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| <b>Committee(s):</b><br>Natural Environment Board  | <b>Dated:</b><br>16/10/2023 |
| <b>Subject:</b><br>Operational Finance Progress Report (period 3 April – June 2023) 2023/24 – Natural Environment Division | <b>Public</b>               |
| <b>Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?</b>                  | n/a                         |
| <b>Does this proposal require extra revenue and/or capital spending?</b>   | <b>No</b>                   |
| <b>If so, how much?</b>  | n/a                         |
| <b>What is the source of Funding?</b>  | n/a                         |
| <b>Has this Funding Source been agreed with the Chamberlain’s Department?</b>  | n/a                         |
| <b>Report of:</b><br>Chamberlain   | <b>For Information</b>      |
| <b>Report author:</b><br>Clem Harcourt, Chamberlain’s Department   |                             |

### Summary

This report provides an update on the operational finance position as @ period 3 (April – June 2023) 2023/24 for the Natural Environment Division’s 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 Board.

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 Interim 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

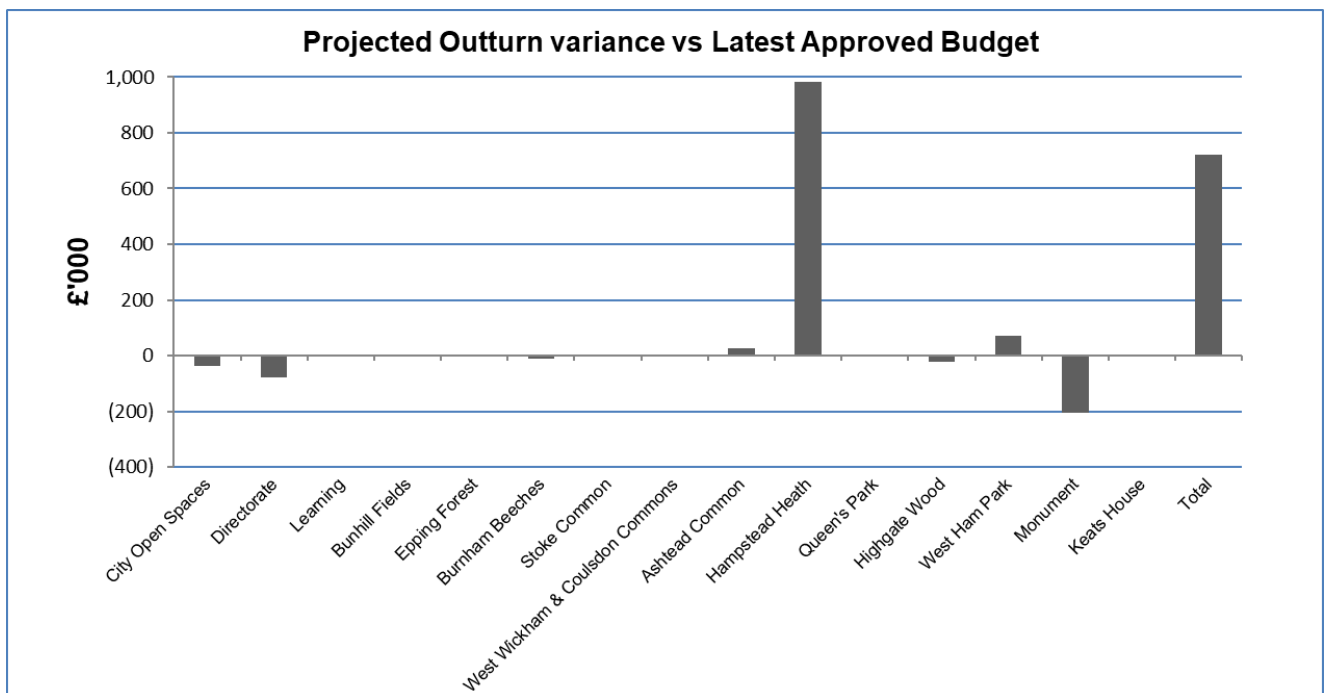
#### Background

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 Interim Executive Director Environment’s local risk resources for 2023/24.

- To ensure your Board 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 2023/24

- The Natural Environment Division has an overall net local risk expenditure revenue budget of £11.894m. The current forecast outturn for 2023/24 as @ period 3 (June 2023) is £11.174m, a forecast underspend of £720k currently.
- As at the end of June 2023, the Interim Executive Director Environment was forecasting an overspend of £2.147m within his other Service Committees, giving a total net forecast overspend for the Environment Department of £1.427m overall for 2023/24 when adjusting for other Service Committees within his remit. The overall projected overspend for the Environment Department is primarily attributable to a loss of income from the Heathrow Animal Reception Centre.
- In the chart 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.
- Forecast outturn is £11.174m net expenditure, representing a projected underspend of £720k against the latest approved budget of £11.894m.

6. The overall local risk forecast position is £720k (6.05%) underspent against the approved budget. The main forecast underspend relates to Hampstead Heath which has a projected net underspend of £984k, mainly due to increased income generated from the Ponds and Lido as a result of increased usage of the facilities. This is in addition to lower than forecasted expenditure on salaries and grounds maintenance costs.
7. In addition, West Ham Park is forecasting an underspend of £70k as a result of savings in employment costs attributable to vacant posts.
8. Meanwhile, there is projected to be a year-end underspend of £26k at Ashted Common as a result of additional income forecasted to be generated from government grants.
9. The Natural Environment Division's forecasted underspend is partly offset by a £207k overspend relating to the Monument due to unidentified savings relating to reduced income levels following COVID restrictions on opening the premises that have not returned to pre-COVID levels.
10. There is also a projected overspend of £78k on the Directorate's local risk budget as a result of additional staffing costs incurred from changes related to the new staffing structure.
11. Finally, there is forecast to be a £37k overspend relating to City Gardens. This can be explained by agency costs being required to cover staff sick leave as well as additional materials being purchased to deliver projects.

#### **Local Risk Actual Position to Date**

12. 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.
13. Appendix 2 highlights that the Natural Environment Division has received actual income to date of £1.987m against a budget to date of £1.825m, a favourable variance of £162k.
14. The main income variances to date relate to Hampstead Heath where income is £464k ahead of the current budget profile. This is explained by additional income generated from the Ponds and Lido.
15. The increase in income compared to budget is partly offset by income at City Gardens being behind profile. This is due to lower than anticipated income generated from section 106 contributions and fees and charges compared with the budget profile to date as a result of income being received later than originally budgeted. However, income is currently forecast to be on track by the end of the financial year. This is in addition to income at Burnham Beeches being less than budgeted as a result of government grant income from 2022/23 raised as a listed debtor not having yet been physically received.
16. Appendix 3 highlights actual expenditure to date of £4.387m against a budget to date of £4.742m, a favourable variance of £355k.
17. The main expenditure variances relate to Hampstead Heath which has an underspend on its expenditure to date of £107k compared with the budget profile

to the end of June 2023. This can be explained by underspends on staffing costs as a result of vacant posts.

18. Other favourable variances include a £71k underspend to date at Epping Forest due to lower than anticipated salary and transport costs as well as a £59k favourable variance on the Directorate due to the timing of internal legal fees.
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 a 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 £11.703m, £9.032m has been spent or committed to date, leaving a remaining budget of £2.671m to progress the various projects to the next project gateway, release of further capital funds or completion.
22. The capital bidding process for 2024/25 is currently underway for new capital projects with a pot of £20m being made available within City Fund and £5m for City's Cash services. New capital bids are to be reviewed against the department's overall capital programme and timescales for delivery with bids only expected to be put forward on a by exception basis and on the assumption that the projects will commence in 2024/25.
23. Four new City Cash bids totalling £1.122m have been submitted to the Chamberlain in this process relating to projects at Epping Forest, The Commons and West Ham Park. A decision on whether these will be agreed and further submitted to Members is yet to be made by Priorities Board.

### **Outstanding Debts**

24. At the end of June 2023, total outstanding debt for the Natural Environment Division (including City Gardens) was £187,056. Of this, £74,359 (40%) was over 120 days, £16,482 (9%) was between 60-120 days and £96,215 (51%) 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 reduction in debts over 120 days over the previous six months illustrated in Appendix 5 can primarily be explained by a reduction in debts owed at Epping Forest in utilities related income.
27. The lower graph in Appendix 5 analyses the split of this debt across the various Natural Environment divisions. The majority of the £74,359 outstanding debt balance relates to Epping Forest (£49,400 / 66%). This includes an amount of £21,736 owed by one individual debtor which is currently being pursued by the Comptroller & City Solicitor's department. This is in addition to £26,342 owed in various rent receivable debtors as well as £1,322 owed by numerous other small debtors.
28. The other main debt relates to Hampstead Heath, Highgate Wood and Queens Park (£16,466 / 22%). This includes £6,434 relating to an individual debtor from storage and licence fees with a Letter Before Action having been issued in relation to this debt. This is in addition to £6,406 owed by an individual debtor for rent and wayleaves which is being chased locally by staff at Hampstead Heath.
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 for the period ending 30 September 2023 to your Board at your meeting in December 2023.

### **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 2023/24 financial year and any movements up to period 3 (April-June 2023).
31. Movements within reserve funds since the start of the current financial year primarily relates to a capital receipt of £99k which was credited to the Epping Forest Fund Reserve (Capital Fund) in relation to a deed of grant easement received for an individual property. This has increased the balance held to £894,162. All other movements in reserve funds in 2023/24 to date relate to the receipt of donations income.
32. It should be noted that the external audit of the 2022/23 accounts for individual Natural Environment charities is currently taking place and the 2023/24 opening balances shown for each reserve fund in Appendix 6 and Appendix 7 may be subject to revision.
33. 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

34. 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 2023/24. The projection for the current financial year is based on the forecast for local and central risk net expenditure (as at the end of June 2023) in addition to latest budgets for recharges and budgets managed by the City Surveyor. Please be aware that deficit funding figures shown for 2022/23 are currently provisional as the external audit for the individual Natural Environment charities has not yet been completed.

**Table 1 – Deficit Funding – 2019/20 to 2023/24**

| Charity  | Actuals       | Actuals       | Actuals       | Provisional   | Estimate      |
|--|---------------|---------------|---------------|---------------|---------------|
|  | 2019/20       | 2020/21       | 2021/22       | 2022/23       | 2023/24       |
|  | £000          | £000          | £000          | £000          | £000          |
| Ashtead Common   | 512           | 511           | 471           | 524           | 472           |
| Burnham Beeches & Stoke Common                           | 1,089         | 1,036         | 896           | 1,051         | 844           |
| Epping Forest  | 5,257         | 5,059         | 4,527         | 4,879         | 5,397         |
| West Wickham & Coulsdon                                  | 1,071         | 1,094         | 1,046         | 1,264         | 827           |
| <b>Epping Forest and Commons</b>                         | <b>7,929</b>  | <b>7,700</b>  | <b>6,940</b>  | <b>7,718</b>  | <b>7,540</b>  |
| Hampstead Heath  | 6,230         | 6,451         | 5,356         | 4,842         | 3,461         |
| Highgate Wood & Queen's Park Kilburn                     | 1,348         | 1,364         | 1,033         | 1,255         | 1,243         |
| <b>Hampstead Heath, Highgate Wood &amp; Queen's Park</b> | <b>7,578</b>  | <b>7,815</b>  | <b>6,389</b>  | <b>6,097</b>  | <b>4,704</b>  |
| West Ham Park  | 1,339         | 1,279         | 1,250         | 1,933         | 1,127         |
| <b>West Ham Park</b>                                     | <b>1,339</b>  | <b>1,279</b>  | <b>1,250</b>  | <b>1,933</b>  | <b>1,127</b>  |
| Keats House  | 553           | 348           | 292           | 394           | 300           |
| <b>Keats House</b>                                       | <b>553</b>    | <b>348</b>    | <b>292</b>    | <b>394</b>    | <b>300</b>    |
| <b>Total</b>   | <b>17,399</b> | <b>17,142</b> | <b>14,871</b> | <b>16,142</b> | <b>13,671</b> |

35. As can be seen from the table above, there was an increase in the total amount of deficit funding provided for the Natural Environment charities in 2022/23 compared with the previous year. This can be explained by an increase in deficit funding provided to the West Ham Park charity to fund increased capital expenditure associated with the playground project. Under the current model, deficit funding provided to each charity covers both any capital expenditure incurred during the year as well as the charity's total net revenue expenditure. The increase in deficit funding is also explained by increased expenditure incurred across the different charities as a result of the re-phasing of works on projects forming part of the Cyclical Works Programme (CWP), managed by the City Surveyor. Please note that 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 future financial years. The carry-over of unspent balances are reported to the Operational Property and Project Sub Committee as part of closing of accounts.
36. The current forecast for deficit funding for 2023/24 indicates a reduction in the total amount of funding being required by City's Cash to the Natural Environment charities compared with the provisional total for 2022/23. This can be explained by the one-off additional capital expenditure incurred at West Ham Park in 2022/23 noted above as well as a forecasted increase in investment income generated from the Hampstead Heath Trust Fund compared with the provisional outturn from 2022/23. The reduction in deficit funding is also explained by reduced expenditure forecast on the CWP due to the rephasing of projects.

### **Other Relevant Financial Issues**

37. Members may wish to note that following the implementation of the new Target Operating Model within the Natural Environment Division, local risk budgets have subsequently been amended to incorporate this new staffing structure. These

budget changes will be reflected in the Operational Finance Progress Report to the end of September 2023 (period 6) due to be presented to your Board in December 2023.

38. Please also note that Finance Committee agreed on 19<sup>th</sup> September to fund £210k in essential health & safety works on known dangerous trees at Epping Forest through City's Cash contingency monies. These monies were originally requested as a carry forward from underspends in the Environment Department's 2022/23 local risk budget but were unsuccessful.
39. In addition, Members may wish to be aware that the Chairman and Deputy of RASC agreed two carry forward bids relevant to your Board, requested following the overall underspend in the Environment Department's 2022/23 local risk revenue budget. These bids comprised £60k to support the City's Biodiversity Action Plan and £30k to support the Parliament Hill masterplan at Hampstead Heath.
40. It should also be noted that the Chairman and Deputy Chairman of RASC have also approved three central risk carry forward bids relevant to your Board from Priorities Investment Pot (PIP) and Transformation Fund monies for use in 2023/24. This comprises £61k to support the 'Licences, Leases and Wayleaves' project at Epping Forest, £6k for the 'Biodiversity net gain' project at Burnham Beeches and £4k to support an IT transformation project at City Gardens. Please note that this funding is only available until 31 March 2024. Additionally, £80k has been agreed from the Transformation Fund to assist the Environment Department in the Operational Property review.

## **Appendices**

Appendix 1 - Local Risk Revenue Budget Forecast Outturn 2023/24

Appendix 2 - Income Performance 2023/24 as @ June (period 3)

Appendix 3 - Expenditure Performance 2023/24 as @ June (period 3)

Appendix 4 – Natural Environment Capital Projects 2023/24 as @ June (period 3)

Appendix 5 - Outstanding Debt 120 Days+ as @ June 2023 (period 3)

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

## **Contact**

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