8. **2018-2019 OUTTURN (A.137/22/PN)**

Purpose of the Report

1. This report explains the outturn for 2018/2019 and seeks approval of the necessary appropriations to or from reserves, together with approval of unspent funds and overspends to be carried forward into the 2019/20 financial year.

Key Issues

- The 2018/19 financial year accounts need to be signed by the Chief Finance Officer by the 31st May 2019 with audited accounts published by 31st July 2019.

- In order to meet the deadline for the accounts it is suggested that if Members feel unable to approve all the recommendations it is proposed that the sums affected should be allocated temporarily to the slippage reserve (or other reserve where appropriate), subject to Members' further decision.

- Subject to a number of possible minor adjustments and final confirmation of the figure, the general reserve is protected at its current level and there is an overall surplus of £336,000, to be allocated as a contingency, following the requirements outlined in the bullet point below on the Moorlife 2020 project, and paragraph 8 of this report.

- The National Park Grant for 2018/19 benefitted from the third year of the "protected" Spending Review period, with an increase of 1.72% from the previous year.

- At midyear review stage there were no major concerns reported, but it was noted that trading at Bakewell visitor centre was lower than budget and would result in a possible deficit at the end of the year, with some extra maintenance costs for visitor centres being financed by virement from savings in the vehicle fleet through the operation of older vehicles. The visitor centre deficit can be found from the overall outturn position.

- Final in-year project recharges supporting the core Moors team have been less than planned, leaving a £75,000 shortfall; some of this is the result of extra staff costs on concluding the original Moorlife project, which could not be recharged to the original project as eligible expenditure.

- In line with the identified corporate risk, further work on Moorlife 2020 project expenditure, exchange rate movements and the timing of grant payments has been performed - all of which affect the final Moorlife 2020 sterling grant sum which will be received at the project's conclusion. As a result, the original contingency sum set aside of £150,000 is considered to be insufficient mitigation and a higher level of contingency of £500,000 needs to be set aside, requiring further financing of £350,000. The report proposes to achieve this by using the unallocated underspend of £150,000, and also financing £200,000 of the original slippage requests differently (i.e. by using existing reserves and baseline budgets). This is covered in paragraph 8 below in more detail.

- The remaining recommended slippage requests and specific reserve requests, in support of budget-holders achieving their business plans, are contained within Appendix C.

- The Authority's reserve position is maintained at the levels shown in Appendix D for three main purposes:-

1) allowing a degree of one-off resilience to cope with existing challenges and liabilities, to safeguard National Park policies without immediately requiring resources to be found from diminished revenue budgets.

2) helping to underwrite the consequences of adverse variances against budget in times of greater uncertainties in income trading or as we move into the next Spending Review period.

3) acting as a mechanism for budget managers of key authority properties to meet their financial objectives over a period longer than 1 year, allowing for surpluses to be retained and deficits to be supported on an annual basis, within the context of meeting the financial objective on an averaged basis.

The Chartered Institute of Public Finance and Accountancy (CIPFA) publishes advice to Local Authorities (LAAP Bulletins) on what approach an Authority should take in its reserve policies to achieve its statutory finance responsibilities, and these considerations have informed the Authority's reserve structures and approach.

Recommendation

2. **1. That the outturn be noted, and the slippage requests and specific reserve appropriations shown in Appendix C be approved.**

How does this contribute to our policies and legal obligations?

3. The Accounts and Audit Regulations 2015 require the Chief Finance Officer to sign the annual accounts by the 31st May. This report has been written therefore to allow the Audit, Resources & Performance Committee to agree recommendations on the movement of funds to and from reserves, which will need to be incorporated into the annual accounts. The accounts are required to be audited and signed off by 31st July. The consequence of this is that the Chief Finance Officer will need to prepare and certify the accounts by 31st May. The outturn information in this report is based on the budget report agreed in February 2018.

4. There were periodic budget monitoring meetings of the Senior Leadership Team with the Head of Finance together with the four appointed Budget Monitoring Members at key stages of the year. Variances from the agreed budget and forecasts are discussed during this meeting, together with updates on the anticipated level of reserves and movements in the budget arising from in-year committee resolutions.

Background

5. The approved budget for 2018/19 was based on the level of National Park Grant confirmed by Defra on January 21st 2016, which confirmed a £111,357 (1.72%) increase to the agreed level of National Park Grant, as part of a protected settlement up to 31st March 2020 in line with the current Spending Review period. As part of coping with the resource reductions in the previous Comprehensive Spending Review Members had previously approved a total of £2,378,000 of savings/income in the 2010/11-2015/16 years, and the 2016/17 budget approved a further £602,000 of savings which were already in hand.

6. The March 2018 Authority meeting approved the Chief Finance Officer's report under the Prudential Code for Capital Finance, setting prudent borrowing limits for the 2018/19 year of £2.0m. In August 2006, in accordance with Services Committee Minute 41/05, the Authority borrowed £697,000 to finance the Aldern House Project, and in December 2009 £500,000 for the replacement of vehicles (Minute 22/08 in March 2008): total debt of £1,197,000. No further external borrowing has taken place to date, and the total

outstanding external debt at 31st March 2019, after repayments to date, is now £446,937. Repayments are made half yearly and are a fixed amount, with a proportion covering the interest payable, and the remainder, in increasing proportion over the repayment period, repaying the original capital sum. A number of further borrowing approvals have been agreed since then totalling £1,897,045; these have been financed internally from internal cash balances. Those outstanding and hence current are:-

Committee / RMT Minute	Date	Approval	Reason	Annual charge to budget	Ending
ARP 41/12	20/07/2012	£108,812	Aldern House Biomass boiler	£8,000	2032/33 (20 years)
N/A Head of Service	16/05/2012	£9,247	Replacement vehicle Learning Team (now adopted as a general pool car following staff move to Aldern House)	£1,311	2019/20 (7 years)
RMT 70/12	31/07/2012	£19,480	Litter Service vehicle replacement (from lease to owned)	£2,770	2019/20 (7 years)
RMT 63/12	31/07/2012	£98,506	Borrowing for landlord elements of Big Fernyford Farm refurbishment	£5,758	2037/38 (25 years)
ARP 11/15	23/01/2015	£60,000	Showers and camping facility improvements at North Lees campsite	£4,583	2030/31 (15 years)
ARP 18/16	04/03/2016	£330,000	Castleton Visitor Centre re-modelling	£19,791	2037/38 (20 years)
RMT 17/16	09/05/2016	£40,000	2 additional Camping Pods	£2,057	2031/32 (15 years)
RMT 42/16	01/11/2016	£21,000	Replacement vehicle for volunteer service	£2,715	2023/24 (7 years)
RMT 01/17	10/01/2017	£90,000	Tenancy Refurb. - 2 properties	c. £5,000	2031/32 (15 years)
RMM 32/17	01/08/2017	£145,000	Tenancy Refurb – 1 property	c. £7,125	2041/42 (25 years)
RMM 38/17	04/10/2017	£75,000	Pool car replacements	c. £6,100	2023/24 (7 years)
ARP 21/18	16/03/2018	£370,000	Millers Dale Phase 1	c. £21,360	2043/44
RMM 14/18	30/07/2018	£110,000	Tenancy refurbishment Warslow Estate	c. £6,317	2044/45
ARP 4/19	18/01/2019	£450,000	Vehicle replacements	c.£58,000	2025/26

The annual charge to the budget is based on the same principle as external debt. This means that the service is charged annually a fixed amount, with a proportion covering interest (based on the prevailing fixed rate from the Public Works Loan Board at the time the sum is advanced) and the remainder repaying the original capital sum, over a term reflecting the nature of the underlying asset and its life. At some point external debt might need to be raised to cover any outstanding amounts but currently it is more cost effective to use internal funds.

7. The Budget Monitoring Group met during the year and as usual paid close attention to trading income, that being the least controllable element within baseline budgets. There were no significant areas of concern which merited reporting to Committee during the

year, although it was noted that Visitor Centre income was below budget and the outturn was likely to be an overspend.

Base Rates were increased from 0.50% to 0.75% in August 2018, and investment receipts have improved slightly from the previous year as a result; the actual interest rate earned from the Treasury Management of the cash balances increased from 0.64% at the beginning of the year to 0.95% at the end of the year. Interest earned was £60,671 (£41,227 last year). The budget for 2018/19 was approved with an increased interest receipt expectation, of £50,000.

8. At the outturn stage it is sometimes possible to make temporary resource allocations, based on actual results. The current year's outturn shows that there are likely to be extra funds available for allocation, after taking account of slippage requests and specific reserve requests, subject to confirming final accounting provisions. The table illustrates how these "outturn" resources have varied in the past few years:-

	2018-19	2017-18	2016-17	2015-16
Midyear Review allocation	32,000	95,000	0	45,690
Surplus for reallocation	345,000	0	34,000	0
Slippage approved	850,162	1,147,550	799,189	764,467

It is proposed that this surplus is allocated to the Moorlife 2020 exchange rate risk as explained below.

The exchange rate risk has been reported regularly in the Corporate Risk register as an amber risk, however after further work during quarter 4 the risk has now been rated as red. The risk has also been reported as required in the Statement of Accounts, with last year's entry being as follows:-

"The Authority has some exposure to exchange rate risk because of a European funded grant project, which is paid retrospectively in euros.

The exposure relates to the Moorlife 2020 project, which is a five year project with 75% grant aid from the European Commission of €11,984,887, starting in 2016/17. The project therefore has an element of exchange rate risk depending upon the exchange rate of the euro against sterling, at key points in the five year project. Sterling expenditure on the project is converted monthly by the Commission at the exchange rate on the first working day of the calendar month, which then represents the project expenditure for the year denominated in euros, from which the appropriate % of grant aid is derived in euros. The grant is drawn down in four stages, and the date on which the euro grant is drawn down and paid over determines the value of sterling income received. The first tranche (40%) of the grant, €3,595,466, was paid in advance in October 2015.

A financial risk to the Authority is identified if sterling strengthens significantly against the euro during the project, considered to be in the region of £1.5m at its maximum. The risk will therefore be mitigated by adjusting the overall sterling budget of the project (downwards by up to £1.5m), and considering how forward exchange contracts might be used to give greater certainty over future transaction exchange rates. A further risk was identified as a result of "Brexit" and specific assurances have been sought that the project would be covered by the Chief Secretary to the Treasury's guarantee that such projects would be underwritten by the UK government. A letter from Defra's Permanent Secretary was received on the 9th February 2016, to this effect."

The project has been capped at £11,280,000 as per the original risk mitigation measure, but the first tranche of grant, drawn down in October 2015, was converted at a disadvantageous rate when sterling was strong, since which time sterling has weakened significantly and fluctuated. This, together with project expenditure slipping, has resulted in more disadvantageous monthly exchange rates being applied which determine the eventual value of the European grant claimable. A further refinement in the monitoring of the risk, modelling the precise mechanism by which the grant is drawn down and determined, and taking account of the inter-relationship of partner cash funding, has allowed for a more accurate forecast than previously.

The previous assessment saw the greater risk as being a strong and sustained sterling rate, but the revised forecast shows that even with the lower sterling exchange rate prevailing, further modelling shows a baseline risk of at least £500,000 at project completion. It is therefore necessary to ensure that there is a contingency cash sum available to the Authority to meet this liability.

The exchange rate risk issue in effect has led to a greater matched funding requirement far in excess of the original proportion of £25,000 contributed by the Authority, but still represents a high level of external grant leverage even at this much higher level. The final position will only be known after the grant is subjected to European external audit, and experience has shown that this itself is a risk as the rules are inflexibly applied. If the contingency is not required, it can be released after the final audit results have been reported.

9. Resource Management Meeting (RMM) discussed the outturn figures and slippage recommendations on the 7th May.

10. The main points in the appendices are summarised as follows:

<u>Reserve Levels (Appendix D)</u>

(a) <u>General Reserve</u>: The General Reserve exists to accommodate unforeseen circumstances and was £670,491 in March 2018 and is expected to remain at the same level, after the surplus is appropriated to the Matched Funding Reserve (which will be done for the Statement of Accounts if this report's recommendation is approved).

The level of the General Reserve needs to take account of about 8 principal variable factors – contingent liabilities; the quality of budgetary control; loss of key staff, policy or delivery changes; the extent of demand-led services; unidentified future budget savings; significant capital projects; and the availability of other reserves. Generally the Authority only has one or two of the above factors to consider in any one year; however up to four are currently pertinent.

The external auditors consider the adequacy of the Authority's reserve levels as part of their overall audit opinion and it is an important component of their financial viability assessment.

(b) <u>Specific Reserves</u>: The level of specific reserves overall has decreased by £63,000. The reserves are being operated in accordance with agreed policies, allowing services to draw from and add to their reserves in line with their longer term programmes, especially in relation to tackling backlog maintenance of properties occupied. This can be seen from the mix of proposals to and from the reserves.

(c) <u>Capital Reserve</u>: The Capital Receipts reserve started the year at £1,289,375, and there were sale receipts during the year of 6 further woodlands and the disposal of 6 vehicles. The net receipts from these sales are added to the Reserve, increasing the reserve by £141,791, in line with the approved Capital Programme and needed to sustain that expenditure programme. The reserve was also used to support previously authorised Trails Structures work (Minute 51/16), plus a replacement roof at Brunts Barn (ARP Minute 124/15), expenditure totalling £69,434.

(d) Slippage Reserve: This Reserve operates differently from the other reserves in the sense that the funds do not remain within the reserve if they are required in the following year: basically the amount of slippage approved in Appendix C is temporarily held on the balance sheet on 31st March, and is then immediately allocated into the budgets upon committee approving the slippage amount if the funds are required in the next financial year. The National Park Grant Memorandum which the Department of Environment, Food and Rural Affairs (Defra) uses to govern National Park finances states that "The Department will consider the level of end-year cash balances in assessing grant for subsequent years. In doing so it will take account of a NPA's need to maintain appropriate working balances and contingency provision and of factors which may necessitate the deferral of expenditure around the year end in order to safeguard value for money." It is this final purpose for which slippage is recognised as an essential tool for managing National Park finances over financial years. The level of slippage fluctuates year on year and the 2018/19 level is £850,162 which is approximately 119% of its long term average of £702,700.

(e) Matched Funding Reserve:
This reserve was created to protect funds committed to partnership projects. The Authority's annual contributions to these projects tend to be allocated on a straight line basis across the years of the project to facilitate budget planning, and the actual expenditure pattern is often very different between years: this, together with the accounting requirement to allocate partner income to expenditure proportionately to the contributions originally determined in the application means that unspent Authority funds committed to the projects in contracts with funding bodies need to be ring-fenced and carried forward to match expenditure, when required in future years, in order to fulfil the commitment. This reserve has also been used to ring fence funds approved for re-allocation. The reserve level is likely to be sustained at quite high levels until the re-allocated funds are fully spent. The reserve also contains the exchange rate earmarked contingency for the Moorlife 2020 project.

Revenue Account & Services

11. Appendix A, Column F, shows the final budget surplus or deficit arising from each service, after appropriations to and from reserves and slippage requests have been taken into account, and is useful to refer to along with the comments below, which only pick out the larger variances.

(a) The Rural Economy Service budget variances are explained by vacancy savings and the desire to understand how the new national scheme grant awards would be distributed before committing to Authority funds.

(b) The £408,000 core costs of the Moors for the Future team were not fully recovered, based on partnership contributions to core costs and recovery of costs from projects towards supporting the core team. The Authority's contribution was £93,000. The shortfall against budget has been recovered from within the Planning directorate underspend. Some of the core cost overspend was the result of carrying post-completion costs from the original Moorlife project which could not be recovered as eligible expenditure.

(c) The Planning Service fee-based planning applications in £ terms were £17,000 above the previous year, but £5,000 below budget estimate, whereas pre application advice fees achieved £63,000, compared to the estimate of £50,000. Overall numbers of chargeable applications were slightly down compared to the previous year. The service budget was helped by much higher vacancy savings than usual, with a net surplus of £119,000, and a significant reduction in advertising costs following a different advertising approach, saving £43,000 a saving which is expected to be repeated in future years.

(d) The Engagement Rangers' budget benefitted from a significant reduction in fuel and maintenance costs in the vehicle fleet, following changes in the use of vehicles, coupled with additional income from guided walks, and vacancy savings.

(e) The Warslow estate overspent its budget by £11,000, having had to draw down its full specific reserve to meet unplanned additional costs:- 1) surveys on all the septic tanks on the estate (to inform compliance with new regulations due to come into force in 2020, 2) emergency works to maintain private water supplies to several properties. 3) a continuing property vacancy reducing tenancy income and 4) replacement boilers for 4 properties which failed this year. It is proposed to finance this overspend from divisional underspends.

(f) The North Lees estate exceeded its 93% full cost recovery target and managed 98%. This was due to a number of positive factors, including net income from the campsite above budget of £14,000, and higher income from Surprise View car park.

(g) The "non-Estate car park budget" suffered from a combination of higher pay and display infrastructure costs, with an overspend of £19,000, financed from divisional underspend.

(h) The newly formed Conservation and Maintenance of Property Team over-achieved its income target by £14,000 whilst carrying an unusual level of vacancy, leading to an underspend of £58,000 at year end.

(i) The Trails' budget underspend of £48,000 arises from one-off income from rental of space on the Monsal Trail; £20,00 of deferred ground maintenance expenditure relating to phasing of essential infrastructure work, and also £10,000 of extra car park income, and is appropriated to the Specific Reserve. The level of the Trails reserve maintains a higher level than in previous years, when Members have expressed concerns about its low level in relation to the nature of the property liabilities it underpins. These funds will be supplemented by the Capital Programme approval for infrastructure work, approved by this committee in September 2016 (Minute 51/16); some £40,000 has been spent this year on inspection and engineering costs in line with this Minute.

(j) Visitor centre sales were strong at all centres, trading above previous year totals, with Castleton especially strong with sales £88,000 above the previous year, which, despite being closed in the first quarter of 2017/18, managed sales nearly at the same level as previous trading. The budget however was overspent by £19,000, partly because of the extra net income target of £30,000 required to be achieved from 2017/18, but also because of some maintenance works to centre buildings, part of which was financed at midyear review from virement (intruder alarm; merchandise security, Bakewell roof and window repairs).

(k) The Cycle Hire Service achieved its income target. The overspend shown relates to staff costs. There has been a change in recruitment to Visitor centre and cycle hire posts, with the posts combined, resulting in new staff being more fluid across both cycle hire and visitor centres. The precise re-charging of these staff to centres is being reviewed to ensure the correct staff costs are charged to the right business centre.

(l) The ICT service manages the revenue and capital budgets together, depending on requirements, in combination with the use of the specific reserve; this year software purchases required more capital budget, which was supplied partly from savings in the revenue budget and partly drawing from the ICT reserve.

(m) There were vacancy savings in the Customer & Business Support Team.

(n) The Corporate Strategy team slippage requests are mainly for ring-fenced funds towards the climate change vulnerability assessment and carbon management projects.

(o) The Legal Services funds ring-fenced for legal actions which were not required in 2018/19 are carried forward into the Minerals and Legal Reserve. The level of the Reserve allows the Authority to make strong responses in defence of its policies.

(p) The corporate overhead recovery fund is managed by the Director of Corporate Strategy and Development and collects the agreed recharges levied against all externally funded projects who have staff in post, which support the extra demands placed on Corporate Support Services (finance, legal, IT, HR, property) as a result of these activities. The demands are assessed by the Director and commitments have been agreed for 2019/20 onwards – hence the remaining sum is requested as slippage to help meet the agreed demands in 2019/20 and 2020/21. It is in the nature of this fund that the charges to projects occur in advance of the supporting allocations so there is usually a timing difference between the income being received in the fund, and the subsequent expenditure.

(q) The Projects in Appendix A are separately shown away from the “core” budgets as they all rely on either Partnership or external grant funding and are ring-fenced for those purposes. The expenditure on these projects can be substantial and the Authority’s cash contribution – often small in relation to the grant funding - is shown in the budget, or may be represented by in-kind contributions. If a project is entirely externally funded / has in-kind contributions, then the budget will show as zero – and also the outturn position (i.e. net expenditure) will be zero, illustrating that the gross expenditure has been fully balanced by the external income. Although this is the most appropriate presentation in respect of the overall impact on the budget, its does not of course show the actual expenditure of each project. Projects with expenditure over £150,000 have all been approved by ARP (or its predecessor) Committee; the smaller projects over £50,000 are approved by Resource Management Team in line with Standing Orders. If Members wish to see more analysis the Head of Finance will provide detailed breakdowns on request. The comments section of Appendix A highlights the principal funder and the total expenditure of the larger projects.

12. The current policy on under and overspends at year end is longstanding and was confirmed by the original Resources Committee on 19 July 2002 and is as follows:

- overspends are carried forward and found from service budgets the following year unless there are extenuating circumstances
- For underspends or surpluses remaining at year end, budget holders may bid for slippage (where commitments have already been made) or where specific reserves exist, for the balance to be appropriated to these reserves.
- All other underspends or surpluses are allocated to general reserve.

13. The RMM has reviewed the circumstances surrounding any overspends, and is content that where these have occurred, they are capable of being contained within overall service or divisional responsibilities, or dealt with corporately without impact on reserves, and no recommendations are put forward for these overspends to be carried forward and retrieved from next year's service budgets.

14. The following appendices are provided to give a full analysis of the outturn:

Appendix A
A variance analysis which highlights the individual service under or overspends, together with the impact of the proposed slippage and reserve requests on the overall figures – based on over and underspends from Appendix B. Column F shows the final balance of surpluses and deficits, with the total surplus or deficit at the bottom being the impact on the general fund. It should be noted that an "underspend" may arise from additional income earned above budget.

Appendix B
The outturn in the form in which budget responsibility is allocated and monitored during the year. This Annex is used as the basis for RMM decisions on over and underspends, as it reflects directorate and service head budget responsibilities. A full analysis of income and expenditure by service/function and by type of income and expenditure is available on request to the Head of Finance.

Appendix C
C (i) lists the recommended slippage requests put forward by service heads and Directors for carry forward of unspent funds into the 2019/20 budget. C (ii) lists the recommended appropriations to or from specific reserves. C (iii) contains the overspends proposed to be carried forward against the 2019/20 service or project budget, if any.

Appendix D
Shows the level of the Authority's cash reserves, after all the above adjustments.

15. There may be some late adjustments arising from final provisions and system reconciliations, any final changes in the figures between this report and the final position will be reported to Members in the accounts report. In particular, the final accruals for the South West Peak project, the Visit England Project and the Moorlife 2020 project have not yet been completed so the precise mix of Authority match funding and partner and grant funding has not yet been determined; these are expected to be within budgeted sums but the final adjustment may require a further allocation from the Matched Funding Reserve (from the amount set aside for this project) and the Restructuring Reserve.

Proposals

16. In terms of the Authority's overall financial position, the outturn for the 2018/19 is as presented, and the actions recommended in Appendix C are regarded as an appropriate way of managing the Authority's resources across financial years.

17. Reserve levels have been maintained at the levels required to meet statutory requirements, to provide a prudent level of provision for substantial asset liabilities, and to give strong support to our planning policies in the legal process; they represent limited and temporary one-off sources of funds which allow the Authority to maintain stability of National Park outcomes into the medium term.

Are there any corporate considerations Member should be concerned about?

18. **Financial:** The issues have been covered in the report.

19. **Risk Management:**

The Chief Finance Officer has a statutory responsibility under Sections 25 – 28 of the Local Government Act 2003 to report to Members, the Monitoring Officer and external auditors on the robustness of the budget setting and monitoring process, and has an express duty to monitor the budget and underlying assumptions throughout the year, and to take action when significant overspends or shortfalls in income occur. The Annual Governance Statement prepared by the Monitoring Officer is reported to and approved by Members. The Leadership Team consider financial risks in the Risk Register during the year.

The External Auditor assesses the financial position of the Authority as part of its annual Value for Money conclusion.

This outturn report and the recommendations arising from it are considered to be evidence of the effectiveness of these processes as they relate to the 2018/19 financial year.

20. **Sustainability:** There are no issues relevant to this report.

Consultees

21. The outturn was discussed and agreed by the Resource Management Meeting (RMM) on the 7th May.

22. **Background Papers** (not previously published)

Full income and expenditure analysis

Appendices

Appendix A - 2018/19 Variance Analysis

Appendix B - 2018/19 Outturn by services within divisional headings

Appendix C - Slippage and reserve requests

Appendix D - Reserve Levels

Report Author, Job Title and Publication Date

Philip Naylor, Head of Finance / Chief Finance Officer, 8 May 2019