

North York Moors National Park Authority National Park Authority Committee

1 October 2018

Medium Term Financial Strategy

1. Purpose of the Report

- 1.1 To provide Members with a draft updated Medium Term Finance Strategy (MTFS) to help provide an initial commentary prior to the 2019/20 budget setting process, especially the Evening Seminar on 11 October.

2. Introduction and Background

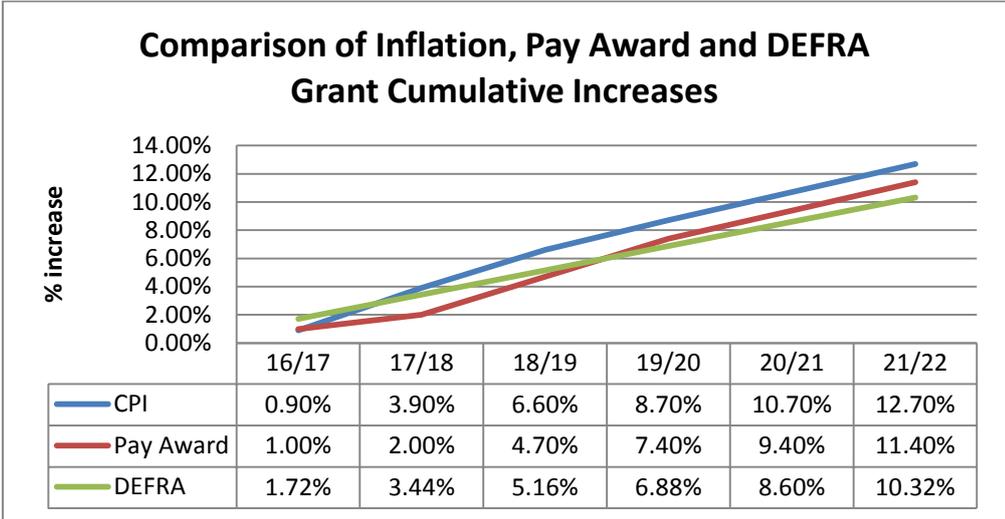
- 2.1 This report provides a draft updated Medium Term Financial Strategy following the emerging budget pressures identified through in-year budget management. It provides a view of the financial position of the Authority over the next three years based on a range of assumptions. This is intended to be indicative and further detailed work will be required as we develop budget proposals for 2019/20.
- 2.2 The Authority's successful track record in securing grant funding provides much to celebrate but it is increasingly clear that this is putting pressure on the core resources as new income is tied to specific projects and activities.
- 2.3 In order to achieve the Park's purposes, the Authority has been keen to maximise its resources and earmark available reserves to provide match funding. This has been a successful strategy and has enabled the Authority to lever significant additional funding. However moving forward as non-externally funded costs rise, should income/Defra grant fail to keep pace it is likely that levels of delivery/customer service will have to be curtailed unless non-externally funded savings and efficiencies can be delivered and stretch income targets can be achieved. Both of these are challenging.
- 2.4 There is currently considerable financial pressure in the public sector, with increasing problems and costs in other sectors adding to the pressure on the public purse. This does provide some uncertainty around future funding for the National Parks. The context for the National Park Review is however very positive, the value for money story we have to tell is compelling and we should be hopeful about maintaining at least current levels of public support following previous substantial reductions in funding.
- 2.5 There will be further discussion of the financial position and potential solutions at the Members Seminar on the 11th October, which will be fed into the detailed budget process. The draft budget will be brought to FRASC in November and NPA in December, with a final version to be considered at FRASC in February and NPA in March.

3. Medium Term Financial Strategy – Updated Assumptions

This section of the report is to provide Members with a high level initial view of the next three years before we enter the process of setting next year's budget. The next three years will present financial challenges driven by the following factors:

3.1 DEFRA Grant

Whilst DEFRA grant is set to increase by 1.72% per annum in 19/20, pay and price increases are higher and consequently the gap between expenditure and income has the potential to widen. No changes to DEFRA grant assumptions are proposed but members should note that even at this level, this is a real term cut in funding. There is no current indication on how the DEFRA grant will change after 19/20. For the purposes of the MTFs, it has been assumed that it will continue at 1.72%.



3.2 Car Park Income

It is assumed that in accordance with the current Business Plan that there will be no car parking tariff increase before December 2020.

3.3 Planning Income

Planning income budgets this year included two large planning applications which do not look like they will come to fruition. There are no expected large applications in the next year; future budgets will be based on a running average unless exceptions are confirmed. This will reduce the base budget for planning income by £60kp.a.

3.4 Corporate Income

There is a risk to a number of income streams in this area including Corporate Sponsorship, Donations and income from staff time funded by others. A reduction in income of £30k has been applied to cover this risk.

3.5 Pay and General Inflation

Employee costs are the Authority’s single largest item of expenditure, with a budget of £3.9m in 2018/19. The Business Plan assumed that the cap on public sector pay would continue but inflationary pressures saw the cap lifted for 2018/19. The current approved MTFs included increased pay award assumptions which in part has contributed to the financial challenges the Authority is now facing. No changes to MTFs assumptions are proposed but the extent of the challenge is illustrated below:

	2018/19	2019/20	2020/21	2021/22
Assumed pay award in Business Plan	1.00%	1.00%	1.00%	1.00%
Employee costs per Business Plan (£m)	3.9	4.0	4.0	4.1
Revised pay award assumptions	2.70%	2.70%	2.00%	2.00%
Revised employee costs per current MTFS (£m)	4.0	4.1	4.2	4.3
Cost increase (£m)	0.066	0.135	0.178	0.221

3.6 Discretionary Spend

Discretionary spend is assumed to be maintained at the same level as the business plan whilst also delivering the large scale projects. This may need to be reviewed in light of realistic expectations of delivery within the budget constraints.

3.7 Contributions to Reserves and Inflation Contingency

This was assumed at £150k, £225k and £375k in last year's MTFS and the business plan over the three years, but there was no contribution to reserves as the plan was to reduce that level. The draft new MTFS has increases of £136k, £219k and £299.5k to meet the current demands of increasing overhead inflation and the contribution to reserves required for the capital replacements and repairs programme. This programme will be reviewed as part of the budget setting process to identify whether any efficiencies can be gained.

Most of the reserves are now earmarked with a view to spending over the next three years. Given the growing pressure on revenue budgets it will be important to ensure that sufficient is set aside into reserve to manage on-going commitments for example future asset maintenance programmes, vehicle purchases, IT spend as well as match funding potential future projects. As part of the budget process longer term liabilities will be assessed and proposals for reserve contributions and spend will be brought forward.

3.8 Additional Income and Savings Challenges

The MTFS incorporates a £100k income target in 2021/22 to help to mitigate the so far unachieved extra income from Sutton Bank (£80k) and corporate income (£30k). In addition, a target to save £10k of recurring savings across six budget areas in 2019/20 will provide £60k per year of cost savings.

4. Grant Funded Projects

4.1 Financial and resource demands from the delivery of large scale projects such as TEL/Lol, Sutton Bank and Ryevitalise need careful consideration in terms of their match funding requirements and potential long term liabilities.

4.2 Sutton Bank Visitor Centre

It has not been possible to devise a programme that would generate the additional £80k of additional income from 21/22. A bid for external funding is to go ahead for a package of additional activities at the site.

It is expected that the additional income generated from the package of activities will be offset by costs incurred to facilitate this but the extra car parking which will be funded from reserves will generate some additional income, which is catered for within the £100k target in 21/22.

4.3 Ryevitalise External Funding

Officers are confident that another £200k of external funding can be raised over the 4 year project, reducing the revenue requirement from its current worst case scenario position of £556.8k to £356.8k. The proposed MTFS reflects this position, but it remains a risk.

5. Financial Outlook

5.1 The following table summarises the forecast movements in the authority's finances since the last MTFS was approved in March 2018:

	19/20 £000	20/21 £000	21/22 £000	On-going £000
2018/19 MTFS Deficit	153	243	194	194
Planning Income Reduction	60	60	60	60
Decrease in Contribution to Reserves	-14	-6	-75	-45
Sutton Bank Income reduction	0	20	80	80
Income Challenge	0	0	-100	-100
Overheads saving challenge	-60	-60	-60	-60
Ryevitalise External Funding	-50	-50	-50	-50
Lower corporate income	40	20	20	20
2019/20 MTFS Deficit	129	227	69	99

5.2 Whilst the forecast suggests an improvement in the financial outlook there are some significant assumptions included on income generation and savings. The figures indicate that to avoid a growing deficit we will need to generate further income, make choices between match funding for projects and existing work, as well as continuing the process of finding new savings as technology and working practices continue to change.

5.3 Members will have the opportunity to discuss options and gain further insights at the Evening Seminar on Thursday 11th October. Initial high level analysis indicates that these challenges can be met by adopting some of the solutions listed below in the budget setting process.

5.4 Discussions with Directors have taken place and there is an expectation that the ability to generate additional income next year will be modest. There is scope for longer term income generation but it will take resources to make it happen. Finding the capacity is a challenge in a period of increasing activity but income generation must continue to be a key priority of the Authority: the critical issue is to identify a few key areas where relatively little staff cost/investment will generate a useful return. And of course this needs to be seen in the context of the already challenging income assumptions contained within the proposed MTFS.

- 5.5 The changes to staffing levels made already due to the period of austerity combined with the volume of activity which is undertaken by the Authority means that there is limited scope for more staffing efficiencies. Natural turnover may provide opportunities but in reality staffing savings would be reliant in part at least upon reductions in discretionary activities.
- 5.6 External funding is an approach that allows us to raise money to deliver objectives of the Authority. We may well need to increase the time devoted to external fundraising further if we are to exploit more opportunities to raise money from external sources to assist with delivery of key projects. In addition, we need to make sure that we maximise opportunities to raise external funding from source where core cost is covered/match funding is not required. All external funding opportunities should be assessed with due regard to impacts on the core resource.
- 5.7 There are discretionary budgets which could be considered for reduction. These will be reviewed in light of the delivery of a major project such as Ryevitalise and the conservation aims that this project meets in its own right but also in view of the financial risks that would have to be covered.

6. Medium Term Financial Strategy Summary

- 6.1 The table below is the business plan extract for the next three years, updated for the assumptions made above.

	Total 2019/20 £	Total 2020/21 £	Total 2021/22 £
Expenditure			
Conservation Of Cultural Heritage	1,466,667	559,913	389,463
Conservation Of The Natural Environment	1,330,359	1,890,813	1,893,903
Corporate Management	208,890	210,279	211,695
Development Control	738,120	752,418	757,695
Forward Planning	384,360	415,681	301,671
Information	1,332,325	1,379,529	1,395,729
Rangers	836,364	850,317	858,131
Recreation Management	1,232,515	1,287,461	1,206,625
Contribution to reserves	100,000	150,000	200,000
Inflation contingency	36,000	69,000	99,500
S106 Polyhalite	1,614,012	2,314,200	2,158,324
Total Expenditure	9,279,612	9,879,611	9,472,736
Income			
Conservation Of Cultural Heritage	-1,096,880	-350,390	-13,256
Conservation Of The Natural Environment	-532,842	-1,014,578	-1,013,608
Corporate Management	-195,000	-215,000	-365,000
Development Control	-268,750	-268,750	-268,750
Forward Planning	-45,360	-15,360	-15,360
Information	-337,440	-339,440	-359,440
Rangers	-4,480	-4,480	-4,480
Recreation Management	-673,880	-673,880	-673,880
Resources	-4,381,726	-4,456,427	-4,531,726
S106 Polyhalite	-1,614,012	-2,314,200	-2,158,324
Total Income	-9,150,370	-9,652,505	-9,403,824

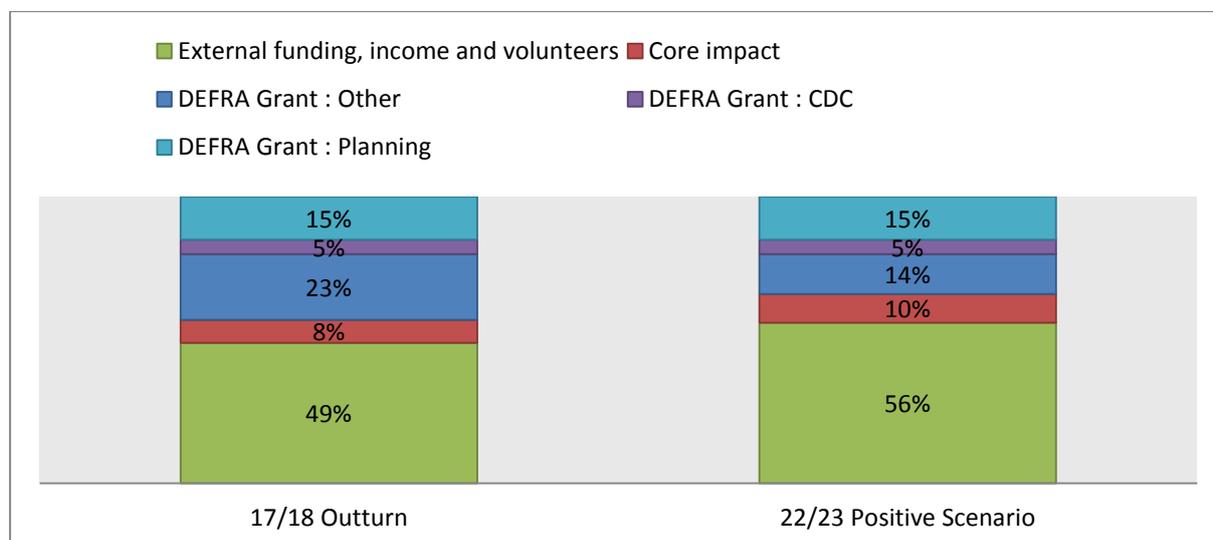
Deficit	129,242	227,106	68,912
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Total Cash Expenditure	9,279,612	9,879,611	9,472,736
Volunteer Time	1,331,000	1,500,000	1,500,000
Total Resource Deployed	10,610,612	11,379,611	10,972,736

7. Resources

7.1 There is an increasing pressure on core resources in the organisation which needs to be considered in the context of discussion around the MTFS. Currently the MTFS assumes a core resource at a comparable level to current, but it is noted that the increase in the complexity and volume of work delivered may need more core support, and therefore more funding in an already pressurised budget. (In this context 'core' relates to all functions of the NPA not funded by external grant or transient income).

7.2 The graph below illustrates the nature of the impact on core resource from increases in external funding. There is a limit to how much leverage, in terms of externally funded work, income generating work and volunteering, that a given amount of Defra funding can sustain, given the need for this to maintain basic statutory functions as well. As the ratio of core to self generated resource increases there is less flexibility and potentially more pressure on the same staff. For this authority, where very many of its activities are already supported by volunteers and/or generate some income, there are only limited areas where savings can be made without simultaneously reducing resource income. The budget setting exercise needs to consider how we deliver our priorities without impacting unduly on quality of delivery and staff welfare.



8. Financial, Legal and Staffing Implications

8.1 The implications are described in the report.

9. Conclusion

9.1 In summary, the MTFS shows that there is a need to generate additional income or savings in order to balance the budget over the next three years. Further work will be undertaken in the detailed budget process in particular addressing the areas of focus highlighted in section 5, and Members will be able to feed into this at the evening seminar in October.

10 Recommendation

10.1 Members are asked to note the report and agree the updated MTFS as a basis for further work.

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