

**Q2 REVENUE BUDGET MONITORING 2022/23
AND BUDGET CHALLENGES**

Presented by the Chief Executive and Head of Finance

EXECUTIVE SUMMARY

This report summarises monitoring of revenue expenditure to September 2022. It compares income and expenditure to the approved budget, and includes a projection indicating the likely outturn position against the annual budget for the year ended 31 March 2023.

The report focuses on the challenges the Authority is facing with regards to minimising the deficit position in 2022/23 and outlines the immediate measures being actioned. 2023/24 presents an even more significant budget challenge for the Authority and budget planning is well underway. The report sets out the areas that officers are considering for major savings and additional income generation.

RECOMMENDATION

Members Note: (1) the report

BACKGROUND

- 1 The Executive Committee recommended a budget for 2022/23 at its meeting in January 2022 (Paper E/767/22). Members approved this at the Authority meeting on 20 January 2022 (Paper A/4312/22). This report compares income and expenditure to 31 March 2023 with the budget.
- 2 The summary financial position of each Authority service or facility is shown in Appendix A to this report.
- 3 The year-end position shows a projected net over-spend of £681,000 against the net revenue budget deficit of £137,000. The net deficit for the year is forecast as £818,000.
- 4 An outturn of this level, would result in a reduction to our general fund reserve to £3.07m, which would be just within the range agreed by Members of between £3m-£4m

GENERAL ECONOMIC FACTORS

5 Inflation

August's inflation for the Retail Price Index (RPI) stood at 12.3% and Consumer Price Index (CPI) at 9.9%, a slight fall from the previous month. Inflation was expected to rise to around 11% in October, with the Bank of England forecasting a cautious return towards the target rate of 2% in the medium term (Bank of England Monetary Policy Committee (MPC) Report September 2022). The Bank of England increased the base rate to 2.25% on 22 September as it continues to try to control inflation.

The September inflation figures will be released on 19 October 2022, with the next Bank of England Monetary Policy Committee scheduled for 3 November 2022. Markets expect a further 0.5% - 0.75% increase to the base rate at this time.

6 Energy Costs

In line with our signed contracts for accessing the 2020-2024 Laser framework, our initial contract period was secured with fixed prices. We agreed to this fixed cost for 24 months, so the market price movements of wholesale electricity and gas prices will not affect us until October 2022, when we will join the flexible basket arrangement in line with our agreement.

Whilst this was considered as part of the budget process, along with an expectation of around 50% increase for gas and 20% for electricity at the time, the wholesale price has risen significantly, and we are now seeing increases of around 150% for electricity and 500% for gas.

As part of the shared risk position for utility pricing at the Leisure Services Contract (LSC) venues (for the first 2 years only), with Greenwich Leisure Ltd (GLL) taking the risk for utility consumption for the entirety of the contract, we expect to see a substantial increase to the Management Fee for the first two years. After this, we are required to rebase the utility position for year 3 onwards, when GLL will take on both the cost and consumption risk, but the current Management Fee position for years 3-10 will likely be effected.

However, the Gas at Dobbs Weir Caravan Park is supplied by Avanti, and we have a fixed price contract with them until the end of March 2023, so we will not see these prices increase until 2023/24 financial year.

7 Pay Award

In June 2022 the trade unions tabled their pay claim that included a substantial increase with a minimum of £2,000 or the current rate of RPI - whichever is greater - on all spinal column points. The employers have offered a flat rate pay rise of £1,925 to all staff, and unions are in the process of review. The 2022/23 budget includes provision for a 2% pay award, but if the current offer is agreed, then this would average around a 5% increase and would increase costs by £168,000.

To date, Unison members have agreed to accept this offer, with GMB and Unite unions expected to announce their decisions later in October.

OPERATIONS OVERVIEW

- 8 Outturn for operational and support services have improved on those reported in Q1, in main due to the expectation of an improved position with regards to caravan sales. A number of further sales have either commenced, or have been identified, and the forecast now is that they will achieve the income contingency built into the budget.
- 9 Appendix A to this report includes a summary of outturn forecast, where we have identified the impact of increased income and costs, utility and pay rises, on the different service areas.
- 10 Without any further mitigating action, the outturn is forecast to be **around £820,000 deficit**, although it can be identified that without the additional costs attributable to areas outside of the Authority's direct control, the net position would be in surplus.

BUDGET CHALLENGES

- 11 A significant challenge affecting the Authority this financial year will be trying to reduce the deficit position to one of a more manageable position and taking mitigating actions where possible.

Officers have already commenced the 2023/24 Budget Planning process and have identified a significant impact, and shortfall in the Authority's financial resources over the next 18 – 24 months, in the light of the substantial increases to utility prices across the whole estate. We are currently anticipating around c£2m increased annual costs for utilities, with compounding increases in costs due to inflation and pay.

- 12 Whilst a single 'in year' deficit could be manageable within the General Fund reserve, and this is specifically what it is designed for, it is not sustainable in the long term and should be addressed as a matter of urgency.
- 13 Key to this would be identifying areas of potential savings or efficiencies, or where areas of expenditure can be profiled to future years, without having detrimental impact service provision.
- 14 Utility prices are expected to increase significantly over the next year. The business "cap" is currently only in force for 6 months, and we may see prices increase again from April 2023.

The Authority is not a big user of gas, with around half the budgeted costs at Dobbs Weir Caravan Park of which the majority is recharged to static caravan owners. However the 500% increase in price at all other venues from the favourable rates secured up to the end of September have resulted in a forecasted additional net gas spend of £122,000. Although the price increase for electricity is relatively less, the Authority consumes more of it. Investment at campsites has also increased consumption through more units and facilities, and whilst some of this increase will be offset by additional income, it does contribute to a forecasted additional electricity spend of £243,000 per annum.

A breakdown of gas and electricity forecast against budget is set out in Appendix B to this report.

- 15 A further issue remains within the utility budget with regards to the Leisure Services Contract.

Whilst the agreed position on the utility costs is that GLL will bear consumption risk, and the Authority price, these are based on estimated usage which may not represent the final position. Any increase in usage over and above the estimate (on which the Management Fee has been based) would result in a larger adjustment in favour of GLL, but a consumption reduction plan has been requested as to what GLL are doing to mitigate consumption across all venues.

- 16 Based on current assumption around pricing, and consumption at a level based on prior and current year Authority usage, and base consumption levels in the LSC, the current forecast is that for 2022/23 and 2023/24, expenditure on gas and electricity will be over budget by the following:

	2022/23 £000s	2023/24 £000s
Authority	365	503
LSC	700	1,360

It should be noted that a utility contingency was built into the current year budget of £305,000 and Medium Term Financial Plan (MTFP) assumed a level of £200,000 for 2023/24, which will reduce the deficit shown above.

- 17 The utility forecasts are all based at the high end of Laser's current guide price range with gas prices between 9p-11p kWh and electricity 32p-35p kWh. We expect the updated prices from Laser at some point during October.

18 Ice Centre opening

A further issue is around the handover of the Ice Centre, and the earliest operational date. As handover is likely to be late December / early January, this may have an impact on the 2022/23 Management Fee. The position won't be known until the financial year end, but officers are discussing with GLL to fully assess any implications for both this year, and 2023/24.

MITIGATION ACTIONS

- 19 The primary action in the short term is to review expenditure and only progress with priority items. Whilst we are already half way through the financial year, it may be difficult to find significant savings over the autumn and winter period.

However, we will review all programmed costs to look towards reducing, or freezing areas of discretionary spend, where this can be done.

- 20 Review of utility usage at all sites, and looking at better management options, either through changes in usage (i.e. reduction to thermostat by 1-2C), management of site opening hours, or different forms of heating (i.e. electric rather than gas).

21 Fees and Charges

The majority of the Authority's income is derived from fixed contract charges – e.g. marina or caravan annual licences, and the ability to modify in-year is not possible. The variable income is limited in part to campsite touring income,

which will be at much lower levels during the Autumn and Winter period, and golf.

Officers have reviewed the Fees and Charges Policy ahead of the fee setting round, and this is subject to Member approval at Authority.

- 22 Whilst it is unlikely to provide much additional income in the current year, officers continue to review all sites for further improvements above those previously approved. Where identified and appropriate, these will be included in the capital programme and reported to Members.
- 23 In terms of LSC, GLL are reviewing their cost base to try to identify savings across the venues, including the Ice Centre when it becomes operational
- 24 **Budget implication for 2023/24 and beyond**

The current financial forecast for the next two financial years, based on expected increases to costs, and factoring in the full long term borrowing option of around £28m for the Ice Centre is set out below.

	2023/24 £000s	2024/25 £000s
Base Budget, as per MTFP	70	(814)
Inflationary Increases	(75)	(115)
Additional borrowing costs	278	272
Pay Increases	287	358
Net Utility increase	1,663	1,476
Net Budget deficit	2,223	1,177

The MTFP assumes the Levy remains at its current 2022/23 level of £9.768m without any increase to future years.

- 25 Officers are continuing to review what can be done over the next years to reduce the deficit, which include:
- reduction to discretionary spend;
 - continuation of investment across all venues, with a view to efficiencies, savings, and additional income generating projects;
 - review of fees and charges, in both price increases, and pricing to capacity programming;
 - varying the LSC with GLL, for efficiencies at sports venues;
 - deferring expenditure in areas where this can be done, without having a direct effect on operation e.g. asset maintenance ; and
 - managing asset maintenance to ensure improved lifetime usage of plant and equipment.
- 26 Officers will report the update on 2022/23 savings exercise and 2023/24 planning to the November Executive Committee.

FURTHER ISSUES

27 VAT Claim on Sporting Income

We await further information with regards to the "distortions of competition" issue in relation to the VAT claim on sporting income. Whilst, the first argument

over non-business treatment was conceded by HMRC, it requires a further decision on the competition issue before we would expect any rebate to be received.

We are awaiting further details from KPMG and Chelmsford City Council on how this will be taken forward.

28 Litigation with Lee Valley Leisure Trust Ltd (the Trust)

The Authority is in dispute with the Trust regarding the 2019/20 Management Fee payment and end of contract liabilities following the Trust commencing litigation in January 2020. The dispute is subject of court action which is currently scheduled to be heard by the Court in November 2022, and would result in a potential cost to the Authority if it were unsuccessful in defending the claim brought against it by the Trust.

Any costs payable would need to be charged against the General Fund and could result in a further significant reduction.

ENVIRONMENTAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

30 These are dealt with in the body of the report. The forecast outturn will leave the general fund balance at £3.0 million at the end of March 2023. The approved level of £3-4million was agreed as part of the 2022/23 budget setting process.

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 There are no risk management implications arising directly from the recommendations in this report.

EQUALITY IMPLICATIONS

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

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PREVIOUS COMMITTEE REPORTS

Executive Committee	E/774/22	Q1 Revenue Budget Monitoring 2022/23	22 September 2022
Executive Committee	E/767/22	Q4 Revenue Budget Monitoring 2021/22	26 May 2022
Executive Committee	E/765/22	Annual Report on Treasury Management Activity 2021/22	26 May 2022
Authority	A/4312/22	2022/23 Revenue Budget & Levy	20 January 2022
Executive Committee	E/751/22	2022/23 Revenue Budget & Levy	20 January 2022

APPENDICES ATTACHED

Appendix A	Summary of outturn forecast
Appendix B	Utility budgets and forecasts 2022/23

LIST OF ABBREVIATIONS

LSC	Leisure Services Contract
GLL	Greenwich Leisure Limited
the Trust	Lee Valley Leisure Trust Ltd (t/a Vibrant Partnerships)
MTFP	Medium Term Financial Plan

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OPERATIONAL OUTTURN SUMMARY

YEAR 2022/23

PERIOD: 05 (August 2022)

	Annual Net Budget	Proposed Net Outturn	Variance £000s
Events (incl Commonwealth Games)	31	(226)	(257)
Legal	417	591	174
Property	(1,142)	(1,317)	(175)
Leisure Services Contract	2,681	2,751	70
Parklands and Open Spaces	2,605	2,629	24
Small Venues	(798)	(742)	56
Caravan Sales	(207)	(207)	0
Corporate Insurance	594	491	(103)
Other	3,937	3,921	(16)
Financing	1,787	1,785	(2)
Levy	(9,768)	(9,768)	0
	137	(92)	(229)
Above budget Pay Rise (c. 5%)	0	168	168
Utilities Price Increase - LV	0	365	365
Utilities Price Increase - GLL (In addition to contingenc	0	395	395
NI Reduction	0	(18)	(18)
	137	818	681

**LEE VALLEY REGIONAL PARK AUTHORITY
OPERATIONAL OUTTURN SUMMARY**

	Annual Net Budget	Net Budget Movement	Utility Cost Increases	Employee Cost Increases	Proposed Net Outturn	Variance £000s
Chief Executive	682	(16)	0	2	668	(14)
Corporate Services	(194)	21	5	9	(159)	35
Finance and Support Services	2,366	(103)	0	14	2,277	(89)
Sport and Leisure	983	(283)	0	20	720	(263)
Parklands and Open Spaces	2,605	27	110	53	2,795	190
Small Venues	(1,004)	57	250	51	(645)	359
Leisure Services Contract	2,681	70	395	0	3,146	465
Financing	1,786	(2)	0	0	1,784	(2)
Levies on Local Authorities	(9,768)	0	0	0	(9,768)	0
BUDGET SURPLUS/DEFICIT	137	(229)	760	150	818	681
General Fund Balance						
Brought forward 01/02/2022	(3,883)				(3,883)	
Carried Forward 31/03/2023	(3,746)				(3,065)	

Lee Valley Regional Park Authority
Energy Budgets and Forecasts 2022/23

	BUDGET			FORECAST			Variance £s
	Expend £s	Income £s	Net £s	Expend £s	Income £s	Net £s	
LEE VALLEY MARINA SPRINGFIELD	52	(25)	27	93	(34)	59	32
LEE VALLEY MARINA STANSTEAD	21		21	43		43	22
LEE VALLEY WATERWORKS CENTRE	18		18	37		37	19
LEE VALLEY FARM HOLYFIELDHALL	18		18	43		43	25
LEE VALLEY CAMPSITE	50	(34)	16	128	(53)	75	59
LEE VALLEY CARAVAN PARK *	126	(94)	32	230	(135)	95	63
LV LEISURE CENTRE CAMPSITE	47		47	91		91	44
LV LEISURE CENTRE GOLF COURSE	2		2	13		13	11
MYDDELTON HOUSE & GARDENS	26		26	84		84	58
RANGERS & COUNTRYSIDE AREAS	16		16	43		43	27
RESIDENTIAL & COMMERCIAL RENTALS	9		9	14		14	5
TOTAL ENERGY COSTS	385	(153)	232	819	(222)	597	365

* Lee Valley Caravan Park - Fixed Gas prices until March 2023

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