Item 8

North York Moors National Park Authority

30 September 2019

Medium Term Financial Strategy and Budget 20/21

1. **Purpose of the Report**

1.1 Following the presentation of the report at August FRASC, this report continues to provide Members with information to guide the update of the Medium Term Finance Strategy (MTFS) and to begin the detailed 2020/21 budget setting process.

2. **Introduction and Background**

2.1 Each year we refresh our Medium Term Financial Strategy (MTFS). In 2018, we developed this alongside the 19/20 budget setting process to help provide an initial strategic view of the financial position, to set the context in which the detailed budget for is produced over the autumn. It provides a view of the financial position of the Authority over the next five years based on a range of assumptions. A fuller and more challenging review of the MTFS will be needed for the next Business Plan.

2.2 The Authority's financial model of securing selective external funding, generating additional earned income and increasing volunteer resource has been progressing well and has enabled us to substantially increase the amount that we can deliver for each pound of Defra grant. A number of substantial projects have been successful in raising additional funds (eg Ryevitalise and the Esk) and levels of earned income and volunteer effort have reached an all-time high. This strategy will continue to ensure that we generate the right level of extra resources to deliver an ever increasing workload from increasingly constrained core resources.

2.3 The budget for 19/20 was the largest set by the Authority, an indication of the success of the strategy being followed. We do need to be aware however that there is a maximum level of demand that can be put on the core by externally funded projects and volunteering initiatives. This is brought into focus as inflation on core costs is increasing by more than the DEFRA grant, and whilst this continues there is the risk that we may need to make further difficult decisions about what we deliver and what we fund. It is better to deliver fewer things well than more things not so well, so it is important that the Authority ensures is maintains this balance.

2.4 Uncertainty and pressure on the public purse continues across the public sector, and this does provide some uncertainty around future funding. This MTFS is set in that context, and some sensitivity analysis is conducted in the report to demonstrate the potential impacts of some of these uncertainties.

3. **Economic Context and Risks**

3.1 **Brexit (EU Funding)**

Following the deferral of the exit date from the 29th March to the 31st October 2019, the impacts and nature of Brexit remain uncertain. Officers continue to watch for developments that may impact on the Authority.

3.2 Landscapes Review

3.2.1 The Landscapes Review by Julian Glover is set to be published in the autumn, which could have considerable impacts on many aspects of the Authority delivery and therefore the financial strategy which underpins this. Letters between Julian Glover and Michael Gove have been published and include the following references:-

"At the very least we want to see existing budgets for National Parks secured in real terms and sustained for a further five year period. Any new National Park designations must be funded with additional money not from the current budget."

"*We recognise that all calls for more public money to be spent will face understandable scrutiny. Budgets are tight for a reason. But doing more will cost more. We want to see our landscapes funded from a wider range of sources and will make proposals in the final report."*

3.2.2 This is our only current indication on DEFRA grant at present, and certainly the initial views being made here are positive with regard to any additional requirements from the review being funded and the current funding levels being maintained in real terms. However, this is just a recommendation at present, so cannot be taken as secured until we hear more later in the year.

3.2.3 The report does seem to indicate that there may be additional demands of National Park Authorities from the review on top of current priorities. We will need to continue to monitor this as it develops through the autumn. The financial position of the Authority in this report clearly indicates that additional activities could not be funded without endangering existing income generating activities.

3.3 ELMS

3.3.1 The Authority has been selected to deliver a programme of Test and Trials as part of the development of the new ELMS programme for DEFRA, though final confirmation is awaited.

3.3.2 This work is expected to commence in September over a 13 month period and a maximum total of £80,040 will be funded by DEFRA spanning this and the following financial year. Payment from DEFRA will be based on actual costs incurred. Some additional resource will be required to backfill the activity displaced by this new programme of activity but this will be met from existing Conservation budgets.

3.4 Climate Change

3.4.1 The Authority has been a national leader in this area in the past. Demand for greater action is currently becoming more prevalent than ever in the public and political arena. No heightened impacts of this are currently modelled in the MTFS, though the most innovative work of the Authority was lost following the financial crash and austerity.

3.4.2 Climate change does increase potential for flooding as seen recently in the Yorkshire Dales. This is particularly relevant to rights of way infrastructure should damage be caused to bridges or other assets that are the responsibility of the Authority. The wider effects on wildlife and farming have previously been discussed.

3.5 **New DEFRA Grant Memorandum**

3.5.1 The Financial Grant Memorandum is currently being reviewed by DEFRA and a more up to date version is set to be agreed to come into effect in the current financial year. Representatives from each Authority including NYMNPA have been successful in securing a number of changes to the agreement through a collaborative process with DEFRA.

It may be that there will be a change of approach from DEFRA, with more focus being paid to the use of funds than has been the case through the course of the last agreement. The impact on the MTFS of this, if any, is hard to predict

3.6 **Inflation and Interest**

3.6.1 CPI Inflation at June 2019 is currently 1.9% compared to 2.3% at the same time last year. This still marginally exceeds the increase in DEFRA grant. However, pay inflation exceeds the grant by a more substantial amount at 2.7%. Assumptions made in the MTFS model are 2% for inflation and 2% for pay inflation.

3.6.2 Interest rate levels remain low at 0.75% with the last increase in August 2018. Cash balances are expected to reduce as we spend more of the earmarked reserves, therefore any potential small increases in the base rate are expected to be negated by reducing cash flows. There is a risk if there are no increases in the base rate that interest returns may reduce. Movements in the base rate are difficult to predict in the current political environment and the uncertainties of Brexit.

3.7 **Large Capital Projects**

3.7.1 As we increase our resources through external funding, we are starting to deliver larger capital projects; this brings an additional risk in respect of the potential for cost overruns. This risk is mitigated by the Authority through close project management, but it continues to be an increasing risk factor in the Authority budgets. There is no change in the MTFS for this, but project contingencies should always be considered for all financial projections on large projects and an annual assessment on levels of emergency reserves carried out as part of the budget process, including assessment of potential risk from up and coming large scale projects.

3.7.2 Many 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. Legacies for Land of Iron and Ryevitalise are already included.

3.7.3 We also need to continue to assess where there is risk of a funding body discontinuing funding a project under the terms of contract. This should be part of ongoing risk mitigation, but will become an increasing risk as we fund more of our activities in this way.

4. **MTFS Summary Position**

4.1 The table below illustrates the current projected outturn for the MTFS based on the assumptions illustrated in section 5 of the report. The detailed budget process will be looking at ways to mitigate the indicative deficit.

	20/21	21/22	22/23	23/24	24/25
2020/21 MTFS Deficit	**160**	**2**	**33**	**65**	**97**

4.2 Members will note that the largest deficit is assumed in the next financial year. The reason for this is explained below and further mitigation actions suggested in the budget section of this report.

4.3 Increased earned income from our assets is assumed from 21/22 onwards following work by SLT on future budgets over the last year. This resulted from the discussions members had last autumn on the MTFS.

5. Medium Term Financial Strategy – Updated Assumptions

This section of the report is to provide Members with a high level initial view of the current key assumptions before we enter the process of agreeing the MTFS and setting next year's budget.

5.1 DEFRA Grant

5.1.1 2019/20 was the last year of the multi-year settlement which delivered annual increases in the grant of 1.72%. It was expected that there would be a full Government spending review in the autumn, but with the current political situation and the new Brexit deadline at the end of October, it has now been announced that the Treasury will produce a one year settlement in September [delivered on 4/9/19] with a full review to take place in 2020/21.The interim conclusion of the Landscapes Review mentioned earlier is very helpful but clearly aside from this there are several significant downside risks.

5.1.2 Taking into account the above, the MTFS continues to assume a 1.72% increase as a mid-case scenario for 2020/21. Defra received a 3.3% real terms increase in the recent Spending Round. This is therefore a prudent view and the Authority would expect that a new grant settlement would keep at least in line with inflation each year, in line with the initial findings of the Landscape Review. The table below illustrates the impact on the DEFRA grant between the assumed level and the level of inflation. Each 1% change in the grant is equal to £43,817.

19/20 Budget DEFRA grant	Increase of 1.72% (Per the current agreement)	Increase of 2% (June CPI)
4,381,730	75,366	87,634

5.2 Pay and General Inflation

5.2.1 Employee costs are the Authority's single largest item of expenditure, with a budget of £3.7m in 2019/20. (Note that this leaves direct staff spend at well below 50% of total spend, very low for a NPA). The Business Plan assumed that the cap on public sector pay would continue but inflationary pressures saw the cap lifted from 2018/19 onwards. The current approved MTFS includes pay award assumptions of 2% per annum based on the increases of the previous two years after the removal of the sliding scale. However, forecasts of CPI and early recommendations from Unison indicate pressure to increase further. The potential impact of this is shown in the table below.

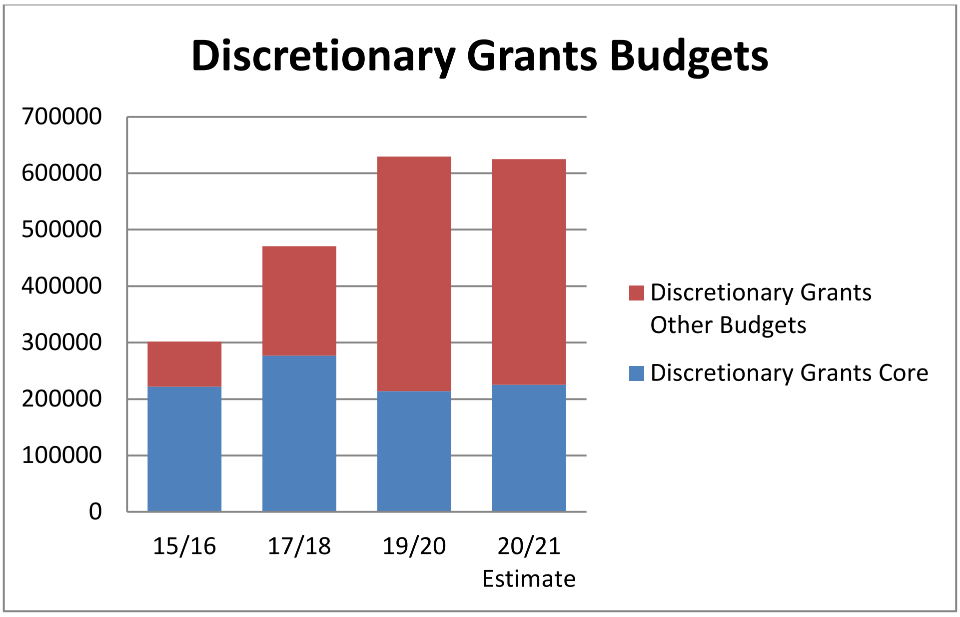
5.2.2 Each 1% change in pay award will increase or decrease the cost to the Authority by £37k based on current employee levels. A number of scenarios are illustrated below.

19/20 Budget Payroll	Increase of 2% (Included in the MTFS)	Increase of 2.5%	Increase of 3%	Increase of 5%
3,717,000	74,340	92,925	111,510	185,850

5.3 **Grants**

5.3.1 In 2019/20, some core grants were reduced in order to deliver a balanced budget and mitigate the deficit. This was justified by the increasing level of grants from non-core sources.

5.3.2 The graph below illustrates the level of grants that the Authority is delivering overall through different funding streams and shows that this has increased despite the reduction in core grants. It is expected at this stage that the overall level of grants will remain broadly the same as the current year based on the MTFS assumptions.



5.3.3 At this stage officers are proposing to reverse only a small element of the 19/20 core grant reductions since the overall spend on grants is still at a high level and there is not enough staff capacity to deliver more. Members will no doubt wish to discuss this and the nature of the core grants that are available.

5.3.4 Following discussion at FRASC and as part of the detailed budget process, the budget report which will be presented to Members at December NPA will include an analysis of the nature of discretionary grants and a proposal of which grants to reduce to ensure the balance of delivery is maintained.

5.4 **Car Park Income**

5.4.1 As part of the budget process last year, Members approved the principle of a long delayed increase in the car parking tariff from 1st April 2020 and a figure of £75k to find from this. Officers are looking at the implementation of this increase and will bring proposals back to members regarding specific levels for the November FRASC. The MTFS maintains the overall increase of £75k from this increase in tariffs.

5.4.2 In addition, from 2021/22 the MTFS includes an additional £20k income from the Sutton Bank project plus £45k from the initiative that is looking at ways of generating increased income from our assets.

5.4.3 Car park income currently is at challenging levels and is always vulnerable to adverse weather conditions. The table below illustrates the value of any shortfall in income from bad weather conditions with every 1% resulting in £5,860 less income based on 20/21 MTFS income level.

19/20 Budget Income	Decrease of 1%	Decrease of 5%	Decrease of 10%
586,000	-5,860	-29,300	-58,600

5.5 **Planning Income**

5.5.1 In 2019/20 the budget was amended to exclude any assumptions of large applications (both income and costs) and use a rolling three year basis for income assumptions. This continues in the MTFS. Planning income is always vulnerable to external economic pressures and with political uncertainty at present these could impact on the number of large applications in particular. Therefore it is deemed prudent to keep planning income at this level. No national increases in planning fees (or setting of local fees) from central government are known, so none are assumed in the MTFS.

5.5.2 The table below illustrates the potential impacts of a reduction in planning income, should there be external factors impacting on volumes of applications.

19/20 Budget Income	Decrease of 1%	Decrease of 5%	Decrease of 10%
275,000	-2,750	-13,750	-27,500

5.6 **Future Match Funding**

5.6.1 The strategy of generating external funding to help deliver more substantial projects has been very successful with two substantial projects in Land of Iron and Ryevitalise both key to the delivery of business plan priorities.

5.6.2 Both projects require the Authority to commit to significant match funding, and reserves along with revenue have been used to assist with this. As we progress to future projects, consideration will need to be given to how future match funding should be budgeted for - an annual contribution to reserves to build up a match fund pot for use on major projects, or funded from existing revenue budgets. This will be a key point to be addressed in the development of the next business plan and will be discussed further as part of the budget process. The current MTFS does not budget for any additional match funding contributions for new projects unless these are taken from existing core budgets. The current level of reserves does not allow for substantial match funding, so these may need to be funded from revenue in the future. Members are aware of the need to raise significant extra funds as match funding for the Rye project.

5.7 **Reserves**

5.7.1 In line with the current Business Plan, most of the reserves are earmarked to spend over the period of the MTFS with the value expected to reduce to £765k at the end of the period based on current spending proposals.

5.7.2 As per last year, it is recommended that the reserves contributions profile is maintained in order to help to smooth the impact of replacement of our IT and vehicles as well as large asset maintenance requirements. The reserve contributions will help to ensure this is affordable when those opportunities or requirements arise. A contribution of £150k per annum will help to smooth the IT, assets and vehicle requirements over the next 10 years. However, current reserve profiles indicate that this contribution per annum will see some shortfalls in the earlier years, so as part of the budget process those programmes will be reviewed, including the timing of asset replacement.

5.7.3 In addition, overhead inflation is not currently put into revenue budgets but held as a reserve to be used as a contingency where this is required through the year. This helps to control spending levels in the Authority whilst providing assistance where inflation cannot be managed. The MTFS assumes that this money will be required in each year to help mitigate this.

5.7.4 A minimum level of 5% of gross expenditure excluding S106 is to be maintained in the emergency reserve at any time. Again, if this was to dip below that level we would need to top this reserve back up from revenue budgets in the following year. With the addition of the Esk and Arncliffe projects 5% currently equates to £391k. The emergency reserve level will be risk assessed annually as part of the budget process.

5.7.5 The reserves table in **Appendix 2** shows the anticipated movement in reserves over the period of the MTFS.

6. Budget 20/21

6.1 One off Pressures in 2020/21 and Potential Options for Deficit Mitigation

6.1.1 As mentioned previously the largest deficit showing in the MTFS is for next year. This is because the Business Plan includes a number of one off costs for next year. At the same time the further increases in earned income in the MTFS are not planned yet to have materialised. The budget also contains significant contributions to externally funded projects including Ryevitalise.

6.1.2 Officers are clear that a call on reserves of £160k is not appropriate given the scale of financial risk the Authority is carrying and Members at the FRASC meeting in August agreed. As described above, a reduction in staff is not viable if programmes are to be delivered, indeed the organisation continues to run at a stretch. One area where an increase in budget has previously been agreed is work on connectivity. This is also an area where extra funds are being committed as match funding to externally funded projects. There would be a real issue of capacity to deliver this double boost on top of existing workload. It is therefore suggested that it is proposed to NPA that the connectivity budget for 20/21 is reduced by £75k to £100k.

6.1.3 This would leave a working deficit to find from extra income or reduced spend. Officers believe this should be manageable and would return to members with proposals to reduce the gap to a *maximum* of £40k subject to the key issues of the pay award and DEFRA grant being in line with MTFS assumptions. The shortfall would then be a potential call on reserves.

6.1.4 Realistically, as long as the DEFRA grant increases remains below the level of wage and general inflation, the pressure on resources will continue, and hard decisions on what the Authority can deliver will need to continue.

6.1.5 Members of FRASC in August agreed with this approach as a basis for further work in the detailed budget setting this autumn.

7. **Summary**

7.1 This is a challenging time financially for much of the public sector, and yet as a result of increasing earned income and external funding, more volunteering and S106 arrangements we are delivering more than ever before.

7.2 This is a success story, but whilst DEFRA grant remains behind inflation, the financial pressures will continue and core services will tend to decline to support project and programme work.

7.3 Following the extensive work done over many years there are fewer and lower value efficiency savings that can be made now, although potential for efficiency through further investment in technology remains an avenue to consider actively. Minor savings from the review of admin services have already been included in the budget. There is still more work to do on income however, with more innovation in income streams potentially providing additional resources. In addition, the work of the new Car Park/Site manager post will maximise income from car park assets. This is still in its infancy as a project, but we are already seeing benefits and the MTFS reflects some of this; a better picture of this overall will be available later in the year.

7.4 Reserves will continue to smooth the impact of works on buildings plus necessary acquisitions of new vehicles and new IT kit. This will help to manage those costs into the future. However, unallocated balances in the reserves are much lower, in accordance with the Business Plan, but reducing flexibility. Therefore we need to consider where funding will come from for future match fund large scale projects. This is a significant issue given other pressures on core resources.

7.5 Members of FRASC agreed this updated MTFS as a basis for further work including further work towards the potential mitigation options as outlined in section 6. Members asked that Officers ensure that the budget process includes scenario planning for worse case positions on inflation and grant in particular should further mitigation be required. The detailed budget will also provide additional details on core grants and a proposal on how these will be structured in 20/21.

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

8.1 The implications are described in the report.

9. **Next Steps**

9.1 The formal process for the development and approval of the 2020/21 budget at member level is as follows;

Draft budget	FRASC	November 2019
Draft budget	NPA	December 2019
Final proposed budget	FRASC	February 2019
Final budget for sign off	NPA	March 2019

10. **Recommendation**

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

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Appendix 1 : Breakdown by Function	**Sum of 2019/20 £k**	**Sum of 2020/21 £k**	**Sum of 2021/22 £k**	**Sum of 2022/23 £k**	**Sum of 2023/24 £k**	**Sum of 2024/25 £k**
Expenditure						
Conservation Of Cultural Heritage	1,434	293	244	247	250	254
Conservation Of The Natural Environment	1,101	1,711	1,777	1,805	1,833	1,862
Corporate Management	1,342	1,432	1,415	1,443	1,471	1,500
Development Control	535	545	554	565	576	588
Forward Planning	316	315	251	254	257	260
Information	1,142	1,126	1,147	1,170	1,193	1,217
Rangers	677	686	696	710	724	739
Recreation Management	937	986	930	946	962	978
Contribution to reserves	100	150	150	150	150	150
Inflation contingency	36	69	102	135	171	206
Total Expenditure	**7,620**	**7,315**	**7,266**	**7,424**	**7,588**	**7,753**
Income						
Conservation Of Cultural Heritage	1,148	86	1	1	1	1
Conservation Of The Natural Environment	511	994	994	1,013	1,032	1,052
Corporate Management	173	188	238	239	241	243
Development Control	285	285	285	290	296	302
Forward Planning	35	15	15	15	15	15
Information	366	339	359	366	373	381
Rangers	4	0	0	0	0	0
Recreation Management	717	792	842	858	875	893
Resources	4,382	4,456	4,532	4,609	4,687	4,767
Total Income	**7,620**	**7,155**	**7,264**	**7,391**	**7,522**	**7,656**
Deficit	**0**	**+160**	**+2**	**+33**	**+65**	**+97**

Appendix 2

Reserve Summary (£k)	2019/20 Opening Position	Contribution from reserves	Transfer Between Reserves	Contribution to reserves	19/20 Closing position	Contribution from reserves	Contribution to reserves	20/21 Closing Position	Contribution from reserves	Contribution to reserves	21/22 Closing Position	Contribution from reserves	Contribution to reserves	22/23 Closing Position	Contribution from reserves	Contribution to reserves	22/23 Closing Position
Emergency Reserve	-320		-65		-385			-385			-385			-385			-385
TELI Match Funding	-463	300			-163	123		-40	40		0			0			0
NYMNR Match Funding	-30	30			0			0			0			0			0
Section 106 Reserve	-643	400			-243	243		0			0			0			0
National Trails Reserve	-12	12			0			0			0			0			0
Restricted and Committed Reserves	**-1,468**	**742**	**-65**	**0**	**-791**	**366**	**0**	**-425**	**40**	**0**	**-385**	**0**	**0**	**-385**	**0**	**0**	**-385**
Capital : Sutton Bank Visitor Centre	-338	202			-136	136		0			0			0			0
Capital : Vehicle Replacements	-52	84		-45	-13	114	-95	6	41	-95	-48	136	-95	-7	68	-95	-34
Capital : IT Replacements	0	26		-55	-29	54.3	-55	-29.7	90	-55	5.3	97	-55	47.3	77	-55	69.3
Capital : Asset Major Programmes	-287	100			-187			-187			-187	25		-162			-162
Projects : Ryevitalise Match Funding	-153	112			-41			-41			-41	41		0			0
Projects : Asset Income Generation	-100	25			-75	50		-25	25		0			0			0
Committee Approved Reserves	**-930**	**549**		**-100**	**-481**	**354.3**	**-150**	**-276.7**	**156**	**-150**	**-270.7**	**299**	**-150**	**-121.7**	**145**	**-150**	**-126.7**
General Unallocated Reserve	-258	36	65	-36	-193	-69	69	-193	-100	100	-193	-133	133	-193	-166	166	-193
Total Reserve Balance	**-2,656**	**1,327**		**-136**	**-1,465**	**651**	**-81**	**-895**	**96**	**-50**	**-849**	**166**	**-17**	**-700**	**-21**	**16**	**-705**