ITEM 5: QUARTER 3 FINANCIAL PERFORMANCE AND BUDGET UPDATE

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

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

3. Implications
a. Financial: At the end of quarter three, a budget deficit of £25,000 is forecast. This has been used as a planning assumption for the opening reserves position in the Medium Term Budget Plan 2019/20 – 2021/22.
b. Equalities: None

4. Third Quarter 2018/19: Financial Performance
a. The third quarter financial performance shows a surplus (table 1) of £361,700, this was higher than the planned deficit of £14,200; a positive overall variance of £375,900.

Table 1: Third Quarter Financial Performance

<table>
<thead>
<tr>
<th>December 2018 Year to Date</th>
<th>Actual £000's</th>
<th>Budget £000's</th>
<th>Variance £000's</th>
<th>Full Year Forecast Variance £000's</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Park Grant</td>
<td>2,169.8</td>
<td>2,169.8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Operating Salary and Related Costs</td>
<td>(1,543.6)</td>
<td>(1,606.1)</td>
<td>62.5</td>
<td>38.1</td>
</tr>
<tr>
<td>Operating Expenditure</td>
<td>(604.8)</td>
<td>(740.0)</td>
<td>135.2</td>
<td>(24.2)</td>
</tr>
<tr>
<td>Operating Income</td>
<td>271.7</td>
<td>306.0</td>
<td>(34.3)</td>
<td>(15.7)</td>
</tr>
<tr>
<td>Operating Surplus</td>
<td>293.1</td>
<td>129.7</td>
<td>163.4</td>
<td>(1.8)</td>
</tr>
<tr>
<td>Sill Business Plan Expenditure</td>
<td>(283.1)</td>
<td>(302.8)</td>
<td>19.7</td>
<td>4.1</td>
</tr>
<tr>
<td>Sill Business Plan Income</td>
<td>284.2</td>
<td>339.0</td>
<td>(54.8)</td>
<td>(35.7)</td>
</tr>
<tr>
<td>Sill Business Plan Surplus (Deficit)</td>
<td>1.1</td>
<td>36.2</td>
<td>(35.1)</td>
<td>(31.6)</td>
</tr>
<tr>
<td>Project Expenditure</td>
<td>(247.4)</td>
<td>(451.2)</td>
<td>203.8</td>
<td>-</td>
</tr>
<tr>
<td>Project Income</td>
<td>192.1</td>
<td>318.2</td>
<td>(126.1)</td>
<td>-</td>
</tr>
<tr>
<td>Net Project Surplus (Deficit)</td>
<td>(55.3)</td>
<td>(133.0)</td>
<td>77.7</td>
<td>-</td>
</tr>
<tr>
<td>Sill Project Expenditure</td>
<td>(719.8)</td>
<td>(526.3)</td>
<td>(193.5)</td>
<td>-</td>
</tr>
<tr>
<td>Sill Project Income</td>
<td>842.6</td>
<td>479.2</td>
<td>363.4</td>
<td>-</td>
</tr>
<tr>
<td>Net Sill Surplus</td>
<td>122.8</td>
<td>(47.1)</td>
<td>169.9</td>
<td>-</td>
</tr>
<tr>
<td>New Project Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>14.7</td>
</tr>
<tr>
<td>PWLB Working Capital loan interest</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>23.7</td>
</tr>
<tr>
<td>Sill Stretch Target</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(30.0)</td>
</tr>
<tr>
<td>Surplus</td>
<td>361.7</td>
<td>(14.2)</td>
<td>375.9</td>
<td>(25.0)</td>
</tr>
</tbody>
</table>

Third Quarter Operating Performance
b. The operating budget for salary and staff related costs is showing a budget surplus of £62,500. This has arisen as a result of vacant posts, in particular
   i) A positive variance of £27,100 as a result of the Director of Park Management post being vacant until October 2018.
ii) A positive variance of £12,500 as a result of the Director of Business Development post being vacant in April and May.

iii) A saving of £33,500 as a result of the Head of Business Development post being vacant from June to December 2018.

iv) A positive variance of £16,200 arising from timing of the commencement of Farming Officers contracts.

v) A budget deficit of £40,200 as a result of The Sill Manager leaving the Authority of 31 August.

c. A full year budget surplus of £38,100 is forecast on salary and staff related costs.

d. Operating expenditure is behind budget by £135,200. This largely arises due to the timing of expenditure and, with the exception of the items listed below; there are no individual variances over £10,000 within this amount.

i) A positive variance of £22,100 has arisen on the Local Plan Review budget. This relates to timing and spend is forecast in full for the year.

ii) A positive variance of £10,200 is shown on the Training budget. This largely relates to the timing of spend. A full year surplus of £3,000 is forecast.

iii) A positive variance of £10,300 has arisen on the IT budget. This is anticipated to be spent in full as UPS replacements at both Eastburn and Rothbury are in progress.

e. During the quarter, The Valuation Office carried out a rates assessment of some of our core car parks. No budgets were included for rates at these sites as the Authority had previously been granted an exemption. The Assessment resulted in a decision that this exemption should not apply to these sites and a charge of £38,500 has been raised in respect of the years 17/18 and 18/19.

f. A full year budget deficit of £24,200 is forecast on Operating expenditure. This is due to the rates assessment detailed above which is offset to some extent by savings on other core budgets.

g. Operating income at £271,700 is £34,300 behind target. A number of income generating areas are below target, including rental income (£4,400) sponsorship, (£9,000) and income from NNPA services (£9,000).

h. Furthermore, income from the Rural Growth Hubs is behind budget by £15,300 as a result of vacant Hubs and internal offices.

i. There is a surplus of £10,100 income from car park operations, with a modest increase of £4,500 against the same period in 2017/18

j. A full year forecast budget deficit on Operating Income of £15,700 is forecast. Details of how this shortfall will be managed are covered in the Income Generation section of this report.

Third Quarter - Year to Date Sill Business Plan Performance

k. Overall the Sill Business Plan is a £35,100 budget deficit. The analysis of this overall deficit is:

- Retail, £10,600 budget deficit
- Sill Operational (includes direct staff costs, and building related costs), £5,000 budget surplus.
I. Rental (includes the Hive business hub, YHA and Café Franchise net income) £14,700 budget deficit
   Activities and Promotion £8,100 budget deficit
   Car Parking £6,600 budget deficit

l. Retail sales are £15,000 behind budget with a GP margin of 42.9% achieved, against a budget margin of 45.3%. This gives a deficit on budgeted profit for the first three quarters of the year of £10,600. Income is running at 9% behind budget. Assuming that the performance continues on this trend for the remainder of the year, the forecast deficit is £14,400. Retail targets have been adversely affected by lower than target average spend per head (improvements have been continuous over the year), lower visitor numbers (target numbers reduced in 2019/20) and lower profit margin achieved (continual steps taken to improve average margins).

m. Underspends have arisen within the Operational budget due to the timing of expenditure and to reduced running costs occurring in the warmer months. An increase in both gas and electricity unit costs does not have a significant impact on the Authority as the majority of these are recharged to our tenants. Overall, a net surplus of £11,800 is forecast on this budget. This largely arises due to a budget for cleaning materials being higher than required.

n. The deficit on rental income is largely made up of a budget deficit of £9,100 against income from the Catering Franchise and £8,400 deficit on income from The Hive.
   (i) The deficit on Catering Franchise income arises partly due to timing of invoicing as the Q3 invoice had not been finalised in December. We continue to work 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 £13,700.

o. 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, it is assumed unlikely that either of these targets will be achieved, and as such a forecast deficit of £10,500 has been included.

p. The deficit on The Sill car parking arises because the income target is based on a lower than budgeted number of visitors arriving by car and parking. Whilst it is anticipated that the changes to the charging regime at The Sill will improve income, a £4,000 full year deficit is forecast due to the changes coming in the 'off-season'.

q. Overall, a full year deficit of £31,600 is anticipated on The Sill Business Plan. This shows a modest improvement of £4,500 from the forecast position at the half year. In addition the stretch net income target of £30,000 will not be achieved.

r. The Sill Business Plan assumptions have been reviewed in full and updated where necessary as part of the Medium Term Budget Plan 2019/20 – 2021/22.

Third Quarter Project Performance

s. Total net project income (excluding The Sill) is showing a net budget surplus of £77,700.
   £36,700 relates to net budget surplus on the Hadrian’s Wall National Trail project which arises due to the timing of expenditure.
• £19,800 relates to a budget deficit on the Ridsdale element of the Revitalising Redesdale project. This is due to the timing of the income claim.
• £17,000 net surplus on the Rochester element of the Revitalising Redesdale project due to the timing of expenditure.

t. All non-Sill projects are forecast to spend on budget or will be requested to carry forward.

Third Quarter - The Sill Project

u. The HLF have confirmed they have accepted our proposal to adjust the project budget to reduce income and expenditure relating to the Activity Programme and re-balance overall to avoid any impact on the Authority’s contribution from own funds. The impact on the budgets is net nil over the two financial years and is shown in Section 10 of the report. This mitigates a high financial risk the Authority was carrying and will assist us in working towards an ongoing sustainable Activity Programme post project and we are grateful for the Heritage Lottery Fund for working with us to achieve the best outcome for the project as a whole.

v. Against the revised budgets The Sill Project is showing a net budget surplus of £169,900.

w. The Capital element of the project has a Quarter three budget surplus of £156,800. This arises due to the timing of capital expenditure on The Sill Fit Out budget which has not been time profiled. Drainage works, with a total value of £54,900 were commenced in December. In addition, works to improve the lighting are currently being carried out.

x. The activities element of the project has a third quarter budget surplus of £96,500. Within this is an underspend of £110,100 on costs, offset by a shortfall in income of £13,600. The underspend in expenditure more than offsets the under-achievement of income and because this is a multi year project the balance of any budgets will roll forward. Now that the budgets have been rationalised the next stage will be ensuring the use of the budget available is maximised whilst we remain in project for a final financial year.

y. The fundraising element of the project is showing a £91,900 budget deficit. This is largely due to a deficit of £85,500 on philanthropic fundraising. £12,500 of gift aid and £16,300 grant will be claimed from the Foundation at the next Trustees meeting. If no further philanthropic income is raised during the year, there would be a shortfall of £114,600. This target is required to be met and it is likely to require a roll forward into next financial year. The remaining funds to balance the match funding for the project over the remainder of this year and next financial year is £254,600. This area is now fully staffed, after a hiatus where the lead post was vacant for a prolonged period.

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 £16,300 (this assumed 2 pods remained vacant however all pods are now let from March 2019) and other rental £6,700. This is substantially offset by a forecast surplus on staff services of £13,400 and forecast surplus on non-Sill car parking £6,900. The forecast deficit within the income generation budget is £14,700. The allocation of the New Project Fund has been forecast at £14,700 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, this leaves a balance of £7,400 for allocation to New Projects for the remainder of the year.

7. PWLB Cash flow Loan
a. There is an interest budget of £28,100 against the short term cash flow loan. The Interest payments have been re-cast based on the loan being taken for a total of 15 months. The amount required from the 2018/19 budget to cover this period is £4,400, thus giving a saving of £23,700.

8. Efficiency Target
a. The year 1 efficiency target is £30,000 or 1%. To date efficiencies of £28,900 have been embedded into the budget, with a further £1,100 to be allocated from savings on mileage.

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. Whilst concentration has been focused on cost saving and efficiencies have been realised, an unbudgeted rates assessment of £38,500 has contributed to a forecast overspend of £24,200 on operating costs and an overall forecast budget deficit of £25,000.

10. Medium Term Budget Update
a. The budget deficit for the year remains as per the Budget Update to Authority in December, 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:
   - £2,000 efficiency identified against photography costs.
   - £500 efficiency identified against postage and £600 from stationery.
   - £800 saving from retendering of the procurement portal
   - £500 saving following a rates assessment of Walltown
   - £500 saving from the woodlands budget
   - £2,100 efficiency from altering the format of the Visitor Guide.
   - £1,900 saving identified from the Ranger’s Materials budget
(ii) The budget changes as a result of the now approved Sill project result in the following revised budgets for 2019/20. Note there is no amendment to the bottom line.

<table>
<thead>
<tr>
<th></th>
<th>2018/19 (£,000’s)</th>
<th>2019/20 (£,000’s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Expenditure</td>
<td>(262.6)</td>
<td>-</td>
</tr>
<tr>
<td>Revenue Expenditure</td>
<td>(510.7)</td>
<td>(418.9)</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td><strong>(773.3)</strong></td>
<td><strong>(418.9)</strong></td>
</tr>
<tr>
<td>Heritage Lottery Fund</td>
<td>670.2</td>
<td>319.5</td>
</tr>
<tr>
<td>Activity income</td>
<td>49.4</td>
<td>82.1</td>
</tr>
<tr>
<td>Philanthropic Funding</td>
<td>231.4</td>
<td>140.0</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>951.0</strong></td>
<td><strong>541.6</strong></td>
</tr>
<tr>
<td>Net Surplus to NNPA</td>
<td>177.7</td>
<td>122.7</td>
</tr>
</tbody>
</table>

11. Conclusion

a. This report shows that during a year in which the Authority has faced significant challenges, budget requirements have largely been managed within the annual budget. The rates assessment however was unforeseen and has put the Authority into a forecast budget deficit position for the year.

b. The future impact of these changes, together with the revised assumptions regarding The Sill Business plan are shown in the Medium Term Budget Plan 2019/20 – 2021/22 at Item 1 of this Agenda.

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