

Report to	Resources and Performance Committee
Date	8 March 2011
By	Chief Finance Officer
Title of Report	Budget 2011/12 and Medium Term Financial Strategy
Purpose of Report	To recommend to the Authority the 2011/12 Budget and note the Medium Term Financial Strategy

Recommendation: That the Committee recommends that the Authority:

- **approves the revenue 2011/12 Budget as detailed in Appendices 1 and 2**
 - **approves the use of revenue reserves as set out in section 4.**
 - **notes the approved capital programme as set out in section 5.**
 - **notes the Medium Term Financial Strategy and resources projections.**
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1. Introduction

- 1.1 This is the first budget the Authority has set for undertaking its full operational responsibilities. It has been prepared in the context of known funding reductions over the period of the Government's Comprehensive Spending Review.

2. Background

- 2.1 This report sets out proposals for:
- Revenue Budget 2011/12;
 - Capital Programme 2011/12 – 2012/13;
 - Revenue and capital reserves; and
 - Medium Term Financial Strategy 2011/12 – 2014/15.
- 2.2 The Authority was established on 1 April 2010. Its first year was a transitional year prior to the Authority assuming its full responsibilities from 1 April 2011. The 2010/11 budget was a transitional budget to cover the initial set up costs such as IT equipment, recruitment and initial project work, running costs such as staffing costs, members' allowances, accommodation, support services and supplies and services.
- 2.3 This 2011/12 budget will therefore be the Authority's first full operational budget and includes new items of expenditure covering service delivery elements. The budget proposals have been developed in accordance with the Budget Framework agreed at the Authority meeting on 17 November 2010 and during workshops held with Resources & Performance Committee Members.
- 2.4 The South Downs National Park Authority (SDNPA) is required to set a balanced budget in accordance with legislation. The basis for revenue expenditure is the pursuit of the 'Special Purposes' for which National Parks were designated under the Environment Act 1997. Section 65 of this Act determines the Special Purposes as conserving and enhancing the natural beauty, wildlife and cultural heritage of National Parks, and for promoting opportunities for the understanding and enjoyment of the Parks by the public. The Authority also has a duty to foster the economic and social well-being of local communities within the National Park.

3 Revenue Budget 2011/12

- 3.1 The 2011/12 Budget is detailed in **Appendix 1** by Directorate and also by expenditure type. **Appendix 2** shows the budget analysis by the functional headings as required by the Chartered Institute of Public Finance and Accountancy (CIPFA) Best Value Accounting Code of Practice and the Defra grant application.

Defra Grant Settlement

- 3.2 The National Park Authority grant settlement has been allocated for the period 2011/12 to 2014/15. Although the 2011/12 allocation is firm the following years are indicative and therefore may change.
- 3.3 In the light of the current economic climate and in common with other National Park Authorities the Authority's settlement will result in a 21.5% cash reduction over the next four years of the Authority's baseline grant of £7.290 million (the 2010/11 allocation).
- 3.4 In addition to the baseline grant the Authority has received an additional allocation from the Department of Communities and Local Government (DCLG), in the form of a transfer to Defra of £4.475million, representing the transfer of legal responsibility for the planning service from individual local authorities in the National Park from 1 April 2011. That allocation is based on the 2009/10 costs of planning activity in the National Park area. It does not provide for increases in costs for development management activity or the additional costs of planning responsibilities for the Authority.
- 3.5 The National Park Grant allocation, which is the largest of all the National Parks is shown in the table below:

	Actual 2010/11 £'000	Actual 2011/12 £'000	Indicative 2012/13 £'000	Indicative 2013/14 £'000	Indicative 2014/15 £'000
Transition/Base	7,290	7,290			
Planning transfer		4,475			
Total grant	7,290	11,765	11,373	10,981	10,589
Less cash reductions		(392)	(392)	(392)	(391)
Final Grant	7,290	11,373	10,981	10,589	10,198

- 3.6 The Authority has adopted a prudent approach to budget setting and has sought to establish a permanent staffing structure and other ongoing revenue costs which reflect the level of indicative funding in 2014/15 of £10.198 million. This approach will ensure that the Authority avoids recruiting to posts that may become unaffordable in the longer term.
- 3.7 This therefore means that the balance of the remaining grant of £1.175 for 2011/12 will be used to support short term projects such as:
- refurbishment works to interim premises;
 - IT and telephony set up costs;
 - interim staffing to complete the transition;
 - the development of the National Parks Management Plan;
 - the last stage of permanent recruitment, staff advertising and training ; and
 - implementation of the new Planning system.

Budget Proposals

The main assumptions underlying the budget are outlined below:

- 3.8 The budget includes a permanent staffing establishment of 83.5 full-time equivalent (fte) posts as follows:
- Chief Executive's Services 2.0 fte
 - Strategy & Partnerships 20.4 fte
 - Planning 19.8 fte
 - Operations 28.8 fte
 - Corporate & Governance (Members Services) 12.5 fte
- 3.9 The budget includes a total of £4.240 million to fund the delegated costs of Development Management and Planning Policy work undertaken by local authorities on behalf of the Park. This budget has been calculated based on a 2009/10 prices and includes a small contingency to cover possible increases in the number of applications. The overall cost of planning (including support services) is significantly greater than the £4.475 million allocation from DCLG and therefore a benchmarking exercise is underway to identify future efficiency savings to reduce the overall costs of planning.
- 3.10 A contingency budget of £0.130 million has been included to cover unforeseen budgetary requirements which may arise during the financial year. Allocation of the contingency will be in accordance with Financial Regulations and Members will be notified as part of the quarterly Budget Monitoring reports if appropriate.
- 3.11 A sum of £0.300 million has been allocated to fund short term projects. Members will consider and prioritise short term projects for development during the year.
- 3.12 In previous years, National Parks have been allocated a separate grant of £0.200 million for the Sustainable Development Fund (SDF). From 2011/12 this fund is no longer separate but is included within the total Defra grant detailed above. However, Defra still expects each National Park to continue to run a SDF grant scheme and this budget assumes that the Authority will operate a SDF scheme at a cost £0.200 million supported by a further £0.200 million for community grants funded from earmarked revenue reserves.
- 3.13 The budget includes a provisional estimate of £0.122 million funding from Natural England and Sussex Wildlife trust to support the maintenance of the South Downs Way and the Healthlands project. Other grant income also includes £0.195 million for the European funded Collabor8 project which is to support developing business partnerships with the aim of reducing the environmental impact in a nationally protected landscape.
- 4. Reserves**
- 4.1 In the current financial climate it is essential that the Authority puts in place appropriate levels of reserves to provide the necessary safety net for risks, unforeseen or other circumstances. Determining the appropriate levels of reserves is not a precise exercise or determined by a formula but must be a professional judgement based on local circumstances including the overall budget size, risks, robustness of budgets and assumptions, other reserves and provisions and the Authority's budget management track record.
- 4.2 The working balance, General Reserve, must last the lifetime of the Authority unless contributions are made from future years' revenue budgets and is based on 5% of expected turnover. The reserves proposals for 2011/12 are set out below.
- 4.3 The 2011/12 Budget includes a budget in the first operational year for small community grants which support community action to deliver local and national Park priorities. These community grants will be funded from earmarked reserves and will complement the Sustainable Development Fund.
- 4.4 Members should note that the forecast reserves at 1 April 2011 represent the forecast financial position as reported at Quarter 3 for 2010/11. The final 1 April 2011 position will

not be known until the completion of the accounts for 2010/11 in June 2011 during which the required level of reserves will be reviewed.

Revenue and Capital Reserves	Forecast at 1 April 2011 £'000	Planned usage in 2011/12 £'000	Balance 31 March 2012 £'000	Purpose
General Revenue Reserve	650		650	Working balance 5% of turnover
Earmarked Revenue Reserves:				
Planning Risk	600		600	Planning inquiries, high cost decisions, appeals
Insurance	50		50	Self insurance fund
Planning Delivery	400		400	Risks of delegation agreements
Community Grants	200	(200)	0	Community projects
Residual Set up costs	370		370	
Repairs & Renewals - Vehicles			60	Replacement of vehicles
Capital Reserves	1,340	(738)	602	Capron House & Vehicles
Total reserves	3,610	(938)	2,672	

5. Capital Programme 2011/12 – 2012/13

5.1 The capital programme for 2011/12 consists of two schemes:

- the purchase and refurbishment of Capron House, approved on 9 December 2010 and 15 February 2011 Authority meetings; and
- the purchase of a fleet of vehicles, approved on 9 December 2010

5.2 The level of capital reserves relates purely to unspent resources carried forward from previous years that has already been earmarked for these specific schemes.

5.3 The table below shows the capital programme for 2011/12 together with the impact in future years. The latest capital re-profiling (taking account of slippage) arising from the 2010/11 capital programme as at Quarter 3 Budget Monitoring is incorporated into the 2011/12 programme and will be finalised when the capital accounts are closed in May 2011. The re-profiling is funded from resources carried forward from earlier years.

Capital Programme	Approved Payments 2010/11 £'000	Profiled Payments 2011/12 £'000	Profiled Payments 2012/13 £'000	Total £'000
Approved Capital Expenditure:				
Capron House	800	670	602	2,072
Vehicles	208	68		276
Financed by:				
Capital Reserves		738	602	1,340

6. Medium Term Financial Strategy 2011/12 – 2014/15

- 6.1 The Medium Term Financial Strategy is set out in **Appendix 3**. This shows the projected income and spending projections for 2011/12 to 2014/15. The financial projections show the reduction in Defra grant of £1.175 million over the 4 year period. The revenue principles set out in the strategy underpin the approach to budget setting and support the Authority in maintaining financial stability over the period
- 6.2 All the projections are based on the best information currently available, however, in the current financial climate there is some uncertainty. The main risks for 2011/12 are in relation to the following:
- Planning – The budget transfer for planning has been calculated at a time when the numbers of planning applications are low compared to previous years. If the number of applications increase significantly the Authority's costs will increase. This risk is partly mitigated by the planning delivery reserve and also because income from planning fees would also increase offering some compensation.
 - Delivery of priorities in National Park Management Plan – It is difficult to assess at this stage whether sufficient funding has been allocated to deliver fully the priorities of the National Park Management Plan. This will need to be reviewed as part of the annual budget strategy.

7 Report of the Chief Finance Officer under Section 25 of the Local Government Act 2003

- 7.1 Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of the estimates included in the budget and the adequacy of the proposed financial reserves.

Robustness of Estimates

- 7.2 There is inevitably an element of judgement as budget estimates of spending and income are made at a point in time and may change as circumstances change. This budget reflects the first operational year of the Authority and has been developed based on known costs arising from the transitional year including those costs transferring from the South Downs Joint Committee and also from estimates provided by officers. Other factors taken into account in determining the budget requirement include pension and national insurance contributions, income assumptions, pay and price increases and further transitional costs.
- 7.3 The level of development management activity is the most difficult to predict and has a high impact on the Authority's overall financial position. The Development Management Agreements with local planning authorities seek to contain costs within an agreed threshold of variances in numbers of planning applications and only pay for the marginal additional costs in activity above these thresholds. In addition there will be further fee income to offset additional costs if application numbers rise. However in 2011/12 there are limits on the scope that the Authority has to contain these costs given the funding commitments given to the local planning authorities. The planning delivery reserve is therefore designed to mitigate this risk in the short term. In the longer term efficiency savings will be required to offset any growth that cannot be covered by fee increases.
- 7.4 The budget includes a contingency of £0.130 million to provide for any unforeseen budget anomalies and also a short term projects fund of £0.300 million.
- 7.5 In relation to the budget estimates the Chief Finance Officer has examined the budget proposals and believes they are sufficient and robust.

Adequacy of Reserves

- 7.6 The recommendation on the prudent level of working balance has been based on the robustness of estimates information and a risk assessment of the budget.
- 7.7 The earmarked reserves cover a range of areas some of which relate to the risks of establishing a new organisation and are therefore required for the short term. The level of these reserves will be fully reviewed as part of the closure of the 2010/11 accounts.

Earmarked reserves in relation to the Self insurance fund and Planning Inquiries provide resources for unexpected expenditure that cannot be funded within the base budget in any particular year.

8 Resources

8.1 These are contained in the main body of this report.

9 Risk Management

9.1 There are risks associated with the assumptions underlying the budget, particularly because 2010/11 is a transitional year of the Authority and so does not fully represent spending in 2011/12. These risks have been taken into consideration in developing the revised budget and planned levels of reserves. The ongoing budget monitoring process should help to ensure that significant issues are identified promptly and reported as necessary to this Committee.

9.2 A risk and opportunity matrix for the medium term financial strategy is included as **Appendix 4**.

10 Human Rights, Equalities, Health and Safety

10.1 There are no implications arising from this report.

11 External Consultees

11.1 None.

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Appendices

1. Revenue Budget 2011/12 – Analysis by Directorate & Expenditure Type
2. Revenue Budget 2011/12 – Analysed by CIPFA Best Value Accounting Code of Practice functions
3. Medium Term Financial Strategy 2011/12 to 2014/15
4. Risk and Opportunities affecting 2011/12 to 2014/15

SDNPA Consultees

Chief Executive Officer, Director of Corporate Services, Chief Finance Officer, Monitoring Officer.

REVENUE BUDGET 2011/12 – ANALYSIS BY DIRECTORATE

	Expenditure £	Income £	Total £	Description of Service
Chief Executive's Service	187,000	0	187,000	National Park Officer/ Chief Executive, support to Chair of the Authority and senior managers
Strategy & Partnerships	2,191,540	194,820	1,996,720	Work on the Management Plan. external funding, grants and communications
Planning	5,816,360	1,179,360	4,637,000	Development management (planning applications) and planning policies
Operations	1,499,770	122,300	1,377,470	Rangers service, liaison with land managers and communities, volunteer co-ordination
Governance	279,750	0	279,750	Support to the Authority and its committees, members services
Corporate Services				
Human Resources	365,610	0	365,610	Recruitment, training and development, support to managers
ICT	498,150	0	498,150	Provision of information technology services across all offices
Property	498,500	0	498,500	Provision of interim offices and area offices
Legal	100,000	0	100,000	Legal advice
Finance & Audit	252,740	0	252,740	Financial management, payroll, creditor payments, internal audit, banking, etc.
Other	575,190	25,000	550,190	Performance and Business planning, external audit, insurance. other Authoritywide budgets
Total Corporate Services	2,290,190	25,000	2,265,190	
Corporate Items				
Contingency	130,000	0	130,000	Unallocated – available for unforeseen events
SDF & Community Grants	400,000	0	400,000	Grant funding to be allocated in 2011/12
Short Term Projects	300,000	0	300,000	Support to one-off programmes which support the Authority's purposes and duty
Total Corporate Items	830,000	0	830,000	
National Park Grant	0	11,373,130	11,373,130	
Sub Total	13,094,610	12,894,610	200,000	
Contribution From Reserves	0	200,000	(200,000)	
Grand Total	13,094,610	13,094,610	0	

REVENUE BUDGET 2011/12 – ANALYSIS BY EXPENDITURE TYPE

	Budget 2011/12 £
EXPENDITURE:	
Direct Employees	3,672,840
Indirect Employees	372,800
Premises Related	505,870
Transport	205,610
Supplies & Services	3,003,000
Third Party Payments	5,159,490
Contingency	130,000
Total Expenditure	13,094,610
INCOME:	
National Park Grant	11,373,130
Other Grants	317,120
Planning Fees Income	1,179,360
Investment Interest	25,000
Total Income	12,894,610
Sub Total	200,000
Less Contribution from Reserves	(200,000)
Grand Total	0

Note: The 2010/11 Budget is not included in this table as it represented the transitional set up year and therefore does not provide a meaningful comparison with the 2011/12 budget for first year of operation.

REVENUE BUDGET 2011/12 – ANALYSED BY CIPFA BEST VALUE ACCOUNTING CODE OF PRACTICE AND THE DEFRA GRANT MEMORANDUM FUNCTIONS

Functional Area	Expenditure £	Income £	Net Budget £
Conservation of the Natural Environment	562,044	31,000	531,044
Conservation of the Cultural Heritage	188,025	0	188,025
Recreation, Management & Transport	687,095	91,300	595,795
Promoting Understanding	757,630	0	757,630
Rangers, Estates & Volunteers	2,063,712	0	2,063,712
Development Control	4,953,986	1,179,360	3,774,626
Forward Planning & Communities	3,130,619	194,820	2,935,799
Corporate & Democratic Core	621,499	0	621,499
Contingency	130,000	0	130,000
Net Cost of Services	13,094,610	1,496,480	11,598,130
Corporate Income and Expenditure			
Contribution from Reserves			(200,000)
Investment Interest			(25,000)
Net Operating Expenditure / Amount to be met from Government Grants			11,373,130
National Park Grants			(11,373,130)
BUDGETED SURPLUS / DEFICIT FOR THE YEAR			0

Note: The 2010/11 Budget is not included in this table as it represented the transitional set up year and therefore does not provide a meaningful comparison with the 2011/12 budget for first year of operation.

MEDIUM TERM FINANCIAL STRATEGY 2011/12 TO 2014/15

The Medium Term Financial Strategy has been developed in line with the approved Budget Framework. The Authority's financial planning has been directed in accordance with the agreed "Guiding Principles" whereby resource allocation has taken into account the following:

- Being a lean efficient organisation (e.g. willing to buy in services)
- Working with others – stakeholders and partners.
- Using limited contributions to activities to encourage and lever greater contributions from others.
- The need for clear outcomes / SMART outcomes
- Maintaining flexibility (e.g. able to change quickly if circumstances alter)

The following rules which promote best practice and comply with relevant financial standards and legislation have been applied. The Authority:

- Must set a balanced budget and maintain adequate reserves
- Should avoid aspirations or commitments which are ultimately unaffordable and avoid making ongoing commitments unless they are essential
- Will seek to secure efficiency gains and improvements in value for money
- Will seek to maximise income taking into account any related additional costs
- Will not incorporate contingencies into individual budgets but will retain an overall contingency corporately because of the risks

The assumptions underpinning the strategy are:

1. Increases of between 2 and 3% per annum to fund increments and pay awards
2. Pension and National Insurance contributions are assumed at 20% and 9.1% per annum respectively.
3. Inflation of 2.5% has been applied to transport and premises costs.
4. Inflation of 2.5% for supplies & services is offset by efficiency savings of 2.5%.
5. Delegated Development Management and planning policy budgets are assumed to achieve efficiency savings of £0.481m by 2014/15
6. Reductions in National Park Grant are in line with the settlement as detailed in the report
7. The Government is currently consulting on proposals to set planning fees locally rather than nationally from October 2011. The response has been delayed and the new fee Regulations are not now expected until May 2011 which is likely to lead to the introduction of locally set fees from April 2012. The strategy currently assumes no increase in planning fees and will be revised following the outcome of the consultation.
8. The strategy excludes the breakeven income and expenditure associated with the European funded Collabor8 project from 2012/13.
9. Although it is likely that the Authority will utilise the Planning Delivery and Residual Set up Costs reserves by 2014/15 it is unknown at this stage in which years the expenditure will be required and therefore they are excluded from the table above.

As the Authority is still in its transitional year, with 2011/12 being the first full operational year the MTFS shown below only provides high level summary information. Although the Authority has set the operational budget in the context of known funding reductions it is likely that as the organisation develops and produces its Management Plan priorities may change which will need addressing in the budget. The high level summary information and associated assumptions are shown below:

	Budget			
	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
EXPENDITURE:				
Employees (Direct only)	3,673	3,749	3,799	3,913
Third Party Payments	5,160	4,853	4,645	4,590
SDF & Community Grants	400	400	350	200
Contingency	130	130	130	130
Other costs	3,732	3,176	2,992	2,691
Total Expenditure	13,095	12,308	11,916	11,524
INCOME:				
National Park Grant	11,373	10,981	10,589	10,198
Planning Income	1,180	1,180	1,180	1,179
Other Income inc grants	342	147	147	147
Total Income	12,895	12,308	11,916	11,524
Net Budget	200	0	0	0
Contributions from reserves	(200)			
Grand Total	0	0	0	0

POTENTIAL RISKS AND OPPORTUNITIES AFFECTING 2011/12 to 2014/15

Risk	Likelihood of Occurrence (L)	Impact (I)	Risk (L) x (I)	Possible Impact of Financial Strategy	Mitigation / Management
Increase in numbers of Planning Applications resulting in increased costs of delegation	4	3	12	Would result in the use of the Planning Delivery reserve.	Effective monitoring of numbers and costs and benchmarking to assist in reducing future costs
Local Authorities choose not to continue with S101 agreements from 2012/13	3	3	9	May result in the use of the Planning Delivery reserve.	S101 agreements require 1 year's notice for termination allowing sufficient time to plan for new arrangements.
Unbudgeted priorities are identified during the development of the Management Plan	3	2	6	Short term projects fund should enable the Authority to fund immediate priorities.	Priorities would need to be built into future years' budgets.
Unforeseen budgetary requirements arise during the year	3	2	6	The 2011/12 budget includes a contingency of £0.130 million to fund such items. Any items above this amount would need to be funded from compensating savings.	Close monitoring and forecasting of all budgets will assist in identifying such items and compensating savings.
Defra grant is reduced from Indicative allocations from 2012/13	2	3	6	This would create a pressure on the Authority's budget and compensating savings would need to be found	The MTFS is reviewed on an annual basis
Investment rates lower than anticipated	1	1	1	Minimal impact but would need to identify further savings	Keep investment strategy under review
General inflation higher than 2.5% assumed	3	2	6	Would reduce resources within budgets creating the need to identify savings	Monitor inflation rates and impact on any contract costs closely
Cost overruns occur on schemes agreed in the capital programme	2	2	4	Reserves or other capital resources redirected to fund overspend	Effective cost control and monitoring

Likelihood:

- | | |
|---|-------------------|
| 1 | Almost impossible |
| 2 | Unlikely |
| 3 | Possible |
| 4 | Likely |
| 5 | Almost certain |

Impact:

- | | |
|---|---------------|
| 1 | Insignificant |
| 2 | Minor |
| 3 | Moderate |
| 4 | Major |
| 5 | Catastrophic |

Risk:

- | | |
|--------|-------------|
| 1 -3 | Low |
| 4-7 | Moderate |
| 8-14 | Significant |
| 15 -25 | High |