YORKSHIRE DALES NATIONAL PARK AUTHORITY	**ITEM 8**
Date: **30 March 2021**	
Report: **DRAFT BUDGET 2021/22**	

Purpose of the Report

1. To seek approval for the 2021/22 Budget and associated Reserves and Treasury Management Strategies. The budget as presented here was considered at the Finance & Resources (F&R) Committee meeting in February. F&R recommend that it be approved by the Authority.

Recommendation

2. That Members approve the 2021/22 Budget (**Annex 1)** and associated Reserves and Treasury Management Strategies; and the adjustments listed in **Annex 2.**

Strategic Planning Framework

3. The information and recommendations contained in this report are consistent with the Authority's strategic planning framework, and in particular: with 2020/21

   - ***Corporate Plan***
     Objective 34. Plan and manage the Authority's work so as to make the most effective use of its resources.

4. The requirement that the annual budget be approved by the full Authority is set out in Financial Regulation 3.1.2.

Background

5. The F&R Committee met in February to discuss the proposed budget for 2021/22 and indicative budgets for 2022/23 and 2023/24; these are included here at **Annex 1. Appendix 1** within the Annex summarises the proposed budget for 2021/22, which is accompanied by the Reserves Strategy at **Appendix 5** and the Treasury Management Strategy at **Appendix 7**. Appendix 4, which contains the detailed programme budgets, is not included here because of its length, but is available as part of the published papers from the F&R meeting.

6. Subsequent to the F&R Committee considering the draft Budget, a small number of changes has arisen; these are listed in **Annex 2** (the final page of this document). The impact of these changes is a net increase in expenditure of £31k in 2021/22. This shortfall will be covered by re-purposing part of the £60k Opportunities Fund allocation contained within the 2021/22 Budget.

7. Superficially, the above adjustment is unsatisfactory, reducing as it does the limited capacity we have for providing match funding for new grant-funded projects. However, several projects – for which the costs are already in the budget, but for which the full income is not - are still in negotiation., It is very likely that they will generate additional income to offset the majority of these extra costs; at the time of writing this report, those discussions had not been concluded but it is hoped an update can be provided at the meeting.

8. There are two further 'Land Management' projects that we had hoped to be able to include in this report, notably one being the Farming in Protected Landscapes programme that the Government announced in November. At the time of writing, the Authority does not have the confirmed details of these schemes. However, it is expected that the information will be available in time to report at the meeting.

9. Finally, Defra had not notified us of the Authority's Core Grant in time for that detail to be included in this paper. However, our understanding is that the Grant will be confirmed at the level assumed within the Budget presented here; again, it is expected that an update on this position can be given at the meeting.

Michelle Clyde
Head of Finance

11 March 2021

ANNEX 1

YORKSHIRE DALES NATIONAL PARK AUTHORITY	**ITEM 6**
Committee: **FINANCE AND RESOURCES**	
Date: **9 February 2021**	
Report: **DRAFT BUDGET 2021/22**	

Purpose of report

1. To seek Members approval for the draft 2021/22 Budget for the National Park Authority, and associated Strategies.

Recommendations

2. That Members approve the draft budget for 2021/22 and indicative budgets for 2022/23 and 2023/24 (**Appendix 1**), the Reserves Strategy (**Appendix 5**) and the Treasury Management Strategy for 2021/22 (**Appendix 7**), for submission to the full Authority for final approval.

Strategic Planning Framework

3. The information and recommendations contained in this report are consistent with the Authority's strategic planning framework, and in particular: with 2020/21

    - **Corporate Plan objectives**
      34. Plan and manage the Authority's work so as to make the most effective use of its resources. In particular Action 34.7, to 'Prepare the Medium Term Financial Strategy (MTFS; Three Year Budget) for 2021/22 to 2023/24'.

Background

4. The Draft Budget has been prepared against a background of unprecedented uncertainty. In particular, the Government's planned Comprehensive Spending Review (CSR), which would have set our grant level for the next three years, has been postponed, and the impact of the COVID19 Pandemic on our other sources of income will continue for some time.

5. Given the above context, there are two fundamental messages to take from this paper:

(i) the proposed budget for 2021/22 'balances', i.e. it is affordable within the limits of our resources; it will pay for the scheduled delivery of our National Park Management Plan targets without resorting to any programme cuts.

(ii) budget projections for 2022/23 and beyond are much less certain, and there is a high probability that we will need to adjust our work programmes from 2022/23 onwards. The impact on our programmes is very much dependant on the outcome of the CSR and the long term economic impact of COVID19, as well as any changes in delivery that Defra might wish us to make in response to the (Glover) Landscapes Review.

6. From the perspective of reasonable financial certainty over the medium term (i.e. the next three years), this position is not satisfactory, and continues the situation that we found ourselves in at the start of 2020/21. We were supposed to receive a new three-year settlement starting in 2020/21. That settlement, part of the planned CSR, didn't happen because of Brexit-related issues, and was postponed until 2020. Instead, we received a one year-extension to our Grant for 2020/21, but at the 2019 rate without any allowance for inflation. The CSR has now been postponed again because of the impact of COVID19. Consequently, for 2021/22 Defra has indicated that we are likely to receive a Grant at the same level as 2019; at the time of writing this report, this had not been confirmed.

7. We are currently experiencing a series of cuts to the real-terms value of our Defra grant, as a result of no allowance being made for inflation. We had projected a worsening budget deficit position this time last year, but planned to 'hold out' from taking remedial action until we had certainty over the CSR. That remains our approach again this year, but we cannot adopt this 'wait and see' approach indefinitely, because – at some point - we won't have sufficient reserves to continue to prop up our spending plans. The likely state of the country's finances makes the prospect of a significant cut to our Defra grant a real possibility again.

8. As a result of the current situation we have avoided, wherever possible, building in any significant 'new' costs into future years to avoid making a potentially difficult situation from 2022 onwards even worse. We have kept very closely to the Authority's current priorities, and have not expanded programmes except where additional external funding has become available.

The main features of the Draft Budget for 2021/22

9. The Draft Budget will provide the resources to deliver the Authority's objectives, which were approved in December 2020 and will be set out in the Corporate Plan for 2021/22.

10. This Draft Budget paper incorporates the Authority's Treasury Management Strategy, which itself includes a Capital Strategy, which is in turn dependant on the Reserves Strategy for its funding.

11. The main features of the 2021/22 budget are that:

a. It balances: projected expenditure matches income and the planned use of **£0.8m** of Reserves. A large proportion of this spending is covered by Earmarked Reserves committed to that purpose, but we have also needed to use £391k (or 83%) of our General (unallocated) Reserve to balance the budget. Members should see this as an 'amber warning light': whilst it is appropriate to use Reserves which have not been earmarked in this way, the approach will limit our future options.

b. Our grant from Defra is expected to be **£5.23m** for the year. This is unchanged from two years ago, and doesn't include any allowance for inflation. In real terms, this represents another cut to our core funding, which is **£180k** less than we had originally projected

c. Income Generation: our target for the coming year (in line with our Income Generation Strategy) is to generate income sufficient to support expenditure of (at least) **£8.1m**. Planned expenditure in this budget totals **£8.5m**, so our income generation performance, particularly in relation to external funding bids, remains strong. This is despite lowered projections for some earned income (e.g. from visitors, planning fees etc.) and the falling 'real terms' value of the Defra grant.

d. The staffing ratio (staff costs: gross expenditure) is **58.1%**, above the range of 50%-55% previously agreed by Members. This is another 'amber warning light', insofar as it suggests that, beyond 2022, staffing costs may have to be reduced if we wish to retain this ratio. However, for 2021/22, no corrective action is proposed. This is partly because the ratio is affected by the temporary projection of depressed earned income due to the ongoing impact of COVID19, as well as the addition of a small number of temporary posts (for 2021/22 only). Further consideration of the staffing ratio is included in **Appendix 2**.

e. Capital investment plans for Premises, IT and Plant & Equipment are in place, funded from Earmarked Reserves.

The Draft Budget: Detail

12. The budget has been designed to support the delivery of the objectives and aspirations of the Authority. Detailed information on all programme and corporate activity budgets is contained within the following appendices:

- **Appendix 1**: **Draft Budget (Medium Term Financial Strategy 2021-2024).**
  This shows the detailed budget for 2021/22 and projections for the following two years. Programmes are grouped according to their priority for 2021/22. Each program budget includes the cost of employing the officers directly involved in its delivery. Overhead costs are shown under the heading 'Corporate Employment and Central Costs'.

- **Appendix 2**: **Budget assumptions**.
  This identifies the assumptions that underpin the projections. The estimates are considered to be robust, and additional explanations are provided where there is any significant level of uncertainty[1].

- **Appendix 3**: **Significant budget changes**
  This shows any parts of the budget that have changed significantly from the projections 12 months ago.

[1] This statement meets the requirements of CIPFA's Financial Management Code 2019.

- **Appendix 4**: A full set of budget proposals, one for each programme (*not included with this version*).

- **Appendix 5**: **Reserves.**
  As noted at paragraph 11a, the draft budget makes planned use of a number of our earmarked and General Reserves in 2021/22. The Appendix sets these out in more detail.

- **Appendix 6**: **Risks**. This sets out issues that may affect the budget in 2021/22. The number of strategic risks having the potential to affect the budget has increased since last year.

- **Appendix 7**: **Treasury Management Strategy**. This is an obligatory component of the Budget process, and covers issues relating to our capital and cash investment plans.

Equalities Impact Assessment

13. An Equalities Impact Assessment has been completed for this report and the proposals it describes, with specific reference to the protected characteristics prescribed by the Equalities Act 2010. This assessment concluded that the proposals have no adverse impact with respect to equalities.

Prospects for 2022/23 and beyond

14. The financial outlook from 2022/23 onwards may be extremely difficult as the economic impact of dealing with Covid becomes clearer. The funding of public services will be a key issue for the Government to address. If that approach involves significant cuts in grant then all English National Park Authorities will come under severe pressure in delivering their programmes, particularly the 4 priorities that have been established by National Parks England:

- Dealing with the impacts of Climate Change
- Nature and Wildlife recovery in National Parks
- The future of farming and Land Management
- National Parks for everyone: improving access and diversity.

15. Members will see that we have developed the 2021/22 budget with an eye to the future by limiting new long term funding commitments. However, Members need to understand the potential implications of future cuts on the Authority's objectives, work programmes and organisational structure.

16. Clearly, we are unable to provide any detailed proposals for dealing with cuts in Government funding unless and until the scale of such a cut in funding were known. However, we can illustrate some potential impacts in general terms.

17. A standstill grant, with no allowance for inflation, is effectively a cut in real terms. Our current projection is that our existing deficit will grow by £700k over the next five years should grant not be adjusted for inflation.

18. Some Members will recall that between 2010 and 2015 National Park Grant in England fell by nearly 40% in real terms and that led to significant programme cuts and reductions in staff numbers. To give an idea of the potential scale of impacts, if the Authority were now to face a 25% cut in funding, and applied that strictly based on its priorities (see Appendix 1), we would be left with only the 4 priority programmes and a couple from the 'adequate' category. The reduction in staff numbers would be approximately 50 (39 ftes) out of 160 staff.

19. Of course if we were facing cuts of this scale we would use a more nuanced, hybrid approach that distributed those costs between staff and non-staff budgets, both across programme and overhead spending. For 2021/22, however, we are in limbo until we know the future of our long term funding The use of our unallocated General Reserves is an appropriate mechanism for bridging the gap until the future is clearer.

20. The outcome may prove to be much better than the bleak scenarios painted here. But if we are forced to respond to cuts, no one should be in any doubt that this will significantly reduce our ability to deliver current Authority and Management Plan objectives.

Conclusions

21. This is very much a 'one year' budget, whilst we wait until we have a clearer view of longer-term future prospects. It is – appropriately – cautious and avoids taking on additional spending commitments which we might otherwise be unable to sustain longer term.

22. However, it remains sensible to wait for the results of the next CSR before adjusting our financial and other plans beyond 2022: the results may be positive, in which case any action taken now would have been unnecessarily damaging.

23. Finally, the Draft Budget may well be subject to further revision before it is submitted to the Authority for final approval on 31 March 2021. Potential adjustments include a different level of actual Defra grant to that assumed or the confirmation of 'Future of Farming' monies, and costs associated with a permanent move to a more 'blended' way of operating (~ increased reliance on homeworking). Any such changes will be highlighted within the accompanying report to be submitted to the Authority meeting in March.

Michelle Clyde
Head of Finance & Resources

Richard Burnett
Director of Corporate Services / Treasurer

26 January 2021

APPENDIX 1

Medium Term Financial Strategy 2020-2024

	2020/21 BUDGET NET £000's	2021/22 BUDGET NET £000's	2022/23 BUDGET NET £000's	2023/24 BUDGET NET £000's
PROGRAMME BIDS:				
PRIORITY PROGRAMMES				
Staff Cost	689.9	706.0	682.1	740.8
Programme Cost	59.2	69.5	59.7	59.9
Income	(269.0)	(247.3)	(269.0)	(269.0)
Development Management Total	**480.1**	**528.2**	**472.8**	**531.7**
Staff Cost	603.2	603.8	595.3	611.1
Staff income	(109.0)	(118.4)	(99.5)	(58.1)
Programme Cost	363.0	365.0	319.0	309.0
Income	(118.0)	(127.0)	(127.0)	(127.0)
Land Management & Biodiversity Total	**739.2**	**723.4**	**687.8**	**734.9**
Staff Cost	445.5	448.6	457.0	496.8
Staff Income	(72.1)	(62.9)	(63.9)	(78.4)
Programme Cost	717.2	751.9	575.7	577.5
Income	(322.6)	(322.6)	(322.6)	(322.6)
Rights of Way Total	**767.9**	**814.9**	**646.1**	**673.2**
Staff Cost	188.7	191.1	157.3	166.6
Staff Income	(41.0)	(57.3)	(40.0)	(40.0)
Programme Cost	72.9	81.4	71.0	51.0
Income	(6.6)	(11.3)	0.0	0.0
Access For All Total	**214.0**	**203.9**	**188.3**	**177.6**
Total Priority Gross Cost	**3,139.6**	**3,217.2**	**2,917.1**	**3,012.6**
Total Priority Income	**(938.4)**	**(946.9)**	**(922.0)**	**(895.1)**
Total Priority Net Cost	**2,201.2**	**2,270.3**	**1,995.1**	**2,117.5**

	2020/21 BUDGET NET £000's	2021/22 BUDGET NET £000's	2022/23 BUDGET NET £000's	2023/24 BUDGET NET £000's
PROGRAMME BIDS:				
ADEQUATE PROGRAMMES				
Staff Cost	85.5	85.3	86.4	94.2
Programme Cost	153.6	176.5	167.6	174.9
Income	(86.9)	(63.8)	(85.9)	(84.9)
Dales Countryside Museum Total	**152.2**	**198.0**	**168.1**	**184.2**
Staff Cost	134.2	136.5	139.4	153.3
Programme Cost	68.5	96.5	56.5	56.5
Income	(30.0)	(50.0)	(30.0)	(30.0)
Historic Environment Total	**172.7**	**183.0**	**165.9**	**179.8**
Staff Cost	124.6	124.9	103.6	101.6
Programme Cost	55.0	66.0	41.0	105.0
Income	0.0	(20.0)	0.0	0.0
Development Planning Total	**179.6**	**170.9**	**144.6**	**206.6**
Staff Cost	0.0	0.0	0.0	0.0
Programme Cost	751.0	506.5	925.2	894.8
Income	(742.4)	(437.5)	(846.3)	(748.1)
Landscape Features Total	**8.6**	**69.0**	**78.9**	**146.8**
Staff Cost	231.8	255.2	208.2	238.6
Staff Income	0.0	(30.6)	0.0	0.0
Programme Cost	78.6	62.7	78.6	78.6
Income	0.0	0.0	0.0	0.0
Volunteers and Apprentices Total	**310.4**	**287.2**	**286.8**	**317.2**
Staff Cost	103.8	104.2	106.9	117.3
Staff Income	0.0	0.0	0.0	0.0
Programme Cost	105.0	100.0	30.0	30.0
Income	0.0	0.0	0.0	0.0
Tourism Total	**208.8**	**204.2**	**136.9**	**147.3**
Total Adequate Gross Cost	**1,891.6**	**1,714.3**	**1,943.5**	**2,044.8**
Total Adequate Income	**(859.3)**	**(601.9)**	**(962.2)**	**(863.0)**
Total Adequate Net Cost	**1,032.4**	**1,112.4**	**981.3**	**1,181.8**

	2020/21 BUDGET NET £000's	2021/22 BUDGET NET £000's	2022/23 BUDGET NET £000's	2023/24 BUDGET NET £000's
PROGRAMME BIDS:				
LIMITED PROGRAMMES				
Staff Cost	304.4	299.2	305.1	333.5
Programme Cost	296.9	253.9	302.7	305.0
Income	(312.5)	(235.8)	(311.1)	(311.1)
National Park Centres Total	**288.8**	**317.2**	**296.7**	**327.5**
Staff Cost	36.8	36.7	36.9	39.9
Programme Cost	185.0	185.0	175.0	175.0
Income	0.0	0.0	0.0	0.0
Sustainable Development Total	**221.8**	**221.7**	**211.9**	**214.9**
Staff Cost	69.2	68.8	70.9	78.6
Programme Cost	303.2	314.2	320.7	328.7
Income	(684.8)	(605.8)	(683.3)	(683.3)
Car Parks & Toilets Total	**(312.3)**	**(222.8)**	**(291.7)**	**(276.0)**
Staff Cost	113.7	113.6	115.7	126.4
Programme Cost	60.5	47.0	60.5	47.0
Income	(31.0)	(30.0)	(31.0)	(30.0)
Visitor Management Total	**143.2**	**130.6**	**145.2**	**143.4**
Total Limited Gross Cost	**1,369.8**	**1,318.3**	**1,387.5**	**1,434.2**
Total Limited Income	**(1,028.3)**	**(871.6)**	**(1,025.4)**	**(1,024.4)**
Total Limited Net Cost	**341.5**	**446.6**	**362.1**	**409.8**
PROGRAMME SUMMARY				
TOTAL GROSS PROGRAMME COSTS	**6,401.0**	**6,249.7**	**6,248.1**	**6,491.5**
TOTAL PROGRAMME INCOME	**(2,825.9)**	**(2,420.4)**	**(2,909.6)**	**(2,782.5)**
TOTAL PROGRAMME SPEND	**3,575.1**	**3,829.3**	**3,338.5**	**3,709.1**
CORPORATE EMPLOYMENT & CENTRAL COSTS				
Conservation of the Natural Environment	115.9	116.2	118.6	129.3
Promoting Understanding and Enjoyment	109.7	113.1	117.1	129.9
Communications and Interpretation	172.9	177.4	178.6	193.1
Communications & Corporate - Ranger Services	71.0	70.9	71.3	76.8

	2020/21 BUDGET NET £000's	2021/22 BUDGET NET £000's	2022/23 BUDGET NET £000's	2023/24 BUDGET NET £000's
Corporate Services	899.3	938.6	910.1	988.6
1% Vacancy Factor	(58.7)	(60.0)	(58.2)	(62.7)
Other Employee Costs - Corporate Management	18.2	18.5	18.6	18.7
TOTAL CENTRAL GROSS COSTS	**1,328.4**	**1,374.7**	**1,356.0**	**1,473.7**
Support Services	186.5	193.7	201.4	194.7
Support Services Income	(48.0)	(24.0)	(24.9)	(25.8)
CEO Support	4.7	4.8	4.8	4.9
CEO Support Income	0.0	0.0	0.0	0.0
Legal Services	20.8	30.8	24.1	24.6
Legal Services Income	(27.0)	(20.0)	(20.0)	(20.0)
Office Accommodation	100.7	103.9	107.3	110.8
Office Accommodation Income	(12.5)	(12.5)	(12.5)	(12.5)
Office Buildings Maintenance	50.5	77.1	33.7	27.9
Health & Safety	7.9	8.0	8.1	8.2
Member Costs	119.9	136.6	127.0	129.2
IT Licences, Consumables and Support	159.0	155.0	256.7	230.9
Communications & Web Services	57.8	59.4	60.4	76.3
Communications Income	(0.4)	(0.4)	(0.4)	(0.4)
Training	60.1	60.1	60.1	60.1
Total Central Costs	**680.0**	**772.6**	**825.7**	**808.8**
BUDGET SUMMARY				
DEFRA National Park Grant Income	**(5,319.8)**	**(5,229.8)**	**(5,229.8)**	**(5,229.8)**
Other Income	**(2,913.8)**	**(2,477.3)**	**(2,967.4)**	**(2,841.2)**
Total Income	**(8,233.5)**	**(7,707.1)**	**(8,197.2)**	**(8,071.0)**
Gross Expenditure	**8,497.2**	**8,453.9**	**8,487.6**	**8,832.8**
In-Year Deficit	**263.7**	**746.8**	**290.4**	**761.7**
Opportunities Fund	**83.9**	**60.0**	**60.0**	**60.0**
In-Year Deficit after Opportunities Fund	**347.6**	**806.8**	**350.4**	**821.7**
FUNDED BY:				
Matched Funding from Specific Reserves	**(197.0)**	**(280.5)**	**(60.0)**	**(60.0)**
Capital Expenditure Funded from Reserves	**(150.6)**	**(135.6)**	**(181.7)**	**(153.8)**
General Balancing Reserve Movement	**0.0**	**0.0**	**0.0**	**0.0**
Deficit in year	**0.0**	**390.7**	**108.7**	**608.0**

Budget assumptions about costs and income

1. **Defra Grant**

   Defra's grant settlement letter for 2021/22 had not been received by the date this report was completed. The assumption has been made in this budget that the grant will continue at the same level as in 2020/21.

2. **Staff Costs**
   Staff costs have been modelled in detail across the next 5 years to give advance warning of affordability problems. The projections include expected pay-band progression and employer Pension and National Insurance contributions. Figures include allowance for a staff 'vacancy factor', which at 1.5% anticipates a saving against staff costs of £60k.Projections for the ratio of staff costs to gross income are as follows, together with the previous predictions for the same years as calculated in January 2020.

% Salary Costs to Gross Income	2021/22	2022/23	2023/24	2024/25	2025/26
Projections as at January 2021	58.1%	54.7%	55.6%	66.1%	62.4%
Projections as at January 2020	52.9%	52.5%	56.9%	56.7%	-

Members had adopted an indicative measure for this ratio of 50% - 55%, so the above figures suggest a developing problem from 2024/25. Pay levels continue to rise annually but because we are now assuming flat levels of Defra grant, the ratio of staff costs to gross income is rising progressively. Note that these values are likely to fall if we achieve further success in income generation.

These calculations take account of the following factors:

(i) **New posts and other staff costs**.

a. Woodland Project Officer part-funded post. 67% externally funded (additional net cost £10k pa).
b. Generation Green part-time post. 100% externally funded.
c. Temporary one-year part time HR officer post (additional £16k).
d. Temporary one-year full time IT officer post (additional £26k).
e. Temporary Education Officers, Young Rangers, and Access Officer (additional hours), now extended to March 2022 (additional £46k).
f. Temporary one-year Senior Planning Officer post (additional £26k).
g. Reduction in travelling expenses as part of the Carbon Reduction Plan measures, including future use of video conferencing (saving £27k).
h. The knock-on effect of the 2020/21 pay award being 0.75% higher than had been budgeted for in that year (additional £31k).

(ii) **The National Pay Award for Local Government**:
The Government has announced a general pay freeze across the public sector for 2021/22[2]; this will also apply to Members' allowances, in line with current policy.

[2] Strictly speaking, the pay freeze announced by central government doesn't cover local government, for which pay increases are agreed by the National Joint Council (ref: House of Commons Briefing Paper CBP8037, 2 December 2020). However, it seems probable that the pay freeze will extend to local government, as happened during the most recent pay freeze period.

The only exception to this freeze is a pay rise of £250 pa for employees on salaries of £24,000 or less. This will benefit officers on our pay bands E and F, and on the two lowest increments of pay band D. For the purposes of modelling pay inflation from 2022/23 onwards we have assumed an annual increase of 2%. Every 1% of pay award costs the Authority ~ £40k /pa; a 0% pay award would reduce projected costs for 2022/23 by £80k, whilst a 2.75% pay award would increase them by £30k.

(iii) **North Yorkshire Pension Fund Contributions:**

Following the triennial valuation of the Authority's share of the North Yorkshire Pension Fund's assets and liabilities in 2019, our employer contribution rates were set at 15.2% and 13.5% respectively for the years 2021/22 and 2022/23. This followed a period where a 'high returns' investment strategy was pursued, the success of which reduced contribution requirements in the medium term. The Fund Manager subsequently adopted a lower risk investment strategy (to lock those returns in), and the contribution rate is projected to increase to 20.9% in 2023/24, a value that is close to that experienced in 2019, before the 2019 valuation.

3. **Overheads**

Inflation on corporate overheads has been applied at variable rates depending on the particular item. Costs for office overheads have been projected in line with normal levels of office occupancy, although actual costs will be reduced should there be a continuation of home working.

4. **Income from Fees & Charges**

Projections for income from fees and charges (planning fees and the related S106 income, pre-application advice fees, net retail profits, car parking income, renewables, DCM admissions) have been made in line with previous performance. Income levels for 2020/21 have clearly been affected by COVID19, so the primary reference point for predicting post-COVID19 income levels is 2019/20. However, where it is likely that the levels of certain types of income will remain depressed in 2021/22 (particularly during the earlier part of the year, when the pandemic is still being brought under control) or where there might longer term downward pressure, projections have been adjusted accordingly.

Bank interest is now based on a return of 0.4%, compared to the 0.93% used in our modelling last year. This rate is an estimate, linked to how well our working capital investments have outperformed the BoE base rate over the past two years.

5. **Capital Expenditure**

The Authority's capital expenditure comprises investment in Property, IT and Plant & Equipment, for which detailed schedules have been prepared covering the next five years, available at Members request. At present, all such expenditure is funded from Earmarked Reserves (see Appendix 5), which avoids the pressure of having to find this money from within annual programme budgets.

APPENDIX 3

Significant Budget Changes

The changes below cover non-salary related differences of £10k or more between the indicative budgets approved in March 2020 for 2021/22 and the budget now proposed.

1. **Development Management**
   - Review of Planning Service £10k.
   - 10% reduction of planning fee income, based on current application numbers £22k.

2. **Land Management & Biodiversity**
   - Tees-Swale project costs: transferred out to the Pennine Trails budget -£20k.
   - Natural capital study for the Northern Upland Chain LNP, funded by earmarked reserves £36k.

3. **Rights of Way**
   - Major capital works on Rights of Way funded by earmarked reserves, £87k.

4. **Access for All**
   - Cautley Spout Bridge, £10k.

5. **Dales Countryside Museum**
   - Roof works reduction (not a saving - bought forward into 2020/21) -£46k.
   - Flood door for the goods shed and new carpet £15k.
   - Increased rates costs- £10k.
   - Decrease in museum admissions due to likelihood of continuing restrictions £24k.

6. **Landscape Features**
   - Re-profiled the Westmorland Dales Project, with a net reduction of -£60k in 2021/22; this is not a real 'saving' but a delay in completing some of the activities as originally expected.

7. **Volunteers and Apprentices**
   - Income for Access Unlimited project -£30k.
   - Reduced volunteer travel expenses -£16k.

8. **National Park Centres**
   - Staffing savings due to turnover -£11k.
   - Retail sales reduced by £75k due to continuing Covid restrictions; 'net' loss £30k.

9. **Car Parks & Toilets**
   - Reduction in car park income due to likelihood of continuing restrictions £62k.
   - Expected reduction in toilet income £18k.

10. **Central Costs**
    - Loss of interest income, with interest rates at a record low; £26k
    - Legal manuals and procurement handbook, lower S106 fees income, £17k
    - Yoredale roof and heat pumps projects funded from earmarked reserves £39k
    - Members training costs, £15k.

APPENDIX 5

Reserves Strategy

1. The Authority holds Reserves for two purposes:

- **To help to manage budget risk, by providing:**
  - financial 'insurance': having enough in the bank to cover contingencies such as a major legal cost or the interim funding needed to cope with a reduction in National Park Grant from Defra;
  - Inaccurate budget estimates.

- **To support delivery by:**
  - funding investment requirements;
  - enabling us to take advantage of appropriate project opportunities.

This Strategy covers the Authority's **Usable** Reserves. These are Reserves backed by cash and are therefore available to spend on the purposes for which they have been established. At the date of this report, the value of the Authority's Usable Reserves is **£3,372k.**

The Strategy

2. It is proposed that the Authority's Reserves be maintained in line with **Table 1**, below.

TABLE 1. USABLE RESERVES STATEMENT (MARCH 2022)	**£'000**
Earmarked Reserves	
1. Contingency (10% of Gross Expenditure 2021/22)	845
2. Carry Forward Budgets	TBN
3. Property (Refurbishment)	281
4. IT (Replacement & Upgrade)	324
5. Plant & Equipment (Rangers)	81
6. Carbon Reduction Reserve	40
7. Broadband Loans	153
8. Access for All	50
9. Cumbria Rights of Way	55
10. Path Erosion	78
11. Tees Swale Project	200
12. Lune Rivers Trust Loan	160
13. Ingleborough Access Project	84
14. Swaledale Barns	61
15. Attracting Younger People	49
16. Northern Upland Chain	34
17. Earmarked Legacies	133
18. Ribblesdale Premises	200
19. B4RN Share Reserve	30
20. Clif Bar Pond Creation	3
21. NYCC Flood Repairs	38
22. (i) General Reserve: sum required to balance 2021/22 Budget	391
(ii) General Reserve: IT costs, introduction of blended working	82
Total Current Useable Reserves	**3,372**

3. The position at year-end (31 March 2022) will inevitably be different from that shown above, after taking into account the following events:

   - Some of these allocated Reserves will alter, in line with planned spending during the remainder of 2021/22; this relates in particular to the Property, IT Carbon Reduction Reserves.

   - A temporary reserve will be created to contain any carry-forward budgets that are required to complete activity started but not finished in 2020/21.

   - The General Fund will be modified in line with the net 2020/21 year-end financial balance is (after taking account of carry-forward budgets).

   Further details concerning the individual earmarked reserves are available at Members request.

4. Future Reserve Movements

Looking forward, and extending the proposed 3-year Medium Term Financial Strategy to our longer term 5 year ‘financial planning’ time frame (which mirrors the five-year Management Plan cycle), it is anticipated that these various Reserves will be used as shown in **Table 2**.

TABLE 2. PROJECTED USE OF RESERVES								
No	Description	Balance	21/22	22/23	23/24	24/25	25/26	Balance March 2026
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
1	Contingency (10% of Gross Expenditure 2021/22)	845						845
2	Carry Forward Budgets	TBN						0
3	Property (Refurbishment)	281	(95)	(41)	(40)	(46)	(59)	0
4	IT (Replacement & Upgrade)	324	(35)	(135)	(108)	(8)	(38)	0
5	Plant & Equipment Rangers (Replacements)	81	(6)	(6)	(6)	(6)	(57)	0
6	Carbon Reduction Reserve	40	(40)					0
7	Broadband Loans	153	(102)	(37)	(14)			0
8	Access for All	50						50
9	Cumbria Rights of Way	55	(55)					0
10	Path Erosion	78	(78)					0
11	Tees Swale Project (£50k pa)	200	(50)	(50)	(50)	(50)		0
12	Lune Rivers Loan Commitments (Max £160k)	160	(160)					0
13	Ingleborough Access Project	84	(84)					0
14	Swaledale Barns	61	(61)					0
15	Attracting Younger People	49	(15)	(10)	(10)			14
16	Northern Upland Chain	34	(34)					0
17	Earmarked Legacies	133		(133)				0
18	Ribblesdale Premises	200			(200)			0
19	B4RN Share Reserve	30						30
20	Cliff Bar Pond Creation	3	(3)					0
21	NYCC Floor Repairs	38	(38)					0
22	General Reserve needed to balance 2021/22 budget	391	(391)					0
23	General Reserve (includes loan repayments)	82[3]	262	37	14			313
	Total	**3,372**	**(985)**	**(375)**	**(414)**	**(110)**	**(154)**	**1252**

[3] Projected 2020/21 year-end balance of £82k will be required to support operational changes linked to the introduction of blended working practices

APPENDIX 6

Risks associated with the Draft Budget

Risk	Impact	Likelihood	Control / Mitigation
1. Brexit	Unknown	High	At the date of this report, there remain a number of uncertainties associated with Brexit and which may have a positive or negative outcome for the Authority. Positive outcomes may include additional funding for ELMS Future of Farming. Uncertainties which might be either positive or negative include the economic performance of the wider economy, and its impact on government funding or on investment markets (and therefore on Pension funding); and changes in tourism patterns.
2. Staff costs in excess of budget	Low	Low	Staff turnover may not generate the saving from vacancies built into the budget, at £60k. Beyond 2021/22, annual inflation-related pay awards are assumed to continue at the rate of 2.0%. This assumption is used for modelling purposes only. Longer term, higher rates of national pay award may be agreed (as the local government pay continues to lag behind inflation); this would also have a knock-on effect on employer pension contributions.
3. Inflation greater than projected	Low	Low	Specific rates of inflation, appropriate to each overhead, have been used to prepare the budget. The situation will be monitored, with the potential for more substantial increases in inflation (particularly relating to energy costs) a possibility. The Authority's outsourced cash collection contract is continuing to operate under conditions established before COVID19, when much higher cash usage applied. The move to cashless payments may mean that the cost of this contract will fall in due course.
4. Unidentified costs missing from budget.	Low	Low	Any significant problems could be managed through a call on the Contingency Reserve.
5. Failure to achieve earned income projections.	Moderate	Low	Achievement of targets is kept under continuous review. Projections have been modified for any long-term impact of COVID19 that will continue beyond 2020/21. Some anticipated grant income may not be achieved, in which case the related expenditure will not take place (so no net impact). At this stage, our bank interest income target looks achievable. However, a move to negative interest rates would remove all interest income, and might generate what would in effect be a charge for 'looking after' our working capital.

Risk	Impact	Likelihood	Control / Mitigation
6. Failure to deliver objectives within Corporate Plan	High	Low	Closely managed process, with regular in-year review. Where additional spending is required to achieve delivery, budget can be made available from the General Reserve or – if necessary - from redirecting resources from lower priority programmes.
7. Insufficient Reserves to cover spending plans	High	Low	Managed through the Reserves Strategy (see Appendix 5).
8. Longer term plans are unaffordable	High	High	MTFS projections are now indicating that our plans for 2022/23 and beyond are likely to unaffordable in their current form; also, that we will have used a significant proportion of our unallocated Reserves in supporting the 2021/22 budget. This risk doesn't affect 2021/22.
9. The Landscapes (Glover) Review	High	Low	Published in Autumn 2019, the report contains recommendations that would place additional demands on NPAs if we are asked to implement them. Costs associated with such actions would require additional funding from Defra, without which we would be obliged to reduce budgets for our existing programmes and priorities.
10. Future Ways of Working	Moderate	High	In the light of 'lessons learned' from the COVID-19 pandemic, it is likely that future working arrangements will be significantly less office-focused and retain an element of homeworking. At this stage, the costs associated with this potential change have not been quantified, but would include investment in the IT equipment needed to support such a permanent change.

Treasury Management Strategy

Introduction

1. The Authority has a statutory obligation, linked to its independent financial status, to prepare an annual Treasury Management Strategy. The Strategy covers three substantive matters:

    - the obligation to set prudential indicators which would in turn create the opportunity to borrow to fund capital spending
    - the requirement to set a (cash) investment strategy.
    - The requirement to set a capital strategy.

2. As at February 2021, the Authority has no loans (as debts) in place. Nonetheless, the possibility of borrowing is an option available to the Authority when making decisions on the optimum way to finance capital spending. The indicators contained within this Strategy meet the ground rules that would allow a decision to be taken to borrow funds if that proves to be the optimum solution. Nothing in this report commits the Authority to a decision to borrow funds.

3. Cash investment is delivered under a contract with North Yorkshire County Council and is limited to the interest-earning investment of cash reserves and working capital balances. Our money is pooled with that of other bodies for which NYCC also undertakes this service (including two other National Park Authorities), with investment activity aimed at underwriting the security of capital and liquidity of investments, whilst seeking the highest return on its investments. Investments are primarily in the form of short to medium term interest-bearing loans and deposits with banks and related institutions.

4. The requirement for a capital strategy is set out in the latest revision to CIPFA's Code of Practice on Treasury Management. The Strategy is intended to provide a high level overview of how capital expenditure, capital financing and treasury management contribute to the provision of services objectives and takes account of stewardship, value for money, prudence, financial sustainability and affordability.

The Treasury Management Strategy for 2021/22

5. The detailed Strategy is set out in **Annex 1**. CIPFA regulations and guidance require that this Strategy covers a number of related areas:

    - **Prudential Indicators**, setting the context for any future borrowing the Authority might wish to undertake; these include the affordable borrowing limit, set at £386k for 2020/21.

    - The **Minimum Revenue Provision Policy.** This sets out the Authority's approach to repaying any capital borrowing over time.

- **Treasury Management Practices** (TMPs) describe the manner in which the Authority will seek to control Treasury Management. As all the investment activities of the Authority are carried out by NYCC, it is necessary to adopt the TMPs used by NYCC to govern its own Treasury Management activities in so far as these relate to investment. A copy of the NYCC TMPs is available on request.

- The adoption of NYCC's **Annual Investment Strategy** and **Approved Lending list**

6. In addition to the Strategy, the Authority is also required to have a **Treasury Management Policy Statement**. This is set out below.

> The Authority defines the policies and objectives of its treasury management activities as follows:
>
> - Treasury management is the management of the Authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with these activities, and the pursuit of optimum performance consistent with these risks.
> - The successful identification, monitoring and control of risk will be the prime criteria by which the effectiveness of the treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority.
> - Effective treasury management will support the achievement of the business and service objectives of the Authority. The Authority is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

7. CIPFA's Code of Practice on Treasury Management emphasises that the responsibility for risk management and control of Treasury Management activities lies wholly with the Authority and its officers.

Local Authority Investments and Annual Investment Strategy

8. Under Section 15 (1) (a) of the Local Government Act 2003, the Authority is required to have regard to Investment Guidance issued by the Secretary of State in respect of the investment of cash funds. This Guidance on Local Government Investments requires an **Annual Investment Strategy (AIS)** to be approved by Members.

9. Because investment activity is undertaken on behalf of the Authority by NYCC, the practical result of this is that we are required to adopt NYCC's AIS. A copy is available on request.

Treasury Management Reporting and Scrutiny Arrangements

10. The CIPFA Code of Practice on Treasury Management requires that each authority must receive reports on its Treasury Management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual outturn report after the end of the year. These requirements are included in the Authority's Financial Regulations (13.3) and are fulfilled by the current report, and by subsequent reports to the Audit & Review Committee.

11. Treasury Management performance and policy setting should also be subject to ongoing scrutiny: each Authority must delegate the role of scrutiny of treasury management strategy and policy to a specific named body. For YDNPA, this is the Audit & Review Committee.

Capital Strategy

12. The Capital Strategy for 2021/22 (**Annex 2**) describes the planned investment of reserves in refurbishing, developing and replacing capital assets, including property and premises, plant and equipment, and IT; inevitably, there is a strong link between this Strategy and the Authority's Reserves Strategy.

TREASURY MANAGEMENT STRATEGY & STATEMENT 2021/22

INTRODUCTION

1. The production and submission to Members of this Treasury Management Strategy is a requirement of the Local Government Act 2003, as codified in the CIPFA Treasury Management Code of Practice in the Public Sector & Prudential Code. The Strategy covers:

   - the Treasury Limits in force which will limit the treasury risk and activities of the Authority (paragraphs 2-3)
   - Prudential Indicators (paragraph 4)
   - the current treasury position (paragraph 5)
   - the Borrowing Requirement and Borrowing Limits (paragraphs 6-8)
   - Borrowing Policy (paragraph 9-13)
   - prospects for interest rates (paragraph 14)
   - the Borrowing Strategy (paragraphs 15-17)
   - Minimum Revenue Provision Policy (paragraphs 18-21)
   - Annual Investment Strategy (paragraphs 22-24)

TREASURY LIMITS FOR 2021/22 TO 2023/24

2. It is a statutory duty under Section 3 of the Local Government Act 2003 for the Authority to determine and keep under review how much it can afford to borrow. The amount so determined is termed the **Affordable Borrowing Limit** (ABL); this covers loans and other forms of liability, such as credit arrangements. The ABL has to be set on a rolling basis for the forthcoming financial year and two successive financial years.

3. The Authority must have regard to the Prudential Code when setting the Affordable Borrowing Limit, which requires it to ensure that total capital investment remains within sustainable limits. In practice, it is equivalent to the Authorised Limit as defined for the Prudential Indicators (see paragraph 4 iv).

PRUDENTIAL INDICATORS FOR 2021/22 TO 2023/24

4. The Prudential Indicators are as follows.

   (i) **Estimated Ratio of Capital Financing Costs to the Net Revenue Budget (Affordability)**

   This indicator identifies the percentage cost of borrowing to the Authority (i.e. interest payments), net of interest earned on cash balances.

The estimated ratios for the current and future years, the actual figure for 2019/20 and the probable figure for 2020/21 are set out in the table below. Where the expected earned interest on working capital is predicted to exceed that of the interest payable on possible borrowing as set out in the later indicators, the effective percentage is NIL. This is now the case for the years to and including 2023/24, as we are projecting working capital levels that would be likely to generate more interest income than the interest payments that would result from borrowing were we to fund capital spending from loans.

Year	Basis	%
2019/20	actual	0.00%
2020/21	probable	0.00%
2021/22	estimate	0.00%
2022/23	estimate	0.00%
2023/24	estimate	0.00%

(ii) **Capital Expenditure Plans (Actual and Estimated)**

This table shows total capital spending plans for the Authority[4]. All the prudential indicators that follow are based upon the **possible** borrowing requirement were the Authority to fund all of this spending through loans.

Year	Basis	£k
2019/20	actual	51
2020/21	probable	50
2021/22	estimate	136
2022/23	estimate	182
2023/24	estimate	154

(iii) **Capital Financing Requirement and Forecast**

The Capital Financing Requirement defines the underlying need to borrow to pay for capital spending.

[4] The sums shown in the table below are the value of planned capital spending on Property, IT and Plant & Equipment, and match the totals pending plans against reserves as set out in the 'Projected Use of Reserves' table within Appendix 5, specifically those earmarked reserves numbered 3, 4 and 5 on this table.

Date	Basis	£k
31 March 2020	actual	51
31 March 2021	probable	50
31 March 2022	estimate	136
31 March 2023	estimate	182
31 March 2024	estimate	154

These figures relate to the option of funding capital purchases (including vehicle leases) by borrowing. However, the level of debt outstanding needs to be adjusted for the Minimum Revenue Provision (MRP). Details of the make-up of this provision are included in paragraphs 18-21. This MRP applies to debt outstanding at the end of each financial year and therefore the MRP charge would be applicable from 2021/22 onwards and the capital financing requirement will be reduced accordingly. Note that there is no current outstanding debt, and so no current value to our MRP.

(iv) **Authorised Limit for External Debt**

This sets the limit beyond which borrowing by the Authority is prohibited, and is based upon the best estimate of increases in debt arising from the capital financing requirement plus a margin (£250k; unchanged from previous years) to allow some flexibility for unforeseen cash movements.

The limit is analysed between borrowing and other long term liabilities (such as finance leases) to show the actual debt owed by the Authority. The Treasurer has delegated authority to make changes between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal, value for money and other relevant factors.

The recommended Authorised limits for external debt are as follows:

Year	Borrowing Limit, £k	Other Long Term Liabilities, £k	Total £k
2021/22	386	0.0	386
2022/23	432	0.0	432
2023/24	404	0.0	404

The Authorised Limit is consistent with the Authority's current commitments and budget process.

Under **Section 3(1) of the Local Government Act 2003** the Authority must set an **affordable borrowing limit** for the coming year. The Authorised limit of £386k will act as this limit for 2021/22.

(v) **Operational Boundary for External Debt**

This is based on the probable external debt position during the year. It is not a limit and actual borrowing could vary around this boundary during the year. The difference between this indicator and the Authorised Limit is the £250k which provides headroom for unusual cash movements.

The operational boundary is analysed between borrowing and other long term liabilities separately. The Treasurer has delegated authority to make in-year changes to the operational boundary and its sub-categories.

Year	Borrowing Limit £k	Other Long Term Liabilities, £k	Total £k
2021/22	136	0	136
2022/23	182	0	182
2023/24	154	0	154

(vi) **Actual External Debt**

This Authority had no external debt at 20 January 2021, and this position is unlikely to change by 31 March 2021.

(vii) **CIPFA Code Compliance**

The CIPFA Code of Practice on Treasury Management in the Public Services was updated in November 2011 and adopted by the Authority on 27 March 2012.

(viii) **Interest Rate Exposures**

If the Authority were to borrow during 2021/22, it would follow the Borrowing Strategy as set out in paragraphs 15 – 17 of this document. Loans could be obtained from the Public Works Loan Board (PWLB), from the money market, or by borrowing against internal surplus cash balances. Any borrowing could be either at a fixed or variable interest rate, depending on the circumstances prevailing when any loan was taken out.

To allow flexibility this indicator sets an upper limit on fixed interest rate exposures for 2021/22, 2022/23 and 2023/24 of up to **100%** of the Authority's net outstanding principal sums. The upper limit for variable interest rate exposure is set at **40%** of net outstanding principal sums; this reflects the riskier nature of these types of loan. A maximum of 20% of cash balances can be invested for periods of longer than 364 days.

If the Authority does decide to borrow the Treasurer will manage fixed and variable interest rate exposures within the ranges in the next table.

Borrowing	**% of outstanding principal sums**
Limits on fixed interest rate exposures	60 to 100
Limits on variable interest rate exposures	0 to 40
Investing	
Limits on fixed interest rate exposures	0 to 30
Limits on variable interest rate exposures	70 to 100

(ix) **Gross Debt and the Capital Financing Requirement**

Over the medium term, debt should only be used for a capital purpose. Therefore, the Authority must ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year, plus the estimate of any additional capital financing requirement for the current and next two financial years. The Authority has met this requirement up to the present date; with no borrowing planned, no difficulties in relation to this requirement are anticipated for the period covered by this report up to and including 2023/24.

(x) **Maturity Structure of Borrowing**

Upper and lower limits for the maturity structure of borrowings are set to allow maximum flexibility:

Period	Lower Limit	Upper Limit
Under 12 months	0%	100%
12 months and within 24 months	0%	100%
24 months and within 5 years	0%	100%
5 years and within 10 years	0%	100%
10 years and above	0%	100%

(xi) **Total Principal Sums Invested for Periods longer than 364 days**

A maximum of 20% of funds available for investment will be held in aggregate in "Non-Specified investments" over 364 days.

THE CURRENT TREASURY POSITION

5. As at 31 December 2020, the Authority's Treasury position was as below

Item	Principal at 31 Dec 2020, £k	Average return in 2020/21, to 31 Dec. %
Debt Outstanding		
None	0	
Investments		
Managed by NYCC	3,899	0.57

*This figure reflects the principal held as at 31 December 2020. The average daily balance from 1 April 2020 to 31 December 2020 was £4.595m.

THE BORROWING REQUIREMENT AND BORROWING LIMITS

6. The **Operational Boundary** is an estimate of the most likely, prudent scenario for external debt during 2021/22. The **Authorised Limit** is based on the same estimate as

the **Operational Boundary** but includes sufficient headroom over this figure to allow for unusual cash movements.

7. The **Authorised Limit** is therefore the maximum amount of external debt which the Authority agrees can be incurred at any time during the financial year and includes both capital and revenue requirements. It is not, however, expected that the Authority will need to borrow up to the limit agreed.

8. The agreed **Operational Boundaries** and **Authorised Limits** for external debt up to 2023/24 are as follows:

	Item	**2021/22 estimate £k**	**2022/23 estimate £k**	**2023/24 estimate £k**
	Debt Outstanding at the start of the Year	0	136	182
+	Internal or External borrowing requirements	136	182	154
-	MRP + charged to revenue	-0	-136	-182
=	**Operational Boundary for year**	136	182	154
+	**Provision to cover unusual cash movements**	250	250	250
=	**Authorised Limit for year**	**386**	**432**	**404**

BORROWING POLICY

9. The policy of the Authority is that if external borrowing is required to finance capital expenditure, then loans will be sought from the PWLB or the money markets, over periods of up to 70 years which reflect the best possible value to the Authority and/or the life of the Authority's assets. Individual loans will be chosen depending on the perceived value of interest rates at the time of borrowing.

10. If borrowing were to be undertaken from the money markets, then such loans should be limited to 30% of the total debt portfolio.

11. The Authority will look to borrow from the PWLB and money markets at the most advantageous rate.

12. The Prudential Code allows external ‘borrowing for capital proposes’ in advance of need within the constraints of relevant approved Prudential Indicators. There are risks, however, in such borrowing and the Authority has not taken any such borrowing to date and has no current plans to do so. The Authority will not borrow more than or in advance of need purely in order to profit from the investment of the extra sums borrowed. Any such borrowing in advance of need will only be considered where there is a clear business case for doing so.

13. The merits of internal capital borrowing from the Authority’s surplus cash balances will be considered very carefully, should borrowing ever be anticipated.

PROSPECTS FOR INTEREST RATES

14. The current expectation is that bank interest base rates will stay at historically-low levels for the foreseeable future. This assumption which has been built into future budgets (in relation to investment receipts).

THE BORROWING STRATEGY

15. New borrowing activity will take advantage of the lowest borrowing rates available from the PWLB. The choice of the loan period will depend not just on the required duration of any loan but also on the Authority's attitude to risk. Longer term loans with fixed interest rates provide certainty over repayments, but have higher interest rates attached to them because of that insurance. A series of shorter term loans could be cheaper, but would lose that certainty.

External versus internal borrowing

16. The Authority has its own cash balances. In 2020/21 to December 2020 the value for the average daily cash balance was £4.56m. This sum is made up of 'cash' items (including creditors), reserves, balances and provisions.

17. This borrowing policy provides for shorter term borrowing from the Authority's revenue cash balances, if that option is preferable to other alternatives. Because investment rates are normally below long term borrowing rates, using internal cash balances to finance new capital expenditure could be cost efficient.

MINIMUM REVENUE PROVISION POLICY

18. The Authority is required to set a prudent Minimum Revenue Provision (MRP) for the coming year, to enable it to redeem any debt liability over a period equivalent to the useful life of the capital asset being financed. An annual review of MRP policy is required, and forms part of this report (see below).

19. The policy for 2021/22 takes into account the fact that the Authority has no outstanding debt. The proposed policy is unaltered from last year, as follows.

20. For locally agreed Prudential Borrowing on capital expenditure incurred, MRP will be calculated based on equal annual instalments over the estimated useful life of the asset for which the borrowing is undertaken. For finance leases, MRP will be equivalent to the annual rental payable under the lease agreement.

21. The estimated life of relevant assets will be assessed each year based on types of capital expenditure incurred but in general will be 50 years for buildings (excluding DCM, for which 30 years is the estimated life), perpetuity for land, 5 to 20 years for vehicles, plant and equipment, and 5 years for IT equipment. This policy has been used, in respect of the requirement for capital expenditure, to calculate the provisions within the Prudential Indicators set out in paragraph 4 of this statement.

ANNUAL INVESTMENT STRATEGY (AIS)

22. The Authority's investment management arrangement with NYCC covers its investment requirements. The net return achieved will be monitored by the Treasurer, allowing the position relative to budget assumptions to be reviewed. NYCC continues to make all investments in accordance with the Local Government Act 2003, which requires an Annual Investment Strategy to be approved. The Authority has, therefore, adopted the Annual Investment Strategy approved by NYCC. A copy of the document is available for members on request. The information below outlines the strategy for investments.

23. The Authority's investment priorities are:

    (i) To have regard to the Government Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes.

    (ii) To ensure the security of capital (protecting the capital sum from loss); and to maintain liquidity (keeping the money readily available for expenditure when needed).

    (iii) To seek the highest return (yield) on its investments provided that proper levels of security and liquidity are achieved.

24. The Authority's temporarily-surplus funds are pooled with NYCC's funds plus those of other local authorities participating in the investment pool. The investment interest earned by the Authority will be from a combination of different investments held over differing periods. The current edition of NYCC's Approved Lending (= investing) List is available on request.

CAPITAL STRATEGY 2021/22

Background

1. The purpose of the Capital Strategy is to demonstrate that the Authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward, and impact on the achievement of priority outcomes.

   The Strategy is required to cover three distinct but inter-related elements, as follows:

   (a) **Capital Expenditure**: an overview of the Authority's governance process for approval and monitoring of capital expenditure, including the Authority's policy on capitalisation, and an overview of its capital expenditure and financing plans.

   (b) **Capital financing and borrowing**. A projection of the Authority's capital financing requirement, how this will be impacted by capital expenditure decisions and how it will be funded and repaid. It therefore sets out the Authority's borrowing strategy and explains how it will discharge its duty to make prudent revenue provision for the repayment of debt.

   (c) **Treasurer's statement**, meeting the requirement to report on the affordability and risk associated with the capital strategy.

Capital Expenditure

Capitalisation policy

2. Expenditure is classified as capital expenditure when it results in the acquisition or construction of an asset (e.g. land, buildings, vehicles, plant and equipment, including IT infrastructure) that:

   (a) Will be held for use in the delivery of services, for rental to others, investment or for administrative purposes;

   (b) is of continuing benefit to the Authority for a period extending beyond one financial year.

   Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria are met.

Governance

3. Capital investment in new and improved assets is necessary to support delivery of the Authority's services. Capital expenditure is managed through the annual budget as part of the budget setting process and reviewed quarterly as part of the monitoring arrangements for financial performance.

Capital Expenditure and Funding Plans

4. Capital expenditure can be financed from any of the following sources:

    - Capital grants
    - Capital receipts – amounts generated from the sale of assets and the repayment of any capital loans or grants
    - Revenue contributions – amounts set aside from the revenue budget, funded by income (e.g. Defra core grant)
    - Reserves
    - Borrowing – amounts that the Authority does not need to fund immediately from cash resources, but instead charges to the revenue budget over a number of years into the future.

5. The Authority's capital expenditure plans are supported by a series of asset strategies and projections which are designed to ensure that our work is supported by capital assets that are fit for purpose.

6. Full strategies are prepared for **Property Management**, **IT Development** and **Plant & Equipment**, each covering a five-year period and including a fully costed investment requirement. These Strategies undergo a full revision and reappraisal every five years, but the investment requirement is updated annually, in order to give a rolling five-year projection, which is in turn met from Reserves.

7. The funding requirement for is summarised below. Named capital reserves have been created to allocate funding in line with the total values of these three commitments, as follows:

	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000
Property	95	41	40	46	59	**281**
IT	35	135	108	8	38	**324**
Plant & Equipment	6	6	6	6	57	**81**
Total	**136**	**182**	**154**	**60**	**154**	**686**

<u>Capital Financing Requirement and borrowing</u>

8. In order to assess affordability, prudence, and financial sustainability of capital investment plans, the Authority is required to prepare and maintain a set of prudential indicators. They are intended to collectively build a picture that demonstrates the

impact over time of the Authority's capital expenditure plans on the revenue budget and upon borrowing and investment levels. They also explain the controls that will ensure that the activity remains affordable, prudent and sustainable.

9. Key components of this approach are:

- The Capital Financing Requirement for future borrowing plans;
- External Borrowing Limits to match these requirements;
- The Borrowing Strategy;
- The Minimum Revenue Provision, being the amount needed to be set aside each year from revenue sources to cover any loan repayments.

The above are covered within the Treasury Management Strategy for 2021/22 at Annex 1, so are not repeated here.

Treasurer's Statement

10. National Park Authorities determine their own programmes for investment that are central to their delivery of quality public services. The Capital strategy set out here gives the long term context in which capital expenditure and investment decisions are made.

11. There is a requirement that the Treasurer / Chief Finance Officer reports on the affordability and risk associated with this strategy.

12. The Capital strategy presented here provides an overview of the governance process for approval and monitoring of capital expenditure. These processes are well established and are effective in ensuring delivery of the Authority's capital investment plans. In addition, the Capital Strategy and prudential indicators also demonstrate that the capital expenditure, investment and financing plans of the Authority are robust, affordable and sustainable over the projected period.

Richard Burnett
Treasurer

26 January 2021

2021/22 Further Budget Amendments

Land Management – Salaries

Members will be aware that there are some significant developments in relation to a number of externally-funded Land Management projects. Some of these have now been resolved and can be added to the budget:

Description	2021/22 £'000	2022/23 £'000	2023/24 £'000
Additional Salary Cost	67.8	86.6	80.9
Additional Income	42.0	52.7	56.2
Net Additional Cost	**25.8**	**33.9**	**24.7**

Additional salary costs:

- The Woodland Project Officer Post, part-funded by the Woodland Trust, will continue beyond next year, so has been included from 2022/23
- The cost of a 0.5 fte Wildlife Conservation Officer post had inadvertently been missed out of the original budget
- The cost of the new 'Our Common Cause' project officer

(Net) additional income:

- 'Our Common Cause' £40k (matching the above officer cost) and for the next 3 years
- Other additional project income (£8.5k, in 2021/22 and 2022/23).
- A reduction in the expected income for the extension of the Defra 'payment by results' trial in Wensleydale (from £35k per annum to £26.5k and then £17k, in 2021/22 and 2022/23 respectively).

Corporate Costs

A small increase to cover additional software licence costs for Human Resources Software and BACS bank payments, totalling £1.3k, and an increase in the woodchip budget (for our wood-fuelled heating systems, of £3k, to enable us to buy a higher-grade product; which should reduce the number of breakdowns we are currently experiencing).

The addition of £2.9k of staff costs. The Chief Executive takes over as the Lead Officer for National Parks England from January 2022 to December 2022. Additional funding of £11.5k has been included for providing support to the CEO post during this calendar year; £2.9k in 2021/22 and £8.6k in 2022/23.