

# Financial Update

## Agenda Item 12

### National Park Authority Board Meeting

12 December 2022

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#### 1. Purpose

- 1.1. The purpose of this paper is to present the financial update, including the Management Accounts for the period ended 30 September 2022 and the Quarter 2 (Q2) budget revision for 2022/23.

#### 2. Recommendation

- 2.1. That the Board note this report, the Management Accounts for the period ended 30 September 2022 (Appendix 1) and the Q2 Budget Revision for 2022/23 (Appendix 2).

#### 3. Contribution to National Park Partnership Plan and/or 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. Background

- 4.1. The original budget for 2022/23 was approved by the Board on 14 March 2022. The budget was subsequently updated to include the £630k of additional visitor management funding and approved by the Board on 13 June 2022. The budget position for 2022/23, as approved in June 2022, showed a capital deficit of £148k and a revenue deficit of £69k, both of which were expected to be managed down throughout the year.
- 4.2. As noted in September, the Scottish Government have been signalling an increasingly challenging overall financial picture, both for this year and future years. The central government budget pressure has been further stretched by inflationary pressures, the increased cost of living and associated pay negotiations. All new Scottish Government resource spending over £1m has been paused and in the summer we were asked to model a 2% reduction in our revenue funding, with the expectation being that these savings would need to be made. However, on 11 October 2022, the Scottish Government confirmed that these savings would not be taken.

## **5. Management Accounts**

- 5.1. The management accounts detail actual income and expenditure for the 6 months to 30 September 2022. The full year budget (as presented to the Board in June 2022), the year to date budget and the prior year to date actuals are detailed for reference. The budget has not been updated for the revised Q2 budget position, as this was completed after the second quarter of the financial year.
- 5.2. Operating income for the period totalled £584k compared to the YTD budget of £674k, full year budget of £928k and prior year income for the period of £518k. The main budget variances related to planning fees and generated income, notably within toilet income which has been affected by technical issues with our charging mechanisms, as well as vandalism. Generated income has therefore been revised downwards at the Q2 budget review. The Planning fee income budget has been increased as part of the Q2 budget revision, as substantial planning applications are expected in the second half of the year.
- 5.3. Operational revenue expenditure to the end of September totalled £1,265k against a YTD budget of £1,403k. Underspends in property, and administration costs were partially offset by higher than budgeted spend on transport costs, including marine and road fuel and repairs.
- 5.4. Total salary costs for the period were £3,337k which is £55k below the YTD budget, primarily due to gapping arising from staff departures..
- 5.5. At the end of September, net activity expenditure (excluding CLP and funded projects) totalled £367k, the majority of which was revenue. Although spend is low, procurement is progressing well and project commitments totalled £578k at 30 September 2022.

## 6. Quarter 2 Budget Revision

- 6.1. The Q2 budget process is our opportunity to update the original budget part way through the year, to reflect new pressures and reallocate any predicted underspends. Total budgeted spend is updated for the full year, based on actual spend to date and the forecast for the rest of the financial year.
- 6.2. The Q2 budget process was initially conducted on the basis of identifying revenue savings. However, as the exercise was concluding, we received confirmation that our Grant In Aid was no longer being cut. In addition, planning fees are now expected to be higher than originally budget, with an additional £150k forecast for 2022/23.
- 6.3. The Q2 process therefore allowed us to re-allocate funding to some priority areas, including salaries; the legal costs in relation to ongoing court cases; staff training; and additional support on strategic plan engagement and drafting.
- 6.4. The Q2 position shows a revenue deficit of £156k and a capital deficit of £415k. Although a deficit figure is shown on the budget revision, this does not mean that an overspend is expected. The revenue and capital budgets are over-programmed to reflect the fact that slippage is expected in some projects and works over the last 6 months of the year. The majority of our project expenditure takes place in the latter half of the year and delivery can be challenging during the winter period. We continue to report an expected balanced position to the Scottish Government at the end of the financial year.
- 6.5. The Executive Team is comfortable with this overspend budget position due to the expectation of slippage. We will actively monitor and manage this as we approach year-end, especially in capital, where we have some ability to decelerate some deliverables into early next financial year.
- 6.6. The main changes in the Q2 budget are
- Revenue income increased by £203k, mainly as a result of additional budgeted planning fee income.
  - Capital income has increased by £250k to reflect the Nature Restoration grant award.
  - The staff cost budget has increased by £390k. No capitalised salaries have been assumed, staff savings of £75k are included for gaps in posts.
  - The revenue operating expenditure budget has increased by £155k, which is mostly within the administration budget (professional fees and consultancy) to cover the costs incurred with the Glenoglehead court case. The transport budget has increased to cover higher fuel, repair and hire costs.
  - The revenue project budget has decreased by £296k, with movements across various projects, including

- Piers and pontoon repairs, where we were able to accelerate spend at the end of 2021/22
- Mission Zero where planned electrical upgrade work cannot be completed this financial year
- Shuttle bus where no significant external spend was incurred.
- The **operational capital budget has increased by £100k**, as two Peatland vehicles were purchased to support the officers with the restoration projects.
- The project capital budget has increased by £416k. This includes the £250k that is fully funded through the Nature Restoration Fund.

## 7. Risks

- 7.1. As noted above, the Scottish Government have been signaling an increasingly challenging overall financial picture, as a result of inflation cost of living increases and pay negotiations. Our annual budget for 2023/24 is due to be announced on 15 December 2022 following the publication of the Scottish budget. Budgets are likely to remain a challenge over the short and medium term. We continue to apply restraint when considering revenue commitments that span into future years, including being cautious around new recruitment. In addition, where there has been headroom in the Q2 2022/23 budget to accelerate spend from 2023/24, this has been prioritised.
- 7.2. We don't have the ability to carry budget across financial years and we continue to pro-actively manage our budget and capital programme to minimise the risk of underspend. The risk of overspend also cannot be ruled out at this stage. Once we enter Q4, should we see probabilities shift that suggest an increased likelihood of overspend, we may decelerate expenditure and also we may wish to engage in discussions with the Scottish Government about whether (a) any funds can be re-profiled to us to cover the gap, or (b) whether we can have permission to overspend to be managed through our cash-flow given recent years of underspend.
- 7.3. There remains financial risk with regards to ongoing legal cases. Significant costs have already been incurred in relation to the Glenoglehead court case. Although mediation is planned in the new year, if the case goes to court in February and we lose the case, we will be liable for the other party's legal fees and court dues, which are likely to be significant. In addition, the Gartmore House case has gone to appeal and if we are successful, we are likely to make a good recovery of costs. However, if we lose, we could be liable for the other party's fees. No provision has been made in the budget for these scenarios. We have highlighted the risks to our sponsor team at the Scottish Government.

## 8. Statutory Accounts 2021/22

- 8.1. As reported to the Board in September 2022, external audit field work was conducted in June 2022. However, the Grant Thornton testing extended beyond their original scheduling and they did not complete the work in line with the agreed timeframe meaning they did not have the resource to complete the audit for the planned September sign off. We have consistently provided all information to the external audit team in line with the originally agreed timetable.
- 8.2. Grant Thornton restarted the audit on 4 November 2022 [and the final audit report was published for the Audit & Risk Committee meeting on 6 December 2022. No new issues were identified and an unmodified audit opinion was issued. The Annual Report and Accounts were signed on the 29 November 2022]. The Annual Report and Accounts will be laid in Parliament before the Christmas recess.
- 8.3. Audit Scotland have appointed Mazars as our external auditors for 2022/23, as Grant Thornton are in their last year of their 6 year appointment. The Finance team will be working with the incoming external auditors over the coming months to plan a smooth transition.

## **9. Appendices**

Appendix 1 – Management Accounts 6 Months to 30 September 2022

Appendix 2 – Quarter 2 Budget Review 2022/23

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