

JOINT REPORT OF THE CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER

SUBJECT: DRAFT BUDGET PLANNING 2020/21

Contents:

- The Draft Revenue and Capital budgets for 2020/21 and forecast 2021/22 to 2024/25
- The Draft 2020/21 Levy on Pembrokeshire County Council
- Prudential Indicators for the Capital Programme
- An Investment Strategy & Treasury Management Policy Statement for 2020/21.

The Draft Revenue and Capital Budgets for 2020/21 and Forecasts 2021/22 to 2024/24

Introduction

This Draft Revenue & Capital Budget for 2020/21 is a crucial part of the Authority's strategic planning and performance framework. The current economic climate and funding constraints from Welsh Government have significant impacts on the way the Authority will be required to operate to deliver the objectives within the resources projected to be available. Key financial decisions need to be set in the context of a plan that looks beyond the next financial year and a more effective linking service and financial planning over the medium to longer term is required. The process is an established part of the budget setting process and provides a forecast of the cost of continuing to provide existing levels of service and the resources that are likely to be available to the Authority over the period. It also identifies any shortfalls and sets out how this will be managed. Regular review and update is essential to ensure the budget process takes full account of any changes in the National Park grant and funding streams, changes in Welsh Government objectives for the Authority and current strategic and service delivery priorities

Objectives

The objectives of the Draft Revenue and Capital Budgets for 2020/21 are:

- I. To ensure priorities are identified
- II. To provide projections of spending and income
- III. To provide projections for our capital spend
- IV. To provide a robust framework to assist the decision making process
- V. To test sensitivity of, and apply risk analysis, to projections

Strategy

The development of the Authority's Draft Revenue and Capital budgets for 2020/21 has taken place during a sustained challenging period for the public sector with pressure on the National Park Grant (NPG) and ensuing Levy on the Pembrokeshire County Council. The Authority approved Budget 2019/20 concluded that the Authority's future financial outlook was likely to continue to be challenging over the next few years as the impact of cumulative reductions in core funding is felt.

Meeting the financial pressures requires a rigorous approach to identifying efficiencies, maximise non-core funding streams opportunities and the reprioritisation of spending within services. Accordingly the Authority will adopt the clear strategy which will involve:

- I. Maintaining a balanced budget position.
- II. Strong financial management: The Authority controls and monitors the actual position of the authority on a regular basis setting out actions to correct any emerging issues.
- III. Asset maintenance: the Capital Programme should ensure adequate programmes of maintenance to sustain values of key assets, especially income-generating assets.
- IV. Maximise resource base: the Authority will ensure the best use of physical and other assets including staff time.
- V. Value for money: continuous review of budgets to ensure resources are targeted on key objectives and deliver value for money.

- VI. Maximise income streams while at the same time minimising the financial risks to the Authority.

Key Assumptions

The Draft Revenue and Capital budgets for 2020/21 have been prepared in accordance with the budget strategy and as previously discussed by Members in budget workshops. In calculating the net cost of continuing existing services the budget planning has been based on the following assumptions and factors:

- National Park Grant & Levy 2020/21 (no movement from 2019/20)
- General Inflation 2.5%
- Staff Costs Pay Awards (2%, Living Wage £9.30 per hr)
- Other Budgeted Grant Funding
- Employer Pension Contribution 12.7%
(Decreases to 10.6% for 2021/20 following 2019 tri-annual revaluation)
- National Insurance 14.2%
- Additional Car Park Income £70k circa
- Prudent use of reserves to support revenue expenditure
- The budgets have been prepared ensuring General Reserves remain at least £400,000.

Revenue Budget 2019/20

The revenue budget for 2019/20 was approved in February 2019 as shown in Appendix 1. The current forecast revenue position for 2019/20 is in line with the breakeven position laid out in the approved budget. While the cost base has slightly increased from that budgeted, notable due to additional seasonal salary, building maintenance and enforcement costs, there have been savings in other expenditure lines and higher incomes streams. With the projected Revenue budget surplus of nil the General Reserve balance is therefore expected to remain at £1008k as at the end of the 2019/20 financial year.

National Park Grant (N.P.G) & Levy

The Welsh Government published its Draft Budget 2020-21 in December 2019 when it was implied that the N.P.G. for the three National Parks for 2020/21 would increase. However due to an accounting equalisation within Welsh Government the N.P.G. for 2020/21 will be unchanged from that of 2019/20. The Welsh Government is expected to debate on the draft Budget will be on 4 February 2020 and publish the final Budget 2020-21 on 25 February 2020. While the NPG / Levy will remain unchanged from the 2019/20 level it is worth noting the total reduction since 2010/11 in cash terms has been £730k as demonstrated in the table below:

	£000's			
	NPG	Levy	Total	% Reduction
2010 - 11	3,463	1,154	4,617	
Reduction	95	31	126	-2.7%
2011 - 12	3,368	1,123	4491	
Increase	187	62	249	+5.5%
2012 - 13	3,555	1,185	4740	
Reduction	14	5	19	+0.4%
2013 – 14	3,541	1,180	4,721	
Reduction	-246	-103	-349	-7.4%
2014 - 15	3,295	1,077	4,372	
Reduction	-150	-30	-180	-4.1%
2015 - 16	3,145	1,047	4,192	
Reduction	-191	-62	-253	-6.0%
2016 - 17	2,954	985	3,939	
2017 - 18	2,954	985	3,939	0%
Reduction		-49	-49	-1.2%
2018 - 19	2,954	933	3,987	
Increase		49	49	+1.2%
2019 - 20	2,954	985	3,939	
2020 - 21	2,954	985	3,939	0%

While the total core funding for 2020/21 is the same as 2019/20, the Authority has experienced significant reductions in recent years. In 2010/11 the Authority absorbed a £126k, or 2.7%, reduction followed by a series of mostly reductions in each year since. Further when the consumer prices index is applied the overall reduction in real terms since 2010/11 equates to 31.5 % or circa £1.5m.

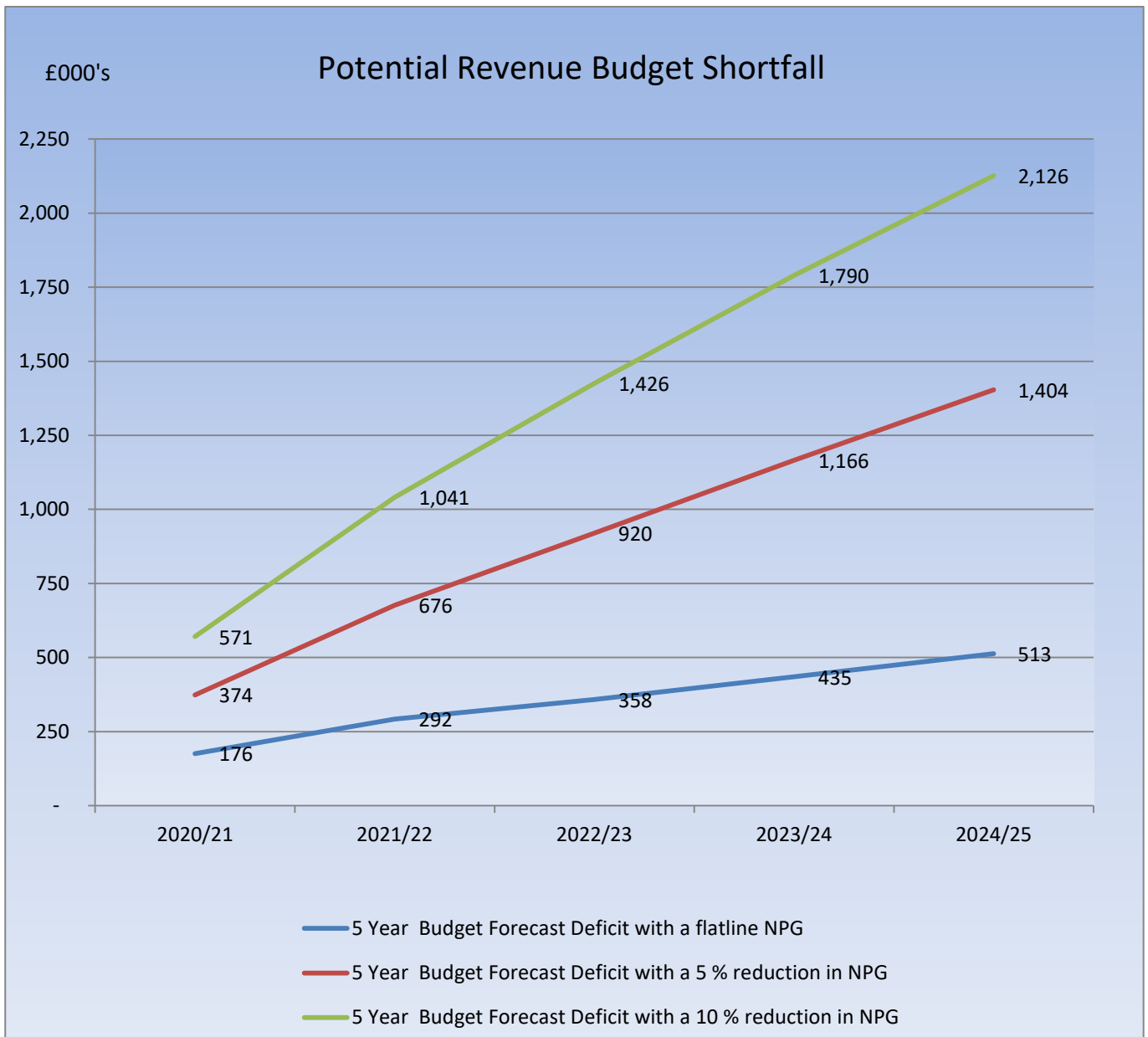
	£000's			% Reduction
	2010/11	2020/21	Total	
NPG	3,463	2,954	-509	
Levy	1,154	933	-221	
Total Cash Reduction	4,617	3,887	-730	-15.8%
Consumer Prices Index				
	2010/11	2018//19		
	92.2	107.9		-15.7%
Total Reduction				31.5%

The table below shows the Authority main sources of income and compares the financial years 2010/11 with 2018/19. It can be seen that the reductions in core funding have been compensated by significant increase in Authority Generated Income and Service/Project Specific Revenue Grants

	2018/19		2010/11		Movn't
	£000's	%	£000's	%	
National Park Grant	2,954	42%	3,463	52%	-509
National Park Levy	933	13%	1,154	17%	-221
Authority Generated Income	1,644	23%	1,121	17%	523
Service/Project Specific Revenue Grants	1,553	22%	897	14%	656
TOTAL REVENUE FUNDING	7,084	100%	6,635	100%	449

Sensitivity Analysis and Forecasts 2020/21 to 2024/25

If, as has been the case in the last two financial years, the Authority continues to receive a flat line NPG then the chart and tables beneath shows the impact of this on the revenue budget. When factored into the Authority’s budget model and other factors such as inflation and cost of living increases, anticipated increases in other grant and locally generated income, the forecast for the revenue budget for 2020/21 to 2024/25 is shows an annual deficit in 2020/21 of £176k rising to a deficit £513k by 2024/25. The charts and tables also show the impact of 5% and 10% reductions in N.P.G. and the implications to the revenue budget position during the period.



5 Year Budget Forecast with a flatline NPG					
£000's					
	2020/21	2021/22	2022/23	2023/24	2024/25
Baseline gross expenditure	5,829	5,888	5,996	6,116	6,238
Payrise/Inflation etc	101	118	120	122	125
Local Generated & Grant Income	-1,731	-1,774	-1,819	-1,864	-1,911
Additional Income & Efficiency savings	-83				
Gross Budget	4,116	4,232	4,297	4,374	4,452
Levy	-2,955	-2,955	-2,955	-2,955	-2,955
Levy	-985	-985	-985	-985	-985
Surplus / - Deficit	-176	-292	-358	-435	-513

5 Year Budget Forecast with a 5 % reduction in NPG					
	2020/21	2021/22	2022/23	2023/24	2024/25
Baseline gross expenditure	5,829	5,888	5,996	6,116	6,238
Payrise/Inflation etc	101	118	120	122	125
Local Generated & Grant Income	-1,731	-1,774	-1,819	-1,864	-1,911
Additional Income & Efficiency savings	-83				
Gross Budget	4,116	4,232	4,297	4,374	4,452
NPG	-2,807	-2,667	-2,533	-2,407	-2,286
Levy	-936	-889	-844	-802	-762
Surplus / - Deficit	-374	-676	-920	-1,166	-1,404

5 Year Budget Forecast with a 10 % reduction in NPG					
	2020/21	2021/22	2022/23	2023/24	2024/25
Baseline gross expenditure	5,829	5,888	5,996	6,116	6,238
Payrise/Inflation etc	101	118	120	122	125
Local Generated & Grant Income	-1,731	-1,774	-1,819	-1,864	-1,911
Additional Income & Efficiency savings	-83				
Gross Budget	4,116	4,232	4,297	4,374	4,452
NPG	-2,659	-2,393	-2,154	-1,939	-1,745
Levy	-886	-798	-718	-646	-582
Surplus / - Deficit	-571	-1,041	-1,426	-1,790	-2,126

Savings & Efficiencies to date

The Authority has countered the reduction in core funding by making significant savings in its operating cost base, increasing income from other sources including Information and Heritage centres and car parks and attracting project specific grants from various organisations including European funding.

The Authority's high level cost structure is demonstrated in the table below, with the data taken from the published statements of accounts, and shows savings in all areas of expenditure. Notably the reduction in employee costs has been a major source of budget saving in recent years and without these the Authority would have faced some significant difficulties in balancing its budget. In the financial year 2018/19, £3,710k was spent on employee cost compared to £4,114k in 2010/11, a reduction of £404k or 10%. This reduction also absorbs employees additional cost pressures of pay awards of approximately 10%, the removal of contracted out national insurance rebate of 2.5% and an employer pension contribution increase of 1%. The table also shows significant savings in Premises and Transport and Travel costs during the period.

	2010/11		2018/19		Movement	
	£000's	%	£000's	%	£000's	%
Employees (ex settlements)	4,114	60%	3,710	62%	404	-10%
Premises related	907	13%	662	11%	245	-27%
Transport & Travel	299	4%	198	3%	101	-34%
Supplies, Services and Grants	1,489	22%	1,666	28%	-177	12%
TOTAL REVENUE COST	6,809	100%	5,966	100%	843	-12%

The above table is validated by the falling establishment figures. During the period the average number of staff, measured in terms of "Full Time Equivalents" has also reduced from 141 to 123 (13%) and these reductions have been in managerial and back office support posts. The Authority adopted a voluntary redundancy program and where appropriate to operational needs and subject to cost effectiveness a number of these have been granted. This was acknowledged by the Wales Audit Office as an example of good practice across the Welsh public sector.

Yearly Average Staffing Levels								
(Full Time Equivalent)								
2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
141	135	134	133	125	123	120	124	123

The reduction in N.P.G. funding has meant the Authority's ability to generate increased income to fund core activities has become a greater focus of attention. The table that follows shows actual authority generated incomes from 2010/11 to 2018/19 and the trend has been very positive with most sources of income improving. The total authority generated income has increased from £1,121k in 2010/11 to £1,644k in 2018/19, a 47% increase. Significant increases have come from Admission fees, Car Parking charges, Planning fees, other income (including filming income) and Investment Property income. (The merchandise sales and income from Tenby & Newport which discontinued operations in 2016/17 and 2017/18 are not included in the table).

AUTHORITY GENERATED INCOME	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Move ment	Move ment
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	%
Merchandise Sales and income from Information Centres	225	255	263	252	260	252	227	248	289	64	28%
Car park charges and concessions income	309	390	365	353	404	446	447	470	470	161	52%
Admissions fees and Activities & Events	172	185	161	182	200	249	237	287	269	97	56%
Advertising income	88	88	77	87	88	88	85	72	75	-13	-15%
Planning fees	135	144	146	192	173	168	197	283	253	118	87%
Timber sales	30	81	40	109	79	31	31	28	25	-5	-17%
Other : rents, advertising	123	285	172	131	149	136	154	185	158	35	28%
Income from investment properties	28	45	29	56	51	55	42	62	74	46	164%
Investment income	11	19	26	16	10	19	21	19	31	20	182%
Total Authority generated Income	1,121	1,492	1,279	1,378	1,414	1,444	1,441	1,654	1,644	523	47%

Summarised Revenue Budget 2020/21

	£000's
	2020/21
Baseline gross expenditure	5,829
Payrise/Inflation etc	101
Local Generated & Grant Income	-1,731
Additional Income & Efficiency savings	-84
Transfer from Earmarked Reserve:	-176
Gross Budget	3,940
N.P.G.	2,954
Levy	985
Surplus / - Deficit	0

The summarised revenue budget for 2020/21 is shown in the above table. The revenue budget was discussed December 2019 budget workshop and the full breakdown of the departmental budgets and service area budget are shown in Appendix 2.

Draft Capital Programme 2020/21

	Draft Budget 2020/21	Funded by EMR	Funded by Other Grants	Funded by Capital Receipts
PV 's In the Park	54,000			54,000
IT Equipment	10,000			10,000
Castell Henllys Wood Pellet Silo	30,000			30,000
Saundersfoot Car Park Bridge	18,000			18,000
Improvements to Withybush Depot	30,000			30,000
Electric Vehicle Charge Points	60,000		60,000	
WG Funded 18 19: Causeway Repairs Phase 1	57,000	57,000		
WG Funded 18 19: Broad Haven Car Park	403,500	275,615		127,885
WG Funded 18 19: Castell Henllys Program	38,000	38,000		
WG Funded 19 20: Carew Castle Interpretation	38,660	38,660		
WG Funded 19 20: Carew Castle Access	32,000	32,000		
WG Funded 19 20: Oriel y Parc Interpretation	30,000	30,000		
WG Funded 19 20: Broad Band at Car Parks	48,000	48,000		
WG Funded 19 20: Greening Park Initiatives	5,000	5,000		
WG Funded 19 20: Carew Castle Enhancing Visitor experience	38,660	38,660		
WG Funded 2019/20: St Nons	20,000	20,000		
WG Funded 2019/20: HAV's	15,000	15,000		
WG Funded 2019/20: Electric vehicles	105,000	105,000		
WG Funded 2019/20: Bespoke Mobile Information Unit	10,000	10,000		
WG Funded 2019/20; Castell Henllys Open side Barn	15,000	15,000		
WG funded 2019/20: Commons resilience	15,000	15,000		
Total	1,072,820	742,935	60,000	269,885

The Authority's Capital program is an essential part of the Authority financial planning and is based on the Authority's corporate objectives, operational need, making prudent investments and the availability of internal and external funding. Details of the capital programme are:

- Photovoltaic (PV's) Generation. This project is to look at the installation of PV's at suitable sites across the Authority
- ICT Equipment. This expenditure represents the usual cycle of IT equipment replacement.
- Greening Park Initiatives. The Authority intends to spend funds on energy saving green projects with the exact nature of the expenditure yet to be determined.
- Castell Henllys Wood Pellet Silo
- Improvements to Withybush Depot
- Charging Points. It is anticipated grants will be available to extend the roll out electric vehicle charge points which would improve the parks offering for sustainable travel in Pembrokeshire

The following projects were funded from a Welsh Government award in 2018/19:

- Carew Castle Causeway Phases I. Under the Reservoirs Act the Authority has statutory duty to undertake the repairs as instructed by the Reservoirs Inspectorate. The Causeway has undergone many phases of major and minor repair works to prevent / minimise water leakage through the structure from the mill pond which is accepted as an ongoing and permanent issue.
- Broad Haven Car Park. Partially funded by the Welsh Government Capital Grant and The Tourist Amenity Investment Support Scheme the scope of the project has been enhanced to a major redevelopment of the site.
- Castell Henllys Program. Following the capital expenditure on the Origins project and repairs to the Round Houses at Castell Henllys, work will be undertaken to enhance the overall facility

The following projects were funded from a Welsh Government award in 2019/20:

- Carew Castle Interpretation. Improvements to the physical access and interpretation on-site will add to the visitor experience and understanding of Pembrokeshire's historical and cultural heritage
- Carew Castle Access. Following recent capital investment to enhance the visitor experience at Carew Castle the Authority will now prioritise a range of additional physical infrastructure works to improve the accessibility of the site for visitors with mobility problems and/or for families with pushchairs

- Oriel y Parc Interpretation. By increasing the amount of information available within OYP we can better inform visitors about the special qualities of the area
- Broad Band at Car Parks. An improved broadband infrastructure is necessary across PCNPA's car parks (many of which are in relatively isolated rural areas) in order to accommodate the number of cashless pay and display machines available
- Greening Park Initiatives. Funding for replacement bulbs, water saving taps, efficient boiler controls etc. across the authority estate, to continue to reduce energy use and carbon footprint
- Carew Castle Enhancing Visitor experience. Improvements to the physical access and interpretation on-site will add to the visitor experience and understanding of Pembrokeshire's historical and cultural heritage. It will allow access to as much of the Castle as possible and help increase visitor numbers.
- St Nons Ancient Connections. PCC and PCNPA were successful in securing INTERREG funding to boost heritage tourism between the West of Wales and the East of Ireland. One specific aspect of the project is to improve physical access to the holy well at St Non's which is a popular tourist attraction but is presently not accessible for wheelchair users
- Mitigation against Hand Arm Vibration Syndrome.(HAV's) This project will continue the Authority's investment in remote control (RC) machinery used for coast path maintenance and conservation work on difficult terrain across the National Park. RC technology helps mitigate against Hand Arm Vibration Syndrome
- Electric Vehicles The Authority is gradually switching to electric vehicles to undertake it's work wherever possible
- Bespoke Mobile Information Unit. An additional mobile information unit to complement the Authority's new approach to the provision of visitor information through a pop-up presence at busy visitor locations (beaches, events, festivals, etc)
- Castell Henllys Open side Barn. This will enhance the site management and safety through improving storage facilities away from public areas
- Commons resilience. This investment helps form part of PCNPA's wider conservation work with the farming community across Pembrokeshire and is funding that is generally not covered by other agri-environment schemes such as Glastir

Financial Reserves and Balances.

The Authority is required to keep a prudent level of working balances to maintain adequate cash flows to meet planned and unexpected expenditure. The General Reserve is a reserve created from prior years underspends and is available for any approved expenditure. As a minimum this reserve should be 5% of the net budget but it is considered prudent to keep above £400k. Earmarked Reserves are reserves that have been built up from revenue funding over a numbers of years and have been set aside for specific projects. The Capital Reserve balance is made from the receipts of the Authority's capital disposals in prior years and as such these funds are restricted for the use on capital expenditure.

The table that follows shows the anticipated cash based reserves as at the end of 2018/19 together with the projected balances as at the end of the 2019/20. The General Reserves balance as at the end of the 2019/20 financial year is expected to be £1,008k and remain at this level until the end of 2020/21.

The Capital Receipts Reserve is used to fund further capital expenditure in 2019/20 and 2020/21 and is therefore expected to fall to £126k by the end of 2020/21.

The balances on the Earmarked Reserves are considered to be appropriate at the current time and they were subject to a review by members during 2019. By the end of 2020/21 earmarked reserves are expected to fall from the current balance of circa £3,383k to £1,747k. It is worth noting as at the end of 2019/20 the Authority is expected it will be holding circa £184k of reserves on behalf of National Parks Wales and a further £1,976k in respect of grants received from Welsh Government to fund specific projects.

Cash Reserves

£000's

	Year end Position		Year end Position		Year end Position
	2018/19	Movem't 2019/20	2019/20	Movem't 2020/21	2020/21
General Reserves	1,008		1,008		1,008
Capital Receipts	654	-254	400	-275	126
TOTAL	1,662	-254	1,408	-275	1,134
Earmarked Reserves:					
Receipts In Advance	2,530	-403	2,127	-1,264	863
Asset Management	37		37		37
Planning (Formerly Local Plan)	123	-90	33	-20	13
Self-Insurance	30		30		30
Staff Restructuring	214	-25	189		189
National Park Wales	41	-7	34		34
Planning System	89		89		89
Car Par Integration (Broad Haven)	77		77	-77	
Sponsored Maintenance re Sponsor A Gate	5		5		5
Rangers Services - Landscape Fund		4	4		4
Round Houses	20	-20	0		0
Sdf Increase In Funds	29		29		29
NPG Reduction	287		287	-176	111
Car Park Resurfacing (Broad Haven)	98		98	-98	0
Biodiversity	11		11		11
Planning Enforcement	100		100		100
Stitch In Time	25	-14	11		11
The Pathways Project	35		35		35
Skills In Action	15		15		15
Carew Causeway	158		158		158
Underground Cables At Newport Parrog	14	-14			
Pollinator Project	15		15		15
Total	3,952	-569	3,383	-1,635	1,747

Conclusion

Although the Authority has made significant budget efficiencies in recent years it is worth noting that the 2020/21 revenue budget has only been balanced by utilising £176k of an earmarked reserve, i.e. budgeted revenue expenditure for 2020/21 will be exceed incomes by £176k. Fortunately the Authority reserves are sufficiently adequate to cover balancing the revenue budget for a number of years but clearly this strategy cannot go on indefinitely. The Authority therefore continues to face the financial challenge to ensure it further reviews its underlying cost base and where possible increase other revenue streams to match nil increases, and potential reductions in the NPG and consequential cut to the levy. The healthy cash reserve position affords the Authority a cushion to address the acute funding issues and the financial situation will be managed by; where appropriate discontinuing certain activities, improved efficiencies and cost savings, reviewing opportunities to develop local income and drawing down other sources of grant aid.

Recommendations

That Members:

- **APPROVE** in principle the draft budget 2020/21, subject to noting that the NPG/Levy estimate has yet to be confirmed.
- **NOTE** the financial forecasts for 2021/22 to 2024/25.

Levy on Pembrokeshire County Council

The following statement is the statutory levy statement for Pembrokeshire County Council. Section 71 of the Environment Act 1995, Sub-Section 3, defines the way in which the levy is to be issued and this statement complies with the required format:

Levy on Pembrokeshire County Council



The Authority must authorise the making of a levy of £984,677 from Pembrokeshire County Council, in accordance with Section 71 of the Environment Act 1995 and the National Park Authorities (Levies)(Wales)(Regulations) 1995 SI 1995 No.3019 as amended by the National Park Authorities (Levies)(Wales)(Amendment) Regulations 1996:

•	the sum required to meet expenditure for the Authority which will fall to be charged for that year in the Revenue account is		£5,669,796
•	making such provision as is appropriate for meeting contingencies, the expenditure on which would fall to be charged in the Revenue Account		£Nil
•	the sum required to secure the availability to the authority of adequate working balances on its Revenue Account		£Nil
•	the sum required to provide the Authority with other requirements for covering any deficit brought forward from the previous financial year		£Nil

	Sub-total		£5,669,796
	LESS		
•	Section 72, Grant (NPG)	£2,954,030	
•	Income credited to the Revenue Account	£1,731,089	
•	other sums not covered above which are likely to be available in the year	-	£4,685,119
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	Levy requirement		<u>£984,677</u>

Members are advised that the official levy requirement must be notified to Pembrokeshire County Council by 15th February. It is recommended that the National Park Authority continue with the current arrangement of 12 equal monthly instalments receivable on or before the 12th of each calendar month, such payments to be received by bank transfer.

Recommendation

That Members AUTHORISE a levy of £984,677 (or other appropriate amount as determined on receipt of confirmation of the approved net funding from the WG) from Pembrokeshire County Council for the year 2020/21.

Prudential Code Indicators

The Local Authorities (Capital Finance & Accounting) (Wales) Regulations 2003 require the Authority to have regard to the *CIPFA Prudential Code* in setting annual budgets. Members are asked to consider the advice of the Chief Financial Officer in determining an affordable, prudent and sustainable capital investment programme.

The Prudential Code requires the Authority to consider Prudential Indicators encompassing estimated and actual expenditure and financing, and limits on both. These indicators are intended to support and record local decision making, and are not designed to be comparative indicators across local authorities. However, as the Authority is debt free and there are no proposals at this time to undertake further borrowing, due to the capital expenditure plans being financed either by revenue funds, external grant aid or capital receipts, then many of the indicators are not relevant.

The indicators of affordability address the revenue implications of an authority's financial strategy since, as a fundamental principle, all the borrowings of an authority are secured on its future revenue income. The Prudential Code requires the prudential indicators in respect of external debt to be set and revised taking into account their affordability. It is through this means that the objectives of sustainability and prudence are addressed year on year.

The following table sets out the actual capital expenditure that was incurred in 2018/19 together with the estimates of capital expenditure to be incurred for the current and next years that are recommended for approval, along with the actual/estimated net revenue stream for the years:

	Actual	Actual	Estimate	Estimate
	2018/19	2019/20	2019/20	2020/21
Capital Expenditure	391,100	986,200	1,037,800	1,057,800
FINANCING COSTS (interest receivable only)	- 31,100	-15,000	- 15,000	-19,000
Net Revenue Funding (NPG/Levy)	3,887,200	3,939,540	3,939,540	3,939,540
Ratio: Financing Costs/Net Revenue Funds	-0.80%	-0.38	-0.38%	-0.48%*

**As a result of the adoption of IFRS16 in 2020/21, regarding recording leased assets on balance sheet, this indicator may change.*

The negative percentages demonstrate that negative financing costs (i.e. income from investments) are contributing to the Authority's funding resources.

The next indicator is the Capital Financing Requirement. This is an important component of an authority's capital strategy in that it represents capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. The balance is a measure of the underlying need to borrow for a capital purpose. As mentioned above, the draft capital programme does not propose any borrowing for capital purposes and the Authority should remain debt free for the period, so the Capital Financing Requirement is estimated at £nil for the period up to 31 March 2021.

The prudential indicators for debt relate to the scale of the Authority's borrowing rather than simply its indebtedness. The Authority will need to set an Authorised Limit that separately identifies borrowing and other long term liabilities, and is intended to establish the outer boundary of the Authority's borrowing based on a realistic assessment of the risks. This limit is certainly not a limit that the Authority would expect to borrow up to on a regular basis, rather it is a maximum permitted limit available should the need arise during the year in relation to an unexpected need, either for capital or revenue purposes – an example being short term borrowing pending receipt of external grant. In taking your decisions on this budget report, Members are asked to note that the Authorised Limit determined for 2020/21 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

Authorised Limit for External Debt	Actual	Actual	Estimate	Estimate
	2017/18	2018/19	2019/20	2020/21
Borrowing	1,000,000	1,000,000	1,000,000	1,000,000
Other long term liabilities	0	0	0	0

The Authority also needs to set an Operational Boundary for its borrowing, based on probable rather than possible need. Breaches of the Operational Boundary would give early warning for corrective action to be taken to avoid a possible breach in the Authorised Limit of the Authority. As mentioned, the proposed capital programme does not identify the need for external borrowing, and this, coupled with a traditionally steady revenue income stream through the financial year, means that the Operational Boundary for the Authority can be set at a low level. The Chief Financial Officer recommends as follows:

Operational Boundary for External Debt	Actual	Actual	Estimate	Estimate
	2017/18	2018/19	2019/20	2020/21
Borrowing	250,000	250,000	250,000	250,000
Long term liabilities	0	0	0	0

It is possible that, while an authority's financial strategy may be affordable in the short term, it is imprudent and unsustainable because in the medium term it would, if pursued, be dependent on the use of borrowing to fund revenue expenditure. For this reason the Code makes it necessary, if a financial strategy is to be prudent, that it is one in which in the medium term Net Borrowing is only to be used for capital purposes. This is demonstrated through a comparison of Net Borrowing with the Capital Financing Requirement. Except in the short term, net external borrowing should not exceed the total Capital Financing Requirement in the previous year plus the estimates of any additional Capital Financing Requirements for the current and the next two financial years.

The Chief Financial Officer hereby reports formally that the Authority is complying with this aspect of the Code.

The Maturity Structure of Borrowing indicator is designed to be a control over an authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. In view of the Chief Financial Officer's recommendation not to raise any long term borrowing for the period, it is not necessary to set upper and lower limits for the maturity structure of borrowing.

In view of the low level of cash available for investment, it is the Chief Financial Officer's recommendation that only short-term investments are entered into for the period. It is therefore not necessary to set limits on investments to final maturities beyond the year-ends.

Investment Strategy 2020/21

The remainder of this report presents an Investment Strategy for 2020/21 in compliance with statutory guidance and in support of the prudential borrowing system.

Section 12 of the Local Government Act 2003 gives the Authority power to invest for "any purpose relevant to its function under any enactment or for the purposes of the prudent management of its financial affairs". The prudent management of its financial affairs is included to cover investments which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management – being the type of investment undertaken by this Authority. Authorities are required to invest prudently the surplus funds held, with priority given to security and liquidity rather than yield.

This Strategy also supports CIPFA's *Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes*.

The combined Investment Strategy & Treasury Management Policy for 2020/21 follows.

Recommendations

That Members:

- **ADOPT the Prudential Indicators as presented**
- **APPROVE the Investment Strategy & Treasury Management Policy Statement for 2020/21 (over).**

Background documents

- Welsh Government, draft budget proposals 2020/21
- The Local Government Act 2003
- The Local Authorities (Capital Finance & Accounting) (Wales) Regulations 2018
- Statutory Guidance on Local Government Investments
- CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

For further information please contact Richard Griffiths on 01646 624815.

**INVESTMENT STRATEGY and
TREASURY MANAGEMENT POLICY STATEMENT
2020/21**



1. INTRODUCTION

1.1. *The Authority adopted CIPFA's Code of Practice for Treasury Management in Local Authorities. The Code sets out a framework of operating procedures for both Members and Officers to reduce treasury risk and improve understanding and accountability regarding the Treasury position of the Authority. This Strategy also complies with statutory guidance on Local Government Investments.*

1.2. *The Authority defines its treasury management activities as:*

"the management of the Authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.3. *This Authority regards the successful identification, monitoring and control of risk to be the most important criteria by which the effectiveness of its treasury management and investment activities will be measured. Accordingly, the major focus of the analysis and reporting of treasury management decisions and transactions will be on their risk implications for the Authority, with priority given to the security and liquidity of its investments.*

1.4. *This Authority also acknowledges that effective treasury management should 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, but always in the context of effective risk management.*

2. RESPONSIBILITIES

2.1. *The responsibilities for Investment & Treasury Management are defined as follows:*

- (a) *The Authority shall review and consider this Strategy in advance of the start of each financial year.*
- (b) *The Chief Financial Officer shall ensure that satisfactory arrangements are in place for the delivery of this Strategy.*
- (c) *The Chief Executive (National Park Officer) shall be responsible for all investment and treasury management activities, for ensuring that these activities are documented and resourced.*
- (d) *The Chief Financial Officer where appropriate, shall ensure all investment and treasury management activities are in accordance with statutory requirements and CIPFA's Code of Practice for Treasury Management in the Public Services, and for ensuring*

that an annual Treasury Management report is presented to the Performance Review Committee.

3. APPROVED METHODS OF RAISING FINANCE

3.1. Short Term (up to 1 year):

- Money markets
- Other local authorities
- Bank overdraft
- Internal funds

3.2. Long term (over 1 year)

- Public Works Loans Board
- Money Markets
- Leasing

However, other than for short-term cash flow requirements, there are no plans to raise external debt during 2020/21. Notwithstanding this, the Authority is obliged to set limits for external debt - and approved such limits, as follows, in setting the 2020/21 budget in February 2020:

Authorised Limit for External Debt	Actual	Actual	Estimate	Estimate
	2017/18	2017/18	2019/20	2020/21
Borrowing	1,000,000	1,000,000	1,000,000	1,000,000
Long term liabilities	0	0	0	0

Operational Boundary for External Debt	Actual	Actual	Estimate	Estimate
	2017/18	2017/18	2019/20	2020/21
Borrowing	250,000	250,000	250,000	250,000
Long term liabilities	0	0	0	0

3.3 The Maturity Structure of Borrowing prudential indicator is designed to be a control over an authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. In view of the Chief Financial Officer's recommendation in the 2020/21 budget report not to raise any long term borrowing for the period, it is not necessary to set upper and lower limits for the maturity structure of borrowing. This will be reviewed annually.

4. APPROVED ORGANISATIONS FOR INVESTMENT

4.1. The surplus cash resources of the Authority are such that investment will be limited to specified investments through accounts held with the Authority's Bankers. If surplus cash resources increase significantly in the future, alternative investment

sources may be considered and included in this Policy Statement at that time, requiring the formal approval of the Authority.

4.2. The credit rating of institutions holding the Authority's investment will be checked by the Finance Manager periodically via Standard and Poors' website and a recommendation as to any action necessary in the event of a change in rating shall be made.

4.3. In terms of Treasury Management, interest rate risk management is a top priority for local authority management. While fixed-rate borrowing and investment can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance may justify, or even demand, retaining a degree of flexibility through the use of variable interest rates on at least part of a treasury management portfolio. Operational Boundaries for the exposure to interest rate risks are set below, to support the target interest receivable on short-term investments (built into the revenue baseline budget) of £15,000.

- Upper limit for variable rate exposure – 100%
- Upper limit for fixed interest rate exposure – 75%

This means that the Chief Financial Officer will manage fixed interest rate exposures within the range 0% to 75% and variable interest rate exposures within the range 0%-100%.

4.4. In view of the relatively low level of cash available for investment, it was the Chief Financial Officer's recommendation in the 2020/21 budget report that only short term investments be entered into for the period. It is therefore not necessary to set limits on investments to final maturities beyond 24 months.

5. TREASURY MANAGEMENT PRACTICES

5.1. The following Treasury Management Practices will guide treasury management activities:

- **TMP1 – Treasury Risk Management.**
Adequate cash balances will be maintained in the Authority's business account to fund the daily payments made from the account. Surplus cash balances will be invested only via minimum risk avenues.
- **TMP2 – Best Value & Performance Measurement**
Treasury management decisions will be made with regard to achieving best value, and performance will be measured in terms of achieving budgetary targets whilst limiting risk.
- **TMP3 – Decision Making & Analysis**
Decisions will be made as and when necessary, in a manner that balances cash requirements with cash surpluses whilst maximising investment returns and minimising risks. These decisions will be made within the boundaries set by the Authority's treasury management policies and statements.
- **TMP4 – Approved Instruments, Methods and Techniques**

Surplus cash on the Authority's business account will, at the end of every banking day, automatically be transferred to a higher interest No Notice Business Account. The Authority may also transfer funds to other reputable U.K. Financial Institutions which offer more attractive rates of return. These institutions must however have the same or superior Standard & Poors verified credit rating.

- **TPM5 – Treasury Management Organisation**
The Finance Manager will undertake the day-to-day Treasury Management activities, liaising with the Resources Manager and Chief Executive (National Park Officer) to consider longer-term issues as and when necessary.
- **TMP6 – Reporting Requirements**
Performance will be assessed as part of the Authority's budget performance monitoring. A report will be presented at the year-end comparing actual investment income with budgeted income.
- **TMP7 – Budgeting, Accounting, Audit**
Investment income from treasury management decisions is included within the Authority's budgets and accounts and is subject to inspection as part of the annual audit. Interest due on borrowings is also accounted for within the Authority's accounts.
- **TMP8 – Cash and Cash flow Management**
The annual budgeting process will determine expenditure levels and sources of finance. On a daily basis, consideration will be given to the timing of cash receipts and cash payments. The Authority's Bankers telephone banking service and on-line banking service will be used to facilitate daily cash flow reviews.
- **TMP9 – Money Laundering**
Money laundering will not be undertaken by this Authority.
- **TMP10 – Staff Training & Qualifications**
Staff training will be discussed at least within the annual appraisal process, although requests for training will be considered at anytime. Essential staff qualifications are determined by the Authority as part of the recruitment and selection procedures.
- **TMP11 – Use of External Service Providers**
The Authority will manage its treasury management arrangements without the use of external service providers.
- **TMP12 – Corporate Governance**
The provision for annual reports on treasury management to the Authority's members forms a key part of the corporate governance arrangements in authorities.

This Strategy will be in force for the financial year 2020/21

Appendix 1
Summarised Revenue Budget 2019/20

	£000's
Baseline gross expenditure	5,696
Payrise/Inflation etc	118
Local Generated & Grant Income	-1,688
Additional Income & Efficiency savings	-19
Earmarked Reserve: W.G. Continuation of Services	-167
Gross Budget	3,940
N.P.G.	2,955
Levy	985
Surplus / - Deficit	0

Appendix 2 2020/21 Departmental Budget Breakdown

	Draft Baseline Expend 2020/21	Draft Baseline Income 2020/21	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Other Adjusts	Draft net Budget 2020/21
Conservation of the Natural Environment	439,561	-49,102	5,810	1,467		225	397,962
Cilrhedyn Woodland Centre	102,618	-49,102	885	344		225	54,969
Nature Conservation	331,314		4,926	1,039			337,278
Marine Environment	5,630			84			5,714
Conservation of the Cultural Heritage	158,955		1,590	344		5,683	166,572
Invasive Species	54,114						54,114
Conservation Areas & Historic Buildings	46,729		812	56			47,598
CP10 - Archaeology, Culture & Heritage	58,112		778	288		5,683	64,861
Development Control	482,003	-183,230	7,669	1,282	-10,000		297,724
Development Management (inc Mineral Plans)	482,003	-183,230	7,669	1,282	-10,000		297,724
Forward Planning & Communities	285,801		2,800	73			288,674
Development Planning	174,464		2,800	73			177,337
Sustainable Development Fund	100,000						100,000
Sustainable Development Delivery	11,337			0			11,337
Promoting Understanding	1,769,244	-881,620	17,018	6,470	-7,479	1,410	905,043
Tourism & Wellbeing Officer	43,597		812	24		1,410	45,843
Carew Castle	255,336	-241,933	2,559	1,049	-4,873		12,139
Carew Castle Tea Room	69,299	-85,055		513	0		-15,243
Castell Henllys	229,674	-131,959	2,870	1,102	-263		101,423
Oriel Y Parc, St David's	391,703	-149,446	3,616	862	-478		246,257
Oriel Y Parc Cafe		-20,000					-20,000
Coast to Coast	52,663	-85,000	253	595	-1,700		-33,190
Communications	208,317		2,677	1,025			212,018
SUP9 - Graphic Services	88,664		1,290	221			90,175
Discovery	149,085	-5,151	2,717	131	-103		146,679
Activities & Events	3,616	-3,080		51	-62		525
Walkability Program	15,456		224	62			15,741
Pembs Outdoor Schools	49,575						49,575
West Wales Walking	150,542	-159,996					-9,454
Pathways Project	61,716			838			62,554
Recreation & Park Management	443,246	-421,679	4,933	2,507	-65,500		-36,493
Sustainable Transport	80,075			1,201			81,276
National Trail	48,335	-7,774	714	170			41,445
Access Officer and Rights of Way	119,900	-7,318	1,535	608			114,725
Charging Car Parks	160,254	-406,587	1,990	528	-65,500		-309,314
Paths & Pollinators Project	34,681		694				35,375

	Draft Baseline Expend 2020/21	Draft Baseline Income 2020/21	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Other Adjusts	Draft net Budget 2020/21
Rangers, Estates & Volunteers	1,267,445	-159,980	20,296	3,478			1,131,236
Park Delivery Management	150,210		1,615	98			151,923
Ranger Services	224,792		4,326				229,118
North Area	306,705		5,074	1,032			312,811
West Area	189,845		3,648	780			194,273
South Area	219,382		3,846	716			223,944
Castlemartin Ranger	35,561	-28,914	549	121			7,317
Tenby / Newport Ranger	17,430		349				17,776
Estates Management (incl. Surplus Properties)	123,520	-131,066	889	730			-5,926
Democratic Representation & Management	632,266	-16,475	4,018	3,599		4,722	628,130
DRM2 - Chief Executive's Office	108,582		2,039	45			110,665
DRM1 - Corporate Activities & Management	72,588			972			73,560
Democratic Representation	200,231		1,472	1,852		4,722	208,277
Future Landscapes Wales	150,000						150,000
National Parks Wales	24,707	-16,475	2	57			8,291
Corporate Governance	70,158		506	673			71,336
PCNP Trust	6,000						6,000
Service Management & Support Services	1,169,835		13,911	3,915			1,187,661
<i>(Memorandum account, recharged to services)</i>							
SUP1 - Director of Park Direction & Planning	80,161		1,492	41			81,694
SUP3 - Director of Delivery & Discovery	90,047		1,721	11			91,779
SUP5 - Reception/Admin Services	93,312		1,387	131			94,831
SUP2 - Performance Management	52,527		774	17			53,318
SUP6 - Legal Services	30,000			450			30,450
SUP7 - Financial Services	162,805		2,238	702			165,745
SUP8 - IT Services	250,242		2,204	1,194			253,639
SUP16 - Parc Llanion Park	93,065		483	865			94,413
SUP12 - General Building Maintenance	90,002						90,002
Grants Officer	-7,191		789	22			-6,380
Projects Team	86,359		1,305	31			87,695
SUP14 - Pool Vehicles	11,872			51			11,923
HR, Health & Safety, Staff Training	136,634		1,519	398			138,551
TOTALS	6,648,357	-1,712,086	78,045	23,135	-82,979	12,040	4,966,508

	Draft Baseline Expend 2020/21	Draft Baseline Income 2020/21	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Other Adjusts	Draft net Budget 2020/21
Conservation of the Natural Environment	439,561	-49,102	5,810	1,467		225	397,962
Conservation of the Historic & Cultural Env't	158,955		1,590	344		5,683	166,572
Development Control	482,003	-183,230	7,669	1,282	-10,000		297,724
Forward Planning & Communities	285,801		2,800	73			288,674
Promoting Understanding & Enjoyment	1,769,244	-881,620	17,018	6,470	-7,479	1,410	905,043
Recreation & Park Management	443,246	-421,679	4,933	2,507	-65,500		-36,493
Rangers, Estates & Volunteers	1,267,445	-159,980	20,296	3,478			1,131,236
Democratic Representation & Management	632,266	-16,475	4,018	3,599		4,722	628,130
Service Management & Support Services	1,169,835		13,911	3,915			1,187,661
Net Cost of Services	6,648,357	-1,712,086	78,045	23,135	-82,979	12,040	4,966,508
Depreciation Adjustment						-258,814	-258,814
Interest receivable and investment income		-19,000					-19,000
Net Operating Expenditure	6,648,357	-1,731,086	78,045	23,135	-82,979	-246,774	4,688,694
<u>Appropriations</u>							
Pensions interest/expected returns	-912,000						-912,000
Pension Interest Cost on Liabilities	973,000						973,000
Remeasurement of Pension Liabilities	3,788,000						3,788,000
Pension Administration Expenses	14,000						14,000
Remeasurement of Pension Assets	-2,104,000						-2,104,000
Pension Curtailment Non Redistributed	49,000						49,000
Reversal Employer Pension Contrib - MIRS	418,905						418,905
Reversal of Retirement Benefits - MIRS	-693,000						-693,000
Remeasurement of Pension Liabilities	-3,788,000						-3,788,000
Remeasurement Pension Assets - MIRS	2,104,000						2,104,000
Transfers From EMR Invasive Species						-54,000	-54,000
Transfers From EMR Pathways						-62,554	-62,554
Transfers From EMR Future landscapes						-150,000	-150,000
Transfers From EMR Budget Reduction						-177,684	-177,684
Transfers From EMR LDP						-20,000	-20,000
Transfers From EMR Pollenators						-35,375	-35,375
Transfers From EMR Conservation Officer						-34,963	-34,963
Transfers From EMR walkability						-15,741	-15,741
Transfers From EMR Outdoor schools						-49,575	-49,575
NET BUDGET	6,498,262	-1,731,086	78,045	23,135	-82,979	-846,667	3,938,707
Financed by:							
National Park Grant	-2,954,655					625	-2,954,030
Levy against Pembrokeshire County Council	-984,885					208	-984,677
OVERALL FUNDING POSITION	-3,939,540					833	-3,938,707
Deficit / Surplus							0