

2. CONTEXT

2.1 Background Information

2.1.1 As always, there are a number of important issues facing the public sector, local government as a whole and North Norfolk in particular. Each of these is discussed below and have been grouped into the following categories;

- The National Economy
- Comprehensive Spending Review
- Local Authority Business Growth Incentive Scheme
- Housing and Planning Delivery Grant
- Efficiency
- Local Government Pension Scheme
- Concessionary Fares
- Community Strategy and Corporate Plan
- Local Government Reorganisation

2.2 The National Economy

2.2.1 There is a growing opinion that thinks that the recession has ended or is, at least, drawing to a close. Both the Nationwide and Halifax measures of house prices have been improving for five or six months all be it by small increments while other indicators suggest that there is cause for some optimism. However, there remains a considerable degree of uncertainty about the shape and length of the recovery process.

2.2.2 Confidence in the financial sector has improved particularly in banking. While banks still have significant amounts of “toxic” debt their write off policies show that they are prepared to deal with this situation aggressively. Beyond this the significant boost from fiscal and monetary policy through, for example Quantitative Easing, is coming to an end and the anticipated results from this initiative are slow to show themselves to this point.

2.2.3 Under the current plans from Central Government the public sector debt as a share of gross Domestic Product (GDP) will not fall back below the 40% ceiling previously specified in fiscal plans until 2035. As an example, to get debt below 40% by 2017 would mean cutting real spending by 2% per annum and reducing annual GDP growth by 0.7%.

2.2.4 The inflation target of 2% remains the Monetary Policy Committee’s (MPC’s) overriding objective. The Consumer Price Index (CPI) remained above 3% until February 2009 although since then it has come down to under 2% while it is still higher than other major economies around the globe. The Retail Price Index (RPI) has been negative since March 2009. Looking at price pressures it is anticipated that once the global economy starts to recover raw material and commodity prices will firm up. The oil price is nearly double its price in February 2009 at c\$80 per barrel which will not be helped by a weaker exchange rate pushing up the cost of imported goods.

2.2.5 Official interest rates around the world are at record lows in the economically developed countries. For the United Kingdom this is likely to remain the position

during the first year of this strategy with a moderate increase to 1% possibly by January 2011. However there are indicators that suggest that the base rate might then increase relatively quickly to 4% by March 2012.

- 2.2.6** There is also the spectre of an impending General Election in the early part of 2011. The make up of the new Parliament will have a significant bearing on the economy, financial markets and public spending. The major political parties are all discussing the inevitability of cuts in public spending.
- 2.2.7** The lower levels of inflation are working their way through the Council's budget position. In particular wage pressures have reduced and it has been necessary to revise the allowances made for pay awards in the light of these changes. Beyond this the Council has a number of contracts which are linked to various inflation indicators and at the present time this will undoubtedly mean a reappraisal of the cost of contracts such as waste and grounds maintenance.
- 2.2.8** There is more stability in the financial markets than the turmoil of a year ago. The fallout from that turbulence is being felt in the Council's finances in a number of ways. In particular the returns on investments are below the anticipated level for the current year and will have to be reassessed for the duration of this financial plan.
- 2.2.9** There is little evidence locally that the downturn in the property market is receding. As noted above there are signs of improvement generally in house prices but this is not uniform across the country. Local indicators of activity through the Council's own income streams from development and building control and local land charges do not indicate an upswing in the use of these services.

2.3 Comprehensive Spending Review (CSR)

- 2.3.1** The government announced the results of its last spending review (CSR 2007) in October 2007 which covered the three years from 2008/09 to 2010/11. The remaining provisional settlement figures from this review cover the first year of this financial strategy. Spending reviews set out the Government's future spending plans normally over a three year period. However the timing of the next spending review has not yet been confirmed and the resultant delay will undermine the reliability of this plan for the years 2011/12 and 2012/13. A promised pre budget statement in the autumn of 2009 may provide the necessary guidance but without the detailed certainty which has become the norm following a Comprehensive Spending Review.
- 2.3.2** Following the announcement of the CSR 2007, in December 2007 the Government made provisional finance settlement announcements for the three years covering the spending review period which included allocations of government grants and other specific grants. The allocation of grant for the remaining year of CSR 2007 (i.e. the first year covered by this financial strategy) indicates cash increases in external support of 1.5% in 2010/11. This provisional allocation has been used for the financial forecast detailed within Chapter 3 of this document.
- 2.3.3** Looking beyond the first year of this strategy there is uncertainty regarding the level of central government support. Recent announcements have recognised that in the prevailing economic climate a strong public sector could provide the engine to maintain economic progress. However, this is a double edged sword as the country

comes out of recession it will be necessary to reign back public sector expenditure and, probably, increase taxes to rebalance the national financial position.

2.4 Local Authority Business Growth Incentive Scheme (LABGI)

2.4.1 Nationally for the three years from 2005/06 the Government allocated £1 billion to local authorities in England and Wales under the LABGI scheme. Under this scheme CSR 2007 announced a further £150 million would be made available over the two years 2009/10 (£50 million) and 2010/11 (£100 million). A consultation paper was issued in August 2008 outlining the new LABGI scheme. Under the previous scheme allocations were based on a formulaic approach which took into account increases in the rateable values of properties within each local authority area against rates of growth. The following outlines some of the characteristics of the proposed new scheme:

- Grouping local authorities into sub regions for the purpose of the scheme and then if a sub region qualifies for a reward, the reward will be distributed pro rata to the population of the local authorities contained within the sub region;
- Performance will be based on the growth and yield of non domestic rates in each sub-region;
- In areas of two-tier local government, of the amount attributable to the billing authority area, two thirds of the amount will be allocated to the county council and one third to the district council.

2.5 Planning Delivery Grant (PDG) and Housing and Planning Delivery Grant (HPDG)

2.5.1 The Planning Delivery Grant (PDG) was replaced by the Housing and Planning Delivery Grant (HPDG) from April 2008. Since the PDG was introduced the Council has received total funding of approximately £1.6 million.

2.5.2 The capital element of PDG has been used or is earmarked for planning related capital schemes including the replacement planning back office system. The revenue grant allocation has been used to invest in the planning service for both planning policy and development control for funding staffing and to deliver projects such as production of the Local Development Framework (LDF).

2.5.3 Under the replacement HPDG scheme the government has announced funding of £510 million for period of CSR 2007, commencing April 2008. There has been a change to the allocation method from 2008/09 with 67% being allocated to revenue and 33% to capital. The allocation method consists of a housing element allocation based on delivering housing completions to at least 0.75% of existing housing stock and a planning element. The planning element consists of the following:

- Demonstrating sufficient land for housing in line with Planning Policy Statement 3 (PPS3) (40%). This element will reward local authorities for having a five year supply of deliverable sites.
- Delivery of core strategies and development plan documents, delivering more than 2,000 dwellings (50%)
- Joint working on the production of development plan documents (6%)
- Publication of a strategic housing market assessment (4%)

- Abatement – there will continue to be an incentive to deliver on development control in that the allocation mechanism will abate the plan making element where development control performance falls below the national planning standard included in the national indicator (NI) 157 (processing of planning applications as measured against targets for major, minor and other applications).

2.6 Efficiency

2.6.1 As part of the CSR 2007 the Government increased the efficiency target for Local Authorities. For the period 2005/06 to 2007/08 the annual target for efficiency was 2.5% per annum of which at least half had to be cashable, i.e. releasing cash for investment in service provision. The remainder could be non cashable where by additional outputs were achieved for the same level of input. From April 2008 the target was increased to 3% - all cashable. The 2009 Budget announced that an additional one per cent will be required in 2010-11. Together, for councils in England, this amounts to a target of £5.5bn cash-releasing efficiencies by the end of March 2011. While there are no mandatory targets for individual authorities, each council will be required to report their progress through National Indicator 179 (NI179), part of the National Indicator Set, and where there is evidence of underperformance, this will be followed up by the local Government Office.

2.6.2 The revised targets and reporting procedures for the new efficiency regime for the period 2008 to 2011 changed from April 2008 and were further modified in the pre budget announcement in November 2008. The following outlines the new requirements:

- 4% cash releasing efficiency gains per annum (previously 2.5%, half cashable and half non cashable);
- Non cashable efficiency gains no longer count towards the total efficiency target but still remain an important way for local authorities to demonstrate value for money;
- £5.5billion (previous target £3billion) of cashable efficiency gains expected to be delivered nationally by the end of March 2011;
- No longer required to report via annual efficiency statements (AES), reporting is now through a national indicator (NI179);
- Reporting now requires only a total value of cashable gains, previously required to report gains according to services or work streams for example procurement and transactions.
- Previously the AES required reporting externally of actions and also planned actions to achieve the efficiency gains, no external reporting of actions is now required only internal monitoring.
- The Council Tax bill contains details of the Council's efficiency achievement

2.7 Local Government Pension Scheme

2.7.1 There have been a number of amendments to the scheme over the last two years, and further changes were implemented from 1 April 2008. In the new scheme, instead of most people paying a standard contribution rate of 6%, there are different contribution rates for different pay bands. These new rates have been designed to give more equality between the cost and benefits of scheme membership. The new rates are between 5.5 and 7.5% of pensionable pay. It is understood however, that these changes should lead to no additional cost for local government overall. Until

full details are known and the impact of the changes individually assessed on each pension fund, the ultimate financial consequences for North Norfolk cannot be assessed. For the purposes of the current financial strategy it has been assumed the changes will be cost neutral.

- 2.7.2 In November 2007 a triennial review of the Norfolk Pension Fund was published. It was used to determine contribution rates payable by participating employers for the three year period commencing 1 April 2008. Following on from the review the increase per annum is 1.2% in 2010/11 giving an employers contribution rate of 21.4% by 2012/13. The next triennial valuation is due to be reported in late November 2010 based on a pension fund valuation as at 31 March 2010 and will determine contribution rates from 1 April 2011. FRS17 valuations are market-based and because of the uncertainty of future market conditions, particularly the return achieved on fund assets and the assumptions used to place a value on liabilities, it is not possible to assess the impact for the 2011/12 or beyond and therefore, no major variation is currently assumed.

2.8 Concessionary Fares

- 2.8.1 The new national concessionary fares scheme came into operation on 1 April 2008. The new scheme allows free national travel throughout England for all eligible pass holders, i.e. people aged 60 and over and disabled people.
- 2.8.2 The national scheme means that each Council will be responsible for reimbursing bus operators for any journey by pass holders that originate in their area. Under the previous scheme pass holders could only travel free in their own district (or County if part of a County wide scheme). The new scheme allows free travel anywhere in England, for example North Norfolk pass holders previously could only travel free within Norfolk, now they can travel free outside of Norfolk for example whilst on holiday elsewhere in the Country. This also applies to visitors to North Norfolk from outside the area.
- 2.8.3 Additional funding for the new scheme was allocated within the 2008 finance settlement. Nationally £652 million in total has been made available via special grant in England to Local Authorities/Travel Concession Authorities (TCA) over the three years commencing April 2008 to fund the non residents travel and extra journeys generated by the new scheme. The allocation to NNDC for the three years was £486,000 in 2008/09, £498,000 in 2009/10 and £511,000 in 2010/11. Within the 2008/09 base budget and future projections, the total amount had been ring fenced within the concessionary fares budget for implementing the new scheme.
- 2.8.4 Under the new scheme to enable bus operators throughout England to be able to recognise valid pass holders, i.e. those entitled to free travel all concessionary travel passes needed to conform to a standard design as specified by the Department for Transport (DFT) and therefore had to be reissued. Under the previous scheme North Norfolk had in the region of 11,000 passes in circulation. To date just under 19,000 new passes have been issued, an increase of approximately 72% of passes in circulation for North Norfolk residents. The current passes in circulation represents approximately 65% of eligible pass holders within the district. Recent data shows that this number continues to increase with potential implications for the cost of this service.

2.8.5 There has undoubtedly been an increase in the number of journeys originating in North Norfolk. Budgeting is difficult because of the demand led nature of the service. Pressure on this budget is coming not only from the increased use of the concession but also from bus operators who feel that their costs are not being covered by the reimbursements they receive. A reserve has been created to provide a cushion against a successful claim by the operators.

2.8.6 There are a number of possible changes which maybe made to the concessionary travel scheme in the future which include moving the administration of the scheme away from the current Travel Concession Authorities (TCA)/Local Authorities, to a different tier of local government. Consultation was launched in April 2009 to examine the administrative arrangements for the scheme. Three proposals are being considered:

- Keeping things as they are
- Moving to a higher tier of local government
- Centralising arrangements within the Department for Transport or one of its agencies.

The consultation ended in July 2009. A final report is still awaited.

2.9 Community Strategy and Corporate Plan

2.9.1 The Community Strategy and Corporate Plan have been revised to cover the period 2008 to 2011 and were published in April 2008. The corporate plan (Changing Gear – The Road to Excellence) sets out what the council intends to do between 2008 and 2011. It revises the last corporate plan, which was published in 2006, and reflects NNDC's continuing journey to improve the way the Council's business is run and raise the quality of services provided.

2.9.2 It is a key objective of this financial strategy that the resources are available to achieve the aims and outcomes identified in the corporate plan and that the budget and financial projections for the next three years underpins the corporate plan.

2.10 Local Government Reorganisation (LGR)

2.10.1 Local Government Reorganisation continues to be an unknown element of all forward planning. If there is a decision to reorganise local government in Norfolk there will be a considerable impact on this Council and its community. The uncertainty about the programme, which has suffered a number of reversals, requires that the assumptions we make should protect the current known plans and financial position of North Norfolk. This strategy adopts the concept of North Norfolk District Council as a "going concern".

2.10.2 The Boundary Committee has announced that it is unable to publish advice to the Secretary of State following a recent High Court ruling. This new delay makes it unlikely that the deadline date of April 2010 will be met. The position is further complicated by the imminent General Election due to be held by June 2010.

2.11 Environmental Issues

2.11.1 There are now three National Indicators (NI185, NI186 and NI188) which monitor the Council's progress on "green" issues.

- 2.11.2** In 2000 NNDC signed the Nottingham Declaration on Climate Change and in 2008 with the refresh of the Corporate Plan environmental sustainability became a new key theme for the Council.
- 2.11.3** The Norfolk Climate Change Partnership was formed in 2008 and North Norfolk District Council is a key member.
- 2.11.4** In February 2009 the Council adopted the Norfolk Climate Change Strategy.
- 2.11.5** A number of financial consequences will flow from these initiatives with the Carbon Reduction Commitment and the Carbon Management Plan. In the case of the former early evidence suggests that this Council does not breach the current threshold for inclusion in the scheme. However with a commitment to reduce carbon dioxide emissions by 33% by 2014 there will have to be investment in new technology during the course of this plan.