

Committee(s): Open Spaces and City Gardens Committee	Dated: 13/02/2023
Subject: Operational Finance Progress Report (period 9 April - December) 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: Simon Owen, Chamberlain's Department	

Summary

This report provides an update on the operational finance position as @ period 9 (April - December) 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

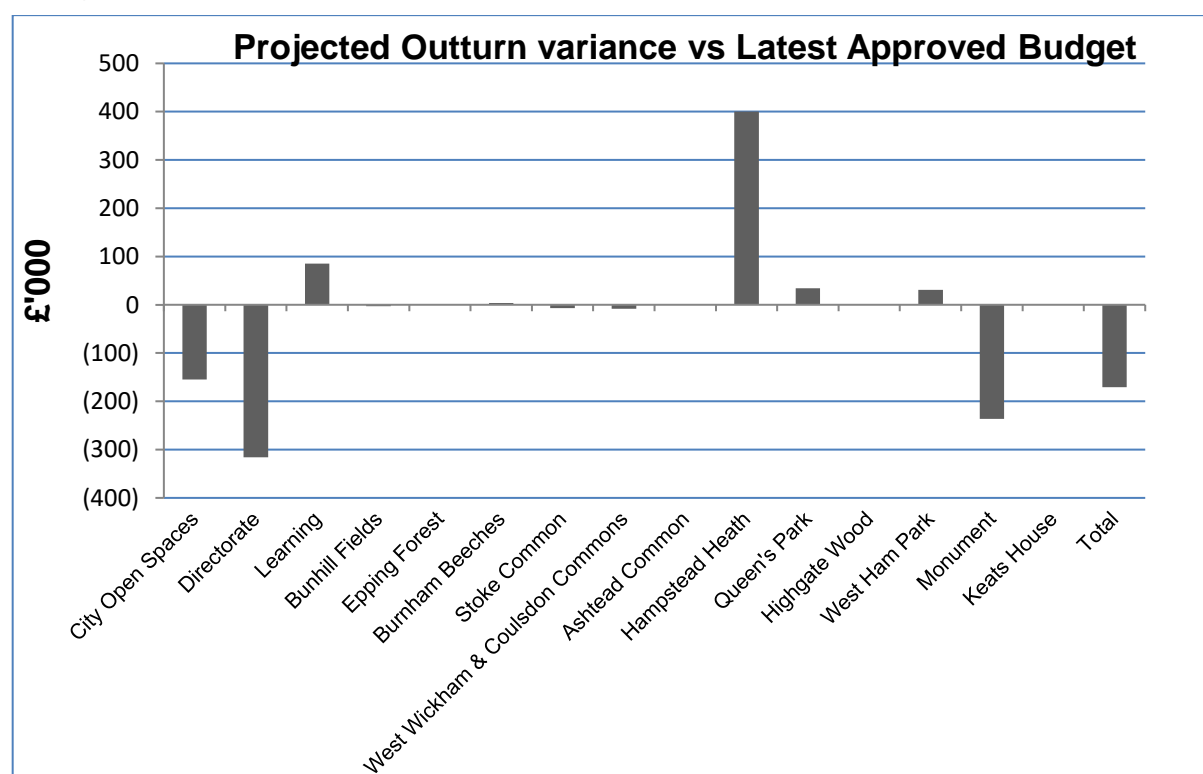
Background

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.

2. 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

3. The Natural Environment Division has an overall net local risk expenditure revenue budget of £11.347m. The current forecast outturn for 2022/23 as @ period 9 (December) is £11.519m, a forecast overspend of £172k currently. This is an improvement of £80k on the previous reported overspend position of £252k as @ period 6 (September).
4. This forecast overspend is partly offset by other underspends of £153k within the Executive Directors other Service Committees, giving a total net forecast overspend for the Environment Department of £19k overall for 2022/23 (previously £176k as @ period 6 September) when adjusting for other Service Committees within her remit.
5. 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:

1. Zero is the baseline latest approved budget for each Division of Service.
2. Graph shows projected outturn position against the latest approved budget.
3. A variance above the baseline is favourable i.e. either additional income or reduced expenditure.
4. A variance below the baseline is unfavourable i.e. additional expenditure or reduced income.
5. Forecast outturn is £11.519m, representing a projected overspend of £172k against the latest approved budget of £11.347m.

6. The overall local risk forecast position is £172k (1.52%) overspent against the approved budget. The main forecast overspend relates to the Directorate which has a net overspend of £316k, mainly due to costs of agency staff to cover vacancies held whilst the department is going through its restructure.
7. Other main areas of forecast overspend relate to City Open Spaces £155k, mainly due to unidentified contingency savings relating to TOM 12% savings £190k and income reductions for S106 contributions £59k and recharges of staff time to capital projects £65k. These are partly offset by salary vacancies £127k.
8. Finally, the Monument has forecast overspends of £236k due to unidentified contingency savings relating to reduced income levels in the base budget following COVID restrictions on opening the premises that have not returned to pre-COVID levels. These are partly offset by savings in salary costs.
9. The main areas of forecast underspend relate to Hampstead Heath with projected underspends of £400k. This is due to additional income at the Lido £400k and facilities hire £468k, following exceptionally good summer weather, plus staffing savings due to vacancies held during the departmental TOM restructure £100k. These have been partly offset by overspends on a variety of project related expenditure £205k, covering the Heath extension playground, purchases of additional visitor counters, ponds aerators, costs attached to major planning applications, development of a master plan, review of booking system and review of mobile phones used by the constabulary. Further offsets relate to forecast reductions in income for ponds £100k, parking charges £140k, filming income £58k and licence income £62k.
10. Finally, the Learning Service has projected underspends of £85k mainly due to staff vacancies.

Local Risk Actual Position to Date

11. 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.
12. Appendix 2 highlights that Natural Environment Division have received actual income to date of £6.606m against a budget to date of £4.450m, a favourable variance of £2.156m.
13. The main income variances to date relate to Epping Forest where we have a favourable position to date £867k mainly due to an insurance claim settlement @ Loughton Golf Course circa £317k that will be transferred to the existing South Lodge the Warren designated reserve; transfers to revenue from designated & restricted reserves to complete specific work relating 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; higher than expected income from golf green fees £121k; and additional licensing income £167k.

14. Other favourable income variances to date are at Burnham Beeches £451k, mainly from additional film income £158k and upfront S106 income contributions from Slough Borough Council to pay for 5-year staffing costs in advance £296k. The amount of this relating to future years staffing costs will be transferred to reserves at year end and drawdown each year as required.
15. Finally, we have a favourable income variance to date at Hampstead Heath of £813k due to receiving fees & charges income from the lido £424k and facilities hire £499k ahead of expected budget profile due to exceptionally good weather for the summer season. This is partly offset by reduced income to date from the ponds £113k. This favourable performance is expected to continue until year-end outturn and income projections will need to be monitored in light of this positive performance to date.
16. Appendix 3 highlights we have actual expenditure to date of £13.340m against a budget to date of £12.771m, an unfavourable variance of £0.569m to date.
17. The main expenditure variances to date relate to Epping Forest where we have an unfavourable position to date of £243k mainly due to overspends in equipment & materials £109k, additional repairs & maintenance work for the lodges £97k, and transfer to reserves £317k for the Loughton Golf Club insurance claim settlement. This is partly offset by salary savings due to staff vacancies £342k.
18. Further unfavourable variance to date relate to the Directorate of £262k, mainly due to the costs of agency staff to cover vacancies held whilst the department is going through its restructure.
19. 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

20. 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.
21. Out of a current approved budget of £3.120m, £1.920m has been spent or committed to date, leaving a remaining budget of £1.2m to progress the various projects to the next project gateway, release of further capital funds or completion.
22. 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 was 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.

23. 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.
24. 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:

- **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 for Officers to bring back more detail to RASC. It was noted that there had been no public consultation on the plans since the pandemic and we don't want to prejudice Crossrail funding, therefore the project is currently paused.

In order to move forward, cost estimates are expected back shortly from the tenderers based on **a).** the existing scheme, **b).** a value-engineered version and **c).** one without the pavilion. Officers then have a date outside Committee to brief Members of both Open Spaces & RASC together on the 9th February where a joint decision on both scope and budget, or at least a joint steer needs to be established. Officers will then have to ratify the outcome of that briefing through Committee(s) reporting.

- **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.

25. 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

26. At the end of December 2022, total outstanding debt for Natural Environment Division (including City Gardens) was £350,784. Of this, £168,758 (48%) was over 120 days+, £56,044 (16%) was between 60-120 days and £125,982 (36%) was under 60 days.

27. 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.
28. 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.
29. The lower graph analyses the split of this debt across the various Natural Environment Divisions. The majority of the £168,758 outstanding debt balance relates to Epping Forest (£138,256 / 82%). This is made up of £89,490 Thames Water utilities; £23,164 wayleave rents; £20,179 rent receivables; and £5,423 numerous other small debtors.
30. The other main debt relates to Hampstead Heath, Highgate Wood and Queens Park (£23,963 / 14%). This is made up of £7,262 National Grid Gas PLC; £6,433 JJHH Ltd; £3,865 North Thames Gas; and £6,403 numerous other small debtors.
31. 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 for the period ending 31st March 2023 at the next suitable Open Spaces and City Gardens Committee.

Charity Funds (Restricted, Unrestricted and Endowments)

32. 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 9 (April-December 2022).
33. There were two notable movements since the previous report in period 6 and these relate to a capital receipt of £286,652 which was credited to the Epping Forest Fund Reserve (Capital Fund), increasing the balance held to £705,135. A further movement was a credit of £317,500 at South Lodge the Warren (Loughton Golf Course) relating to an insurance claim settlement, increasing the balance held to £518,150.
34. 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 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

35. 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

36. 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

37. 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.
38. 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 complete its HMRC registration, which has now been confirmed by HMRC. Everything is now in place with Just Giving, so we are currently in the process of awaiting the first payments to be received into the bank account to be able to start processing Gift Aid through our systems.

Appendices

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

Appendix 2 - Income Performance 2022/23 as @ December (period 9)

Appendix 3 - Expenditure Performance 2022/23 as @ December (period 9)

Appendix 4 - Capital Projects

Appendix 5 - Outstanding Debt 120 Days+ as @ December (period 9)

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

Contacts

Neil Chambers, Interim Charity Project Accountant, Chamberlain's Department
E: neil.chambers@cityoflondon.gov.uk

Simon Owen, Head of Finance for Environment, Chamberlain's Department
E: simon.owen@cityoflondon.gov.uk