National Park Authority Board Meeting

Agenda Item 7

2020/21 Budget Review

Paper for decision

1. Purpose

   1.1 The purpose of this paper is to seek Board approval of the proposed revised 2020/21 budget. It also presents the Management Accounts to 30 June 2020, as per our usual financial updates to the Board.

2. Recommendation

   2.1 That the Board;

   - **Approves** the proposed revised budget for 2020/21 as set out in Appendix 1, which includes a projected deficit of £398,000;

   - **Notes and agrees** that officers continue to engage with Scottish Government to assist with addressing this deficit;

   - **Notes** the Management Accounts to 30 June 2020 as set out in Appendix 2.

3. Contribution to National Park Partnership Plan and Our 5-year Plan

   3.1. Robust financial and budget management underpins the outcomes and priorities of the National Park Partnership Plan 2018-23 and Our 5-year Plan.

4. Summary of our 2020/21 financial position

   4.1. As reported at the June 2020 Board meeting, the COVID-19 pandemic has had two significant effects on our budget this year. Income from rent, charges for services, and planning fees has reduced from that forecasted, and costs associated with COVID-safe workplaces and visitor facilities and management, have increased.

   4.2. We have brought forward our usual Q2 budget review to August (from October) and have used this to reforecast as accurately as possible, though the uncertainty of the pandemic means movement in the forecast is still likely to occur.

   4.3. Currently, we forecast our Revenue deficit for the year at £398,000. Our Capital spend forecast remains balanced, though with delays to some projects as a result of COVID-19 we are in the process of considering how we can usefully reallocate some of this spend to other priorities to avoid a significant underspend.

   4.4. The Revenue reforecast looked at our income and expenditure, including considering what the easing of lockdown means for rent, charges and fee income, where we are facing new costs, and where spend can be reduced. These have all been taken into account in the deficit figure. These reforecasts, including the savings achieved, are largely unique to the impacts of the pandemic and therefore for the most part cannot be carried forward to future years. However, as we begin to consider the 2021/22 budget later this year we will review our income and expenditure projections in light of the possible continuing effects of the pandemic.

5. Balancing the budget

5.1. The scope for discretionary savings within our annual budget is limited. We consider that the £398,000 deficit is the best possible that we can achieve without either (a) making cuts that would be detrimental to key organisation services and functions or to managing the National Park itself, or (b) seeking additional funding support from the Scottish Government.

5.2. For example, we considered the following options to reduce costs further this year:

- Vacancies and fixed-term contracts: We have already reduced the deficit by choosing not to fill some vacancies this year. However, we consider some vacancies and fixed term posts to be critical to effective functioning and delivery, including on visitor operations, and have therefore kept some funding for these.

- COVID-19 response: Our temporary toilet provision at key visitor sites is costly, as is our increased cleaning provision in response to COVID-19. Withdrawing this provision immediately would lead to savings. However, doing so would have an unacceptable impact on the environment, communities, and the visitor experience.

- Seasonal staff: Our busy visitor season usually ends in September, but we are anticipating that this financial year we will see higher volumes of visitors in October 2020 and March 2021. We have reinforced our seasonal staff budget for the year to enable extended deployment. Reducing this would mean limited staff on the ground to engage with visitors and manage the impacts, leading to increased incidence of irresponsible behaviour.

- Further operational savings: The COVID-19 lockdown enabled us to initially reduce some of our operational spend on areas such as energy use. We considered whether further reductions would be achievable this year, such as reducing our property maintenance and repair budget. However, doing so would lead to increased health and safety risk and would also be storing up repair issues for the future.

5.3. All of the above options would reduce the deficit by less than half. The Executive Team consider that implementing these options would have unacceptable impacts on the National Park, its communities and visitors, health and safety, and staff welfare.

Engagement with the Scottish Government

5.4. We have been in close contact with our sponsor team at the Scottish Government regarding our budget challenges arising as a result of COVID-19. This includes setting out our specific cost pressures, as well as requesting assistance to bridge the budget gap.

5.5. In response, our Scottish Government sponsor team has provided written assurance to us that:

- It recognises the importance of our financial stability in achieving a number of environmental, social and economic outcomes
- It recognises the steps we have taken to help restart the economy including implementing necessary measures to safeguard visitors by deploying additional staff and facilities, and that these have come at additional financial cost and put increased demands on staff
- It has factored our cost pressures into the Scottish Government COVID-19 budget management plans, and that it will prioritise all COVID-related pressures and support us to ensure we are able to meet our statutory obligations to present a year-end balanced budget
- We should continue to take all necessary steps to maximise savings and income generation activities, and recognises that we have already undertaken considerable work in this area

Proposed way forward

5.6. We are proposing that the Board approves our revised budget as set out in Appendix 1 and that it is therefore used as the basis of our spend for the rest of this financial year. While we do not yet have a specific financial commitment from the Scottish Government to cover the £398,000 deficit, the assurance outlined above gives us confidence that the Scottish Government supports the decisions we have made to date and will support us through these unprecedented times.

5.7. We will stay in close contact with the Scottish Government in the coming months on their budget management process. We will also continue to closely monitor our spend this year and take opportunities to reduce costs or increase income if new options arise that carry acceptable levels of risk. The Board and the Chairs and Executive Group will continue to receive regular financial updates.

5.8. The proposed approach does carry risk. If, ultimately, the Scottish Government's COVID-19 budget management process does not result in additional financial support to us in the scale needed, we would be at risk of not being able to meet our financial obligations. The earliest we expect this risk to materialise from a cash flow perspective is December 2020 or January 2021. By that time we would be through most of the financial year and therefore our options to reduce spend would be very restricted. Given the assurance provided to us by the Scottish Government, we consider that the cash flow risk is low in comparison to the risks the National Park would face if we took forward the cuts outlined in paragraph 5.2.

5.9. Shortly we will also be starting the detailed budget planning for 2021/22. As part of this we will need to forecast our income and expenditure requirements for the coming year. We will use the 2020/21 budget and actuals to help us through this process, but for the most part the budget adjustments we have made are specific to the circumstances of this year, and we cannot project these savings or expenditure forward to future years. As part of the planning for 2021/22 we will need to specifically consider to what extent different budget lines might return to pre-pandemic levels, where and how the pandemic might continue to add unpredictability, and how we should prioritise any discretionary spend. Also given that some changes brought about by the pandemic may endure beyond it, and also support our emissions targets, the associated budget implications will also have to be reviewed (e.g. more working from home).

6. <u>Detailed budget adjustments</u>

6.1. Appendix 1 shows the detailed variances against the original 2020/21 budget.

6.2. *Income*: We are now forecasting that our income will be £313,000 lower than our original budget, which included a total of £874,000 of non Grant-in-Aid income. The income reductions are due to lower planning fee income, less being generated from visitor services (car parks, camping, toilets, slipway), and lower rental income due to the rent holiday provided to commercial tenants from April to July. We have included an additional £45,000 in income from the Coronavirus Job Retention Scheme.

6.3. *Salaries:* Our salary forecast has increased by £75,000. Our original budget included £150,000 of staff savings to be achieved through vacancy management, which we now do not expect to reach. It also included £175,000 of capitalised salaries, but based on the types of projects that we will be delivering this year following our reprioritisation of capital spend, we think only a small portion of salaries can be capitalised. We will keep the capitalised salaries under review. The balance of the salaries re-forecast is due to us identifying several less urgent vacancies that we do not plan to recruit for this financial year.

6.4. *Operating costs:* Our operating costs have increased by £45,000. This includes significant savings being identified in areas such as travel costs, energy use, catering costs, and professional fees. However, it also includes large increases in our seasonal expenditure such as toilet hire and cleaning costs.

6.5. *Project costs:* We have reduced our project costs by £69,000. Roughly half of this was due to identifying spend that was brought forward to 2019/20. The remainder is due to priorities being delayed or deferred due to COVID-19, for example the Go Swim and Year of Coasts and Waters events not taking place this year.

7. Management Accounts for Q1

7.1. While the budget review outlined above is exceptional compared to our usual annual budget process, we have also prepared the Management Accounts for the 3 months ended 30th June 2020 (Appendix 2) as per our normal financial reporting process to the Board. The management accounts detail the full year original budget, the actual year to date for the first quarter of 2020/21 and prior year to date for the first quarter of 2019/20.

7.2. At 30th June 2020, our facilities had not yet re-opened and the majority of staff were still working from home. Operational income to June was significantly lower for the same quarter last year with property rental, planning and generated income all impacted by the pandemic. The reduction in income was partially offset by income received from the Coronavirus Job Retention Scheme, which totalled £37k to the end of June.

7.3. The shutdown also led to reduced operating costs in the first quarter in comparison with last year. Some of this reduction is genuine savings, largely as a result of the closure of buildings and reduction in fuel, travel and staff costs such as training. However, a significant element relates to timing of invoice receipt and processing given lockdown.

7.4. At the end of June, £8k of capital and £5k of revenue costs were directly attributable to COVID-19 and include infrastructure and PPE costs. These costs increased in July and August with the re-opening of sites and the provision of temporary toilets.

7.5. Very little project activity was able to proceed in the first quarter, with the project spend to the end of June being fully offset by project income.

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8. Conclusion

8.1. We continue to face challenging financial circumstances as a result of COVID-19. Due to the increased financial risk, we have focused considerable attention on budget management and re-forecasting. We have also had productive engagement with the Scottish Government on our financial position. The Executive Team would like to thank our Finance staff for their significant contributions in recent months to help the organisation through this period.

Appendix 1 – Revised Budget 2020-21 Forecasts
Appendix 2 – Management Accounts to 30 June 2020

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