

Report 5: Medium Term Budget Update

1. Purpose of Report

The report requests formal approval for a series of budget carry forwards and transfers to and from earmarked reserves resulting from the 2022/23 financial year, proposes the allocation of the surplus generated, summarises the effect on the overall reserves position of the Authority and details the strategy for treasury management for approval for the year ahead.

2. Recommendations

The Authority is recommended to:

- a. Approve the carry forwards as detailed in Table 1, Table 2, and Table 3;
- b. Note the transfers to earmarked reserves as detailed in Table 4;
- c. Endorse the delegated decision to release £25,000 of reserves to the development of the Walltown Wider Horizons project detailed at Section 4, paragraph i;
- d. Approve the proposal for the allocation of excess funds into the Medium-Term Budget Plan 2023/24 – 2025/26 at Section 4, paragraphs l to n; and
- e. Approve the treasury management strategy as detailed in Section 7 and 8 of the report.

3. Implications

- a. Financial: The impact of the 2022/23 financial outturn after allowing for budget carry forwards, transfers to earmarked reserves and the late confirmation of Supplementary National Park Grant, creates a general reserve balance of £1,183,300 (after a delegated decision to allocate £25,000 taken in May 2023). This report proposes the allocation of the general reserve balance to enable the retention of £500,000 at the end of the third year, as the minimum reserve level. This is proposed to mitigate the higher risks in the current Medium-Term Budget Plan. £601,300 is allocated to create a much-needed Projects and Investments Reserve to invest the aims of the Business Plan and deliver fit for the future systems, generating future efficiencies in operations (subject to individual business cases). £82,000 is allocated to support staff costs to retain capacity to deliver the Business Plan.
- 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 an Authority fit for the Future (Outcome 6 of the Business Plan).

4. Medium Term Budget Update

- a. As referenced in Report 2 on this Agenda, the Authority has net income carry forward and transfers to earmarked reserves requests of £354,000 which are detailed in Tables 1, 2, 3 and 4 below.
- b. Details of the Operating Budget expenditure carry forwards of £65,000 are shown in Table 1 as follows

Table 1 Operating Expenditure carry forwards	Carry forward requested
Biodiversity Net Gain income	£14,500
Visitor Survey	£14,800
Repair & Maintenance	£17,700
Various others under £10,000	£18,000
Total	£65,000

- c. Details of the Net Project Budget carry forwards of £218,600 are shown below in Table 2 as follows.

Table 2 Net Project Budget Carry Forwards	Carry forward requested
The Sill	£47,800
Café Budget surplus (balance 21/22) – for investment in systems to improve efficiency	£36,000
Cheviot Hill Heritage Project Development Grant	£47,100
Communities Fund	£17,200
Landscape Enhancement Initiative – Capital Improvements Hadrian’s Wall	£26,500
Greenlee Countryside Stewardship	£29,400
Various others under £10,000	£14,600
Total	£218,600

- d. The Sill carry forward is the balance remaining which was allocated to support the Sill project which completed in 2021/22. This is requested to carry forward to prioritise capital improvement works at The Sill after 6 years in operation
- e. The Café Budget carry forward is the balance of the 2021/22 budget surplus. The market testing for a new franchisee having now concluded with no viable options other than to continue to operate the café in house at this time. It is important

we use these funds to install systems tailored for hospitality to improve efficiency.

- f. Details of The Sill Business Plan carry forwards of £10,000 are shown below in Table 3 as follows

Table 3 The Sill Business Plan carry forwards	Carry forward requested
Temporary Exhibition Costs – to fund Dark Skies Festival exhibition	£10,000
Total	£10,000

- g. Details of the transfers to earmarked reserves of £60,400 are shown in Table 4 as follows.

Table 4 Transfers to / (from) Earmarked Reserves	
Hadrian’s Wall National Trail drawdown as match funding	(£700)
Northern Upland Chain Local Nature Partnership, NNPA administering on behalf of the partnership	£16,000
Planning Fees Improvement Reserve (20% of fees generated must be ring-fenced to improvements)	£24,200
Cyclical Maintenance: The Sill. Annual surplus or deficit to move to or from earmarked reserve to enable cyclical building maintenance as required.	£15,300
Interpretation maintenance: The Sill. Annual surplus or deficit to move to or from earmarked reserve to enable cyclical exhibition equipment replacement or maintenance as required to the main exhibition.	£5,600
Total	£60,400

- h. After proposed net budget carry forwards and transfers to earmarked reserves of £354,000 and allowing for the late confirmation of the Supplementary National Park Grant of £440,000 which was included in the General Reserve in the 2023/24 – 2025/26 Medium-Term Budget Plan, the 2022/23 outturn has made available £277,500 in additional funds. This results in a General Reserve position of £1,208,300 at the end of the financial year.
- i. A delegated decision was taken by the Chief Executive in consultation with the Chair of the Authority to allocate £25,000 from the General Reserve. This is required to progress the business case for “Walltown Wider Horizons” to the next stage of the funding process, to enable inclusion in the Borderlands Inclusive Growth Deal: Hadrian’s Wall Investment Programme. The capacity in house does not exist. Members are asked to formally endorse this decision.

- j. The delegated decision reduces the general fund balance to £1,183,300. This position has been discussed by the Chief Executive, Chair of the Authority and the Chair of the Finance and Audit Group. When the Medium-Term Budget Plan 2023/24 – 2025/26 was developed we were not aware of the forthcoming one off Supplementary National Park Grant and it was agreed the annual deficit each year would be offset by savings from the Business (staffing) Review. This equated to £344,800 over the 3 years and £163,700 ongoing from year 3. The Business Review was originally planned for March but deferred to June in light of the significance of the additional one-off grant, to enable this to be carefully considered.
- k. Consideration was given to the importance of balancing the need to generate ongoing staff savings due to the one-off nature of the additional funding, alongside the need to retain capacity within the organisation to deliver the Business Plan and the requirement to have funds to invest in new projects, initiatives and systems to support the efficient operation of the Authority. The minimum level of unallocated reserves we should retain as part of our Reserves Policy was also considered.
- l. The current minimum reserve is £350,000. It is proposed this is increased to £500,000 in recognition of the increased risk within our budget plan which relies much more heavily on externally generated income (including some income generating partnership projects) than in the past. It also provides a contingency against our key budget risks in relation to inflation and in particular staff inflation.
- m. It is proposed the Business Review should no longer fully balance the budget each year, and rather that we will deliver less in the way of ongoing savings with the 3-year budget plan supported by £82,000 of funds from general reserves. This would result in an ongoing annual budget deficit of £61,400 in year 3 to manage in the future. This is illustrated in Table 5. This may in future require further staff savings, however, this allows time to further develop our pipeline projects and income generation opportunities which could negate the need for this. This budget assumption could change if there are any amendments proposed when the Business Review report P2 on this Agenda is considered. Should this be the case the budget will be adjusted in September to reflect this.
- n. After supporting the reduction in the staffing costs and increasing the minimum reserve threshold to £500,000 as set out above, the balance of the excess funds of £601,300 are proposed to be held in a new earmarked reserve for projects and investments which can be bid to over the term of Business Plan 2023-2026. The first bid to this, is for £153,000 which is included in the Business Review report at P1 on this Agenda. Should this be approved the remaining investment reserve would reduce to £448,300.

5. Budget Summary and Reserves

- a. Table 5 as follows shows the summary of budget changes for approval since those reported in March 2023 and the resulting revised annual surplus or deficit.

Table 5 Summary of Budget Changes	2023/24	2024/25	2025/26
March 2023 Reported Budget Surplus/ (Deficit)	-	-	-
Delegated decision to fund Walltown Wider Horizons project development	(£25,000)	-	-
Impact of Budget Carry Forwards (Table 1, Table 2 and Table 3)	(£293,600)	-	-
Proposal to support staffing costs from the General Reserve balance	(£1,600)	(£19,000)	(£61,400)
June 2023 reported Budget Surplus / (Deficit)	(£320,200)	(£19,000)	(£61,400)

- b. FIPL funding has now been confirmed for 2023/24 and is higher than the budget reported in March 2023 of £323,400. Funding for year 2 of the budget (year 4 of the extended FiPL programme) has also been confirmed. There is a net nil impact but for members information the budget is now £555,400 in 2023/24 and £867,200 in 2024/25.
- c. Table 6 shows the revised reserves position as a result of the budget adjustments summarised in Table 5, the transfers to earmarked reserves shown in Table 4 and the proposals in Section 4, paragraph n.

Table 6 Reserves Summary	2023/24	2024/25	2025/26
Opening Reserves	£1,927,600	£1,607,400	£1,588,400
Budget Plan Surplus/ (Deficit)	(£320,200)	(£19,000)	(£61,400)
Closing Reserves	£1,607,400	£1,588,400	£1,527,000
Earmarked Reserves:			
IT Capital Replacement Reserve	(£20,000)	(£30,000)	(£40,000)
Planning Contingency	(£75,000)	(£75,000)	(£75,000)
Planning Fees Improvements Reserve	(£24,200)	(£24,200)	(£24,200)
Exhibition Maintenance Reserve	(£10,700)	(£10,700)	(£10,700)
Sill Cyclical Maintenance Reserve	(£45,200)	(£45,200)	(£45,200)
Climate Change Action Plan Reserve	(£26,000)	(£26,000)	(£26,000)
HW National Trail Capital Projects Reserve	(£92,200)	(£92,200)	(£92,200)

Table 6 Reserves Summary	2023/24	2024/25	2025/26
Major Repairs Reserve	(£57,000)	(£67,000)	(£77,000)
Northern Upland Chain Local Nature Partnership Reserve	(£35,400)	(£35,400)	(£35,400)
Projects and Investment Reserve	(£601,300)	(£601,300)	(£601,300)
Total Earmarked Reserves	(£987,000)	(£1,007,000)	(£1,027,000)
Total General Reserve	£620,400	£581,400	£500,000

- d. The total General Reserve as at the 31st March 2026 is £500,000 as per the revised minimum general (unallocated) reserve aim as discussed earlier in the report.

6. Prudential Code for Capital Finance

- a) The Authority has the following approved loans from the Public Works Loan Board (PWLB).
- i. £1,208,100 from the Public Works Loan Board (PWLB) over a 30-year term at an interest rate of 2.45% towards the capital cost of The Sill: National Landscape Discovery Centre. Approved at the National Park Authority meeting on the 15th June 2016.
 - ii. £100,000 for the extension of the Housesteads Car Park was approved on the 9th December 2015, repayable over 10 years at an interest rate of 1.73%.
- b) As a result of the loan finance some key indicators need to be reported.
- c) The affordability prudential indicator for borrowings is the ratio of financing costs to net revenue stream (National Park Grant) and calculates at 2.54%.
- d) As part of the current Medium Term Budget Plan the Authority agreed the Operational Boundary of £1.5 million, which represents possible borrowing and the Authorised Limit of £2.0 million, the limit beyond which borrowing is prohibited, however please note this is a formality as any financing or re-financing needs the approval of the Authority as per our Financial Regulations.
- e) The Minimum Revenue Provision (MRP) is the amount Local Authorities are required to set aside each year from their revenue account in order to ensure prudent provision is made annually for the repayment of outstanding loan principal. In 2023/24 the MRP is budgeted at £42,800.

7. Treasury Strategy

- a. In June 2012 the Authority, in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services (the Code), formally adopted a revised Treasury Management Policy Statement; and Treasury Management Practices (TMPs).

- b. There have been no changes to CIPFA's Code of Practice for Treasury Management that require the Authority's policies to be changed.
- c. The Authority's Treasury Management Policy and Practices allow deposits to be placed with Authority approved UK high-street Banks and Building Societies with an AAA to A- rating. Any funds deposited must not be placed for a period greater than 2 years.

8. Investment Strategy

- a. The investment strategy for the year continues to be based on four key objectives:
 - 1. To balance the funds invested across at least three lenders and not to invest over £2.5m or 50% of the planned deposits in any one year in any one bank, unless there is a clear interest rate advantage to do so.
 - 2. Ensure sufficient funds are kept in on demand accounts to meet any unexpected cash flow requirements.
 - 3. Manage interest to achieve the maximum return possible against the £7,000 Budget target.
 - 4. Continue to review other high street banks to ensure the approved institutions remain competitive.
- b. The Authority has instant access banking facilities with Barclays, HSBC and Santander and a current account with a deposit facility with a minimum 32 day notice return with Lloyds. Although we have a current account with Lloyds to facilitate the deposit facility, we do not hold instant access funds because they could not provide an account where cash could be easily withdrawn when required.
- c. If cashflow is deemed certain, timed deposits will be considered to maximise interest returns and the rate achievable verses the risk of unforeseen events where the cash may be required. The relative interest gain achievable will be considered against those achievable with the on demand accounts and the minimising of withdrawals where cashflow allows (higher rates can be achieved if there are no withdrawals in a calendar month). The current Bank of England base rate increased to 4.5% on the 11th May 2023.
- d. The credit ratings of the Authority approved Banks and Building Societies (Barclays, Santander, Lloyds and HSBC) continue to be monitored on a regular basis to ensure they remain A- or better.
- e. The Finance Manager will review the cash position, forecast on a regular basis, and place the funds in accordance with the points above.

9. Conclusions

- a. The positive additional outturn from 2022/23 alongside the additional supplementary National Park Grant has delivered additional resources of

£717,500 which were not planned for as part of the development of the Medium-Term Budget Plan 2023/24 – 2025/26. £440,000 of this being the Supplementary National Park Grant which was shown in the General Reserve balance of the budget report plus the additional 2022/23 budget surplus of £277,500. This is a positive outcome and gives the Authority the ability to invest for the first time in several years. The timing of this with the newly adopted Management and Business Plans is positive, as is the fact it has been possible to reduce the impact of the staff savings required through the Business Review because of ongoing flat cash Defra settlements and high inflation. We cannot however lose sight of the fact this is one-off funding and we face many financial challenges going forward, it is important we continue to make prudent choices and avoid a significant deficit position in year 3 of the budget plan.

Contact Officer: For further information contact: Hazel Fitzsimmons, Head of Business Support on 01434 611504 or hazel.fitzsimmons@nnpa.org.uk