REPORT 3: 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: There are no financial implications arising from this report.
   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 of maintaining an organisation that is fit for the future (Aim 6 of the Business Plan).

   a. The first quarter surplus as shown in table 1 below was £27,200, this is compared to the planned deficit of £170,600 a positive overall variance of £197,800.

   Table 1: Quarter 1 Financial Performance

<table>
<thead>
<tr>
<th>June 2019 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>873.8</td>
<td>873.8</td>
<td>-</td>
</tr>
<tr>
<td>Operating Salary and Related Costs</td>
<td>(559.7)</td>
<td>(575.7)</td>
<td>16.0</td>
</tr>
<tr>
<td>Operating Expenditure</td>
<td>(206.5)</td>
<td>(265.6)</td>
<td>59.1</td>
</tr>
<tr>
<td>Operating Income</td>
<td>143.7</td>
<td>130.2</td>
<td>13.5</td>
</tr>
<tr>
<td>Operating Surplus</td>
<td>251.3</td>
<td>162.7</td>
<td>88.6</td>
</tr>
<tr>
<td>Sill Business Plan Expenditure</td>
<td>(91.7)</td>
<td>(95.8)</td>
<td>4.1</td>
</tr>
<tr>
<td>Sill Business Plan Income</td>
<td>88.3</td>
<td>92.6</td>
<td>(4.3)</td>
</tr>
<tr>
<td>Net Sill Business Plan Surplus/ (Deficit)</td>
<td>(3.4)</td>
<td>(3.2)</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Project Expenditure</td>
<td>(64.2)</td>
<td>(124.1)</td>
<td>59.9</td>
</tr>
<tr>
<td>Project Income</td>
<td>(67.2)</td>
<td>(50.3)</td>
<td>(16.9)</td>
</tr>
<tr>
<td>Net Project Deficit</td>
<td>(131.4)</td>
<td>(174.4)</td>
<td>43.0</td>
</tr>
<tr>
<td>Sill Project Expenditure</td>
<td>(257.3)</td>
<td>(167.6)</td>
<td>(89.7)</td>
</tr>
<tr>
<td>Sill Project Income</td>
<td>168.0</td>
<td>11.9</td>
<td>156.1</td>
</tr>
<tr>
<td>Net Sill Project Surplus</td>
<td>(89.3)</td>
<td>(155.7)</td>
<td>66.4</td>
</tr>
</tbody>
</table>

   First Quarter Operating Performance
   b. The operating salary and related costs budget surplus of £16,000 has arisen mainly as a result of positive variances on vehicle leasing (£8,000) and mileage, travel and subsistence (£2,700). These arise due to the timing of invoices and the budget is forecast to spend in full.
c. A budget surplus of £59,100 is shown against operating expenditure. This arises mainly as a result of timing of invoices received. There are no significant individual budget variances over £10,000 within operating expenditure.

d. The Medium Term Budget Plan 2019/20 – 2021/22 includes a target to realise efficiency savings of £60,000 (rising to to £90,000 in 2020/21 ongoing). At the end of Q1 £38,900 of savings have been embedded to date and £2,500 worth of actions have been identified.

e. The income generation target was increased by a further £3,000 for 2019/20. Strong early performance in car parking, staff services and sponsorship indicate that we are likely to overachieve on this target.

f. Operating income is ahead of budget by £13,500.

- All hubs, the Broadstruthers room and the Harthope room are currently occupied and rental income from these is on budget. The annual budget is achievable but assumes that the Linhope room will be let from October.
- Car parking income is £7,800 ahead of budget. Of this £1,400 relates to the sale of car park passes. Car park income across the (non-Sill) sites is £3,700 higher than income for the same period of the last financial year.
- Sponsorship income is £7,000 ahead of budget. This is due to a receipt of £10,000 from Clif Bar during the quarter. The annual budget for sponsorship income of £12,000 is profiled evenly across the year.

First Quarter Sill Business Plan Performance

g. Overall there is a £200 budget deficit on The Sill Business Plan. The analysis of this deficit is:

- Retail, £1,200 budget deficit;
- Sill Operational (includes direct staff costs, and building related costs), £3,800 budget surplus;
- Rental (includes the Hive business hub, YHA and Café Franchise net income) £100 budget surplus
- Car Parking £2,900 budget deficit

h. Retail sales are less than £100 behind budget with a GP margin of 43% achieved, against a budget margin of 45%. This gives a deficit on budgeted profit for the first quarter of £1,200.

i. Underspends on The Sill Operational budget have arisen due to the timing of expenditure and to the reduced running costs in warmer months.

A full year budget of £78,100 has been included for rates. The budget is based on the small rates budget in the original budget based on the Hive, augmented by the allocation of the 2018/19 budget outturn surplus of £75,500. It was noted that there could be a further £11,800 to fund from elsewhere in the annual budget if no appeals were successful. It is pleasing to report the initial check submitted based on the physical calculations has resulted in a revised assessment reducing the full rateable value from £207,000 to £181,000. At this point, there is a budget shortfall of £2,300, £1,000 of which is due in rates and £1,300 success fee to LSH. It is assumed at this stage that this is manageable within the overall annual budget if no further reductions are achievable however, work continues to further challenge the valuation.

j. Income from the Café Franchise for the first quarter is budgeted to be received in July. This is a high financial risk area as the Café is not showing the growth that we
were expecting, with income pertaining to the first quarter at £4,100 against a budget of £10,600. The Franchisee has produced a business plan which would see income being some £7,000 lower than our annual budget but it would be risky to assume that this is achievable given they are relying on untested elements including evening dining and the introduction of events. Meetings have been held with the Franchisee to explore all options.

k. The achievement of The Sill Car Parking income target is at risk, it has been impacted by the reduced NNPA visitors and the average income per vehicle. It is early to forecast the full year impact and the interaction with the positive variance on income from Car Parking at other sites across the Park. This year’s performance will provide a more realistic measure for future budgeting.

l. Annual budgets within The Sill Business Plan for Activity Sponsorship and Grants (£22,500) and The Sill Promotion (£7,500) are mainly profiled to be received from July 2019. £1,500 was received in respect of Activity Sponsorship from Forest Holidays in the first quarter.

**First Quarter Project Performance**

m. Total net project income (excluding The Sill project) is showing a net project deficit of £131,400, which is £43,000 less than budget.

n. A number of projects are showing a surplus due to the timing of expenditure. All projects are expected to complete on budget at this stage.

**First Quarter Sill Project**

o. Total net Sill project expenditure reports a budget surplus of £66,400. £32,700 of this surplus relates to the Capital budget which arises due to the timing of expenditure.

p. The Sill Activities budget shows a net surplus of £31,800. This is made up of an underspend of £34,000 on costs, offset by a shortfall in income of £2,200. As the Activities programme is being developed, our ability to achieve budgeted levels will need to be monitored. This area will be subject to in depth consideration during the next month to mitigate any risk in the project outturn and post project.

q. No budget is included for Sill Fundraising for the first quarter as both NLHF income and funding from Charities are profiled to be received from July onwards. The outstanding target for philanthropic funding is £252,100 and this has been included in the budget for the year. This is a high financial risk and whilst a strategy to aid the achievement of this is in place, the impact of any under achievement will need to be considered alongside the work undertaken on the activity programme.

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 £374,300.

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:

- Allocation of £8,000 from the New Project fund for the Dark Skies engagement project.
- The inclusion of an additional £4,000 to costs and income relating to funding of the Revitalising Redesdale project from Northumberland County Council.
• £1,000 virement from the ‘Footpath Materials’ budget to the Woodlands budget towards replacement fencing at Low Carrieteth.

6. Annual Audit Letter 2018/19

   a. The Annual Audit Letter on the 2018/19 Audit has now been received (Appendix 1 to Report 3). This is a high level summary of the audit report to members which was presented to the Authority meeting and via a follow up e mail, in July 2019. This does not raise any additional issues and confirms that all the relevant timescales have been met with regard the closure of the 2018/19 accounts.

7. Conclusions

   a. At this early stage in the year, there is no forecast impact on the 2019/20 outturn but there are a number of key financial risks which require monitoring and positive action, in particular;

      Managing the outturn of The Sill NLHF project, including the outstanding activity income targets and capital target.

      Managing the key risks in The Sill Business Plan, mainly the café franchise income.

      Focusing on the income generation and activity targets.

As discussed with the Finance and Audit Group a detailed forecast will be prepared at the end of quarter 2, especially in relation to the risk areas highlighted in this report.

Contact Officer:

For further information contact Tracey Craft, Finance Manager on 01434 611523 or e-mail: Tracey.Craft@nnpa.org.uk