ITEM 6: HALF YEAR FINANCIAL PERFORMANCE AND BUDGET UPDATE

1. Purpose of Report
   This report updates Members on the half year financial performance and the Medium Term Budget.

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

3. Implications
   a. Financial: There are no financial implications arising from this report. The report shows that adverse variances that arise in year can be managed within the overall budget.
   b. Equalities: None

   a. The half year surplus as shown in table 1 below was £699,700, this was higher than the planned surplus of £466,700; a positive overall variance of £233,000.

Table 1: Half Year Financial Performance

<table>
<thead>
<tr>
<th>September 2018 Year to Date</th>
<th>Actual £000’s</th>
<th>Budget £000’s</th>
<th>Variance £000’s</th>
<th>Full Year Forecast £000’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Park Grant</td>
<td>1,711.9</td>
<td>1,711.9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Operating Salary and Related Costs</td>
<td>(1,036.2)</td>
<td>(1,070.6)</td>
<td>34.4</td>
<td>45.4</td>
</tr>
<tr>
<td>Operating Expenditure</td>
<td>(380.0)</td>
<td>(474.9)</td>
<td>94.9</td>
<td>6.1</td>
</tr>
<tr>
<td>Operating Income</td>
<td>221.7</td>
<td>256.0</td>
<td>(34.3)</td>
<td>(12.6)</td>
</tr>
<tr>
<td>Operating Surplus</td>
<td>517.4</td>
<td>422.4</td>
<td>95.0</td>
<td>38.9</td>
</tr>
<tr>
<td>Sill Business Plan Expenditure</td>
<td>(191.6)</td>
<td>(213.7)</td>
<td>22.1</td>
<td>11.8</td>
</tr>
<tr>
<td>Sill Business Plan Income</td>
<td>213.6</td>
<td>254.3</td>
<td>(40.7)</td>
<td>(47.9)</td>
</tr>
<tr>
<td>Sill Business Plan Surplus (Deficit)</td>
<td>22.0</td>
<td>40.6</td>
<td>(18.6)</td>
<td>(36.1)</td>
</tr>
<tr>
<td>Project Expenditure</td>
<td>(141.8)</td>
<td>(258.3)</td>
<td>116.5</td>
<td>-</td>
</tr>
<tr>
<td>Project Income</td>
<td>141.9</td>
<td>185.6</td>
<td>(43.7)</td>
<td>-</td>
</tr>
<tr>
<td>Net Project Surplus (Deficit)</td>
<td>0.1</td>
<td>(72.7)</td>
<td>72.8</td>
<td>-</td>
</tr>
<tr>
<td>Sill Project Expenditure</td>
<td>(435.3)</td>
<td>(251.9)</td>
<td>(183.4)</td>
<td>-</td>
</tr>
<tr>
<td>Sill Project Income</td>
<td>595.5</td>
<td>328.3</td>
<td>267.2</td>
<td>-</td>
</tr>
<tr>
<td>Net Sill Surplus</td>
<td>160.2</td>
<td>76.4</td>
<td>83.8</td>
<td>-</td>
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<tr>
<td>New Project Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10.7</td>
</tr>
<tr>
<td>PWLB Working Capital loan interest</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>16.6</td>
</tr>
<tr>
<td>Sill Stretch Target</td>
<td>-</td>
<td>-</td>
<td>(30.0)</td>
<td>-</td>
</tr>
<tr>
<td>Surplus</td>
<td>699.7</td>
<td>466.7</td>
<td>233.0</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Half Year to Date Operating Performance

b. Operating income at £221,700 is £34,300 behind target. A number of income generating areas are below target, including rental income (£7,000) sponsorship, (£6,000) and income from NNPA services (£6,000).

c. Furthermore, income from the Rural Growth Hubs is behind budget by £14,100 as a result of vacant Hubs and internal offices.
d. There is a surplus of £4,600 income from car park operations, with a modest increase of £2,000 against the same period in 2017/18.

e. A full year forecast budget deficit on Operating Income of £12,600 is forecast. Details of how this shortfall will be managed are covered in the Income Generation section of this report.

f. The operating budget for salary and staff related costs is showing a budget surplus of £34,400. This has arisen as a result of vacant posts, in particular
   i) A positive variance of £29,300 as a result of the Director of Park Management post being vacant until October 2018.
   ii) A positive variance of £12,900 as a result of the Director of Business Development post being vacant in April and May.
   iii) A saving of £19,200 as a result of the Head of Business Development post being vacant from June.
   iv) A positive variance of £17,700 arising from timing of the commencement of Farming Officers contracts.
   v) A budget deficit of £43,700 as a result of The Sill Manager leaving the Authority of 31 August.

g. A full year budget surplus of £45,400 is forecast on salary and staff related costs.

h. Operating expenditure is behind budget by £94,900. This largely arises due to the timing of expenditure and there are no individual variances over £10,000 within this variance. A full year budget surplus of £6,100 has been forecast.

Half Year to Date Sill Business Plan Performance

i. Overall the Sill Business Plan is a £18,600 budget deficit. The analysis of this overall deficit is:
   - Retail, £10,500 budget deficit
   - Sill Operational (includes direct staff costs, and building related costs), £19,500 budget surplus.
   - Rental (includes the Hive business hub, YHA and Café Franchise net income) £17,700 budget deficit
   - Activities and Promotion £5,400 budget deficit
   - Car Parking £4,500 budget deficit

j. Retail sales are £18,600 behind budget with a GP margin of 43.3% achieved, against a budget margin of 45.2%. This gives a deficit on budgeted profit for the first half year of £10,500. Income is running at 14% behind budget. Assuming that the performance continues on this trend for the remainder of the year, the forecast deficit is £16,900.

k. Underspends have arisen within the Operational budget due to the timing of expenditure and to reduced running costs occurring in the warmer months. Overall, a net budget surplus of £10,700 is forecast on this budget. This largely arises due to a budget for cleaning materials being higher than required.

l. The deficit on rental income is largely made up of a budget deficit of £12,100 against income from the Catering Franchise and £6,000 deficit on income from The Hive.
(i) The deficit on Catering Franchise income arises partly due to timing of invoicing and once the Q2 invoice is taken into account, the deficit for the half year will be £5,800. We are working closely with Fresh Element to understand how performance can be improved and at this stage a full year deficit of £3,400 is forecast.

(ii) No income has been received in respect of rental of The Hive to date. Assuming that this position does not change during the year, a full year deficit of £10,800 is forecast, with an overall full year deficit forecast on rental income of £15,700.

m. No income has been received in respect of Activity Sponsorship and Grants or Sill Promotion. On the basis that the HLF activities have a stretching target and a key post is currently vacant, it is assumed unlikely that either of these targets will be achieved, and as such a forecast deficit of £10,500 has been included.

n. The deficit on The Sill car parking arises because the income target is based on 20% of visitors arriving by car and parking, whereas the actual amount of visitors parking is 17%. A £3,700 budget deficit has been forecast.

o. Overall, a full year deficit of £36,100 is anticipated on The Sill Business Plan.

Half Year to Date Project Performance

p. Total net project income (excluding The Sill) is showing a net budget surplus of £72,800.

- £43,800 relates to net budget surplus on the Hadrian’s Wall National Trail project which arises due to the timing of expenditure.

- £14,700 relates to a budget surplus on the Ridsdale element of the Revitalising Redesdale project. The project was expected to start in September but whilst work has been commissioned, no invoices have been received to date.

q. No full year variances are anticipated.

Half Year to Date Sill Project

r. The Sill Project is showing a net budget surplus of £83,800

s. The Capital element of the project has a half year budget surplus of £54,300. This arises due to the timing of capital expenditure on The Sill Fit Out budget which has not been time profiled. Works are currently out to tender and will be carried out over the winter season.

t. The activities element of the project has a half year budget surplus of £36,100. Within this is an underspend of £225,800 on costs, offset by a shortfall in income of £189,700. As has been previously reported, the Activities programme income and expenditure are included at an unrealistic level.

There will be a significant shortfall in both income and costs for the current year and the project as a whole. This carries a significant financial risk as the ability to draw down the Heritage Lottery Fund (HLF) Grant income in full is based on the expenditure targets in the budget. A detailed meeting with the HLF has taken place where a proposal was presented and discussed requesting to reduce the income targets and reallocate the associated expenditure against different headings. The HLF have asked for the impact of reducing the activity financials post project phase before they respond with a decision. This work is currently underway.

No variance has been forecast at this stage pending the outcome of these discussions. This is a key risk which was highlighted in the budget plan and progress is being made.
u. The project management element of the project has a half year budget surplus of £19,200. These budgets will be impacted by the proposal to the HLF and as such have not been time profiled.

v. The fundraising element of the project is showing a £25,800 budget deficit. This is largely due to a deficit of £27,600 on philanthropic fundraising. £12,500 of gift aid and £10,500 grant will be claimed from the Foundation at the next Trustees meeting. No deficit has been forecast on this budget but as the Head of Business Development is not yet in position; this is an area of risk. If no further philanthropic income is raised during the year, there would be a shortfall of £119,000. This target is required to be met and will roll forward if necessary.

5. Income Generation

a. There are shortfalls in some Income Generation areas as mentioned previously in this report. Full year deficits have been forecast for Sponsorship £12,000, Eastburn hubs £15,900 (worse case) and other rental £7,000. This is substantially offset by a forecast surplus on staff services of £18,200 and forecast surplus on non-Sill car parking £6,000. The forecast deficit within the income generation budget is £10,700. The allocation of the New Project Fund has been forecast at £10,700 less to offset this in line with normal practice.

b. There is an ongoing exercise to look at the areas which fulfil the income generation target and the reallocation of targets within this.

6. New Project Fund

a. The budget balance on the New Project fund is £22,100. This is after allocating £13,600 to cover seed corn work for the West of the Wall project budget. Once provision is made for the income generation shortfall above, £11,400 remains to be allocated from this fund.

7. PWLB Cashflow Loan

a. There is an interest budget of £28,100 against the short term cashflow loan. The interest payments have been re-cast based on the loan being taken out later in the year and the amount required would be some £11,500. This means there is at least a forecast budget surplus of £16,600.

8. Efficiency Target

a. The year 1 efficiency target is £30,000 or 1%. To date savings from the restructuring of the Corporate Services Department, tendering Internal Audit and the reduction in the requirement for external planning enforcement total £20,000, leaving a balance to allocate to savings in the current year of £10,000 with actions identified to meet the majority of this identified.

9. Full Year Forecast Summary

a. The report highlights that budget deficits are forecast within The Sill Business Plan and the Income Generation target. Furthermore, as shortfalls have been forecast on the Sill Business Plan, the stretch targets have not been forecast to be met at this stage. However, savings on salaries and interest costs, together with the non-allocation of the full New Project Fund and a forecast surplus on staff services will be used to offset these shortfalls. The full year deficit is forecast to be within £100 of budget.
10. Medium Term Budget Update

a. The budget deficit for the year remains as per the Budget Update to Authority in September, 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:

(i) Changes relating to the allocation of the efficiency savings; the efficiency target is reduced as each budget line reduction is allocated and as such there is no net budget impact. The details are as follows:
   - £13,400 achieved from changes to the Corporate Support Team following the retirement of the previous post holder.
   - £3,600 from the tender exercise for the provision of Internal Audit.
   - £3,000 reduced from external support for planning enforcement due to the in house team absorbing more of this work area.

(ii) Changes relating to the allocation of budgets to cover seed corn funding for the West of the Wall project budget.
   - £5,000 from core expenditure budgets
   - £13,600 from the New Projects fund.
   - £18,600 allocated to West of the Wall Project budget.

11. Half Year Treasury Update

a. The new bank account with HSBC is now functional and funds are now held in Barclays, Lloyds, Santander and HSBC.

b. As discussed above, the PWLB loan has not been required to date, realising savings on loan interest paid. There is a smaller negative impact on bank interest received as a result of lower cash balances being held. A full year budget deficit of £1,500 is forecast, with the increase in base rates unlikely to have a significant impact due to the levels held.

12. Conclusion

a. This is a detailed report, covering a number of different areas. Members can be assured that the Finance and Audit Group discussed the content of the report in detail at their November meeting.

b. Members will also note that whilst there are shortfalls in some areas, overall the budget is forecast to outturn a very small positive variance with no negative impact on the unallocated reserves of the Authority.

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