

NEW FOREST NATIONAL PARK AUTHORITY

AUTHORITY MEETING - 11 DECEMBER 2008

FINANCIAL STRATEGY AND FORWARD BUDGET 2009/10 - 2011/12

Report by: Paul Carey-Kent, Chief Finance Officer

Summary:

This report sets out the Authority's financial position in a context of its current three-year strategic financial framework and proposes budget guidelines for 2009/10. The position set out will be subject to any amendment resulting from the identification of any additional spending pressures and opportunities for savings, as well as building in any issues raised by members.

Papers:

NFNPA 275/08:	Cover paper
NFNPA 275/08 Annex 1:	Expenditure Plans 2008 - 2012
NFNPA 275/08 Annex 2:	Financial Strategy 2009 - 2012
NFNPA 275/08 Annex 3:	Analysis of Directorate budgets

Recommendations:

It is recommended that:

- 1. the 2009/10 budgets be prepared on the basis of the figures shown in Annex 1;**
- 2. the Authority moves to a system of funding of programme spending through contributions to a specific reserve;**
- 3. the Authority approves the Financial Strategy 2009 - 2012 as set out in Annex 2.**

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FINANCIAL STRATEGY AND FORWARD BUDGET 2009/10 – 2011/12

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

1 Purpose

1.1 The Authority set its 2008/09 budget in the context of a three-year strategic financial framework for 2008/09 to 2010/11. This paper provides an update to that Strategy to give the context for setting the budget guidelines for 2009/10. It is based on rolling forward the costs of current activities and maintaining the level of programme spend in cash terms, leading to a 4% increase in planned spending. This position will be subject to any amendment resulting from the identification of any additional spending pressures and opportunities for savings. Work is under way on those processes, which will be concluded in January.

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 Corporate Plan, combined as appropriate with any action plan proposals emerging from the revisions to the National Park Plan which can be foreseen in this budget setting round.

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 intended timetable and process for preparation and approval of the Authority's financial strategy for 2009/10 – 2011/12 and budget for 2009/10 is as follows:

- Resources and Performance Committee informally considered the broad future financial planning issues on 10 September
- Resources and Performance Committee make formal decisions on the Financial Strategy and Forward Budget for 2009/10 - 2011/12 on 4 December. Full Authority is asked to confirm those conclusions through the minutes at its meeting on 29 January 2009

- Resources and Performance Committee consider detailed spending proposals derived from this Strategy on 19 January
- Final budget proposals submitted for approval to the Authority on 25 February.

Note that this timetable requires budget holders to act quickly to assess their pressures/requirements: should that not prove deliverable in practice, later timings would still be possible, leading to full Authority approval in March 2009.

2.4 The table below shows a summary of the expenditure plans for 2009/10 in comparison with those of 2008/09. The full three year expenditure plans can be seen in **Annex 1**. This presentation separates out 'front line' service provision more clearly in response to member requests. **Annex 3** shows the forecasts in the previous established format to enable readier comparison between years.

	2008/09	2009/10	% Change	% of 2009/10 Expenditure
TOTAL INCOME	4,949	5,265	6%	
Expenditure				
Salary - services for planning, conservation and understanding and enjoyment	1,986	2,178	8%	39%
Salary - central [core] services	634	538	-12%	10%
Programme - internally funded	1,112	1,140	2.5%	20%
Programme - externally funded	490	490	0%	9%
Other costs	1,082	1,187	10%	22%
TOTAL EXPENDITURE	5,304	5,533	4%	100%
Budget Shortfall (funded from Reserves)	-355	-268		

- 2.5 It can be seen that 68% of spend goes directly on programme work, either internally or externally, with the remainder supporting the overall running of the Authority and support (eg IT, accommodation, insurance and training). Total salary costs have increased by 3.5%, though with a noticeable shift (following reorganisation) between the categories above. Internal programme spend has been maintained at current levels plus an additional 2.5% for inflation, though it may be possible to increase that if underspendings occur this year. Budget pressures and any offsetting savings have not yet occurred at directorate level: that and the associated meetings to assess bids in the Authority's overall context may influence how much is judged necessary in these budgets. The extra flexibility provided by the new arrangements proposed at 4.9-4.10 below, and extent of any particular plans to use Housing and Planning Delivery Grant for additional spend will also be relevant.
- 2.6 The above projections also assume the full payment of £0.5 million is received in due course from Heritable Bank. In so far as that is not case, there will be no immediate problem but in the unlikely event that recovery is minimal, there will be a need to move faster towards a sustainable long-term budget. Note, however, that in accordance with the Government announcement on 26 November, regulation is expected that will allow local authorities with funds invested in Icelandic banks to postpone the impact of any impairments required by accounting practice to 2010-11. That means that if the issue remains unresolved at the year end, the full value of the Heritable investment can be shown in the balance sheet.

3 Income

- 3.1 Defra announced indicative grant funding for 2009/10 and 2010/11 as part of a three-year settlement from 2008/09. Funding for 2009/10 has yet to be confirmed by Defra but is used as the basis for this strategy. The forecast shown in **Annex 1** is of those figures for the first two years. The most notable points of the settlement were:
- recognition of the continuing set up costs in establishing a new National Park Authority to the tune of £400,000 over the two years 2009/10 and 2010/11
 - cash increases of 2.9% and 2.75% in those two years (subject to confirmation by Defra – date for this not yet known). At the time of the settlement the Government assessed inflation at 2.7%: clearly it has increased since then, but is now expected to fall and it is prudent not to assume that the Government will increase those grant settlements when finalised as a consequence – indeed, that would be surprising
 - no specific requirements to make efficiency savings.

3.2 For 2011/12, it has been assumed for planning purposes that:

- there will be no further transitional funding
- that aside, there will be a 3.2% increase in grant, that being the average level across the three years of the current settlement.

3.3 Those assumptions are not to say that lobbying will not take place for a better deal in 2011/12 onwards. For example:

- Local Government as a whole, as well as the national park authorities, will be involved in further consultation on the next settlement round
- there will be specific national park issues, eg around the adequacy of the settlement to deliver the new National Park Plan
- this Authority specifically has a case to make, for example around the additional costs of operating in the South East.

3.4 The following assumptions are also made:

- Sustainable Development grant will continue at the current level of £200,000 per year. Since the Fund was established some four or more years ago it has never been inflation proofed, so its real value is falling year on year;
- Natural England funding will continue (although there is as yet no indication of this beyond 2010/11) along with matched spend which would not otherwise have occurred – so the effect is neutral in budget planning terms;
- any developer contributions received will, similarly, be passed on with no net effect on the budget;
- Housing and Planning Delivery Grant (which has been awarded at £107,000 for 2008/09 only at this stage) will carry on in future without any associated requirements for additional spending – clearly this is an optimistic approach but there is a contingency action proposed below;
- the targets for raising external funding as set by the External Funding Strategy will be met. This could add £200,000 of direct income and expenditure, together with £400,000 per year of spending through partners' activities. It is assumed purely for planning purposes (in line with the necessarily very approximate estimate of the External Funding Officer) that 35% (£70,000) of that £200,000 of direct expenditure and 20% (£80,000) of the spend by partners will cover activity which would otherwise have had to be carried out from the core budget, and that the remainder generates additional spend. The result is that the external

funding programme is assumed to contribute £150,000 per year in total towards reducing the long-term shortfall in funding. This is a potentially sensitive set of assumptions and will need to be monitored as the work of the Income Generation Group proceeds;

- other income sources such as fees may increase for inflation: however, given the likely impact of economic down-turn on planning fees in particular, and the recent fall in interest rates it has been assumed at this stage that all other income streams remain the same in cash terms. That, too, may require further assessment, as impact of interest rate changes becomes clear and the impact of new arrangements for fees for planning compliance visits is assessed in practice together with the potential impact on fees of the extended 'permitted development' rights. However, the overall impact on the budget is unlikely to be significant.

4 Expenditure

- 4.1 Salary budgets have been produced on the basis that all staff not at the top of a salary band will rise one scale point and using the latest estimates for National Insurance and Superannuation contributions. The 2009/10 – 2011/12 salary budgets reflect the new organisational structure following the outcome of the recent re-organisation. As in previous years no vacancy saving has been built in, due to the relatively small size of the Authority these are hard to predict and are often covered by temporary staff and therefore provide little saving.
- 4.2 It is assumed that a new headquarters will come on stream from 2010/11 at a net additional cost of £250,000 per year but with additional removal costs etc of £189,000 in 2010/11.
- 4.3 It is assumed at this stage that spending in 2008/09 will be at budget. That would lead to £1,070,000 of general reserves remaining available to support the future budget (ie after setting aside £400,000 for contingencies, as agreed by members, and assuming the funds in Heritable remain intact). The 2008/09 budget required £462,000 contribution from reserves, leaving them at £1,070,000. The additional income from Housing and Planning Delivery grant may reduce that call, but at this stage it is assumed that this £107,000 will be reinvested during 2008/09, for example on a project to back-scan planning files on a spend to save basis to improve longer-term efficiency in storage and retrieval of information and customer services.
- 4.4 Inflation has been set at 2.5% in all three years. Given the current volatility of markets and prices, this will be reassessed as part of the final stage of the budget-setting process.
- 4.5 Prior to any new bids being received, the forecast shows a net funding requirement of £268,000 in 2009/10, £731,000 in 2010/11 and £986,000

(which is 16% of planned spend) in 2011/12. 2011/12 is likely to represent the longer-term position.

- 4.6 It is suggested as above that it is assumed that Housing and Planning Delivery grant of £107,000 per year continues to be received. If it is not, then it is proposed that the Authority commits to making efficiencies to that extent or else reduces programme spend (not necessarily in the planning area – any of the programme budgets could be involved).
- 4.7 On that basis, the £1.07 million of general balances available will enable the budget to be balanced until 2010/11 with some shortfall in 2011/12 but reaching a full 16% from 2012/13 onwards. Whilst that is long term and the Authority can continue to press for better future grant settlements, it is sensible to consider how to move to a stable long-term position. This may involve further consideration of the balance between staffing and programme costs in the context of additional requirements likely to arrive from the National Park Plan.
- 4.8 One approach to assist with the remaining long-term problem would be to build more flexibility into the budgeting approach for programme spending. The spend of around £1.5 million shares characteristics with capital programme spending in terms of the need to work with others and the likelihood that project timings may not sit easily in the financial year planned. Capital programmes concentrate on specifying projects within an overall programme which is likely to run between years and as a result do typically have much higher proportions of carry forward between years than do revenue budgets.
- 4.9 One way of dealing with that would be to set up a Programme Fund and to support those fluctuating areas of spend through that. The Fund would then become a specified reserve. The budget set would include contributions to the fund. The Authority could then set an annual programme of project-type spend which would be funded from the Programme Fund without any requirement that spend take place in a particular year (though operational requirements and member expectations would determine the timing aimed for). Members would still be able to apportion the projects supported by the fund across the different Directorates and hold Directors accountable for levels of spend and progress on the projects. Such a programme approach would align naturally with more rigorous use of project planning. Such an approach appears to be consistent with the requirements of the Defra's memorandum.
- 4.10 The point of this approach would be to provide the Authority with a safe way to continue to plan project spend at an ambitious level whilst building in the reality that there will be slippage. That would not only provide a potential means of balancing the budget in the long term, but also avoid giving the impression that planned spend has not been achieved. It would also avoid the potential embarrassment of severely reducing spending plans in order to achieve a balanced budget, only then to find that an underspend occurs. Although more flexible, such an approach would not of course solve the problem if long-term spending needs exceed resources available.

- 4.11 Such an approach would lead to an outline budget for 2009/10, using the figures in the Annex, along the lines:

	£000
Total non-programme spend	3,903
Contribution to programme fund	1,630
 Budgeted spend	 5,533

- 4.12 On that basis the Programme Fund could be set up now with up to say £1 million from the available general reserve plus annual contributions. That would have the added advantage of setting out clearly the intended use of the bulk of the current general reserve, ie to enable programme spend to continue at a higher level in future years than future years' budgets are otherwise likely to allow. The use of that money would be monitored by reference to the total commitments entered into compared with the amount available in the Fund, and progress would be monitored by reference to the preferred outcome timings for projects.

- 4.13 **Annex 2** sets out a proposed Financial Strategy derived from the approaches set out above.

5 Recommendations

- 5.1 It is recommended that:

- the 2009/10 budgets be prepared on the basis of the figures shown in **Annex 1**;
- the Authority moves to a system of funding of programme spending through contributions to a specific reserve;
- the Authority approves the Financial Strategy 2009 - 2012 as set out in **Annex 2**.

**New Forest National Park Authority
Expenditure Plans 2008 - 2012**

	2008/09 budget (£000's)	2009/10 (£000's)	2010/11 (£000's)	2011/12 (£000's)
Income				
Defra grant	3,811	4,121	4,240	3,963
Sustainable Development grant	200	200	200	200
Planning delivery grant	107	107	107	107
Natural England	200	200	225	225
Section 54 Income	20	20	20	20
Planning fees	317	317	317	317
Investment and interest	120	100	75	75
Fundraising		200	200	200
Compliance Officer reserve	26			
Sustainable Development Fund reserve	48			
SSSI reserve	100			
TOTAL INCOME	4,949	5,265	5,384	5,107
Expenditure				
Salary costs of providing services in-house				
Planning salary	1,143	1,182	1,223	1,264
Conservation salary	531	584	604	620
Information and Visitor Services salary	312	412	427	443
Salary costs of running the Authority				
Secretariat salary	135	143	150	157
Member Services salary	96	106	112	117
Core salary	403	289	303	315
Salary subtotal	2,620	2,716	2,819	2,916
Internally funded programme				
Planning programme	212	217	222	228
Conservation programme	590	605	620	636
Information and Visitor Services programme	310	318	326	334
Externally funded programme				
Planning programme - HPDG	110	110	110	110
Natural England - SSSI	200	200	225	231
Conservation programme - SDF	180	180	180	180

Programme subtotal	1,602	1,630	1,683	1,719
Secretariat	67	69	70	72
Member Services	77	83	86	94
Core running costs	938	985	968	992
Extra rent (assumed)			439	250
Fundraising spend		50	50	50
Other subtotal	1,082	1,187	1,613	1,458
TOTAL EXPENDITURE	5,304	5,533	6,115	6,093
Underspend/-Shortfall	-355	-268	-731	-986
General Reserve 01.04	1,932	1,470	1,202	471
Proposed transfer to General Reserve Funding from Reserve	-462	-268	-731	-986
General Reserve 31.03 includes minimum reserve 400	1,470	1,202	471	-515
Earmarked Reserves 01.04	470			
Proposed transfer to Earmarked Reserves	-174			
Earmarked Reserves 31.03	296			
% saving needed to avoid call on reserve				-16%

Financial Strategy 2009-12

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

1. The Authority sets a balanced revenue budget, drawing on the General Fund Reserve to meet part of the revenue shortfall.
2. The General Fund Reserve continues to be maintained at a minimum of £0.4 million, the level of which is to be reviewed annually.
3. Use of the general reserve to support the base budget is kept under review in the light of outturn spending trends and future prospects with the intention of ensuring an orderly transition to a budget which balances long-term spending with long-term resources.
4. Income generation opportunities are fully explored through the work of the Income Generation Group.
5. The Authority aims to maximise spend on those staff and projects which directly contribute to the two purposes and 'duty'.
6. Any underspends identified for specific reasons by Directors as part of the end of December budget monitoring process will be carried forward into the relevant budgets for the following year at 100%. Any underspends arising thereafter will be allocated in the first instance to the general reserve, and with an expectation that no more than 50% will be allocated to the relevant budgets for the following year. For 2008/09, the January budget monitoring process will be used to identify specific underspends.
7. Provision is made for the replacement of assets.
8. All expenditure plan bid proposals must demonstrate their link to the Corporate Plan or emerging National Park Plan.
9. All proposals for additional spend 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.
10. 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.
11. The Authority will move from 2009/10 to a system of funding programme spending through contributions to a specific reserve.

Analysis of Directorate Budgets

	2007/08 (£000's)	2008/09 (£000's)	2009/10 (£000's)
Strategy and Planning			
Salary	1044	1,143	1,182
Non-Salary	297	322	327
	1,341	1,465	1,509
Conservation, Recreation and Sustainable Development			
Salary	516 *	531	584
Non-Salary	675 *	970	985
	1,191	1,501	1,569
Information and Visitor Services			
Salary	285 *	312	412
Non-Salary	279 *	310	318
	564	622	730
Secretariat			
Salary	129	136	143
Non-Salary	65	67	69
	194	203	212
Corporate Services			
Salary	385	402	289
Non-Salary	974	938	985
	1,359	1,340	1,274
Members			
Salary	89	96	106
Non-Salary	83	77	83
	172	173	189
Fundraising			
Non-Salary	-	-	50
	4,821	5,304	5,533

* Figures include an apportionment of 'Understanding and Enjoyment' directorate budgets due to restructure in 2007/08.