10. 2020-2021 RESERVE ALLOCATIONS (A.137/22/PN)

Purpose of the Report

1. This report follows on from the 2019-20 outturn report approved by the Authority on the 22nd May 2020, and proposes further allocations to be set aside from current cash reserves to finance the impact of:-

a) the Covid emergency and

b) the need for a higher re-structuring reserve to allow for the cost of any staff redundancies, if there is a poor National Park Grant settlement for the Spending Review period up to 2024.

Key Issues

- The Department for Environment, Farming and Rural Affairs (Defra) have indicated in a letter dated 21st May 2020 that National Parks should use their earmarked and non-earmarked reserves to offset Covid related deficits, rather than rely on any additional Defra support outside the National Park Grant.

- The outturn report in May dealt with the initial impact of Covid at the end of the 2019-20 financial year, and also approved the creation of a Covid reserve with £481,900 allocated to help cope with the further impact of Covid on the first quarter of the 2020-21 financial year. It was anticipated that a further phase of allocations would be needed to cover the full impact of the 2020-21 financial year.

- This report therefore makes recommendations to re-allocate earmarked and non-earmarked reserves, based on best estimates of the likely Covid impact on the 2020-21 financial year, in order to ensure that the deficit can be covered in the way Defra anticipate.

- In addition, this report recommends that should not all of the reserve allocations earmarked for the Covid impact be needed, any surplus should be appropriated to the restructuring reserve.

- The impact of reallocating the earmarked reserves identified in the report is also covered.

Recommendation

2. **1. That the further allocations from the Authority's reserves as outlined in Appendix 1 be approved for appropriation to the Covid Reserve in order to finance the impact of the Covid emergency in 2020-21, to be allocated at the end of the year.**

2. That any funds in the Covid reserve not required be appropriated to the Re-structuring Reserve at the end of the year, for the reasons set out in paragraph 11 of this report.

How does this contribute to our policies and legal obligations?

3. The Local Government Act 2003 sets out the required financial administration standards Local Authorities must comply with, in particular the responsibilities of the Authority's Chief Finance Officer to advise Members on the Authority's financial

position, with particular concerns about ongoing budget monitoring, the adequacy of reserves, and the requirements to achieve a balanced revenue budget. The Chartered Institute of Public Finance and Accountancy (CIPFA) also issue guidance in the form of good practice for Local Authority reserves. The External Auditors in considering their going concern and value for money opinion also take account of a Local Authority's approach to and level of reserves. The outturn report in May and the budget report in February, together with budget monitoring with Members during the year, are the main reporting mechanisms.

Background

4. The initial estimates of the impact of the Covid emergency were outlined in the May outturn report, with the creation of a £481,900 reserve to help deal with the impact in the first quarter of 2020-21. The estimated impact is based on broad analyses of past income achieved; the precise impact will not be known until the end of the financial year, although the position will become clearer as the year progresses. The opportunity costs of lost income (e.g. sponsorship, donations and the loss of excellent trading through exceptional April and May weather for example) were not included but will still be felt.

5. It was proposed to attempt to finance the income shortfall in two phases, the first phase covering the April to June period. This was supported from the Covid emergency reserve. The Authority was able to take advantage of the Coronovirus Job Retention scheme for furloughed staff in income earning activities affected by the closedown, which covered approximately 80% of furloughed staff costs, and claims have been made and reimbursed by HMRC.

It is anticipated, following the resumption of income activities, that the second phase covering the impact of Covid for the remainder of the year can be covered from the re-allocations from reserves outlined in this report.

6. The main problem of any further drawdown from earmarked reserves is that the majority of these are one off resources which will need to be replaced as a further pressure on future resources, as the funds are set aside for the specific purposes they are earmarked for, many of which are commitments or obligations. The recommendations in this report have been drawn up with a view to minimising the impact of this; in some cases the purposes for which the reserves were earmarked no longer apply, but the Appendix identifies the main consequences. The total reallocated is a substantial sum however and although it does not materially affect the financial position of the Authority, in a climate of increasing concern about future National Park Grant levels directing these resources to the Covid impact reduces our resilience in the future to respond to other pressures.

7. The table below sets out what is considered to be a worst case scenario, which takes account of the actual income situation in the first 4 months, but also still assumes full income losses in quarters 2 – 4, which is not likely to be the case. It can be seen that if this situation prevailed a further £677,000 would be required to be found.

£,000	**Q1 Actuals**	**Q2**	**Q3**	**Q4**	**Total**
Net income loss – trading services	456	431	351	319	**1,557**
CJRS scheme estimate*	(109)	(46)			**(155)**
Other Savings (Cost of Sales)	(71)	(66)	(65)	(41)	**(243)**

Net Cost as known currently	**276**	**319**	**286**	**278**	**1,159**
Phase 1 Covid reserve drawdown	(276)	(206)	-	-	**(482)**
Possible Unfinanced Cost (full year)	**0**	**113**	**286**	**278**	**677**

*The figures assume that all project staff costs can still be recovered from project grant funds in full as per original project budgets.

The potential income loss of £1,557,000 in the table above is broken down into the different sources of income as follows:-

8.

£,000	**Possible full year loss**
Warslow Estate	100
North Lees Estate	185
Trails	176
Other Car Parks & Dovedale Toilets	66
Other Concessions	11
Visitor Centres including Cycle Hire	691
Engagement Rangers	93
Volunteers	15
Planning	220
Possible Unfinanced Cost (full year)	**1,557**

9. As stated above, the figures take account of the income losses borne in the first four months, but also assume total income losses for the remaining 8 months of the year, which is not likely given that our income generating services are now reopening for business. Two scenarios are modelled, one that on average across services 75% of normal income will be achieved for the remainder of the year, and the other that a more pessimistic 50% of normal income will be achieved. In practice individual services have been affected differently: for example planning fees have held up near to their normal levels so far, and so has rental income on estate properties, but Engagement Rangers and Volunteers income has been very heavily affected with most of the annual income capability lost. Nonetheless, the resulting year end figures would then be as per the table below, *and this is the basis for considering that the reserve allocations recommended in Appendix 1 should be sufficient mitigation*. It is accepted that these calculations are relatively crude, but it is hard to be more precise at this stage, and the actual income achieved will be closely monitored at each quarter stage.

10.

£,000	**Worst Case (4 months plus 8 months full income loss as per Table 7 above)**	**If 50% normal income achieved for remainder of year (last 8 months)**	**If 75% normal income achieved for remainder of year (last 8 months)**
Net income loss – trading services	**1,557**	**1,038**	**779**
CJRS scheme estimate*	(155)	(155)	(155)
Other Savings (Cost of Sales)	(243)	(165)	(126)
Net Cost as known currently	**1,159**	**718**	**498**
Phase 1 Covid reserve drawdown	(482)	(482)	(482)
Possible Unfinanced Cost (full year)	**677**	**236**	**16**

If the Appendix 1 reallocations are confirmed at £605,286 as a second phase contingency, it can be seen that this should cover the likely year end scenarios in the table above, with the possibility of a meaningful surplus to be allocated to the Re-structuring Reserve as per Recommendation 2 of this report.

11. Members will note that the Re-structuring Reserve level stands at £61,052. This Reserve was created in 2010 to take account of the often significant costs of restructuring, brought about by the year on year National Park Grant reductions between 2010 and 2015. The reserve is used to pay for statutory redundancy costs and superannuation shortfall payments to the pension fund, where staff are voluntarily or compulsorily made redundant if job roles and posts change / reduce. Statutory redundancy costs vary according to length of service, but at their maximum tend to be in the region of 6 months pay. Where staff are aged 55 or over they have the protection benefit of being able to take an immediate payment of pension, which, based upon a typical state pension retirement age of about 67, could result in the payment of their pension some 12 years earlier than assumed by the Pension Fund. The Pension Fund recover this “pension strain” on the fund by invoicing employers the capitalised present value sum of that early payment. The costs of even one redundancy can be significant, if for example the staff member has long service and is just over the age of 55.

Most Local Authorities control these payments by adopting strict criteria for making decisions on these redundancies, usually requiring the affected posts to be disestablished and not recruited to for at least 3 years to recover some of this cost, so that there is an enduring saving protecting the public purse. The cost of “termination” payments as they are known are under public scrutiny for obvious value for money reasons and are required to be reported annually in the Statement of Accounts.

Where employees have less service or are under the age of 55 (or over about age 62) the payments are much less substantial, but it is usually the case that where a number of redundancies are involved the mix of staff can result in high costs for these “termination” payments.

The current level of reserve is considered to be inadequate if the Spending Review announcement contains no inflation or a cut in resource, as there will need to be some re-organisation to cope with the baseline revenue budget reductions required.

Recommendation 2 therefore asks Members to approve any surplus remaining at the end of the year from Appendix 1 not allocated to support the Covid impact, to be allocated to the Re-structuring Reserve.

Proposals

12. Members are asked to note the purpose for the reserve allocations as outlined in the report, and also the impact on the individual reserves outlined in Appendix 1, and are asked to approve both Recommendations.

13. Approving the Recommendations will allow the external auditors to have confidence that the Authority is able to meet the resource implications of the Covid emergency and any potential re-structure costs, whilst maintaining a reduced but still viable level of earmarked reserves for the purposes the reserves are set up for.

Are there any corporate considerations Member should be concerned about?

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

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

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

Consultees

17. The proposed allocations were discussed and agreed by the Resource Management Meeting (RMM) on the 4th August.

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

None

Appendices

Appendix 1 - Proposed reserve re-allocations

Report Author, Job Title and Publication Date

Philip Naylor, Head of Finance / Chief Finance Officer, 26 August 2020