

Committee(s): Open Spaces and City Gardens Committee	Dated: 05/12/2022
Subject: Operational Finance Progress Report (period 6 April - September) 2022/23 – Natural Environment Division	Public
Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?	n/a
Does this proposal require extra revenue and/or capital spending?	No
If so, how much?	n/a
What is the source of Funding?	n/a
Has this Funding Source been agreed with the Chamberlain’s Department?	n/a
Report of: Chamberlain	For Information
Report author: Neil Chambers, Chamberlain’s Department Simon Owen, Chamberlain’s Department	

Summary

This report provides an update on the operational finance position as @ period 6 (April - September) 2022/23 for the Natural Environment Divisions local risk revenue budget to date and projected year-end outturn position, current live capital projects and outstanding debt position. It also provides additional information on the various reserve funds and endowment balances held and other relevant finance information for the Natural Environment Division services which fall within the remit of your Committee.

This report does not specifically concentrate on just charity finance in isolation, as this work will be part of the ongoing Charity Review and will be developed in conjunction with that project. As part of the Charity Review, future training sessions will be designed for both Members and Officers on key aspects of charity finance. This report is designed to also report on budgetary management issues that the Executive Director Environment is responsible for to successfully manage the operations and finances of the Natural Environment Division.

Recommendation

Members are asked to:

- Note the content of this report and its appendices.

Main Report

Background

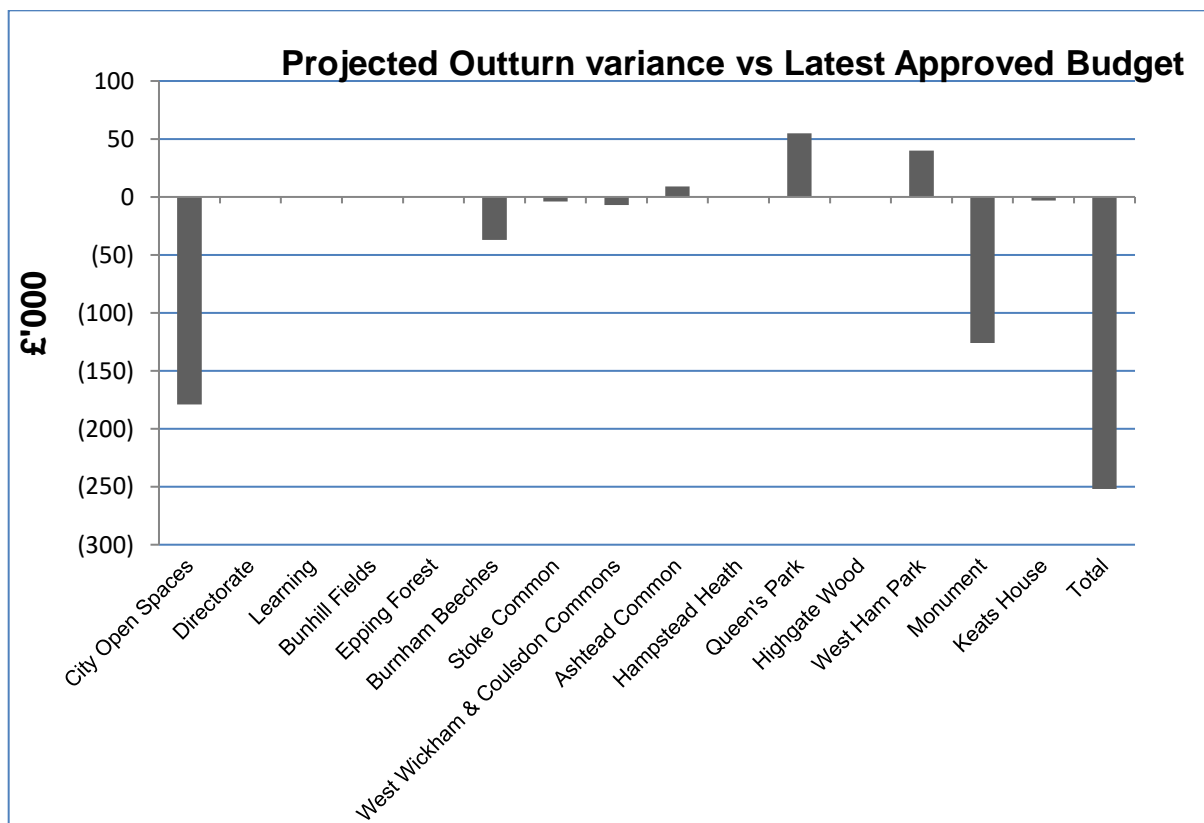
1. In order to improve financial reporting to Committee, a set of various financial appendices and commentary have been produced to enable greater clarity of revenue budgets and other financial information needed to allow greater scrutiny of the financial performance of the Natural Environment Division to ensure they

remain within the Executive Director Environments local risk resources for 2022/23.

- To ensure your Committee is kept informed, an update on progress made against budgets will be reported to you on a periodic (quarterly) basis. This approach will allow Members to ask questions and have a timely input into areas of particular importance to them.

Local Risk Revenue Forecast Outturn 2022/23

- The Natural Environment Division has an overall net local risk expenditure revenue budget of £11.299m. The current forecast outturn for 2022/23 as @ period 6 (September) is £11.551m, a forecast overspend of £252k currently.
- This forecast overspend is partly offset by other underspends of £76k within the Executive Directors other Service Committees, giving a total net forecast overspend for the Environment Department of £176k overall for 2022/23.
- In the table below, the forecast budget performance by each Natural Environment individual Division of Service is listed. Appendix 1 sets out a more detailed financial analysis of each individual Division of Service relating to the various Natural Environment Committees, including reasons for significant budget variations.



Notes:

- Zero is the baseline latest approved budget for each Division of Service.
- Graph shows projected outturn position against the latest approved budget.
- A variance above the baseline is favourable i.e. either additional income or reduced expenditure.
- A variance below the baseline is unfavourable i.e. additional expenditure or reduced income.

5. Forecast outturn is £11.551m, representing a projected overspend of £252k against the latest approved budget of £11.299m.
6. The overall local risk forecast position is £252k (2.23%) overspent against the approved budget. The main forecast overspend relates to City Open Spaces which has a net overspend of £179k. This is due to unidentified contingency savings required as part of the TOM 12% savings exercise, reduced income for S106 contributions and staff recharges to capital projects, which are partly offset by salary vacancies.
7. The other main area of forecast overspend relates to the Monument £126k due to unidentified contingency savings relating to reduced income levels in the base budget following COVID restrictions on reopening the premises. This has in part been partly offset by improvements in this year's admissions income following reopening, but not sufficient to offset the original contingency savings required.
8. The main areas of forecast underspend relate to Queens Park £55k and West Ham Park £40k due to salary underspends from vacant posts. West Wickham & Coulsdon Commons also have staff vacancy savings, however, there are offsetting expenditure increases mainly for additional transport costs relating to the purchase of 3 new vehicles required prior to ULEZ expansion and increased fuel and repair costs.

Local Risk Actual Position to Date

9. Appendices 2 and 3 set out the year-to-date income and expenditure actual position against year-to-date budget, including notes for significant budget variations. In addition, there is a graphical split of the mix of the type of income and expenditure categories making up these actual figures for the division.
10. Appendix 2 highlights that Natural Environment Division have received actual income to date of £5.356m against a budget to date of £2.966m, a favourable variance of £2.390m.
11. The main income variances to date relate to Epping Forest where we have a favourable position to date due to receiving an insurance claim settlement at Loughton Golf Course circa £300k that will need to be transferred to the existing South Lodge the Warren designated reserve. Further transfers to revenue from designated & restricted reserves to complete specific work has caused this favourable variance to date and relates to the cattle grazing contract £108k and Countryside Stewardship Scheme £126k, where any unspent balances at the year-end will again be transferred back to the existing respective designated & restricted reserves and used for the following financial year 2023/24.
12. We also have favourable income to date at Hampstead Heath £983k mainly relating to additional fees & charges received at the Ponds and Lido, a number of which relates to annual season ticket income in advance. Current year end forecasts will need to be reviewed in light of this positive performance to date.
13. Other favourable income variances to date are at Burnham Beeches due to additional filming income £158k and upfront S106 contributions £292k from Slough Borough Council to pay for the 5-year staffing costs in advance. The amount of this relating to future years will be transferred to reserves at year end and drawdown each year as required.

14. Appendix 3 highlights we have actual expenditure to date of £8.405m against a budget to date of £8.569m, a favourable variance of £0.164m to date.
15. The main expenditure variances to date relate to favourable variances at Epping Forest £90k, for savings in salary costs due to vacancies and other savings on transport and grounds maintenance, which are partly offset by overspends in equipment, materials, repairs & maintenance and rates paid ahead of budget profile. Other main underspends to date relate to West Ham Park £80k, due to savings in salary costs and supplies & services running budgets and underspends in City Open Spaces £76k, due to salary savings which are partly offset by unidentified contingency savings required as part of the TOM 12% savings exercise.
16. These favourable expenditure variances to date are partly offset by unfavourable variances at Hampstead Heath £139k, relating to a number of areas including extra spend on utilities, equipment, consultant costs and the refuse & cash collection contracts and unfavourable variances within the Directorate £144k, mainly relating to additional salary costs incurred.
17. Variances to date can be incurred due to a variety of reasons including timing differences, incorrect budget profiling, new items of income or expenditure that weren't originally budgeted or planned, as well as genuine increases/decreases in expenditure or income. They do not always mean that these will result in year-end overspend or underspend, as the Department look to offset ups and downs and make budget adjustments to control unexpected items to remain within overall budget constraints.

Capital Projects

18. Appendix 4 outlines the current list of live capital projects in progress against their currently approved budget. It should be noted that the "current approved budget" is the amount currently agreed by Committee to progress the project to either the next project gateway or until Officers request further release of capital funds to progress the scheme and may not equal the total estimated cost of the project to finalisation.
19. Out of a current approved budget of £3.001m, £1.879m has been spent or committed to date, leaving a remaining budget of £1.122m to progress the various projects to the next project gateway or release of further capital funds.
20. In light of the current financial climate and with the implication of inflation and other cost pressures (construction inflation is expected to rise as high as 20% and CPI rose by 9.9% in the last 12 months), Resource Allocation Sub-Committee (RASC), supported by the Operational Property and Projects Sub Committee, agreed to pause the business as usual (BAU) capital programme and carry out a Capital Review. The goal of the Capital Review is to ensure that projects do not exceed current overall estimated capital budgets across City Fund and City's Cash for the financial year 2022-23 and 2023-24.
21. The BAU Capital Review is looking at projects funded through the Corporation's own resources, and it excludes projects funded through ring-fenced pots. This will be achieved by: (1) pausing/stopping projects that are low priority/identify as

desirable and (2) reviewing the scope of higher priority projects to ensure the Corporation obtains value-for-money in the current economic climate.

22. The projects identified in Appendix 4 have been considered within this Capital Review and were discussed by RASC when a follow-up report was tabled by the Chamberlain on the 9th November. Following on from the RASC meeting, all of the projects listed in Appendix 4 were given approval by RASC to progress, with the following caveats:
- **Parliament Hill Athletics Track** - though recommended to pause in the Chamberlain report to RASC, it was agreed by RASC to take the project forward but they wanted further information back on the project detail.
 - **Finsbury Circus Reinstatement** – RASC did not agree to move forward with Finsbury Circus as proposed in the Chamberlain report. Members wanted to freeze this project for now and bring back more detail to the December RASC meeting. It was noted that there had been no public consultation on the plans since the pandemic. A further report is currently being prepared in consultation with Officers for a paper to RASC on 1st December to review this project, noting that we don't want to prejudice Crossrail funding, therefore the project is currently paused.
 - **Artificial Grass Pitch Provision at Wanstead Flats** – currently alternative sources of funding are being investigated which might go some way to reducing the burden on the City. There should be a clearer picture regarding project scope and finances in the new calendar year with the Football Foundation giving a concrete decision sometime in March 2023. However, it is unlikely external parties will fund the scheme without the City contributing towards it. If further external funding is not achieved, this project will need to be stopped/paused until sufficient funding is available, therefore the project is currently paused.
23. As a result of this Capital Review, for the financial year 2023/24, no new capital bids will be taken forward, however, a £3m contingency has been set aside in both City's Cash and City's Fund for essential health and safety capital schemes.

Outstanding Debts

24. At the end of September 2022, total outstanding debt for Natural Environment Division (including City Gardens) was £274,180. Of this, £176,101 (64%) was over 120 days+, £16,517 (6%) was between 60-120 days and £81,562 (30%) was under 60 days.
25. Appendix 5 shows a graphical representation of the total invoiced debts over 120 days+ outstanding, which is the maximum age of debt set by the Chamberlain to recover outstanding sums. The first graph shows the time trend of the level of 120 day+ debt outstanding over the previous 6-month period.
26. The debt spike in July 2022 related to an invoice raised to Slough Borough Council for £264K re Section 106 transfer for Burnham Beeches NNR - strategic access management including the costs of a Ranger post. This debt has now been settled.

27. The lower graph analyses the split of this debt across the various Natural Environment Divisions. The majority of the £176,101 outstanding debt balance relates to Epping Forest (£140,404 / 80%). This is made up of £89,490 Thames Water utilities; £23,164 wayleave rents; £20,179 rent receivables; and £7,451 numerous other small debtors.
28. The other main debt relates to Hampstead Heath (£23,166 / 13%). This is made up of £7,262 National Grid Gas PLC; £4,437 North Thames Gas (now settled); £4,300 The Showman's Guild of Great Britain; and £7,167 numerous other small debtors.
29. A further detailed debt report of all outstanding debts (not just the balance over 120 days+) will be provided as per normal business practice to report periodic monitoring for Chief Officers on the level of debt arrears to Service Committees at the next available Open Spaces and City Gardens Committee.

Charity Funds (Restricted, Unrestricted and Endowments)

30. Appendix 6 (Epping Forest and Commons Committee) and Appendix 7 (Hampstead Heath, Highgate Wood & Queens Park Committee; West Ham Park Committee; and Keats House) lists the various restricted, unrestricted and endowment funds held by each charity. It details the opening balance for the 2022-23 financial year and any movements up to period 6 (April-September 2022).
31. There are various types of restricted, unrestricted and endowment funds held by the Natural Environment charities which have different rules as to how they can be spent and time periods held. These are categorised in the following way:
 - **Restricted Income Fund** - funds have been given to a charity for application for a specific element of the charity's objects and can only be spent in accordance with the requests of the donor or the specific campaign under which funds were raised. As these are income funds they should be spent within a reasonable period of time.
 - **Unrestricted Income Fund** - incoming resources that become available to a charity and can be applied by the Trustee to any of the charity's objects. Unrestricted income funds should be spent within a reasonable period of time and should not be held for the long term, although the Trustee should set a policy for the minimum required level of funds which is a target minimum to be held in case of particular identified risk. In the case of the City's Cash funded charities, the current deficit funding model means that no such minimum can be identified, as at year end the difference between income and expenditure is balanced by the deficit funding grant from City's Cash.
 - **Designated (Unrestricted Income Fund)** - are those unrestricted funds which have been set aside by the Trustee for an essential spend or future purpose. Whilst there is no legal restriction on their use for general purposes, and they can be undesignated by those acting on behalf of the Trustee at any time, these funds are effectively 'ring-fenced' and no longer form part of your

free reserves/general funds. Designated funds must be spent within a reasonable period of time and should not be held for the long term.

- **Endowment** - these are funds of the charity that must be invested and are intended to be held for the long term. There are two classes of endowment (see below):
 - **Permanent Endowment** - must be invested and held in perpetuity. These funds can either be invested to provide income to support the charity's purposes e.g. the Hampstead Heath Trust Fund. The other class of permanent endowment is a functional permanent endowment where assets must be retained and used for the charity's purposes.
 - **Expendable Endowment** - an expendable endowment fund is a fund that must be invested to produce income, but the Trustee has the power to convert all or part of it into an income fund which can then be spent.

Deficit Funding

32. The current funding model is for each charity's total net expenditure (local risk, central risk and recharges) to be funded from City's Cash. The table below details the previous year's levels of deficit funding grant made from City's Cash to the various Natural Environment charities, with a forecast of that sum currently required for 2022/23.

Charity	Actual 2018/19 £'000	Actual 2019/20 £'000	Actual 2020/21 £'000	Actual 2021/22 £'000	Estimate 2022/23 £'000
Epping Forest	4,643	5,209	4,928	4,500	4,376
Burnham Beeches & Stoke Common	864	1,005	818	792	690
West Wickham & Coulsdon	1,194	1,071	1,166	949	992
Ashted Common	511	505	513	463	435
Sub-Total Epping Forest and Commons	7,212	7,790	7,425	6,704	6,493
Hampstead Heath Consolidated	5,988	6,134	5,872	4,776	4,083
Highgate Wood & Queen's Park Kilburn	1,245	1,348	1,372	1,034	1,054
West Ham Park	1,186	1,331	1,271	1,172	972
Keats House	358	540	335	275	264
Total Natural Environment Division	15,989	17,143	16,275	13,961	12,886

33. The main reason for the forecast reduction in deficit funding required in 2022/23, largely relates to reductions in the City Surveyors cyclical works programme (CWP) forecast to be spent this financial year. The CWP does not form part of the City Surveyor's local risk budget and is a programme of works over multiple financial years, with any variances carried over to 2023/24. The carry-over of unspent balances 2022/23 will be reported to Operational Property and Project Sub Committee as part of closing of accounts.

Gift Aid

34. One option identified to help generate future additional funding as we move through the Charity Review, is maximising Gift Aid contributions, which have not historically provided value for money to claim, given low levels of donations

income on which claims could be made compared to the costs of administering the claims.

35. In order to progress this income generating option for the Natural Environment charities, a Gift Aid pilot project for Hampstead Heath has been established and is progressing well. New bank accounts have been allocated, which has allowed the Natural Environment Division to proceed to register with HMRC. The Natural Environment Division have submitted the registration pack to HMRC and are currently in the waiting period for this to be processed but have been advised it could take 6-7 weeks. A “Just Giving” page has already been created and once successful notification back from HMRC is received, Natural Environment Division staff will be able to start processing Gift Aid on eligible contributions.

Appendices

Appendix 1 - Local Risk Revenue Budget Forecast Outturn 2022/23

Appendix 2 - Income Performance 2022/23 as @ September (period 6)

Appendix 3 - Expenditure Performance 2022/23 as @ September (period 6)

Appendix 4 - Capital Projects

Appendix 5 - Outstanding Debt 120 Days+ as @ September (period 6)

Appendix 6 - Reserve Funds & Endowments Epping Forest & Commons Committee

Appendix 7 - Reserve Funds & Endowments Hampstead Heath, Highgate Wood and Queens Park Committee, West Ham Park Committee, and Keats House

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