ITEM 6: FIRST QUARTER FINANCIAL PERFORMANCE AND MEDIUM TERM BUDGET UPDATE

1. Purpose of Report
   a. This report updates Members on the first quarter’s financial performance and Medium Term Budget.

2. Recommendations
   a. The Authority is recommended to note the contents of the report

3. Implications
   a. Financial – None, there is no net impact on the Authority’s reserves from either the forecast outturn for 2018/19 or the budget movements detailed in the report.
   b. Equalities - none

4. First Quarter 2018/19: Financial Performance
   a. The first quarter surplus as shown in table 1 below was £448,900, this was less than the planned surplus of £246,700 a positive overall variance of £202,200.

   Table 1: Quarter 1 Financial Performance

<table>
<thead>
<tr>
<th>June 2018 Year to Date</th>
<th>Actual £000’s</th>
<th>Budget £000’s</th>
<th>Variance £000’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Park Grant</td>
<td>964.0</td>
<td>964.0</td>
<td>-</td>
</tr>
<tr>
<td>Operating Salary and Related Costs</td>
<td>(501.7)</td>
<td>(543.2)</td>
<td>41.5</td>
</tr>
<tr>
<td>Operating Expenditure</td>
<td>(222.7)</td>
<td>(290.9)</td>
<td>68.2</td>
</tr>
<tr>
<td>Operating Income</td>
<td>119.6</td>
<td>140.5</td>
<td>(20.9)</td>
</tr>
<tr>
<td>Operating Surplus</td>
<td>359.2</td>
<td>270.4</td>
<td>88.8</td>
</tr>
<tr>
<td>Sill Business Plan Expenditure</td>
<td>(93.9)</td>
<td>(115.1)</td>
<td>21.2</td>
</tr>
<tr>
<td>Sill Business Plan Income</td>
<td>95.6</td>
<td>114.9</td>
<td>(19.3)</td>
</tr>
<tr>
<td>Net Sill Business Plan Surplus/ (Deficit)</td>
<td>1.7</td>
<td>(0.2)</td>
<td>1.9</td>
</tr>
</tbody>
</table>

   | Project Expenditure            | (70.2)        | (105.1)       | 34.9            |
   | Project Income                 | (5.1)         | 9.0           | (14.1)          |
   | Net Project Deficit           | (75.3)        | (96.1)        | 20.8            |

   | Sill Project Expenditure       | (115.1)       | (40.9)        | (74.2)          |
   | Sill Project Income           | 278.4         | 113.5         | 164.9           |
   | Net Sill Project Surplus      | 163.3         | 72.6          | 90.7            |

   | Net Surplus                   | 448.9         | 246.7         | 202.2           |

First Quarter Operating Performance

b. The operating salary and related costs budget surplus of £41,500 has arisen mainly as a result of some of the key posts from the Leadership Team review either appointed but not yet started or issues with recruitment of a suitable candidate. The Director of Park Management will be starting in October 2018. There is a full year forecast saving of £61,200.
c. A budget surplus of £68,200 is shown against operating expenditure. This arises mainly as a result of timing of invoices received. The only significant budget variance over £10,000 within operating expenditure relates to Car Parking Expenditure. This is showing a budget surplus of £19,700 as a result of the annual invoice for commission for 2017/18 not having been received at the quarter end. Furthermore, there has been some caution with the early commitment of expenditure from some Access and Estates budgets as requirements for other projects are determined.

d. The Medium Term Budget Plan 2018/19 – 2020/21 introduced a target to realise efficiency savings of 1% (£30,000) in 2018/19, 2% (£60,000) in 2019/20 and 3% (£90,000) in 2020/21. To date £20,000 of efficiency savings in year, rising to £22,500 ongoing have been realised from three actions:-
  * a review of the Corporate Admin Team roles and bands following the retirement of the Corporate Support Manager;
  * the re-tendering of the Internal Audit Contract; and
  * increase in planning enforcement to be undertaken by the in-house team, reducing the need to buy in resource.

e. With additional ideas discussed within Leadership Team we can demonstrate that efficiency savings for year 1 can be achieved reasonably simply of around £25,000 and are confident once the wider staff team are engaged the £30,000 target for year 1 embedded efficiencies will be achieved. This is a continuous piece of work where management and staff focus will be maintained over the course of the budget plan and beyond as a good practice.

f. Operating income is behind budget by £20,900.
  * There is a negative variance of £13,800 on income from the Rural Growth Hubs due to vacant hubs and internal offices. If no new tenants are found this year, a full year budget deficit of £16,300 would be realised. The demand is no longer such that the space is lettable by our previous low cost methods. The Access and Estates Manager is going to approach Estate Agents to market the vacant office space at both Eastburn and Church House on a commission basis. Although there is a cost to this the current situation is costing much more in lost revenue. This is a current issue because rental income is a key strand of the income generation targets built into the budget, however the forecast income generated from staff expertise is forecast to largely offset this in year.
  * There is a £3,000 budget deficit on sponsorship income as none has been raised in the quarter. If no income is raised from this source in the year, a budget deficit of £10,000 will arise. Cash from sponsorship through National Park Partnerships Ltd is unlikely to be realised in the current financial year so to allow for this shortfall £10,000 of the New Projects Fund will not be released.

First Quarter Sill Business Plan Performance

g. Sill Business Plan budget surplus on expenditure is currently offsetting the budget deficit of income. Overall there is a £1,900 budget surplus. The analysis of this overall surplus is:
  * Retail, £4,000 budget deficit;
  * Sill Operational (includes direct staff costs, and building related costs), £9,200 budget surplus;
• Rental (includes the Hive business hub, YHA and Café Franchise net income) £8,900 budget deficit
• Car Parking £8,000 budget surplus
• Others, £2,400 deficit

h. The net income from the retail operation is some £4,000 behind target. The gross profit achieved was 44.3% (budget target 45%) a 4.8% improvement on 2017/18. Gross profit is 18% behind the budget target and if that continues a forecast deficit of £16,500 could be expected at the end of the financial year. Steps are being taken to improve performance.

i. Sill Operations are showing a budget surplus at the end of June as a result of lower running costs in warmer months. Full spend is anticipated for the year.

j. No income has been received in the year from The Hive business hub, resulting in a deficit of £2,700 to date. Work is being done to promote the rental opportunities at The Sill but there are currently no tenants. If 50% of The Hive is let out for the second half of the year, a budget deficit of £8,400 will arise. Income from room hire is £700 behind budget and if current levels continue, a forecast deficit of £2,000 is anticipated for the year.

k. A budget deficit of £5,500 is showing against Café Franchise income as the invoice for the first quarters commission was raised early July i.e. into quarter 2. Fresh Element have been asked for updated forecasts and income profiles for the year to ensure that the annual target is achievable.

l. The surplus on car parking is mainly due to late invoicing from the National Trust for the 2017/18 commission accrued. Income is in line with budget expectations to the end of June. Data analysed from the first 12 months of The Sill operating shows that 49% of users paid the minimum parking charge. The introduction of a revised minimum charge (agreed in consultation with the Finance and Audit Group) could achieve an additional increase on the first full year net income of £8,600 over a 12 month period. At this stage the forecast is to achieve rather than overachieve the budget until the actual impact of the change is demonstrated. The revised charging policy will be introduced as soon as practicable with revisions to signs required before this can be implemented.

m. The £2,400 deficit on other budget headings is made up of a £2,100 deficit on Activity sponsorship and Grants and £300 on Sponsorship Income.

n. Considerable focus is being given to the areas of The Sill Business Plan which are falling behind target. Based on current data, it is of concern that a £40,000 budget deficit could be realised. Added to that detailed work is required on generating additional Sill Business Plan net income target of £30,000 in year one (rising to £80,000 in year 3) as per the Medium Term Budget Plan. This is a priority during quarter 3. The planning assumption is a £70,000 budget deficit so that we can be focussed to ensure if the position is not improved this can be managed within the annual budget. This does not mean we accept this position rather than we must be prepared.

First Quarter Project Performance

o. Total net project income (excluding The Sill project) is showing a net project deficit of £75,300, which is £20,800 less than budget.

p. There are no significant variances on individual project budgets over £10,000 and all projects are anticipated to be on budget at the year end.
First Quarter Sill Project

q. Total net Sill project expenditure reports a budget surplus of £90,700.

r. The Sill Activities budget shows a net surplus of £32,200. With the current budget a significant shortfall in both income and costs should be expected and whilst they may net out this fact does pose issues. The Medium Term Budget Plan highlighted the non achievement of the considerable activity income target carries a financial risk. This is because the target is both part of the match funding required to balance the project budget and the grant intervention rate and drawdown of the full grant allocation is based on incurring the same level of spend. A proposal has been submitted to the HLF for discussion which involves reducing activity expenditure and income considerably and vires expenditure to non cash costs or costs already incurred outside of the HLF allowable grant. The proposal does not impact the Authority’s unallocated reserves. A verbal update will be provided at the Authority meeting if available.

s. Both the Sill Capital budget and the Project management budget show a net surplus (£19,100 and £9,100 respectively). These arise due to the budget not being time profiled as we await the outcome of proposal submitted to the HLF.

t. The Sill fundraising budget is ahead of budget by £30,300 due to a gift aid receipt in quarter 1. After taking account of what has been both received and pledged, a further £120,900 of the target for the year is outstanding.

5. Medium Term Budget Update

a. The budget deficit for the year remains as per the Budget Update to Authority in July, a deficit of £63,300.

b. A number of budget movements and changes with no net budget impact have taken place in the quarter, these are summarised below for members information:

- The inclusion of the Revitalising Redesdale project (note £25,000 contribution from the Authority per annum in both 2018/19 and 2019/20 is funded from the New Projects Fund).

- The allocation of £10,000 to improve signage in the Breamish Valley from philanthropic funds raised. (As approved in the Urgent Item at the July 2018 Authority meeting).

- £12,700 virement approved by the Leadership Team from budget surplus forecast on salary and associated costs to cover increased expenditure on recruitment in year. The increased expenditure is due to the number and level of posts arising from the Leadership Team review and relocation fees for a key new post.

- The allocation of £2,000 from the New Projects Fund to match fund structural repairs to a historic bastle house currently on the at risk register.

6. Annual Audit Letter 2017/18

a. The Annual Audit Letter on the 2017/18 Audit has now been received (Appendix 1 to Item 7). This is a high level summary of the audit report to members which was presented to the Authority and endorsed by members in July 2018. This does not raise any additional issues and confirms that all the relevant timescales have been met with regard the closure of the 2017/18 accounts.
7. Conclusions
   a. This report highlights a significant budget deficit against the Sill Business plan and the additional net income target associated with it of up to £70,000. Management are focusing on improving the position and taking steps to mitigate risks. Whilst this work is being undertaken, savings realised as a result of vacant posts will be used to protect the Authority’s reserves.
   b. Meanwhile good progress has been made against the efficiency target, positive discussions have begun with HLF regarding the activity income target and although the income generation target will be adversely impacted by vacant office space, this can be countered by other income generating opportunities as identified in the report.

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