

CHIEF EXECUTIVE AND CHIEF FINANCE OFFICER

**2. BUDGET 2008/09 (A137/PN)**

**Proposal**

1. This report presents the final budget proposals for 2008/09, after the proposals for achieving a balanced revenue budget were proposed and agreed by the Authority on 7 December and 5 October (Minutes 114/07 and 77 /07 respectively).

**2. RECOMMENDATION:**

**That:**

1. **the base budget for the 2008/09 financial year shown in Annex 1 and 2 be approved.**
2. **the additional allocations proposed in Annex 3, following the announcement of the 2008/09 settlement, be agreed for incorporation into the budget.**
3. **the staffing proposals identified in Annex 4 – extensions to existing posts and proposed new posts - be approved.**

**Policy/Legal Background**

3. The Authority is required to set a balanced revenue budget for the 2008/9 financial year. This year will be the fifth year that National Park Grant has been funded directly at the 100% level from central government, as part of a continuing extension of the original three year trial. During this period the Authority's levying powers remain but are not being used, and our constituent local authorities are not paid corresponding amounts in their own Revenue Support Grants. This report concludes the 2008/09 budget planning process agreed by the Authority in July 2007. Members attended the Strategic Priorities and Finance Workshop in September, and subsequently agreed initial proposals in the October and December meeting, based on a possible 2% or 0% National Park Grant settlement. Following the settlement announcement a briefing note was sent to all Members on the 17<sup>th</sup> December by the Chief Executive, outlining areas in which further proposals would be sought for the allocation of additional funds, and a paper on these further proposals was received by the Strategic Advisory Group on 18<sup>th</sup> January. This paper therefore allows Members the opportunity to approve formally the budget in line with previous committee meetings (Recommendation 1), and seeks further approval to incorporate the additional allocations into the final budget for the 2008/09 financial year (Recommendation 2).

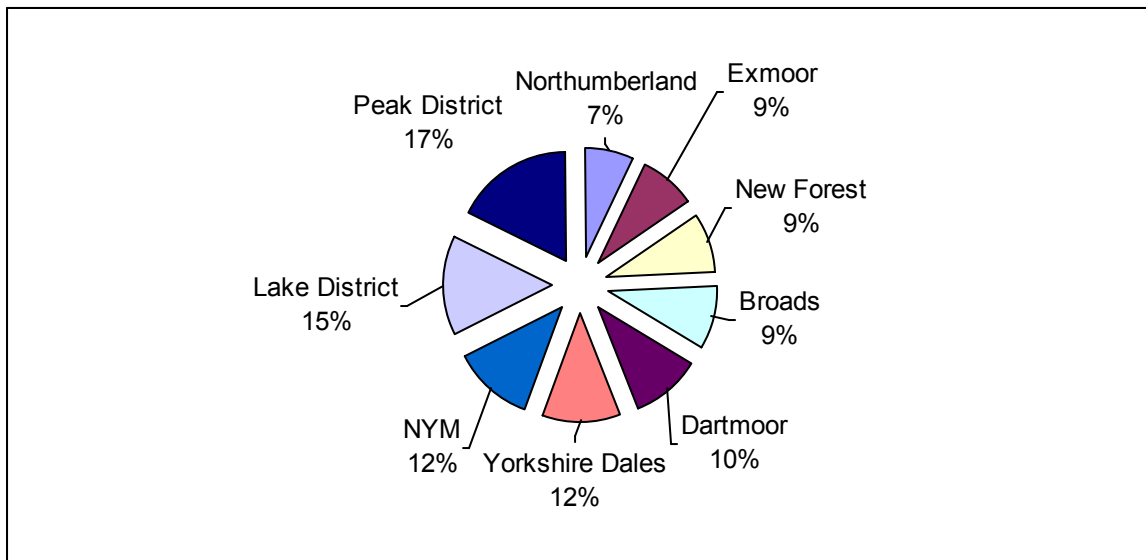
**Key Issues**

The 2008/09 Settlement

4. The final settlement was formally announced by Defra on the 6<sup>th</sup> December 2007 as follows:-

	Grant 2007-08	Grant 2008-09	Increase	
	£	£	%	£
National Park Grant	7,723,294	8,064,281	4.42	340,987
Sustainable Dev Fund	200,000	200,000	0	0
<b>Total</b>	<b>7,923,294</b>	<b>8,264,281</b>	<b>4.3</b>	<b>340,987</b>

5. The % distribution of the total National Park Grant of £46m between English Parks is shown below:-



6. The main points emerging from the Defra settlement letter are as follows:-

- The Minister (Jonathon Shaw) has, despite severe pressures on the Department, attached huge value to the National Parks; has been impressed by the impact National Parks are having across a whole range of important issues; and has listened very carefully to arguments put to him.
- The total grant will be increased by 4.3 % in 2008/09 to match the increase in Revenue Support Grant received by Local Authorities.
- The National Park Grant will increase in years 2009/10 and 2010/11 by a further 2.75% , allowing each Authority to receive an increase in core grant in line with the Treasury's inflation forecasts. These figures represent firm intentions, barring any major new pressures arising.
- The share of National Park Grant each Park receives remains constant over the three years, except for the Broads and New Forest which will receive specific funds targeted towards their needs over that period.

7. The Chair of the Authority responded to this letter on 14<sup>th</sup> December, conveying thanks to Jonathon Shaw for his personal effort and willingness to listen to the National Parks' case, and outlining several major benefits within the Authority achievable as a result. In the first Comprehensive Spending Review of 1998 the government set out an intention for public expenditure plans to move away from the short-termism of the annual cycle towards a three year planning basis. This three year settlement for National Parks, expressed so firmly and at such a time given the difficult public sector funding position, is especially welcome.

#### Special Funding Allocations

8. Several temporary ring-fenced funds are still available. The Authority benefits greatly from these funds, but has always ensured that any expenditure is time limited based on the duration of each funding stream.
9. Defra has confirmed that the Sustainable Development Fund (SDF) Grant is available for another three years at its current cash level (£200,000).

10. The previous Planning Delivery Grant will be replaced with a new increased Housing and Planning Delivery Grant, with allocations determined in Summer 2008 by the Department for Communities and Local Govt. The scheme is moving away from concentration on the efficiency of determining planning applications, which the government believes can be maintained by statutory fee increases, towards the delivery of new housing sites and appropriate core planning strategies to achieve this. National Parks will not benefit therefore from this grant as much as the previous scheme, but still expect to receive some funding. Until the actual allocation is known, a prudent estimate of £50,000 has been incorporated into the budget, based on our likely progress on core planning strategies. This represents half the grant level awarded in 2007-08. Staff resources linked to this grant are fixed term in nature reflecting the uncertainty of future funding from this source.

Financial Planning for 2008/09: Setting a Balanced Budget – Revenue

11. The paper to the 5<sup>th</sup> October Authority meeting specifically addressed in some detail how the Resource Management Team proposed to balance the budget for 2008/09, based on 2 scenarios of National Park Grant level (0% and 2% increase). Recommendation 1 therefore incorporates all the proposals agreed in October under the 2 % scenario, with the additional funds above this (i.e. the further 2.3%) the subject of Recommendation 2, shown in full detail in Annex 3 of this report.
12. A summary of the broad movements in resource allocations as a result is shown below, referenced to the Annexes approved in the October Meeting and Annex 3 of this report – which should be referred to for full details of the items shown. The final column of the table shows that the expenditure proposals in this budget are matched by increases in financing and income, with a small retained contingency, and therefore represent a balanced budget which is recommended to Members.

<b>Changes in Resources planned for 2008/09, £,000 Increase (Decrease)</b>	<b>Annex 3 5<sup>th</sup> October Meeting: corporate assumptions</b>	<b>Annex 1 5<sup>th</sup> October Meeting: 2% scenario</b>	<b>Additional Allocations Annex 3 this meeting</b>	<b>Total increase (Decrease) from 2007/08</b>
Pay award / increments/ superannuation (staff)	204		18	<b>222</b>
Inflation increases – non-pay	28			<b>28</b>
Staff fixed term contract cessation	(20)			<b>(20)</b>
Permanent Staff in priority areas	20	149		<b>169</b>
Temporary Staff in priority areas	(222)	180	30	<b>(12)</b>
Non-pay allocations in priority areas		10	108	<b>118</b>
Unavoidable cost increases	28		20	<b>48</b>
Reductions in services		(5)		<b>(5)</b>
Other adjustments to baseline (e.g. removal of one – off allocations)	(158)			<b>(158)</b>
Contingency	(89)			<b>(89)</b>
Fee estimates; income targets and efficiency savings ( <i>n.b. brackets = increase no brackets = decrease</i> )	109	(83)	33	<b>59</b>
<b>(Surplus) Deficit before financing</b>	<b>(100)</b>	<b>251</b>	<b>209</b>	<b>360</b>
National Park Grant - (increase) decrease	(0)	(155)	(186)	<b>(341)</b>
Interest receipts – (increase) decrease	(40)		17	<b>(23)</b>
<b>(Surplus) Deficit after financing</b>	<b>(140)</b>	<b>96</b>	<b>40</b>	<b>(4)</b>

13. Because Defra have allocated reasonably firm planning figures for 2009/10 and 2010/11, it is possible to allocate resources with greater confidence than has been the case in the past. A project led by the Director Of Corporate Resources will start in February, with the aim of reviewing the Performance Improvement Plan, assessing current performance against National Park Management Plan and Authority outcomes, and agreeing targets and standards in the medium term period up to 2011. The result will be recommendations for actions needed and resources required to support these actions over the three year period up to and including the 2010/11 financial year. It is intended that the Management Team and the Strategic Advisory Group will act as a steering group, with a three year financial plan and strategy agreed by October following a Member workshop in September.

#### Financial Planning for 2008/09: Capital

14. The Chief Finance Officer's report on application of the Prudential Code for Capital Finance is contained in a separate report to this meeting. The authorised limit remains at a relatively low level reflecting the early development of the capital strategy, and continuing work on the Asset Management Plan.
15. Where projects fall below the financial limit requiring committee authority (£100,000) borrowing will only be done on the basis of an agreed business case in accordance with delegated authority, but consistent with the authorised limit /operational boundary set by Members in the above mentioned report. Before the capital strategy is fully in place, and in line with the proposed medium term financial strategy, it is not considered appropriate to incur borrowing costs unless debt repayments can be financed from existing revenue budgets, income, or from savings realised from the investment proposal.

Currently the Authority has 2 approvals for borrowing:-

- Aldern House refurbishment £697,000 (Services Minute 41/05) Loan taken out 31/03/07; financed from savings in leasing Orme Ct; capital outstanding £681,896.
- Vehicle Replacement £350,000 (Services 45/06) Expenditure likely 1<sup>st</sup> quarter of 2008/09; financed from savings in lease payments within existing revenue budget.

It is considered that the only projects for which borrowing may be undertaken in 2008/09, subject to approval, could be:-

- spend-to-save projects where there is a clear value for money advantage in the use of borrowing, and debt repayments are financed from savings
- capital investment at Losehill Hall supported from income in line with a revised business plan to be agreed by Members
- environmental initiatives in Authority buildings
- IT hardware / software
- Vehicle replacement, in line with existing approvals – with possibly a small increase to £400,000 for agreement by Services Committee reflecting additional fleet renewals required in 2008/09
- Stock control system replacement

16. Following accounting convention and the introduction of the prudential code for capital finance all capital expenditure is separated from the revenue budget in Annex 1, and is shown in the capital budget in Annex 2. The only capital items shown in the Revenue Budget are the debt charges and revenue financing of capital expenditure, shown below the total Net Operating Expenditure at the bottom of the page. In future, capital charges reflecting the use by services of capital assets (i.e. depreciation charges) may be allocated to services' budgets in line with standard accounting practice.

#### Financial Planning for 2008/09 – Financial Position - Reserves

17. Clause 25 of Part 2 of the Local Government Act 2003 requires the Chief Finance officer to report to Members, when calculating the net budget requirement, on the level and adequacy of cash reserves. The full level of reserves is reported to Members in the outturn report in June and the financial accounts to the same meeting. The level of cash backed reserves which are not committed funds are carefully managed and the situation for 2008/9 is envisaged to be:-

<u>£,000</u>	<u>At 31/03/07</u>	<u>At 31/03/09</u>
General Reserve	859	216
Capital Reserve	87	440
Specific Reserves	356	230
<b>Total</b>	<b><u>1,302</u></b>	<b><u>886</u></b>

18. The General Reserve is above the minimum recommended level which is 2% of net expenditure (c£160,000). The reserve was increased to take account of the need to make provisions for exceptional minerals costs, which could not be accommodated from within the normal revenue provision in the Legal Services budget. The Resource Management Team continuously appraise the risks surrounding the potential costs of defending the Authority's policy positions on minerals extraction in the Park, and the Authority responds to demands by adjusting its cash reserves, or for more significant exposures, its net revenue expenditure as required. The reserve level above takes account of provisions and expenditure required to meet current cases. The minimum level of reserve (£160,000) is considered to be essential to help mitigate and manage any overspending risks in what is a complex mix of activities within the revenue budget.
19. The Capital Reserve is likely to be increased by the sale of a number of assets identified for disposal as part of the Asset Management Plan approved by the Authority Meeting in May 2006 (Min ref:62/06), with the proviso that individual cases will be approved by Committee during the year. The capital reserve is only available to support capital expenditure. A base level of £50,000 is considered to be an acceptable minimum allowing a small cash reserve for emergency capital expenditure. It is important that use of the reserve is linked to the asset management plan and Capital Strategy.
20. The Specific Reserves are used to support individual service areas and each reserve's objective and planned usage is reported to Services Committee in June. Specific reserves, although earmarked for specific purposes, are available to support any Authority priorities as required.
21. The Chief Finance Officer is of the opinion that these reserves are sufficient providing the risk analysis and budgetary control processes undertaken during the year by the Resource Management team is effective.

### **Resources**

22. The financial, property and human resource implications of the budget are integrated and planned by the Resource Management Team and the budget for 2008/09 includes all relevant matters arising from these plans. Annex 4 lists the posts which the Authority is being asked to establish or extend as part of these budget proposals.

### **Risk Management**

23. Clause 25 of Part 2 of the Local Government Act 2003 also requires the Chief Finance officer to report to Members, when calculating the net budget requirement, to advise on the robustness of the estimates made. Relevant factors include the previous year's outturn; pay & price increases; pension contributions; the revenue impact of capital investment; realistic income assumptions, the internal financial control environment, and audit conclusions. Part of this assurance is gained from the Statement on Internal Control published in the Annual Accounts Statement; the Risk Register reported quarterly to Resource Management Team, the Head of Finance's involvement in all financial planning matters, and other relevant discussions with Management Team.
24. The Authority's reliance on external income targets and estimates always remains a key risk area and as is usual, will need to be carefully monitored by the Budget Monitoring Group during the year. The Authority also needs to be able to respond quickly to any further developments in its minerals planning programme which may add to exposure beyond that already provided for.

25. Taking account of the retention of suitable contingencies within the proposed budget, the cautious approach to assumptions, the current approach to financial planning by the Chief Executive and Directors, and the short term nature of the proposals recommended in Annex 3, the Chief Finance Officer believes that the 2008/09 budget is sufficiently robust and can be recommended as such to Members.

**Human Rights, Equal Opportunities, Health & Safety**

27. There are none arising.

**Consultees**

28. Members urged Management Team earlier in the year to bring forward proposals for addressing workload issues in Planning, Minerals and Legal Services: budget planning for 2008/09 was therefore started earlier than usual to achieve this objective, with recommendations for permanent additional staffing in each of these areas agreed by the Authority in October 2007, following a Strategic Priorities and Finance Workshop in September. Subsequently Members have been closely involved with an update report to the December meeting. Following the settlement announcement in December the Chief Executive notified Members of the settlement and proposals for additional allocations in a briefing note on the 17<sup>th</sup> December, and the Strategic Advisory Group received these proposals on 18<sup>th</sup> January. Service Heads have been involved by their Directors in all stages of the budget preparation process.

**Enclosures**

30. Annex 1 Revenue Budget  
Annex 2 Capital Budget  
Annex 3 Additional Allocations for approval  
Annex 4 Extension and establishment of staff arising from these proposals  
Annex 5 Breakdown of baseline budgets  
Annex 6 Explanation of Annex 1

**List of Background Papers** (not previously published)

31. Briefing Note to members, Management Team and Heads of Service 17/12/07

**Report Author**

32. Philip Naylor

**Publication date**

33. 31 January 2008