

North York Moors National Park Authority Finance, Risk, Audit and Standards Committee

25 November 2013

Budget Estimate 2014/15

1. Purpose of the Report

- 1.1 To provide Members with an updated proposal for the budget for 2014/15 and a wider assessment of the pressures on the budget for the years thereafter.

2. Background

- 2.1 The Authority is legally required to approve a “balanced budget” for the 2014/15 financial year by 31 March 2014. This report contains the latest proposal for the 2014/15 budget for Members’ discussion.
- 2.2 Given the high level of uncertainty about resources available to the Authority for the years following that it is not considered practical to consider indicative figures for 2015/16 or beyond at this stage. It is evident however that there are increasing pressures on the Authority’s budget and this paper outlines these to help inform decision making on budgets and reserves for 2014/15.
- 2.3 The figures in the revised draft budget have been approved by Directors at their awayday in October which considered the discussions from the Members’ Evening Seminars over the summer. The basis for the budget is the Medium Term Financial Strategy in the 2012-2015 Business Plan approved by Members. The latest revised figures have not however received any formal Member approval.

3. Update on Future Budget Pressures

- 3.1 The Chancellor’s June budget statement reduced Defra’s budget by nearly 10% in real terms in 2015/16 following a 2% cut in 2014/15. These reductions were on top of previous reductions which had led to the Authority’s core grants being reduced by about a third in real terms over the four year period 2011/12 to 2014/15. It is not yet known how much, if any, of these recent further reductions will be passed on to National Park Authorities. A decision has been promised before Christmas. The National Park Authorities have collectively urged the importance of an early announcement, with a strong preference for a two year settlement.
- 3.2 The other pressures on the Authority’s budget (see paragraph 4.5) make it doubly difficult to prepare next year’s budget without the core Defra grant being known – but it is hoped that Defra will absorb at least some of the 2% cut thereby limiting the further reduction in the Authority’s resources next year (a 6.4% cut has already been announced and planned for).
- 3.3 Members will recall that the planning income estimates in the Business Plan have had to be significantly altered following the announcement that the Government was not going to implement its proposals to enable the local setting of planning fees. This decision, coupled with the impact of the recession meant that the 2014/15 budget was already showing a sizeable deficit when Members considered the current year’s budget a year ago.

- 3.4 Having achieved three years of painful but planned and relatively organised decline, it is now necessary to tackle the prospect of further cuts plus the continuing loss of expected income. The overall strategy, as discussed at the Evening Seminars, is to balance the books for 2014/15 by reducing discretionary budgets, if needs be substantially. This will allow Members to take more fundamental decisions about the long term nature and balance of the organisation when the prospects for 2015/16 and thereafter are (hopefully) better known, thus avoiding multiple re-organisations.
- 3.5 Some additional increased costs, which add to the projected deficit, are outlined in the paragraphs below. Before this is done however it seems appropriate to note the success in generating external income through grant aid and the very significant (though below budget) increase of car park income compared with many other organisations (car park income increased by 38%, from 2008/9 to 2012/13).

4 2013/14 and 2014/15

a) Overall Position and Proposals

- 4.1 The table below summarises the position in relation to expenditure and income for the current financial year 2013/14 after the approved utilisation of reserves, together with a current projection for 2014/15, but without the utilisation of any reserves at this point.

	2013/14 Latest Budget £'000	2014/15 Indicative Budget £'000
Gross Expenditure	6,144	5,802
DEFRA Grant	(4,553)	(4,176)
Other Income	(1,330)	(1,074)
Budgeted Transfer from Various Reserves	(261)	0
Net Shortfall to Address	0	552

- 4.2 The assumptions in relation to National Park Grant are made in accordance with the letter from the Secretary of State on 20 December 2010 for the 4-year spending review period. This letter indicated that the National Park Grant for 2014/15 (year 4 of the 4-year plan) would be £4,261k, a £292k or 6.4% reduction on the 2013/14 confirmed allocation of £4,553k. Based on the June Chancellor's Budget Statement, this paper assumes, as a worst case scenario, that a further 2% cut in NPG will be allocated to the National Park over and above the 6.4% cut already planned. This would reduce the grant to £4,176k as shown in the above table. As indicated in paragraph 3.1 however, the Authority awaits confirmation of its grant allocation in December. Although a further 2% reduction has been assumed for planning purposes, the reduction could potentially be higher with every 1% reduction increasing the shortfall by £46k. It is hoped however – and the case has been made and not rejected out of hand – that Defra will absorb at least some of the 2% cut.
- 4.3 The table in paragraph 4.1 above indicates a shortfall of £552k in 2014/15 and initial consideration of how this sum could be funded has already been undertaken with Directors following the Members' Evening Seminars. Proposals will be firmed up in December when Defra's actual 2014/15 grant allocation is known and reported to members for consideration at the first available opportunity.

A summary of the initial proposals however, some of which are only short-term measures is as follows: -

	£'000
Use of Reserves (paragraph 4.6)	125
Transport Savings	50
Staff Vacancy Non-replacement	75
Balance from the curtailment and top-slicing of various discretionary budgets	302
Total	552

The balancing figure in the above table is the £302k curtailment and top slicing of various discretionary budgets and, in the fields of conservation and recreation in particular.

- 4.4 The staff vacancy figure will depend on vacancies arising in areas seen to be capable of reductions. One of several which have already occurred is the Northern Apprentice Supervisor. **Appendix 1** describes the situation and proposed interim solution.
- 4.5 The indicated £552k shortfall in 2014/15 before the use of reserves is £291k higher than the equivalent figure of £261k for the current financial year 2013/14. This £291k increase in budget pressures between 2013/14 and 2014/15 consists of the following:

Budget Pressure	£'000	Assumption
Assumed reduction in National Park Grant from 2013/14 to 2014/15	377	A potential 8.4% (6.4% + an extra 2%) reduction in DEFRA grant between 2013/14 and 2014/15
Pay Award	30	Assumes a 1% Pay Award for 2014/15. This will be subject to national negotiation
Other General Inflation	17	Inflation applied to key expenditure and income budget headings
Additional Pension Fund Contributions	40	The Authority will learn the outcome of the 2013 Triennial Valuation shortly, and this is likely to increase the rate of employer pension contributions by about 1.6%. Options may be available for the authority to mitigate the impact of this increase.
Interest Earned Budget Pressures	25	The authority needs to reduce its budget for interest earned on cash balances to reflect the extremely low rate of interest currently obtainable on cash balances which is likely to continue for some time yet
Recurring Shortfall on Car-park Income	31	A recurring shortfall has been identified on the Car Parking Income budget based on 3-year average trends
<i>Less other Planned Reductions in Net Expenditure from 2013/14 to 2014/15 already built into Base Budgets</i>	<i>(229)</i>	<i>The authority has already identified planned reductions in the net budget of the authority to reflect the reducing allocations highlighted by DEFRA as part of their 4-year 2010 settlement and finalised spending commitments in relation to grant-funded projects.</i>
Total Additional Budget Pressures in 2014/15 over and above 2013/14	291	

b) Reserves

- 4.6 At the August meeting of this Committee, Members noted that the record level of reserves (£1.6 million) would be reduced by:

- Spending of £194k on projects delayed from last year and carried forward, including improvements at Sutton Bank.
- £225k to fund the York Potash planning application
- £54k to reconcile the staffing budget to the establishment
- Plus the planned £261k use of general reserves

This left a projected end of year reserve of £885k. This figure includes a contingency reserve, potential commitments to meet essential repair costs, replace capital equipment, provide match funding for This Exploited Land, cover potential legal costs, and balance the 14/15 budget. Officers consider that the level of reserves now needs to be considered very carefully in the light of the role it may need to play in managing a further round of cuts. The table below summarises the position.

	2013/14 RE Budget £'000	2014/15 RE Budget £'000
Opening Reserves Balance	1,624	885
Use of General Reserves	(261)	(125)
Use of Ear-marked Reserves	(478)	(50)
Predicted Reserve Balance at year-end, split between:	885	710
- General Reserves	541	365
- Ear-marked Reserves	344	345

- 4.7 While £885k is the current expected year-end reserve balance this is dependent on the level of any revenue budget under-spends by the Authority, and the extent to which these under-spends can be allocated to ear-marked reserves (because they represent commitments to spend sometime in the future) or general reserves, which could potentially be used to meet any immediate funding gaps arising in 2014/15 or beyond.
- 4.8 Officers are aware they need to present Members with some fully formed options in relation to Reserves in good time before the start of the next financial year. As part of these options, Members will also be provided with an updated projection of reserves to 31 March 2015 as part of the process of approving the 2014/15 budget.
- 4.9 In the light of the possibility of further cuts and the drawdown of reserves, the Chief Executive has discussed with the Conservation Director the scope for a cap on further discretionary conservation spending to protect the Authority's financial position. Members are asked to authorise the Chief Executive to make in year transfers to Reserves of up to £100k in the light of further information on the Authority's financial position. This would improve the position upon reserves described above.

c) Staff Issues

- 4.10 Officers have given thought to the possibility of realising savings by looking at terms and conditions of employment.

Considerable savings were made as part of the Single Status local agreement in 2000-2002 with the removal of regular car use allowances, single time payments for staff working at weekends, reduced subsistence payments and so on. As Members may be aware, the Authority has relatively low staff costs with average annual pay being lower than the Yorkshire and Humber regional average. Given this, and the previous work done on terms and conditions of employment, Officers do not think that there is likely to

be an opportunity to make major savings from this area without unjustifiable and counterproductive impacts on staff.

4.11 During the last round of budget cuts, voluntary redundancies and reductions in hours produced annual savings of approximately £250K. While voluntary redundancy does remain an option for reducing staff costs there are drawbacks. In particular, it seems likely that there will be a higher proportion of staff from whom the organisation would be reluctant to accept a request for redundancy than in 2010. The Authority uses the statutory minimum terms for redundancy, so it is probable staff volunteering for redundancy are those who would be entitled to receive their pension under the terms of the local government pension scheme. While the on-going salary savings could be attractive, there is considerable one-off cost to the Authority in pension deficiency payments. Nevertheless it would be prudent to consult with staff to establish whether there are any potential savings to be made from voluntary redundancy and/or reductions in working hours at the current time.

4.12 While this may result in sufficient savings, Officers think that it would be wise to consider the potential for savings in other areas where some other local authorities have reduced spend. It is considered vital these should be the subject of further discussion with staff to gauge reaction. These areas include;

- Consideration of increased use of shared work spaces to enable maximum use of the Authority's office space
- Reduction from the Inland Revenue Fixed Mileage Rate payable for business use in personal vehicles
- Taking unpaid leave as part of annual leave entitlement
- Further reduction of subsistence payments
- Consider ways to reduce the amount spent on mobile phones
- Look again at the costs of running our buildings to make further efficiency savings

While some local authorities have made savings from sick pay schemes, it is not proposed to consult on reductions or penalties in association with sickness absence given the low levels of absence over a prolonged period of time at the Authority. The impact on staff would be unjustifiable for little financial gain.

5. **2015/16 and beyond**

5.1 As indicated in paragraph 2.2, no specific proposals have been presented for 2015/16 or beyond, but Members discussed potential approaches to further cuts at their Evening Seminars. Directors have taken the steer from these and discussed further at their Awayday. Detailed consideration will however have to be given to 2015/16 very soon, in light of:

- a) The follow through impact into 2015/16 of the £552k shortfall suggested for 2014/15.
- b) Latest grant intelligence for 2015/16. Paragraph 3.1 refers to the Chancellor's June budget statement, which suggested a decrease on Defra's departmental expenditure limit by a further 10% in 2015/16 in real terms. It is hoped that indicative 2015/16 grant figures will be provided shortly.
- c) Increased spending pressures in 2015/16 arising from pay and price increases.

d) The latest projected levels of reserves and any potential for their further use beyond 2014/15.

6 Financial and Staffing Implications

6.1 These are covered in the main part of the report.

7. Contribution to National Park Management Plan'

7.1 The aim of the report is ultimately to minimise the harm done to the implementation of the Management Plan by the difficult budget situation.

8. Legal Implications

8.1 Setting a balance budget is a legal requirement. This report helps ensure this is done.

9. Recommendation

9.1 That:

- Members note the budget position and ask officers to prepare a specific set of proposals once the settlement is known.
- Consult staff over potential staff related savings as in paragraph 4.12, with other suggestions as considered appropriate.
- Delegate to the Chief Executive a decision to transfer or not a sum of up to £100k from this year's discretionary conservation budgets into reserves.

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Background papers to this Report

File ref

1. Letter from Tom Surrey, Defra
2. Chancellor's Statement

Appendix 1

For the past three years, the Authority has run a team of six countryside apprentices in the northern area of the National Park. In the first year the scheme was majority funded by Redcar and Cleveland Borough Council. In the second year, this core funding was lost and in years two and three, a partnership was formed with the Environment Agency who contributed around 50% of the cost whilst the team carried out slowing the flow works on the River Leven. The scheme has been a great success, with apprentices succeeding in their training and excellent work being carried out. It was a recipient of a National Award (highly commended) from the Environment Agency this year.

Unfortunately, core funding is no longer available from the Agency and whilst the Authority has allocated 50% of the cost (£45,000) within next year's budget, all attempts to secure the remainder have failed. It might be possible for the team to secure a certain amount of income by bidding and charging for works, this however would not offer the Authority any long term security and would require the underwriting of a further £45,000 at a time broader budget reductions. Further, following many years of success in offering high quality apprenticeships, it is clear that the best results in apprenticeships require security of funding to enable longer term employment of a skilled supervisor and opportunities for extension of training to advanced level for the best apprentices.

All efforts to source secure, core funding for the scheme have failed and officers have therefore been seeking alternative options for continuing to offer a broad range and large number of good apprentice training placements. It is proposed that the seeking of longer term funding for this successful scheme continue but that in the meantime the following be put in place:

Creation of two advanced countryside apprenticeship opportunities to be offered alongside the existing team of six southern apprenticeships increasing to a team of eight being supervised by Steve Young who has run the countryside apprenticeship service so effectively since it began.

The creation of two apprenticeships in tourism and hospitality, one based at each of the two visitor centres and to get involved with the Authority's wider work on tourism.

These two measures will ensure that the total apprenticeship team in the Authority is only reduced by two, that the range of training is expanded and that the Authority is not required to find significant additional funding.

These measures combined with a review of the entire countryside apprenticeship scheme will result in an annual saving of around £15,000 on the draft budget figures for 2014/15. It is proposed however that the final decision be put on hold until such time as the settlement for next year is confirmed.

In the longer term it is hoped that it will be possible to develop partnerships which allow the reestablishment of a full team of northern apprenticeships and discussions are underway with Rivers Trusts and other potential partners with this in mind.