Agenda Item 13

Report NPA21/22-23

Report to	**South Downs National Park Authority**
Date	**24 March 2022**
By	**Chief Finance Officer**
Title of Report	**Revenue Budget 2022/23, Capital Strategy 2022/23, Treasury Management Strategy 2022/23 and Medium Term Financial Strategy 2022/23 to 2026/27**

Decision

Recommendation: The Authority is recommended to:

1. **Approve the Revenue Budget 2022/23 of £10.685m, including a contribution from General Reserves of £0.199m, as detailed in paragraphs 3.1 to 3.7 and Appendix 1.**
2. **Approve the Capital Strategy 2022/23, including new capital projects totalling £0.80m and capital variations of (£0.302m) recommended by Policy & Resources Committee, as detailed in paragraphs 3.8 to 3.11 and Appendix 2.**
3. **Approve the Treasury Management Strategy 2022/23 at Appendix 3 as recommended by Policy & Resources Committee.**
4. **Approve the planned use and creation of reserves as detailed in paragraph 3.25 and Appendix 4, and in particular, the establishment of a Trading Company Borrowing Reserve, for the purposes described in Appendix 4**
5. **Note the Medium Term Financial Strategy 2022/23 to 2026/27at Appendix 5.**

1. Introduction

1.1 The Authority is required to set a balanced budget before the start of a new financial year in accordance with legislation. This report sets out the South Downs National Park Authority's (the Authority) proposed budget for the 2022/23 financial year and the Medium Term Financial Strategy for the period 2022/23 to 2026/27.

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 Boards 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 dual purposes, the Authority also has a duty to foster the economic and social well-being of local communities within the National Park.

3. Issues for consideration

Revenue Budget 2022/23

3.1 The 2022/23 Revenue Budget is detailed at Appendix 1 by service area. The revenue budget 2022/23 is a net budget of £10.685m, funded by the National Park Grant of (£10.486m) and a contribution from General Reserves of (£0.199m). The proposed contribution from General Reserves is from the balance of the below budget allocation from the 2020/21 accounts.

3.2 DEFRA have not yet confirmed the National Park Authorities' grant allocations for the 2022/23 financial year and in the absence of this, funding of £10.486m is anticipated, which represents the same level of funding as for the 2021/22 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 2022/23 budget is still able to identify 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 has worked hard to achieve financial sustainability, plan for the future and 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 to identify the recurring requirements over the medium term. This process has identified the requirement for short term funding for one-off proposals as well as a number of permanent budget changes, which have been reflected in the budget proposals.

3.6 The 2022/23 budget reflects a permanent staffing establishment of 146.42 full time equivalent posts, which includes 9.0 full time equivalent apprenticeship posts. In addition, the budget also accommodates 5.0 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 2022/23 this will provide approximately 2,000 days with an estimated value of £130,000. This is based on 1,700 days of basic skill valued at a notional £50 per day plus 300 days specialist skills valued at a notional £150 per day. There are variety of different ways in which the value of volunteer time could be measured and this is simply an indicative calculation to provide Members with context of the contribution to meeting the Authority's priorities and objectives. These figures assume volunteering will continue as normal during the year but takes into account the reduction in volunteer numbers from the pre-pandemic levels

Capital Strategy 2022/23

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 2022/23 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, Phase 2 of the National Park Signage Project and the ongoing vehicle replacement programme.

Treasury Management Strategy 2022/23

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 2022/23 now incorporates statements in anticipation of the Authority potentially undertaking borrowing in the 2022/23 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 17 February 2022 to recommend that the Authority approve the Treasury Management Strategy 2022/23 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 of £1.240m to reflect the approved business case.

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

3.15 At Policy & Resources Committee the recommendation from a recent Internal Audit was discussed. The recommendation stated:

'In order to help mitigate against the perception of a conflict of interest, the 2022/23 Annual Investment Strategy will include some parameters for investing with Brighton & Hove City Council, including a summary of the triggers and circumstances which would result in a review by the S151 officer as to the appropriateness of the proportion of investments held with BHCC compared to externally.'

3.16 The Policy & Resources Committee were informed that having considered this recommendation it would be difficult to construct any such parameters that would be any different to the primary day-to-day function of the Treasury Management service. It was explained that the Treasury function explores, on a daily basis, opportunities to improve the yield of all of its customers [currently Surrey CC, East Sussex CC, Tandridge DC, Brighton & Hove CC, East Sussex Fire Authority and SDNPA] within the bounds of each customer's security, liquidity and yield requirements. It does this through daily monitoring of financial products and the financial press but also receives regular updates and alerts from its contracted external Treasury Advisers (LINK) of new investment products and deals, including Local Authority offers.

3.17 It was further explained that the BHCC pooled rate generally provides a more favourable return for SDNPA than other market or local authority products because:

a) BHCC's cash balances are significantly higher (currently over £200m) and it can attract better rates with larger deposits;

b) As a result of its higher balances and similar to many authorities, BHCC's Annual Investment Strategy also allows longer term investments (up to 5 years), which again attract better rates than usually available to SDNPA which is restricted to 1-year investments. This also opens up other markets to BHCC such as longer term Local Authority deposits;

c) Further, as an authority with larger cash balances, BHCC is termed a 'professional investor' under the MIFID II financial market regulations while SDNPA is classified as a 'retail investor'. This enables BHCC to access a wider range of financial products including long-term Bond markets and overseas banks, etc., again enabling it to outperform smaller 'retail investors' who are generally restricted to using high street banks.

3.18 In conclusion, in the very low interest rate environment at present, there is an advantage in being able to access BHCC's pooled rate as this enables SDNPA to achieve better rates than it could as a separate investor due to the restrictions placed on it as a 'retail investor' and because of the limited time (12 months) for which it can lend out its cash. Investment with BHCC also has the advantage of being instantly accessible to the authority (i.e. liquid).

3.19 However, as noted above, interest rates and markets are changing and the Treasury function's role *is* to actively monitor the situation for all of its clients to ensure take up of the best yields available within the constraints of their approved Annual Investment Strategies.

<u>Review of Reserves</u>

3.20 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.

3.21 The Authority holds reserves for two main purposes:

- A working balance to temporarily cover major unexpected items of expenditure on emergencies;
- 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).

3.22 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.

3.23 The working balance must last the lifetime of the Authority unless contributions are made from future years' revenue budgets and is based on approximately 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 maintaining the working balance at £595,000 for the 2022/23 financial year therefore remains prudent and reasonable.

3.24 The 2021/22 revenue forecast position reported as at month 9 to Policy & Resources Committee was a below budget variance of £364,000. 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 2021/22 outturn position will not be known until the completion of the accounts for the 2021/22 financial year and transfers to reserves will be reported as part of the budget monitoring outturn report to Policy & Resources Committee. At the current time, the proposal is to allocate the majority of the variance to the Transition Fund.

3.25 This report seeks approval to:

- transfer funds from the General Reserve (£0.199m) to fund short term, one-off costs within the proposed Revenue Budget for 2022/23;
- approve the setting up of a new reserve (transition reserve) to support the work to adjust SDNPA's expenditure profile in line with anticipated future funding constraints;
- transfer of funds from the Planning Reserve (£0.200m) to fund the transition reserve
- an additional transfer of (£0.300m) added to the transition fund from the anticipated below-budget 2021/22 variance which will be on completion of the accounts for the 2021/22 financial year;
- the creation of a new reserve (Trading Company Borrowing Reserve). This will allow the company to borrow funds to purchase assets to allow them to begin operations at SSCP. This is separate from the working capital reserve in that each individual sum borrowed from the reserve will need to result in an asset on the company balance sheet. Borrowing will be repaid to the Authority in line with the depreciation of the asset. This reserve will be funded from the transfer of remaining funds from the general reserve (£0.080m). It is considered that there are no subsidy implications for a number of reasons including that the trading company will be charged interest at a commercial rate on the outstanding balances each year.

<u>Medium Term Financial Strategy</u>

3.26 The Medium Term Financial Strategy (MTFS) is set out in Appendix 5 and shows projected changes in commitments, savings and grant income for 2022/23 to 2026/27. The forecasts in the MTFS reflect forecast DEFRA National Park grant allocations and also assumptions made for other expenditure and income over the period.

3.27 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.

3.28 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.

3.29 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 a £50,000 allocation for a Farm Pilots scheme;
- A proactive approach to maximising income opportunities including potential income from corporate sponsorship and donations, as well as continued financial support for the South Downs National Park Trust to maximise fundraising opportunities;
- 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, and;
- 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

3.30 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.

3.31 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.

3.32 SDNPA has traditionally allowed for inflation only on employee costs and has committed to offsetting price increases in non-staff expenditure through procurement efficiencies. This is likely to be much more challenging in the current and projected economic climate and therefore year-on-year inflation of 2.5% has been allowed for in the MTFS on premises costs, transport costs and supplies and services, from 2023/24 onwards.

3.33 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.

3.34 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.

3.35 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.

3.36 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 2021/22 accounts.

4. Options & cost implications

4.1 Budget options and their cost implications have been considered and developed in the context the of 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 2022/23 budget will be reported at least four times to the Policy & Resources Committee.

6. Other implications

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

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 2022/23 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. The risk scoring key and assessment of risks are set out in the table below.

Risk Scoring Key

Likelihood	Likelihood of Occurrence
Rare (1)	Highly unlikely. It could happen but probably never will.
Unlikely (2)	Not expected but a slight possibility.
Possible (3)	The event might occur at some time.
Likely (4)	There is a strong possibility the event will occur.
Almost Certain (5)	The event is expected to occur in most circumstances.

Impact	Example Descriptor of Impact
Insignificant (1)	Basic first aid required, less than £100 financial impact, reputation remains intact.
Minor (2)	Short term injury to 1 or 2 people, minor localised disruption lasting less than 24 hours, between £100-£1000, minimal reputation impact.
Moderate (3)	Semi-permanent disability, affects between 3-50 people, high potential for complaints, financial burden between £1,000 and £10,000, litigation possible.
Major (4)	Causing death serious injury or permanent disability. Service closure for up to 1 week, significant financial burden, national adverse publicity, litigation expected.
Catastrophic (5)	Multiple deaths, Financial burden over £100,000, international adverse publicity, widespread displacement of people (over 500), complaints and litigation certain.

Potential Risk Affecting 2022/23 Budget

Risk	Likeli-hood	Impact	Mitigation
National Park Grant reduces by up to 5%	1	5 (approx. £524k 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 5%	2	4 (approx. £63k reduction in income)	Would require reductions in the budget (i.e. increased savings) for the following year, or replacement income, where there are not corresponding expenditure reductions in Delegated Agreement contract costs. Monitoring of statutory fee income on a quarterly basis is undertaken. Increased fees from pre-apps etc. could offset reductions in overall application numbers.
Staff salaries increased by more than 2% (1% COL)	1	4 (1% would be approx. £72k)	Would require reductions in the budget (i.e. increased savings) for the following year. SDNPA is not covered by National Pay Bargaining therefore this risk is within the control of the Authority.
Increase in non-staff costs on like for like basis	2	4 (1% would be approx. £65k)	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	4 (10% would be approx. £30k)	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

Risk	**Likeli-hood**	**Impact**	**Mitigation**
National Park Grant reduces by up to 5%	2	5 (approx. £524k 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 5%	3	4 (approx. £63k 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	4 (1% would be approx. £72k per year)	Would require reductions in the budget (i.e. increased savings) for the following year. SDNPA is not covered by National Pay Bargaining therefore this risk is within the control of SDNPA. However, if inflation increases over the medium term, pressures and retention issues may force a review of current policy.

Increase in non-staff costs on like for like basis above estimated inflation	4	4 (1% would be approx. £65k per annum)	Would require reductions in the budget (i.e. increased savings) for the following year. Most non-staff costs are covered by long term contracts, which do not contain inflation indices. Continued inflationary pressure would be felt at the end of contracts, most of which will be due for renewal over the medium term. The policy will still be to offset within increased efficiencies.
Overspend on Major Projects	3	4 (10% would be approx. £38k)	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.

NIGEL MANVELL
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Appendices	1. Revenue Budget 2022/23 2. Capital Strategy 2022/23 3. Treasury Management Strategy 2022/23 4. Review of Reserves 2022/23 5. Medium Term Financial Strategy 2022/23 to 2026/27
SDNPA Consultees	Chief Executive; Director of Countryside Policy and Management; Director of Planning; Chief Finance Officer; Monitoring Officer; Legal Services, Business Service Manager
External Consultees	None
Background Documents	This report is presented in accordance with the Authority's Financial Regulations and Standard Financial Procedures.

Revenue Budget 2022/23

Revenue Budget 2022/2320 21/22 Original Budget (Net) £'000	Service Area	2022/23 Revenue Budget						
		2022/23 Adjust' Core Budget* £'000	2022/23 Core Commit-ments £'000	2022/23 Savings £'000	2022/23 Other Adjust-ments £'000	2022/23 Core Budget £'000	2022/23 Short-Term Commit-ments £'000	2022/23 Total Net Budget £'000
3,833	Corporate Strategy	3,875	128	(75)	0	**3,928**	15	**3,943**
0	Corporate Strategy – Seven Sisters Country Park	(15)	15	0	0	**0**	0	**0**
3,023	Countryside Policy & Management	2,972	8	(56)	0	**2,924**	(84)	**2,840**
3,513	Planning Services	3,521	43	(60)	0	**3,504**	98	**3,602**
300	Programme Theme Boards	0	0	0	0	**0**	300	**300**
10,669	**Net Cost of Services**	**10,353**	**194**	**(191)**	**0**	**10,345**	**329**	**10,685**
(10,486)		National Park Grant						**(10,486)**
(183)		Contribution to / (from) Reserves						**(199)**
0		**Net Authority Budget**						**0**

**The 2022/23 adjusted core budget includes permanent budget transfers between service areas.*

Revenue Budget 2022/23 – Subjective Analysis

2021/22 Original Budget (Net) £'000	Service Area	2022/23 Revenue Budget					2022/23 Budgeted Staff FTE
		Employee Costs £'000	Other Expend-iture £'000	Total Expend-iture £'000	Total Income £'000	Total Net Budget £'000	
3,833	Corporate Strategy	2,289	1,812	**4,101**	(158)	3,943	**48.11**
0	Corporate Strategy – Seven Sisters Country Park	331	76	**407**	(407)	0	**10.00**
3,023	Countryside Policy & Management	2,539	1,225	**3,764**	(924)	2,840	**54.90**
3,513	Planning Services	2,017	2,930	**4,947**	(1,345)	3,602	**38.41**
300	Programme Theme Boards	0	300	**300**	0	300	**0.00**
10,669	**Total**	**7,176**	**6,343**	**13,519**	**(2,834)**	**10,685**	**151.42**

1. Corporate Strategy

1.1 The proposed 2022/23 net revenue budget for Corporate Strategy is £3,943m. 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 £0.128m relating to salary changes. Savings of (£0.075m) are included for a reduction in publications costs, where some publications will go online, reduction in staff training costs and a reduction in contribution towards the Trust. The short term budget of £0.015m is for one-off costs for a staff survey.

2. Corporate Strategy – Seven Sisters Country Park (SSCP)

2.1 The Corporate Strategy SSCP budget holds a number of transactions in respect of Seven Sisters Country Park. In financial year 2022/23 the trading company will assume responsibility for all operations within the Country Park 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 costs to zero.

3. Countryside Policy and Management

3.1 The proposed 2022/23 net budget for the Countryside and Management service is £2,924m. The service priorities for 2022/23 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 £0.008m, relating to salary changes. Savings of (£0.056m,) include reductions in budgets across Ranger Services for access, a reduction in budget for education visits and reductions in Performance and Projects team budgets. The short term budget of (£0.084m) is one-off income that offsets costs for temporary staffing.

4. Planning Services

4.1 The proposed 2022/23 net budget for the Planning Service is £3,602m 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 £0.043m relating to salary changes. Savings totalling (£0.060m) are for a reduction in consultancy costs due to efficiencies and an increase in the CIL administration income. There is a short term budget commitment of £0.098m for reviews of the Local Plan, Shoreham Cement works and Mineral and Waste policy reviews for several local authorities.

4.2 The overall planning income budget for 2022/23 is £1.345m. 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 2021/22 following the impact of the pandemic. The budget has also been amended to reflect efficiencies in these contracts.

5. Theme Programme Boards

5.1 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 Policy & Management and Planning Services, with support from Corporate Strategy. The overall allocation to the Theme Programme Boards budget is proposed to be a£0.300m and this will be allocated across the following programme areas according to need:

Theme Programme Board	**Description**
Landscape and Biodiversity	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	To contribute to cultural heritage of the National Park being enhanced and widely understood and enjoyed.
Sustainable Access	This 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	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	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 2022/23

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/or 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 and project planning process, project management, major changes initiatives and financial management processes;
- A monitoring process is in place to regularly review the effectiveness of risk reduction strategies and the operation of these controls;
- Risk management training and support is available across the Authority;
- Managers know that they are responsible for managing risks and are provided with information on risk management initiatives and incidence levels.

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

4. Capital Strategy

<u>Capital Expenditure</u>

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

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

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

5. The Capital Programme

5.1. The Capital Programme represents anticipated capital expenditure over the Medium Term Financial strategy period, informed by the key principles above. The capital programme requires specific approval by the Authority, in conjunction with the annual revenue budget, outlining the phasing of expenditure and the sources of funding. The Authority's capital programme 2022/23 to 2026/27 forecasts a total of £0,382m capital investment as shown in Table 1 below.

Table 1: Capital Programme	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**
Variation: National Park Signage Project Phase 2	79	0	0	0	0

Variation: Seven Sisters Country Park	200	0	0	0	0
Variation: Vehicles Refreshment Trailer	23	0	0	0	0
Vehicle Replacement Programme	0	20	20	20	20
Total Capital Budget	**302**	**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	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**	**2025/2026 £'000**	**2026/27 £'000**
External Grants and Contributions	0	0	0	0	0
Borrowing	200	0	0	0	0
Capital Receipts	0	20	20	20	20
Capital and Earmarked Reserves	102	0	0	0	0
Direct Revenue Funding	0	0	0	0	0
Other	0	0	0	0	0
Total Capital Financing	**302**	**20**	**20**	**20**	**20**

5.3. Of the £0.302m financing need shown, this relates to variations which are awaiting approval. 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

5.4. The following variations were considered by Policy & Resources Committee at its meeting on 17 February 2022 and were recommended for approval to the full Authority.

Capital Project	**Variation (£'000)**	**Project Purpose, Benefits and Risks:**	**Financial Implications:**
National Park Signage Project (Phase 2)	79	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	The project will be funded from the variation of the Phase 2 project in 2021/22, The variation is due to the impact of Covid on the ability of suppliers to both source material and to manufacture due to staff sickness and absence. There have also been delays in obtaining license from some of

Capital Project	Variation (£'000)	Project Purpose, Benefits and Risks:	Financial Implications:
		value of the National Park in the busiest region of the UK and in the wider national and international context. The project risks relating to installation, maintenance and safety have been previously reported to the NPA, and a project risk register will be kept under review during the project.	the highways authorities. It is anticipated that any ongoing costs associated to the maintenance of signs will be funded from approved revenue budgets.
Seven Sisters Country Park	200	A report to the NPA in May 2019 recommended the acquisition, in principle, of the freehold to Seven Sisters County Park. The report presented a business case for the acquisition, including the project benefits and risks. Transforming the site, improving the landscape habitats and the visitor centres and making the whole operation commercially viable in the longer term, is only possible with capital investment.	The variation is due to the contract slippage due to supply chain issues.
Replacement Vehicle	23	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 variation is due to the reallocation of a vehicle from the Heathlands Reunited project that has now finished. Therefore, only one new vehicle is to be purchased in 2021/22 resulting in the requested variation (reprofile).

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

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

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

10. Chief Finance Officer Statement

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

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

TREASURY MANAGEMENT STRATEGY 2022/23

Contents

1. Introduction

1.1 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.

1.2 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.

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

- Treasury Management Policy Statement;
- 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 2022/23

2.1 The following paragraphs set out the Authority's Treasury Management Policy Statement for the year commencing 1 April 2022:

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. Borrowing Strategy

3.1 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.

3.2 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'.

3.3 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 to 2024/25

3.4 The Authority's capital programme 2022/23 to 2024/25 forecasts a total capital investment of £0.342m, £0.142m of which will be met from existing or new resources. The increase in the borrowing need over this period is therefore £0.200m as shown in **Table 1** below.

2021/22 Estimate £'000	Table 1: Borrowing Need	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	Total
2,414	Capital Expenditure	302	20	20	**342**
(1,374)	Financed by New / Existing Resources	(102)	(20)	(20)	**(142)**
1,040	**Borrowing Need**	**200**	**0**	**0**	**200**

3.5 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.

3.6 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.

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

2021/22 Estimate £'000	Table 2: Change in the CFR compared to External Debt	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
0	External Debt at 1 April	0	0	0
0	Expected change in Debt	0	0	0
0	**External Debt at 31 March**	**0**	**0**	**0**
0	CFR* at 1 April	1,040	1,214	1,214
1,040	Borrowing need (Table 1)	200	0	0
0	MRP	-26	-26	-31
1,040	**CFR* at 31 March**	**1,214**	**1,188**	**1,183**
1,040	**Under / (Over) borrowing**	**1,214**	**1,188**	**1,183**

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

Policy on Borrowing in Advance of Need

3.8 The Authority will not borrow purely in order to attempt to profit from investment of extra sums (cash) 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

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

3.10 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

3.11 The Authority's borrowing need of £0.200 million 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 (if any), availability of internal borrowing, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns. The Chief Finance Officer and Treasury Team will therefore continue to monitor interest rates in financial markets and adopt a proactive approach to changing circumstances.

4. Prudential and Treasury Indicators 2022/23 to 2024/25

4.1 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.

4.2 The Prudential Indicators to 2022/23 to 2024/25 are set out in **Table 3** below:

Table 3: Prudential Indicators	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Capital Expenditure Capital expenditure plans	302	20	20
Capital Financing Requirement Measures the underlying need to borrow for capital purposes	1,364	1,333	1,302
Ratio of financing costs to new revenue stream* Identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against revenue stream	-0.37%	-0.40%	-0.73%

* 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.

4.3 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 2022/23 to 2024/25 are set out in Tables 4 & 5 below. The Treasury Indicators have been calculated and determined by officers in compliance with the Treasury Management Code of Practice.

Table 4: Treasury Performance Indicators	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Authorised Limit for External Debt* The Authority is expected to set a maximum authorised limit for external debt. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority.	1,500	1,500	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.	1,700	1,700	1,700
Principal Sums invested for longer than 365 days	0	0	0

* From 2022/23 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 5: Maturity Structure of fixed interest rate borrowing

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

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

5. Minimum Revenue Provision Policy Statement

5.1 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). Department of Levelling up, Housing & Community (DULHC) 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).

5.2 The Authority is recommended to approve the following MRP Statement for 2022/23:

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

- Provision on a straight line basis over 50 years.

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

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

- Where the debt relates to expenditure which is subject to a capitalisation direction issued by the government, the Authority will set aside a sum equivalent to repaying the debt over a period consistent with the nature of the expenditure on an annuity basis.
- In the case of assets under construction, MRP will be delayed until the relevant asset becomes operational.

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

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

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

6. Annual Investment Strategy 2022/23

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

6.2 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).

6.3 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.

6.4 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)

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

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

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

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

6.7 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.

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

6.9 **Table 6** below summarises the types of specified investment counterparties available to the Authority, and the maximum amount and maturity periods that can be placed with each of these. A full list of the Authority's counterparties and the current limits for 2021/22 are provided at **Table 8.**

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

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

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

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

Maximum permitted investment by counterparty / sector

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

6.12 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%.

6.13 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

6.14 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.

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

6.16 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

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

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

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

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

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

<u>Investment risk</u>

6.19 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.

6.20 The Authority is recommended to agree a benchmark risk factor for 2022/23 of 0.05%. The purpose of the benchmark is to monitor current and trend positions and amend the operational strategy depending on any changes.

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

<u>Ethical investment statement</u>

6.22 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.

7. Other Treasury Matters

Banking Services

7.1 Lloyds Bank plc currently provides banking services for the Authority.

Training

7.2 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training was last provided for members of the Policy & Resources Committee prior to the pandemic and therefore further training will be arranged in the coming year, using video conferencing if necessary.

7.3 The training needs of treasury management officers are periodically reviewed and training arranged as required.

Policy on the use of External Service Providers

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

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

Lending to Third Parties

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

Updates to Accounting Requirements

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

  The DLUHC enacted a statutory over-ride from 1 April 2018 for a five year period until 31 March 2023 following the introduction of IFRS 9 and the requirement for any capital gains or losses on marketable funds to be chargeable in year. This has the effect of allowing any capital losses on funds to be held on the balance sheet until 31 March 2023, allowing authorities to initiate an orderly withdrawal of funds if required.

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

- **IFRS 16 – Leasing**

  The CIPFA Code of Practice and Guidance notes for 2022/23 will incorporate the requirement to account for all leases onto the Authority's balance sheet. This has the following impact to this paper:

  - The Authority's Capital Financing Requirement authorised limit and operational boundary for 2022/23 onwards has been increased to reflect the estimated effect of this change. These limits can be amended during 2022/23 and bought to full Authority to amend during the year if the limits need to be increased following some more detailed work on the leases to be bought onto the balance sheet.
  - The MRP policy statement incorporates the policy for the provision for the principal element of lease payments in preparation for accounting for leases under IFRS16.

Updates to Treasury and Prudential Codes

7.7 Following consultation with Local Authorities, CIPFA published the revised Treasury and Prudential codes on 20 December 2021. To ensure Local Authorities can implement the code changes in a smooth and orderly fashion, formal adoption is not required until 2023/24. The revised codes will have the following implications:

- The requirement for authorities to classify all investments and the relevant investment income into one of the three categories of treasury management, service delivery or commercial investments;
- A prohibition for authorities to borrow to invest primarily for financial return (to include commercial investments);
- a requirement for the Authority to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects an authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- requirement to address Environmental, Social and Governance (ESG) issues within the Capital Strategy;
- require implementation of a policy to review commercial investments (including property) on an annual basis, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to Treasury Management Practice 1 (TMP1) to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

7.8 Members will be updated on how all these changes will impact the current approach and any changes required will be formally adopted within the 2023/24 Treasury Management Strategy report.

ECONOMIC OVERVIEW & INTEREST RATE VIEW

Provided by Link Asset Services

Brighton & Hove City Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 20 December 2021. These are forecasts for certainty rates, gilt yields plus 80 basis points (bps).

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Over the last two years, the coronavirus outbreak has caused huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

The UK - The Bank of England MPC surprised market expectations for a second consecutive meeting in December, raising Bank Rate by 0.15% to 0.25%. In doing so, it became the first major central bank to raise official policy rates since the onset of the pandemic.

The Committee voted 8-1 for the change in the policy rate with only well-established "dove" corporation, Silvana Tenreyro, dissenting. Meanwhile, the Committee voted unanimously to keep the current QE programme unchanged. The minutes showed that the Bank now expects inflation to peak at 6% in April, and while Omicron was already having an impact on some sectors, the Committee felt it had to act now because it saw "some signs of greater persistence in domestic costs and price pressures". It also stressed how it had stated at its November meeting that it would raise rates if the economy evolved as expected and that "these conditions had been met".

Looking ahead, unlike in November, there was no reference to inflation being expected to be below the 2% target over its forecast period, which may suggest that the Committee is contemplating raising rates further than it had been at its previous meeting.

While this may underpin market expectations that Bank Rate will rise to 1% in the second half of 2022, the minutes also retained the comment that a "modest tightening" in policy will be required over its 3-year forecast period. Further, it did caveat that inflation could yet prove weaker or stronger than expected. Market expectations for future hikes have increased in the aftermath of the result, with the potential for the next hike in Q1 2022, with a move to 0.75% by May and the 1% level being hit in August / September, compared to November ahead of the meeting. By the close of 2022, markets are now edging nearer to a 1.25% level, with this expectation having picked up since the start of trading this year.

Link has formally reviewed its own forecast in light of the December meeting but has made no change to its Bank Rate forecast, with just modest changes to expectations for longer term yields which are reflected in the table below. Typically, a rate hike would fully flow through market pricing, especially at the short end of the curve.

Link Asset Services forward view January 2022

It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons:

- We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.
- There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.
- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit.
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total.
- It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.
- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, we expect to have to revise our forecasts again - in line with whatever the new news is.

Forecasts for PWLB rates and gilt and treasury yields

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant upward RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.

There are also possible downside risks from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates due to the following factors:

- How strongly will changes in gilt yields be correlated to changes in US treasury yields (see below)? Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising earlier and higher in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level.
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level.
- How strong will inflationary pressures actually turn out to be in both the US and the UK and so put upward pressure on treasury and gilt yields.
- How will central banks implement their new average or sustainable level inflation monetary policies.
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both.

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

The balance of risks to medium to long term PWLB rates:

There is a balance of upside risks to forecasts for medium to long term PWLB rates. A new era – a fundamental shift in central bank monetary policy.

- One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US, before consideration would be given to increasing rates.
- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.
- For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.

- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates

Investment and borrowing rates

- Investment returns are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.
- 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 and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.
- 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.

Reserves 2022/23

Reserve Type and Title	Purpose of Reserve	Forecast 1 Apr 2022 £'000	Movement Between Reserves 2022/23 £'000	Planned Transfer to/from Reserves 2022/23 £'000	Forecast 31 Mar 2023 £'000
General Reserves:					
Working Balance	Working Balance	**595**			**595**
General Reserve	2020/21 anticipated below budget variance	**279**	(80)	(199)	**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**	(200)		**358**
Strategic Fund	Reserve to carry forward underspends at year end	**261**		(39)	**222**
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	**161**			**161**
Transition Reserve	To support the work to adjust SDNPA's expenditure profile in line for future funding constraints.	**0**	200		**200**
Trading Company Borrowing Reserve	This will allow the company to borrow funds to purchase assets to allow operations at SSCP to begin.	**0**	80		**80**
Climate Change Action Fund	To support the Authority becoming a 'net-zero' organisation by 2030	**2**			**2**
Section 106 Receipts Reserve		**524**			**524**

Reserve Type and Title	Purpose of Reserve	Forecast 1 Apr 2022 £'000	Movement Between Reserves 2022/23 £'000	Planned Transfer to/from Reserves 2022/23 £'000	Forecast 31 Mar 2023 £'000
Section 106 Interest	Receipts primarily used to develop infrastructure within the National Park	**177**			**177**
Community Infrastructure Reserve*	Receipts to fund infrastructure in development areas	**4,950**			**4,950**
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	**28**			**28**
Vehicle Repairs and Renewals	To fund purchase of replacement vehicles	**37**		(23)	**14**
Total Reserves Balance		**7,916**		**(261)**	**7,655**

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

Medium Term Financial Strategy 2022/23 to 2026/27

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 2022/23, a prudent approach has been taken with a zero increase assumed over the next 5 years.
- Allocation of 1% per annum to fund costs of living pay awards.
- Increase in National Insurance in line with government increases.
- 2.5% inflation has been applied to transport/premises and supplies and services budgets only for each from 23/24 to 26/27.
- Salary savings included in the MTFS from 23/24 to 26/27

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.

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Department Core Budget b/f	**10,367**	**10,358**	**10,429**	**10,382**	**10,485**
Core Commitments and Pressures:					
Increment and Salary Changes (including Turnover)	112	67	68	68	67
Pension Increase	0	22	0	0	0
Inflation of 2.5% on Transport/Premises/Supplies and Services	0	56	58	60	62
Performance and Projects – Increase in Payments for GIS Contract	0	7	0	0	0
Planning Policy - Payment to Other LA's for West Susses Greater Partnership, Ashdown Forest Traffic Modelling and Air Quality Monitoring - core budgets	30	0	0	0	0
Neighbourhood Planning - Reduction in income due to the uncertainty of Government Plans re Neighbourhood Planning	20	0	0	0	0
Planning Policy - Increase in Subscriptions to Organisations for Minerals and Waste	1	0	0	0	0
Planning Recovered Services - Increase in Legal Fees	20	0	0	0	0
Savings:	0	0	0	0	0
Salary Savings	0	(80)	(173)	(25)	(119)
Marketing & Income - Reduction in Contributions to Trust	(10)	0	0	0	0
Communications Team - Reduction in Design and Reprographic	(21)	0	0	0	0
Communications Team - Reduction in Media Costs	(4)	0	0	0	0
IDOX - Reduction in IDOX Development	(12)	0	0	0	0
Corporate Services - Reduction in Payments to LA - Monitoring Officer	(5)	0	0	0	0
Human Resources - Reduction in Staff Training	(15)	0	0	0	0
Property - Reduction Biomass Pellets	(5)	0	0	0	0
Property - Reduction in Office Stationery	(4)	0	0	0	0
Learning, Outreach and Education - Reduction in Education Visits	(10)	0	0	0	0
Reduction in Access budget across Ranger services	(20)	0	0	0	0

Performance and Projects - Reduction in Evaluation Fees	(19)	0	0	0	0
Performance and Projects - Reduction in Computer Software	(3)	0	0	0	0
Performance and Projects - Reduction in Officers Subsistence	(1)	0	0	0	0
L&B Water - Reduction in Transport Allowance	(4)	0	0	0	0
Planning - Consultants Fees	(15)	0	0	0	0
Planning CIL - Activity Plan Consultants	(35)	0	0	0	0
Other Adjustments:	-	0	0	0	0
Planning - Increase in CIL Administration Income	(10)	0	0	0	0
Total Core Departmental Budget	**10,358**	**10,429**	**10,382**	**10,485**	**10,495**
Short Term Commitments and Pressures:					
Salaries	9	0	0	0	0
Corporate Services - Staff Survey	10	0	0	10	0
Performance and Projects - SLA Biodiversity Records Office and Historic Environment	0	5	0	0	0
Performance and Projects - Planning Customer Survey	0	0	15	0	0
Performance and Projects - Volunteer Audit	0	0	10	0	0
Performance and Projects - Visitor Study	0	0	15	0	0
Performance and Projects - Schools Study	0	0	15	0	0
Performance and Projects - Accessible Natural Green	0	0	10	0	0
Performance and Projects - Carbon Audit	0	0	10	0	0
Planning Policy - Local Plan Review	20	10	0	0	0
Planning Policy - Shoreham Cement Works	25	0	0	0	0
Planning Policy - Minerals and Waste Review - Hampshire	23	23	23	0	0
Planning Policy - Minerals and Waste Review - East Hampshire	20	20	0	0	0
Planning Policy - Minerals and Waste Review - West Sussex	10	10	10	0	0
Other Short Term Commitments	3	0	6	0	0
Income due for Farming in Protected Landscapes	(93)	0	0	0	0
Contribution to Theme Programme Boards	300	0	0	0	0
Seven Sisters Income and Expenditure	0	0	0	0	0
Seven Sisters Expenditure	407	411	415	419	423

Seven Sisters Income	(407)	(411)	(415)	(419)	(423)
Total Department Budget	**10,685**	**10,497**	**10,496**	**10,495**	**10,495**
DEFRA National Park Grant	**(10,486)**	**(10,486)**	**(10,486)**	**(10,486)**	**(10,486)**
Contribution(to)/from Reserves / Programme	**(199)**	**11**	**10**	**9**	**9**
Total Authority Net Budget	**0**	**0**	**0**	**0**	**0**