

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

3 February 2020

Budget Estimate 2020/21

1. Purpose of the Report

- 1.1 To provide Members with a final proposal for the budget for 2020/21 for onward transmission to the full Authority. The main/only changes are in relation to three successful externally funding projects.

2. Background

- 2.1 This report contains the proposal for the 2020/21 budget which was approved at the December NPA amended with grants for work at Sutton Bank, to extend our work with young people and to improve the environment of the River Esk. These add £1.1m of income and cost to the 20/21 budget.

3. National Park Grant

- 3.1 For the past four years, the Authority has been able to set its budgets knowing the value of the DEFRA settlement.
- 3.2 There was expected to be a full spending review this autumn, which would help to provide some certainty around the future grant for the Authority but this has been delayed by a year. As a result, a one year settlement was agreed which saw a real terms increase in DEFRA's grant of 3.3%. DEFRA has not yet agreed what settlement the National Parks will get from this. We are therefore setting the budget amidst a lot of uncertainty from a funding perspective. Officers have been pressing DEFRA to provide some certainty but it remains unclear when we will have confirmation of our grant, particularly given a possible change in Defra Ministers in February.
- 3.3 As Members will recall, officers calculate that the real terms decrease in grants from central government for this Authority over the austerity period was approximately 40%. This led to the cessation of essential work on climate change and sustainable travel among other areas. A return to real terms reductions in the Authority's core grant would appear to be at odds with the public appetite for stronger delivery of National Park objectives. The draft budget therefore continues to assume a 1.7% increase to the grant. This is in line with the previous multi-year agreement and is very close to CPI inflation.

4. 2020/21 Budget

- 4.1 The table below summarises the draft budgets for the next three years as they currently stand. The detail for this can be seen in **Appendix 1** at DEFRA heading level and **Appendix 2** at subjective level.

Draft Budget	2020/21 £000	2021/22 £000	2022/23 £000
Income	10,790	9,388	9,232
Expenditure	-10,818	-9,478	-9,321
Deficit	-28	-90	-89

- 4.2 The deficit for 20/21 has been reduced to a manageable level. Members will recall the presentation at the December NPA which showed potential measures to reduce the deficit in the following two years. It is suggested that further work on this is done when the Defra grant is known. On current figures any significant call on reserves to fund revenue in 21/22-22/23 is not recommended.

Expenditure

- 4.3 This section reiterates the key changes in the expenditure budget since the MTFS was approved by Members at the Authority meeting in September (plus the changes at para 2.1 which have been made since Dec NPA.)
- 4.4 A full re-evaluation of the salaries budget noted increments which were not included in the MTFS in August which was based on a high level 2% inflation assumption. In addition, apprentice pay costs were assumed to be on the lower end of the scale when budgets were set. However, there have been a higher proportion of older apprentices than expected, which has an increased cost together with significant increases in the 'minimum wage for age' rates. This has been reflected in the budgets going forward. Overall impact of this is to increase the overall salaries budget by £64k in 2020/21 and onwards. The apprentice programmes will be reviewed with a view to putting a ceiling on the pay cost of the programme.
- 4.5 The triennial pension valuation is now received and open to consultation, and the report indicates that this will drive a saving of £140k over the next three years. The initial figures show that the scheme has moved from being 100% funded in 2016 to 120.7% funded in 2019 mainly due to excellent investment returns. Whilst the future service rate is expected to increase to 19.7%, the rate reduction for the surplus will assist in a stepped reduction in the employer contribution rate from the current 18% level to 15.4% in 2022/23. There is a risk at the next valuation that this could return to the underlying 19.7% rate, so to help mitigate a potentially large increase in year 4, it is considered prudent to take half of the £140k as savings in the next three years, and retain the other half in a reserve to help smooth the potential impact of an increase at the next triennial valuation. As Members commented at NPA, there is the potential for the underlying rate to increase by more than this.
- 4.6 During the budget process, an additional £10k of savings were found across a number of expenditure budgets to help to reduce the deficit.
- 4.7 The aerial photography project was assumed in the MTFS in 2020/21 but as we have photographs available from 2017/18 this will now not be needed until at least 2023/24 with the plan to renew every 5 years. There is also potential for an alternative solution for the future and more will be known about this early next year. The toilet refurbishment review has indicated that some of this budget is now not required to be spent until 2022/23 rather than 2020/21 in line with requirements.

- 4.8 The Ryevitalise project is included in the budget based on the latest profiling of the project which differs a little to that in the MTFS. Overall, the project is still expected to result in £350k of cash expenditure for the Authority over the four years, which includes the target set last year to raise a further £200k of funding towards this. Work is currently underway to raise this additional income (see External Funding paper) but should it not be raised there is a risk to some of the project not being delivered. Members will recall that 2020/21 will be the last year of the TEL project, with an annual legacy cost from the project reflected in the budget.

Earned Income

- 4.9 These are the changes that have been made to the income budgets since the MTFS in September.
- 4.10 An additional £20k of income has been added into planning in 20/21 in relation to resource required on a large planning application which would be developer funded.
- 4.11 An additional £20k has been put into 2020/21 to reflect the potential to make an earlier return on the car park sites project. There is a challenging target for both car parking and visitor centres in the budgets. The current year demonstrates how volatile car park income can be in relation to weather conditions. The growth in car parking capacity at Sutton Bank is assumed to help mitigate this risk within the existing budget. Increased tariffs and Sutton Bank project income remain the same as the MTFS.

5. Summary of Changes

- 5.1 The table below summarises the movements in the budget since the MTFS and the mitigation of the budget deficit to a level that can be safely funded from reserves. Note that there have been two changes since FRASC in November which are detailed at the end of the table.

5.2

	£k
2020/21 MTFS Deficit	-260
Increase in staffing costs	-64
Elec vehicle charging	-7.5
2020/21 Budget Deficit	-332
Core grant reductions	93
Reduction to connectivity	75
Additional savings found	10
Toilet refurbishment delivered over 3 years	10
Aerial photography no longer going ahead	30
Planning income – large application	20
Ryevitalise project phasing	20
Pension revaluation saving (estimated)	13
Tourism survey now in 21/22	15
Budget before contribution from reserves reported to FRASC	-46
Removal of Elec vehicle charging project	7.5
Increase in car park management income	10
Budget before contribution from reserves	28
Contribution from reserves to balance the budget	-28
Budget 2020/21	0

- 5.3 Core third party grant reductions are covered in more detail in section 6 of this report but are £7k lower than proposed in the MTFS report.
- 5.4 The £75k reduction in the connectivity budget was proposed in the MTFS paper in September and remains part of the mitigation of the deficit. Members will recall that this was agreed in the context of substantial increased match funding to, and spending by, externally funded projects.
- 5.5 As indicated in the MTFS, it was anticipated that reserves would be required to balance the 2020/21 budget, and in this proposal it is intended that £28k would be needed to do this. Unallocated reserves are currently £193k which would therefore reduce to £165k. It is to be noted that funding deficits is not a sustainable solution and further savings or income will need to be found or generated to balance the budget in future years.

6. Grants Budget Proposal

- 6.1 As Members will recall, the MTFS paper recommended that grants be reduced by £100k in order to help address the deficit position in 2020/21 and to manage workloads.
- 6.2 This was based on the level of grants available in the National Park via the Authority being higher than in previous years, despite the reduction in those grants coming from the core budgets. Key reasons for this are the increase in grants provided as part of externally funded projects and programmes.
- 6.3 The approved proposal maintains the balance of 'popular' grants provided to landowners and individuals. In addition, the other sources of grants are helping to deliver PAWS, light pollution reduction, connectivity, boundary works and tourism amongst others in 2020/21.
- 6.4 The draft budget proposes a reduction of £92.4k, core grants will still be £26.1k higher than in 2019/20 as illustrated in the table below. The ranger grant was reduced in 2019/20 and it is felt that the value of this at £32,700 accurately reflects the resource capacity in the team to administrate this. Tourism grant is also in line with 19/20 and is reflective of the level of work that can be delivered. The conservation agreements budget has been reduced to £13k, which is a reflection on the current low level of commitments in this area. PAWS work is proposed to reduce to £50k based on capacity to deliver but also with regard to there being PAWS grants provided as part of the Ryevitalise project and the Authority's substantial contribution to this. PAWS work overall will not reduce across all sources of grants. Traditional boundary scheme is to be delivered at the same levels as 2019/20.

6.5

Core Grants	19/20 Current Year	20/21 Proposed Budget
Archaeology	0	20
Ranger / Community	32.7	32.7
Tourism	32.7	32.7
Conservation Agreements	20	13
Historic Buildings	26.9	50
PAWS	60	50
Traditional Boundary Scheme	46.5	46.5
Village Caretakers	28.5	28.5
Total	247.3	273.4

7. Reserves

7.1 The level of reserves is periodically checked for adequacy and continually monitored by the Authority's s151 Officer. The principles which underpin the Authority's use of reserves are:

- Maintain an unallocated emergency reserve (£385k) to deal with the costs associated with dealing with exceptional and unexpected events.;
- 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 Members to reconsider these options, although careful consideration needs to be given to the impacts, if monies are not spent as previously approved;
- The general unallocated reserve is for future commitments not yet identified or approved.

7.2 The table in **Appendix 3** summarises the anticipated reserve movements over the next three years.

7.3 There is currently an unallocated balance of £193k in the 'General Unallocated Reserve', of which £28k is proposed to help balance the 2020/21 budget. This would leave £165k in the general unallocated reserve.

7.4 An inflation provision is included within the draft budget although it is not allocated to individual budget headings unless required.

7.5 In addition, a smoothing reserve for capital requirements in IT, vehicles and assets is set aside each year at £150k per annum to fund this programme of essential replacements.

7.6 A reserve has been created for the pension revaluation to help smooth any potential adverse impacts on budgets at the next valuation should this return to the primary rate.

8. Grant Funded Projects

8.1 The Authority continues to seek external funding to help deliver large scale projects as part of its strategy to maximise delivery. A key consideration in this area is the requirement to match fund from the Authority monies.

8.2 Previously reserves have assisted in match funding key projects including TEL and Ryevitalise, but with increasing pressure on unallocated reserves, consideration needs to be given to how future projects will be match funded. If revenue budgets were to be reduced further the option of funding projects entirely from revenue will be reduced in scale.

8.3 Funding for most current projects is secured and budgeted for, but there is still £200k of additional income to find for Ryevitalise, the majority of which is in 21/22 and 22/23. The MTFS assumes that this additional income is raised, but it is a risk within the MTFS should the Authority not be able to raise this additional funding, and might result in some of the project not being delivered.

9. Potential Increase to the Deficit – DEFRA Grant and Pay Award Uncertainty

9.1 There are still currently two key pieces of information which are unknown which is making setting a balanced budget more challenging. These are the new DEFRA grant settlement for 20/21 and pay award. Our current assumptions in the budget assume a 2% increase in pay award and a 1.7% increase in DEFRA grant, but we need to be aware that the pay award could be higher (particularly given our low median salary point) and the grant lower which would create substantial additional pressures.

9.2 Sensitivity analysis shows that with a freeze/real terms cut in grant and a 3% increase in pay award, the impact could be an additional £100k to find. The table below illustrates this.

9.3

	20/21	Movement
Defra Grant @ 1.7%	4,456,220	
Defra Grant @ 0%	4,381,731	- 74,489
Pay award @ 3%	- 3,602,950	- 34,980
Pay award @ 2%	- 3,567,970	
Potential Risk		- 109,470

9.4 Members have approved a hold on spending of the wildlife connectivity funds. This, together with the non-allocation of income to other subjects would potentially deliver an underspend in 2019/20 which could be used to help support the 2020/21 budget until more strategic decisions can be made. If a satisfactory settlement is made earlier, this money can be directed back into conservation work. This is covered in the Q3 update paper.

10. Car Park Tariffs

10.1 An additional figure of £75k is included in the budget as previously agreed. Officers are implementing the December NPA agreed tariff rates which are estimated to generate this sum. An initial paper on car park management is due at the March NPA meeting.

11. Capital Expenditure

11.1 Further work is needed to determine the capital elements of expenditure. This will be done in time for final approval of the Budget and Treasury Management Strategy at the full Authority in March. In the meantime Members can note that the Authority has no plans to borrow money to fund capital operations (or for any other purpose) and the MTFs places only very limited reliance on future income from capital works to fund other operations.

12. Financial and Staffing Implications

12.1 The budget will be the largest ever set by the Authority once again, with total resources deployed slightly over £13 million from an expected Defra grant of £4.5 million. This is very much at the limits of the leverage that is possible and can only occur by not delivering some of the core funded services which were previously supported by permanent staff.

12.2

	20/21 £000s	21/22 £000s	22/23 £000s
Total Cash Expenditure	10,818	9,478	9,,321
Volunteer Time (£100 per day)	2,300	2,300	2,300
Total Resource Deployed	13,118	11,778	11,621

13. **Legal Implications**

13.1 The Authority has to set a balanced budget by 31 March 2020 and this report is part of the process to be undertaken in order to ensure that this is done.

14. **Recommendation**

14.1 That Members approve this budget for 2020/21, for onward transmission to March NPA, with any commentary deemed appropriate.

14.2 That Members note year 2 and 3 of the indicative budget with further work required to bring the figures into balance.

Contact Officers:
Peter Williams
Head of Finance
01439 772700

Appendix 1

Breakdown by Function	2020/21 Budget	2021/22 Budget	2022/23 Budget
Expenditure	£	£	£
Conservation Of Cultural Heritage	-791,050	-374,980	-267,610
Conservation Of The Natural Environment	-1,787,540	-1,703,500	-1,637,210
Corporate Management	-299,990	-302,620	-304,390
Development Control	-752,970	-759,190	-774,880
Forward Planning	-353,070	-310,090	-305,290
Information	-2,233,300	-1,545,730	-1,571,740
Polyhalite	-2,300,000	-2,150,000	-2,060,000
Rangers	-840,930	-852,210	-862,820
Recreation Management	-1,262,590	-1,250,490	-1,275,460
Resources (DEFRA Grant)	0	0	0
Inflation and risk contingency	-46,000	-79,000	-112,000
Smoothing reserves contributions	-150,000	-150,000	-150,000
Total Expenditure	-10,817,440	-9,477,810	-9,321,400
Income			
Conservation Of Cultural Heritage	514,690	90,110	600
Conservation Of The Natural Environment	1,048,790	755,080	694,170
Corporate Management	210,440	260,690	260,960
Development Control	304,750	284,750	284,750
Forward Planning	15,360	15,360	15,360
Information	1,081,140	396,740	403,740
Polyhalite	2,300,000	2,150,000	2,060,000
Rangers	0	0	0
Recreation Management	858,500	903,500	903,500
Resources (DEFRA Grant)	4,456,220	4,531,970	4,609,020
Total Income	10,789,890	9,388,200	9,232,100
Deficit	-27,550	-89,610	-89,300

Appendix 2

Breakdown by Subjective	2020/21 Budget	2021/22 Budget	2022/23 Budget
Expenditure	£	£	£
Employees	-3,574,970	-3,563,950	-3,639,200
Premises	-378,750	-358,750	-368,750
Transport	-180,650	-180,650	-180,650
Supplies & Services	-3,431,270	-2,040,260	-1,855,600
Grants	-379,200	-578,600	-578,600
Third Party	-376,600	-376,600	-376,600
Polyhalite	-2,300,000	-2,150,000	-2,060,000
Inflation and risk contingency	-46,000	-79,000	-112,000
Smoothing reserves contributions	-150,000	-150,000	-150,000
Total Expenditure	-10,817,440	-9,477,810	-9,321,400
Income			
Other Grants	2,154,460	818,670	667,090
Sales	214,250	234,250	234,250
Lettings	91,870	91,870	91,870
Booking Fees	65,300	65,300	65,300
Car Park Income	606,000	651,000	651,000
Planning Fees	304,750	284,750	284,750
Other Income	152,130	135,790	136,060
Donations & Sponsorship	22,500	72,500	72,500
Investment Income	25,000	25,000	25,000
Capital Receipts	15,360	15,360	15,360
Match Funding	282,050	211,740	219,900
S106 staff recharge	100,000	100,000	100,000
DEFRA Grant	4,456,220	4,531,970	4,609,020
Polyhalite	2,300,000	2,150,000	2,060,000
Total Income	10,789,890	9,388,200	9,232,100
Deficit	-27,550	-89,610	-89,300

Appendix 3

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
Emergency Reserve	320		65		385			385			385			385
TELI Match Funding	463	-300			163	-123		40	-40		0			0
NYMNR Match Funding	30	-30			0			0			0			0
Section 106 Reserve	643	-400			243	-243		0			0			0
National Trails Reserve	12	-12			0			0			0			0
Restricted and Committed Reserves	1,468	-742	65	0	791	-366	0	425	-40	0	385	0	0	385
Capital : Sutton Bank Visitor Centre	338	-256			82	-82		0			0			0
Capital : Vehicle Replacements	52	-84		45	13	-88	75	0	-67	75	8	-76	75	7
Capital : IT Replacements	0	-19.5		55	35.5	-64.3	75	46.2	-96	75	25.2	-96.5	75	3.7
Capital : Asset Major Programmes	287	-100			187			187			187	-25		162
Projects : Ryevitalise Match Funding	153	-112			41			41			41	-41		0
Projects : Asset Income Generation	100	-25			75	-50		25	-25		0			0
Contingency overhead inflation reserve	0	-18		36	18	-64	46	0	-79	79	0	-112	112	0
Pension reserve (triennial valuation)	0			10	10		20	30		40	70	-70		0
Committee Approved Reserves	930	-615	0	146	462	-348	216	329	-267	269	331	-421	262	173
General Unallocated Reserve	258		-65		193	-28		165			165			165
Total Reserve Balance	2,656	-1,357	0	146	1,446	-742	216	919	-307	269	881	-421	262	723