

Further Information on the Financial Position of the Parish Council By Chris Finlay, Chairman of the Finance Committee

At the recent Annual Parish Meeting on 14/04/2021 a number of similar residents' questions were made and answered regarding the recent precept increase, the financial management of the parish, and the responsibilities of the current councillors, and whether they should collectively resign.

Whilst each question was answered individually, I thought there may be some value in collating these answers into a joined-up explanation of the complete financial landscape, in order to explain the context of the precept increases.

Background

As much of the financial issues relate to the Sport Park, it is worth understanding the background to its formation and the lease obligations that sit with the parish.

The Sport Park was built by Rouse Kent Residential Limited, as part of its obligations under Section 106 of the Town and Country Planning Act 1990, which requires house developers to make 'contributions' to the local community, in addition to highway contributions, too. The Sports Park is one of these contributions, as will be the further introduction of tennis courts, rugby pitches, and the trim trail. The Community Centre and the recently built New Hall is another example. These community facilities are owned by Rouse Kent Residential Limited, but leased to the parish for 130 years or so. The parish did not contribute to the construction of any facilities, nor does the parish pay rent for these premises or land, but through lease obligations, the parish is responsible for the maintenance, repair and replacement of anything that may occur to these assets (for example, the recent extensive repairs to the community roof). It is not unreasonable that the parish shoulder the future maintenance burden of these facilities, given that the parish incurred no expense in their construction.

Lease Conditions

The head lease for these premises also requires the parish to set aside funds annually (reserves) to deal with such building and infrastructure repairs, the most noticeable and costly of those is the impending replacement of the playing surface on the 3G pitch. The 3G pitch cost circa £500,000 to construct initially, and the playing surface has a life expectancy of approximately 15 years. The cost of a replacement surface is circa £250,000 to £300,000. Over its useful life therefore, it would be prudent to reserve £20,000 per annum.

Components Elements of the Reserves

It is also worth understanding the components of the reserve funds, as it is not just the capital repairs and replacement programme that are 'stored' in the reserves. The local government act requires parish councils to retain a minimum of three month's operating costs (staff salaries, service contracts, etc..) in its reserves, for unforeseen events.

Finally, the last component of the reserves is commuted funds. Commuted funds are those funds that are passed to the council by the borough council and

designated for a specific purpose, and in KHPC's case, this is a sum of money given by TMBC that, if retained on deposit, earning interest, pays for the servicing and maintenance of designated play areas and open spaces.

So, reserves comprise of commuted sums, future capital repairs and replacement funds, and three months operating cost 'buffer'.

What went Wrong?

During the period from 2016 to 2019, there was a concerted period of investment in the Sports Park, unbudgeted, and drawn from reserves, which over time reduced the reserve to almost zero.

At this time, in April 2021, with three months operating cost, accumulated funds to replace the 3G pitch surface, and with the commuted sums, the reserves should be over £300,000. Clearly that is not the case.

The Financial Investigation

I understand that there is a lot of assertions made on social media that are designed to discredit the financial investigation, its finding and its recommendations. I do not understand the motives of these actions, but I would like to assert the veracity of the investigation and its findings. To that end, I have attached, in appendix 1, an abridged version of the key spending decisions made during the 2016 to 2019 period, and the committee members of both the sport park committee and full council during those times. It is those committees, and those councillors that approved all the spending that took place during that 2016 to 2019 period.

As to accuracy of the information, I can attest to the information being real, factual, and borne out of my personal investment of time, three month's hard work, trawling through parish meeting records, decisions made, retained financial information, expenditure records, invoices, etc... in order to collate this attached summary.

The independent investigator scrutinised and validated these findings, and made his recommendations accordingly (and his report is available to the public on the parish web site). The parish council adopted his findings and recommendations in full.

To those detractors, I would offer the invitation to perform a similar exercise to identify the spending during that period and draw your own conclusions.

Precept Increase (2020/21)

So, with all three provisions completely eradicated, the parish council had no choice but to determine a sensible budget for the 2020/21 financial period, that started to repair the finances, and rebuild the reserves. An intrinsic part of that rebuilding programme was to introduce professional management to the Sports Park in order to minimise the costs and maximise the revenues. In addition, given that we had little reserves left, we needed to include a healthy provision for replacing those reserves, or accept that we do not replace the 3G playing surface,

but instead shut that facility. Equally, do we stop maintaining the play areas and gradually shut those facilities as they degrade? ...and, of course, do we replace operating provisions that the local government act requires us to do? Plus, should we remain in default of our Sports Park lease terms, and not provide for the maintenance of material items, as the lease stipulates?

In formulating a budget for 2020/21, it was determined that the increase in the precept was 15.1%, to help to start that rebuilding programme (that would take a number of years to accomplish).

Then the virus hit us.

Since then, the income streams from the Sports Park and Community Centre have stopped, furlough schemes initially did not include local government organisations, but latterly embraced local authorities, and generally the parish has tried to minimise costs and ride out the storm. By January 2021, it was clear that the parish needed some financial support, which is when TMBC stepped in to provide a £60,000 advance on next years precept. So, yes, the finances of the parish are in a poor state, with no reserves, and with increased borrowings, all due to the overspending on the Sports Park in 2016 to 2019.

Precept Increase (2021/22)

So, in April 2021, the parish council starts its fiscal year in a far worse financial position than it did in April 2020, with the same problems, financial losses, no reserves, greater borrowings, and continued maintenance obligations, with even less time to rebuild the reserves (if we are to continue to maintain the 3G pitch), replace the commuted sums, and start building an operating costs reserve.

It is in this climate, with the legacy of the uncontrolled spending documented in the attachment, that it was necessary to put the precept up by 23.4%.

Conclusion

I trust this paper helps our residents to understand the financial problems that the current parish council face, and the sensible actions that are being taken now by the current councillors to strengthen our processes and control future expenditure, so that we do not repeat the behaviours that took place in 2016 to 2019.

If you have further questions, I am happy to answer them.
Please email chris.finlay@kingshillparish.gov.uk

Appendix 1

Abridged Report to KHPC Finance Committee regarding Sports Park Losses

By Chris Finlay, Vice Chairman of KHPC, and a Chairman of the Finance Committee

The Losses and the Questions

Since the press release in October 2019, residents have been asking about the losses at the Sports Park - £150,000 in the Apr 2018 to Mar 2019 financial year £97,000 in the last financial year Apr 2019 / Mar 2020. Equally, residents have also expressed concern with the council tax increase of 15% and the fact that the parish council has little or no reserves left.

Background

In the early years the sports park made predictable budgeted losses as it was in 'investment mode' (as anticipated in the business plan), and the sole revenue source was through the football facilities. Expected losses in the Apr 2014/ Mar 2015 financial year were £113k, in 2015/16 £36k, in 2016/17 £71k and, finally, the figures started to show signs of improvement, with losses contained to £26k in 2017/18.

Unplanned Expenditures

During the early years the sports park sub-committee were concerned with the pitch quality, and voted through many expenditures that were not in the budget, and therefore ultimately were purchased from reserves. Ebbsfleet and Dover use of the sports park exacerbated this need to improve the playing surfaces. The following is a list of committee approved purchases:

1. Summer 2016, over £24,000 was spent on purchasing bowsers, watering equipment, sand, contract cutting and lining (with KCC)
2. August 2016 a groundsman was recruited (circa £30,000 pa),
3. September 2016 two councillors personally purchased a Suzuki Vitara (c. £12k, subsequently reimbursed by the council) to tow the water bower, which proved ineffective, and was resold in Feb 2017 (for £9,250, a loss of c. £2,750),
4. September 2016 an irrigation system was purchased (£5k),
5. November 2016 another irrigation system was purchased (£6k),
6. March 2017 a tractor was purchased (£8k),
7. The new groundsman ordered grass seed (£3,500) and fertiliser (£1700),
8. March 2017, a new mower was purchased (£7,800),
9. Summer 2017 Rigby Taylor did some summer pitch renovation (£15,000),
10. Food / beverages for Ebbsfleet and Dover cost £2k - £3k pm throughout the contract,
11. 2017 summer/autumn there were budget concerns with overspending at the Sports Park, and in January 2018, the groundsman was dismissed / paid off,
12. January 2018, KHFC erected barriers and dugouts (commercial irregularities and non-compliant with CDM regulations),
13. March 2018 a new groundsman (MM) was employed (£30k pa),
14. June /July 2018, Rigby Taylor again performed summer maintenance (£15,000),

15. June 2018 flood lighting was purchased (£5,000),
16. 2018, during the hot summer, watering the pitches (against expert advice) cost £6k,
17. September 2018 a new security system was purchased (£13k),
18. September 2018, another new mower was purchased (£36,000, financed), and so on.

Sport Park Financial Performance

The net effect, when all the numbers are summed to determine income and expense, is that although Ebbsfleet and Dover brought in circa £100,000 a year in income, the consequent and unforeseen demands for higher quality pitches, groundsman, and associated facilities and services culminated in even higher levels of unplanned, council approved expense, hence the exceptional losses of £150,000 and circa £90,000. Clearly, these exceptional losses, over and above the budgeted losses, eroded the reserves.

Budget Setting for Apr 2020/ Mar 2021 Financial Year

In September 2019, during the budget setting exercise, given the poor state of the finances and reserves, urgent action had to be taken to stem the losses, and to increase the Sports Park revenues. With a new council composition, and a new chairman, the previously ignored warnings of impending financial problems (since 2018) were heeded.

Working with the officers, the council agreed a series of unpopular measures including:

1. to scale back on pitch maintenance, which was outsourced,
2. to remove the 10% KHFC discount,
3. to remove the KHFC priority booking,

... and further actions to:

4. maximise grass pitches and 3G pitch hire revenues by introduce new clubs for the 2020/21 season (in accordance with the lease terms to maintain a diversified customer base),
5. increase the footfall in the Café and Bar, with existing and new customers,
6. introduce new sports to the park, namely rugby, netball and tennis, and
7. dispose of unnecessary equipment (tractors, mowers, etc..)
8. increase day time use of 3G and grass pitches

Clearly these necessary measures met a high level of resistance with KHFC, and exacerbated an already difficult relationship between the football club, the football club supporters, and the council.

Appendix A to this paper details the composition of the full council and the sports park committee, for the period from 2016 to 2019.

Appendix A Full Council and Sports Park Committee Composition, from 2016 to 2019

Full Council Composition for the Civic / municipal years	May 2016 – May 2017	May 2017 – May 2018	May 2018 – May 2019	May 2018 – May 2019
Chairman	A Petty	A Petty	D Hurring	S Barker
Councillors	R Ayling	R Ayling	R Ayling	A Board
	S Barker	S Barker	S Barker	C Bridger
	S Beal	S Beal	S Beal	R Cassidy
	A Board	A Board	A Board	M Colman
	C Brown	C Brown	C Bridger	A Petty
	R Cassidy	R Cassidy	C Brown	D Waller
	D Hurring	L Faulkner	R Cassidy	
	T Steel	D Hurring	A Petty	Joined July 19
	D Waller	A Kilvington	T Steel	A Lewis
	S Woodcock	T Steel	D Waller	C Finlay
		D Waller		A Russell
			Joined Nov 18	N Sherlaw
			M Colman	R Zahidi
				Resigned
				A Board
				R Cassidy
				A Lewis
				A Russell

Sports Park Committee	May 2016 – May 2017	May 2017 – May 2018	May 2018 – May 2019
SP Financial Performance (losses)	c. £71,000	c. £26,000	c. £150,000
Chairman	A Petty	A Petty	S Beal
Councillors	A Board	S Barker	R Ayling
	D Hurring	S Beal	S Barker
	T Steel	A Board	A Board
		L Faulkner	D Hurring
		T Steel	A Petty