Agenda Item 11
Report NPA19/20-28

Report to	**South Downs National Park Authority**
Date	**26 March 2020**
By	**Chief Finance Officer**
Title of Report **Decision**	**Revenue Budget 2020/21, Capital Strategy 2020/21, Treasury Management Strategy 2020/21 and Medium Term Financial Strategy**

Recommendation: The Authority is recommended to:

1. **Approve the Revenue Budget 2020/21 of £10.622m, including a contribution from General Reserves of £0.136m, as detailed in paragraphs 3.1 to 3.7 and Appendix 1.**
2. **Approve the Capital Strategy 2020/21, including new capital projects totalling £1.620m and a capital variation of (£0.093m), as detailed in paragraphs 3.8 to 3.11 and Appendix 2.**
3. **Approve the Treasury Management Strategy 2020/21 at Appendix 3.**
4. **Note the reserves position as detailed in paragraphs 3.15 to 3.21 and Appendix 4, and approves:**
   - **the creation of a new Climate Change Action Fund reserve; and**
   - **transfers to the Strategic Fund reserve.**
5. **Note the Medium Term Financial Strategy 2020/21 to 2024/25 at Appendix 5.**

1. Introduction

1.1 The Authority is required to set a balanced budget. This report sets out the South Downs National Park Authority's (the Authority) budget for the 2020/21 financial year and the Medium Term Financial Strategy for the period 2020/21 to 2024/25.

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 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 Member Budget Workshops and to align with the Corporate Plan, and includes the establishment of

Theme Programme Board that will deliver programmes of work in pursuit of the PMP objectives.

2.3 The basis for the revenue expenditure is the pursuit of the statutory purposes for which National Park 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 2020/21

3.1 The 2020/21 Revenue Budget is detailed at **Appendix 1** by service area. The revenue budget 2020/21 is a net departmental budget of £10.622m, funded by the National Park Grant of (£10.486m) and a contribution from General Reserves of (£0.136m). The proposed contribution from reserves is the value of the 2018/19 financial year below budget variance that was allocated to General Reserves.

3.2 DEFRA have confirmed the National Park Authorities' grant allocation for the 2020/21 financial year of £10.486m, which represents the same level of funding as the 2019/20 financial year. The grant value includes an allocation of £0.524 from a dedicated Biodiversity Fund which must be used to 'carry out activities that will benefit biodiversity'. Expenditure budgets have been identified within the proposed 2020/21 budget to meet the requirements of the Biodiversity Fund.

3.3 The medium term financial planning of the Authority means that despite a zero increase in the DEFRA grant settlement, the 2020/21 budget still identifies funding towards the delivery of projects in pursuit of the PMP objectives. Future year grant allocations are not known and the Medium Term Financial Strategy assumes annual uplifts of 1.7% over the five year period to be consistent with historic allocations.

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 process has 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 2020/21 budget reflects a permanent staffing establishment of 134.9 full time equivalent posts, which includes 8.0 full time equivalent apprenticeship posts. In addition, the budget also accommodates 11.8 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 2020/21 this will provide approximately 3,800 days with an estimated value of £228,000. This is based on 3,420 days of basic skill valued at a notional £50 per day plus 380 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 2020/21

3.8 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.

3.9 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 2020/21 to 2024/25.

3.10 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, Wealden Heath Area Office, Phase 2 of the National Park Signage Project, and an ongoing vehicle replacement programme.

3.11 The capital strategy includes two new capital schemes relating to Seven Sisters Country Park Investment and National Park Signage Phase 2, and one scheme variation relating to National Park Signage Phase 1. All other capital projects are awaiting further detailed analysis before seeking NPA approval.

<u>Treasury Management Strategy 2020/21</u>

This strategy is presented by both the Section 151 Chief Finance Officer and the Head of Business Services. The Head of Business Services is required to be a qualified account and is able, if necessary, to seek advice from other treasury specialists other than from Brighton & Hove City Council.

3.12 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.

3.13 The Treasury Management Strategy 2020/21 now incorporates new statements in anticipation of the Authority potentially undertaking borrowing in the 2020/21 financial year to fund its capital financing requirements. These new statements include a Borrowing Strategy, Prudential and Treasury Indicators, and a Minimum Revenue Provision Policy.

3.14 Policy & Resources Committee agreed at its meeting of 27 February 2020 to recommend that the Authority approves the Treasury Management Strategy 2020/21 at **Appendix 3** to this report. Following comments from Members at Policy & Resources Committee, the Annual Investment Strategy statement has been updated to provide additional information on the process for investment in Short Dated Bond Funds to ensure that appropriate risk parameters are maintained. The Strategy has also been updated to reflect capital expenditure forecasts consistent with the Capital Strategy; including reducing the borrowing requirement relating to Seven Sisters Country Park from £1.400m to £1.335m to reflect the approved business case.

<u>Review of Reserves</u>

3.15 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.

3.16 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).

3.17 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.

3.18 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 2020/21 financial year therefore remains prudent and reasonable.

3.19 The 2019/20 revenue forecast position reported as at month 9 to Policy & Resources Committee was a below budget variance of £141,000. 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. The final 2019/20 outturn position will not be known until the completion of the accounts for the 2019/20 financial year and transfers to reserves will be reported as part of the budget monitoring outturn report to Policy & Resources Committee.

3.20 This report seeks approval to create a new Climate Change Action Fund reserve to support the Authority becoming a 'net-zero' organisation by 2030. It has been assumed in the review of reserves at Appendix 4 that any unallocated 2019/20 below budget variance will be allocated to the new Climate Change Action Fund reserve. Details of the programme of works associated to this purpose is reported in a separate report elsewhere on the NPA agenda. A final decision on the transfer to the reserve will be made once the final 2019/20 outturn position is known

3.21 As informed by the Member Budget Workshops, this report seeks approval to transfer funds from the Planning Reserve (£150,000) and Estates Management Reserve (£150,000) to the Strategic Fund for the purpose of funding identified projects to meet PMP objectives. The level of these reserves has been reviewed, and it is considered affordable and appropriate to reduce these reserves whilst maintaining their existing purpose.

Medium Term Financial Strategy

3.22 The Medium Term Financial Strategy (MTFS) is set out in **Appendix 5** and shows projected changes in commitments, savings and grant income for 2020/21 to 2024/25. The forecasts in the MTFS reflect forecast DEFRA National Park Authorities grant allocations and also assumptions made for other expenditure and income over the period.

3.23 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.

3.24 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 theme programme boards to meet PMP objectives.

3.25 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 underspends as well as unlocking additional resources for the Authority.

- Maintaining annual allocations for key initiatives including £100,000 to support the Affordable Housing options, £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.
- Ongoing review of the performance and value for money provided under corporate contracts, including payments to other Local Authorities for planning services.
- Maximising the opportunity to bid for external funding sources, in line with the Authority's duty and purpose.
- Replacing the annual contributions to the Strategic Fund with allocations to Programme Theme Boards that will deliver programmes of work in pursuit of the PMP objectives.

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

3.26 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.

3.27 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.

3.28 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.

3.29 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.

3.30 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.

3.31 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 2019/20 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 2020/21 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.
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 from the proposal?	No
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 Although DEFRA have provided confirmation of the 2020/21 grant allocation, there is still a risk that this grant income may need to be revised upon notification of a reduced allocation. 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.

7.2 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 as set out in the table below.

Risk	**Likeli-hood**	**Impact**	**Possible Impact on Financial Strategy / Mitigation**
Potential Risk Affecting 2020/21 Budget			
National Park Grant 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. £125k 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. £65k)	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. £180k)	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 in place to oversee projects.
Potential Risk Affecting Medium Term Financial Strategy			
National Park Grant 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. 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. £125k 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 2% (1% COL)	3	2 (1% would be approx. £65k 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.
Increase in non-staff costs on like for like basis	2	3 (3% would be approx. £180k 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.
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 2020/21 2. Capital Strategy 2020/21 3. Treasury Management Strategy 2020/21 4. Review of Reserves 2020/21 5. Medium Term Financial Strategy 2020/21 to 2024/25
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

2019/20 Original Budget (Net) £'000	Service Area	2020/21 Revenue Budget						
		2019/20 Adjust' Core Budget* £'000	2020/21 Core Commit-ments £'000	2020/21 Savings £'000	2020/21 Other Adjust-ments £'000	2020/21 Core Budget £'000	2020/21 Short-Term Commit-ments £'000	2020/21 Total Net Budget £'000
3,870	Corporate Strategy	3,693	119	(84)	0	**3,728**	5	**3,733**
3,036	Countryside Policy & Management	2,770	288	0	(220)	**2,838**	92	**2,930**
3,444	Planning Services	3,417	118	(129)	0	**3,406**	50	**3,456**
0	Programme Theme Boards	0	0	0	0	**0**	503	**503**
10,350	**Net Cost of Services**	**9,880**	**525**	**(213)**	**(220)**	**9.972**	**650**	**10,622**
(10,486)		National Park Grant						**(10,486)**
136		Contribution to / (from) Reserves						**(136)**
0		**Net Authority Budget**						**0**

**The 2019/20 adjusted core budget includes permanent budget transfers between service areas.*

2019/20 Original Budget (Net) £'000	Service Area	2020/21 Revenue Budget					2020/21 Budgeted Staff FTE
		Employee Costs £'000	Other Expend-iture £'000	Total Expend-iture £'000	Total Income £'000	Total Net Budget £'000	
3,870	Corporate Strategy	2,186	1,730	**3,916**	(183)	**3,733**	**48.9**
3,036	Countryside Policy & Management	2,615	774	**3,389**	(459)	**2,930**	**60.0**
3,444	Planning Services	1,900	2,934	**4,834**	(1,378)	**3,456**	**37.8**
0	Programme Theme Boards	0	503	**503**	0	**503**	**0**
10,350	**Total**	**6,701**	**5,941**	**12,642**	**(2,020)**	**10,622**	**146.7**

Corporate Strategy

The proposed 2020/21 net revenue budget for Corporate Strategy is £3.733m. 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 £119,000 relating to salary changes and commitments for staff adverting, Members allowances and the Apprenticeship Fund. Savings totalling (£84,000) include increased income from interest on investments and external contributions towards the Apprenticeship Programme.

Countryside Policy and Management

The proposed 2020/21 net budget for the Countryside and Management service is £2.930m. The budget reflects core commitments relating to recurring funding for the Citizens Panel, Annual Space Monitoring Programme and increased allocation for the South Downs Way. The budget reflects adjustments to remove contributions to the Strategic Fund, which have been replaced by the Programme Theme Boards which is reported separately. Short term budget commitments include the development of baselines for new PUMP indicators, external evaluation of PUMP outcome delivery and a PMP review process.

The service priorities for 2020/21 are focused on the development of strategies for the continued delivery of the PMP. Specific priorities are focused on nature recovery, net zero carbon through nature based solutions and biodiversity, including supporting community needs, in strategic partnership with other groups, NPAs and AONBs.

Planning Services

The proposed 2020/21 net budget for the Planning Service is £3.456m 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). Short term budget commitments include Mineral and Waste payments to Local and Other Authorities and monitoring of the Local Plan requirements.

The proposed planning income budget is reduced by £50,000 in 2020/21 to £1,250,000. The revised budget better reflects current income levels giving consideration to recent trends. 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 efficiencies in these contracts.

Programme Theme Boards

The budget proposes allocations to a number of Programme Theme Boards, which have been established to deliver a five year pipeline of work programmes in pursuit of the Partnership Management Plan objectives. Their role is to develop and scrutinise initiatives to produce workable projects and to examine the resources necessary to deliver those projects. Each programme board is chaired by Countryside and Policy Manager and the membership is drawn from subject experts from Countryside Planning & Management and Planning services, with support from Corporate Strategy. The Programme Theme Boards budget will be allocated as follows:

Programme Theme Board	Budget Allocation (£'000)	Description
Landscape and Biodiversity	170	Proposed expenditure of £170,000 to contribute to conserving the landscape character of the National Park, improving resilience for its natural resources, and creating a thriving and connected network of habitats for priority species.
Cultural Heritage	90	Proposed expenditure of £90,000 to contribute to cultural heritage of the National Park being enhanced and widely understood and enjoyed.
Sustainable Access	95	Proposed expenditure of £95,000, will deliver or commence sustainable access infrastructure projects on the ground and start to plan and develop sustainable infrastructure projects in future years (e.g. Rother Valley Cycleway and Centurion Way II Tunnel Surveys).
Connecting People and Communities	58	Proposed expenditure of £58,000 to contribute to high quality access and sustainable transport networks, widespread understanding of the special qualities, developing initiatives to improve health and wellbeing and increase and diversify volunteering opportunities that support the National Park.
Economy and Tourism	90	Proposed expenditure of £90,000 to contribute towards a diverse, sustainable dynamic economy linked to the special qualities and making communities more sustainable with an appropriate provision of housing to address local needs and improved access to essential services and facilities.

Capital Strategy 2020/21

1. Background

1.1. CIPFA's Prudential Code for Capital Finance in Local Authorities and MHCLG's Investment Guidance require 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 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 Treasury Management 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 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;
- 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 the Chwif Executive and Directors, and at least four times a year to SMT 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, 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 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 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 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 Authority's capital programme 2020/21 to 2024/25 forecasts a total of £2.390m capital investment as shown in Table 1 below.

5.2.

Table 1: Capital Programme	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
NEW: National Park Signage Project Phase 2	285	0	0	0	0
NEW: Seven Sisters Country Park	980	355	0	0	0
TO BE APPROVED: Wealden Heath Area Office	670	0	0	0	0
TO BE APPROVED: Vehicle Replacement Programme	20	20	20	20	20
Total Capital Budget	**1,955**	**375**	**20**	**20**	**20**

5.3. 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.

Table 2: Capital Programme Financing	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
External Grants and Contributions	0	0	0	0	0
Borrowing	980	355	0	0	0
Capital Receipts	20	20	20	20	20
Capital and Earmarked Reserves	862	0	0	0	0
Direct Revenue Funding	93	0	0	0	0
Other	0	0	0	0	0
Total Capital Financing	**1,955**	**375**	**20**	**20**	**20**

5.4. Of the £2.390m financing need shown, £0.770m relates to projects that are awaiting approval or detailed analysis. Therefore, the timing is uncertain, and financing decisions for these projects will form part of the viability and due diligence process.

Capital Programme Approval Requests

Approval Type	Capital Project	Value (£'000)	Project Purpose, Benefits and Risks:	Financial Implications:
New	Seven Sisters Country Park Investment	1,335	A report to the NPA in May 2019 recommended the acquisition, in principle, of the freehold to Seven Sisters County Park. The report presented a business case for the acquisition, including the project benefits and risks. Transforming the site, improving the landscape habitats and the visitor centres and making the whole operation commercially viable in the longer term, is only possible with capital investment.	The business case anticipated SDNPA borrowing £1.335m to invest in capital assets and also to provide a short term loan of £150,000 to a wholly owned trading company established to operate the Country Park. This would be provided through prudential borrowing and the business case has been compiled in accordance with HM Treasury Guidance on Appraisal and Evaluation "Green Book" methodology. Provision has been made in the Medium Term Financial Strategy for ongoing revenue costs to the Authority associated to the scheme, including financing costs of borrowing.
New	National Park Signage	285	A report to the NPA in July 2019 recommended the commencement of Phase 2 of the signage	Using the costs from the previous tender exercise, the estimated project cost is £285,000, which

	Project (Phase 2)		project, identifying the financing, procurement route and design and location principles. The purpose of the project is to create a sense of place and positively impacting on people's understanding of the value of the National Park in the busiest region of the UK and in the wider national and international context. The project risks relating to installation, maintenance and safety have been previously reported to the NPA, and a project risk register will be kept under review during the project.	includes production and installation costs to cover safety assessments, planning application fees and contingency. The project will be funded from a combination of earmarked reserves (£0.192m) and a budget variation from Phase 1 of the signage project (£0.093m). It is anticipated that any ongoing costs associated to the maintenance of signs will be funded from approved revenue budgets.
Variation	National Park Signage Project (Phase 1)	(93)	The original capital budget was approved before the full tender exercise had been concluded and therefore represented an estimated cost. The variation value represents a combination of actual cost being lower than originally budgeted, and one of the originally planned signs being withdrawn from the programme due to planning issues.	As previously reported to the NPA, this variation value will be earmarked for Phase 2 of the signage project.

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".

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 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 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 Statement 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, however, has identified a potential borrowing requirement within the Capital Strategy. The Treasury Management Strategy has been updated to reflect the requirement to set borrowing limits relevant prudential indicators.

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 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 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 and Capital Strategy.

South Downs National Park Authority
Treasury Management Strategy 2020/21

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, providing adequate liquidity initially 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 may be restructured to meet risk or cost objectives.

The Authority is required to receive and approve its prudential and treasury indicators, and treasury strategy which covers the following:

- Treasury Management Policy Statement and Practices (how the investments and borrowings are to be organised);
- a borrowing strategy (including prudential indicators) to ensure that sufficient cash is available to meet the capital investment plans the capital investment plans; and
- a Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time); and
- an Annual Investment Strategy, (the parameters on how investments are to be managed).

2. Treasury Management Policy Statement 2020/21

The following paragraphs set out the Authority's Treasury Management Policy Statement for the year commencing 1 April 2020:

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. Treasury Management Practices 2020/21

TMP1: Risk management

The Authority's Section 151 Officer will secure all arrangements for the identification and management of treasury management risk. The Section 151 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 Section 151 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.

TMP2: Best value and performance measurement

The Section 151 Officer will ensure the Authority is committed to the pursuit of best value in its treasury management activities.

TMP3: Decision-making and analysis

The Section 151 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 Section 151 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 Section 151 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 Section 151 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 Section 151 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 Section 151 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 Section 151 Officer will monitor that these are adequate for compliance with TMP1 (Liquidity risk management).

TMP9: Money laundering

The Section 151 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 Section 151 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 Section 151 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 Section 151 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.

4. Borrowing Strategy

The capital expenditure plans of the Authority are set out in the approved Capital Strategy. The treasury management of the Authority function ensures that the Authority's cash is organised 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.

Borrowing Strategy for 2020/21

The Authority's capital programme 2020/21 to 2024/25 forecasts a total of £2.390m capital investment, £1.055m of which will be met from existing or new resources. The increase in the borrowing need over this period is therefore £1.335m (difference of the above figures) as shown in Table 1 below.

Table 1: Borrowing Need	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**
Capital Expenditure	1,955	375	20	20	20
Financed by New / Existing Resources	(975)	(20)	(20)	(20)	(20)
Borrowing Need	**980**	**355**	**0**	**0**	**0**

Of the £1.335 borrowing need shown, all is from projects that are awaiting approval or detailed analysis. Therefore, the timing of borrowing is uncertain, and borrowing decisions for these projects will form part of the viability and due diligence process.

For the remaining borrowing need, the strategy will initially focus on meeting this borrowing need from internal borrowing i.e. avoiding external borrowing by utilising the Authority's own surplus cash flow. 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 carefully 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 or refinance maturing debt.

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

<u>Policy on Borrowing in Advance of Need</u>

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.

<u>Debt Rescheduling</u>

Officers will regularly review opportunities for debt rescheduling where there is a clear difference between new borrowing and repayment rates which would result in savings.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

<u>Interest Rate Risk & Continual Review</u>

The Authority's total borrowing need of £1.335m as identified in Table 1 is the extent to which the Authority is subject to interest rate risk over the next five 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, 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. <u>Prudential and Treasury Indicators 2020/21 to 2024/25</u>

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 to 2020/21 to 2024/25 are set out in Table 2 below:

Table 2: Prudential Indicators	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Capital Expenditure Capital expenditure plans	1,955	375	20	20	20
Capital Financing Requirement Measures to underlying need to borrow for capital purposes	1,130	1,461	1,427	1,393	1,359
Ratio of financing costs to new revenue stream* Identifies the trend in the cost of capital (borrowing and other long term obligation costs new of investment income) against revenue stream	(0.75%)	(0.26%)	(0.14%)	(0.14%)	(0.14%)

* 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. This includes interest costs relating to the authority's borrowing portfolio and MRP, net of the investment income from the Authority's investment portfolio. A negative ratio illustrates a net contribution to the Authority, as anticipated investment income is greater than the anticipated cost of 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 2020/21 to 2024/25 are set out in Tables 3 & 4 below. The Treasury Indicators have been calculated and determined by officers in compliance with the Treasury Management Code of Practice.

Table 3: Treasury Performance Indicators	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 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.	1,500	1,800	1,800	1,800	1,800
Operational boundary for external debt* The Authority is required to set an operational boundary for external debt. This is the limit which external debt is not normally expected to exceed. This indicator can be breached	1,300	1,600	1,600	1,600	1,600

Table 3: Treasury Performance Indicators	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
temporality for operational reasons.					
Principal Sums invested for longer than 365 days	0	0	0	0	0

*From 2020/21 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.

Table 4: 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). Ministry of Housing, Communities and Local Government (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 which is 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 2020/21:

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. Asset Life Method (annuity method);
- 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 a MRP;

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 2020/21

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

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

Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs 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 areas:

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 5.
- **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 6.

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 NPA, no investment will be made in an instrument that falls outside the list below.

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

Table 5 below summarises the types of specified investment counterparties available to the Authority, and the maximum amount and maturity periods placed on each of these. A full list of the Authority's counterparties and the current limits for 2020/21 are provided at Table 7.

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 5: 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 6: 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

** The use of short dated bond funds would be considered if it were deemed that longer term investment balances were available to support the investment into a longer term vehicle. This would be considered in conjunction with the authority's capital plans, borrowing requirement and use of reserves over the medium to long term. At the point that an investment is considered appropriate, a selection process would be undertaken. This process would set a specification as to what the authority would want and need from an investment in a fund, including setting appropriate risk parameters. This process would ensure that the risks of entering into a fund are well considered and agreed in advance of selecting a fund.

Whilst funds are generally not credit rated, understanding the underlying assets of the fund and the strategy of the fund is the important aspect of risk management in funds of these types. The process of preparing a specification which outlines risk parameters that the authority is comfortable in investing in will ensure that the risks of entering into a fund are well considered and agreed in advance of selecting a fund. Due to the nature and diversity of funds of this type, it cannot be measured within the current risk benchmark that the authority uses –this fund would sit outside the 0.05% risk parameter which is used to measure its exposure to the risk on credit rated investments. Instead the fund would be well monitored, with regular contact with fund managers to ensure the strategy of the fund within the prevailing economic environment remains an appropriate investment for the authority.

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 5 and 6 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 counterparty's exposure limit and investment period will be reviewed and (changed where necessary) in accordance with the criteria set out in Tables 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 worth 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 7.

Table 7 – 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	6
National Westminster Bank PLC (RFB)	£5m	6
The Royal Bank of Scotland PLC	£5m	6
**Total max. exposure to RBS/Natwest Group:	£5m	6
HSBC Group:		
HSBC Bank PLC (NRFB)	£10m	12
HSBC UK Bank PLC (RFB)	£10m	12
**Total max. exposure to HSBC Group:	£10m	12
Santander UK PLC	£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.

Permitted types of investment instrument

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.

Investment risk

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 2020/21 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 2020/21

Reserve Type and Title	Purpose of Reserve	Forecast 1 Apr 2020 £'000	Movement Between Reserves 2020/21 £'000	Planned Transfer to/from Reserves 2020/21 £'000	Forecast 31 Mar 2021 £'000
General Reserves:					
Working Balance	Working Balance	**595**			**595**
General Reserve	2018/19 actual and 2019/20 anticipated below budget variance	**277**		(277)	**0**
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**	(150)		**558**
Strategic Fund	Reserve to carry forward underspends at year end	**363**	300	(205)	**458**
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	**85**			**85**
NEW: Climate Change Action Fund	To support the Authority becoming a 'net-zero' organisation by 2030	**0**		141	**141**
Section 106 Receipts Reserve	Receipts primarily used to develop infrastructure within the National Park	**722**			**722**
Section 106 Interest		**101**			**101**
Community Infrastructure Reserve	Receipts to fund infrastructure in development areas	**1,978**			**1,978**
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	**1,178**	(150)	(670)	**358**
Vehicle Repairs and Renewals	To fund purchase of replacement vehicles	**82**		(20)	**62**
Total Reserves Balance		**6,644**	**0**	**(1,031)**	**5,613**

Medium Term Financial Strategy 2020/21 to 2024/25

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 2020/21, and annual uplifts thereafter of 1.7%.
- 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.

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 2020/21 £'000	**Projection 2021/22 £'000**	**Projection 2022/23 £'000**	**Projection 2023/24 £'000**	**Projection 2024/25 £'000**
Departmental Core Budget b/f	**9,880**	**9,972**	**10,118**	**10,253**	**10,403**
Core Commitments:					
Increment and Salary Changes	425	122	124	150	124
Turnover Adjustment	(148)	0	0	0	0
Reduced Planning Income	50	0	0	0	0
Citizens Panel	30	0	0	0	0
Staff Advertising	25	0	0	0	0
Annual Space Monitoring Programme	20	0	0	0	0
Members Allowance (subject to review)	15	0	0	0	0
Apprenticeship Fund	15	0	0	0	0

	Budget 2020/21 £'000	Projection 2021/22 £'000	Projection 2022/23 £'000	Projection 2023/24 £'000	Projection 2024/25 £'000
Subsistence due to Seven Sisters	15	0	0	0	0
South Downs Way	15	0	0	0	0
Capital Financing Costs	0	24	11	0	0
Other Core Service Commitments	63	0	0	0	0
Savings:					
Delegated Agreements contract efficiencies	(129)	0	0	0	0
Investment Income	(35)	0	0	0	0
Apprentice Programme external funding	(27)	0	0	0	0
Other Savings	(22)	0	0	0	0
Other Adjustments:					
Remove Strategic Fund Contribution	(220)	0	0	0	0
Departmental Core Budget	**9,972**	**10,118**	**10,253**	**10,403**	**10,527**
Short Term Commitments					
Short Term Commitments	147	7	13	5	0
Theme Programme Boards	503	0	0	0	0
Total Departmental Budget	**10,622**	**10,125**	**10,266**	**10,408**	**10,527**
DEFRA National Park Grant	**(10,486)**	**(10,664)**	**(10,845)**	**(11,029)**	**(11,216)**
Contribution to / (from) Reserves	**(136)**	**539**	**579**	**621**	**689**
Total Authority Net Budget	**0**	**0**	**0**	**0**	**0**