

**JOINT REPORT OF THE CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER**

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**SUBJECT: DRAFT BUDGET PLANNING 2016/17**

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# The Draft Revenue and Capital Budgets for 2016/17 and Forecasts 2017/18 to 2020/21

## Introduction

This Draft Revenue & Capital Budget for 2016/17 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 2016/17 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 2016/17 has taken place during a sustained challenging period for the public sector with the continued year on year reduction in the National Park Grant (NPG) and ensuing Levy on the Pembrokeshire County Council. The Authority approved Budget 2015/16 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 2016/17 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:

- Core NPA Grant and Levy reductions of 6% per annum for 2016/17
- Pay award increase of 1% per annum.
- Other cost increases of 2.5% per annum.
- Pension contribution rate increased from 13.6% to 14.2% from 2016/17.
- Removal of 3.4% rebate on NI employers contribution from 2016/17 (costing the Authority an additional circa £45k per annum from 2016/17 onwards)
- The budget will draw on earmarked reserves, previously approved by Members, to contribute to specific revenue or capital projects.
- The budgets have been prepared ensuring General Reserves remain around £400,000 (5% approximately of net revenue budget)

## Revenue Budgets 2015/16

The revenue budget for 2015/16 was approved in February 2015 as shown in Appendix 1. While certain strategic savings had been agreed with members it was intended that the 2015/16 budget be balanced by a range of potential additional savings. During the 2015/16 financial year savings and additional income have been identified and the current end of year forecast position for 2015/16 is a surplus of £96k; the details of which are shown in Appendix 2.

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

Following the publication of the UK Government's 2016/17 spending review plans on the 25<sup>th</sup> November the Welsh Government published its 2016/17 Draft Budget on the 8<sup>th</sup> of December. Very shortly after that Welsh Government notified the total National Park Grant and ensuing levies would fall by 5% to £12,700k for the 3 Authorities. However, specifically for the Authority, the N.P.G for 2015/16 included the funding of the Welsh Policy Officer who was seconded to Welsh Government in 2015/16. This funding has been withdrawn and accordingly this somewhat inflates the net reduction for 2016/17 to just over 6%. In cash terms the Authority core funding will fall by £253k to £3,939k

The table below shows the level of reduction in NPG and Levy since 2013/14 and the impact of the reductions for 2016/17. In 2014/15 the Authority absorbed a £349k, or 7.4%, reduction followed by a reduction of 4.12% in 2015/16 and forecast 6.04% for 2016/17. The total the N.P.A. Grant and Levy is therefore expected to fall by £782k from £4,721k for 2013/14 to £3,939k in 2016/17. In 2014/15 the Authority also lost the Welsh Government Capital grant of £117k and Planning Improvement Fund grant of £70k in 2013/14.

	£000's			
	NPG	Levy	Total	% Reduction
<b>2013 – 14 Base</b>	<b>3,541</b>	<b>1,180</b>	<b>4,721</b>	
Reduction	-246	-103	-349	
<b>2014 - 15</b>	<b>3,295</b>	<b>1,077</b>	<b>4,372</b>	<b>7.40%</b>
Revenue Reduction	-150	-30	-180	
<b>2015 - 16</b>	<b>3,145</b>	<b>1,047</b>	<b>4,192</b>	<b>4.12%</b>
Revenue Reduction	-191	-62	-253	
<b>2016 - 17</b>	<b>2,954</b>	<b>985</b>	<b>3,939</b>	<b>6.04%</b>

## Summarised Revenue Budget 2016/17

<b>2016 17 Budget Forecast</b>	
	<b>£000's</b>
<b>Revenue Budget</b>	
Baseline gross expenditure	5,698
Payrise/Inflation etc	110
Efficiencies/additional income	-1,527
Other Savings	-292
Sustainable Development Fund	-50
<b>Gross Budget</b>	<b>3,939</b>
NPG	-2,954
Levy	-985
<b>Surplus / - Deficit</b>	<b>Nil</b>

The summarised revenue budget for 2016/17 is shown in the above table. A full breakdown of the departmental budgets and service area budget are shown in Appendix 3. In addition to cut in core funding of £253k, the Government's withdrawal of the National Insurance rebate for contracted out pension schemes, (which includes the Local Government Pension Scheme), has added a further £46k to the Authority's budget pressures. During the numerous budget workshops held with members measures to address budget shortfall and identify the "Other Savings" of £292k were discussed in detail.

Appendix 3 also provides greater detail of where savings and additional income have been identified. Within Development Management there are savings in statutory advertising and travel costs which, together with additional planning fee income, totals some £58k. In Promoting Understanding and Enjoyment £126k has been found, significantly from savings associated with the redundancy of the Head of Discovery and additional income from the centres. The Authority has also budgeted for an increase in car parking fees of £15k. In Corporate Activities and Management there are savings of £25k from the Job Evaluation contingency and Staff Awards budgets. Further savings of £25k have been made via the appointment of a joint I.T. Manager with Brecon Beacon National Park Authority.

## Forecasts 2017/18 to 2020/21

In light of the continued reduction to the NPG and government target on public spending over the course of this parliament it is unlikely that there will be a reversal of this trend in the medium term. Indeed it is plausible that further reductions in the NPG are the most likely scenario over the medium term. However, while it is anticipated that there will be a reduction in the amount of funding from Welsh Government allocated to the 3 National Parks, the actual size of these reductions is unknown. The tables below show the impact of 2 scenarios of funding reductions over the 5 year period to 2020/21. Under a 5% scenario the overall reduction in NPG and Levy during the 5 year period will be £982k and £1,606k under a 10% scenario.

<b>NPG / Levy Reduction</b>					
<b>£000's</b>					
	<b>5% p.a. cut in NPG &amp; Levy</b>				
	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
NPG	2,954	2,807	2,666	2,533	2,406
Levy	985	936	889	845	802
<b>Total</b>	<b>3,939</b>	<b>3,743</b>	<b>3,555</b>	<b>3,378</b>	<b>3,208</b>
Annual Reduction	<b>253</b>	<b>194</b>	<b>188</b>	<b>177</b>	<b>170</b>
Cumulative Reduction	<b>253</b>	<b>447</b>	<b>635</b>	<b>812</b>	<b>982</b>

	<b>10% p.a. cut in NPG &amp; Levy</b>				
	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
NPG	2,954	2,659	2,393	2,154	1,938
Levy	985	887	798	718	646
<b>Total</b>	<b>3,939</b>	<b>3,546</b>	<b>3,191</b>	<b>2,872</b>	<b>2,584</b>
Annual Reduction	<b>253</b>	<b>391</b>	<b>355</b>	<b>319</b>	<b>288</b>
Cumulative Reduction	<b>253</b>	<b>644</b>	<b>999</b>	<b>1,318</b>	<b>1,606</b>

When the above reductions to core funding are factored into the Authority's budget model and other factors such as inflation and cost of living increases, together with anticipated increases in other grant and locally generated income, the forecast for the revenue budget for 2017/18 to 2020/21 is shown below:

<b>£000's</b>				
	<b>5% p.a. cut in NPG &amp; Levy</b>			
<b>Revenue Budget</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Baseline gross expenditure	5,673	5,732	5,791	5,850
Payrise/Inflation etc	59	59	59	59
Efficiencies/additional income	-1,625	-1,636	-1,653	-1,669
Other	-16	-11		
<b>Gross Budget</b>	<b>4,091</b>	<b>4,144</b>	<b>4,197</b>	<b>4,240</b>
NPG	-2,807	-2,666	-2,533	-2,406
Levy	-936	-889	-845	-802
<b>Surplus / - Deficit</b>	<b>-348</b>	<b>-589</b>	<b>-819</b>	<b>-1,032</b>

	<b>10% p.a. cut in NPG &amp; Levy</b>			
<b>Revenue Budget</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Baseline gross expenditure	5,673	5,732	5,791	5,850
Payrise/Inflation etc	59	59	59	59
Efficiencies/additional income	-1,625	-1,636	-1,653	-1,669
Other	-16	-11		
<b>Gross Budget</b>	<b>4,091</b>	<b>4,144</b>	<b>4,197</b>	<b>4,240</b>
NPG	-2,659	-2,393	-2,154	-1,938
Levy	-887	-798	-718	-646
<b>Surplus / - Deficit</b>	<b>-545</b>	<b>-953</b>	<b>-1,325</b>	<b>-1,656</b>

Accordingly, if left unchecked the Authority would run up a deficit budget of £1,032k by 2020/21 with a 5% cut and £1,656 with a 10% cut. Clearly even the lower of these two options represents significant challenges for the Authority to overcome if it is to balance its budget. The Authority practice of holding Budget workshops following NPA's meeting has proven very helpful in identifying areas for rationalisation and continuation of the workshops will be essential if it is to successfully manage the anticipated budgetary challenges ahead.

## Saving & Efficiencies to date

In the last 3 financial years the Authority will have lost over £782k or nearly 17% off the NPG and Levy. The Authority has countered this 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 costs structure is demonstrated in the table below and shows savings in all areas of expenditure. Notably employee costs have been a major source of budget saving in recent years and without it the Authority would have faced some significant difficulties. In the financial year 2014/15, 55% percentage of Authority's budget spent on employee cost compared to 58% in 2010/11.

REVENUE BUDGET	2014/15	2014/15	2010/11	2010/11
	£000	%	£000	%
Employees	3,835	55%	4,114	58%
Premises related	618	9%	907	13%
Transport & Travel	204	3%	299	4%
Supplies, Services and Grants	1,358	20%	1,489	21%
Transfers to Earmarked Reserves	743	11%	309	4%
Contribution to capital projects	143	2%		
Financing charges	1	0%	2	0%
Increase/ (decrease) in General Reserves	4	0%	24	0%
<b>TOTAL REVENUE COST</b>	<b>6,906</b>	100%	<b>7,144</b>	<b>100%</b>

The above table is also 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 125 (11.3%).

Yearly Average Full Time Equivalent				
2010/11	2011/12	2012/13	2013/14	2014/15
141	134	134	133	125



The Authority adopted a voluntary redundancy program and where appropriate to operational needs and subject to cost effectiveness a number of these has been granted.

In February 2015 the Auditor General for Wales published a report on the “Managing of early departures across Welsh public bodies. The report complimented the Authority in the manner in which it has managed the process of reducing staff numbers in an efficient and cost effective way; “Of the 47 public bodies that had operated a specific early departure scheme, 38 required a business case for all individual applications, four completed a business case for some but not all applicants and five – generally smaller bodies with few early departures – did not complete business cases. For example, North Wales Fire and Rescue Authority did not complete business cases and took the view that if the up-front cost of an early departure was affordable then it was approved to assist with other cost pressures. By contrast, Pembrokeshire Coast National Park Authority reported only agreeing requests that met their cost benefit process, based on both salary savings and departures that opened up opportunities for organisational / service changes”

The Authority’s ability to generate increased income to fund core activities has become a greater focus of attention. As noted in the table that follows the trend has been very positive with all sources of income improving.

The Authority has made significant capital outlays in recent years in its Information and Heritage centres, notably at Oriol Y Parc £3.8m, Carew Castle £634k and Castell Henllys £586k. These investments should therefore ensure continued income growth at least into the medium term. The Authority has also invested in a new and more sophisticated EPOS system which should help facilitate increased merchandise incomes.

The Authority set up two task and finish groups with members and officers to explore firstly managing the Authority’s car parks and secondly the provision of visitor information. The car park group reported back late in 2015 with a view to extending charging to current non charging car parks and increasing the rates which the Authority charge. The visitor information group is due to report back later in 2016

The Authority visitor and tourist publication, “Coast to Coast” has consistently generated income of circa £88k. Although subject to annually fluctuations the trend in planning fee income is positive. The Authority’s Estates Officer actively pursues income opportunities from assets which the Authority owns and income from filming and other licences being particularly lucrative

	2014/15	2013/14	2011/12	2010/11
<b>LOCALLY GENERATED INCOME</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Merchandise Sales and income from Information Centres	319	301	297	352
Car park charges and concessions income	404	353	390	309
Admissions fees and Activities & Events	200	182	185	172
Advertising income	88	87	88	88
Planning fees	173	192	144	135
Timber sales	79	109	126	
Other : rents, advertising	149	131	285	153
Income from investment properties	51	56	45	28
Investment income	10	16	19	11
<b>TOTAL LOCAL INCOME</b>	<b>1,473</b>	<b>1,427</b>	<b>1,579</b>	<b>1,248</b>

## Capital Budget

	<b>Draft Budget 2016/17</b>	<b>Funded by EMR</b>	<b>Funded by other Grants</b>	<b>Capital Receipts</b>
ICT – Equipment	10,000	10,000		
Carew Interpretation	4,000	4,000		
Castell Henllys Roundhouses	10,000	10,000		
Greening Park Initiatives	10,000	10,000		
Fleet Replacement	10,000			10,000
Car Par Integration	76,900	76,900		
Planning / Document Management	30,000	30,000		
<b>Total</b>	<b>150,900</b>	<b>140,900</b>	<b>-</b>	<b>10,000</b>

Details of the capital programme are:

- ICT – represents the usual cycle of IT equipment replacement.
- Carew Interpretation. The expenditure is in respect of completion of the Heritage Tourism Convergence Programme project with the additional work planned for the walled gardens.
- Round Houses. Following the significant capital expenditure in the last few years on the Origins project at Castell Henllys work will be undertaken to repair the fabric of two of the three round houses. The Authority is in the process of submitting a bid to Heritage Lottery Fund to obtain a grant to help fund this major project which has a total value of circa £275k. The expenditure in 2016 is to make temporary repairs to one roundhouse and dismantle another. The main expenditure on the replacement of the roundhouses is expected to be during the summers of 2017 and 2018.
- 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.
- Fleet Replacement. The Authority has sought to purchase reliable vehicles as they approach the end of their lease agreements. This has been a very cost effective way of funding the fleet with leasing costs reducing by £50k over the last few years. The Authority expects to purchase two vehicles in the year.
- Car Park Integration. Work is in progress with Pembrokeshire County Council to integrate some of our car parking function. This will require an initial capital outlay but this should be recouped from efficiency saving within an acceptable time frame.

- Electronic Planning / Document Management Systems. Following the implementation of the SWIFT system further outlay has been identified as a means of improving and producing a more efficient planning process and document management system.

## 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 near £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 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 2015/16 together the projected balances as at the end of the 2016/17. It also shows the figures for 2017/18 assuming a further 5% reduction in core funding. Accordingly the balance on the General Reserve of £356k as at end of 2017/18 is below the target for the Authority of £400k, although the impact of deficit for the year has mitigated by a transfer from the Earmarked Reserve created to cover reduction in NPG.

The Balances on the Earmarked Reserves are considered to be appropriate at the current time although unexpected changes in the financial position may require these reserves to be further reviewed.

## Cash Reserves

£000's

	Year end 2014/15	Movement 2015/16	Year end 2015/16	Movement 2016/17	Year end 2016/17	Movement 2017/18	Year end 2017/18
<b>General Reserves</b>	509	96	605		605	-249	356
<b>Capital Receipts</b>	247	21	268	-10	258	-10	248
<b>TOTAL</b>	<b>756</b>	<b>117</b>	<b>873</b>	<b>-10</b>	<b>863</b>	<b>-259</b>	<b>604</b>
<b>Earmarked Reserves:</b>							
Receipts In Advance	118	-118					
Asset Management	37	-10	27	-10	17	-10	7
Llanion Park	2	-2	0		0		0
Local Development Plan	220		220		220		220
Self-Insurance	30		30		30		30
Staff Restructuring	398	-80	318		318		318
I.T. Equipment	19	-6	13	-10	3		3
National Park Wales	35		35		35		35
Finance System	19	-19					
Planning System	100		100	-30	70		70
Car Par Integration	77		77	-77			
Invasive Species Eradication	15	-15					
Memorial Donations	2		2		2		2
Wellbeing	5	-5					
Round Houses	100		100	-10	90	-10	80
Castell Henllys Tractor	16	-16					
Sustainable Development Fund	100		100	-50	50		50
Machinery For Delivery	27	-27					
NPG Reduction	100		100		100	-100	
Car Park Resurfacing	100		100		100		100
<b>TOTAL</b>	<b>1,520</b>	<b>-298</b>	<b>1,222</b>	<b>-187</b>	<b>1,035</b>	<b>-120</b>	<b>915</b>
<b>TOTAL CASH RESERVES</b>	<b>2,276</b>	<b>-181</b>	<b>2,095</b>	<b>-24</b>	<b>1,898</b>	<b>-379</b>	<b>1,519</b>

## Conclusion

Although the Authority has made significant budget efficiencies in recent years, it continues to face the financial challenge to ensure it further reduces its underlying cost base and where possible increases revenue streams to match the significant reduction in the NPG and consequential cut to the levy. The healthy reserve position affords the Authority a cushion to address the acute funding issues. However as the Authority's core grant funding is likely to continue to fall, these reserves are finite and will be soon depleted if no corrective action is taken. It is anticipated that significant member engagement on budget management will be required. The financial situation will be managed by 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 2016/17, subject to noting that the NPG/Levy estimate has yet to be confirmed.**
- **NOTE the financial projections for 2017/18 to 2020/21.**

## 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:

<u>Levy on Pembrokeshire County Council</u>
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Parc Cenedlaethol  
Arfordir Penfro  
Pembrokeshire Coast  
National Park

The Authority must authorise the making of a levy of £984,578 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		£5,465,283
• 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		£5,465,283
LESS		
• Section 72, Grant (NPG)	£2,953,720	
• Income credited to the Revenue Account	£1,526,912	
• other sums not covered above which are likely to be available in the year	73	£4,480,705
<b>Levy requirement</b>		<b><u>£984,578</u></b>

Members are advised that the official levy requirement must be notified to Pembrokeshire County Council by 15<sup>th</sup> 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 £984,578 (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 2016/17.

## 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 2013/14 and 2014/15 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:

	<i>Actual</i>	<i>Actual</i>	<i>Estimate</i>	<i>Estimate</i>
	<i>2013/14</i>	<i>2014/15</i>	<i>2015/16</i>	<i>2016/17</i>
<b>Capital Expenditure</b>	<b>708,000</b>	<b>549,000</b>	<b>276,000</b>	<b>341,000</b>
FINANCING COSTS (interest receivable only)	- 16,000	- 10,000	- 10,000	- 15,000
Net Revenue Funding (NPG/Levy)	4,721,000	4,371,000	4,191,000	3,938,000
<b>Ratio: Financing Costs/Net Revenue Funds</b>	<b>-0.34%</b>	<b>-0.23%</b>	<b>-0.24%</b>	<b>-0.39%</b>

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 2017.

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 2016/17 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

<b>Authorised Limit for External Debt</b>	<b>Actual</b>	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
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:

<b>Operational Boundary for External Debt</b>	<b>Actual</b>	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
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 2016/17

The remainder of this report presents an Investment Strategy for 2016/17 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 2016/17 follows.*

### **Recommendations**

#### ***That Members:***

- **ADOPT the Prudential Indicators as presented**
- **APPROVE the Investment Strategy & Treasury Management Policy Statement for 2016/17 (over).**

### **Background documents**

- Welsh Government, draft budget proposals 2016/17
- Annual National Park Grant Bid
- The Local Government Act 2003
- The Local Authorities (Capital Finance & Accounting) (Wales) Regulations 2003
- 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.*

Pembrokeshire Coast National Park Authority

**INVESTMENT STRATEGY and  
TREASURY MANAGEMENT POLICY STATEMENT  
2016/17**



## 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

3.3 However, other than for short-term cash flow requirements, there are no plans to raise external debt during 2016/17. Notwithstanding this, the Authority is obliged to set limits for external debt - and approved such limits, as follows, in setting the 2016/17 budget in February 2016:

<b>Authorised Limit for External Debt</b>	<i>Actual</i>	<i>Actual</i>	<i>Estimate</i>	<i>Estimate</i>
	<i>2013/14</i>	<i>2014/15</i>	<i>2015/16</i>	<i>2016/17</i>
Borrowing	1,000,000	1,000,000	1,000,000	1,000,000
Other long term liabilities	0	0	0	0

<b>Operational Boundary for External Debt</b>	<i>Actual</i>	<i>Actual</i>	<i>Estimate</i>	<i>Estimate</i>
	<i>2013/14</i>	<i>2014/15</i>	<i>2015/16</i>	<i>2016/17</i>
Borrowing	250,000	250,000	250,000	250,000
Long term liabilities	0	0	0	0

3.4 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 2014/15 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, for a period not extending beyond the current financial year. 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 £5,000.

- 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 low level of cash available for investment, it was the Chief Financial Officer's recommendation in the 2016/17 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 the year-ends.*

## 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.*
- **TMP5 – 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 2016/17***



## Appendix 1

### Approved Revenue Budget 2015/16

Revenue Budget	2013/14	2014/15	2015/16	2016/17
<b>Baseline gross expenditure</b>	<b>6,199</b>	<b>6,243</b>	<b>5,921</b>	<b>5,901</b>
Payrise/Inflation etc	89	88	85	145
Efficiencies/additional income	-16	-12	-44	-15
Other	35	53	9	
Budget Tightening		-185		
Strategic Savings Agreed		-101	-78	
Other Strategic Savings			-109	
<b>Gross Budget</b>	<b>6,307</b>	<b>6,086</b>	<b>5,784</b>	<b>6,031</b>
<b><i>Other grants &amp; Local income</i></b>	<b>-1,582</b>	<b>-1,565</b>	<b>-1,513</b>	<b>-1,530</b>
<b>Net Budget</b>	<b>4,725</b>	<b>4,521</b>	<b>4,271</b>	<b>4,501</b>
<b>NPG/Levy</b>	<b>-3,540</b>	<b>-3,230</b>	<b>-3,161</b>	<b>-3,161</b>
<b>Levy</b>	<b>-1,180</b>	<b>-1,077</b>	<b>-1,054</b>	<b>-1,054</b>
National Park Wales Reserve			44	
SDF Funds		-100	-100	
Capital Grant		-117		
<b>Surplus / - Deficit</b>	<b>5</b>	<b>3</b>	<b>0</b>	<b>-286</b>

## Appendix 2

<b>2015/16 Budget Forecast</b>	<b>£000's</b>	<b>£000's</b>
Budget Surplus		Nil
<b>Movements:</b>		
Other (Non identified) Savings	-109	
Voluntary redundancy	18	
Additional Car Park Income	60	
Skills In Action Support Costs	14	
Dyfed Archaeological Trust	40	
National Trail Officer.	-44	
Estates Rental & Concession Income	20	
Salary Savings	78	
SLA BBNPA	-10	
Access Grant	8	
Car Park Enforcement	-13	
Archaeology	4	
NRW additional Budget	22	
National Parks Wales	10	
Centre Income	30	<b>128</b>
NPG / Levy		<b>-24</b>
Hypothecated allocation: Member Mentoring		-8
<b>Revised revenue forecast surplus</b>		<b>96</b>

## Appendix 3

### Departmental Budget Breakdown

	Draft Baseline Expend 2016/17	Draft Baseline Income 2016/17	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Draft net Budget 2016/17
<b>Conservation of the Natural Environment</b>	<b>490,090</b>	<b>-70,239</b>	<b>5,298</b>	<b>1,006</b>	<b>-15,184</b>	<b>410,971</b>
Cilrhedyn Woodland Centre	129,388	-68,000	726	280	-2,000	60,394
Nature Conservation	352,297	-2,239	4,572	642	-10,000	345,273
Marine Environment	8,405			84	-3,184	5,305
<b>Conservation of the Cultural Heritage</b>	<b>128,405</b>		<b>2,721</b>	<b>265</b>		<b>131,390</b>
Conservation Areas & Historic Buildings	57,271		1,176	20		58,468
CP10 - Archaeology, Culture & Heritage	71,133		1,545	245		72,922
<b>Development Control</b>	<b>705,795</b>	<b>-146,230</b>	<b>9,900</b>	<b>1,210</b>	<b>-57,750</b>	<b>512,925</b>
Development Management	705,795	-146,230	9,900	1,210	-57,750	512,925
<b>Strategic Planning</b>	<b>265,657</b>	<b>-500</b>	<b>5,164</b>	<b>121</b>	<b>-4,587</b>	<b>265,855</b>
Development Planning	260,620	-500	5,164	71	-4,587	260,768
Mineral Plan	5,036			50		5,087
<b>Sustainable Communities</b>	<b>235,465</b>	<b>-100,000</b>	<b>361</b>	<b>43</b>	<b>-2,400</b>	<b>133,469</b>
Sustainable Development Fund	200,000	-100,000				100,000
Sustainable Development Delivery	35,465		361	43	-2,400	33,469
<b>Promoting Understanding</b>	<b>1,742,529</b>	<b>-612,907</b>	<b>20,124</b>	<b>6,347</b>	<b>-131,776</b>	<b>1,024,318</b>
Head of Discovery	63,277		523	25	-48,000	15,825
Tourism & Wellbeing Officer	40,213		1,155	25	-1,300	40,092
Carew Castle	226,007	-150,906	1,840	1,288	-27,278	50,951
Castell Henllys	208,999	-131,999	2,611	1,350	-13,416	67,544
Central Information Services	20,493	-17,619	14	191	-176	2,903
Newport Information Centre	56,224	-22,937	458	165	-7,229	26,680
Oriel Y Parc, St David's	405,524	-155,321	3,083	1,384	-3,293	251,377
Oriel Y Parc Cafe	-10,000					-10,000
Tenby National Park Office	96,842	-21,500	1,134	311	-5,215	71,572
Coast to Coast	61,937	-80,750	395	496	-10,808	-28,729
Communications	253,777		3,530	655	-1,500	256,462
SUP9 - Graphic Services	107,217	-2,000	1,724	222	-5,781	101,381
Discovery	167,074	-5,049	2,919	130	-5,700	159,374
Activities & Events	13,912	-7,827		66	-2,078	4,073
Flexible Programme	31,033	-17,000	737	41		14,812
<b>Recreation &amp; Park Management</b>	<b>717,218</b>	<b>-528,146</b>	<b>4,916</b>	<b>3,064</b>	<b>-18,000</b>	<b>179,051</b>
Sustainable Transport	84,694		4	843	-3,000	82,540
National Trail	231,061	-172,389	937	468	-500	59,577
Access Officer and Rights of Way	120,583	-1,670	2,070	356		121,339
Technical Officer	111,500		1,155	648		113,303
Local Community & Match Funds	3,269					3,269
Charging Car Parks	166,111	-354,087	749	749	-14,500	-200,978

	Draft Baseline Expend 2016/17	Draft Baseline Income 2016/17	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Draft net Budget 2016/17
<b>Rangers, Estates &amp; Volunteers</b>	<b>1,183,861</b>	<b>-105,090</b>	<b>24,539</b>	<b>-2,763</b>		<b>1,100,547</b>
Head of Park Delivery	142,901		2,230	59		145,190
Ranger Services	226,749		5,074			231,823
North Area	293,058		5,837	670		299,565
West Area	179,581		4,103	616		184,300
South Area	188,232		4,169	405		192,806
Castlemartin Ranger	37,287	-23,810	1,212	67		14,756
Estates Management	116,053	-81,280	1,914	-4,580		32,107
<b>Democratic Representation &amp; Manager</b>	<b>636,293</b>	<b>-34,500</b>	<b>6,973</b>	<b>1,622</b>	<b>-29,500</b>	<b>580,888</b>
DRM2 - Chief Executive's Office	125,991		3,323	46	-1,500	127,861
DRM1 - Corporate Activities & Management	157,915			371	-27,000	131,286
Democratic Representation	228,453		2,037	1,169	-1,000	230,659
National Parks Wales	45,878	-34,500	1,156	17		12,551
Corporate Governance	78,056		457	19		78,532
<b>Service Management &amp; Support Services</b>	<b>1,097,024</b>	<b>-14,300</b>	<b>15,110</b>	<b>3,699</b>	<b>-33,629</b>	<b>1,067,904</b>
SUP1 - Director of Park Direction & Planning	67,709		2,007	33	-800	68,950
SUP3 - Director of Delivery & Discovery	93,055		3,121	7		96,183
SUP5 - Reception/Admin Services	80,170	-300	934	81	-500	80,386
SUP2 - Performance Management	45,177		863	12	-329	45,723
SUP6 - Legal Services	45,645			456	-6,000	40,101
SUP7 - Financial Services	150,007		2,538	444		152,990
SUP8 - IT Services	247,626		2,422	742	-25,000	225,790
SUP16 - Parc Llanion Park	109,065	-14,000	558	621	-1,500	94,744
SUP12 - General Building Maintenance	92,240			922		93,163
Projects Team	41,528		1,155	18	500	43,201
SUP14 - Pool Vehicles	15,322			153		15,475
Personnel, Health & Safety, Staff Training	109,479		1,512	207		111,199

<b>Budget Service Area</b>	<b>Draft Baseline Expend 2016/17</b>	<b>Draft Baseline Income 2016/17</b>	<b>Payrise, Inflation Costs</b>	<b>Inflation Other Costs</b>	<b>Efficiency Savings &amp; Increased Income</b>	<b>Draft net Budget 2016/17</b>
Conservation of the Natural Environment	490,090	-70,239	5,298	1,006	-15,184	410,971
Conservation of the Historic & Cultural Env't	128,405		2,721	265		131,390
Development Control	705,795	-146,230	9,900	1,210	-57,750	512,925
Strategic Planning	265,657	-500	5,164	121	-4,587	265,855
Sustainable Communities	135,465		361	43	-2,400	133,469
Promoting Understanding & Enjoyment	1,742,529	-612,907	20,124	6,347	-131,776	1,024,318
Recreation & Park Management	717,218	-528,146	4,916	3,064	-18,000	179,051
Rangers, Estates & Volunteers	1,183,861	-105,090	24,539	-2,763		1,100,547
Democratic Representation & Management	636,293	-34,500	6,973	1,622	-29,500	580,888
Service Management & Support Services	1,097,024	-14,300	15,110	3,699	-33,629	1,067,904
Support Services Recharges	-993,299					-993,299
<b>Net Cost of Services</b>	<b>6,109,037</b>	<b>-1,511,912</b>	<b>95,106</b>	<b>14,614</b>	<b>-292,826</b>	<b>4,414,019</b>
Depreciation Adjustment	-261,964					-261,964
Interest receivable and investment income		-15000				-15000
<b>Net Operating Expenditure</b>	<b>5,847,073</b>	<b>-1,526,912</b>	<b>95,106</b>	<b>14,614</b>	<b>-292,826</b>	<b>4,137,055</b>
<b>Appropriations</b>						
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	420,316					420,316
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 SDF	-50,000					-50,000
<b>NET BUDGET</b>	<b>5,698,389</b>	<b>-1,526,912</b>	<b>95,106</b>	<b>14,614</b>	<b>-292,826</b>	<b>3,938,371</b>
<b>Financed by:</b>						
National Park Grant	-3,143,286					-2,953,720
Levy against Pembrokeshire County Council	-1,047,767					-984,578
<b>OVERALL FUNDING POSITION</b>	<b>-4,191,053</b>					<b>-3,938,298</b>
<b>Deficit / Surplus</b>						<b>73</b>