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CABINET - 6 JULY 2005 **PORTFOLIO: FINANCE AND SUPPORT**

FINANCIAL STRATEGY 2006/2008

1. INTRODUCTION

1.1 The Council is required to approve a Financial Strategy each year that sets out a framework within which the Council will strategically manage its financial resources. The Strategy adopts a medium term approach to the Council's finances to ensure that the focus is not purely on the forthcoming financial year. This Council has adopted an approach that looks at a four year period.

1.2 The Council could adopt a strategy covering an even longer timeframe however the financial projections and uncertainty surrounding the legislative framework and funding possibilities become so speculative that the strategic framework becomes less meaningful.

1.3 Although the Cabinet consider the Financial Strategy, in the first instance formal approval is not an executive function. Therefore the recommendations of the Cabinet will be considered by Council before the Strategy is finalised.

1.4 The Financial Strategy covers the General Fund activities (revenue and capital) but does not cover the Housing Revenue Account as this is covered by a separate Business Plan that will be covered in detail at a later date.

1.5 One of the Council's four key priorities is strong financial management. An essential tool in achieving this is to adopt a robust Financial Strategy that clearly sets out, in financial terms, what the Council is trying to achieve in both the short and medium term. It must also demonstrate clear links to other corporate strategies and plans and demonstrate how the Council ensures that it allocates resources to its priorities.

1.6 The Council has in recent years taken many opportunities to improve the financial standing of the organisation without unduly affecting service delivery. Traffic management proposals and debt free status are just two recent examples of this. With the passage of time these opportunities become increasingly more difficult to achieve without a radical change to the way in which the Council delivers its services.

1.7 With continual pressure to ensure the council tax is affordable the Council continuously looks to identify efficiency gains. Partnership arrangements with the New Forest National Park offer a major opportunity for both organisations to deliver financial and operational efficiencies.

2. USE OF RESOURCES

2.1 Members will be aware that the Council was only one of five authorities nationally whom were asked to pilot the Use of Resources (UOR) assessment process. The UOR is a key element of the Comprehensive Performance Assessment for 2005 and beyond. Although the Council will have to go through the formal process later this year it has received a provisional score of 3 out of 4 which in light of the pressure from the Audit Commission to reduce the number of excellent rated councils is probably as good a score that could have been expected. However in order to ensure that this score is maintained foe the future the Council will need to address a number of key issues.

2.2 An action plan has been constructed and the majority of the issues raised by the Auditors will have been dealt with by the time they return in September to complete their formal assessment.

2.3 Some of the key points coming out of this exercise that relate to the strategic management of the Council's finances were:-

- Strategic policy decisions and project initiation documents must include a risk assessment
- The Council has not sufficiently demonstrated that all higher spending areas are supported by priorities.
- The Council needs to reduce the level of capital slippage that occurs.
- The Council needs to clearly demonstrate what efficiency improvements it has delivered, including outcomes from procurement, and of investments resulting in improvement in poorer performing services.

3. EFFECIENCY/PROCUREMENT

3.1 Members will be aware of the Government's drive to improve efficiency within the public sector. Whether the basis of the Government's position is based on sound evidence is debatable however all local authorities have been set efficiency targets to achieve from 2005/06 and the two following financial years.

3.2 Because of pressures on local government finance and council tax levels most council's have been pursuing efficiency gains for many years. A savings target of 2.5% of net revenue and capital expenditure has been set for each authority in each of the next three years. This amounts to £690k for this council per annum and these savings must be recurring.

3.3 Over the three years the Council therefore needs to identify efficiency savings in excess of £2m. In order to count towards this target the saving/gain must not result in a reduction in service to the customer and does not include additional charges.

3.4 Two statements must be produced each year, one that puts forward the expected savings for the forthcoming year and the other the actual savings achieved in the preceding year. The Council has already submitted the forward looking statement that for 2005/06 has all but achieved the targeted savings simply by reviewing the Expenditure Plan proposals that were approved.

3.5 In addition the Council can include efficiency gains where additional services have been provided without an increase in cost. Such savings are more difficult to demonstrate and the Government has had particular difficulty in providing guidelines on how to value such gains because of this. A copy of the 2005/06 statement is attached as Appendix 1 to this report.

3.6 The Council needs to identify significant savings to bridge the current budgetary deficit and the efficiency target amounts to roughly half of this sum. One major area that could count towards the target is the potential partnership working with the new National Park Authority. This is an important issue not just for the efficiency agenda, not just for taxpayers at a local and national level, but also in terms of the synergy of service delivery to visitors and residents of the New Forest. This item alone could deliver the efficiency gains required for 2006/07.

3.7 Procurement has a variety of meanings but it is clear that the Government believes that there are savings to be made in local government by improved procurement of goods and services. Although any organisation can always make improvements in the way it purchases day to day goods and services by and large the current methods used provide value for money. The Central Purchasing Unit is now used by the Test Valley Borough Council thereby increasing its effectiveness.

3.8 The consideration of alternative service delivery models is an area where material savings could potentially be identified. The Test Valley Partnership was a pioneering move in partnership working however it has to fully deliver its maximum potential. Further gains could be achieved by the rationalisation of depots and support service cost for instance. The Partnership is alive to these issues and is seeking to address them. It is clear from this example that partnership service delivery options take time to reach their potential.

3.9 The Council has commenced work with other councils in Hampshire in order to identify further partnership opportunities that will help deliver efficiency savings. In light of the experience with Test Valley such arrangements are unlikely to bring about significant efficiency savings in the near future. This must however be a medium term objective if the Council is to create resource capacity into its medium term financial planning.

3.10 Speculative efficiency (or other) targets have deliberately been avoided in the financial planning process at New Forest. The danger with setting over-arching efficiency/procurement targets is a lack of clear responsibility for delivering them and therefore there is a risk associated with such an approach. The Council will however be required to produce an efficiency plan for 2006 and therefore this position may be revisited as part of this budget process.

4. LINKING RESOURCES WITH CORPORATE PRIORITIES

4.1 The Council has made positive steps towards allocating resources in line with its priorities but there is still more that can be achieved. With an expanding resource base it is relatively easy to allocate additional resources to the priorities of the Council. In a time of reducing resources this is more difficult. All services are assumed to be important otherwise the Council would not be providing that service. However in a period of constraint there is a need to accept that certain services or functions are less important than others. Mechanisms need to be in place that ensure priorities are resourced appropriately, and if necessary, by redirecting resources from lower priorities.

4.2 The Council has, by identifying four key priorities, partly addressed this issue. The key priorities are:-

- Clean Streets and Public Spaces
- Crime and Disorder and Community Safety
- Housing
- Managing our Finances

4.3 As part of the last budget process resources were approved for two Community Safety Officers within New Milton. This was in partnership with the County Council and therefore not only allocated additional resources to a key priority but was also a good example of procuring in partnership. In addition the Council has also maintained investment in social housing in spite of funding changes imposed by the Government. This demonstrates that the Council does allocate new resources to its key priorities.

4.4 Often other resource allocations are simply as a result of legislative changes or Government initiatives which become priorities because they are unavoidable. Such issues place additional pressure on the Council. During the last budget process guidelines were issued that required services to identify savings of 5% of their 'controllable budgets'. Had this been fully achieved Members could have assessed the potential savings in a strategic manner against the backcloth of the Corporate Plan. The original target was not fully met and therefore all savings were included within the final budget proposals.

4.5 Budget parcels have previously been considered as a potential mechanism for aligning resources to corporate priorities. At the time this option was not pursued because the time available to plan for the shift in resource allocation in a managed way could have been detrimental to service delivery. The principle of this kind of approach is sound albeit not without difficulties. .

4.6 Other possible methods of identifying savings exist including

- ❖ Using the performance management framework to identify high-cost services or where performance is not in line with corporate expectations (be that high or low). This information could then be used to inform the fundamental service review programme with a particular focus on achieving financial savings in the cost of service delivery.

- Alternative service delivery options are a method, where appropriate, of deriving efficiency gains. As mentioned earlier in this report the potential benefits of this approach are more likely to derive benefits in the medium rather than the short term.

- Zero based budgeting is an approach which adopts a more critical budgeting assessment rather than the normal incremental approach. Clear expectations of the service need to be compiled from the outset and the level of resources required to achieve these outcomes is then determined from a zero base. This approach does not always lead to savings because the service expectations are often beyond what is currently being delivered.

4.7 Whichever approach or combination of approaches is adopted the Corporate Plan and medium term objectives should form the backcloth of this process. This process will also need a lead in time in order for services to work up detailed proposals. It is therefore recommended that officers consider a framework on how a more strategic approach to resource alignment can be achieved over the next four months.

4.8 These approaches will not help address the budgetary shortfall for 2006/07 and therefore other options will need to be considered. In order to minimise the savings that are required new resources should only be allocated to areas of real priority or exceptional need.

4.9 A thorough review of the under-spend for 2004/05 is underway which will undoubtedly identify some opportunities for reducing the 2006/07 base budget; others have already been included within the 2005/06 base and others have been one-off items. Further savings will therefore still need to be identified as part of the forthcoming budgetary process.

5. PERFORMANCE MANAGEMENT

5.1 The Council approved a performance management framework nearly 2 years ago and although some significant progress has been made there are opportunities to now take this process to the next level. As part of the Use of Resources pilot the Council has received a database with extensive comparative data that it can use to formulate priorities in respect to the fundamental service review process. This can also provide focus, alongside the Performance Plan, to ensure that resources are being allocated in accordance with the Council's priorities. More detailed information on how this data will be used will be available within the next month.

6. GENERAL FUND BALANCE

6.1 The current policy in respect of the level of the General Fund balance is that the Balance should not fall below 10% of net General Fund Expenditure or £2m whichever is the lower. There was no scientific assessment to this level and the Audit Commission will not provide guidance as to what they believe is a prudent level.

6.2 For the Financial Strategy this year a risk assessment has been undertaken to ascertain whether the current policy provides the necessary safeguard
that the Council needs. This assessment is attached as Appendix 3 to this report and demonstrates that £2m is an adequate level in light of the Council's potential risk exposure. It is therefore recommended that policy be amended to retain a balance of £2m and that this be reviewed on an annual basis on a risk assessment basis.

7. RISK MANAGEMENT

7.1 The profile of managing the risks faced by local authorities is constantly being raised. Not only because of the CPA process, where risk management forms a central plank particularly in respect of the UOR, but also because organisations are alive to the potential of loss from many different facets of everyday business.

7.2 This Council has always believed that risk management is embedded within the day to day management of the organisation and therefore any action taken has been proportionate to our position. The UOR process has required councils to demonstrate more overtly a strategic approach to risk management. The service planning framework requires each service to assess the business risks that it faces and if there is any financial consequence to the minimisation or transfer of these risks they would feed into the expenditure planning process.

7.3 The expenditure planning process itself requires services to identify the risks associated with the proposal for both the short and long term. This assessment is required not just if the proposal is approved but also if the proposal is not accepted.

7.4 A risk assessment has been undertaken on the level of General Fund Balance (see above) and a Section 25 statement has been completed to assess the potential risks associated with delivering the 2005/06 budgets.
This statement is attached as Appendix 4 to this report. In addition, a Risk Assessment and Control Statement have been completed in order to demonstrate the major risks faced by the council in delivering the Financial Strategy and the action that has been taken to minimise these risks.

7.5 This illustrates that the Council has put in place a number of initiatives that ensure that financial decisions flowing from the Financial Strategy and budget setting process are taken with a better understanding of the medium and longer term risks associated with those decisions.

8. CURRENT FINANCIAL POSITION

8.1 The revenue and capital outturn figures for the year ending 31 March 2005 are reported elsewhere on this agenda. Having made certain provisions the revenue under-spend for the year was in excess of £700k against the original estimate. This Council, like most district councils, has traditionally under-spent the General Fund Revenue Budget. The financial strategy requires that this resource is transferred to the Capital Financing Reserve. This has therefore enabled the council to support a capital programme that is fully funded.

8.2 The under-spend for 2004/05 was greater than for a number of years. Many issues that caused this position were known about and reported on during the budgetary process for 2005/06 and have therefore been included within the base budget. However it is imperative that a thorough review is undertaken to ensure that the base budget carried forward into 2006/07 more accurately reflects the budgetary needs of services.

8.3 This process is well underway and the outcome will form part of the proposals to be considered by the Cabinet later in the year. The current
financial projections which are shown within Appendix 2 to this report clearly demonstrate that this review must be the first step in identifying how the savings target is to be achieved.

8.4 In addition there was a significant amount of capital slippage in the 2004/05 programme. A significant proportion of this underspend was as a result of a conscious decision following uncertainty over the level of Right To Buy receipts that were being generated. All projects are valid and approved, however project timing needs to be forecast with greater accuracy. This is an issue that the Corporate Overview Panel has included within its work programme for this year.

9. FORECAST

9.1 Attached as Appendix 2 to this report is the current forecast of General Fund revenue and capital expenditure. This statement takes into account all bids and savings that have been approved by Members and demonstrates what incidence of the savings/growth proposed will have in future years. For the purposes of this statement inflation has been assumed to be 2.5% for both salary and other inflation (save for the 2006/07 pay award which is already agreed). In addition provision has been made to reflect the additional cost of increments on the salary budget.

9.2 In previous years this statement has included projected council tax levels based on net revenue expenditure. This led to the inclusion of council tax increases of around 205 which was clearly never going to reflect the actual tax levels. During the budgetary process savings and additional income sources were identified in order that the final tax level is set at a more realistic level.

9.3 Members will recall that the Government issued a consultation paper on the introduction of three year grant settlements earlier this year. Although the outcome of that consultation process has not yet been announced it does seem increasingly likely that this proposal will be implemented. Part of this process will require Councils to give realistic forecasts of future council tax levels as part of their medium term financial planning.

9.4 Although this is not yet a requirement it does seem sensible to start to work towards it. The Council will as a result be in a more advantageous position should it arise.

9.5 As a result the forecast has been constructed projecting a council tax increase in line with inflation. Obviously the level of this figure should be the subject of debate because the impact on the Councils is demonstrably clear by the line that has been introduced as a 'savings target'. It is recommended that any service developments that are identified as part of the expenditure planning process should fall outside this figure thereby enabling the Council to consult on the impact of service developments and the consequential impact on the council tax level.

10. OTHER FINANCIAL ISSUES

10.1 The following issues could have a material impact on the Council's overall financial position:

- Revenue Support Grant –

- The Government placed significant additional funding into the level of grant support for 2005/06 without any promise that this will be repeated in future years. It is difficult to see how this can be maintained and therefore the settlement for 2006/07 is likely to be very restricting.

- In addition it is impossible to assess what, if any, the implications of the National Park will be on this Council's grant settlement. There is no specific reference to planning within the grant formula but that doesn't mean to say that it will not be reflected in some way.

- Members have already received a report on the change to critical ordinary watercourses from the Director of Commercial Services. This function is being transferred to the Environment Agency (EA) and the net cost that the Council previously incurred will be recouped, at least in the short term, from the EA via a service level agreement. However the Council has historically invested in the maintenance of non critical ordinary watercourses, which are the responsibility of the land owner, and received grant funding as a result. For 2006/07 it is possible that this financial advantage will be removed and therefore the Council will need to decide whether it wishes to continue to invest in this service as it will now fall totally on the taxpayer.

- The Government is intending to undertake a council tax revaluation for all non commercial properties that will take affect from 2007. We clearly do not know what the impact this will have on the residents of the New Forest but it is likely that the South East of England will see a disproportionate rise with many other parts of the country. This will be reflected in the level of assumed council tax in the formula calculation thereby reducing the amount of Revenue Support Grant the Council receives.

10.2 Coastal Works – much like the issue of COWs the Government is reassessing how it funds the growing demand for minimising coastal erosion works. No definitive proposals have yet been received but it is possible that responsibility for these works could be transferred to the EA during the lifetime of this Strategy.

10.3 Pension Costs –

- Members will be aware of the increasing financial burden that the cost of the pension scheme has had on the revenue budget in recent years. With falling investments, increased % funding of future liabilities, and the fact that people are living longer has meant that employer pension contributions have increased significantly over the last 5 years.

- As a result a number of changes to the national scheme were proposed that would reduce the financial burden of the scheme. These proposals were due to be implemented in April 2005. However at the last minute, following extensive consultations with the unions, these proposals were rescinded. It is not yet known whether the changes will now be implemented. If they are not the current contribution rates that have been set by the actuaries will be insufficient and therefore further contribution rises will be required. The longer this issue remains unresolved the greater those increases will need to be.

10.4 National Park – although the National Park is now officially in existence and the Council is providing much support for the Authority the longer term potential partnership arrangements between the two organisations is yet to be resolved. Even if the Council is unsuccessful in operating in a full integrated partnership with the Park Authority the District Council will be able to reduce certain costs (particularly around the planning function). Members have previously received some broad notification of the potential reduction in costs and a sum of £300,000 has been included within Appendix 1. This is a realistic target that will be included within a fundamental review of the future needs of the service.

10.5 Charging – the financial projections have assumed increases in income in line with inflation. In previous years significant additional income has been included within the budget by raising charges over and above the level of inflation. For some such charges the Council has probably reached a level beyond which significant increases can not be achieved. The Corporate Charging Policy should still be applied as this does provide for elasticities of demand to be taken into account and other market forces to be considered.

11. CONSULTATION

11.1 In addition to the statutory consultation process that is required the Council undertook a very limited budget consultation exercise as part of the 2005/06 budget setting process.

11.2 It is intended to undertake a more formal process for the coming budget process. It is very important to ensure that the process is appropriate and reflects the level of engagement that Members feel will help the decision making process. The focus is therefore likely to be around the additional tax that would be required to fund additional services and possibly the impact of certain savings proposed rather than on the overall detail of the budget.

12. FINANCIAL STRATEGY

12.1 Having taken into account the aforementioned issues it is recommended that the following Financial Strategy be approved:-

12.2 The Council set a balanced revenue budget.

12.3 All significant underspends of the preceding financial year be thoroughly analyzed to identify the level of those that can be carried forward. This process should seek to ensure that the 'base budget' more accurately reflects the real cost of service delivery.

12.4 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

12.5 All expenditure plan proposals be they revenue or capital need to demonstrate their link to both the service planning process and the corporate plan.

12.6 All proposals must fully evaluate both the short and long term costs associated with the proposal in order that the whole life cost of the scheme can be assessed.

12.7 All proposals must include a risk assessment of both progressing with the project and of not doing so.

12.8 The Council set itself a minimum savings target to be achieved through:-

- Efficiency opportunity gains
- An open approach to broader procurement gains
- Other saving opportunities;

and that the performance data that the Council now has at its disposal is used to help provide focus to this exercise.

12.9 The Council introduces a framework of strategic budget options for reviewing the resources allocated to services as outlined in paragraph 4 of this report. This framework is to be linked to the Corporate Plan and performance management framework.

12.10 The Council seeks to set a council tax increase in line with the Retail Price Index for the year excluding the provision for service developments. Proposals that will increase the level of council tax over and above the level of inflation will be included within a budget consultation process which will be used to inform the final budget setting process.

12.11 Capital proposals –

a) Schemes included within the programme must accurately reflect the profile of likely expenditure.

b) Future schemes to accurately reflect the incidence of costs associated with the scheme.

c) All scheme costs take account of the whole-life costs of the proposal and any such costs that do not fall within the timeframe of the expenditure planning process be identified as future commitments.

d) All proposals to include a risk assessment and the expected outcomes that the investment is expected to achieve. This should include the basis upon which post implementation performance will be assessed.

e) If appropriate the Financial Strategy is up-dated with any outcomes that flow from the Corporate Overview Panel review of capital project management.

f) 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

g) That provision is made for an affordable capital programme.

12.12 Charging policy – the corporate charging policy to continue to be used as the framework for determining charging levels.

12.13 The General Fund Balance to be a minimum of £2m and be reviewed annually through a formal risk assessment process.

12.14 Any revenue under-spends at the year-end to be allocated to the Capital Reserve.

13. EMPLOYEE SIDE COMMENTS

13.1 Employee Side comments are as follows:-

- It is inherently unfair for the government to set a formal target of 7.5 % of net revenue and capital expenditure for all Councils. New Forest District Council has been a prudent and responsible authority. The Council has been recognized as one of the top performing Councils in the country. This Council has constantly sought to improve efficiency over many years. Indeed the Council sought savings of 5% for the year 2004/2005 which resulted in redundancies.

- There are no easy options left. It is unrealistic in our view to make cuts in excess of £2 million over 3 years without affecting services detrimentally.
- Appendix 1 identifies cuts in spending largely from “re-organising” staffing resources. In this year (2005/2006), these are estimated at close to £700,000
- We note that the Council can include efficiency gains where additional services have been provided without an increase in cost. Although this will be not easy to prove we believe that this is an area which should fully investigated.
- Partnership working may bring some benefits but this is an area which requires detailed environmental impact studies. In relation to partnership working the report suggests that further gains could be achieved by the rationalisation of depots and support services. These measures may have serious implications for the workforce and the environment for example depot closures may result in more travelling for people and vehicles, with potentially adverse implications for the environment.
- Efficiency /procurement targets. While buying goods and services for less may seem like a golden opportunity to reduce costs it is pointed out that the authority has a substantial impact on the local economy and using the Authorities buying power to force prices down may have a detrimental effect on local businesses.
- The Council has identified four key priority services. However that the Council has extensive statutory functions which it must carry out for example Planning and Licensing. Any cuts in statutory services may be very difficult.
- It is our view that part of the under spend for 2004/2005 was due to the Councils inability to recruit and retain staff. It would be interesting to identify the amount of under spend that can be attributed to unfilled posts. Due to the high cost of housing and other services in the area we believe that the Council should be improving its pay and condition packages not seeking to reduce it.
- The National Park will have an impact on NFDC employees who may be transferred. The staff side will be looking to the Council to consult with any affected staff and take a supportive approach to those employees who may be affected.
- In relation to change to ordinary watercourses we would point out that if the Council decided not to invest in this service that there would be serious implications for staff, the environment and residents.
- Pensions are an important issue for employees. This is an area where the unions would strongly appose any changes imposed on them without consultation.

Conclusion

We welcome the opportunity to comment on this report and would ask that the staff side be fully consulted on the detail of any proposal to achieve the government’s efficiency targets. In general our position is that there should be no compulsory redundancies and that any changes are carried out in such a way that employees are not subjected to any increase in pressure or stress.

14. **RECOMMENDATIONS**

14.1 It is recommended that the Financial Strategy as set out in paragraph 12 of this report be approved.

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cm/msd/reports/finstr06

APPENDIX 1

Annual Efficiency Statement - Forward Look

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New Forest District Council

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Strategy for securing efficiency gains
NFDC is an excellent Authority (CPA) and has previously been awarded Beacon Council status for Tax and Benefits, Tourism and Recycling. In addition, the Authority's Asset Management Plan and Capital Strategy were assessed as good and early indications are that the Housing Strategy and Business Plan will be classified as fit for purpose. In part, these successes have been achieved through continual review of the Council's operations and implementation of improvements in work practices.

The Council has for many years operated a four year rolling financial strategy, linked to its Corporate Strategy and fully integrated with the service planning process. This annual process has required the Authority to identify efficiency savings, in order to enable the introduction of new initiatives and the management of council tax increases.

The Council's expenditure planning/budgeting process is ideally suited for identifying cash backed efficiencies, which are incorporated into the detailed budgets and closely monitored during the financial year. The Council will continue to use this process to identify all budget variations but will supplement the existing work by using the AES to record all efficiency savings.

The Council is in the process of developing a strategic approach to the efficiency challenge. This will involve building on the existing partnership arrangements that the Council has in place, such as the pioneering Test Valley Partnership and the Regional Coastal Service, and developing a broader consideration of delivery options through the procurement agenda. In addition, the Council will use e-technology to its maximum potential and will seek to maximise opportunities through rationalisation of back office functions.

At this stage, no non cashable savings have been included in this forward looking statement. There will be a number of areas where such efficiencies will occur in 05/06 which need to be collated from various sources. As there is currently no central record of such gains a process for identifying and recording non cashable efficiencies will be introduced.

The efficiency target for the Authority is £690k per annum, resulting in a total target of £2.07m by 2007/08. Cashable efficiencies identified in this statement total £651,180. Together with efficiencies identified in 2004/05 and non cashable items not yet recorded, the total first year recordable gain will exceed £1m.

Key actions to be taken during the year
Processes will be introduced to identify record and cost non cashable efficiency savings. Other key actions are set out in the individual service areas in the table below.

	Expected annual efficiency gains (£)	...of which related to capital spend (£)	...of which related to other spend (£)	...of which cashable (£)
Adult social services	1,920			1,920
	Strategy:			
	Key actions: - Implement Admin Services staffing changes.			
Children's services	0			0
	Strategy:			
	Key actions:			
Culture and sport	102,630			102,630
	Strategy:			
	Key actions: - Implement Admin Services Staffing changes. - Complete revenue generating capital projects.			
Environmental services	20,820			20,820
	Strategy:			
	Key actions: - Withdraw from lease financing of vehicles. - Increase recycling and sale of recycled materials.			
Local transport	5,200	0	5,200	5,200
	Strategy:			
	Key actions: - Implement Grounds Maintenance Staffing changes.			
LA social housing	5,000	0	5,000	5,000
	Strategy:			
	Key actions: - Incorporate smoke detector servicing within Gas Servicing contract.			
Non-school educational services	0			0
	Strategy:			
	Key actions:			
Supporting people	0			0
	Strategy:			
	Key actions:			
Homelessness	0			0

	Expected annual efficiency gains (£)	...of which related to capital spend (£)	...of which related to other spend (£)	...of which cashable (£)
	Strategy:			
	Key actions:			
Other cross-cutting efficiencies not covered above				
Corporate services	90,580			90,580
	Strategy:			
	Key actions: - Implement staffing changes for ICT, Accountancy, Property Services, Valuers and Admin Services. - Continue ICT modernisation programme.			
Procurement	39,100			39,100
	Strategy:			
	Key actions: - Re-negotiate ICT maintenance contracts. - Implement joint procurements for fuel supply, vehicle replacement and vehicle spares.			
Productive time	0			0
	Strategy:			
	Key actions:			
Transactions	100,000			100,000
	Strategy:			
	Key actions: - Implement Tax and Benefits Staffing changes.			
Miscellaneous efficiencies	285,930			285,930
	Strategy:			
	Key actions: - Implement new building cleaning contracts. - Implement Dog Warden contract. - Implement Civil Contingencies Act contract. - Implement Environmental Health, Engineering and Grounds Maintenance Staffing changes. - Withdraw from lease financing of vehicles. - Implement Planning Expenditure Review - Complete revenue generating capital projects.			
Total	651,180	0	10,200	651,180

NEW FOREST DISTRICT COUNCIL **APPENDIX 2**

DRAFT GENERAL FUND FORECAST 2006/07 TO 2009/10

14/06/2005	**2005/06 £000**	**2006/07 £000**	**2007/08 £000**	**2008/09 £000**	**2009/10 £000**
Net Portfolio Requirements	19444	19444	19752	20077	20407
Est. Inflation (salary related)	0	600	620	640	660
Other Inflation	0	190	190	200	200
Sub Total (A)	19444	20234	20562	20917	21267
Capital Financing Provision		-100			
Sub Total (B)	19444	20134	20562	20917	21267
Less Interest on Balances(net)		260	200	150	0
Sub Total (C)	**19444**	**20394**	**20762**	**21067**	**21267**
Transfer From MRP/Reg157		141			
Budget Requirements Total (D)	**19444**	**20535**	**20762**	**21067**	**21267**
Add Expenditure Plan Bids					
Finance & Support	0	501	183	0	0
Crime & Disorder	0	0	10	-10	0
Economy & Planning	0	111	-16	-96	0
Environment	0	187	83	-50	0
Health & Social Inclusion	0	0	0	0	0
Housing	0	2	2	2	0
Leisure	0	110	-4	26	0
General Purposes & Licensing Committee	0	42	0	0	0
Planning Development Control Committee	0	60	0	0	0
Standards Committee	0	0	0	0	0
Sub Total Bids	**0**	**1012**	**259**	**-128**	**0**
Deduct Expenditure Plan Savings					
Finance & Support	0	-79	0	0	0
Crime & Disorder	0	0	0	0	0
Economy & Planning	0	-46	-66	-1	0
Environment	0	-8	-3	0	0
Health & Social Inclusion	0	-5	0	0	0
Housing	0	-9	-9	-9	0
Leisure	0	-77	-22	-13	0
General Purposes & Licensing Committee	0	-20	0	0	0
Planning Development Control Committee	0	-300	-25	0	0
Standards Committee	0	0	0	0	0
Sub Total Savings	**0**	**-5244**	**-124**	**-22**	**0**
Transfer from Commercial Services					
Forecast Budget Requirements Total (E)	**19444**	**21002**	**20897**	**20917**	**21267**
Savings Target		-1250	-820	-510	-520
Budget Required after Reserve Transfer	**19444**	**19752**	**20077**	**20407**	**20747**

FINANCED					
Collection Fund/RSG/NDR	**9711**	**9711**	**9711**	**9711**	**9711**
Council Tax	**9733**	**10041**	**10366**	**10696**	**11036**
	19444	**19752**	**20077**	**20407**	**20747**
Council Tax	**137.21**	**141.29**	**145.58**	**149.93**	**154.40**
Council Tax Increase		2.97	3.03	2.99	2.98

APPENDIX 3

RISK ASSESSMENT OF GENERAL FUND BALANCE – 2005/06

Area of Risk	Value of Activity £	% Error or Likelihood of Event	£000 Reserve	Comment
Inflation				
Salaries and Wages Premises Transport Supplies and Services Council Tax and housing Benefits	20,929,700 5,389,830 3,573,260 11,567,550 22,000,000	0.00 5.00 3.00 3.00 0.50	0 260,491 107,198 347,026 110,000	Due to advance pay award settlement Maintenance minimised in budget Cash limiting in the past – creating pressure Allow for 10% movement in gross cost
Income Volatility				
 Fees and charges Car parking clock	5,043,240 700,000	5.00 5.00	252,160 35,000	Pressure on Health and Leisure Centres Catering, Land Charges Sales short on preceding year
Interest Rates				
Investment returns	22,000,000	1.00	220,000	20% of £1.1m interest earnings at 5%
Other Budgets				
Vacancy factor not achieved General Revenue Overspend Additional capital requirement	322,036	50.0	161,018 100,000 100,000	Assumes 1.85% of salary budgets
VAT				
Breach of partial exemption limit	208,790	75.00	156,593	Based on 2004/05 activity levels
Emergency Planning				
Belwin Threshold		10.00	38,910	

Risk Based Assessment of General Fund Balance for 2005/06 = £1,888,396

Chris Malyon
Director of Resources

8 February 2005

APPENDIX 4

STATEMENT ON THE GENERAL FUND BUDGET PROPOSALS BY THE CHIEF FINANCIAL OFFICER

Section 25 of the Local Government Act 2003 imposes a duty on the Chief Financial Officer to report to the budget setting Council on the following matters:-

a. The robustness of the estimates made for the purpose of the calculations (to set the council tax) and;

b. The adequacy of the proposed financial reserves.

Robustness of the estimates

The budget is constructed using numerous estimates that take account of a plethora of different factors and issues some involving quite complex forecasts. By definition the estimates are not facts but are best guesses of expenditure and income some of which will not be expended until 15 months after the budget was first considered by Members.

The key elements of the budget are the provision that is made for inflation on pay and prices, projected levels of income (including investments) achieving the budgeted cost reductions and delivering the service developments within the resources that have been allocated. Particular issues that need to be highlighted are as follows:-

- The Council's budget is constructed in an incremental basis which therefore assumes that the previous year's budget reflected the cost of providing those services. Where this is not the case an expenditure bid/saving is used to adjust the level of resources allocated. This approach is sound especially as the service planning framework requires a more fundamental scrutiny of services on a periodic basis.

- The uncertainty in previous years' over the level of pay award has been removed due to the long term agreement.

- Expenditure plan savings are clearly allocated to individual officers

- The only non service specific saving relates to staffing turnover. Although the level of saving was increased in 2004/05 the target was exceeded for that year and the staffing budget is regularly monitored.

- Although there is no contingency within the budget the level of the General Fund Balance has been subject to a risk assessment and is deemed more than adequate. (Please see comment below).

Adequacy of proposed financial reserves

The Council holds a number of specific reserves for issues such as debt write off.

- The General Fund Balance is used to cover general unforeseen items of expenditure that cannot be funded within the base budget (revenue or capital) in any particular year. If drawn upon the Balance is replenished as part of the following budget process.

- The Council also retains a capital reserve which is used for the funding of the capital programme. It is increased annually by contributions from revenue and by capital receipts. The level of the balance is sufficient to cover the four year capital programme that is included within detailed budget proposals.

- No assumption has been made over future capital receipts that could be generated, save for those generated from sale of council houses. These sales are specifically ear marked for housing purposes and therefore become ring-fenced. The level of the housing capital programme is dependant upon these receipts and therefore could easily be adjusted at any time in the future if these projections do not accurately reflect actual sales.

- There is neither legal definition nor Audit Commission recommendation on the absolute level of reserves that any authority should hold.

- The General Fund Balance has been subject to a risk assessment, which is attached, and Members can clearly see that the current minimum balance approved as part of the Financial Strategy (£2m) could be deemed to be slightly excessive when compared to this risk assessment. However it is not recommended that the Strategy should be amended at this stage.

- Projections of both the General Fund Balance and Capital Reserve are provided for Members and at no time do the above reserves fall into a deficit position.

Chris Malyon
Director of Resources

APPENDIX 5

RISK ASSESSMENT AND CONTROL STATEMENT - FINANCIAL STRATEGY

POTENTIAL AREAS OF RISK THAT WOULD IMPACT ON DELIVERY OF THE AIMS AND OBJECTIVES CONTAINED WITHIN THE FINANCIAL STRATEGY

Area of Risk	Risk Management/Reduction	Safety Process
Investments		
Interest receivable Loss of annual return Loss of capital value Default by counterparty on Repayment of investments	Longer term investments – with fixed returns Regular monitoring Clear lending policy to mitigate potential losses Use of investments rather than new borrowing Use of credit ratings and regular monitoring Use of treasury management advisors	Robust revenue balance Clear and strict lending policy set out in the Treasury Management Policy – approved Cabinet As above
Internal or external fraud re Investment transactions	Segregation of duties Counter signatory authorisation Treasury management policies and procedures Internal and External Audit of systems, Procedures and transactions	Robust revenue balance Fidelity guarantee insurance
Creditor payments		
Internal or external fraud re creditor transactions	Segregation of duties Counter-signatory authorisation Treasury management policies and procedures Internal and External Audit of systems, Procedures and transactions	Robust revenue balance Fidelity guarantee insurance
Capital Programme		
Contractor failure	Standing orders and Financial Regulations In-house legal team Use of Exor accreditation scheme Developing additional training in relation to project management and procurement	Robust revenue balance

Area of Risk	Risk Management/Reduction	Safety Process
Investments		
Property		
Damage to property (and people) through fire, flood, storms, vandalism	Regular review of property valuations Health and safety checks CCTV at some premises Regular fire evacuation tests Fire warden training	Adequate insurance cover Robust revenue balance Belwin scheme
Safety of staff and visitors	Visitor logs Weekly alarm testing Regular building evacuation drills Fire awareness training H&LC evacuation procedures Emergency planning procedures	As above
Impact on service delivery	Business continuity plans Disaster recovery plans	As above
Employees		
Non achievement of staffing reduction	Regular monitoring Service plans	Robust revenue balance
Litigation following inappropriate advice	Professional codes of conduct Individual and team training plans Robust PDI process and investment training IIP accreditation	Officials Indemnity Insurance cover
Litigation from employee on grounds of stress, bullying etc	Regular sickness monitoring at service and corporate level Management Advice Notes Bullying and harassment policy in place Training	Robust revenue balance Insurance cover
General Income		
Car parking income Health and Leisure Centres Land charges Building Control Fees	Regular financial monitoring Fees and Charges Policy Financial Strategy Expenditure Planning	Robust revenue balance

Area of Risk	Risk Management/Reduction	Safety Process
Investments		
Planning Fees Beach Hut Income Liquor licensing Revenue Support Grant New Forest National Park – uncertainty over future planning and support arrangements	Internal Audit fundamental systems reviews Prudent budgeting No allowance made for income through partnership working or reduced input costs However potential impact on RSG has not been taken into account	
General Expenditure		
Housing benefit costs Impact on service following efficiency savings Leasing and associated costs Rating changes Homelessness costs VAT partial exemption level Capital works costs	Medium term financial strategy Move towards self funding rather than leasing Ear mark part of General Fund Balance for potential VAT liability – monitoring and consideration of alternative VAT options Regular financial monitoring Flexible but clear financial virement rules Improved highlighting of longer term financial Implications/scenarios Service planning process	Robust revenue and capital balances Significant RCCO Repairs and Renewals Reserve

Not Achieving Corporate Objectives		
The inability of the Council to deliver the aspirations and objectives as contained within the Corporate Plan	Regular corporate monitoring Performance management framework Synergy between financial and service planning processes Expenditure Planning Process Member Scrutiny Citizens Panel and customer satisfaction surveys	Key performance indicators Financial Monitoring ‘excellent’ Performance Plan