PART A

1. BUDGET 2016/17 (A137/PN)

Purpose of the Report

1. This report presents the formal budget approval for 2016/17 following approval of the proposals presented to Members in the 18th September report by the Director of Corporate Resources, and the Chief Executive's Strategic Framework at the same meeting.

Recommendations

2. **That:**

   1. **the base budget for the 2016/17 financial year shown in Appendix 1 and 2 be approved.**

   2. **the financial position of the Authority in respect of planning for the following years be noted.**

How does this Contribute to our Policies and legal obligations?

3. The Authority is required to set a balanced revenue budget for the 2016/17 financial year. This year will be the thirteenth year that National Park Grant has been funded directly at the 100% level from central government, in an extension of the original three year trial. 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 Communities and Local Government, with a corresponding mutual funding arrangement so that the cost of National Parks was not borne by local taxpayers. It is understood 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 other Local Authorities.

Background

4. The 2016-17 budget year forms the first year of a new Spending Review period of 4 years up to March 2020.

The 2016/17 Settlement

5. The Chancellor's Autumn Statement on the 25th November 2015 confirmed that resource savings of 15% in real terms would be achieved by the Department of Environment, Food and Rural Affairs over the next Spending Review period, however within this announcement there were a number of commitments to investment, amongst which was a 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. This follows a period of year on year reductions since 2010-11 in National Park Grant, leaving our National Park Grant in 2015/16 at a cash level £2.0m below its 2010/11 figure, or in real terms approximately a £3.4m (36%) cut in spending power.

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. The inflation measure used to calculate the real terms protection is an annual increase of 1.72% over the period.

	2015-16	2016-17	2017-18	2018-19	2019-20
	£	£	£	£	£
National Park Grant	**6,257,122**	**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

The settlement letter contains a number of key points:-

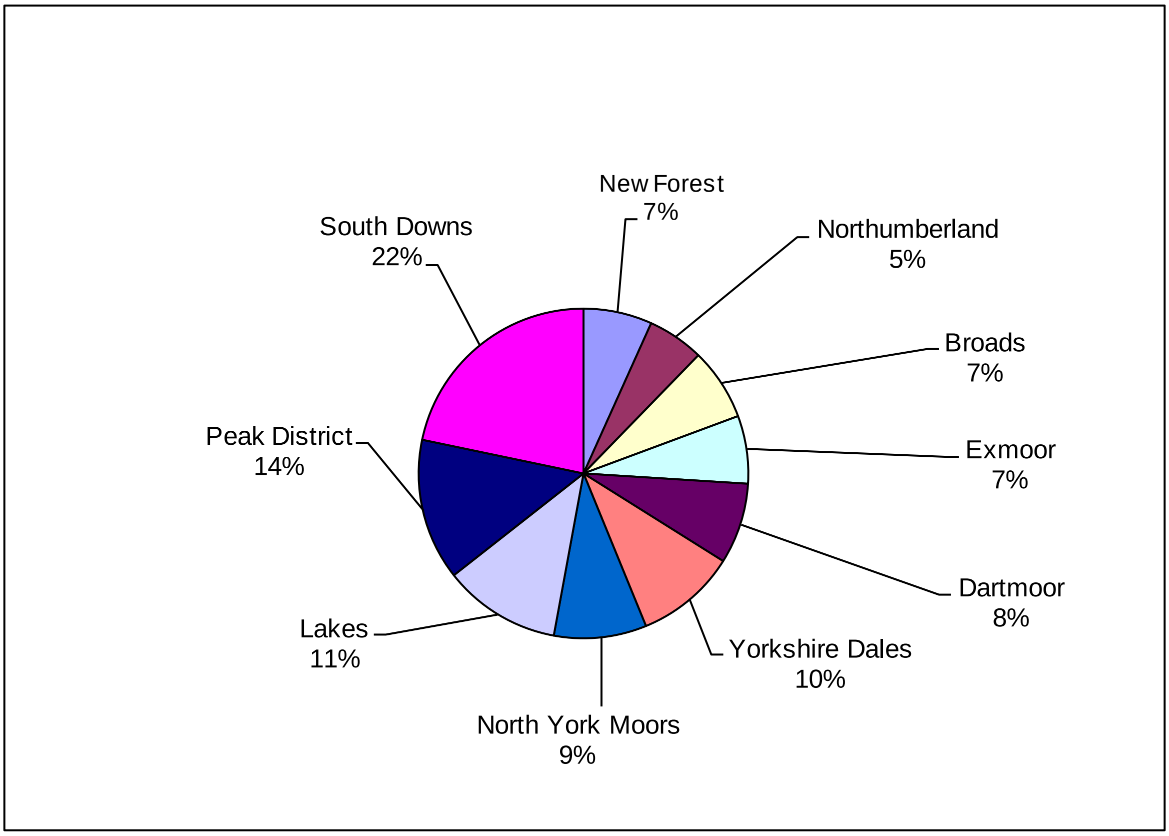
- That the protection referred to in the Chancellor's statement is in real, not cash, terms, and includes an allowance for inflation
- The Minister, Rory Stewart, states in the letter that "this settlement reflects the huge value the Secretary of State and I attach to the National Parks and how impressed 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 2016/17 is therefore the basis on which the budget has been set.

Members will note that budget planning for the new Spending Review period, prior to the Autumn announcement, showed a very different National Park Grant forecast. This was based on clear information that the government's fiscal assumption was that "Total Managed Expenditure (TME) in 2016/17 and 2017/18 would fall in real terms at the same rate as between 2010-11 and 2014-15, with an assumption that TME would remain flat in real terms in 2018-19 and 2019-20". Amongst government departments Defra was not spared from the severest cuts, and fell under the category of an "unprotected" department.

The September report therefore approved £602,000 of savings and income generating proposals as part of coping with these anticipated reductions in core grant. The Strategic Framework recommended that the detailed year 1 plans (i.e. involving the savings above) would be implemented in order that the 2016/17 budget was balanced, with the detail of proposals for years 2 onwards being evaluated and re-assessed after the settlement was known. The consequences of the new settlement on our financial planning therefore is outlined in paragraphs 7 and 8 below.

6. The financial impact of the Yorkshire Dales and Lake District boundary extensions have been added to the overall settlements, affecting the the Lakes' and the Dales' allocations, with the Lakes increase for 2016/17 being pegged to 1.26% (rather than the average of 1.72%), and the Yorkshire Dales allocation increasing by 11.6% (the Lakes' increase being allocated in the 2017/18 year). The increase is about £400,000 for the boundary extensions. The % distribution of £45.9m of National Park Grant between English Parks has very slightly changed as a result:-



Financial Planning for 2016/17: Setting a Balanced Budget – Revenue

7. Members approved proposals for reductions and income in Appendix 1 of the September report. The proposals have all been built into the budget for approval at this meeting. Detailed budget planning (e.g. on the actual staff budget) has also helped improve the initial estimates slightly. Overall, there is a surplus of £470,000 for the year, as shown in the table below, as a direct result of the improved National Park Grant figure :-

	£,000	**2015/16**	**2016/17**
A	Baseline Budget	6,674	6,478
B	*Savings achieved /proposed*	*(342)*	*(602)*
C	*Contingency – high risk areas*		
D	*Approved new allocation*	*42*	*73*
E	Revised Baseline Budget	6,374	5,949
F	*Financed by:-*	*-1.74%*	*+1.72%*
G	National Park Grant	(6,257)	(6,365)
H	Interest receipts	(30)	(30)
I	Reserves	(92)	(24)
J	**Structural budget deficit (surplus)**	**(5)**	**(470)**
K	(Contingency) b/f	(304)	(309)
L	Cumulative (Contingency) c/f	(309)	(779)

These figures are based on the following assumptions:-

a) National Park Grant remains as allocated in the Defra letter.
b) Normal incremental progression is assumed for staff and incorporates an annual pay award of 1%.
c) Employers' increased National Insurance contributions following the unification of State Pension schemes has been incorporated (an increase of approximately £115,000)
d) Interest rate assumptions are assumed to remain at low levels and the level of interest receipts remains the same as the current financial year.
e) Revised income targets and savings are achieved.
f) An additional baseline allocation of £58,000 is incorporated allowing baseline resource for progressing the Giving Strategy of up to £100,000 p.a., subject to a further resolution of the Authority following the report to the Audit, Resources and Performance Committee in January and the Committee's resolution on that report.
g) An additional baseline allocation of £15,000 p.a. is incorporated allowing the Trails Manager to plan properly for a rolling programme of structural survey work dictated by the nature of the substantial infrastructure assets on the Trails, allowing them to be carried out without the need to balance them against other budget pressures on the Trails.

The cash contingency was approved as part of the process of coping with continuing reductions in resource and the requirements to seek more speculative income sources, providing a degree of temporary underwriting of new proposals until confidence that they were soundly based was gained. It may be that this level of cash contingency is not required in the future, subject to an overall review of Reserve levels and the degree of confidence we have that the 4 year settlement figures will not be reviewed. The approved Budget for 2016/17 is still much diminished because of the £602,000 resource reductions, but is nonetheless structurally balanced and is not dependent on one-off resources.

The table illustrates the cumulative impact of reductions on National Park finances over the last 6 year period, and the possible level of surpluses arising from the new settlement period:-

£	*NPG*	**Reductions Achieved**	**Reductions Proposed**	**Future**
2010/11	**8,298,814**	270,000		
2011/12	7,852,720	446,000		
2012/13	7,406,630	386,000		
2013/14	6,960,536	357,000		
2014/15	6,367,867	577,000		
2015/16	**6,257,122**	300,000		
2016/17	**6,364,744**		602,000	*(470,000)*
2017/18	6,474,218			*(356,000)*
2018/19	6,585,575			*(396,000)*
2019/20	6,698,847			*(448,000)*
Total		**2,336,000**	**602,000**	***(1,670,000)***

The Future period estimates are based on forward assumptions of pay awards constrained at 1% per annum, and include preliminary estimates of the impact of the apprenticeship levy, possible increases in employer superannuation costs, and the impact of living wage proposals.

In summary, recognising that there are some uncertainties in some of the forward assumptions, the baseline budget contained within Appendix 1 will allow:-

- the Authority to retain the same baseline over the Spending Review period, such that by 2019/20 the budget will still be balanced despite the cumulative impact of the above cost increases over that period.

- The Authority to consider a phased increase in baseline allocations over the four year period, with the actual amount a matter of judgement between what is available (building up to approximately £400,000 p.a. ultimately by 2019/20), and what is prudent given that a post-2020 Spending Review period may not be covered by the same degree of protection, and hence large scale baseline allocations may not be sustainable into the longer term.

- The Authority to consider a number of one-off allocations towards priority pressures, the total of which may be up to approximately £1,670,000, reduced by the extent of any baseline additional allocations which may be agreed as above.

8. The Financial Planning report prepared by the Director of Corporate Resources in September outlined five review areas which were necessary in order to ensure that the medium term financial planning was guided by the emerging Strategic Framework. These areas were:-

   - The Leadership Team
   - Ranger resource
   - Conservation influencing / advisory roles
   - Plan making and strategy work
   - Support services.

   The assumption was that £1.57m of savings/ income needed to be found over a three year period between 2016-2019; and as shown above £602,000 of reductions were approved and are incorporated in the 2016/17 budget proposals in this report as a consequence. Outline proposals on the remaining £970,000 were to be worked up in years 2 and 3, depending on the settlement.

   The Strategic Framework approved by Members in September (paragraph 9) stated that if the Defra grant settlement "is better than our planning forecast, we propose to continue with the first year reductions (2016/17) and use any unallocated money to invest in a way that supports achievement of our strategic framework outlined in this paper."

   Accordingly, it is proposed that Management Team and Members engage in a process, between February and May, - either through the Strategic Advisory Group or with a member workshop whatever is agreed - culminating in a May or July Authority report deciding on:-

   - Proposals for investment on a one off basis (predominantly resourced from the £1,670,000 resource available shown in the table above, if confirmed)
   - Proposals for investment on the basis of additional permanent baseline allocations (up to £400,000, reducing the £1,670,000 resource available for one-offs, depending on when they are implemented)
   - The extent to which outline savings in the 5 review areas for year 2 and 3 are still required, in order to invest either in a different baseline allocation, or to invest differently in the same area of review.
   - The extent to which outline savings in the 5 review areas for year 2 and 3 are no longer required, as they will have a detrimental impact on performance against the agreed corporate strategy cornerstones and directional shifts.

9. Meanwhile, in terms of the 2016/17 budget, the main assumptions in Appendix 1 are outlined below:-

The Authority depends on some £2.1m of externally generated income (fees and charges) to balance its revenue budget, principally to maintain its Recreation Management and Promoting Understanding outcomes, but increasingly also to sustain its core services. 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:-

- Learning Team. The income targets for the Learning & Discovery team are set to achieve a net budget of £143,500 p.a. with further savings of £3,800 p.a. being achieved.

- Visitor Centres. The budget has an increased income target of £30,000 as part of seeking to achieve a higher percentage of cost recovery of the service against its full cost. The service has found savings and additional income totalling £130,000 over the last four years and achieving an additional £30,000 of income requires additional sales of around £65,000. With estimated corporate support service costs of £110,000 the gross expenditure budget is £815,000 of which income is estimated to be £513,000, representing 69% of the full cost of the service.

  Cycle Hire. The financial objective for the service to achieve full cost recovery requires the service to make a surplus above its direct costs, in order to cover the estimated corporate support service costs of £58,000. As part of achieving this objective an additional net income target of £9,000 has been approved, giving total expenditure for the service of £346,000, and an income target of £326,000, representing 94% of the full cost of the service.

- Planning Fees. The level of pre-planning charges is estimated to increase by £5,000 to £50,000. The budget estimate for planning applications has been increased by £10,000 to £259,000, reflecting changes in the charging scheme for minerals planning.

- Footpaths team. The Footpaths team budget has been set to recover in full its direct costs, with the team tasked with finding £98,000 income. There is some risk mitigation in the ability to flex labour costs, because the team is carrying a vacancy and temporary voluntary reductions in working hours, but the target remains ambitious in the context of less favourable Local Authority settlements, on which a majority of the income is based.

- Volunteers team. The Countryside Volunteers team retains its income target of £24,000.

- Warslow Estate The Warslow Estate has an increased income / cost reduction target of £37,000 in line with the objective to recover full cost of the estate, requiring a contribution to the estimated corporate support service costs of £54,000. The total cost of the estate is estimated to be £325,000 and the income estimate is £325,000, representing 100% cost recovery.

- North Lees Estate The North Lees estate has an increased income / cost reduction target of £10,000 in line with the objective to recover the full cost of the estate, requiring a contribution to the estimated corporate support service costs of £38,000. The total cost of the estate is estimated to be £220,000 and the income estimate is £183,000, representing 83% cost recovery.

- Moors for the Future The Authority's allocation of £90,000 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 January Audit Resources and Peformance Committee). The Authority's allocation represents approximately 33% 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 January Audit Resources and Performance report. There is an additional allocation of £5,000 p.a. which represents the Authority's small cash contribution to the Moorlife 2020 proposal.

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

10.

(a) A small non-pay inflation provision of £15,000 is proposed. This allocation is a very small sum representing 0.5% of the Authority's overall non-pay expenditure 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).

(b) In addition to the amount paid to an employee, approximately 28% of salary on average is paid as an additional cost to support employer payments to the pension fund (17.82%), and also for employers' statutory National Insurance contributions (varies around 7-10%). Derbyshire County Council Pension fund requires the Authority to pay employers' contributions towards employee pensions of 13% of current employees' total superannuable pay, plus £217,000 p.a. which represents a deficit recovery sum determined by the actuary to ensure the scheme is able to meet its future pension payments to staff. In order to achieve the latter service budgets are charged a combined rate of 17.82% of their employees' gross costs. Following the 2015 actuarial revaluation there are no superannuation increases expected in 2016/17 although there may be increases from 2017/18 onwards. A provisional assumption is that these costs will increase by £100,000 and this is built into forward assumptions, although that entirely depends on actuarial recommendations. National Insurance payments are based on earnings thresholds and are revised annually by government, and the 2016/17 rates have been increased because of the removal of rebates for contracted-out employees, which has an impact of approximately an additional £115,000 which has been built into the 2016/17 salary budgets.

(c) In respect of estimated pay awards, and increments, a 1% pay award assumption has been incorporated into budgets, as well as incremental progressions due to staff.

(d) The dramatic decline in interest rates has removed approximately £230,000 from the Authority's annual finances. For 2016/17 a revised estimate of £30,000 is proposed following low overall Local Authority returns in the investments market, and continuing low interest rates. Sums are invested with North Yorkshire County Council.

Financial Planning for 2016/17: Capital

11. The Chief Finance Officer's report on application of the Prudential Code for Capital Finance will be reported to the Authority in March, 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.

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

13 Following this report the Resource Management Team 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.

14. 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.

Financial Planning for 2016/17 – Financial Position - Reserves

15. 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 June and the financial accounts to the same meeting. The level of cash backed reserves are carefully managed and the situation at the end of 2016/17 is envisaged to be:-

£,000	**Actuals at 31/03/15**	**Estimates at 31/03/17**
General Reserve	354	400
Minerals & Legal Reserve	423	400
Restructuring Reserve	399	0
Capital Reserve	335	300
Matched Funding Reserve	469	850
Carry forward Surplus	304	200
Slippage	637	850
Specific Reserves	537	500
Total	**3,458**	**3,500**

16. The General Reserve has traditionally been calculated on the basis of a minimum recommended level which is 2% of net expenditure (c. £125,000), with a trading contingency of £75,000, giving a base level of £200,000. A level between £350,000 and £400,000 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.

17. The Minerals & Legal Reserve contains funds anticipated to be required to handle a number of minerals cases over the spending review period and the levels potentially required are kept under regular review by Resource Management Team. The impact of other legal cases pursued by the Authority (eg Rights of Way and Compulsory Purchase Orders) has been added to the scope of this reserve. 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.

18. The Restructuring Reserve is used for statutory redundancy and superannuation fund shortfall payments and is essential in providing the one-off resources needed to support the transition to a lower baseline. Given the new settlement it is proposed that this reserve may no longer be required, although this is a decision which will need to be taken during the process agreed in paragraph 8 above, and in combination with a review of overall reserve levels.

19. The Capital Reserve is only available to support capital expenditure, although the Chancellor's recent Autumn statement announced that some revenue expenditure could be eligible for financing revenue reform projects, on request to the Department of Communities and Local Government. The ability of Local Authorities to use capital funds in this way is called a Section 16 2 (b) Capitalisation Direction, and is a discretion granted to the Secretary of State, usually confined to strict criteria controlled by DCLG. The levels of the reserve have increased in 2015/16 following the sale of a number of woodlands, Warren Lodge and Losehill Hall bungalow. Further proposed asset sales, predominantly woodlands, are expected to generate more capital receipts. 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, and the estimated reserve level shown is based on a balance between receipts estimated to be received by 31/03/2017, and capital expenditure proposed to have been spent. A base level of £50,000 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. £100,000 p.a.) to replace revenue financed capital in order to allow some flexibility for emergency revenue sums.

20. 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 sums agreed from previous years' revenue budgets to be allocated specifically on a one-off basis against priorities. The timing of expenditure for the approved allocations varies, with the earmarked sums for future years retained in the reserve. The majority of the earlier allocations will have been fully spent by 31st March 2017, but the new settlement and decisions over one-off allocations is likely to mean that this reserve will increase in size over the medium term period, taking account of the fact that there are some large matched funding requirements anticipated, and in hand, over this period as well.

The Carry Forward Surplus is not a separate reserve but is a sum retained within the General Reserve; these were the funds earmarked specifically to be used as a contingency against the ability for the Authority to balance the revenue budget in any one year, in the context of year on year reductions in core grant and correspondingly higher risk budget assumptions. It is considered that the level of this reserve is likely to be reduced but a base level is expected still to be needed to help underwrite continuing higher risk assumptions in the baseline budget, mainly arising from trading income targets.

21. 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 June Audit, Resources and Performance (ARP) committee. A slight increase is anticipated.

22. 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 June. 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, it is considered important that the property managers have access to and from a specific reserve, to allow them to manage and achieve their financial objective between financial years without impacting on corporate reserves.

23. Under the circumstances prevailing in the last Spending Review, and until recently as forecast in the next Spending Review, the Chief Finance Officer was of the opinion that these reserves were essential to give confidence that budgets could be balanced in future years, in the context of continuing revenue grant cuts; noting a greater dependency on variable income sources, and also the fact that the cumulative impact of savings made decreased the resilience of the remaining budgets and therefore increased overall risk. Higher than usual reserve levels were a necessary consequence of future uncertainty over resource provision, and Defra acknowledged the challenging nature of these reductions and the Authority's efforts in dealing with them.

Because of the welcome 4 year settlement announcement, the Authority will need to shift the emphasis of its reserves from supporting the transition to a newer smaller baseline, to supporting the new corporate strategy priorities and managing any temporary earmarked funds through the reserves until they are deployed on achieving National Park purposes. The settlement allows us to build on the valued government grant to achieve one of the Authority's directional shifts, which is to grow income and diversify our funding, to try and regain some of our lost spending power. It will be some time before "normal" reserve levels are achieved, and 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?

24. The financial, property, sustainability and human resource implications of the budget are integrated and planned by the Resource Management Team and the budget for 2016/17 includes all relevant matters arising from these plans, as well as all previous Member resolutions.

Risk Management

25. 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 to Management Team, the Head of Finance's involvement in all financial planning matters, and other relevant discussions with Management Team.

26. 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.

27. The further proposals for 2016/17 built into the budget remain challenging for services, but the 2016/17 budget is robust and can be recommended as such to Members.

28. **Background Papers** (not previously published)
Defra Settlement Letter 21st January 2016

Appendices -
Appendix 1 Revenue Budget
Appendix 2 Capital Budget
Appendix 3 Breakdown of baseline budgets
Appendix 4 Explanation of Appendix 1

Report Author, Job Title and Publication Date

Philip Naylor, Chief Finance Officer, 28 January 2016