

NEW FOREST NATIONAL PARK AUTHORITY

AUTHORITY MEETING - 26 MARCH 2009

**GENERAL FUND REVENUE BUDGET FOR THE FINANCIAL YEAR
2009/10**

Report by: Paul Carey-Kent, Chief Finance Officer; Lindsay Cornish,
Chief Executive

Summary:

This paper sets out proposals for a revenue budget for the Authority for the financial year 2009/10. It has been prepared within the financial strategy framework approved by the Authority at its 11 December 2008 meeting as updated for Resources and Performance Committee on 10 March 2009 (report NFNPA RPC 72/09). It has been approved for Authority consideration by that Committee.

Recommendations:

To:

- 1 Approve the General Fund Budget for 2009/10 at a total gross spend of £5.616 million, consisting of gross expenditure of £5.453 million as set out in paragraph 2.1 plus £163,000 carried forward from 2008/09 as set out in paragraph 2.4.**
- 2 Note that the underlying minimum level for the General Fund Reserve remains at £0.4 million, but that a minimum of £0.9 million will be retained pending resolution of the position of assets frozen in Heritable Bank.**
- 3 Note the implications on the General Fund Reserve of the proposed budget for 2009/10, in particular the setting up of a Programme Fund.**
- 4 Note the risk assessment and Section 25 Statement contained in Annex 4.**
- 5 Approve the Treasury Management Strategy 2009/10 - 2011/12 at Annex 5 and the associated Prudential Indicators at Annex 6.**

Resources:

As set out in the report

Papers:

NFNPA 290/09:	Cover Paper
NFNPA 290/09 Annex 1:	Authority General Fund Budget 2008/09 and forecast for 2009/10 – 2010/11
NFNPA 290/09 Annex 2:	Comparison of budget by nature of spending
NFNPA 290/09 Annex 3:	Comparison of budget by service area
NFNPA 290/09 Annex 4:	Statement on the General Fund Budget Proposals by the Chief Finance Officer
NFNPA 290/09 Annex 5:	Treasury Management Strategy 2009/10 – 2011-12
NFNPA 290/09 Annex 6:	Prudential Indicators 2009/10 – 2011/12
NFNPA 290/09 Annex 7:	Position of Reserves

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Report by: Paul Carey-Kent, Chief Finance Officer; Lindsay Cornish, Chief Executive

1 Purpose

- 1.1 This paper sets out proposals for a revenue budget for the Authority for the financial year 2009/10. It has been prepared within the financial strategy framework approved by the Authority at its meeting on 11 December 2008, and is due to be recommended to the Authority by the Resources and Performance Committee following its meeting on 10 March 2009.

2 General Fund Revenue Budget for 2009/10

- 2.1 The proposal for a General Fund Revenue budget for 2009/10 is shown in **Annex 1** and may be summarised in the following table:

	2008/09 Base Budget £'000	2009/10 Financial Strategy £'000	2009/10 Base Budget £'000	% Change 2008/09 to 2009/10
Gross Expenditure				
Internally funded programme work:				
Strategy and Planning	195	217	78	
Conservation, Recreation and Sustainable Development	364	605	450	
Information and Visitor Services	295	318	325	
	854	1,140	853	-0.1%
Externally funded programme work:				
Planning - Housing and Planning Delivery Grant	110	110	107	
Natural England - SSSI	300	200	200	
Sustainable Development Fund	180	180	180	
Maritime Coastal Project	0	0	102	
New Forest Produce Project	0	0	51	
	590	490	640	8.5%
Internally funded central services:				
Member Services	77	83	83	
Secretariat	67	69	66	
Central Services	938	985	1,026	
	1,082	1,137	1,175	8.6%

Salaries:				
Strategy and Planning	1,143	1,182	1,176	
Conservation, Recreation and Sustainable Development	531	584	602	
Information and Visitor Services	312	412	465	
Member Services	96	143	106	
Secretariat	135	106	148	
Central Services	403	289	288	
	<u>2,620</u>	<u>2,716</u>	<u>2,785</u>	6.3%
Total Gross Expenditure	<u>5,146</u>	<u>5,483</u>	<u>5,453</u>	6.0%
Funded by:				
Defra Grant	<u>3,811</u>	<u>4,121</u>	<u>4,121</u>	8.1%
Fees and Charges:				
Planning Fees	317	317	285	
Section 54 Income	20	20	20	
	<u>337</u>	<u>337</u>	<u>305</u>	-9.5%
Grants / other funding:				
Sustainable Development Fund	200	200	200	
Housing and Planning Delivery Grant	107	107	107	
Natural England (SSSI)	200	200	200	
Fundraising	0	150	153	
	<u>507</u>	<u>657</u>	<u>660</u>	30.2%
Investment and Interest	<u>120</u>	<u>100</u>	<u>34</u>	-71.7%
Reserves:				
Contribution from Specific Reserves:				
Compliance Officer Reserve	26	0	0	
Sustainable Development Fund Reserve	48	0	0	
SSSI Reserve	100	0	0	
Local Development Framework Reserve	0	0	65	
Contribution from General Fund Reserve	197	268	268	
	<u>371</u>	<u>268</u>	<u>333</u>	-10.2%
Total Funding	<u>5,146</u>	<u>5,483</u>	<u>5,453</u>	6.0%

2.2 Points of note are as follows:

2.2.1 This proposal conforms with the key feature of the budget strategy previously agreed by members, that is that there will be a call of £268,000 on the General Reserve. Within that constraint, there has been considerable variation as result of the process of identifying budget pressures at directorate level and seeking means to address

them through the budget setting process, and also by some updating of assumptions – for example, a more cautious approach has been taken towards the likelihood of additional income streams offsetting spending which the Authority would have entered into regardless. That reduces the overall level of risk taken in the budget as presented. These factors explain the differences between the 'Financial Strategy' column, which preceded the process of detailed assessment with Directors, and the 2009/10 budget column.

- 2.2.2 An increase in the total gross spending power of the Authority, including both external funding and carry forwards from previous years, of 6 %. This is probably the best single measure of the extent to which the Authority's activity will increase – and if inflation is taken to be 2.5% this represents a 3.5% real-terms increase.
- 2.2.3 The internally funded programme work (including carry forwards from 2008/09) of £1,001,000 will be added to the Programme Fund, which will then total some £1.75 million. Directors will then work up projects to a value of around £1 million together with the proposed timings associated with them. These are likely to run across 2009/10 and into 2010/11. An overview of the programme will be presented along with the first budget monitoring report for 2010/11, and subsequent spending will be monitored against that programme.
- 2.2.4 Financing of £65,000 is required from the Local Development Framework Reserve (for the one-off use – producing the National Park Plan - for which it was intended) and £268,000 from the General Fund Reserve:
- 2.2.5 Salary costs have increased by 6.3%. The movements between years may be summarised as £165,000, made up of increases in pension contributions (£30,000), incremental increases (£30,000), assumed pay award at 2% (£50,000), and the cost of the recent staffing restructure (£55,000). The restructure was originally envisaged as being broadly cost neutral, but that was on the assumption that an additional post would be lost. The decision on this post has been deferred, pending a further review, and so there is currently an ongoing cost to the restructure.
- 2.2.6 The financial strategy envisaged £150,000 being raised from external funding sources to cover spending which would anyway have occurred. At this stage the budget meets this through contributions towards the maritime project (£102,000) and New Forest Produce projects (£51,000), some spending in connection with which might not otherwise have occurred, but it will be the aim to continue to identify additional external funding through the year. However this is likely to prove difficult given the recessionary climate now evident as well as the reluctance of many potential sponsors to fund spend which was already planned.

2.2.7 It is assumed that Housing and Planning Delivery Grant of £107,000 will be received, and that there will be no requirement to spend more as a result.

2.3 The new approach to programme funding recently agreed has been applied to potential carry forward of spending from 2008/09 to 2009/10. Directors were asked to indicate by mid-January those areas in which they were planning to underspend in 2008/09 on the basis that it would sit more efficiently with project timings and spending requirements to carry this forward to 2009/10. Such requests totaled £163,000 as set out in the Budgetary Control report (NFNPA RPC 71/09). Accordingly, it is recommended that the 2008/09 budget be reduced by £163,000 and the 2009/10 budget increased by £163,000 to recognise this.

2.4 The 2009/10 budget will then consist of the following main components:

General budget

- 2008/09 underspends carried forward for use on general budget purposes - £15,000
- 2009/10 budget for general purposes - £4,600,000

New Programme Fund

- 2008/09 underspending carried forward to the Programme Fund - £148,000
- new contribution from 2009/10 budget to the Programme Fund - £853,000.

2.5 That leads to a total 2009/10 budget for general purposes of £4.615 million, and a total 2009/10 contribution to the Programme Fund of £1.001 million. In addition, £750,000 of General Reserves will be contributed to the Programme Fund, leaving the General Reserve at £900,000 (£400,000 minimum balance plus £500,000 cover to prudently allow for the worst case scenario on the Heritable Bank investment – see **Annex 4 and Annex 7**) and bringing the Programme Fund to £1,751,000 (not all of which is for spend in 2009/10).

2.6 The main areas of potential uncertainty in the budget are:

- i) outcome of potential service developments in train, in particular the ranger review and possibly the New Forest tour. Funding for those will need to be considered as and when details are brought forward in light of the prevailing budgetary position;
- ii) assumptions around income from planning fees (the budget has been reduced by 10% compared with 2008/09). Were that to be 20%, that would represent an income loss of £30,000 compared with the budget assumption;

-
- iii) levels of inflation and pay settlements, which are especially hard to forecast in the current economic climate;
 - iv) amount of Housing and Planning Delivery Grant receivable;
 - v) amount of additional income identified following the work of the Income Generation Group (none assumed);
 - vi) any significant costs incurred through legal challenges, which are not specifically budgeted for would be a potential call on reserves.

These factors will be explicitly monitored in the budgetary control reports for 2009/10.

3 Spending plans

- 3.1 This budget would enable the Authority's purposes to be taken forward positively as set out below.
- 3.2 The pie chart at **Annex 2** summarises budget spend by type of activity. The pie chart at **Annex 3** summarises this allocation of spending across directorates.

Chief Executive's overall commentary

- 3.3 As indicated at paragraph 2.2 the Authority's budget is set to grow slightly in 2009/10 in line with the approved Financial Strategy and the Authority's wish to see a sustained programme of delivery on the ground of projects and partnership working to deliver the two purposes and duty. A key focus of activity will be the completion of the New Forest National Park Plan and the supporting 'daughter' strategies and the progressive roll out of implementation plans. Until the Plan is completed, work will continue rolling forward activity using the priorities and objectives from the 2008/09 Corporate Plan. A full review of the Authority's financial position and Corporate Plan will start mid year so as to i) reflect the priorities and implementation arrangements flowing from the Park Plan (and strategies) and ii) take account of future funding levels.

Conservation, recreation and Sustainable Development

- 3.4 The key priorities for 2009/10 include the completion of the delayed strategies or plans following approval of the National Park Plan by the Authority, and their subsequent implementation, including the Recreation Management Strategy, Biodiversity Action Plan, the Landscape Strategy and the Cultural Heritage Strategy. The review of conservation areas is due to be completed and conservation area appraisals will be published. The strategies will set the framework for delivery of national park purposes in these key areas of activity. The process of preparing these strategies is intended to secure the commitment of our delivery partners.

- 3.5 Work on a wide range of climate change initiatives will be expanded with the appointment of a temporary climate change officer and a number of projects with local communities. This will enable the Authority to move towards meeting its targets and aspirations to reduce the New Forest's contribution to greenhouse gas emissions, increase the resilience of the New Forest to climate change and improve the awareness and understanding of the issues amongst the public and stakeholders.
- 3.6 In addition to a full programme of archaeological survey across the National Park, a new maritime and coastal archaeology project will get underway this year with support from the Heritage Lottery Fund. This will involve an extensive survey and, in later phases, some new interpretation so that people can better understand the rich and fascinating coastal heritage of the New Forest. It will also help the Authority to improve decision making on the coast where sea level rise will pose some difficult challenges in future with the rich archaeological heritage potentially coming under threat.
- 3.7 It is intended to extend the advice available to land managers by developing a project to provide advice and support for recreational horse keepers – including investigating setting up a small grants scheme to encourage the planting of new hedges. This will involve working with horse keepers to find mutually acceptable solutions to some of the landscape issues that have been raised during the Park Plan consultation process.
- 3.8 The Authority is the lead partner in a project to help restore protected habitats across the New Forest in association with the Forestry Commission, Natural England and Environment Agency. This investment will deliver the restoration of around an additional 900 hectares of New Forest habitat to recovering condition. The Authority is also leading a project to record and conserve ancient trees across the National Park. A new database of this exceptional resource will improve opportunities for ensuring these ancient trees are conserved and cared for.
- 3.9 The Sustainable Development Fund is set to have a busy year and the Panel has already approved a range of projects for 2009 to which a significant proportion of the budget has already been allocated. The outcome of these projects will have a particular focus on climate change and sustainable living in the New forest.
- 3.10 The Authority will co-fund a series of practical access improvement projects with partners in and around the National Park and will be launching the first phase of a new database of information for visitors with disabilities that they can use for planning visits.

Information and Visitor Services

- 3.11 The main thrust of the Information and Visitor Services budget for 2009/10 will be to achieve visible outcomes that promote understanding and enjoyment of the Park's special qualities both in partnership and through direct delivery. A distinctive characteristic of the directorate is the need for it to balance its role in leading a number of Corporate Plan objectives with supporting many others as a 'service department'.
- 3.12 Among the high-profile outcomes supported by the visitor services aspect of the budget are: the New Forest Centre, local information points (LIPs), railway station 'gateway' signs, boundary markers on trunk roads, the first full year of the National Park Explorer mobile unit and continued joint ranger work. Work with hard-to-reach groups will step up a gear with funding for the national 'Mosaic' project and the Science Outside the Classroom initiative will ensure secondary school students experience the Forest first-hand. The successful Education Travel Grant Scheme will be repeated and the popular events programme will be extended. Audio trails, GPS and guided walks information will be among the new interpretation initiatives supported by the budget. Imaginative educational campaigns with partners will continue on subjects such as animal accidents, animal feeding and litter.
- 3.13 Elsewhere the budget supports continued improvements to the website, a significant presence at the New Forest Show and a full range of communications including the annual Pocket Guide, two editions of the Park Life newsletter and joint publication with the Forestry Commission and New Forest District Council of the Forest Focus newspaper and the New Forest Today magazine. The budget allows the Authority to play a supporting role to New Forest District Council on tourism, for example by contributing to the Where to Stay, Visitor Guide and 'bedroom browser' publications.

Strategy and Planning

- 3.14 The Strategy and Planning Budget is in two parts: work on strategic and spatial planning including the National Park Plan, and the work of the Development Control unit.
- 3.15 The majority of the strategic planning budget will focus on costs arising from completing the development and adoption of the New Forest National Park Plan (Core Strategy and Management Plan). There will be two main areas of expenditure:
- the remaining stages of engagement with key interests in reviewing and revising the Plan, following the 2008/09 public consultation

- resources needed to prepare for and then run the public examination of the Core Strategy component of the Park Plan.
- 3.16 If the Park Plan is adopted by the Authority and the Local Development Framework Core Strategy component is found sound by the Planning Inspectorate this element of the budget may reduce significantly in the following two years.
- 3.17 Work will be resumed on joint work with Hampshire County, and Southampton City and Portsmouth City Councils, on a revised Minerals and Waste Local Development Framework.
- 3.18 Expenditure on Development Control and Enforcement is difficult to predict given the impact of the current economic recession on planning application activity going into 2009/10. Application numbers within the National Park have not been affected to the same extent as elsewhere, with a 9.5% reduction recorded in 2008/09 compared with 2007/08. Application fee income is more variable and the Development Control Budget allows for a 10% decline in planning application fee income for 2009/10. The reduction in planning application numbers of an estimate 10 - 15% at year end has been off set by a corresponding increase in the number of tree work applications of 38% resulting mainly from the new and extended conservation areas. The demands on the planning administration team therefore remain largely unchanged.
- 3.19 Planning officer workloads have reduced slightly as a consequence of the slight downturn in planning applications and there is now capacity to bring 'minerals and waste' planning applications 'in house'. Previously these have been assessed by Hampshire County Council. The budget includes an enhanced allowance for advertising costs, reflecting the need to advertise more applications as result of the new and extended conservation areas. The level of enforcement and appeal work remains constant.

Corporate Services

- 3.20 The budget for ICT has increased. This reflects the continuing importance of technology in underpinning all aspects of the Authority's work. In particular it allows for the first round of regular replacement of ICT equipment in the Authority's life. This will be phased over different budget years as far as possible, but is essential to maintain the normal functions of the Authority.
- 3.21 Work on HR policies should be completed in the first half of the year and new arrangements for 360° feedback and a competence framework for performance assessment will be rolled out in the first instance to the Senior Management Team. Expenditure on staff training and development has been maintained to ensure that staff have the skills and resources to perform their role well and continue to develop. Following re-organisation some further costs for recruitment are envisaged.

3.22 Accommodation costs for 2009/10 remain stable and work will continue on sustainable procurement, within the constraints of the current office accommodation.

3.23 Work will be carried out to simplify the Authority's corporate performance framework and more closely align it with the new financial monitoring and management arrangements.

4 Robustness of the budget and risk assessment

4.1 The Local Government Act 2003 requires the Chief Finance Officer to:

- provide an assessment of the robustness of the budget in order to provide the Authority with confidence that the financial projections included within the budget are achievable and sustainable, and,
- report to the Authority on the adequacy of the level of the General Fund Reserve.

4.2 This statement is included as **Annex 4** to this report.

4.3 The Treasury Management Strategy and Prudential Indicators for 2009/10 are also attached for approval at **Annexes 5 and 6**. Members may wish to note that a very cautious approach is taken to investment in light of the recent problems in the banking sector, restricting investments to not only appropriately rated investments but also to those regulated in the UK or guaranteed by a Sovereign government with a credit rating of AAA.

4.4 **Annex 7** sets out the consequent impact, of this paper on reserves, should the recommendations be accepted.

5 Recommendations:

To:

- 1 Approve the General Fund Budget for 2009/10 at a total gross spend of £5.616 million, consisting of gross expenditure of £5.453 million as set out in paragraph 2.1 plus £163,000 carried forward from 2008/09 as set out in paragraph 2.4.**
- 2 Note that the underlying minimum level for the General Fund Reserve remains at £0.4 million, but that a minimum of £0.9 million will be retained pending resolution of the position of assets frozen in Heritable Bank.**
- 3 Note the implications on the General Fund Reserve of the proposed budget for 2009/10, in particular the setting up of a Programme Fund.**
- 4 Note the risk assessment and Section 25 Statement contained in Annex 4.**
- 5 Approve the Treasury Management Strategy 2009/10 - 2011/12 at Annex 5 and the associated Prudential Indicators at Annex 6.**

2009/10 Budget Proposals

Summary	2008/09 Original *	2009/10 Budget Proposal	2008/09 Carry Forwards
Planning			
▪ Amenity Trees	9,740	0	0
▪ Historic Buildings	20,000	0	0
▪ Listed Buildings and Conservation Areas	69,740	0	0
▪ Development Control	52,060	52,910	0
▪ Spatial Planning	93,890	15,780	0
▪ Management Plan	47,000	95,000	35,000
▪ Development Control (Holding Account)	453,310	585,560	0
▪ Policy and Plans (Holding Account)	230,560	220,380	0
▪ Environmental Design (Holding Account)	209,340	0	0
▪ Planning Management and Administration (Holding Account)	278,810	286,990	0
▪ Data Management and Research (Holding Account)	0	104,990	0
	1,464,450	1,361,610	35,000
Conservation, Recreation and Sustainable Development			
▪ Natural Environment	506,200	387,580	50,000
▪ Cultural Heritage	309,000	333,400	10,000
▪ Conservation, Recreation and Sustainable Development (Holding Account)	526,280	617,260	0
▪ Recreation Management	62,500	58,000	5,000
▪ Traffic and Transport	70,500	50,000	15,000
▪ Ranger Services	26,000	0	0
▪ Historic Buildings	0	20,000	18,000
▪ Listed Buildings and Conservation Areas	0	65,000	5,000
	1,500,480	1,531,240	103,000
Information and Visitor Services			
▪ Information, Interpretation and Tourism	197,380	226,280	10,000
▪ Communications	104,590	110,890	0
▪ Communications (Holding Account)	320,320	469,870	0
▪ Ranger Services	0	36,650	0
	622,290	843,690	10,000
Member Services			
▪ Member Services	74,430	80,600	0
▪ Member Services (Holding Account)	98,820	107,610	0
	173,250	188,210	0
Secretariat			
▪ Secretariat	62,590	62,740	0
▪ Secretariat (Holding Account)	139,860	151,860	0
	202,450	214,600	0
CENTRAL SERVICES:			
Corporate Services			
▪ Staff Training and Development	48,500	0	0
▪ Corporate Services (Holding Account)	283,270	0	0
	331,770	0	0

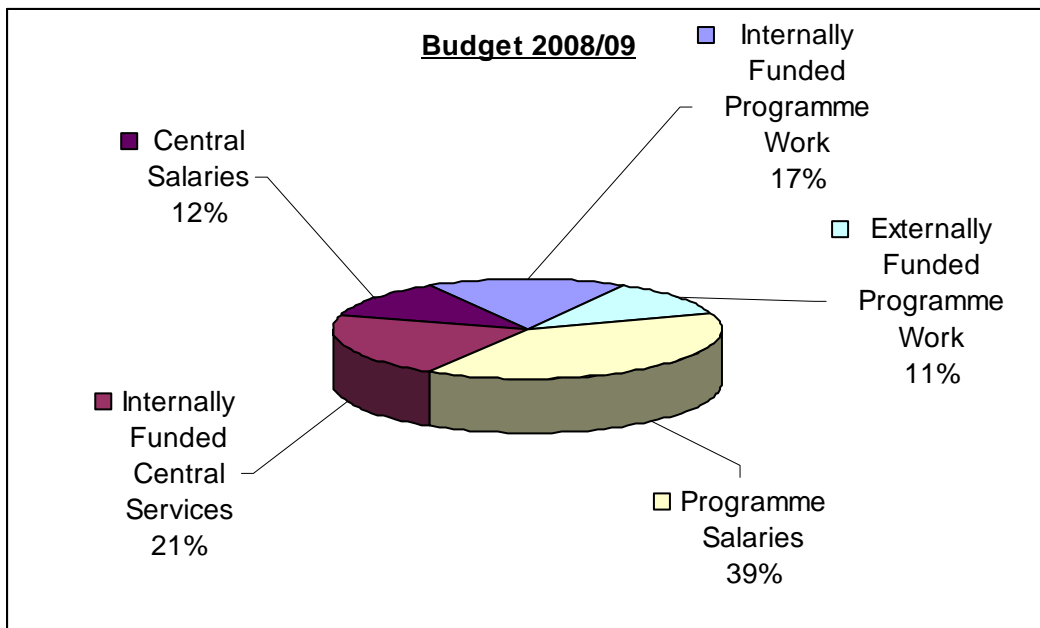
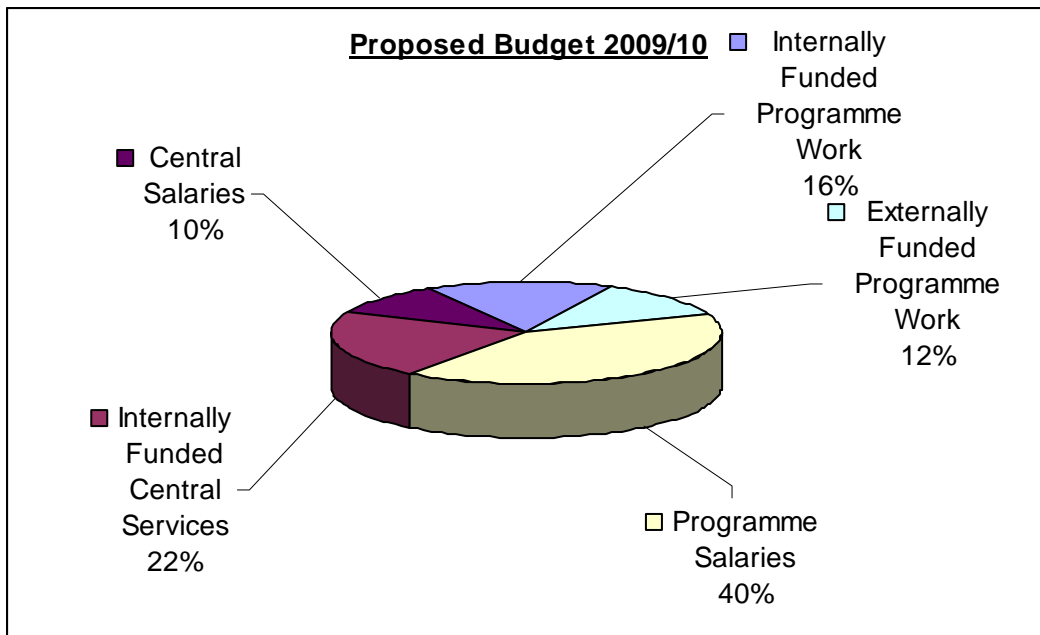
Human Resources			
▪ Human Resources	0	134,820	10,000
▪ Human Resources (Holding Account)	0	82,460	0
	0	217,280	10,000
Performance Management and Administration			
▪ Performance Management and Administration (Holding Account)	0	113,780	0
	0	113,780	0
Information Technology			
▪ ICT Infrastructure	149,760	204,400	5,000
▪ ICT Services (Holding Account)	125,430	96,240	0
	275,190	300,640	5,000
Central Overheads			
▪ Central Overheads	485,620	426,670	0
	485,620	426,670	0
Accommodation			
▪ Queens House	11,930	13,130	0
▪ South Efford House	235,920	242,150	0
	247,850	255,280	0
(Central Services sub-total)	1,340,430	1,313,650	15,000
Grand Total	5,303,350	5,453,000	163,000

Financed by:

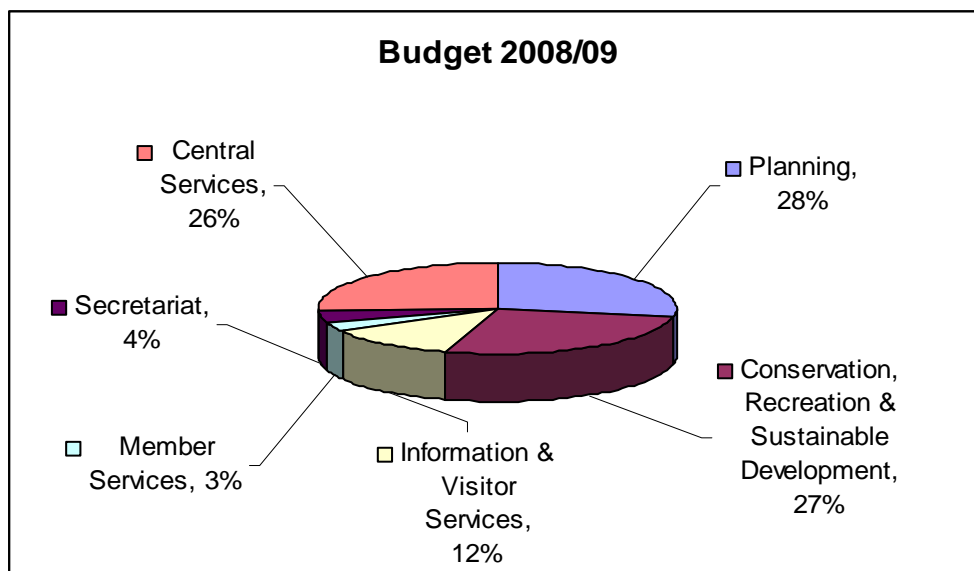
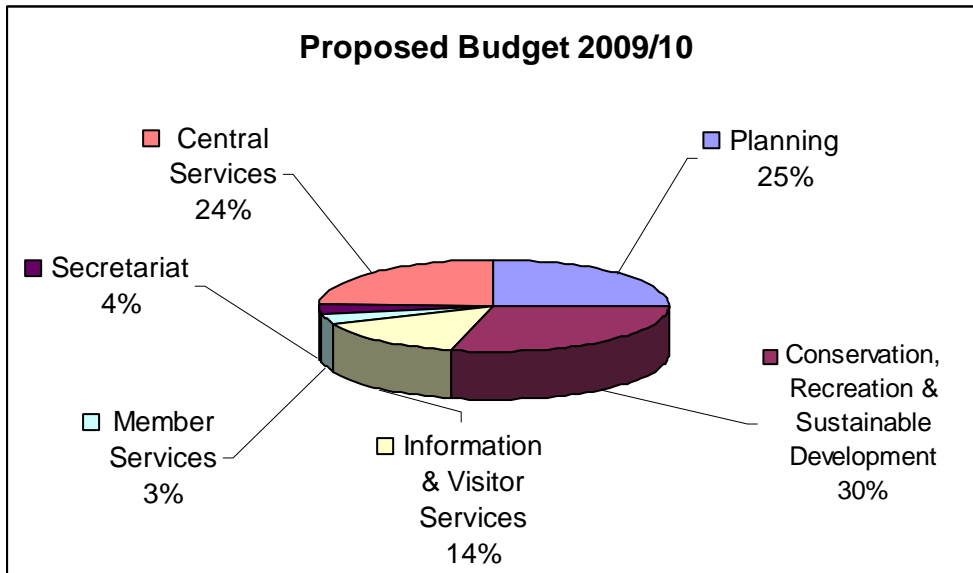
Defra Grant			
Basic Annual Grant	3,810,965	4,121,000	
Fees and charges			
Planning Fees	300,000	270,000	
Other Planning Income	15,540	15,000	
Section 54 Income	20,000	20,000	
Grants / other funding			
Sustainable Development Grant	200,000	200,000	
Housing and Planning Delivery Grant	0	107,000	
Natural England – SSSI Funding	200,000	200,000	
External Funding	0	153,000	
Investment and Interest			
Interest	120,000	34,000	
Reserves			
SSSI Reserve (Natural England funding)	100,000	0	
Compliance Officer Reserve	26,000	0	
Sustainable Development Fund Reserve	48,000	0	
Local Development Framework Reserve	0	65,000	
General Fund Reserve	462,845	268,000	
Grand Total	5,303,350	5,453,000	

* To ensure most relevant comparison, 2008/09 includes £158,000 carry forwards from 2007/08 (which are excluded in 2008/09 figures at Para 2.1 of main text)

Comparison of budget by nature of spending



Comparison of budget by service area



**GENERAL FUND REVENUE BUDGET FOR THE FINANCIAL YEAR
2009/10**

**STATEMENT ON THE GENERAL FUND BUDGET PROPOSALS BY THE
CHIEF FINANCIAL OFFICER**

1 Introduction

1.1 Section 25 of the Local Government Act 2003 imposes a duty on the Chief Finance Officer to report to the budget setting Authority on the following issues:

- The robustness of the estimates made for the purpose of setting the budget; and
- the adequacy of the proposed financial reserves.

2 Robustness of the estimates

2.1 2009/010 will be the fourth year of operation for the Authority, since assuming its full statutory functions on 1 April 2006. A significant amount of work has been undertaken to develop and refine the Corporate Plan and the Authority's budget allocations are linked to achieving those key objectives identified.

2.2 The financial strategy adopted by the Authority for the preparation of the budget for 2009/10 required that expenditure bids demonstrate links to the Corporate Plan, and that both immediate and longer-term costs be identified.

2.3 The budget has been constructed from a combination of identifiable current costs, forecasts for inflation and other known increases and assumptions about the timing of initiating new projects, some of which rely on partnership working.

2.4 Key elements of the budget are the provisions that are made for inflation on pay and prices and projected levels of income, including investments. As detailed in the report, these areas are likely to be volatile in 2009/10 – however, the assumptions made are prudent and the remaining scope for volatility will be easily covered within the level of reserves.

2.5 Recent trends show that the more volatile budgets are those areas of programme spending, directly or in conjunction with partners, for which it is difficult to predict speed of implementation. That has led to underspendings which, although they improve the Authority's financial position, cause delays in achieving policy objectives. In recognition of this the 2008/09 budget monitoring process

concentrates on programme spend, the year-end carry forward arrangements aim to improve year-end planning in this area, and the setting up of programme fund arrangements with effect from 2009/10 aim to prevent any future timing issues impacting adversely on a single year's budget position.

- 2.6 Given these trends and the level of balances, there is no need to hold any contingency within the budget itself.
- 2.7 The three year settlement from Defra covering 2008/09 to 2010/11 provides helpful medium term certainty for planning purposes, even though this may be affected by the recession should that lead to alterations in the provisional settlement.
- 2.8 Overall, then, the budget for 2009/10 can be considered fully robust.

3 Adequacy of proposed financial reserves

- 3.1 The Chief Financial Officer is required to make a recommendation as to the adequacy of the level of reserves held by the Authority. As there is neither a legal definition nor recommendations in any appropriate codes of practice on the absolute level of reserves, it is a matter of judgement based upon the circumstances and facts at the time the recommendation is made. The Audit Commission's role is to review and comment upon decisions taken by the Authority.
- 3.2 The General Fund Reserve is used to cover general unforeseen items of expenditure that cannot be funded within the base budget in any particular year.
- 3.3 The 2008/09 budget was set on the basis that a minimum reserve of £0.5 million was appropriate. Members requested that this be fully reviewed in the light of the Authority's longer-term financial position, i.e. that annual expenditure desired by members is likely to exceed currently identified levels of income. That context sharpened the need to ensure that funds intended in essence to be spent on achieving the Authority's objectives are not held unnecessarily in reserve.
- 3.4 A full analysis was carried out leading to a recommended level of £0.4 million. Since then £0.5 million of general reserve additional to that £0.4 million has been frozen in Heritable Bank, and the economy has worsened significantly. Neither factor impacts significantly on the factors determining the £0.4 million minimum level in itself, but do suggest that it would be prudent to maintain at least £0.9 million in total reserves until the prognosis for the Heritable funds – most of which should still be recovered in due course – becomes clear. Total uncommitted reserves – including £1 million proposed for transfer to the Programme Fund – are currently £1.7 million.
- 3.5 The level of financial reserves is therefore fully adequate.

Treasury Management Strategy 2009/10 – 2011/12

1 Introduction

- 1.1 The importance of the treasury management service has increased as a result of the freedoms provided by the Prudential Code.
- 1.2 This Treasury Management Strategy covers the Authority's borrowing and investment activities and the effective management of associated risks.
- 1.3 Treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management).
- 1.4 The Treasury Management Policy requires an annual strategy to be approved outlining the expected treasury activity for the forthcoming three years. A further report is produced after the year-end to report on actual activity for the year.
- 1.5 A key requirement of this strategy report is to explain both the risks, and the management of the risks, associated with the treasury service. These risks are shown at sections 2 and 3 below.
- 1.6 The treasury strategy covers the risks and practices of the treasury function and there are specific treasury prudential indicators included in this strategy that need approval.

2 Treasury Management Practice – credit and counterparty risk

- 2.1 The Office of the Deputy Prime Minister issued investment guidance on 12 March 2004. Together with the relaxation of borrowing controls under the Prudential Code, this guidance replaces the previous regulations.
- 2.2 The key intention of the investment guidance is to maintain the current requirement for authorities to invest prudently, and that priority is given to security and liquidity before yield.
- 2.3 The prudential code requires this Authority to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes and includes the statement of Treasury Management Practices
- 2.4 This Authority has adopted this code of practice and will apply its principles to all investment activity. In accordance with the Prudential Code this part of the approved treasury management practices must be agreed prior to each financial year and amended if necessary.

Annual Investment Strategy

- 2.5 The key requirements of both the Code and the Department of Communities and Local Government (DCLG) guidance are to set an annual investment strategy covering the identification and approval of the Investment Policy as follows:
- the strategy guidelines for decision making on investment decisions. See paragraph 2.7;
 - specified investments that the Authority will use. These are highly credit rated and highly liquid investments in sterling and with a maturity of no more than a year. See paragraph 3.20 below;
 - non-specified investments that the Authority will use. This identifies the greater risk implications of investments that are not so highly credit rated. It specifies the limits for which investments may be made with each counterparty at any time. See paragraph 3.7 below.
- 2.6 It should be noted that specified and non-specified investments are both approved under the guidance and both should normally form part of an authority's policy.

Investment Policy

- 2.7 The investment policy summarises the main aims and objectives of the investment function within the treasury management service. The policy proposed for the Authority is:
- the main principle governing the Authority's investment criteria is the security and liquidity of its investments before yield. However, the yield or return on the investment will be a consideration subject to adequate security and liquidity.
- 2.8 After this main principle the Authority will ensure:
- it has sufficient liquidity in its investments. For this purpose it will set out the maximum periods for which funds may prudently be invested. See paragraph 3.20;
 - it maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections at section 3.4 below;
 - the Chief Finance Officer will maintain a counterparty list in compliance with these criteria and will revise the list as necessary

for practical use. The current proposed criteria are shown in section 3.4 below for approval.

3 The Treasury Management Strategy

3.1 This strategy covers:

- The current treasury position
- The expected movement in interest rates
- The investment strategy (in compliance with the DCLG guidance)
- Exposure to investment risk.
- The monitoring of investment counterparties
- Prudential indicators and limits on treasury activities
- The use of money brokers
- Performance indicators
- Local prudential indicators

The Current Treasury Position

3.2 The Authority's treasury position is highlighted in the following table. This shows estimated levels of temporary borrowing and investments.

	2007/08 Actual £000	2008/09 Forecast £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000
External Debt					
Total Debt at 31 March	0.0	0.0	0.0	0.0	0.0
Annual Change in Debt	0.0	0.0	0.0	0.0	0.0
Investments					
Investments at 31 March	2,750	2,395	2,061	1,281	239
Annual change in investments		-355	-334	-780	-1,042
Net Investments	2,750	2,395	2,061	1,281	239

The Expected Movement in Interest Rates

3.3 Forecast medium term interest rates are as follows:

Medium-Term Rate Forecasts – Annual Averages %

Year	Base Rate %	5-year Gilt %	20-yr Gilt %
2006/07	4.8	4.9	4.4
2007/08	5.5	5.1	4.8
2008/09	3.9	4.2	4.8
2009/10	1.2	2.1	3.9
2010/11	1.9	3.2	4.1
2011/12	2.6	4.0	4.3

Investment Strategy 2009/10 – 2011/12

3.4 The Investment Strategy for the period that is covered by this report will be as stipulated in the investment policy at 2.7 and 2.8 above with a variation for 2009/10 only as follows:

- with the instability of the economy, and in particular the banking sector, currently it is necessary that a very cautious investment approach be adopted for the 2009/10 financial year;
- the Authority will invest in accordance with paragraphs 3.5 to 3.7 below but only with those institutions that are regulated in the UK or that are guaranteed by a sovereign government with a credit rating of AAA.

This strategy may be reviewed at any time.

Specified Investments

3.5 These investments are made in sterling and have duration of one year or less. They can be for a longer period but the Authority will have the right to be repaid within 12 months if it wishes.

3.6 These are low risk investments where the possibility of loss of principal or investment income is very low. Specified investments include:

- UK Government (including gilts and the Debt Management Office)
- Local Authorities, Parish Councils etc
- Supranational Bonds
- Banks and Building Societies – which have at least the following short – term credit ratings
- Money Market Funds – highly rated by a credit rating agency

Credit Rating Agency	Short – Term Credit Rating
Fitch	F1 or F1+
Moody's	P – 1
Standard & Poors	A – 1 or A – 1+

Non-Specified Investments

3.7 Non – Specified investments are any other type of permissible investment not defined as specified above and include:

- UK Government Gilts with a maturity of greater than one year.
- Local Authorities, Parish Council etc with a maturity of greater than one year.
- Supranational bonds – with a maturity date beyond one year.
- Institutions not meeting the credit rating at 3.5 above and where other restrictions have been applied.

Counterparty Criteria	Investment Restrictions
Unrated fully owned subsidiaries of highly credit rated institutions	£3m for up to 6 months
Unrated Building Societies with total assets greater than £500 million.	£5 million for up to 6 months
Unrated Building Societies with total assets greater than £250 million but less than £500 million	£3m for up to 3 months
Local Authorities	£5m for up to 4 years
Organisations wholly owned by UK Government, e.g. Royal Mail Holdings PLC	£3m for up to 6 months

- Banks and Building Societies – with a high credit rating but with a maturity of more than one year as follows:

Long-Term Credit Rating	Maximum Period of Investment
A (+/-)	Up to 2 years
AA (+/-)	Up to 4 years
AAA (+/-)	Up to 5 years

3.8 The longer-term investments will also need to fit in with the principles of the treasury prudential indicator for total sums invested for periods longer than 364 days as shown at 3.20 below, although it is unlikely

that investments will be made for periods longer than 364 days at this time.

- 3.9 The Authority will ensure that no more than 20% of the current total sum invested may be deposited with any one organisation at any one time at the time of investment, except insofar as held on the Authority's behalf under contracted-out treasury management arrangements. But if the total sum invested is less than £2.5m, then the maximum investment may be £500,000.
- 3.10 In the normal course of the Authority's cash flow operations it is expected that both specified investments and non-specified investments will be used as both categories allow for short-term investments.
- 3.11 The use of longer-term investments will be within the non-specified investment category. These investments will only be used according to the parameters shown at 3.20 below and will depend on the Authority's need for liquidity.

Exposure to Investment Risk

- 3.12 The Authority has £500,000 invested with a failed Icelandic Bank currently.
- 3.13 The local authority organisations that have deposits at risk have formed a representative group who are acting on behalf of all authorities to ensure that the deposits are released as soon as possible and repaid to the investors.
- 3.14 It is not possible to quantify the sum that will be repaid to the authority at this time but it is hoped that it will represent the majority of the investment.

The monitoring of Investment Counterparties

- 3.15 The credit rating of counterparties will be monitored regularly, as a policy at least monthly. However the Authority receives credit rating advice from its advisers on a daily basis as and when ratings change and counterparties are checked promptly.
- 3.16 There will be a minor time delay between rating changes and the Authority receiving notification, and on occasion ratings may be downgraded when an investment has already been made.
- 3.17 The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list. And if required new counterparties which meet the criteria will be added to the list.

Treasury Management Prudential Indicators and Limits on Activity.

- 3.18 There are further treasury prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if the limits are set at a level that are too restrictive they will actually impede opportunities to reduce costs.
- 3.19 No indicators for borrowing have been set as no borrowing will be undertaken unless it is temporary borrowing for cash flow purposes.
- 3.20 The limits for investment are:
- Estimated interest receivable on net investments
The limits on fixed and variable interest rates give an indication of the potential volatility of the interest earnings.
 - Maximum principal funds invested
These limits are set to help identify the total sums available for investment over the year.
 - Total principal funds invested for more than 364 days
These limits are set to reduce the need for early sale of an investment, and are based on the availability of investments after each year-end. This is the amount of funds that are not needed immediately for revenue or capital purposes and therefore can be invested for longer periods if advantageous to the Authority.
 - Fixed and variable interest rate investments
Limits are included for fixed and variable interest rate investments to contain the volatility of the investments
 - Maturity structure of investments
These limits are set to indicate the maturity structure of investments and to ensure that authorities invest in a cautious manner. The lower limit is set at 100% for less than 12 months, as it is not envisaged that this Authority's funds will be available for longer-term investment.

3.21 These limits are shown in the following table:

Investments	2009/10 Upper	2010/11 Upper	2011/12 Upper
Estimated interest on net investments	£34,000	£26,000	£18,000
Estimated Maximum sums invested	£4.5m	£4.2m	£3.4m
Estimated Maximum sums invested for more than 364 days	£0m	£0m	£0m
Limits - fixed interest rates	100%	100%	100%
Limits - variable interest rates	50%	50%	50%

Maturity Structure of investments						
	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 months	100%	100%	100%	100%	100%	100%
12 months to 2 years	0%	0%	0%	0%	0%	0%
2 years to 5 years	0%	0%	0%	0%	0%	0%

Sensitivity to Interest Rate Movements

3.22 Future accounts will be required to disclose the impact of risks on the Authority's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to treasury management costs/income for next year.

Revenue Budgets	2009/10 Estimated @ 1.5% £000	2009/10 Estimated + 1% £000	2009/10 Estimated -1% £000
Interest on Borrowing	0	0	0
Investment income	34	57	11

Use of Money Brokers

3.23 Generally the Authority will use money brokers to place investments with counterparties. The broker has access to the money markets and will be able to determine the best rate of investment for the Authority given the counterparties that the Authority can invest with and type of investment required.

- 3.24 Several highly rated organisations now conduct their own treasury transactions and no longer use money brokers. If beneficial to the Authority, investments may be made by dealing directly with these counterparties.

Performance Indicators

- 3.25 The Code of Practice on Treasury Management requires the Authority to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. An example of performance indicators often used for the treasury function are:

- Investments – In-house fund returns should be above the average 7 day LIBID rate

- 3.26 The result of this indicator will be reported in the Annual Treasury Report at each year-end.

Local Prudential Indicators

- 3.27 There are no local prudential indicators other than those currently included in the body of this report.

Prudential Indicators 2009/10 - 2011/12

1 Introduction

- 1.1 Under the Prudential Code the Authority must adopt and monitor a range of indicators.
- 1.2 These indicators are to cover a three year period from the current financial year.
- 1.3 The New Forest National Park Authority is not expected to borrow to finance capital expenditure. Therefore, all indicators below apply only to temporary borrowing for cash flow purposes, and temporary investments.

2 Capital Expenditure and the Capital Financing Requirement

Capital Expenditure

- 2.1 The following table shows the actual capital expenditure for 2007/08 and the current forecast for capital expenditure for current and future years.

	2007/08 Actual £000	2008/09 Current Forecast £000	2009/10 Original Budget £000	2010/11 Current Estimate £000	2011/12 Current Estimate £000
New Forest National Park Authority	56	62	77	62	62

Capital Financing Requirement

- 2.2 Each authority must calculate its Capital Financing Requirement. This requirement shows the amount of capital expenditure that the authority has incurred and financed from loan. All capital expenditure incurred in 2007/08 and in previous years was financed from sources other than loan. All capital expenditure for future years will also be financed from sources other than loan.
- 2.3 Therefore the Capital Financing Requirement is forecast to be nil for the period of this strategy report.

External Debt and Investments

- 2.4 Any temporary borrowing will be for short periods as this will only be raised for cash flow purposes. Generally all income received during the year is likely to be used for revenue expenditure during the year, however there may be a cash surplus in the current year as grant is

received ahead of expenditure. This can be invested for periods of up to one year. Prudential indicators have been set for forecasting year-end debt and investment over the three year period.

At 31 March	2007/08 Actual £000	2008/09 Current Forecast £000	2009/10 Original Budget £000	2010/11 Current Estimate £000	2011/12 Current Estimate £000
Gross Borrowing	0	0	0	0	0
Investments	2,750	2,395	2,061	1,281	239
Net Borrowing	-2,750	-2,395	-2,061	-1,281	-239

3 Limits to Borrowing Activity

The Authorised Limit

- 3.1 This is the limit beyond which borrowing is prohibited and needs to be set by Members for each financial year even though it is not anticipated that the Authority will need to borrow in the period other than short term loans for cash flow purposes. It reflects the level of borrowing that, while not desired or sustainable, could be required in the short-term. It is the maximum temporary borrowing required and includes some headroom for unexpected cash flow movements.

Authorised limit for external debt	2008/09 Estimate £m	2009/10 Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m
Borrowing	3.8	4.1	4.1	4.2
Other long term liabilities	0	0	0	0
Total	3.8	4.1	4.1	4.2

The Operational Boundary

- 3.2 This indicator is based on the probable external debt during the course of the year. It is not a limit and the borrowing of the Authority could vary around this boundary for short times during the year. It is a warning indicator to help ensure that the Authorised Limit is not breached.

Operational boundary for external debt	2008/09 Estimate £m	2009/10 Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m
Borrowing	0	0	0	0
Other long term liabilities	0	0	0	0
Total	0	0	0	0

4. Affordability Indicators

- 4.1 All of the affordability indicators recommended by the Prudential Code are to assess the affordability of the Authority's capital programme.

Financing Costs

- 4.2 This section shows the cost of financing the Authority's capital programme. The following table shows the estimated financing costs for the period from 2008/09 to 2011/12.

Financing Costs	2008/09 Revised £000	2009/10 Estimate £000	2010/11 Estimate £000	2011/12 Estimate £000
Loss of interest on cash usage	3	1	1	1

Ratio of financing costs to net revenue stream

- 4.3 The net revenue stream is the amount of revenue expenditure met from government grant.
- 4.4 The following table shows the effect of the estimated financing cost, against the estimated net revenue stream. This assesses the cost of the capital programme to the revenue account.

	2008/09 Revised	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate
Revenue Account	0.07%	0.02%	0.02%	0.02%

Position of Reserves

	Estimated at 31.03.2009 (see budget monitoring report)	Estimated at 01.04.2009 (after implementation of programme fund)	Estimated use in 2009/10 (if budget spent as per proposals)	Estimated at 01.04.2010
	£000	£000	£000	£000
Must be spent on given purpose *				
Sustainable Development	289	289	(145)	144
Local Development Framework	65	65	(65)	0
Developers Contributions	94	94	(47)	47
SSSI	90	90	(90)	0
	<u>538</u>	<u>538</u>	<u>(347)</u>	<u>191</u>
Budget must not plan to spend				
Cover for Heritable Investment	0	500	0	500
Minimum Level of General Reserve	400	400	0	400
	<u>400</u>	<u>900</u>	<u>0</u>	<u>900</u>
May be spent on given purpose or otherwise at members' discretion				
Donations **	0.15	0	0	0
Programme Fund	0	1,751	(853) ***	898
Balance of Special Reserve	1,251	0	0	0
	<u>1,251</u>	<u>1,751</u>	<u>(853)</u>	<u>898</u>
Total Reserves	<u>2,189</u>	<u>3,189</u>	<u>(1,200)</u>	<u>1,989</u>

* Assumes LDF and SSSI spent in year, 50% of others for given purpose

** If not spent in 2008/09 Transfer to CRSD Project budget

*** Assumes spend of £853,000 in 2009/10, i.e. effective 'slippage' of £148,000 as in 2008/09