

8. MEDIUM TERM FINANCIAL PLANNING AND 2015/16 BUDGET PROPOSALS (A137/ RMM)

Purpose of the report

1. This report:
 - a) Makes proposals for balancing the budget in 2015/16 (Appendix 1) in advance of the full budget report being presented by the Chief Finance Officer in February 2015
 - b) Makes a proposal for redirecting resources to support the financial objective of diversifying our sources of funding and our emerging new corporate strategy
 - c) Suggests ways members will be involved in the medium term financial planning process during 2015

Key issues include:

- The approach being taken to our short term (2015/16) and medium term (2016/17 – 2018/19) financial planning challenge is described
- At the time of writing this report we have not received notification of the National Park Grant Settlement for 2015/16
- However we have previously been notified of a further 1.74% reduction in our National Park Grant Settlement for 2015/16 and the Authority is required to balance its budget
- Proposals for achieving £342k of reductions or income, with effect from April 2015, to cover both the budget deficit and an amount for reinvesting are given in Appendix 1

Recommendations

2.
 1. **The current proposals for the approach to the Authority's medium term financial planning challenge which will be refined as new information comes to light are noted**
 2. **The 2015/16 budget proposals for reductions and income given at Appendix 1 are agreed to be effective from 1 April 2015 or as soon as possible after that if implementation takes longer**
 3. **The proposal to reallocate £42k per annum (as soon as resources are released in accordance with Appendix 1) in increasing our capacity and performance on giving and sponsorship is agreed; with details on how this will be used to be decided by Resource Management Team in consultation with the Chair of Audit Resources and Performance Committee**

How does this contribute to our policies and legal obligations?

3. The Authority is required to set a balanced revenue budget for 2015/16 in the context of the notified year-on-year cuts to our grant. As Members are aware from recent workshops work has started on looking at the possible scenarios for budget planning beyond 2015/16 into the next Spending Review period.

Background

4. On 20th December 2013 Defra (Department for Environment Food and Rural Affairs) confirmed National Park Grant allocations for 2014/15 and 2015/16 as follows:

	2014-15	2015-16
	£	£
National Park Grant	6,367,867	6,257,122
reduction	-8.51%	-1.74%

Reduction 2015/16 vs 2010/11	-£2,041,692	-24.6%*
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* in real terms, after taking account of inflation since 2010, the settlement in the final year represents approximately a £3.5m cut (36.5%) from its 2010/11 level.

5. In the letter, Defra’s Director of Rural Development, Sustainable Communities and Crops stated that:-
- “Defra have had to make some tough decisions in reaching a balanced budget for both years but have tried to make sure that Defra’s key priorities are protected”.
 - “these allocations may be subject to further adjustment as a result of the current work being undertaken across the Network on Strategic Alignment/One Business*.....any adjustments will only be made as agreed by Network representatives and endorsed by the Executive Committee and / or the Finance Panel. These budget adjustments will be formally notified to you as and when agreed.”
 - “I must caveat that the budget figures for the next two years could be subject to revision in the event that Defra’s budget was materially reduced. Hopefully we can avoid further adjustments to your budget and so you should plan on the above numbers unless advised otherwise.”

*(PDNPA footnote)

‘One business’ is a reference to Defra’s response to Civil Service Reform and ‘Strategic alignment’ is the approach they are using to get all parts of Defra and its wider network of executive agencies and Non-Departmental Public Bodies (NDPBs) to work more closely with each other and to bring together structure, systems and processes. ‘One business’ means developing a future Defra business model that is more strategic, flexible and resilient. Its legal applicability to National Parks given their independent constitution is uncertain and will no doubt be subject to further clarification between National Parks and Defra.

6. At the time of writing this report we have not received notification of the National Park Grant Settlement for 2015/16. A verbal update on the settlement will be given at the Authority meeting.
7. **The budget position:**
The February 2014 budget report to members explained that the structural budget deficit in 2015/16 stood at £286k (table one row I below). This was based on a number of assumptions including:
- a) National Park Grant remains as allocated in the Defra letter of a reduction of 1.74% in 2015/16.
 - b) Normal incremental progression is assumed for staff and an annual pay award of 1% in 2014/15 and 2015/16.
 - c) Future employer superannuation contributions are based on the 2013 actuarial valuation (17.82% of gross pay)
 - d) Interest rate assumptions are assumed to remain at low levels of 0.5%.

TABLE ONE:

		2013/14	2014/15	2015/16
		£,000	£,000	£,000
A	Baseline Budget	7,670	7,217	6,593
B	<i>Savings achieved /proposed</i>	(357)	(577)	
C	<i>Contingency – high risk areas</i>		55	
D	Revised Baseline Budget	7,313	6,695	6,593
E	<i>Financed by:-</i>	-6.02%	-8.51%	-1.74%
F	National Park Grant	(6,961)	(6,368)	(6,257)
G	Interest receipts	(30)	(50)	(50)
H	Reserves	(434)	(214)	(0)
I	Structural budget deficit (surplus)	(112)	63	286
J	Previous year's (surplus) c/f	(155)	(267)	(204)
K	Cum. (surplus) deficit c/f	(267)	(204)	82

8. Since February the savings/income target of £286k has increased to £328k because:

- £20k was not found through expected savings in the new property structure
- £12k has been committed for the new Chief Executive salary grade
- £10k loss of potential rental income has been incurred following the decision to dispose of a property

However, updated calculations and estimates (shown in the table below) have re-calculated this figure to £294k as shown in row I table two below.

TABLE TWO:

		2014/15	2015/16
		£,000	£,000
A	Net expenditure (Baseline Budget)	6,695	6,601
E	<i>Financed by:-</i>	-8.51%	-1.74%
F	National Park Grant	(6,368)	(6,257)
G	Interest receipts	(50)	(50)
H	Reserves	(214)	(0)
I	Structural budget deficit (surplus)	63	294
	Contingency funds c/f from 2013/14	(367)	(304)
J	Cum. (surplus) deficit c/f	(304)	(10)
K			

9. **The medium term financial challenge:**

The Authority is unlikely to receive notification of possible future National Park Grant settlements for the Spending Review period beyond 2015/16 until after the next general election. However given our understanding of what has been said nationally about the continuing future pressures on public sector finances, Resource Management Team has started to look at the implications of different scenarios for our budgets beyond 2015/16 as discussed with members at recent workshops.

10. **Member workshops:**

At the workshops in October and November members considered and gave views on:

- The proposed approach to the medium term financial planning challenge and members involvement in that as outlined below
- Proposals for reductions and income to ensure a balanced budget for 2015/16
- A proposal for immediate reallocation of resources to increase our performance and capacity for giving and sponsorship

In response to members' feedback:

- a) Resource Management Team has withdrawn a proposal to reduce resources in our volunteer service. This is because full reassurance cannot be given at this stage that the proposal to integrate resources within field services can be implemented in time to ensure the volunteer service is not affected in accordance with the steer from members.
- b) The ideas from members for giving and sponsorship will be picked up and considered as part of the giving strategy and the Chair of Audit Resources and Performance committee (ARP) will be consulted on the use of the reallocation of baseline resources to giving and sponsorship if agreed by the Authority

11. **Building blocks:**

Over the last 4 years of financial planning a number of building blocks have been put in place to help achievement of our moving forward in a time of change strategy and existing corporate objectives. These include by March 2015:

- A strategic asset review with an agreed response to recommendations
- Developing our capital programme to support the asset review
- Bringing marketing expertise into the organisation and refreshing the brand
- A revised external funding framework
- Revised standing orders to support commercial activities
- Stretching income targets for existing trading areas
- Introducing new charging for services
- Trialling charging for some services
- Product development
- Place and event development
- National Parks UK sponsorship/giving strategy and business case
- Local sponsorship/giving policy and due diligence framework
- Development of ICT systems to facilitate commercial and giving activities
- Some customer insight work and a visitor/non visitor survey
- Changes to the staff structure to increase leadership capacity in enterprise activities

12. **New emerging corporate strategy:**

Our financial planning is an integral part of the development of our new corporate strategy. Our ambition is to increase the impact of every pound we spend and our financial objective embedded into the new corporate strategy can be described as:

'To further diversify our sources of funding - not only to mitigate the loss of the Defra grant but also to give capacity for growth to meet our aspirations - as well as continuing to reduce costs and increasing partnership arrangements'

Our historic performance in diversifying sources of funding has been good in some areas. Our baseline position on the current sources of funding is: Defra grant: 51%; income generation: 15%; external funding: 33%; giving and sponsorship: less than 1%. Increasing the non-Defra grant sources of funding will be a key part of the new

corporate strategy.

13. **2015/16 transition year:**

Our approach to the next 4 year financial planning period needs to build on what has been achieved so far but it is also timely to take stock and treat 2015/16 as a transition year because:

- The new corporate strategy is being developed – the implications of that strategy for what the Authority wants to resource beyond 2015/16 will not be fully understood until into 2015
- After the 2015 general election it is likely projections for public finances for the next spending review period will become clearer
- A new chief executive will start in 2015
- 2014/15 is the last year in our current 4 year financial planning period (2011/12- 2014/15). Over that period the Authority has successfully addressed a £2m cash reduction in Defra funding from its 2010/11 level. If the same trend in reduction is to continue for the three year spending review period after the general election the Authority will need to operate significantly differently as a body and staff and members need to be fully engaged in those discussions.

Proposals

14. **Approach to our medium term financial planning:**

In light of current information available the Resource Management Team recommends that the approach to our medium term financial planning should include the elements set out below. However this recommendation will need to be reviewed as we receive new information so it is not set in stone.

- a) Confirmation that 2015/16 is a transitional year for the reasons stated above but decisions on what will not be funded from the Defra grant in 2015/16 need to take into account our emerging corporate strategy and the opportunities for diversifying funding
- b) The structural deficit in 2015/16 to be covered in full even though it could be covered by cash reserves as this puts the Authority in a better position to face the following years' challenges – this is based on the assumption that the Defra settlement will be as notified previously
- c) A greater alignment of resources to achieve the improvement aspects of the new corporate strategy
- d) An agreed process for working with members in 2015 on the strategic financial planning for the period 2016/17 – 2018/19. Our task to address with staff and members can be described as follows:

By 2018/19 we will be potentially funded by Defra at a level significantly less than our current funding. Given this scenario:

- *What do we want to give strategic certainty to over that period in line with the new corporate strategy and*
- *What do we want to commit to doing if we are successful in diversifying our sources of funding or if the Defra settlement is greater than anticipated*

At the workshop on 21 November members showed preference for:

- A process which included a must do, should do, could do exercise (based on statutory requirements) agreeing 'search' areas for what will not be funded by Defra grant and also involved an analysis of activities by opportunities to diversify funding – i.e. a substitution exercise; it was assumed the new Chief Executive will want to lead on such a review too.
- The involvement of a project team of members (could use an innovation and

challenge approach) working with staff with other members being co-opted when necessary; this to include regular feedback to all members on progress

- e) Identification of the needs for investment to take the Authority forward. Areas of potential investment need to be considered with members as the corporate strategy becomes clearer. However RMT recommends that, depending on the agreement by the Authority of the proposals at Appendix 1, up to £42k per annum from the permanent baseline budget is reallocated from 1 April 2015 towards driving up our performance on increasing funding from giving and sponsorship.
- f) The cash contingency which the Authority is carrying to be used to underwrite income targets which have an agreed business case behind them but are as yet unproven – again this is based on the assumption that the Defra settlement will be as notified previously
- g) Developing the current capital strategy, alongside the asset management plan, with a view to
 - securing capital receipts for assets approved for disposal
 - obtaining sufficient evaluation and feasibility information to inform which capital investment projects, using the limited resources available, might secure strongest contributions to revenue income and the new corporate strategy

15. **2015/16 budget proposals:**

Appendix 1 describes:

- a) proposals for reductions in what is funded by the Defra core grant categorised as follows:
 - using our properties (to reflect recent decisions of the Authority)
 - review of slippage trends (to reflect previous requests by members to do this)
 - efficiency savings (to reflect continuing efforts to achieve the same at a reduced cost)
 - reduction in staff resource (including how the impact can be mitigated)
 - reduction in non-staff budgets (including how the impact can be mitigated)
 - income generation (including new charging proposals)
- b) if the proposal is dependent on any other action to make it effective
- c) the risk assessment: defined not as risk to outcomes but as risk to achieving financial reductions or income

16. Resource Management Team recommends that a total of £342k needs to be made through savings/increased income so that the structural budget deficit is covered in full, assuming the Defra settlement is as previously notified, and £42k is available for baseline reinvestment.

17. In making the proposals for 2015/16 members of the management team have considered the emerging new corporate strategy to ensure, as far as possible, proposals will not detract from being able to carry our relevant strengths forward into the new corporate plan period. In addition some consideration has been given to how existing resources can be redirected to the demands of the emerging strategy including the proposal below.

18. **Reallocation of resources proposal:**

Our baseline position (see paragraph 12) for giving and sponsorship funding indicates that this is a potential significant area for development. Members are asked to agree the proposal to reallocate £42k per annum of savings/increased income to accelerate our performance and capacity in this area. If agreed the Chair of ARP will be consulted on how the extra resource will be used.

Are there any corporate implications members should be concerned about?

19. **Financial:**

This report covers the financial issues known at this time. The Chief Finance Officer's report on the full budget in February will give the updated position.

20. **Risk Management:**

The following risks have been identified at the present time:

- a) Two proposals in Appendix 1 have been classified as a medium risk. These relate to income targets for Aldern House and the Countryside Maintenance Team. The cash contingency the Authority is carrying will be used to cover unproven income risk as detailed in paragraph 14(f)
- b) There is a risk that the Defra settlement will be a harsher reduction than previously notified. If there is insufficient time for Resource Management team to work with staff and members on further proposals for reductions/income the Authority will need to use its cash reserves to balance the budget as an interim measure.

21. **Sustainability:** The medium term sustainability of the Authority's activities will depend on the outcome of our medium term financial planning process.

22. **Human Resources:** The staffing reductions represented in Appendix 1 involve no compulsory redundancies but will involve changes and reductions to the establishment as a result of vacancies or agreed voluntary measures.

23. **Background papers** (not previously published)

None

Appendices:

Appendix 1: 2015/16 Budget proposals for reductions and income

Report Author, Job Title and Publication Date

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