South Downs
National Park Authority

Agenda Item 11
Report NPA04/19

Report to	**South Downs National Park Authority**
Date	**28 March 2019**
By	**Chief Finance Officer**
Title of Report **Decision**	**Revenue Budget 2019/20, Capital Strategy 2019/20 and Medium Term Financial Strategy**

Recommendation: The Authority is recommended to:

1. **Approve the Revenue Budget 2019/20 of £10.486m, including a contribution of £0.136m to reserves as detailed in paragraphs 3.1 to 3.7 and Appendix 1 to this report.**
2. **Approve the Capital Strategy 2019/20 at Appendix 2 of this report including the Capital Programme 2019/20 of £171,000.**
3. **Approve the Treasury Management and Annual Investment Strategy 2019/20 at Appendix 3 of this report.**
4. **Approve the use of Reserves including the creation of an Affordable Housing Reserve as detailed at Appendix 4.**
5. **Note the Medium Term Financial Strategy 2019/20 to 2023/24 at Appendix 5.**

1. Introduction

1.1 The Authority is required to set a balanced budget before the start of the new financial year in accordance with legislation. This report sets out the South Downs National Park Authority's (the Authority) budget for the 2019/20 financial year and the Medium Term Financial Strategy for the period 2019/20 to 2023/24.

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 taking account of revenue 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 and Annual Investment 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 Members Budget Workshops and to align with the Corporate Plan and the PMP, as well as developing a more pro-active approach to alternative income generating opportunities to provide greater financial stability for medium term planning.

2.3 The basis for the revenue expenditure is the pursuit of the statutory purposes for which the 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 twin 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 2019/20

3.1 The 2019/20 Revenue Budget is detailed in **Appendix 1** by service area with a budget narrative for each service area.

3.2 DEFRA have confirmed the National Park Authorities' grant allocations up to the 2019/20 financial year, which includes an allocation of £10,486,000 to the Authority in 2019/20. The approved allocations reflect annual increases of 1.7% per annum between 2015/16 and 2019/20. The 2019/20 budget and Medium Term Financial Strategy has therefore been prepared in the context of the confirmed grant allocation for 2019/20 and forecasts thereafter, which prudentially assume no further uplifts, as shown in the table below.

South Downs National Park Authority	Confirmed 2019/20 £'000	Forecast 2020/21 £'000	Forecast 2021/22 £'000	Forecast 2022/23 £'000	Forecast 2023/24 £'000
National Park Authorities grant	10,486	10,486	10,486	10,486	10,486

3.3 Although DEFRA have provided confirmation of the 2019/20 grant allocation, there is still a risk that this grant income may need to be revised if notification of allocation is reduced. In such cases, compensating budget savings or contributions from reserves would be required to balance the budget position. As future years' grant allocation assumptions are based on unconfirmed forecasts, there is a likelihood that assumptions will need to be amended and implications for the Medium Term Financial Strategy considered.

3.4 The Authority has a 'best value duty' to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regards 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.

3.5 Due to the size and nature of the budgets, The Authority continues to maintain some flexibility to fund one-off projects and unexpected costs. All budgets have been reviewed with regards to the extent to which they are currently committed and the recurring requirement over the medium term. This identified the requirement for short term funding for one-off proposals and permanent budget amendments, which have been reflected in the budget proposals.

3.6 The 2019/20 budget includes a permanent staffing establishment of 124.4 full time equivalent posts. In addition, the budget also accommodates 9.5 full time equivalent posts which are externally and temporarily funded to support one-off projects.

3.7 Volunteering time is recognised as a valuable resource to the Authority and it is estimated that in 2019/20 this will provide approximately 3,000 days with an estimated value of £180,000. This is based on 2,700 days of basic skill valued at a notional £50 per day plus 300 days specialist skills valued at a notional £150 per day. There are variety of different ways in which the value of volunteer time could be measured and this is simply an indicative calculation to provide Members with context of the contribution to meeting the Authority's priorities and objectives.

Capital Strategy 2019/20

3.8 Revisions to the Prudential Framework have introduced the requirement 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.

3.9 The aim of the Capital Strategy is to ensure 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 2019/20 to 2023/24.

3.10 The capital programme supports priorities informed by the Members' Budget Workshops and outcomes identified in the PMP. The key priorities for capital expenditure over the medium term include a vehicle replacement schedule, the development of potential schemes for Area Offices and a signage project.

3.11 The capital strategy includes three new capital schemes relating to a request for an additional vehicle, a vehicle replacement and the acquisition of a scrub management machine details of which are included in the Capital Strategy 2019/20. The 2019/20 capital programme also includes investment of £0.090m for the National Park Signage project that has been previously approved by the Authority.

3.12 With regard to the new capital schemes, on 22 November 2018, the Policy & Resources Committee approved the two capital project approval requests relating to the vehicle replacement and the scrub management machine as part of the Budget Monitoring Report 2018/19 Month 6. It was subsequently identified that there are inconsistent provisions in the Authority's Financial Procedures that indicate that new capital projects shall be approved by both the Policy & Resources Committee and the Authority. Consequently, at its meeting on 28 February 2019, the Policy & Resources Committee resolved to recommend that the Authority endorse the Committee's earlier decisions to approve the new capital projects. It is proposed that by approving the Capital Programme, which incorporates the two capital projects previously approved by the Policy & Resources Committee, the Authority will be endorsing the Committee's earlier decisions

3.13 In relation to the new capital scheme request for an additional vehicle, at its meeting on 28 February, the Policy & Resources Committee resolved to recommend that this be approved by the Authority.

Treasury Management Policy and Strategy

3.14 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.

3.15 The Treasury Management and Annual Investment Strategy 2019/20 are now incorporated into this report to ensure that inter-related financial decisions and strategies can be considered alongside associated capital and revenue budget decisions, especially following the requirement to report a capital strategy. 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.

3.16 Policy & Resources Committee agreed at its meeting of 28 February 2019 to recommend that the Authority approves the Treasury Management Policy Statement 2019/20, Treasury Management Practices 2019/20 and Annual Investment Strategy 2019/20. These documents have been incorporated into a Treasury Management and Annual Investment Strategy at **Appendix 3** to this report. Following comments from Members at Policy & Resources Committee, table 3 to the Annual Investment Strategy has been updated to provide additional information on counterparty credit ratings.

3.17 Following discussions at the Policy and Resources Committee, the annual investment strategy contained in Appendix 3 is presented with the support of the Authority's Head of Business Services

Review of Reserves

3.18 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.

3.19 The Authority holds reserves for two main purposes:

(i) A working balance to temporarily cover major unexpected items of expenditure on emergencies;

(ii) Earmarked reserves set aside for a range of specific purposes such as mitigating planning appeal risks, future one-off events and funding the capital programme (capital reserves).

3.20 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.

3.21 The working balance must last the lifetime of the Authority unless contributions are made from future years' revenue budgets and is based on approximately 5% of expected DERFA National Park Authorities Grant and planning income. Additional and ad-hoc grant income is not included due to the potential uncertainty of this type of funding and that to set aside 5% of any additional income secured would have a detrimental impact on the funds available to deliver outcomes. Taking the factors outlined above into account, it is considered by the Chief Finance Officer that a working balance of £595,000 for the 2019/20 financial year therefore remains prudent and reasonable.

3.22 The 2018/19 revenue forecast position reported as at month 9 to Policy & Resources Committee was a below budget variance of £224,000. A below budget variance at the end of the financial year would add to the reserves position and therefore have implications for the Medium Term Financial Strategy of the Authority. It has been assumed in the review of reserves at Appendix 4 that the 2018/19 below budget variance will be allocated to the general reserve for subsequent transfer to earmarked reserves in accordance with Financial Procedures to meet identified priorities. The final 2018/19 outturn position will not be known until the completion of the accounts for the 2018/19 financial year and transfers to reserves will be reported as part of the budget monitoring outturn report to Policy & Resources Committee.

3.23 At its meeting on 28 February, the Policy & Resources Committee resolved to recommend that the creation of an Affordable Housing Reserve be approved by the Authority**.** An annual £100,000 allocation has been assumed within the Medium Term Financial Plan to support affordable housing options being considered by the authority. Most of the activity associated with this budget in the 2018/19 financial year has been completed in-house resulting in approximately £80,000 being unspent; it is therefore anticipated that this £80,000 will be the initial contribution to the reserve for the purpose of supporting affordable housing options being considered by the authority in the future, following the conclusion of the Local Plan. A number of affordable housing schemes are in the pipeline, one or two of which are expected to come forward and require funding in the 2019/20 financial year.

Medium Term Financial Strategy

3.24 The Medium Term Financial Strategy (MTFS) is set out in **Appendix 5** and shows projected changes in commitments, savings and grant income for 2019/20 to 2023/24. The forecasts in the MTFS reflect the confirmed and forecast DEFRA National Park Authorities grant allocations and also assumptions made for other expenditure and income over the period.

3.25 The revenue principles set out in the strategy underpin the approach to budget setting and support the Authority in maintaining financial stability over the period.

3.26 The medium term budget strategy will continue to seek flexibility 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 major projects each year to meet existing commitments.

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

- Maintaining annual allocations for key initiatives including £100,000 to support the Affordable Housing options being considered by the Authority and £50,000 allocation for a Farm Pilots scheme.
- 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.
- Increased planning income of £200,000 per year to reflect increasing levels of income receivable and anticipated increases following adoption of the Local Plan.
- Increased income receivable to support the administration of the Community Infrastructure Levy.
- Support for short term commitments to fund various priorities and actions in accordance with the Corporate Plan and PMP.
- Ongoing review of the performance and value for money provided under corporate contracts, including insurance services, corporate subscriptions, software and payments to other Local Authorities for planning services.
- Continued investment in the Signage Project of £50,000.
- Maximising the opportunity to bid for external funding sources, in line with the Authority's duty and purpose.

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 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 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 the practical experience and the financial management track record of the Authority over recent years, including the detailed in-year budget monitoring. Other factors taken into account 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 the 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.

3.32 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.

3.33 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. 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 2018/19 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 2018/19 budget will be reported at least quarterly 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.
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.
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	No

from the proposal?	
Are there any Data Protection implications?	No
Are there any Sustainability implications based on the 5 principles set out in the SDNPA Sustainability Strategy:	Sustainability issues have been considered in the development of the outcomes included within the Corporate Plan and PMP and these proposals identify the resources available to deliver those outcomes.

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 above. Part of this judgement includes identification of potential risks and an assessment of their impact and mitigation as set out in the table below.

Risk	**Likeli-hood**	**Impact**	**Possible Impact on Financial Strategy / Mitigation**
Potential Risk Affecting 2019/20 Budget			
National Park Grant does not increase as expected or reduces by up to 5%	1	4 (approx. £525k reduction in income)	Would require reductions in budgets (i.e. increased savings) for the coming year. A watching brief is maintained on existing and emerging attitudes in Government to National Park funding. Worst case would mean trimming of non-essential spend from the operational budget and delay or cancellation of programmes contributing to delivery of the PMP.
Planning income reduced below amount predicted by up to 10%	2	3 (approx. £130k 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.
Staff salaries increased by more than 2% (1% COL)	1	2 (1% would be approx. £60k)	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 the Authority.
Increase in non-staff costs on like for like basis	1	3 (3% would be approx. £170k)	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 uplifts.
Overspend on Major Projects	1	3 (10% would be approx. £100k)	Would require reductions in the budget (i.e. increased savings) for the following year or increased contributions from reserves. Budget monitoring for all major projects is undertaken. Current projects are relatively low risk and mitigation can be put in place

			to contain any individual cost overruns within overall budget. Programme Manager recruited to oversee projects.
Potential Risk Affecting Medium Term Financial Strategy			
National Park Grant does not increased as expected or reduces by up to 5%	3	4 (approx. £525k 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 main point of threat will be 2020 when the current finding proposals come to an end. Worst case would mean trimming of non-essential spend from the operational budget, delay or cancellation of programmes contributing to the delivery of PMP and / or no further increase to reserves over the MTFS.
Planning income reduced below amount predicted by up to 10%	3	3 (approx. £130k 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 etc. could offset reductions in overall application numbers. The predictions for planning income over the medium term are reasonably challenging, predicated on maintaining recent performance and a post Local Plan increase in volume.
Staff salaries increased by more than 2% (1% COL)	3	2 (1% would be approx. £60k 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 continues to run at c3% over the medium term, pressures and retention issues may force a review of current policy.
Increase in non-staff costs on like for like basis	2	3 (3% would be approx. £150k 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 those within increased efficiencies.
Overspend on Major Projects	3	3 (10% would be approx. £100k)	Would require reductions in the budget (i.e. increased savings) for the following year or increased contributions from reserves. Budget monitoring is in place for all major projects. Current projects are relatively low risk and mitigation can be put in place to contain any individual cost overruns within overall budget. New projects may involve major construction with all of the risk

			inherent in this, and SDNPA will need appropriate skills / knowledge to effectively manage those risks.

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Appendices	1. Revenue Budget 2019/20 2. Capital Strategy 2019/20 3. Treasury Management and Annual Investment Strategy 2019/20 4. Review of Reserves 2019/20 5. Medium Term Financial Strategy 2019/20 to 2023/24
SDNPA Consultees	Chief Executive; Director of Countryside Policy and Management; Director of Planning; Chief Finance Officer; Monitoring Officer; Legal Services, Business Services Manager
External Consultees	None
Background Documents	This report is presented in accordance with the Authority's Financial Regulations and Standard Financial Procedures.

Revenue Budget 2019/20

2018/19 Original Budget (Net) £'000	Service Area	2019/20 Revenue Budget					
		2018/19 Adjust' Core Budget* £'000	2019/20 Core Commit-ments £'000	2019/20 Savings £'000	2019/20 Core Budget £'000	2019/20 Short-Term Commit-ments £'000	2019/20 Total Net Budget £'000
3,488	Corporate Strategy	3,407	310	(83)	**3,634**	236	**3,870**
2,815	Countryside Policy & Management	2,763	50	0	**2,813**	223	**3,036**
3,682	Planning	3,687	26	(280)	**3,433**	11	**3,444**
220	Strategic Investment Fund	0	0	0	**0**	0	**0**
10,205	**Net Cost of Services**	**9,857**	**386**	**(363)**	**9,880**	**470**	**10,350**
(10,309)	National Park Grant						**(10,486)**
104	Contribution to / (from) Reserves						**136**
0	**Net Authority Budget**						**0**

* The 2018/19 adjusted core budget includes permanent budget transfers between service areas.

<u>Corporate Services</u>

2018/19 Original Budget (Net) £'000	Service Area	2019/20 Revenue Budget					2019/20 Budgeted Staff FTE
		Employee Costs £'000	Other Expend-iture £'000	Total Expend-iture £'000	Total Income £'000	Total Net Budget £'000	
3,488	Corporate Strategy	1,839	2,152	**3,991**	(121)	**3,870**	**40.3**

The proposed 2019/20 net revenue budget for Corporate Services is £3.870m. 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. The budget reflects core commitments of £310,000 related to salary increments and other changes, and savings totalling £108,000 associated with reduced contract costs and increased income generation from donations and sponsorship. The 2019/20 salary budget includes an additional 3 apprentice posts. Short term commitments include increased contribution to the Sustainable Communities Fund; funding to scope income generation opportunities; a Virtual Reality Package so urban areas, schools, care home, etc. can experience the Dark Skies experience; and a refurbishment of the South Downs Centre to improve interpretation and shared identity.

Service priorities for 2019/20 include continuing to develop capability for increased income generation, the rollout of the Shared Visual Identity, and the creation of communication platforms and behaviour change campaigns in support of the Authority as a whole.

Countryside Policy and Management

2018/19 Original Budget (Net) £'000	Service Area	2019/20 Revenue Budget Employee Costs £'000	Other Expend-iture £'000	Total Expend-iture £'000	Total Income £'000	Total Net Budget £'000	2019/20 Budgeted Staff FTE
2,815	Countryside Policy & Management	2,417	1,114	**3,531**	(495)	**3,036**	**56.4**

The proposed 2018/19 net budget for the Countryside and Management service is £3.036m. The service priorities for 2018/19 are focused on the development of strategies for the continued delivery of the PMP. Other priorities include the continuation of delivering the Ranger service and hands-on conservation of the Park, working with partners, farmers and landowners, user groups and others, as well as funding contributions for the Heathland Project and the South Downs Way National Trail. Short term commitments include a Southdown Landscape Character Assessment to create a more accessible resource for partners and stakeholders; and a Viticulture Study which is considered to be a key plank of the authority's economy study.

Planning Services

2018/19 Original Budget (Net) £'000	Service Area	2019/20 Revenue Budget Employee Costs £'000	Other Expend-iture £'000	Total Expend-iture £'000	Total Income £'000	Total Net Budget £'000	2019/20 Budgeted Staff FTE
3,682	Planning Services	1,869	2,966	**4,835**	(1,391)	**3,444**	**37.2**

The proposed 2019/20 net budget for the Planning Service is £3.444m which includes staffing, 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 and planning policy (including Local Plans, duty to cooperate, and community led plans), the Community Infrastructure Levy (CIL) and the duty on social and economic wellbeing (through the Sustainable Futures Team).

The proposed planning income budget is increased by £200,000 in 2019/20 to £1,300,000. This follows the impact of central government policy to increase planning applications fees by 20% which came into force in 2018, recent trends in the number of planning applications and an expected increase following adoption of the Local Plan. Income levels are demand led and dependant on the number of applications and major developments within the Souths Downs region, and therefore largely dependent on the prevailing economic conditions. The risk to income levels is mitigated to some extent by the pay by application S101 Planning Agency Agreements; where the budget has also been amended to reflect some efficiencies in these contracts.

The level of Community Infrastructure Levy income receivable has resulted in the budget for administration fee income to increase by £25,000, which is used to offset the cost of administrating the scheme.

Capital Strategy 2019/20

1. Background

1.1. CIPFA's Prudential Code for Capital Finance in Local Authorities and MHCLG's Investment Guidance were both revised in 2017/18, requiring all local authorities to prepare a capital strategy report, which should demonstrate 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 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 and Annual Investment Strategy; this ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

1.4. This report covers the impact of capital investments, focussing on the authority's non-core activities. Treasury investments and associated risks are covered under the authority's Annual Investment Strategy, which forms part of 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 full 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 Head of Business Services;
- the development and implementation of an Asset Management Plan;
- 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 OMT, and at least quarterly to SMT and to 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, communities and citizens.

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 planning process, project management, major changes initiatives and financial management processes;
- A monitoring process is in place to review regularly 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 on a monthly basis and issues escalated to Senior Management Team as required. The Corporate Risk Register is reported to each Policy & Resources Committee meeting.

4. Capital Strategy

Capital Expenditure

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 take into 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.

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 potentially an important source of income, but conditions need to be carefully considered to ensure that that 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 and Annual Investment Strategy. Future borrowing repayments (including interest) should be given careful consideration and need to be demonstrated to be affordable relative to the benefits of the asset being purchased/enhanced and 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 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 following table shows the Authority's planned Capital Programme:

Capital Programme	**2019/20 Budget £'000**	**2020/21 Budget £'000**	**2021/22 Budget £'000**	**2022/23 Budget £'000**	**2023/24 Budget £'000**
National Park Signage Project	90	0	0	0	0
NEW: New Vehicle	21	0	0	0	0
NEW: Vehicle Replacement	20	0	0	0	0
NEW: Scrub Management Machine	40	0	0	0	0
Total Capital Budget	**171**	**0**	**0**	**0**	**0**

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. The following table shows how it is anticipated the Capital Programme will be financed.

Capital Programme Financing	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000
External Grants and Contributions	0	0	0	0	0
Borrowing	0	0	0	0	0
Capital Receipts	0	0	0	0	0
Capital and Earmarked Reserves	32	0	0	0	0
Direct Revenue Funding	130	0	0	0	0
Other	9	0	0	0	0
Total Capital Financing	**171**	**0**	**0**	**0**	**0**

New Capital Scheme Approval Requests

New Capital Project Approval Request:					
Service Area:	Corporate Services				
Project Title:	New Vehicle				
Total Project Costs:	£20,500				
Project Purpose, Benefits and Risks:					
The vehicle fleet has not significantly changed in content for some years, other than for renewals and the addition of the two events vans. During 2018 an officer group was formed under the chair of Countryside & Policy Manager to look at vehicle utilisation across the Area Teams. In most cases, it was possible to redistribute vehicles to provide a better fit with operational requirements but a shortfall of one vehicle has been identified. The purchase of a pick-up truck will allow the team to transport staff and with the provision of a hard cover it will allow the transportation of equipment without the need for a trailer and a trained driver.					
Capital Expenditure Profile (£'000):					
Year	2019/20	2020/21	2021/22	2022/23	2023/24
Capital Reserves	21	0	0	0	0
Total Estimated Costs	21	0	0	0	0
Financial Implications:					
The capital costs will be funded from Vehicles Repairs and Renewals reserve which is earmarked for replacement vehicles. This will reduce the value of the vehicle replacement fund, but will leave sufficient funds for emergency use, i.e. vehicle write-offs where the insurance payment has to be supplemented from capital funds to replace the damaged vehicle. Ongoing vehicle running costs will be met from existing revenue budgets.					

New Capital Project Approval Request:					
Service Area:	Corporate Services				
Project Title:	Vehicle Replacement				
Total Project Costs:	£20,000				
Project Purpose, Benefits and Risks:					
A replacement pick-up vehicle is required following a steering failure of the previous vehicle, which the insurance company deemed to be written off as opposed to repairable. The vehicle is required for vital on-going work of the Eastern Area Office and South Downs Way. A vehicle working group monitors fleet usage and requirements across the Authority.					
Capital Expenditure Profile (£'000):					
Year	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Capital Reserves	11	0	0	0	0
Other: Insurance Settlement	9	0	0	0	0
Total Estimated Costs	**20**	**0**	**0**	**0**	**0**
Financial Implications:					

The capital costs will be funded by a combination of capital reserves and an insurance settlement related to the write-off of the previous vehicle. It is anticipated that the insurance income will be £9,000, with the remaining sums being funded from the Vehicles Repairs and Renewals reserve which is earmarked for replacement vehicles. Replacing the vehicle reduces further revenue costs of hiring a temporary vehicle. Existing revenue budgets exist for the ongoing vehicle running costs.

New Capital Project Approval Request:					
Service Area:	Countryside and Policy Management				
Project Title:	Scrub Management Machine				
Total Project Costs:	£40,000				
Project Purpose, Benefits and Risks:					
Following on from the work carried out through NIA, there is greatly increased habitat connectivity and chalk grassland across South Down National Park. There are also significant areas of re-growth needing to be tackled, much of it on extremely steep slopes. In order to deal with this more efficiently it is proposed to purchase a remote flail. This is a remote controlled, tracked machine capable of tackling steep gradients up to 60 degrees. The cost of this machine is £40,000 but it will be possible to hire this out to other bodies, as well as increasing the volume of work that can reasonably be undertaken.					
Capital Expenditure Profile (£'000):					
Year	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Direct Revenue Funding	40	0	0	0	0
Total Estimated Costs	**40**	**0**	**0**	**0**	**0**
Financial Implications:					
The capital costs will be funded from revenue budget within the Countryside and Policy Management service. There will be staff resources required for the operation and transport of the machine, as well as ongoing running costs, however these are expected to be offset by efficiencies compared to alternative options and potential hire income.					

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 Management and Annual Investment Strategy setting out the matters detailed in "Treasury Management in the Public Services: Code of Practice for Treasury Management in Local 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 an Annual Investment 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 carrying out delegated treasury management powers.

6.4. All decisions on borrowing, investment or financing shall be 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 Policy Statement and Annual Investment Strategy.

6.5. The Local Government Act 2003 permits local authorities 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.

6.6. The Authority currently has no outstanding borrowing or borrowing requirement identified within the Capital Strategy. Should the Authority decide to borrow funds in the future, the Capital Strategy will need to be updated to reflect the requirement to set borrowing limits and identify and approve relevant prudential indicators. This could be actioned at the same time as considering any capital scheme that demonstrates affordability to repay the debt, however, no such schemes have yet been identified and therefore this provision is not currently included in the Strategy.

7. Commercial Activity

7.1. The Authority currently has no assets held for commercial investment. Should the Authority decide to invest in commercial activity in the future, the Capital Strategy will need to be updated to reflect the requirement to outline the Authority's approach to commercial activity and to set policies, limits and indicators to provide a framework within which the commercial activity will take place. This could be actioned at the same time as considering any investment decision, however, no such schemes have yet been identified and therefore this provision is not currently included in the Strategy.

8. Other Long-term liabilities

8.1. The Authority currently has no long-term financial liabilities. Should the Authority decide to enter into any such liabilities in the future, the Capital Strategy will need to be updated to reflect the requirements to set polices, limits and indicators. This could be actioned at the same time as considering any relevant decision, however, no such schemes have yet been identified and therefore this provision is not currently included in the Strategy.

9. Knowledge and Skills

9.1. The Authority's Chief Finance Officer has delegated responsibility for the Authority's treasury and capital activities. This post requires the post holder to be a qualified accountant. The Chief Finance Officer is a CIPFA qualified accountant who follows an ongoing programme of continuous professional development (CPD).

9.2. The authority's treasury & capital strategies are produced and maintained by a team of officers who are professionally qualified accountants and who have extensive 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 Continued Professional Development and ensure that their knowledge is up to date with the relevant policies.

9.3. The Authority's Treasury Management and Annual Investment Strategy is also reviewed by the Head of Business Services who must be 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 and Annual Investment Strategy is jointly reported to Policy & Resources Committee by the Chief Finance Officer and Head of Business 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 council and has ensured that it is fully integrated with the council's Medium Term Financial Strategy, Treasury Management Strategy Statement and Capital Strategy.

Treasury Management and Annual Investment Strategy 2019/20

<u>Treasury Management Policy Statement 2019/20</u>

The following paragraphs set out the Authority's Treasury Management Policy Statement for the year commencing 1 April 2019:

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.

<u>Treasury Management Practices 2019/20</u>

<u>TMP1: Risk management</u>

The Authority's Chief Finance Officer will secure all arrangements for the identification and management of treasury management risk. The Chief Finance Officer will report at least annually on the adequacy and suitability thereon and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Authority's objectives in this respect.

The arrangements secured by the Chief Finance Officer will ensure:

- the Authority has adequate (though not excessive) cash resources, borrowing arrangements, overdraft and standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business / service objectives;
- the prudent use of approved financing and investment instruments, methods and techniques;
- a prudent attitude towards the organisations with which the Authority's funds may be deposited, including the limiting of investment activity to instruments, methods and techniques referred to in 'TMP4 Approved instruments, methods and techniques';
- all of the Authority's treasury management activity complies with its statutory powers and regulatory requirements;
- the use of systems and procedures that minimise the exposure to risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings.

<u>TMP2: Best value and performance measurement</u>

The Chief Finance Officer will ensure the Authority is committed to the pursuit of best value in its treasury management activities.

<u>TMP3: Decision-making and analysis</u>

The Chief Finance Officer will maintain full records of the Authority's treasury management decisions and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

TMP4: Approved instruments, methods and techniques

The Chief Finance Officer will undertake the Authority's treasury management activity by employing only those instruments, methods and techniques suitable to meet the organisation's short to medium term needs.

TMP5: Organisation, clarity and segregation of responsibilities / dealing arrangements

The Chief Finance Officer will ensure:

- there are clear written statements of the responsibilities for each post engaged in treasury management and arrangements for absence cover and business continuity;
- there is proper documentation for all deals and transactions, and;
- procedures exist for the effective transmission of funds.

TMP6: Reporting / management information arrangements

The Chief Finance officer will prepare and present to the Authority:

- an annual report on the strategy and plan to be pursued in the coming year;
- quarterly reports on transactions undertaken, and;
- an annual report on the performance of the treasury management service.

TMP7: Budgeting, accounting and audit arrangements

The Chief Finance Officer will account for the Authority's treasury management activity, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

TMP8: Cash / cash flow management

Unless statutory or regulatory requirements demand otherwise, all funds of the Authority will be under the control of the Chief Finance Officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis and the Chief Finance Officer will monitor that these are adequate for compliance with TMP1 (Liquidity risk management).

TMP9: Money laundering

The Chief Finance Officer will ensure the Authority introduces and maintains procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved are properly trained.

TMP10: Staff training / qualifications

The Chief Finance Officer will ensure that all staff involved in the treasury management service shall be fully equipped to undertake the duties and responsibilities allocated to them.

The Chief Finance Officer will ensure Authority members tasked with treasury management responsibility have access to training relevant to their needs and responsibilities.

TMP11: Use of external service providers

The Authority recognises that the responsibility for treasury management decisions remain with the Authority at all times. It recognises that there may be potential value in employing external providers in order to acquire access to specialist skills and resources. Where it employs such services, it will ensure that the terms of such an appointment and the methods by which their value will be assessed are properly agreed and documented and subject to regular review.

TMP12: Corporate governance

The Authority is committed to the pursuit of proper corporate governance throughout its business and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the Chief Finance Officer will ensure that the treasury management service and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Authority will adopt the key recommendations of the Code of Practice in Treasury Management.

Annual Investment Strategy 2019/20

This Strategy complies with guidance to be issued by the Secretary of State on investments.

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

The Authority will adopt the following minimum capital security requirements:

- Banks/building societies that have received Government support – the institution will be deemed to have the highest credit rating irrespective of the actual rating assigned to them. This is due to the inherent guarantee that Government support affords them.
- Banks/building societies with a credit rating – the institution must have a minimum short term rating of good short-term credit quality and a minimum long-term rating of good credit quality. "Good credit quality" is defined as institutions with credit ratings issued by the three main rating agencies as set out in Table 1.

Table 1 – Short-term credit ratings		
Rating agency	Min rating – short term	Min rating – long term
Fitch	F2	BBB
Moody's	P-2	Baa
Standard & Poors	A-2	BBB

The exposure limits and maximum investment periods of each approved counterparty will be established in accordance with the criteria set out in Table 2 below.

- Local authorities / Debt Management Office – deposits in local authorities are secured under legislation whilst deposits with the DMO are quasi-UK Government.
- Money market funds – the rating of the fund meets the minimum requirement of triple A (AAA / Aaa).

Table 2 sets out the maximum exposure limits and maximum periods for deposits based on a counterparty's credit rating.

Table 2 – Exposure limits and maximum periods per counterparty (with rating).			
	A rating of at least (lowest of Fitch (F) / Moody's (M) / Standard & Poor's (SP))		
Short-term rating	F = F1+ M = P-1 SP = A-1+	F = F1 M = P-1 SP = A-1	F = F2 M = P-2 SP = A-2
Long-term rating	F = AA- M = Aa3 SP = AA-	F = A M = A2 SP = A	F = BBB M = Baa SP = BBB
Exposure Limit	£10m	£5m	£5m
Maximum Investment period	12 months	12 months	6 months

Maximum permitted investment by counterparty / sector

The maximum amount invested in any one counterparty will be established in accordance with the criteria set out Table 2 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.

Investment period

Investments will be made to match the cash flow requirements of the Authority. The maximum period of investment will be:

- for UK banks, building societies and local authorities – 12 months,
- for the Debt Management Acc Deposit Facility – 6 months
- for money market funds – investment will be made on a "call" basis (that is repayment can be made without notice) and/or a "notice" basis provided the notice period does not exceed one month.

Investment classification (regulatory)

The investment guidance issued by the Secretary of State requires the Authority to identify investments as either 'specified' or 'non-specified'. Specified investments are short-term (i.e. up to 12 months), denominated in Sterling and made in institutions meeting the minimum rating criteria as set out in "Criteria to be used for creating / managing approved counterparty lists / limits" above.

All investments made by the Authority will meet these requirements and will therefore fall within the specified category.

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 counterparty's exposure limit and investment period will be reviewed and (changed where necessary) in accordance with the criteria set out in Table 2 above 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 the credit worth of a counterparty. The review may lead to the suspension of a counterparty where it is considered appropriate to do so by the Chief Finance Officer.

Full individual listings of counterparties and counterparty limits

For 2019/20 investment will be restricted to UK banks and buildings societies that satisfy the criteria set out above. A full list of counterparties, together with counterparty limits, is set out in Table 3.

Table 3 – Schedule of Counterparties and counterparty limits								
	Short Term			**Long Term**				
	F=Fitch M=Moody's SP=Standard & Poor's						**Lending Limit**	**Duration limit (months)**
Institution	**F**	**M**	**SP**	**F**	**M**	**SP**		
UK Banks								
Lloyds Banking Group:								
Bank of Scotland PLC (RFB)	F1	P-1	A-1	A+	Aa3	A+	£5m	12
Lloyds Bank PLC (RFB)	F1	P-1	A-1	A+	Aa3	A+	£5m	12
Lloyds Bank Corporate Markets PLC	F1	P-1	A-1	A	A1	A	£5m	12
**Total max. exposure to Lloyds Banking Group							£5m	12
Barclays Banking Group:								
Barclays Bank PLC (NRFB)	F1	P-1	A-1	A+	A2	A	£5m	12
Barclays Bank UK PLC (RFB)	F1	P-1	A-1	A+	A1	A	£5m	12
**Total max. exposure to Barclays Banking Group:							£5m	12
RBS/Natwest Group:								
Natwest Markets PLC (NRFB)	F1	P-2	A-2	A	Baa2	BBB+	£5m	6
National Westminster Bank PLC (RFB)	F1	P-1	A-2	A+	A1	A-	£5m	6
The Royal Bank of Scotland PLC	F1	P-1	A-2	A+	A1	A-	£5m	6
**Total max. exposure to RBS/Natwest Group:							£5m	6
HSBC Group:								
HSBC Bank PLC (NRFB)	F1+	P-1	A-1+	AA-	Aa3	AA-	£10m	12
HSBC UK Bank PLC (RFB)	F1+		A-1+	AA-		AA-	£10m	12
**Total max. exposure to HSBC Group:							£10m	12
Santander UK PLC	F1	P-1	A-1	A	Aa3	A	£5m	12
UK Building Societies								
Nationwide	F1	P-1	A-1	A	Aa3	A	£5m	12
Other								
Local Authorities	n/a	n/a	n/a	n/a	n/a	n/a	*see note	
Debt Management Office Deposit Facility	n/a	n/a	n/a	n/a	n/a	n/a	£5m	12
LVNAV Money Market Funds (per AAA rated fund)	n/a	n/a	n/a	n/a	n/a	n/a	£5m	n/a

* The amount invested in local authorities will be the amount available for investment less investment made in any other approved counterparty.

** 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.

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

<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 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 2019/20 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.

Ethical investment statement

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.

Counterparties shall be advised of the above statement each and every time a deposit is placed with them.

Review of Reserves 2019/20

Reserve Type and Title	Purpose of Reserve	Forecast 1 Apr 2019 £'000	Movement Between Reserves 2019/20 £'000	Planned Transfer to/from Reserves 2019/20 £'000	Forecast 31 Mar 2020 £'000
General Reserves:					
Working Balance	Working Balance	**595**			**595**
General Reserve	Anticipated 2018/19 below budget variance to be allocated to earmarked reserves	**224**			**224**
Earmarked Reserves:					
Partnership Management Plan Reserve	To fund outcomes identified in the PMP	**512**			**512**
Planning Reserve	To fund unforeseen planning inquires, changes to future delegation arrangements, significant income falls and/or support for neighbourhood plans	**708**			**708**
Strategic Fund	Reserve to carry forward underspends at year end	**488**		**46**	**534**
South Downs Way	Funding transferred from South Downs Joint Committee	**20**			**20**
Affordable Housing Reserve	To support affordable housing options being considered by the Authority	**80**			**80**
Section 106 Receipts Reserve	Receipts primarily used to develop infrastructure within the National Park	**726**			**726**
Section 106 Interest		**66**			**66**
Community Infrastructure Reserve	Receipts to fund infrastructure in development areas	**547**			**547**
Capital Reserves:					
Capital Receipts	Proceeds from disposal of assets available for use on capital expenditure	**23**			**23**
Estates Management Reserve	To support refurbishment of area offices	**793**			**793**
Vehicle Repairs and Renewals	To fund purchase of replacement vehicles	**44**		(41)	**3**
Total Reserves Balance		**4,826**	**0**	**5**	**4,831**

Medium Term Financial Strategy 2019/20 to 2023/24

The Medium Term Financial Strategy 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 a lean, efficient organisation.
- To work with others – stakeholder and partners.
- To use limited contributions to activities to encourage and lever greater contributions from others.
- The need for clear, SMART outcomes.
- Maintain flexibility (e.g. 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 prudent 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 estimates are based on the confirmed allocation for 2019/20, and no annual changes thereafter.
- Allocation of 2% per annum to fund performance pay awards and inflation increases.
- Zero inflation has been applied to all other budgets. It is assumed that any inflationary cost increases will be offset by efficiency savings.
- Planning income assumed at £1,300,000 in 2019/20 and thereafter following a 20% increase in planning application fees in 2018 and the planned introduction of the Local Plan. This is based on current year review of the number, value and type of applications received and previous year's trends, but also giving consideration that income is difficult to forecast as it is largely dependent on the prevailing economic conditions.

The introduction of a Community Infrastructure Levy (CIL) will provide further funding opportunities, however, further work is required to determine to full implications whilst recognising the significant call on infrastructure that Authorities would previously have used Section 106 receipts to fund. The MTFS currently assumes that £50,000 income will be received annually to fund the cost of administrating the scheme.

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 shown below only provides a high level summary for information.

	Budget 2018/19 £'000	Projection 2019/20 £'000	Projection 2020/21 £'000	Projection 2021/22 £'000	Projection 2022/23 £'000
Departmental Core Budget b/f	**9,857**	**9,880**	**10,059**	**10,179**	**10,300**
Core Commitments:					
Increment and Salary Changes	235	117	120	121	123
Income Generation Fund Project Funding	50	0	0	0	0
Area Office Leases	33	0	0	0	0
Apprenticeship Fund	20	15	0	0	0
Pension Increase	0	22	0	0	22
Citizens Panel	0	30	0	0	0
Other Core Service Commitments	47	0	35	0	0
Savings:					
Planning Income	(200)	0	0	0	0
Completion of Local Plan	(30)	0	0	0	0
Delegated Agreements contract efficiencies	(25)	0	0	0	0
CIL Administration Income	(25)	0	0	0	0
IDOX contract renewal	(25)	0	0	0	0
Other Savings	(59)	(8)	0	0	0
Departmental Core Budget	**9,880**	**10,059**	**10,179**	**10,300**	**10,445**
Short Term Commitments					
Signage Project – Capital Funding	50	0	0	0	0
Southdown Landscape Character Assessment	50	0	0	0	0
Viticulture Study	50	0	0	0	0
Contribution to SCF	50	0	0	0	0
Income Generation Opportunity Scoping	50	0	0	0	0
Virtual Reality Package	45	0	0	0	0
PMP Evidence Based Research	30	0	0	0	
Citizens' Panel Refresh and Surveys	30	0	0	0	0
South Downs Centre Reception Refurb	25	0	0	0	0
Other Net Short Term Commitments	91	36	7	13	5
Total Departmental Budget	**10,350**	**10,095**	**10,186**	**10,313**	**10,450**
DEFRA National Park Grant	**(10,486)**	**(10,486)**	**(10,486)**	**(10,486)**	**(10,486)**
Contribution to / (from) Reserves	**136**	**391**	**300**	**173**	**36**
Total Authority Net Budget	**0**	**0**	**0**	**0**	**0**