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<b>REPORT TO:</b>	Organisation Improvement & Environment Overview Scrutiny Commission
<b>DATE:</b>	14 <sup>th</sup> January 2009
<b>DEPARTMENT:</b>	Harrogate International Centre (HIC)
<b>REPORTING OFFICER:</b>	Director HIC ( <i>Stuart Quin</i> )
<b>SUBJECT:</b>	HIC & Business Tourism Estimates - 2008/09 Revised Estimates and 2009/10 Original Estimates
<b>WARDS AFFECTED:</b>	None
<b>FORWARD PLAN REF:</b>	N/A

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### **1.0 Purpose of the Report**

- 1.1 The purpose of this report is to provide and seek approval of the HIC & Business Tourism Budget 2009/10.

### **2.0 Recommendations**

Cabinet is requested to;

- 2.1 Note the latest position shown for the Revised Estimate 2008/09,
- 2.2 Approve the 2009/10 Original Estimates for the HIC & Business Tourism operations, which were first reviewed by the HIC Board on 14 November 2008 and will be recommended for final approval at its meeting on 16 January 2009.
- 2.3 Note the cash efficiency savings of £22k for 2009/10 OE
- 2.4 Note the financial projections for 2010/11 and 2011/12.

### **3 Budget Strategy and Approach**

- 3.1 The compilation of the draft budget has followed the guidance issued by the Director of Resources, in terms of allowances for pay awards and inflation, and has been agreed with Accountancy Support.

- 3.2 The current economic downturn has had a significant impact on HIC's current trading performance and this is forecast to continue into 2009/10. This has led to the prepared budget showing decreases in both lettings and other income with expenditure remaining static unless demand led.
- 3.3 Investment expenditure has also been significantly curtailed, from an OE 2008/09 of £384k to an RE of £57k to cover only those feasibility costs for both the Royal Hall and Exhibition Halls Redevelopment Projects and an OE 2009/10 of £77k to cover similar costs but only for the Exhibition Halls Redevelopment Project.

#### **4 Estimates Summary RE 2008/09 and OE 2009/10**

- 4.1 The proposed budget for HIC Business Tourism is summarised in the table below with more detail being provided at Appendix A;

	Original Estimate 2008/09 £	Revised Estimate 2008/09 £	Original Estimate 2009/10 £
Net Surplus	1,239,900	624,020	567,420
Demands on Surplus / Conference & Exhibitions Reserve in year	1,427,660	654,650	670,480
Reserve Shortfall	187,760	30,630	103,060

- 4.2 This table illustrates that HIC is budgeting for a much reduced net surplus compared to the OE 2008/09. The impact of this reduced surplus, together with the current nil balance on the reserve, means that there will not be sufficient funds to meet the obligations placed on the Conference & Exhibitions Reserve.
- 4.3 Although the reserve shortfall position initially looks improved when compared to OE 2008/09, it should be noted that at OE 2008/09 it was budgeted that HIC would repay an instalment of £514,340 to the General Fund for the loan in connection with the Queens Suite development. As it is clear that a loan repayment is not affordable, this demand on the surplus/reserve has been deferred until HIC funds are available. The balance that remains payable is £867k, from a total scheme cost of approximately £5 million.
- 4.4 The contribution to HIC to meet the budget shortfall will ultimately be met through a reduction in HIC's contribution to the Capital Reserve. In turn this will impact on the Council's ability to fund future capital schemes. It is hoped that, through stringent control of costs and reduced expenditure on non-essential areas, the anticipated shortfall will not be exceeded but as all HIC income is commercially earned in what is a very difficult and competitive market, this remains a risk.

#### **5 Major Variances OE to RE 2008/09 and OE to OE 2009/10**

- 5.1 The decrease in net surplus at RE 2008/09 is £615,880. Appendix B shows in

detail the major variances resulting in this decrease in surplus. In summary the key variances to note are;

- an overall reduction in employee costs including a £109k decrease due to vacant posts and reduced hours and increases of £24k due to additional overtime costs following the outcome of the JEQ process and £9k due to other pay increases
- a £11k increase in the cost of cleaning / hygiene services due to new costs associated with the Royal Hall
- changes in costs of supplies and services including a £30k increase in marketing expenditure to further promote HIC as a venue and to cover additional advertising costs arising from an increase in number of entertainments held, a £24k increase in the cost of technical equipment to support a replacement programme for specialist electrical equipment, a £21k increase in rechargeable equipment to account for one-off costs associated with the opening of the Royal Hall, a £6k increase in postage costs, a £5k increase in printing costs, an £11k reduction in the cost of floral decorations due to a reduced contribution to the plant-a-tree scheme, a £6k increase in various other supplies and a £20k increase in hospitality costs to cover various incentives to retain repeat and secure new business in the current economic climate
- an £18k additional cost for funding early retirement
- a reduction in income of £560k comprising £350k on lettings income and £210k on other income and fees and charges and
- a negligible overall increase of £1k in additional expenditure which incorporates recharges in to HIC from other departments via Service Level Agreements. Significant variances under this heading include a £77k reduction in the BMA charge, a coding correction resulting in an increased charge of £96k to premises insurance with a linked net £39k reduction in support charges. There is also a £21k net increase in capital charges which is ultimately offset through a movement on the Conference & Exhibitions Reserve.

5.2 The decrease in net surplus from OE 2008/09 to 2009/10 is budgeted to be £672,480. Appendix C shows in detail the major variances resulting in this decrease in surplus. In summary the key variances to note are;

- an overall increase in employee costs incorporating a £78k increase linked to the pay award / pension contribution increase, a £25k increase in overtime costs , minor other pay related changes resulting in a £5k increase and a £36k decrease due to the introduction of a 1.5% vacancy provision
- an increase in premises costs due to a £23k increase in NNDR and a £16k increase in the cost of hygiene / cleaning services to incorporate

additional cleaning costs resulting from the reopening of the Royal Hall and a one off external clean of the Conference Centre building

- changes in costs of supplies and services comprising a £30k increase in marketing expenditure again to support increased activity to promote HIC as a venue along with extra entertainment related advertising, a £19k increase in the cost of equipment to cover the one-off purchase of a compactor, a £22k increase in the cost of technical equipment to continue with the replacement programme for specialist equipment, an £11k reduction in the cost of floral decorations due to a reduced contribution to the plant-a-tree-scheme, a £6k increase in the cost of postage, a £5k increase in the cost of printing and a £15k increase in hospitality to further support initiatives to retain repeat and secure new business
- a reduction in income of £332k comprising £221k on lettings income and a £111k in other income and fees and charges
- an increase of £140k in additional expenditure. This includes the same coding correction as detailed at RE, which has resulted in an increase charge at OE of £102k to premises insurance with a linked net £6k reduction in the cost of support charges. There is also the continuance of the £21k net increase in Capital Charges which is offset through movements on the Reserve, as mentioned at RE.

5.3 Explanations of the variances on Investment Expenditure, charged direct to the Reserve, are provided in section 3.3 above. All variances have been agreed and confirmed with Accountancy Support.

## **6 Cash Efficiency Savings**

6.1 The Director of Resources has calculated an increase in target efficiency savings for 2009/10 of £22K for HIC & Business Tourism. This brings the total contribution from HIC to the General Fund, for efficiency savings targets, to £274,410. Appendix A shows that this target has been incorporated in the 2009/10 OE.

## **7 Projections - 2010/10 and 2011/12**

7.1 Under the Government's Prudential Code it is necessary to produce projections for the next three years. These projections are only a broad indication of likely net expenditure levels and have been compiled broadly in accordance with guidance and parameters set. The main variance to this relates to lettings income forecasts which are based on confirmed contracts for future events and knowledge of the Conference and Exhibition market.

## **8 Financial Risk Management**

8.1 The Director of HIC has overall responsibility for the delivery of this service and management of the budget, given its significance and materiality. Staff in

HIC Management Services carry out regular financial monitoring of income and expenditure to provide regular information to allow timely action to be taken to rectify budget variances, where possible.

- 8.2 The main external risks HIC face are directly related to its highly competitive trading environment and the current economic downturn. Actions taken to mitigate these risks surround stringent control of costs and the bolstering of the Sales and Marketing Team to push HIC's prominence in the market and tap into areas of new business. Internal risks are potentially loss of key staff and poor service delivery but these are minimised by a strong customer feedback process, staff training and development and other linked management processes.
- 8.3 There are also risks of future competitiveness associated with the ability to generate sufficient surplus to re-invest in the Complex and this remains an issue which needs further analysis and consideration.

## 9 Scrutiny

- 9.1 The HIC & Business Tourism Budget 2009/10 is expected to be scrutinised by the Organisation Improvement and Environment Overview Scrutiny Commission in January 2009.

### Background Papers – Budget Estimate Working Papers Appendices A to C

**OFFICER CONTACT:** Please contact Stuart Quin if you require any further information on the contents of this report. The officer can be contacted at the Harrogate International Centre, King's Road, Harrogate HG1 5LA, by telephone on 01423537209 or by Email : [stuart.quin@harrogate.gov.uk](mailto:stuart.quin@harrogate.gov.uk)

### SUSTAINABILITY ASSESSMENT / POLICY CONSIDERATIONS

		Implications are		
		Positive	Neutral	Negative
A	Economy	Y		
B	Environment		Y	
C	Social Equity			
i)	General		Y	
ii)	Customer Care / People with Disabilities		Y	
iii)	Health Implications		Y	
D	Crime and Disorder Implications		Y	

If all comments lie within the shaded areas, the proposal is sustainable.