

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

**SUBJECT: DRAFT BUDGET PLANNING 2019/20**

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# **The Draft Revenue and Capital Budgets for 2019/20 and Forecasts 2020/21 to 2023/24**

## **Introduction**

This Draft Revenue & Capital Budget for 2019/20 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 2019/20 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 2019/20 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 2018/19 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 2019/20 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:

- The Core NPA Grant will remain as for 2018/19 following the in-year adjustment and Levy uplifted from the 2018/19 level which wasn't subject to the in-year adjustment, (see explanation below).
- Pay award increase of 2% per annum for 2019/20, adoption of the Living Wage of £9.00 per hour and the NJC scale adjustments
- Other cost increases of 2.5% per annum for 2018/19 and 2019/20
- Pension contribution rate remains at 14.2%. However with the Triannual revaluation and other changes taking place in 2019 it is anticipated that the contribution rates may need to increase.
- 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 2018/19**

The revenue budget for 2018/19 was approved in February 2018 as shown in Appendix 1. The forecast revenue position for 2018/19 is a surplus of £200k and the details of which are shown in Appendix 2. Several posts became vacant during the year resulting in salary savings during the recruitment period. There were also a number of unbudgeted expenditure items including the financial support for the Pembrokeshire Coast National Park Trust, storm damage to coastal paths, additional vehicles repair costs and enhancement of broadband connectivity at Cilrehedyn. While some the income streams are projected to be below budget there is an additional planning fee, car parks and centres income. In July 2018 the Welsh Government notified the Authority that the budgeted 5% reduction in the National Park Grant for 2018/19 would now not be imposed and has resulted in the grant being £145K higher than anticipated. However due to the timing of this notification the Levy from Pembrokeshire County Council had to remain at the initial budgeted funding level as approved by the Authority in Levy letter of February 2018.

With the projected Revenue budget surplus of £200k, less the Capital Expenditure funded from the General Reserve of £24k, the General Reserve balance is expected to increase from £1006k to £1,182k at the end of the 2018/19 financial year.

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

The Welsh Government published its Draft Budget 2019-20 in September 2018 when they advised that the N.P.G. for 2019/20 would be unchanged from 2018/19. The Welsh Government is expected to approve the 2019/20 budget in January 2019. While it welcomed news that the NPG / Levy will remain unchanged from the 2017/18 level it is worth noting the total reduction since 2013/14 in cash terms has been £783k as demonstrated in the table below:

	£000's			% - Reduction / increase
	NPG	Levy	Total	
<b>2013 – 14 Base</b>	<b>3,541</b>	<b>1,180</b>	<b>4,721</b>	
Reduction	-246	-103	-349	-7.4%
<b>2014 - 15</b>	<b>3,295</b>	<b>1,077</b>	<b>4,372</b>	
Reduction	-150	-30	-180	-4.1%
<b>2015 - 16</b>	<b>3,145</b>	<b>1,047</b>	<b>4,192</b>	
Reduction	-191	-62	-253	-6.0%
<b>2016 - 17</b>	<b>2,954</b>	<b>985</b>	<b>3,939</b>	
<b>2017 - 18</b>	<b>2,954</b>	<b>985</b>	<b>3,939</b>	
Reduction		-49	-49	-1.2%
<b>2018 - 19</b>	<b>2,954</b>	<b>936</b>	<b>3,890</b>	
<b>Increase</b>		<b>49</b>		<b>1.2%</b>
<b>2019/20</b>	<b>2,954</b>	<b>985</b>	<b>3,939</b>	

	£000's			% Reduction
	2013/14	2019/20	Total	
NPG	3,541	2,954	-735	
Levy	1,180	985	-244	
<b>Total Cash Reduction</b>	<b>4,721</b>	<b>3,938</b>	<b>-783</b>	<b>-16.6%</b>
<b>Consumer Prices Index</b>	<b>March 2013</b>	<b>March 2018</b>		
	98.5	105.0		-7.0%
<b>Total Reduction</b>				<b>-23.6%</b>

In 2014/15 the Authority absorbed a £349k, or 7.4%, reduction followed by reductions of 4.1% in 2015/16 and 6.04% for 2016/17. While the total core funding for 2019/20 is the same as 2017/18, the Authority has experienced significant reductions in recent years. Further when the consumer prices index is applied the overall reduction in real terms since 2013/14 equates to 23.6 % or circa £1.1m.

## **Sensitivity Analysis and Forecasts 2020/21 to 2024/25**

If, as has been the case in the last two financial years, the Authority continues to receive a flat line NPG then the table beneath shows the impact of this on the revenue budget. When factored into the Authority's budget model and other factors such as inflation and cost of living increases, anticipated increases in other grant and locally generated income, the forecast for the revenue budget for 2020/21 to 2024/25 is shown and there would be an annual deficit in 2020/21 of £238k rising to £718k by 2024/25

<b>5 Year Budget Forecast with a flat line NPG</b>					
<b>£000's</b>					
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Baseline gross expenditure	5,796	5,909	6,017	6,137	6,260
Payrise/Inflation etc	113	118	120	123	125
Local Generated & Grant Income	-1,731	-1,774	-1,818	-1,864	-1,910
<b>Gross Budget</b>	<b>4,178</b>	<b>4,253</b>	<b>4,319</b>	<b>4,396</b>	<b>4,475</b>
NPG	2,955	2,955	2,955	2,955	2,955
Levy	985	936	889	844	802
<b>Surplus / - Deficit</b>	<b>-238</b>	<b>-363</b>	<b>-475</b>	<b>-597</b>	<b>-718</b>

In September 2017 the Welsh Government indicated that the funding for the 3 National Parks would be subject to 5% reduction each year for 2018/19 and 2019/20. While this has been rescinded it worth applying sensitivity analysis to what would be the implication for the Authority's revenue budget position if a 5% reduction in funding was imposed. When the reductions to core funding are factored into the Authority's budget model the forecast for the revenue budget for 2020/21 to 2024/25 is shown below:

<b>5 Year Budget Forecast with a 5 % reduction in NPG</b>					
<b>£000's</b>					
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Baseline gross expenditure	5,796	5,909	6,017	6,137	6,260
Payrise/Inflation etc	113	118	120	123	125
Local Generated & Grant Income	-1,731	-1,774	-1,818	-1,864	-1,910
<b>Gross Budget</b>	<b>4,178</b>	<b>4,253</b>	<b>4,319</b>	<b>4,396</b>	<b>4,475</b>
NPG	-2,807	-2,667	-2,533	-2,407	-2,286
Levy	-936	-889	-844	-802	-762
<b>Surplus / - Deficit</b>	<b>-435</b>	<b>-697</b>	<b>-941</b>	<b>-1,187</b>	<b>-1,426</b>

Accordingly, if a 5% reduction was imposed in year for the next 5 years the Authority would run up an annual deficit budget of £435k in 2020/21 rising to £1,426k by 2024/25. While these reductions are currently unlikely they do remain a possibility and it is worth acknowledging their potential impact.

### **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 2017/18, £3,627k (61% of total Revenue costs) was spent on employee cost compared to £4,114k (61%) in 2010/11, a reduction of £487k or 12%. This reduction also absorbs employees additional cost pressures of pay awards 8%, the removal of contracted out national insurance rebate of 2.5% and employer pension contribution increase of 1%.

<b>Revenue Costs</b>	<b>2010/11 £000's</b>	<b>%</b>	<b>2017/18 £000's</b>	<b>%</b>	<b>Movement £000's</b>	<b>Movement %</b>
Employees (ex settlements)	4,114	<b>60%</b>	3,627	<b>61%</b>	<b>-487</b>	<b>-12%</b>
Premises related	907	<b>13%</b>	769	<b>13%</b>	<b>-138</b>	<b>-15%</b>
Transport & Travel	299	<b>4%</b>	179	<b>3%</b>	<b>-120</b>	<b>-40%</b>
Supplies, Services and Grants	1,489	<b>22%</b>	1,391	<b>23%</b>	<b>-98</b>	<b>7%</b>
<b>TOTAL REVENUE COST</b>	<b>6,809</b>	<b>100%</b>	<b>5,966</b>	<b>100%</b>	<b>-843</b>	<b>-13%</b>

The above table is validated by the falling establishment figures:

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

During the period the average number of staff, measured in terms of “Full Time Equivalents” has also reduced from 141 to 124 (12%) and these reductions have been in managerial and back office support posts. The Authority adopted a voluntary redundancy program and where appropriate to operational needs and subject to cost effectiveness a number of these have been granted. This was acknowledged by the Wales Audit Office as an example of good practice across the Welsh public sector.

The reduction in N.P.G. funding has meant the Authority’s ability to generate increased income to fund core activities has become a greater focus of attention. The table that follows shows actual incomes and the trend has been very positive with most sources of income improving. The total locally generated income has increased from £1,166k in 2010/11 to £1,695k in 2016/17, a 45% increase. Significant increases have come from Admission fees, Car Parking charges, Planning fees, other income (including filming income) and Investment Property incomes. These incomes are often very much beyond the control of the Authority and notoriously difficult to budget for. The merchandise sales and income from information centres shown in the table include sales from Tenby & Newport which discontinued operations in 2016/17 and 2017/18 respectively.

LOCALLY GENERATED INCOME	2010/11	2011/12	2013/14	2014/15	2015/16	2016/17	2017/18	M'vmt	M'vmt
	£000's	£000's	%						
Merchandise Sales and income from Information Centres	270	297	301	319	312	281	289	19	7%
Car park charges and concessions income	309	390	353	404	446	447	470	161	52%
Admissions fees and Activities & Events	172	185	182	200	249	237	287	115	67%
Advertising income	88	88	87	88	88	85	72	-16	-18%
Planning fees	135	144	192	173	168	197	283	148	110%
Other : rents, advertising	153	411	240	228	167	185	213	60	50%
Income from investment properties	28	45	56	51	55	42	62	34	121%
Investment income	11	19	16	10	19	21	19	8	73%
<b>TOTAL LOCAL INCOME</b>	<b>1,166</b>	<b>1,579</b>	<b>1,427</b>	<b>1,473</b>	<b>1,504</b>	<b>1,495</b>	<b>1,695</b>	<b>529</b>	<b>45%</b>

## Summarised Revenue Budget 2019/20

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

The summarised revenue budget for 2019/20 is shown in the above table. The revenue budget was discussed December 2018 budget workshop and the full breakdown of the departmental budgets and service area budget are shown in Appendix 3.

## Capital Programme 2019/20

	Draft Budget 2019/20	FUNDED BY			
		EMR	other Grants	General Reserve	Capital Receipts
ICT – Equipment	10,000			10,000	
Carew Walled Garden	96,950		81,289		15,661
Carew Castle Infrastructure Sewage/Drainage	45,000				45,000
Carew Castle Visitor Access	15,000				15,000
Castell Henllys Roundhouses	50,000	20,858			29,142
Greening Park Initiatives	5,000			5,000	
Castell Henllys Broadband	32,000				32,000
PV 's In the Park	60,000				60,000
Charging Points	30,000	30,000			
WG Funded: Causeway Repairs Phase 1	46,750	46,750			
WG Funded: Causeway Repairs Phase 2	60,000	60,000			
WG Funded: Broad Haven Car Park	453,200	298,112	53,200		101,888
WG Funded: Castell Henllys Program	113,000	113,000			
WG Funded: Delivery Equipment	126,000	126,000			
<b>Total</b>	<b>1,142,900</b>	<b>694,720</b>	<b>134,489</b>	<b>15,000</b>	<b>298,691</b>

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

- ICT Equipment. This expenditure represents the usual cycle of IT equipment replacement.
- Carew Walled Garden, Infrastructure Work and Improvement to Visitor Access. In the September 2017 and November 2018 the Authority agreed to develop the Walled Garden and to fund essential work on the Carew Castle site Infrastructure and Visitor Access. The work is expected to commence in February 2019 and completed by May 2019. The Tourist Amenity Investment Support Scheme funded the majority of Walled Garden project and other required funds will come from the Authority's Capital Receipts Reserve.

- Castell Henllys Roundhouses. Following the capital expenditure on the Origins project and repairs to the Cooks House at Castell Henllys, work will be undertaken to repair the of the Earth Watch Round House during 2019.
- Castell Henllys Broadband. Limited Broad Band capacity at Castell Henllys has been an operational issue for a number of years and this project will address these deficiencies.
- 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.
- Photovoltaic (PV's) Generation. This project is to look at the installation of PV's at suitable sites across the Authority
- Broad Haven Car Park. Partially funded by the Welsh Government Capital Grant and The Tourist Amenity Investment Support Scheme the scope of the project has been enhanced to a major redevelopment of the site.
- 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.
- Carew Castle Causeway Phases I & 2. Under the Reservoirs Act the Authority has statutory duty to undertake the repairs as instructed by the Reservoirs Inspectorate. The Causeway has undergone many phases of major and minor repair works to prevent / minimise water leakage through the structure from the mill pond which is accepted as an ongoing and permanent issue. Repairs are programmed in line with the recommendations of the Reservoirs Engineer and repair works are as per the recommendations of the report following statutory annual inspection (2016).
- Castell Henllys Development Scheme. A number of repairs and enhancements other than the Round Houses were identified including the sewage treatment works, rebuilding of ramparts and improving both internal and external access.
- Delivery Equipment. This expenditure will be on new equipment for the Delivery Service including as a pedestrian flails, a compact paths tractor, collection flails and large forestry tractor.

## **Financial Reserves and Balances.**

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

The table that follows shows the anticipated cash based reserves as at the end of 2018/19 together with the projected balances as at the end of the 2019/20. The General Reserves are expected to rise at the end of the 2018/19 financial year to £1,182k and then, due to funding some of the capital program, fall to £1,167k by the end of 2019/20.

The Authority disposed of land held at Sageston during 2018/19 and after funding capital expenditure the Capital Receipts Reserve is expected to increase to £653k at the end of the 2018/19. The Capital Receipts Reserve is going to fund further capital expenditure in 2019/20 and is therefore expected to fall to £354k by the end of 2019/20.

The balances on the Earmarked Reserves are considered to be appropriate at the current time although they will be subject to a further separate review by the Authority later in 2019. It is worth noting as at the end of 2018/19 the Authority it is expected will be holding circa £235k of reserves on behalf of National Parks Wales and £1,442k in respect of grants received from Welsh Government to fund specific projects.

## Cash Reserves

£000's

	Year end Position	Movement	Year end Position	Movement	Year end Position
	2017/18	2018/19	2018/19	2019/20	2019/20
<b>General Reserves</b>	1,006	176	1,182	-15	1,167
<b>Capital Receipts</b>	263	390	653	-299	354
<b>TOTAL</b>	<b>1,269</b>	<b>564</b>	<b>1,833</b>	<b>-314</b>	<b>1,519</b>
<b>Earmarked Reserves:</b>					
Receipts In Advance	1,877	-435	1,442	-1,174	268
Asset Management	37		37		37
Local Plan Development	133	-20	113	-90	23
Self-Insurance	30		30		30
Staff Restructuring	264	-11	253		253
National Park Wales	41		41		41
Planning System	89		89		89
Car Par Integration	77		77		77
Memorial Donations	4		4		4
Round Houses	43	-22	21	-21	
SDF	29		29		29
NPG Reduction	100		100		100
Car Park Resurfacing	98		98	-98	0
Biodiversity	11		11	-11	
Planning Enforcement	100		100		100
Stitch In Time	25		25	-25	
The Pathways Project	35		35		35
Skills In Action	15		15		15
Carew Causeway	158		158		158
Underground Cables	14		14	-14	
<b>TOTAL</b>	<b>3,178</b>	<b>-488</b>	<b>2,690</b>	<b>-1,433</b>	<b>1,257</b>
<b>TOTAL</b>	<b>4,447</b>	<b>76</b>	<b>4,523</b>	<b>-1,747</b>	<b>2,776</b>

## **Conclusion**

Although the Authority has made significant budget efficiencies in recent years it is worth noting that the 2019/20 revenue budget has been balanced by utilising £167k of the Continuation of Services earmarked reserve which was given to the Authority in 2017/18 by Welsh Government. The Authority therefore continues to face the financial challenge to ensure it further reviews its underlying cost base and where possible increase other revenue streams to match nil increases, and potential reductions in the NPG and consequential cut to the levy. The healthy cash reserve position affords the Authority a cushion to address the acute funding issues and the financial situation will be managed by; where appropriate discontinuing certain activities, improved efficiencies and cost savings, reviewing opportunities to develop local income and drawing down other sources of grant aid.

## **Recommendations**

That Members:

- **APPROVE in principle the draft budget 2019/20, subject to noting that the NPG/Levy estimate has yet to be confirmed.**
- **NOTE the financial forecasts for 2020/21 to 2024/25.**

## Levy on Pembrokeshire County Council

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

### Levy on Pembrokeshire County Council



The Authority must authorise the making of a levy of £984,885 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		£5,627,897
•	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		£5,627,897
	LESS		
•	Section 72, Grant (NPG)	£2,954,655	
•	Income credited to the Revenue Account	£1,688,357	
•	other sums not covered above which are likely to be available in the year	-	£4,643,012
		-----	-----
	<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 2019/20.**

## **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 2016/17 to 2018/19 together with the estimates of capital expenditure to be incurred for the current and next years that are recommended for approval, along with the actual/estimated net revenue stream for the years:

	<b>Actual</b>	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
<b>Capital Expenditure</b>	<b>117,000</b>	<b>174,000</b>	<b>471,000</b>	<b>986,200</b>
FINANCING COSTS (interest receivable only)	- 21,000	-19,000	- 15,000	-15,000
Net Revenue Funding (NPG/Levy)	4,630,000	3,940,000	3,742,000	3,939,540
<b>Ratio: Financing Costs/Net Revenue Funds</b>	<b>-0.45%</b>	<b>-0.48%</b>	<b>-0.40%</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 2020.

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.

<b>Authorised Limit for External Debt</b>	<b>Actual</b>	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</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>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</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 2019/20**

The remainder of this report presents an Investment Strategy for 2019/20 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 2019/20 follows.*

## **Recommendations**

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

- ***ADOPT the Prudential Indicators as presented***
- ***APPROVE the Investment Strategy & Treasury Management Policy Statement for 2019/20 (over).***

## **Background documents**

- Welsh Government, draft budget proposals 2019/20
- 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.

*For further information please contact Richard Griffiths on 01646 624815.*

**INVESTMENT STRATEGY and  
TREASURY MANAGEMENT POLICY STATEMENT  
2019/20**



## **1. INTRODUCTION**

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

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

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

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

*1.4. This Authority also acknowledges that effective treasury management should provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, but always in the context of effective risk management.*

## **2. RESPONSIBILITIES**

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

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

and CIPFA's Code of Practice for Treasury Management in the Public Services, and for ensuring that an annual Treasury Management report is presented to the Performance Review Committee.

### 3. APPROVED METHODS OF RAISING FINANCE

#### 3.1. Short Term (up to 1 year):

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

#### 3.2. Long term (over 1 year)

- Public Works Loans Board
- Money Markets
- Leasing

However, other than for short-term cash flow requirements, there are no plans to raise external debt during 2019/20. Notwithstanding this, the Authority is obliged to set limits for external debt - and approved such limits, as follows, in setting the 2019/20 budget in February 2019:

<b>Authorised Limit for External Debt</b>	<b>Actual</b>	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>2016/17</b>	<b>2017/18</b>	<b>2017/18</b>	<b>2019/20</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>	<b>Actual</b>	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Borrowing	250,000	250,000	250,000	250,000
Long term liabilities	0	0	0	0

3.3 The Maturity Structure of Borrowing prudential indicator is designed to be a control over an authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. In view of the Chief Financial Officer's recommendation in the 2019/20 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 £15,000.*

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

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

*4.4. In view of the relatively low level of cash available for investment, it was the Chief Financial Officer's recommendation in the 2019/20 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 2019/20***

**Appendix 1**  
**Summarised Revenue Budget 2018/19**

	<b>£000's</b>
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	<b>3,744</b>
NPG	2,808
Levy	936
Surplus / - Deficit	<b>0</b>

**Appendix 2  
2018/19 Budget Forecast**

<b>2018/19 Budget Forecast</b>	<b>£000's</b>	<b>£000's</b>
Original Budget Surplus		Nil
<b>Movements:</b>		
<b>Additional / Reduced Costs</b>		
Salary Savings	60	
Non budgeted Costs	-40	
Storm Damage	-20	
		<b>20</b>
<b>Additional / Reduced Income</b>		
Planning Fee Income	40	
Car Park Income	10	
Centre Income	10	
Other Income	-25	<b>35</b>
National Park Grant Adjustment		<b>145</b>
<b>Revised revenue forecast (surplus)</b>		<b>200</b>

## Appendix 3

### Departmental Budget Breakdown

	Draft Baseline Expend 2019/20	Draft Baseline Income 2019/20	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Other Adjusts	Draft net Budget 2019/20
<b>Conservation of the Natural Environment</b>	<b>401,270</b>	<b>-51,432</b>	<b>4,970</b>	<b>2,351</b>			<b>357,159</b>
Cilrhedyn Woodland Centre	100,488	-49,102	858	558			52,803
Nature Conservation	295,290	-2,330	4,112	1,656			298,728
Marine Environment	5,492			137			5,629
<b>Conservation of the Cultural Heritage</b>	<b>108,067</b>		<b>1,278</b>	<b>420</b>		<b>5,683</b>	<b>115,448</b>
Invasive Species	25,000						25,000
Conservation Areas & Historic Buildings	46,289		805	92			47,185
CP10 - Archaeology, Culture & Heritage	36,778		473	329		5,683	43,263
<b>Development Control</b>	<b>478,949</b>	<b>-183,230</b>	<b>7,660</b>	<b>2,071</b>		<b>-6</b>	<b>305,445</b>
Development Management (inc Mineral Plans)	478,949	-183,230	7,660	2,071		-6	305,445
<b>Forward Planning &amp; Communities</b>	<b>396,767</b>		<b>3,813</b>	<b>143</b>			<b>400,722</b>
Development Planning	276,647		3,464	92			280,204
Sustainable Development Fund	100,000						100,000
Sustainable Development Delivery	20,120		348	51			20,519
<b>Promoting Understanding</b>	<b>1,475,735</b>	<b>-625,390</b>	<b>16,202</b>	<b>12,045</b>	<b>-25,358</b>		<b>853,234</b>
Discovery Management							
Tourism & Wellbeing Officer	41,475		805	31			42,311
Carew Castle	241,372	-230,896	2,532	1,538	-11,036		3,509
Carew Castle Tea Room	-11,128			759	-4,150		-14,519
Castell Henllys	180,882	-135,726	2,042	1,538	-5,336		43,401
Oriel Y Parc, St David's	395,135	-148,597	3,843	3,432	-2,972		250,842
Oriel Y Parc Cafe	-21,000						-21,000
Tenby National Park Office	7,490			187			7,678
Coast to Coast	50,432	-89,172	227	967	-1,783		-39,328
Wales Coast Path Marketing	89,814						89,814
Communications	190,032		2,385	1,673			194,090
SUP9 - Graphic Services	88,932		1,279	389			90,600
Discovery	129,808	0	2,427	228	0		132,462
Activities & Events	3,534	-4,000		82	-80		-464
Flexible Programme	33,197	-17,000	577	108			16,882
Pembs Outdoor Schools	427		84				510
Pathways Project	55,332			1,113			56,444
<b>Recreation &amp; Park Management</b>	<b>649,993</b>	<b>-599,976</b>	<b>4,658</b>	<b>7,636</b>	<b>-4,000</b>		<b>58,311</b>
Sustainable Transport	78,547		8	1,953			80,508
National Trail	224,980	-172,389	708	1,310			54,609
Access Officer and Rights of Way	105,301		1,522	930			107,753
Technical Officer	64,617		480	1,019			66,117
Local Community & Match Funds	800						800
Charging Car Parks	175,748	-427,587	1,939	2,424	-4,000		-251,476

	Draft Baseline Expend 2019/20	Draft Baseline Income 2019/20	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Other Adjusts	Draft net Budget 2019/20
<b>Rangers, Estates &amp; Volunteers</b>	<b>1,140,120</b>	<b>-132,854</b>	<b>18,796</b>	<b>5,525</b>			<b>1,031,588</b>
Park Delivery Management	120,378		1,533	160			122,071
Ranger Services	215,411		4,139				219,549
North Area	290,994		4,759	1,721			297,474
West Area	161,812		3,262	1,382			166,455
South Area	189,814		3,319	1,116			194,249
Castlemartin Ranger	36,058	-28,914	560	202			7,906
Tenby / Newport Ranger	17,222		344				17,566
Estates Management (incl. Surplus Properties)	108,431	-103,940	881	945			6,317
<b>Democratic Representation &amp; Management</b>	<b>726,773</b>	<b>-16,475</b>	<b>3,931</b>	<b>4,424</b>		<b>5,000</b>	<b>723,652</b>
DRM2 - Chief Executive's Office	104,832		1,978	57			106,866
DRM1 - Corporate Activities & Management	181,374			1,215		5,000	187,588
Democratic Representation	196,552		1,459	3,010			201,022
Future Landscapes Wales	150,000						150,000
National Parks Wales	24,612	-16,475	2	92			8,232
Corporate Governance	69,403		492	49			69,944
<b>Service Management &amp; Support Services</b>	<b>1,137,634</b>	<b>-64,000</b>	<b>13,327</b>	<b>8,817</b>			<b>1,095,778</b>
<i>(Memorandum account, recharged to services)</i>							
SUP1 - Director of Park Direction & Planning	65,399		1,198	67			66,664
SUP3 - Director of Delivery & Discovery	80,043		2,861	19			82,923
SUP5 - Reception/Admin Services	92,495		1,375	213			94,083
SUP2 - Performance Management	53,041		701	132			53,875
SUP6 - Legal Services	30,750			769			31,519
SUP7 - Financial Services	170,373		2,396	1,162			173,931
SUP8 - IT Services	235,489		1,834	1,833			239,155
SUP16 - Parc Llanion Park	102,969	-14,000	469	1,357			90,796
SUP12 - General Building Maintenance	86,447			2,161			88,608
Grants Officer	36,188	-50,000	549	51			-13,212
Projects Team	44,604		805	47			45,456
SUP14 - Pool Vehicles	15,149			379			15,528
Personnel, Health & Safety, Staff Training	124,686		1,138	628			126,453
<b>TOTALS</b>	<b>6,515,309</b>	<b>-1,673,357</b>	<b>74,634</b>	<b>43,433</b>	<b>-29,358</b>	<b>10,677</b>	<b>4,941,338</b>

	Draft Baseline Expend 2019/20	Draft Baseline Income 2019/20	Payrise, Inflation Costs	Inflation Other Costs	Efficiency Savings & Increased Income	Other Adjusts	Draft net Budget 2019/20
Conservation of the Natural Environment	401,270	-51,432	4,970	2,351			357,159
Conservation of the Historic & Cultural Env't	108,067		1,278	420		5,683	115,448
Development Control	478,949	-183,230	7,660	2,071		-6	305,445
Forward Planning & Communities	396,767		3,813	143			400,722
Promoting Understanding & Enjoyment	1,475,735	-625,390	16,202	12,045	-25,358		853,234
Recreation & Park Management	649,993	-599,976	4,658	7,636	-4,000		58,311
Rangers, Estates & Volunteers	1,140,120	-132,854	18,796	5,525			1,031,588
Democratic Representation & Management	726,773	-16,475	3,931	4,424		5,000	723,652
Service Management & Support Services	1,137,634	-64,000	13,327	8,817			1,095,778
Support Services Recharges							
<b>Net Cost of Services</b>	<b>6,515,309</b>	<b>-1,673,357</b>	<b>74,634</b>	<b>43,433</b>	<b>-29,358</b>	<b>10,677</b>	<b>4,941,338</b>
Depreciation Adjustment	-258,814						-258,814
Interest receivable and investment income		-15,000					-15,000
<b>Net Operating Expenditure</b>	<b>6,256,495</b>	<b>-1,688,357</b>	<b>74,634</b>	<b>43,433</b>	<b>-29,358</b>	<b>10,677</b>	<b>4,667,524</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 EMR Invasive Species	-25,000						-25,000
Transfers From EMR Pathways	-56,442						-56,442
Transfers From EMR Wales Coast Path	-89,814						-89,814
Transfers From EMR Future landscapes	-150,000						-150,000
Transfers From EMR Continuation of Services	-167,000						-167,000
Transfers From EMR LDP	-90,000						-90,000
<b>NET BUDGET</b>	<b>5,528,144</b>	<b>-1,688,357</b>	<b>74,634</b>	<b>43,433</b>	<b>-29,358</b>	<b>10,677</b>	<b>3,939,173</b>
<b>Financed by:</b>							
National Park Grant	-2,954,655						-2,954,655
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>-367</b>