7. <u>BUDGET 2019/20 (A137/PN)</u>

Purpose of the Report

1. This report presents the formal budget approval for 2019/20 following approval of the new Corporate Strategy presented to Members on 7th December 2018, and workshops during the year.

Recommendations

2. **That:**

   1. the base budget for the 2019/20 financial year shown in Appendix 1 and 2 be approved.

   2. the financial position of the Authority in the period up to March 2020 be noted as explained in paragraph 11 of the report.

3. **How does this Contribute to our Policies and legal obligations?**

The Authority is required to set a balanced revenue budget for the 2019/20 financial year. This year will be the sixteenth year that National Park Grant has been funded directly at the 100% level from central government. In previous years, 25% of the Grant was financed from a levy on constituent councils, although the funding was still provided centrally by the Department of Environment, Food and Rural Affairs (Defra) to Local Authorities. The Authority's levying powers remain and are in theory capable of being used in the future, although in the past they have always been used by way of joint agreement between Defra and the Department of Housing, Communities and Local Government, with a corresponding mutual funding arrangement so that the cost of National Parks was not borne by local taxpayers. Although they remain unused, it is considered that retaining levying powers is an important consideration in terms of the Authority's ability to recover VAT as a Section 33 body, within the same VAT regime as Local Authorities, as well as its utility as a funding mechanism being preserved in statute.

4. **Background**

The 2019-20 budget year forms the fourth and final year of the Spending Review period of 4 years up to March 2020.

The 2019/20 Settlement

5. The previous Chancellor's Autumn Statement on the 25th November 2015 contained the welcome headline announcement that there would be "protection" of over £350m funding for public forests, National Parks and Areas of Outstanding Natural Beauty over the Spending Review period.

As a consequence of this announcement Defra issued a settlement letter on 21st January 2016 giving a four year settlement figure for National Park Grant showing that the Grant would be protected in real terms over the Spending Review period (see table below). The inflation measure used to calculate the real terms protection is an annual increase of 1.72% over the period.

	2016-17	2017-18	2018-19	2019-20
	£	£	£	£
National Park Grant	**6,364,744**	**6,474,218**	**6,585,575**	**6,698,847**
Increase - £	107,622	109,474	111,357	113,272
Increase - %	1.72	1.72	1.72	1.72

Defra re-confirmed in December 2016 that the settlement letter can be relied upon for financial planning during the whole period, unless "exceptionally, there is another Spending Review for some unforeseen reason".

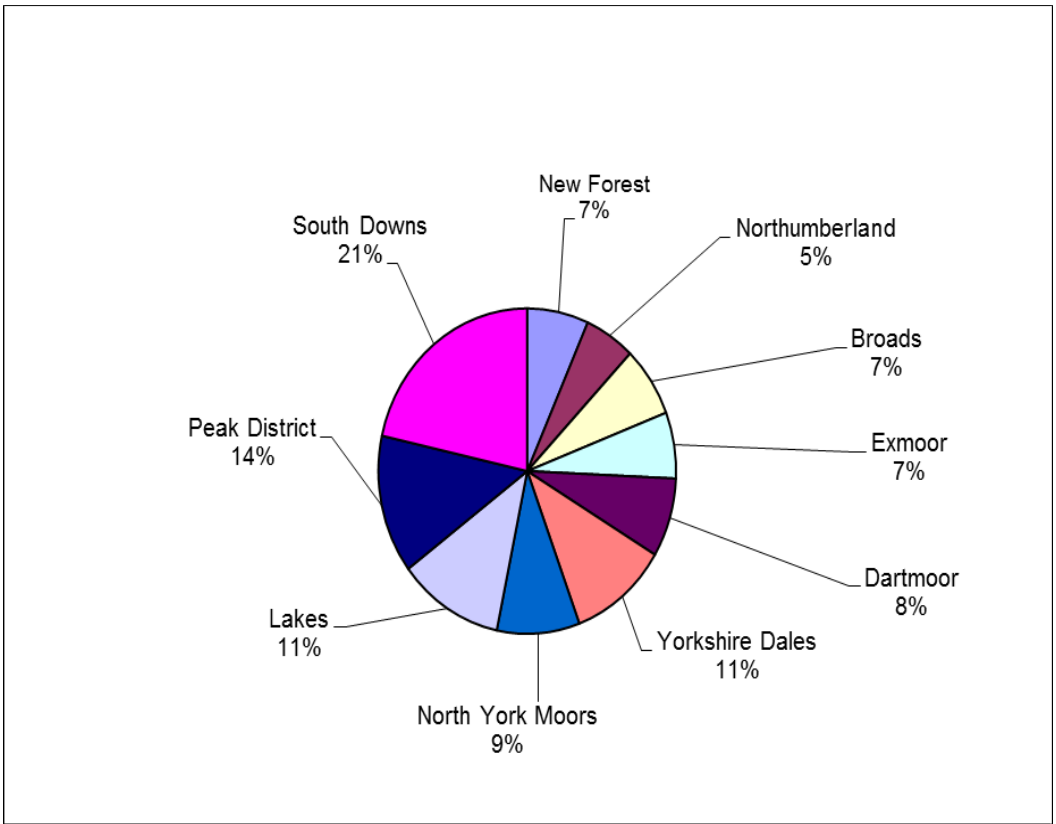
The original settlement letter contained a number of key points:-

- That the protection referred to in the Chancellor's *[George Osborne's]* statement is in real, not cash, terms, and includes an allowance for inflation
- The *[ex]* Minister, Rory Stewart, states in the letter that "this settlement reflects the huge value the Secretary of State and I attach to the National Parks and how impressed we have been by the impact that the Authorities are having across a whole range of important issues, including: natural capital, ecosystem services, water catchment, rural business and food production, and community engagement"
- That Defra "very much look forward to working with Members and Chief Executives in the delivery of Defra's priorities and in particular the 25 Environment Plan and a new Plan for the National Parks".
- In previous settlements caution has been expressed about future years being "indicative" figures, with the possibility of being changed, but the letter does not contain any provisos of this nature.

The figure quoted for 2019/20 is therefore the basis on which the budget has been set.

The welcome protection in the current Spending Review settlement followed a period of year on year reductions in National Park Grant from 2010-11 up to 2015/16, leaving our National Park Grant at approximately 65% of its previous spending power in 2010/11.

6. The Yorkshire Dales and Lake District boundary extensions resulted in extra allocations to their 2016/7 and 2017/18 grants, but with those increases now built in, the share of 2019/20 grant for all the English National Parks remains the same, with a uniform inflation increase of 1.72% (which reflected the inflation estimates made at the time of the original settlement). The % distribution of £48.7m of National Park Grant between English Parks is therefore:-



Financial Planning for 2019/20: Setting a Balanced Budget – Revenue

7. As a consequence of the four year settlement, Members approved investment opportunities in support of the Authority's strategic framework. These comprised a baseline allocation amounting in total to £320,000 per annum, and the availability of one off investment sums of £805,000. Allocation of these sums was delegated to the Leadership Team working with the Chief Finance Officer, and the allocation was reported in the last Budget Report. The sums are now fully allocated.

8. It is possible that the 2018/19 outturn may allow additional allocations to be considered and Members will decide their approach to these in the May Audit and Resources Committee outturn report.

9. The 2019/20 budget is able to be balanced, with the following observations:-

- The budget represents the first year of the new Corporate Strategy and is aligned to that new strategy, although officers propose two re-allocations which have been shared with Members during the development of the strategy, the first being the continued facilitation of a small community grants fund (of £5,000) and the second being the ring-fencing of new baseline funding of £41,250 towards development of a corporate approach to volunteering.

- the key dependence is the assumption that National Park Grant remains as allocated in the Defra letter. No change to this has been indicated by Defra.

- The staff pay award (an average of 2.7% but weighted heavily towards the lower pay scales to reflect living wage commitments) has been implemented and the figures in Appendix 1 reflect the new spinal point scales.

- In addition to the amount paid to an employee, the Authority contributes towards the employees' pensions (at 18.57% of employee pay – approximately £1,113,000 for 2019-20), and also for employers' statutory National Insurance contributions (varies around 7-14% - expected to be a total of £512,000 in 2019-20).

- The 2017 actuarial revaluation considered the pension fund to be 92% funded and these contributions are recommended by the Actuary with an objective to achieve 100% funding. The fund will be revalued again in 2020. National Insurance payments are based on earnings thresholds and are revised annually by government, and the 2019/20 rates have not changed significantly.

- Interest rate assumptions are assumed to remain at the same level as 2018-19 in anticipation that lower bank account holdings will be balanced by slightly better investment performance. Sums are invested with North Yorkshire County Council (as per the Authority report on Treasury Management which is presented in March).

- £79,000 of expenditure is financed from reserves (primarily the slippage reserve) for planned expenditure on temporary staff (building surveyor and enforcement post.)

- All income targets, some of which remain stretching, need to be achieved, however where services are successful in exceeding their income targets they are encouraged to re-invest these sums during the year in addressing some of the property maintenance backlogs, until such time as the additional income being achieved can confidently be built into budgets and re-directed towards other corporate priorities (if so decided).

- The usual small non-pay inflation provision of £15,000 is proposed. This allocation remains a very small sum and is therefore precisely targeted largely at unavoidable expenditure increases (e.g. utilities bills, audit fees, licences etc) – it does not offer protection from the effects of inflation for the majority of budgets. Bidding for the funds is done at the Midyear Review stage (November).

- 2019/20 is the first year that the Authority will be separately VAT registered in its own right (having benefitted from a "legacy" arrangement which allowed the Authority to be part of Derbyshire County Council's VAT registration). The financial consequence of this may lead to increased costs through not being able to recover as much VAT as when the Authority was part of DCC's registration, because of our smaller size, and a sum of £30,000 is set aside as baseline funding to anticipate this. The Finance team are managing this with external VAT advice. The impact will make the cost of the Warslow Estate and our Engagement Rangers more expensive as we will be unable to recover VAT on input costs relating to our rental and education income.

- Vacancy savings which arise during the year are retained within the service and the service is encouraged to achieve operational objectives by using the funds left by the vacant post; at the end of the year these savings may be the subject of slippage requests or relinquished for corporate purposes.

The Medium term financial position up to March 2024

10. We await the results of Defra's Review of National Parks (the Glover Review) and the next Spending Review outcome. The current baseline budget is balanced and is not dependent on unplanned reserve allocations, assuming overall income targets are met and grant funding is reclaimed in accordance with approved project expenditure.

During 2019 we will be working on aligning the next 4 years of the new corporate strategy with the available resources, and the Glover review findings and next settlement will be pivotal in developing the medium term plan.

Although the environment for public funding remains adverse, there are positive statements from government and Defra in respect of National Parks and their contribution to Defra's 25 year Plan. It is hopeful therefore that some degree of protection in forward budgets will continue as a minimum. On this basis, it is anticipated that the revenue budgets, with our current level of commitments, may be capable of being sustained through this period. However there are a number of areas which will need to be balanced in this next resource planning period, amongst which some of the most significant are :-

- Concerns over grade "compression" in the current payscale structure
- Concerns over the extent to which maintenance of our property portfolio is capable of being sustainable, and the extent to which backlog maintenance issues can be resolved.
- Aspirations to achieve higher levels of income from our trading services and the extent to which these are able to contribute to property maintenance and / or service enhancement.
- Unlocking more support for National Parks in the giving strategy and following development of the new charity vehicle.
- Further discussions around the commitments in years 2 – 5 of the new corporate strategy and our ongoing commitments in the National Park Management Plan.
- Brexit transition arrangements (new agri-environment payment scheme)
- Major programmes ending (Moorlife 2020)

Appendix 1

11. The budget headings contained within Appendix 1 are now aligned to the new Corporate Strategy outcomes, with the budgets structured and reported for costing and budget monitoring purposes according to their separate business units / activities, which are recognisable to Members.

Column K and L show the net budget approved by Members in 2018/19, and the difference respectively. This was requested to allow Members to see where the main movements were between years. A brief reason for any difference is highlighted.

Columns M and N show the "support service recharges" and the full cost of the front line service respectively. This is the re-allocation of costs from the support services (shown in the Agile and Efficient Organisation heading) to front line services based on estimates of the level of support to each service. The original methodology for determining this was based on an activity based costing approach, with support service managers asked to brigade their costs into five or six "activity headings" and then to apply suitable "cost drivers" which acted as "proxies" for how costs were incurred by front line services e.g. for finance the cost of the activity of "payment of suppliers" is determined by working out the cost of this activity within the team, which would then be charged out according to the number of purchase invoices processed by each service. This method allows for a better understanding of how the different activities of the front line services create demand for the resources of the support services, and where those demands change, there is a mechanism to understand how the support services need to grow or contract in proportion to the front line services.

12. The "full cost" of the front line service is used as a financial objective for some budgets in line with previous committee resolutions, and understanding the full cost of our individual properties is an important aspect of Local Authority governance and property management and the recent improvements in accounting for these properties as business units continues. Some re-calculations may be necessary as a result of the different management inputs into the properties, and as mentioned above the full cost of the properties also depends on a complex support service recharge model, the calculations for which were made in 2013 and will also need to be updated: the calculations are considered to be sufficiently "indicative" for current purposes.

A number of properties and business units have these financial objectives:-

Service	Financial Objective	Minute Reference
Warslow Estate	100% Full Cost Recovery	Authority 57/14
North Lees Estate	94% Full Cost Recovery	ARP 16/15 and 53/15
Minor Properties	Break – even on direct costs	Authority 57/14
Visitor Services	76% Full Cost Recovery (a combination of the old cycle hire service of 100% and the visitor centres of 70%)	ARP 16/15 and 54/15

13. The Authority depends on some £2.36m of externally generated income (fees and charges) to balance its revenue budget. Services with income targets are expected to increase targets routinely to cope with pay and non-pay inflationary increases in order to maintain margins and stay within established financial objectives, as well as accommodate additional targets approved as part of coping with reduced grant levels. The following considerations were made in reviewing the principal areas of income risk:-

- <u>Engagement (ex-outreach) Team</u>. Now forming the new Engagement Development service, the income targets for the old Learning & Discovery team are incorporated into the new service with an education income target of

£116,000. The joint ranger agreements with the water authorities total £190,000 and need to be achieved to support the Ranger establishment as per previous years.

- Visitor Services. The combined visitor centres require achievement of an overall income target of £842,000.

- Planning Fees. The level of planning fees was increased from January 2018 and based on current volumes the fee increase is expected to result in extra income towards recovery of planning costs of £50,000 which has been reinvested as required by government into planning, with a new 1 Full Time Equivalent post, split between between the Monitoring and Enforcement and Cultural Heritage teams, together with 0.2 FTE of additional senior planner resource.

- Countryside Maintenance & Projects team. This team has an external income target of £39,000, with £50,000 of work being carried out on the Authority's own estates as a matter of prior agreement. For costing purposes this is shown as other income but will comprise a simple annual recharge to the relevant property budgets.

- Countryside Volunteers team. The team retains its income target of £22,000, although it benefits from the sponsorship by Tarmac plc in the medium term, which allows for additional staffing and vehicle running costs.

- Warslow Estate The Warslow Estate maintains its commitment to achieve full cost recovery, requiring a contribution to the estimated corporate support service costs of £55,700. The total cost of the estate is estimated to be £337,000 and the income estimate therefore is £337,000, representing 100% cost recovery.

- North Lees Estate The North Lees estate maintains an income / cost reduction target and aims to recover 89.5% of the full cost of the estate, requiring a contribution to the direct management and estimated corporate support service costs of £83,800. The total cost of the estate is estimated to be £235,000 and the income estimate is £210,000.

- Moors for the Future The Authority's allocation of £100,000 comprises £5,000 support to the Moorlife 2020 project and £95,000 to the core team, but does not meet the full cost of the core staff within the partnership and the business plan is reliant upon other external contracts and agreements for funding the core team and the team's activities into the future (as reported to Audit Resources and Peformance Committee). The Authority's allocation represents approximately 28% of the running costs of the team, and the cash sum allocated therefore forms the basis of the financial objective for the team under the current business plan. The significant expenditure shown under the Moors for the Future projects heading reflects the approximate total value of contracts reported in the Operational Plan seen by Members in the separate Audit Resources and Performance report. Following a request from the PDNPA's Chief Executive for specific assurance about the funding status of the Moorlife 2020 project a letter has been received on the 9th February 2017 from the Permanent Secretary of Defra stating that this project is underwritten by HM Treasury, in line with a more general undertaking by the Chief Secretary to the Treasury issued in 2016. This means that the project can proceed to conclusion with the significant level of European debt the Authority will carry on its balance sheet underwritten by the UK government (this letter is available as a background document).

- Car Parking income A revised approach to ensuring that users of our car parks have paid correctly for their usage of our facilities will be in place in 2019/20. This is expected to increase the Authority's car parking income at all sites. The budget has not been increased however, with 2019/20 being regarded as a pilot year, after which our experience of the new initiative will help to inform future years' budgets. Any additional income received in 2019/20 will be used to carry out backlog maintenance on the car parks and associated facilities.

- Income levels from trading and fees are monitored by the Budget Monitoring group through the year.

Financial Planning for 2019/20: Capital

14. The Chief Finance Officer's report on application of the Prudential Code for Capital Finance is reported to the March Authority meeting, and his day to day responsibility for Treasury Mgt is set within the constraints of the Treasury Management Policy, which forms part of the same report.

In December 2015 the Authority approved a revised Capital Strategy paper covering key principles and working assumptions over the current corporate strategy period, and a prospective Capital Programme financed from a combination of borrowing and capital receipts.

15. Following this report the Resource Management Meeting has delegation to approve projects under £150,000 within the Capital Programme, financed from either borrowing or the Capital Fund. Projects above that sum will require further committee approval. The principal schemes Members have approved in the current Capital Programme were borrowing of up to £330,000 for the Castleton Visitor Centre project (ARP Minute 18/16); £600,000 from the Capital Fund for Trails infrastructure (ARP Minute 51/16); £271,000 mainly from the Capital Fund for Pump Farm estate base (ARP Minute 13/18), £370,000 borrowing for Development of Millers Dale station (ARP Minute 21/18) and most recently borrowing for replacement of vehicles up to £450,000 (ARP January 2019 Minute T.B.C.) The outturn report to Audit Resources and Performance committee in May contains a summary of all delegated borrowing approvals.

16. In respect of disposals which are required to achieve the Capital programme financing Woodlands which can securely be returned to private ownership whilst retaining conservation benefits continue to be sold (as per ARP Minutes 32/15 & 75/16) and Members approved a similar approach to other land properties which could be transferred to other responsible owners (ARP Minute 50/17).

In November 2017 Members approved acceptance of a substantial legacy (ARP Min 52/17), and proposals and options were considered in the ARP January 2019 committee. Depending on the options adopted, if any part of the asset is disposed of the capital receipt arising can only be used for capital purposes. These capital purposes will be informed by the next capital strategy, which will need to be prepared during 2019 following adoption of a new Asset Management Plan.

17. Following accounting convention and the introduction of the prudential code for capital finance all capital expenditure is separated from the revenue budget in Appendix 1, and is shown in the capital budget in Appendix 2. The only capital items shown in the Revenue Budget are the debt charges and revenue financing of capital expenditure. Appendix 2 only shows capital expenditure which has been approved.

<u>Financial Planning for 2019/20 – Financial Position - Reserves</u>

18. Clause 25 of Part 2 of the Local Government Act 2003 requires the Chief Finance Officer to report to Members, when calculating the net budget requirement, on the level and adequacy of cash reserves. The full level of reserves is reported to Members in the outturn report in May and the financial accounts to the same meeting. The level of cash backed reserves are carefully managed and the situation at the end of 2019/20 is envisaged to be:-

£,000	**Actuals at 31/03/18**	**Estimates at 31/03/20**	**Difference**
General Reserve	670	650	(20)
Minerals & Legal Reserve	508	500	(8)
Restructuring Reserve	147	140	(7)
Capital Reserve	1,289	900	(389)
Matched Funding Reserve	1,045	800	(245)
Slippage	1,250	900	(350)
Specific Reserves	1,312	1,000	(312)
Total	**6,221**	**4,890**	**(1,331)**

19. The reduction in reserves is about 21% of the 31/03/2018 figure and arises predominantly from planned use of the Capital Reserve, the Matched Funding Reserve (mainly the investment allocations) and normal use of the Specific Reserves.

The <u>General Reserve</u> has traditionally been calculated on the basis of a minimum recommended level which is 2% of net expenditure (c. £140,000), with a trading contingency of £75,000, giving a base level of £215,000. The current level is considered to be satisfactory given the current complex mix of activities within the revenue budget. The level of the reserve is reviewed annually to take account of the availability of other reserves, the degree of income risk, the degree of risk underlying budget assumptions, and the availability of other contingencies.

20. The <u>Minerals & Legal Reserve</u> contains funds anticipated to be required to handle a number of minerals and other legal cases (e.g. Rights of Way and Compulsory Purchase Orders) over the spending review period and the levels potentially required are kept under regular review by Resource Management Meeting. The reserve needs to be maintained at a level which allows a degree of financial resilience in handling a number of cases without immediate recourse to re-allocation of baseline resources which would disrupt other priorities.

21. The <u>Restructuring Reserve</u> is used for statutory redundancy and superannuation fund shortfall payments and was essential in providing the one-off resources needed to support the transition to a lower baseline and restructuring. The future of the reserve will be considered but staff changes resulting in payment of superannuation shortfalls and / or redundancies are expensive.

22. The <u>Capital Reserve</u> is only available to support capital expenditure. The level of the reserve has increased following the sale of a number of woodlands. The Capital Strategy estimated capital receipts of up to £1.7m could be available for allocation to the Capital Programme in the period up to 2019, although only £1.1m was recommended for allocation in the programme. The estimated reserve level shown is based on a balance between receipts estimated to be received by 31/03/2020, and capital expenditure

proposed to have been spent. Progress on capital receipts is considered to be capable of achieving the £1.1m allocated. A base level of £100,000 is considered to be an acceptable minimum allowing a small cash reserve for emergency capital expenditure; it is also desirable to maintain the capability to substitute some of the reserve (e.g. a further £100,000 p.a.) to replace revenue financed capital in order to allow some flexibility for emergency revenue sums.

23. The Matched Funding Reserve is used to earmark funds for commitments already made for matched funding payments to external funding projects, and has also been used as the temporary home for one-off sums requiring agreement on allocation against priorities. The timing of expenditure for the approved allocations varies, with the earmarked sums for future years retained in the reserve. The reserve increased in size over the medium term period, mainly because of the investment sums reported in paragraph 7 above, but also taking account of the fact that there are some large matched funding requirements over this period as well; the reserve is expected to diminish as the one off sums are spent.

24. The Slippage Reserve is a temporary year-end balance arising from the deferral of expenditure between financial years. The funds are all committed and are allocated into budgets in the next financial year, once slippage requests have been approved at the May Audit, Resources and Performance (ARP) committee. The level is expected to remain quite high in the interim period, but less than the position at 31/03/2018.

25. The Specific Reserves are used to support individual service areas and each reserve's objective and planned usage is reported to the ARP committee in May. Specific reserves, although earmarked for specific purposes, are available to support any Authority priorities as required in an emergency, subject to any commitments already made from them. As tighter financial objectives are set for the property portfolio and other business units, it is considered important that the property managers have access to a specific reserve, to allow them to manage and achieve their financial objective between financial years without impacting on corporate reserves.

26. Higher than usual reserve levels are a necessary consequence of future uncertainty over resource provision. There will always be a need to ensure that reserve levels are strong when public funding rounds are heavily influenced by cyclical economic circumstances. Reserve levels are only available as one-off sources of finance and cannot be relied upon to balance future budgets except on a temporary basis.

The Authority's ability to make use of the Prudential Borrowing powers is also significantly helpful in achieving invest-to-save proposals, ensuring that access to capital finance allows sensible investment decisions to proceed.

Are there any corporate implications Members should be concerned about?

27. The financial, property, sustainability and human resource implications of the budget are integrated and planned by the Resource Management Meeting and the budget for 2019/20 includes all relevant matters arising from these plans, as well as all previous Member resolutions.

Risk Management

28. Clause 25 of Part 2 of the Local Government Act 2003 also requires the Chief Finance Officer to report to Members, when calculating the net budget requirement, to advise on the robustness of the estimates made. Relevant factors include the previous year's outturn; pay & price increases; pension contributions; the revenue impact of capital investment; realistic income assumptions; the internal financial control environment; audit conclusions; and the overall public sector financing climate. Part of this assurance is gained from the Annual Governance Statement, the Risk Register reported quarterly, the Head of Finance's involvement in all financial planning matters, and other relevant

discussions with the Senior Leadership Team.

29. The Authority's reliance on external income targets and estimates always remains a key risk area and as is usual, is carefully monitored by the Budget Monitoring Group during the year, especially where additional savings targets have been identified. The Moors for the Future team's continuing ability to handle very significant project expenditure remains important.

30. The 2019/20 budget is considered to be robust and can be recommended to Members. The Authority awaits the conclusion of the Glover Review and the next settlement before it is able to set out a medium term financial position with confidence.

31. **Background Papers**
Defra Settlement Letter 21st January 2016
Letter of Permanent Secretary Defra re Moorlife 2020 project 9th February 2017

Appendices -
Appendix 1 Revenue Budget
Appendix 2 Capital Budget
Appendix 3 Explanation of Appendix 1
Appendix 4 Breakdown of Baseline Budgets

Report Author, Job Title and Publication Date

Philip Naylor, Chief Finance Officer, 24 January 2019