

**Q2 REVENUE BUDGET 2018/19
PERFORMANCE MONITORING**

Presented by the Director of Finance & Resources

EXECUTIVE SUMMARY

This report summarises monitoring of revenue expenditure to 30 September 2018. It compares actual 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 2019. The overall net operational expenditure at the year-end is expected to be an estimated £187,000 over the approved budget for 2018/19. The major variations currently projected are summarised in the table below.

Service Description	Variance 2018/19	Impact in 2019/20
	£	£
Waterworks Rates Liability	0	13,000
Sponsorship Income	50,000	25,000
Legal Service	80,000	0
Car Parking Charges	110,000	0
In Year Operational Savings	(69,000)	0
East India Dock Rental/Gunpowder Park rental	40,000	20,000
Biodiversity Scheme at Glen Faba	(10,000)	10,000
Lee Valley Holyfield Hall Farm	32,000	0
Dobbs Weir Commission Income	(280,000)	0
Ice Centre – LSC Clause 14 Adjustment	176,000	0
Savings Targets 2018/19	136,000	0
Myddelton House Visitor Centre and Management	(28,000)	(53,000)
Other	(50,000)	0
Total Estimated Over Spend:	187,000	15,000

RECOMMENDATION

Members note (1) the report.

BACKGROUND

- 1 The Executive Committee recommended a budget for 2018/19 at its meeting in January 2018 (Paper E/540/18). This was approved by Members at the Authority meeting on 18 January 2018 (Paper A/4252/18). This report compares actual income and expenditure to 30 September 2018 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 shows a net over spend of £187,000.
- 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 have continued to impact on the budget during 2017/18 and will continue to do so into 2018/19 and future financial years and these are summarised in the following paragraphs. Overall uncertainty exists in financial markets during the negotiations to leave the European Union 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 that agreement had been reached by employers and the relevant unions in respect of the pay award for National Joint Council (NJC) for local government services.

The budget has a built in 2% uplift in line with the National Employers for Local Government Services offer dated 5 December 2017. On the 10 April 2018 the Authority received confirmation that the new pay scales and allowances, applicable from 1 April 2018 and 1 April 2019, had been accepted. UNISON and GMB voted to accept whilst Unite voted to reject. However, in line with the Constitution of the NJC, Unite accepted the collective majority decision of the other unions that the pay award should now be implemented.

Members approved in May (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 NJC award for officers up to scale point 49.

- 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 2018/19. The 2018/19 target rate of return agreed by Members as part of the Annual Report on Treasury Management was approved at 0.75% (Paper E/564/18). Actual returns on investment in 2017/18 were £66,811 (0.56%). All investments are currently meeting or exceeding the 2018/19 target and returns are projected to marginally exceed budget by £5,000.

The Director of Finance & Resources continues to monitor Authority investments and the institutions that they are invested and will keep Members updated on any variances in this position through quarterly monitoring reports in 2018/19.

- 8 Locally the Authority is still awaiting the outcome of the 2010/17 rating appeal for Lee Valley VeloPark and Lee Valley Hockey & Tennis Centre. Following

discussion with the Authority's appointed rates consultant this could be settled before the end of March 2019. If a more favourable valuation is achieved this could yield a one-off benefit for the Authority although nothing is included at this point within the revenue monitoring.

All eligible centres that transferred to Lee Valley Leisure Trust Ltd (the Trust) received 80% mandatory relief for 2017/18. This amounted to a saving of £1.7million and this was again built into the 2018/19 budget and the Trust management fee.

Rates at the Waterworks have not been charged since 2015/16 at a potential total cost of £47,500. Although the Trust do occupy the building the lease currently identifies the landlord (LVRPA) as still in occupation and liable for the business rates. The London Borough of Waltham Forest is unwilling to change the billing to the Authority unless the rating valuation is formally split between the Authority and Trust - meaning the Trust could claim 80% charitable rate relief on their share of the occupation. Splitting the rates liability would probably reduce the bill to a cost in the region of £28,000. The Authority's rates consultant believes that the building was brought into rating when Local Authorities took full responsibility of business rates and back-dated this to the legally first applicable date of April 2015, the potential cost could impact in 2018/19. Officers have ensured the bill is paid to avoid additional costs re court action for non-payment but will seek to resolve this matter with the London Borough of Waltham Forest and the valuation office over the coming months. In year salary savings within the property team have broadly off-set this budget impact in 2018/19 but the impact in future years will need to be considered as part of the 2019/20 budget round.

- 9 There is a strong possibility that a VAT reduction will 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 and they believe there is merit in seeking a repayment of the VAT on the basis that this is non-business income. The value of the potential VAT repayment could result in a significant windfall in 2018/19. Officers have submitted calculations to KPMG for review and they have now submitted a claim to HMRC. It is anticipated that this matter may be concluded before the year end.
- 10 September's inflation for the Retail Price Index stood at 3.3% and Consumer Price Index at 2.4%.
- 11 The main variances against this year's budget are described below.

CHIEF EXECUTIVE

12 Sponsorship Income (£25,000 reduced income, £25,000 expenditure)

A stretch income target of £25,000 is built into the 2018/19 budget to achieve more income from external sponsorship. Although the Authority has occasionally been approached by major broadcasters seeking sponsorship benefits and/or ticketing deals at the major legacy venues the reality of cash funding has been difficult to achieve. Officers are currently working with an agency to secure specific sponsorship at Lee Valley White Water Centre and have agreed to fund up to £25,000 to achieve on-going income to deliver this stretch target. It is likely that this income target may not be met this year or in 2019/20 and with the initial outlay to the agency will result in a £50,000

variance. A longer-term income stream may be achievable by an identified interested party re naming rights but now may only be achievable when the current contract expires in March 2020.

CORPORATE SERVICES

13 Legal Services (£80,000 over spend)

There will be additional legal costs in relation to external legal support required on a number of matters. Whilst a potential overspend figure has been given it is not possible to accurately estimate this at this stage. There are a number of matters which require support and in one matter in particular which is complex this is quite specialist legal advice. The Authority is currently receiving external legal advice on both of the potential Picketts Lock developments, Abercrombie Lodge and some employment matters which relate to the current Leisure Services Contract.

PARKLANDS & OPEN SPACES

14 Car Parking Charges – (£110,000 reduced income)

The income generated circa £18,000 with all on costs removed (does not include any staff time). This is based on the income generated to date at the 7 operational car parks, with the main reason for the anticipated shortfall attributed to visitors managing their time within the first hour of free parking and a reduction in visitor numbers. A review of car parking charges is part of the full Fees and Charges Review also on this Committee's agenda and presented for Members consideration.

Broxbourne Borough Council have installed the machines and signage at the 3 additional car parks (Broxbourne Mill & Meadows and Cheshunt and Pindar), charging started on 22 October 2018. There are still some teething issues that Broxbourne are dealing with and it is hoped that the scheme will be fully operational in November. Officers are still trying to provide electricity to Tottenham as without this implementing charges would not be financially viable.

In year operational savings within River Lee Country Park, Gunpowder Park, the Countryside areas (North & South) and Abbey Gardens, as well as improved income returns from Wild Camping have contributed £69,000 to reduce the overall impact of these cost centres to a projection of £61,000 over budget.

15 East India Dock Basin & 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 (£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.

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.

Officers are currently in discussion and finalising terms with another cycle operator for the lease of the Field Station on a 3 year lease term at a rental of £20,000 pa with the view to commence in Spring 2019, subject to contract.

16 Biodiversity (£10,000 under spend)

Paper E/454/16 set out the receipt of monies on completion of a S106 agreement to complete environmental improvements to land adjacent to Glen Faba. The agreement was signed and the £75,000 transferred from Hertfordshire County Council to fund these works. Project development and planning was completed in 2017/18 and implementation will now span the next two financial years with ground works completed in 2018/19 and planting out in early 2019/20.

The scheme will also require Environment Agency Permits and planning permission prior to commencement of on-site works which it is planned will take place in winter 2018/19. It is anticipated that the scheme will be fully completed in the Spring of 2019.

Members approved in July (Paper E/574/18) a carry forward of any under spent funds in 2018/19 to conclude these works in 2019/20.

17 Lee Valley Farm – Holyfield Hall (£32,000 reduced income)

Changes that have been implemented at the Farm are starting to make positive impacts, for example the cows milk yields are up on average by 2 litres per cow, more young heifers are due in Q4 of this year to increase herd numbers, unfortunately they will have little impact of increasing the milk income by the required amount, but their introduction will deliver higher yields for 2019/20. The current budget is set at production of 950,000 litres at 29p per litre (ppl) and we are currently forecasting to produce 910,000 litres at an average price of 27.5ppl.

Arable has suffered with the spring drillings as the drought has caused the crops to perform worse than expected, this weather has affected the grain quality across the UK. Approved staffing restructures have made minimal difference in 2018/19 as unknown costs (12 weeks paid notice and 70 days paid annual leave) were not known when the Q1 projection was forecast, these are now included and savings in the staffing budget are forecast at £30,000 in 2019/20.

Officers are still confident if prices remain the same (or improve) that further inroads into reducing the £32,000 shortfall in income through this year may be achieved, through savings in expenditure, such as feed and transport running costs.

18 Caravan Sales Dobbs Weir (£280,000 increased income)

As part of the decision to progress the final phase development at Dobbs Weir campsite (Paper E/476/16) Members were made aware that commission relating to sale of holiday homes could generate an estimated additional income of between £630K and £1m. In 2017/18 the Authority received £804K and now will receive a further £280K in 2018/19 as the remaining 17 sales have been completed.

As part of the decision to develop the final phase Members noted that the additional required £1m investment to complete the scheme was coming from existing capital funds, but that in essence this would be largely offset by the one-off sales commission and Members approved the £804K as an additional one-off contribution to capital in May 2018 (Paper E/565/18). The commission in 2018/19 will be used to off-set the projected revenue budget variance in 2018/19 with any surplus resources being used as a one-off contribution to capital.

19 Lee Valley Ice Centre – Leisure Services Contract Clause 14 Adjustment (£176,000 increased expenditure)

Members will be aware that Lee Valley Ice Centre was closed for 8 weeks during the summer of 2017 for replacement of the Ice Pad and barrier. At the time of decision to refurbish the Centre Members recognised that the income lost during that period would impact the Trust and potentially require a Management Fee adjustment in line with Clause 14 of the contract. Officers of the Authority and Trust have calculated the net loss to the Trust to be £176,000 accounting for improved efficiency in utility costs in the new year. Members agreed to the Clause 14 adjustment at a meeting in September (Paper E/576/18) and this will have a one-off impact in 2018/19.

20 Savings Targets 2018/19 (£136,000 unachieved savings)

As part of the budget setting process and budget savings targets for 2018/19 two items identified for on-going savings are unlikely to yield up the anticipated savings budgeted for 2018/19. These are "Service Review" savings (£100,000) and savings from operational costs due to the Abbey Gardens lease (£36,000).

In relation to service reviews, planned restructuring of the PR/Comms team and Active Communities team are underway; the Parkland service is complete and agreed by Members in September (Paper E/579/18). These are unlikely to be fully delivered and yield full year savings before the end of this financial year. In addition Members have agreed (Paper E/584/18) to transfer the catering/reception service at Myddelton House to the Trust and this will be implemented from the new calendar year which will provide some mid-year savings in 2018/19 (£28,000) and going forward.

In relation to Abbey Gardens, the lease with the church is currently being held over while discussions are on-going. Medium to longer term savings may still be realisable as part of the wider service review of services operated from this site and the ongoing maintenance provision set aside for areas under the lease and Members will be kept updated as part of the monitoring reports.

21 Other In Year Net Savings achieved (£50,000)

The majority of these are based on actual improved Event and Youth & Schools

income over the summer; a saving in estimated expenditure after re-calculating the minimum revenue provision required for capital financing combined with small increases in investment returns.

ENVIRONMENTAL IMPLICATIONS

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

EQUALITY IMPLICATIONS

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

FINANCIAL IMPLICATIONS

- 24 These are dealt with in the body of the report. The overall outturn is indicating a spend which would potentially reduce general reserves of £4.2m below the approved £4m level agreed as part of the 2018/19 budget. The projected variance in Q1 2018/19 was an over spend of £364,000 and in Quarter 2 this projection has reduced to £187,000. One-off refunds from the VAT and rates appeals may significantly alter the in-year bottom line to a significant favourable variance if they materialise by the year-end, but at this stage should not be relied upon as these are dependent on third parties to concur with our calculations and then enact them accordingly.

In light of this officers have already identified some in year savings and improved income projections based on what has been achieved during the summer and will continue to seek to identify other in year saving/income streams to offset the projected shortfall and will report progress back to Members as part of the Quarter 3 monitoring report.

HUMAN RESOURCE IMPLICATIONS

- 25 These are dealt with in the body of the report.

LEGAL IMPLICATIONS

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

RISK MANAGEMENT IMPLICATIONS

- 27 Spending of the budget is important in achieving the Authority's corporate objectives. The currently projected net over 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 going forward if in year savings or permanent new income streams cannot be identified.

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ABBREVIATIONS

the Trust	Lee Valley Leisure Trust Ltd (trading as Vibrant Partnerships)
LSC	Leisure Services Contract
NJC	National Joint Council
ppl	Pence per litre

PREVIOUS COMMITTEE REPORTS

Executive Committee	E/584/18	Myddelton House Café, Visitor and Information Centre Concession	20 September 2018
Executive Committee	E/579/18	Proposed Ranger Restructure	20 September 2018
Executive Committee	E/574/18	Q1 Revenue Budget 2018/19 Performance Monitoring	26 July 2018
Executive Committee	E/565/18	Q4 Revenue Budget Monitoring 2017/18 – Provisional Outturn	24 May 2018
Executive Committee	E/564/18	Annual Report on Treasury Management Activity 2017/18 and Annual Investment Strategy 2018/19	24 May 2018
Authority	A/4252/18	2018/19 Revenue Budget & Levy	18 January 2018
Executive Committee	E/540/118	2018/19 Revenue Budget & Levy	18 January 2018

APPENDIX ATTACHED

Appendix A Details of the financial position of each Authority service or facility

YEAR 2018/19

PERIOD: 06 (September 2018)

FINAL

	Actual To Date			Annual Net Budget	Proposed Net Outturn	Variance		
	Income	Expenditure	Net			£000s	%	
OPERATIONAL SERVICES								
Chief Executive	0	249	249	488	538	50	10%	
Corporate Services	-674	849	175	443	519	76	17%	
Finance and Support Services	-252	500	248	946	944	-2	(0%)	
Sport and Leisure	-132	521	389	1,116	1,100	-16	(1%)	
Parklands and Open Spaces	-439	1,953	1,514	2,830	2,624	-206	(7%)	
Leisure Trust Contract	0	1,160	1,160	2,319	2,495	176	8%	
Service Reviews	0	0	0	-136	0	136	100%	
FINANCING								
Interest Receivable	-15	0	-15	-63	-68	-5	(8%)	
Bank Charges	0	2	2	6	6	0	0%	
Contributions to Earmarked Reserves	0	0	0	787	787	0	0%	
Financing of Capital Expenditure	0	0	0	953	931	-22	(2%)	
Levies on Local Authorities	-5,156	0	-5,156	-9,576	-9,576	0	0%	
Movement in General Fund				113	300	187	165%	
General Fund Balance Brought Forward					-4,199			
General Fund Balance Carried Forward					-3,899			

YEAR 2018/19

PERIOD: 06 (September 2018)

FINAL

	Actual To Date			Annual Net Budget	Proposed Net Outturn	Variance	
	Income	Expenditure	Net			£000s	%
CHIEF EXECUTIVE							
Chief Executive	0	150	150	247	297	50	20%
PR / Communications	0	99	99	241	241	0	0%
TOTAL CHIEF EXECUTIVE	0	249	249	488	538	50	10%
CORPORATE SERVICES							
Legal Service	0	248	248	353	433	80	23%
Property Management	-673	184	-489	-777	-777	0	0%
Planning and Strategic Partnerships	-1	132	131	357	357	0	0%
Asset Protection, Maintenance & Development	0	231	231	404	404	0	0%
Committee Service	0	54	54	106	102	-4	(4%)
TOTAL CORPORATE SERVICES	-674	849	175	443	519	76	17%
FINANCE AND SUPPORT SERVICES							
Finance Management	0	131	131	287	290	3	1%
Audit / Health & Safety	0	9	9	80	80	0	0%
Non Distributed Costs	0	29	29	69	69	0	0%
Corporate Training / Apprenticeships	0	7	7	20	15	-5	(25%)
Leisure Trust Employee Secondments	-252	252	0	0	0	0	0%
Business Support (Trust)	0	0	0	343	343	0	0%
Leisure Contract Venues Insurance	0	72	72	147	147	0	0%
TOTAL FINANCIAL SERVICES	-252	500	248	946	944	-2	(0%)
SPORT AND LEISURE							
Events	-84	87	3	286	270	-16	(6%)
Sports Development	-3	26	23	70	73	3	4%
Policy and Performance	0	235	235	481	481	0	0%
Youth & Schools Service	-45	125	80	199	196	-3	(2%)
Community Access	0	48	48	80	80	0	0%
TOTAL SPORT AND LEISURE	-132	521	389	1,116	1,100	-16	(1%)

YEAR 2018/19

PERIOD: 06 (September 2018)

FINAL

	Actual To Date			Annual Net Budget	Proposed Net Outturn	Variance		
	Income	Expenditure	Net			£000s	%	
PARKLANDS AND OPEN SPACES								
Management								
Operational Management	0	79	79	153	153	0	0%	PR
Myddelton House Management	-4	209	205	295	286	-9	(3%)	
Parklands								
River Lee Country Park	-15	393	378	738	764	26	4%	
Gunpowder Park	-5	86	81	147	168	21	14%	
Countryside Areas	-43	387	344	743	761	18	2%	
Abbey Gardens	-8	45	37	94	90	-4	(4%)	
Three Mills	-0	14	14	37	37	0	0%	
East India Dock and Bow Creek	2	23	25	33	49	16	48%	
Leyton Marsh	0	0	0	0	0	0	0%	NR
Broxbourne Riverside	19	8	27	-17	-14	3	18%	
Fisheries	-115	73	-42	-20	-20	0	0%	
Visitor Attractions								
Myddelton House	-108	199	91	270	251	-19	(7%)	
Rye House Gatehouse	0	6	6	8	8	0	0%	
Park Projects								
Volunteers	-2	49	47	97	97	0	0%	
Biodiversity	0	48	48	168	158	-10	(6%)	
Farms								
Lee Valley Farm, Holyfieldhall	-120	325	205	124	156	32	26%	
Initiatives and Partnerships								
Caravan Sales, Dobbs Weir	0	0	0	0	-280	-280	0%	
King George Reservoir South	-3	3	0	0	0	0	0%	
Lee Valley Boat Centre	-30	4	-26	-33	-33	0	0%	
Broxbourne Chalets	-7	2	-5	-7	-7	0	0%	
TOTAL PARKLAND AND OPEN SPACES	-439	1,953	1,514	2,830	2,624	-206	(7%)	
TOTAL AUTHORITY	-1,497	4,072	2,575	5,823	5,725	-98	(2%)	

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