

Committee(s): Natural Environment Board	Dated: 19/02/2024
Subject: Operational Finance Progress Report (period 9 April – December 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 9 (April – December 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

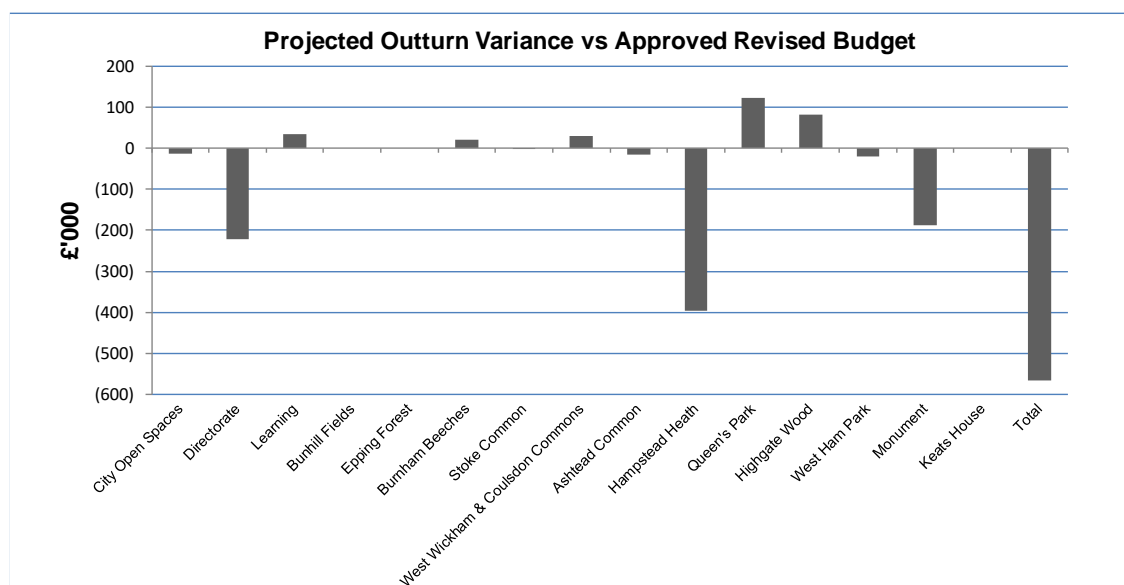
Background

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.

- 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 (including City Gardens) has an overall net local risk expenditure revenue budget for 2023/24 of £13.246m as at the end of December 2023. The current forecast outturn for 2023/24 as @ period 9 (December 2023) is £13.813m, a forecast net overspend of £567k currently.
- 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:

- Zero is the baseline approved revised budget for each Division of Service.
- Graph shows projected outturn position against the approved revised 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 £13.813m net expenditure, representing a projected overspend of £567k against the approved revised budget of £13.246m.

- The overall local risk forecast position currently represents a £567k (4.28%) overspend against the approved revised budget. This represents a worsening of £769k in the projected local risk budgetary position for 2023/24 compared with the projected net local risk underspend of £202k to the end of September 2023 previously reported to your Board.
- The main forecast overspend relates to Hampstead Heath which has a projected net overspend of £397k on its local risk budget:
 - This is mainly due to a projected contribution of £322k needed from the local risk budget to help fund costs on the Parliament Hill athletics track capital project. The remaining £76k shortfall on the project is being met from City's Estate reserves.

- There is also a projected overspend at Hampstead Heath on fees and services costs forecast to be £263k due to professional fees being required for the Parliament Hill masterplan as well as the provision of security staff.
 - This is in addition to a forecasted overspend of £114k relating to equipment and materials due to additional swimming pool cleaning equipment and health and safety maintenance costs being required.
 - The projected net overspend at Hampstead Heath is partly offset by income currently forecast to be £332k higher than budgeted with additional income being generated from swimming facilities and car parking.
7. The overall net overspend currently forecast for the division is also explained by a projected overspend of £222k for the Natural Environment Directorate. This is primarily attributable to overspends on staffing with reduced income generated from self-funded posts as part of the newly implemented TOM2 staffing structure. This is in addition to extra agency costs being required following implementation of the staffing restructure with further costs incurred on HR and health & safety roles.
 8. Members should also be aware that there is currently a £188k forecasted overspend relating to The Monument due to unidentified savings as 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.
 9. The current forecasted overspend for 2023/24 for the Natural Environment Division is partly mitigated by an underspend of £123k forecast at Queen's Park. This can be explained by an underspend in salary costs of £165k due to vacant posts. The underspend at Queen's Park is partly offset by income currently forecast to be £31k less than budgeted which is predominantly attributable to reduced income from rent.
 10. Finally, there is a projected underspend of £82k at Highgate Wood. This is largely attributable to £119k savings on salary costs because of vacant posts with roles in the new staffing structure not due to be recruited to until the end of 2023/24. This underspend is partly offset by rent income currently forecast to be £15k less than budgeted for 2023/24 as well as an additional £12k being required on essential repairs and maintenance works before the end of the current financial year.

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 the Natural Environment Division has received actual income to date of £6.682m against a budget to date of £4.999m, a favourable variance of £1.683m.

13. The main income variances to date relate to Hampstead Heath where income is £999k ahead of the current budget profile mainly due to additional income being generated from facilities such as the Ponds and Lido.
14. Income at Epping Forest is also £635k ahead of the income profile to the end of December 2023. This is due to the transfer back from reserves in 2023/24 from the 2022/23 surpluses on the Cattle Purchase Fund designated reserve and the Countryside Stewardship Scheme restricted reserve. This is in addition to extra income generated from Chingford Golf Course.
15. Income received to date at Burnham Beeches is also £172k ahead of the budget profile which is explained by additional income generated from filming projects as well as monies received from Section 106 and Strategic Access Management and Monitoring Strategy (SAMMMS) contributions.
16. Meanwhile, income for the Directorate is currently £123k behind the expected budget to date as income from self-funded posts in the new staffing structure has not yet been achieved.
17. Appendix 3 highlights actual expenditure to date of £15.075m against a budget to date of £15.424m, a favourable variance of £349k.
18. The main expenditure variances relate to Epping Forest where expenditure is currently £584k underspent compared to the budget profile largely due to underspends on salary costs with recruitment for roles as part of the new staffing structure still ongoing.
19. In addition, expenditure at Queen's Park is currently £208k underspent compared to the budget profile to the end of December 2023. This is explained by salary costs currently being underspent against the budget profile as a result of staff vacancies. This is in addition to reduced costs incurred to date on supplies and services and grounds maintenance costs.
20. It should also be noted that Hampstead Heath currently has an overspend of £637k on expenditure compared with the latest budget profile. This is mainly due to additional expenditure on utilities and the purchase of equipment. This is in addition to an overspend on employment costs with 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 £11.723m, £9.284m has been spent or committed to date, leaving a remaining budget of £2.439m 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 £398k forecast shortfall in the Parliament Hill Athletics Track Resurfacing project at Hampstead Heath is projected to be funded through a £322k contribution from the local risk budget for 2023/24 as noted in paragraph 6 and a £76k allocation from City's Estate capital contingency monies.
25. Members should note that three capital bids for 2024/25 totalling £722k relevant to the Natural Environment Division were submitted as part of the annual capital projects bidding process for 2024/25. These bids have now obtained Member approval from both Resource Allocation Sub Committee (RASC) and Policy and Resources Committee and will require further approval from the Court of Common Council in March 2024 before the projects can commence in 2024/25. The proposed capital bids for 2024/25 for the Natural Environment Division are as follows:
 - City Commons – boundary livestock fencing replacement £92k;
 - City Commons – entrance board replacement £160k; and
 - Epping Forest - Copped Hall Park Tudor Square pond sluice gates £470k.

Outstanding Debts

26. At the end of December 2023, total outstanding debt for the Natural Environment Division (including City Gardens) was £249,412. Of this, £76,644 (31%) was over 120 days, £69,796 (28%) was between 60-120 days and £102,972 (41%) 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. It should be noted that outstanding debts over 120 days has reduced by £19,341 compared with the level of outstanding debt arrears to the end of September 2023 reported previously to your Board. This is largely explained by a reduction of £12,835 at Hampstead Heath due to the writing off of outstanding debts related to storage licenses and filming fees as well as payments received from utilities companies in relation to outstanding invoices. The remainder of the reduction in debts compared with September 2023 is largely due to a reduction in debts over 120 days owed by customers at Epping Forest.
29. The lower graph in Appendix 5 analyses the split of the debt across the various Natural Environment divisions. The majority of the £76,644 outstanding debt

balance relates to Epping Forest and The Commons (£58,803 / 77%). 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 £16,305 owed in various rent receivable debtors as well as £1,762 owed by numerous other small debtors and £19,000 in development grant funding with this debt currently being pursued by staff at Epping Forest.

30. The other main debts relates to Hampstead Heath, Highgate Wood and Queen's Park (£6,995 / 9%). This level of debt arrears over 120 days primarily relates to £6,253 in football pitch bookings and training sessions owed by three individual customers with £2,164 of this amount having subsequently been settled after December 2023.

Charity Funds (Restricted, Unrestricted and Endowments)

31. 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 9 (April-December 2023).
32. 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. This is in addition to movements on other reserves during 2023/24 noted in Appendix 6 including the Countryside Stewardship Scheme reserve at Epping Forest and the reserve for Section 106 contributions at Burnham Beeches.
33. As set out in Appendix 7, £30k has also been received in a Community Infrastructure Levy (CIL) contribution from the London Borough of Brent during 2023/24 to part fund the Sandpit & Playground Improvements project at Queen's Park. Meanwhile, at Hampstead Heath, the restricted reserve for grant monies received for the installation of non-turf pitches has now been fully spent.
34. At the time of writing, it should be noted that the external audit of the 2022/23 accounts for individual Natural Environment charities was still taking place and the 2023/24 opening balances shown for each reserve fund in Appendix 6 and Appendix 7 may be subject to revision.
35. 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 Estate 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 Estate.
- **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

36. 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 Estate. 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.
37. 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.

38. The table below provides a summary of the previous year's levels of deficit funding grant made from City's Estate 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 Estate which comprises the total level of deficit funding required for each charity.
39. The projection for the current financial year is based on the forecast for local and central risk net expenditure (as at the end of December 2023) in addition to 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 Estate 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 had not yet been finalised at the time that this report was written.

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	22,436	24,443
Gross Income	5,648	8,601	9,212	9,601
Cyclical Works Expenditure	1,443	1,291	1,556	891
Capital Expenditure financed through Deficit Funding	510	880	1,130	4,106
Total Deficit Funding - Natural Environment Charities	17,142	14,871	16,127	19,839

40. 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.
41. The current forecast for deficit funding for 2023/24 indicates an increase in the total amount of funding being required by City's Estate to the Natural Environment charities compared with the provisional total for 2022/23. This can largely be explained by an increase in the amount of capital expenditure due to be financed by deficit funding compared with 2022/23 which is largely attributable to costs associated with the swimming facilities and athletics track resurfacing projects at Hampstead Heath. The forecasted increase in deficit

funding can also be explained by an increase in total gross revenue expenditure attributable to increased staffing and energy costs compared with 2022/23. The net increase in deficit funding for 2023/24 is partly offset by a rephasing of projects falling under the CWP as well as an increase in income forecasted to be generated by the Natural Environment charities compared with 2022/23.

Appendices

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

Appendix 2 - Income Performance 2023/24 as @ December (period 9)

Appendix 3 - Expenditure Performance 2023/24 as @ December (period 9)

Appendix 4 – Natural Environment Capital Projects 2023/24 as @ December (period 9)

Appendix 5 - Outstanding Debt 120 Days+ as @ December 2023 (period 9)

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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