South Downs
National Park Authority

Agenda Item 11

Report NPA23/24-26

Report to	**South Downs National Park Authority**
Date	**28 March 2024**
By	**Chief Finance Officer**
Title of Report	**Revenue Budget, Capital Strategy and Treasury Management Strategy 2024/25 and Medium Term Financial Strategy 2024/25 – 2028/29**

Decision

Recommendation: The Authority is recommended to:

1. **Approve the Revenue Budget 2024/25 of £10.417 million including a contribution to general reserves of £0.069m as detailed in paragraphs 3.1 to 3.31 and Appendix 1.**
2. **Approve the Capital Strategy 2024/25 including new capital projects totalling £0.240 million and the capital variations, as recommended by the Policy & Resources Committee, of £0.688 million – a total of £0.928 million of capital investment - as detailed in paragraphs 3.1 to 3.31 and Appendix 2.**
3. **Approve the Treasury Management Strategy 2024/25 at Appendix 3 as recommended by the Policy & Resources Committee.**
4. **Note the Medium-Term Financial Strategy 2024/25 – 2028/29 at Appendix 5.**

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1 Introduction

1.1 The Authority fully recognises the importance of sustainable financial management and aims to set a balanced budget before the start of a new financial year in accordance with legislation. The Authority also looks to the longer term and this report sets out the South Downs National Park Authority's (the Authority) proposed budget for the 2024/25 financial year together with a 5-year Medium Term Financial Strategy for the period 2024/25 to 2028/29.

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

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

2 Policy Context

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

2.2 The budget has been developed in the context of priorities further informed by two Member Budget Workshops (December 2023 and January 2024) and to align with the Corporate Plan.

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

3 Issues for consideration

Revenue Budget 2024/25

3.1 The 2024/25 Revenue Budget is detailed at **Appendix 1.** The revenue budget 2024/25 is a net budget of £10.417 million, funded by the assumed National Park Grant of £10.486 million and a contribution to general reserves of £0.069m.

3.2 It should be noted that the total gross revenue budget for the Authority in 2024/25 is £14.437m; this encompasses all available revenue resources to the Authority as set out in the subjective analysis tables in Appendix 1. This represents additional spending of approximately £4m above the Defra National Park Grant for both staffing and supplies & services primarily funded by core budget of £2m (*Planning income £1.300m, Trading Company £0.470m, Grant funding £0.096m and other income*) and £2m short term resources (*Farming in Protected Landscapes DEFRA grant £1.200m, investment income £0.400m and circa £0.400m other income for projects*).

3.3 DEFRA have not yet confirmed the National Park Authorities' grant allocations for the 2024/25 financial year and in the absence of this, funding of £10.486m is currently assumed – the same level of funding as for the current financial year (2023/24) and the previous three financial years.

3.4 The medium-term financial planning of the Authority means that, despite a zero increase in the DEFRA grant settlement, the 2024/25 budget is still able to identify funding towards the delivery of projects in pursuit of all 10 Partnership Management Plan (PMP) outcomes, which includes Landscape & Natural Beauty, Increasing Resilience, Habitats & Species and Heath & Wellbeing. Future year grant allocations are not known and the Medium-Term Financial Strategy similarly assumes a zero rate increase ('flat cash') for the five year period.

3.5 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.

3.6 Due to the size and nature of the budgets, and the potential lack of increase in the annual DEFRA grant settlements, the Authority has worked hard to achieve financial sustainability, plan for the future and maintain some flexibility to fund one-off projects and unexpected costs. A significant contribution to this position has been achieved through cost reductions from the implementation of the new business model during 2022/23 which has achieved full-year savings of approximately £0.954m albeit there has been some clawback growth that will need managing. However, given the current high inflationary environment against a backdrop of zero increases to the grant settlements, all budgets have been reviewed regarding their value for money and fit with the new business model to assess 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 (including savings), which have been reflected in the budget proposals.

3.7 Whilst the Defra grant has not been finalised the budget has continued to be developed with Budget Holders and SLT and known changes included in this paper, the most significant are as follows: During cladding works at South Downs Centre, it has been identified that some remediation works to windows and redecoration is required and therefore £0.025m included in the capital programme for 2024/25. A further £5k has been included in revenue for cleaning of the solar panels in preparation for the next phase of the energy efficiency programme. New funded revenue roles – Climate Change Officer and support for Generation Green has been included and the Aquifer Project removed, the latter is to be managed by Brighton & Hove CC in its final year.

3.8 The 2024/25 budget covers the current staffing establishment of 144 full time equivalent posts, which includes a number of time limited funded posts and 1 full time equivalent apprenticeship. At the budget workshop Members were keen to ensure that the pay award delivered a proportionately higher increase in staff remuneration at the lower pay scales. For financial planning purposes, the proposed budget therefore includes an assumption of a 2.5% increase and £500 consolidated payments with no element for performance related pay (PRP) this year. Staffing budgets are the most significant element of the Authority's expenditure budgets and therefore provision for cost-of-living increases is an important factor for both budget planning and recruitment and retention of a skilled workforce. When this level of award is translated into the provision in the Medium-Term Financial Strategy at **Appendix 5** the total provision for cost of living pay awards is overall 2.5% plus £500 for 2024/25, and 3% for 2025/6 and 1% for 2026/27 to 2028/29, the later years reflecting lower projected Office of Budget Responsibility inflation forecasts.

Capital Strategy 2024/25

3.9 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.

3.10 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 2024/25 – 2028/29.

3.11 The Capital Programme includes additional capital funding of £0.500m recently announced by DEFRA and £0.260m for Water in Protected Landscapes. These new resources, totalling £0.760m, are shown in Table 2 at paragraph 5.3 of Appendix 2. The proposed use of resources, including existing resources and earmarked capital funding, is shown in Table 1 of Appendix 2.

3.12 The Capital Programme supports priorities informed by the Member Budget Workshops and outcomes identified in the PMP. The key priorities for capital expenditure over the medium term include the investment in the Seven Sisters Country Park, and the ongoing vehicle replacement programme.

Treasury Management Strategy 2024/25

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

3.14 Policy & Resources Committee agreed at its meeting of 29 February 2024 to recommend that the Authority approve the Treasury Management Strategy 2024/25 at **Appendix 3** to this report (amended for the final proposed figure for 2024/25 capital investment of £0.928m – originally £0.903m – and £0.050m for 2025/26 – originally £0m.).

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

Review of Reserves

3.16 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.

3.17 The Authority holds reserves for three main purposes:

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

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

3.18 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.

3.19 Note that after setting aside necessary risk reserves, capital reserves and reserves held in lieu of legal (planning) agreements (i.e. CIL / S106), the reserves under the direct control of the Authority are expected to be £2.667 million as at 1 April 2024, which will be held as Earmarked Reserves to meet identified projects, priorities and invest-to-save requirements as set out in Appendix 4.

3.20 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 core funding made up of the DEFRA National Park Authorities Grant and estimated annual planning income. Taking the factors outlined above into account, it is considered by the Chief Finance Officer that maintaining the current working balance at £595,000 for the 2024/25 financial year therefore remains prudent and reasonable.

3.21 The 2023/24 revenue forecast position reported as at month 9 to Policy & Resources Committee was a below budget variance of (£368,000). A below budget variance at the end of the financial year would increase the reserves position and therefore have implications for the Medium-Term Financial Strategy of the Authority. The final 2023/24 outturn position will not be known until the completion of the accounts for the 2023/24 financial year and transfers to reserves as part of the MTFS will be reported as part of the budget monitoring outturn report to Policy & Resources Committee.

Medium Term Financial Strategy

3.22 The Medium-Term Financial Strategy (MTFS) is set out in **Appendix 5** and shows projected changes in commitments, savings and grant income for 2024/25 to 2028/29. The forecasts in the MTFS reflect forecast DEFRA National Park grant allocations and also assumptions made for other expenditure and income over the period.

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

3.24 The MTFS will continue to seek stability within the overall budget whilst continuing to fund short term and one-off projects, identify savings, maximise potential income opportunities and provide flexibility for PMP priorities. The MTFS includes indicative allocations for ongoing investment in projects and contributions to strategic priorities; this includes the minimum contribution for Strategic Fund Projects to meet PMP objectives.

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

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

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

3.26 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.

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

3.28 While the level of development management activity is difficult to predict, its effect on the Authority's overall financial position is to an extent being managed through 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.

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

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

3.31 The earmarked reserves cover a range of areas and have been reviewed to ensure they are set at appropriate levels for the requirements of the organisation and their intended purpose over the year. For example, earmarked reserves in relation to Planning provide resources for unexpected expenditure that cannot be funded within the base budget in any particular year. As normal, reserves will be reviewed again as part of the closure of the 2023/24 accounts.

4 Options & cost implications

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

5 Next steps

5.1 The Authority's projected income and expenditure compared with the approved 2024/25 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?	There are no implications arising directly from this report, the Authority has a duty to ensure that Health & Safety is taken into account in all its

Implication	Yes*/No
	activities.
Are there any Data Protection implications?	No

7 Risks Associated with the Proposed Decision

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

Risk Scoring Key	
Likelihood	**Likelihood of Occurrence**
Rare (1)	Highly unlikely. It could happen but probably never will.
Unlikely (2)	Not expected but a slight possibility.
Possible (3)	The event might occur at some time.
Likely (4)	There is a strong possibility the event will occur.
Almost Certain (5)	The event is expected to occur in most circumstances.
Impact	**Example Descriptor of Impact**
Insignificant (1)	Basic first aid required, less than £100 financial impact, reputation remains intact.
Minor (2)	Short term injury to 1 or 2 people, minor localised disruption lasting less than 24 hours, between £100-£1000, minimal reputation impact.
Moderate (3)	Semi-permanent disability, affects between 3-50 people, high potential for complaints, financial burden between £1,000 and £10,000, litigation possible.
Major (4)	Causing death serious injury or permanent disability. Service closure for up to one week, significant financial burden, national adverse publicity, litigation expected.
Catastrophic (5)	Multiple deaths, financial burden over £100,000, international adverse publicity, widespread displacement of people (over 500), complaints and litigation certain.

Risk	**Likeli-hood**	**Impact**	**Mitigation**
Potential Risk Affecting 2024/25 Budget			
Planning income reduced below amount	2	4 (approx. £63k	Would require reductions in the budget (i.e. increased savings) for the following year, or replacement income, where there are not

predicted by up to 5% (demand led)		reduction in income)	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.
Overspend on Major Projects	1	4 (10% would be approx. £15k)	Would require reductions in the budget (i.e. increased savings) for the following year or increased contributions from reserves. Budget monitoring for all major projects is undertaken. Current projects are relatively low risk and mitigation can be put in place to contain any individual cost overruns within overall budget. Programme Manager in place to oversee projects.
Potential Risk Affecting Medium Term Financial Strategy			
National Park Grant reduces by up to 5%	2	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 and judicious use of reserves over the MTFS.
Planning income reduced below amount predicted by up to 5%	2	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 budgeted in the MTFS	3	4 (1% would be approx. £75k 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. £58k 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. £5k)	Would require reductions in the budget (i.e. increased savings) for the following year or increased contributions from reserves. Budget monitoring is in place for all major projects. Current projects are relatively low risk and mitigation can be put in place to contain any individual cost overruns within overall budget. New projects may involve major construction with all of the risk inherent in this, and SDNPA will need appropriate skills / knowledge to effectively manage those risks.

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Appendices
1. Revenue Budget 2024/25
2. Capital Strategy 2024/25
3. Treasury Management Strategy 2024/25
4. Review of Reserves 2024/25
5. Medium Term Financial Strategy 2024/25 to 2028/29

SDNPA Consultees: Chief Executive (Interim); Director of Landscape and Strategy; Director of Planning (Interim); Chief Finance Officer; Monitoring Officer; Legal Services, Head of Finance & Corporate Services

External Consultees: None

Background Documents: This report is presented in accordance with the Authority's Financial Regulations and Standard Financial Procedures.