

**RAPC 446/21**

**NEW FOREST NATIONAL PARK AUTHORITY**

**RESOURCES, AUDIT AND PERFORMANCE COMMITTEE – 1 MARCH 2021**

**DRAFT GENERAL FUND REVENUE BUDGET FOR THE FINANCIAL YEAR 2021/22,  
TREASURY MANAGEMENT STRATEGY AND MEDIUM-TERM POSITION**

**Report by:** Nigel Stone, Head of Resources (Chief Finance Officer)

**Summary:**

This paper sets out draft proposals for a revenue budget for the financial year 2021/22 for consideration by the Authority. The report also provides a medium-term projection of the Authority's financial position up to March 2024 and a forward projection beyond this, all based upon the financial strategy outlined within the report.

**Recommendations:**

To:

- 1 Support the General Fund Budget for 2021/22 and recommend it for approval at the Authority meeting on 25 March 2021**
- 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 2021/22**
- 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 25 March 2021**
- 6 Note the Medium-Term Financial Plan up to 2023/24 and the Forward Projection 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>RAPC 446/21:</b>	Cover Paper
<b>RAPC 446/21 Annex 1:</b>	Programme Fund Detail 2021/22
<b>RAPC 446/21 Annex 2:</b>	Position of Reserves
<b>RAPC 446/21 Annex 3:</b>	Treasury Management Strategy up to 2023/24
<b>RAPC 446/21 Annex 4:</b>	Medium Term Financial Plan 2021-2024 and Forward Projection

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## 1 Purpose

- 1.1 This paper sets out proposals for a revenue budget for the financial year 2021/22 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 2024 and beyond, all 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 updated Partnership Plan and our Workplans for the 2021/22 financial year (to maintain comparators the budget is not presented within the proposed work programme headings directly, but this format will be highlighted with the monitoring reports through the year).
- 2.2 For four years from 2016/17 the English National Park Authorities received inflationary protection on their core grants, with ours rising up to £3,251,501 in 2019/20. This was said to evidence the "huge value" attached to National Parks "across a whole range of important issues". Since that time we have received "frozen" grant settlements of this same figure each year, therefore equating to small reductions each year in real terms. 2021/22 is likely to be our third year of a frozen grant.
- 2.3 In Autumn 2020 we were due to get a multi-year Comprehensive Spending Review but this was then changed, due to the ongoing pandemic, to a further single year settlement. It is strongly hoped that a multi-year grant settlement will now be given in the coming year to facilitate certainty of decision making with regard to resources.
- 2.4 As previously, our Medium-Term Financial Plan has been drafted to cover three future financial years however, due to the further single-year settlement, that entire period is now beyond the certainty of any future Defra settlements or funding indications. To counter some of this uncertainty, we have created a 'forward projection' which indicates at a higher level where our budgets are likely to range in the longer term (up to 10 years).

## 3 General Fund Revenue Budget for 2021/22

- 3.1 The proposed General Fund Revenue Budget for 2021/22 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 & Forward Projection 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 £19 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 likely be spent alongside our 'internal' budgets:

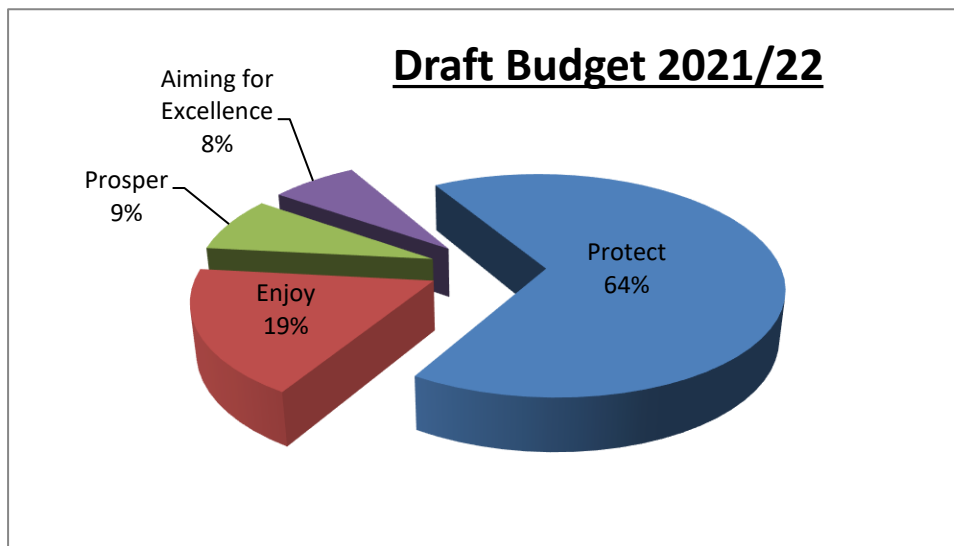
Project	Funder(s)	Approx Value (£)
Our Past, Our Future (Landscape Partnership Scheme – Delivery Phase)	Heritage Lottery Fund	50,000
Higher Level Stewardship	Verderers / FC	90,000
Land Advice Service	Various	70,000
Pedall	Lottery Community Fund	250,000
Apprentices & Wild Spaces	Green Recovery Fund	65,000
Kickstart	Treasury	40,000
Farming in Protected Landscapes (new payments scheme for farmers and landowners)	Treasury	Unknown

Including the amounts above, other than the farming payments, the total expenditure by the Authority in 2021/22 will likely be close to £4.5m.

3.3 The table and pie chart below display the draft 'internal' 2021/22 Budget (£3.89m) in line with the purposes and duty of the Authority and our 'Achieving Excellence' strand:

	Protect*	Enjoy	Prosper	Achieving Excellence
	£000	£000	£000	£000
Employee Costs (allocated)	1,846	472	238	259
Programme Fund	49	126	48	-
Sustainable Communities Fund (approximation)	21	6	3	-
Strategy & Planning	68	-	-	-
Central Costs (allocated)	497	127	64	70
<b>TOTAL</b>	<b>2,481</b>	<b>731</b>	<b>353</b>	<b>329</b>

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



3.4 The table below displays the draft 2021/22 Budget in line with the formal year-end reporting format.

<b>Service Heading</b>	<b>Projected Net Cost of Services 2020/21 £000s</b>	<b>Indicative Net Cost of Services 2021/22 £000s</b>
Conservation of the Natural Environment	596	567
Conservation of Cultural Heritage	336	329
Recreation Management and Transport	213	216
Promoting Understanding	476	461
Rangers, Estates and Volunteers	154	155
Development Control	582	588
Forward Planning and Communities	524	504
Corporate and Democratic Core	500	483
<b>SUBTOTAL</b>	<b>3,381</b>	<b>3,303</b>
National Park Grant	(3,251)	(3,251)
Investment and Interest Income	(4)	(2)
Use of Reserves	(126)	(50)
<b>FUNDING SHORTFALL</b>	<b>0</b>	<b>0</b>

### 3.5 Income Analysis

3.5.1 The following table shows the estimated income for the year; with comparisons to 2020/21 (any significant variances are then explained in the text below):

	<b>2020/21 Projected Outturn £000's</b>	<b>2021/22 Base Budget £000's</b>	<b>Change to 2021/22 £000's</b>	<b>Change 2020/21 to 2021/22 %s</b>
<b>Income:</b>				
Defra Grant	3,251	3,251	-	-
Planning Fees & Grants	330	380	+50	+15%
Shared Service / Staffing Contributions	94	186	+92	+98%
Income Generation	22	25	+3	+14%
Investment and Interest	4	2	-2	-50%
<b>TOTAL</b>	<b>3,701</b>	<b>3,844</b>	<b>+143</b>	<b>+4%</b>
Use of Reserves (see section 4)	126	50	-76	-60%
<b>TOTAL INCOME</b>	<b>3,827</b>	<b>3,894</b>	<b>+67</b>	<b>+2%</b>

- 3.5.2 The core Defra National Park grant for 2021/22 has been assumed at £3,251,501 and should be confirmed in a settlement letter during late February. With inflation currently at around 0.6%-1.6%, this will equate to a real terms cut of around £20-50,000 to our deliverables.
- 3.5.3 Core planning fee and grant income in 2021/22 is projected to be higher than the 2020/21 outturn due to the clear impacts of the pandemic for that entire financial year. It should be noted that the fees do not anywhere near cover the full costs of determining applications.
- 3.5.4 In 2021/22 the Authority will continue to provide a significant number of professional services for other organisations covering areas such as Rangers, Communications and Archaeology. It will also receive other financial contributions towards staffing roles for areas such as HLS, New Forest Tour, the England Coast Path and co-ordinating volunteers.
- 3.5.5 General income generation, largely from the Bransgore affordable homes, guided walks & talks and some event sponsorship, is expected to be around £25,000 in 2021/22.
- 3.5.6 Interest on cash flow returns is expected to be around £2,000 in 2021/22 (based on a return of 0.07%) due to the current extremely low interest rates, continuing cash-flow requirements for some 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.
- 3.5.7 During the budget setting process, the projected outturn from 2020/21 was calculated and indicated that £50,000 would be available to carry forward this year in relation to earmarked funding for a Nature Based Solutions post. There is no other funding remaining in the Revenue Support Reserve for the year ahead. Proposed use of reserves in 2020/21 is set out in section 4 of this report and Annex 2.

### 3.6 Expenditure Analysis

3.6.1 The following table shows the estimated expenditure for the year; with comparisons to 2020/21 (any significant variances are then explained in the text below):

	2020/21 Projected Outturn	2021/22 Base Budget	Change 2020/21 to 2021/22	Change 2020/21 to 2021/22
<b>Expenditure:</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>%'s</b>
Employee Costs (Salaries, travel & subs)	2,705	2,815	+110	+4%
Sustainable Communities Fund	30	30	-	-
Programme Fund	235	223	-12	-5%
Strategy & Planning (inc Appeals)	70	68	-2	-3%
Member Services	54	60	+6	+11%
Secretariat	45	56	+11	+24%
Human Resources	62	72	+10	+16%
ICT Core	190	185	-5	-3%
ICT Replacement & Renewals	90	40	-50	-56%
Accommodation	212	219	+7	+3%
Central Costs (Overheads & SLA's)	134	126	-8	-6%
<b>TOTAL EXPENDITURE</b>	<b>3,827</b>	<b>3,894</b>	<b>+67</b>	<b>+2%</b>

3.6.2 Projected employee costs for 2021/22 show a net increase of £110,000 in comparison to 2020/21. The projected pay award for 2021/22 will cost an additional £15,000, scale point rises (for approximately a third of employees) a further £20,000 and other staffing changes, including the post mentioned above in 3.5.7, have added a net £75,000 to the salary budget. As previously, the salary budget provides for a 2% 'expected' vacancy saving within the year.

3.6.3 Programme Fund budgets are shown in more detail in **Annex 1**. The overall position shows a small fall in budgeted expenditure from 2020/21, largely due to some works proposed to be performed by in-house staff rather than via external means.

3.6.4 The Sustainable Communities Fund (SCF) will be £30,000 for the 2021/22 financial year. The fund is currently being reviewed and refreshed to provide a wider range of targeted grants within Authority priority areas and at different financial levels (from micro grants of a few hundred pounds up to larger grants in the multiple thousands). An appropriate panel will continue to fully scrutinise the application criteria and processes under the overall guidance of the Grants Officer and Chief Finance Officer.

3.6.5 Members of the Resources, Audit and Performance Committee will be aware of the current pressures around the cost base of our annual External Audit and additional provision of £10,000 has been added to the Secretariat budgets as a contingency.

- 3.6.6 Human Resources costs are expected to be lower in 2020/21 due to a fall in the number of development/training sessions held under the pandemic – given the swift moves to online learning, the budget for 2021/22 has been maintained at the original higher level.
- 3.6.7 In 2020/21 the Authority updated its financial IT system, in a partnership project led by NFDC, hence the £50,000 additional expenditure showing when compared to the 2021/22 base budget on the ICT Replacement & Renewals line. As previously agreed by the Authority, up to a further £100,000 will be utilised from the Capital / Major Projects Reserve to fund a new or updated planning system; as with the funding for the financial system, this funding will be returned to the reserve from the resultant savings generated over the following five financial years.

#### 4. Reserves

- 4.1 **Annex 2** shows the complete reserves position, identifying the use of reserves in line with the proposed budget for 2021/22. 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).

##### 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 around £550,000 set aside for such purposes and, as agreed, during 2021/22 or subsequent years, up to £100,000 of this reserve will be utilised to fund a new or updated planning system; this funding will be returned to the reserve from the resultant savings generated over the following five financial years. Members will be requested to consider any further proposals for the use of this fund as they arise.

##### Earmarked Reserves

- It is proposed that a net £50,000 be utilised from the various smaller earmarked reserves in 2021/22. This includes a significant sum carried forward from 2020/21 to fund a Nature Based Solutions Officer, netted off by small repayment contributions to the Planning Risk and Capital / Major Projects reserves.
- Developers Contributions – The Authority still holds a significant balance of Developer Contributions (c£750,000), the majority being those for affordable housing. This balance will be utilised as and when required during the year, for example regarding further affordable housing developments (c£500,000 likely in 2021/22 for the Burley affordable homes scheme) 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 2021/22 includes:
- **National Park Grant** – Although Defra is likely to confirm that its grant for 2021/22 will be £3.251m, this still remains at risk of possible prior-year or in-year change. The Authority will need to clear and concisely make its case for Defra funding over the next six months leading to the multi-year Comprehensive Spending Review.
  - **Planning Fee Income and Applications** – Although the core fee target has been aligned to recent performance, economic conditions are such that risks over certainty of this income remain. Secondly, an increase in overall application numbers, or one or two major applications, could require additional resources within the planning team.
  - **Inflation** – Allowance has been made for inflation within the core budgets where we are aware it unavoidably applies e.g. statutory or contractually (business rates, service charges etc). The other discretionary budgets (largely within the Programme Fund) were agreed on a zero-based budgeting basis.
  - **Salaries** - The budget includes provision for a minimal employee pay award for 2021/22, encompassing only those earning below £24,000 per annum – this would match the award level mentioned in the Autumn Spending Review for similar workers. It has also been adjusted to allow for a proportion of normal vacancy savings (-2% of the total salary budget).
  - **Legal Costs** - £5,000 has been budgeted for planning appeals; 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 2021/22. 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. NFLAS, HLS, Pedall 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 savings elsewhere within the annual budget. For the year ahead, these could include items around the Climate & Nature Emergency, the government response to Glover, those brought out through the Recreation Management Strategy work, Green Halo or ways we can leverage in further funding to increase awareness of the National Park 'brand' and the visitor experience. 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 2021/22.

## **6. Spending plans**

- 6.1 This approach to delivering a “balanced” budget will enable the Authority to develop its annual work programme positively and builds further on the noteworthy savings and efficiencies made over the past few years whilst continuing to deliver for the Forest.
- 6.2 The budget for 2021/22 has been based on the emerging updated Partnership (Management) Plan and the Authority’s own revised Work Programme structure from 2020/21, still ensuring all such outcomes are agreed, robust and achievable. These Plans were / are being 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 of the budget for 2021/22 has been considered over several months in view of two significant factors: the anticipated frozen government grant and ensuring that the resources are used to deliver the emerging Work Programme.
  - 7.2.2 Key elements of the budget which have been considered here are the provisions that are made for inflation on pay and prices, the consideration of potential bad-debt and the stability of the various income streams. The major consideration and frustration here has undoubtedly been the Defra grant determination, both in terms of its single-year nature and the extremely late notification process.
  - 7.2.3 In the light of all known factors and the level of balances held by the Authority, it is not considered that there is a need to hold a further specific 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 2021/22 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 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 currently recommended to maintain a minimum General Fund Reserve level of £300,000. This will of course be kept under review and particularly in regard to the outcome of the multi-year Comprehensive Spending Review expected later this calendar year.
- 7.3.3 Further reserves have been set aside for Planning Appeal / Misc Risks (c£120,000), ICT Replacements (c£90,000) and for investment in Capital / Major Projects (c£550,000).
- 7.3.4 In the light of these factors, the level of financial reserves is considered fully adequate.

### 8. Medium Term Financial Position and Forward Projection

- 8.1 The Authority's Medium Term Financial Plan, attached as **Annex 4**, supports the current Partnership (Management) Plan and Business Plan by ensuring resources are made available to support priorities over the period of the plan. As these key Plans are updated over the coming months, the Authority will need to further consider how it matches resources to any updated strategic proposals.
- 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 Members should note from the projected figures that a further £120-200,000 needs to be found for the 2022/23 and 2023/24 budgets to balance with adequate provision for the Programme Fund. This would increase significantly if future National Park Grant settlements are not favourable. The primary source of closing any funding shortfall is hoped to be additional income generation, either internally through the Fundraising Group or externally 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. Consideration of the shortfall will form a key part of the continuing Planning for the Future reviews.
- 8.4 The high-level Forward Projection highlights the sustainable 'standstill' position of around £3.7m total income required to cover £2.6m of staffing costs, £0.8m core costs and a £0.25m Programme Fund (all figures given in 2021 equivalents).

**Annex 1**

**DRAFT PROGRAMME FUND 2021/22**

	<b>Budget (£'s)</b>
<b>Protect</b>	
Landscape Projects	3,000
Archaeological Projects and SLA's	10,000
Ecology & Catchment Co-ordination	14,000
Natural Environment Evidence Base	9,500
Solent Forum	2,750
Woodland Management Projects (NFLAS)	5,000
Green Halo Partnership	5,000
	<u>49,250</u>
<b>Enjoy</b>	
Access Improvements	8,000
Education (Travel Grants and Resources)	9,500
Boundary Marker Maintenance	3,000
Recreation Management	13,000
Interpretation & Information	8,000
Health and Wellbeing	5,000
New Forest Show	6,000
Media & Promotion	23,000
Publications & Advertising	32,000
Contact Management System	6,000
Ranger Projects	5,000
NFDC Ranger Projects	5,000
Volunteer and Ambassadors	2,000
	<u>125,500</u>
<b>Prosper</b>	
New Forest Marque	25,000
Sustainability Projects	5,000
Sustainable Tourism	4,500
Sustainable Transport	10,000
New Forest Business Partnership Events	3,500
	<u>48,000</u>
<b>Total Expenditure</b>	<u><u>222,750</u></u>

**Annex 2**

**POSITION OF EARMARKED RESERVES**

<b>Reserve</b>	<b>Reason for holding</b>	<b>Estimated as at 31/3/21 £000s</b>	<b>Projected use in 21/22 £000s</b>	<b>Estimated as at 31/3/22 £000s</b>
General Fund	Minimum reserve to cover unexpected events or emergencies.	300	-	300
Capital / Major Projects	Earned income for large invest-to-save projects and to provide short-term funding for major projects (later returned to reserve).	547	10	557
Planning/Legal Risk	To cover potential costs of legal cases against the Authority, particularly within the planning functions.	118	10	128
ICT Replacement & Renewals	Annual funding set aside for future larger investments in ICT at the Authority e.g. replacement of servers or staff computers.	90	-	90
Housing	Funding from the Bransgore affordable homes for future resultant costs and/or other housing schemes.	70	-	70
Other	Smaller amounts often earmarked for specific projects/functions e.g. NFLAS, Planning, NF Tour, Pedall, WWII.	401	-70	331

## Annex 3

### **TREASURY MANAGEMENT STRATEGY TO 2023/24**

#### **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 Autumn.

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 MHCLG 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 The 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 Strategy consideration for 2021/22

- 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 In January 2018 the rules surrounding the types of investments made by smaller authorities were tightened further by the government, reclassifying authorities like ours as 'retail investors' as opposed to 'professional investors'.
- 3.3.3 The overall treasury position has again been reviewed by the Chief Finance Officer and it is recommended that the low risk / low reward approach again be taken for 2021/22. There has been a significant drop in the interest rates available for our size of investments (up to £1m) over the past twelve months, meaning the administrative costs of attracting only slightly higher rates is still considered prohibitive.
- 3.3.4 The portfolio value is estimated to be between £2m and £3m for the year ahead. This will largely be held in four main low-risk accounts – the Lloyds current account, Nationwide Instant Access, Aberdeen Standard 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.

	2021 Estimate £000	2022 Estimate £000	2023 Estimate £000	2024 Estimate £000
Investments at 31 March	2,200	1,700	1,500	1,500
Expected Change in Investments	-	-500	-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 %
2020/21	0.10	0.00	0.05
2021/22	0.25	0.05	0.15
2022/23	0.50	0.15	0.35
2023/24	0.75	0.25	0.60

#### 4. Investment Strategy to 2023/24

##### 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\*  
\*calculated as LIBOR – 0.125  
(Note: This would currently equate to a negative 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

They 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, however the holding limit for this type of account is lower (see 4.11).

The 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 endeavour 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; Money Market Funds will be specifically limited to £0.5m.
- 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. A final total of £511,161 (99%) was repaid and the matter is now considered closed.

### **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: -

<b>Investments</b>	<b>2020/21 Upper</b>	<b>2021/22 Upper</b>	<b>2022/23 Upper</b>			
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%			
<b>Maturity Structure of investments</b>						
	<b>Lower</b>	<b>Upper</b>	<b>Lower</b>	<b>Upper</b>	<b>Lower</b>	<b>Upper</b>
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>2021/22 Estimated @ 0.07% £000</b>	<b>2021/22 Estimated + 0.5% £000</b>	<b>2021/22 Estimated -0.5% £000</b>
Investment income	2	17	(13)

### 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 2021/22 to 2023/24

#### 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.

Capital Expenditure	2020/21 Current Forecast £000	2021/22 Current Estimate £000	2022/23 Current Estimate £000	2023/24 Current Estimate £000
New Forest National Park Authority	100	600	75	75

##### 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	2020/21 Forecast £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
General Fund Balances	300	300	300	300
Earmarked Reserves	1,230	1,180	1,180	1,180
<b>Investments at 31 March</b>	<b>1,530</b>	<b>1,480</b>	<b>1,480</b>	<b>1,480</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	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 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	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 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 2020/21 to 2023/24.

Financing Costs	2020/21 Revised £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Revenue Contribution to Fund Capital	100	600	75	75

## **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 2021**

<b>Counterparty</b>	<b>Holding / Investment £</b>	<b>Interest Rate %</b>	<b>Investment Date</b>	<b>Maturity Date</b>
Debt Management Account Deposit Facility (Gov't)	1,250,000	0.05	11/01/21	10/03/21
Aberdeen Standard - Money Market Fund	500,000	0.17	Instant Access	Instant Access
Lloyds Current Account	1,289,000	0.10	Instant Access	Instant Access
<b>Total</b>	<b>3,039,000</b>	-	-	-

**Annex 4**

**Medium Term Financial Plan and Forward Projection**

	<b>2020/21 Projected Outturn £000's</b>	<b>2021/22 Estimate £000's</b>	<b>2022/23 Estimate £000's</b>	<b>2023/24 Estimate £000's</b>	<b>Indicative Forward Projection £000's</b>
<b><u>Income</u></b>					
Defra Grant	3,251	3,251	3,251	3,251	
Planning Fees & Grants	330	380	380	380	
Shared Service Contributions	94	186	70	70	
Income Generation	22	25	25	25	
Investment Interest	4	2	4	6	
Use of Earmarked Reserves	126	50	0	0	
<b>TOTAL INCOME</b>	<b>3,827</b>	<b>3,894</b>	<b>3,730</b>	<b>3,732</b>	<b>3,680</b>
<b><u>Expenditure</u></b>					
<b>Employee Costs</b>	2,705	2,815	2,740	2,795	2,600
Emp Cost as % of NP Grant	83%	87%	84%	86%	Near 80%
<b>Sustainable Communities Fund</b>	30	30	30	30	30
Planning	70	68	69	70	
Secretariat	45	56	57	58	
Member Services	54	60	61	62	
Core Running Costs	688	642	650	660	
<b>Other subtotal</b>	857	826	837	850	800
<b>TOTAL EXPENDITURE</b>	<b>3,592</b>	<b>3,671</b>	<b>3,607</b>	<b>3,675</b>	<b>3,430</b>
<b>Annual Funds Available for Programme Work &amp; Leverage</b>	<b>235</b>	<b>223</b>	<b>123</b>	<b>57</b>	<b>250</b>
<b>Balanced Budget</b>	<b>3,827</b>	<b>3,894</b>	<b>3,730</b>	<b>3,732</b>	<b>3,680</b>