

**NEW FOREST NATIONAL PARK AUTHORITY**

**AUTHORITY MEETING – 28 FEBRUARY 2008**

**DRAFT FINANCIAL STRATEGY 2008/09 to 2010/11**

**Report by:** Paul Carey-Kent, Chief Finance Officer / Barry Holland, Director of Corporate Services

**Summary:**

- 1.1 This report presents the proposed Financial Strategy for 2008/09 – 2010/11 for the Authority. It has been drafted following consideration by the Resources and Performance Committee on 10 December 2007 and 31 January 2008.
- 1.2 At a Resources and Performance meeting of 10 December members raised several points during the debate, these have been incorporated into the proposed strategy which was approved by the 31 January Resources and Performance Committee.
- 1.3 Members are asked to approve the Strategy. Full budget proposals for 2008/09 will be brought to the Resources and Performance Committee on 4 March and subject to any revision, to the Authority on 26 March 2008.

**Recommendation:**

**To approve the draft Financial Strategy for 2008/09 – 2010/11**

**Resources:**

As set out in the paper

**Papers:**

|                              |  |
|------------------------------|--|
| <b>NFNPA 233/08:</b>         | Cover paper                              |
| <b>NFNPA 233/08 Annex 1:</b> | Expenditure Plans 2008 - 2011            |
| <b>NFNPA 233/08 Annex 2:</b> | Directorate Budget Distribution Analysis |

**Contact:**

Paul Carey-Kent

Tel: 01962 847525

Email: [paul.carey-kent@hants.gov.uk](mailto:paul.carey-kent@hants.gov.uk)



**NEW FOREST NATIONAL PARK AUTHORITY**

**AUTHORITY MEETING - 28 FEBRUARY 2008**

**DRAFT FINANCIAL STRATEGY 2008/09 to 2010/11**

**Report by:** Paul Carey-Kent, Chief Finance Officer / Barry Holland, Director of Corporate Services

**1 Purpose**

- 1.1 The purpose of the Financial Strategy is to set out the broad strategic financial framework for the Authority over the three year period from 2008/09 to 2010/11.
- 1.2 The strategy and forecast will be reviewed on an annual basis to ensure it continues to reflect the future service delivery objectives and financial resources available to the Authority. In adopting a medium term approach to financial planning, the Authority can ensure it identifies the financial implications of any decisions made in earlier years.

**2 Introduction**

- 2.1 The current expenditure planning process provides an opportunity to ensure that resources are directed towards achieving the key objectives set out in the Authority's next Corporate Plan.
- 2.2 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.
- 2.3 The timetable and process for preparation and approval of the Authority's financial strategy for 2008/09 – 2010/11 and budget for 2008/09 is as follows:
  - Resources and Performance Committee considered a first draft financial strategy on 10 December 2007 and a further draft reflecting the 10 December discussions on 31 January 2008.
  - Final budget proposals for 2008/09 will be submitted for approval to the Committee on 4 March and the Authority on 26 March 2008.

### 3 Grant allocations for 2007/08 and beyond

#### 2007/08

- 3.1 The National Park initially received a total grant allocation from Defra of £3.714 million for 2007/08; this comprised:

|                               |            |
|-------------------------------|------------|
| National Park Grant           | £3,514,000 |
| Sustainable Development Grant | £200,000   |

- 3.2 That figure includes the receipt of £0.26 million from Defra arising from the correction of discrepancies in the calculation of the basic funding formula relating to the planning function. The relevant amount of around £130,000 per annum is now included in the headline settlement figures for the forward period. Subsequent to approving the annual budget for 2007/08, the Authority received a further £125,000 Planning Delivery Grant during the financial year.

#### 2008/09 onwards

- 3.3 The Authority's final grant position for 2008/09 has been announced by Defra along with indicative figures for the following two years of grant funding.

- 3.4 The forecast shown in **Annex 1** incorporates that announcement. The most notable points are:

- Recognition of the continuing set-up costs in establishing a new national park authority by the award of an additional £400,000 to the Authority over years two and three of the settlement period.
- Cash increases of 4.2%, 2.9% and 2.75% across the three years to allow for inflation and other pressures, mirroring the local government settlement. The government assesses inflation as 2.7% so that this represents an average real terms increase of 1% with some front-loading so that year one is the most generous settlement.
- No specific requirements to make efficiency savings, although the Minister refers to an expectation that the National Parks Authorities match Local Government, giving further scope for growth in service provided within the given level of funding. (Local Government has a target of achieving 3% cashable efficiency improvements per year.)
- The Planning Delivery Grant (£125,000) received in 2007/08 is being replaced with a new Housing and Planning Delivery Grant. The Authority, in common with other national park authorities, will not meet the criteria for receipt of this grant. The possibility of compensatory payment for this change is being pursued with Defra

and CLG, but this report assumes that the situation will not change.

- The Sustainable Development Grant has been confirmed as available for the three year period at £200,000 per year as a ring fenced grant.
- The long-term indications are that grant will be set at a level some £0.7m (14%) lower than that needed to fund the Authority continuing to spend at current budgeted levels – though not higher than current actual spend levels to date. However, the current healthy state of balances and the newly announced transitional funding mean that there is no necessity to reduce spending plans below the levels applying in 2007/08.

3.5 The Authority has sufficient discretionary activity to enable budget reductions to be made in the long-term in order to keep to the budget available. That said, the underspendings which are currently occurring against budgets may ease any such transition, depending on the extent of new spending requirements which emerge. There is also the potential to avoid such action if the Authority's effective spending power can be improved over the next three years. One key issue will be to obtain additional funding for one-off and recurring additional costs associated with a move of headquarters: that accounts for over a third of the future 'funding gap', and may well make the difference between reductions being achievable with or without unacceptable impacts on priority work.

*Specific points raised by Resources and Performance Committee members*

3.6 Members raised the following points in their discussions on 10 December:

- Possibility of reducing the minimum reserve from £0.5m to £0.4m. Given that reserves are currently at £1.5m and are set to reduce by around £300,000 per year, this issue need not affect the 2008/09 budget-setting strategy. It would, however, be appropriate for the Chief Finance Officer to review the risk assessment behind the level of reserves and build this in to the final budget for 2008/09.
- Consider whether replacement costs such as for computer equipment should be factored in. This will be factored in to the final 2008/09 budget report.
- Scope for including fitting out costs associated with the proposed move. That move is now unlikely to take place before 2010/11. Defra has indicated that some support is included in its budget forecasts for the fitting out and the move.

- Income and expenditure tables now reflect the ring-fenced £200,000 for the Sustainable Development Fund.
- Members requested continued investigation of options to improve the long-term financial position: these are picked up in 3.7 below.

#### *Future prospects*

3.7 This better-than-hoped-for outcome provides the Authority with an opportunity to consolidate over the next three years whilst tackling those strategic issues which will have financial implications in the longer run. The Authority's on-going position can then be stabilised, with recurring income matched to recurring spending needs whilst delivering on the Authority's key strategic priorities and objectives. Those longer term issues which will need to be tackled include:

- Can any case be made for an improved long-term grant settlement?
- How can the Authority maximise income separate from Defra grant? Sponsorship and charging are the two obvious possibilities to be explored, though the Authority's lack of assets – eg no car parks - is a restriction on the latter option.
- Can partnership arrangements provide the best prospects for assisting the Authority to deliver its functions as efficiently as possible?
- Is the Authority's core spending at an appropriate level? Is there scope for improved efficiency?
- What direct and indirect costs of relocating offices should be built in, given the possibility of obtaining additional funding?
- What is the appropriate level of reserves in the light of issues emerging?

## **4 Internal issues**

### *Income from investments*

4.1 The Authority has no external borrowing and receives investment income on its cash holdings. The market is currently forecasting that interest rates will peak during 2007/08, reducing by between 0.25% and 0.5% during the period of this financial forecast. The basis for the forecast for 2008/09 assumes an average bank base rate of 5.25%.

### *Income from planning applications*

4.2 Fee income from planning applications provides the Authority with its major source of revenue, after grant income. The fees and charges for planning applications are determined at national level by the Government.

The Department for Communities and Local Government's consultation has now concluded and Parliamentary approval for revised fee scales for planning applications will be sought with the aim of new fee scales starting at the beginning of the next financial year. Fees for applications for domestic properties would increase by 11%. If this proposal is approved, it will potentially generate around £31,000 additional income for the Authority from 2008/09, which is built into the forecast £315,000 annual fee income. Given the uncertainties about volumes of applications, this level is left unaltered for any further increase in fees. There are also proposals to create a national charge for the copying of planning application details, essentially comprising of the cost of photocopying; however, this will not have a material impact on the Authority.

#### *General Reserve*

- 4.3 The General Reserve balance stands at £1.778 million.

#### *Replacement of assets*

- 4.4 While considerable investment has been made to date in IT equipment, furniture and fittings, acquisition of these assets was financed through a start-up grant from Defra. There is already budget provision for the replacement of items of office equipment on lease; however budget provision will be required to finance the IT hardware replacement programme which has been developed during 2007/08.

#### *Inflation*

- 4.5 As a guide to inflation within the economy, the Consumer Price Index currently stands at 2.8%, and the Retail Price Index (includes housing) at 4.0%; both are higher than the Government's inflation target of 2%.
- 4.6 The current national pay agreement came to an end in March 2007. A local settlement of 2.5% has recently been reached for the 2007/08 pay award; this is within the existing budget provision. Provision of 2.5% has been built into the forecast for 2008/09 to 2010/11 in addition to normal incremental pay progression where applicable.
- 4.7 The employer's rate for contributions to the Pension Fund is now quoted as a % of payroll. The draft budget uses a rate of 18.9% for each year. Subject to finalisation by the actuary, the actual rates are now expected to be:

|         |       |
|---------|-------|
| 2008/09 | 18.1% |
| 2009/10 | 18.6% |
| 2010/11 | 19.1% |

These rates will be built into the final budget.

## 5 Preparation of the budget for 2008/09

- 5.1 The budget setting process for 2007/08 afforded the Authority the first real opportunity to link the allocation of resources to the strategic priorities and objectives identified in the 2007/08 Corporate Plan. The budget was formulated by the initial allocation of resources to meet existing commitments and fixed overheads, whilst adopting a zero-based budget approach for the allocation of remaining resources available; it also included a number of one-off costs associated with establishing a new organisation.
- 5.2 To assist in the forward planning of the Authority's budgets over the three year period, commencing 2008/09, a briefing was held in August 2007 for members of the Resources and Performance Committee assuming various funding scenarios and options for targeting savings.
- 5.3 The guidance from members of the Committee has been incorporated within the indicative financial forecast outlined in this report. In summary this guidance was:
- focus on 2008/09 financial year to maintain a budget of £4.6 million;
  - assume a Defra flat cash grant settlement;
  - maintain the increased expenditure level on the two purposes (shown in **Annex 2**);
  - achieve where possible further reduction in core costs and efficiency gains.
- 5.4 The settlement is better than assumed in that planning exercise, but given the loss of Planning Delivery Grant and possibility of having to meet increased accommodation rental costs, the difference is not sufficient to invalidate that strategy. The intention for 2008/09 is to maintain the momentum in delivering action on the ground in the National Park by maintaining the increased expenditure levels of 2007/08. While this may not be sustainable in the medium term, there are clear benefits to continuing to support projects in 2008/09 while taking time to review the longer term position in the context of the emerging strategic policy framework in the draft National Park Management Plan and supporting action plan.

## 6 General Fund revenue forecast 2008/09 to 2010/11

- 6.1 **Annex 1** to this report shows an indicative forecast for General Fund revenue expenditure, based on the current approved budget for 2007/08 and prior to expenditure plan proposals for 2008/09 being put forward for consideration.

6.2 The forecast is based on the current approved budget for 2007/08, adjusted to reflect the following assumptions:

- settlement as detailed above;
- plan for a budget spend of £4.6m in 2008/09;
- maintain relative directorate budget proportions (set out in **Annex 1**);
- an increase of 11% in planning application fee scales based on the volume of applications received in 2007/08;
- no Planning Delivery Grant or successor funding;
- for 2008/09 investment income at 5.25% based on a cash flow similar to 2007/08, reducing in subsequent years as cash is expended at a faster rate;
- the continuation of several short-term contracts; the role and value to the Authority of each post will need to be reviewed on a case by case basis in advance of expiry; if any of these are amended or terminated at the end of the present contract this would generate staff cost savings starting in 2008/09;
- provision for the replacement of IT assets has not yet been included;
- using existing reserves to fund most of the Compliance Office post in 2008/09, and Local Development Framework in 2009/10;
- staff related costs reflect annual increments and inflation increase of 2.5%; employer's contribution for superannuation to increase from the current 17.7% to 18.9% of salary costs throughout the period of the forecast.

Those last three points, while not material to this strategic overview, will be built fully into forward budgets prior to the next Resources and Performance Committee meeting.

6.3 Prior to any new bids being received, the forecast shows a net funding requirement of £328,000 for 2008/09; £225,000 in 2009/10 and £542,000 in 2010/11. The long-term gap, assuming nothing changes except loss of transitional support from 2011/12 onwards, would be a shortfall of £742,000.

6.4 At this stage the shortfall is met by use of the General Fund Reserve to finance the budget requirement for 2008/09, but the Reserve is insufficient to meet fully the forecast shortfall right through to the end of 2011/12.

## **7 Summary of financial strategy**

7.1 Having taken account of the issues outlined in this report, the following financial strategy is set out for consideration:

7.1.1 the Authority sets a balanced revenue budget, drawing on the General Fund Reserve to meet part of the revenue shortfall;

7.1.2 the General Fund Reserve continues to be maintained at a minimum level of £0.5million, the level of which will be reviewed annually through a formal risk assessment process;

7.1.3 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;

7.1.4 provision is made for the replacement of assets;

7.1.5 all expenditure plan bid proposals must demonstrate their link to the Corporate Plan and Business Plans, and contain a risk assessment of the consequences for the Authority of the project progressing or not;

7.1.6 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;

7.1.7 expenditure plan proposals will only be considered if:

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

## **8 Recommendation**

**To approve the draft Financial Strategy for 2008/09 – 2010/11**

**New Forest National Park Authority  
Expenditure Plans 2008 - 2011**

| <b>Income</b>                              | <b>2008/09</b> | <b>2009/10</b> | <b>2010/11</b> | <b>2011/12***</b> |
|--|----------------|----------------|----------------|-------------------|
| Defra grant                                | 3,811          | 4,123          | 4,240          | 4,040             |
| Sustainability grant                       | 200            | 200            | 200            |                   |
| <b>Planning delivery grant</b>             |                |                |                |                   |
| fees                                       | 315            | 315            | 315            | 315               |
| interest                                   | 120            | 100            | 75             | 75                |
| use of reserves                            |                |                |                |                   |
| compliance officer                         | 26             |                |                |                   |
| LDF fund                                   |                | 65             |                |                   |
| <b>total</b>                               | <b>4,472</b>   | <b>4,738</b>   | <b>4,830</b>   | <b>4,430</b>      |
| <b>Expenditure*</b>                        |                |                |                |                   |
| Planning programme                         | 310            | 320            | 329            | 329               |
| Planning Salary                            | 1,135          | 1,178          | 1,214          | 1,214             |
| Conservation programme                     | 408            | 420            | 433            | 433               |
| Conservation salary                        | 500            | 517            | 532            | 532               |
| Information and Visitor services programme | 321            | 331            | 341            | 341               |
| Information and Visitor services salary    | 299            | 312            | 325            | 325               |
| Member services                            | 180            | 187            | 198            | 198               |
| Core programme                             | 920            | 948            | 976            | 976               |
| Core Salary                                | 527            | 551            | 574            | 574               |
| Extra rent (assumed)                       |                |                | 250            | 250               |
| Sustainability work                        | 200            | 200            | 200            |                   |
| Understanding and enjoyment salary         |                |                |                |                   |
| <b>Total</b>                               | <b>4,800</b>   | <b>4,963</b>   | <b>5,372</b>   | <b>5,172</b>      |
| shortfall                                  | -328           | -225           | -542           | -742              |
| <b>General Reserve 01.04**</b>             | <b>1,778</b>   | <b>1,450</b>   | <b>1,225</b>   | <b>683</b>        |
| Proposed transfer to General Reserve       |                |                |                |                   |
| Funding from Reserve                       | -328           | -225           | -542           | -742              |
| <b>General Reserve 31.03</b>               | <b>1,450</b>   | <b>1,225</b>   | <b>683</b>     | <b>-59</b>        |
| % saving needed to avoid call on reserve   |                |                |                | -14%              |

\* assumes 2.5% inflation per annum

\*\* assumes transfer to Reserve as agreed at 31/1/08 Resources and Performance Committee

\*\*\* 2011/12 is excluding transitional funding, and is provided for illustrative purposes only

Directorate Budget Distribution Analysis

|   | 2007/08<br>new<br>directorates |             | 2008/09<br>allocation |             | %<br>change<br>from<br>2007/08 |             |            |          |
|---|--------------------------------|-------------|-----------------------|-------------|--------------------------------|-------------|------------|----------|
|   |                                | %           |                       | %           |                                |             |            |          |
| <b>Planning (gross)</b>   | 1383                           | 30.3        | 1445                  | 31.4        | 1.1                            |             |            |          |
| Salary  | 1018                           |             | 1135                  |             |                                |             |            |          |
| Programme   | 365                            |             | 310                   |             |                                |             |            |          |
| <b>Conservation,<br/>Recreation and<br/>Sustainable<br/>Development<br/>(no Sustainable<br/>Development Fund)</b> | 835                            | 19.1        | 908                   | 19.7        | 0.7                            |             |            |          |
| Salary  | 515                            |             | 500                   |             |                                |             |            |          |
| Programme   | 320                            |             | 408                   |             |                                |             |            |          |
| <b>Information and<br/>Visitor Services</b>   | 560                            | 13          | 620                   | 13.5        | 0.5                            |             |            |          |
| Salary  | 280                            |             | 299                   |             |                                |             |            |          |
| Programme   | 280                            |             | 321                   |             |                                |             |            |          |
| <b>Core</b>   | 1542                           | 33.8        | 1446                  | 31.5        | -2.4                           |             |            |          |
| Salary  | 504                            |             | 527                   |             |                                |             |            |          |
| Programme   | 1038                           |             | 920                   |             |                                |             |            |          |
| <b>Members</b>  | 172                            | 3.8         | 180                   | 3.9         | 0.1                            |             |            |          |
| Salary  | 89                             |             | 97                    |             |                                |             |            |          |
| Programme   | 83                             |             | 83                    |             |                                |             |            |          |
| <b>Understanding and<br/>Enjoyment</b>  | 67                             | 1.5         |                       |             |                                |             |            |          |
| <b>Totals</b>   | <b>4559</b>                    | <b>2406</b> | <b>2086</b>           | <b>4599</b> | <b>2558</b>                    | <b>2042</b> | <b>100</b> | <b>0</b> |