

Cobtree Manor Estate Financial Position

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| Final Decision-Maker | Cobtree Manor Estate Committee |
| Lead Head of Service | Head of Regeneration & Economic Development |
| Lead Officer and Report Author | Paul Holland, Senior Finance Manager (Client) |
| Classification | Public |
| Wards affected | Boxley |

Executive Summary

The report summarises the current financial position of the Estate as at 30 June 2018 covering the activities at the golf course, Kent Life, the Manor Park and the Café/Visitor Centre. It also provides an update on the following issues:

- i. The position regarding VAT payable by the Trust;
- ii. The development of a separate financial management system for the Trust;
- iii. The medium-term cashflow projection.

This report makes the following recommendations to this Committee:

1. That the current financial position be noted.
2. That the progress to date with the separate financial management system be noted.
3. That the situation with the VAT status of the Trust be noted.
4. That the updated cashflow projection be noted.

Timetable

| Meeting | Date |
|--------------------------------|---------------|
| Cobtree Manor Estate Committee | 1 August 2018 |

Cobtree Manor Estate Financial Position

1. INTRODUCTION AND BACKGROUND

- 1.1 This is a regular update report on the financial position of the Estate, which enables the Committee to see how the various areas of activity are performing. The last few years have seen a number of significant financial pressures and issues, and it is important for the future of the Estate that these are addressed and monitored.

2. CURRENT FINANCIAL POSITION

- 2.1 The table below summarises the position as at 30th June 2018. **Appendix 1** provides a more detailed breakdown of the figures.
- 2.2 As discussed at the last meeting some further work has been done around the budgets to make them more realistic.

2.2.1 Overall Summary Position:

SUMMARY TOTALS

| | Budget for Year | Budget to end of June 2018 | Actual to end of June 2018 | Variance |
|---------------------|-----------------|----------------------------|----------------------------|----------------|
| Golf Course | -£103,934 | -£25,153 | -£25,031 | -£122 |
| Manor Park | £69,160 | £39,831 | £43,233 | -£3,402 |
| Kent Life | -£39,690 | £6,078 | £6,639 | -£561 |
| Café/Visitor Centre | £25,690 | £12,705 | £16,899 | -£4,194 |
| Totals | -£48,774 | £33,461 | £41,740 | -£8,279 |

Comments on the individual service areas are as follows:

- 2.2.2 **Cobtree Golf Course** – There are no issues to report at this stage. Mytime have been invoiced for the 1st quarter and this has been paid.
- 2.2.3 **Cobtree Manor Park** – There is a small overspend to report for the Park. There are two elements to this. Firstly there was a £4,995 payment for tree clearance works which were required for highways compliance purposes, and secondly as a result of the recent break-ins at the café/visitor centre there were additional security patrols requested. These additional costs have been partially offset by increased income from the car park.

- 2.2.4 **Kent Life** - There are no issues to report at this stage. Members had previously requested that officers investigate the possibility of changing the payment profile for the annual management fee, and following discussions with Planning Solutions it will now be paid in two instalments (in arrears), September and April.
- 2.2.5 **Café/Visitor Centre** – Responsibility for the running of the facility passed to DAGT in mid-April, so the budgets reflect the short time that it continued to run as an in-house operation. There is currently an overspend in this area, which is for two reasons. Firstly there was a significant level of overtime incurred in the period immediately before the handover to DAGT. There was a shortage of staff so overtime was the only solution to enable the facility to remain open. Secondly there have been additional repairs and maintenance costs incurred as a result of the recent break-ins. However it is possible that these can be recovered as part of the insurance claims that are in progress for these incidents.
- 2.3 At the last meeting of the Committee there was a discussion around the offer from Mytime to settle their outstanding invoice. A question was asked as to what the impact on the finances of the Trust would be of accepting the offer. To clarify the position, the income that is being written-off (£48,125) had previously been recognised in the accounts of the Trust, so an adjustment will be necessary to reverse this, which will have an adverse impact on the resources available to the Trust. This was not made clear at the last meeting and the implications of this are set out as part of the financial projection section later in this report.

3. VAT

- 3.1 Members were briefed at the last committee meeting on the position regarding the VAT liability of the Trust, and requested some further clarification on this area.
- 3.2 The Trust is registered separately for VAT purposes, and the VAT position was considered as part of the contracts that were let for the golf course and Kent Life. The background to this is that VAT rules state that the rental of commercial property is exempt from VAT, and following discussions with the Council's legal team it was agreed that this is what was being charged for. If more services were being offered that made the rental ancillary to the main supply then VAT would have been chargeable on the whole supply to the contractors of the golf course and Kent Life.
- 3.3 At the time this decision was made alternative classifications such as a peppercorn rent or a concession payment were considered, but it was felt that this could be rejected by HMRC as it was something they had been looking at and disputing in relation to similar arrangements.
- 3.4 This means that the contracts are classed as exempt for VAT purposes, but opting to take this approach does however mean that any VAT charged on associated supplies of goods and services that are directly attributable to the activities of the estate cannot be reclaimed by the Trust, even though it

is VAT registered, so it must bear the VAT costs.

- 3.5 VAT can however be reclaimed on the car park and the café/visitor centre as these are classified as business activities.
- 3.6 For 2017/18 irrecoverable VAT totalled £18,842, split across the operational areas as follows:

| Area | Total |
|--------------|----------------|
| Golf Course | £6,817 |
| Manor Park | £6,945 |
| Kent Life | £5,080 |
| Total | £18,842 |

- 3.7 This is split across the following expenditure types:

| Area | Total |
|-----------------------------|----------------|
| Repairs and Maintenance | £5,787 |
| Recharges of MBC staff time | £11,706 |
| Insurance costs | £1,349 |
| Total | £18,842 |

- 3.8 The largest element is the charge for MBC staff time. The estimated recharges for the current year are forecast to be lower, so some further analysis is currently being undertaken to estimate the sums due for the current year, and the outcome of this will be reported to the next meeting.

4. FINANCIAL MANAGEMENT SYSTEM

- 4.1 Members will be aware of the ongoing recommendation from the external auditors that the Trust have its own financial management system separate to that of the Council. The system that was identified as being most suitable was the Sage accounting package. This section of the report provides an update on progress to date.
- 4.2 A dedicated resource within the finance team to progress implementation has now been identified, and a project plan has been drawn up. Whilst the implementation is progressing the previous costings have been reviewed as further discussions with Agresso (the providers of the Council's financial management system) have revealed that the cost of that system may be less expensive than was previously reported. We are now in the process of getting a revised costing for the Agresso system, and should it be the case that this is comparable to the cost of Sage then a further report will be brought to the Committee at the earliest opportunity.
- 4.3 In the meantime work will continue to develop the underlying systems and processes so that these are in place when the actual implementation process commences. This means that the proposed implementation date of

1st October is now unlikely to be achieved, but the intention is to move forward with this as soon as possible with the intention of implementing the system by 1st April 2019 at the latest

- 4.4 Regular updates will continue to be provided to future Trust meetings.
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5. CASHFLOW PROJECTION

- 5.1 Attached at **Appendix 2** is an updated projection showing the forecast cashflow for the next 5 years.
- 5.2 Future income is now far more certain with the contracts in place for the golf course, Kent Life and the café/visitor centre. There are still some issues around the recharge of costs from the Council to be resolved with the development of the service level agreement, but notwithstanding this future expenditure is also now more certain, so future cash flows can now be forecast with a greater degree of certainty than had previously been the case. This will mean that the Trust can reasonably expect to show an operational surplus (including investment income) of approximately £100,000 per annum going forward.
- 5.3 There is however still a short-term issue to be aware of, caused by two main factors. Firstly, the impact of writing-off income that had been due from the golf course contractor (as referenced at 2.3 above), and secondly the cost of the car park resurfacing works that have been agreed. These will cause a cash flow issue in the short term, but following discussions with the Council's Director of Finance and Business Improvement he has indicated that he would be prepared to defer any sums due to the Council as part of the arrangement with the Trust to ensure that there are sufficient resources available to meet ongoing obligations. The cashflow projection recognises this by spreading the costs of the car parks works over three years. However, as Members will note from the report elsewhere on this agenda the timing of these works remain uncertain at this point, and should they slip into 2019/20 then the cash flow position would be different.
- 5.4 At the last meeting of the Trust it was provisionally indicated that the operational activities for 2017/18 would show a break-even position. However the final outturn figures included additional sums for pension back funding and a reduction in the investment income received from Cobtree Charity Trust Ltd, which means that the activities have now shown a deficit of £45,000. However investment income received for the year was also £45,000 meaning that there was no decrease in the overall resources available to the Trust. The projection has been updated to reflect this.
- 5.5 Members may recall from previous audit management letters that an issue was raised with regards to the potential for net income from commercial activities (car parking and the café/visitor centre) to be subject to Corporation Tax. To date this has not been an issue as the car parking income has formed part of the Manor Park which normally operates at a deficit, and it will no longer be an issue for the café/visitor centre as it has now been contracted out. Officers will continue to monitor the position and

seek further advice if this is considered to be necessary.

6. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 6.1 It is recommended that the Committee note the contents of this report as this is good financial management practice.
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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 Officers will continue to monitor the financial position and take appropriate action where necessary.
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8. CROSS-CUTTING ISSUES AND IMPLICATIONS

| Issue | Implications | Sign-off |
|---------------------------------------|---|---|
| Impact on Corporate Priorities | The operation of the Estate directly supports the objects of the Trust and the Council's strategic objective to ensure there are good leisure and cultural attractions in the Borough. | Head of Regeneration & Economic Development |
| Risk Management | There is a potential reputational risk if the facilities are operated poorly. This is addressed in the annual risk management report. | Leisure Manager |
| Financial | There is a financial risk to the Trust if the operations cost more than predicted or fail to generate sufficient income to cover the costs of running them estate. | Senior Finance Manager (Client) |
| Staffing | There are no additional implications arising from this report. | |
| Legal | Under the Council's Constitution the Committee as Corporate Trustee is responsible for all matters relating to the Charity with the exception of daily management. Law applicable to charities in England and Wales requires the | Team Leader (Corporate Governance), Mid Kent Legal Services |

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|------------------------------------|---|---|
| | <p>trustee to prepare financial statements for each financial year which give a true and fair view of the Charity's financial activities during the year and of its financial position at the end of the year. This update report assists in meeting those requirements</p> <p>The position regarding VAT payable by the Trust is set out in the body of the report.</p> <p>There are no further implications arising from this report.</p> <p>There are no additional implications arising from this report.</p> | |
| Privacy and Data Protection | There are no specific privacy or data protection issues to address. | Team Leader (Corporate Governance), Mid Kent Legal Services |
| Equalities | There are no additional implications arising from this report. | |
| Crime and Disorder | There are no additional implications arising from this report. | |
| Procurement | There are no additional implications arising from this report. | |

9. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix 1: Financial Position as at 30th June 2018
 - Appendix 2: Five Year Financial Projection
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10. BACKGROUND PAPERS

None.