10. 2020/21 OUTTURN REPORT (JW)

Purpose of the Report

1. This report explains the outturn for 2020/21 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 2021/22 financial year.

Key Issues

- The 2020/21 draft financial year accounts need to be signed by the Chief Finance Officer by the 31st July 2021; however, the Head of Finance plans to complete the draft accounts by 28th May 2021 as per the deadline prior to the coronavirus pandemic. This is so as not to extend the completion period unnecessarily, and allow External Auditors (Mazars) to being work on 7th June 2021, with audited accounts published by 30th September 2021.

- 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.

- The final confirmation of the general reserve is subject to possible minor adjustments that may occur during the completion of the draft statements. However, the general reserve is protected at its minimum level of £300k and there is an overall surplus of £275k. It is recommended that this one off surplus be allocated to a new Resilience Reserve, with options for the use of this reserve to be brought back the Authority for approval at a meeting later in the year. It is important to note that this underspend is not a baseline budget saving.

- The National Park Grant for 2020/21 was held at the same level as 2019/20, with £355k specifically allocated as Biodiversity Funding.

- The coronavirus pandemic has had a significant impact on the trading services' income for 2020/21 see Appendix E. There has been a total loss in trading income against budget of £580k. This has been mitigated by pay and non-pay under spends totalling £862k in the affected services and includes, the receipt of furlough income of £175k and a reduction in business rates of £38k. Therefore, there has been no need to use the Covid-19 reserve. The Covid-19 reserve was established at the end of 2019/20 and the balance currently stands at £1.09m (£482k in 2019/20 and contributions of £605k approved in year) to carry forward to 2021/22.

- The Authority's reserve position is otherwise 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 trading income, and also uncertainty over National Park Grant for future years, especially given the fact that Defra have been unable to commit to inflation protection from 2020/21 onwards, leading to continued uncertainty over future years funding.

  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.**
2. The two new proposed reserves also shown in Appendix C be approved, with delegated authority given to the Chief Executive Officer to bring options back to Authority for the new Resilience Reserve.

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 July. This report has been written therefore to allow the Authority 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 30th September. The consequence of this is that the Chief Finance Officer will need to prepare and certify the accounts by 31st July, however External Audit will begin work on 7th June 2021, therefore the planned completion date is 28th May 2021.

4. There were periodic budget monitoring meetings of the Senior Leadership Team with the Head of Finance together with the five appointed Budget Monitoring Members at key stages of the year. Variances from the agreed budget and forecasts are discussed during this meeting.

Background

5. The 2020/21 budget was approved in February 2020 without having final confirmation of the National Park Grant (NPG) value, with savings options based on potential outcomes. Defra confirmed the level of National Park Grant in March 2020, as a 'flat cash' settlement of £6.699m of which £335k was designated as 'Biodiversity Funding'.

6. The March 2020 Authority meeting approved the Chief Finance Officer's report under the Prudential Code for Capital Finance, setting prudent borrowing limits for the 2020/21 year of £2.5m. In August 2006, in accordance with Services Committee Minute 41/05, the Authority borrowed £697,000 to finance the Aldern House Project. This is the only <u>external</u> borrowing currently outstanding and the total outstanding external debt at 31st March 2021, after repayments to date, is now £392k. 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 £1.526m; these have all been financed internally from internal cash balances.

Those outstanding and hence current are:

Committee / RMT Minute	Date	Principal	Reason	Annual charge to budget	Ending
ARP 41/12	20/07/2012	£108,812	Aldern House Biomass boiler	£8,000	2032/33 (20 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	£57,886	Showers and camping facility improvements at North Lees campsite	£4,583	2030/31 (15 years)
ARP 18/16	04/03/2016	£348,608	Castleton Visitor Centre re-modelling	£21,754	2037/38 (20 years)
RMT 17/16	09/05/2016	£26,775	2 additional Camping Pods	£2,057	2030/31 (15 years)
RMT 42/16	01/11/2016	£21,277	Replacement vehicle for volunteer service	£2,715	2023/24 (7 years)
RMT 01/17	10/01/2017	£83,062	Tenancy Refurb. - 2 properties	£4,639	2041/42 (25 years)
RMM 32/17	01/08/2017	£127,363	Tenancy Refurb – 1 property	£6,924	2041/42 (25 years)
RMM 38/17	04/10/2017	£70,168	Pool car replacements	£10,064	2023/24 (7 years)
ARP 21/18	16/03/2018	£173,758	Millers Dale Refurbishment (to be finalised in 2021/22)	£11,507	2037/38 (20 years)
RMM 14/18	30/07/2018	£81,263	Tenancy refurbishment Warslow Estate	£5,384	2044/45 (25 years)
ARP 4/19	18/01/2019	£244,929	Vehicle replacements (to be finalised in 2021/22)	£36,804	2027/28 (7 years)
	Total	**£1,442,407**		**£120,189**	

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 fixed rate from the Public Works Loan Board at the time the internal loan is made) and the remainder repaying the original capital sum, over a term based on the life of the asset. 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, this included regular updates on the estimated income losses as a result lock down closures caused by the coronavirus pandemic. Estimates proposed in January 2021 were at £696k and this has proven to be relatively accurate following the third lockdown in January 2021 through to April 2021. Lost trading income due to the coronavirus pandemic trading income was £580k and lost interest (due to reduced interest rates) was £52k. This has been mitigated by an under spend of £862k in the affected services, which includes the receipt of furlough income of £128k and a reduction in business rates of £38k. Due to the high underspend in the services; it is proposed not to fund the lost income from the Covid-19 reserve.

The Covid-19 Reserve balance at year-end is £1.09m (£482k in 2019/20 and contributions of £605k approved in year) which is recommended to be carried forward to 2021/22. When this reserve was established, the outlook and expected impacts from the global pandemic was unknown, therefore the Authority took a very prudent approach to make sure it was financially resilient and in a sound financial position to overcome the challenges ahead. In addition, it was unknown whether there would be any financial support available, such as the furlough scheme, which the Authority has benefited from. Whilst, the outturn for 2020/21 shows an underspend, the impact into 2021/22 remains unknown as does the long term impact on the Authority such as future ways of working and how we will continue to operate post covid-19 (for example managing face to face Authority meetings). Therefore, it is recommended that the reserve continue to be held at the current level into 2021/22 with the use of this reserve reviewed during 2021/22 as part of the Medium Term Financial Plan. Any amounts no longer required will be returned to the reserves from which it was taken as per the July 2020 Authority report; however, it is not known when this reserve will no longer be required as impacts may still be felt into 2022/23.

Appendix E (i) shows the impact on trading income by service and compares these to their overall outturn position. Lost income of £580k becomes a much smaller loss of £36k, which can be absorbed by an overall underspend across the Authority, this is in part due to large underspends in pay and non-pay as well as the mitigation of furlough income. Appendix E (ii) shows the trend of the variances to income budgets over the four quarters of 2020/21. This shows how the timing of the national and local lockdowns have had a direct impact on trading income budgets throughout 2020/21.

Extract from App E (i) Service Area	Income Variance Higher/ (Lower) than Budget £'000s	Overall Service Under/ (Over) Spend £'000s	Year-end Adjustments £'000s	Final Surplus (Deficit) - App A £'000s
Warslow	(16)	29	(29)	(0)
North Lees	(15)	8	0	8
Trails	27	111	(117)	(6)
Other Car Parks	20	24	(22)	2
Other Concessions	(1)	(1)	(1)	(2)
Visitor Services	(462)	(85)	0	(85)
Engagement Rangers	(94)	50	(5)	45
Volunteers	(20)			
Planning	(20)	146	(145)	1
Totals	**(580)**	**282**	**(319)**	**(36)**

Appendix E (iii) shows how the forecast impact compares to the actual impact of the coronavirus pandemic which was forecast to be funded from the Covid-19 reserve. This table only shows selected elements of the budgets for the trading services, which had been used for forecasting, and not the whole budget, unlike the table above, which includes the total variances for pay and non-pay in column 3.

Extract from App E (iii)	**Forecast Impact £'000s**	**Actual Impact £'000s**	**Difference £'000s**
Lost Trading Income	(646)	(580)	66
Lost Interest Income	(50)	(52)	(2)
Reduction in Cost of Sales	150	156	6
Reduction in Business Rates	63	38	(25)
Net Trading Covid-19 Impact	**(356)**	**(263)**	**93**

The coronavirus pandemic has also had an impact on investment receipts in 2020/21. The Interest Base Rates were reduced to the lowest level ever in March 2020, to 0.1% and have remained at this level all year, therefore investment receipts have been at their lowest for some time. The actual interest rate earned decreased through the year from 0.83% at the beginning of the year to 0.19% at the end of the year. Interest earned was £25k (£71k last year) a loss of £52k against the budget (as mentioned above).

8. Resource Management Meeting (RMM) discussed the outturn figures and slippage recommendations on the 4th May. These are detailed in Appendix C (i).

RMM also discussed the creation of two new specific reserves. It is recommended that these be created as part of the year-end process for 2020/21:

1. VAT Partial Exemption Reserve: the Authority now is a VAT registered entity and no longer part of Derbyshire County Council's registration. One of the key risks the Authority now has relates to reclaiming the VAT on exempt activity, also known as 'partial exemption'. In brief, the Authority can reclaim the VAT on exempt activity as long as the value remains immaterial, which is 5% of the total VAT reclaimed on expenditure. The VAT reclaimed on exempt revenue costs in year is around 3% of the total VAT. Therefore, when capital expenditure is incurred there is a risk that the Authority will breach the 5% threshold, as this tends to be higher in value. The 5% threshold was breached in 2019/20 and cost the Authority £59k. There is no breach expected for 2020/21. It is recommended that £60k of the unused contingency for 2021/21 be set aside to mitigate this risk in future years.
2. Resilience Reserve: the £275k underspend be set aside in a new resilience reserve. Instead of this amount being added to the general reserve (which, is currently deemed to be sufficient), this will allow the management team to establish a process to suggest options on how best to allocate the 2020/21 underspend to corporate priorities' of the Authority. Please note this is a one off source of funding. The CEO will then make recommendations to Authority later in the year to be approved.

9. 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 is approximately £300,000.

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 three 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) Specific Reserves: The level of specific reserves overall has increased due requests for underspends to be transferred to reserves for future use. There has also been no call on the Covid-19 reserve, again due to service underspends. 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. The new specific requests have been discussed above.

(c) Capital Reserve: The Capital Receipts reserve started the year at £1.293m and there has been expenditure of £412k in line with the approved capital programme. The reserve was used to support previously authorised Trails Structures work (Minute 51/16) totalling £256k, and capital works at Pump Farm of £156k (ARP Minute 13/18). Eighteen vehicles have been disposed in the year, as part of the fleet replacement programme with capital receipts of £110k, which have been used to contribute to the funding of the replacement programme, and therefore not added to the reserve.

(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. 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. There is a balance between allowing sensible use of slippage between years to manage commitments prudently with due regard for value for money, and not allowing slippage to be too high with monies not being spent in-year. The level of slippage fluctuates year on year and the 2020/21 level is a little higher than last year partly because of interruptions to operations caused by the coronavirus pandemic.

(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. 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. The reserve also contains the exchange rate earmarked contingency for the Moorlife 2020 project.

10. Revenue Account & Services

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. The final underspend after slippage requests and appropriations to and from reserves is £275k. The vacancy control process which was established in 2020/21 has also had an impact on the outturn with an overall underspend in pay across the Authority. This was created to give RMM oversight of all vacancies during an uncertain year with both the impacts of the coronavirus pandemic and the future budget savings that were required.

(a) The Planning Service has significant underspend of £146k because of a large number of vacant posts in the Monitoring and Enforcement and Minerals Teams. It is proposed to set aside £140k in a specific reserve to support delivery of the planning service in 2021/22 (see commentary above on new reserves).

(b) The Moors for the Future core team achieved a £21k surplus, which it is proposed is carried forward to help balance the 2021/22 year's target.

(c) The coronavirus pandemic has had a significant impact on service delivery of the Engagement Rangers resulting in a large underspend. It has been requested that this be slipped to 2021/22 to fund dilapidation costs from the ending of two leases.

(d) There is an underspend on the Edale Centre premises costs of £34k of which, £24k is proposed to add to the Aldern House Reserve. It is also proposed that the reserve be renamed the Corporate Property Reserve to support ongoing maintenance on both properties. It is known that the Edale Centre will need works to the roof in the near future.

(e) The Warslow estate drew funds down as planned from the capital reserve and the condition survey allocation) to support refurbishment of Reapsmoor Chapel and the conversion of the barn at Pump Farm to create an estate office. It is proposed to move the small underspend of £8k to the Warslow Moors Reserve.

(f) The North Lees estate has a small underspend, despite loss of income from the campsite. This is due to increased car park income throughout the summer.

(g) The woodlands service has benefited from higher than expected revenues from timber sales as well as reduced maintenance costs because of the coronavirus pandemic.

(h) The trails service has had significantly higher income from car parking during the year as well as reduced expenditure because of covid-19 and as a result have proposed to put £107k into the trails reserve against future commitments.

(i) The Visitor and Cycle Hire centres have been the hardest hit in terms of reduced income from trading with over spends of £17k and £68k respectively. This could be funded from the covid-19 reserve, however due to the overall underspend across the Authority it is proposed to fund this particular shortfall from the Authority underspend.

(j) Marketing and communications has an underspend of £83k, this is due to vacancy savings, reduced expenditure on events and reduced printing costs. Non-pay reductions in costs are because of the coronavirus pandemic.

(k) IT has an under spend of £39k in capital due to the delay in the planned replacement of the printers. The actual requirements for replacement printers will be reviewed in 2021/22 and therefore, the under spend has been retained in the ICT reserve.

(l) Customer and Business Support has an underspend of £56k due to vacancy savings and reduced operating costs because of the coronavirus pandemic. With Aldern House being closed, recruitment to vacancies has been delayed, as there has been a reduced requirement to attend the office and be on Reception amongst other service reductions.

(m) The Corporate Strategy team slippage requests are mainly for ring-fenced funds towards the climate change and carbon management projects. As well as carrying vacancy savings, giving rise to an overall under spend of £25k.

(n) In the legal service there has been a one off income to the legal service from a successful prosecution and associate reclaim of legal costs. It is proposed to add this back into the Legal and Minerals reserve to allow the Authority to make strong responses in defence of its policies.

(o) Committee and Members services also has an under spend of £23k due to a reduction in costs associated with face-to-face meetings. There is a request that this is slipped to 2021/22 to meet the estimated costs of Covid safe face to face meetings which are likely to be off site and incur additional costs.

(p) Human Resources have made requests for slippage for committed costs, which will be funded from the corporate overhead fund. The corporate overhead fund holds budget for HR (and other corporate services) costs that are only allocated at year end if there is a need, as these costs are unavoidable these will be funded in accordance with the agreed use of this fund.

(q) The corporate overhead recovery fund is managed by the Head of Finance and collects the agreed recharges levied against all externally funded projects based on staff in post, which supports the extra demands placed on Corporate Support Services (finance, legal, IT, HR, property) as a result of these activities (see HR comments above). The Head of Finance and commitments, currently funding temporary staffing and some smaller corporate costs from 2021/22 onwards, assess demands; hence, the proposed sum is requested as slippage to help meet the agreed demands in 2021/22 and beyond. 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.

(r) 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 externally funded / has in-kind contributions, then the budget will show as zero – and the outturn position (i.e. net expenditure) will be zero, illustrating that the gross expenditure has been fully balanced by the external income. The comments section of Appendix A highlights the principal funder and the total expenditure of the larger projects.

11. 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 (Appendix C):

- overspends are carried forward and found from service budgets the following year unless there are extenuating circumstances, there are no requests in 2020/21.
- 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. Due to significant under spends across the Authority; it is proposed to create two new reserves, the VAT Partial Exemption Reserve and the Resilience Reserve.

12. 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 years' service budgets.

13. 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 2021/22 budget. C (ii) lists the recommended appropriations to or from specific reserves. C (iii) contains the overspends proposed to be carried forward against the 2021/22 service or project budget, if any, however, this is nil for 2020/21.

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

Appendix E
Shows the impact of the coronavirus pandemic on the trading income streams of the Authority.

14. 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.

Proposals

15. In terms of the Authority's overall financial position, the outturn for the 2020/21 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.

16. 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?

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

18. **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. They have 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 Management 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 evidence of the effectiveness of these processes as they relate to the 2020/21 financial year.

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

20. If Members approve the slippage and reserve requests, as set out in this report, a number of these will directly contribute to the Authority achieving its aspirations in relation to climate change. For instance, an independent consultant quantifying the National Park's carbon emissions using the same methodology as a number of other National Park Authorities, Member training on climate change and Pump Farm Restoration.

Consultees

21. The outturn was discussed and agreed by the Resource Management Meeting (RMM) on the 4th May.

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

Full income and expenditure analysis

Appendices

Appendix A - 2020/21 Variance Analysis

Appendix B - 2020/21 Outturn by services within divisional headings

Appendix C - Slippage and reserve requests

Appendix D - Reserve Levels

Appendix E - Trading Income impact

Report Author, Job Title and Publication Date

Justine Wells, Head of Finance and Chief Finance Officer, 13 May 2021