 21
2.	**Medium Term Financial Forecast (MTFF) – 2021/22 to 2025/26**			
	Update MTFF to take account of:	KK	Oct 21	13 Oct 21
	(i) Review Management Fee from Leisure Services Contract			
	(ii) Uplift all budgets for inflation as appropriate			
	(iii) Levy options from 2022/23			
	(iv) Revenue "growth" items i.e. income/expenditure items not already within the existing 2021/22 budget			
	(v) Any significant variations in staffing/establishment			
	(vi) Risks/areas of sensitivity			
	(vii) Circulate updated MTFF to SMT for discussion			06 Oct 21
3.	**Capital Programme – 2021/22 Revised to 2025/26:**			
	(i) Prepare Capital, Investment, and Infrastructure Programme phasing over next 5 years	KK	Nov 21	05 Nov 21
	(ii) Prepare Capital Resourcing Requirements	KK		05 Nov 21
	(iii) Prepare Asset Management Programme	MS		05 Nov 21
	(iv) Finalise Venue Capital Investment Projects programme and funding requirements	KK		10 Nov 21
	(v) Venue Capital Investment Projects programme for Member approvall	KK		18 Nov 21
	(vi) Circulate final capital programme for consideration by SMT	KK	Dec 21	03 Dec 21
	(vii) Finalise capital programme & capital resourcing for SMT	KK		10 Dec 21
	(viii) Capital programme and resourcing for Members approval		Jan 22	20 Jan 21
	(ix) Capital Strategy and Prudential Indicators for Members approval			20 Jan 21

4.	Staffing Costs: (i) Budget sheets prepared based on establishment list as at 15/11/21 (ii) Full revenue/capital budget sheets completed by Finance	LR/VY KK/MK/MS	Nov 21	20 Nov 21 04 Dec 21
5.	Draft budgets reviewed by managers	All Managers Authority SMT	Dec 21	24 Dec 21
6.	Meeting with Chair/Vice Chair to discuss draft budget proposals for Member Budget Workshop	SD/MB/KK	Nov 21	tbc Nov/Dec 21
7.	Finalise revenue and capital financing & levy options (i) Final report to be circulated to SMT for consideration	KK	Dec 21	03 Dec 21
8.	Write to contributing authorities requesting their council tax base information	MK	Dec 21	03 Dec 21
9.	**Member Budget Workshop** - Report on revenue & capital budgets, levy options	SD/MB/KK	Dec 21	16 Dec 21
10.	**Executive/Authority Meetings:** 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	SD/KK SD/KK	Jan 22 Jan 22	06 Jan 22 20 Jan 22
11.	Write to contributing authorities to notify them of the Levy for 2021/22 **** Under the Park Act section 49 (5) need to notify contributing councils by 15 February each year***	KK/MK	Feb 22	05 Feb 22