

NEW FOREST NATIONAL PARK AUTHORITY

AUTHORITY MEETING 22 FEBRUARY 2007

FINANCIAL STRATEGY 2007/08 to 2009/10

Report by: Roger Heape, Chairman of the Resources and Performance Committee

1 Summary

- 1.1 The attached report, prepared by Pat Higgins and Barry Holland sets out the strategic financial framework for the Authority over the next three years. It was discussed in draft at the 18 January meeting of the Resources and Performance Committee and has been amended in line with the Committee's comments.
- 1.2 The context for the present strategy is the chronic under-funding of the Authority from the Defra National Park Grant for the tasks which it faces. However, Defra allocated substantial additional sums both for start-up costs and partnership working at the beginning of the 2006/07 year, and this fact, allied with delays in appointing staff to the Authority, has meant that there will be significant sums available to transfer to reserves at the year-end. There are many areas of our business where we will want both to carry forward unspent funding to 2007/08, and to engage for the first time in new activities which support the twin purposes.
- 1.3 The essence of the strategy is to draw down over the next two-three years a proportion of the reserves which will exist at the year-end in order to supplement the National Park Grant and better support our objectives. The forecast which is annexed to the strategy document illustrates how this might be done. It is not an exact prescription, because the sums which will be available from the reserves will not be known with certainty until April 2007; and because the needs of the business may not be best served by a fixed percentage growth in discretionary spend in each year. But the principle of supporting the growth in our essential activities from the reserves, against a substantial minimum level for the general reserve, is clear.
- 1.4 Members will understand that this is not a sustainable strategy beyond the medium term. The level of Defra annual grant will by 2009/10 be running at least £500,000 below the annual costs of the Authority required to fulfil our twin purposes. As soon as possible our efforts will need to be supported by increased funding from external sources, and, following the

findings of the current funding study, a fairer allocation of grant from Defra.

Recommendations

- 1 That Members note the initial current forecast and the basis of that forecast.**

- 2 That Members approve the Financial Strategy as outlined in Paragraph 7 of the attached report.**

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Summary:

This paper sets out the strategic financial framework for the Authority over the next three years. It was discussed at the 18 January meeting of the Resources and Performance Committee, and has been amended in line with the Committee's comments.

While the strategy and forecast will be reviewed on a rolling basis year on year, this report informs the Authority of the medium term financial implications of any decisions made in earlier years, in the context that Defra grant levels after 2007/08 are not known.

Recommendations:

- 1 That Members note the initial current forecast and the basis of that forecast.**
- 2 That Members approve the Financial Strategy as outlined in Paragraph 7 of this report.**

Resources: Routine.

Papers:

NFNPA 162/07

NFNPA 162/07 Annex 1

Cover Paper

**National Park Expenditure Plan Forecast
2007/08 2009/10**

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1 Purpose

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2 Introduction

- 2.1 The current expenditure planning process provides the first real opportunity to ensure that resources are directed towards achieving the Authority's key objectives set out in the current Corporate Plan.
- 2.2 The Authority's first financial strategy approved in April 2006 concentrated on the first year of operation 2006/07; the current proposed strategy aims to develop a medium term approach to the Authority's finances. However this needs to be considered in the context of limited historical trend information from a new organisation and uncertainty over future funding levels beyond 2007/08.
- 2.3 The Resources and Performance Committee is responsible for making recommendations to the Authority on its overall financial strategy and the allocation of resources and budget priorities.
- 2.4 Management Board members have prepared bids for resource allocations for 2007/08 consistently with the operational guidelines seen by the Committee. Final budget proposals will be submitted for approval to the Committee on 13 March and Authority on 28 March 2007.

3 Grant Allocations for 2006/07 and 2007/08 and beyond 2006/07

3.1 The Authority received a total grant allocation from Defra of £5,022,764 for **2006/07**; this comprised:

	£
▪ National Park Grant (including Sustainable Development Grant and funding for responsibilities under CRoW)	3,622,764
▪ Special Grant to meet set up costs	1,200,000
▪ Supplementary Grant for development of new funding sources and capacity building	200,000

3.2 The special grant was for one year only to meet initial set up costs for the new organisation; the supplementary grant of £200,000 was subject to certain conditions set out by the Defra Minister responsible at the time.

2007/08

3.3 In late December 2006, Defra confirmed the basic National Park Grant for 2007/08 for the Authority would be £3,713,810, an increase of £91,046 over the previous financial year. This sum includes grant provision for Sustainable Development and CRoW. Defra has not yet agreed to continue to provide the special discretionary grant of £200,000 for 2007/08.

3.4 The Authority may qualify for receipt of Planning Delivery Grant during 2007/08, but this will depend on performance factors being agreed with the Department for Communities and Local Government.

2008/09

3.5 Members will be aware of the representations made to Defra on the adequacy of the grant funding both for the initial costs of setting up the new organisation, and the ongoing funding needed to deliver national park purposes and the consequent commissioning of a jointly funded study into the Authority's future funding.

3.6 The objectives of the study are to assess:

- the remaining start-up costs of the Authority as a new organisation operating within the local government framework;
- the Authority's scope for generating additional income, including through developing partnerships and drawing in external funding;

and to consider:

- a strategy for the Authority's operating costs and funding needs in the longer term.

The project is due for completion in February 2007. The Authority has also recently engaged an external funding officer who's role is to identify and acquire new sources of funds.

- 3.7 Consequently funding levels from Defra and other sources after 2007/08 are uncertain. Moreover the Government is currently undertaking its Comprehensive Spending Review (2007) which should inform a three-year Revenue Grant settlement aimed at providing local authorities with greater stability in their medium term financial planning. Current indications for national park funding are that the settlements for 2008/09 and beyond are likely to be very tight and may not reflect inflation. In addition the impact, if any, of the Lyons review of the future financing arrangements for local government, which is due to be published in spring 2007 is also unknown.
- 3.8 National parks have not formally been included in the Government's three year programme of efficiency targets, developed as a result of the Gershon Review; however, the Government will continue to drive improvements in the efficiency of the public sector.
- 3.9 The Authority will develop an action plan on achieving continuous improvement following its 'peer review assessment' in the Spring. This may also identify scope for efficiencies or service enhancements.

4 Internal issues

Income from Investments

- 4.1 The Authority has received investment income on its cash holdings, generated as a result of slippage in planned expenditure of grant income. Whilst no specific budget provision has been made for interest earnings in the current financial year, the forecast for investment earnings to the end of the financial year, reflecting an interest rate increase of 0.25% in November, is £100,000. As the incidence of expenditure and income for 2007/08 remains difficult to predict, the budget forecast for income from interest earnings will be based on the average level of reserves to be held during the year.

Income from Planning Applications

- 4.2 The fee income and sundries from planning applications for the first half of the current financial year is £140,540 against a profiled budget of

£100,000. At this stage, it is difficult to forecast whether the current level of activity will be sustained for the remainder of the year. As planning application fees are set by central government, the Authority cannot increase fees to reflect inflation of costs.

General Reserve

- 4.3 The general reserve, as at 1 April 2006, was £0.752 million. It comprises £393,000 set aside from the special grant of £1.2 million and £0.359 million budget underspend from 2005/06.

Budget position for 2006/07

- 4.4 A review of the current year's budget has highlighted potential underspend in a number of services. While some of this may be transferred to the General Fund Reserve to meet unforeseen expenditure in future years, it may also be used to meet specific medium term budget pressures. It is also proposed that specific revenue and capital reserves are created to meet future expenditure from commitments already made.

Office accommodation

- 4.5 Members will be aware of the work currently underway to secure a permanent base for the Authority. At this stage it is not clear where or when relocation will take place or what external funding is likely to be available to meet the cost of such items as removal, IT infrastructure and other substantial revenue and capital expenditure. It is likely however, that some costs will fall on the Authority, and it would be prudent therefore to make some provision to meet future costs.

Replacement of Assets

- 4.6 While considerable investment has been made to date in IT hardware and software, furniture and fittings, acquisition of these assets has been financed through a start-up grant from Defra. As some of these assets will require replacement, it is prudent to initiate a specific reserve through budget provision to meet future expenditure.
- 4.7 An asset replacement programme will be developed during 2007/08 to enable options for financing future programmes of expenditure to be considered as part of the Authority's medium-term financial strategy.

Inflation

- 4.8 The forecast for the general rate of inflation for the period to 31 December 2007 remains at 2.2%. As some supplies and service costs are likely to increase more than the general inflation rate, for the purpose of this initial

three year forecast, a factor of 3% has only been applied to budgets for specific supplies and services.

- 4.9 The current national pay agreement comes to an end in March 2007 and negotiations will commence shortly for proposals for April 2007 onwards. These negotiations are likely to be protracted and difficult as the Government are already expressing concern about the increase in the pay bill for the public sector.
- 4.10 The pension fund's actuaries will be undertaking a revaluation of asset holdings next year; advice will then be provided to the Authority on the future contribution levels required to meet any potential shortfall.

5 Preparation of the Budget for 2007/08

- 5.1 A strategic approach is required in the preparation of the budget for 2007/08, which links Corporate Plan priorities and objectives to the allocation of available resource to ensure those objectives are delivered.
- 5.2 There are a number of ways in which the preparation of the budget for 2007/08 and the forecast for 2008/09 and 2009/10 could be approached; however, it is proposed that resources are initially allocated to meet existing commitments and fixed overheads, whilst adopting a zero based budget approach for the allocation of the remaining resources available.
- 5.3 There are two reasons for the Authority to adopt this approach:
- the budget for 2007/08 will provide the Authority with its first real opportunity to link the allocation of resources with its priorities, following adoption of the Corporate Plan;
 - the budget for 2006/07 comprised the ongoing costs of running the Authority as well as the one-off initial costs associated with establishing a new organisation, and for which additional funds were available.
- 5.4 It is also proposed that all expenditure plan bids should be prioritised to assist in the allocation of resources for 2007/08 and future years; this would enable the Authority to identify the potential gaps between its needs and available resources.

6 General Fund Revenue Forecast 2007/08 to 2009/10

- 6.1 **Annex 1** to this report shows an initial forecast for General Fund revenue expenditure, based on the current approved budget for 2006/07 and prior to expenditure plan proposals for 2007/08 being put forward for consideration.

- 6.2 The forecast identifies both fixed and semi-fixed costs within the current approved budget, adjusted to reflect the following assumptions:
- a continued increase in basic grant of 2.5% to reflect inflation;
 - no increase in volumes or fees for planning applications;
 - continuation of the Sustainable Development Grant but not the special grant beyond 2006/07;
 - for 2007/08, investment income at 5% based on a cash flow similar to 2006/07, reducing in subsequent years as cash is expended at a faster rate;
 - employee related costs reflect: annual increments and inflation increase of 2.5%; employer's contribution for superannuation to remain at 17.7% of salary costs throughout the period of the forecast; and the continuation of several short-term contracts - although if these are terminated as planned they will generate staff cost savings starting in 2007/08;
 - an inflation factor of 3% has been applied to all 'fixed overheads' except for External Service Provision, where this has been adjusted for agreed Service Level Agreements, and semi-fixed costs where no inflation factor has been allowed for.
- 6.3 The forecast shows a net balance of £379,000 in the current budget for 2006/07 for non-committed expenditure, to be spent on national park purposes, reducing over the period of the forecast to £129,000. It also shows the potential funding required from the General Fund Reserve to meet assumed increases of 2.5% (Option 'a') or 5% (option 'b') over the 2006/07 position on non-committed expenditure. The balance on the General Reserve, after withdrawal of funding for either option (a) or (b) assumes further accumulated savings of £300,000 to the end of this financial year in addition to the £393,000 recommended to be transferred via the Budgetary Control Report for 1 April – 31 December 2006.
- 6.4 This initial forecast does not reflect any additional funding either from Defra or other external sources as a result of the Future Funding Study or the work of the Authority's new External Funding Officer. The forecast will be developed and updated as more accurate information becomes available during the expenditure planning process and from the Future Funding Study so that members are aware of the latest financial position when approval is sought for the 2007/08 budget.
- 6.5 Any additional sources of funding and proposals for expenditure during 2007/08 that are identified subsequent to the approval of the budget in

March 2007, can be brought forward as a supplementary budget for approval by Members.

7 Financial Strategy

7.1 Having taken account of the issues outlined in this report, it is recommended that the following financial strategy is adopted for 2007/08.

7.1.1 The Authority sets a balanced revenue budget, drawing on the General Fund Reserve to meet proposals for a sustained delivery of the Authority's twin purposes.

7.1.2 The General Fund Reserve is to be maintained at a minimum level of £0.5million.

7.1.3 Specific provision is made to supplement core grant funding to achieve maintained managed growth in discretionary spend at a level of at least 2.5% in 2007/08.

7.1.4 Specific roll over provision is made from underspend in 2006/07 to meet existing contractual commitments and residual start up costs to be met in future years' expenditure.

7.1.5 Other than specific provisions identified as part of the expenditure planning process, any underspend at the end of the financial year be allocated to the General Fund Reserve.

7.1.6 Provision is made for the replacement of assets.

7.1.7 All expenditure plan bid proposals must demonstrate their link to the Corporate Plan and Business Plans, and the consequences for the Authority of the project progressing or not.

7.1.8 All proposals must fully evaluate both short and long-term costs associated with the proposal in order that the whole life cost of scheme can be assessed

7.1.9 Expenditure plan proposals will only be considered if one or more of the following applies:

- (a) the investment will significantly help the Authority to achieve one of its key priorities,
- (b) the additional cost is unavoidable,
- (c) there is a good pay-back on the level of investment.

8 RECOMMENDATIONS

- 1 Members note the initial current forecast and the basis of that forecast.**
- 2 Members approve the Financial Strategy as outlined in Paragraph 7 of this report.**

NFNPA 162/07 - Annex 1

<u>NATIONAL PARK EXPENDITURE PLAN FORECAST 2007/08 2009/10</u>							
				<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>
				<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<u>INCOME</u>							
Basic Annual Grant				3423	3514	3,602	3,692
Sustainable Development Grant				200	200	200	200
Planning Fees				200	200	200	200
Interest					120	60	50
Special Grant				215			
<u>TOTAL INCOME</u>				4038	4034	4062	4142
<u>EXPENDITURE</u>							
Salaries				2419	2449	2563	2663
Sustainable Development Grants				200	200	200	200
Queen's House/South Efford House				232	239	246	254
Members Allowances				37	38	39	40
External Service Provision				189	230	237	244
Allocable Central Overheads				101	104	107	110
Audit Fees/Bank charges				26	27	28	28
Car Allowances				46	47	49	50
ICT Infrastructure & Maintenance				155	160	164	169
Semi-fixed Costs				254	254	254	254
TOTAL FIXED EXPENDITURE				3659	3747	3887	4013
Balance available discretionary expenditure				379	287	175	129
Growth options:							
(a) 2.5% increase in discretionary spend on 2006/07					388	398	407
<u>Funding shortfall required from General Reserve</u>				101	223	278	
(b) 5% increase in discretionary spend on 2006/07					397	417	438
<u>Funding shortfall required from General Reserve</u>				110	242	309	
<u>GENERAL RESERVE FUND BALANCE</u>							
As at 31/12/06				1,145			
Forecast Savings/under-spends to 31/3/07				300			
Balance available				1,445			
After option (a)					1,344	1,121	843
After option (b)					1,335	1,093	784