AGENDA ITEM No. 7

PEAK DISTRICT NATIONAL PARK AUTHORITY

NATIONAL PARK AUTHORITY MEETING

6 FEBRUARY 2009

CHIEF EXECUTIVE & CHIEF FINANCE OFFICER

PART A

1. BUDGET 2009/10 (A137/PN)

Proposal

1. This report presents the final budget proposals for 2009/10, following three workshops in September, October and November 2008, and a final workshop on the 9th January 2009, during which financial planning and priorities for 2009-10, 2010-11 and 2011-12 were considered.

2. RECOMMENDATION:

That:

1. **the base budget for the 2009/10 financial year shown in Annex 1 and 2 be approved.**

2. **the additional allocations and savings proposed in Annex 3 be agreed for incorporation into the budget.**

3. **the related staffing proposals identified in Annex 4 – extensions and changes to existing posts and proposed new posts - be approved.**

4. **the financial position of the Authority in respect of planning for the following 2010-11 and 2011-12 financial years be noted.**

Policy/Legal Background

3. The Authority is required to set a balanced revenue budget for the 2009/10 financial year. This year will be the sixth 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 year 1 of the three year budget planning process started in Autumn 2008.

Key Issues

The Three Year financial planning process

4. Following agreement of the performance self-assessment statement at Audit and Performance Committee on 12 September, information was gathered in staff and Member workshops on the 25th and 26th September on the performance standard the Authority wanted to reach by March 2012 and the changes needed to reach those standards; external stakeholder views also added to this assessment.

5. In further staff and Member workshops on 9th and 10th October a steer on areas where effort needed to be increased, reduced or sustained was developed. As a result of this steer a number of business cases were commissioned for Member consideration at the finance workshop on 7th November, with Management Team categorising the business cases for impact on outcomes and priority. There was less of a steer on areas for reduction so the Resource Management Team initiated and presented proposals for consideration at the same workshop.

6. At the November workshop Members were presented with relevant financial data and assumptions for our three year planning period. Consensus was gained by those attending the workshop on the top ranking business cases out of the 10 commissioned, consistent with messages in the self-assessment for performance improvement.

   These were in the following order:

   A Implementing Management Information Strategy
   B Climate Change Action Plan
   C Planning Liaison Officer post

7. Support was also given in November for further exploration of the areas for proposed reduction in resources for reporting back to Members on impact on outcomes at a continuation workshop on 9 January 2009. The recommendations in this report incorporate the steer from the January workshop where there was clear majority dissent to proposed areas for reduction and includes substitute proposals for funding the three top ranking business cases.

8. The financial position of the Authority over the three year period was considered and a broad budget framework for the three year period informed the workshops. The following overall conclusions were reached as a result:-

   (a) the need to plan for a 2.8% settlement in 2009/10, a 2.7% settlement in 2010-11 and a 0% settlement in 2011-12.

   (b) the positive impact of the approach in previous years where allocations have been made to priorities on a one-off basis rather than as permanent commitments in the baseline, allowing for flexibility in resource allocation, which as a principle should be continued as far as possible.

   (c) planning over a three year period allows activities where resources are being reduced to be properly managed.

   (d) where a steer has been given through the workshops for maintenance of current activity levels, these areas have been protected e.g. Moors for the Future, Rural development programmes, the Local Development Framework, Planning, Minerals, Cultural Heritage and Conservation.

9. Provision for known significant commitments and prudent planning for potential adverse changes have been allowed for in the assumptions underpinning these budget proposals. The main assumptions are outlined below:-

   (a) whilst the National Parks believe that the government will recognise the continued cost effectiveness of National Parks, nevertheless the outlook for public sector finances is poor and the possibility of a standstill budget in 2011/12 has been considered in contingency planning. The three year plan allows for this eventuality but only on the basis that planned surpluses in 2009/10 and 2010/11 are carried forward to offset a potential impact in 2011/12. This is a temporary solution only, and the impact of a 2011/12 0% settlement will require a permanent reduction in the baseline of some £250,000 in 2012/13. Although a 0% settlement represents a standstill budget in cash terms and therefore a small cut in real terms if inflation remains low, an actual cash cut in National Park Grant in 2010-11 or 2011-12 would require significant restructuring of resources.

(b) The Authority depends on some £2.8m of externally generated income (fees and charges) to balance its revenue budget, principally to maintain its Recreation Mgt and Promoting Understanding outcomes. Services with income targets are expected to increase targets to cope with pay and non-pay inflationary increases in order to maintain margins and stay within established financial objectives. Budgets are set on a prudent basis and speculative income sources are not built into base budgets, with the levels set based on review of actual results and consultation with budget holders. Aggressive income budgets would require higher reserve levels to cope with the potential for greater volatility in actuals. Services which manage to exceed income targets as a result however are expected to plan for appropriate levels of preventative maintenance, using their specific reserves as an important tool in medium-term planning. It is accepted that the poor economic outlook may affect spending levels on demand-led services, and the following considerations were made in reviewing the principal areas of income risk:-

- Losehill Hall. 2009/10 is the second year of the five year business plan. There is some concern over the impact of the economy on this service and there will be close monitoring during the year. The service is able to react to downturns in income to a reasonable extent by reducing its variable costs.
- Visitor Centres. Recent trading has been good with income levels above budget. The budget has been increased to meet inflation costs and the costs of some extra merchandising staffing, but is considered to be a reasonable risk although further budget increases are not considered to be wise.
- Cycle Hire. The financial objective (break-even of direct operational costs) should still be capable of being met by reducing some costs during the year if activity levels fall, but there is no immediate prospect of increasing the current income target.
- Car Park & Concessions. Current receipts are at the level of the budget, with the possibility of deferring some maintenance projects if levels reduce from this level – further increases are not proposed.
- Planning Fees. There is some concern that application fee levels will be about 10% down in 2008-09 compared to 2007-08, and the need to reflect this decline in application fees has been built into the budget – a £50,000 reduction from the 2008-09 level (which is £242,000 including searches).
- Conservation Properties and Joint Ranger agreements These income targets, though significant, are set based on contractual commitments / guarantees and are not strictly demand-led, though they are subject to confirmation in negotiations.
- Moors for the Future The Authority's allocation does not meet the full cost of the staff within the partnership and the business plan is reliant upon other external contracts and agreements for funding the core team and team's activities into the future. The Authority's allocation represents approximately 55% of the direct core staff cost of the team, and this will form the basis of the financial objective for the team which will be reported to the Services Committee shortly.

Income levels will be reviewed as part of analysis of the 2008-9 outturn and will be reported to the Services Committee in the usual June outturn report, together with any changes which might have an impact on the above assumptions.

(c) A small non-pay inflation provision of £30,000 is proposed. Although inflation is forecast to be very low in 2009/10 this provision represents 0.8% of the Authority's overall non-pay expenditure and is therefore precisely targeted largely at unavoidable expenditure increases (e.g. utilities bills, audit fees, licences etc) – it does not offer protection from the effects of inflation for the majority of budgets.

(d) There is a concern that the next actuarial valuation effective from April 2011 will result in an increase in employers' superannuation costs and the impact of this revaluation is anticipated to be in the region of a £100,000 increase in cost which has been built into the assumptions for that year. This increase is consistent with increases in previous years following actuarial revaluations (1998-2000 and 2002-2004).

(e) The current level of permanent staff resource, after income sources are taken into account, is considered to be sustainable over a five year planning horizon assuming National Park Grant levels rise at a similar rate to general inflation, and pay awards are similarly constrained. If income sources are not achieved, staffing levels are reviewed in the relevant services dependant on that income, consistent with the financial objectives set for those services.

(f) Although the Authority has been very successful in attracting sources of external funding for projects it is recognised that the climate for external funding is becoming much more competitive, with partners less able to commit to matched funding over future periods. The proposals safeguard matched funding for the Rural Development and Moors for the Future programmes.

(g) the impact of the Minerals finance plan as reported to the Authority on 3rd October 2008 has been incorporated.

(h) In early planning it was recognised that the Authority needed to reduce its dependence on external interest receipts to balance the revenue budget as the economic situation suggested a gradual decrease in interest rates over a number of years. Following the dramatic circumstances in the last few months of 2008 the assumptions on interest rates have been reviewed further and the target has been reduced from £173,000 in the current year baseline to £60,000. A half percentage movement in interest rates equates to approximately £20,000 p.a. for the Authority.

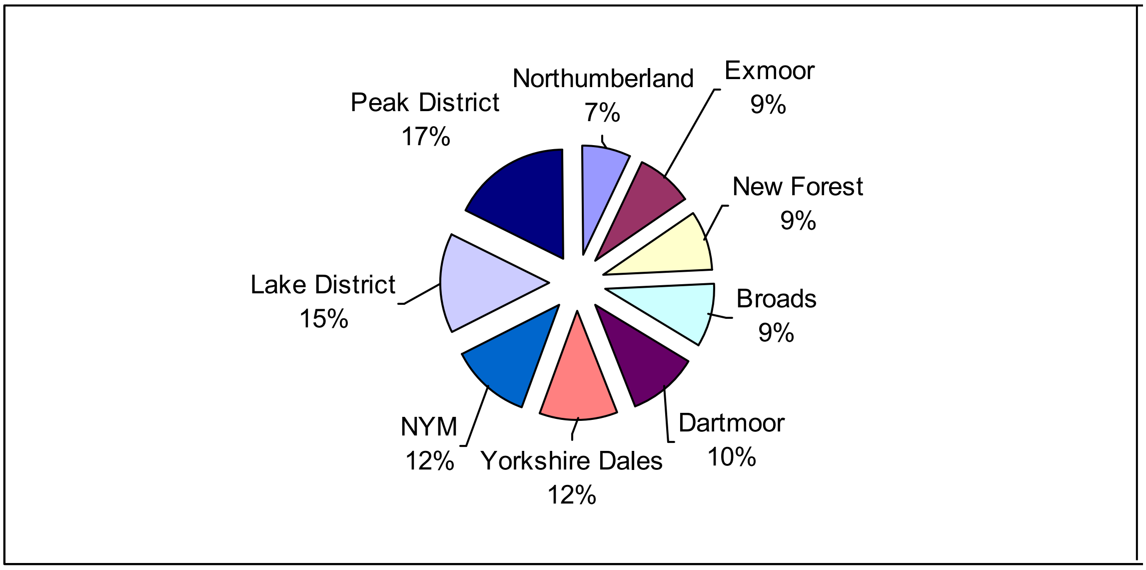
(i) In October 2008 the Resource Management Team approved a revised financial strategy which specifies in fuller detail the objectives and current approach to resource planning, the principal elements of which are reported above.

<u>The 2009/10 Settlement</u>

10. The 2009/10 and 2010/11 settlements were announced at the same time as the 2008/9 settlement, in the letter of the – then - Minister (Jonathon Shaw) dated 6th December 2007. The 2009/10 level was confirmed by Defra by email on 1st December 2008:-

	Grant 2008-09	**Grant 2009-10**	**Increase**	
	£	**£**	**%**	**£**
National Park Grant	8,064,281	8,291,549	2.82	227,268
Sustainable Dev Fund	200,000	200,000	0	0
Total	**8,264,281**	**8,491,549**	**2.75**	**227,268**

11. The % distribution of the total National Park Grant of £47.5m between English Parks is shown below:-



12. The main points emerging from the Defra settlement letter were as follows and are repeated from the previous year:-

- 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 2.9 % in 2009/10.

- The National Park Grant will increase in 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.

13. The three year settlement for National Parks, expressed so firmly and at such a time given the difficult public sector funding position, was especially welcome. The email from John Kilner (National Parks Branch, Defra) confirmed that Defra grant for 2009/10 will be as in the 6th December 2007 letter, although the precise planning position for 2010/11 may be in doubt because of uncertainty over the timing of the next Spending Review period.

<u>Special Funding Allocations</u>

14. 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.

15. Defra has confirmed that the Sustainable Development Fund (SDF) Grant is available for another two years at its current cash level (£200,000).

16. The previous Planning Delivery Grant was replaced with the new Housing and Planning Delivery Grant. National Parks expect to receive some funding from the new Grant and in the current financial year 2008/09 received £116,000. Until the actual allocation is known, a prudent estimate of £85,000 has been incorporated into the budget, based on our likely progress on core planning strategies, together with a final allocation in 2010/11 of £135,000. Some £89,000 of staff resources linked to this grant are fixed term in nature reflecting the uncertainty of future funding from this source, with the remainder of the funding supporting the Local Development Framework budget.

Financial Planning for 2009/10: Setting a Balanced Budget – Revenue

17. A summary of the broad movements in resource allocations over the three year planning period is shown in Table 1 below, the figures in the table reflecting the assumptions before the extra allocations and savings recommended in Annex 3 of this report are incorporated. The final column of the table shows that the planned surpluses arising in 2009/10 and 2010/11 allow for the deficit in 2011/12 to be offset, leaving an overall surplus of £187,000 available for reallocation towards the priority areas identified in Annex 3. The £187,000 varies from the £117,000 surplus previously reported in the January workshop because detailed work on the budget assumptions since the January workshop, primarily in precisely costing the pay budget, have released further savings of £70,000 over the three year period, which help the overall package and enable funding of all three proposed business cases.

18. In Table 2 below the impact of the final proposed allocations and savings in Annex 3 is shown in summary form. The combined effect of these, taking account of the surpluses carried forward in Table 1, is a balanced budget over the three year period, and therefore the Revenue Budget for 2009/10 is recommended to Members for approval.

Table 1

Net Expenditure	**2009/10 £,000**	**2010/11 £,000**	**2011/12 £,000**
Conservation of the Natural Environment	1,215	1,247	1,294
Conservation of the Cultural Heritage	418	429	445
Recreation Mgt & Transport	481	494	513
Promoting Understanding	897	923	957
Rangers, Estate Workers & Volunteers	1,078	1,103	1,144
Development Control	706	688	849
Forward Planning & Communities	721	698	731
Corporate & Democratic Core & Corporate Support Services	2,549	2,601	2,696
Debt Interest and Principal repayment	119	193	200
Revenue financing of Capital	21	21	22
Total Baseline Budget	**8,205**	**8,397**	**8,851**
Financed by:-			
National Park Grant	(8,292)	(8,525)	(8,525)
Interest receipts	(60)	(70)	(88)
Housing Delivery Grant c/f	(80)	-	-
(Surplus) Deficit after financing	**(227)**	**(198)**	**238**

Table 2

(Surplus) Deficit from Table 1 c/f	**(227)**	**(198)**	**238**
Summary of Business Case Proposals (Annex 3)			
1. Implementing Management Information Strategy	106	82	75
2. Climate Change guidance and Mgt	15	35	20
3. Planning Liaison Officer post	27	27	28
Total Business Case funding requirement	**148**	**144**	**123**
Summary of Savings Proposals	**(16)**	**(87)**	**(125)**
Overall Budget (Surplus) Deficit	**(95)**	**(141)**	**236**
(Surplus) Deficit over 3 years			**0**

Financial Planning for 2009/10: Capital

19. The Chief Finance Officer's report on application of the Prudential Code for Capital Finance will be reported to the Authority on March 27th. The Authority has approved a limited use of capital resources to support its Minerals' planning policies, and if this provision is excluded, 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. Until the Minerals' planning issues achieve a degree of resolution there will remain uncertainty over the implementation and financing of the Capital Strategy and this remains an appropriate planning approach.

20. Where projects fall below the financial limit requiring committee authority (£100,000) borrowing would normally 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. During this interim position however it is considered appropriate for all borrowing requests to be brought to Services Committee for approval. As a general principal, before the capital strategy is fully in place, 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 an investment proposal.

Currently the Authority has 3 approvals for borrowing:-

- Aldern House refurbishment £697,000 (Services Minute 41/05) 25 year fixed rate Loan taken out 31/03/07; financed from savings in leasing Orme Ct; capital outstanding as at 31st March 2008 £674,077.

- Vehicle Replacement £500,000 (Services Minute 22/08) Purchase Orders for the replacement of 33 vehicles have been raised, financed from savings in lease payments within the existing revenue budget.

- £250,000 capital investment at Losehill Hall supported from income in line with the revised business plan approved by Members (Services Minute 11/08).

The expenditure for the latter two is likely to be financed from cashflow in the short term, charged to the service at the same rate as the Authority's cost of capital. The Chief Finance Officer's day to day responsibility for Treasury Mgt is set within the constraints of the Treasury Mgt Policy, which will be reported to Members on March 27th.

At this stage it is considered that the only projects for which borrowing may be undertaken in 2009/10, 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
- environmental initiatives in Authority buildings
- IT hardware / software – a proposal underpinning the Information Management Strategy revenue allocations in this report will be considered at the March Services Committee

21. 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, subject to developments in Local Authority accounting, 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, instead of debt financing costs.

Financial Planning for 2009/10 – Financial Position - Reserves

22. 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 2009/10 is envisaged to be:-

£,000	**At 31/03/08**	**At 31/03/10**
General Reserve	1,080	-
Unfinanced Capital expenditure	(372)	-
General Reserve after accounting for unfinanced capital expenditure	708	165
Capital Reserve	87	650
Specific Reserves	421	200
Total	**1,216**	**1,015**

23. The General Reserve is above the minimum recommended level which is 2% of net expenditure (c£165,000). 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 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.

24. 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) and 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 ultimately linked to the asset management plan and Capital Strategy, although in the immediate future it will be used to support the Minerals Finance plan as agreed by the Authority on 3rd October 2008.

25. 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. The reduction in specific reserves arises mainly from planned programme expenditure although there may be some pressure on these reserves if income targets are not met.

26. 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 and Budget Monitoring group remain effective, and that the approach to planning of resources remains prudent in line with the principles outlined in the Financial Strategy.

Resources

27. The financial, property and human resource implications of the budget are integrated and planned by the Resource Management Team and the budget for 2009/10 includes all relevant matters arising from these plans. Annex 4 lists the posts which the Authority is being asked to establish, change or extend as part of these budget proposals. Any impact on existing staff will be handled through the Authority's Managing Change Policy.

Risk Management

28. 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 Annual Governance Statement 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.

29. 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 will also need to take appropriate precautions in its approach to financial planning when the impact of legal cases is known in 2009.

30. Taking account of the retention of short term surpluses within the proposed budget, the cautious approach to assumptions, the current approach to financial planning by Members, the Chief Executive and Directors, and notwithstanding the difficult economic climate, the Chief Finance Officer believes that the 2009/10 budget is sufficiently robust and can be recommended as such to Members.

Human Rights, Equal Opportunities, Health & Safety

31. There are none arising.

Consultees

32. Members and Staff have been involved in a number of workshops leading up to this report as noted in the report. Service Heads have been involved by their Directors in all stages of the budget preparation process.

Enclosures

33. Annex 1 Revenue Budget
Annex 2 Capital Budget
Annex 3 Additional Allocations and Savings for approval
Annex 4 Establishment changes arising from these proposals
Annex 5 Breakdown of baseline budgets
Annex 6 Explanation of Annex 1

List of Background Papers (not previously published)

34. Financial Strategy October 2008

Report Author

35. Philip Naylor

Publication date

36. 29 January 2009