National Park Authority Board Meeting

Agenda Item 9

LOCH LOMOND & THE TROSSACHS NATIONAL PARK

Financial Report: Quarter 2 2016/17

Paper for information

1. <u>Purpose</u>

To present the management accounts for the quarter ended 30th September 2016 and the Budget Revision for the financial year 2016/17. **Appendix 1** presents the management accounts as compared with budget and **Appendix 2** presents the revised budget for the year as compared with the original Board approved budget.

2. <u>Recommendations</u>

It is recommended that members review and note the information contained within this report and Appendices 1 and 2.

3. <u>Management Accounts Summary</u>

The September management accounts commentary is superseded by the Quarter 2 budget revision commentary and therefore this section has been kept deliberately brief. On-going variances to budget are explained in section 4 below.

There is no significant risk in achieving a balanced budget for the year. The main points to highlight are that the income target for the year will not be achieved, there is an increase in unbudgeted legal costs and there are increased savings in salary costs arising from vacancy management. Net project costs for the year were budgeted at £1.4m and as at the end of Quarter 2 there was £1.2m of expenditure still to be committed or incurred. Approximately 50% of this relates to the Gateway Centre and Your Park which are close to contract award so we would expect the amount still to be committed to drop significantly over the next quarter.

Cash management highlighted last quarter remains in place. This relates to the cumulative overspend from all prior years of £301k.

4. <u>Budget Revision 2016/17</u>

The budget revision presented is balanced on both capital and revenue despite some significant changes in assumptions and forecasts.

4.1 *Grant in Aid*
Scottish Government allocated additional capital Grant in Aid of £95k to assist in the funding of the Your Park project. In the last month Scottish Government has requested that any uncommitted funds be identified. We have submitted the potential to save £40k in relation to capital expenditure on vehicles, including a robust argument that this would have a negative impact on the success of the operational delivery of Your Park.

4.2 *Operating Income*

Operating income is £81k lower than budget:

- Income from public bodies shows a decrease of £15k which includes the removal of a placeholder of £35k in relation to cost reductions. These have been achieved and the impact is shown in a decrease in operational costs so there is no net impact from this. Other minor changes include recognising Modern Apprenticeship income from WDC and the release of a 2015/16 accrual and slightly lower planning fees.
- The commercial income targets, included in Generated Income and Property Rental Income, set as part of the budget process have not been realised and this accounts for £75k of the adverse variance. This includes delays in car parking charging implementation, no income from sponsorship or merchandising opportunities as yet and limited success in achieving new tenants for some of our properties. There are ~ £15k of other variances which help reduce the impact of the commercial income targets, notably an increase of £10k arising from toilet charging.

4.3 *Salaries*

Salary costs are £102k less than the budget and it is worth highlighting that the budget included a savings target of £120k so we have actually achieved £220k of savings in the current year. This obviously helps significantly in covering the adverse income variance. The revised budget figure is based on a full review of all positions in the organisation forecast to the end of the year so we are confident that the figure presented is realistic. This has been achieved through vacancy management and a robust business case process for staff resource.

4.4 *Other Operating Costs*

Operating costs, excluding salaries, are £68k higher than budget mainly as a result of:

- £35k general cost reductions (see income variance explained above)
- an increase of £40k allocated for vehicle purchases / replacement (16 vehicles are now 10 years old), also referred to under 5.1 above.
- an increase of £62k in professional fees arising from the costs of securing legal, tax and auditing advice/services.

4.5 *Net Project Expenditure*

The budget showed net project expenditure of £1.353m and the budget revision shows a small increase of £20k to £1.373m. Within this there are a number of points to note:

- Conservation and Land Use budgets have reduced by £23k mainly because funding of the Natural Heritage Grant Scheme has reduced by £17.5k

- Visitor Management budgets have increased by £149k due to a further £125k being allocated to Your Park development (Three Lochs Drive, Loch Earn and permit development) and we have employed an agency member of staff at a cost of £24k to assist with the project (this is offset by a similar saving in the capitalised salary line in Estates/Capital projects so there is no net impact to total project costs). *NB The Outdoor Recreation Plan line includes income and costs of £572k in relation to Sustrans funding for Community Path projects.*
- Estates/Capital Projects budgets show a saving in the capitalised salary line of £24k (see above).
- Visitor Experience budget has reduced by £62k as a result of savings of £35k in the Gateway project (increased contribution from Scottish Enterprise) and savings of £27k in the Commercial Development work which was budgeted to help in creating property rental opportunities (not realised – see income section above).
- Rural Development projects show savings of £16.5k arising mainly from savings in the Community Grant Scheme and Paths in the Park
- In summary, net project expenditure is £20k higher than budget. An additional budget of £125k was allocated to Your Park, funded by the increased award from Scottish Government of £95k and £30k of the savings realised in the net cost of the Gateway Centre project. Other capital project savings of £64k have been used to fund operational capital requirements e.g. vehicles, software and property repairs of £56k and reduce the original budgeted capital overspend to nil from £8k. The revenue project savings of £11k assist in achieving an overall balanced revised revenue budget.

4.6 Your Park Net Operating Income / Expenditure

An amount of £3.7k net expenditure has been allocated in the 2016/17 budget revision for the impact of the first month of Your Park operations. This is shown as one line on the summary sheet and in due course we will discuss with the Executive Team the best way to report on Your Park income and expenditure i.e. within the existing team structure as per our current operations or in a stand-alone Your Park cost centre.

4.7 Capitalised Salaries

The budget for capitalised salaries was £200k of staff salaries. We have revised this figure to £176k to take account of the agency staff employed at a cost of £24k which is reflected in project costs. Therefore the total remains at £200k and this is simply a reporting change to reflect the reality of where the costs arise.

5. <u>Summary</u>

- The Quarter 2 management accounts do not highlight any budget management concerns. The cash management issue in relation to prior year overspend of £301k continues to be managed.

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- The revised budget is balanced and seems achievable with continuing focus and effort by all managers.
- We were successful in bidding for further capital from Scottish Government of £95k to assist with Your Park and we are awaiting the result of the cost savings submission of £40k which would mean we were not able to purchase new vehicles this year.
- Operating Income has been reduced by £81k as compared with budget. *NB Budget reporting highlighted that income included a stretch target of £100k.*
- Staff salaries are £102k lower than budget.
- Operating costs, excluding salaries, are £68k higher than budget mainly because of the increase in professional fees.
- Net project expenditure is £20k higher than budget.
- There remains a continuing risk of unexpected costs as there is no contingency allocated within the revised budget.

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