South Downs National Park Authority

Agenda Item 12
Report NPA20/21-27

Report to	**South Downs National Park Authority**
Date	**25 March 2021**
By	**Chief Finance Officer**
Title of Report **Decision**	**Revenue Budget 2021/22, Capital Strategy 2021/22, Treasury Management Strategy 2021/22 and Medium Term Financial Strategy**

Recommendation: The Authority is recommended to:

1. **Approve the Revenue Budget 2021/22 of £10.669m, including a contribution from General Reserves of £0.233m, as detailed in paragraphs 3.1 to 3.7 and Appendix 1.**
2. **Approve the Capital Strategy 2021/22, including new capital projects totalling £0.050m and a capital variation of (£0.196m), as detailed in paragraphs 3.8 to 3.11 and Appendix 2.**
3. **Approve the Treasury Management Strategy 2021/22 at Appendix 3.**
4. **Note the reserves position as detailed in paragraphs 3.15 to 3.21 and Appendix 4.**
5. **Note the Medium Term Financial Strategy 2021/22 to 2025/26 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 2021/22 financial year and the Medium Term Financial Strategy for the period 2021/22 to 2025/26.

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 known and estimated resources, for consideration and approval by the Authority. In terms of financial planning, the key elements of this are:

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

2. Policy Context

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

2.2 The budget has been developed in the context of priorities further informed by Member

Budget Workshops and to align with the Corporate Plan, and includes the 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 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 2021/22

3.1 The 2021/22 Revenue Budget is detailed at **Appendix 1** by service area. The revenue budget 2021/22 is a net budget of £10.669m, funded by the National Park Grant of (£10.486m) and a contribution from General Reserves of (£0.183m). The proposed contribution from reserves is the expected value of the 2020/21 below budget variance that will be allocated to General Reserves.

3.2 DEFRA have confirmed that National Park Authorities' grant allocations for the 2021/22 financial year will be on a flat cash basis, and this will equate to funding of £10.486m, which represents the same level of funding as for the 2020/21 financial year.

3.3 The medium term financial planning of the Authority means that despite an assumed zero increase in the DEFRA grant settlement, the 2021/22 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 similarly assumes a zero rate increase for the five year period.

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 regard to a combination of economy, efficiency and effectiveness. The Authority therefore continues to adopt a prudent approach to budget setting, and cost savings have been reflected in the budget proposals where appropriate.

3.5 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 regard 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 as well as permanent budget changes, which have been reflected in the budget proposals.

3.6 The 2021/22 budget reflects a permanent staffing establishment of 143.4 full time equivalent posts, which includes 9.0 full time equivalent apprenticeship posts. In addition, the budget also accommodates 9.4 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 2021/22 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. These figures assume volunteering resumes in a limited way from the end of March as the lockdown measures begin to ease.

Capital Strategy 2021/22

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

- The Governance & Risk Framework associated with capital investments;
- The principles and strategy associated with capital investment;
- The proposed Capital Programme covering the Medium Term Financial Strategy period of 2021/22 to 2025/26.

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, a refreshment trailer, Phase 2 of the National Park Signage Project and the ongoing vehicle replacement programme.

Treasury Management Strategy 2021/22

3.11 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.

3.12 The Treasury Management Strategy 2021/22 now incorporates statements in anticipation of the Authority potentially undertaking borrowing in the 2021/22 financial year to fund its capital financing requirements. These statements include a Borrowing Strategy, Prudential and Treasury Indicators, and a Minimum Revenue Provision Policy.

3.13 Policy & Resources Committee agreed at its meeting of 25 February 2021 to recommend that the Authority approves the Treasury Management Strategy 2021/22 at **Appendix 3** to this report. The Strategy has been updated to reflect capital expenditure forecasts consistent with the Capital Strategy; including the borrowing requirement relating to Seven Sisters Country Park £1.000m to reflect the approved business case.

Review of Reserves

3.14 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.

3.15 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).

3.16 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.

3.17 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 2021/22 financial year therefore remains prudent and reasonable.

3.18 The 2020/21 revenue forecast position reported as at month 9 to Policy & Resources Committee was a below budget variance of £233,000. 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 2020/21 outturn position will not be known until the completion of the accounts for the 2020/21 financial year and transfers to reserves will be reported as part of the budget monitoring outturn report to Policy & Resources Committee.

3.19 This report seeks approval to transfer funds from the General Reserve (£233,000) to fund the proposed Revenue Budget for 2021/22.

Medium Term Financial Strategy

3.20 The Medium Term Financial Strategy (MTFS) is set out in **Appendix 5** and shows projected changes in commitments, savings and grant income for 2021/22 to 2025/26. The forecasts in the MTFS reflect forecast DEFRA National Park grant allocations and also assumptions made for other expenditure and income over the period.

3.21 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.

3.22 The MTFS 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.

3.23 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, and a £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 Theme Programme 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

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

3.25 There is inevitably an element of judgement required, as budget estimates of spending and income are made at a point in time and may change as circumstances change. This budget has been developed based on 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.

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

3.27 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.

3.28 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.

3.29 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 2020/21 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 2021/22 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 DEFRA have not yet provided confirmation of the 2021/22 grant allocation, and there is therefore a risk that the forecast 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 2021/22 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	1	2	Would require reductions in the budget (i.e.

increased by more than 2% (1% COL)		(1% would be approx. £70k)	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. £178k)	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. £225k)	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%	2	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. £70k 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	2	3 (3% would be	Would require reductions in the budget (i.e. increased savings) for the following year.

on like for like basis		approx. £178k per annum)	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. £225k)	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 2021/22 2. Capital Strategy 2021/22 3. Treasury Management Strategy 2021/22 4. Review of Reserves 2021/22 5. Medium Term Financial Strategy 2021/22 to 2025/26
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 2021/22

2020/21 Original Budget (Net) £'000	Service Area	2021/22 Revenue Budget: 2020/21 Adjust' Core Budget* £'000	2021/22 Core Commit-ments £'000	2021/22 Savings £'000	2021/22 Other Adjust-ments £'000	2021/22 Core Budget £'000	2021/22 Short-Term Commit-ments £'000	2021/22 Total Net Budget £'000
3,733	Corporate Strategy	3,791	347	(84)	0	**4,054**	(221)	**3,833**
2,930	Countryside Policy & Management	2,883	41	0	0	**2,924**	99	**3,023**
3,456	Planning Services	3,444	97	(60)	0	**3,481**	32	**3,513**
503	Programme Theme Boards	0	0	0	0	**0**	300	**300**
10,622	**Net Cost of Services**	**10,118**	**485**	**(144)**	**0**	**10,459**	**210**	**10,669**
(10,486)		National Park Grant						**(10,486)**
136		Contribution to / (from) Reserves						**(183)**
0		**Net Authority Budget**						**0**

**The 2020/21 adjusted core budget includes permanent budget transfers between service areas.*

2020/21 Original Budget (Net) £'000	Service Area	2021/22 Revenue Budget: Employee Costs £'000	Other Expend-iture £'000	Total Expend-iture £'000	Total Income £'000	Total Net Budget £'000	2021/22 Budgeted Staff FTE
3,733	Corporate Strategy	2,372	2,003	**4,375**	(542)	**3,833**	**55.7**
2,930	Countryside Policy & Management	2,627	764	**3,391**	(368)	**3,023**	**58.7**
3,456	Planning Services	2,005	2,863	**4,868**	(1,355)	**3,513**	**38.4**
503	Programme Theme Boards	0	300	**300**	0	**300**	**0**
10,622	**Total**	**7,004**	**5,930**	**12,934**	**(2.265)**	**10,669**	**152.8**

Corporate Strategy

The proposed 2021/22 net revenue budget for Corporate Strategy is £3.833m. 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 £347,000 relating to salary changes and commitments for members allowances, maintenance costs for new signs and costs for Seven Sisters. Savings totalling (£84,000) include reduction in the ICT contract due to efficiencies, reduction in contribution towards the Trust and no borrowing repayments due on Seven Sisters until the following year. The short term budget of (£221,000) is an income budget to offset the costs for Seven Sisters.

The corporate strategy budget also holds details of the transactions in respect of Seven Sisters Country Park. In financial year 2021/22 this will include all operations within the Country Park from 1 April 2021 when the transfer of ownership is expected to take place, until 1 January 2022, when the trading company assumes responsibility for those operations under an Operating Agreement with SDNPA. SDNPA will continue to employ staff at Seven Sisters Country Park and make other payments in respect of annual fees to ESCC, building maintenance and insurance, etc. with fees charged to balance the net budget to zero.

Countryside Policy and Management

The proposed 2021/22 net budget for the Countryside and Management service is £3.023m. The service priorities for 2021/22 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 South Downs Way National Trail. The budget reflects core commitments of £41,000 relating to salary changes and South Downs Partnership contribution. Short term budget commitments of £99,000 include Visitor and School Studies, Volunteer Audit and Planning Customer Survey.

Planning Services

The proposed 2021/22 net budget for the Planning Service is £3.513m 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 budget reflects core commitments of £97,000 relating to salary changes reduction in the CIL administration income due to the impact of Covid-19. Savings totalling (£60,000) are from a reduction in consultancy costs due to efficiencies. There is a short term budget commitment of £30,000 for the Parkwide Open Space Project.

The proposed planning income budget for 2021/22 is £1.250m. 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 as demonstrated in 2020/21 following the impact of the pandemic. The budget has also been amended to reflect efficiencies in these contracts.

Theme Programme Boards

The budget proposes allocations to a number of Theme Programme Boards, which have been established to deliver a five year pipeline of work programmes in pursuit of the Partnership Management Plan objectives which started in 2020/21. 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 & Policy Management and the membership is drawn from subject experts from Countryside Planning & Management and Planning services, with support from Corporate Strategy. The Theme Programme Boards budget will be allocated as follows:

Theme Programme Board	**Budget Allocation (£'000)**	**Description**
Landscape and Biodiversity	60	Proposed expenditure of £60,000 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	60	Proposed expenditure of £60,000 to contribute to cultural heritage of the National Park being enhanced and widely understood and enjoyed.
Sustainable Access	60	Proposed expenditure of £60,000 will deliver or commence sustainable access infrastructure projects on the ground and start to plan and develop sustainable infrastructure projects in future years
Connecting People and Communities	60	Proposed expenditure of £60,000 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	60	Proposed expenditure of £60,000 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 2021/22

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

1.3. This capital strategy is reported separately from the Treasury Management Strategy; this ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercial 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 Chief 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 demonstrate affordability relative to the benefits of the asset being purchased/enhanced and the Medium Term Financial Strategy.
- **Capital Receipts from the Sale of Assets:** Receipts from the sale/disposal of assets should first be used to replace that asset if required. Any surplus receipts shall then be available to finance capital expenditure in accordance with the principles outlined in this strategy.
- **Capital and Earmarked Reserves:** Capital financing from capital and earmarked reserves shall be recommended when the assets being acquired or enhanced meet the approved purpose of the reserve in accordance with the Authority's Financial Procedures.
- **Direct Revenue Funding:** Capital financing from revenue budgets shall only be recommended where there are sufficient resources available within the approved revenue budget 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 2021/22 to 2025/26 forecasts a total of £2,326m capital investment as shown in Table 1 below.

Table 1: Capital Programme	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**
Variation: National Park Signage Project Phase 2	196	0	0	0	0
Approved: Seven Sisters Country Park	1,900	0	0	0	0
TO BE APPROVED: South Downs Trading Company – provision of equity	100	0	0	0	0
TO BE APPROVED:	30	0	0	0	0

Refreshment Trailer					
TO BE APPROVED: Vehicle Replacement Programme	20	20	20	20	20
Total Capital Budget	**2,246**	**20**	**20**	**20**	**20**

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

Table 2: Capital Programme Financing	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/2025 £'000**	**2025/26 £'000**
External Grants and Contributions	0	0	0	0	0
Borrowing	1,000	0	0	0	0
Capital Receipts	20	20	20	20	20
Capital and Earmarked Reserves	1,226	0	0	0	0
Direct Revenue Funding	0	0	0	0	0
Other	0	0	0	0	0
Total Capital Financing	**2,246**	**20**	**20**	**20**	**20**

5.3. Of the £2.326m financing need shown, £246,000 relates to variations or new 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:**
Variation	National Park Signage Project (Phase 2)	196	A report to the NPA in July 2019 recommended the commencement of Phase 2 of the signage 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 impact 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	The project will be funded from the variation of the Phase 2 project in 2020/21, due to the impact of Covid-19 (£0.196m). It is anticipated that any ongoing costs associated to the maintenance of signs will be funded from approved revenue budgets.

Approval Type	Capital Project	Value (£'000)	Project Purpose, Benefits and Risks:	Financial Implications:
			kept under review during the project.	
New	Refreshment Trailer	30	The trailer will be sited in the South Car Park at SSCP and will provide refreshments to visitors using sustainable and local produce. The purpose of this is to provide a service to visitors in conjunction with the Events vehicle and it is expected to be self-financing.	The cost of the trailer will be funded from reserves in April 2021. When the Trading Company comes into operation, expected Jan 2022, the asset will be transferred to the company at cost, with the funds being returned to reserves.
New	Replacement Vehicle	20	During 2018 an officer group was formed under the chair of the 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.	The capital costs will be funded by Capital Receipts.

6. Debt, Borrowing and Treasury Management

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

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

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

6.4. All decisions on borrowing, investment or financing 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 (and therefore National Parks) to borrow to finance capital expenditure provided that the plans are affordable, prudent and sustainable in the long term. This means that capital expenditure should form part of a capital investment strategy and should be carefully prioritised to maximise the benefit.

6.6. The Authority currently has no outstanding borrowing, however, it 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 and 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. In 2021/22, internal and external audits of the Treasury Management function will be undertaking, the latter being provided as an extended Value for Money audit by the external auditor.

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

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

10. Chief Finance Officer Statement

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

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

South Downs National Park Authority
Treasury Management Strategy 2021/22

Contents

1. Introduction

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

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

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;
- 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 2021/22

The following paragraphs set out the Authority's Treasury Management Policy Statement for the year commencing 1 April 2021:

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 2021/22

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 toward 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; and
- 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 remains 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 function of the Authority ensures that the Authority's cash is managed in accordance with the relevant professional codes so that sufficient cash is available to meet the capital expenditure plans.

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

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

Borrowing Strategy for 2021/22

The Authority's capital programme 2021/22 to 2023/24 forecasts a total of £2.426m capital investment, £1.326m of which will be met from existing or new resources. The increase in the borrowing need over this period is therefore £1.000m (difference of the above figures) as shown in Table 1 below.

Table 1: Borrowing Need	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	Total
Capital Expenditure	2,246	20	20	20	20	**2,326**
Financed by New / Existing Resources	(1,246)	(20)	(20)	(20)	(20)	**1,326**
Borrowing Need	1,000	0	0	0	0	**1,000**

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

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

Policy on Borrowing in Advance of Need

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

Debt Rescheduling

Officers will regularly review opportunities for debt rescheduling where there is a clear difference between new borrowing and repayment rates which could 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).

Interest Rate Risk & Continual Review

The Authority's total borrowing need of £1.000m as identified in Table 1 is the extent to which the Authority is subject to interest rate risk over the next three years. Officers will review the need to borrow taking into consideration the potential increases in borrowing costs, the need to finance new capital expenditure, the need to refinance maturing debt, availability of internal borrowing, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns. The Chief Finance Officer will therefore continue to monitor interest rates in financial markets and adopt a proactive approach to changing circumstances.

5. Prudential and Treasury Indicators 2021/22 to 2023/24

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 2021/22 to 2023/24 are set out in Table 2 below:

Table 2: Prudential Indicators	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Capital Expenditure Capital expenditure plans	2,246	20	20
Capital Financing Requirement Measures the underlying need to borrow for capital purposes	1,000	1,125	1,100
Ratio of financing costs to net revenue stream* Identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against revenue streams	(0.12%)	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 2021/22 to 2023/24 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	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 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.	500	1,300	1,500
Operational boundary for external debt* The Authority is required to set an operational boundary for external debt. This is the limit that external debt is not normally expected to exceed. This indicator can be breached temporarily for operational reasons.	500	1,300	1,500
Principal Sums invested for longer than 365 days	0	0	0

* From 2021/22 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 & 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 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 2021/22:

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

- Provision on a straight line basis over 50 years.

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

- Where the debt relates to an asset, the Authority will set aside a sum equivalent to repaying the debt over the life of the asset either in equal instalments or on an annuity basis over a maximum life of 50 years. The method to be adopted will be determined according to which is the most financially beneficial to the Authority over the life of the asset.

- Where the debt relates to expenditure which is subject to a capitalisation direction issued by the government, the Authority will set aside a sum equivalent to repaying the debt over a period consistent with the nature of the expenditure on an annuity basis.

- In the case of assets under construction, MRP will be delayed until the relevant asset becomes operational.

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

- The repayments of principal will be set aside as capital receipts to finance the initial capital advance in lieu of making 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 2021/22

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, cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

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

The annual investment strategy sets out the parameters within which the Authority's cash balances and reserves will be invested. The strategy concentrates on two key 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 that can be placed with each of these. A full list of the Authority's counterparties and the current limits for 2021/22 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

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 Table 7 following notification of a change in that counterparty's credit rating or a view expressed by the credit rating agency warrants a change.

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

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

A full list of UK Bank and Building Society counterparties, together with counterparty limits, is set out in Table 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 2021/22 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.

ECONOMIC OVERVIEW

Provided by Link Asset Services on 5 January 2021

UK. The key quarterly meeting of the Bank of England Monetary Policy Committee kept Bank Rate unchanged on 5th November 2020. However, it revised its economic forecasts to take account of a second national lockdown in November 2020 which is expected to put back economic recovery. It therefore decided to do a further tranche of quantitative easing (QE) of £150bn, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure that the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target". Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:

- The economy would recover to reach its pre-pandemic level in Q1 2022
- The Bank also expects there to be excess demand in the economy by Q4 2022.
- CPI inflation is therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".

Significantly, there was no mention of negative interest rates in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.

One key addition to the Bank's forward guidance in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that the level of inflation will be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. Inflation is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short-lived factor and so not a concern.

However, the minutes did contain several references to downside risks. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. Upside risks included the early roll out of effective vaccines.

COVID-19 vaccines. We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The announcement of the approved Pfizer vaccine, plus expected further announcements that other vaccines could be approved soon, enormously boosted confidence that life could largely return to normal during the second half of 2021, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would clearly help to bring the unemployment rate down.

With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

Public borrowing was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB borrowing rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

Overall, the pace of recovery was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5th November will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

December 2020 / January 2021. Since then, there has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5th January 2021 to national lockdowns of various initial lengths in each of the four nations, as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is very challenging. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened, subject to the success of vaccination programmes over the long term.

Brexit While the UK has been gripped by the long running narrative of whether or not a deal would be made by 31.12.20, the final agreement on 24.12.20, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

Monetary Policy Committee meeting of 17 December: All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, "Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case." So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)

Prospect for Interest Rates

Brighton & Hove City Council has appointed Link Asset Services (LAS) as its treasury advisor and part of their service is to assist the Chief Finance Officer and Treasury Team to formulate a view on interest rates. The following table gives LAS's central view.

Link Group Interest Rate View	9.11.20													
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.80	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90	2.00	2.00	2.00	2.00
10 yr PWLB	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.80
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.60

The coronavirus outbreak has caused significant economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the forecast table above as economic recovery is expected to be only gradual and, therefore, prolonged.

The interest rate forecasts provided by Link above were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31st December 2020. Now that a trade deal has been agreed, Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- UK government takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- UK - Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis. The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its

level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

- Weak capitalisation of some European banks, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- German minority government & general election in 2021. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the support of the SPD party. Angela Merkel has stepped down from being the CDU party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- Other minority EU governments. Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7-year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- Geopolitical risks, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- UK - a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

Investment and borrowing rates

- Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.
- Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

There will remain a significant cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost

Review of Reserves 2021/22

Reserve Type and Title	Purpose of Reserve	Forecast 1 Apr 2021 £'000	Movement Between Reserves 2021/22 £'000	Planned Transfer to/from Reserves 2021/22 £'000	Forecast 31 Mar 2022 £'000
General Reserves:					
Working Balance	Working Balance	**595**			**595**
General Reserve	2020/21 anticipated below budget variance	**233**		(233)	**0**
Earmarked Reserves:					
Partnership Management Plan Reserve	To fund outcomes identified in the PMP	**301**			**301**
Planning Reserve	To fund unforeseen planning inquires, changes to future delegation arrangements, significant income falls and/or support for neighbourhood plans	**558**			**558**
Strategic Fund	Reserve to carry forward underspends at year end	**520**		(231)	**289**
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	**126**			**126**
Climate Change Action Fund	To support the Authority becoming a 'net-zero' organisation by 2030	**141**			**141**
Section 106 Receipts Reserve	Receipts primarily used to develop infrastructure within the National Park	**558**			**558**
Section 106 Interest		**146**			**146**
Community Infrastructure Reserve*	Receipts to fund infrastructure in development areas	**4,609**			**4,609**
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	**1,028**		(980)	**48**
Vehicle Repairs and Renewals	To fund purchase of replacement vehicles	**32**		(20)	**12**
Total Reserves Balance		**8,890**	**0**	**(1,464)**	**7,426**

**The value of the Community Infrastructure Levy reserve represents amounts receivable in accordance with Financial Regulations and the Town and County Planning Act 1990. The reserve value may not represent the value of actual income received due to agreed payment terms and profile of payments for some developments.*

Medium Term Financial Strategy 2021/22 to 2025/26

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

- As DEFRA National Park Grant allocation is not yet confirmed for 2021/22, a prudent approach has been taken with a zero increase assumed over the next 5 years.
- 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 2021/22 £'000	Projection 2022/23 £'000	Projection 2023/24 £'000	Projection 2024/25 £'000	Projection 2025/26 £'000
Departmental Core Budget b/f	**10,118**	**10,239**	**10,367**	**10,519**	**10,652**
Core Commitments:					
Increment and Salary Changes	186	128	130	133	135
Pension Increase	0	0	22	0	0
Income Generation Fund Project Funding	10	0	0	0	0
Reduction in CIL Administration Income	25	0	0	0	0
Maintenance Costs for New Signage	10	0	0	0	0
Members Allowance	15	0	0	0	0
South Downs Partnership	15	0	0	0	0
Other Core Service Commitments	5	0	0	0	0
Savings					
Reduction of contribution to Trust	(30)	0	0	0	0
Computer Support Contract	(30)	0	0	0	0
No Borrowing Repayments in 2021/22	(24)	0	0	0	0
Reduction in Consultants Fees	(60)	0	0	0	0
Other Savings	(1)	0	0	0	0
Departmental Core Budget	**10,239**	10,367	10,519	10,652	10,787
Short Term Commitments					
Short Term Commitments	130	13	5	0	0
Theme Programme Boards	300	0	0	0	0
Seven Sisters Commitments					
Seven Sisters Expenditure	409	339	344	349	333
Seven Sisters Income	(409)	(353)	(358)	(364)	(348)
Total Departmental Budget	**10,669**	**10,366**	**10,510**	**10,637**	**10,772**
DEFRA National Park Grant	**(10,486)**	**(10,486)**	**(10,486)**	**(10,486)**	**(10,486)**
Contribution to / (from) Reserves	**(183)**	**120**	**(24)**	**(151)**	**(286)**
Total Authority Net Budget	**0**	**0**	**0**	**0**	**0**