

Committee(s): Natural Environment Board	Dated: 04/12/2023
Subject: Operational Finance Progress Report (period 6 April – September 2023) 2023/24 – 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: Clem Harcourt, Chamberlain's Department	

Summary

This report provides an update on the operational finance position as @ period 6 (April – September 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 and Charities 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

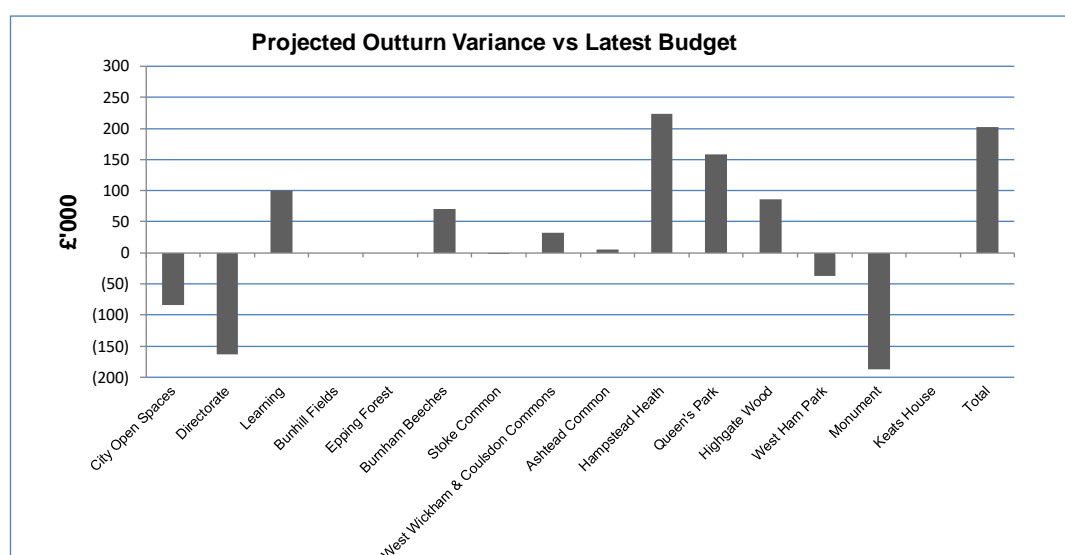
Background

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.

2. 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

3. The Natural Environment Division has an overall net local risk expenditure revenue budget for 2023/24 of £12.401m as at the end of September 2023. The current forecast outturn for 2023/24 as @ period 6 (September 2023) is £12.199m, a forecast underspend of £202k currently.
4. In the graph 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 £12.199m net expenditure, representing a projected underspend of £202k against the latest budget of £12.401m.

5. It should also be noted that the latest local risk budgets for 2023/24 have been adjusted to reflect the new Target Operating Model (TOM2) staffing structure within the Natural Environment Division.
6. The overall local risk forecast position currently represents a £202k (1.63%) underspend against the approved budget. This represents a reduction of a £518k in the projected local risk underspend to the end of June 2023 previously reported to your Board.
7. The main forecast underspend relates to Hampstead Heath which has a projected net underspend of £224k, 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. Members should however note that it has subsequently been identified since finalising the September 2023 forecast outturn that this underspend will be used as a contribution from Hampstead Heath's local risk budget to help fund the costs of the Parliament Hill Athletics Track Resurfacing capital project, thereby eliminating the forecast underspend. This is in addition to necessary previously deferred health and safety needs that include significant vehicle and equipment repairs, staff training, and the costs of third-party supplemental security support.

8. There is also currently forecast to be an underspend of £158k on the local risk budget at Queen's Park. This is attributable to underspends on staffing costs as a result of vacant posts as well as additional income received from memorial seats and fairground licenses.
9. Additionally a £100k underspend currently forecast for the Learning Team and projected underspend of £86k relating to Highgate Wood primarily relates to savings from vacant posts.
10. Finally Burnham Beeches is currently forecast to be £69k underspent for 2023/24. This can be explained by additional income generated from filming as well as savings achieved on employment costs due to vacant posts.
11. The overall net underspend for the Natural Environment Division is partly reduced by a projected overspend of £163k for the Natural Environment Directorate due to additional agency costs being required following implementation of the TOM2 staffing structure as well as reduced income generated from self-funded posts as part of the new staffing structure, plus City Open Spaces is currently forecasting an overspend of £84k due to additional agency costs being required to cover staff absences.
12. Members should however be aware that there is currently a £187k overspend relating to The Monument due to unidentified savings as a result of reduced income levels following COVID restrictions on opening the premises that have not returned to pre-COVID levels. This overspend is currently being reviewed with options to generate additional income and reductions in staff operating costs to bring this back into a breakeven position.

Local Risk Actual Position to Date

13. 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.
14. Appendix 2 highlights that the Natural Environment Division has received actual income to date of £4.635m against a budget to date of £3.482m, a favourable variance of £1.153m.
15. The main income variances to date relate to Hampstead Heath where income is £1.1m ahead of the current budget profile mainly due to additional income generated from the Ponds and Lido.

16. Income at Epping Forest is also £184k ahead of the income profile to the end of September 2023. This is largely related to additional fees from Chingford Golf Course as well as extra income generated from the Visitor Centre.
17. The increase in income compared to budget is partly mitigated by income at City Gardens being behind profile to September 2023. This is due to lower than anticipated income generated from section 106 contributions and fees and charges compared with the budget profile 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.
18. Appendix 3 highlights actual expenditure to date of £9.448m against a budget to date of £9.960m, a favourable variance of £512k.
19. The main expenditure variances relate to Epping Forest where expenditure is currently £434k underspent compared to the budget profile to date largely due to underspends on salary costs with recruitment for new roles as part of the TOM2 structure still ongoing.
20. It should also be noted that Hampstead Heath currently has an overspend of £439k on expenditure compared with the latest budget profile. This is mainly due to additional expenditure being incurred on utilities and the purchase of equipment. This is in addition to an overspend on employment costs to date as a result of additional casual staffing costs being required over the summer.
21. 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

22. 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.
23. Out of a current approved budget of £11.703m, £9.036m has been spent or committed to date, leaving a remaining budget of £2.667m to progress the various projects to the next project gateway, release of further capital funds or completion.
24. Members may wish to be aware that it is proposed that the currently projected £300k forecast shortfall in the Parliament Hill Athletics Track Resurfacing project at Hampstead Heath is projected to be funded through a £224k contribution from Hampstead Heath's local risk budget for 2023/24 and a £76k allocation from City's Cash capital contingency monies. Please note that this £76k allocation will require approval from Resource Allocation Sub-Committee (RASC). However, since this initial forecast overspend and additional funding proposal, the overall

costs of this project are currently being reassessed as its likely they will exceed £300k.

25. 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.
26. 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. Members should note that the projects were considered at the recent Priorities Board where all bids relating to Epping Forest and The Commons were successfully approved for onward submission to RASC to be considered by Members as part of the annual capital bid process.
27. Members should also note that the £400k capital bid relating to the West Ham Park Development project has not been recommended for consideration by Members at RASC due to the current uncertainty of what future option would be recommended. Members should however be aware that £80k of additional funding from the Operational Property Reserve is to be made available to support community engagement work to progress the disposal of the nursery site.

Outstanding Debts

28. At the end of September 2023, total outstanding debt for the Natural Environment Division (including City Gardens) was £209,361. Of this, £95,985 (46%) was over 120 days, £11,183 (5%) was between 60-120 days and £102,193 (49%) was under 60 days.
29. 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.
30. The general 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. It should also be noted that the increase in debt compared with the previous month can be explained by £19,000 currently owed by an individual debtor at Epping Forest. This debt is being pursued by staff at Epping Forest.
31. The lower graph in Appendix 5 analyses the split of this debt across the various Natural Environment divisions. The majority of the £95,985 outstanding debt balance relates to Epping Forest and The Commons (£67,636 / 70%). 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 £25,578 owed in various rent receivable debtors as well as £1,322 owed by numerous other small debtors.

32. The other main debt relates to Hampstead Heath, Highgate Wood and Queen's Park (£19,830 / 21%). This includes £6,434 relating to an individual debtor from storage and licence fees with the write off of this debt currently pending. The level of debt arrears over 120 days also includes £3,214 related to football pitch bookings and £3,146 owed by various utilities companies.

Charity Funds (Restricted, Unrestricted and Endowments)

33. 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 6 (April-September 2023).
34. Movements within reserve funds since the start of the current financial year for Epping Forest and The Commons 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. Meanwhile, £30k has been received in a Community Infrastructure Levy (CIL) contribution from the London Borough of Brent to part fund the Sandpit & Playground Improvements project at Queen's Park.
35. 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.
36. 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

37. The current funding model is for each charity's total net expenditure (local risk, central risk and recharges) to be fully funded from City's Cash. This includes the cost of any capital expenditure incurred during the year as well any works managed by the City Surveyor under the Cyclical Works Programme (CWP) carried out over the course of the year. It should be noted that any changes to the amount of expenditure incurred or income generated over the course of the year by an individual charity will have an impact on the overall level of deficit funding required by the relevant charity at year end. The amount of deficit funding for each charity is therefore calculated based on its **actual total net running costs for the year** in addition to any capital expenditure and CWP costs incurred during the year.

38. Therefore, year on year there are variations in the level of deficit funding received depending upon actual total net running costs incurred for the year. However, at the start of the following year, available budget funding is reset to the levels agreed by your Committee at the estimates review, so as to remain within the resource envelope set by RASC. At no stage is the budget reduced (and potentially the level of deficit funding required) unless agreed by the relevant Committee within this annual process managed and reported by the Chamberlain to gain approval of the annual estimates.

39. The table below provides a summary of the previous year's levels of deficit funding grant made from City's Cash to the Natural Environment charities with a forecast of that sum currently required for 2023/24. This is broken down by the total level of expenditure and income generated by each charity as well as any CWP and capital expenditure funded through City's Cash which comprises the total level of deficit funding required for each charity.

40. The projection for the current financial year is based on the forecast for local and central risk net expenditure (as at the end of September 2023) in addition to latest budgets for recharges and budgets managed by the City Surveyor

including CWP projects. Please note that the amount of deficit funding provided by City's Cash is unique to each individual charity and deficit funding cannot be used to offset the level of funding provided to a separate charity. Please also 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 finalised.

Table 1 – Deficit Funding – 2020/21 to 2023/24

	2020/21	2021/22	2022/23 (Prov.)	2023/24 (Est.)
	£'000s	£'000s	£'000s	£'000s
Gross Expenditure (excluding Cyclical Works)	21,262	21,323	22,451	22,961
Gross Income	5,648	8,601	9,212	9,250
Cyclical Works Expenditure	1,443	1,291	1,556	891
Capital Expenditure financed through Deficit Funding	510	880	1,130	2,437
Total Deficit Funding - Natural Environment Charities	17,142	14,871	16,142	17,039

41. 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 a £1.1m increase in gross expenditure incurred by the various charities as well as additional deficit funding being provided to the West Ham Park charity to fund increased capital expenditure associated with the playground project. The increase is also explained by additional expenditure incurred as a result of the re-phasing of works on projects forming part of the CWP. 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 Projects and Procurement Sub-Committee as part of closing of accounts.
42. The current forecast for deficit funding for 2023/24 indicates an increase 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 an increase in the amount of capital expenditure due to be financed by deficit funding compared with 2022/23. This is in addition to an increase in total gross revenue expenditure attributable to increased staffing and energy costs compared with 2022/23.

Appendices

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

Appendix 2 - Income Performance 2023/24 as @ September (period 6)

Appendix 3 - Expenditure Performance 2023/24 as @ September (period 6)

Appendix 4 – Natural Environment Capital Projects 2023/24 as @ September (period 6)

Appendix 5 - Outstanding Debt 120 Days+ as @ September 2023 (period 6)

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

Appendix 7 - Reserve Funds & Endowments Hampstead Heath, Highgate Wood and Queen's Park Committee; West Ham Park Committee; and Keats House

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