

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

5 September 2016

### Business Plan Financial Resources

#### 1. Purpose of the Report

- 1.1 To provide Members with an updated position on the draft Medium Term Financial Strategy, Reserves Policy and Financial Principles for inclusion in the Business Plan.

#### 2. Background

- 2.1 Following a series of Members' Evening Seminars in relation to the scope and content of the Business Plan Members discussed a working draft of the Financial Projections for 2016/17 to 2019/2020 and proposals for Financial Principles at the Authority Meeting on 27 June 2016. The paper to Authority indicated that following the National Park Grant Settlement announcement and the success in generating other income this resulted in an average of £500k per annum of additional resources to allocate over the Business Plan period.
- 2.2 The Scrutiny Committee on 11 July 2016 discussed priorities for the revised Business Plan following a review of the Authority's performance and progress on the 2015/16 Business Plan.

#### 3. Revenue Expenditure and Income

- 3.1 There are a number of significant factors which will impact on the level of expenditure incurred by the Authority over the Business Plan period including:
- A steadily increasing level of National Park Grant
  - Sustained and Increased Activity in income generation
  - The level and timing of project expenditure funded by External Grant
  - The timing of s106 agreement income and expenditure relating to the York Potash development at Doves Nest Farm.
- 3.2 The table below shows the estimated expenditure and income for the Business Plan period based upon the current levels of staffing and activity. **Appendix 1** to this report breaks these figures down by Defra Functional Heading and is consistent with the format of the quarterly report.

#### Income and Expenditure Summary

Income and Expenditure	2016/17 Current Budget	2017/18	2018/19	2019/20	2020/21
	£	£	£	£	£
<b>Gross Expenditure (Appendix 1)</b>	6,489,030	6,631,870	6,305,940	5,625,410	5,665,579
<b>Gross Income (Appendix 1)</b>	6,578,890	6,896,066	6,654,094	6,346,936	6,366,427
<b>Balance</b>	<b>89,860</b>	<b>264,196</b>	<b>348,154</b>	<b>721,526</b>	<b>700,848</b>

- 3.3 The table above makes assumptions in relation to the continued increase in income from earned sources over the four year periods which are 'stretch targets' but considered achievable. Officers will monitor progress against realising these but inevitably there is an element of risk attached which Members need to be aware of. A summary of these will be provided at the meeting with a relative risk rating and these items total approximately £0.5m over the period.
- 3.4 The expenditure and income in the table includes the current revised profile of the This Exploited Land Project. Members are aware that the Authority has earmarked £250k within reserves to match fund this project. However, there is approximately £180k of expenditure which requires match funding to be identified. Officers are very confident that this will be achieved.
- 3.5 Members will note that the resources to reallocate increase dramatically in the latter part of the MTFS in **Appendix 1**. This is as the result of a number of factors including the cumulative impact of the increase in National Park Grant, bold assumptions made in relation to increases in earned income (to which there is an element of risk) and decreases in the provisions required to match fund externally funded projects as existing projects come to an end. Officers suggest that it would be wise to retain a provisional allocation for renewed match funding and avoid committing a significant element of this surplus to staff costs in the latter years of the Business Plan.
- 3.6 A sensitivity analysis has been undertaken on the above figures, particularly in relation to Earned Income and in the worst case scenario where income remains at the current level there would still be an average of £400k per annum to allocate. In the best case scenario where all the income targets are met and an additional £200k is identified by 19/20 then this is increased to an average of £750k (though this would inevitably involve an element of resource needed to generate the cash in the first place).
- 3.7 Following the Member Seminars and feedback from staff, volunteers and the public officers have been developing ideas for expenditure and projects to which budget can be allocated within the Business Plan period and these will be discussed these with Members at the Evening Seminar on 24/8/16. An update will be provided at the FRASC meeting giving an analysis of Member 'allocations'.
- 3.8 Members are also aware that the Authority would receive significant sums of money for mitigation and compensation under a S106 agreement if the York Potash development proceeds. The huge majority of these sums have not been accounted for in the Medium Term Financial Strategy as they are strictly ring-fenced and no commencement date for the project has been announced yet.
4. **Reserves**
- 4.1 The current level of reserves following the audit of the 2015/16 Statement of Accounts is £1.9m.
- 4.2 The table below shows the breakdown between reserves anticipated as at the 31 March 2017.

<b>Reserve Summary 2015/16 and 2016/17</b>	<b>2015/16 Outturn Position</b>	<b>Planned Use of Reserves 16/17</b>	<b>2016/17 Outturn Position</b>
	£'000	£'000	£'000
<b>Opening Reserve Balance</b>	<b>1,449</b>		<b>1,912</b>
<b>Earmarked Reserves</b>			
Contingency Reserve	320	0	320
TEL Match Funding	250	29	221
Earmarked Section 106 Reserve (Developer Contribution for compliance with s106 and planning conditions)	148	0	148
Earmarked Section 106 Reserve (Developer Contribution for environmental mitigation on the coast)	25	25	0
Earmarked Revenue Reserve	20	20	0
Earmarked Capital Reserve	250	0	250
Mineral Planning Reserve	0	0	0
<b>Non Earmarked Reserves</b>			
General Reserve	899	164	1063
<b>Closing Reserve Balance</b>	<b>1,912</b>		<b>2001</b>

- 4.3 In terms of the Earmarked s106 reserves, any unspent or new contributions not spent at the end of each year will either be transferred back into reserves or repaid to the developer depending upon the terms of the agreement
- 4.4 The s151 Officer has a duty to advise the Authority on the level of reserves required to meet estimated future expenditure and to safeguard authorities from over-committing themselves financially. Earmarked reserves are necessary to manage expenditure between years, match funding for grants, fund large infrequent and necessary items of expenditure such as replacement of equipment and refurbishment of buildings and to fund known financial risk items. In addition it is advisable to maintain an 'emergency reserve', to cover unexpected expenditure which should be replenished back to an agreed level if it is used. This Authority has set this at £320K to reflect the increased risk of legal challenge to the Authority.
- 4.5 Reserves can be classified as earmarked, i.e. set aside to fund a known future commitment or risk, or general, in which case they are unallocated to specific items of expenditure at that stage. There needs to be a balance between having too many specific reserves and the need to have a pool of resources which are not earmarked (i.e. a General Reserve) which can be used flexibly to react to opportunities and challenges.
- 4.6 The Authority's reserves have been steadily increasing over the last Business Plan period largely as a result of a cautious approach to spending taken as a result of the uncertainty relating to future National Park Grant Settlements but also as a result of success in increasing income generated from external sources. The Authority currently has £0.9m in General Reserves which can be allocated to projects over the forthcoming Business Plan period.

- 4.7 Members have already allocated £250k into the Capital Reserves. It is recommended that, subject to further discussions on the Business Plan, this is provisionally increased to £600k by transfer from the general reserves and used to fund investment in major capital projects (most obviously Sutton Bank) and the long-discussed electrical, plumbing and re-roofing works on the main offices in Helmsley which cannot be postponed indefinitely.
- 4.8 The Authority has committed to match funding the Heritage Lottery Partnership Scheme 'This Exploited Land'. A sum of £250k has been earmarked in reserves which will be used during the Business Plan period to fund the scheme.

## 5. Financial Principles and Income Targets

- 5.1 Members have discussed the Financial Principles at a number of seminars and at the Authority meeting. **Appendix 2** details the slightly refined proposals for Financial Principles as previously discussed. Members will note that the challenge of finding appropriate benchmarking partners.
- 5.2 Members and Officers have discussed in detail the Income Aspirations for the Business Plan period. The preference is that there is a high level target for both External Funding and Earned Income. This has been established as a minimum £6m over the 4 years for External Funding and a growth of earned income to £1.6m by 2019/2020. These targets are challenging and ambitious and procedures have been put in place to monitor these carefully. The draft MTFS currently includes part of these amounts but considerably short of the total as explained in para 3.5 above and 5.4 below..
- 5.3 Officers maintain a 'pipeline' of prioritised external funding bids and details the distinction between that which has been identified and secured and those bids which are in development or awaiting a decision. Over the four years the total if all secured and defrayed as per the planned profile is close to £7m. It is highly unlikely that all of these projects will be successful but inevitably further opportunities will arise. The timeframe which the Authority views the External Funding extends beyond the Business Plan period as it is essential that groundwork continues on new projects to sustain the momentum in the future.
- 5.4 Members are aware that there have been significant successes in developing existing and new earned income streams over the past 6 years and this will continue to be a focus in the new Business Plan. The Medium Term Financial Strategy includes projections for this which total £1.4m by 2020. Of this there are a number of areas which will require further development work and resources in order for these to be achieved and costs have been factored in for these and an element of the risk of not achieving some of the more aspirational targets can be mitigated by the security given by the level of reserves. Therefore, over the course of the Business Plan there is a need to firm up the £0.5m of aspirational income in paragraph 3.3 and identify a further £200k of 'new income' in order to reach the Financial Principle target.
- 5.5 A key area of work relates to the development of enterprises at the Visitor Centres, in particular Sutton Bank, which will require capital investment. The feasibility study currently being carried out is due to be finalised in October, with a paper including outline draft business plan and financial arrangements presented to FRASC in November 2016. The timetable committed to also includes; draft proposals to NPA in December 2016; business plan finalised by FRASC in February 2017; final Business Plan agreed by NPA in March 2017. Work to investigate funding sources which support implementation of approved proposals is ongoing.

6. **Financial, Legal and Staffing Implications**

6.1 The implications are described in the report.

7. **Recommendation**

7.1 That Members note the content of this report, and

7.2 Approve the carry forward of budgets detailed in paragraph 3.6.

7.3 Approve the reserves detailed in paragraph 4, pending final resolution in the full MTFS.

## Appendix 1

<b>Medium Term Financial Strategy Income and Expenditure Analysis</b>					
<b>2015/2016 Income and Expenditure</b>	<b>2016/17 Revised</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/2020</b>	<b>2020/2021</b>
<b>Expenditure</b>					
Natural Environment	881900	870628	751295	755595	748533
Cultural Heritage	846680	1549240	1208241	657362	689161
Recreation Management	1122940	1023886	1063251	1035775	1039852
Promoting Understanding	1337870	1140976	1147005	1154061	1159244
Rangers and Volunteers	757540	721198	725846	731249	735239
Development Management	791630	663124	668824	674566	678718
Forward Planning	313760	311020	388170	260205	252215
Corporate and Democratic Core	436710	351798	353308	356597	362617
<b>Total Expenditure</b>	<b>6489030</b>	<b>6631870</b>	<b>6305940</b>	<b>5625410</b>	<b>5665579</b>
<b>Income</b>					
Natural Environment	149550	154600	41750	61750	51750
Cultural Heritage	587570	1108080	846120	403870	433361
Recreation Management	608760	590380	610380	635380	635380
Promoting Understanding	473950	301840	321840	321840	321840
Rangers and Volunteers	21980	4480	4480	4480	4480
Development Management	384750	304750	304750	320750	320750
Forward Planning	15360	15360	15360	15360	15360
Corporate and Democratic Core	173780	181780	201780	201780	201780
DEFRA Grant	4163190	4234796	4307634	4381726	4381726
<b>Total Income</b>	<b>6578890</b>	<b>6896066</b>	<b>6654094</b>	<b>6346936</b>	<b>6366427</b>
<b>NET SURPLUS TO ALLOCATE</b>	<b>89860</b>	<b>264196</b>	<b>348154</b>	<b>721526</b>	<b>700848</b>

Desired Outcome	Measure of Success	New Proposal
To ensure that staff costs are subject to appropriate limits whilst maintaining the flexibility to deliver externally funded projects	The costs relating to employment of current staff and outsourced services are maintained within appropriate limits	Staff Cost including fixed cost pension and core outsourced services is maintained at around 55% of gross expenditure
To ensure that the Authority optimises the opportunity to deliver the management plan objectives through receiving external funding.	The level of external funding obtained by the Authority for its own use is focused on priority projects and achieves the targets	Generate a minimum of £6m over the Business Plan period (average £1.5m p.a.) through external funding.
To ensure that the Authority has an allocated reserve balance to meet 'unexpected liabilities'	The reserve level is maintained at the appropriate level	<b>Retain</b> a level based on 5% of gross expenditure (approx £320k)
To ensure that the Authority optimises income generation opportunities	The targets established in the Income Generation Strategy are implemented and regularly reviewed throughout the Business Plan period	Target expressed as a percentage with a profile that gives steady growth; suggestion so far is 10%, which would produce about £1.6m (Members' aspiration) by 19/20
a) To maintain a lean approach to overhead charges in relation to property, vehicles and IT related expenditure. b) To maintain a lean and effective corporate core	To ensure effective <u>and lean</u> use of assets <u>and corporate resources</u>  Corporate and Democratic core costs are maintained within 5% of core expenditure	<b>To benchmark at least 3 areas of corporate and statutory activity.</b>  Corporate and Democratic core costs are 5% or less when expressed as a % of gross cost
To ensure that the expenditure on grants to third parties and communities continue to deliver Management Plan priorities	The Authority continues to maintain support for individuals and the third sector to deliver environmental and community benefits to the park.	Total Expenditure on grants is increased to <b>10%</b> taken as a running average of last four years' spend.
<b>To ensure that planning applications are delivered in the most cost effective way</b>	<b>CIPFA/PAS Benchmarking?</b>	<b>Explore opportunities to benchmark further.</b>  <b>Further work is required in this area</b>