South Downs
National Park Authority

Agenda Item 11

Report NPA24/25-32

Report to	**South Downs National Park Authority**
Date	**27 March 2025**
By	**Interim Chief Finance Officer**
Title of Report	**Revenue Budget, Capital Strategy and Treasury Management Strategy 2025/26 and Medium-Term Financial Strategy 2025/26 – 2029/30**

Decision

Recommendation: The Authority is recommended to:

1. **Approve the Revenue Budget 2025/26 of £13.750m as detailed in paragraphs 3.1 to 3.23 and Appendix 1.**
2. **Approve the Capital Strategy 2025/26 including new capital projects totalling £0.344m and capital variations of £0.348m, a total of £0.692m of capital investment as detailed in paragraphs 3.1 to 3.23 and Appendix 2.**
3. **Approve the Treasury Management Strategy 205/26 at Appendix 3 as recommended by Policy & Resources Committee.**
4. **Note the Medium-Term Financial Strategy 2025/26 – 2029/30 at Appendix 5.**

---

1 Introduction

1.1 The Authority fully recognises the importance of sustainable financial management and aims to set a balanced budget before the start of a new financial year in accordance with legislation. The Authority also looks to the longer term and this report sets out the South Downs National Park Authority's (the Authority) proposed budget for the 2025/26 financial year together with a 5-year Medium Term Financial Strategy for the period 2025/26 to 2029/30.

1.2 In accordance with financial regulations, the Chief Finance Officer is responsible for preparing annually a detailed revenue and capital budget, and medium-term financial projections which take account of known and estimated resources for consideration and approval by the Authority. In terms of financial planning, the key elements of this are:

- The Revenue Budget;
- The Capital Strategy;
- The Treasury Management Strategy;
- The Medium Term Financial Strategy.

2 Policy Context

2.1 The budget has been developed in accordance with the authority's agreed budget framework alongside the Corporate Plan and the Partnership Management Plan (PMP) in order to ensure that the budget aligns with the authority's priorities and objectives.

2.2 The budget has been developed in the context of priorities further informed by two Member Budget Workshops (December 2024 and January 2025) and to align with the Corporate Plan.

2.3 The basis for the revenue expenditure is the pursuit of the statutory purposes for which National Parks were designated under the Environment Act 1995. Section 65 of the Act determines the purposes as conserving and enhancing the natural beauty, wildlife and cultural heritage of national parks, and of promoting opportunities for the understanding and enjoyment of the special qualities of those parks by the public. In pursuit of these dual purposes, the Authority also has a duty to foster the economic and social well-being of local communities within the national park.

3 Issues for consideration

Revenue Budget 2025/26

3.1 The 2025/26 Revenue Budget is detailed at **Appendix 1.** The revenue budget for 2025/26 is a net budget of £10.136m, funded by the assumed National Park Grant of £9.626m and reserves of £0.510m.

3.2 It should be noted that the total gross revenue budget for the Authority in 2025/26 is £13.750m; this encompasses all available revenue resources to the Authority as set out in the subjective analysis tables in Appendix 1. This represents additional spending of approximately £3.6m above the Defra National Park Grant for both staffing and supplies & services primarily funded by core budget.

3.3 DEFRA have confirmed the National Park Authorities' grant allocations for the 2025/26 financial year; the core revenue grant will be reducing by £0.860m for next year, resulting in a core grant of £9.626m, representing a reduction of 8.2% from 2024/25. This has been replaced by an increase in capital grant of the equivalent amount.

3.4 In addition to this reduction in core revenue grant DEFRA has announced they will increase the capital grant which the Authority will receive to £1.114m. This increase in capital funding allows the Authority to fund the budget gap in a different way by capitalising eligible costs to capital projects or applying the REFCUS accounting policy, for which the precedent has been set through the adjustments made during the 2023/24 accounts. This increased in capital grant has also allowed for the funding of the capital programme to be switched from reserves to grant. The impact of doing this means a higher level of general reserves available to mitigate the estimated deficit in 2026/27 of the MTFS.

3.5 The medium-term financial planning of the Authority identifies that, because of the reduced level of revenue grant, the 2025/26 budget is balanced through a combination of applying capitalisation of salaries of £0.459m and a contribution from reserves of £0.510m. Future year grant allocations are not yet known, so the Medium-Term Financial Strategy (MTFS) assumes a small amount of growth in capitalisation and other income. All assumptions for the MTFS are included in Appendix 5.

3.6 The Authority has a 'best value duty' to plan to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The Authority therefore continues to adopt a prudent approach to budget setting, and cost savings have been reflected in the budget proposals where appropriate.

3.7 Due to the size and nature of the budgets, and change in funding available via the annual DEFRA grant settlements, the Authority has worked hard to achieve financial sustainability, plan for the future and maintain some flexibility to fund one-off projects and unexpected costs. A significant contribution to this is that income from SDCO is now being built back into the budgets for the Authority following the decision in 2024. However, given the current economic environment against a backdrop of a cut to the grant settlements, all budgets have been reviewed regarding their value for money This process has identified the requirement for short term funding for one-off proposals as well as a number of permanent budget changes (including savings), which have been reflected in the budget proposals.

3.8 The budget has continued to be developed with Budget Holders and SLT and known changes included in this paper and reflected in the tables in the accompanying appendices.

3.9 The 2025/26 budget covers the current staffing establishment of 146.5 full time equivalent posts, which includes a number of time limited funded posts and 3 full time equivalent apprenticeships. For financial planning purposes, the proposed budget therefore includes an assumption of a 3% increase. Staffing budgets are the most significant element of the Authority's expenditure budgets and therefore provision for cost-of-living increases is an important factor for both budget planning and recruitment and retention of a skilled workforce. When this level of award is translated into the provision in the Medium-Term Financial Strategy at **Appendix 5** the total provision for cost of living pay awards is overall 3% for 2025/26 and then follows the latest Officer for Budget Responsibility inflation estimates for 2026/27 to 2029/30.

Capital Strategy 2025/26

3.10 The Prudential Framework requires the Authority to produce a Capital Strategy which must be presented to and approved by the Authority each year. The purpose of the Capital Strategy is to provide a single place for transparency and accountability of the Authority's non-financial investments and capital investment programme, including any commercial investments or loans to third parties.

3.11 The aim of the Capital Strategy is to ensure that members are fully conversant with the risks of non-financial investments and are aware of how the risks are proportional to the Authority's core services activity. The Capital Strategy is provided at **Appendix 2** and includes:

- The Governance & Risk Framework associated with capital investments;
- The principles and strategy associated with capital investment;
- The proposed Capital Programme covering the Medium-Term Financial Strategy period of 2025/26 – 2029/30.

3.12 The Capital Programme supports priorities informed by the Member Budget Workshops and outcomes identified in the PMP. The key priorities for capital expenditure over the medium term include the investment in the Seven Sisters Country Park, and the ongoing vehicle replacement programme. The capital programme is being proposed to be funded fully from the capital grant that has been announced by DEFRA meaning that reserves previously identified to be funding the programmed have been released allowing for the general reserves to be held to mitigate in part future years deficits as set out in the MTFS.

Treasury Management Strategy 2025/26

3.13 Part 1 of the Local Government Act 2003 requires the Authority to adopt and comply with the requirements of the 'Code of Practice for Treasury Management in the Public Services' issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and to comply with investment guidance issued by the Secretary of State. Part of the treasury management operation is to ensure that cash flow is adequately planned with cash being valuable when needed to meet the approved revenue and capital spending commitments as set out in this report.

3.14 The Treasury Management Strategy 2025/26 as set out in Appendix 3 comprises the:

- Treasury Management Policy Statement 2025/26
- Treasury Management Practices 2025/26
- Borrowing Strategy for 2025/26
- Prudential and Treasury Indicators 2025/26 to 2027/28
- Minimum Revenue Provision (MRP) Policy Statement; an
- Annual Investment Strategy 2025/26, including the benchmark risk factor of 0.05%.

3.15 Policy & Resources Committee agreed at its meeting of 20 February 2025 to recommend that the Authority approve the Treasury Management Strategy 2025/26 at **Appendix 3** to this report, note that the capital programme has been amended to reflect updates to the proposed investments. No fundamental changes to the strategy are required as there was no impact on the borrowing level for the authority.

3.16 The proposed investment periods within the Annual Investment Strategy take into account the Authority's expected cash flows including its net revenue outgoings versus grant income, capital expenditure plans, expected use of earmarked reserves including CIL allocations, and project and programme spend. It also accounts for the need to hold some cash in respect of risk reserves (Working Balance and Planning Reserve) and allows for the current policy of utilising cash balances to minimise any need to borrow. Taking all these factors into account, maximum investment periods of 12 months are still considered appropriate to minimise the risk of cash not being available when required.

Review of Reserves

3.17 A schedule of all the reserves held by the Authority is shown in **Appendix 4** which shows, for each reserve, the approved purpose for which it is held, the forecast opening balance, anticipated movement during the year and forecast closing balance. This includes the impact of the switch in funding for the capital programme in 2025/26 and using reserves to help mitigate and balance the revenue budget.

3.18 The use of reserves to balance the budget is a short-term solution as they are a finite resource, it will require a plan in place to manage the budget over the longer term. This will include, but not limited to reviewing the capitalisation of costs, making use of the increased grant available to the Authority.

3.19 Capitalising costs will be made clearer following attendance at CIPFA advisory network seminars. These are planned for after the budget and so could not be relied upon for setting the 2025/26 budgets. The potential outcome will be assessed and the impact on the 2025/26 budget will be reported to the board accordingly.

3.20 The Authority holds reserves for three main purposes:

- Risk Reserves to manage unforeseen costs including a minimum working balance to temporarily cover major unexpected items of expenditure on emergencies;
- Capital Reserves to manage the timing of capital expenditure (i.e. to carry forward capital resources into the year in which they are expected to be required);
- Earmarked Reserves set aside for a range of specific purposes such as future one-off events, identified invest-to-save schemes, or other priority projects.

Income related to planning agreements (i.e. CIL and S106) is also held in reserve pending allocation in accordance with the terms of the agreement. These are not therefore available to or under the direct control of the Authority.

3.21 It is essential that the Authority puts in place appropriate levels of reserves to provide the necessary safety net for potential risks, unforeseen issues or other circumstances. Determining the appropriate levels of reserves is not a precise exercise nor determined by formula but must be a professional judgement based on local circumstances, including the overall budget size, assessed risk in the robustness of budget estimates and assumptions, other reserves and provisions, and the Authority's budget management track record.

3.22 Note that despite using reserves to balance the revenue budget and after setting aside necessary risk reserves, capital reserves and reserves held in lieu of legal (planning) agreements (i.e. CIL / S106), the reserves under the direct control of the Authority are expected to be £2.687m as at 1 April 2025, which will be held as Earmarked Reserves to meet identified projects, priorities and invest-to-save requirements as set out in Appendix 4. This is a £0.020m on the balance as at 1 April 2024.

3.23 The working balance must last the lifetime of the Authority unless contributions are made from future years' revenue budgets and is based on approximately 6% of core funding made up of the DEFRA National Park Authorities Grant and estimated annual planning income. Taking the factors outlined above into account, it is considered by the Chief Finance Officer that maintaining the current working balance at £0.595m for the 2025/26 financial year therefore remains prudent and reasonable.

3.24 The 2024/25 revenue forecast position reported as at month 10 to Policy & Resources Committee was a below budget variance of (£0.220m), with a potential spend risk relating to the operations of SDCOL being bought into the Authority. A below budget variance at the end of the financial year would increase the reserves position and therefore have implications for the Medium-Term Financial Strategy of the Authority. The final 2024/25 outturn position will not be known until the completion of the accounts for the 2024/25 financial year and transfers to reserves as part of the MTFS will be reported as part of the budget monitoring outturn report to Policy & Resources Committee.

Medium Term Financial Strategy

3.25 The Medium-Term Financial Strategy (MTFS) is set out in **Appendix 5** and shows projected changes in commitments, savings and grant income for 2025/26 to 2029/30. The forecasts in the MTFS reflect forecast DEFRA National Park grant allocations and also assumptions made for other expenditure and income over the period.

3.26 The MTFS is currently forecasting a deficit position from 2026/27 as presented at the two members budget workshops. Officers will continue to seek stability within the overall budget whilst continuing to fund short term and one-off projects, identify savings, maximise potential income opportunities and provide flexibility for PMP priorities. The MTFS includes indicative allocations for ongoing investment in projects and contributions to strategic priorities; this includes the minimum contribution for Strategic Fund Projects to meet PMP objectives.

3.27 The MTFS reflects a number of initiatives and efficiency savings including:

- Applying an appropriate turnover rate to salary budgets to reduce the extent of in-year underspending as well as unlocking additional resources for the Authority;
- A proactive approach to maximising income opportunities including potential income from corporate sponsorship and donations, as well as continued financial support for the South Downs National Park Trust to maximise fundraising opportunities through corporate sponsorship and donations;
- Ongoing review of the performance and value for money provided under corporate contracts, including payments to other Local Authorities for planning services, and;
- Maximising the opportunity to bid for external funding sources, in line with the Authority's purposes and duty.

Report of the Chief Finance Officer under Section 25 of the Local Government Act 2003 – Robustness of Estimates and Adequacy of Reserves

3.28 Section 25 of the Local Government Act 2003 requires the Authority's appointed Chief Finance Officer to report on the robustness of the estimates included in the budget and the adequacy of the proposed financial reserves.

3.29 There is inevitably an element of judgement required, as budget estimates of spending and income are made at a point in time and may change as circumstances change. This budget has been developed based on practical experience, guidance from the two Member Budget Workshops, and the financial management track record of the Authority over recent years, including the detailed in-year budget monitoring. Other factors considered in determining the budget requirement include pension and national insurance contributions, income assumptions, and pay and price increases.

3.30 While the level of development management activity is difficult to predict, its effect on the Authority's overall financial position is to an extent being managed through activity based S101 Planning Agency Agreements with other authorities. In addition, the planning reserve is available to mitigate this risk in the short term. In the longer term, efficiency savings or increased income from discretionary fees would be required to offset any growth that could not be covered by fee increases.

3.31 In relation to budget estimates, the Chief Finance Officer has examined the budget proposals and believes that the assumptions used in the development of the budget are appropriate and reasonable and that the estimates are therefore robust and prudential. The Authorities Chief

Finance Officer and Head of Finance are going to be attending a CIPFA seminar on the changes related to capital grant allocations, directly impact National Park Authorities which will inform the approach that is required to take in setting budgets from 2026/27. This seminar is due to take place in early April and so arrives to late to inform the MTFS for this paper.

3.32 A budget update paper will be presented to the board in the financial year outlining any significant changes the board should be aware of from this and any other Government announcements.

3.33 The recommendation on the prudent level of working balance has been based on the robustness of estimates information and a risk assessment of the budget.

3.34 The earmarked reserves cover a range of areas and have been reviewed to ensure they are set at appropriate levels for the requirements of the organisation and their intended purpose over the year. For example, earmarked reserves in relation to Planning provide resources for unexpected expenditure that cannot be funded within the base budget in any particular year. As normal, reserves will be reviewed again as part of the closure of the 2024/25 accounts.

4 Options & cost implications

4.1 Budget options and their cost implications have been considered and developed in the context of the medium-term financial position of the Authority and priorities informed by Members' Budget Workshops to align with the Corporate Plan and PMP.

5 Next steps

5.1 The Authority's projected income and expenditure compared with the approved 2025/26 budget will be reported at least four times to the Policy & Resources Committee.

6 Other implications

Implication	Yes*/No
Will further decisions be required by another committee/full authority?	No
Does the proposal raise any Resource implications?	Resource implications are contained in the report and its appendices.
How does the proposal represent Value for Money?	Internal controls and governance are in place to ensure the economical, efficient and effective use of resources.
Which PMP Outcomes/ Corporate plan objectives does this deliver against	The budget paper allocates available resources across Corporate Plan priorities and PMP objectives.
Links to other projects or partner organisations	None
How does this decision contribute to the Authority's climate change objectives	The budget allocates available funds to climate change objectives identified within the Corporate Plan and PMP.
Are there any Social Value implications arising from the proposal?	Not directly applicable to decisions in this report, however, the requirements of the Public Services (Social Value) Act 2012 will be considered for appropriate expenditure and programmes undertaken by the Authority.

Implication	Yes*/No
Have you taken regard of the South Downs National Park Authority's equality duty as contained within the Equality Act 2010?	There are no implications arising directly from this report. The Authority's equality duty shall be taken into account in respect to all expenditure and programmes undertaken by the National Park Authority.
Are there any Human Rights implications arising from the proposal?	Not directly applicable to decisions in this report, however, Human Right implications relating to all expenditure and programmes undertaken by the Authority should be considered.
Are there any Crime & Disorder implications arising from the proposal?	No
Are there any Health & Safety implications arising from the proposal?	There are no implications arising directly from this report, the Authority has a duty to ensure that Health & Safety is taken into account in all its activities.
Are there any Data Protection implications?	No

7 Risks Associated with the Proposed Decision

7.1 All of the projections within the report and appendices are based on the best information currently available, however, there is inevitably some uncertainty. The Chief Finance Officer's consideration of the robustness of estimates and the adequacy of reserves is described within the report. Part of this judgement includes identification of potential risks and an assessment of their impact and mitigation. The risk scoring key and assessment of risks are set out in the table overleaf.

Risk Scoring Key	
Likelihood	**Likelihood of Occurrence**
Rare (1)	Highly unlikely. It could happen but probably never will.
Unlikely (2)	Not expected but a slight possibility.
Possible (3)	The event might occur at some time.
Likely (4)	There is a strong possibility the event will occur.
Almost Certain (5)	The event is expected to occur in most circumstances.
Impact	**Example Descriptor of Impact**
Insignificant (1)	Basic first aid required, less than £100 financial impact, reputation remains intact.
Minor (2)	Short term injury to 1 or 2 people, minor localised disruption lasting less than 24 hours, between £100-£1000, minimal reputation impact.

Moderate (3)	Semi-permanent disability, affects between 3-50 people, high potential for complaints, financial burden between £1,000 and £10,000, litigation possible.
Major (4)	Causing death serious injury or permanent disability. Service closure for up to one week, significant financial burden, national adverse publicity, litigation expected.
Catastrophic (5)	Multiple deaths, financial burden over £100,000, international adverse publicity, widespread displacement of people (over 500), complaints and litigation certain.

Risk	**Likeli-hood**	**Impact**	**Mitigation**
Potential Risk Affecting 2025/26 Budget			
Planning income reduced below amount predicted by up to 5% (demand led)	2	4 (approx. £78k reduction in income)	Would require reductions in the budget (i.e. increased savings) for the following year, or replacement income, where there are not corresponding expenditure reductions in Delegated Agreement contract costs. Monitoring of statutory fee income on a quarterly basis is undertaken. Increased fees from pre-apps etc. could offset reductions in overall application numbers.
Potential Risk Affecting Medium Term Financial Strategy			
National Park Grant reduces further by up to 5%	2	5 (approx. £481k reduction in income per year)	Would require reductions in budgets (i.e. increased savings) possibly over several years. A watching brief is maintained on existing and emerging attitudes in Government to National Park funding. The replacement of revenue grant with capital grant would in part offset this assuming the capitalisation of eligible costs.
Planning income reduced below amount predicted by up to 5%	2	4 (approx. £78k reduction in income per year)	Would require reductions in the budget (i.e. increased savings) for the following years. Monitoring of statutory fee income on a quarterly basis is undertaken. Increased fees from pre-apps and corresponding reductions in Delegated Agreement contract costs could offset reductions in overall application numbers. The predictions for planning income over the medium term are reasonably challenging and are volatile to economic conditions.
Staff salaries increased by more than budgeted in the MTFS	3	4 (1% would be approx. £74k per year)	Would require reductions in the budget (i.e. increased savings) for the following year. SDNPA is not covered by National Pay Bargaining therefore this risk is within the control of SDNPA. However, if inflation increases over the medium term, pressures and retention issues may force a review of current policy.

Risk	Likeli-hood	Impact	Mitigation
Increase in non-staff costs on like for like basis above estimated inflation	4	4 (1% would be approx. £64k per annum)	Would require reductions in the budget (i.e. increased savings) for the following year. Most non-staff costs are covered by long term contracts, which do not contain inflation indices. Continued inflationary pressure would be felt at the end of contracts, most of which will be due for renewal over the medium term. The policy will still be to offset within increased efficiencies.

CRAIG GAROGHAN

Interim Chief Finance Officer

South Downs National Park Authority

Contact Officer:	Craig Garoghan, Interim Chief Finance Officer
Tel:	01273 291262
Email:	craig.garoghan@brighton-hove.gov.uk
Appendices	1. Revenue Budget 2025/26 2. Capital Strategy 2025/26 3. Treasury Management Strategy 2025/26 4. Economic Overview and Interest Rate View 5. Reserves 2025/26 6. Medium Term Financial Strategy 2025/26 to 2029/30
SDNPA Consultees	Chief Executive; Director of Landscape and Strategy; Director of Planning; Chief Finance Officer; Monitoring Officer; Legal Services, Head of Finance & Corporate Services
External Consultees	None
Background Documents	This report is presented in accordance with the Authority's Financial Regulations and Standard Financial Procedures.

AGENDA ITEM 11 REPORT NPA24/25-32 APPENDIX 1

REVENUE BUDGET 2025/26

Revenue Budget 2025/26 balanced to National Park Grant

2024/25 Original Budget (Net)	Service Area	2025/26 Revenue Budget						
		2025/26 Adjust' Core Budget*	2025/26 Core Commit-ments	2025/26 Savings	2025/26 Other Adjust-ments	2025/26 Core Budget	2025/26 Short-Term Commit-ments	2025/26 Total Net Budget
£'000		£'000	£'000	£'000	£'000	£'000	£'000	£'000
4,017	Corporate Strategy	3,620	733	(299)	68	**4,122**	42	**4,164**
1	Corporate Strategy - Seven Sisters Country Park	-	-	-	-	**-**	-	**-**
2,766	Countryside Policy & Management	1,640	61	(26)	560	**2,235**	113	**2,348**
3,633	Planning Services	3,329	7	(106)	202	**3,432**	192	**3,624**
10,417	**Net Cost of Services**	**8,589**	**801**	**(431)**	**830**	**9,789**	**347**	**10,136**
(10,486)		National Park Grant						(9,626)
(69)		Net Budget Gap						510
69		Contribution to/ (from) Reserves						(510)
-		**Net Authority Budget Gap**						**-**

Total Revenue Budget 2025/26 Subjective Analysis by Service Areas (includes all sources of expenditure against all income streams)

2024/25 Original Budget (Net)	Service Area	2025/26 Revenue Budget					2025/26 Budgeted Staff
		Employee Costs	Other Expend-iture	Total Expend-iture	Total Income	Total Net Budget	
£'000		£'000	£'000	£'000	£'000	£'000	FTE
4,017	Corporate Strategy	2,942	2,545	**5,487**	(1,323)	4,164	**58.1**

1	Corporate Strategy - Seven Sisters Country Park	-	-	**-**	-	-	**0.0**
2,766	Countryside Policy & Management	2,235	850	**3,085**	(736)	2,349	**51.3**
3,633	Planning Services	2,179	2,999	**5,178**	(1,555)	3,623	**37.1**
(10,486)	Defra Grant	-	-	**-**	(9,626)	(9,626)	**0.0**
(69)	**Total**	**7,356**	**6,394**	**13,750**	**(13,240)**	**510**	**146.5**

Total Revenue Budget 2025/26 Subjective Analysis (includes all sources of expenditure against all income streams)

2024/25 Original Budget (Net) £'000	**Subjective Area**	**2025/26 Revenue Budget by Subjective**		
		Core Budget £'000	**Short Term Budget £'000**	**Whole Budget £'000**
7,440	Direct Employees	7,358	-	**7,358**
232	Indirect Employees	255	22	**277**
392	Premises Related	585	-	**584**
174	Transport Related	169	(3)	**166**
3,147	Supplies and Services	2,232	223	**2,455**
3,026	Third Party Payments	2,878	9	**2,887**
27	Capital financing Costs	22	-	**22**
14,438	**Total Expenditure**	**13,499**	**251**	**13,750**
(11,810)	Government Grants	(10,106)	-	(10,106)
(816)	Other Grants and Contributions	(523)	(11)	(534)
(1,381)	Customer Client Receipts	(2,138)	(134)	(2,272)
(500)	Interest	(90)	(238)	(328)
(14,507)	**Total Income**	**(12,857)**	**(383)**	**(13,240)**
(69)	**Net Budget**	**642**	**(132)**	**510**
69	**Contribution to/ (from) Reserves**			**(510)**
-	**Grand Total**			**-**

Corporate Strategy

The proposed 2025/26 net revenue budget for Corporate Strategy is £4.164m. The budget for this service area includes the Chief Executive budget, staffing, premises costs and contract costs for outsourced services such as ICT, legal services, monitoring officer and financial services, procurement, HR and Business Support. The figure for Corporate Services also includes the operational costs and revenues arising from Seven Sisters Country Park (narrated below). Savings in year relate to an increase in investment income receipts (based on forecasts from the Treasury service at Brighton and Hove). Growth in the core budget includes the allocation for the new Director post which is currently in recruitment.

Corporate Strategy - Seven Sisters Country Park

Seven Sisters Country Park is now run directly by the Authority. Its operational costs, the income generated and capital expenditure for 2025/26 are guided by the Business Plan, the subject of a separate report to the NPA. The budget for the running of and investment in the Country Park is set out in the Appendix 1 of the Business Plan but also informs lines in the budget Members are being asked to approve now.

The headlines are core costs of £0.630m including staff and on-going payments to the previous landowners, with income in of £0.863m. This income is primarily from car parking but also food and drink, countryside stewardship that helps defray landscape maintenance and improvement costs, and events, as well as the holiday cottages.

Capital wise there are some invest to save measures and implementation of improvements to address health and safety and increase income. These are shown in both the Business Plan and in the Capital, programme forming part of this agenda.

The current estimated value of the site and buildings is around £7.5m. Recent investment in flood management and ensuring clean water discharge will need to be factored in any future asset assessment.

Countryside Policy and Management

The proposed 2025-26 net budget for the Countryside and Management service is £2.349m. The organisation has a revised bridge Corporate Plan (CP) that means we will be continuing to work under the existing Partnership Management Plan (PMP) as we invest significant time in developing a new PMP, CP and revised Vision. The priorities for the directorate are therefore to concentrate the work on the High-Level Targets of the bridge CP : Nature Recovery, Climate Action and National Park for All, and to work with the Trust to generate new sources of external income. This focus applies to Strategy Leads and the wider team including the three Area Ranger Teams. At the same time, we are delivering some significant partnership projects such as Downs to the Sea, OVCA, Centurion Way. We are particularly proud of the enabling projects that see SDNPA offer support and funding to a range of community groups and organisations.

The team will also have a strong focus on working with farmers supported by the FiPL funding to offer them support around financial sustainability and how they might develop a strategy for their land to renature. This is alongside our work with estate owners and managers to see how we can support them as well as farmers with BNG options which sees a steady increase in interest as people work towards 2030.

The directorate continues to build on the good work done to date that sees us improve our internal knowledge with the development of new Landscape as well as Carbon Literacy training. The development of our new PMP has a critical path that works through the year to engage and consult with a wide range of stakeholders so that we can work towards developing a draft for approval in December 2025, including the new Protected Landscapes Target Outcome Framework (PLTOF) - targets developed by Defra and Natural England.

Planning Services

The proposed 2025/26 net budget for the Planning Service is £3.623m which includes the now slimmer staffing structure, full recovery of the Horsham District Council hosted arrangements, agreed payment to Local Authorities for the delivery of the planning function and other expenditure and income to support the delivery of the development management service. This also includes the costs of the Local Plan Review, various technical documents and evidence base required to support this and other plans such as neighbourhood plans, village design statements and and community led plans. The budget also broadly accounts for Community Infrastructure Levy (CIL) with 5% of the amount received used to offset costs. Work of the planning specialists is also included in the budget as they provide information, advice and direct action across the organisation.

The overall planning income budget for 2025/26 is £1.555m. Income levels are demand led and dependant on the number of pre-applications, applications and major developments within the Souths Downs region. Confidence in the markets and appetite for risk given the prevailing economic conditions play a part in this budget line therefore.

The risk to income levels is mitigated to some extent by the pay-by-application S101 Planning Agency Agreements as demonstrated in 2021/22 following the impact of the pandemic.

AGENDA ITEM 11 REPORT NPA24/25-32 APPENDIX 2

CAPITAL STRATEGY 2025/26

1. Background

1.1. Chartered Institute of Public Finance and Accountancy (CIPFA)'s Prudential Code for Capital Finance in Local Authorities and the Department for Levelling Up, Housing and Communities (DLUHC) investment guidance require all local authorities to prepare a capital strategy report which demonstrates that the authority:

- takes capital expenditure and investment decisions in line with service objectives;
- takes account of stewardship, value for money, prudence and affordability;
- sets out the long-term context in which capital expenditure and investment decisions are made;
- gives due consideration to both risk and reward and the impact on the achievement of priority outcomes.

1.2. The aim of the capital strategy is to ensure that all members of the authority fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.3. This capital strategy is reported separately from the Treasury Management Strategy; this ensures the separation of the core treasury function (security, liquidity and yield principles) and the approach to capital investment.

1.4. This report covers the impact of capital investments focussing on the authority's core activities. Treasury investments and associated risks are covered under the authority's Treasury Management Strategy set out in **Appendix 3** to this report.

2. Governance Framework

2.1. The authority's financial regulations and procedures set out the framework of control, responsibility and accountability for the proper administration of the authority's financial affairs. Under the financial regulations and procedures, the Chief Finance Officer and Directors are jointly responsible for ensuring a capital programme is prepared and considered by the full authority.

2.2. Further to this, the authority's Financial Procedures define the key controls around the management of the authority's financial affairs, including the capital programme. The key controls for the capital programme are:

- specific approval by the authority for the programme of capital expenditure, in conjunction with the annual revenue budget, outlining the phasing of expenditure and the sources of funding;
- reports of schemes and estimates, including options appraisals, project plans, progress targets and associated revenue expenditure are prepared for each capital project, for approval by the full authority;
- no new capital scheme proceeds unless all required finance and other necessary approvals have been obtained;
- proposals for improvements and alterations to buildings must be approved by the appropriate Director in consultation with the Chief Executive;
- a nominated, accountable budget holder for each capital budget;
- monitoring of progress on capital schemes and comparison with approved budget and remedial action taken to address overspends, reporting monthly to the Chief Executive and Directors, and at least four times a year to Senior Management Team and the Policy & Resources Committee;
- compliance with the authority's Financial Regulations, Contract Standing Orders and Procurement Policy, for example, when inviting competitive quotes or tenders.

3. Risk Management

3.1. Risk management is defined as *"the culture, processes and structure, which come together to optimise the management of potential opportunities and adverse effects"*. Due to the potential high value and long-term nature of capital expenditure, there is an inherent risk associated with an authority's' capital programme which needs to be managed. The principles and assumptions set out in this strategy and the authority's governance framework are designed to ensure that resources are utilised to meet the objectives of the authority whilst ensuring effective use of resources and securing the assets of the authority and its continued financial and organisational well-being.

3.2. The authority maintains a Corporate Risk Register and Corporate Governance framework which requires that the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. It includes the systems and processes, and cultures and values, by which public bodies are directed and controlled and through which they account to and engage with their partners and communities.

3.3. Further to this, the authority's Financial Procedures define the key controls around the risk management. The key controls for the risk management are:

- The risk management strategy is agreed and adhered to across the authority;
- Procedures are in place to identify, assess and manage the risks that may hinder the authority from reaching its objectives;
- Risk management is a formalised stage of the business and project planning process, project management, major changes initiatives and financial management processes;
- A monitoring process is in place to regularly review the effectiveness of risk reduction strategies and the operation of these controls;
- Risk management training and support is available across the authority;
- Managers know that they are responsible for managing risks and are provided with information on risk management initiatives and incidence levels.

3.4. The Corporate Risk Register is monitored by the authority's Operational Management Team and issues escalated to Senior Management Team as required. The Corporate Risk Register is reported to each Policy & Resources Committee meeting.

4. Capital Strategy

<u>Capital Expenditure</u>

4.1. Capital expenditure involves acquiring or enhancing fixed assets with a long-term value to the authority, such as land, buildings, and major items of plant, equipment or vehicles. Capital assets shape the way services are delivered in the long term and create financial commitments for the future in the form of financing costs and revenue running costs.

4.2. The authority's intention is to optimise rather than maximise capital investments whilst ensuring the conditions of the investment are compatible with the aims and objectives of the Authority. It is necessary to set out the key principles which can be used as the basis to guide future capital expenditure decisions. The key principles are:

- Capital expenditure shall be subject to a process of consideration of the purpose, benefits and risks of meeting the strategic fit of the authority's Partnership Management Plan, Corporate Plan and asset management planning priorities.
- Capital investment proposals will consider the total projected costs, expenditure profile and full whole life financial implications both revenue and capital. The possible "exit" value of the assets created should be assessed as a relevant consideration in reducing the risk in respect of cost and / or strategic fit.
- Consideration should be given to the requirement of ongoing budgetary provision for the replacement of existing assets to ensure the operational requirements of the Authority are met and these assets provide best value to the Authority.

- Consideration should be given to capital projects which deliver revenue efficiency gains, improvements in value for money or maximise income streams whilst complying with the above principles and taking into consideration related additional costs.
- Consideration should be given to the application of REFCUS as an accounting principal. Ensuring the Authority uses and applies the practice to use the capital grant available to it.

Capital Financing

4.3. The authority is able to finance capital investment from a number of sources. It is necessary to set out the key principles for each potential source of capital investment which can be used as the basis to guide future capital financing decisions:

- **External Grants and Contributions:** External funding is an important source of income, but conditions need to be carefully considered to ensure that they are compatible with the aims and objectives of the authority. The authority will use external grants and contributions to fund capital expenditure where it results in a substantial benefit to the authority relative to the resources required to achieve that benefit.
- **Borrowing:** Borrowing as a source of funding shall be carried out in accordance with the CIPFA Prudential Code and the authority's Treasury Management Strategy. Future borrowing repayments (including interest) should be given careful consideration and need to demonstrate affordability relative to the benefits of the asset being purchased/enhanced and the Medium-Term Financial Strategy.
- **Capital Receipts from the Sale of Assets:** Receipts from the sale/disposal of assets should first be used to replace that asset if required. Any surplus receipts shall then be available to finance capital expenditure in accordance with the principles outlined in this strategy.
- **Capital and Earmarked Reserves:** Capital financing from capital and earmarked reserves shall be recommended when the assets being acquired or enhanced meet the approved purpose of the reserve in accordance with the Authority's Financial Procedures.
- **Direct Revenue Funding:** Capital financing from revenue budgets shall only be recommended where there are sufficient resources available within the approved revenue budget, including revenue reserves, and the implications for the current financial year and Medium-Term Financial Strategy are considered.
- **Other:** Other potential sources of capital financing shall be considered taking into account the principles outlined above where relevant and in accordance with the appropriate approvals in line the with the authority's governance framework.

5. The Capital Programme

5.1. The Capital Programme represents anticipated capital expenditure over the Medium-Term Financial strategy period, informed by the key principles above. The capital programme requires specific approval by the Authority, in conjunction with the annual revenue budget, outlining the phasing of expenditure and the sources of funding. The Authority's capital programme 2025/26 to 2029/30 forecasts a total of £0.692m capital investment as shown in **Table 1** below which takes account of the Authority's invest-to-save programme created in 2023/24.

Capital Programme Table 1:	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000
Acquisition of Flails	165	-	-	-	-
South Downs Centre and Sevens Sisters Energy Efficiency	79	-	-	-	-

Capital Programme Table 1:	**2025/26 £'000**	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**	**2029/30 £'000**
QECP Partnering Arrangement	40	-	-	-	-
National Park Signage Project	2	-	-	-	-
New Barn Cottage Improvement Works	207	-	-	-	-
South Downs Centre External Decorations	25	-	-	-	-
SSCP Car Park	50	-	-	-	-
SSCP Fencing	94	-	-	-	-
Fleet vehicle acquisitions	30	-	-	-	-
Total Capital Budget	**692**	**-**	**-**	**-**	**-**

5.2. Financing of the Capital Programme has been informed by the key principles in section 4 above. Expenditure shall only be included in the Capital Programme when financing has been identified and considered. **Table 2** below shows how it is anticipated the Capital Programme will be financed.

5.3. Confirmation of the new capital grant that is available for 2025/26 has allowed for the Authority to switch funding from reserves, for the whole capital programme to be funded by the DEFRA grant. The switch in funding preserves the reserves allowing for mitigation of the future deficits as outlined in the MTFS.

Table 2: Capital Programme Financing	**2025/26 £'000**	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**	**2029/30 £'000**
DEFRA NPA Grant	692	-	-	-	-
Borrowing	-	-	-	-	-
Capital Receipts	-	-	-	-	-
Capital and Earmarked Reserves	-	-	-	-	-
Direct Revenue Funding	-	-	-	-	-
Other	-	-	-	-	-
Total Capital Financing	**692**	**-**	**-**	**-**	**-**

5.4. The total capital grant for 2025/26 is £2.000m, the Authority is utilising this grant in the following way; £0.692m to fund the capital works costs, £0.459m to fund the capitalisation of salaries from revenue. This leaves grant available of £0.849m to fund either further capitalisation of costs or other capital projects during the year. This will be kept under review and reported as part of the quarterly finance reports to the board.

<u>Capital Programme Approval Requests</u>

5.5. The following variations were considered by Policy & Resources Committee at its meeting on 20 February 2025 and were recommended for approval to the full Authority.

Capital Project	Variation (£'000)	Project Purpose, Benefits and Risks:
Seven Sisters Country Park – Micro Tractor	(20)	**Reprofile:** The micro tractor is unlikely to be purchased in 24/25 as awaiting specification of requirements for this equipment.
South Downs Centre and Sevens Sisters Energy Efficiency	(79)	**Reprofile:** The project to put solar panels on both the SDC and SSCP buildings will not be completed in 24/25 and the project will need to be extended.
South Downs Centre Cladding	2	**Variation:** Final costs of cladding works were more than budgeted but the increase will be covered by the Invest to Save reserve.
QECP Partnering Arrangement	(40)	**Reprofile:** The funding for feasibility work and initial project partnership work was not all required as outcomes relating to land management, particularly Butser Hill and other areas beyond the immediate site, and greater collaboration on interpretation, were achieved by partnership work. Given uncertainties around County arrangements, land currently not being considered for any release by the Authority. The sum to be retained until interpretation requirements at QECP are finalised.
National Park Signage Project	(2)	**Reprofile:** This scheme is unlikely to be completed in 24/25.
New Barn Cottage Improvement Works	(182)	**Reprofile:** Work has not yet started on the New Barn Cottage improvements, although an architect has been appointed to include a schedule of works for a basic refurbishment.
South Downs Centre External Decorations	(25)	**Reprofile:** Project to redecorate the external areas of the South Downs Centre has been delayed due to poor weather. It will be delivered in 25/26.

6. Debt, Borrowing and Treasury Management

6.1 The Authority has adopted CIPFA's Code of Practice for Treasury Management in Local Authorities. The authority is responsible for approving the Treasury Strategy setting out the matters detailed in "Treasury Management in the Public Services: Code of Practice for Treasury Management in Local Authorities". This code is applicable to national park authorities.

6.2 Under the Prudential Code and Treasury Management Code, the authority is required to set parameters around its borrowing and treasury activity, including an authorised borrowing limit for each year which cannot be breached. Additionally, when funding capital expenditure through borrowing, the Authority is required to set aside a sum from revenue each year to repay the debt, known as the Minimum Revenue Provision (MRP).

6.3 The Policy & Resources Committee is responsible for proposing a Treasury Strategy before the start of the year and for monitoring treasury management performance. The Chief Finance Officer is responsible for reporting treasury management activities to the committee and for making delegated treasury management decisions.

6.4 All decisions on borrowing, investment or financing are delegated to the Chief Finance Officer, and such officers as he/she may nominate, who shall be required to act in accordance with the Code of Practice referred to in the authority's Treasury Management Statement Strategy.

6.5 The Local Government Act 2003 permits local authorities (and therefore national parks) to borrow to finance capital expenditure provided that the plans are affordable, prudent and sustainable in the long term. This means that capital expenditure should form part of a capital investment strategy and should be carefully prioritised to maximise the benefit.

7. Commercial Activity

7.1 The authority has assets which are to be part of the transfer of Seven Sisters County Park back to the Authority which may be defined as commercial for Statement of Accounts reporting purposes. As part of the transfer of Seven Sisters Country Park the operational purpose is for holding and investing in these assets is not commercial but in line with statutory purpose of the national park itself.

8. Other Long-term liabilities

8.1 The authority has one long-term financial liability which is the 'loan arrangement' with East Sussex County Council associated with the transfer of Seven Sister County Park in July 2021. The balance at inception was £0.875 million to be repaid in equal instalments over 25 years with the repayment value indexed annually by the Retail Price Index. The cost of this is covered by income generated by Seven Sisters.

9. Knowledge and Skills

9.1 The authority's Chief Finance Officer has delegated responsibility for the Authority's treasury and capital financing activities. This post requires the post holder to be a qualified accountant. The Chief Finance Officer is a ACCA qualified accountant who follows an ongoing programme of Continuous Professional Development (CPD).

9.2 The authority's treasury and capital strategies are produced and maintained by professionally qualified accountants and who have extensive relevant experience. The authority is able to access appropriate specialist and technical advice regarding its treasury investment and borrowing activity. Officers involved in treasury management regularly attend training and participate in CPD and ensure that their relevant professional knowledge is up to date.

9.3 The authority's Treasury Management Strategy is also reviewed by the Head of Finance & Corporate Services, who is a qualified accountant and is able, if necessary, to seek advice from other treasury specialists who are independent of Brighton & Hove City Council. The Authority's Treasury Management Strategy is jointly reported to Policy & Resources Committee by the Chief Finance Officer and Head of Finance & Corporate Services for the committee's approval and recommendation to the Authority.

9.4 All of the authority's capital projects have project teams made up of officers from relevant professional disciplines from across the authority. These project teams may access external specialist advice regarding projects where required.

9.5 Training is available for members who are responsible for decision making and scrutiny of treasury decisions to ensure their skills and knowledge are kept up to date for their involvement in this area.

10. Chief Finance Officer Statement

10.1 This Capital Strategy is compiled in line with the requirements of the 2018 CIPFA Prudential Code and the 2018 Treasury Management Code.

10.2 The Chief Finance Officer has reviewed the strategy against best practice advice from CIPFA and expert advisers and considers the strategy to be prudential, sustainable and affordable within the risk framework of the authority and has ensured that it is fully integrated with the Authority's Medium Term Financial Strategy, Treasury Management Strategy and Capital Strategy.

AGENDA ITEM 11 REPORT NPA24/25-32 APPENDIX 3

TREASURY MANAGEMENT STRATEGY 2025/26

Contents

1. Introduction

The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Authority's risk appetite, prioritising adequate liquidity before considering investment return.

The second main function of the Treasury Management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that the Authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn down may be restructured to meet risk or cost objectives.

2. Treasury Management Policy Statement 2025/26

The following paragraphs set out the Authority's Treasury Management Policy Statement for the year commencing 1 April 2025:

1 The Authority defines its treasury management activities as:

- *"The management of the organisation's cash flows, its banking, money market and capital market transactions; the effective management of the risks associated with those activities and the pursuit of optimum performance consistent with those risks."*

2 The Authority regards the successful identification, monitoring and management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority.

3 The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management and to employing suitable performance measurement techniques within the context of effective risk management.

3. Reporting Requirements

Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, to provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risks are managed;

- the implications for future financial sustainability.

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

This Capital Strategy is reported separately from the Treasury Management Strategy Statement with non-treasury investments being reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy-driven and commercial investments usually driven by expenditure on an asset.

Treasury Management Reporting

The Authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators, and treasury strategy** (this report) - The first, and most important report, is forward looking and covers:
   i. the capital investment plans, (including prudential indicators);
   ii. a Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
   iii. the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   iv. an Annual Investment Strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. This requirement is incorporated into the Month 6 Budget Monitoring report.

c. **An annual treasury management repor**t – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This requirement is incorporated into the Outturn report.

The Authority delegates responsibility for implementation and monitoring of Treasury Management to Policy & Resources committee (P&R) and responsibility for the execution and administration of treasury management decisions to the Section 151 Officer.

In addition to the above, quarterly reporting is provided on the Treasury position and Prudential Indicators are included in the Month 4 and Month 9 Budget Monitoring reports to fulfil the reporting requirements per the update of the 2021 Treasury Code.

4. Borrowing Strategy

The capital expenditure plans of the Authority are set out in the approved Capital Strategy and shown in Table 1 below. The treasury management function of the Authority ensures that the Authority's cash is managed in accordance with the relevant professional codes so that sufficient cash is available to meet the capital expenditure plans.

Any capital investment that is not funded from new and/or existing resources (e.g. capital grants, receipts from asset sales, revenue contributions or earmarked reserves) increases the Authority's need to borrow, represented by the Authority's Capital Financing Requirement (CFR). However, external borrowing does not have to take place immediately to finance related capital expenditure: the Authority can utilise cash being held for other purposes (such as earmarked reserves and working capital balances) to temporarily defer the need for external borrowing. This is known as 'internal borrowing' or 'under-borrowing'.

The Authority's primary objective is to strike an appropriate balance between securing cost certainty and securing low interest rates.

Capital Prudential Indicators

The Authority's capital expenditure plans are a key driver for Treasury Management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Tables 1 and 2 show the capital expenditure plans of the Authority, and the implications of these on the Capital Financing Requirement over the 3-year period to 2027/28. These indicators have been included in the Treasury Management Strategy for a number of years to demonstrate the affordability and sustainability of the Authority's capital activity.

A further prudential indicator required by the 2021 code for 2025/26 is the Liability Benchmark. This benchmark measures the authority's external debt levels net of the external investments, with the inclusion of a liquidity buffer against the Authority's CFR projection. This measure assumes that the authority will internally borrow against its available cash balances held in reserves and balances, with an allowance to ensure it is able to meet is cash obligations.

The liability benchmark has been produced as Graph 1 below with notes included to explain each element of the graph and the Authority's assumptions and forward view.

Borrowing Strategy for 2025/26

The Authority's has a fully funded capital programme for the period 2025/26 to 2027/28, therefore no new borrowing is required in the period as shown in **Table 1** below.

2024/25 Estimate £'000	Table 1: Borrowing Need	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	Total £'000
975	Capital Expenditure	692	-	-	0
(975)	Financed by New / Existing Resources	(692)	-	-	0
0	**Borrowing Need**	**0**	**0**	**0**	**0**

If a borrowing need occurs, the strategy will focus on meeting any borrowing need internally i.e. avoiding external borrowing by utilising the Authority's own surplus cash flows. This will reduce the net revenue cost of borrowing and reduce counterparty risk within the Authority's investment portfolio by reducing the portfolio size. The internal borrowing position needs to be closely monitored and continually reviewed to avoid incurring higher borrowing costs in the future at a time when the authority may not be able to avoid new borrowing to finance capital expenditure.

There will remain a cost of carry (the difference between borrowing costs and investment returns) to any new long-term borrowing that causes a temporary increase in cash balances which will, most likely, lead to an additional short-term revenue cost.

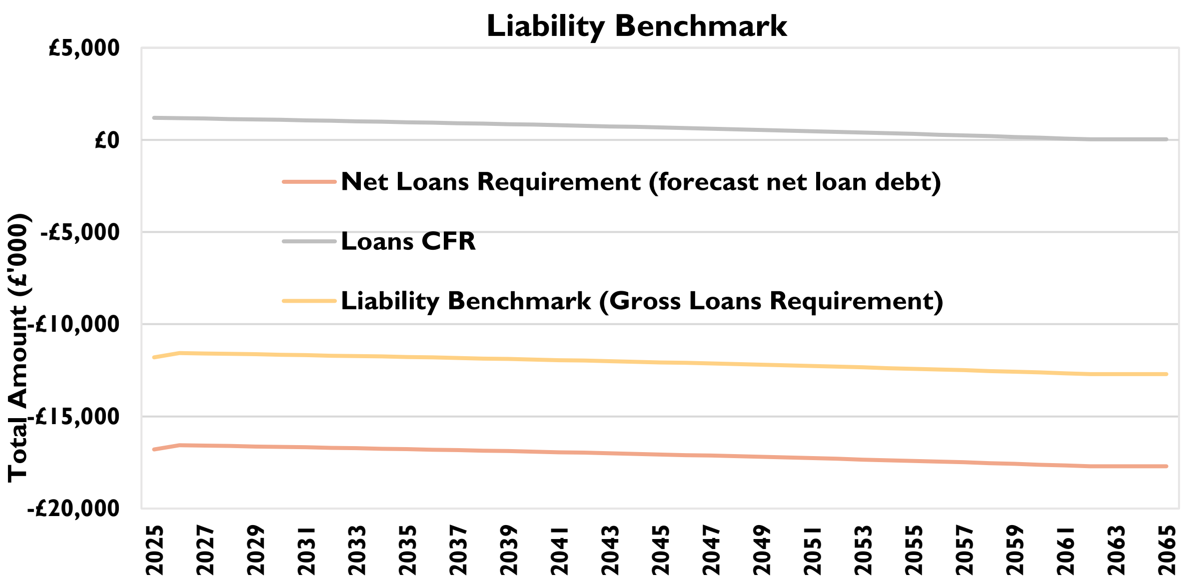
Table 2 shows the movement in the Authority's Capital Financing Requirement (CFR) and compares this to the expected external debt level. This demonstrates that the CFR is expected to be entirely internally borrowed over the period.

2024/25 Estimate £'000	Table 2: Change in the CFR compared to External Debt	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
0	External Debt at 1 April	0	0	0
0	Expected change in Debt	0	0	0
0	**External Debt at 31 March**	**0**	**0**	**0**
1,221	CFR* at 1 April	1,200	1,178	1,156
0	Borrowing need (Table 1)	0	0	0
(21)	MRP	(22)	(22)	(22)
1,200	**CFR* at 31 March**	**1,178**	**1,156**	**1,134**
1,200	**Under / (Over) borrowing**	**1,178**	**1,156**	**1,134**

**The CFR in Table 2 above shows the underlying need to borrow and excludes lease arrangements (which is included in the CFR figure in the Prudential Indicators in Section 4)*

Liability benchmark

The Liability Benchmark is a measure of the Authority's borrowing need were it to fully utilise its cash-backed reserves and balances to avoid external borrowing. It assumes a liquidity buffer is maintained to ensure the Authority's obligations are able to be met.



1) **External Debt** – The maturity profile of the Authority's debt portfolio would be shown as bars within this chart, but as the Authority is currently debt free, this is not present in the graph.

2) **Loans CFR** - This is the projection of the Authority's underlying borrowing requirement (or CFR) based on the capital plans, and is shown by the top, grey line. The 2024/25 opening Loans CFR was £1.221m, and it is expected to fall in future years. This only shows the Loans CFR projection based on the current capital programme therefore if

ongoing borrowing is required then the CFR would rise further and for longer.

3) **Net Loans Requirement** – The expected net treasury position is shown by the bottom orange line. This shows a projection of the loans requirements measured by opening external debt for 2024/25 (£0.000m) less the opening external investments for 2024/25 (£14.566m). The projections are then based on the expected borrowing within the capital programme and the expected movement in reserves and balances. This shows that the Authority had more external investments than external debt as at 31/03/24, which is expected to continue as there is no borrowing requirement.

4) **Liability Benchmark** – The liability benchmark is calculated as the Net Loan Requirement, with a liquidity buffer of £5m incorporated to ensure the Authority has sufficient cash to meet its obligations. This measure shows the level to which the Authority can internally borrow based on the projection of the capital programme and movement of reserves, allowing for a liquidity buffer. Due to the level of reserves expected over the long-term, the liability benchmark remains a negative figure for the whole forecast period.

This graph demonstrates that the Authority does not need to externally borrow and instead can afford to meet its borrowing requirement by internally borrowing the cash held within its own reserves and balances.

Whilst the Liability Benchmark is a good indicator of the Authority's direction of travel in terms of borrowing need, it assumes that capital borrowing stops after the current capital planning period and ignores future borrowing beyond the planning period. Therefore, it should not be used in isolation when making long term decisions, but as part of a range of factors.

Policy on Borrowing in Advance of Need

The Authority will not borrow purely in order to profit from investment of extra sums borrowed. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds. Risks associated with any borrowing-in-advance activity will be subject to prior appraisal and subsequent reporting.

Debt Rescheduling

Should the Authority carry debt in future, opportunities for debt rescheduling will be considered as a matter of course where there is a clear difference between new borrowing and repayment rates which could result in savings.

Interest Rate Risk & Continual Review

The Authority's maximum underlying borrowing need of £1.200 million as identified in Table 2 is the extent to which the Authority is subject to interest rate risk over the next three years. Officers will review the need to borrow taking into consideration the potential increases in borrowing costs, the need to finance new capital expenditure, the need to refinance maturing debt (if any), availability of internal borrowing, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns. The Chief Finance Officer will therefore continue to monitor interest rates in financial markets and adopt a proactive approach to changing circumstances.

5. Prudential and Treasury Indicators 2025/26 to 2027/28

The Authority's capital expenditure plans are a key driver to treasury management activities. The output of the capital expenditure plans are reflected in prudential indicators. The Authority is required to 'have regard to' the Prudential Code and to set up Prudential Indicators to ensure that the Authority's capital investment plans are affordable, prudent and sustainable. The Code sets out the indicators that must be used but does not suggest limits, as these are for the authority to set itself.

The Prudential Indicators 2025/26 to 2027/28 are set out in **Table 3** below:

Table 3: Prudential Indicators	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Capital Expenditure Capital expenditure plans	692	-	-
Capital Financing Requirement* Measures the underlying need to borrow for capital purposes	2,528	2,471	2,414
Ratio of financing costs to net revenue stream** Identifies the trend in the cost of capital (borrowing and other long-term obligation costs) against revenue stream	0.18%	0.19%	0.19%

* The CFR includes an estimate for leases that will be bought onto the balance sheet under a change in leasing accounting regulations. Where it may not be currently possible to be precise about such adjustment figures until detailed data gathering has been substantially completed at the end of the 2024/25 financial year, the impact on the Capital Financing Requirement includes initial estimates of the likely effect of this change, and these indicators may need to be amended mid-year once the detailed impact is known.

** The ratio of financing costs to net revenue stream illustrates the percentage of the net revenue budget being used to finance the authority's borrowing.

The Treasury Management Code requires that a number of indicators are set for treasury performance in addition to the Prudential Indicators which fall under the Prudential Code. The Treasury Indicators for 2025/26 to 2027/28 are set out in Tables 4 & 5 below. The Treasury Indicators have been calculated and determined by officers in compliance with the Treasury Management Code of Practice.

Table 4: Treasury Performance Indicators	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Authorised Limit for External Debt* The Authority is expected to set a maximum authorised limit for external debt. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority.	3,100	3,100	3,000
Operational boundary for external debt* The Authority is required to set an operational boundary for external debt. This is the limit that external debt is not normally expected to exceed. This indicator can be breached temporarily for operational reasons.	2,800	2,800	2,700
Principal Sums invested for longer than 365 days	2,000	2,000	2,000

* From 2024/25 The Authorised Limit and Operational Boundary includes an estimate for leases that will be bought onto the balance sheet under a change in leasing accounting regulations. Where it may not be currently possible to be precise about such adjustment figures until detailed data gathering has been substantially completed at the end of the 2024/25 financial year, the impact on the Authority Limit and Operational Boundary includes initial estimates of the likely effect of this change, and these indicators may need to be amended mid-year once the detailed impact is known.

Table 5: Maturity Structure of fixed interest rate borrowing

The Authority needs to set upper and lower limits with respect of the maturity structure of its borrowing.

	Lower Limit	Upper Limit
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	50%
5 years to 10 years	0%	75%
Over 10 years	40%	100%

6. Minimum Revenue Provision Policy Statement

The authority is required to pay off an element of the accumulated capital spend each year (the Capital Financing Requirement - CFR) through a revenue charge (the Minimum Revenue Provision - MRP). MHCLG regulations require the Authority to approve an MRP Statement in advance of each year if borrowing has been undertaken. A variety of options are available, so long as the principle of any option selected ensures a prudent provision to redeem its debt liability over a period commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

The Authority is recommended to approve the following MRP Statement for 2025/26:

For all debt where the government has provided revenue support (supported capital expenditure), the MRP policy will be:

- Provision on a straight line basis over 50 years.

For all debt where the government does not provide revenue support:

- Where the debt relates to an asset, the Authority will set aside a sum equivalent to repaying the debt over the life of the asset either in equal instalments or on an annuity basis over a maximum life of 50 years. The method to be adopted will be determined according to which is the most financially beneficial to the Authority over the life of the asset.
- Where the debt relates to expenditure which is subject to a capitalisation direction issued by the government, the Authority will set aside a sum equivalent to repaying the debt over a period consistent with the nature of the expenditure on an annuity basis.
- In the case of assets under construction, MRP will be delayed until the relevant asset becomes operational.

Where the debt relates to capital loans to a third party:

- The repayments of principal will be set aside as capital receipts to finance the initial capital advance in lieu of making an MRP.

For on-balance sheet PFI schemes and leases:

- Asset Life Method - the MRP will be calculated according to the flow of benefits from the asset. Any related MRP will be equivalent to the "capital repayment element" of the annual charge payable.

There is the option to charge more than the prudent provision of MRP each year through a Voluntary Revenue Provision (VRP).

7. Annual Investment Strategy 2025/26

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals with financial investments. Non-financial investments are covered in the Capital Strategy.

The Authority's investment policy has regard to the following:

- MHCLG's Guidance on Local Government Investments (the "Guidance");
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (the "Code");
- CIPFA Treasury Management Guidance Notes 2021

Investments will be made with reference to the core balance, cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Greater returns are usually achievable by investing for longer periods. While most cash balances are required in order to manage the peaks and troughs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

The annual investment strategy sets out the parameters within which the Authority's cash balances and reserves will be invested. The strategy concentrates on two key objectives:

a) capital security through investment in institutions with the highest credit ratings, and;

b) liquidity by limiting the maximum period of investment.

Investment classification (regulatory)

The investment guidance issued by the Secretary of State requires the Authority to identify investments as either 'specified' or 'non-specified'.

This authority has defined the list of types of investment instruments that the treasury management team are authorised to use.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year. The limits and permitted instruments for specified investments are listed within Table 6.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. The limits and permitted instruments for non-specified investments are listed within Table 7.

Criteria to be used for creating / managing approved counterparty lists / limits

Each counterparty included on the Authority's approved lending list must meet the criteria set out below. Without the prior approval of the Section 151 Officer, no investment will be made in a counterparty that falls outside the list below.

Any change in investment parameters and allowable investment instruments must be presented for approval by the Authority.

Credit ratings will be based on those issued periodically by the Fitch Ratings Group, Moody's and Standard & Poors.

Table 6 below summarises the types of specified investment counterparties available to the Authority, and the maximum amount and maturity periods that can be placed with each of these. A full list of the Authority's counterparties and the current limits for 2025/26 are provided at **Table 8.**

When assessing credit ratings to ascertain limits for each counterparty, the lowest short and long term ratings from each of the three ratings agencies is applied. For simplicity, the ratings for Standard & Poor's are used in the tables below.

Table 6: Criteria for Specified Investments	Country/ Domicile	Minimum Capital Requirements	Min. Credit Criteria (L/term / S/term)	Max. Amount	Max. maturity period
UK Banks & Building Societies	UK	Must meet minimum credit criteria	AA- / A-1+	£10m	12 months
			A / A-1	£5m	12 months
			BBB / A-2	£5m	6 months
Debt Management and Deposit Facilities (DMADF)	UK	N/A	N/A	£5m	12 months
UK Local Authorities (excluding Brighton & Hove City Council)	UK	N/A	UK Sovereign Rating	£5m	12 months
Brighton & Hove City Council*	UK	N/A	N/A	N/A	Liquid
Non-rated Building Societies	UK	Must have an asset base of at least £5bn at the time of investment	N/A	£5m	6 months
Money Market Funds (CNAV and LVNAV)	UK/Ireland/ EU domiciled	Must meet minimum credit criteria	AAA	£5m	Liquid

* The amount invested in Brighton & Hove City Council will be the amount available for investment less investment made in any other approved counterparty.

Table 7: Criteria for Non-Specified Investments	Country/ Domicile	Min. Credit Criteria	Max. Amount	Max. maturity period
Short Date Bond Funds	UK/Ireland/ EU domiciled	Short Dated bond funds are not rated. A selection process will evaluate relative risks & returns. Security of the Authority's money and fund volatility will be key measures of suitability.	£2m	Liquid

Maximum permitted investment by counterparty / sector

The maximum amount invested in any one counterparty will be established in accordance with the criteria set out **Tables 6 and 7** above, based on each counterparty's credit rating.

The maximum amount invested in any one sector will be 100%, with the exception of the building society sector where the maximum limit will be 75%.

Where practicable, no one counterparty may have more than 75% of the relevant sector total at the time the investment is made.

Approved methodology for changing limits and adding / removing counterparties

A counterparty shall be removed from the Authority's list where a change in their credit rating results in a failure to meet the minimum credit rating set out in "Criteria to be used for creating / managing approved counterparty lists / limits" above.

A new counterparty may only be added to the list with the written prior approval of the Chief Finance Officer and only where the counterparty meets the minimum criteria set out above.

A counterparty's exposure limit and investment period will be reviewed and (changed where necessary) in accordance with the criteria set out in **Tables 6 and 7** following notification of a change in that counterparty's credit rating or a view expressed by the credit rating agency warrants a change.

A counterparty's exposure limit will also be reviewed where information contained in the financial press or other similar publications indicates a possible worsening in credit worthiness of a counterparty. The review may lead to the suspension of a counterparty where it is considered appropriate to do so by the Section 151 Officer.

Full individual listings of UK Bank and Building Society counterparties and counterparty limits

A full list of UK Bank and Building Society counterparties, together with counterparty limits, is set out in **Table 8.**

Table 8 – Schedule of Counterparties and counterparty limits		
Institution	**Lending Limit**	**Duration limit (months)**
UK Banks		
Lloyds Banking Group:		
Bank of Scotland PLC (RFB)	£5m	12
Lloyds Bank PLC (RFB)	£5m	12
Lloyds Bank Corporate Markets PLC (NRFB)	£5m	12
**Total max. exposure to Lloyds Banking Group	£5m	12
Barclays Banking Group:		
Barclays Bank PLC (NRFB)	£5m	12
Barclays Bank UK PLC (RFB)	£5m	12
**Total max. exposure to Barclays Banking Group:	£5m	12
RBS/Natwest Group:		

Natwest Markets PLC (NRFB)	£5m	12
National Westminster Bank PLC (RFB)	£5m	12
The Royal Bank of Scotland PLC	£5m	12
**Total max. exposure to RBS/Natwest Group:	£5m	12
HSBC Group:		
HSBC Bank PLC (NRFB)	£5m	12
HSBC UK Bank PLC (RFB)	£5m	12
**Total max. exposure to HSBC Group:	£5m	12
Goldman Sachs International Bank	£5m	12
Santander UK PLC	£5m	12
Standard Chartered Bank	£5m	12
UK Building Societies		
Nationwide	£5m	12

** Where there are multiple counterparties within a banking group, exposure to the overall group will be the largest limit, but exposure to individual counterparties within the group will be based on the individual counterparty limit.

<u>Permitted types of investment instrument</u>

All investments will be denominated in Sterling and in fixed term and/or variable term cash deposits, money market funds, short-dated bond funds and open-ended investment companies.

<u>Investment risk</u>

In addition to credit ratings, the Authority will apply additional operational market information before making any specific investment decision. This additional market information will be applied to compare the relative security of different investment counterparties.

The Authority is recommended to agree a benchmark risk factor for 2025/26 of 0.05%. The purpose of the benchmark is to monitor current and trend positions and amend the operational strategy depending on any changes.

Liquidity is achieved by limiting the maximum period for investment and by investing to dates where cash flow demands are known or forecast.

<u>Ethical investment statement</u>

South Downs National Park Authority, in making investments through its treasury management function, fully supports the ethos of socially responsible investments. The Authority will actively seek to communicate this support to those institutions invested in as well as those it is considering investing in by:

- encouraging those institutions to adopt and publicise policies on socially responsible investments;
- requesting those institutions to apply the Authority’s deposits in a socially responsible manner.

8. Other Treasury Matters

Banking Services

Lloyds Bank plc currently provides banking services for the Authority.

Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ Authority members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/Authority members.
- Require treasury management officers and board/Authority members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/Authority members, encouraging them to highlight training needs on an ongoing basis."

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

Training was last provided for members before the pandemic, and therefore updated training will be required during 2025/26.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function and members who are responsible for decision making and scrutiny of the Treasury function is maintained by the Principal Accountant (Treasury).

Policy on the use of External Service Providers

Brighton & Hove City Council uses Link Asset Services as its external treasury management advisors on behalf of the Authority.

The Authority recognises that responsibility for treasury management decisions remains with the Authority at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Treasury Management service will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

Lending to Third Parties

The Authority has the power to lend monies to third parties subject to a number of criteria. These are not treasury type investments, rather they are policy investments. Any activity will only take place after relevant due diligence has been undertaken, as described in the Capital Strategy.

Update to Treasury and Prudential CIFPA Codes

CIPFA published the revised Treasury and Prudential codes in 2021. Full adoption of the new Codes was incorporated within the strategy from 2023/24.

Updates to Accounting Requirements

- **IFRS 9 – local authority override – English local authorities**

  The MHCLG enacted a statutory over-ride from 1 April 2018 for a five year period until 31 March 2023 following the introduction of IFRS 9 and the requirement for any capital gains or losses on marketable funds to be chargeable in year. This was extended for a further two years, having the effect of allowing any capital losses on funds to be held on the balance sheet until 31 March 2025, allowing authorities to initiate an orderly withdrawal of funds if required. The ending of the statutory override is currently subject to government consultation.

  The Authority doesn't currently invest in any funds that will be impacted by this change.

- **IFRS 16 – Leasing**

  The CIPFA LAASAC Local Authority Accounting Code Board deferred implementation of IFRS16 until 1 April 2024, the 2024/25 financial year. This will have the following impact to the Treasury Management Strategy:

  - The Authority's Capital Financing Requirement, authorised limit and operational boundary expectations for 2024/25 onwards has been increased to reflect the estimated effect of this change.
  - The MRP policy statement sets out how MRP will be applied for leases bought onto the balance sheet.

Agenda Item 11 Report NPA24/25-32 Appendix 4

ECONOMIC OVERVIEW & INTEREST RATE VIEW

Provided by Link Asset Services December 2024

The third quarter of 2024 (July to September) saw:

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

Over the aforementioned period, the economy's stagnation in June and July pointed more to a mild slowdown in UK GDP growth than a sudden drop back into a recession. However, in the interim period, to 12 December, arguably the biggest impact on the economy's performance has been the negative market sentiment in respect of the fallout from the Chancellor's Budget on 30 October.

If we reflect on the 30 October Budget, our central case is that those policy announcements will prove to be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be elevated at 2.7% y/y (Q4 2025) before dropping back to sub-2% in 2027. Nonetheless, since the Budget, the October inflation print has shown the CPI measure of inflation bouncing up to 2.3% y/y with the prospect that it will be close to 3% by the end of the year before falling back slowly through 2025. The RPI measure has also increased significantly to 3.4% y/y.

How high inflation goes will primarily be determined by several key factors. First amongst those is that the major investment in the public sector, according to the Bank of England, will lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises in the June 2025 Spending Review (pushed back from the end of March), and a tepid GDP performance.

Regarding having a sufficiently large pool of flexible and healthy workers, the initial outlook does not look bright. Research from Capital Economics has alluded to an increase of some 500,000 construction workers being needed to provide any chance of the Government hitting its target of 300,000 new homes being built in each of the next five years (234,000 net additional dwellings in England in 2022/23). But the last time such an increase was needed, and construction employment is currently at a nine-year low, it took 12 years to get there (1996 to 2008). Also note, as of October 2024, job vacancies in the construction sector were still higher than at any time in the 20 years preceding the pandemic.

Currently, it also seems likely that net inward migration is set to fall, so there is likely to be a smaller pool of migrant workers available who, in the past, have filled the requirement for construction worker demand. The Government plans to heavily promote training schemes, particularly to the one million 16- to 24-year-olds who are neither in education nor work. But it is arguable as to whether the employee shortfall can be made up from this source in the requisite time, even if more do enter the workforce.

Against, this backdrop, there may be a near-term boost to inflation caused by a wave of public sector cash chasing the same construction providers over the course of the next year or so, whilst wages remain higher than the Bank currently forecasts because of general labour shortages, including in social care where Government accepts there is a 150,000 shortfall at present.

Unemployment stands at a low 4.3% (September), whilst wages are rising at 4.3% y/y (including bonuses) and 4.8% (excluding bonuses). The Bank would ideally like to see further wage moderation to underpin any further gradual relaxing of monetary policy. Indeed, over the next six months, the market is currently only pricing in Bank Rate reductions in February and May – which would see Bank Rate fall to 4.25% - but further cuts, thereafter, are highly likely to be even more data-dependent.

If we focus on borrowing, a term we are likely to hear throughout 2025 is "bond vigilante". Essentially, this represents a generic term for when the market is ill at ease with the level of government borrowing and demands a higher return for holding debt issuance. In the UK, we do not need to go back too far to recall the negative market reaction to the Truss/Kwarteng budget of 2022. But long-term borrowing rates have already gradually moved back to those levels since their recent low point in the middle of September 2024. Of course, the UK is not alone in this respect. Concerns prevail as to what the size of the budget deficit will be in the US, following the election of Donald Trump as President, and in France there are on-going struggles to form a government to address a large budget deficit problem too. Throw into the mix the uncertain outcome to German elections, and there is plenty of bond investor concern to be seen.

Staying with the US, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks continue to abound in Europe, the Middle East and Asia.

In the past month, the US Core CPI measure of inflation has indicated that inflation is still a concern (3.3% y/y, 0.3% m/m), as has the November Producer Prices Data (up 3.0 y/y v a market estimate of 2.6% y/y, 0.4% m/m v an estimate of 0.2% m/m) albeit probably insufficient to deter the FOMC from cutting US rates a further 0.25% at its December meeting. However, with Trump's inauguration as President being held on 20 January, further rate reductions and their timing will very much be determined by his policy announcements and their implications for both inflation and Treasury issuance.

Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. More recently, however, 10 year gilt yields have spiked back up to 4.35%.

The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8.304), but its performance is firmly in the shade of the US S&P500, which has breached the 6,000 threshold on several occasions recently, delivering returns upwards of 25% y/y. The catalyst for any further rally (or not) is likely to be the breadth of AI's impact on business growth and performance.

MPC meetings: 9 May, 20 June, 1 August, 19 September, 7 November 2024

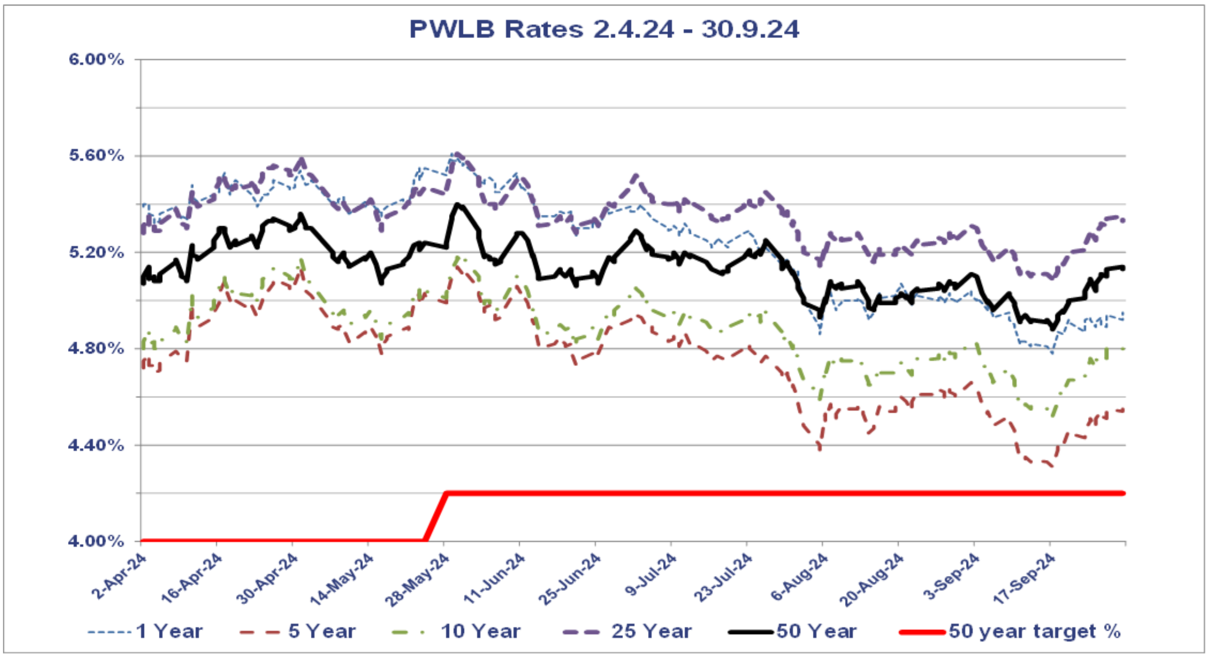
- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut but the language used by the MPC emphasised "gradual" reductions would be the way

ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

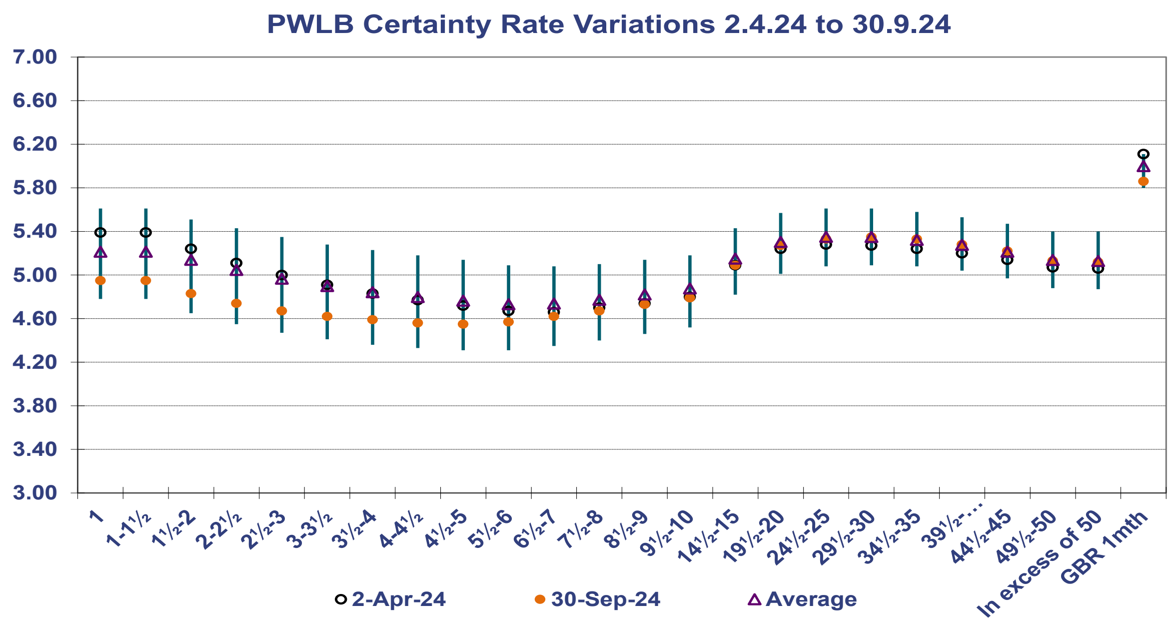
In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.

(Please note these charts are updated quarterly and will next be updated early January.)

PWLB RATES 02.04.24 - 30.09.24



PWLB CERTAINTY RATE VARIATIONS 02.04.24 - 30.09.24



HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

AGENDA ITEM 11 REPORT NPA24/25-32 APPENDIX 5

RESERVES 2025/26

Reserve Type and Title	Estimated 2025/26 Opening Balance	Planned use of reserves 2025-26	Estimated 2025/26 Closing Balance	Purpose of Reserve
	£'000	£'000	£'000	
General Reserves:				
General Reserve	529	(182)	**347**	2024/25 anticipated below budget variance available, £182k to fund 25/26 capital programme, £181k used during 25/26 to manage estimated budget gap.
Approved Risk Reserves:				
Working Balance (Minimum)	595		**595**	Minimum Working balance
Planning Reserve	498	(140)	**358**	Local Plan - assumed 24/25 carry forward
Earmarked Reserves:				
Partnership Management Plan Reserve	216	(116)	**100**	To fund outcomes identified in the Partnership Management Plan
Strategic Fund	288		**288**	Reserve to hold unspent Strategic Fund allocations.
Affordable Housing	161		**161**	Funds to implement an Affordable Housing Strategy within the National Park
Invest to Save Reserve	884		**884**	To support future schemes to save money in future years
Climate Change Fund Reserve	42		**42**	Funds to support the Authority becoming a 'net-zero' organisation by 2030.
Green Finance (Nitrates) Reserve	567	(30)	**537**	The reserve is for nitrates monitoring and mitigation - estimated £391k contribution during 2024/25
Funds held in lieu of Agreements				
South Downs Way	20	(20)	**-**	to fund ROW & Access Officer post
Section 106 Receipts Reserve	345		**345**	Receipts primarily used to develop infrastructure within the National Park
Section 106 Interest on Statutory Receipts	585		**585**	Receipts primarily used to develop infrastructure within the National Park - estimated £391k contribution during 2024/25

Community Infrastructure Levy Reserve*	7,858	(500)	**7,358**	Receipts to fund infrastructure in development areas
Capital (Timing) Reserves:				
Capital Receipts	34		**34**	Proceeds from disposal of assets available for use on capital expenditure
Estates Management Reserve	50		**50**	To support refurbishment of area offices.
Vehicle Repairs and Renewals	5		**5**	To fund purchase of replacement vehicles
Total Reserves Balance	**12,677**	**(988)**	**11,689**	

* *The value of the Community Infrastructure Levy reserve represents amounts receivable in accordance with Financial Regulations and the Town and County Planning Act 1990. The reserve value may not represent the value of actual income received due to agreed payment terms and the profile of payments for some developments. The movement in reserve represents an estimated 'net' movement of funds issued offset by further CIL income.*

** *Note that after setting aside necessary risk reserves, capital reserves and reserves held in lieu of legal (planning) agreements (i.e. CIL / S106), the reserves under the direct control of the Authority are expected to be £2.687m as at 1 April 2025 which will be allocated as Earmarked Reserves to meet identified projects, priorities and invest-to-save requirements as set out above.*

AGENDA ITEM 11 REPORT NPA24/25-32 APPENDIX 6

MEDIUM TERM FINANCIAL STRATEGY 2025/26 – 2029/30

The Medium Term Financial Strategy (MTFS) has been developed in line with the approved Budget Framework. The Authority's financial planning and resource allocation has taken into account the following assumptions:

- to be an administratively lean, efficient organisation;
- to work with others (stakeholders and partners);
- to use limited contributions to activities to encourage and lever greater contributions from others;
- focus on S.M.A.R.T. (specific, measurable, attainable, relevant, time bound) targets and outcomes;
- maintain flexibility (for example; able to change quickly if circumstances alter).

The following rules, which promote best practice and comply with relevant financial standards and legislation have been applied. The Authority must:

- set a balanced budget and maintain adequate reserves;
- avoid aspirations or commitments which are ultimately unaffordable and avoid making ongoing commitments unless they are essential;
- seek to secure efficiency gains and improvements in value for money;
- seek to maximise income taking into account any related additional costs;
- not incorporate contingencies into individual budgets but will retain an overall contingency corporately because of potential risks.

The Authority has continued to adopt a prudential approach to budget setting with an established permanent staffing structure and temporary posts for short term projects. This approach will ensure that the Authority does not recruit to posts that become unaffordable in the longer term and will provide some flexibility in resources to fund priorities identified in the PMP. The assumptions underpinning the Medium-Term Financial Strategy are:

- DEFRA National Park Grant allocation assumed for 2025/26 as 21% reduction on 2024/25 allocation and no confirmation for future years.
- All costs have been inflated using the latest information provided by the Office of Budget Responsibility. (UK CPI inflation forecast 2024 | Statista)
- From 2026/27 additional levels of income have been included, based on activity expected to happen over the coming year to allow the Authority to generate more income. This is through raising income following the appointment of the a new Director, allowing for more income generated through the Trust and other miscellaneous income received.
- Gradual increase of 10% per annum of capitalised costs, growth based on understanding of the capitalisation process.

The Authority will explore new external funding opportunities including Local Enterprise Partnership funding and adopt commercial income opportunities as well as continuing to support the South Downs National Park Trust.

The MTFS indicates that there will be a deficit position from 2026/27 which the Authority will need to address. As there is significant uncertainty surrounding the funding arrangements, Local Government Reform and Devolution it is challenging to present a balanced MTFS. Members are to note the following mitigations that are available to address this position and ensure financial stability in the medium term.

- Use any further underspends from the financial years 2024/25 and 2025/26 should they occur. Note this is a short-term measure only and cannot be sustained over the medium term.
- Following the outcome of the CIPFA seminar, capitalise more costs making and use the additional capital funding that is being offered by DEFRA.
- Use the remaining S106 interest of £0.050m after settling the costs associated with SDCO
- Review of all projects and their business case ensuring they are still relevant and the funding identified is being utilised in the most financially efficient way.
- Take action on the recommendations from the board arising from the second budget workshop if they are not already included in the proposed budget.
- Income from the Trust replenishes the reserves to support future years deficits.

The MTFS shown below only provides a high-level summary for information.

SDNPA MTFS - Annual Growth	**2025/26 £'000**	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**	**2029/30 £'000**
Direct Employees	7,358	123	107	104	93
Indirect Employees	277	6	6	6	6
Premises Related	584	13	13	13	12
Transport Related	166	4	4	4	4
Supplies and Services	2,456	56	53	54	52
Third Party Payments	2,887	66	62	63	62
Capital financing Costs	22	-	-	-	-
Total Expenditure	**13,750**	**268**	**245**	**244**	**229**
Government Grants	(10,106)	-	-	-	-
Other Grants and Contributions	(535)	-	-	-	-
Customer Client Receipts	(2,272)	(322)	(204)	(209)	(210)
Interest	(327)	-	-	-	-
Total Income	**(13,240)**	**(322)**	**(204)**	**(209)**	**(210)**
Net Budget Deficit / (Surplus)	**510**	**456**	**497**	**532**	**551**
Contribution to/ (from) Reserves	**(510)**	**(347)**			
Grand Total	**-**	**109**	**497**	**532**	**551**