

JOINT REPORT OF THE CHIEF EXECUTIVE AND CHIEF FINANCIAL OFFICER

SUBJECT: DRAFT BUDGET PLANNING 2018/19

Contents:

- The Draft Revenue and Capital budgets for 2018/19 and forecast 2019/20 to 2022/23
- The Draft 2018/19 Levy on Pembrokeshire County Council
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The Draft Revenue and Capital Budgets for 2018/19 and Forecasts 2019/20 to 2022/23

Introduction

This Draft Revenue & Capital Budget for 2018/19 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 2018/19 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 2018/19 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 2017/18 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 2018/19 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 5% decrease in the Core NPA Grant and Levy for 2018/19 and 2019/20
- Pay award increase of 2% per annum for 2018/19 and 2019/20 and also includes a Living Wage provision of the £8.75 per hour
- Other cost increases of 2.5% per annum for 2018/19 and 2019/20
- Pension contribution rate remains at 14.2%.
- NI employers contribution remains at 13.8%
- 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 2017/18

The revenue budget for 2017/18 was approved in February 2017 as shown in Appendix 1. During the 2017/18 financial year savings and additional income have been identified and the current end of year forecast position for 2017/18 is a surplus of £321k; the details of which are shown in Appendix 2. When the Capital Expenditure funded from the General Reserve of £185k is deducted the General Reserve balance is expected to increase from £939 to £1,075k at the end of the 2017/18 financial year

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

The Welsh Government published its Draft Budget 2018-19 in September 2017 when the Authority received a draft indication of budget from Welsh Government. This advised that the N.P.G. for 2018/19 would be reduced by 5% with a similar reduction to be expected for 2019/20. The Welsh Government is expected to approve the 2018/19 budget in January 2018. If as is suggested the N.P.G. is reduced then, apart from the financial year 2017/18, there will have been yearly reductions in core funding from 2013/14 to 2018/19. This is demonstrated in the table below:

	£000's			% Reduction
	NPG	Levy	Total	
2013 – 14 Base	3,541	1,180	4,721	
Reduction	-246	-103	-349	-7.4%
2014 - 15	3,295	1,077	4,372	
Reduction	-150	-30	-180	-4.1%
2015 - 16	3,145	1,047	4,192	
Reduction	-191	-62	-253	-6.0%
2016 - 17	2,954	985	3,939	
2017 - 18	2,954	985	3,939	
Reduction	-148	-49	-197	-5.0%
2018 - 19	2,806	936	3,742	-20.7%

	£000's			% Reduction
	2013/14	2018/19	Total	
NPG	3,541	2,806	-735	
Levy	1,180	936	-244	
Total Cash Reduction	4,721	3,742	-979	-20.7%
Consumer Prices Index				
	2013/14	2016/17		
	100.00	107.00		-7.0%
Total Reduction				-27.7%

In 2014/15 the Authority absorbed a £349k, or 7.4%, reduction followed by reductions of 4.12% in 2015/16, 6.04% for 2016/17 and 5% in 2018/19. The total the N.P.A. Grant and Levy therefore will have fallen by £979k from £4,721k for 2013/14 to £3,742k in 2017/18. When the consumer prices index is applied the overall reduction in real terms equates to 27.7%.

Summarised Revenue Budget 2018/19

	£000's
Baseline gross expenditure	5,569
Payrise/Inflation etc	115
Local Generated & Grant Income	-1,708
Savings Previously Reported	-88
Other Strategic Savings	-91
National Park Grant Earmarked Reserve	-53
Gross Budget	3,744
NPG	2,808
Levy	936
Surplus / - Deficit	0

The summarised revenue budget for 2018/19 is shown in the above table. A full breakdown of the departmental budgets and service area budget are shown in Appendix 3. Appendix 3 also provides greater detail of which service area savings and additional income have been identified.

In the budget workshop held in December 2017 the Authority reviewed options to achieve the necessary savings to balance the 2018/19 budget. The savings reported were:

	£000's
Additional Centre Income	15
Newport T.I.C. Closure	20
Car Park Income	20
Wales Audit Office Audit Fee reductions	10
Reduced Development Control advertising and professional fees	13
Other including Support Services	10
Total	88

This resulted in a shortfall of £144k. Other Strategic Savings of £91k have been identified and are shown in the schedule that follows.

Other Strategic Savings	£000's
Technical Officer Budget	40
Cilrhedyn Woodland Centre	10
Maintenance Budget	10
Year Of Seas	20
Carew Café	11
Balance	91

A further £53k will be drawn from the Earmarked Reserve created to cover reductions in the National Park grant. The Authority has ended recent financial years with budgeted surpluses either due to unexpected increases in income, from for example filming licences, and or budget savings, e.g. establishment posts being temporarily vacant as and when staff leave the Authority. It is not prudent to actually budget for these but based on experience in recent years they in all probability will happen. It is therefore expected that the Authority will not have to draw on this earmarked reserve to balance the 2018/19 budget.

Sensitivity Analysis and Forecasts 2019/20 to 2022/23

The Welsh Government has indicated that the 5% reduction in funding for the 3 National Parks for 2018/19 is likely to be extended to 2019/20. Further the UK 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 National Parks, the actual size of these reductions beyond 2019/20 is uncertain.

The tables below show the impact of 2 scenarios of funding reductions over the 4 year period to 2022/23. Under a 5% scenario the overall reduction in NPG and Levy during the 4 year period will be £678k and £1,227k under a 10% scenario.

NPG / Levy Reduction				
£000's				
	5% p.a. cut in NPG & Levy			
	2019/20	2020/21	2021/22	2022/23
NPG	2,666	2,532	2,406	2,285
Levy	889	844	802	762
Total	3,554	3,377	3,047	3,047
Annual Reduction	188	168	161	161
Cumulative Reduction	188	356	517	678
	10% p.a. cut in NPG & Levy			
	2019/20	2020/21	2021/22	2022/23
NPG	2,525	2,273	2,046	1,841
Levy	842	758	682	614
Total	3,367	3,031	2,728	2,455
Annual Reduction	375	337	258	258
Cumulative Reduction	375	711	969	1,227

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 2019/20 to 2022/23 is shown below:

4 Year Budget Forecast with a 5 % reduction in NPG				
	£000's			
	2019/20	2020/21	2021/22	2022/23
Baseline gross expenditure	5,470	5,556	5,612	5,668
Payrise/Inflation etc	96	56	56	57
Local Generated & Grant Income	-1,771	-1,815	-1,860	-1,907
Gross Budget	3,796	3,797	3,808	3,818
NPG	2,666	2,532	2,406	2,285
Levy	889	844	802	762
Surplus / - Deficit	-188	-420	-600	-770
4 Year Budget Forecast with a 10 % reduction in NPG				
Baseline gross expenditure	5,470	5,556	5,612	5,668
Payrise/Inflation etc	96	56	56	57
Local Generated & Grant Income	-1,771	-1,815	-1,860	-1,907
Gross Budget	3,796	3,797	3,808	3,818
NPG	2,525	2,273	2,046	1,841
Levy	842	758	682	614
Surplus / - Deficit	-428	-766	-1,080	-1,363

Accordingly, if left unchecked the Authority would run up a deficit budget of £770k by 2022/23 with an annual 5% cut and £1,363k 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 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 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 2016/17, £3,524k (60% of total Revenue costs) was spent on employee cost compared to £4,114k (61%) in 2010/11, a reduction of £590k or 14%. This reduction also includes employees additional cost pressures of pay awards 6%, N.I. removal of contracted out rebate 2.5% and employer pension contribution increase of 1%.

Revenue Costs	2010/11 £000's	%	2016/17 £000's	%	Movement £000's	Movement %
Employees (ex settlements)	4,114	60%	3,524	61%	-590	-14%
Premises related	907	13%	725	13%	-182	-20%
Transport & Travel	299	4%	172	3%	-127	-42%
Supplies, Services and Grants	1,489	22%	1,347	23%	-142	-10%
TOTAL REVENUE COST	6,809	100%	5,768	100%	-1,041	-15%

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

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

During the period the average number of staff, measured in terms of "Full Time Equivalents" has also reduced from 141 to 120 (15%) 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 £1,166k in 2010/11 to £1,495k in 2016/17, a 28% increase. Significant increases have come from Admission fees, Car Parking charges, Planning fees, other income (including filming income) and Investment Property incomes.

LOCALLY GENERATED INCOME	2010/11	2011/12	2013/14	2014/15	2015/16	2016/17	Movement	Movement
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	%
Merchandise Sales and income from Information Centres	270	297	301	319	312	281	11	4%
Car park charges and concessions income	309	390	353	404	446	447	138	45%
Admissions fees and Activities & Events	172	185	182	200	249	237	65	38%
Advertising income	88	88	87	88	88	85	-3	-3%
Planning fees	135	144	192	173	168	197	62	46%
Timber sales	30	126	109	79	31	31	1	3%
Other : rents, advertising	123	285	131	149	136	154	31	25%
Income from investment properties	28	45	56	51	55	42	14	50%
Investment income	11	19	16	10	19	21	10	91%
TOTAL LOCAL INCOME	1,166	1,579	1,427	1,473	1,504	1,495	329	28%

Capital Programme 2018/19

	Draft Budget 2018/19	Funded by EMR	Funded by other Grants	General Reserve	Capital Receipts
ICT – Equipment	10,000			10,000	
Carew Walled Interpretation	146,000		118,000		28,000
Castell Henllys Roundhouses	72,000	28,000			44,000
Greening Park Initiatives	5,000			5,000	
Fleet Replacement	30,000			30,000	
Broad Haven Car Park	100,000	77,000		23,000	
WG Funded: CH Drainage Scheme	30,000		30,000		
WG Funded: Digital Park	85,000		85,000		
WG Funded:charging Points	15,000		15,000		
Total	493,000	105,000	248,000	68,000	72,000

Details of the capital programme are:

- ICT Equipment. This expenditure represents the usual cycle of IT equipment replacement.
- Carew Walled Garden Interpretation. In the September 2017 National Park Authority Meeting the Authority agreed to build a Café on the Carew Castle site This expenditure is in respect of a Heritage Tourism Convergence Programme.
- Castell Henllys Roundhouses. Following the significant capital expenditure in the last few years on the Origins project and repairs to the Cooks House at Castell Henllys, work will be undertaken to repair the fabric a further round house.
- 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 an aging fleet of vehicles and has in prior years 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. However the Authority now considers the most cost effective way to minimise life cycle costs

is to make outright purchases of new vehicles where funding is available. It is expected expects to purchase two vehicles in the year.

- Broad Haven Car Park. 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 & Saundfoot Car Parks was completed in 2016 & 2017 respectively and Broad Haven Car Park is due for completion in autumn 2018.

Funding for the remaining capital projects were subject to a bid made to Welsh Government in autumn 2017. At the time of preparing this report the outcome of the bid is unknown so their implementation is dependent on the availability of funding:

- Castell Henllys Drainage Scheme. The current sewage treatment works involves monthly removal of sewage offsite. This is environmentally unsustainable and is a cost (c £7000 annually). A new onsite sewage treatment works is required to replace the current plant, reducing long term costs and enabling the site to cope with increased visitors
- Digital Park. Current 'back-office' systems are complex, disparate and often paper based. Park wide systems such as work-recording, data collection and the scheduling and budgeting of workloads are internalised. This is a major block to opening up increased opportunities for working with external parties including with visitors, volunteers, schoolchildren, interest groups, partners and contractors
- Charging Points. Currently there is just one electric vehicle charging point at PCNPA facilities. (Oriol y Parc, St Davids). This facility has been well used since it was installed and an improvement in the parks offering would enhance the opportunity for sustainable travel in Pembrokeshire. The project would install up to 10 EVC points at PCNPA facilities where infrastructure allows. This could include car park facilities and visitor sites.

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 2017/18 together with the projected balances as at the end of the 2018/19. The General Reserves are expected to rise at the end of the 2017/18 financial year to £1,085k and then, due to funding some of the capital program, fall to £1,007k by the end of 2018/19. Similarly the Capital Receipts Reserve is going to fund capital expenditure and is expected to fall to £113k by the end of 2018/19. 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		Year end Position		Year end Position
	2016/17	Movement 2017/18	2017/18	Movement 2018/19	2018/19
General Reserves	939	136	1,075	-68	1,007
Capital Receipts	281	-97	185	-72	113
TOTAL	1,220	39	1,259	-140	1,119
Earmarked Reserves:					
Receipts In Advance	146	-5	141		141
Asset Management	37		37		37
Llanion Park	2	-2			
Planning (Local Development Plan)	188	-55	133		133
Self-Insurance	30		30		30
Staff Restructuring	319	-54	265	-39	226
I.T.	4	-4			
National Park Wales	54		54		54
Planning System	94	-39	55		55
Car Par Integration	77		77	-77	
Memorial Donations	3		3		3
Round Houses	100	-72	28	-28	
SDF	129	-100	29		29
Machinery For Delivery	4	-4			
NPG Reduction	100		100	-53	47
Car Park Resurfacing	98	-98			
BioDiversity	11	-11			
Planning Enforcement	100		100		100
Portfield Gate	2	-2			
Stitch in Time	25		25		25
The Pathways project	35		35		35
Skills in Action	15		15		15
Pathway	250	-55	195	-55	140
Stitch In Time	100	-50	50	-50	
Welsh Coast Path	180		180		180
Car Park Cash Machines	20	-4	16	-16	
Future Landscapes Wales	150		150		150
Undergrounding		14	14	-14	
TOTAL	2,273	-541	1,732	-332	1,400
TOTAL	3,493	-502	2,991	-472	2,519

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 that the predicted reductions in core funding for 2018/19 and 2019/20. 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 2018/19, subject to noting that the NPG/Levy estimate has yet to be confirmed.**
- **NOTE the financial projections for 2019/20 to 2022/23.**

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:

<p><u>Levy on Pembrokeshire County Council</u></p>
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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		£5,504,611
•	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		£5,504,611
	LESS		
•	Section 72, Grant (NPG)	£2,806,922	
•	Income credited to the Revenue Account	£1,708,482	
•	other sums not covered above which are likely to be available in the year	53,566	£4,568,970
	Levy requirement		<u>£935,641</u>

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

Recommendation

That Members AUTHORISE a levy of £935,641 (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 2018/19.

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 2015/16 and 2016/17 together with the estimates of capital expenditure to be incurred for the current and next years that are recommended for approval, along with the actual/estimated net revenue stream for the years:

	Actual	Actual	Estimate	Estimate
	2015/16	2016/17	2017/18	2018/19
Capital Expenditure	147,000	117,000	426,000	471,000
FINANCING COSTS (interest receivable only)	- 19,000	- 21,000	- 15,000	- 15,000
Net Revenue Funding (NPG/Levy)	4,215,000	4,630,000	3,940,000	3,742,000
Ratio: Financing Costs/Net Revenue Funds	-0.45%	-0.45%	-0.38%	-0.40%

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 2018/19 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

Authorised Limit for External Debt	Actual	Actual	Estimate	Estimate
	2015/16	2016/17	2017/18	2018/19
Borrowing	1,000,000	1,000,000	1,000,000	1,000,000
Other long term liabilities	0	0	0	0

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

Operational Boundary for External Debt	Actual	Actual	Estimate	Estimate
	2015/16	2016/17	2017/18	2018/19
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 2018/19

The remainder of this report presents an Investment Strategy for 2018/19 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 2018/19 follows.

Recommendations

That Members:

- **ADOPT the Prudential Indicators as presented**
- **APPROVE the Investment Strategy & Treasury Management Policy Statement for 2018/19 (over).**

Background documents

- Welsh Government, draft budget proposals 2018/19
- Annual National Park Grant Bid
- The Local Government Act 2003
- The Local Authorities (Capital Finance & Accounting) (Wales) Regulations 2014
- Statutory Guidance on Local Government Investments
- CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

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**INVESTMENT STRATEGY and
TREASURY MANAGEMENT POLICY STATEMENT
2018/19**



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 2018/19. Notwithstanding this, the Authority is obliged to set limits for external debt - and approved such limits, as follows, in setting the 2018/19 budget in February 2018:

Authorised Limit for External Debt	<i>Actual</i>	<i>Actual</i>	<i>Estimate</i>	<i>Estimate</i>
	2015/16	2016/17	2017/18	2018/19
Borrowing	1,000,000	1,000,000	1,000,000	1,000,000
Other long term liabilities	0	0	0	0

Operational Boundary for External Debt	<i>Actual</i>	<i>Actual</i>	<i>Estimate</i>	<i>Estimate</i>
	2015/16	2016/17	2017/18	2018/19
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 2018/19 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 2018/19

Appendix 1
Summarised Revenue Budget 2017/18

2017 18 Budget Forecast	
	£000's
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

Appendix 2

2017/18 Budget Forecast	£000's	£000's
Original Budget Surplus		Nil
Movements:		
Professional Fees	8	
Advertising	8	
Audit Fees	10	
Traveling	10	
Telephones	10	
Fuel	10	
Salary Savings	31	
Archaeology	10	
Stationary	8	
Other Savings	18	123
Additional Income		
Centre Income	97	
Additional Car Park Income	40	
Planning Fee Income	55	
Estates	10	
Centre Events	10	212
Undergrounding Reserve	-14	-14
Revised revenue forecast (surplus)		321

Appendix 3

Departmental Budget Breakdown

	Draft Baseline Expend 2018/19	Draft Baseline Income 2018/19	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Other Adjusts	Draft net Budget 2018/19
Conservation of the Natural Environment	404,768	-51,386	4,826	2,066	-2,500	-10,000	347,774
Cilrhedyn Woodland Centre	107,620	-49,102	783	287		-10,000	49,589
Nature Conservation	291,789	-2,284	4,043	1,645	-2,500		292,693
Marine Environment	5,358			134			5,492
Conservation of the Cultural Heritage	134,779		1,211	546	-6,000		130,536
Invasive Species	50,000						50,000
Conservation Areas & Historic Buildings	45,414		789	89			46,292
CP10 - Archaeology, Culture & Heritage	39,365		422	456	-6,000		34,243
Development Control	487,260	-188,230	7,432	2,564	-17,283		291,743
Development Management (inc Mineral Plans)	487,260	-188,230	7,432	2,564	-17,283		291,743
Forward Planning & Communities	308,225		3,845	139			312,209
Development Planning	188,497		3,503	90			192,089
Sustainable Development Fund	100,000						100,000
Sustainable Development Delivery	19,728		341	50			20,120
Promoting Understanding	1,436,539	-647,036	16,579	12,139	-33,687	-11,128	773,042
Discovery Management							
Tourism & Wellbeing Officer	40,651		789	30			41,470
Carew Castle	233,117	-225,259	2,397	1,939	-5,638		6,556
Carew Castle Café						-11,128	-11,128
Castell Henllys	177,244	-132,415	1,992	1,501	-3,310		44,647
Newport Information Centre	51,163	-31,174	477	580	-18,981		2,065
Oriel Y Parc, St David's	384,234	-145,860	3,692	3,349	-2,737		242,678
Oriel Y Parc Cafe	-21,000						-21,000
Tenby National Park Office	7,308			183			7,490
Coast to Coast	51,412	-87,423	246	968	-2,748		-37,546
Communications	185,722		2,332	1,632			189,686
SUP9 - Graphic Services	88,693		1,243	428	-2,000		88,364
Discovery	145,635	-1	2,748	222	0		148,604
Activities & Events	5,594	-7,905		117	1,728		-466
Flexible Programme	32,198	-17,000	560	106			15,863
Pembs Outdoor Schools	324		103				427
Pathways Project	54,246			1,086			55,332
Recreation & Park Management	655,129	-577,976	4,539	5,794	-18,500	-40,000	28,986
Sustainable Transport	78,366		8	172			78,547
National Trail	219,210	-172,389	697	1,181			48,698
Access Officer and Rights of Way	102,467		1,483	907			104,858
Technical Officer	102,254		786	1,577		-40,000	64,617
Local Community & Match Funds	800						800
Charging Car Parks	152,032	-405,587	1,565	1,956	-18,500		-268,534

	Draft Baseline Expend 2018/19	Draft Baseline Income 2018/19	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Other Adjusts	Draft net Budget 2018/19
Rangers, Estates & Volunteers	1,100,016	-127,854	17,930	5,602	4,954		1,000,472
Park Delivery Management	117,866		1,486	156			119,508
Ranger Services	209,801		4,026				213,827
North Area	283,227		4,575	1,756	-3,164		286,394
West Area	155,442		3,148	1,364	-665		159,290
South Area	181,770		3,193	1,073	667		186,703
Castlemartin Ranger	32,309	-28,914	509	167			3,896
Tenby / Newport Ranger	7,988		128	40	8,116		16,272
Estates Management (incl. Surplus Properties)	111,613	-98,940	865	1,045			14,582
Democratic Representation & Management	478,322	-37,000	3,880	4,316	-10,000	-20,000	419,518
DRM2 - Chief Executive's Office	104,977		1,972	68	-500		106,517
DRM1 - Corporate Activities & Management	54,701			1,173	500	-20,000	36,374
Democratic Representation	196,351	-4,500	1,424	2,937			196,212
Future Landscapes							
National Parks Wales	43,420	-32,500	2	90			11,012
Corporate Governance	78,874		482	48	-10,000		69,403
Service Management & Support Services	1,119,005	-64,000	13,129	8,834	-5,000	-10,000	1,061,968
<i>(Memorandum account, recharged to services)</i>							
SUP1 - Director of Park Direction & Planning	65,959		1,211	65			67,234
SUP3 - Director of Delivery & Discovery	80,799		2,890	18			83,707
SUP5 - Reception/Admin Services	82,041		1,170	208			83,419
SUP2 - Performance Management	49,368		688	32	3,000		53,087
SUP6 - Legal Services	30,000			750			30,750
SUP7 - Financial Services	165,800		2,328	1,133			169,261
SUP8 - IT Services	235,841		1,779	1,910	-5,000		234,530
SUP16 - Parc Llanion Park	103,128	-14,000	441	1,397	-3,000		87,966
SUP12 - General Building Maintenance	94,095			2,352		-10,000	86,447
Grants Officer	38,543	-50,000	731	25			-10,702
Projects Team	43,766		789	46			44,601
SUP14 - Pool Vehicles	14,779			369			15,149
Personnel, Health & Safety, Staff Training	114,886		1,103	528			116,517

	Draft Baseline Expend 2018/19	Draft Baseline Income 2018/19	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Other Adjusts	Draft net Budget 2018/19
Conservation of the Natural Environment	404,768	-51,386	4,826	2,066	-2,500	-10,000	347,774
Conservation of the Historic & Cultural Env't	134,779		1,211	546	-6,000		130,536
Development Control	487,260	-188,230	7,432	2,564	-17,283		291,743
Forward Planning & Communities	308,225		3,845	139			312,209
Promoting Understanding & Enjoyment	1,436,539	-647,036	16,579	12,139	-33,687	-11,128	773,042
Recreation & Park Management	655,129	-577,976	4,539	5,794	-18,500	-40,000	28,986
Rangers, Estates & Volunteers	1,100,016	-127,854	17,930	5,602	4,954		1,000,472
Democratic Representation & Management	478,322	-37,000	3,880	4,316	-10,000	-20,000	419,518
Service Management & Support Services	1,119,005	-64,000	13,129	8,834	-5,000	-10,000	1,061,968
Support Services Recharges							
Net Cost of Services	6,124,042	-1,693,482	73,371	42,000	-88,017	-91,128	4,366,247
Depreciation Adjustment	-261,964						-261,964
Interest receivable and investment income		-15,000					-15,000
Net Operating Expenditure	5,862,078	-1,708,482	73,371	42,000	-88,017	-91,128	4,089,283
Appropriations							
Pensions interest/expected returns	-912,000						-912,000
Pension Interest Cost on Liabilities	973,000						973,000
Remeasurement of Pension Liabilities	3,788,000						3,788,000
Pension Administration Expenses	14,000						14,000
Remeasurement of Pension Assets	-2,104,000						-2,104,000
Pension Curtailment Non Redistributed	49,000						49,000
Reversal Employer Pension Contrib - MIRS	418,905						418,905
Reversal of Retirement Benefits - MIRS	-693,000						-693,000
Remeasurement of Pension Liabilities	-3,788,000						-3,788,000
Remeasurement Pension Assets - MIRS	2,104,000						2,104,000
Transfers From EMR Invasive Species	-50,000						-50,000
Transfers From EMR Pathways	-54,680						-54,680
Transfers From EMR Staff Restructuring	-38,918						-38,918
Transfers From EMR National Park Grant							-53,000
NET BUDGET	5,568,385	-1,708,482	73,371	42,000	-88,017	-91,128	3,742,590
Financed by:							
National Park Grant	-2,954,655					147,733	-2,806,922
Capital Grant							
Levy against Pembrokeshire County Council	-984,885					49,244	-935,641
OVERALL FUNDING POSITION	-3,939,540					196,977	-3,742,563
Deficit / Surplus							27