10. REVENUE BUDGET 2025/26 AND MEDIUM-TERM FINANCIAL FORECAST 2025/26 TO 2028/29

1. Purpose

This report presents the Authority's 2025/26 revenue budget for Member approval.

2. Context

2.1 The Authority is legally required to set a balanced revenue budget for the 2025/26 financial year. For the 2025/26 financial year, the National Park Grant is 100% funded by Central Government, from the Department of Environment, Food and Rural Affairs (Defra).

The National Park Grant (NPG), provided by Defra, is the Authority's largest source of income, and has amounted to £6.7m annually, over the last three years, with 2024/25 being the final year in the three-year settlement. In real terms, our grant has decreased by 40-50% over the last decade.

2.2 As Members are aware, costs are continuing to rise for many of our mandatory services, as follows.

- External Audit costs have risen by approximately 160% in the last year. New scale fees for audit services were announced, following consultation and new contracts awarded to audit firms, for a five-year period, to deal audit delays and backlogs across local government.
- Insurance costs have risen by 74% over the last three years. These are mainly driven by external factors including Inflation, global events (Covid, War, Climate change), increased claims and the increased costs in the reinsurance market. We are in the process of awarding a new contract for the next 3 years, where the outlook indicates that insurance costs will rise further in 2025/26 and beyond. An additional 10% has been allowed in the budget, which has just been confirmed in the tender award pricing as sufficient. Further inflationary increases are expected in future years.
- Repairs & maintenance costs have increased significantly, due to increased materials and labour costs, energy costs, supply chain disruptions post covid. This has primarily been seen in our Warslow Moors estate, with an aging portfolio and tenancy turnovers resulting in building refurbishments and increased repairs.
- We have been eligible for the Rates Relief scheme, since the covid 19 pandemic, in which our Visitor Centres say a reduction of 100% in rates payments from 2020/21. This has been tapering down in the years following (75%, 66%) and is set at 40% relief in 2025/26. This saving has helped offset rising utility bills in recent years and will have to be found from within the baseline budget. Further government announcements are expected on the future of rates, for those who have been eligible for relief. Rates, in general are expected to rise by up to 5% in 2025/26
- Cost increases for utilities (water, electricity, gas) have been announced and set to increase from April 2025. Any costs over baseline budget, will be met from the contingency budget.
- IT costs continue to be impacted by inflation and several of our main providers, have increased or plan to increase costs in the new financial year.

- With increased NI and utilities costs impacting all businesses, expectations are that further price increases from suppliers may be borne onto the Authority.

In the October 2024 budget, the government announced it was increasing employers National Insurance (NI) contributions from 13.8% to 15%, coupled with lowering the entry threshold from £9.1k to £5k. Based on our current establishment, this would have resulted in circa £220k additional NI in 2025/26 and each subsequent year. Unlike local authorities and other public sector bodies, National Parks have not been given any dispensation from paying these increased costs.

2.3 In January 2025, it was announced that the Authority would undertake an organisational restructure, due to the financial outlook of the Medium Term Financial Forecast (MTFF). The following changes have been implemented and reflected in the 2025/26 budget, and thereafter in the Medium Term Financial Forecast.

- Merging our People and Customer Democratic Service Team and reducing their overall size.
- Reducing our Communications team.
- Consolidating our Visitor Centre and Cycle Hire network to create Visitor Hubs and Cycle Hire Hubs.
- Outsourcing our retail function.
- Reducing our youth engagement, wellbeing and communities' team.
- New Legal structure, based on recent retirements and introducing an Apprentice Role (No people impact).
- Removing the Grant Development role, which was approved in 2024/25 (No people impact).
- Removal of 1 training Academy post in the financial year 25/26, as we are trying to baseline these posts.

3. Proposals

3.1 We have recently received an update from Defra that our core grant for 2025/26 is anticipated to be cut by 8.2%, being a cash value of £6.15m. This is a 1-year settlement only and we expect further communication on the 3-year settlement to take us to 2028/29, by Autumn. The Authority are therefore left with no alternative but to bridge the funding gap in the budget of £550k, by utilising our reserves in the short term. At the time of writing this report, Defra are in internal discussions, to reallocate some of our FIPL revenue funding to the core grant revenue funding. This would mean the £550k revenue grant cut could be reduced by the reallocated FIPL revenue grant. We could potentially receive additional capital funding for FIPL in its place and our core revenue grant could be uplifted. Any reallocations will be subject to express confirmation from Defra to ensure there is no ambiguity. A verbal update will be given at Authority, pending the imminent Defra decision. The Authority will continue to hold vacancies where possible and stop non-essential spending where feasible, to help reduce the remaining grant deficit.

3.2 It is proposed that the 2025/26 budget is funded by a combination of the NPG (at an 8.2% decrease), the reserves and vacancy factor and interest on balances as detailed in Appendix 1. At the time of writing, neither the NPG nor the FIPL revenue reallocation has been confirmed by Defra and, if the decrease is greater than 8.2%, the difference will be made up from the Authority's reserves. In the event that there is insufficient funding in reserves, the Authority will seek to make in-year savings to cover essential expenditure.

3.3 The 2025/26 budget has been set on the basis that there is a balanced budget for the financial year. Despite being able to balance the budget in 2025/26, through the NPG, vacancy factor, reserves and strong investment interest, from 2026/27, and the remaining term of the Medium Term Financial Forecast (MTFF), the Authority is in deficit. At this point, given we have only received a one-year settlement agreement from Defra, we have had to make the assumption in MTFF, that the 3-year settlement will revert back to the 2024/25 settlement of £6.7m. The Authority will continue to scenario plan for similar, permanent revenue grant cuts as a matter of priority, ahead of any future announcements.

Defra have announced they will supplement our Core grant reduction by giving the Authority the difference in revenue budget in a Capital Grant. The Authority will focus the spending of this grant on Capital projects that increase income or create new income generating opportunities. This will help minimise the impact of the revenue grant reduction, particularly in future years. We have reflected this in the financing of the Capital Budget, which is also being presented today.

As part of the budget setting process, all baseline budgets for 2025/26 have been scrutinised to ensure core financial resources are allocated fairly and in line with inflationary pressures. Analysis has been undertaken to reflect under and overspends over a three-year period, and budgets realigned accordingly. The Authority will continue to scrutinise all spend, including projects and associated costs, whether they be cash or in-kind contributions.

In January 2025, the decision to undertake an organisational structure, was based on the assumption the Authority would receive a flat cash grant. This was prior to the very recent news of the revenue grant cut. Had the Authority not acted with urgency, driven by the financial outlook of the MTFF, ahead of any Defra announcements, by 2028/29, the deficit would have been circa £4.5m. However, now adding the revenue grant cut that has been announced since, the Authority would have been looking at a £5.1m MTFF deficit. The Context section and following paragraphs outline several factors that have led to this tough decision.

3.4 The 2025/26 budget is forecasting a pay award of 5%. Local Government Unions, Unison, GMB and Unite, under the joint union pay claim, have put forward their claim for 2025/26, seeking a £3,000 increase on all pay spine points. They are also seeking a minimum pay rate of £15 per hour. This would equate to an average pay award of 9%. Although the actual pay award in 2024/25, averaged 3.88%, the Authority feels it prudent to allow 5% in the forecast, in the event a higher pay award than 2024/25 materialises.

3.5 **Income from Planning and Assets**

- Planning applications are down year on year, resulting in lower than forecast income. Previous budgets have been inflated and not reflecting what's happening in the market with growing economic uncertainty. Rising material and labour costs are making construction costs more expensive. The Government have approved new planning fees, to include more than doubling householder application fees from £258 to £528. These new fees have been incorporated into the budget for 2025/26 forecasting, taking account of year-on-year application trends.

- Car park byelaws were passed much later than expected, in November 2024, with tariff increases expected for April 2025. These increases were already forecast in the 2024/25 budget, therefore, resulting in an expected shortfall in the 2024/25 outturn at year end. Apart from realigning budgeted income across our various car park income streams, we have left car park income flat in 2025/26. Any additional income, that may result from Capital initiatives that are currently in the pipeline, will be utilised, to help offset the revenue grant reduction and protect the use of reserves.

- Rental income remains a dependable source of income for the Authority. With the Pump Farm estate expected to be available to let by September and Dale Cottage coming on the rental market, following an extensive renovation period, this will help offsetting the growing costs of running the Warlow Estate.

3.5 The vacancy factor which was introduced in 2022/23 remains at 5%. A vacancy factor is the assumption 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). This vacancy factor is offset against net expenditure to balance the budget. The forecast for 2025/26 is £384k and is monitored regularly by the Finance Manager, to ensure the Authority is not left exposed if vacancies are lower than expected. As part of the organisational restructure, all vacancies will be under review by Senior Management Team (SMT). Any risk to vacancy factor will be brought to SMT to discuss as a priority.

3.6 Investment interest is offset against net expenditure to balance the budget. The Authority has benefited from high Interest rates since 2022, with interest rates peaking in August 2023 at a rate of 5.25%. At the time of writing this report, the current interest rate has dropped to 4.5%. However, it is expected that interest rates will fall significantly over the next 3 years and could be as low as 2.5% by the end of 2027. The decision to cut interest rates is expected due to faltering economic growth and lower inflation rates, which currently stands at 3%. As our reserves are also forecast to reduce over the course of the MTFF, we expect to see a material reduction in our investment interest. This will be monitored closely by the Finance Manager.

Medium Term Financial Forecast (MTFF) 2025/26 to 2028/29

We have recently received an update from Defra that our core grant for 2025/26 is anticipated to be cut by 8.2%, The Medium-Term Financial Forecast, is based on the assumption that the core grant will revert back to 2024/25 levels for the remaining term. To reiterate again however, the Authority will continue to scenario plan for similar, permanent revenue grant cuts as a matter of priority, ahead of any future announcements.

	Forecast Budget				
	2024/25 £000's	**2025/26 £000's**	**2026/27 £000's**	**2027/28 £000's**	**2028/29 £000's**
Pay Award Estimate	@5%	@5%	@3%	@3%	@3%
Net Expenditure	8,048	7,580	7,526	7,850	8,147
Funded by:					
National Park Grant	(6,949)	(6,150)	(6,699)	(6,699)	(6,699)
Reserves, vacancies and Interest	(1,554)	(1,473)	(727)	(675)	(649)
Total Funding	**(8,503)**	**(7,623)**	**(7,426)**	**(7,374)**	**(7,347)**
(Surplus) or Deficit after funding	**(454)**	**(43)**	**100**	**476**	**799**
Cumulative Position	**(740)**	**(784)**	**(684)**	**(208)**	**592**

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The key assumptions in the MTFF are as follows:

- NPG cut for 1 year, then revert back to 2024/25 core grant settlement.
- Pay award is forecast at 5% for 2025/26 and 3% thereafter.
- Taxation changes for NI, assumed throughout the MTFF.
- Vacancy factor remains at 5% for the full term.
- Partial year organisational restructure in 2025/26 and full year in 2026/27.
- Investment interest reducing in line with rate cuts and reducing reserve levels.
- The Visitor Centre donation ends in 2026/27, but the MTFF assumes the department will be cost recovery by 2027/28.
- Excess Cycle Hire income will be ringfenced to enable Visitor Centres work towards the cost recovery model.
- Contingency will be offset against pay award, estimated inflation on non-pay in line with bank of England forecast, investment interest & vacancy factor risk. There is a reduction from 2026/27, to align with the estimated pay award reduction.
- Farming in Protected Landscapes programme (FIPL) The extension of FIPL to 2025/26 has been reflected in the 2025/26 budget and removed in part thereafter, as negotiations are on-going for 2026/27. See report and Authority minute 13/24 for an explanation how FIPL operates). Agenda item - Farming in Protected Landscapes Programme - Arrangements for the Fourth Year
- Agreed reserve funding added and removed in line with SMT/RMM agreements over the term of the MTFF.

Reserves

Considering the core grant reduction, for now, we have allocated most of the shortfall against reserves, but we will endeavour not to spend the full allocation by focusing on income generation and cost savings.

As part of organisational change, some of the agreed funding from reserves has been removed to strengthen our uncommitted allocation. This will also help offset the burden of redundancy costs.

- Sustainable travel officer role removed releasing £136k back to reserves.
- Now vacant fixed term Monitoring & Enforcement officer role which was funded from reserves is not being replaced releasing £56k back to reserves.
- Fixed term Senior Legal role, approved in 2024/25 budget & funded from reserves no longer required in the legal structure, releasing £56k
- Training Academy roles funded from 2025/26, no longer funded from reserves but from baseline budgets, releasing £216k.

General Reserve

The minimum level of the general reserve has traditionally been calculated based on a recommended level which is 2% of net expenditure (approximately £151k), with a trading contingency of £100k, giving a base level of £251k. However, this should be considered as an absolute minimum. The general reserve balance at the end of the Statement of Accounts for 2023/24 was £369k which is considered to be sufficient given the current complex mix of activities within the revenue budget.

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.

Specific Reserves

These are used to support individual service areas and each reserve's objective and planned usage is reported to the Authority in the Outturn report in July. 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.

It is necessary to maintain adequate reserve levels to meet future financial commitments and to cushion any unexpected events. 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.

Reserves table

The table represents the opening reserves balance from April 2024, allocations for the current year and MTFF term, forecasting a closing balance of £5.5m. These figures may alter after year end close and allocations that are no longer required will become available. The unallocated balance is deteriorating due the allocation of forecasted redundancies and the revenue grant shortfall. To be prudent, we have, for now forecast the higher values that could materialise.

RESERVE	Opening balance 24/25 £000	Commitments/additions 24/25 £000	Commitments 25/26 £000	Commitments 26/27 to 28/09 £000	Estimated closing balance £000
General Reserve	- 369	-	-	-	- 369
Capital Reserves	- 1,321	765	120	-	- 436
Specific Reserves	- 5,737	1,239	1,935	442	- 2,120
Restricted Reserves	- 2,545	- 44	-	-	- 2,589
Totals	**- 9,971**	**1,960**	**2,055**	**442**	**- 5,515**

Reserves	**24/25**	**25/26**	**26/27**	**27/28**	**28/29**
Opening balance	- 9,971	- 8,012	- 5,956	- 5,800	- 5,555
Allocations	1,960	2,055	156	245	41
Closing balance	**- 8,012**	**- 5,956**	**- 5,800**	**- 5,555**	**- 5,515**
Restricted balances (after allocations)					
General Reserve (min threshold required)					- 369
Capital Reserves					- 436
Revenue Grants Reserve					- 2,406
Specific Reserves					- 1,900
Restricted Bequests					- 139
Unrestricted/Unallocated reserve balance					**- 266**

4. Recommendations

1. **That the revenue budget for the 2025/26 financial year as set out in Appendix 1 be approved, noting that the funding mechanism may be subject to change pending confirmation from DEFRA.**

2. **That the Medium Term Financial Forecast (MTFF) for the Authority for the period 2025/26 to 2028/29 be noted.**

3. **To approve the extension of the Farming in Protected Landscapes programme for 2025-26, and to accept the additional funding allocated to the Authority for 2025-26.**

4. **To continue to temporarily suspend the operation of Standing Order 7.C-3 for the delivery of the Farming in Protected Landscapes programme only, and to continue to adopt the requirements set out in**

the National Framework document for the authorisation of grants under that programme.

5\. **To continue to delegate authority to the Chief Executive Officer or their nominee to complete grant agreements authorised in accordance with the National Framework, in the standard form provided within the National Framework documents.**

5. Corporate Implications

a. Legal

The provisions of the Local Government Finance Act 1992 and the Local Government Act 2003 impose statutory duties on the Authority to set a budget and approve a balanced budget for the forthcoming financial year, and to effectively monitor the budget. These provisions require the Authority to make prudent allowance for the risk and uncertainties in its budget and regularly monitor its finances during the year.

b. Financial

The financial implications are contained in the main body of the report.

c. National Park Management Plan and Authority Plan

The Authority Plan includes Objective D (Financial Resilience)-to be financially resilient and provide value for money. Demonstrating we can balance the budget in 2025/26, through measures that have been undertaken to take out costs and reallocate baseline budgets, where required. This enables the Authority to manage its financial stability in the medium term.

The Authority Plan includes Objective F (Governance) - to have best practice governance arrangements in place. Good governance arrangements, help mitigate financial risks and associated budget decisions.

d. Risk Management

Section 25 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

e. Net Zero

Any issues relating to net zero are included within the budget setting process

6. Background papers (not previously published)

None.

7. Appendices
Appendix 1: Revenue Budget 2025/26
Appendix 2: Explanation of Appendix 1a

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