

**CAIRNGORMS NATIONAL PARK AUTHORITY
FINANCE COMMITTEE**

FOR DECISION

Title: 2008/11 BUDGET UPDATE: STAFF MONITORING AND EFFICIENCY SAVINGS

Prepared by: David Cameron, Head of Corporate Services

Purpose

To seek approval to both revised guidelines for staffing costs and to a proposed efficiency plan for 2008/09 within overall high level budget forecasts for the coming three year period.

Recommendations

The Finance Committee is requested to agree:

- a) that the guideline figure for staff salaries should be set at 53% of total cash income;
- b) the proposed efficiency savings for 2008/09 as set out in paragraph 25, table 3.

Executive Summary

This paper seeks to take forward budget principles previously discussed by the Committee, seeking approval to both guidelines for staffing costs and to a proposed efficiency plan for 2008/09.

From its inception, the Board has been keen to ensure that the Authority's central (Core) costs – staff, Board, accommodation – were kept under close control. The principle behind this was to ensure an appropriate balance between maximising the level of investment available each year in operational plan activities while recognising that effective delivery and management of these operational plan activities requires good staff. The proposed change in monitoring and control of staffing levels considered in this paper is from the ceiling of 50 full-time equivalent (FTE) Core staff to a guideline for staff expenditure set at an appropriate percentage of income. This proposal follows on from members' discussion in January, where it was recognised that monitoring staff levels on the basis of absolute numbers of FTEs could result in opportunities being missed through lack of flexibility in deployment of resources.

The paper proposes that the guideline figure for staff salaries should be set at 54% of total income.

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The paper also seeks approval for planned areas of efficiency to be achieved in order to realise the 2% or £90,000 to be found in efficiency savings in 2008/09 against the Authority's 2007/08 baseline budget.

The areas of efficiency do pose risks or have other consequences to the Authority's operations. There is also no guarantee at this stage that all above efficiency savings can be achieved.

Once agreed, the efficiency action plan will remain a live document, in that achievement of many of the above efficiencies are dependent on the outcome of other activities to realise them.

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SAVINGS - FOR DECISION**

Background

1. This paper represents the continuation of the Committee's consideration of the Authority's likely financial position over the new Corporate Plan and Comprehensive Spending Review (CSR) period, April 2008 to March 2011.
2. The Committee has previously received information papers updating on the potential resource allocation and budget position in 2008/11 in September and November 2007. The Committee also discussed a number of key principles for development of the budget for the new Corporate Plan period at its previous meeting in January 2008.
3. The key budgeting principles agreed by the Committee at its previous meeting included a change in the current monitoring control over staffing and the agreement to target required 2% efficiency savings at Core budget areas as far as possible. The Committee also recognised that, while there remained merit in using a blend of permanent and fixed-term contracts in the Authority's recruitment activity, there also comes a point when it is appropriate to review the status of staff who have been on fixed term contracts for some time and consider making these posts permanent.
4. This paper seeks to take these budget principles forward, seeking approval to both guidelines for staffing costs and to a proposed efficiency plan for 2008/09 within overall high level budget forecasts for the coming three year period.
5. The paper should also be taken in context of the ongoing Corporate Plan development. The full Board will have an informal discussion on the development of the Corporate Plan in the afternoon following the Committee meeting. The Board's discussion will seek to consider in particular whether the Authority's place in the delivery of the Scottish Government's national objectives and in the delivery of the National Park Plan is correctly conceived and explained in the developing Corporate Plan. It is the Finance Committee's delegated responsibility to see that Senior Management has control of the finance and staff resource inputs in order to achieve the outputs and outcomes sought within the Corporate Plan. This paper allows the Committee to exercise that function in terms of considering the proposed controls over staff costs and plans to deliver efficiency savings, leaving the Board discussion free to consider overarching strategy direction for the organisation over the coming years.

Monitoring and Management of Staff Levels

6. From its inception, the Board has been keen to ensure that the Authority's central (Core) costs – staff, Board, accommodation – were kept under close control. The principle behind this was to ensure an appropriate balance between maximising the level of investment available each year in operational plan activities while recognising that effective delivery and management of these operational plan activities requires good staff. The Authority has always recognised that as part of its “enabling” role we should maximise the extent to which we work through others, but this activity continues to require staff effort and influence to make it happen. In agreeing the 2005/08 Corporate Plan, the Board agreed that the Core staff complement would not rise above 50 FTE (this did not include project staff delivering specific operational plan activities and funded through the relevant operational plan budget).

7. The proposed change in monitoring and control of staffing levels considered in this paper is from the ceiling of 50 full-time equivalent (FTE) Core staff to a guideline for staff expenditure set at an appropriate percentage of income. This proposal follows on from members' discussion in January, where it was recognised that monitoring staff levels on the basis of absolute numbers of FTEs could result in opportunities being missed through lack of flexibility in deployment of resources. The use of a more general guideline was considered a more flexible and responsive monitoring mechanism, whereby variation from the guideline if required (for example to take advantage of potential partner delivery opportunities) could be highlighted and explained.

8. The paper to the Committee in January 2008 highlighted that current forward financial forecasts included Core staff costs of £2.115m for 2008/09, this level of expenditure continuing to reflect a total core staffing within the 50 FTE ceiling. The paper also highlighted that the Authority's total salary expenditure for 2008/09 was estimated at £2.26m, after including the salaries of some 6.1 FTE project staff who are also on the Authority's payroll. The total salary figure of £2.26m includes the element of project staff salaries paid for from the Authority's own resources, and excludes that proportion of salary covered by third party contributions. These salary figures include provision for the Authority's pay award due to be implemented with effect from 1 April 2008.

9. It is proposed that only staff salaries and salary related oncosts (employers' national insurance and pension contributions) will be included within this monitoring framework. The possibility of including other staff-related costs, such as travel and subsistence and training, have been considered. However, there is a significant risk that these aspects of the budget could be overly restricted in order to make budgetary room for additional staff. These items of expenditure will be considered as part of the

ongoing efficiency plan (considered further below) and will therefore be subject to sufficient scrutiny and control.

10. When seeking to establish a monitoring framework for staff as a proportion of total income rather than absolute numbers of FTEs, there is a requirement to define the measure of “total income” to be used. It seems most appropriate to exclude “notional cost allocations” included in the Authority’s total resource allocation from the Scottish Government from such a measure. These notional cost allocations represent allowances to cover non-cash costs such as depreciation and the notional costs of holding relatively small, “local” cash balances. These notional cost allocations cannot be used as cover for “cash” based expenditure on salaries, other central costs or operational activities and hence it is appropriate to exclude them from a “cash” based monitoring framework for reviewing staff salary levels.
11. The Authority’s cash-based income for 2008/09 comprises resource allocation of some £4.546m from the Scottish Government, together with an estimated £0.055m income from fees and charges. Total budgeted, cash-based income for the coming year, 2008/09, is therefore £4.601m. Equating current establishment and associated payroll expenditure costs to this income level therefore gives Core staffing (£2.115m) which represents some 46% of total income and total staffing, including CNPA-funded project salaries (£2.264m) representing some 49% of total income.
12. There are a number of projects or initiatives agreed by the Board that will have implications for staffing levels and paybill costs over the course of the coming financial year. Creation of a support service for SRDP implementation within the Park will have 2 support officers; a cultural heritage officer post is in development, with co-funding negotiations with partners ongoing; and there remains a high likelihood that the Authority will have to recruit a further member of staff if we and partners are to have the capacity to deliver planning enforcement services within the Park.
13. There are also a number of operational activities over the coming years which may be delivered through, or in part through, additional staffing if that proves to be the most appropriate delivery mechanism. For example, the proactive implementation of Local Plan and Sustainable Design policy and the support required by the Planning team during a Local Plan Inquiry period may require some additional staff support.
14. In summary, the potential measurement of staff costs as a proportion of total income is set out in Table One below. The final line of Table One includes allowances for the approved and anticipated activities over 2008/09 which may require staff resource

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which is additional to the establishment currently in place and outlined in paragraphs 12 and 13.

Table One: Illustration of Staff Costs as Proportion of Total Income

	2008/09 Budget forecast (£m)	As Proportion of Total Income
Total Income	4.601	
Core staffing at 2007/08 establishment level	2.115	46%
Total staffing at 2007/08 establishment level	2.264	49%
Total staffing at anticipated 2008/09 levels (see paragraph 12 and 13)	2.436	53%

15. In order to keep monitoring and control of staff and salary expenditure as straightforward as possible, it is proposed that the control guideline should be set at the level of total staffing, i.e. all core staff plus the element of project staff time funded by the Authority. Table One highlights that, on the basis of known operational developments over the course of 2008/09, this would require a guideline figure of staff expenditure equivalent to 53% of total annual income.
16. The annual movement of staff salaries through cost of living increases and salary progression may result in some movement against guideline over the Corporate Plan period. As set out in Table 2, current assumptions and estimates of potential pay awards combined with future changes to grant income suggest that this would not be a significant effect over the course of the coming three year period.

Table 2: Modelled Effect on Salary Guideline of Assumed Total Income and Pay Award to 2011

	2008/09	2009/10	2010/11
Projected total income	£4.601m	£4.725m	£4.890m
Project salaries, on basis of anticipated 2008/09 levels (see Table 1) and assuming	£2.436m	£2.521m	£2.548m

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annual pay remit of 3.5%			
Salaries as a percentage of total income	52.9%	53.4%	53.4%

17. Variations in actual establishment and / or actual pay from these assumptions will, of course, have an impact on comparison of salaries against the guideline.

18. Given current staffing and commitments (paragraph 12), the potential for further staff to emerge as the most effective delivery mechanism for aspects of the emerging Corporate Plan (paragraph 13), **it is proposed that the guideline figure for staff salaries should be set at 53% of total income for the time being.**

19. It is further proposed that the guideline for staff expenditure level as a proportion of total income should be incorporated into the Balanced Scorecard organisational performance monitoring tool. Staff expenditure in line with the guideline – 53% of income or less – will be categorised as in line with target (green rating); expenditure greater than 53% but not greater than 55% will highlight an exception (amber rating) for which an exception report must be presented to the Committee to explain the budget situation; and any expenditure in excess of 55% will be in need of management action to remedy the situation (red rating).

20. This process will be incorporated into regular monitoring reports to the Committee over the course of the coming year, and will allow members to trial this new monitoring mechanism.

21. Of course, the Authority’s establishment and staff structure must continue to be reviewed even if salaries are below this guideline level. The discussion paper to the Committee in January highlighted the various contractual and other delivery frameworks which will force such a review to take place. More importantly, ongoing review of the appropriateness of the staff structure and its fit with the strategic direction set by the Board for the organisation is a key element of the Management Team’s role.

22. In moving to a monitoring framework for staff expenditure based on staff resource as a proportion of income, rather than a control of absolute FTE numbers, there are a number of potential advantages worth recognising.

- a) Changes in levels of third party funding support will be highlighted through the monitoring framework. Increasing third party income support, while a primary objective for the Authority's staff, will be further incentivised through staffing having a reduced impact on the guideline level. Any loss of third party funding support will be reflected by an increase staffing expenditure as a percentage of income and will require management attention.
 - b) Staffing levels will require close attention at times of flat or reducing funding.
 - c) The monitoring arrangements will highlight the relative impact of movements in salary levels arising from pay awards and salary progression, compared with movements in overall income.
23. There are also a number of principles worth bearing in mind when considering staff expenditure. These are primarily issues more in keeping with the Board's Staffing and Recruitment Committee, but worth highlighting here while the Finance Committee considers the detail of staff and salary expenditure:
- a) Organisational effectiveness depends heavily upon staff. We have a policy of investing in our staff and making appropriate investment in staff training.
 - b) The organisation will continue to use contracts and recruitment appropriate to the nature of the work to be undertaken, including secondments and fixed term contracts where appropriate to the nature of the activity.
 - c) The organisation will continue to recognise the value of secondments in enhancing working relationships between partner organisations and in supporting staff development opportunities.

Annual Efficiency Savings

24. Previous budget update papers to Committee have highlighted the requirement within the Scottish Government's draft budget for all bodies to find 2% annual efficiency savings. Members accepted that the magnitude of efficiency savings involved for the Authority over the 3 year period to 2010/11 is likely to require some reduction being made to the current level of expenditure invested in Operational Plan activities, while requesting that as much of the saving be found from Core areas of the budget as possible.
25. The Authority has now been required to submit its proposed efficiency savings to the Scottish Government. The efficiency savings are to be based on the 2007/08 budget, as

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the baseline level of expenditure against which savings are to be measured. The proposals for savings to be made in 2008/09 against the current 2007/08 baseline budget are summarised below.

Table 3: Proposed Efficiency Actions in 2008/09

Proposed Efficiency Actions in 2008/09	Cumulative Efficiency Saving per annum
£15,000p.a. accommodation rationalisation;	15,000
£2,000p.a. reduction in internal audit coverage;	17,000
£3,000p.a. reduction in cost of legal services;	20,000
£3,000p.a. reduction in business travel and subsistence;	23,000
£6,000p.a. reduction in recruitment costs;	29,000
£30,000p.a. software licence rationalisation;	59,000
£5,000p.a. reduction in contracted ICT support;	64,000
£10,000p.a. reduction in website hosting and development;	74,000
£5,000p.a. reduction in ICT equipment replacement;	79,000
£11,000p.a. reduction in staffing through managing turnover.	90,000

26. The action plan identifies that, for 2008/09, the great majority of efficiencies will be sought from within Core budget areas. Only the planned reduction in website development and hosting relates to an area of investment in the Operational Plan budget.
27. The proposed areas of efficiency do have risks or other consequences to the Authority's operations. These risks and consequences are being documented as part of the delivery plan. For example, a reduction in internal audit coverage poses the risk of weakening the Authority's internal controls and will be considered by the Audit Committee prior to implementation. Further, a reduction in the use of legal advice exposes the Authority to additional business risk and this will have to be monitored.

28. There is also no guarantee at this stage that all above efficiency savings can be achieved. The action plan will remain a live document, in that achievement of many of the above efficiencies are dependent on the outcome of other activities to realise them. These dependencies have been identified in order to give an early warning of any potential shortfall, and contingency savings will also be identified for implementation should a shortfall in the above action plan arise.

29. The Scottish Government's annual 2% efficiency policy requires that an additional £90,000 in savings is found in 2009/10, giving total savings in that year against the 2007/08 baseline of £180,000. A further £90,000 is required to be found in 2010/11, resulting in total savings against the 2007/08 baseline of £270,000 by March 2011. Proposals have not yet been identified for 2009/10 or 2010/11 and potential actions will be considered on an ongoing basis.

30. Subject to ratification by Committee, the efficiencies identified will be incorporated as adjustments in the base budget prior to developing final 2008/09 budget proposals. An update on implementation of the efficiency action plan will be presented on a quarterly basis to the Committee, as part of ongoing budget monitoring.

Next Steps

31. A detailed budget for 2008/09 will be presented to the next meeting of the Committee for approval. This will take account of any comments on the issues set out in this paper, plus comment from the Board on the overall strategic direction of the Corporate Plan.

32. For the time being, current estimates of income and expenditure over the Corporate Plan period are set out in Annex One. These have yet to be finalised, and are provided at this stage as a guideline to the current pattern of central / core and Operational Plan expenditure over the course of the Corporate Plan period to 2011.

David Cameron

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davidcameron@cairngorms.co.uk

Annex 1: Draft Budget Forecast Over 2008/11 Corporate Plan Period

The figures presented here have still to be adjusted to take account of final efficiency saving plans and emerging priorities in the Authority's Corporate Plan for 2008/11. Final figures are to be presented to the next meeting of the Finance Committee.

**CNPA Draft Budget
Forecast 2008/11**

January 2008

	2007/08	2008/09	2009/10	2010/11
	Initial Budget	Initial Forecasts		
	£000	£000	£000	£000
Total Cash Income	4,601	4,601	4,725	4,890
Resource re non-cash transactions	87	87	87	87
Total Income	4,688	4,688	4,812	4,977
Core / Central Expenditure	2,974	2,901	2,889	2,980
Operational Plan expenditure	1,682	1,883	1,935	1,928
Non-cash transactions	87	87	87	87
Includes Operational Plan over-programming of		(183)	(99)	(18)
Total Expenditure	4,743	4,688	4,812	4,977

In accordance with normal practice, the initial Operational Plan budgets for 2008/09 and 2009/10 have been over-programmed to allow for slippage in planned activities over the year, and hence to seek to ensure resource use is maximised each year.