

**NFPA RAPC 288/16**

**NEW FOREST NATIONAL PARK AUTHORITY**

**RESOURCES, AUDIT AND PERFORMANCE COMMITTEE – 7 MARCH 2016**

**GENERAL FUND REVENUE BUDGET FOR THE FINANCIAL YEAR 2016/17, TREASURY  
MANAGEMENT STRATEGY AND MEDIUM TERM POSITION TO 2020**

**Report by:** Bob Jackson, Chief Finance Officer and Nigel Stone, Performance & Finance  
Manager

**Summary:**

This paper sets out proposals for a revenue budget for the financial year 2016/17 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 2016/17 and recommend it for approval at the Authority meeting on 24 March 2016.**
- 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 2016/17.**
- 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 24 March 2016.**
- 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:**

<b>NFNPA 288/16:</b>	Cover Paper
<b>NFNPA 288/16 Annex 1:</b>	Programme Fund Detail 2016/17
<b>NFNPA 288/16 Annex 2:</b>	Position of Reserves
<b>NFNPA 288/16 Annex 3:</b>	Treasury Management Strategy up to 2018/19
<b>NFNPA 288/16 Annex 4:</b>	Medium Term Financial Plan 2016-2020

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## 1 Purpose

- 1.1 This paper sets out proposals for a revenue budget for the financial year 2016/17 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.
- 1.2 The budget this year has been drafted under the auspices of the Members' Task & Finish Group set up to look at the 'Future Financial Implications for the Authority' and then the Members' Day on Finance on 10 December 2015 which considered and approved an early draft of this budget.

## 2 Budget Planning Process

- 2.1 The Chief Executive and Finance & Performance Manager began looking at numerous potential budget scenarios in the run up to the Comprehensive Spending Review (CSR) announcement made in November 2015. Given the previous cuts of over 40% in real terms from the last CSR in 2010, many of the scenarios were based on further cuts to the National Park Grant from Defra.
- 2.2 On the 25 November, the CSR was announced by the Chancellor and we heard that National Park budgets would be "protected". On 21 January 2016 Rory Stewart, 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 this was:

2015/16	£3,037,096 (for comparison)
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 now therefore been updated to cover the period up to 2019/20, which is a significant step compared to the one or two year grant settlements we have more recently been receiving from Defra.

### 3 General Fund Revenue Budget for 2016/17

- 3.1 The proposed General Fund Revenue budget for 2016/17 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 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 £13 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:

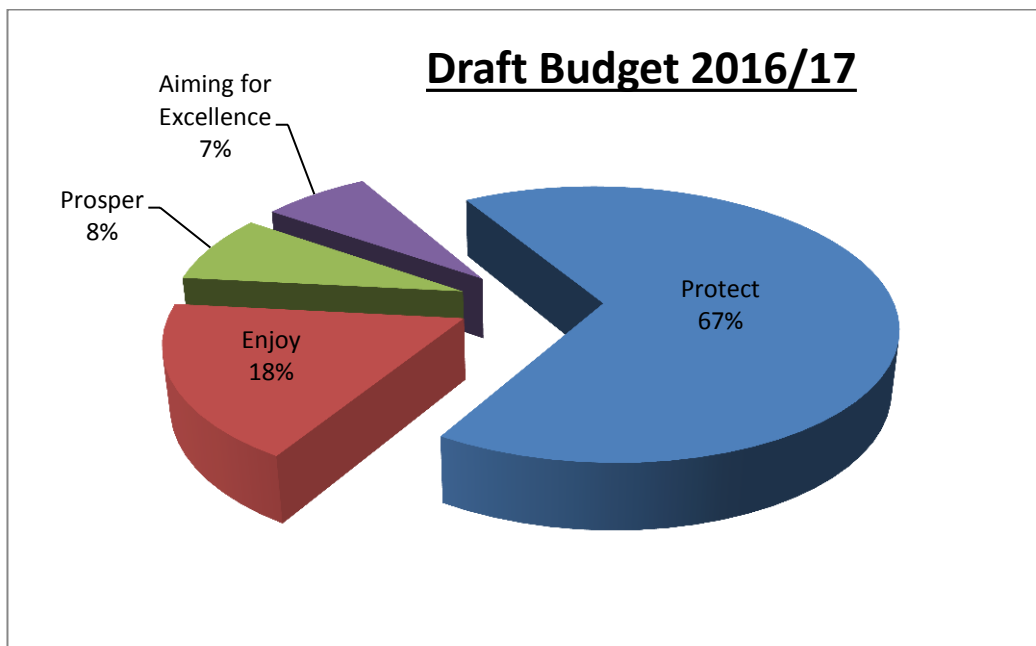
Project	Funder(s)	Approx Value (£)
Our Past, Our Future (Landscape Partnership Scheme – Delivery Phase)	Heritage Lottery Fund	1,000,000
Higher Level Stewardship	Verderers / FC	70,000
Land Advice Service	Various	70,000
Local Sustainable Transport Fund ‘3’	Dept for Transport	TBC

Including the amounts above, the total expenditure by the Authority in 2016/17 will likely exceed £5m.

- 3.3 The table and pie chart below display the draft ‘internal’ 2016/17 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)	1,822	414	223	215
Programme Fund	110	153	35	-
Sustainable Development Fund (approximation)	35	10	5	-
Strategy & Planning	91	-	-	-
Central Costs (allocated)	521	118	64	62
<b>TOTAL</b>	<b>2,579</b>	<b>695</b>	<b>327</b>	<b>277</b>

\*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 2015/16 (any significant variances are then explained in the text below):

	2015/16 Projected Outturn £000's	2016/17 Base Budget £000's	Change 2015/16 to 2016/17 £000's	Change 2015/16 to 2016/17 %s
<b>Income:</b>				
Defra Grant	3,037	3,089	52	2%
Planning Fees	280	290	10	4%
Shared Service Contributions	311	306	-5	-2%
Income Generation	15	5	-10	-67%
Investment and Interest	33	15	-18	-55%
<b>TOTAL</b>	<b>3,676</b>	<b>3,705</b>	<b>29</b>	<b>1%</b>
Use of Reserves (see section 4)	93	119	26	28%
Carry Forward	-54	54	108	-
<b>TOTAL INCOME</b>	<b>3,715</b>	<b>3,878</b>	<b>163</b>	<b>4%</b>

3.4.2 The core Defra National Park grant for 2016/17 has been increased by £52,000 (1.7%) to £3,098,000 as confirmed in the settlement letter dated 21 January. 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 2016/17 is projected to be marginally greater than the 2015/16 outturn due to the introduction of pre-application charges next year.

- 3.4.4 The shared-services contributions are projected to be slightly lower for 2016/17 due to the LSTF funding coming to an end. 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 fall to £5,000 in 2016/17. Again this has been boosted in previous years by work emanating from the LSTF and NFFCE projects which have now ended.
- 3.4.6 Interest on cash flow returns are expected to be around £15,000 in 2016/17 due to the current low interest rates, high cash-flow requirements for projects this year and a low-risk investment strategy. The 2015/16 comparator is artificially enhanced by the £20,000 'final' payment from the Icelandic bank investment received in 2015 and without that would be broadly similar. The likely 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 2015/16 was calculated and indicated a saving of at least £54,000 as a result of some additional planning fee income and the one-off Icelandic bank repayment. It is proposed to carry forward these funds for use in 2016/17.

### 3.5 Expenditure Analysis

- 3.5.1 The following table shows the estimated expenditure for the year; with comparisons to 2015/16 (any significant variances are then explained in the text below):

<b>Expenditure:</b>	<b>2015/16 Projected Outturn £000's</b>	<b>2016/17 Base Budget £000's</b>	<b>Change 2015/16 to 2016/17 £000's</b>	<b>Change 2015/16 to 2016/17 %s</b>
Employee Costs (Salaries, travel & subs)	2,552	2,674	122	5%
Sustainable Communities Fund	30	50	20	67%
Programme Fund	304	298	-6	-2%
Strategy & Planning (inc Appeals)	57	91	34	60%
Member Services	56	55	-1	-2%
Secretariat	47	47	0	0%
Human Resources	73	73	0	0%
ICT (including R&R Fund)	261	255	-6	-2%
Accommodation	199	200	1	0%
Central Costs (Overheads & SLA's)	136	135	-1	-1%
<b>TOTAL EXPENDITURE</b>	<b>3,715</b>	<b>3,878</b>	<b>163</b>	<b>4%</b>

- 3.5.2 Projected employee costs for 2016/17 show an increase of £122,000 in comparison to 2015/16. The projected 1% pay award for 2016/17 will cost an additional £20,000, scale point rises (for approximately half the employees) £30,000 and an increase in National Insurance costs around £64,000. The net effect of other changes is negligible. As previously, the salary budget provides for a 2% 'expected' vacancy savings within the year.
- 3.5.3 The Sustainable Communities Fund has increased to £50,000 for the 2016/17 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. It should also be noted that this budget is supplemented by a full time Sustainability Officer, together with a number of sustainable projects included within the Programme Fund.
- 3.5.4 Strategy & Planning includes two one-off budgets for 2016/17 - £20,000 to cover the costs of the Local Plan and £10,000 (funded from Reserves) for Habitats work; without these items the remaining budgeted costs are similar to previous years.
- 3.5.5 The Human Resources budget level has been maintained in 2016/17; our staff are by far the Authority's greatest asset and it must continue to fully support them through a full programme of learning and development opportunities at all levels.
- 3.5.6 ICT budgets have been reduced by a further 2% this year to £210,000 for the 'core' ICT work and a £45,000 contribution to the Replacement and Renewals Fund. A significant amount of the Authority's ICT (including computers, laptops, scanners and plotters) are now due for replacement and so it is likely that the £45,000 plus £77,000 from previous contributions to the R&R Fund will be spent over the coming financial year.

#### **4. Reserves**

- 4.1 **Annex 2** shows the reserves position, identifying the use of reserves in line with the proposed budget for 2016/17. 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 Task & Finish Group and it was felt appropriate (equating to approximately 10% of our National Park Grant).

##### Revenue Support Reserve

- The Authority has in place a phased use of this reserve to ease the impact of the Governments grant reductions, in line with this strategy, it is estimated that up to £30,000 will be taken from this reserve in 2016/17 to balance the budget (plus the additional £54,000 savings carried forward from 2015/16).

##### 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 Members will be requested to consider any proposals for the use of this fund as they arise.

### Earmarked Reserves

- The ICT Replacement Reserve was set up a few years ago to ease the impact of large-scale replacement of ICT equipment at the Authority. In 2016/17 many of the computers/laptops and related equipment are due for replacement and therefore it is likely that the funding built up in the Reserve over previous years will be utilised.
- Developers Contributions – The Authority now holds a significant balance of Developer Contributions (c£1m), the majority being those for affordable housing. This balance will be utilised as and when required during the year, for example in regard to the continuing affordable housing development in Bransgore.
- Other smaller Reserves will be utilised in 2016/17 which have been specifically set aside in previous financial years. These will include the back-scanning of planning documents, habitats work and funding for a number of one-off posts including Comms, Grants and Transport (from funding put aside by these teams after performing work for externally-funded projects such as LSTF, NFFCE and HLS).

## 5. Risks and Uncertainties

5.1 In setting the budget, a number of potential risks / uncertainties are identified, the list for 2016/17 includes:

- **National Park Grant** – Although Defra has given the Authority every indication that its grant for 2016/17 will be £3.089m, 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 2016/17 (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 are 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 2016/17. 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** – 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. Therefore a higher probability of supplementary budget requests now exists and these would have to be funded either from future year's budgets or from general/investment reserves.

All these factors will be explicitly monitored and reported upon in the budgetary control reports for 2016/17.

## 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 2016/17 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 times the Authority's outturn has usually been within 2% of the original budget and 1% of the 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 2016/17 has been considered for several 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 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 2016/17 can be considered fully robust.

### 7.3 Adequacy of proposed General Fund Reserve

7.3.1 The Chief Financial 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 2016. Further reserves have been set aside for Planning Appeal / Misc Risks (£150,000), Revenue Support (£158,000) 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 £140,000 needs to be found for the 2017/18 budget 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 2017/18, due to the inflationary increases in the Grant, this would ensure all the budgets up to and including 2019/20 would balance.

8.5 Following discussion at the February meeting of the Resources, Audit and Performance Committee it is likely that a new Task and Finish Group may be set up to oversee these this process which will need to take place through 2016.

**9 Recommendations:**

To:

- 1 Support the General Fund Budget for 2016/17 and recommend it for approval at the Authority meeting on 24 March 2016.**
- 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 2016/17.**
- 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 24 March 2016.**
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**Annex 1**

**PROGRAMME FUND 2016/17**

	<b>Budget (£'s)</b>
<b>Protect</b>	
Our Past, Our Future (Landscape Partnership)	56,000
Landscape Projects	7,000
Archaeological Projects	4,000
Archaeological Work for FC	6,000
World War 1 Project	7,500
Ecology & Catchment Co-ordination	14,000
HBIC / WRC	7,500
Solent Forum	2,500
NFLAS Woodfuel & Woodland Projects	5,000
Wildlife Forum	1,000
	<u>110,500</u>
<b>Enjoy</b>	
Access & Recreation	12,000
Education	8,000
Boundary Markers	2,000
Educational Campaigns	7,000
Interpretation & Information	8,000
Health and Wellbeing	2,000
New Forest Centre Agreement	40,000
New Forest Show	6,000
Media & Promotion	23,000
Publications	24,000
Partnership Publications	8,000
Ranger Projects	8,000
NFDC Ranger Projects	5,000
	<u>153,000</u>
<b>Prosper</b>	
New Forest Marque	15,400
Sustainability Projects	8,000
Sustainable Tourism	6,000
Sustainable Transport	1,500
New Forest Business Partnership Events	4,000
	<u>34,900</u>
<b>Total Expenditure</b>	<b><u><u>298,400</u></u></b>

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Annex 2**

**POSITION OF RESERVES**

	Estimated at 31/03/16 £000	Estimated net use in 2016/17 (if budget spent as per proposals) £000	Estimated at 01/04/2017 £000
<b>General Reserves :</b>			
General Fund Reserve	300	0	300
<b>Earmarked Reserves :</b>			
Planning Appeal Risk Reserve	150	0	150
Revenue Support Reserve	158	(84)	74
Capital / Major Projects Reserve	817	0	817
Developer Contributions	855	(50)*	805
Sustainable Communities	75	(40)	35
ICT R&R Fund	77	(77)	0
Other Reserves	306	(90)	216
	<u>2,438</u>	<u>(341)</u>	<u>2,097</u>
<b>Total</b>	<b><u>2,738</u></b>	<b><u>(341)</u></b>	<b><u>2,397</u></b>

\* Assumes approximately £250,000 spent and £200,000 received next year

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**Annex 3**

**TREASURY MANAGEMENT STRATEGY TO 2018/19**

**1 Introduction**

1.1 CIPFA's Treasury Management Code of Practice (2011 Edition) 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 October/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 Changes for 2016/17**

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 been reviewed by the Finance and Performance Manager and it is recommended that the same approach be taken for 2016/17. There has been no significant increase 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, will require funds to cash-flow it.

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.

	2016 Estimate £000	2017 Estimate £000	2018 Estimate £000	2019 Estimate £000
Investments at 31 March	3,500	3,000	2,700	2,500
Expected Change in Investments		-500	-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 %
2015/16	0.50	0.50	0.80
2016/17	0.50	0.50	0.80
2017/18	0.75	0.85	1.20
2018/19	1.00	1.35	1.70

**4. Investment Strategy to 2018/19**

**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	2015/16 Upper	2016/17 Upper	2017/18 Upper			
Estimated Maximum sums invested	£4.0m	£4.0m	£3.5m			
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%			
<b>Maturity Structure of investments</b>						
	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

<b>Revenue Budgets</b>	<b>2016/17 Estimated @ 0.6% £000</b>	<b>2016/17 Estimated + 0.5% £000</b>	<b>2016/17 Estimated -0.5% £000</b>
Investment income	15	27	3

### 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 2016/17 TO 2018/19

#### 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.

	2015/16 Current Forecast £000	2016/17 Current Estimate £000	2017/18 Current Estimate £000	2018/19 Current Estimate £000
New Forest National Park Authority	2,500	1,000	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	2015/16 Forecast £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
General Fund Balances	300	300	300	300
Earmarked Reserves	2,440	2,100	1,700	1,500
<b>Investments at 31 March</b>	<b>2,740</b>	<b>2,400</b>	<b>2,000</b>	<b>1,800</b>

#### 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	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
<b>Total</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>

### 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	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## **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 2015/16 to 2018/19.

Financing Costs	2014/15 Revised £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Revenue Contribution to Fund Capital	2,500	1,000	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 2016**

<b>Counterparty</b>	<b>Holding / Investment</b>	<b>Interest Rate</b>	<b>Investment Date</b>	<b>Maturity Date</b>
	<b>£</b>	<b>%</b>		
Debt Management Account Deposit Facility (Gov't)	1,000,000	0.25	27/01/16	26/02/16
Standard Life - Money Market Fund	978,000	0.51	Instant Access	
Lloyds Current Account	1,512,364	0.40	Instant Access	
<b>Total</b>	<b>3,490,364</b>			

**NFPA RAPC 288/16**  
**Annex 4**

	<b>2015/16 Projected Outturn £000's</b>	<b>2016/17 Estimate £000's</b>	<b>2017/18 Estimate £000's</b>	<b>2018/19 Estimate £000's</b>	<b>2019/20 Estimate £000's</b>
<b><u>Income</u></b>					
DEFRA Grant	3,037	3,089	3,142	3,196	3,251
Planning Fees	280	290	290	300	300
Shared Service Contributions	311	306	308	309	311
Income Generation	15	5	5	5	5
Investment Interest	33	15	16	18	20
Use of Carry Forward	(54)	54	0	0	0
Use of Earmarked Reserves	93	119	11	12	12
<b>TOTAL INCOME</b>	<b>3,715</b>	<b>3,878</b>	<b>3,772</b>	<b>3,840</b>	<b>3,899</b>
<b><u>Expenditure</u></b>					
<b>Employee Costs</b>	2,552	2,674	2,721	2,783	2,845
Salaries as % of Grant	84%	87%	87%	87%	87%
<b>Sustainable Development Fund</b>	30	50	50	50	50
Planning	57	91	73	73	73
Secretariat	47	47	47	48	48
Member Services	56	55	57	58	59
Core Running Costs	669	663	683	693	696
<b>Other subtotal</b>	829	856	860	872	876
<b>TOTAL EXPENDITURE</b>	<b>3,411</b>	<b>3,580</b>	<b>3,631</b>	<b>3,705</b>	<b>3,771</b>
<b>Annual Funds Available for Programme Work</b>	<b>304</b>	<b>298</b>	<b>141</b>	<b>135</b>	<b>128</b>
<b>Balanced Budget</b>	<b>3,715</b>	<b>3,878</b>	<b>3,772</b>	<b>3,840</b>	<b>3,899</b>

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	<b>2015/16 Projected Outturn £000s</b>	<b>2016/17 Estimate £000s</b>	<b>2017/18 Estimate £000s</b>	<b>2018/19 Estimate £000s</b>	<b>2019/20 Estimate £000s</b>
<b>Potential Programme Fund</b>					
Annual Funds Available for Programme Work	304	298	141	135	128
Minimum Savings Required (to have an adequate Programme Fund)	0	0	139	140	142
	<b>304</b>	<b>298</b>	<b>280</b>	<b>275</b>	<b>270</b>

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