RAPC 527/24

NEW FOREST NATIONAL PARK AUTHORITY

RESOURCES, AUDIT AND PERFORMANCE COMMITTEE – 4 MARCH 2024

DRAFT GENERAL FUND REVENUE BUDGET FOR THE FINANCIAL YEAR 2024/25, TREASURY MANAGEMENT STRATEGY AND MEDIUM-TERM FINANCIAL PLAN

Report by: Nigel Stone, Head of Resources (Chief Finance Officer) and Tom Knott, Finance and Sustainable Performance Officer

Summary:

This paper sets out draft proposals for a revenue budget for the financial year 2024/25 for consideration by the Authority. The report also provides a medium-term projection of the Authority's financial position up to March 2028 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 2024/25 and recommend it for approval at the Authority meeting on 21 March 2024**

2. **Note that the underlying minimum level for the General Fund Reserve remains at £0.35 million**

3. **Note the implications on the Reserves of the proposed budget for 2024/25**

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 21 March 2024**

6. **Note the Medium-Term Financial Plan up to 2027/28 and the Forward Projection in Annex 4.**

7. **Establish a 'Resources and Facilities' Task & Finish Group for the period up to the end of March 2026, reporting back at least twice a year to this Committee, for members and senior officers to review the financial position and future facilities requirements of the Authority.**

Resources:

As set out in the report.

Equality and Diversity Implications:

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

Papers:

RAPC 527/24:	Cover Paper
RAPC 527/24 Annex 1:	Programme Fund Detail 2024/25
RAPC 527/24 Annex 2:	Position of Reserves
RAPC 527/24 Annex 3:	Treasury Management Strategy up to 2026/27
RAPC 527/24 Annex 4:	Medium Term Financial Plan 2024-2028 and Forward Projection

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1 Purpose

1.1 This paper sets out proposals for a revenue budget for the financial year 2024/25 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 2028 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 within the overall Partnership Plan and our own Business Plan and thematic workplans for the 2024/25 financial year. The budget resourcing process was originally prescribed by a members 'Resources Task & Finish Group' as established by the Resources, Audit and Performance Committee.

2.2 Since 2018/19, our core defra grant has been "frozen" at £3,251,501 each year, therefore equating to significant reductions each year in real terms. The 2024/25 grant is expected to be our fifth year of a frozen grant - had our 2010 grant settlement increased in line with CPI inflation it would currently be c£6.5m per annum, equating to a loss of over 50% in real terms.

2.3 Discussions are currently ongoing with defra about the announcement in late November of £10m of additional capital funding for National Parks and National Landscapes (thought likely to be split 50:50 between the two). As nothing has been confirmed at the date of writing this budget paper, the Authority is budgeting with no such expectation.

2.4 In Autumn 2022, defra received a multi-year Comprehensive Spending Review with no overall increase or decrease to their revenue resources over the plan period. Following this, they confirmed to National Park Authorities that it was likely we would only continue to receive flat-cash (no inflationary protection) for the near future.

2.5 Given the financial uncertainty over revenue and capital funding, plus the countdown on the lease for our main Town Hall premises, it is recommended that members (re)establish a 'Resources and Facilities' Task & Finish Group, likely comprising of four members, to work alongside the Executive Leadership team over the next couple of years – reporting back to this Committee twice a year.

2.6 Our Medium-Term Financial Plan has been drafted to cover four future financial years however, due to the further single-year confirmation settlements, 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 2024/25

3.1 The proposed General Fund Revenue Budget for 2024/25 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**.

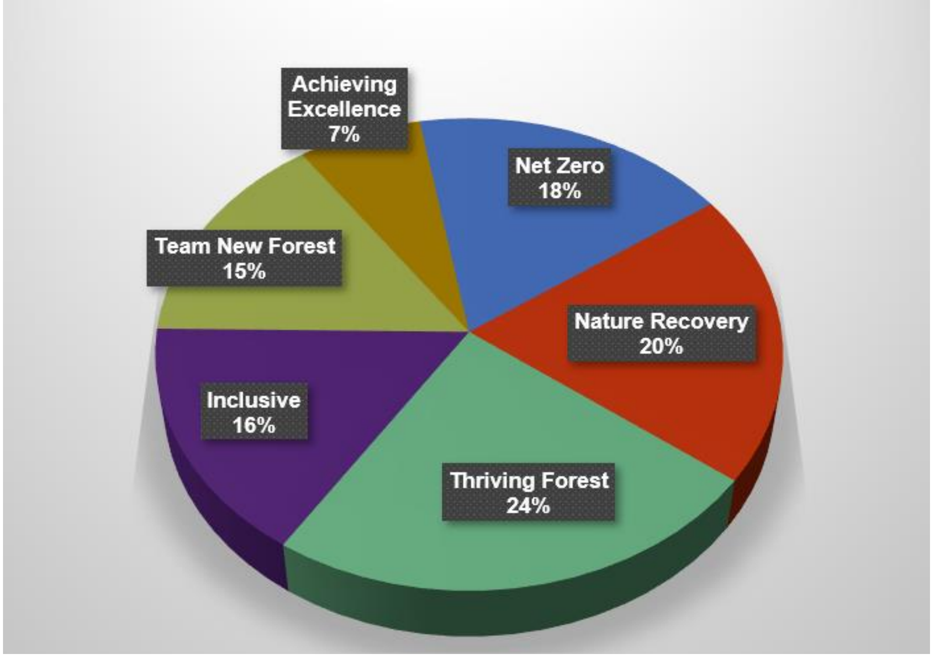
3.2 Alongside the ‘internally’ funded budgets set out within this paper (funded by the Defra grant and any fee/income generation), the Authority is continuing to successfully attract significant externally-funded projects; historically for every £1 the Authority puts into its partnership projects, a further £18 is generated from partner organisations to be spent in the New Forest.

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

Projects Confirmed	Funder(s)	Approx Value
Higher Level Stewardship	Verderers / FC	£90,000
Access for All	Defra	£90,000
YouCAN (3 years)	Lottery Community Fund	£1,200,000
Land Advice Service	Various	£70,000
Paediatric Fellowship Programme	Health Education England	£36,000
Farming in Protected Landscapes (capital scheme for local farmers and landowners)	Defra	£440,000
Other Bids Submitted:		
Pedall (5 years)	Lottery Community Fund & Others	£375,000-600,000
Species Survival Fund (2 years)	Defra	£1,040,00
New Routes to Nature – Volunteers (2 years)	Lottery Heritage Fund	£250,000
Digital Planning Improvement Fund	DLUHC	£100,000

Including the amounts above, the total expenditure by the Authority in 2024/25 will likely be closer to £5-6m.

3.4 The pie chart below displays how the draft ‘internal’ 2024/25 Budget (c£4m) would spread our staffing resources with the new Partnership / Business Plan themes:



3.5 The table below displays the draft 2024/25 Budget in line with the formal year-end (defra) reporting format.

Defra Service Heading	**Budgeted Net Cost of Services 2023/24 £000s**	**Indicative Net Cost of Services 2024/25 £000s**
Conservation of the Natural Environment	281	332
Conservation of Cultural Heritage	199	208
Recreation Management and Transport	308	294
Promoting Understanding	566	561
Rangers, Estates and Volunteers	145	155
Development Control	907	932
Forward Planning and Communities	443	480
Corporate and Democratic Core	450	468
SUBTOTAL	**3,299**	**3,430**
National Park Grant	(3,251)	(3,251)
Investment and Interest Income	(70)	(130)
Reserve Movements	22	(49)
FUNDING SHORTFALL / (SURPLUS)	**0**	**0**

3.6 Income Analysis

3.6.1 The following table shows the estimated income for the year; with comparisons to 2023/24 (any significant variances are then explained in the text below):

	2023/24 Latest Budget	2024/25 Base Budget	Change 2023/24 to 2024/25	Change 2023/24 to 2024/25
	£000's	£000's	£000's	%'s
Income:				
Defra Grant	3,251	3,251	-	-
Planning Fees & Grants	330	375	+45	+14%
Shared Service / Staffing Contributions	254	244	-10	-4%
Income Generation	40	90	+50	+125%
Investment and Interest	70	130	+60	+86%
TOTAL	**3,945**	**4,090**	**+145**	**+4%**
Reserve Movements (see section 4)	-22	49	+71	-
TOTAL INCOME	**3,923**	**4,139**	**+216**	**+6%**

3.6.2 The core Defra National Park grant for 2024/25 has yet to be confirmed, however we have been told to expect another flat-cash settlement at £3,251,501 and this will be followed up with a formal settlement letter and agreement during March. With inflation currently at around 4%, this will equate to a real-terms cut of around £130,000 to our deliverables this year and the grant has halved in real-terms since austerity began in 2010.

3.6.3 Core planning fees have dropped slightly over recent years, and the income budget was due to therefore be reduced down to £300,000 – however in December 2023 the government added a 25% inflationary increase to the fees bringing the income expected up to £375,000 for 2024/25. It should be noted that this still does not cover the full costs of the planning service.

3.6.4 In 2024/25 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, seasonal rangers and co-ordinating volunteers.

3.6.5 General income generation, largely from the Bransgore affordable homes, guided walks & talks and some event sponsorship, is expected to be around £40,000 in 2024/25. Given the medium-term financial situation of the Authority, a further target of £50,000 has been added, to be achieved from across the Authority in 2024/25, to encourage more entrepreneurial thoughts/ideas within the teams.

3.6.6 Interest on cash flow returns is expected to be around £130,000 in 2024/25, based on an average return across the year of 4.3%. The budgeted interest income is explained further in the Treasury Management Strategy which is attached as **Annex 3** to this report.

3.6.7 Proposed use of reserves in 2024/25 (totalling a net £49,000) is set out in section 4 of this report and Annex 2.

3.7 Expenditure Analysis

3.7.1 The following table shows the estimated expenditure for the year; with comparisons to 2023/24 (any significant variances are then explained in the text below):

Expenditure:	**2023/24 Latest Budget £000's**	**2024/25 Base Budget £000's**	**Change 2023/24 to 2024/25 £000's**	**Change 2023/24 to 2024/25 %'s**
Employee Costs (Salaries inc NI & Pension, travel & subs)	2,856	3,036	+180	+6%
Sustainable Communities Fund	10	30	+20	+200%
Programme Fund	200	190	-10	-5%
Strategy & Planning (inc Appeals)	81	95	+14	+17%
Member Services	65	68	+3	+5%
Secretariat	72	86	+14	+19%
Human Resources	74	74	-	-
ICT Core	175	175	-	-
ICT Replacement & Renewals	35	25	-10	-29%
Accommodation	235	235	-	-
Central Costs (Overheads & SLA's)	120	125	+5	+4%
TOTAL EXPENDITURE	**3,923**	**4,139**	**+216**	**+6%**

3.7.2 Projected employee costs for 2024/25 show a net increase of £180,000 in comparison to 2023/24. The projected 4% pay award for 2024/25 equates to an additional £110,000 and scale point rises (for approximately a third of employees) a further £20,000. As previously, the salary budget provides for a 2% 'expected' vacancy saving within the year.

3.7.3 The Sustainable Communities Fund has been returned to its normal funding level (£30,000) following a one-off reduction in 2023/24 to clear excess funds / delayed projects built up within the scheme.

3.7.4 Programme Fund budgets are shown in more detail in **Annex 1**. The overall position shows a fall in budgeted expenditure from 2023/24.

3.7.5 An additional £20,000 has been budgeted within the Strategy & Planning budget this year, to fund the initial stages of the Local Plan review process, and £14,000 added to Secretariat to cover the additional external audit costs.

4. Reserves

4.1 **Annex 2** shows the complete reserves position, identifying the use of reserves in line with the proposed budget for 2024/25. In summary, the movements in reserves are:

General Fund Reserve

- A minimum reserve of £350,000 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 11% 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 £500,000 set aside for such purposes. Members will be requested to consider any proposals for the use of this fund as they arise.

Financial Stability Reserve

- In 2022/23 defra awarded us a ‘one-off’ £440,000 to aid our financial stability. Due to the strong financial management of our Authority, we have been able to spread this funding over the next ten years to counter the unwanted, delivery-eroding impacts of the flat-cash grant settlements.

Earmarked Reserves

- It is likely that a net £30,000 will be utilised from the various smaller earmarked project reserves in 2024/25. These are netted off by small additional contribution to the Planning / Risk Reserve, increasing its balance to £150,000.

- Developers Contributions – The Authority still holds a significant balance of Developer Contributions (c£1.2m) which are ringfenced for specific uses, 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 2024/25 for the Burley affordable homes scheme).

5. Risks and Uncertainties

5.1 In setting the budget a number of potential risks / uncertainties are identified, the list for 2024/25 includes:

- **National Park Grant** – Defra has not yet confirmed its flat-cash grant for 2024/25 at £3.251m; there also remains an additional risk of possible prior-year or in-year change. The Authority will need to continue to clearly and concisely make its case for increased Defra funding – had our 2010 grant settlement increased in line with CPI inflation it would currently be c£6.5m per annum, equating to a loss of over 50% in real terms.

- **Planning Fee Income and Applications** – Although the core fee target has been aligned to recent activity (and lowered accordingly), 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, currently still at an historically high level, 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 from scratch following officer requests.

- **Salaries** - The budget includes provision for a 4% per employee pay award for 2024/25, to reflect the current high cost of living / inflation within the wider economy. Every additional 1% award would cost the Authority approximately £22,000. 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). Further provision is made with the Planning / Risk Reserve.

- **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 2024/25. 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, YouCAN, Farming in Protected Landscapes 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 responses 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 2024/25.

6. Spending plans

6.1 The 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 2024/25 has been primarily based on the updated Partnership (Management) Plan and the Authority’s own Business Plan for the coming four financial years.

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 well within 2% of the original budget and 1% of any revised budget. The 2023/24 financial year is currently on track to produce a balanced 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 2024/25 has been considered over several months, by officers and members, in view of two significant factors: the anticipated frozen government grant and ensuring that the resources are used to deliver the emerging priorities from the Partnership Plan and our Business Plan.

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 and the extremely late notification process.

7.2.3 In the light of all known factors, historic evidence/performance 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 2024/25 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 last year, the Authority increased the minimum General Fund Reserve level to £350,000 and this is still considered adequate at this time. This will of course be kept under review and particularly in regard to any further information in terms of a new Comprehensive Spending Review.

7.3.3 Further reserves have been set aside for Planning Appeal / Misc Risks (£150,000), ICT Replacements (c£30,000) and for investment in Capital / Major Projects (c£500,000).

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

8. Medium Term Financial Plan and Forward Projection

8.1 The Authority's Medium Term Financial Plan, attached as **Annex 4**, supports the Partnership (Management) Plan and our new Business Plan actions by ensuring resources are made available to support priorities over the period of the plans. Members of the Resources Task & Finish Group (officers and members) set a clear direction that we should always ensure that the next two financial years are balanced and that two further years beyond that were within a 'reasonable' deficit.

8.2 Members should note from the projected figures that a further £220-290,000 (equating to c5-7% of total income/expenditure) needs to be found for the 2026/27 and 2027/28 budgets to balance with adequate provision for the Programme Fund (noting also these shortfalls are already significantly lower than was projected last year). This would increase significantly if future National Park Grant settlements are reduced. 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. This position will be kept under review by a proposed new Resources and Facilities Task & Finish Group.

8.3 The high-level Forward Projection highlights the sustainable 'standstill' position of around £3.7m total income required to cover £2.75m of staffing costs, £0.75m core costs and a £0.20m Programme Fund (all figures given in 2024 equivalents).

Annex 1

DRAFT PROGRAMME FUND 2024/25

	Budget (£'s)
First Purpose	
Landscape Projects	2,000
Archaeological Projects and SLA's	10,000
Ecology & Catchment Co-ordination	12,000
Natural Environment Evidence Base	15,000
Solent Forum	2,500
Green Halo Partnership	3,000
	44,500
Second Purpose	
Access Improvements	9,000
Education (Travel Grants and Resources)	9,500
Boundary Marker Maintenance	3,000
Recreation Management	10,000
Interpretation & Information	8,000
Health and Wellbeing	5,000
New Forest Show	6,000
Media & Promotion[1]	23,000
Publications & Advertising[2]	32,000
Contact Management System	5,000
Ranger Projects	5,000
NFDC Ranger Projects	5,000
Volunteer and Ambassadors	3,000
	123,500
Duty	
New Forest Marque[3]	4,000
Sustainability Projects	3,000
Sustainable Tourism	4,500
Sustainable Transport	8,000
New Forest Business Partnership Events	2,500
	22,000
Total Expenditure	**190,000**

[1] Includes media monitoring/licences, NPA media library, website, photography, film, social media promotion and external graphic design work.
[2] Includes our Annual Review, Park Life x 2, Pocket Guide, Essential Guide and various leaflets/flyers.
[3] Following discussions with the Marque, our support is now split between a cash grant and a part-time Marque 'Events / Social Media' post hosted by the Authority.

Annex 2

POSITION OF EARMARKED RESERVES

Reserve	Reason for holding	Estimated as at 31/3/24 £000s	Projected use in 2024/25 £000s	Estimated as at 31/3/25 £000s
General Fund	Minimum reserve to cover unexpected events or emergencies.	350	0	350
Capital / Major Projects	Earned income for large invest-to-save projects and to provide short-term funding for major projects (later returned to reserve).	500	0	500
Financial Stability Reserve	One-off funding from defra to stabilise budget variations – planned to be utilised over 10 years from 2024/25.	440	-44	396
Planning/Legal Risk	To cover potential costs of legal cases against the Authority, particularly within the planning functions.	128	25	153
ICT Replacement & Renewals	Annual funding set aside for future larger investments in ICT at the Authority e.g. replacement of servers or staff computers.	27	0	27
Housing	Funding from the Bransgore affordable homes for future resultant costs and/or other housing schemes.	95	0	95
Other	Smaller amounts often earmarked for specific projects/functions e.g. NFLAS, Planning, NF Tour, Pedall, vehicles, WWII.	502	-30	472

Annex 3

TREASURY MANAGEMENT STRATEGY TO 2026/27

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 DLUHC 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 <u>Strategy consideration for 2024/25</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 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, including discussion with a treasury consultant and other nearby local authorities, and it is recommended that the low risk / low reward (and low cost) approach again be taken for 2024/25. Over the last year there has been a significant rise in the interest rates available for our size of investments (£0.5-1.5m, now between 4-5% returns), however the administrative costs of attracting any higher rate(s) is still considered prohibitive.

3.3.4 The portfolio value is estimated to be between £2.0m and £4.5m for the year ahead. This will largely be held in four main low-risk accounts:

- Lloyds current account (max £2.5m)
- Nationwide Instant Access (max £2m)
- Aberdeen Standard Money Market Fund (max £0.5m)
- UK Govt Debt Management Account Deposit Facility (max £2.5m).

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.

	2024 Estimate £000	2025 Estimate £000	2026 Estimate £000	2027 Estimate £000
Investments at 31 March	2,500	2,500	2,400	2,300
Expected Change in Investments	-	-	-100	-100

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 %
2023/24	5.25	5.00	5.20
2024/25	4.50	4.25	4.50
2025/26	3.50	3.25	3.50
2026/27	2.50	2.25	2.50

4. Investment Strategy to 2026/27

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 less 0.125

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
- Credit Default Swap 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.

<u>Specified Investments</u>

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 County, Unitary, District, 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 should have the short-term credit ratings in the table below (any exceptions to be agreed directly by the Chief Finance Officer):

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 (any exceptions to be agreed directly by the Chief Finance Officer), 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 £2.5m, of which a maximum of £1.5m 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 £1.5m with any eligible counterparty or maximum 'holdings' (i.e. instant access funds) which will be set at £2.0m per counterparty and £2.5m for UK Govt DMO; 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

The Monitoring of Investment Counterparties

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

4.15 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.

4.16 No indicators for borrowing have been set as no borrowing is currently planned to be undertaken unless it is temporary borrowing for cash flow purposes.

4.17 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.

4.18 These limits are shown in the following table: -

<table>
<tr><th>Investments</th><th colspan="2">2023/24 Upper</th><th colspan="2">2024/25 Upper</th><th colspan="2">2025/26 Upper</th></tr>
<tr><td>Estimated Maximum sums invested</td><td colspan="2">£4.5m</td><td colspan="2">£4.5m</td><td colspan="2">£4.5m</td></tr>
<tr><td>Estimated Maximum sums that could be invested for more than 364 days</td><td colspan="2">£1.5m</td><td colspan="2">£1.5m</td><td colspan="2">£1.5m</td></tr>
<tr><td>Limits - fixed interest rates</td><td colspan="2">100%</td><td colspan="2">100%</td><td colspan="2">100%</td></tr>
<tr><td>Limits - variable interest rates</td><td colspan="2">100%</td><td colspan="2">100%</td><td colspan="2">100%</td></tr>
<tr><td colspan="7">Maturity Structure of investments</td></tr>
<tr><td></td><td>Lower</td><td>Upper</td><td>Lower</td><td>Upper</td><td>Lower</td><td>Upper</td></tr>
<tr><td>Under 12 months</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td><td>0%</td><td>100%</td></tr>
<tr><td>12 months to 2 years</td><td>£0m</td><td>£1.5m</td><td>£0m</td><td>£1.5m</td><td>£0m</td><td>£1.5m</td></tr>
</table>

Sensitivity to Interest Rate Movements

4.19 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	2024/25 Estimated @ 4.30% £000	2024/25 Estimated + 0.5% £000	2024/25 Estimated -0.5% £000
Investment income	130	144	114

Use of Money Brokers

4.20 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.

4.21 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 2024/25 to 2026/27

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	2023/24 Current Forecast £000	2024/25 Current Estimate £000	2025/26 Current Estimate £000	2026/27 Current Estimate £000
New Forest National Park Authority	100	680	50	50

Notes:

- The rise in 2024/25 represents the potential development of affordable homes in Burley
- The figures in the table do not include any potential additional capital grant from defra which may be made available for 2024/25 (and/or future years).

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	2023/24 Forecast £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
General Fund Balances	350	350	350	350
Earmarked Reserves	1,500	1,500	1,400	1,300
Investments at 31 March	**1,850**	**1,850**	**1,750**	**1,650**

3 Limits to Borrowing Activity

Although the Authority is not expected to borrow / have debt during the year, due to upcoming changes in accounting rules, from 1 April 2024 any operating leases will need to be officially classed as debt/borrowing. For our Authority this is predominantly our Town Hall lease, which would now show as a matching asset and debt/liability on our Balance Sheet, calculated on the total remaining amount payable to the end of the lease (c£400,000).

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	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Total	**2.0**	**2.0**	**2.0**	**2.0**

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	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Total	**0.5**	**0.5**	**0.5**	**0.5**

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 2023/24 to 2026/27.

Financing Costs	2023/24 Revised £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Revenue Contribution to Fund Capital	100	50	50	50
Capital Contribution to Fund Capital	0	630	0	0

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 2024

Counterparty	Holding / Investment £	Interest Rate %	Investment Date	Maturity Date
Debt Management Account Deposit Facility (Gov't)	2,000,000	5.18	23/01/23	22/03/23
Aberdeen Standard - Money Market Fund	500,000	5.30	Instant Access	Instant Access
Lloyds Current Account	1,382,000	2.00	Instant Access	Instant Access
Total	**3,882,000**	**-**	**-**	**-**

Annex 4

Medium Term Financial Plan and Forward Projection

	2023/24 Projected Outturn £000's	2024/25 Estimate £000's	2025/26 Estimate £000's	2026/27 Estimate £000's	2027/28 Estimate £000's	Indicative Forward Projection £000's
Income						
Defra Grant	3,251	3,251	3,251	3,251	3,251	
Planning Fees & Grants	330	375	375	375	375	
Shared Service Contributions	254	244	240	165	169	
Income Generation	40	40	40	40	40	
Investment Interest	70	130	100	5080	50	
New Income Generation	0	50	50	50	50	
Use of Carry Forwards	22	49	83	1	1	
TOTAL INCOME	**3,923**	**4,139**	**4,139**	**3,960**	**3,934**	**3,680**
Expenditure						
Employee Costs	2,856	3,036	3,114	3,214	3,294	2,750
Emp Cost as % of Grant	88%	93%	96%	99%	101%	
Sustainable Communities Fund	10	30	30	30	30	30
Planning	81	95	95	70	70	
Secretariat	72	86	86	86	86	
Member Services	65	68	69	71	72	
Core Running Costs	639	634	555	522	484	
Other subtotal	857	883	805	749	712	700

TOTAL EXPENDITURE	**3,923**	**3,949**	**3,949**	**3,993**	**4,036**	**3,480**
Annual Funds Available for Programme Work & Leverage	**200**	**190**	**190**	**190**	**190**	**200**
Balanced Budget Y/N	**Y**	**Y**	**Y**	**N**	**N**	**Y**
Projected (Surplus) / Shortfall	**0**	**0**	**0**	**223**	**292**	**0**