BUDGET 2021/22

Purpose of the Report

1. This report presents the Authority's 2021/22 revenue budget for Member approval.

Recommendations

2. **That:**

   1. **the Authority's annual budget for the 2021/22 financial year as shown in Appendix 1 be approved.**

   2. **Members note the savings in Appendix 2 that have been made to balance the 2021/22 revenue budget.**

   3. **Members note that the Authority's revenue budget may need to be adjusted once the National Park Grant (NPG) for 2021/22 and details of the Farming in Protected Landscapes proposals are known, and authority to undertake any necessary modifications and acceptance of further funding is delegated to the Chief Executive in consultation with the Head of Finance and the Head of Law.**

   4. **Members note the medium term financial position of the Authority in the period up to March 2025.**

   5. **Members note the position of the Capital Strategy and Reserves.**

How does this Contribute to our Policies and legal obligations?

3. The Authority is required to set a balanced revenue budget for the 2021/22 financial year. This year will be the eighteenth year that National Park Grant has been funded directly at the 100% level from central government. In previous years, 25% of the Grant was financed from a levy on constituent councils, although the funding was still provided centrally by the Department of Environment, Food and Rural Affairs (Defra) to Local Authorities. The Authority's levying powers remain and are in theory capable of being used in the future, although in the past they have always been used by way of joint agreement between Defra and the Ministry of Housing, Communities and Local Government, with a corresponding mutual funding arrangement so that the cost of National Parks was not borne by local taxpayers. Although they remain unused, it is considered that retaining levying powers is an important consideration in terms of the Authority's ability to recover VAT as a Section 33 body, within the same VAT regime as Local Authorities, as well as its utility as a funding mechanism being preserved in statute.

The 2021/22 National Park Grant (NPG) Settlement

4. The National Park Grant, provided by Defra, is the Authority's largest source of income amounting to approximately £6.7m annually.

   Usually, a Spending Review would cover a period of three or four years to give government departments enough certainty to make long-term plans. The coronavirus pandemic disrupted many aspects of life over the last year and that makes long-term planning particularly difficult. To reflect the uncertainties that currently exist the government has decided that this Spending Review would only cover the 12 months from April 2021. At the time of writing this report the Authority's 2021/22 NPG settlement figure is not known.

The settlement for 2020/21 was a "flat cash rollover" of the 2019/20 budget of £6.699m for the Authority. As this settlement excluded any provision for inflation or pay increases the Authority was required to introduce annual of savings of £152,000 to balance the budget. Also, this settlement made it clear that embedded within the overall NPG was "an allocation of £335k from a dedicated Biodiversity Fund". The Authority has been expected to give details on how the Authority planned for and has now used this element of the NPG. There is uncertainty at present whether this Biodiversity element will be included again in the 2021/22 NPG settlement.

Due to the continuing uncertainty about the future funding of National Park Authorities, including the Peak District, the Authority's revenue budget for 2021/22 has been produced on the basis that the NPG baseline funding of 2019/20 will be maintained, **less** the £335k Biodiversity funding. Therefore, to balance the 2021/22 revenue budget it has been necessary to identify annual savings of £610k.

The annual savings of £610k represent the first year of a three year budget reduction plan. The savings plan was discussed with Members at a finance workshop in November 2020. Subject to confirmation of the 2021/22 NPG settlement, the Management Team will begin work shortly to find the expected savings required for years two and three of the savings plan. Consultation with Members will take place regarding any potential impact of reduced resources upon the outcomes of the Authority's Corporate Strategy.

If the Authority were to receive the £335k Biodiversity funding in 2021/22, then, unless the NPG settlement letter makes the continuation of this funding explicit, it should be treated as a 'one-off' source of funding. This will be considered when the final 2021/22 NPG settlement is known. At this stage it is likely that, should this funding be received, recommendations on its allocation will include options to replenish reserves (which have been reduced to mitigate the impact of reduced trading income in 2020/21 due to the pandemic) and options that focus on the Authority's priorities that cannot currently be met from the baseline revenue budget. As per the recommendation above, Members are asked to delegate the decision on the use of any potential Biodiversity funding for 2021/22 to the Chief Executive, taking account of the impact of proposals on the Corporate Strategy.

Defra released a publication in November 2020 'The path to Sustainable Farming: An Agricultural Transition Plan 2021 to 2024'. The publication includes a section called 'Farming in Protected Landscapes, and outlined a proposal to provide funding to farmers via National Park Authorities and Areas of Outstanding National Beauty bodies. Details of this scheme have not yet been released, but it is expected that any funding made available will be ring-fenced for this initiative only and is likely to need to be spent expeditiously. It is therefore important to be able to progress acceptance of this funding in a timely way. Consequently, as per the recommendation, Members are asked to delegate acceptance of this funding for 2021/22 to the Chief Executive.

It is proposed that an up-date will be provided to Members on the items delegated above at the next available Authority meeting.

2021/22 Revenue Budget

5. The 2021/22 budget has been developed and balanced under difficult circumstances and during a period of considerable uncertainty. The main assumption is that the Authority will receive another 'flat cash' NPG settlement and the Biodiversity funding of £335k may not be received.

The main actions required to balance the budget and the key assumptions underlining those actions to be noted are :-

- The 2021/22 budget supports the third year of the Authority's Corporate Strategy and is aligned to the revised strategy that Members approved at a meeting of the full Authority on 13th November 2020.

- 2021/22 is the first year of a three year savings plan to ensure the Authority continues to set a balanced budget up to the end of 2023/24. The annual savings of £610k required to balance the revenue budget in 2021/22 and in future years, as detailed in Appendix 2, are:-

- Management Restructure	£320,000
- Engagement	£ 40,000
- Trails	£ 25,500
- Woodlands	£ 7,500
- Marketing and Communications	£ 17,000
- Natural Environment and Rural Economy	£ 49,500
- Countryside Maintenance and Projects	£ 18,500
- Policies and Communities Service	£ 35,500
- Minerals	£ 15,000
- Pre-Application Planning Income	£ 20,000
- Corporate Insurance	£ 20,000
- Strategy and Performance	£ 35,000
- Customer and Business Support	£ 6,500

- The staff pay award for 2021/22 is unknown at this stage. It has previously been announced that there will be no pay award for 2021/22 however this is yet to be confirmed therefore an allowance has been made for a 2% increase (£150k) as per the medium term financial plan.

- In addition to the amount paid to an employee, the Authority contributes towards the employees' pensions (at 19.57% of employee pay – approximately £1,155m for 2021/22), and also for employers' statutory National Insurance contributions (varies around 7-14% - expected to be a total of £482k in 2021/22).

- In line with the 2019 actuarial revaluation results, published in January 2020, the employer contributions for 2021/22 will remain at 19.57%. The Actuary considered this level was required to maintain the Authority's pension fund at 101% funded (92% - 2016), but to achieve this an increased level of employer contributions (by 1% – from 18.57% to 19.57% of gross salary costs) was recommended by the Actuary with an objective to maintain funding at this level. This increase was implemented in 2020/21 and is to be maintained in 2021/22 (included within the pay costs shown in Appendix 1). National Insurance payments are based on earnings thresholds and % rates and are revised annually by government. The 2021/22 rates have not been published yet, therefore the budget has been prepared based on the estimated rates indicated in the November 2020 Spending Review, any variations to this are not likely to be material.

- Interest rates are assumed to remain low during 2021/22. As a result of lower cash balances and low interest rates the estimated interest income has significantly reduced from £77k in the budget for 2020/21 to £25k for 2021/22. Sums are invested with North Yorkshire County Council (as per the Authority report on Treasury Management which will be presented in March).

- The budget includes a £50k saving relating to vacancies that naturally occur throughout the financial year across all departments. The assumption is that there will be a saving to the Authority whilst posts are vacant as part of usual recruitment practices (i.e. gaps between officers leaving and new officers being appointed into post).

- The Peak District National Park Foundation charity may grant aid funding towards some of the Authority's development projects during the year. These sums, if they are granted by the Trustees, are additional contributions and it is expected that they will be ring-fenced for the purposes they were granted. A notional estimate of £60,000 is shown in the budget, but is matched by ring-fenced expenditure to the same amount, so that the effect on the baseline budget is nil, demonstrating that the grant income is fully used on projects.

- A small non-pay inflation provision of £20,000 is included in the budget. This small amount is aimed at unavoidable and contractual expenditure increases (e.g. utilities bills, audit fees, licences etc.) however, it does not offer protection from the effects of inflation for the majority of budgets. Bidding for the allocation of funds is done at the Midyear Review stage (November 2021).

- Income budgets for the Visitors Centres and Cycle Hire have been reduced by £30k combined. The services have previously been subject to stretching income targets, however it is now felt that these are unattainable.

- Most other income budgets remain at 2020/21 budget levels, however it is acknowledged that the coronavirus pandemic may continue to affect income streams to the Authority into 2021/22. Members agreed during 2020/21 to establish the Covid-19 emergency reserve to mitigate the impact of the loss of trading income. Based upon information currently available it is anticipated that the current provision is sufficient for any impact to 2021/22 income, as well as the current financial year.

Covid-19 Impact on Income

6. The coronavirus pandemic has had an impact on the whole country and, of course, the Peak District National Park Authority. As a result, the Covid-19 reserve was established in 2020/21 to support the impact on income streams. The situation has been monitored closely throughout the year and income estimates made into 2021/22. The following table demonstrates the estimated position using the information currently known:-

Covid-19 Reserve £'000s	2020/21	2021/22
Opening balance	1,087	731
Lost income	(696)	(333)
Mitigation	340	139
Closing balance	731	537

Lost income of £696k includes the £50k estimated loss of interest income as well as income from frontline trading services. Mitigation measures such as savings made from a reduction in the cost of sales, reduction in business rates (for 2020/21 only) and income from the Furlough Scheme have supported the Authority's financial position. The budget for 2021/22 includes the assumption that income levels return to pre-pandemic levels in July 2021 and there are no further long term lock-down restrictions or income lost from quarter two onwards.

The current estimates show a potential reserve balance remaining of £537k, however it should be noted that the situation remains uncertain and it would be prudent to retain this balance until the long term situation becomes clearer. Please note that Members have previously approved that any residual balance in the Covid-19 reserve would be added to the restructuring reserve (expected to be nil at the 2020/21 year end), before replenishing the other reserves on a business need basis (4th September 2020). The restructuring reserve may be needed to support the delivery of further annual savings (phases two and three of the budget reduction plan) to ensure the Authority continues to maintain a balanced budget.

The medium term financial position up to March 2025

7. As previously mentioned, the Authority is still awaiting an announcement from Defra of our National Park Grant for 2021/22. It has been assumed that the Biodiversity funding of £335k will not be received from 2021/22 onwards. In light of this, the Authority has made baseline revenue savings of £610k in 2021/22, out of an estimated required annual total of £954k up to the end of 2023/24, representing year one of a three year savings plan.

Based on the revised medium term plan, annual savings of £354k will need to be found for 2022/23 (£179k) and 2023/24 (£175k). There may be a need to find a further £50k annually if income from interest on balances remains low (due to small interest rate returns, currently at around 0.2% and low bank balances) and £30k from reduced Visitor Centre/Cycle Hire income. The Authority's budget reduction plan will be reviewed early in 2021/22 to incorporate the additional 2024/25 financial year shown in the table below.

The key revised medium term plan assumptions are :

- pay will rise by 2% each year;
- there will be no other significant taxation changes;
- the superannuation triennial review requires no increased employer contributions;
- £20k per year included for non-pay inflation and
- income from interest remains at £25k per year

The current medium term financial position estimate is as follows:-

Net Revenue Budget £'000s	2021/22	2022/23	2023/24	2024/25
	£	£	£	£
Net expenditure	*6,447*	*6,568*	*6,743*	*6,918*
National Park Grant	*(6,364)*	*(6,364)*	*(6,364)*	*(6,364)*
Interest receipts	*(25)*	*(25)*	*(25)*	*(25)*
Reserves	*(58)*	*0*	*0*	*0*
(Surplus)/ Deficit	*0*	*179*	*354*	*529*

The position after making savings in year two and three is as follows:-

Net Revenue Budget £'000s	2021/22	2022/23	2023/24	2024/25
Cumulative (Surplus)/ Deficit	*0*	*179*	*354*	*554*
Savings required by year	*0*	*179*	*175*	*175*
(Surplus)/ Deficit	*0*	*0*	*0*	*175*
Previous estimates allowed for pay @1.5%, this includes pay at 2% increases				

The above tables highlight that while the NPG remains frozen the Authority will need to take steps to manage unavoidable increases to expenditure (pay, inflation, licensing costs etc.). The existing three year savings plan mitigates against this for 2022/23 and 2023/23. It is hoped that the Government would introduce a long term funding plan before savings need to be considered for the 2024/25 budget, but financial restraint should be continued for now.

The Authority needs to remain agile and other risks include the Triannual Pension Revaluation. This is due to impact in 2023/24 and any increase to our current employer contribution rate of 19.57% will have a large financial impact. For example, an increase of 1% to 2% on our current pay levels would result in approximately a £130k to £260k increase to baseline annual expenditure which would have to be found.

Appendix 1

8. As in previous years, the budget headings contained within Appendix 1 are shown within the Corporate Strategy outcomes, with the budgets structured and reported for costing and budget monitoring purposes according to their separate business units / activities, which are recognisable to Members.

Column K and L show the net budget approved by Members in 2020/21, and the difference respectively. A brief reason for any large difference is highlighted.

Columns M and N show the “support service recharges” and the full cost of the front line service respectively. This is the re-allocation of costs from the support services (shown in the Agile and Efficient Organisation heading) to front line services based on estimates of the level of support to each service.

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

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

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

Annually, the Authority depends on some £2.3m of externally generated income (fees and charges) to balance its revenue budget. Services with income targets are expected to increase targets routinely to cope with pay and non-pay inflationary increases in order to maintain margins and stay within established financial objectives, as well as accommodate additional targets approved as part of coping with reduced grant levels.

Capital Strategy 2021/22

9. The Chief Finance Officer’s report on the application of the Prudential Code for Capital Finance will be reported to the March Authority meeting, and the day to day responsibility for Treasury Management is set within the constraints of the Treasury Management

Policy, which forms part of the same report.

The current Capital Strategy was approved in December 2015 covering the years 2015 to 2020. In light of the current uncertainties, e.g. unknown level of 2021/22 NPG settlement, current pandemic impacting trading income and the recent changes to the Management Team, the revision of this strategy has been delayed. Work will commence in 2021/22 to produce an updated capital strategy and will include the alignment of the Capital Strategy and the Asset Management Plan. In developing the revised Capital Strategy the opportunity will be taken to actively engage and consult with Members with regards to updating it. The revised Capital Strategy will cover the key principles and working assumptions based on the current corporate strategy period, and it is expected that a revised Capital Programme will be financed from a combination of borrowing and capital receipts.

Any significant impacts on 2021/22 revenue budget, as a result of the Capital Strategy refresh, will the brought to Members for consideration at a future meeting.

Any currently approved capital schemes will continue and the current position updated as part of the Outturn report later in the year, as well as being incorporated into the revised Capital Strategy.

Reserves

10. Clause 25 of Part 2 of the Local Government Act 2003 requires the Chief Finance Officer to report to Members, when calculating the net budget requirement, on the level and adequacy of cash reserves. The full level of reserves is reported to Members in the Outturn report in May and in the financial accounts. The level of cash backed reserves are carefully managed and the situation at the end of 2021/22 is envisaged to be:-

£'000s	**Actuals at 31/03/20**	**Estimates at 31/03/22**	**Difference**
General Reserve	352	300	52
Minerals & Legal Reserve	540	40	(500)
Restructuring Reserve	61	0	(61)
Capital Reserve	1,293	1,149	(144)
Matched Funding Reserve	1,438	1,172	(266)
Slippage	1,051	480	(571)
Covid-19 Reserve	482	537	55*
Specific Reserves	1,145	990	(155)
Restricted Reserves	109	109	0
Total	**6,409**	**4,089**	**(2,320)**

*Net Reserve Movement

The reduction in reserves is about 36% of the 31 March 2020 figure. This comprises expected use from Capital Reserve, the Matched Funding Reserve (mainly the investment allocations) and normal use of the Specific Reserves. This also includes the net movement in the Covid-19 reserve, which is made up of contributions of £605k from other reserves in 2020/21 and usage of £550k by the end of 2021/22.

General Reserve
This has traditionally been calculated on the basis of a minimum recommended level which is 2% of net expenditure (approximately £140k), with a trading contingency of £75k, giving a base level of £215k. The expected level in 2022 is considered to be satisfactory given the current complex mix of activities within the revenue budget. The reduction arises because £52k have been moved to the Covid-19 Reserve as part of the reserves reallocations approved by Members in September 2020. 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.

Covid-19 Reserve
Members agreed to establish this reserve as part of the 2019/20 outturn report in response to the coronavirus pandemic and Defra directives stating that National Parks should use their reserves to offset Covid-19 related deficits rather than rely on any additional support from Defra. This reserve has been created from other reserves. It is currently estimated that the reserve is sufficient to support lost income throughout 2021/22, however this is on the assumption that income levels will return to previous levels from July 2022.

Minerals & Legal Reserve
This contains funds anticipated to be required to handle a number of minerals and other legal cases (e.g. Rights of Way and Compulsory Purchase Orders) and the levels potentially required are kept under regular review by Resource Management Meeting. The reserve needs to be maintained at a level which allows a degree of financial resilience in handling a number of cases without immediate recourse to re-allocation of baseline resources which would disrupt other priorities, especially when those resources are under pressure from saving imperatives. £40k has been used to add to the Covid-19 reserve.

Restructuring Reserve
This is used for statutory redundancy and superannuation fund shortfall payments and was essential in providing the one-off resources needed to support the transition to a lower baseline and restructuring. Staff changes resulting in payment of superannuation shortfalls and/or redundancies are expensive. This reserve will be used to fund redundancies resulting the Management Team restructure and it is intended to top up this reserve with any unused amounts in the Covid-19 reserve, as previously agreed by Members and in preparation for the implementation of Phase two and three budget reduction initiatives.

Capital Reserve
This is only available to support capital expenditure as it holds unused proceeds from the disposal of capital assets. The level of the reserve is planned to reduce as approved projects continue and make use of the reserve as planned. The Capital Reserve is fully committed at this time although the timing of spend may span more than one financial year. This reserve will also be considered as part of the Capital Strategy refresh.

. *Matched Funding Reserve*
This is used to earmark funds for commitments already made for matched funding payments to external funding projects, and has also been used as the temporary home for one-off sums requiring agreement on allocation against priorities. The timing of expenditure for the approved allocations varies, with the earmarked sums for future years retained in the reserve. The reduction of £266k has been to top up the Covid-19 reserve. The reserve is expected to diminish over time as the one off sums are spent. The contingency for the Moorlife 2020 project (£500,000) is also retained within this reserve.

Slippage Reserve
This a temporary year-end balance arising from the deferral of expenditure between financial years. The funds are all committed and are allocated into budgets in the next financial year, once slippage requests have been approved at the May Authority meeting. The level is expected to reduce as carried forward sums are utilised and there will be high

scrutiny of requested carry forwards at the end of 2020/21.

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

It is necessary to maintain reserve levels at present, due to the continuing uncertainty over future resource provision (e.g. future NPG levels, coronavirus pandemic). 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?

11. The financial, property, sustainability and human resource implications of the budget are integrated and planned by the Resource Management Meeting and the budget for 2021/22 includes all relevant matters arising from these plans, as well as all previous Member resolutions.

Risk Management

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

The 2021/22 budget has been balanced due to savings made in year one of a three year savings plan and on-going financial restraint. The Authority remains vulnerable to increases in pay, inflation and other unavoidable costs and continued uncertainty over its National Park Grant provision. When the NPG settlement is known the medium term financial position can be revised as appropriate.

The Authority's reliance on external income targets and estimates always remains a key risk area and this has been highlighted by the impact of the coronavirus pandemic. Income to the Authority has suffered as a result of national lockdowns and the tier system and is likely to continue into 2021/22. Whilst this has been mitigated by use of a dedicated reserve, this is a limited resource and the Authority's income position will continue to be closely monitored.

The Moors for the Future team's continuing ability to handle very significant project expenditure remains important, in order to meet grant and contractual conditions, and to finance its core team.

Background Papers

12. Letter of Permanent Secretary Defra re Moorlife 2020 project 9th February 2017
National Park Authority Reserves Allocation Report 4th September 2020

Appendices -

Appendix 1 Revenue Budget
Appendix 2 Savings
Appendix 3 Explanation of Appendix 1

Report Author, Job Title and Publication Date

Justine Wells, Chief Finance Officer, February 2021