Item 8

North York Moors National Park Authority

25 March 2019

Budget Estimate 2019/20 and MTFS to 21/22

1. Purpose of the Report

1.1 To provide Members with the proposed budget for 2019/20 for approval.

2. Background

2.1 The Authority is legally required to approve a “balanced budget” for the 2019/20 financial year by 31 March 2019. This report contains the proposal for the 2019/20 budget which has been discussed and recommended for approval by FRASC.

2.2 In December 2016 the National Park Authority approved a 4 year Business Plan and with it a Medium Term Financial Strategy and indicative budget for the plan period plus one year.

2.3 The Business Plan and MTFS were formulated within the context of a drive to increase earned and grant income. Success in achieving these targets and the advent of the S106 agreement associated with the Woodsmith mine have added considerably to the complexity of the Authority’s finances.

2.4 This year has seen new budget pressures reflecting increased levels of activity on the ground. This has necessitated active management of the budget in the current year and has added pressure to the balancing of the 19/20 budget. Given that the MTFS had already highlighted the potential for significant budget deficits over the next three years this paper analyses the position more closely than usual. This will influence the development of the MTFS beyond the horizon of the current Business Plan.

2.5 It is clear that, looking ahead to 2020/21 and beyond, further savings or income generation will be required to balance the budget though the work undertaken since the last meeting has improved the position considerably. Projections will be updated as new information becomes available and as all the elements of the Authority’s further income generation plans are fully defined. Section 6 reflects on the discussions currently taking place on income generation, the early results of which are included in the MTFS.

3. National Park Grant

3.1 In January 2016 the Parliamentary Under Secretary of State for Environment and Rural Affairs wrote to all National Park Authorities confirming grant allocations would be protected in real terms through to 2019/20.

3.2 This was welcome news and provided much needed certainty over medium term funding which enabled the Business Plan to be formulated with some confidence.

3.3 The grant allocations set out in that letter showed the National Park Grant increase by 1.7% year on year from 2015/16 to 2019/20. There has been no change in this position and there is no further indication at this time as to what will happen after 19/20. Whilst the increase in the DEFRA grant has been very welcome, it is to be noted that inflation has increased above the level of the grant, resulting in a real terms cut to funding, which increases the pressure on the Authority finances.

4. **2019/20 Budget**

4.1 The table below summarises the budget position for the next three years as agreed by Members at the December NPA meeting. The detail for this can be seen in **Appendix 1** at DEFRA heading level and **Appendix 2** at subjective level. Members will note that the value of the budget has increased once again and is the highest value budget the Authority has ever set.

Proposed Budget	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Expenditure	**9,225**	**9,903**	**9,517**
Income	**(9,225)**	**(9,779)**	**(9,471)**
(Surplus) / Deficit	**0**	**124**	**46**

Expenditure

4.2 The pay award is included per the announcement to remove the pay cap last year. This is approximately 2.7% increase to the Authority's payroll in 2019/20 which is higher than the increase in the DEFRA core grant and therefore reflects a cut in real terms.

4.3 Discretionary grant expenditure has been reduced next year. Grants provided from a number of sources mean that Business Plan priorities will still be met in this area.

4.4 Savings in the core apprentice scheme have been budgeted. Issues around external funding streams, recruitment and the structure of the apprentice teams are to be addressed.

4.5 The Ryevitalise project is included in the budget as previously agreed.

4.6 This budget also includes increasing contributions to reserves to support a future capital programme on vehicles, IT and assets to ensure there is capacity in the revenue budget to cover ongoing commitments.

4.7 Funds have been transferred from the volunteer travel budget (normally underspent) to volunteer clothing.

4.8 Since the draft budget before Christmas, a couple of amendments have been made to the budgets for legal and professional fees, fuel costs and website development but these have been offset by a lower than anticipated maintenance requirement for our toilet facilities.

Earned Income 19/20

4.9 Planning income includes the full 20% increase in the planning income arising from planning application fees (set nationally) and the previous increase to pre-application advice charges.

Further fee increases from April 2019 will be modest and would expect to generate approximately £10.5k of additional income. This would still be competitive against other LPAs and NPAs. FRASC has agreed that officers can agree the details under existing delegated powers up to an expected return of £10.5k.

4.10 There is a challenging target for both car parking and visitor centres incorporated, but no increase in car parking fees for the next financial year.

4.11 The sponsorship, staff time and interest targets have been reduced in the budget as these are not currently being achieved and more realistic figures have been included in the MTFS for later years.

5. Future Income Generation/MTFS

5.1 Earlier drafts of the MTFS included a rising target for earned income. Revisions last autumn added £100k of additional earned income in year 2021/22. Officers have reviewed where this additional income will be generated and whether it could realistically be increased. This has resulted in an estimate of an additional £145k of income in the final year of the MTFS, distributed as follows:-

- Increase in car parking tariffs from 1 April 2020 which will contribute an estimated (£75k).
- Car park asset opportunities including income generation from the new post and increased footfall from the Sutton Bank development. (£65k).
- Increasing margins from our existing opportunities such as event contributions, exhibitions and sponsorship. (£5k).

5.2 Officers will continue to seek other ways of raising new income streams or maximising income from existing sources, assessing the cost benefits of opportunities. No estimate for these has been included in the MTFS, but Members will be updated on any new opportunities when they arise.

5.3 The budget does not include a further unscheduled contribution to NPPL or any expected income from this source(see separate paper). A small amount of locally generated cash/resource from commercial sponsorship is included in the budget.

6. Identification of Budget Risks

6.1 For various reasons the level of risk facing the Authority has grown. Among others, increased risk can be found in the following areas: earned income, legal costs, Brexit, match funding, as well as individual items such as potential cover for Forge Valley project. Above all however is the risk attached to any further reduction in the Defra grant. The Authority's finances are now so complex and have so many interdependencies that a reduction in grant would be both difficult to manage and inevitably have knock-on effects on other funding. At its most basic this is because there are so few areas now that do not generate any income.

6.2 The Authority has traditionally relied on its substantial core discretionary budgets, particularly grants, to act as buffer on the rare occasions when unexpected risks have materialised. These *core* budgets are now smaller than they were and the overall budget larger. The business plan indicates that the emergency reserve should be set at a level of 5% of gross expenditure. Excluding Polyhalite expenditure, this equates to £7.7m and therefore an emergency reserve of £385k.

7. Reserves

7.1 The level of reserves is periodically checked for adequacy and continually monitored by the officers. The principles which underpin the Authority's use of reserves are:

- Maintain an unallocated emergency reserve (£385k) to deal with the costs associated with exceptional and unexpected events (see the risk section 6).
- Restricted and Committed Reserves are those that the Authority is contractually or legally obliged to fulfil.
- Committee Approved Reserves are for projects that have been approved by Members to be spent on a specific project or investment. If these have not already been committed, it is within the remit of the Authority to reconsider these options, although careful consideration needs to be given to the impacts, if monies are not spent as previously agreed.
- The general unallocated reserve is for future commitments not yet identified or approved.

7.2 The table in **Appendix 3** summarises possible reserve movements over the next three years based on business plan assumptions and officers' best estimates of likely spending patterns. Members will appreciate that actual use of Committee Approved Reserves often depends on unpredictable factors such as the success of grant applications, decisions of third parties and the levels of tender submissions. Flexibility of use of this section of the reserves is essential to maximise value for money and new opportunities.

7.3 The first section is the restricted and committed reserves which are already legally ring-fenced and therefore not available for spend on other projects.

7.4 The second section is approved budgets where approval has already been given to spend these budgets but they are currently initial estimates with the work not yet finalised/undertaken.

7.5 This leaves a balance of £169k in the 'General Unallocated Reserve' of which £76k has been carried forward for the TELI project. £55k will be needed to increase the Emergency Reserve following risk assessment which will leave £38k for future spending.

7.6 The budget therefore includes a contribution to reserves for inflation contingency as well as to cover capital programme requirements. These include:

- Vehicle replacements
- Larger capital IT requirements
- Maintenance of our assets including buildings and car parks

7.7 The budget puts this money aside on an increasing basis over the three years to make sure that there are sufficient funds available in reserves to cover these requirements into the future. From year 3 the contributions will continue at the same level each year, in order to smooth the contributions towards the ongoing capital requirements. This is particularly key with the ongoing pressure on revenue reserves plus the majority of available reserves are already allocated to programmes which are expected to be fully spent. The future capital requirements include vehicle replacements and IT, capital works on buildings and car parks and replacement of assets such as car park ticket machines.

8. **Grant Funded Projects**

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

8.2 TELI: the project has £35k of long term legacy commitments which are included from 22/23.

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

8.4 Sutton Bank: It has not been possible to devise a programme that would generate the additional £80k of net income from 21/22. A bid for external funding is to go ahead for a package of additional activities at the site, but it is expected that the additional income generated will largely be offset by costs incurred to facilitate this, leaving a modest net contribution to the budget from 2020 which has been estimated at £20k.

9. **Staffing**

9.1 Members will note the changes to the Conservation department raised in the budget report presented before Christmas. It is still expected that final decisions on this will be made when the outcome of the Ryevitalise HLF bid is known in March.

9.2 The retirement of the Director of Park Services and the fact that his replacement is internal has given the opportunity for a reorganisation within the Department to bring in more logical reporting lines, and enhance the responsibilities of a number of staff including visitor centre managers and other service leads. These changes will be budget neutral although they will result in an increase of 1fte. Sirius S106 funding will continue to cover the costs of delivering projects funded from 106 funds whilst the restructure will fund half of the Car Park Supervisor post, with the other half being paid from the reserve allocated to maximising our car parking assets.

10. **Financial and Staffing Implications**

10.1 The budget has been set considering the pressure on core resources to deliver. The budget will be the largest ever set by the Authority once again, and consideration needs to be given to how much can be delivered by the core resource funded by the DEFRA grant.

10.2 Pay and general inflation are now exceeding the DEFRA grant, resulting in a cut in Government funding in real terms.

10.3 The Authority is increasingly using external funding and volunteer resources to help achieve its aims. The inclusion of a ‘cash value’ for volunteers’ work demonstrates the full value of resources deployed:

	19/20 £000s	**20/21 £000s**	**21/22 £000s**
Total Cash Expenditure	9,225	9,903	9,517
Volunteer Time	1,331	1,500	1,500
Total Resource Deployed	**10,556**	**11,403**	**11,017**

11. **Contribution to National Park Management Plan**

11.1 The aim of the report is to identify the resources available and budget issues in order to support delivery of the National Park Management Plan.

12. **Legal Implications**

12.1 The Authority has to set a balanced budget by 31 March 2019 and this report is part of the process to be undertaken in order to ensure that this is done.

13. **Recommendation**

13.1 That Members approve the proposals for the budget 2019/20.

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Appendix 1

Breakdown by Function	2019/20 Budget	2020/21 Budget	2021/22 Budget
Expenditure	£	£	£
Conservation Of Cultural Heritage	1,493,870	592,460	423,060
Conservation Of The Natural Environment	1,242,940	1,892,150	1,893,980
Corporate Management	239,750	213,110	224,120
Development Management	720,040	741,400	745,100
Forward Planning	367,460	415,140	300,720
Information	1,381,900	1,388,660	1,402,750
Polyhalite	1,614,010	2,314,200	2,158,320
Rangers	838,550	849,890	856,400
Recreation Management	1,190,930	1,276,540	1,213,370
Contribution to reserves	100,000	150,000	200,000
Inflation contingency	36,000	69,000	99,500
Total Expenditure	**9,225,450**	**9,902,550**	**9,517,320**
Income			
Conservation Of Cultural Heritage	(1,139,670)	(383,740)	(13,250)
Conservation Of The Natural Environment	(510,750)	(994,490)	(993,520)
Corporate Management	(172,500)	(187,500)	(237,500)
Development Management	(284,750)	(284,750)	(294,750)
Forward Planning	(35,360)	(15,360)	(15,360)
Information	(365,700)	(346,240)	(366,240)
Polyhalite	(1,614,010)	(2,314,200)	(2,158,320)
Rangers	(4,480)	(4,480)	(4,480)
Recreation Management	(716,500)	(791,500)	(856,500)
Resources (DEFRA Grant)	(4,381,730)	(4,456,430)	(4,531,730)
Total Income	**(9,225,450)**	**(9,778,690)**	**(9,471,650)**
(Surplus) / Deficit	**0**	**123,860**	**45,670**

Note: Numbers in brackets reflect income, or where it is a variance an underspend or over achievement of income.

Appendix 2

Breakdown by Subjective	2019/20 Budget	2020/21 Budget	2021/22 Budget
Expenditure	**£**	**£**	**£**
Employees	3,547,250	3,569,190	3,447,830
Premises	408,750	418,750	358,750
Transport	189,050	189,050	184,250
Supplies & Services	2,579,590	2,292,560	2,168,870
Grants	407,600	541,600	541,600
Third Party	343,200	358,200	358,200
Polyhalite	1,614,010	2,314,200	2,158,320
Contribution to reserves	100,000	150,000	200,000
Inflation contingency	36,000	69,000	99,500
Total Expenditure	**9,225,450**	**9,902,550**	**9,517,320**
Income			
Other Grants	(1,485,230)	(1,023,770)	(804,310)
Sales	(212,250)	(214,250)	(234,250)
Lettings	(97,370)	(99,370)	(99,370)
Booking Fees	(61,300)	(61,300)	(61,300)
Car Park Income	(511,000)	(586,000)	(651,000)
Planning Fees	(284,750)	(284,750)	(294,750)
Other Income	(114,080)	(104,080)	(104,080)
Donations &Sponsorship	(5,000)	(20,000)	(70,000)
Investment Income	(27,500)	(27,500)	(27,500)
Capital Receipts	(15,360)	(15,360)	(15,360)
External Match Funding	(315,870)	(471,680)	(319,680)
S106 staff recharge	(100,000)	(100,000)	(100,000)
DEFRA Grant	(4,381,730)	(4,456,430)	(4,531,730)
Polyhalite	(1,614,010)	(2,314,200)	(2,158,320)
Total Income	**(9,225,450)**	**(9,778,690)**	**(9,471,650)**
(Surplus) / Deficit	**0**	**123,860**	**45,670**

Note: Numbers in brackets reflect income, or where it is a variance an underspend or over achievement of income.

Appendix 3: Reserves

Reserves £k	18/19 Closing Bal Forecast	19/20 Cont	19/20 Spend	19/20 Bal	20/21 Cont	20/21 Spend	20/21 Bal	21/22 Cont	21/22 Spend	21/22 Bal
S106	(253)		144	**(109)**		109	**0**		0	**0**
TELI	(203)		64	**(140)**		140	**0**		0	**0**
NYMNR	(30)		30	**0**		0	**0**		0	**0**
Emergency	(320)		(65)	**(385)**		0	**(385)**		0	**(385)**
Restricted and Committed	**(806)**	**0**	**172**	**(634)**	**0**	**249**	**(385)**	**0**	**0**	**(385)**
Buildings	(270)		50	**(220)**		220	**0**	(30)	0	**(30)**
Assets maintenance	0	(30)	30	**0**	(50)	50	**0**	(70)	50	**(20)**
Ryevitalise	(153)		38	**(115)**		38	**(77)**		38	**(39)**
Sutton Bank VC	(278)		278	**0**		0	**0**		0	**0**
IT & Vehicle Replacements	(52)	(70)	51	**(71)**	(100)	142	**(29)**	(100)	113	**(16)**
Income generation car parking	(100)		25	**(75)**		50	**(25)**		25	**0**
TEL underspend in 18/19 required in 19/20	(76)		76	**0**			**0**			**0**
Member Approved	**(929)**	**(100)**	**548**	**(481)**	**(150)**	**500**	**(131)**	**(200)**	**226**	**(105)**
General Unallocated Reserve	(114)	(36)	65	**(85)**	(69)	0	**(154)**	(100)	0	**(254)**
Total Reserves	**(1,849)**	**(136)**	**786**	**(1,200)**	**(219)**	**749**	**(670)**	**(300)**	**226**	**(744)**

Note: Numbers in brackets reflect a positive reserves balance or a contribution to reserves.