

Report Title: **FINANCE UPDATE**

Report of: **Helen Downie, Head of Finance, Alexandra Palace & Park**

1. Purpose

- 1.1 To advise the Board of the results for the nine month period to 31st December 2010 and the forecast outturn for the 2010/11 financial year
- 1.2 To remind the Board of a potential pension liability in respect of one individual transferred under TUPE to the new IFM contract provider.

2. Recommendations

- 2.1 The Board is asked to note the results for the nine month period to 31st December 2010 and the forecast outturn for the 2010/11 financial year;
- 2.2 The Board is asked to note the savings being implemented by the Trust to reduce the call on the Council's corporate resources in 2010/11;
- 2.3 The Board is asked to note the potential pension liability in respect of one individual transferred under TUPE to the new IFM contract provider.

Report Authorised by: **Andrew Gill, Interim General Manager**



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3. Executive Summary

- 3.1 The results for the nine month period ended 31st December 2010 are tabulated against budget at Appendix 1.
- 3.2 Unrestricted income is £12k below budget and unrestricted expenditure is £226k below budget, giving a net positive variance against budget of £214k. The key variances are explained below.
- 3.3 The reforecast for the year is given at Appendix 2. The Trust unrestricted deficit for the year is currently projected to be £100k lower than budget, before the reforecast

position of APTL is taken into account. This reflects the £40k forecast underspend presented to the Board in November together with further savings on security, repairs and maintenance (£42k), parks (£10k) and Trust staffing costs.

3.4 The Board is reminded of a potential pension liability in respect of one individual transferred to the new IFM contractor under TUPE. This potential liability is unquantified, subject to change over time and will only crystallise if the individual concerned leaves the organisation due to redundancy or retirement.

4. Reasons for any change in policy or for new policy development (if applicable)

4.1 N/A

5. Local Government (Access to Information) Act 1985

5.1 No specific background papers were used in compiling this report.

6. Results for the period ended 31st December 2010

- 6.1 The results for the period ended 31st December 2010 are shown in Appendix 1. The restricted/designated element of the Trust's budget relates to capital grants from LB Haringey. £300k was secured in 2009/10 for targeted capital purchases to support the operations of the trading company, with £500k secured in 2010/11 for key building dilapidations work. The variable overhead expenditure in this column represents depreciation against those capital purchases, together with a small amount of expenditure against the Organ Appeal fund.
- 6.2 Unrestricted income is £12k below budget and unrestricted expenditure is £226k below budget, giving a net positive variance against budget of £214k. Explanations for the key variances are given below.
- 6.3 Unrestricted income is £12k below budget due to the cancellation of the fireworks (£29k impact) offset by leaseholder invoices for recharged electricity, part of which relates to usage during the previous financial year.
- 6.4 Salaries are £4.5k underspent due to the difficulties in recruiting a permanent Facilities Manager, resulting in an overspend in professional fees. This post has now been filled.
- 6.5 Contracted services are £16k underspent. This comprises a £5k overspend in Parks offset by a £21k underspend in buildings security and maintenance. The former is due to an RPI increase applied retrospectively to the Parks contract; the Parks Manager is covering this increase from his variable parks budget. The latter is due to the new IFM contract, which has a lower ratio of fixed to variable costs. The overall underspend on security, repairs and maintenance for the year to date (fixed + variable costs) is £59k. This reduces to a £42k projected underspend by year end as we are now in our heaviest maintenance period.

6.6 Fixed overheads are £10k under budget due to lower than budgeted insurance and central admin costs. Variable overheads are £179k below budget, with the key variances summarised as follows:

Category	Year to Date (Over)/Underspend	Explanation
Repairs and maintenance	£38k	Timing of essential repairs and maintenance
Legal fees	(£10k)	Identified as risk in budget
Water rates	(£16k)	Backdated bill under dispute with Thames Water
Community Events	£95k	Fireworks cancellation
Depreciation	£28k	Depreciation of assets purchased with the £300k and £500k capital grants is treated as a cost against the designated capital fund. This underspend will be offset by depreciation on the ice rink refurbishment in February and March.
Recruitment	£6k	Difficulties in recruiting FM – will be fully spent by year end
Road repairs	£37k	Timing of essential repairs and maintenance
Other	(£1k)	Small over/under spends
Total underspend	£179k	

6.7 Governance costs are £13k below budget, although this budget line will be fully spent by year end.

7. Forecast outturn for the financial year

7.1 Income and expenditure have been reforecast on a line by line basis, in consultation with budget holders. In addition to the forecast £40k underspend reported at the last meeting, achieved primarily by cancelling the fireworks, the Trust is now forecasting to deliver a £10k underspend in parks expenditure and £42k underspend in buildings security, repairs and maintenance. A small salaries saving has also been achieved by reducing support staff costs in the Trust.

7.2 The overall forecast is for a net underspend of £100k on budget. The consolidated forecast position, taking into account the latest forecast position of the trading company, is covered in the Exempt Finance Report to this meeting.

7.3 Income is forecast to be £18k below budget, £12k of which reflects the year to date position. The balance relates to the removal of £6k concession income from ice cream vans in the park. This is now managed by APTL and a significantly higher annual licence fee has been secured.

- 7.4 Salaries are forecast to be £12k below budget due to the delay in appointing a Facilities Manager and the reduction in support staff.
- 7.5 Contracted costs are forecast to be £45k underspent, being a £7.5k overspend in Parks offset by a £52.5k underspend in buildings security and repairs (see 6.5).
- 7.6 Fixed overheads are forecast to be £12k underspent, being a £2k overspend in rates and £8k underspend in insurance, both of which were based on estimates when the budget was compiled. Central administration charges from LB Haringey are forecast to be £6k underspent.
- 7.7 Variable overheads are forecast to be £49k underspent. This movement can be summarised as follows:

Category	Projected (Over)/Underspend	Explanation
Repairs and maintenance	(£10k)	New IFM contract allows greater flexibility, shifting reactive and non-cyclical works from fixed to variable cost. This will offset the £52k underspend in fixed costs to deliver a £42k underspend overall.
Legal fees	(£10k)	Reflects overspend YTD
Professional fees	(£21k)	Support for new FM in light of heavy maintenance schedule
Water rates	(£16k)	Reflects overspend YTD
Community Events	£95k	Fireworks cancellation; reflects underspend YTD
Parks variable costs	£17.5k	Offsetting the £7.5k increase in contracted costs (see 7.5) to deliver a £10k underspent overall
Other	(£6.5k)	Small over/under spends
Total underspend	£49k	

- 7.8 All budgets are being kept under close review and expenditure is being tightly controlled across the Trust.

8. Potential pension liability (IFM contract)

- 8.1 The trustees are aware that the security function at Alexandra Palace has been outsourced for a number of years. From 1st November, this function was incorporated into the new Integrated Facilities Management contract and the relevant staff were transferred under TUPE from Europa Workspace Solutions Limited (EWS) to Europa Support Services Limited (ESSL). In order to preserve the pension rights of the one member of the security team in the Local Government Pensions Scheme (LGPS), ESSL has entered into an admissions agreement with the LGPS.
- 8.2 Under the admissions agreement and contract with ESSL, the contractor is responsible for all pension contributions as may be required to limit any deficit

accruing in the remaining employee's pension funding during ESSL's contract period. Currently the contributions are set at 28% of salary but this is not capped.

- 8.3 However, the Trust remains responsible for any deficit in the funding of the full past service liability for the individual concerned, including all benefits accrued prior to the start of ESSL's contract. This is the basis upon which the contract was put out to tender.
- 8.4 The trustees have previously accepted liability for the past service deficit on the pension scheme when contracts with the previous contractors, Mitie and EWS, were being finalised. The new contract with ESSL offers the Trust greater protection than previous contracts in that ESSL's monthly contributions into the scheme are not capped and ESSL are explicitly responsible for any increase in the deficit that is directly attributable to actions they have taken, such as awarding early retirement.
- 8.5 However, the trustees should be aware that should the individual concerned retire or be made redundant, it is likely that a pension liability will crystallise that the Trust will need to fund. The amount of this liability is currently unquantified and subject to change over time in line with stock market conditions, discount rates and key assumptions with regard to mortality etc.
- 8.6 The trustees will be kept fully informed as and when there are any developments in this matter.

10. Legal and Financial Comments

- 10.1 The Trust solicitor has no comment on this report.
- 10.2 The LBH Head of Legal Services has been invited to comment on this report.
- 10.3 The London Borough of Haringey Chief Finance officer notes the contents of the report and asks that the board continue to examine expenditure during the rest of the financial year in order to ensure the current projected overspend is reduced as much as possible.

11. Equalities Implications

- 11.1 There are no perceived equalities implications

12. Use of Appendices / Tables / Photographs

- 12.1 Appendix I – Actual versus budget for the period ended 31st December 2010
- 12.2 Appendix 2 – Forecast outturn for the 2010/11 financial year