7. 2022/23 REVENUE BUDGET, 2022/23 CAPITAL PROGRAMME AND MEDIUM TERM FINANCIAL PLAN 2022/23 TO 2025/26 (JW)

1. Purpose of the report

This report presents the Authority's 2022/23 revenue budget and capital programme for Member approval.

2. Recommendations

1. **the Authority's annual budget for the 2022/23 financial year as shown in Appendix 1a be approved.**
2. **Members note the Authority's capital programme for 2022/23 as shown in Appendix 2.**
3. **Members note the RMM approved projects for investment up to £335k as shown in Appendix 3**
4. **Members note the Medium Term Financial Position (MTFP) of the Authority in the period up to March 2026 and the timetable as shown in Appendix 4.**
5. **Members note the position of the Authority's Reserves.**

How does this contribute to our policies and legal obligations?

3. The Authority is required to set a balanced revenue budget for the 2022/23 financial year. For 2022/23 the National Park Grant is 100% funded from central government for the nineteenth year. 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.

Background

4. The National Park Grant, provided by Defra, is the Authority's largest source of income amounting to approximately £6.7m annually. The Spending Review in November 2021 set departmental budgets to 2024/25, however at the time of writing this report the Authority's 2022/23 NPG settlement figure is not known. Therefore, the MTFP is assuming that the settlement will be a further flat cash settlement for the next 3 financial years to 2024/25.There remains uncertainty around how the pandemic will continue to affect daily life and it is against this backdrop that the budget has been set on the basis that the Authority will continue to receive no inflation protection nor any other increases to the NPG.

5. The settlement for 2020/21 was a "flat cash rollover" of the 2019/20 budget of £6.7m for the Authority. In the letter received from Defra for the 2021/22 budget, the previous "allocation of £335k from a dedicated Biodiversity Fund" has now been embedded back within the grant base value and is no longer earmarked for biodiversity work. The Authority continues to report to Defra on how the Authority planned for and uses the NPG.

6. For the 2021/22 budget the Authority took decisions that cut £609k from the base budget, this, along with the baselining of the 'biodiversity fund' means that in 2022/23 has been balanced without the need for further savings. The MTFP later in this report shows that for investment in People, Assets, Fundraising and Digital cost reductions will need to be found for 2023/24 and beyond.

7. The 2021/22 budget was set on the basis that if the Authority were to receive the £335k Biodiversity funding in 2021/22, then the use of the monies received was delegated to the Chief Executive in the 2021/22 Budget Report (19th February 2021, minute number 8/21). These options were shortlisted at management team meeting 14th December 2021 and agreed at RMM on 11th January 2022. The agreed options are at Appendix 3.

Proposals – 2022/23 Budget

8. The 2022/23 has been set on the basis that there is a balanced budget for the financial year. The Finance team have worked with budget holders and budget managers to review the baseline budgets and set the 2022/23 using a bottom up approach. The review was completed on the basis that services have to stay within their current baseline budget envelope however budgets were reviewed to make sure that operational budgets were a true reflection of the expenditure and income for their service.

9. There remains uncertainty around the impact of pay awards for both 2021/22 and 2022/23. The 2022/23 pay budget has been set on the basis that the current proposal of a 1.75% pay award for 2021/22 will be implemented before the end of the financial year. There is then a further assumption that the pay award for 2022/23 will be at 2%, therefore, a pay contingency of £150k is included in in the 2022/23 budget to cover this increase. The pay budget also includes the new higher National Insurance contribution for employers at 15.05%, up 1.25% from 13.80%. This has been funded within the NPG.

10. In line with the 2019 actuarial revaluation results, published in January 2020, the employer contributions for 2022/23 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 2022/23 (included within the pay costs shown in Appendix 1a).

11. 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).

12. Interest rates were raised in December 2021 to 0.25%, however this was a very small increase, therefore it has been assumed that interest received on investments will continue to be very low. Sums are invested with North Yorkshire County Council (as per the Authority report on Treasury Management which will be presented in March) and are budgeted to be at £15k for 2022/23.

13. 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 2022).

14. It has been assumed that all income budgets will be recovered to pre-pandemic levels in 2022/23.

15. 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 £80k 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.

Appendix 1a & 1b – Revenue Budget 2022/23

16. As in previous years, the budget headings contained within Appendix 1a 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. A detailed explanation of the headings within Appendix 1a is shown at Appendix 1b.

17. Column K and L show the net budget approved by Members in 2021/22, and the difference respectively. A brief reason for any large difference is highlighted.

18. 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.

19. 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 however, the calculations are considered to be sufficiently indicative for current purposes.

20. 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

21. Annually, the Authority depends on some £2.5m 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 and Programme 2022/23

22. The Chief Finance Officer's report on the application of the Prudential Code for Capital Finance will be reported to the March 2022 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.

23. The current Capital Strategy was approved in December 2015 covering the years 2015 to 2020. This will be refreshed in line with the refresh of the National Park Management Plan and Corporate Plan. The work will also be closely aligned to the Asset Management and Disposals Plan.

24. The currently approved capital projects are shown in the Capital Programme for 2022/23 at Appendix 2 and is based on currently approved capital schemes plus new projects for IT which are funded from the revenue budgets annually and included in the 2022/23 budgets for approval. The current capital strategy refresh is overdue and it also does not make reference to statutory landlord or building obligations however the Authority has a legal responsibility to include these projects within the Capital Programme. This will be brought to members as part of the Autumn 2022 workshops.

Medium Term Financial Plan 2022/23 to 2025/26

25. As previously mentioned, the Authority is still awaiting an announcement from Defra of our NPG for 2022/23. It is assumed that the level of NPG will remain at the same value (£6.699m) for the next three financial years. This is the same value as in the previous three financial years (from 2019/20).

26. The MTFP is as follows:

	2022/23 £000's	**2023/24 £000's**	**2024/25 £000's**	**2025/26 £000's**
Net Expenditure	**6,566**	**7,155**	**7,302**	**7,491**
Financed by:				
National Park Grant	(6,699)	(6,699)	(6,699)	(6,699)
Reserves and Interest	(72)	(72)	(72)	(72)
Funding	**(6,770)**	**(6,770)**	**(6,770)**	**(6,770)**
(Surplus) or Deficit after financing	**(204)**	**384**	**532**	**721**
Cumulative Position	(204)	180	712	1,433

27. The key assumptions included in the MTFP are:
- The NPG will not increase for the whole period;
- Pay will rise by 2% each year;
- The vacancy factor of £50k continues to support the annual budget;
- There will be no other significant taxation changes;
- The superannuation triennial review will result in a 1% increase in employer contributions from 2023/24 onwards;
- £20k per year included for non-pay inflation;
- Investment income remains low at £15k per year.

28. Based on the assumptions above, the budget for 2022/23 is balanced, however

there will need to be a cost reduction plan implemented from 2023/24. An analysis of options will be made between January 2022 and October 2022 with this being included in the members autumn workshops and brought to members for decision in November 2022. This is in line with the timetable for the National Management Plan and Corporate Strategy refresh. The detailed timetable is at Appendix 4.

29. The MTFP includes the investment of funds in four key areas, these areas are to enable the Authority to continue to operate into the future:

- Assets, estimated costs £182k in 2023/24, reducing to £174k in 2024/25 (included in the MTFP).
- People, estimated costs £275k in 2023/24, £335k 2024/25 and £320k in 2025/26 (included in the MTFP).
- Fundraising, cost options expected January/ February 2022, (not yet included in the MTFP).
- Digital, cost options expected March 2022, (not yet included in the MTFP).

Cost reductions mentioned above will need to be made across the Authority to accommodate cost increases from investments made in these four key areas.

Reserves

30. 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 2022/23 is expected to be:-

<u>Reserves (£'000s)</u>	**Actuals as at 31/03/2021 (from Statement of Accounts) £'000s**	**Estimates as at 31/03/2023 £'000s**	**Difference £'000s**
General Reserve	222	563	341
Minerals & Legal Reserve	535	535	0
Restructuring Reserve	61	311	250
Matched Funding Reserve	1,230	1,226	(4)
Slippage Reserve	1,187	590	(597)
Covid-19 Reserve	1,087	683	(404)
Capital Reserve	877	953	76
Specific Reserves	1,355	1,301	(54)
Restricted Reserves	50	122	72
Total	**6,604**	**6,284**	**(320)**

The reduction in reserves of £295k is 4.47% of the 31 March 2021 reserve balance. This comprises the expected use of capital reserves, the addition of capital receipts from the sale of Lower Greenhouse Farm and an expectation that the value of slippage will reduce at the end of 2021/22. The table also includes the movements approved by members on 12th November 2021 which was the re-appropriation of the Covid-19 reserve to the Restructuring Reserve and General Reserve. The increase in restricted reserves is due sums received from two legacies received in 2021/22.

31. *<u>General Reserve</u>*

The minimum level of the general reserve has traditionally been calculated on the basis of a recommended level which is 2% of net expenditure (approximately £130k), with a trading contingency of £75k, giving a base level of £205k. However this should be considered as an absolute minimum. The expected surplus of £211k in 2022/23 plus the forecast level of £352k at the end of 2021/22 gives a total of £563k in 2023 which is considered to be sufficient given the current complex mix of activities within the revenue budget. The forecast for the general reserve value has increased due to additions approved by Members on 12th November 2021. 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.

32. *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.

33. *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 had additions approved by Members in November 2021 and will be used fund any future redundancies.

34. *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 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.

35. *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. There has also been a new set of principles which will be applied to requests at the end of 2021/22 onwards.

36. *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. Members approved the reduction of this reserve to £683k approved by Members in November 2021. The retention of this reserve will be reviewed at outturn 2021/22, dependant on the pandemic situation or whether there are any restrictions at the time.

37. *Capital Reserve*
This is only available to support capital expenditure as it holds unused proceeds from the disposal of capital assets. This reserve will be used to support the capital programme and will also be considered as part of the Capital Strategy refresh.

38. *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.

39. 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?

40. **Financial**:
The financial implications are contained in the main body of the report.

41. **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 Management Team.

The 2022/23 budget has been set based on savings taken in the 2021/22 budget and on 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 MTFP can be revised as appropriate.

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.

42. **Sustainability:**
The 2022/23 revenue budget and MTFP are key documents to ensure the financial sustainability of the Authority.

43. **Equality:**
Any issues of equality are included within the budget setting process.

44. **Climate Change:**
Any issues relating to climate change are included within the budget setting process.

45. **Background papers** (not previously published)
None

Appendices –
Appendix 1a – Revenue Budget 2022/23
Appendix 1b – Explanation of Appendix 1a
Appendix 2 – Capital Programme 2022/23
Appendix 3 – Investment Projects list
Appendix 4 – Decision Timetable

Report Author, Job Title and Publication Date

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