Lee Valley Regional Park Authority **LEE VALLEY REGIONAL PARK AUTHORITY** **EXECUTIVE COMMITTEE** **24 OCTOBER 2024 AT 11:15**	**Agenda Item No:** 5 **Report No:** **E/868/24**

2025/26 REVENUE BUDGET – METHODOLOGY, ASSUMPTIONS AND TIMETABLE

Presented by the Head of Finance

EXECUTIVE SUMMARY

The report sets out:

- the budget timetable for the 2025/26 budget process; and
- the proposed methodology and assumptions for preparation of the revenue and capital budgets for the year ahead.

RECOMMENDATION

Members Approve:	(1)	the principles, assumptions and methodology for the 2025/26 revenue and capital budgets as set out in paragraphs 10 to 13 of this report.

BACKGROUND

1 The Authority's business philosophy is to be "community focused and commercially driven". It continues in its commitment to increase value and to enhance the visitor offer for constituent boroughs.

2 As set out in the Authority's current 2024-27 Business Plan the aspiration is:

- to become a world class leisure destination;
- to establish a strong commercial base;
- to increase regional relevance and value; and
- to have an enhanced reputation and stronger political position.

3 The Authority, in recent years, has focused on the following areas to generate more income, develop the Park offer and strengthen the Authority's financial position:

- implementing the retendered Leisure Services Contract (LSC) for the six sporting venues;
- investment in and developing the sports and non-sporting venues;
- investing in new business development, e.g. Lee Valley Ice Centre; and

- developing potential new opportunities e.g. Picketts Lock site, Lee Valley White Water Centre, Spitalbrook and Broxbourne Riverside and Eton Manor.

4 The Authority approaches the coming financial year from a stable financial position, helped in part by the levy increases in 2023/24 (9%) and 2024/25 (3%), required to support the increased costs and reduced income levels in those years. The reserves position were also significantly improved by the £1.8m VAT refund in respect of our Sporting Non-Business claim. Whilst we are still only mid-way through this financial year, the General Fund is anticipated to stand at £5.1m at year end. This is in line with the approved position of maintaining a general reserve above the current policy level of between £3m-£4m.

5 However, it should be noted that the anticipated total cash balances at year end is expected to fall to £7.5m, which reflects that whilst the Authority has cash backed revenue reserves, there is now very little capital capacity due to our underlying internal debt balance. An analysis of reserves movement is shown at Appendix A to this report.

6 The Authority had adopted a policy of an annual reduction to the levy for the eight years between 2010/11 and 2018/19, before a two year standstill position, followed by an increase in three of the following years.

The levy has reduced from £12.3m in 2010/11 to £10.97m in 2024/25, an actual cash reduction of £1.27m and a real terms decrease of £10.5m. If it had increased by RPI inflation, (the index used in the Levying Body Regulations), during that time it would have been £21.5m in 2024/25. The maximum levy amount chargeable is determined under the regulations, based on September RPI, and has been calculated at £34.86m for 2025/26.

The Authority is in a position whereby it no longer has the internal financial capacity to invest in the wider Park open spaces, infrastructure (sporting and non-sporting) and build facilities without the need for external investment, asset utilisation or borrowing. Any capital investment in the Park is reliant on either borrowing, capital receipts, grants or third party investment.

7 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

8 The budget for 2025/26 needs to continue to address the need to both invest in the Park now and into the future, and create a resilience to ensure successful management in the long term.

9 The challenges for the organisation over the next few years are significant:

- responding to the major financial impact caused by the huge increase in energy prices;
- building a greater resilience against potential impact from future ‘shock’ events;

- successfully ensuring the continued operation and enhancement of the non-sporting venues transferred back to the Authority;
- generating additional income through a range of investment projects across all the Venues and the Park's open spaces;
- maintaining the standard and relevance of major sports venues which are now 12-18 years old; and
- enhancing the Regional Park as a visitor destination through a number of new developments; and marketing the Park to a regional audience and delivering greater value to the communities of London, Essex and Herts; and
- responding to our new Environment Policy, recognising the importance of investing in "green" initiatives, our uniqueness in the management of open spaces, habitat improvements, and reviewing green energy options.

BUDGET METHODOLOGY & ASSUMPTIONS

10 It is proposed that existing service levels should be reviewed along with the latest approved forecast, with the 2025/26 base Budget constructed accordingly, to ensure a satisfactorily link to delivery of the Authority's Business Plan.

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 organisation over the last few years, and additional income targets generated as a result of any approved capital investment projects.

11 Any growth, savings and additional income already approved by Members for 2024/25 will be reviewed to ensure that they still meet the business objectives of the Authority and are deliverable. Focus should also be on ensuring that our operational venues, Campsites, Marinas, and Farm, have sufficient capacity to deliver.

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

12 General inflation rises, to reflect expected 2024/25 (outturn) prices, will need to be taken into account. The Retail Price Index (RPI) to September 2024 is currently 2**.**7**%.** The Consumer Price Index (CPI), the Government's preferred indicator, is 1**.**7**%.** At the September Monetary Policy Committee (MPC) meeting, the Bank of England, stated that they expected CPI to increase to around 2.5% towards the end of 2024, and that they would continue to remain restrictive with regard to the Bank Rate, until the risks to the inflation target of 2% in the medium term had dissipated. The Bank Rate was lowered to 5.00% in August, with the next MPC meeting scheduled for 7 November 2024.

The core assumptions to be included in the 2025/26 budget are listed below.

- The pay settlement for 2024/25 has yet to be agreed. In May 2024, National Employers offered an increase of £1,290 per pay point, with an increase of 2.5% on all points above the National Joint Council for Local Government Services (NJC) scale. This would represent approximately a 3.5% increase to our employee costs. This offer has been rejected by two of the three main unions, who are balloting for industrial action. Both ballots ended in mid-October 2024, with results not yet announced. The recently announced public sector pay review does not apply to those covered by the NJC conditions. We included provision for a 4% pay award in the 2024/25 budget, and again **propose a 4% increase in employee costs for 2025/26.**

- The National Budget will be announced on 30 October 2024, and may include provision for increases to taxation on employers, such as rising National Insurance costs. Any subsequently announced change will be factored into the proposed budget.

- 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 at 2.2% in line with CPI increases in non-employer costs, although services levels should be reviewed from a zero base to ensure appropriate budget allowance.

- Energy costs - our current agreement with Laser (Public Bodies Energy Procurement Consortium) for the period October 2023 to September 2024, saw energy prices increase by around 7% against the previous year. We expect to receive the energy prices from the period October 2024 to September 2025 in mid-October 2024. However, initial Laser estimates are for prices to remain at similar levels for the foreseeable future. Laser will also supply a revised longer term price forecast that will allow us to forecast costs from October 2025, although given the volatile geopolitical position, it may be prudent to allow some contingency for any price increase above the estimated level for the second half of 2025/26.

- Insurance premiums have continued to increase significantly year on year, with premiums incurring a 10% rating increase on the main policy, and 25% to motor policy, that along with increases in sums insured, rising employee salary costs, changes to insurable assets, and claims history has seen a 16% increase to the total premium paid in October 2023. Expectations are that premiums will continue to grow in the short term, so we have included provision for a 15% increase from October 2025.

- Fees and Charges make up around 55% (2024/25 budget £4.2m) of our non-Levy income (£7.7m) with this split roughly 50/50 between semi-fixed (e.g. marina mooring, caravan static and storage) and more variable (e.g. touring, car parking and rechargeable works) income. Fees and charges are revised each year, and based on the Fees & Charges Policy, are broadly based on the September RPI figure, taking into account local factors and service demand. The Fees and Charges paper is due to be presented to Members in December with the majority of fees and charges commencing in March/April 2025.

- Other income is raised by commercial rents and leases and event space hire which are 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. However, a funding strategy to deliver any investments would be required.

- The Authority's annual levy is determined annually and is subject to the estimated budget requirements for the year ahead and economic circumstances at that time. Members previously approved a 3% increase to the levy in 2024/25, at a total cash value of £10.97m. Over the past 15 years the levy has been reduced by £10.5million in real terms. This reduction has been achieved through the income generated from the Olympic Legacy venues and third party management, income achieved found through investments across all venues, service reviews delivering efficiencies, and also a reduction in the revenue resourcing of the asset management programme and capital programme.

13 In addition, there are a number of other factors which will need to be taken into account in 2025/26 before setting the Levy as they could significantly affect the budget requirement for next year. At this stage these include:

- the need to continue to fund asset maintenance and investment, as well as to rebuild overall capital reserves that have been depleted in recent years, following both the Covid-19 pandemic, but also through investment into venues both prior to the commencement of the LSC, and as a result of newer projects e.g. LED lighting;

- as mentioned in paragraph 12, employee cost increases in the Medium Term Financial Plan are estimated at 4% for 2024/25, 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;

- with recent investments to support the LSC sporting venues, as well as open spaces and infrastructure projects, and small scheme business investments, capital reserves have been depleted. Future major investment schemes will require funding from additional contributions as well as 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 2025;

- investment income returns over the past year have been healthy, due to the Bank of England Base Rate having been at 5.25% since August 2023. However, with the recent reduction to 5.00%, with forecasts of further reductions in the mid-term, along with likely cash holding falling to below £8m by year end, will see a reduction in investment income. Our mid-term (investments over 1 month) have been around 5% during 2024, although a revision to between 3.5% - 4% is proposed for 2025/26. 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 £200,000 based on expected balances and return rates;

- the LSC Management Fee is built into the Leisure Operators Base Trading Account (LOBTA) that sets out the financial operational position for Greenwich Leisure Ltd (GLL) for the duration of the contract. The proposed fee for year 4, is a payment from GLL to the Authority of £671,000 which will be included in the base budget for 2025/26; and

- additionally, Members should also be mindful that there is an outstanding retention fee of around £800,000 due to Buckingham for the construction of Lee Valley Ice Centre. With Buckingham now in administration, the Authority is having to fund outstanding snagging works on the venue. Whilst we are confident following external legal advice that our costs can be offset against the retention and associated late fees due, until there is a final settlement we may be subject to payment of the retention to the Administrator.

BUDGET UNCERTAINTIES

14 The 2024-2027 Business Plan sets out a number of key projects and initiatives over the coming years that will need to be considered in the longer term financial strategy with regards to funding. Support resourcing will be needed for a number of these projects, with an opportunity to review whether it would be appropriate to utilise some of the current General Fund reserve to fund these.

These include, but are not limited to:

- Environment Policy;
- open spaces and landscape improvements;
- asset maintenance following full estate asset condition surveys;
- Queen Elizabeth Olympic Park estate (Lee Valley VeloPark, Eton Manor, North Wall Road);
- Spitalbrook and Broxbourne Riverside;
- Lee Valley Whitewater Centre;
- Lee Valley Leisure Complex, Picketts Lock; and
- Rammey Marsh.

15 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 2024/25 to allocate a small 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.

LEISURE SERVICES CONTRACT

16 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 the base Management Fee payable by GLL is set out in the LOBTA and any variation from the financial position in the LOBTA falls to GLL.

17 However, as part of the shared risk position for utilities at the LSC venues, the Authority takes the risk for tariff and GLL takes the risk for utility consumption. This arrangement was due to end after the first two contract years, however both parties are discussing an amendment to the contract to agree the most beneficial risk profile for year 3 onwards.

This will mean an annual benchmarking of both utility consumption targets as well as utility costs each year, and will revise the annual Management Fee payable, as well as make provision for an end of contract year adjustment.

Within the 2024/25 budget, we have included provision for a payment of c. £0.95m. This is however, subject to consumption levels and energy price changes. We are awaiting confirmation from GLL of their utility prices from October 2024, and subject to the finalisation of the contract variation, will be agreeing the consumption targets for 2024/25 which will in turn form the basis for 2025/26.

CAPITAL AND ASSET MAINTENANCE CONTRIBUTIONS

18 As previously mentioned, the Authority adopted a policy of an annual reduction to the levy between 2010/11 and 2018/19, with the Levy for 2024/25 of £10.97m being £1.3m lower in cash terms than it was in 2010/11, and over £10.5m lower in real terms. One of the core areas where savings were found was in relation to contribution towards capital expenditure and asset maintenance.

In 2010/11, the total contribution towards assets was £2.31m, with £1.8m directly to funding the capital programme. By 2018/19 this had reduced to £1.2m, of which £0.7m funded capital. This was in addition to the reserves held in 2011/12 of £5.7m capital fund, and £7.7m asset maintenance.

19 Currently, the Authority only contributes £1.25m towards asset maintenance, and nothing for future capital expenditure. The asset maintenance reserve is forecast to be fully spent by year-end, and there cash been a £NIL capital fund for a number of years. Whilst there is a capital receipts reserve of £7.1m, this is more that balanced off by internal debt of £9.4m and leave very little capacity for future maintenance and investment requirements.

20 We are currently carrying out a condition survey review on all the Authority built assets, as well as looking at bridge and pathways as part of the wider infrastructure. This will likely lead to additional costs and future demands on maintenance budgets, and consideration should be given towards an inflation rate increase to the annual Levy for an additional contribution for funding of asset maintenance and capital expenditure.

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 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 £0.4m 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 2025/26 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;
- the increase in utility costs; and
- potential costs of maintaining aging venues and infrastructure.

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 Medium Term Financial Plan 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 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

26 The Authority is required to determine its Levy by 24 January in each year. This requirement will be met as Members are scheduled to consider and approve a Revenue Budget and Levy for 2025/26 at the Authority meeting on 23 January 2025.

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 2025/26 budget and Levy options at their meeting on 23 January 2025 (following a Budget Workshop on 19 December 2024).

28 We are then required to notify contributing authorities by no later than 15 February in the year preceding that levy, of the total levy and apportionment to each contributing authority.

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 Medium Term Financial Plan.

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PREVIOUS COMMITTEE REPORTS

Authority	Paper A/4346/24	Proposed Budget & Levy 2024/25	18 January 2024

APPENDICES ATTACHED

Appendix A	Analysis of Usable & Unusable Reserves
Appendix B	Budget 2025/26 Working Timetable

LIST OF ABBREVIATIONS

CPI	Consumer Price Index
RPI	Retail Price Index
MTFP	Medium Term Financial Plan
LSC	Leisure Services Contract
CFO	Chief Financial Officer
NJC	National Joint Council
GLL	Greenwich Leisure Ltd
LOBTA	Leisure Operators Base Trading Account

Appendix A

Analysis of Usable & Unusable Reserves

Closing Balance Forecasts	2023/24 £000s	2024/25 £000s
General Fund	(4,991.2)	(5,017.2)
Other Earmarked Reserves	(1,698.9)	(1,447.3)
Asset Maintenance Reserve	(119.9)	37.1
Usable Capital Receipts	(9,964.0)	(7,182.8)
Total Usable Reserves	(16,774.0)	(13,750.2)
Capital Financing Requirement	32,446.0	32,419.6
External Borrowing	(25,000.0)	(23,000.0)
Net Internal Borrowing	**7,446.0**	**9,419.6**
Creditors/Debtors - General Liabilities	(5,835.9)	(3,273.7)
Net Closing Cash Balance	(15,163.9)	(7,464.3)

Appendix B

Budget 2025/26 Working Timetable

Date	Details
30/08/2024	Fees & Charges 2025/26 Process Commence
29/09/2024	Return of initial F&C Proposals
October	Review & Discussion of Fees and Charges
02/10/2024	Draft Budget Methodology Paper
09/10/2024	MTFP - Update 24/25 base to reflect expected changes
09/10/2024	SMT Budget Discussion
11/10/2024	Finalise Methodology Paper
16/10/2024	Circulate Budget Working Papers (inc Employee Sheets)
24/10/2024	Budget Methodology Paper to Executive
01/11/2024	Initial Return of proposed budget sheets
13/11/2023	SMT / HoS Budget Discussion
November	Revision, Review & Finalisation of Fees and Charges
November	Review & Discussion of Revenue Budgets
November	Review Capital Budgets
20/11/2024	First Draft Revenue & Capital Budgets
19/12/2024	Fees & Charges to Executive
19/12/2024	Budget Workshop 1
21/12/2023	Finalise Draft Budget 2024/25 Revenue & Capital
09/01/2025	Budget Workshop 2 if Required
10/01/2025	Finalise Draft Committee Papers
23/01/2025	Executive & Authority Committee to approve Budgets