YORKSHIRE DALES NATIONAL PARK AUTHORITY	ITEM 10
Committee:	**FINANCE AND RESOURCES**
Date:	**6 DECEMBER 2022**
Report:	**MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2023/24 – 25/26: SETTING THE SCENE**

Purpose of the report

1. To provide background information to the development of the next MTFS, with particular regard to the 2023-24 budget.

RECOMMENDATION

2. That Members;

   - note the report, and in particular the context it provides for the budget-setting process for 2023/24, and

   - comment on the options for process and timetable as referenced in paragraph 17.

Strategic Planning Framework

3. The information and recommendation contained in this report are consistent with the Authority's statutory purposes and its approved strategic planning framework, specifically Corporate Plan objective 34: '*Plan and manage all aspects of the National Park Authority's business to make the most effective use of our resources'.*

Background

4. The Authority's current Medium Term Financial Strategy, which was agreed by the Authority in March, projected a significant and growing annual budget deficit from 2023/24 onwards. At the time, uncertainty in relation to a number of important budget components and assumptions meant that estimating the scale of the issue was very difficult. We anticipated that, as we worked through 2023, these issues would become clearer enabling us to produce the following years MTFS with the best possible information and data.

5. In the event, a number of international and national developments, of which Members will be aware, has led to considerable and sustained impact in relation to our future financial assumptions. Certain cost areas (staff costs, energy prices, general inflation), have now become major issues facing the Authority.

6. In addition, the frequent changes in central Government personnel and policy throughout the year have led to a period of uncertainty in relation to the overall policy direction for Defra generally, and National Parks specifically. This continues to be the case.

7. The consequence of all these factors has been to make it even more difficult to plan with certainty our future work programmes/budgets. However, we are now at a point where we cannot delay any further. We need to develop our programmes and associated budgets for 2023-24 and beyond, and do this on the basis of the best information and forecasts that we currently have.

8. The projections described in the section below have been prepared against a background of seeking to avoid under- or over-stating estimates for both costs and income:

    - Over-estimating costs and/or under-estimating income (being excessively prudent) risks our making cuts to services that aren't necessary;

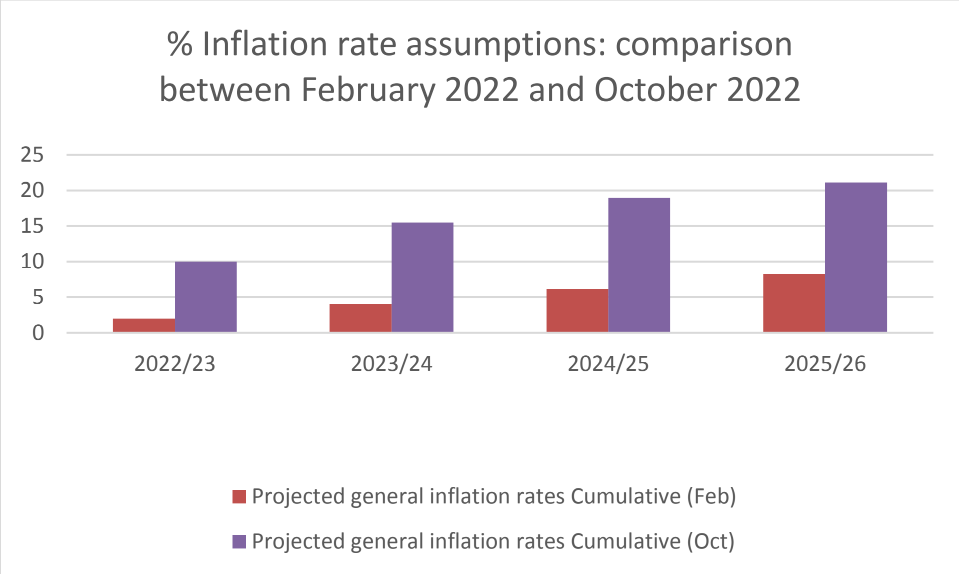
    - Under-estimating costs and/or over-estimating income (being naively optimistic) will only exacerbate the problem – risking further organisational disruption.

9. The projections below are based on what we know or could reasonably assume as at 23 November 2022. The economic situation is still in a state of flux, and a number of our budgeting assumptions are likely to change between now and when the budget is set.

Deficit Projections

Year	Total deficit projections £'000k	Deficit projections after use of allocated reserves. £'000k
2022/23	620	390
2023/24	650	230
2024/25	1000	710
2025/26	1140	890

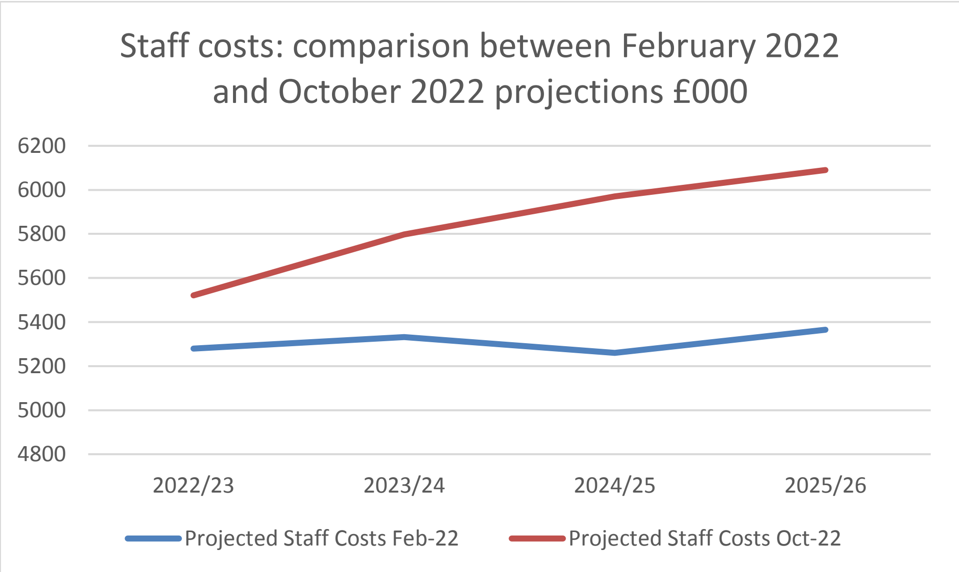
10. As identified at paragraph 5, the situation has deteriorated since March because of inflationary pressure. Current rates of general inflation (~11%) are well above our February 2022 assumptions, and although rates are expected to fall over the next 2-3 years, the cumulative impact over that period is likely to be more than double what we were expecting (see below).



11. Several costs within the 2022/23 budget have seen very significant growth, in particular:

- **Energy**. All component costs (gas, woodchip, oil, electricity) have increased at a rate well above current inflation; electricity is the largest component. To illustrate, the annual costs for 2021/22 were £58k; the projections for 2022/23 are £120k; and for 2023/24 £180k.

- **Pay**: we had allowed for a 2% increase, but the eventual national award was a flat rate increase of £1,950 per Full-Time employee. The extra cost of this arrangement was £240k. Our current projections for 2023/24 include a continuation of relatively high pay awards in 2023/24, for which – in common with other English NPAs – we've modelled a 5% increase. The changes in pay award assumptions have had a fundamental impact on the projected future value of staff costs:



Budget estimates requiring further work

12. As highlighted in paragraph 7, we will update our financial assumptions as more information becomes available - right up to the point that the final 2023/24 budget is agreed. The main issues that are likely to require further adjustment are:

- The consequences of the Chancellor's Autumn Statement. **All of the information provided in this paper is based on the current level of Defra Core grant funding remaining the same**. At the moment all Government departments are examining the consequences, for their spending, of the Autumn Statement. This may have an impact, and not in a positive way, on NPA Core Grant settlements. We do not as yet know the timetable for this exercise in Defra, but clearly the sooner we get confirmation of our exiting Core Grant – the better.
- General inflation rate predictions; these may need adjustment depending on wider economic performance and – potentially – depending on the impact of Chancellor's Autumn Statement.
- Bank interest rates. Unusually, if these increase it improves our financial position.
- Energy costs: we are waiting to receive reliable price estimates for 2023/24 and beyond.
- Visitor related income: car parking; likely to require re-projection, once performance in 2022/23 is clearer.

13. This list excludes any adjustment to the current 5% assumption for the 2023/24 annual pay award. The process of negotiating next year's pay increase will start shortly, but it's likely to be many months before agreement is reached. Every1% variance from our assumption would either save or increase current costs by ~£55k per annum

Dealing with the deficit: the options.

14. The solution is likely to be a mix of the following:

(i) **Increased Income Generation**

- **Fees & Charges**.
  As Members are aware, it is important that we continue to make best use of our assets (property and staff), and that we charge for discretionary services at a level that, wherever possible, covers the full cost of providing the service. This is a particular issue during periods of high inflation.
- **Grants**
  Finding grants to fund activities which we can otherwise no longer afford to do (or not at the current scale) will be one aspect of the forthcoming Income Generation Strategy (due February 2023). The significant change in approach, though, will be that these grants will be essential to help retain the existing staff cohort, rather than to fund further expansion.

- **Commercial Sponsorship**.
  National Parks Partnerships is starting to gain traction, particularly through its Revere initiative, in securing sponsorship and finance from the private sector. The most recent of which is the national agreement with BMW. This is likely to be a growing strand of income that – in some cases – will enable us to cover the costs of existing staff, who will become increasingly 'project based'.

(ii) **Cuts**

- **Programme costs and overheads**.
  As with any budget-setting process, initial work to identify savings will be informed by the objectives and priorities that Members have previously agreed (as well as taking account of the 'realpolitik' of programmes that are most likely to generate significant external funding). This may mean reducing the scale of some of our current objectives or, in a worst-case scenario, cancelling some programmes outright.
- **Staff costs**. Members have previously agreed operational guidance that we aim to limit staff costs to no more than 55% of gross expenditure (to retain financial flexibility and ensure that we retain funding to deliver projects on the ground). Currently, we are below the 55% figure but – if we are unable to secure the current external funding levels in future years this may have a significant impact on this guidance.

(iii) **Reserves**. To finance redundancy-related costs or provide short term support where planned savings can't be realised immediately from 1 April 2023. The available General Reserve balance is predicted to be £300k by 31 March 2023.

<u>Timetable</u>

15. Work has started on preparing the 2023/24 budget, and the detailed re-projection of salary and overhead costs across the next three years has already been completed.

16. The Authority's Officers will be reviewing all other income and expenditure components of programmes and overheads, to arrive at a draft balanced budget for the meeting of this committee on 7 February 2023. This will include sufficient detail about any programme cuts from 2023/24 onwards to enable Members to make an informed decision about recommending the proposed budget for approval by the Authority at its meeting on 28 March 2023.

17. The key issue to be addressed here is whether the scale of the financial problem is something which we can deal with through our normal mechanism of F&R considering a proposed draft budget and then making a recommendation to the full Authority (as in para 16 above) or, whether the problems are so significant that they necessitate taking the whole matter to the full Authority through a series of intensive policy/programme/budget meetings. A further oral update on the process and timetable will be provided at this meeting for consideration.

Conclusion

18. The draft budget will be presented as a three-year Medium Term Financial Strategy (MTFS), the first year of which will be the actual budget for 2023/24, followed by two years of projected budgets. The deficit that needs addressing in this process is the figure for year 3 (2025/26), inevitably the largest of the three deficits. Addressing this problem fully during year 1 of the 3 year MTFS will avoid a rolling programme of cuts every year, and the damage that such a programme would have on corporate direction, programme delivery and morale.

David Butterworth
Chief Executive

29 November 2022