

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

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**SUBJECT: DRAFT BUDGET PLANNING 2017/18**

**Contents:**

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# The Draft Revenue and Capital Budgets for 2017/18 and Forecasts 2018/19 to 2021/22

## Introduction

This Draft Revenue & Capital Budget for 2017/18 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 2017/18 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 2017/18 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 2016/17 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 2017/18 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:

- There will be no increase or decrease in the Core NPA Grant and Levy from 2016/17.
- Pay award increase of 1% per annum.
- Rates increases of 10%.
- Other cost increases of 2.5% per annum.
- Pension contribution rate remains at 14.2% from 2016/17.
- NI employers contribution remains as they were in 2016/17 (In 2016/17 the removal of 3.4% rebate resulted in an additional circa £45k per annum).
- 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 at least £400,000.

## Revenue Budget 2016/17

The revenue budget for 2016/17 was approved in February 2016 as shown in Appendix 1. During the 2016/17 financial year savings and additional income have been identified and the current end of year forecast position for 2016/17 is a surplus of £83k; the details of which are shown in Appendix 2.

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

The Welsh Government published its Draft Budget 2017-18 in October 2016 and on 30 November 2016 the Authority received a draft indication of budget from Welsh Government. This advised that the N.P.G. for 2017/18 would remain unchanged with the same level of funding as it was for the 2016/17 financial year. The Welsh Government is expected to approve the 2017/18 budget in January 2017. If as is suggested the N.P.G. remains flat lined then this will be a welcome change of successive year on year reductions in core funding between 2013/14 to 2016/17 which is demonstrated in the table below:

	£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	-150	-30	-180	
<b>2015 - 16</b>	<b>3,145</b>	<b>1,047</b>	<b>4,192</b>	<b>4.12%</b>
Reduction	-191	-62	-253	
<b>2016 - 17</b>	<b>2,954</b>	<b>985</b>	<b>3,939</b>	<b>6.04%</b>
<b>2017 - 18</b>	<b>2,954</b>	<b>985</b>	<b>3,939</b>	

	2013/14	2016/17	
	£000's		% Inc /Dec -
NPG	3,555	2,954	
Levy	1,185	985	
Total	<b>4,740</b>	<b>3,939</b>	
Less SDF		100	
<b>Cash Reduction</b>	<b>4,740</b>	<b>3,839</b>	<b>-18.9</b>
<b>Consumer Prices Index</b>			
	2013/14	2016/17	
	100	105.6	<b>5.6</b>
<b>Total Reduction</b>			<b>-24.5</b>

In 2014/15 the Authority absorbed a £349k, or 7.4%, reduction followed by a reduction of 4.12% in 2015/16 and a 6.04% for 2016/17. The total the N.P.A. Grant and Levy therefore fell by £782k from £4,721k for 2013/14 to £3,939k in 2016/17. When the consumer prices index is applied the overall reduction in real terms equates to 24.5% for the period from 2013/14 to 2016/17.

# 1 Summarised Revenue Budget 2017/18

<b>2017 18 Budget Forecast</b>	
	<b>£000's</b>
Baseline gross expenditure	5,513
Payrise/Inflation etc	61
Local Generated & Grant Income	-1,583
Other Adjustments	100
Gross Budget	4,091
NPG	2,954
Levy	985
Transfer from Earmarked Reserves	152
Surplus / - Deficit	0

The summarised revenue budget for 2017/18 is shown in the above table. A full breakdown of the departmental budgets and service area budget are shown in Appendix 3. Appendix 3 provides greater detail of where savings and additional income have been identified.

A comparison between the 2016/17 and 2017/18 revenue budgets highlights the following changes:

- Within Conservation of the Historic & Cultural Environment Service there are savings resulting from the reorganisation of the Conservation of the Historic & Cultural Environment Archaeology department.
- The Forward Planning and Communities Service records the expenditure on the Sustainable Development Fund Program (SDF). The Authority has held an earmarked reserve for SDF expenditure for a number of years. This reserve has periodically been called upon to supplement in year expenditure but it is now considered expedient to further draw on this reserve and, for 2017/18 only, to add £100k to the SDF program.
- The income streams at the Heritage & Information centres are subject to yearly variation and trends. Accordingly in the Promoting Understanding Service the budgets for Oriell y Parc, Castell Henllys and Carew Castle have been amended to reflect current income patterns. Also within this service a budget has been put in place to fund a new post to review and develop income generation opportunities for the Authority. The costs associated with the post will be funded from the restructuring earmarked reserve.

- The Ranger, Estates and Volunteer Services records amongst other activities the income from car parks and the 2017/18 budget now mirrors income level being achieved.
- The Democratic Representation and Management Service costs have increased to cover the cost of trialling live streaming of certain National Park Authority Meetings and secondly to fund the range of activities to be put in place to offset the closure of Tenby Information Centre.
- Service Management & Support Service shows increases in the projected costs due to short term changes in staffing arrangements in 2016/17 and additional costs of software licences and postage costs.

## Sensitivity Analysis and Forecasts 2018/19 to 2020/21

While the reprieve in N.P.G. funding decreases for 2017/18 is most welcomed the government target on public spending over the course of this parliament means it is likely that there will be further reductions in the N.P.G. in the medium term. 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 4 year period to 2021/22. Under a 5% scenario the overall reduction in NPG and Levy during the 4 year period will be £892k and £1,613k under a 10% scenario.

<b>NPG / Levy Reduction</b>				
<b>£000's</b>				
<b>5% p.a. cut in NPG &amp; Levy</b>				
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
NPG	2,666	2,532	2,406	2,285
Levy	889	844	802	762
<b>Total</b>	<b>3,555</b>	<b>3,376</b>	<b>3,208</b>	<b>3,047</b>
Annual Reduction	187	179	168	161
<b>Cumulative Reduction</b>	<b>384</b>	<b>563</b>	<b>731</b>	<b>892</b>

<b>10% p.a. cut in NPG &amp; Levy</b>				
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
NPG	2,392	2,153	1,938	1,744
Levy	798	718	646	582
<b>Total</b>	<b>3,190</b>	<b>2,871</b>	<b>2,584</b>	<b>2,326</b>
Annual Reduction	354	319	287	258
<b>Cumulative Reduction</b>	<b>749</b>	<b>1,068</b>	<b>1,355</b>	<b>1,613</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, anticipated increases in other grant and locally generated income, the forecast for the revenue budget for 2017/18 to 2021/22 is shown below:

<b>£000's</b>				
	<b>5% p.a. cut in NPG &amp; Levy</b>			
<b>Revenue Budget</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Baseline gross expenditure	5,574	5,628	5,694	5,761
Payrise/Inflation etc	64	66	67	67
Local Generated & Grant Income	-1,639	-1,648	-1,665	-1,665
Other Savings				
<b>Gross Budget</b>	<b>3,999</b>	<b>4,046</b>	<b>4,096</b>	<b>4,163</b>
NPG	2,666	2,532	2,406	2,285
Levy	889	844	802	762
Transfer from Earmarked Reserves	53			
<b>Surplus / - Deficit</b>	<b>-391</b>	<b>-670</b>	<b>-888</b>	<b>-1,116</b>

	<b>10% p.a. cut in NPG &amp; Levy</b>			
<b>Revenue Budget</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Baseline gross expenditure	5,574	5,628	5,694	5,761
Payrise/Inflation etc	64	66	67	67
Local Generated & Grant Income	-1,639	-1,648	-1,665	-1,665
Other Savings	0	0	0	0
<b>Gross Budget</b>	<b>3,999</b>	<b>4,046</b>	<b>4,096</b>	<b>4,163</b>
NPG	2,392	2,153	1,938	1,744
Levy	798	718	646	582
Transfer from Earmarked Reserves	53			
<b>Surplus / - Deficit</b>	<b>-756</b>	<b>-1,175</b>	<b>-1,512</b>	<b>-1,837</b>

Accordingly, if left unchecked the Authority would run up a deficit budget of £1,116k by 2021/22 with a 5% cut and £1,837k 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's practice of holding Budget workshops following NPA's meetings 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.



## **Savings & Efficiencies to date**

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

The Authority's actual costs structure is demonstrated in the table below, which is taken from the published set of statements of accounts, 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 2015/16, £3,653k was spent on employee cost compared to £4,114 in 2010/11, a reduction of £461k or 11.2%. This reduction also includes employees additional cost pressures of pay awards 3.2%, N.I. removal of contracted out rebate 2.5% and employer pension contribution increase of 1%.

<b>REVENUE BUDGET</b>	<b>2015/16 £000</b>	<b>2015/16 %</b>	<b>2010/11 £000</b>	<b>2010/11 %</b>
Employees	3,653	56%	4,114	58%
Premises related	640	10%	907	13%
Transport & Travel	193	3%	299	4%
Supplies, Services and Grants	1,210	18%	1,489	21%
Transfers to Earmarked Reserves	518	8%	309	4%
Contribution to capital projects	145	2%		
Financing charges	1	0%	2	0%
Increase/ (decrease) in General Reserves	192	3%	24	0%
<b>TOTAL REVENUE COST</b>	<b>6,552</b>	<b>100%</b>	<b>7,144</b>	<b>100%</b>

The above table is also validated by the falling establishment figures:

Yearly Average Full Time Equivalent					
2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
141	134	134	133	125	123

During the period the average number of staff, measured in terms of "Full Time Equivalents" has also reduced from 141 to 123 (12.38%) 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.

The reduction in N.P.G. funding has meant the Authority's ability to generate increased income to fund core activities has become a greater focus of attention. As noted in the table that follows the trend has been very positive with all sources of income

improving. The total locally generated income has increased from £1,248k in 2010/11 to £1,504k in 2015/16, a 21% increase. Significant increases have come from Admission fees, Car Parking charges, Planning fees, Investment Property incomes. Merchandise sales for 2010/11 included Oriel y Parc café sales of £82k, so excluding these, sales are actually up £42k, (16%), during the period.

<b>LOCALLY GENERATED INCOME</b>	<b>2015/16</b>	<b>2014/15</b>	<b>2013/14</b>	<b>2011/12</b>	<b>2010/11</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Merchandise Sales and income from Information Centres	312	319	301	297	352
Car park charges and concessions income	446	404	353	390	309
Admissions fees and Activities & Events	249	200	182	185	172
Advertising income	88	88	87	88	88
Planning fees	168	173	192	144	135
Timber sales	31	79	109	126	
Other : rents, advertising	136	149	131	285	153
Income from investment properties	55	51	56	45	28
Investment income	19	10	16	19	11
<b>TOTAL LOCAL INCOME</b>	<b>1,504</b>	<b>1,473</b>	<b>1,427</b>	<b>1,579</b>	<b>1,248</b>

In 2016 the Authority set up a Task and Finish Group to explore potential changes to the provision of information to visitors, including the future roles of Tourist Information Centres and Visitor Centres. It was felt that a new approach to the provision of visitor services by the Authority was needed to meet the present and future challenges facing the local tourism industry as well as the needs of residents in Pembrokeshire. The view of the Task and Finish Group was that the Authority needed to focus on areas of work where it adds the most value through its expertise in conservation and interpretation. As a result, the three larger centres (e.g. Oriel y Parc, Carew Castle and Castell Henllys) were seen as sites where the visitor 'offer' is distinctly improved through PCNPA's direct involvement. However, the more generalised provision of tourist information, currently in operation at Newport and Tenby, could be delivered in different ways without the need for PCNPA taking a direct lead role.

The Authority subsequently launched a formal public consultation on proposed changes to visitor services in Newport and Tenby. In addition, public meetings were held in both Newport and Tenby in conjunction with a number of both formal and informal meetings with stakeholder groups regarding both the impacts of any potential changes and the opportunities to deliver services differently. In December 2016 the Authority agreed to the closure of Tenby TIC and to defer a decision on Newport TIC until a later date. The savings from the closure has provided funds for the delivery of information in alternative initiatives such as; Parkwise, Naturally Connected, Seasonal

Pop-Up Events, Tourism Ambassador Scheme, Interpretive Materials, Haverfordwest Library and the PCNPA Web site.

During 2016 the Authority agreed to work with a partnership of Coed Cymru and Tir Coed to find a new way to use the centre at Cilrhedyn and to reduce the costs of operation for the Authority. Progress has been made in obtaining grants but the plans for funding the centre itself depend on a grant application to the Coastal Communities Fund. The bid has passed the first stage of the assessment process but the second stage will not be completed until the end of March 2017.

In 2016 the Authority's Support Services Review Committee reviewed the operation and management of the authority's car parking sites. Specifically the committee looked at pre-existing inconsistencies within the pricing structure of parking fees and how to best re-structure our car park operations in pursuit of an improved service and pricing structure for both visitors to the area and local residents.

## Capital Programme 2017/18

	<b>Draft Budget 2017/18</b>	<b>Funded by EMR</b>	<b>Funded by other Grants</b>	<b>General Reserve</b>	<b>Capital Receipts</b>
ICT – Equipment	10,000	10,000			
Carew Interpretation / Café/Path	30,000			30,000	
Castell Henllys Roundhouses	30,000	30,000			
Centre Refurbishment	20,000			20,000	
Greening Park Initiatives	5,000			5,000	
Fleet Replacement	10,000			10,000	
Planning / Document Management	25,000	25,000			
Access Capital:					
Saundersfoot Car Park	195,000	100,000	93,000		2,000
Broad Haven Car Park	100,000				100,000
<b>Total</b>	<b>425,000</b>	<b>165,000</b>	<b>93,000</b>	<b>65,000</b>	<b>102,000</b>

Details of the capital programme are:

- ICT – represents the usual cycle of IT equipment replacement.
- Carew Interpretation/ Café/ Path. The expenditure is in respect of completion of the Heritage Tourism Convergence Programme project with the additional work planned for the walled gardens, the pathway from the Walled Garden to the Castle and Phase 1 of the Café development.
- 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, specifically to rebuild the Cooks House & dismantle Earthwatch
- Centre Refurbishment. This will cover the internal reconfiguring of some of internal spaces of the centres to allow them to be more suited for alternative uses.
- 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.

- Access Capital. The Authority was awarded an Access Capital Grant in 2016/17 of £133k to help fund the repairs at three of its car parks. Work on Little Haven Car Park is scheduled for completion in the 2016/17 financial year with the expenditure represents the balance of work at Saunderfoot and Broad Haven Car Parks.

## 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 2016/17 together with the projected balances as at the end of the 2017/18. The General Reserves are expected to rise in 2016/17 to £793k and then fall, largely due to funding some of the capital program, to £728k by the end of 2017/18. Similarly, and for the same reason, the Capital Receipts Reserve is expected to fall to £182k by the end of 2017/18. 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 Position	Movement	Year end Position	Movement	Year end Position
	2015/16	2016/17	2016/17	2017/18	2017/18
<b>General Reserves</b>	702	91	793	-65	728
<b>Capital Receipts</b>	281	3	284	-102	182
<b>TOTAL</b>	<b>983</b>	<b>94</b>	<b>1,077</b>	<b>-167</b>	<b>910</b>
<b>Earmarked Reserves:</b>					
Receipts In Advance	171		171		171
Asset Management	37	-37			
Llanion Park	2	-2			
Planning (Local Development Plan)	209	-16	193		193
Self-Insurance	30		30		30
Staff Restructuring	420	-40	380	-52	328
I.T.	19	-9	10	-10	
National Park Wales	90		90		90
Planning System	100	-40	60	-25	35
Car Par Redevelopment	77		77		77
Invasive Species Eradication Program	10	-10			
Memorial Donations	3		3		3
Round Houses	100	-10	90	-30	60
SDF	200	-72	128		128
Machinery For Delivery	10	-10			
Biodiversity	11	-11			
NPG Reduction	100		100		100
Car Park Resurfacing	100		100	-100	
Planning Enforcement	100		100		100
Stitch in Time		25	25		25
The Pathways project		35	35		35
Skill in Action		15	15		15
<b>TOTAL</b>	<b>1,789</b>	<b>-182</b>	<b>1,607</b>	<b>-217</b>	<b>1,390</b>
<b>TOTAL</b>	<b>2,772</b>	<b>-88</b>	<b>2,684</b>	<b>-384</b>	<b>2,300</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. The respite in the year on year reduction in core funding for 2017/18 is welcomed, but core funding is likely to continue to fall in the life time of this Parliament. 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 2017/18, subject to noting that the NPG/Levy estimate has yet to be confirmed.**
- **NOTE the financial projections for 2018/19 to 2021/22.**



## Levy on Pembrokeshire County Council

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

### Levy on Pembrokeshire County Council



The Authority must authorise the making of a levy of £984,885 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		£5,522,249
• 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		£5,522,249
LESS		
• Section 72, Grant (NPG)	£2,954,655	
• Income credited to the Revenue Account	£1,582,772	
• other sums not covered above which are likely to be available in the year	-63	£4,537,364
<b>Levy requirement</b>		<b><u>£984,885</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 £984,885 (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 2017/18.**

## **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 2014/15 and 2015/16 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:

	<b>Actual</b>	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
<b>Capital Expenditure</b>	<b>549,000</b>	<b>147,000</b>	<b>341,000</b>	<b>425,000</b>
FINANCING COSTS (interest receivable only)	- 10,000	- 19,000	- 15,000	- 15,000
Net Revenue Funding (NPG/Levy)	4,371,000	4,215,000	3,940,000	3,940,000
<b>Ratio: Financing Costs/Net Revenue Funds</b>	<b>-0.23%</b>	<b>-0.45%</b>	<b>-0.38%</b>	<b>-0.38%</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 2018.

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 2017/18 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>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</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>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</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 2017/18

The remainder of this report presents an Investment Strategy for 2017/18 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 2017/18 follows.*

### **Recommendations**

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

- **ADOPT the Prudential Indicators as presented**
- **APPROVE the Investment Strategy & Treasury Management Policy Statement for 2017/18 (over).**

### **Background documents**

- Welsh Government, draft budget proposals 2017/18
- 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.*

**INVESTMENT STRATEGY and  
TREASURY MANAGEMENT POLICY STATEMENT  
2017/18**



**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 2017/18. Notwithstanding this, the Authority is obliged to set limits for external debt - and approved such limits, as follows, in setting the 2017/18 budget in February 2017:

<b>Authorised Limit for External Debt</b>	<i>Actual</i>	<i>Actual</i>	<i>Estimate</i>	<i>Estimate</i>
	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
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>
	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
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.*
- **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 2017/18***

## Appendix 1

### 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>



## Appendix 2

<b>2016/17 Budget Forecast</b>	<b>£000's</b>	<b>£000's</b>
Budget Surplus		Nil
<b>Movements:</b>		
Staff Savings	106	
Contract Hire	12	
National Trail	-10	
Other	-5	103
<b>Additional Income</b>		
Estates Income	10	
Additional Car Park Income	50	
Centre Sales	-5	
Admissions	20	75
<b>Earmarked Reserves</b>		
Stitch in Time	-25	
The Pathways project	-35	
Skills in Action	-15	-75
Contribution to Capital Expenditure	-20	-20
<b>Revised revenue forecast surplus</b>		<b>83</b>

## Appendix 3

### Departmental Budget Breakdown

	Draft Baseline Expend 2017/18	Draft Baseline Income 2017/18	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Other Adjusts	Draft net Budget 2017/18
<b>Conservation of the Natural Environment</b>	<b>484,898</b>	<b>-72,262</b>	<b>2,357</b>	<b>1,752</b>		<b>-486</b>	<b>416,259</b>
Cilrhedyn Woodland Centre	130,956	-70,000	384	1,053		-486	61,907
Nature Conservation	348,637	-2,262	1,974	645			348,994
Marine Environment	5,305			53			5,358
<b>Conservation of the Cultural Heritage</b>	<b>106,963</b>		<b>770</b>	<b>286</b>			<b>108,020</b>
Invasive Species							
Conservation Areas & Historic Buildings	58,404		389	21			58,814
CP10 - Archaeology, Culture & Heritage	48,560		381	266			49,206
<b>Development Control</b>	<b>693,529</b>	<b>-178,230</b>	<b>3,629</b>	<b>1,016</b>			<b>519,944</b>
Development Management (inc Mineral Plans)	693,529	-178,230	3,629	1,016			519,944
<b>Forward Planning &amp; Communities</b>	<b>394,342</b>		<b>1,945</b>	<b>55</b>		<b>100,000</b>	<b>496,342</b>
Development Planning	260,859		1,776	35			262,671
Sustainable Development Fund	100,000					100,000	200,000
Sustainable Development Delivery	33,483		168	20			33,671
<b>Promoting Understanding</b>	<b>1,570,097</b>	<b>-613,515</b>	<b>7,688</b>	<b>6,853</b>	<b>-19,528</b>	<b>56,981</b>	<b>1,008,577</b>
Discovery Management						52,066	52,066
Tourism & Wellbeing Officer	41,521		389	12			41,922
Carew Castle	230,679	-179,684	907	383	-16,830	3,000	38,455
Castell Henllys	208,355	-135,415	1,034	1,130	3,000	814	78,918
Central Information Services							
Newport Information Centre	61,371	-28,166	236	212	-1,207	52	32,497
Oriel Y Parc, St David's	408,633	-156,814	1,642	2,955	7,454		263,871
Oriel Y Parc Cafe	-10,000				-11,000		-21,000
Tenby National Park Office	7,499			721		500	8,721
Coast to Coast	59,581	-86,558	117	451	-866	550	-26,724
Communications	246,164		1,150	646		-1	247,960
SUP9 - Graphic Services	103,415	-2,000	615	166			102,196
Discovery	169,123	-50	1,354	88	-1		170,513
Activities & Events	11,978	-7,827		46	-78		4,120
Flexible Programme	31,777	-17,000	244	42			15,063
<b>Recreation &amp; Park Management</b>	<b>717,383</b>	<b>-540,976</b>	<b>2,208</b>	<b>6,070</b>	<b>-27,000</b>	<b>-392</b>	<b>157,294</b>
Sustainable Transport	82,540		4	821	-5,000		78,366
National Trail	231,983	-172,389	329	468			60,390
Access Officer and Rights of Way	122,449		723	359			123,531
Technical Officer	109,533		389	617			110,539
Local Community & Match Funds	3,269						3,269
Charging Car Parks	167,609	-368,587	764	3,805	-22,000	-392	-218,801

	Draft Baseline Expend 2017/18	Draft Baseline Income 2017/18	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Other Adjusts	Draft net Budget 2017/18
<b>Rangers, Estates &amp; Volunteers</b>	<b>1,181,060</b>	<b>-114,290</b>	<b>8,452</b>	<b>2,790</b>	<b>-9,150</b>	<b>-6,568</b>	<b>1,062,293</b>
Park Delivery Management	116,156		478	60		210	116,904
Ranger Services	228,962		1,955			2,250	233,167
North Area	309,505		2,251	724			312,479
West Area	176,825		1,552	774			179,150
South Area	188,800		1,535	369			190,704
Castlemartin Ranger	38,626	-23,810	255	67	-4,150		10,988
Estates Management (incl. Surplus Properties)	122,187	-90,480	427	795	-5,000	-9,028	18,901
<b>Democratic Representation &amp; Management</b>	<b>647,717</b>	<b>-34,500</b>	<b>2,308</b>	<b>1,594</b>	<b>-500</b>	<b>14,850</b>	<b>631,468</b>
DRM2 - Chief Executive's Office	127,689		978	32	-500		128,199
DRM1 - Corporate Activities & Management	163,786			355		11,100	175,241
Democratic Representation	230,659		702	1,171		3,750	236,282
National Parks Wales	47,051	-34,500	390	18			12,958
Corporate Governance	78,532		238	19			78,789
<b>Service Management &amp; Support Services</b>	<b>1,101,886</b>	<b>-14,000</b>	<b>6,202</b>	<b>5,346</b>	<b>-12,000</b>	<b>4,500</b>	<b>1,091,933</b>
<i>(Memorandum account, recharged to services)</i>							
SUP1 - Director of Park Direction & Planning	80,343		749	26			81,118
SUP3 - Director of Delivery & Discovery	96,284		1,428	172			97,884
SUP5 - Reception/Admin Services	81,143		622	77		4,500	86,342
SUP2 - Performance Management	47,820		329	13			48,161
SUP6 - Legal Services	40,101			401	-5,000		35,502
SUP7 - Financial Services	152,992		1,040	449			154,481
SUP8 - IT Services	232,014		869	747	1,000		234,629
SUP16 - Parc Llanion Park	108,751	-14,000	223	2,155	-8,000		89,128
SUP12 - General Building Maintenance	93,163			932			94,095
Projects Team	43,220		389	18			43,628
SUP14 - Pool Vehicles	14,779			148			14,927
Personnel, Health & Safety, Staff Training	111,275		552	209			112,037

Budget Service Area	Draft Baseline Expend 2017/18	Draft Baseline Income 2017/18	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Other Adjusts	Draft net Budget 2017/18
Conservation of the Natural Environment	484,898	-72,262	2,357	1,752		-486	416,259
Conservation of the Historic & Cultural Env't	106,963		770	286			108,020
Development Control	693,529	-178,230	3,629	1,016			519,944
Forward Planning & Communities	394,342		1,945	55		100,000	496,342
Promoting Understanding & Enjoyment	1,570,097	-613,515	7,688	6,853	-19,528	56,981	1,008,577
Recreation & Park Management	717,383	-540,976	2,208	6,070	-27,000	-392	157,294
Rangers, Estates & Volunteers	1,181,060	-114,290	8,452	2,790	-9,150	-6,568	1,062,293
Democratic Representation & Management	647,717	-34,500	2,308	1,594	-500	14,850	631,468
Service Management & Support Services	1,101,886	-14,000	6,202	5,346	-12,000	4,500	1,091,933
Support Services Recharges	-973,095						-973,095
<b>Net Cost of Services</b>	<b>5,924,780</b>	<b>-1,567,772</b>	<b>35,560</b>	<b>25,761</b>	<b>-68,178</b>	<b>168,885</b>	<b>4,519,036</b>
Depreciation Adjustment	-261,964						-261,964
Interest receivable and investment income		-15,000					-15,000
<b>Net Operating Expenditure</b>	<b>5,662,816</b>	<b>-1,582,772</b>	<b>35,560</b>	<b>25,761</b>	<b>-68,178</b>	<b>168,885</b>	<b>4,242,072</b>
<u>Appropriations</u>							
Pensions interest/expected returns	-912,000						-912,000
Pension Interest Cost on Liabilities	973,000						973,000
Remeasurement of Pension Liabilities	3,788,000						3,788,000
Pension Administration Expenses	14,000						14,000
Remeasurement of Pension Assets	-2,104,000						-2,104,000
Pension Curtailment Non Redistributed	49,000						49,000
Reversal Employer Pension Contrib - MIRS	418,905						418,905
Reversal of Retirement Benefits - MIRS	-693,000						-693,000
Remeasurement of Pension Liabilities	-3,788,000						-3,788,000
Remeasurement Pension Assets - MIRS	2,104,000						2,104,000
Transfers From SDF						-100,000	-100,000
Transfers From Staff Restructuring						-52,500	-52,500
<b>NET BUDGET</b>	<b>5,512,721</b>	<b>-1,582,772</b>	<b>35,560</b>	<b>25,761</b>	<b>-68,178</b>	<b>16,385</b>	<b>3,939,477</b>
Financed by:							
National Park Grant	-2,954,655						-2,954,655
Capital Grant							
Levy against Pembrokeshire County Council	-984,885						-984,885
<b>OVERALL FUNDING POSITION</b>	<b>-3,939,540</b>						<b>-3,939,540</b>
<b>Deficit / Surplus</b>							<b>-63</b>