NFNPA RAPC 327/17

NEW FOREST NATIONAL PARK AUTHORITY

RESOURCES, AUDIT AND PERFORMANCE COMMITTEE – 6 MARCH 2017

GENERAL FUND REVENUE BUDGET FOR THE FINANCIAL YEAR 2017/18, TREASURY MANAGEMENT STRATEGY AND MEDIUM TERM POSITION TO 2020

Report by: Nigel Stone, Chief Finance Officer

Summary:

This paper sets out proposals for a revenue budget for the financial year 2017/18 for consideration by the Authority. The report also provides a medium term projection of the Authority's financial position up to March 2020, based upon the financial strategy outlined within the report.

Recommendations:

To:

1 **Support the General Fund Budget for 2017/18 and recommend it for approval at the Authority meeting on 23 March 2017**

2 **Note that the underlying minimum level for the General Fund Reserve remains at £0.3 million.**

3 **Note the implications on the Reserves of the proposed budget for 2017/18.**

4 **Note the Risk Assessment and Section 25 Statement (Section 7).**

5 **Support the Treasury Management Strategy in Annex 3 and recommend it for approval at the Authority meeting on 23 March 2017**

6 **Note the Medium Term Financial Plan up to 2019/20 in Annex 4.**

Resources:

As set out in the report

Equality and Diversity Implications:

There are no equality or diversity implications arising directly from this report.

Papers:

NFNPA 327/17:	Cover Paper
NFNPA 327 /17 Annex 1:	Programme Fund Detail 2017/18
NFNPA 327 /17 Annex 2:	Position of Reserves
NFNPA 327 /17 Annex 3:	Treasury Management Strategy up to 2019/20
NFNPA 327 /17 Annex 4:	Medium Term Financial Plan 2017-2020

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1 Purpose

1.1 This paper sets out proposals for a revenue budget for the financial year 2017/18 for consideration by the Authority. The report also provides details of the Treasury Management Strategy and a medium term projection of the Authority's financial position up to March 2020, based upon the financial strategy outlined within the report.

2 Budget Planning Process

2.1 The Chief Executive, Chief Finance Officer and Officers have drafted this budget alongside the workplans for the 2017/18 financial year. These in turn derive from the overall Partnership Plan actions for the Authority and more specifically from the 2015-18 Business Plan, of which this is the final year.

2.2 During 2016/17 the Executive Leadership Team instigated a review of Medium Term Strategic Planning at the Authority under the initial four headings of:

- Data and Evidence
- Partnerships and Engagement
- Commercialisation and Income Generation
- Organisational Development

Members have been updated and consulted throughout this process and a number of the workplan actions and budget provisions for 2017/18 are as a direct result of this work.

2.3 On 21 January 2016 Rory Stewart, then Parliamentary Under Secretary of State at Defra, wrote to all National Parks setting out the exact details of the four year grant settlement; for our Authority that equated to:

2016/17	£3,089,334
2017/18	£3,142,471
2018/19	£3,196,521
2019/20	£3,251,501

2.3 The figures above include a 1.72% inflationary rise each year and therefore do ensure that our budgets will be protected in real terms over the four year cycle. The grant settlement letter also spoke glowingly of the "huge value" attached to National Parks "across a whole range of important issues".

2.4 Our Medium Term Financial Plan has therefore been drafted to cover the period up to 2019/20, mirroring the grant settlement period.

3 General Fund Revenue Budget for 2017/18

3.1 The proposed General Fund Revenue budget for 2017/18 is based upon the following expenditure and income assumptions. The Programme Fund budget is set out in **Annex 1**, Reserves in **Annex 2** and the Medium Term Financial Plan in **Annex 4**.

3.2 Alongside the 'internally' funded budgets set out within this paper (funded by the Defra grant & any fee/income generation), the Authority is continuing to successfully attract significant externally-funded projects - for every £1 the Authority puts into its partnership projects, a further £14 is generated from partner organisations to be spent in the New Forest.

The table below outlines some of the key projects for the forthcoming year which will be spent alongside our 'internal' budgets:

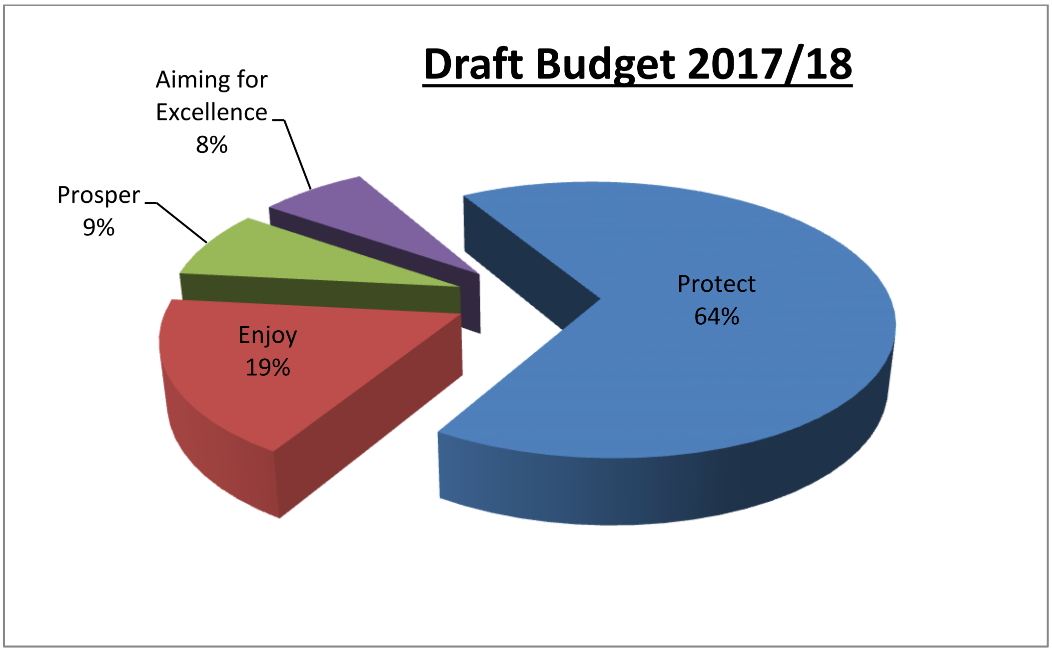
Project	**Funder(s)**	**Approx Value (£)**
Our Past, Our Future (Landscape Partnership Scheme – Delivery Phase)	Heritage Lottery Fund	1,000,000
Higher Level Stewardship	Verderers / FC	70,000
Land Advice Service	Various	70,000

Including the amounts above, the total expenditure by the Authority in 2017/18 will likely be around £5m.

3.3 The table and pie chart below display the draft 'internal' 2017/18 Budget (£3.88m) in line with the priorities of the Authority - 'Protect, Enjoy, Prosper & Achieving Excellence':

	Protect*	**Enjoy**	**Prosper**	**Achieving Excellence**
	£000	**£000**	**£000**	**£000**
Employee Costs (allocated)	1,832	430	230	255
Programme Fund	100	184	45	-
Sustainable Development Fund (approximation)	35	10	5	-
Strategy & Planning	60	-	-	-
Central Costs (allocated)	445	137	61	56
TOTAL	**2,472**	**761**	**341**	**311**

*Includes up to £750,000 of costs directly related to the Planning Service.



3.4 Income Analysis

3.4.1 The following table shows the estimated income for the year; with comparisons to 2016/17 (any significant variances are then explained in the text below):

	2016/17 Projected Outturn £000's	2017/18 Base Budget £000's	Change 2016/17 to 2017/18 £000's	Change 2016/17 to 2017/18 %'s
Income:				
Defra Grant	3,089	3,142	53	2%
Planning Fees	320	295	-25	-8%
Shared Service Contributions	306	313	7	2%
Income Generation	10	10	0	0%
Investment and Interest	10	9	-1	-10%
TOTAL	**3,735**	**3,769**	**34**	**1%**
Use of Reserves (see section 4)	90	71	-19	-21%
Carry Forward	53	45	-8	-15%
TOTAL INCOME	**3,878**	**3,885**	**7**	**0%**

3.4.2 The core Defra National Park grant for 2017/18 has been increased by £53,000 (1.7%) to £3,142,000 as confirmed in the settlement letter dated 21 January 2016. The grant settlement also included future years up to and including 2019/20 and the 1.7% annual increase is maintained over this time (resulting in a grant of over £3.25m by 2019/20); further detail on medium-term budgets can be found in Section 8 and Annex 4.

3.4.3 Planning fee income in 2017/18 is projected to be lower than the 2016/17 outturn due to that figure being abnormally high due to a large one-off planning fee received that year.

3.4.4 The Authority will continue to provide a significant number of professional services for other organisations covering areas such as Trees, Ecology, Rangers, Building Design & Conservation and Archaeology.

3.4.5 Income generation, largely from guided walks & talks and some sponsorship, is expected to be around £10,000 in 2017/18.

3.4.6 Interest on cash flow returns are expected to be around £9,000 in 2017/18 due to the current low interest rates, high cash-flow requirements for projects this year and a low-risk investment strategy. The budgeted interest income is explained further in the Treasury Management Strategy which is attached as **Annex 3** to this report.

3.4.7 During the budget setting process, the projected outturn from 2016/17 was calculated and indicated a saving of at least £45,000 as a result of some additional planning fee income, salary savings and a significant number of smaller positive variances. It is proposed to carry forward these funds for use in 2017/18.

3.5 Expenditure Analysis

3.5.1 The following table shows the estimated expenditure for the year; with comparisons to 2016/17 (any significant variances are then explained in the text below):

Expenditure:	**2016/17 Projected Outturn £000's**	**2017/18 Base Budget £000's**	**Change 2016/17 to 2017/18 £000's**	**Change 2016/17 to 2017/18 %'s**
Employee Costs (Salaries, travel & subs)	2,674	2,747	73	3%
Sustainable Communities Fund	50	50	0	0%
Programme Fund	298	329	31	10%
Strategy & Planning (inc Appeals)	88	60	-28	-32%
Member Services	55	60	5	9%
Secretariat	47	48	1	2%
Human Resources	73	76	3	4%
ICT (including R&R Fund)	255	193	-62	-24%
Accommodation	200	204	4	2%
Central Costs (Overheads & SLA's)	138	118	-20	-14%
TOTAL EXPENDITURE	**3,878**	**3,885**	**7**	**0%**

3.5.2 Projected employee costs for 2017/18 show a net increase of £73,000 in comparison to 2016/17. The projected 1% pay award for 2017/18 will cost an additional £20,000, scale point rises (for approximately half of employees) a further £20,000 and an increase in pension costs (following the triennial valuation of the scheme) of around £30,000. The net effect of other changes is negligible, but the budget has been increased by approximately

£40,000 to bring ICT support in-house and reduced by the corresponding amount due to some savings identified through requested reductions in hours from a number of staff (following return to work from maternity leave). As previously, the salary budget provides for a 2% ‘expected’ vacancy savings within the year.

3.5.3 Programme Fund budgets are shown in more detail in **Annex 1**, the increase proposed is due to two items; firstly the small ranger mobile unit is due for replacement this year and secondly the education budget has been increased to allow support to be drafted in to cover for a corresponding reduction in salaried staffing.

3.5.4 The Sustainable Communities Fund remains at £50,000 for the 2017/18 financial year. Of this funding, £30,000 will be a fixed contribution to the Our Past, Our Future scheme (as previously agreed) and £20,000 will be available as smaller grants.

3.5.5 Strategy & Planning budgets will fall for 2017/18 largely due to the additional funding set aside in 2016/17 with regard to the local plan work. Some small savings have also been identified within these budgets.

3.5.6 The Member services budget has increased due to the budgeted 1% pay award on allowances and that the Authority will no longer be carrying a vacancy for the forthcoming year.

3.5.7 ICT budgets have been reduced by £62,000 this year, approximately a third of this has been achieved through savings and the remainder is due to the ICT support service being brought in-house rather than paid out to an external contractor (i.e. matches an increase on the salary budget line).

3.5.8 A £20,000 saving has been made on the Authority’s central costs for 2017/18 through procuring cheaper insurance, printer/copiers and postage contracts as well as a reduction in SLA costs from bringing the Chief Finance Officer role in-house.

4. Reserves

4.1 **Annex 2** shows the reserves position, identifying the use of reserves in line with the proposed budget for 2017/18. In summary, the movements in reserves are:

General Fund Reserve

- A minimum reserve of £300,000 will be maintained in the General Fund Reserve – this was recently reviewed by the Chief Finance Officer and is still considered appropriate (equating to approximately 10% of our National Park Grant).

Revenue Support Reserve

- The Authority has in place a phased use of this reserve, in line with this strategy, it is estimated that up to £25,000 will be taken from this reserve in 2017/18 to balance the budget (plus the additional £45,000 savings carried forward from 2016/17).

Capital / Major Projects Reserve

- The Authority has in place reserves to allow funding of capital and/or major projects, with particular regard to invest-to-save schemes. The fund currently has £817,000 set aside for such purposes and it is proposed that £20,000 is utilised in 2017/18 to support the New Forest Visitor Gift Scheme with a view to consolidating and extending the scheme to bring further funds into the Forest. A further £250,000 has previously been earmarked for the Hamptworth project. Members will be requested to consider any further proposals for the use of this fund as they arise.

Earmarked Reserves

- It is proposed that £26,000 be utilised from the various earmarked reserves in 2017/18, approximately half of this relates to funding set aside for the replacement of the small ranger mobile unit.

- Developers Contributions – The Authority still holds a significant balance of Developer Contributions (c£800,000), the majority being those for affordable housing. This balance will be utilised as and when required during the year, for example in regard to further affordable housing developments or as requested by Parish Councils.

5. Risks and Uncertainties

5.1 In setting the budget, a number of potential risks / uncertainties are identified, the list for 2017/18 includes:

- **National Park Grant** – Although Defra has given the Authority every indication that its grant for 2017/18 will be £3.142m, this still remains at risk of possible change.

- **Planning Fee Income** – Although the fee target has been aligned to recent performance, economic conditions are such that risks over certainty remain.

- **Inflation** – No allowance has been made for inflation within the budgets, it is expected that any increases should be met through efficiencies.

- **Salaries** - The budget includes provision for a 1% employee pay award for 2017/18 (costing approx £20,000) and has also been adjusted to allow for a proportion of normal vacancy savings (2% of total salary budget).

- **Legal Costs** - £5,000 has been budgeted for planning appeals, calculated as an average of last 3 years costs; however the actual figure could be significantly higher or lower dependent on circumstances (many of which are beyond our control).

- **Listed Building Urgent Works** – No budgetary provision has been made for urgent works to listed buildings and therefore any required works would have to be initially funded from reserves in anticipation of then being claimed back from the owner.

- **Externally-Funded Projects** – This budget paper sets out how the Authority will spend its own direct funding during 2017/18. In addition there are likely to be a number of externally-funded schemes throughout the year which are project managed by the Authority (e.g. HLS, NFLAS, OPOF etc). These projects will be identified and monitored, as previously, within the Authority's normal monitoring and reporting structure.

- **Opportunities / Investments / New Costs** – As budgets are becoming tighter year-on-year there will be less likelihood of any unforeseen opportunities or costs being funded from within the overall Authority budget. For the year ahead these could include items around the Brexit agenda, those brought out through the Recreation Management Strategy work (e.g. costs of public consultation) or ways we can leverage in further funding to increase awareness of the National Park 'brand' and the visitor experience. We are conscious of many such items but are not in a position at this time to either confirm their impact and/or accurately budget for them. Therefore a higher probability of supplementary budget requests now exists and these would have to be funded either from identified savings, in future year's budgets or more immediately from general/investment reserves.

All these factors will be explicitly monitored and reported upon in the budgetary control reports for 2017/18.

6. Spending plans

6.1 This approach to delivering a "balanced" budget will enable the Authority's to develop its annual business plans positively and builds further on the noteworthy savings and efficiencies made over the past few years whilst continuing to deliver for the Forest. It is consistent with the Business Planning work that has previously been undertaken and that which is ongoing.

6.2 The budget for 2017/18 has been driven by the Partnership (Management) Plan and the Authority's own 2015-18 Business Plan ensuring all outcomes are agreed, robust and achievable. These plans were scrutinised by Officers and Members at various stages of their development.

6.3 Performance monitoring will continue be undertaken throughout the year to keep Members apprised of progress against plans. The effect of strong budgeting and increased financial monitoring procedures over recent years has shown in reduced variances; for example, in recent years the Authority's outturn has been within 2% of the original budget and 1% of any revised budget.

7 Robustness of the Budget and Risk Assessment

7.1 Section 25 of the Local Government Act 2003 imposes a duty on the Chief Finance Officer to report to the budget setting Authority on the following issues:

7.2 **Robustness of the estimates:**

7.2.1 The preparation for the budget for 2017/18 has been considered over a number of months in view of two significant factors: the anticipated Government Grant, and ensuring that the resources are used to deliver the programmes Protect, Enjoy, Prosper and Achieving Excellence.

7.2.2 Key elements of the budget are the provisions that are made for inflation on pay and prices. As stated in the report, it has been assumed that there will be a maximum 1% pay award (incremental progression has also been covered in the budget), however budgets have not generally been increased for inflation. Thus any inflationary pressure would have to be accommodated within the approved budget.

7.2.3 In the light of these factors and the level of balances held by the Authority, it is not considered that there is a need to hold a contingency within the budget itself.

7.2.4 The planning for, and determination to achieve, the challenging targets within the budget mean that the budget for 2017/18 can be considered fully robust.

7.3 **Adequacy of proposed General Fund Reserve**

7.3.1 The Chief Finance Officer is required to make a recommendation as to the adequacy of the level of reserves held by the Authority.

7.3.2 The General Fund Reserve is used to cover general unforeseen items of expenditure that cannot be funded within the base budget in any particular year and as a general contingency against unforeseen events in future years. Following a full review, it is recommended to maintain a minimum General Fund Reserve level of £300,000.

7.3.3 The General Fund Reserve will be £300,000 at 1 April 2017. Further reserves have been set aside for Planning Appeal / Misc Risks (£150,000), Revenue Support (£163,000) and for investment in Capital / Major Projects (£817,000).

7.3.4 In the light of these factors, the level of financial reserves is considered fully adequate.

8. Medium Term Financial Position

8.1 The Authority's Medium Term Financial Plan, attached as **Annex 4**, supports the Partnership (Management) Plan and Business Plan by ensuring resources are made available to support priorities over the period of the plan.

8.2 The financial plan also seeks to ensure that the Authority remains financially sound not only in the medium term but into the future. To achieve this position the Authority should seek to set a balanced budget whereby annual spending plans are matched to resources available.

8.3 As mentioned previously, given that the most recent Grant settlement now covers the period up to the end of 2019/20, the plan has been adjusted to cover the same period.

8.4 Members will note from the figures that a further £50-70,000 needs to be found for the 2018/19 and 2019/20 budgets to balance. The primary source of this funding is hoped to be additional income generation, either internally or through the work of National Parks Partnerships Ltd. Should this level of funding not be available, then the Authority would have to look to cut costs. Once this level of funding/savings is found for 2018/19, due to the inflationary increases in the Grant, this would ensure all the budgets up to and including 2019/20 would balance.

8.5 This current future shortfall is only around 1% of annual expenditure and 1.6% of our Defra grant amount and is therefore considered manageable at this stage. Further work will be done by the Executive Leadership Team and Officers through the 2017 calendar year to identify the required income or savings and Members will be kept fully involved in this process.

Annex 1

PROGRAMME FUND 2017/18

	Budget (£'s)
Protect	
Our Past, Our Future (Landscape Partnership)	56,000
Landscape Projects	5,000
Archaeological Projects	4,000
Archaeological Work for FC	6,000
Ecology & Catchment Co-ordination	14,000
Natural Environment Evidence Base	7,500
Solent Forum	2,500
NFLAS Woodfuel & Woodland Projects	5,000
	100,000
Enjoy	
Access & Recreation	12,500
Education	19,000
Boundary Markers	2,000
Educational Campaigns	7,000
Interpretation & Information	8,000
Health and Wellbeing	5,000
New Forest Centre Agreement	40,000
New Forest Show	4,000
Media & Promotion	23,000
Publications	24,000
Partnership Publications	8,000
Ranger Projects	24,500
Inclusive Cycling	2,000
NFDC Ranger Projects	5,000
	184,000
Prosper	
New Forest Marque	25,000
Sustainability Projects	5,000
Sustainable Tourism	6,000
Sustainable Transport	5,000
New Forest Business Partnership Events	3,500
	44,500
Total Expenditure	**328,500**

Annex 2

POSITION OF RESERVES

	Estimated at 31/03/17 £000	**Estimated net use in 2017/18 (if budget spent as per proposals)** £000	**Estimated at 01/04/2018** £000
General Reserves :			
General Fund Reserve	300	0	300
Earmarked Reserves :			
Planning Appeal Risk Reserve	150	0	150
Revenue Support Reserve	163	(70)	93
Capital / Major Projects Reserve	817	(20)	797
Developer Contributions	799	0*	799
Sustainable Communities	78	0	78
ICT R&R Fund	77	0	77
Other Reserves	573	(26)	547
	2,657	(116)	2,541
Total	**2,957**	**(116)**	**2,841**

* Assumes approximately same amount spent and received next year

Annex 3

TREASURY MANAGEMENT STRATEGY TO 2019/20

1 Introduction

1.1 CIPFA's Treasury Management Code of Practice and the Prudential Code for Capital Finance in Local Authorities requires the Authority to produce a Treasury Management Strategy which explains the Authority's borrowing and investment activities and the effective management of associated risks. There are three key legislative requirements that apply to this Authority:

- Treasury Management Strategy Statement (see appendix 1a)
- Investment Strategy (see appendix 1a)
- Prudential Indicators (see appendix 1b)

1.2 The Treasury Management Policy requires an annual strategy to be approved outlining the expected treasury activity for the forthcoming three years prior to each financial year. A report is produced after each year-end to report on actual activity for the year. A further interim monitoring report is produced during the year and taken to Resources, Audit and Performance Committee during November.

1.3 A key requirement of this strategy report is to explain both the risks, and the management of the risks, associated with the treasury service.

1.4 There are specific treasury prudential indicators included in this strategy that need approval.

2. Treasury Management Practice – credit and counterparty risk

2.1 The DCLG has issued Guidance on Local Government Investments (the Guidance).

2.2 The key intention of the Guidance, the Code of Practice and the Prudential Code is to maintain the current requirement for authorities to invest prudently, and that priority is given to security and liquidity before yield.

2.3 This Authority has adopted this code of practice and will apply its principles to all investment activity.

3. Investment Policy

3.1 The investment policy summarises the main aims and objectives of the investment function within the treasury management service as follows:

- The main principle governing the Authority's investment criteria is the security and liquidity of its investments, which takes priority over yield. However, the yield will be a consideration subject to adequate security and liquidity.

3.2 After this main principle the Authority will ensure that:

- It has sufficient liquidity in its investments. For this purpose it will set out the maximum periods for which funds may prudently be invested. See Appendix 1a, paragraphs 4.10 to 4.11.

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections at Appendix 1a, paragraphs 4.6 to 4.13.

3.3 <u>Strategy Consideration for 2017/18</u>

3.3.1 Members will be aware that in 2015/16 significant changes were made to the Treasury Strategy in that a 'low risk / low reward' approach was deemed most appropriate given that the costs of attracting larger amounts of interest was prohibitive and the requirement for funds to be available to cash-flow projects which claim in arrears.

3.3.2 This position has again been reviewed by the Chief Finance Officer and it is recommended that the same approach be taken for 2017/18. There has been further reductions in the interest rates available for our size of investments (up to £1m) meaning the administrative costs of attracting them is still considered prohibitive, whilst also the OPOF scheme, in particular, requires funds to cash-flow it during the coming year.

3.3.3 The portfolio value is estimated to remain between £2.5m and £3.5m for the year ahead. As previously, this will largely be held in three main low-risk accounts – the Lloyds current account, Standard Life Money Market Fund and Debt Management Account Deposit Facility.

Annex 3
Appendix 1a

Treasury Management Strategy

1 Introduction

This strategy covers:

- Investment projections
- The expected movement in interest rates
- The investment strategy (in compliance with the guidance)

2 Investment Projections

2.1 The Authority's treasury position is highlighted in the following table. This shows estimated levels of temporary investments.

	2017 Estimate £000	2018 Estimate £000	2019 Estimate £000	2020 Estimate £000
Investments at 31 March	3,000	2,700	2,400	2,200
Expected Change in Investments		-300	-300	-200

3. The Expected Movement in Interest Rates

3.1 Forecast medium term interest rates are as follows:

Medium-Term Rate Forecasts – Annual Averages %

Year	Base Rate %	3 Month Rate %	12 Month Rate %
2016/17	0.25	0.20	0.50
2017/18	0.25	0.20	0.50
2018/19	0.50	0.40	0.70
2019/20	0.75	0.60	0.90

4. Investment Strategy to 2019/20

4.1 Key Objectives

The key intention of the investment guidance is to maintain the current requirement to invest prudently, and that priority is given to security and liquidity before yield.

4.2 Risk Benchmarking

A requirement of the Code is the consideration and approval of security and liquidity benchmarks.

Yield benchmarks are factual and used widely to assess investment performance. Security and liquidity benchmarks are subjective in nature. See Appendix 1c.

4.2.1 Yield

Local measures of yield benchmarks are:

- Investments – returns above the 7 day LIBID rate

4.2.2 Liquidity

In respect of this area the Authority seeks to maintain:

- Bank overdraft - £100,000.

4.3 Investment Counterparty Selection Criteria (Security)

The primary principle governing the Authority's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Authority will ensure that:

- It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and the monitoring of their security. This is set out in the Specified and Non-Specified investment sections below.
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed.

4.4 Credit Ratings

The Authority uses online reports from credit rating agencies, to determine which counterparties to use.

Information considered includes:

- Credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

When an investment is proposed, credit rating information is researched for all potential counterparties that comply with the criteria below. All rating information is considered before making an investment.

4.5 The Authority will invest in accordance with paragraphs 4.6 to 4.13 below.

This strategy may be reviewed at any time.

Specified Investments

4.6 These investments are made in sterling and have durations of one year or less.

4.7 These are low risk investments where the possibility of loss of principal or investment income is minimal. Specified investments include:

- UK Government - (to include the Debt Management Office)
- Local Authorities - (to include Parish, Police, Fire and Rescue etc.)
- Banks and Building Societies – The Authority will only use UK based Banks and Building Societies and these will generally be:
    - Lloyds TSB Bank
    - Barclays Bank
    - National Westminster Bank
    - HSBC
    - Nationwide Building Society
    - Royal Bank of Scotland Group

  and which must have at least the short - term credit ratings in the table below.

Credit Rating Agency	Short – Term Credit Rating
Fitch	F-1
Moody's	P-1
Standard & Poors	A-1

- Money Market Funds (MMF) – which will be AAA rated by a credit rating agency. AAA rating means that the chances of default are considered minimal.

  A MMF is a pool of cash managed by an independent fund management company. Investors purchase units of the fund which are held on their behalf in a custody account. The Authority has instant access to all cash held in the MMF.

Non-Specified Investments

4.8 Non – Specified investments are any other type of permissible investment not defined as specified above and include:

- UK Government Gilts with a maturity of greater than one year.
- Local Authorities, etc. with a maturity of greater than one year.
- Banks and Building Societies. The Authority will only use UK based Banks and Building Societies and these will generally be:–
    - Lloyds TSB Bank
    - Barclays Bank
    - National Westminster Bank
    - HSBC

- Nationwide Building Society
- Royal Bank of Scotland

with a maturity of more than one year which will have, as a minimum, the following Fitch credit ratings, and equivalent Moody's and Standard and Poors credit ratings:

Long-Term Credit Rating	Short-Term Credit Rating	Support	Maximum Period of Investment
A (+/-)	F-1	3	Up to 2 years

4.9 The longer-term investments will also need to fit in with the principles of the treasury prudential indicator for total sums invested for periods longer than 364 days as shown at 4.21 below.

4.10 Authority's Own Bank (currently Lloyds):

4.10.1 The maximum limit available to be held by the Authority at its own bank is £2m, of which a maximum of £1m can be invested without instant access.

4.10.2 If the Authority's own bank falls below the above criteria the bank will still be used for normal banking transactions. If this happens balances held on account will be kept to a minimum working amount**.**

4.11 The Authority will try to maximise the spread of investments so that ideally no more than 40% of the current total sum invested is deposited with any one organisation at the time of investment. However the maximum investment may be £1.0m with any eligible counterparty or maximum 'holdings' (i.e. instant access funds) which will be set at £1.5m per counterparty.

4.12 The use of longer-term investments will be within the non-specified investment category. These investments will only be used according to the parameters shown at 4.21 below and will be limited by the core funds available depending on the Authority's need for liquidity.

4.13 Use of additional information other than credit ratings

The Code of Practice requires the Authority to supplement credit rating information. Market information (for example Credit Default Swaps, equity prices, and negative rating watches/outlooks) will be applied to compare the relative security of investment counterparties.

Exposure to Investment Risk

4.14 The Authority had £500,000 invested with a failed Icelandic Bank (Heritable), interest of £17,000 was also due when it was placed into administration in October 2008. To date a total of £506,236 (98%) has been repaid and there is no provision being made for any further receipts at this time.

The Monitoring of Investment Counterparties

4.15 The credit rating of counterparties will be monitored regularly, as a policy at least monthly.

4.16 Any counterparty failing to meet the criteria will be removed from the list. And if required new counterparties which meet the criteria will be added to the list.

4.17 Due care will be taken to consider the country, group and sector exposure of the Authority's investments.

Treasury Management Prudential Indicators and Limits on Activity.

4.18 The purpose of treasury prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates.

4.19 No indicators for borrowing have been set as no borrowing will be undertaken unless it is temporary borrowing for cash flow purposes.

4.20 The limits for investment are:

- Maximum principal funds invested –
  These limits are set to help identify the total sums available for investment over the year.
- Total principal funds invested for more than 364 days –
  These limits are based on the availability of investments after each year-end. This is the amount of funds that are not needed for revenue or capital purposes over the short term and could be invested for longer periods if advantageous to and approved by the Authority.
- Fixed and variable interest rate investments –
  Limits are included for fixed and variable interest rate investments to contain the volatility of the investments.
- Maturity structure of investments –
  These limits are set to indicate the maturity structure of investments and to ensure that authorities invest in a cautious manner.

4.21 These limits are shown in the following table: -

Investments	**2016/17 Upper**		**2017/18 Upper**		**2018/16 Upper**	
Estimated Maximum sums invested	£4.0m		£4.0m		£4.0m	
Estimated Maximum sums that could be invested for more than 364 days	£1.0m		£1.0m		£1.0m	
Limits - fixed interest rates	100%		100%		100%	
Limits - variable interest rates	100%		100%		100%	
Maturity Structure of investments						
	Lower	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
Under 12 months	0%	100%	0%	100%	0%	100%
12 months to 2 years	£0m	£1m	£0m	£1m	£0m	£1m

Sensitivity to Interest Rate Movements

4.22 The Authority is required to disclose the impact of risks on the treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report the impact of interest rate risk is not quantified.

The table below highlights the estimated impact of a 0.5% increase/decrease in all interest rates to treasury management costs/income for next year

Revenue Budgets	**2017/18 Estimated @ 0.4% £000**	**2017/18 Estimated + 0.5% £000**	**2017/18 Estimated -0.5% £000**
Investment income	9	22	0

Use of Money Brokers

4.23 The Authority can use money brokers to place investments with counterparties. The broker has access to the money markets and will be able to determine the best rate of investment for the Authority given the counterparties that the Authority can invest with and type of investment required.

4.24 Several highly rated organisations now conduct their own treasury transactions and no longer use money brokers. The Authority may place investments by dealing directly with these counterparties.

Annex 3
Appendix 1b

Prudential Indicators 2017/18 TO 2019/20

1 Introduction

1.1 Under the Prudential Code the Authority must adopt and monitor a range of indicators.

These indicators are to cover a three year period from the current financial year.

The New Forest National Park Authority is not expected to borrow to finance capital expenditure. Therefore, all indicators below apply only to temporary borrowing for cash flow purposes, and temporary investments.

2 Capital Expenditure

Capital Expenditure

2.1 The following table shows the current forecast for capital expenditure for current and future years.

	2016/17 Current Forecast £000	2017/18 Current Estimate £000	2018/19 Current Estimate £000	2019/20 Current Estimate £000
New Forest National Park Authority	1,000	250	250	250

The Authority's Resources and the Investment Position

2.2 The use of reserves to finance capital expenditure will have an impact on investments unless resources are supplemented each year from other sources such as asset sales. The following table shows estimates of year end balances for each resource.

Estimated Year-End Resources	2016/17 Forecast £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
General Fund Balances	300	300	300	300
Earmarked Reserves	2,660	2,540	2,200	2,000
Investments at 31 March	**2,960**	**2,840**	**2,500**	**2,300**

3 Limits to Borrowing Activity

Although the Authority is not expected to borrow during the year the code requires that two key limits are approved.

The Authorised Limit

3.1 This is the limit beyond which borrowing is prohibited and needs to be set by the Authority for each financial year even though it is not anticipated that the Authority will need to borrow other than short term loans for cash flow purposes. It reflects the level of borrowing that, while not desired or sustainable, could be required in the short-term.

Authorised limit for external debt	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Total	**2**	**2**	**2**	**2**

The Operational Boundary

3.2 This indicator is based on the probable external debt during the course of the year. It is not a limit and the borrowing of the Authority could vary around this boundary for short times during the year. It is a warning indicator to help ensure that the Authorised Limit is not breached.

Operational boundary for external debt	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Total	**0**	**0**	**0**	**0**

4. Affordability Indicators

4.1 All of the affordability indicators recommended by the Prudential Code are to assess the affordability of the Authority's capital programme.

Financing Costs

4.2 This section shows the cost of financing the Authority's capital programme. The following table shows the estimated financing costs for the period from 2016/17 to 2019/20.

Financing Costs	2016/17 Revised £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Revenue Contribution to Fund Capital	1,000	250	250	250

Annex 3
Appendix 1c

SECURITY, LIQUIDITY AND YIELD BENCHMARKING

1. Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service

These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons in the Annual Treasury Report.

1.1 Yield

These benchmarks are currently widely used to assess investment performance. Local measures of yield benchmarks are shown at paragraph 4.2.1 in the Treasury Management Strategy at Appendix 1a:

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. Proposed benchmarks for the cash type investments are shown in the main body of Appendix 1a and these will form the basis of future reporting in this area.

1.2 Liquidity

This is defined as “having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business objectives” (CIPFA Treasury Management Code of Practice).

1.3 Security of the investments

Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody’s and Standard and Poors).

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported in the Investment Annual Report.

Annex 3
Appendix 1d

PORTFOLIO OF HOLDINGS AND INVESTMENTS AT 31 JANUARY 2017

Counterparty	Holding / Investment	Interest Rate	Investment Date	Maturity Date
	£	%		
Debt Management Account Deposit Facility (Gov't)	1,000,000	0.15	27/01/17	26/03/17
Standard Life - Money Market Fund	1,000,000	0.29	Instant Access	
Lloyds Current Account	1,176,605	0.20	Instant Access	
Total	**3,176,605**			

Annex 4

	2016/17 Projected Outturn £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's
Income				
DEFRA Grant	3,089	3,142	3,196	3,251
Planning Fees	320	295	330	330
Shared Service Contributions	306	313	272	275
Income Generation	10	10	10	10
Investment Interest	10	9	12	12
Use of Carry Forward	53	45	0	0
Use of Earmarked Reserves	90	71	10	10
TOTAL INCOME	**3,878**	**3,885**	**3,830**	**3,888**
Expenditure				
Employee Costs	2,674	2,747	2,781	2,816
Salaries as % of Grant	87%	87%	87%	87%
Sustainable Communities Fund	50	50	50	50
Planning	88	60	53	53
Secretariat	47	48	49	50
Member Services	55	60	60	61
Core Running Costs	666	591	604	606
Other subtotal	856	759	766	770
TOTAL EXPENDITURE	**3,580**	**3,556**	**3,597**	**3,636**
Annual Funds Available for Programme Work	**298**	**329**	**233**	**252**
Balanced Budget	**3,878**	**3,885**	**3,830**	**3,888**

	2016/17 Projected Outturn £000s	2017/18 Estimate £000s	2018/19 Estimate £000s	2019/20 Estimate £000s
Potential Programme Fund				
Annual Funds Available for Programme Work	298	329	233	252
Minimum Savings Required (to have an adequate Programme Fund)	0	0	67	48
	298	**329**	**300**	**300**