CAIRNGORMS NATIONAL PARK AUTHORITY
FINANCE COMMITTEE

Title: **OUTTURN - NINE MONTHS (April to December 2004), AND FULL YEAR OUTTURN FORECAST**

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Purpose

To provide Members with an update and information on the outturn for the nine month period April to December 2004 and present a full year outturn forecast.

Recommendations

- That the Committee note the outturn for the nine months to December 2004.
- That the Committee note the full year outturn forecast.
- That the Committee consider in principle the proposal to request SEERAD to consider using the End of Year Flexibility procedures to allow activities to be funded in 2005-06 from 2004-05 underspend.

Executive Summary

(i) Three-quarters of the way through the financial year we have spent 72% of our budgeted Core expenditure but only 44% of Programme spend.

(ii) We are currently forecasting annual spend of around £3.4 million compared with funding of £3.55 million (see Annex 1 for details). This is dependent on all planned Programme spend being completed by the year end and there are currently Programmes totalling £85,000 that give cause for concern (see para.17).

(iii) Head of Corporate Services and Finance Manager are meeting the Scottish Executive on 9 February to discuss ways that we may be allowed to carry this income forward to 2005-06. This may include using Scottish Executive 'End of Year Flexibility' rules which normally allow carry forward of 75% if there are no competing claims for resources from other departments, or one-off dispensation to reflect the newness of the organisation.

(iv) We are actively managing the underspend to identify short lead-time spending plans that can further reduce the underspend while still offering value for money. In addition, we are putting in place procedures to avoid this recurring in future years (para. 23)

OUTTURN - NINE MONTHS (April to December 2004), AND FULL YEAR OUTTURN FORECAST

Outturn - nine months (April to December 2004)

1. The Park Authority's 2004/05 budget is £3.55m which is met by Grant in Aid from the Scottish Executive. Spending of this amount is split between Core expenditure (salaries, office running costs and capital expenditure) and Programme expenditure that covers both projects managed by the Authority and our contribution to externally managed programmes.
The manner in which the Authority is funded requires that we do not exceed the fixed level of income. The Authority therefore needs to target expenditure at, or marginally below this income threshold and this gives rise to extreme sensitivity as we approach the financial year-end.

2. The following table sets out the revised budget adopted by November's Finance Committee together with a comparison between actual and budgeted spend for the nine months to December 2004. A more detailed Income and Expenditure account is set out in Annex 1.
Within the revised budget for Core expenditure agreed by the Finance Committee in November we have vired £50,000 from office costs to salaries.

	Revised Full Year Budget £'000	Revised Nine month budget £'000	Nine month Actual £'000	Nine month underspend £'000	Nine month actual %
Core expenditure	2,270	1,716	1,645	71	72%
Programme expenditure	1,195	896 *	529	367	44%
Notional costs	85	64 *	64	-	-
Total expenditure	**3,350**	**2,676**	**2,238**	**438**	**63%**

* pro-rata

3. On Annex 1, income is shown as a negative variance of £615,000. There are a number of causes for this - the underspend to date of £438,000 (see para.2) and that we can only claim GIA monies once we are about to spend it, so there can be costs that we have accounted for but against which we have not yet drawn funding.

4. At the end of December, Core expenditure was 4% below budget. Core expenditure is underspent after nine months mainly due to capital expenditure to date of £25,000 being less than the budgeted amount of £67,000. Annex 1 also shows underspends on Board costs, staff salaries and other staff related costs of between £12,000 and £18,000. Office running costs are the one line of Core expenditure that exceed budget with expenditure of £230,000 compared with budget to December of £215,000. This overspend is mainly caused by computer support (£10,000 over budget) and professional support mainly relating to HR functions (£8,000). Both these lines of expenditure can be regarded as one-off costs which won't re-occur next year since we now have IT and HR staff in place.

5. Throughout the year Programme spend has lagged behind budget. This was highlighted at the last Finance Committee meeting and we passed on to the Management Team the Committee's concern that failure to manage Programme spend could result in an underspend at the end of year which may mean resources being lost to CNPA.

6. Despite extensive monthly reviews which have considered over 100 Programmes on a line-by-line basis an underspend still persists.

7. Historically, organisations similar to CNPA have had a glut of expenditure towards the end of the financial year to meet budget targets and as projects in planning phase come to fruition. However, given the size of the Programme underspend it is likely that an underspend will remain at 31 March. We are presently actively pursuing short lead-time expenditures that can be committed and met within this financial year whilst still offering value for money. This covers both Core and Programme spending.

8. In addition, the Head of Corporate Services and Finance Manager are meeting with Scottish Executive on 9 February in order to investigate the possibility that CNPA can be allowed to carry forward some or all of the 2004/05 underspend into the next financial year. The Scottish Executive has an End of Year Flexibility scheme (EYF) that allows such carry forward in special circumstances. We will argue that the newness of the organisation and subsequent integration of new staff in the first half of the financial year has meant that progress on Programme activities has been slower than envisaged when the Operational Plan was finalised.

9. Looking ahead, with CNPA funding set for 2005/06 and 2006/07 of £4.3 million it is likely that for the next two years at least we will be faced with the problem of competing calls on limited resources. This has been illustrated to the Board in the discussion paper on the Corporate Plan considered at its meeting in January, where the proposed expenditure for 2005/06 totalled some £5.2 million compared with resources of £4.2 million. This point will also be pursued with SEERAD in considering EYF.

10. There are a number of steps we are taking internally to tighten control over Programme spend (see para.23) in order to fully integrate all aspects of finance, budget monitoring and control.

Forecast outturn - 2004/05 financial year

11. Annex 1 gives details of the forecast outturn for the year to 31 March 2005 in the right hand column.

12. We are forecasting other income of £42,000, made up of planning fees (£38,000) and bank income (£4,000). Since neither of these were included in our initial budget current SEERAD rules mean that our GIA will be reduced by an equivalent amount leaving total funding unchanged at £3.55 million. This is another matter that we intend to raise with them at our meeting and report back to Finance Committee.

13. Material items of expenditure continue to be salaries and Programme spend which together account for almost two-thirds of our total anticipated spend. Salary costs include the full financial impact of all Pay & Grading awards finalised by the end of January. The salary forecast has been prepared on a line-by-line basis including all known changes between now and the end of March.

14. Forecast outturn spend for Core expenditure excluding salaries and capital has not been calculated for each individual nominal code but has been estimated taking into account the level of under/overspend at December.

15. We are forecasting to spend an additional £36,000 on capital expenditure before the year end to bring total spending on this line to £55,000.

16. The final outturn forecast for Core expenditure is therefore broadly in line with the revised budget level of £2.27 million approved by the Committee in November.

17. Our estimate of Programme spend is derived from the results of January's Management Team meeting where members reviewed programme spend that they were responsible for on a line-by-line basis. This review classified remaining expenditure into one of three categories:

100% certain	all paperwork is in place i.e. tenders, Committee approval and the work will be completed by the year end.
Will be done	work will be completed by the year end but some work still needs to be done on finalising administration i.e. tender may need to be let.
Cause for concern	Heads of Group want to perform the work but it is by no means certain that it will be successfully completed by the end of the year.

The initial budget for Programme spend was £1,295,000 which was reduced in November to £1,195,000 in order to finance unbudgeted spending on recruitment and relocation costs.

The monetary outcome of this review is as follows:

	£'000
Monies already spent to end December 2004	454
Future planned spend to 31 March 2005	
100% certain	402
Will be done	129
Probable spend to 31 March 2005	**985**
Cause for concern	85
Possible spend to 31 March 2005	**1,070**
Programme budget	**1,195**

18. Management Team have agreed that programmes classified as '100% certain' or 'will be done' must be delivered and every effort must be given to converting the areas of concern to 100% committed programmes. If all current programmes are committed before the year end a Programme underspend of £125,000 will remain. Actions currently being taken (para.21) seek to reduce this figure.

19. In performing the above review a number of projects had allocations released from them because it became obvious that there was not sufficient time or staff resources remaining in the year in order for the programme spend to be completed. In the review of the position at the end of December the amount of expenditure dropping out of the Programme allocation was £131,000 compared to £28,000 when a similar exercise was performed in November.

The way ahead

20. This falls into two parts - what we need to do in the remaining two months of this financial year and what we can do in future to avoid problems in future.

This year

21. We are actively considering bringing forward short lead-time Programme or Core spend that can help us effectively use 2004/05 resources whilst still offering value for money. These are being reported back to Management Team on a weekly basis. Additionally we may apply to SEERAD to take advantage of EYF. We are not guaranteed to retain all unspent funds for use next year, as a guide 75% is the norm but this is dependent on both competing calls for cash from other departments within the Scottish Executive and cash constraints imposed by HM Treasury in London.

22. Head of Corporate Services and Finance Manager are meeting the Sponsoring Department on 9 February (see para.8) in order to investigate the possibility of carrying forward unspent 2004-05 Grant in Aid to next year and will report to Finance Committee at the meeting. At this point the Committee is requested to consider its views in principle on whether to pursue a bid for EYF.

Future years

23. The discussion paper on the Corporate Plan for 2005/06 to 2007/08 has highlighted the competing demands on the Authority's resources over the next three years. A number of action points have been identified in order to enhance our financial management:

- Finance Manager has taken over responsibility for Programme spend from the Programme Manager;
- Establishment of Operational Plans prior to commencement of the financial period to which they relate;
- we will have an ongoing cycle of replacement projects;
- we are looking at updating our accounting software. Project accounting is not the only reason for looking at this but any enhancement should have the benefit that it will be more user friendly to non-accountants, we can have a uniform chart of accounts and should be able to manage

programmes from the accounting software and improve management reporting rather than using an additional Excel spreadsheet that Project Managers find difficult to understand.

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CNPA
Income & Expenditure account (December 2004)

	Year to date				Full year		Year end	
	Actual £'000s	Revised budget £'000s	Variance £'000s	see para. no.	Initial budget £'000s	Revised budget £'000s	Current forecast £'000s	see para. no.
Income								
Grant in aid from SE	1,994	2,612	(618)	-	3,465	3,465	3,423	-
GIA to meet notional cost	64	64	-	-	85	85	85	-
Other income	3	-	3	-	-	-	42	-
Total income	**2,061**	**2,612**	**(551)**	*3*	**3,550**	**3,550**	**3,550**	*12*
Core Expenditure								
Board costs	175	187	12	*4*	250	250	240	*14*
Staff salaries	959	977	18	*2&4*	1,389	1,343	1,340	*13*
Staff (other costs)	256	271	15	*4*	212	340	325	*14*
Office costs	230	215	(15)	*2&4*	300	270	285	*14*
Capital expenditure	25	66	41	*4*	19	67	55	*15*
	1,645	1,716	71	-	2,170	2,270	2,245	*16*
Programme Expenditure								
Projects - managed by CNP	-	-	-	-	-	-	-	-
Park objectives	-	-	-	-	-	-	-	-
	529	896	367	*5 - 10*	1,295	1,195	1,070	*17 - 19*
Notional costs	54	54	-	-	72	72	72	-
Depreciation	10	10	-	-	13	13	13	-
Total expenditure	**2,238**	**2,676**	**-**	-	**3,550**	**3,550**	**3,400**	-