

EXECUTIVE SUMMARY – FINANCIAL STRATEGY








Summary of Purpose and Recommendations:

To agree the Council’s Financial Strategy in order to provide a medium term financial backcloth upon which the Council can allocate resources aligned to its corporate priorities.

Cost to Council: NIL

Within existing budget? Yes

Contribution to Corporate Plan (Minor/Moderate/Major/Neutral):

	+		-		+		-
	Major			<u>Priorities</u>			
	Major			Clean Streets and Public Spaces	Major		
	Major			Crime and Disorder	Major		
	Major			Housing	Major		
	Major			Managing our Finances	Major		

Comments on Impacts on Corporate Objectives and Priorities:

The Financial Strategy sets out the likely potential resources the Council will have at its disposal over the next four years. The forecast demonstrates that the Council has some difficult financial decisions to consider and therefore recommends that resources should be closely aligned to priorities. Whilst setting out macro-economic issues, the report also identifies some significant financial issues that are particularly relevant to New Forest. A general message of restraint and focus is the underlying message of the Financial Strategy.



FINANCIAL STRATEGY 2005/08

1. INTRODUCTION

- 1.1 The Cabinet and Council consider the Financial Strategy every year prior to the start of the budget process. The Strategy should therefore provide a clear framework within which Members can consider expenditure plan and budget proposals. The Strategy is a medium term document that sets out what the Council is attempting to achieve, in financial terms, over the next four years.
- 1.2 Although the Cabinet is considering the Financial Strategy, and will be making recommendations to the Council for their consideration, approval of the Strategy is not an executive function.
- 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 The only constant in local government finance seems to be that it is uncertain and challenging. Predicting the Council's financial position for the future is no more certain this year than it has been in previous years. The Government is currently undertaking an efficiency and funding review; oil prices are impacting on the world economy; and the potential New Forest National Park could all have a significant impact on the Council's available resources.
- 1.5 The Council has four key priorities one of which is strong financial management. Pivotal to achieving this is a Financial Strategy that must be robust and provide a mechanism for aligning priorities and resources. This document is therefore intended to set out a clear view of the strategic financial direction of the Council and probable resources that will facilitate achieving the Council's corporate priorities.
- 1.6 The Council has faced financially challenging years for some time. However in previous years there has generally been an opportunity to positively affect the finances to the Council without having to take significant decisions over service delivery. For the current financial year a step change in the Council's finances arose as a result of the proposals on traffic management and on achieving debt free status.
- 1.7 It is difficult at this stage to identify any changes that will assist the Council in the same way for the forthcoming year. Although financial benefits will accrue to the Council with the introduction of the National Park the timing and level of the benefit are difficult to predict at this stage.

2. CURRENT FINANCIAL POSITION

2.1 Local Issues

- 2.1.1 The actual under-spend for 2003/04, subject to audit, was £389,000 compared to a gross General Fund budget of £19.255m. This was after a fiscal tightening of budgets which was taken at a time when the Council was heading for an overspend.
- 2.1.2 Traffic Management – The traffic management scheme became operational on 1 January 2004. As this is the first year of operation the likely on-going net revenue that the scheme will generate is still a little uncertain. To date things are operating well and at least in line with original projections.
- 2.1.3 Local Authority Social Housing Grant – Following changes to the SHG funding mechanism and land availability issues, this key priority continues to be of concern. The Council is working with partners to develop a scheme for the utilisation of additional income generated from reducing the discount on second homes. However even with the commitment of the County Council to retain their proportion of the additional income within the area in which it was generated, it is unlikely to have a significant impact on the growing general housing needs of the District.
- 2.1.4 No decision has yet been announced on whether a large part of the District will become a National Park although the decision was expected in the 'spring'. Should a National Park be established there will be a significant impact on the Council's finances irrespective of whether the Development Control and Planning functions are provided to the National Park on an agency basis. Although it is possible to estimate the impact on the Council's overall expenditure it is not possible to identify the impact on the Council's Revenue Support Grant. The timing of change is also not known. As a result, although the issue is recognised in this Strategy no specific financial provision has been included at this stage.

2.2 Macro Issues

2.2.1 Government Grant

The Government is currently undertaking a balance of funding review.

- 2.2.2 The Gershon review is expected to identify that significant efficiency savings can be accrued by the public sector, particularly in the area of procurement. Although at present it appears unlikely that the basis of this assessment will be available for challenge. This Council, whilst always accepting that it could do better, believes that it already has effective procurement policies. There will however be renewed effort to identify any further procurement opportunities that could be achieved by way of partnership arrangements.

The review is however unlikely to be that sophisticated and therefore New Forest will probably still be set an efficiency target alongside other authorities.

2.2.3 Furthermore Members will be aware that the Council is currently on the 'floor' in terms of grant settlement and therefore the above will only exacerbate this position. The Council will once again only receive the basic increase. It is hoped that this year no other changes will occur to the grant mechanism that will confuse the level of the floor as has been the case in the last two financial years.

2.2.4 For the financial projections included as Appendix 1 to this report an increase of 1.5% has been assumed.

2.3 Capping

Although the Government still retains the power to restrict the level of council tax increases, it is a power that until this year has not felt a need to be used. The Government is however coming under increasing public pressure to keep council tax increases to a minimum. With a General Election likely to occur during the next financial year this pressure will only be heightened. It is therefore very likely that Government will do everything it can to ensure that council tax increases next year are 'affordable'. A cap of any increase in excess of 5% is already being discussed.

2.4 Inflation

Fortunately inflation continues to be relatively stable although the current oil price volatility is cause for concern. This could have significant impact on general inflation and more specifically on transport related budgets particularly in waste collection. Other than this, medium term forecasts are not expected to see significant changes in the foreseeable future. The headline rate of inflation for April was 2.5% and provision has been made in the projections for this level of inflation.

2.5 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.

2.6 Negotiations continue at a national level on the pay award effective from April 2004 and although there has been some coming together of the two sides there is still some way to go before a settlement is reached.

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.

2.7 Superannuation

- 2.7.1 Funding the growing cost of contributions to the pension fund continues to have a significant impact on the Council's finances and therefore burden on the council tax. Recent years has seen significant increases to the Fund and following a recent actuarial review this will continue over the next two to three years.
- 2.7.2 The Government undertook a review of the funding of Pensions during the last financial year and although certain changes have been made, at the margins in terms of early retirement, the expected increase in employee contributions was not followed through.
- 2.7.3. Hampshire's Fund had an actuarial review in 2004, which will impact on the contributions for 2005/06. Authorities currently make contributions, which equate to 13.5% of the employees' salary. Following the decision not to increase employee contributions it is likely that these contributions could increase to 18% over the coming financial years. This would cost the Council £600k, and to date provision of £400k has been included within the forecast.

2.8 Interest rates

Following a period of very low and stable interest rates the base rate is starting to edge upwards. Continued pressure on the housing market and rising consumer debt, in spite of interest rate rises, will undoubtedly result in further increases. Volatility that has been seen in previous interest rate cycles is unlikely to reoccur but the market has already discounted some further increases in the near future. As the Council is debt free it is protected from the downside of rate increases.

3. OTHER FINANCIAL ISSUES

3.1 Council Tax Income from Second Homes

- 3.1.1 The Council reduced the level of discount on 'second homes' to 10% as part of the 2004/05 council tax setting process. A report will be provided later in the year of how successful that process has been in terms of collection. This report will also identify a number of options for Members to consider in relation to the discount for 2005/06.
- 3.1.2 Agreement was reached with the County Council to retain the additional income generated from the reduction in the second homes discount within the District. The detail of the protocol is just being finalised.
- 3.1.3 Unfortunately no similar agreement was reached with the Police and Fire Authorities. An early decision regarding the Council's position for 2005/06 on this issue would assist any negotiations with partner councils.
- 3.1.4 A review of the Council's policy towards council tax on empty property will also be undertaken within the coming months and recommendations be brought to Members for their consideration. Although no direct financial benefit will accrue to the Council if it decides to vary the existing policy encouraging properties to be bought back into the local market will increase supply.

4. LINKING RESOURCE PLANNING WITH CORPORATE PRIORITIES

- 4.1 The Council agreed a performance management and service planning framework last year, and although some steps have been taken towards ensuring that the Council can demonstrate continuous improvement, it has made less progress in ensuring that resources are aligned to priorities.
- 4.2 In order for any organisation to be able to demonstrate that it is clear about its priorities it must be able to demonstrate that it allocates the necessary resources in order to achieve these strategic objectives. 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.
- 4.3 Allocating new resources to priorities is relatively easy when there is spare capacity in the budgeting process. However redirecting resources from lower priorities to higher ones when the overall level available is reducing is far more difficult.
- 4.4 Due to a number of 'windfalls' or conscious decisions the Council has been fortunate to benefit from a number of step changes in its finances over the last few years. This has resulted in reducing the level of difficult decisions that the Council has had to take. The Council has taken difficult decisions when needed to do so in respect of service levels and charging in particular, however, those challenges are likely to be greater this year.
- # 4.5 Other than the possible financial benefits that may accrue from the setting up of the National Park it is difficult to identify where further windfalls may arise. It is therefore imperative that the Council accepts and works towards the redirection of resources from those activities that it perceives are lower priority to those that are of a high priority. The challenges facing the Council are clearly demonstrated in Appendix 1.
- 4.6 Significant savings in base expenditure need to be achieved if the Council wishes to keep the council tax increase to less than 5%. At this level savings of £680k need to be identified before considering any new growth proposals. A message of constraint therefore needs to be made to the whole organisation and growth should only be considered if:-
 - a) The cost is unavoidable
 - b) There is a very good pay back on the investment
 - c) The investment will significantly help the Council achieve a key corporate priority

5. GENERAL FUND BALANCE

- 5.1 It is not proposed to change the current requirement that the General Fund balance should not fall below 10% of net General Fund Revenue Expenditure or £2m whichever is the lower.

6. CAPITAL

- # 6.1 The existing Capital Programme and current resources available are outlined in Appendix 2. Although the short term position of the Programme is relatively healthy if the Council does not wish to return to a borrowing position there are insufficient 'cash resources' available to fund the Coastal and Social Housing Grant schemes that are in the programme although the former are largely funded through external grant. This issue will be considered in more depth later in the financial year.
- 6.2 No provision has yet been made for the replacement of the CCTV cameras, which have a life expectancy of around 10 years, and although capital reserves are now being complemented through revenue this is unlikely to be sufficient to meet the demands being placed upon the reserve.

7. RISK MANAGEMENT

- 7.1 The Council now has a Risk Management Strategy and as a matter of good corporate governance, Members will need to consider risks associated with the budget as it evolves. Consideration for example, will be given to the risks associated with income projections, unintended consequences for changes in service levels, and the potential impact if the Council does not invest additional resources in a particular service.

8. FINANCIAL STRATEGY

- 8.1 All expenditure plan proposals (where they are service related) need to demonstrate their link to both the service planning process and the corporate plan.
- 8.2 The Council set a balanced revenue budget.
- 8.3 That expenditure plan proposals only be considered if:
- a) The additional cost is unavoidable
 - b) There is a very good pay back on the level of investment
 - c) The investment will significantly help the council achieve one of its key priorities
- 8.4 That officers develop proposals that will reduce on-going revenue costs having consideration of the Councils priorities as part of the Expenditure Planning Process
- 8.5 That a thorough review be undertaken of previous expenditure patterns in order to identify ensure that base budgets reflect the 'real' cost of service delivery
- 8.6 Second homes –
- 8.6.1 The Council agrees to keep the second homes discount at the minimum level of 10%.
 - 8.6.2 The Council continues with the existing policy to direct additional income from the reduction of second homes into Social Housing and works in partnership with the County Council to ensure that the additional income that they receive from second homes within the District be retained within the District.

- 8.6.3 That every effort be made to encourage the Police and Fire Authorities to adopt a similar approach.
- 8.6.4 That a review of the Council's approach to the discount on empty properties be undertaken and be considered by Members in time to affect the council tax for 2005/06.
- 8.7 Capital proposals –
- 8.7.1 Subject to the necessary resources being in place the Council fund the acquisition of equipment and software from the Repairs and Renewals Reserve rather than leasing.
- 8.7.2 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
- 8.7.3 That provision be made for an affordable capital programme.
- 8.8 Charging policy – the corporate charging policy to continue to be used as the framework for determining charging levels.
- 8.9 General Fund Balance to be a minimum of 10% of net revenue turnover or £2m whichever is the lower.
- 8.10 Any revenue under-spends at the year-end to be allocated to the Capital Reserve.
- 8.11 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. BUDGET TIMETABLE

- 9.1 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

- 9.2 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.

10. RECOMMENDATIONS

10.1 It is recommended: -

10.1.1 That the Financial Strategy as detailed in paragraph 8 of this report be approved;

10.1.2 That the timetable for the expenditure planning and budget setting process be approved;

NEW FOREST DISTRICT COUNCIL**DRAFT GENERAL FUND FORECAST 2005/06 TO 2008/09 BASED ON 2004/05 BUDGET**

<u>25/06/04</u>	2004/05	2005/06	2006/07	2007/08	2008/09
	£000	£000	£000	£000	£000
Net Portfolio Requirements	19948	18659	19930	21278	22173
Est. Inflation (salary related)		580	600	620	640
Other Inflation		180	190	190	200
Sub Total (A)	19948	19419	20720	22088	23013
Capital Financing Provision	245	100	100		
Sub Total (B)	20193	19519	20820	22088	23013
Less Interest on Balances(net)	-1170				
Sub Total (C)	19023	19519	20820	22088	23013
Transfer From MRP/Reg157	-252	142	110		
Budget Requirements Total (D)	18771	19661	20930	22088	23013
Add Expenditure Plan Bids					
Corporate & Finance	0	416	390	69	
Crime & Disorder	0	0	0	0	
Economy & Planning	0	0	0	0	
Environment	0	237	55	30	
Health & Social Inclusion	0	4	0	0	
Housing	0	2	2	2	
Leisure	0	33	1	-2	
General Purposes & Licensing Committee	0	155	0	0	
Planning Development Control Committee	0	0	0	0	
Standards Committee	0	0	0	0	
Sub Total Bids	0	846	448	100	0
Deduct Expenditure Plan Savings					
Corporate & Finance	0	-153	-5	0	
Crime & Disorder	0	-10	0	10	
Economy & Planning	0	-40	-6	-15	
Environment	0	-29	-20	0	
Health & Social Inclusion	0	0	0	0	
Housing	0	-9	-9	-9	
Leisure	0	-303	-60	-1	
General Purposes & Licensing Committee	0	-33	0	0	
Planning Development Control Committee	0	0	0	0	
Standards Committee	0	0	0	0	
Sub Total Savings	0	-577	-100	-15	0
Other Items (Approved during 04/5)		0	0	0	
Transfer from Commercial Services	-112				
Forecast Budget Requirements Total (E)	18659	19930	21278	22173	23013
Transfer to/from(-) Reserves					
Budget Required after Reserve Transfer	18659	19930	21278	22173	23013

FINANCED

Collection Fund /RSG/ NDR	9455	9571	9712	9855	10000
Council Tax	9204	10358	11566	12318	13013
	18659	19930	21278	22173	23013

Council Tax	130.94	147.08	163.91	174.24	183.73
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Council Tax Increase		12.33	11.44	6.30	5.44
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**NEW FOREST DISTRICT COUNCIL
OTHER SERVICES CAPITAL EXPENDITURE
SUMMARY AND RESOURCES 2004/05 TO 2008/09**

APPENDIX 2

Date Prepared :-

25-Jun-04

ESTIMATED EXPENDITURE	2004/05 £'000	2005/06 £'000	2006/07 £'000	2007/08 £'000	2008/09 £'000	Total £'000
Corporate & Finance	460	228	110	-		798
Crime & Disorder	-	100	-	-		100
Environment - General	326	181	180	5		692
Environment - Coast Prot / Land Drainage	1,095	1,107	9,207	10,928		22,337
Economy & Planning	261	-	-	-		261
Housing	6,850	6,850	6,850	6,850		
Leisure - General	1,409	358	76	20		1,863
Leisure - Developers' Contributions	642	9	9	-		660
TOTALS	11,043	8,833	16,432	17,803	-	54,111

PROPOSED FINANCING

SCE (Coast & Land Drainage)	196	176	1,731	2,315		4,418
Major Repairs Subsidy	3,140	3,140	3,140	3,140		12,560
Revenue Provision HRA	611	611	611	611		2,444
Grants & Other Contributions	1,502	1,407	7,862	8,889		19,660
Developers' Contributions	642	9	9	-		660
Revenue Provision (Gen. Fund.)	245	345	445	445		1,480
Usable Capital Receipts	2,932	2,732	2,732	1,252		9,648
Advance Grant re Coast P and Land D						-
Capital Reserve	1,775	413	98	1,151		3,241
TOTALS	11,043	8,833	16,432	17,803	-	54,111

ESTIMATED BALANCES

	01/04/04 £000	01/04/05 £000	01/04/06 £000	01/04/07 £000	01/04/08 £000	01/04/09 £000
CAPITAL RESERVE	3,421	1,646	1,233	1,331	180	180
DEV. CONTRIBS.	4,926	4,284	4,275	4,266	4,266	4,266

Notes:

1. Subject to agreement with the District Auditor, there will be a further £2.3m available towards capital or revenue expenditure from the Commutation Reserve.
2. As the Council's debt has been repaid, the estimated £5m balance of investments held under the current set aside rules will become available, subject to specific technical criteria, to meet future capital expenditure or be retained for investment.
3. The optimum use of these resources will be more fully evaluated and reported to Members as part of the future financial strategy for the Council.