

**CABINET 6 AUGUST 2003****FINANCIAL STRATEGY 2004/07****PORTFOLIO : FINANCE AND  
SUPPORT/ALL****1. INTRODUCTION**

- 1.1 Due to this years election many Members will be considering the Financial Strategy for the first time. The following is therefore intended to give some general background in order to give the document some context.
- 1.2 The Cabinet and Council consider the Financial Strategy every year, in the summer, before the start of the budget process. This should therefore provide a clear framework for Members to consider expenditure plan and budget proposals. The Financial Strategy is a medium term document that sets out what the Council is attempting to achieve, in financial terms, over the next four years. The strategy is updated annually on a rolling basis to ensure that it remains live to the current issues that are facing the Council. Although the Strategy is considered by the Cabinet in the first instance, the recommendations of the Cabinet are then put to Council and it is they who approve the Strategy.
- 1.3 The Strategy covers General Fund (revenue and capital) activities only. The Housing Revenue Account is the subject of a separate Business Plan and detailed budget that is considered at a later date. However it is possible that decisions taken as part of the Financial Strategy could have an impact on the Housing Revenue Account because of the overlap in certain areas such as support services.
- 1.4 It seems to be a regular element of the Financial Strategy that the future is a little uncertain due to changes at both a national and local level. This year is no exception. The Council will need to consider a number of significant issues in the near future that could have significant impact on the Council's level of resources. Issues such as second homes, the National Park, Government funding levels, and pension increases to name but a few.
- 1.5 The Council has developed four key priorities as part of the evolution of the Heart of the Forest. One of these is strong financial management. If the Council sees this as a key priority then it does need to ensure that the Financial Strategy is robust as this must be the backcloth to all financial management within the organisation. This document is intended to set out a clear view of the strategic financial direction of the Council and its resources to facilitate achieving other corporate priorities.

**2. PERFORMANCE MANAGEMENT FRAMEWORK**

- 2.1 The Cabinet considered a suite of papers in April that were subsequently ratified by Council that established a strategic framework within which the Council should operate. The suite of papers was given the collective title 'Joining Things Up Through Performance Management' and included four papers covering Sustainability, The Heart of the Forest – The Corporate Plan, and a Review of Performance Management and Service Planning.

- 2.2 Although covering a number of areas the proposals were considered as a package thereby ensuring that the Council adopted a co-ordinated and structured approach to improving overall performance. Whilst not wishing to replicate the contents of the reports, one key message is worth repeating – ‘It is essential for local authorities to set objectives and priorities, to turn policy decisions into actions, to allocate resources as efficiently as possible to achieve those objectives’.
- 2.2 In terms of financial planning the process should strengthen the role of this Strategy by linking to service planning with budget setting and by considering four-year budget parcels to enable greater alignment of service planning, resource allocation and priority setting. This latter point is considered in more detail later in this report.

### 3. CURRENT FINANCIAL POSITION

#### 3.1 Local Issues

3.1.1 The actual under-spend for the year, subject to audit, was £342,000 compared to a gross General Fund budget of £52M. This is less than in previous years and is at the sort of level that would be acceptable be it either positive or negative. Members are reminded however that the Council’s revenue budgets have been further tightened this year with the requirement that all services absorb inflation on their supplies and services budgets, an increase in the expected level of staff turnover and a more focussed training budget provision.

3.1.2 In addition there have also been a number of variations that have already been identified in the current year for which no budgetary provision has been made.

3.1.3 **Insurance Renewals** – The Council’s insurance portfolio went out to tender this year. Elsewhere on this Agenda is a summary outlining the outcome of that process. In spite of making additional budgetary provision with the expenditure plan process it has been necessary to increase this sum by a further £68k in light of the final tender bids.

3.1.4 **Pay and Reward Strategy** – Provision was made for an incremental introduction of the pay and reward strategy. During further negotiations with employee side representatives principle was agreed to accelerate the process. This requires additional funding in the earlier years than had originally been made and therefore a further £120k has been added to the figures for 04/05. It should however be noted that final agreement has not been reached on the latest package of proposals.

3.1.5 **Traffic Management** – The traffic management scheme will be fully operational for the year commencing April 04 and therefore provision has been made for net income in the sum of £500k.

3.1.6 **Local Authority Social Housing Grant** – One of the Council's key priorities is Housing. As a result the Council has continued to proceed with schemes that were already in the programme for the current year. Although the Council will not get grant back as it otherwise would have done it may well receive transitional grant that will cover the loss of interest that the Council would otherwise have received. There is now a possibility that the Council could continue to receive transitional relief for three years.

3.1.7 **Land Charges Income** – The housing market has seen a significant decline over the last six months. If current activity levels continue then the Council could receive £140k less income than had originally been projected. Base rates have recently been cut and although it is unlikely to lead to a return of the level of house sales seen in recent years it should stimulate the market from the current stagnant position. As a result provision of £100k reduction in income has been made.

## 3.2 **Macro Issues**

### 3.2.1 **Government Grant**

The Government undertook a major spending review last year, the basis of which will remain fundamentally unchanged for the next two years. As a result of this review there was a redistribution of Government support from local authorities in the South-East to those in the Midlands and North-East. For some the reduction in support was negated by population changes but this was not the case at New Forest.

3.2.2 As part of this review the Government changed the 'much-loved' standard spending assessment with a new formula that fundamentally worked in the same way as the old formula. The main difference it was claimed was that the new assessment was intended to give greater reality to the costs of providing a standard level of service across the country.

3.2.3 As a result of this the Government's assessment of the level of expenditure that this Council should be incurring is over £22m and as a result the level on income the Council should be raising from tax-payers is almost £13m with a tax level of £185. This compares to the actual budget of £19m and a tax level of just under £125.

3.2.4 Although of little comfort the Government does recognise the level of resources required to provide quality services to the community and this assessment demonstrates the pressure the Council faces when trying to maintain service levels and keep tax increases at acceptable levels. Added to this picture is the gearing ratio that as members will recall means that for every 1% increase in expenditure results in a 2% in the level of the council tax.

3.2.5 The Government operates a 'floors and ceilings' approach to shifts in Government support. The basic principle being that councils that are detrimentally affected do not feel the impact in one year ie it is phased in. In order to fund this, the Government also introduced ceilings, which restrict the gains of those whom have benefited.

3.2.6 New Forest is at the floor and received the minimum 3% increase in external support last year, and even this was clouded by changes to the way in which benefits grant was distributed. As far as future impacts are concerned the Council will continue to be at the floor for the period of this financial strategy. Therefore the Council is reliant upon the Government ensuring that it provides a reasonable floor increase. No commitment has been made on this point save for the fact that officers have been told that it will not be less than zero.

3.2.7 For the financial projections included as an Appendix to this report an increase of 1.5% has been assumed.

### 3.3 Inflation

Fortunately inflation appears to have returned to a relatively stable position following some uncertainty earlier this year. Medium term forecasts are not expected to see significant changes to this pattern in the foreseeable future. The headline rate of inflation for June was just under 2.9% and provision has been made in the projections for inflation of 2.5%.

3.4 Whilst general inflation is an important issue for the Council what has greater impact on its finances is pay inflation. The following schedule shows what provision has been made for pay settlements over the last few years.

2003/04	3.5%
2002/03	3.5%
2001/02	3.5%
2000/01	3.0%

In addition to the annual pay award a further 1% provision is made in respect of incremental increases.

### 3.4 Expenditure Plan Pay awards

The two-year pay agreement expires this year and therefore there is some uncertainty over the level of the settlement that will be negotiated in April of next year. Although there is a local negotiation process the settlement is likely to follow the national settlement. Provision of 3% plus increments has been made in the projections included within Appendix 1.

### 3.5 Superannuation

3.5.1 Due to changes in Government funding requirements and low investment returns local authorities have seen significant increases in the contributions in the level of contributions that they have to make to the pension fund.

3.5.2 Hampshire's Fund is due for an actuarial review in 2004 with the impact of this feeding into the contributions for 2005/06. Authorities currently make contributions, which equate to 12.9% of the employees salary. The worst-case scenario could be lead to a rate of 8%, an additional cost to the General Fund of around £600k.

### **3.6 Interest rates**

A verbal update will be given at the meeting.

### **3.7 National Park**

The impact that the National Park will have on the Council's finances is still unclear. Officers are working up proposals to provide the Development Control function on an Agency basis but in addition the Council's Formula Spending Share will vary because of the National Park will receive grant funding direct from the Government. Having reviewed the level of support that other national parks receive the position requires some clarity. A more detailed report will be presented to Members when the position has a degree of certainty.

- # 3.8 Whilst many of the above items of expenditure are provisional at this stage, Appendix 1 seeks to demonstrate what the overall impact of those items will have on the financial position of the Council during the period covered by the Financial Strategy.

## **4. OTHER FINANCIAL ISSUES**

### **4.1 Council Tax Income from Second Homes**

4.1.1 The Local Government Bill is currently being debated within the Parliament. There is currently some doubt that assent will be received before the summer recess and whether there will be sufficient time to draft the regulations in order for them to be enacted by April 2004.

4.1.2 Part of the Bill is proposing changes to the discounts that Billing Authorities allow on second homes. There are a significant number of second homes within the District and the potential additional that could be raised is significant. Any income derived from reducing the discount on second homes will need to be distributed proportionately to the tax base of the precepting bodies. This means that the vast majority of the income raised will pass to the County and Police Authority.

4.1.3 Officers from this Council and the County Council are currently attempting to draft a protocol for all Hampshire Districts that will see the vast majority of the income retained within the community from where it was raised albeit through the local strategic partnership. A further report will be brought to Members in the near future on this issue.

4.1.4 The number of second homes within the District has a significant impact on the availability and cost of homes for residents. Furthermore Housing is a key priority for the Council and therefore it is recommended that this issue should figure very prominently in the allocation of any resources derived from second homes.

### **4.3 Prudential Code of Borrowing**

4.3.1 The Local Government Bill proposed that the current controls on local authority borrowing (enshrined within the Local Government and Housing Act 1989) should be abolished and replaced by a

Prudential Code that if followed will ensure that future borrowings are 'affordable'. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a draft code in March of this year and is due to issue the final code in September.

4.3.2 In short the new proposals will allow local authorities to borrow for capital purposes, without restriction, as long as those authorities are able to demonstrate that they are doing so prudently. The demonstration of prudence is achieved by the compliance with a number of indicators covering the following issues:-

- Affordability
- Prudence
- Capital expenditure
- External Debt
- Treasury Management

4.3.3 As with second homes there is some doubt whether the new regime will be in place for the next financial year but it is an issue that the Council would need to consider seriously once the code has been issued. The issue of affordability will be crucial as the Council would need to be able to demonstrate the impact of any programme on ratios of financing costs to net revenue streams, and the impact of investment decisions on council tax levels.

4.3.4 The Council has a funded capital programme that will be revisited as part of the budget process and Members will need to consider the new Code as part of its approach to developing the Capital Programme for the future.

#### **4.4. Double Taxation**

4.4.1 Within the Rural White Paper, 'Our Countryside: The Future. A fair deal for Rural England', which was published in November 2000 the Government set out proposals that sought to give parish and town councils an improved role in improving the quality of life of people within their local communities. This has recently been followed by a guide that has been issued by the Office of the Deputy Prime Minister, the Countryside Agency, and the Department for Environment Food and Rural Affairs. A major thrust of the proposals was an expectation that the Government expect principal local authorities and local councils to work together to provide effective local government for local people.

4.4.2 Whilst not wishing to replicate the contents of the Guide one element that could impact on the Financial Strategy is the issue of double taxation. The purpose behind this element of the guide is ensure that residents do not have to pay twice for the provision of one service where that service is provided by the town or parish council.

4.4.3 An example of this would be the provision of public conveniences. If a parish council provides public conveniences residents will fund the cost of that provision through the parish precept but will also make a contribution to the District Council for all of the public conveniences provided elsewhere in the District.

4.4.4 This issue will be the subject of a further more detailed report but it is highlighted at this juncture because of the potential impact it could have on the incidence of council tax. The introduction of special expenses (the mechanism that will avoid double taxation) will not affect the overall costs of the council but will shift the tax burden between areas.

## **5. LINKING RESOURCE PLANNING WITH CORPORATE PRIORITIES**

- 5.1 In order for any organisation to be able to demonstrate that it is clear about its priorities it must be able to demonstrate that as a result of having identified those priorities it allocates the necessary resources to it in order to achieve the strategic objectives in that area. Whilst accepting that not all objectives necessarily have a financial implication or that the resources required are proportionate to the objective there are clear linkages between resources and outcomes.
- 5.2 One of the comments from the consultation process that was undertaken on the Heart of the Forest was that it did not identify the main priorities of the Council and that everything the Council provided could be covered by the corporate plan. The implication being that if everything we do is a priority, in reality nothing is a priority. As a result four key priorities have been identified. As mentioned earlier in this report the Council has already taken steps to allocate resources to one of these priorities, housing, by continuing with programme in spite of the removal of central government support.
- 5.3 One way of bringing closing linkages between the setting of corporate priorities and the allocation of resources would be through the use of budget parcels. Budget parcels effectively set out the level of resources that services would receive during the period that the financial strategy covered. The level of detail or financial constraints that are applied would be determined by how flexible the organisation would wish to apply such an approach. Such an approach needs to be closely linked with service planning and the setting of objectives and targets.
- 5.4 There are concerns that using such an approach could lead to employees becoming de-motivated in those services where resources are reduced in real terms. This is a real and valid concern and therefore it is suggested that a far less confrontational approach be adopted at least in the short term.
- 5.5 A step in the direction of targeting resources would be for the Council to adopt one or more of the following approaches to the budget process:-

Expenditure plan bids be considered favourably where it is clear that either of the following conditions apply:-

- Additional budgetary provision is required for one of the four key priorities (even though a key priority area does not imply automatic success and a clear case would still need to be made). This could be linked to a requirement to meet other corporate aims and objectives.

- The bid is as a direct result of a statutory requirement (all options would need to be considered and evaluated)
- There is a clear pay-back period that makes the investment suitable for invest-to-save considerations

5.6 It is believed that there could be opportunities of attracting additional resources to the Council that are currently not being fully utilised. Although the Council will not score highly on grant funding that is linked to factors of deprivation all employees are to be encouraged to investigate external sources of income generation to assist the Council achieving its corporate objectives.

5.7 It would not be too restrictive to not allow bids from areas that are not key priorities but these would need to be considered in light of the resources available. This is only a very small step towards aligning resources with priorities. As part of this forthcoming budget process further proposals will be brought forward that could take the Council further down this incremental path.

## **6. GENERAL FUND BALANCE**

6.1 The Financial Strategy that was agreed this time last year set out that the General Fund balance should not fall below 10% of net General Fund Revenue Expenditure. The balance currently exceeds this level and is in excess of £2m. In light of the monitoring processes that are in place and previous outturn levels Members may be minded to slightly amend this part of the strategy and cap the level of the Balance at £2m. The rationale behind this is that risk of the Council needing to draw on a balance in excess of £2m are so low that this level is deemed prudent in light of the Councils activities.

## **7. CAPITAL STRATEGY**

7.1 Elsewhere on this Agenda is the Councils updated Capital Strategy and Asset Management Plan for Members consideration and approval. It is not intended to replicate the details of those documents here. They should however be used as the framework when Members consider the Capital Programme as part of the forthcoming budgetary process.

## **8. BUDGET CONSULTATION**

8.1 There are differing views over the need and benefit of public consultation over the proposed budget. There are a number of examples where Councils have received responses that resulted in low tax increases and as a result required those councils to make significant service cuts.

8.3 If New Forest was to consider some form of budget consultation the process would need to be well managed and thought through. The County Council are about to embark on a process of engaging the community over budget issues. Rather than simply sending out a questionnaire they are using focus groups in the first instance and then consulting in a structured way on the outcomes of those groups. This intended to ensure that the responses that they then receive are informed ones.



8.3 The Council need to consider whether they believe that engaging the community in the budget process is of any benefit before resources are committed to it. In light of the process being undertaken by the County Council and the new framework adopted by New Forest to align priorities and resources it is suggested that an evaluation of the way forward be taken after the County process has been completed. If this approach was adopted it is unlikely that this would therefore enable that consultation to feedback in time for this budget process.

## **9. FINANCIAL STRATEGY**

- 9.1 Second homes – the Council agrees in principle that the majority of new income generated from reducing the discount on second homes be parcelled through the Local Strategic Partnership in partnership with the County Council and Police Authority.
- 9.2 Prudential code – that as soon as the framework is agreed the Council consider how to best use the flexibilities allowed in the new code to maximise the potential benefit to the Community but this means of funding be used only where other forms of funding are less appropriate.
- 9.3 Linking resources with priorities – the Council agree to commence an incremental approach to the allocation of resources by using some or all of the tools outlined in paragraph 5 of this report.
- 9.4 Double taxation – the Council consider the introduction of special expenses as part of this budgetary process in order to avoid the issue of double taxation.
- 9.5 Capital proposals –
- Consideration be given to moving away from the leasing of equipment and software subject to the proposals within the prudential code.
  - Capital investment be considered only where it is deemed to be a corporate priority or an invest to save scheme that will reduce the Council's on-going revenue expenditure
  - A strategy be developed in order to identify the future level of support the Council will provide in relation to Social Housing Grant
  - That provision be made for an affordable capital programme.
- 9.6 Charging policy – the corporate charging policy to continue to be used as the framework for determining charging levels.
- 9.7 General Fund Balance to be a minimum of 10% of net revenue turnover or £2m whichever is the lower.
- 9.8 Any revenue under-spends at the year-end to be allocated to the Capital Financing Reserve.
- 9.9 The Council set a balanced revenue budget.

- 9.10 All expenditure plan proposals (where they are service related) need to identify which service plan the issue was covered in and include any comments from the Panel that discussed the plan.
- 9.11 Any capital proposals must clearly identify the timing profile of the scheme and include a risk assessment of not achieving the timetable that has been set. Proposals must also identify a project officer who will become the officer responsible for the scheme.
- 9.12 That attempts be made to ensure that the Council's net expenditure per head of population be increased by no more than the rate of inflation and thereby minimising tax increases.

## 10. BUDGET TIMETABLE

10.1 The proposed budget timetable is outlined below:-

September	Review Panels	Service Plans
November	Cabinet	Expenditure Plans and Fees and Charges
November	Panels	Expenditure Plans and Fees and Charges
January	Cabinet	Comments from Panels and Budget
January	Panels	Budget Proposals
February	Cabinet	Comments from Panels
February	Council	Budget and Tax Set

10.2 All expenditure plan bids to include relationship and impact on achieving the Councils corporate and strategic objectives a clear business case that demonstrates the revenue and service implications/benefits of both proceeding with the proposal and the implications of not doing so.

## 11. RECOMMENDATIONS

11.1 It is recommended: -

- 11.1.1 That the Financial Strategy as detailed in paragraph 9 of this report be approved;
- 11.1.2 That the timetable for the expenditure planning and budget setting process be approved;
- 11.1.3 That the Cabinet consider what consultation arrangements they would wish to be undertaken;
- 11.1.4 That the Council agree in principle that the additional income raised by the reduction in the discount for second homes be allocated to the Local Strategic Partnership in order to tackle some of the priorities that are highlighted within the Community Strategy; and
- 11.1.5 That the Council holds the majority of the £1m rates refund in reserves until such time as the details of the prudential code have been evaluated and a strategic view of the way forward established.

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