

JOINT REPORT OF THE CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER

SUBJECT: DRAFT BUDGET PLANNING 2021/22

Contents:

- The Draft Revenue and Capital budgets for 2021/22 and forecast 2022/23 to 2024/25
- The Draft 2021/22 Levy on Pembrokeshire County Council
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- An Investment Strategy & Treasury Management Policy Statement for 2021/22.

The Draft Revenue and Capital Budgets for 2021/22 and Forecasts 2022/23 to 2024/25

Introduction

This Draft Revenue & Capital Budget for 2021/22 is a crucial part of the Authority's strategic planning and performance framework. 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 2021/22 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 2021/22 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 2021/22 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:

- 10% increase National Park Grant & Levy for 2020/21 (While this is welcome it needs to be considered against the expectation of possible future reductions in funding)
- General Inflation Nil (Inflation will be nil as we are reducing non-salary related budgets by 5%)
- Staff Costs Pay Awards (1%, Living Wage £9.50 per hr)
- Travel Costs down by 25% on 2020/21 budget
- Employer Pension Contribution 10.6%
(Down from 12.7% for 2020/21 following 2019 tri-annual revaluation)
- National Insurance 13.8%
- Additional Car Park Income £70k circa
- Sustainable Landscape Sustainable Places grant to cover support costs
- Prudent use of reserves to support revenue expenditure
- The budgets have been prepared ensuring General Reserves remain at least £400,000.

Revenue Budget 2020/21

The revenue budget for 2020/21 was approved in February 2020 as shown in Appendix 1. As discussed in the December 2020 budget workshop the Authority's finances for the current financial year have been subject to significant uncertainty and turbulence. The current forecast revenue position for 2020/21 is shown below

Forecast 2020/21 Revenue Budget	Approved Budget £000's	Forecast 2020/21
Baseline gross expenditure	5,829	5,758
Pay rise/Inflation etc	101	101
Local Generated & Grant Income	-1,731	-1,158
Compensation income from WG		-292
Furlough Claims from HMRC		-150
Rates Support Grant		-45
Gross Budget	4,116	4,214
NPG	-2,954	-2,954
NPG Supplemental		-248
Levy	-985	-985
Grant Application to WG available to fund core costs		-70
SLSP support costs		-67
Transfer from Reserves	-176	110
Surplus / - Deficit	-	-

With the projected nil Revenue budget surplus of the General Reserve balance is therefore expected to remain at £1,008k, Capital Receipts are expected to fall to £215k and Earmarked Reserves at £3,078k as at the end of the 2020/21 financial year.

Authority Reserves	Year end Position 2019/20	£000's Movement 2020/21	Year end Position 2020/21
General Reserve	1,008	-	1,008
Capital Receipts	370	-155	215
TOTAL	1,378	-155	1,223
Earmarked Reserves:			
Receipts In Advance	2,759	-858	1,901
Authority Created Reserves	1,259	-82	1,177
Total	4,018	-940	3,078

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

The Welsh Government published its Draft Budget 2021-22 in December 2020 when it was implied that the N.P.G. for the three National Parks for 2021/22 would increase by 10% for the 2021/22 year and revert back to the 2020/21 level for subsequent years. When the Levy is included this amounts to a £394k increase in the Authority's core funding. The Welsh Government is expected to debate and publish the Final Budget 2021-22 on 9th March 2021. While the NPG / Levy will increase from 2020/21 level it is worth noting the total reduction since 2010/11 in cash terms has been £407k 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	4,740	
Reduction	-14	-5	-19	-0.40%
2013 - 14	3,541	1,180	4,721	
Reduction	-246	-103	-349	-7.40%
2014 - 15	3,295	1,077	4,372	
Reduction	-150	-30	-180	-4.10%
2015 - 16	3,145	1,047	4,192	
Reduction	-191	-62	-253	-6.00%
2016 - 17	2,954	985	3,939	
2017 - 18	2,954	985	3,939	0%
Reduction		-49	-49	-1.20%
2018 - 19	2,954	933	3,987	
Increase		49	49	1.20%
2019 - 20	2,954	985	3,939	
2020 - 21	2,954	985	3,939	
Increase	295	99	394	10%
2021 - 22	3,249	1,084	4,333	-6.1%

While the expected total core funding for 2021/22 is up £394k from as 2020/21, the Authority has experienced significant reductions in recent years. Since 2012/13 the Authority absorbed a £284k, or 6.1%, reduction in core funding. Further when the consumer prices index is applied the overall reduction in real terms since 2010/11 equates to 23.4% or circa £1.1m.

	£000's			
	2010/11	2020/21	Total	% Reduction
NPG	3,463	3,249	-214	
Levy	1,154	1,084	-70	
Total Cash Reduction	4,617	4,333	-284	-6.1%
Consumer Prices Index				
	2010/11	2019/20		
	92.2	109.5		-17.3%
Total Reduction				-23.4%

Savings, Efficiencies and Additional Authority Generated Income

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 2019/20, £3,968k was spent on employee cost compared to £4,114k in 2010/11, a reduction of £146k or 3.5%. This reduction also absorbs employee additional cost pressures of pay awards of approximately 12%, 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.

OPERATIONAL COSTS COMPARISON 2010/11 to 2019/20						
	2010/11		2019/20		Movement	
	£000's	%	£000's	%	£000's	%
Employees (excluding settlements)	4,114	60%	3,968	62%	-146	-3.5%
Premises related	907	13%	729	11%	-178	-19.6%
Transport & Travel	299	4%	198	3%	-101	-33.8%
Supplies, Services and Grants	1,489	22%	1,526	24%	37	-2.5%
TOTAL REVENUE COST	6,809	100%	6,422	100%	-387	-5.7%

The reduced employee costs above table is explained 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 129 (9%) 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.

**Yearly Average Staffing Levels
(Full Time Equivalent
on payroll)**

2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
141	135	134	133	125	123	120	124	123	129

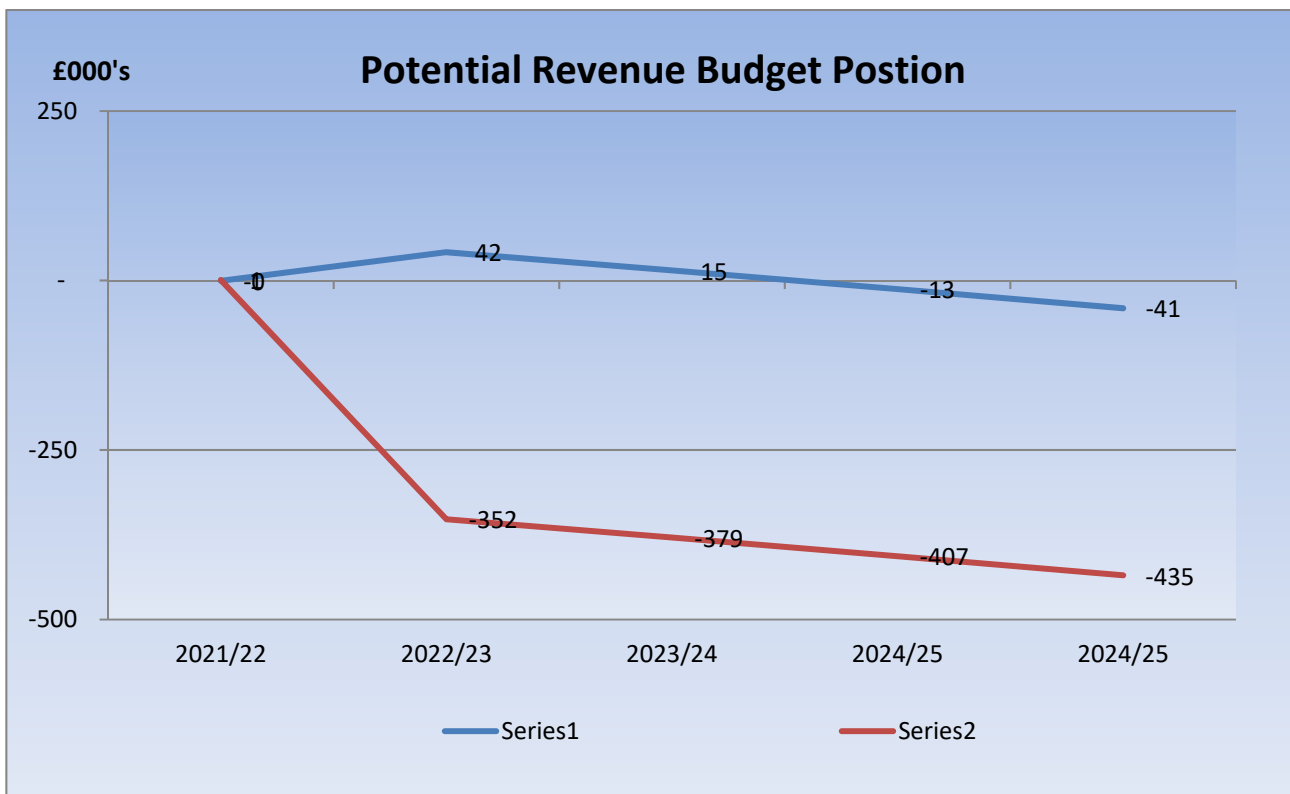
The reduction in core funding has meant the Authority's ability to generate increased income to fund core activities has become a greater focus of attention. The table that follows shows actual authority generated incomes from 2010/11 to 2019/20 and the trend has been very positive with most sources of income improving. The total authority generated income has increased from £1,121k in 2010/11 to £1,673k in 2019/20, a 49% 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	2019/20		
	£000's	£000's	M'ment £000's	M'ment %
Merchandise Sales and income from Information Centres	225	300	75	33%
Car park charges and concessions income	309	468	159	51%
Admissions fees and Activities & Events	172	280	108	63%
Advertising income	88	74	-14	-16%
Planning fees	135	184	49	36%
Timber sales	30	22	-8	-27%
Other : rents, advertising	123	235	112	91%
Income from investment properties	28	54	26	93%
Investment income	11	57	46	418%
TOTAL LOCAL INCOME	1,121	1,673	552	49%

Sensitivity Analysis and Forecasts 2021/22 to 2024/25

The Authority has received an increase of 10% in National Park Grant for 2021/22 and when the Levy is included this equates to £394k of additional funding. However there is uncertainty as to whether this uplift will be permanent or for a one off increase and in which case the National Park Grant will revert back to its 2020/21 level.

The chart below plots the revenue position under two scenarios for the financial years 2021/22 to 2024/25; first scenario if the 10% increase is permanent and secondly if the NPG reverts to the 2020/21 level. In 2022/23 under the first scenario the breakeven budget rises to a surplus of £42k in 2022/23 as there is an expectation that normal level of Authority generated income will recover. Under the second scenario incomes levels also recover but with the reduced core funding the revenue position fall to a deficit of £352k in 2022/23. This gap between the two scenarios is then reflected in subsequent year to 2024/25.



5 Year Budget Forecast with a flat line NPG

£000's					
	2021/22	2022/23	2023/24	2024/25	2024/25
Baseline gross expenditure	5,884	6,016	6,086	6,158	6,232
Pay rise/Inflation etc	40	70	72	74	75
Local Generated & Grant Income	-1,351	-1,795	-1,840	-1,886	-1,933
Additional Income & Efficiency savings	-141				
Gross Budget	4,432	4,291	4,318	4,346	4,374
NPG	-3,249	-3,249	-3,249	-3,249	-3,249
Levy	-1,083	-1,083	-1,083	-1,083	-1,083
SLSP Support	-100				
Surplus / - Deficit	0	42	15	-13	-41

5 Year Budget Forecast with NPG reverting to 2020/21 level

£000's					
	2021/22	2022/23	2023/24	2024/25	2024/25
Baseline gross expenditure	5,884	6,016	6,086	6,158	6,232
Pay rise/Inflation etc	40	70	72	74	75
Local Generated & Grant Income	-1,351	-1,795	-1,840	-1,886	-1,933
Additional Income & Efficiency savings	-141				
Gross Budget	4,432	4,291	4,318	4,346	4,374
NPG	-3,249	-2,955	-2,955	-2,955	-2,955
Levy	-1,083	-985	-985	-985	-985
SLSP Support	-100				
Surplus / - Deficit	0	-352	-379	-407	-435

Summarised Revenue Budget 2020/21

Draft Budget	2021/22
	£000's
Baseline gross expenditure	5,884
Pay rise/Inflation etc	40
Additional Income & Efficiency savings	-141
Local Generated & Grant Income	-1,351
Gross Budget	4,432
NPG	3,249
Levy	1,083
SLSP Support	100
Surplus / - Deficit	0

The summarised revenue budget for 2021/22 is shown in the above table. The revenue budget was discussed in the December 2020 budget workshop and the full breakdown of the departmental budgets and service area budget are shown in Appendix 2.

Draft Capital Programme 2021/22		Funded by EMR	Other Grant Funding	Capital Receipts
PV 's In the Park	50,000		50,000	
Castell Henllys Wood Pellet Silo	25,000			25,000
Improvements to Withybush Depot	25,000			25,000
Castell Henllys Programme	86,000	86,000		
Carew Castle Enhancement & Interpretation	42,500	42,500		
Carew Castle Visitor Access	27,000	27,000		
Castell Henllys Open Sided Barn	15,000	15,000		
Charging Points & Infrastructure	848,000		848,000	
St Brides Walled Garden	3,500	3,500		
Resilience to Winter Storms	25,900	25,900		
Carew Causeway Repairs	80,000	80,000		
Fleet Upgrade	205,000		205,000	
Total	1,432,900	279,900	1,103,000	50,000

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. This is being funded as part of the Sustainable Landscapes Sustainable Places grant.
- Castell Henllys Wood Pellet Silo. This will allow for larger deliveries and ease the handling of wood pellets
- Improvements to Withybush Depot
- Castell Henllys Programme. 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:
- Carew Castle Enhancing Visitor and 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. It will allow access to as much of the Castle as possible and help increase visitor numbers.

- 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
- Castell Henllys Open side Barn. This will enhance the site management and safety through improving storage facilities away from public areas
- Charging Points and Infrastructure. It is anticipated grants will be available to extend the roll out of electric vehicle charge points which would improve the parks offering for sustainable travel in Pembrokeshire.
- St. Brides Walled Garden Enhancement
- Resilience to Winter Storms remediation project.
- Carew Castle Causeway. 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.
- Fleet upgrade. The Authority is gradually switching to electric vehicles to undertake it's work wherever possible

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 2019/20 together with the projected balances as at the end of the 2020/21. The General Reserves balance as at the end of the 2020/21 financial year is expected to be £1,008k and remain at this level until the end of 2021/22.

The Capital Receipts Reserve is used to fund further capital expenditure in 2020/21 and 2021/22 and is therefore expected to fall to £165k by the end of 2021/22.

The balances on the Earmarked Reserves are considered to be appropriate at the current time and by the end of 2021/22 earmarked reserves are expected to fall from the current balance of £4,018k to £2,798k.

Cash Reserves

£000's

Authority Reserves	Year end Position	£000's Movement 2020/21	Year end Position	£000's Movement 2021/22	Year end Position
	2019/20		2020/21		2021/22
General Reserve	1,008	-	1,008		1,008
Capital Receipts	370	-155	215	-50	165
TOTAL	1,378	-155	1,223	-50	1,173
Earmarked Reserves:					
Receipts In Advance	2,759	-858	1,901	-280	1,621
Authority Created Reserves	1,259	-82	1,177		1,177
Total	4,018	-940	3,078	-280	2,798

Conclusion

The 10% increase in the National Park Grant and its impact on the Levy means that the Authority's core funding has increased by £394k. While there is an indication that this increase will be reversed in subsequent years it however welcomed as it is unexpected. The increase will critically help compensate for the budgeted reduction in the Authority generated income streams, notably from its centres, as the Covid 19 crisis continues into the 2021/22 financial year.

It is anticipated that Covid-19 will continue to dominate public sector finances over the medium term and perhaps longer. There is the immediate combination of reduced tax revenues from the economic impact of restrictions, unrepresented financial support measures for citizens and businesses, and additional funding requirements for the delivery of public services, principally health and social care. The economy and consequent tax revenues will be at a much lower base and HM Treasury will need to put in place measures to address public sector borrowing, which over the pandemic is predicted to reach its highest level in peace time.

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 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 2021/22, subject to noting that the NPG/Levy estimate has yet to be confirmed.
- **NOTE** the financial forecasts for 2022/23 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



Parc Cenedlaethol
Arfordir Penfro
Pembrokeshire Coast
National Park

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		£5,776,423
•	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		£5,776,423
	LESS		
•	Section 72, Grant (NPG)	£3,249,433	
•	Income credited to the Revenue Account	£1,443,845	
•	other sums not covered above which are likely to be available in the year	-	£4,693,278
		-----	-----
	Levy requirement		<u>£1,083,145</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 £1,083,145 (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 2021/22.

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 2019/20 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	2020/21	2021/22
Capital Expenditure	391,100	693,000	1,034,160	1,432,900
FINANCING COSTS (interest receivable only)	- 31,100	- 57,000	-19,000	-19,000
Net Revenue Funding (NPG/Levy)	3,887,200	3,939,540	3,939,540	4,332,578
Ratio: Financing Costs/Net Revenue Funds	-0.80%	-1.44%	-0.48%*	-0.44%*

**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 2022.

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 2021/22 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
	2018/19	2019/20	2020/21	2021/22
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
	2018/19	2019/20	2020/21	2021/22
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 2021/22

The remainder of this report presents an Investment Strategy for 2021/22 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 2021/22 follows.

Recommendations

That Members:

- **ADOPT the Prudential Indicators as presented**
- **APPROVE the Investment Strategy & Treasury Management Policy Statement for 2021/22 (over).**

Background documents

- Welsh Government, draft budget proposals 2021/22
- 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
2021/22**



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 2021/22. Notwithstanding this, the Authority is obliged to set limits for external debt - and approved such limits, as follows, in setting the 2021/22 budget in February 2021:

Authorised Limit for External Debt	Actual	Actual	Estimate	Estimate
	2018/19	2019/20	2020/21	2021/21
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
	2018/19	2019/20	2020/21	2021/21
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 2021/22 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 £19,000.

- 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 2021/22 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 2021/22

Appendix 1
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

Appendix 2 2020/21 Departmental Budget Breakdown

	Draft Baseline Expend 2021/22	Draft Baseline Income 2021/22	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Other Adjusts	Draft net Budget 2021/22
Conservation of the Natural Environment	478,265	-39,000	2,642	-5,087	0	125	436,945
Cilrhedyn Woodland Centre	85,044	-39,000	155	-1,162	0	125	45,162
Invasive Species	54,114	0	0		0	0	54,114
Nature Conservation	333,393	0	2,487	-3,639	0	0	332,241
Marine Environment	5,714	0	0	-286	0	0	5,428
Conservation of the Cultural Heritage	117,341	0	804	-1,728	0	0	116,417
Conservation Areas & Historic Buildings	47,217	0	410	-190	0	0	47,437
CP10 - Archaeology, Culture & Heritage	70,123	0	394	-1,537	0	0	68,980
Development Control	499,588	-193,230	4,000	-4,323	0	0	306,036
Development Management (inc Mineral Plans)	499,588	-193,230	4,000	-4,323	0	0	306,036
Forward Planning & Communities	287,084	0	1,733	-203	0	-100	288,514
Development Planning	187,084	0	1,733	-203	0	-100	188,514
Sustainable Development Fund	100,000	0	0	0	0	0	100,000
Promoting Understanding	1,666,576	-477,250	8,890	-19,543	-2,172	-1,500	1,175,000
Tourism & Wellbeing Officer	45,190	0	410	-67	0	-100	45,433
Carew Castle	223,003	-82,186	1,238	-3,533	-1,655	-250	136,617
Carew Castle Tea Room	65,986	-28,323	0	-1,543	0	0	36,120
Castell Henllys	223,068	-44,030	1,546	-1,371	-92	-400	178,721
Oriel Y Parc, St David's	303,714	-59,320	1,804	-2,909	409	-250	243,448
Oriel Y Parc Cafe	0	-20,000	0	0	0	0	-20,000
Coast to Coast	50,341	-75,000	97	-2,012	-750	0	-27,324
Communications	226,417	0	1,462	-3,700	0	-125	224,054
SUP9 - Graphic Services	90,760	0	652	-807	0	0	90,605
Discovery	152,234	-5,254	1,391	-431	-53	-250	147,638
Activities & Events	3,667	-3,141	0	-171	-31	-25	298
Walkability Program	33,129	0	288	-191	0	-100	33,127
Pembs Outdoor Schools	36,541	0	0	0	0	0	36,541
West Wales Walking	150,542	-159,996	0	0	0	0	-9,454
Pathways Project	61,983	0	0	-2,807	0	0	59,176
Recreation & Park Management	436,670	-431,966	2,382	-8,462	-65,500	-500	-67,376
Sustainable Transport	81,276	0	0	-4,064	0	0	77,212
National Trail	48,680	-5,553	361	-564	0	0	42,923
Access Officer and Rights of Way	119,913	-7,318	776	-2,012	0	-500	110,859
Charging Car Parks	156,829	-406,087	991	-1,822	-65,500	0	-315,590
Paths & Pollinators Project	29,973	-13,008	255	0	0	0	17,219

	Draft Baseline Expend 2021/22	Draft Baseline Income 2021/22	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Other Adjusts	Draft net Budget 2021/22
	0	0	0	0	0	0	0
Rangers, Estates & Volunteers	1,224,983	-159,980	9,859	-10,965	-250	-250	1,063,397
Park Delivery Management	117,486	0	479	-333	-250	-250	117,133
Ranger Services	228,233	0	2,197	0	0	0	230,430
North Area	316,151	0	2,620	-3,499	0	0	315,272
West Area	178,975	0	1,712	-2,638	0	0	178,049
South Area	223,287	0	1,945	-2,427	0	0	222,805
Castlemartin Ranger	36,564	-28,914	284	-408	0	0	7,526
Tenby / Newport Ranger	17,230	0	172	0	0	0	17,402
Estates Management (incl. Surplus Properties)	107,057	-131,066	449	-1,661	0	0	-25,221
Democratic Representation & Management	639,754	-16,475	2,009	-5,738	0	-3,306	623,244
DRM2 - Chief Executive's Office	107,012	0	1,010	-119	0	-200	107,704
DRM1 - Corporate Activities & Management	73,410	0	0	-3,282	0	0	77,129
Democratic Representation	207,561	0	744	-2,044	0	-2,856	203,405
Future Landscapes Wales	100,000	0	0	0	0	0	100,000
National Parks Wales	24,766	-16,475	1	-192	0	-250	7,850
Corporate Governance	71,003	0	255	-102	0	0	71,156
PCNP Trust	6,000	0	0	0	0	0	6,000
National Designated Landscapes	50,000						50,000
Coronavirus							
Service Management & Support Services	1,328,393	-14,000	7,821	-18,063	0	1,744	1,305,896
<i>(Memorandum account, recharged to services)</i>							
SUP1 - Director of Park Direction & Planning	82,755	0	772	-139	0	-250	83,137
SUP3 - Director of Delivery & Discovery	137,142	0	1,354	-35	0	-250	138,211
SUP5 - Reception/Admin Services	93,341	0	694	-435	0	0	93,600
SUP2 - Performance Management	52,948	0	391	-58	0	-641	52,640
SUP6 - Legal Services	30,000	0	0	-1,500	0	0	28,500
SUP7 - Financial Services	166,387	0	1,148	-2,374	0	3,450	168,611
SUP8 - IT Services	276,706	0	1,316	-4,233	0	0	273,788
SUP16 - Parc Llanion Park	105,459	-14,000	217	-2,928	0	-65	88,683
SUP12 - General Building Maintenance	90,002	0	0	-4,500	0	0	85,502
Grants Officer	67,999	0	645	-79	0	-250	68,315
Projects Team	87,430	0	665	-97	0	-250	87,747
SUP14 - Pool Vehicles	15,564	0	0	-355	0	0	15,209
HR, Health & Safety, Staff Training	122,659	0	620	-1,329	0	0	121,950

	Draft Baseline Expend 2021/22	Draft Baseline Income 2021/22	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Other Adjusts	Draft net Budget 2021/22
Conservation of the Natural Environment	478,265	-39,000	2,642	-5,087	0	125	436,945
Conservation of the Historic & Cultural Env't	117,341	0	804	-1,728	0	0	116,417
Development Control	499,588	-193,230	4,000	-4,323	0	0	306,036
Forward Planning & Communities	287,084	0	1,733	-203	0	-100	288,514
Promoting Understanding & Enjoyment	1,666,576	-477,250	8,890	-19,543	-2,172	-1,500	1,175,000
Recreation & Park Management	436,670	-431,966	2,382	-8,462	-65,500	-500	-67,376
Rangers, Estates & Volunteers	1,224,983	-159,980	9,859	-10,965	-250	-250	1,063,397
Democratic Representation & Management	639,754	-16,475	2,009	-5,738	0	-3,306	623,244
Service Management & Support Services	1,328,393	-14,000	7,821	-18,063	0	1,744	1,305,896
Net Cost of Services	6,678,654	-1,331,902	40,140	-74,112	-67,922	-3,787	5,248,071
Depreciation Adjustment	0		0	0		-258,814	-258,814
Interest receivable and investment income		-19,000		0	0		-19,000
Net Operating Expenditure	6,678,654	-1,350,902	40,140	-74,112	-67,922	-262,601	4,970,257
<u>Appropriations</u>							
Pensions interest/expected returns	-912,000			0	0	0	-912,000
Pension Interest Cost on Liabilities	973,000			0	0	0	973,000
Remeasurement of Pension Liabilities	3,788,000			0	0	0	3,788,000
Pension Administration Expenses	14,000			0	0	0	14,000
Remeasurement of Pension Assets	-2,104,000			0	0	0	-2,104,000
Pension Curtailment Non Redistributed	49,000			0	0	0	49,000
Reversal Employer Pension Contrib - MIRS	418,905			0	0	0	418,905
Reversal of Retirement Benefits - MIRS	-693,000			0	0	0	-693,000
Remeasurement of Pension Liabilities	-3,788,000			0	0	0	-3,788,000
Remeasurement Pension Assets - MIRS	2,104,000			0	0	0	2,104,000
Transfers To EMR							
Transfers From EMR Invasive Species						-54,000	-54,000
Transfers From EMR Pathways						-59,176	-59,176
Transfers From EMR Future landscapes						-150,000	-150,000
Transfers From EMR Continuation of Services							0
Transfers From EMR LDP						-20,000	-20,000
Transfers From EMR Pollenators						-17,219	-17,219
Transfers From EMR Conservation Officer						-34,963	-34,963
Transfers From EMR walkability						-15,741	-15,741
Transfers From EMR Outdoor schools						-36,541	-36,541
Transfers From EMR							0
NET BUDGET	6,528,559	-1,350,902	40,140	-74,112	-67,922	-650,242	4,432,522
Financed by:							
National Park Grant	0				-295,403		-3,249,433
SLSP	0				-100,000	0	-100,000
Levy against Pembrokeshire County Council	0				-98,468		-1,083,145
OVERALL FUNDING POSITION	0					0	-4,432,578
Deficit / Surplus							-56