North York Moors National Park Authority

Finance, Risk, Audit and Standards Committee

16 November 2026

Item 12, Draft Medium Term Financial Strategy

1. Purpose of the report

1.1 To provide Members of FRASC a draft of the medium-term financial strategy (MTFS) which underpins the Authority's Strategy and Business Plan ahead of approval at the full authority meeting in December.

2. Background

2.1 The MTFS is an annual report that provides a five-year financial forecast. It includes any changes in assumptions ahead of the Business Plan milestones for 2027/28 which are presented in a separate paper to this meeting and the setting of the 2027/28 detailed budget in March 2027.

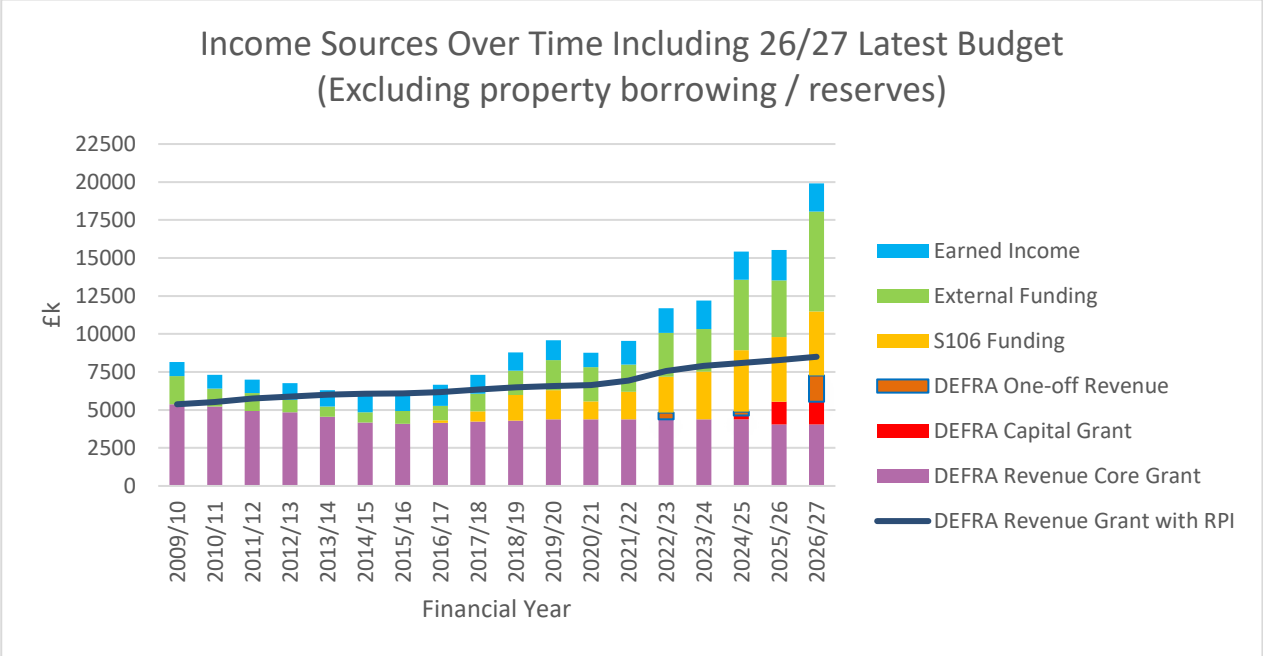
2.2 The MTFS is updated to reflect a number of assumptions and highlight risks. The Strategy, Business Plan and MTFS are documents which go hand in hand and are updated annually to ensure that business planning is reflective of the financial position and vice versa. The report also details the potential risks in the sector and includes sensitivity analysis where appropriate.

2.3 The Authority is currently reviewing it's five-year Strategy & Business Plan. The Medium-Term Financial Strategy is a key document to understand resourcing of the deliverables in the Plan.

2.4 Last year's MTFS highlighted the growing deficit from 2027/28 onwards as illustrated in the table below.

MTFS Summary December 2025	**27/28 £k**	**28/29 £k**	**29/30 £k**	**30/31 £k**
Income	8,882	8,906	8,930	8,978
Expenditure	-13,557	-13,696	-13,839	-13,989
Before Defra Grant	**-4,675**	**-4,790**	**-4,909**	**-5,011**
Defra Capital Grant	367	367	367	367
Defra Revenue Grant	4,022	4,022	4,022	4,022
Mid-Case Scenario	**-286**	**-401**	**-520**	**-622**

2.5 The chart below helps to illustrate the funding changes over the last 15 years and how income from alternative sources is helping to mitigate the loss of Defra income.



3. The financial approach to the Strategy and Business Plan

3.1 The financial strategy remains the same: to grow the Authority by becoming a project-based organisation, reducing exposure to core grant funding and delivering more through alternative income sources. Our current strategy is built around four key elements: our brand profile and reputation, partnership working, investing in our people, property and systems and maintaining good customer service.

3.2 We are maximising use of all our income streams to optimise the delivery of key services. Thus far we have been broadly able to deliver our business plan milestones with front-line delivery increasingly funded through a combination of external project funding and s106 allocations.

3.3 Our core funding increasingly supports our corporate and statutory services, which cannot easily be funded from other sources. As these costs increase the availability of core revenue grant to fund these services becomes more and more constrained. To address this, we need to ensure tight control of costs, optimise earned income generation and ensure the maximum amount of cost-recovery via externally funded projects.

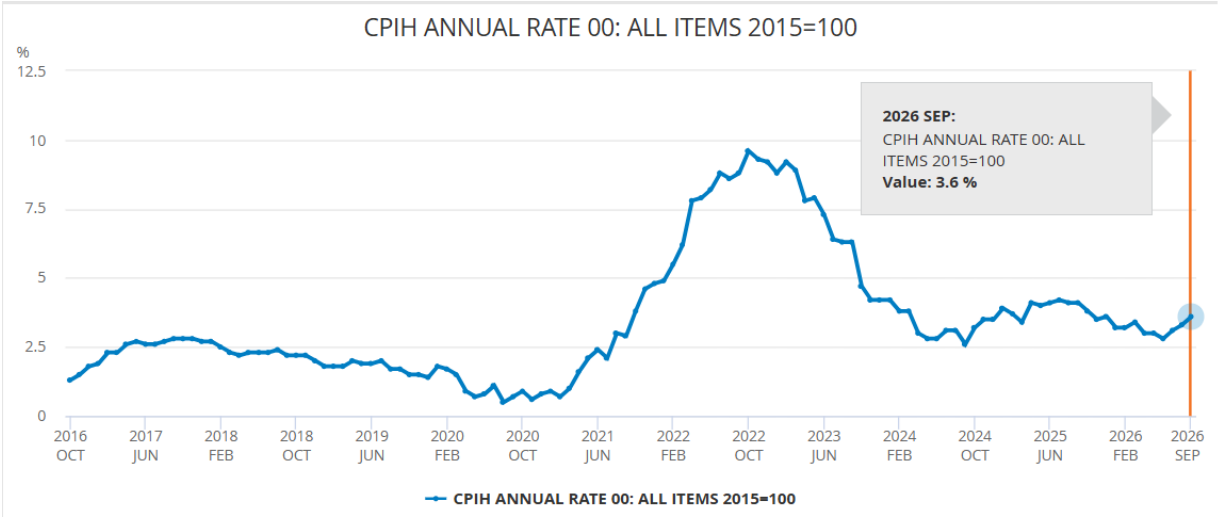
3.4 The Authority sees multi-year, landscape projects delivering on multiple objectives as key to ongoing delivery. It is essential to ensure that funding bids are purposeful and not chasing the money for the sake of income and an assessment with each opportunity is conducted to ensure value for money in delivery and effective outcomes for resources expended.

3.5 If we don't or can't maximise opportunities to defray core-funded activities, then it is likely that we will need to consider the future of some services that we currently provide. Increasing pressures on the core grant means that there will undoubtedly be tough decisions to take in the future.

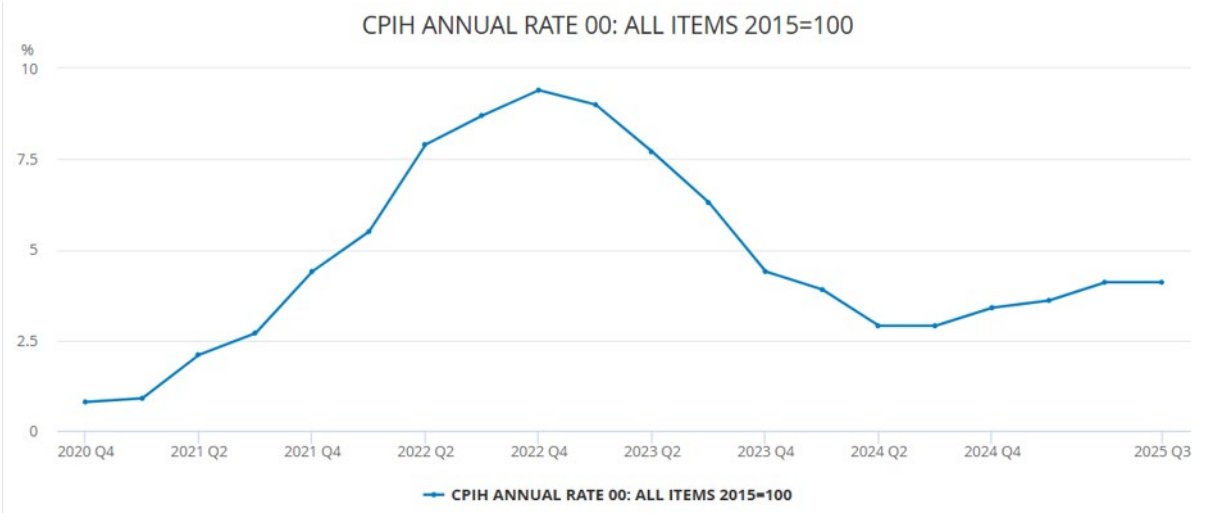
4. Key financial risks

4.1 **Inflation and interest**

4.1.1 Consumer price inflation (CPI) remains significantly above government target levels of 2%. In particular volatile oil costs as a result of conflicts in the Middle East are having a substantial impact on CPI. Following the peak post covid, CPI did reduce to 2.6% in September 2024 but has remained unpredictable since, with the latest rate at 3.6% in September 2026.



4.1.2 Inflation provides the greatest risk to our expenditure levels in the medium-term, with it being a factor in pay award setting as well as overhead costs. We continue to increase all applicable overhead budgets by inflation. The assumption taken in last year's MTFS for 27/28 was 2% but this has now been adjusted this year to 3% to reflect current levels of inflation. In addition, the 28/29 year is included at 2.5% before a return to the 2% level in 29/30. The latest OBR forecasts indicate that the current crisis in the Middle East will continue to push inflation upwards to a maximum of 4.5% in early 2027. It is then expected to steadily reduce back to the 2% target figure in 2028, with an average rate across 2027 of 3.4%. This is heavily dependent on energy price stabilisation and therefore to some extent vulnerable to factors outside of Government control. The graph below illustrates inflation rate movements over the last five years.



4.1.3 Pay inflation in 26/27 was estimated at 3% for the Authority which was close to the 3.3% actual pay award which was agreed in August 2026. The 3.3% increase equated to c.£145k additional pressure on core grant funded budgets. Pay awards

from 2027/28 were assumed at 2% in last year's MTFS, but higher inflation combined with trade unions driving for higher settlements means that an assumption of 3% for 2027/28 continues to be more prudent. An impact of c£150k per annum on core budgets is assumed. 2.5% is assumed for 2028/29 returning to 2% thereafter.

4.1.4 With pay being a substantial proportion of the Authority's finances and core budgets in particular, any increase in pay has a considerable impact and results in the need to find additional income or savings where funding does not keep up with the level of pay award. The indicative Defra revenue (RDEL) settlement for 2027/28 is the same as this financial year, which will put additional pressure. The settlement does however also include £1.5m of capital (CDEL) funding, which can pay for staff contribution to capital programmes somewhat offsetting the impact of frozen RDEL funding. In recent years we have seen late agreements on pay awards due to a combination of late offers and consequent union responses. This means that any award higher than the budget assumption if received after the budget is set in March may require short-term in year action to mitigate the impact.

4.1.5 Whilst inflation increases pressure on costs, relatively higher rates of bank interest work in the Authority's favour, since we have cash investments but no borrowing. The Bank of England base rate has stood at 3.75% since December 2025. Forecasts anticipate an increase in base rate to 4.25% by February 2027 before settling back to 3.25% in the medium term. The Bank of England states that forecasting interest rates is a challenge due to the uncertainties of inflation and in particular the energy markets. At present, the Authority benefits from current interest rates with c.£9m of cash invested in the first half of 2026/27. The MTFS takes a prudent approach to including investment interest income in the budgets. This is because this money is predicated on favourable interest rates and cash balances with the former being unpredictable and cash balances that will reduce as reserves are spent. External funding projects with retrospective claims will also reduce the level of cash in the bank on a day-to-day basis. Future long-term plans should not be based on investment returns. Therefore, we recommend continuing the current policy of capping interest, but with rates continuing at a higher level in the medium-term, the strategy recommends capping at 3.0% for the next three years before reducing to the 2% from 2030/31. Caution is taken on cash balances at £6m in 2027/28 reducing to £4m over the five-year period of the strategy. This will mean that £180k of interest is included in revenue budgets next financial year.

4.2 Funding sources

4.2.1 The Authority has four key areas of income, all of which are key to the MTFS and delivering the Strategy and Business Plan.

4.2.2 **Defra funding.** In 2025/26, Defra RDEL was cut by 8.2%. This highlighted the continued pressure on revenue funding within Defra, but at the same time capital funding was introduced as part of the settlement. The 2026/2027 core grant settlement indicates that RDEL will remain flat cash throughout the three-year spending review period at £4.042m, but there will be an indicative £1.5m Defra CDEL award in each of those years. The capital injection will provide an opportunity

to invest in assets to remove future liabilities, income generation or invest to save opportunities and 30x30 initiatives.

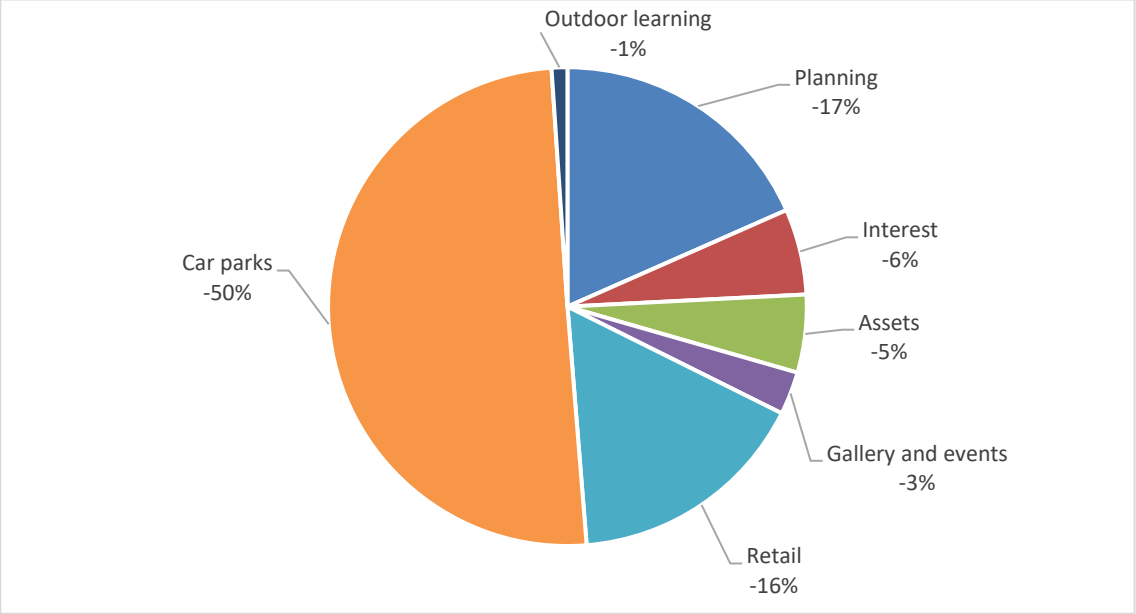
In 2026/27, Defra also offered a one-off £1.72m additional RDEL. The MTFS assumes that this will not be repeated.

The settlement also confirms that there will be Farming in Protected Landscapes, Access and Biodiversity Net Gain funding throughout the three years.

There still remains risk in these assumptions in case changing economic circumstances impact on indicative settlements, but it does allow planning with more confidence than previous years.

4.2.3 **Earned income.** Car parking, planning and visitor centre income are set at challenging levels. Car parking and visitor centre income are trending just short of target in 26/27. Planning income continues to rely on ad-hoc larger application income as the trend of lower small application numbers continues. A new fee structure from government will be coming shortly which will require us to increase fees further. The increase is aimed at helping planning authorities to recover 90% of their planning application costs, but Authorities that have mainly smaller applications will struggle to recover that level of cost. At this stage, the MTFS includes an additional £51k for this fee change, but we need to consider whether we already have inherent risk in the planning income figures that needs adjusting for.

Car parking continues to increase year on year with annual tariff increases. In particular Newton-Under-Roseberry and Sutton Bank car parks continue to increase in visitor numbers. Danby Lodge visitor numbers have started to plateau. Permit sales across car parks have increased substantially in 2026/27 and part of that will relate to facilities at Danby Lodge. The rental agreements at the visitor centres continue to provide a good deal for the Authority. A retail review was undertaken in 2025 to improve margins in retail at both centres. Performance has improved at both and is being monitored, an assessment will be undertaken in Q4 of this year to consider next steps. Earned income is considered one of the areas of in-year risk that needs to be monitored through quarterly reporting and forecasts. The chart below indicates where our earned income currently comes from.



4.2.4 **External funding**. The Business Plan and MTFS include a target to grow external income to at least £2,500k of expenditure per annum by 2026/27. This has been exceeded (including FiPL) in most years of the plan. Growth in external funding is essential to reducing dependency of services on core revenue funding. Currently, we are in the application stages for two substantial long-term projects – Moor Connected and Linking Levisham with the Authority strategy focussing on large landscape projects. This project focus has led to a very successful record at diversifying income away from reducing Defra revenue grant. A continued focus on this is still required throughout the period of the MTFS with the assumption that revenue grant will remain frozen, so those services funded from revenue grant will need to look for alternative delivery funding which may include delivering differently. One of the limiting factors to further growth is the core resources required to develop long-term project proposals and then to support their delivery through the corporate functions which are stretched. Some external funding partners are unwilling to meet overhead costs in funding bids from public bodies but others will still not fund full cost recovery for Government linked bodies. However, we continue to push funders to cover corporate time on projects wherever possible.

4.2.5 **S106 funding.** This funding is for compensation and mitigation for the residual impacts of the harm caused to the special qualities of the National Park from major development. Whilst there are restrictions on how this can be spent, it is treated as an integrated income stream within services to assist with delivery of Business Plan objectives whilst continuing to be accounted for separately as compensatory spend against the development. The Authority continues to receive approximately £3.2 million of s106 funding per annum from Anglo-American in relation to the development of the Woodsmith project. The agreement includes a rolling 10 years of future contributions being secured in an escrow account providing at 10 years of security. We also have a s106 agreement relating to the Boulby mine with a contribution of approximately £1 million per annum for the next year and around £600k per annum for the following 19 years, based on the existing planning permission. This funding is for the residual impacts of the harm caused as a result of the continuing development at Boulby Mine beyond its previously approved timescale. These funds also have inflation-linked rises each year which provide

protection against cost pressures. The Authority does not commit money on these funds beyond the level of security which is deemed to be 10 years for the Woodsmith agreement and 1 year for Boulby.

4.3 Property

4.3.1 The Authority continues to make substantial capital investments in its property assets to address long-term liabilities, create an appropriate working environment and meet its carbon reduction commitments. The Southern depot is now fully operational and was 100% funded from Defra capital grant.

4.3.2 The rollout of solar power across our property has continued with most toilet blocks now having solar panels which supports both carbon reduction commitments and utility savings.

4.3.3 The move to a new headquarters was approved in January 2026 and construction is advanced with an estimated completion date of early summer 2027. The building itself is expected to save on running costs, but the funding of the project is expected to require some borrowing. The current plan is to borrow internally from our cash balances in the medium-term, with potential for future external borrowing. Defra CDEL and interest windfalls should be considered as potential alternative funding sources which would help reduce or eliminate the cost of borrowing and therefore enable to Authority to take greater and earlier benefit from revenue savings. The cost of the MRP charge for internally borrowing is expected to be offset by lower utility costs. MRP would commence from 2028/29.

In addition, we need to ensure that we continue to maintain our offices and ranger depots as well as car parks, two visitor centres and a number of toilet facilities. A comprehensive 10-year property maintenance programme is a key area of work to ensure that this can be scheduled, planned for and adequately resourced.

4.4 Large capital projects

4.4.1 Substantial multi-year capital projects are becoming more frequent through project delivery and Defra CDEL that has been made available. Overspend risk often sits with the Authority for these projects. Cost overruns are mitigated through close project management but continue to be a risk factor in the Authority's budgets which can be managed through quality forecasting and review. Project contingencies should always be considered for all financial projections on large projects and an annual assessment of levels of contingency reserves carried out as part of the budget process, including assessment of potential risk from up-and-coming large-scale projects.

4.4.2 Some externally funded projects also require a long-term legacy plan to sustain the work once the initial grant funded phase is completed. This adds an additional demand on both financial and staff resource. For each individual project this element is usually a relatively small proportion of the overall project spend but, cumulatively, this can start to have a significant impact on our longer-term resource requirement.

5. Key assumptions and sensitivity analysis

5.1 Defra Grant

5.1.1 Our working assumption for planning purposes at this stage is that the core revenue grant will remain the same throughout the five-year MTFS. CDEL is likely to continue as part of future settlements beyond the three-year current agreement, but the level remains uncertain beyond 2028/29. Therefore, CDEL forecast has been reduced to £0.4m from 2029/30.

5.1.2 For every 1% cut in Defra revenue grant, a further £40k would need to be saved.

5.1.3 An element of Defra CDEL covers annual capital requirements such as vehicles, IT equipment and some capital work on assets. However, we have also critically been able to invest this into a number of capital initiatives. This has included the development of the Southern depot, reducing the borrowing requirement on the new headquarters, refurbishment of toilet facilities, rollout of solar panels and bringing the Danby Lodge overflow car parking back into safe use. Use of future years' capital will be laid out in the budget papers.

5.2 **Pay**

5.2.1 Employee costs are the Authority's single largest item of expenditure. The current MTFS includes a pay award assumption of 3% per annum for 2027/28, 2.5% for 2028/29 decreasing thereafter to 2% in line with inflation. Each 1% higher than assumptions equates to an additional c.£50k from core grant funding. Projects also need to use contingencies or re-engineer to ensure increases can be funded. So, any increase over assumptions represents a significant risk. On the basis of a frozen grant position, this means that by 2031/32, an additional £600k needs to be found for pay to sustain the current levels being funded from earned income and core grant.

5.2.2 A vacancy factor is included in budgets to reflect the natural level of vacancy savings that was occurring each year creating an in-year saving. This equates to 1.25% of core funded gross pay. This is being met in the current year and the level is still considered to be appropriate.

5.2.3 The net triennial valuation of the Authority's pensions liability was announced in 2026/27. This resulted in a substantial reduction to pension costs as a result of a combination of successful investments and reducing liability. This saving was reinvested in key areas of staffing. Each valuation can present a risk of material change to the annual pension payments of the Authority – both increase and decrease - and can depend on a number of factors such as investments, life expectancy and workforce age. The last valuation indicated that the reduced rates would continue for a period of 15 years to bring the pension surplus back to 10% buffer levels. This provides some certainty which has allowed us to invest this, but it is important to keep an eye on what is happening in the pensions scheme and the impacts of external factors such as wars in the Middle East and Ukraine so that risk can be assessed.

5.3 **Overhead inflation**

5.3.1 Budgets have inflated by levels approximate to inflation in the economy through this Business Plan period. Current inflation rates mean that this is adding extra pressure to budgets. Each 1% increase in general overhead inflation equates to approximately

£17k of additional cost to the Authority. The current MTFS assumes 3% for 2027/28, 2.5% in 2028/29 and 2% thereafter. This means that over the five-year MTFS there will be an additional £195k to find to cover overhead inflation.

5.3.2 Utility costs remain volatile. Our current deal, which runs out in 2027, made savings against previous levels but uncertainty remains on cost at the next renewal. Current assumptions are aligned to other overheads, but there remains a risk. The rollout of solar power and the inbuilt efficiency in the new headquarters building will help to reduce impacts of any increases. Petrol and diesel costs in particular are very high at the moment and there is considerable pressure on budgets in 2026/27. There is no assumption made for this in the MTFS, as the world events that influence prices are very hard to predict.

5.3.3 It is assumed that any inflation, whether pay or overhead, in external funding projects is covered from within the funding, either through use of contingencies and cautious inflationary estimates in applications – or from project re-engineering if required.

5.4 **Key income streams**

5.4.1 Car parking income is budgeted at £957k in 2027/28 which includes an inflation-linked increase of 3% and a one-off decrease of £30k as there is no Easter in the next financial year. The target is challenging, so nothing is included for developments such as the ANPR trial at this stage until the results can be assessed. There is no assumption for any new car parks in 2027/28.

5.4.2 We know that the weather can impact visitor numbers heavily, with our car parks sensitive to very poor weather at key times but also hot weather where more visitors go to the coast. Nothing is factored in for this, but it does add an increased risk to volume of tickets sold. The table below illustrates the value of any shortfall in income with every 1% resulting in £9,140 less income.

27/28 MTFS income	Decrease of 1%	Decrease of 5%	Decrease of 10%
£957,000	-£9,570	-£47,850	-£95,700

5.4.3 The development management service budget indicates a net cost of c.£316k in 2027/28. The nature of planning in the National Park area means that most income is made up of small household applications which have been reducing and a very small number of large applications. This makes judgements on resource levels challenging and means that the service is run at a net cost position. The MTFS assumes the fees will increase in line with the new Government fee structure for 2027/28. This generates an additional £55k of income and links to inflation in years thereafter.

5.4.4 The table below illustrates the potential impacts of a reduction in planning income, should there be lower volumes of applications.

27/28 MTFS income	Decrease of 1%	Decrease of 5%	Decrease of 10%
£316,000	-£3,160	-£15,800	-£31,600

5.4.5 Visitor centre, gallery and events income streams are increased for inflation but remain at broadly the same levels.

5.4.6 There is a pipeline of initiatives for income generation which are expected to help to mitigate part of future deficits. These are included at the point they crystallize into projects with realistic savings projects, rather than including generic targets that are not linked to any specific delivery. No specific additional deliverables are included at this stage.

5.5 **Reserves**

5.5.1 Most of the £7.0m reserves balance at the end of the 2025/26 financial year is either restricted or already earmarked. It is expected that most of the committee-approved reserves will spend over the period of the MTFS. The smoothing reserves are discontinued once spent as Defra grant is now split between revenue and capital. The balances of income in advance for S106 and external funding will remain in reserves. The surplus at the end of the last financial year went into the general unallocated reserve for the moment until such time as it is allocated. The property reserve is committed to be spent in 2026/27 on the new headquarters project.

Reserve summary	**2025/26 closing position (£k)**
General working balance	535
Contingency	291
Risk Reserves	**826**
Woodsmith Section 106	2,718
Boulby Section 106	1,067
Birds on the Edge income	8
Restricted and committed reserves	**3,793**
Capital: vehicle replacements	260
Capital: IT replacements	154
Capital: property reserve	1,286
Bequests/Legacies	67
Earmarked projects	249
Committee approved reserves	**2,016**
General unallocated	413
Total reserve balance	**7,048**

5.5.2 Reserves are reviewed each year as part of the budget process. Last year it was recommended that risk reserve levels should target £1m rather than the percentage of gross expenditure which was leading to a constantly changing level of reserve. Current risk reserve levels are at £826k which is £174k short of target level. The detailed budget paper will consider the level of the risk reserves, noting the risk levels of the different types of funding streams. It is, however, considered that £826k is a reasonable reserve to cater for medium-term risks but with potential for larger projects coming in the future with retrospective claims processes. The £1m target for risk reserves therefore, in the view of the s151 Officer remains relevant.

6. Key financial indicators

6.1 Performance management framework includes a number of key performance indicators (KPI) tracked through a quarterly scorecard. The financial KPIs are:

- External income of £2.5m by 2026/27 and in each year thereafter.
- Non-core grant income to be a minimum of 55% of total income.
- Corporate and democratic core costs after recharges to be less than 5% of total spend.

6.2 These indicators will be reviewed as part of the detailed budget process to ensure they remain both relevant and challenging enough. A new business plan will be a good time to re-evaluate the measures that assess financial performance.

7. MTFS update and deficit mitigation

7.1 The table below illustrates the expected bottom line for the next five years incorporating all of the assumptions as laid out in the report as a mid-case scenario. The key assumption and main risk variable is the levels of pay inflation.

MTFS Summary Incl Defra Grant scenarios	2027/28 £k	2028/29 £k	2029/30 £k	2030/31 £k	2031/32 £k
Income	14,768	14,895	13,928	14,005	14,134
Expenditure	-15,876	-15,154	-14,325	-14,558	-14,796
Before Defra Grant	**-1,108**	**-259**	**-397**	**-554**	**-662**
Borrowing/Reserves	1,000	0	0	0	0
Deficit	**-108**	**-259**	**-397**	**-554**	**-662**

7.2 The main movements from the balanced budget in 2026/27 to the mid-case deficit of £108k above in 2027/28 is illustrated in the table below:

Movements	£k	Comment
Pay inflation	-146	Pay award @ 3%
Overhead inflation	-42	Overheads
No Easter	-30	No Easter in 2027/28
BNG Funding	29	Defra funding for BNG
Interest	80	Increase in the cap
Planning fee	1	Fee increase offset by one-off 26/27 funding removed

7.3 Directors will shortly be holding initial meetings to look at scenarios and consider mitigation for the 2026/27 deficit position. Key considerations include capitalisation of salaries and increased diversification of Defra funded costs.

7.4 The budget process will provide a more detailed review of the 2027/28 proposals.

8. Conclusion

8.1 The economic environment continues to be extremely challenging and unpredictable with pressures on the public sector continuing. External factors

continue to influence the economy with inflation remaining above target levels of 2%. Pay inflation is unknown.

8.2 Inflation remains unpredictable and stubborn to reduce to Government target levels. Interest rates are forecast to rise before they fall which will benefit cash investment returns but make future borrowing more expensive.

8.3 The MTFS forecasts a deficit position in 2027/28 of £108k in a mid-case scenario rising to £662k deficit by 2031/32. Defra grant remains the largest risk.

8.4 Capital increasingly looks like it will be a part of all future settlements and therefore we need to ensure we can account efficiently for revenue and capital.

8.5 Use of reserves to fund deficits is not sustainable in the medium-term, so income generation, savings and diversification away from Defra revenue grant continue to be the financial approaches to ensure we set balanced budgets.

9. Next steps

9.1 The formal process for the development and approval of the 2026/27 budget at Member level is as follows:

Final Medium-Term Financial Strategy for approval	-	December NPA
2026/27 Draft Budget	-	February FRASC
2026/27 Final Budget for approval		March NPA

10. Financial and staffing implications

10.1 There are no staffing implications as a result of this report.

11. Contribution to National Park Management Plan

11.1 A medium-term financial strategy based on reasoned assumptions is critical to ensure the financial sustainability of the management plan and the business plan ambitions. A balanced budget is a statutory duty of the Authority.

12. Legal and sustainability implications

12.1 There are no legal issues as a result of this report.

13. Recommendation

13.1 That Members comment on the draft Medium-Term Financial Strategy ahead of December NPA.

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