Report 4: Medium-Term Budget Plan 2022/23 – 2024/25

1. Purpose of Report

The purpose of this report is to seek approval of the Budget Plan for the next three years.

2. Recommendations

The Authority is recommended to:

a. Approve the Budget Plan for the three years 2022/23 to 2024/25 in Table 8;

b. Approve the Budget earmarked reserves and level of General Reserves detailed in section 7;

c. Note the key risks to the Budget Plan detailed in section 8; and

d. Approve the Operational Boundary and Authorised Borrowing limits as set out in section 9.

3. Implications

a. **Financial:** Despite mitigating actions, the impact of the planning assumption of a 3-year flat cash settlement from Defra has resulted in a total deficit of £185,500 over the plan period. It is proposed this will be funded from reserves. This will give the Leadership Team time to react to the implications of this over the next 12 to 18 months. This results in the planned closing general reserves decreasing from £510,000 in 2022/23 to £352,000 in 2024/25. In each of the financial years, the general reserve remains on or over, the agreed minimum general reserve level of £350,000.

b. **Equalities:** None

c. **Link to Business Plan:** Financial performance and budget management are an integral part of resourcing all aspects of the Business Plan and of maintaining an organisation that is fit for the future (Aim 6 of the Business Plan).

4. Background

a. The Medium-Term Budget Plan is presented to the Authority annually each March for formal approval.

b. This budget is being set against a backdrop of increasing costs, including staff costs, and on the key assumption of a 'flat cash' Defra grant settlement over the full medium term plan period. This represents a significant set of challenges, and this has also driven the financial strategy.

c. The Finance and Audit Group have considered: a full review of The Sill Business Plan; the key budget assumptions and the medium term financial strategy, to take the Authority forward in a number of key areas. The Group has endorsed for members approval a strategy which:

   1. considers the Authority's emerging priorities arising through the Glover Review and the current review of the Management Plan;

2. ensures a realistic, yet prudent approach to budget setting, balancing the medium-term budget over the 3-year period from reserves to enable time to assess financial performance and plan how we can meet these challenging budget circumstances in time for the next budget round;
3. increases self-generated income to enable the Authority to maintain its operational capacity and staff expertise and be less reliant on core government funding and to balance the impact of a 3-year flat cash settlement;
4. establishes a firm baseline budget for The Sill Business Plan;
5. fundraises for priority projects; and
6. despite challenging budget circumstances, continues to ensure we are building earmarked reserves to enable investment in maintaining and funding major repairs on our Estate in the future.

5. Key Budget Assumptions

Defra National Park Grant

a. At the time of writing this report confirmation of the settlement for the 3-year period of this budget plan remains outstanding, however, we have been strongly advised to plan on the basis of “flat cash”. Assuming this is confirmed the level of Defra grant will have remained the same since 2019/20.

Table 1 – National Park Grant

	2022/23	2023/24	2024/25
National Park Grant	£2,672,900	£2,672,900	£2,672,900

Operating Staff & Related Costs

b. The annual pay inflation assumption included in the budget is 2% per annum. This is our biggest area of financial risk as the impact of a 1% increase is circa £25,000 per annum in each of the years and ongoing as it increases the future baseline. Inflation is currently at its highest for many years coming out of the pandemic, but to assume a higher figure would mean taking mitigating actions at this stage that we may not have to make. If the pay award in year 1 comes in higher than anticipated, action will need to be taken in year or as part of the next budget round

c. Costs have risen by circa £15,000 per annum in light of the additional 1.25% contribution to National Insurance to fund the Health and Social Care Bill as announced by government in the Chancellor’s Autumn Statement. Defra are discussing whether they can support NPA’s with this additional burden in the same way Councils have had this increase covered in their funding allocations. This is unlikely to be confirmed in the current financial year and therefore the assumption is that we bear the additional cost of this.

d. No assumption has been included at this stage for an increase in employer pension contributions, but members should note the employer contribution rate could change as the result of the triennial valuation from 2023/24.

Table 2 - Operating Staff & Related Costs (excluding Sill Business Plan and project staff)

	2022/23	2023/24	2024/25
Operating Staff & Related Costs	(£2,249,900)	(£2,283,000)	(£2,332,500)

Operating Expenditure

e. Despite some savings being embedded from new ways of working such as virtual meetings, operating costs are set to increase over the budget period. Specifically:

- Insurance costs. This contract was tendered in quarter 3 of 2021/22 and costs have risen as our risk profile changes. Generating more income and an increasing wage roll all impact premiums;
- an assumption has been allowed for increasing external audit fees as the PSAA tender is unlikely to bring such favourable scale fees in the future as they look at how they fairly allocate fees to admitted bodies; and
- costs have also increased on recently awarded cleaning contracts as the National Minimum Wage and National Living Wage increase.

Table 3 –Operating Expenditure budget

	2022/23	2023/24	2024/25
Base Operating Expenditure	(£887,400)	(£887,500)	(£895,800)

Operating Income

f. At the November Finance and Audit Group meeting, members were made aware of the, as yet unconfirmed flat cash settlement from Defra which results in a shortfall of around £500,000 resulting from rising costs such as salary inflation assumptions and additional contributions for National Insurance in relation to the Health and Social Care Bill. Members agreed this Authority could not react immediately with budget cuts as capacity is already an issue across the organisation. Increasing net commercial income generation is seen as the preferred approach. This builds on our positive achievement in this area over recent years but does represent a further challenge.

g. In considering commercial income generation, Officers have sought to be challenging, yet realistic. Table 4 sets out the additional net income generation deemed achievable within this budget plan period, as identified by the Leadership Team which they are confident to include as budget assumptions. In addition to our previous achievements. A total of £354,200 is included over the three-year budget plan.

Table 4 – Breakdown of additional net income generation included

	Year 1	Year 2	Year 3	Total
Green Items*				
Staff services	£10,000	£20,000	£20,000	£50,000
Increase pre application income	£2,400	£2,400	£2,400	£7,200
Additional rental income	£4,000	£12,000	£12,000	£28,000
Additional net car park income	£78,000	£63,000	£63,000	£204,000
TOTAL GREEN	**£94,400**	**£97,400**	**£97,400**	**£289,200**
Amber Items **				
Fundraising Package Business as Usual	£10,000	£15,000	£20,000	£45,000
Car park tap & donate	-	£5,000	£5,000	£10,000
Car park Ad Gefrin	-	£5,000	£5,000	£10,000
TOTAL AMBER	**£10,000**	**£25,000**	**£30,000**	**£65,000**

*Green Items are targets which are achievable and build upon previously successful income generation streams.

**Amber Items are new sources of income which Leadership Team are confident can be achieved over the medium-term with little new investment.

h. **Detail behind each target follows:**

- **Staff services:** Income is generated by cost recovering staff time inclusive of overheads, on project or partnership working, wherever possible. We have a proven track record of over-achieving this target.
- **Planning:** Pre-application advice fees were raised in 2021/22 and we have achieved or are forecast to achieve £6,500 annually since then. This increases the target to reflect performance.
- **Rental income:** This target is based on letting additional space at Rothbury which is already agreed in principle for the coming year; and reducing the contingency in the Eastburn Hubs budget which has seen 100% occupancy for coming up two years (from 10% to 5%). The target assumes an additional office being freed up for rental at Eastburn and income is assumed from year 2, following the completion of our 12-month blended working trial.
- **Car Park Income:** We propose to increase car park charges by £1 for every visitor to the car parks along Hadrian's Wall (excluding The Sill). The maximum daily charge will remain capped at £10 as will the all-day transferable ticket. Annual parking passes will increase by £10 from £40 to £50 per pass. The figures included are prudent as they are based on reduced visitors than the past year as we recognise this may have been an exception due to Covid, allowing for a contingency reduction of 5% in year 1 and 10% in years 2 and 3.
- **Business as Usual Fundraising:** We recognise that much of the conservation work we undertake with staff and volunteers are attractive fundraising propositions. Items such as: bird surveys; tree surveys; bracken bashing; pollinator work; and so

on will be targeted for commercial sponsorship or philanthropic funding. The target is relatively modest as this is a new proposition we will trial and therefore the risk is relatively low.

- **Car Parking – tap and donate:** Over the next 12 months we will investigate tap and donate technology at our non-paid for car parks. This will enable the visitors who are so minded to take part in visitor pay back.
- **Car Parking – Ad Gefrin:** Discussions are at an advanced stage to have land donated to the Authority to provide car parking at the site of the Ad Gefrin monument due to the expected increase in visitors signposted from the new Ad Gefrin Distillery in Wooler. A target has been included in year 2 and 3 as we would expect to implement paid for parking to re-coup some of the investment the park will be making and to help support ongoing maintenance costs.

i. Many other ideas are being explored for additional income generation and whilst work on these will continue, such as in attracting 'green-investment' no provision is being made for income within this budget plan.

Table 5 – Operating Income Budget

	2022/23	2023/24	2024/25
Base Operating Income	£483,000	£485,400	£503,800
Additional Income Generation (Table 4)	£104,400	£122,400	£127,400
Total Operating Income	**£587,400**	**£607,800**	**£631,200**

Projects

j. The breakdown of the project budget is shown in Table 6.

Table 6 - Projects

Project Surplus / (Deficit)	2022/23	2023/24	2024/25
Special Projects Fund (to be funded from Philanthropic Fundraising Target)	(£150,000)	(£150,000)	(£150,000)
Communities Fund	(£20,000)	(£20,000)	(£20,000)
Revitalising Redesdale	(£17,700)	-	-
Hadrian's Wall National Trail	(£113,000)	(£113,000)	(£113,000)
Greenlee Countryside Stewardship	(£107,500)	(£16,700)	(£7,200)
Hadrian's Wall - Recovering Nature	(£193,000)	(£95,000)	-
Northern Upland Chain Local Nature Partnership	(£20,100)	(£20,100)	(£20,100)
Projects Total Expenditure	**(£621,300)**	**(£414,800)**	**(£310,300)**

Project Surplus / (Deficit)	**2022/23**	**2023/24**	**2024/25**
Special Projects Fund Philanthropic Fundraising Target	£150,000	£150,000	£150,000
Revitalising Redesdale	£17,700	-	-
Hadrian's Wall National Trail	£128,000	£128,000	£128,000
Greenlee Countryside Stewardship	£75,100	£30,300	£26,000
Hadrian's Wall - Recovering Nature	£213,300	£113,400	-
Northern Upland Chain Local Nature Partnership	£15,100	£15,100	£15,100
Projects Total Income	**£599,200**	**£436,800**	**£319,100**
Projects Net Income / (Expenditure)	**(£22,100)**	**£22,000**	**£8,800**

k. Greenlee Countryside Stewardship balances out to zero cost to the Authority over the budget plan term, however, in 2022/23 there is a deficit due to the capital costs over and above the capital funding. This is paid back from the revenue funding surplus in the following two years.

l. Farming in Protected Landscapes will be added when we are in receipt of the final confirmation of the allocation for the following two years.

m. Other projects will carry forward from the current financial year, and there are currently projects in development which are expected to come on stream during the budget period and these will be added as funding is confirmed.

The Sill Business Plan

n. The Sill Business Plan assumptions and budget lines have been re-visited in full and the assumptions made have been closely considered. The visitor numbers are a key driver, the target for 2021/22 was 115,000 and we are on track to achieve 93% of the target. This was undoubtedly adversely affected by continuing Covid restrictions at the beginning of the year, therefore the target of 115,000 has been included for year 1, rising by 5,000 per annum for the following two years.

o. The café being operated by NNPA is included in the 2022/23 budget only. This is an extended trial due to the various lockdown periods meaning there is not enough evidence at this stage to make a permanent decision between NNPA operated or Franchisee operated (as per 2023/24 and 2024/25 budget). It is important to note the 2022/23 budget is based on cash profit only and does not capture all costs associated with running the café in-house.

p. The Sill Business Plan has been discussed, challenged, and endorsed by the Leadership Team and the Finance and Audit Group.

q. Table 7 shows the business plan figures and breaks these down into the key areas.

Table 7 The Sill Business Plan

	2022/23	2023/24	2024/25
Target for number of Visitors	115,000	120,000	125,000
Retail Income	£207,300	£219,600	£232,300
Retail Expenditure	(£169,900)	(£177,700)	(£185,800)
Net Retail Income	**£37,400**	**£41,900**	**£46,500**
Café Income	£222,300	£23,000	£23,000
Café Expenditure	(£196,400)	-	-
Net Café Income	**£25,900**	**£23,000**	**£23,000**
YHA Income	**£50,300**	**£52,000**	**£52,000**
Car Parking Income	£39,700	£41,300	£43,100
Car Parking Expenditure	(£12,300)	(£12,700)	(£13,200)
Net Car Park Income	**£27,400**	**£28,600**	**£29,900**
Hires Income	£18,700	£18,700	£18,700
Hires Expenditure	(£7,900)	(£8,100)	(£8,300)
Net Hire Income	**£10,800**	**£10,600**	**£10,400**
General Sponsorship Income	**£11,000**	**£11,000**	**£11,000**
Staff and related costs	**(£115,200)**	**(£117,900)**	**(£120,800)**
Sill Operational Expenditure:			
- Annual Maintenance	(£35,700)	(£35,700)	(£35,700)
- Cyclical Maintenance Allowance*	(£30,000)	(£30,000)	(£30,000)
- Temporary Exhibitions	(£10,000)	(£10,000)	(£10,000)
- Utility Costs	(£96,200)	(£98,100)	(£98,100)
- Other Costs	(£70,200)	(£70,900)	(£73,700)
Sill Operational Recharge Income	£94,100	£95,900	£96,300
Net Operational Expenditure	**(£148,000)**	**(£148,800)**	**(£151,200)**
Total Expenditure	**(£743.800)**	**(£561,100)**	**(£575,600)**
Total Income	£643,400	£461,500	£476,400
Net Surplus/ (Deficit)	**(£100,400)**	**(£99,600)**	**(£99,200)**

* Balance of cyclical maintenance to transfer to an earmarked reserve at each year end to set aside funds for irregular expenditure.

Revenue Loan Repayments

r. The annual loan revenue repayments for all budgeted loans from revenue are shown in Table 8. The breakdown is as follows.

- £10,900pa is repayable over 10 years to finance the Authority's approved save to invest capital expenditure at Housesteads car park.
- £57,100pa repayable on The Sill capital build loan to the Authority. This planned loan is repayable over 30 years.

6. Budget Summary

a. A summary of the annual net budget position, taking into account the various elements discussed is shown in table 8.

Table 8 Annual budget surplus/ (deficit) summary

	2022/23	2023/24	2024/25
National Park Grant (Table 1)	£2,672,900	£2,672,900	£2,672,900
Staff Related Costs (Table 2)	(£2,249,900)	(£2,283,000)	(£2,332,500)
Operating Costs (Table 3)	(£887,400)	(£887,500)	(£895,800)
Operating Income (Table 5)	£587,400	£607,800	£631,200
Operating Surplus	**£123,000**	**£110,200**	**£75,800**
Projects (Table 6)	(£22,100)	£22,000	£8,800
Surplus after operating & projects	**£100,900**	**£132,200**	**£84,600**
The Sill Business Plan (Table 7)	(£100,400)	(£99,600)	(£99,200)
Revenue Repayment of Loans	(£68,000)	(£68,000)	(£68,000)
Total Budget Surplus/ (Deficit)	**(£67,500)**	**(£35,400)**	**(£82,600)**

b. This budget plan runs a deficit of £185,500 over the 3 years which it is proposed will be funded from reserves. This is funded entirely from the forecast surplus brought forward as a planning assumption from the very positive 2021/22 financial performance.

c. We recognise this is not an ideal position, representing a deficit of £82,600 in the final year of the budget plan, however, it represents a positive and prudent approach to maintaining organisational capacity, increasing commercial income, and providing the Authority with time to adjust to significant real terms cut in Defra grant. It is disappointing we are in this position at a time when expectations on National Parks are growing because of the Glover Review, and in the context of national emergencies for climate and nature.

d. Despite the many challenges outlined, this budget does, however, propose to increase our earmarked reserves to allow for future liabilities arising from our estate and capital replacement of our key IT infrastructure.

7. Reserves

a. The Authority has a number of earmarked reserves, namely:

- ICT Capital Replacement Reserve A fund increasing by £10,000 per annum to be utilised for periodic replacement of ICT hardware and core systems. A significant replacement programme of server hardware is scheduled to conclude in 2021/22 and the reserve is being built up again for the next major replacements required.
- Planning Contingency is held to ensure there are funds for preparation and defence of any future major planning challenges and public inquiries.
- Legacy Reserve £5,100 legacy restrictive funds received and not yet allocated, for use for new project work relevant to the donor's interests or wishes.
- Exhibition Maintenance This reserve has been created to cover cyclical maintenance of the main exhibition and interpretation at The Sill. An annual amount is provided in the budget whereas the spend requirement will not accrue evenly. Any balance on the budget will transfer to this reserve at the year end to build up funds to cover future cyclical interpretive maintenance requirements.
- Sill Cyclical Maintenance This reserve has been created to cover cyclical maintenance at The Sill. An annual amount is provided in the budget whereas the spend requirement will not accrue evenly. Any balance on the budget will transfer to this reserve at the year end to build up funds to cover future cyclical maintenance requirements.
- Climate Change Allocation to fund individual actions from the first 3 years of the Authority's Climate Change Action Plan.
- Hadrian's Wall National Trail Capital works reserve This reserve is the accumulated surplus on the project which will be used for capital projects or match funding other funding sources.
- Major Repairs Reserve A fund increasing by £10,000 per annum to be utilised as and when required for major repairs across the whole of our property portfolio. Examples include the replacement of kitchen equipment at The Sill or the replacement of heating systems.

b. Table 9 shows the Budget movement on reserves and the impact of earmarked reserves on the general reserve.

Table 9 - Budget General and Earmarked Reserves

	2022/23	2023/24	2024/25
Opening Reserves	£671,600	£803,700	£768,300
Forecast outturn surplus 2021/22	£199,600	–	–
Budget Plan Surplus / (Deficit)	(£67,500)	(£35,400)	(£82,600)
Closing Reserves	**£803,700**	**£768,300**	**£685,700**
Earmarked Reserves:			
IT Capital Replacement Reserve	(£10,000)	(£20,000)	(£30,000)
Planning Contingency	(£75,000)	(£75,000)	(£75,000)
Legacy Reserve	(£5,100)	(£5,100)	(£5,100)
Exhibition Maintenance	(£14,600)	(£14,600)	(£14,600)
Sill Cyclical Maintenance	(£14,600)	(£14,600)	(£14,600)
Climate Change	(£26,000)	(£26,000)	(£26,000)
HW National Trail Capital reserve	(£101,400)	(£101,400)	(£101,400)
Major Repairs Reserve	(£47,000)	(£57,000)	(£67,000)
Total Earmarked Reserves	**(£293,700)**	**(£313,700)**	**(£333,700)**
Total General Reserves	**£510,000**	**£454,600**	**£352,000**

c. The overall aim of the reserves policy should be to ensure that the level of reserves should be sufficient (but not excessive) to meet any exceptional cost pressures, to mitigate financial risks and to provide future investment funding. It is the opinion of the Chief Finance Officer the plan should aim to deliver a minimum general reserve of £350,000.

d. This Budget Plan achieves that aim with general reserves of £352,000 in 2024/25, coupled with the unreleased earmarked reserves. At any given time, it also provides a sufficient level for cashflow peaks and troughs.

e. Opening reserves in 2022/23 are based on the budget deficit for 2021/22 with a forecast surplus variance of £199,600 from the very positive financial performance in the current year.

8. Risks and Potential for Mitigation

a. The highest budget risk is in relation to staff and related costs.

1. Higher than planned staff inflationary increase. This is not something we can influence, and we may not find out the final agreement until well into the budget period. If we are faced with a higher than assumed inflationary award, we will need to take action within the year to adjust for this.

2. The additional 1.25% of National Insurance employer contributions (Health and Social Care Levy) is fully costed in the budget and has an impact of approximately £15,000 per annum. Defra have indicated they are considering if they can support National Park Authority’s with this impact in the same way other local

authorities are being supported by government to offset this additional burden. This would be a positive outcome, which may offset some of the financial risk in 1a and 1c. This is unlikely to be confirmed in time to include in the budget but if this funding comes it would be circa £45,000 in additional funding over the budget plan.

3. Increase in employer pension contributions. The triennial valuation of the fund could impact the % contribution from 2023/24. No assumption has been made for this as we have no information to base this on at this stage. We will know in time for the next budget plan and ahead of this as the results are shared, we will be discussing with the pension fund how we can smooth any changes over the period, to avoid where possible any sudden significant budget shocks.

b. The impact of this deficit budget on the next budget round. As we realise the performance of this budget and ongoing impact of inflationary and Defra grant decisions, action may need to be taken over the next 12 to 18 months to address any potential ongoing budget deficit (currently £82,600 if nothing changes and no further action is taken).

9. Capital Budget, Operational Boundary and Authorised Borrowing Limit

a. Within the Budget Plan, no new capital projects are proposed which require funding from revenue or from loan finance.

b. As required by the Financial Regulations any capital investment proposals will be presented to the Authority for approval. This will include the financing proposal for the investment.

c. There are no plans for any long-term capital borrowing contained in the Budget, but the Authority may want the flexibility to do so, particularly if financial plans change. It is recommended that the Operational Boundary borrowing limit (which represents possible borrowing) is maintained at £1,500,000. The projected balance of actual external debt on the balance sheet at 31st March 2022 is £1,089,300. The balance of £410,700 will give the Authority a degree of flexibility for new capital projects and allows for any capital proposals arising for the Authority's estate. Any proposals to borrow funds or enter into any loan agreements will require Authority approval in advance.

d. It is recommended that the Authorised Borrowing Limit (the maximum borrowing limit) is maintained to £2,000,000, this allows a degree of flexibility. Once again, any proposals to borrow funds would be put before the Authority for approval.

e. The Authority is asked to approve the limits set out below for each of the years, 2022/23, 2023/24 and 2024/25. The Operational Boundary and Authorised Limits are reviewed annually so the impact of any financial changes can be considered at that time.

f. Actual External Debt at the projected balance sheet date of 31st March 2022 is:

Borrowing	£1,089,300
Other long-term liabilities	£0
Total Actual External Debt	£1,089,300

g. Operational Boundary, which represents external debt (if option to borrow is taken) during the course of the year be set as:

Borrowing	£1,500,000
Other long-term liabilities	£0
Total Operational Boundary	£1,500,000

h. Authorised Limit (the limit beyond which borrowing is prohibited allowing a margin of flexibility) set as:

Borrowing	£2,000,000
Other long-term liabilities	£0
Total Authorised Limit	£2,000,000

10. Conclusions

a. This has been a challenging budget plan. This is the first time we have planned for a flat cash Defra grant settlement for the full term of the budget plan and after allowing for cost increases outside of our control, this left a £500,000 deficit to make up.

b. The Finance and Audit Group accepted managements position that this Authority cannot lose more core resource at this time without severely impacting our future opportunities to deliver emerging priorities. They support the strategy to increase net income to the Authority and Table 4 sets out how the team can deliver a further £354,200 in net income over the period to offset a good proportion of the gap.

c. Funding the remainder of the shortfall from reserves which exist due to the excellent trading conditions in 2021/22, will give the Leadership Team time to firm up other opportunities which have been identified but are not certain enough to be included. If this does not close the gap alternative solutions will have to be proposed in the next budget plan.

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