Report No. 08/25
National Park Authority

Joint Report of the Chief Executive and Head of Finance and Fundraising

Subject: Draft Budget Planning 2025-26

Contents:

- The Draft Revenue and Capital budgets for 2025-26 and forecast 2026-27 to 2028-29
- The Draft 2025-26 Levy on Pembrokeshire County Council
- Prudential Indicators for the Capital Programme
- An Investment Strategy, Reserves & Treasury Management Policy Statements for 2025-26.

The Draft Revenue and Capital Budgets for 2025-26 and Forecasts 2026-27 to 2028-29

Contents

Introduction

This Draft Revenue & Capital Budget for 2025-26 is an important part of the Authority's strategic planning and performance framework. Key financial decisions need to be set in the context of a plan that looks beyond the next financial year. The process is an established part of the budget setting process and provides a forecast of the cost of continuing to provide existing levels of service and the resources that are likely to be available to the Authority over the period. It also identifies any shortfalls and sets out how this will be managed. Regular review and update is carried out to ensure the budget process takes full account of any changes in the National Park grant and funding streams, changes in Welsh Government objectives for the Authority and current strategic and service delivery priorities.

Objectives

The objectives of the Draft Revenue and Capital Budgets for 2025-26 are:

I. To ensure priorities are identified
II. To provide projections of spending and income
III. To provide projections for our capital spend
IV. To provide a robust framework to assist the decision-making process.
V. To test sensitivity of and apply risk analysis to projections.

Strategy

The development of the Authority's Draft Revenue and Capital budgets for 2025-26 has taken place during a sustained challenging period for the public sector with continued pressure on the National Park Grant (NPG) and ensuing Levy on the Pembrokeshire County Council. The Authority approved Budget 2023/24 & 2024/25 concluded that the Authority's future financial outlook was likely to continue to be challenging over the next few years as the impact of cumulative reductions in core funding is felt together with significant cost rises.

Meeting the financial pressures requires a rigorous approach to identifying efficiencies, maximise non-core funding streams opportunities and the reprioritisation of spending within services. Accordingly, the Authority will adopt the clear strategy which will involve:

- Maintaining a balanced budget position.
- Strong financial management: The Authority controls and monitors the actual position of the authority on a regular basis setting out actions to correct any emerging issues.
- Asset maintenance: the Capital Programme should ensure adequate programmes of maintenance to sustain values of key assets, especially income-generating assets.
- Maximise resource base: the Authority will ensure the best use of physical and other assets including staff time.
- Value for money: continuous review of budgets to ensure resources are targeted on key objectives and deliver value for money.
- Maximise income streams while at the same time minimising the financial risks to the Authority

High level summary of emerging and key risks

The following have been identified as the key risk areas (in no particular order) facing the organisation at the current time and may become more significant over the next year:

- **Cyber and data security** – continuing to be one of the top risks in most risk publications, cyber-security, particularly ransomware, remains a risk that should be regularly considered whether that be improving security measures or seeking assurance that measures in place are operating effectively. With Artificial Intelligence (AI) taking a significant step forward in recent years, cyber-criminals are looking to exploit AI to create ever more sophisticated attacks on organisations, whether that be through exploiting technical vulnerabilities or via social engineering to access organisations via their users. IT investment is therefore a priority.

- **Political change –** with a change in government folowing the General Election, organisations are seeing significant changes to policies which impact on how they operate, leading to further uncertainties around the economy, inflation, legislation and interest rates, all of which could have a significant impact on what the Authority is able to achieve in future years.

- **Supply chain disruption –** ongoing disruptions in global supply chains continue to have an impact on both the availability and cost of materials.

- **Changes in laws and regulations** –the political outlook for the UK may mean more legislative changes with potential risks that will need to be considered. The Authority has already had to consider the significant changes around employment law which have applied since April 2024 in such areas as expanded rights for employees around flexible working, paid and unpaid leave and protection from redundancy during parental leave. Another area of change is the Public Procurement Regulations which took effect in February 2025.

- **Skills shortage and labour supply** – although seen as a reducing risk over the last year, recruitment remains a challenge. Significant challenges remain around recruiting and retaining quality staff and the changing needs and expectations of employees. With many organisations now trialling initiatives such as 4-day working weeks or 9-day fortnights, organisations risk losing staff to other organisations if they do not regularly review their offering and ensure they are keeping up with market expectations.

- **Climate change and environmental sustainability –** there remains uncertainty around expectations in relation to climate change and environmental sustainability targets at a national level and, as a result, what the expectations of organisations are in relation to supporting these targets. Whatever changes arise, the Authority will also need to consider the expectations of their customers and other stakeholders in relation to its actions around climate change and environmental sustainability and the potential impact on its reputation in this key area of public focus. On the other hand, there are significant opportunities to take advantage of grant offerings in this area.

- **Artificial Intelligence –** further to the negative impacts of AI mentioned above in relation to cyber-attacks, the Authority is looking at the opportunities that AI presents in terms of increasing efficiency, problem solving, maximising the value of data and many other areas. Along with these opportunities come risks that will need to be considered, particularly around ensuring that any AI applications are fully understood (to ensure the result can be relied upon), appropriately security is in place and assurance that AI applications do not inadvertently breach laws around the use of data, particularly personal data. This is likely to be an area of growth in the coming years. Robust testing and assurance processes will be vital to ensure that AI initiatives provide the benefits expected whilst not opening the organisation to unexpected risks.

- **Global unrest & change –** there remains significant uncertainty, unrest and ongoing conflicts in many areas, not least the Middle East and Ukraine but also changes in governments in Europe and America. Changes in political direction bring uncertainty as well as economic instability, volatile markets and supply chain risks. This impacts on investment and budgetary decisions.

- **Data quality & assurance –** continuing to remain high on many organisations risk registers, good quality data and systems provide the foundation on which organisations can make good quality decisions, effectively plan and respond to challenges. Inaccurate, incomplete or unreliable data increases risks of poor decision-making and false assurance being provided to management and the Authority. This is a key area to ensure that it has robust controls and assurance frameworks in place to safeguard its data, the quality of the data and to maximise its use for better decision making.

  These factors lead to general uncertainty over planning, investment and budgetary decisions and may impact on the availability of Central and Welsh Government funding.

Key Assumptions used for the budget for 2025-26

The Draft Revenue and Capital budgets for 2025-26 have been prepared in accordance with the budget strategy and as discussed by Members in budget workshops. In calculating the net cost of continuing existing services, the budget planning has been based on the following assumptions and factors:

- A 'bottom-up' approach has been used for the setting of the 25-26 budget with Heads of Service taking responsibility for drafting budgets on a zero-budget basis. This has enabled more accurate budgets to be presented.

- The National Park Grant includes a confirmed small increase of 5% for 25-26 but assumes remains flatlined for future years. This has resulted in a small increase in the levy.

- The pay award for 2025-26 is estimated at 2%. This may be insufficient given current inflationary trends and global uncertainties.

- Salary costs are based on current staff numbers, new posts outlined for 25-26 and include any spinal points increase where known.

- The budget is based on new NIC thresholds and NIC applied at the new increased rate of 15%.

- SLSP projects for 25-27 are assumed awarded and contribute to capital, overhead and delivery support.

- Additional Planning Fee Income of 26% (an additional £50k over 23-24) is included to allow for an expected agreed increase in fees from WG.

- A reduction in Interest on Bank Deposits is assumed due to reduced interest rates and reduced cash balances

- All project funded activities are assumed to be fully funded either by grants or earmarked reserves. As at the date of this report, some projects are yet to achieve this and there remains a funding gap.

- Contribution to PCC Local Authority Toilet maintenance of £110k is paid for 25-26 and none thereafter.

- There is an increase in provision of £15k for Insurance costs following an increase in the Authority's employer's liability ratings and other insurance risk factors.

- No movement in pension or other revaluation or accrued holiday reserves is assumed.

- The budget includes the use of earmarked reserves to support revenue expenditure and to balance the budget deficit.

- The budget has been prepared on the assumption the deficit after EMR's will be balanced by general reserves so that general reserves will remain within the recommended level of £1,400k.

Revenue Budget 2024/25

The revenue budget for 2024/25 was approved in February 2024 as shown in Appendix 1.

As discussed in the December 2024 budget workshop the Authority's finances for the current financial year have continued to be subject to significant uncertainty. However, the additional revenue awarded by WG of £660k for 24-25 and increased bank interest is expected to ensure the Authority generates a surplus (excluding movements in pensions and other reserves).

2024/25 Budget Forecast @ 31-12-2024	**£000's**	**£000's**
Original net Budget (Deficit)		**-509**
Movements:		
Budget adjustments/virements to date	-546	
Earmarked reserve releases	608	
Pay & Grading impact - normal salaries Jan to March not met by earmarked reserves	-60	
		2
Additional Income Versus Budget		
Bank Interest over that budgeted	160	
WG Additional allocation for 24-25	660	
		820
Revised revenue forecast (Deficit)/Surplus		**313**

The table above shows the current forecast for the 2024/25 is a surplus of £313k, a considerable improvement over the projected deficit of £509k. As a result, the General Reserve balance is expected to increase to £1,529k by the year end. Capital receipts, used to support capital expenditure in the year, are expected to be used while unapplied capital grants will be carried forward to 25-26 to meet projects which have not progressed as expected e.g. Green room. Earmarked Reserves are expected to decrease to £3,848k at the end of the 2024/25 financial year giving a forecast total useable reserve of £6,329k as at the end of March 2025 (a decrease of £1,742k, or 21%).

National Park Grant (N.P.G) & Levy

The Welsh Government published its Draft Budget 2025-26 in December 2024, with proposed increase in the National Park Grant of 5%. The Welsh Government is expected to debate and publish the Final Budget 2025-26 in March 2025. Despite this increase of 5%, it is worth noting the total reduction between 2010/11 and 2024/25 in cash terms has been £285k effectively year on year. Further when the consumer prices index is applied the overall reduction in real terms since 2010/11 equates to 49.3% or circa £2m.

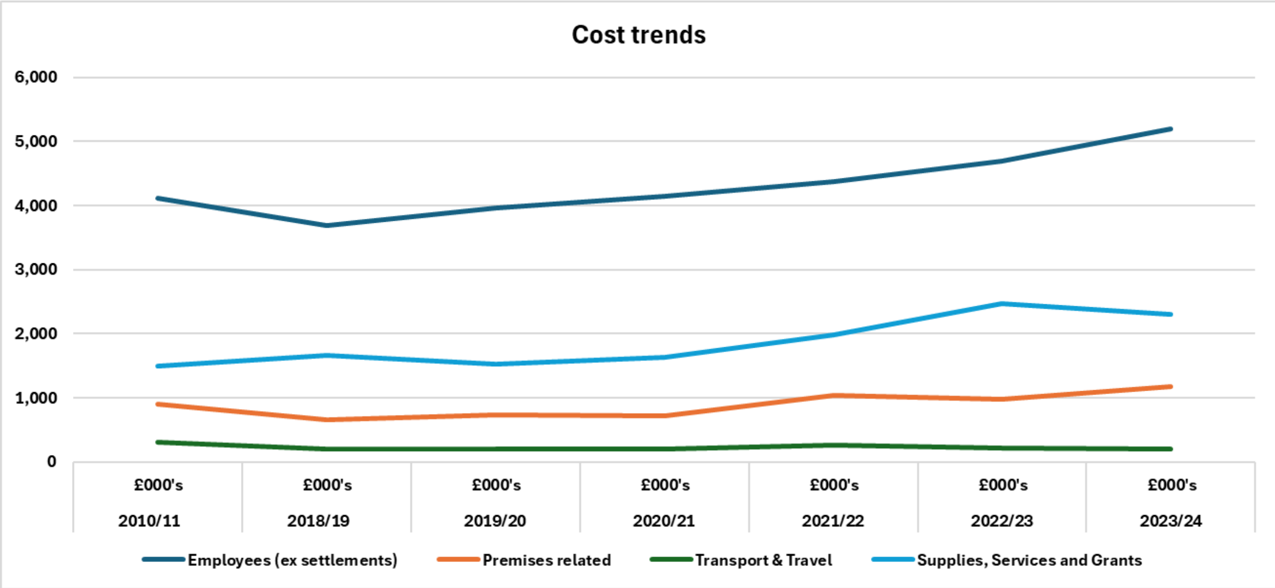
	£000's			
	2010/11	**2024/25**	**Total**	**% Reduction**
NPG	3,463	3,249	-214	
Levy	1,154	1,083	-71	
Total Cash Funding Reduction	**4,617**	**4,332**	**-285**	**-6.1%**
Consumer Prices Index				
	2010/11	Jan 2025		
	92.2	135.4		-43.2%
Total Reduction				**-49.3%**

Savings, Efficiencies and Additional Authority Generated Income

The Authority has countered the reduction in core funding by principally controlling costs, increasing income from other sources including Information and Heritage centres, car parks, bank interest and attracting project specific grants from various organisations. The additional settlement from Welsh Government of £660k for 24-25 has ensured a deficit is avoided.

The Authority's high level cost structure is illustrated in the table below, with the data taken from the published statements of accounts. As a percentage of total costs, employee costs have started to increase. This reflects high pay awards and an increase in FTE. Whereas this has been a major source of budget saving in the past, there is an upward trend for 25-26 resulting from the pay & grading exercise, national insurance changes and increased staffing. This has contributed to the forecasted deficit budgets. The Authority will face some significant difficulties in balancing its budget if not in receipt of ongoing increased funding. (In prior years, from 2010/11 staff costs remained flat lined but this hid the falling numbers of Full Time Equivalents (FTE's) against the impact of salary, national insurance, and pension contribution increases.) The average number of staff, measured in terms of FTE's has seen an upward trend, which has arisen due to the staff restructure in 22-23/23-24 and an increase in grant funded specific projects and the appointment of fixed term posts. Inflationary pressures over the last few years have also seen overall costs rise. Whereas inflation has reduced significantly in the last year, this only means prices are increasing slower. There have been no cost reductions. Only transport and travel costs have seen a decline over the period, thought to arise from introducing EV vehicles and reduced staff travelling over the covid period.

	2010/11		2018/19		2019/20		2020/21		2021/22		2022/23		2023/24		Movement	Movement
	£000's	%	£000's	%	£000's	%	£000's	%	£000's	%	£000's	%	£000's	%	£000's	%
Employees (ex settlements)	4,114	60%	3,696	59%	3,968	62%	4,140	62%	4,379	57%	4,695	56%	5,204	59%	1,090	26%
Premises related	907	13%	662	11%	729	11%	717	11%	1,043	14%	975	12%	1,170	13%	263	29%
Transport & Travel	299	4%	198	3%	198	3%	196	3%	264	3%	220	3%	205	2%	-94	-31%
Supplies, Services and Grants	1,489	22%	1,666	27%	1,526	24%	1,625	24%	1,988	26%	2,464	29%	2,305	26%	816	39%
TOTAL REVENUE COST	**6,809**	**100%**	**6,222**	**100%**	**6,422**	**100%**	**6,678**	**100%**	**7,674**	**100%**	**8,354**	**100%**	**8,884**	**100%**	**2,075**	**100%**
% increased costs year on year			-9%		3%		4%		15%		9%		6%			



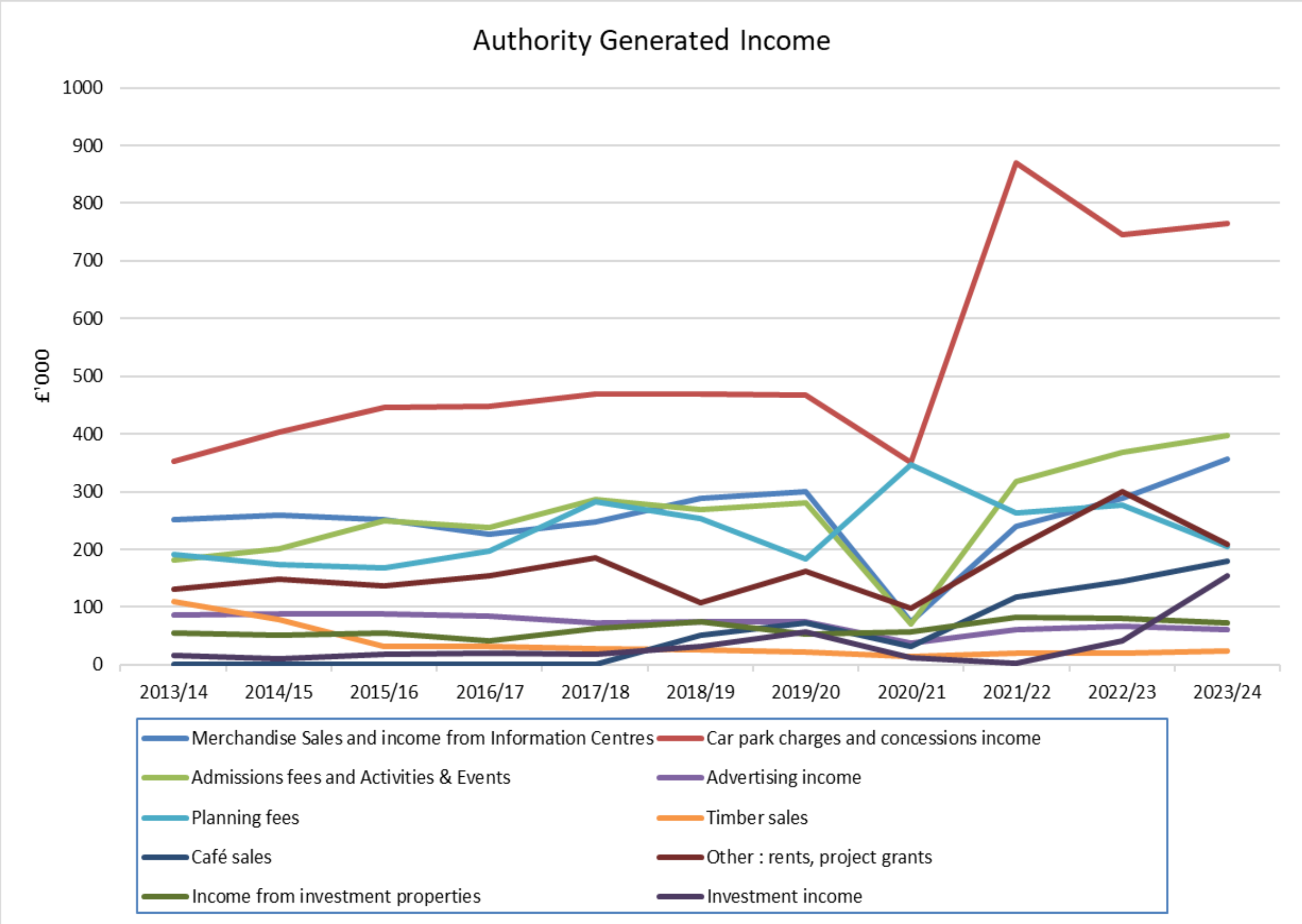
Yearly Average Staffing Levels													
2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
141	135	134	133	125	123	120	124	123	129	126	133	136	145

The real terms reduction in core funding has meant the Authority’s requirement to generate increased income to fund core activities is of greater importance. The table below shows that actual authority generated income has increased by £1,302k from 2010/11 to 2023/24 with most sources of income improving but with advertising and timber sales notably declining. However, Authority generated income only increased by an overall 4% between 22-23 and 23-24. Unfortunately, this is not sufficient to meet the increased costs of operating and the decline in real terms funding.

AUTHORITY GENERATED INCOME 2010/11 to 2023/24

AUTHORITY GENERATED INCOME	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	Movement (14 years)	Movement (14 years)
Merchandise Sales and income from Information Centres	225	255	263	252	260	252	227	248	289	300	75	239	289	356	131	**58%**
Car park charges and concessions income	309	390	365	353	404	446	447	470	470	468	350	869	745	765	456	**148%**
Admissions fees and Activities & Events	172	185	161	182	200	249	237	287	269	280	71	317	369	397	225	**131%**
Advertising income	88	88	77	87	88	88	85	72	75	74	38	60	67	61	-27	**-31%**
Planning fees	135	144	146	192	173	168	197	283	253	184	347	264	277	204	69	**51%**
Timber sales	30	81	40	109	79	31	31	28	25	22	15	20	21	24	-6	**-20%**
Café sales	0	0	0	0	0	0	0	0	51	72	31	117	144	179	179	**351%**
Other : rents, project grants	123	285	172	131	149	136	154	185	107	163	97	203	300	209	86	**70%**
Income from investment properties	28	45	29	56	51	55	42	62	74	54	57	83	80	73	45	**161%**
Investment income	11	19	26	16	10	19	21	19	31	57	13	2	41	155	144	**1309%**
TOTAL LOCAL INCOME	**1,121**	**1,492**	**1,279**	**1,378**	**1,414**	**1,444**	**1,441**	**1,654**	**1,644**	**1,674**	**1,094**	**2,174**	**2,333**	**2,423**	**1,302**	**116%**
Movement year on year		**33%**	**-14%**	**8%**	**3%**	**2%**	**0%**	**15%**	**-1%**	**2%**	**-35%**	**99%**	**7%**	**4%**		

The graph below illustrates the above.



Please note – 20/21 was the pandemic year with 21/22 an exceptional year of trading following reopening and continued restriction of foreign travel.

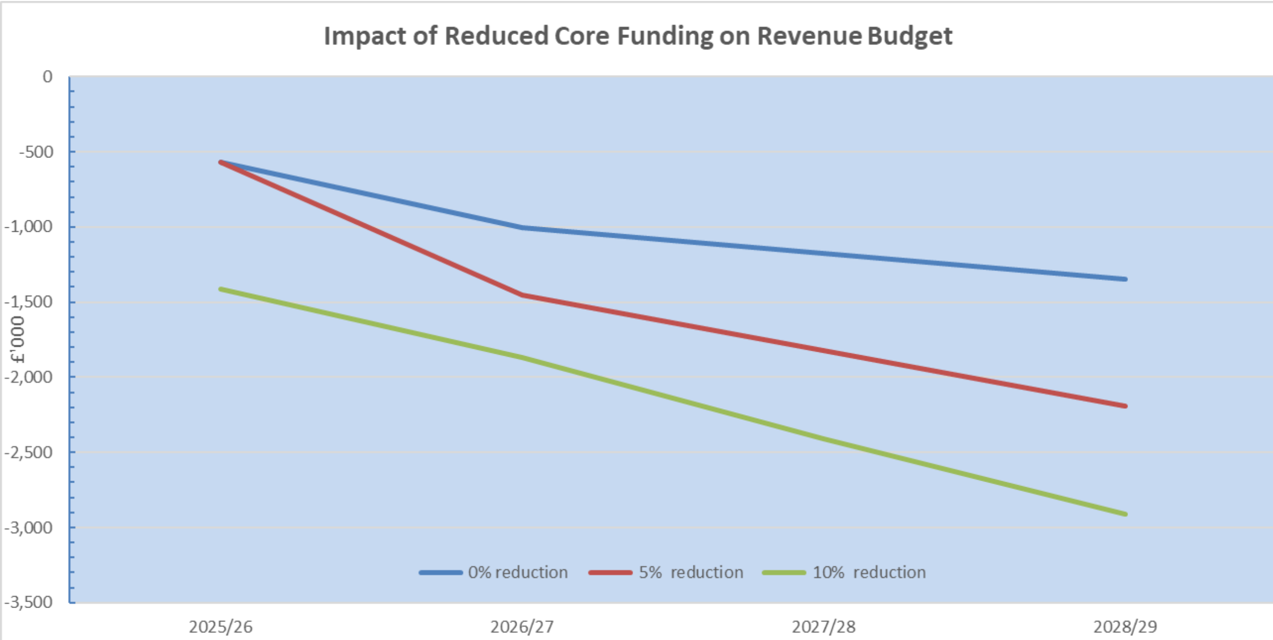
Summarised Revenue Budget 2025-26 and forecast for 2026-27 to 2028-29

	Draft Budget	Forecast Budget		
Draft Budget	**2025-26 £000's**	**2026-27 £000's**	**2027-28 £000's**	**2028-29 £000's**
Baseline gross expenditure	9,880	9,880	10,176	10,482
Payrise/Inflation etc	0	296	305	314
Contribution to PCC	110	0	0	0
Local Generated & Grant Income	-4,485	-4,620	-4,758	-4,901
Gross Budget	**5,505**	**5,556**	**5,724**	**5,895**
NPG	-3,412	-3,412	-3,412	-3,412
Levy	-1,137	-1,137	-1,137	-1,137
Earmarked reserves	-390	0	0	0
Deficit	**566**	**1,007**	**1,174**	**1,346**

The summarised revenue budget for 2025-26 is shown in the above table, details of which were discussed in the December 2024 budget workshop. The table shows an operating budget deficit of £566k (23/24: deficit £509k) and the budget is balanced by utilising specific earmarked reserves, the balance of which will be covered by general funds. However, it is expected that during 2025-26 the Authority will begin a process of initiating cost cutting measures and efficiency savings together with an income generating strategy. The full breakdown of the service area budget are shown in Appendix 2.

Sensitivity Analysis and Forecasts 2025-26 to 2028-29

The chart and table beneath show the revenue position for the years 2026-27 to 2028-29 under a flat lined, 5% and 10% cut to core funding and shows the potential deficit position by 2028-29 if the Authority continues to operate as it is. This will reduce reserves and hence cash holdings. In the long term, it will not be able to sustain operations unless actions are taken.



£'000	2026/27		2027/28		2028/29	
	5%	10%	5%	10%	5%	10%
Baseline gross expenditure	9,880	9,880	10,176	10,176	10,482	10,482
Payrise/Inflation etc	296	305	305	305	314	314
Other Items	0	0	0	0	0	0
Local Generated & Grant Income	-4,620	-4,620	-4,758	-4,758	-4,901	-4,901
Gross Budget	**5,556**	**5,556**	**5,724**	**5,724**	**5,895**	**5,895**
NPG	-3,079	-2,764	-2,925	-2,487	-2,779	-2,239
Levy	-1,026	-921	-975	-829	-926	-746
Transfer from EMRs						
Deficit	1,450	1,871	1,823	2,407	2,190	2,911

The more likely scenario is for future funding to be flatlined or increased by small inflationary amounts in the future. The Authority has generally been supported by WG with additional supplemental grants over the last few years. Despite this, ongoing operational deficits are likely if there is no significant increase in funding year on year.

Draft Capital programme

Draft Capital Programme 2025/26		Draft Budget	Funded by EMR	Capital Receipts/Grants
Carew Causeway Visitor access improvements	b/fd	32,000	32,000	
Castell Henllys Improvement Programme	b/fd	48,250	48,250	
Green Room Redevelopment Project	b/fd	847,305	187,305	660,000
Carew Castle Enhancement & Interpretation	b/fd	39,716	39,716	
Carew Castle Visitor Access	b/fd	32,000	32,000	
Decarbonisation / Net Zero feasibility for our Buildings inc PV & EV	b/fd	148,864	148,864	
OYP security upgrades	b/fd	20,000		20,000
Traeth Mawr Newport Sands Development	b/fd	425,240		425,240
Fire doors Llanion	b/fd	40,000		40,000
Plant & machinery Countyside Team	new	40,000		40,000
Porthgain Hoppers	b/fd	5,000		5,000
Total		**1,678,375**	**488,135**	**1,190,240**

The Authority's Capital program is an essential part of the Authority financial planning and is based on the Authority's corporate objectives, operational need, making prudent investments and the availability of internal and external funding. Details of the capital programme are:

- **Carew Castle Causeway**.
  Under the Reservoirs Act the Authority has statutory duty to undertake the repairs as instructed by the Reservoirs Inspectorate. The Causeway has undergone many phases of major and minor repair works to prevent / minimise water leakage through the structure from the mill pond which is accepted as an ongoing and permanent issue. Under direction from Reservoirs Engineer, the repairs programme has been reviewed for the next 5 years with an estimated cost of works to be £154,520. This was to be phased but due to various delays, no repair work has been undertaken to date. The work is planned to start in 25-26 following a tender process. Estimated costs are:

- Year 1 £82,850
- Year 2 £31,620
- Year 3 £36,450
- Year 4 £1,800
- Year 5 £1,800

There are sufficient earmarked reserves to meet this planned expenditure.

- **Castell Henllys Programme**.
  This is planned works for improvements to drainage, wood pellet store and access ramps and brought forward from previous years. Work on a new store has started.

- **Green Room Redevelopment Project**.
  In September 2021 the Authority approved expenditure on the redevelopment of the "Green" room which holds Authority committee meetings. The current facilities are comprised of a series of Portacabins installed over twenty years ago which are reaching their end of life. The portacabins have been removed and building works due to be completed in 25-26.

- **Carew Castle Enhancing Visitor and Interpretation**.
  Improvements to the physical access and interpretation on-site will add to the visitor experience and understanding of Pembrokeshire's historical and cultural heritage. It will allow access to as much of the Castle as possible and help increase visitor numbers. This has been brought forward from prior years and plans are currently with for CADW approval.

- **Carew Castle Access**.
  Following enhancements to the visitor experience at Carew Castle the Authority will prioritise a range of additional physical infrastructure works to improve the accessibility of the site for visitors with mobility problems and/or for families with pushchairs. This has been brought forward from prior years and plans are currently with for CADW approval

- **Decarbonisation / Net Zero feasibility for our Buildings/Fleet**.
  This includes detailed surveys of the Authority's buildings to advise on opportunities for refurbishments and renewals to ensure our buildings contribute to meeting our Net zero objectives. This fund includes photovoltaic (PV) generation projects and decarbonising our vehicle fleet. This work will contribute towards reducing the costs of running the Authority. To date the PV canopies in Llanion and OYP have been replaced and a tender is in progress for solar canopies in Llanion.

- **Oriel y Parc (OYP) security upgrade**
  This cost is to replace & upgrade security equipment at the venue which is currently delayed due to resource issues.

- **Newport Sands Development**
  This is to meet the costs of developing car park & toilet facilities at Newport Sands, funded by the SLSP project. This is a phased project with Phase 1 to be completed in 2025-26. The tender for Phase 1 has been awarded with works expected to start in late Spring 2025.

- **Llanion Park Fire Doors**
  Brought forward from the previous year this is to meet H&S improvements at the Llanion Park offices. Fire doors are to be replaced in a phased approach.

- **Porthgain Hoppers**
  This spend is to provide a feasibility report for a 5-year improvement programme. A detailed survey as part of phased approach is to take place in Spring 2025.

Financial Reserves and Balances.

The Authority is required to keep a prudent level of working balances to maintain adequate cash flows to meet planned and unexpected expenditure. The General Reserve is a reserve created from prior years underspends and is available for any approved expenditure. As a minimum this reserve should be 5% of the net budget and following a review of the proposed budget for 2025/26, it is considered prudent to set the reserve level at an increased level of £1,400k, from £750k, the basis for this being approximately three months' operational salary costs (excludes funded projects). Earmarked Reserves are reserves that have been built up from revenue funding over several years and have been set aside for specific projects. The Capital Reserve balance is made from the receipts of the Authority's capital disposals in prior years and as such these funds are restricted for the use on capital expenditure.

The table that follows shows the anticipated cash-based reserves as at the end of 2024-25 together with the projected balances as at the end of the 2025-26. The General Reserves balance as at the end of the 2024-25 & 2025-26 financial year is expected to be £1,529k.

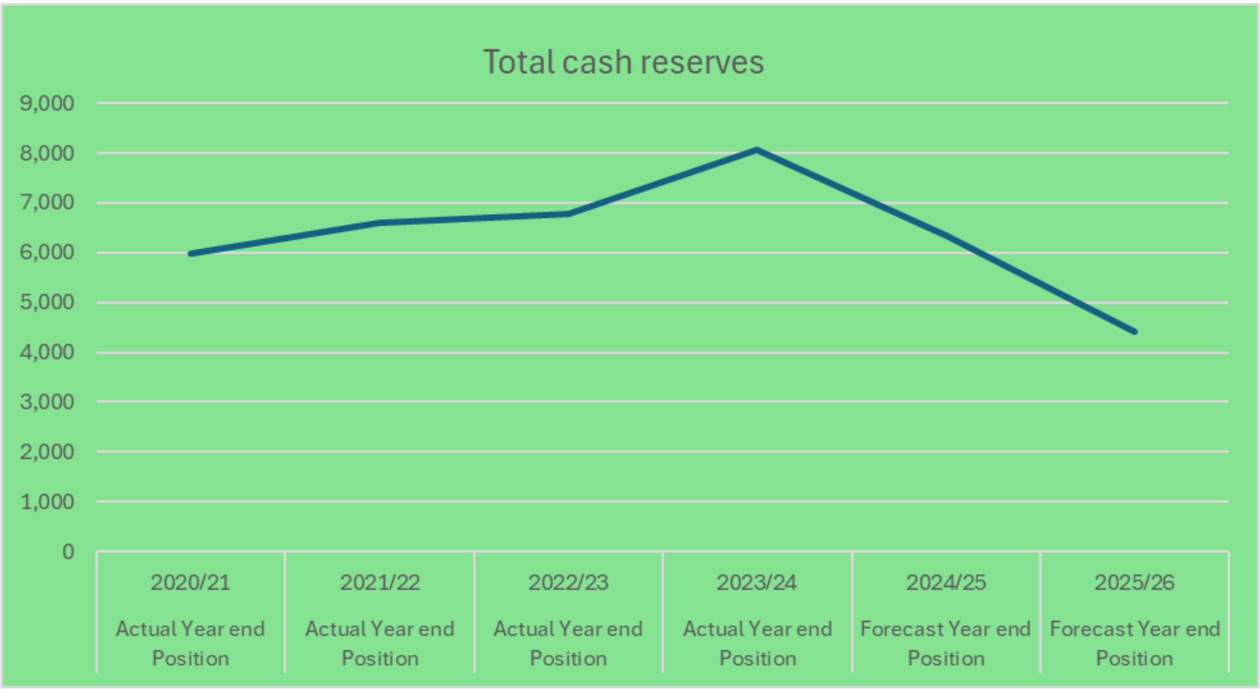
The Capital Receipts Reserve of £328k is used to fund capital expenditure and is expected to be utilised by the end of 2024-25.

The balances on the Earmarked Reserves fund the capital program, other projects and the revenue deficit, are expected to fall from the current balance of £5,575k as at 31 March 2024 to a forecast of £3,848k by 31st March 2025.The graph shows the forecasted downward trend in reserves. By 2028-29, with continued deficits, this could be as low as £900k, well below the recommended reserves requirement.

Cash Reserves

£000's

	Actual Year end Position 2020/21	Movement 2021/22	Actual Year end Position 2021/22	Movement 2022/23	Actual Year end Position 2022/23	Movement 2023/24	Actual Year end Position 2023/24	Forecast Movement 2024/25	Forecast Year end Position 2024/25	Movement 2025/26	Forecast Year end Position 2025/26
General Reserves	1,008	133	1,141	1	1,142	74	1,216	**313**	1,529	**-566**	963
Capital Receipts	370	19	389		389	-61	328	**-328**			
Unapplied Capital Grants				319	319	633	952		952	-952	
TOTAL	**1,378**		**1,530**		**1,850**	**646**	**2,496**	**-15**	**2,481**	**-1,518**	**963**
Earmarked Reserves:											
Receipts In Advance	3,249	-778	2,470	-295	2,175	656	2,831	-1232	1,599	-390	1,209
Authority Created Reserves	1,353	1,232	2,585	176	2,761	-18	2,743	-495	2,248		2,248
Total	**4,602**	**454**	**5,056**	**-119**	**4,937**	**638**	**5,575**	**-1,727**	**3,848**	**-390**	**3,458**
Total cash reserves	**5,980**	**454**	**6,586**	**-119**	**6,787**	**1,284**	**8,071**	**-1,742**	**6,329**	**-1,908**	**4,421**



Conclusion

The draft Welsh Government 2025-26 budget published in December 2024 indicates that the National Park Grant for 2025-26 will increase by 5%. The Authority continues to face considerable increase in costs due to inflationary pressures, pay & grading impact combined with reduced real terms core income. These two factors have put the Authority in the difficult position of setting an operating budget deficit for 2025-26 of £566k.

However, the Authority's cash reserve position provides a cushion to address this deficit in the short term. It is also worth noting that the revenue forecasts beyond 2025-26 are equally as challenging. The financial situation will therefore need to be managed by.

- where appropriate, discontinuing certain activities,
- improved efficiencies,
- cost savings,
- reviewing opportunities to generate income
- seeking sources of grant aid.

Recommendations

That Members:

- **<u>APPROVE</u> in principle the draft budget 2025-26, subject to noting that the NPG/Levy estimate has yet to be confirmed.**

- **<u>NOTE</u> the financial forecasts for 2025-26 to 2028-29.**

Prudential Code Indicators

The Local Authorities (Capital Finance & Accounting) (Wales) Regulations 2003 require the Authority to have regard to the *CIPFA Prudential Code* in setting annual budgets. Members are asked to consider the advice of the Head of Finance and Fundraising in determining an affordable, prudent and sustainable capital investment programme.

The Prudential Code requires the Authority to consider Prudential Indicators encompassing estimated and actual expenditure and financing, and limits on both. These indicators are intended to support and record local decision making and are not designed to be comparative indicators across local authorities. However, as the Authority is debt free and there are no proposals at this time to undertake further borrowing, due to the capital expenditure plans being financed either by revenue funds, external grant aid or capital receipts, then many of the indicators are not relevant.

The indicators of affordability address the revenue implications of an authority's financial strategy since, as a fundamental principle, all the borrowings of an authority are secured on its future revenue income. The Prudential Code requires the prudential indicators in respect of external debt to be set and revised taking into account their affordability. It is through this means that the objectives of sustainability and prudence are addressed year on year.

The following table sets out the actual capital expenditure that was incurred together with the estimates of capital expenditure to be incurred for the current and next year that are recommended for approval, along with the actual/estimated net revenue stream for the years:

	Actual	**Actual**	**Actual**	**Estimate**	**Estimate**
	20201/22	**2022/23**	**2023/24**	**2024/25**	**2025-26**
Capital Expenditure	**629,000**	**629,000**	**528,000**	**381,757**	**1,678,375**
FINANCING COSTS (interest receivable only, no borrowing)	-2,000	-41,000	-155,000	-250,000	-200,000
Net Revenue Funding (NPG/Levy)	4,642,000	4,520,000	5,341,000	5,432,000	4,549,000
Ratio: Financing Costs/Net Revenue Funds	**-0.04%***	**-0.91%***	**-2.9%***	**-4.60%***	**-4.39%**

**As a result of the adoption of IFRS16 in 2020/21, effective 1st April 2024, regarding recording leased assets on balance sheet, this indicator may change*.

The negative percentages demonstrate that negative financing costs (i.e. income from investments) are contributing to the Authority's funding resources.

The next indicator is the Capital Financing Requirement. This is an important component of an authority's capital strategy in that it represents capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. The balance is a measure of the underlying need to borrow for a capital purpose. As mentioned above, the draft capital programme does not propose any borrowing for capital purposes and the Authority should remain debt free for the period, so the Capital Financing Requirement is estimated at £nil for the period up to 31 March 2025.

The prudential indicators for debt relate to the scale of the Authority's borrowing rather than simply its indebtedness. The Authority will need to set an Authorised Limit that separately identifies borrowing and other long-term liabilities and is intended to establish the outer boundary of the Authority's borrowing based on a realistic assessment of the risks. This limit is certainly not a limit that the Authority would expect to borrow up to on a regular basis, rather it is a maximum permitted limit available should the need arise during the year in relation to an unexpected need, either for capital or revenue purposes – an example being short-term borrowing pending receipt of external grant. In taking decisions on this budget report, Members are asked to note that the Authorised Limit determined for 2024/25 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

Authorised Limit for External Debt	**Actual**	**Actual**	**Actual**	**Estimate**	**Estimate**
	2021/22	**2022/23**	**2023/24**	**2024-25**	**2025/26**
Borrowing	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Other long-term liabilities	0	0	0	0	0

The Authority also needs to set an Operational Boundary for its borrowing, based on probable rather than possible need. Breaches of the Operational Boundary would give early warning for corrective action to be taken to avoid a possible breach in the Authorised Limit of the Authority. As mentioned, the proposed capital programme does not identify the need for external borrowing, and this, coupled with a traditionally steady revenue income stream through the financial year, means that the Operational Boundary for the Authority can be set at a low level. The Chief Financial Officer recommends as follows:

Operational Boundary for External Debt	**Actual**	**Actual**	**Estimate**	**Estimate**	**Estimate**
	2021/22	**2022/23**	**2023/24**	**2024-25**	**2025/26**
Borrowing	250,000	250,000	250,000	250,000	250,000
Long term liabilities	0	0	0	0	0

It is possible that, while an authority's financial strategy may be affordable in the short term, it is imprudent and unsustainable because in the medium term it would, if pursued, be dependent on the use of borrowing to fund revenue expenditure. For this reason, the Code makes it necessary, if a financial strategy is to be prudent, that it is one in which in the medium-term Net Borrowing is only to be used for capital purposes. This is demonstrated through a comparison of Net Borrowing with the Capital Financing Requirement. Except in the short term, net external borrowing should not exceed the total Capital Financing Requirement in the previous year plus the estimates of any additional Capital Financing Requirements for the current and the next two financial years.

The Head of Finance and Fundraising hereby reports formally that the Authority is complying with this aspect of the Code.

The Maturity Structure of Borrowing indicator is designed to be a control over an authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. In view of the Head of Finance s recommendation not to raise any long-term borrowing for the period, it is not necessary to set upper and lower limits for the maturity structure of borrowing.

In view of the low level of cash available for investment, it is the Chief Financial Officer's recommendation that only short-term investments are entered into for the period. It is therefore not necessary to set limits on investments to final maturities beyond the year-ends.

Investment Strategy 2025-26

The remainder of this report presents an Investment Strategy for 2025-26 in compliance with statutory guidance and in support of the prudential borrowing system.

Section 12 of the Local Government Act 2003 gives the Authority power to invest for "any purpose relevant to its function under any enactment or for the purposes of the prudent management of its financial affairs". The prudent management of its financial affairs is included to cover investments which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management – being the type of investment undertaken by this Authority. Authorities are required to invest prudently the surplus funds held, with priority given to security and liquidity rather than yield.

This Strategy also supports CIPFA's *Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes*.

The combined Investment Strategy & Treasury Management Policy for 2025-26 follows.

Recommendations

That Members:

ADOPT the Prudential Indicators as presented.

APPROVE the Financial Reserves and the Investment Strategy & Treasury Management Policies for 2025-26 (over).

Background documents

Welsh Government, draft budget proposals 2025-26
The Local Government Act 2003
The Local Authorities (Capital Finance & Accounting) (Wales) Regulations 2018
Statutory Guidance on Local Government Investments
CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

For further information please contact Catrin Evans on 01646 624900.

Pembrokeshire Coast National Park Authority

Financial Reserves Policy
2025-26

Financial Reserves Policy

1. Purpose

Pembrokeshire Coast National Park Authority is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Authority will determine and review the level of its general fund balance and earmarked reserves.

Section 25 of the Local Government Act 2003 requires local authorities to have regard to the level of reserves needed to meet estimated future expenditure when calculating their annual budget requirement. It is the responsibility of the Head of Finance and Fundraising to advise on the level of reserves that should be held, and to ensure that there are clear protocols for the establishment and use of any earmarked reserves.

The Head of Finance and Fundraising is required to advise on an appropriate level of reserves that should be held, based on judgements about matters and taking into account all relevant local circumstances.

2. Reserves

The Authority holds three cash backed reserves: the General Fund, Capital Receipts reserve and Earmarked Reserves.

> ***General Fund***
> *This consists of working balances and general contingency sums which do not have any restrictions as to their use. They can be used to smooth the impact of significant pressures, offset the budget requirement for a finite period if necessary, or held in case of unexpected events or emergencies. It is a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. It forms part of the General Fund balance.*
>
> ***Capital Receipts***
> *This reserve is a reserve created by the accumulated of funds received from receipts of the Authority's assets. The balances can only be used to fund capital expenditure.*
>
> ***Earmarked reserves***
> *This reserve is a means of building up funds, or earmarked reserves, to meet known or predicted future requirements – these are accounted for separately but remain legally part of the General Fund.*

This policy sets out the framework for the use and management of reserves, in accordance with the Code of Practice on Local Authority Accounting in the United

Kingdom: A Statement of Recommended Practice (CIPFA/LASAAC) and agreed accounting policies. Earmarked reserves will be established on a "needs" basis, in line with planned or anticipated requirements. As outlined in the Financial Regulations, approval to set up a reserve must be sought and Authority and the report which seeks this approval must identify the purpose of the reserve and how it will be used. Expenditure from reserves, outside of planned budgetary expenditure, can only be authorised through the Virement process, as outlined in the Authority's Financial Standards.

Reserves can only be used once and so should not be held to fund ongoing expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, they must be replenished in the following year. However, earmarked reserves that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.

All earmarked reserves are recorded on a central schedule held by Financial Services which lists the various earmarked reserves and the purpose for which they are held and shows the estimated opening balances for the year, planned additions/withdrawals and the estimated closing balance. This schedule of earmarked reserves is detailed below.

CIPFA guidance on Local Authority Reserves and Balances advises that a statement reporting on the annual review of earmarked reserves should be made to Authority, at the same time as the budget is approved.

3. Working balances

The level of general reserves or working balances is a matter of judgement and so this policy does not attempt to prescribe a blanket level. The primary means of building working balances will be through an allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year.

Setting the level of working balances is one of several related decisions in the formulation of the annual budget. The Authority must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its corporate risk register.

As a guide, the advice of the S151 Officer is that working balances should be maintained above a baseline minimum level of £1,400,000. In practice, in determining the precise level of reserves above this minimum, the S151 Officer has considered all of the strategic, operational and financial risks of the authority.

An assessment of these risk assumptions, and relevant factors to be considered to address them, is set out in the table overleaf.

<u>Risk items and issues to be considered</u>

Budget assumptions	***Issues to consider***
The treatment of inflation and interest rates	*The overall financial standing of the authority (e.g. level of borrowing, debt outstanding), including ability to respond to unexpected cost*
Estimates of the level and timing of capital receipts	*The Authority's track record in budget and financial management of changes in property market*
The treatment of demand-led pressures	*The Authority's capacity to manage in-year budget pressures and strategy for managing demand and service delivery in the longer term*
The treatment of planned efficiency savings	*The strength of the financial information and reporting arrangements and contingency plans should efficiencies not be achieved*
The financial risks inherent in any significant new funding partnerships, major contractual arrangements or major capital developments	*The Authority's virement and end-of-year procedures in relation to budget under/overspends. Risk management of partnership or outsourcing arrangements*
The availability of other funds to deal with major contingencies and the adequacy of provisions	*The adequacy of the authority's insurance arrangements to cover major unforeseen risks*
The general financial climate to which the authority is subject	*External factors such as future funding levels will influence the authority's ability to replenish reserves*

If, in very extreme circumstances, all general reserves were exhausted due to unforeseen spending pressures and commitments within a particular financial year, the Authority would be able to draw down from any uncommitted earmarked reserves to provide short-term resource cover, although this would not be relied upon as the sole solution, and monthly forecasting against budget plans should already have identified that corrective action would be needed and action taken to review in-year budgets.

4. Opportunity cost of holding reserves

In addition to allowing the Authority to manage unforeseen financial pressures and plan for known or predicted liabilities, there is a benefit of holding reserves in terms of the interest earned on funds which are not utilised. This investment income is fed into the budget strategy. However, there is also an "opportunity cost" of holding funds in reserves, in that these funds cannot then be spent on anything else. As an example, if these funds were used to repay debt or support capital investment, the opportunity cost would equate to the saving on the payment of interest and the minimum revenue provision, offset by the loss of investment income on the funds. Using reserves in this way would, however, leave the Authority with fewer funds to either manage unexpected risks or provide the resources to fund the planned expenditure for which the reserves were originally earmarked.

Given these opportunity costs of holding reserves, it is critical that both the number and amount held in reserves continues to be reviewed each year as part of the budget process, to confirm that they are still required and that the level is still appropriate.

Pembrokeshire Coast National Park Authority

INVESTMENT STRATEGY and TREASURY MANAGEMENT POLICY STATEMENT 2025-26

Investment Strategy & Treasury Management Policy Statement 2025-26

1. INTRODUCTION

1.1. The Authority adopted CIPFA's Code of Practice for Treasury Management in Local Authorities. The Code sets out a framework of operating procedures for both Members and Officers to reduce treasury risk and improve understanding and accountability regarding the Treasury position of the Authority. This Strategy also complies with statutory guidance on Local Government Investments.

1.2. The Authority defines its treasury management activities as:

"the management of the Authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.3. This Authority regards the successful identification, monitoring and control of risk to be the most important criteria by which the effectiveness of its treasury management and investment activities will be measured. Accordingly, the major focus of the analysis and reporting of treasury management decisions and transactions will be on their risk implications for the Authority, with priority given to the security and liquidity of its investments.

1.4. This Authority also acknowledges that effective treasury management should provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, but always in the context of effective risk management.

2. RESPONSIBILITIES

2.1. The responsibilities for Investment & Treasury Management are defined as follows:

(a) The Authority shall review and consider this Strategy in advance of the start of each financial year.
(b) The Head of Finance and Fundraising shall ensure that satisfactory arrangements are in place for the delivery of this Strategy.
(c) The Chief Executive (National Park Officer) shall be responsible for all investment and treasury management activities, for ensuring that these activities are documented and resourced.

(d) *The Head of Finance and Fundraising where appropriate, shall ensure all investment and treasury management activities are in accordance with statutory requirements and CIPFA's Code of Practice for Treasury Management in the Public Services, and for ensuring that an annual Treasury Management report is presented to the Performance Review Committee.*

3. APPROVED METHODS OF RAISING FINANCE

3.1. Short Term (up to 1 year):

- *Money markets*
- *Other local authorities*
- *Bank overdraft*
- *Internal funds*

3.2. Long term (over 1 year)

- *Public Works Loans Board*
- *Money Markets*
- *Leasing*

However, other than for short-term cash flow requirements, there are no plans to raise external debt during 2025-26. Notwithstanding this, the Authority is obliged to set limits for external debt - and approve such limits, as follows, in setting the 2025-26 budget in March 2025.

Authorised Limit for External Debt	**Actual**	**Actual**	**Estimate**	**Estimate**	**Estimate**
	2021/22	**2022/23**	**2023/24**	**2024-25**	**2025/26**
Borrowing	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Other long-term liabilities	0	0	0	0	0

Operational Boundary for External Debt	**Actual**	**Actual**	**Estimate**	**Estimate**	**Estimate**
	2021/22	**2022/23**	**2023/24**	**2024-25**	**2025/26**
Borrowing	250,000	250,000	250,000	250,000	250,000
Long term liabilities	0	0	0	0	0

3.3 The Maturity Structure of Borrowing prudential indicator is designed to be a control over an authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. In view of the Chief Financial Officer's recommendation in the 2023/24 budget report not to raise any long-term borrowing for the period, it is not necessary to set upper and lower limits for the maturity structure of borrowing. This will be reviewed annually.

4. APPROVED ORGANISATIONS FOR INVESTMENT

4.1. The surplus cash resources of the Authority are such that investment will be limited to specified investments through accounts held with the Authority's Bankers. If surplus cash resources increase significantly in the future, alternative investment sources may be considered and included in this Policy Statement at that time, requiring the formal approval of the Authority.

4.2. *The credit rating of institutions holding the Authority's investment will be checked by the Head of Finance and Fundraising periodically via* Standard and Poors' *website and a recommendation as to any action necessary in the event of a change in rating shall be made.*

4.3. *In terms of Treasury Management, interest rate risk management is a top priority for local authority management. While fixed rate borrowing and investment can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance may justify, or even demand, retaining a degree of flexibility using variable interest rates on at least part of a treasury management portfolio. Operational Boundaries for the exposure to interest rate risks are set below, to support the target interest receivable on short-term investments (built into the revenue baseline budget) of £200,000.*

- Upper limit for variable rate exposure – 100%
- Upper limit for fixed interest rate exposure – 75%

This means that the Head of Finance and Fundraising will manage fixed interest rate exposures within the range 0% to 75% and variable interest rate exposures within the range 0%-100%.

4.4. *In view of the relatively low level of cash available for investment, it was the Chief Financial Officer's recommendation in the 2025-26 budget report that only short-term investments be entered into for the period.*

5. TREASURY MANAGEMENT PRACTICES

5.1. *The following Treasury Management Practices will guide treasury management activities:*

- TMP1 – Treasury Risk Management.
  Adequate cash balances will be maintained in the Authority's business account to fund the daily payments made from the account. Surplus cash balances will be invested only via minimum risk avenues.
- TMP2 – Best Value & Performance Measurement
  Treasury management decisions will be made with regard to achieving best value, and performance will be measured in terms of achieving budgetary targets whilst limiting risk.
- TMP3 – Decision Making & Analysis
  Decisions will be made as and when necessary, in a manner that balances cash requirements with cash surpluses whilst maximising investment returns and minimising risks. These decisions will be made within the boundaries set by the Authority's treasury management policies and statements.
- TMP4 – Approved Instruments, Methods and Techniques
  Surplus cash on the Authority's business account will, at the end of every banking day, automatically be transferred to a higher interest No Notice Business Account. The Authority may also transfer funds to other reputable U.K. Financial Institutions which offer more attractive rates of

return. These institutions must however have the same or superior Standard & Poors verified credit rating.

- TPM5 – Treasury Management Organisation
  The Head of Finance and Fundraising will undertake the day-to-day Treasury Management activities, liaising with the Chief Executive (National Park Officer) to consider longer-term issues as and when necessary.
- TMP6 – Reporting Requirements
  Performance will be assessed as part of the Authority's budget performance monitoring. A report will be presented at the year-end comparing actual investment income with budgeted income.
- TMP7 – Budgeting, Accounting, Audit
  Investment income from treasury management decisions is included within the Authority's budgets and accounts and is subject to inspection as part of the annual audit. Interest due on borrowings is also accounted for within the Authority's accounts.
- TMP8 – Cash and Cash flow Management
  The annual budgeting process will determine expenditure levels and sources of finance. On a daily basis, consideration will be given to the timing of cash receipts and cash payments. The Authority's Bankers telephone banking service and on-line banking service will be used to facilitate daily cash flow reviews.
- TMP9 – Money Laundering
  Money laundering will not be undertaken by this Authority.
- TMP10 – Staff Training & Qualifications
  Staff training will be discussed at least within the annual appraisal process, although requests for training will be considered at any time. Essential staff qualifications are determined by the Authority as part of the recruitment and selection procedures.
- TMP11 – Use of External Service Providers
  The Authority will manage its treasury management arrangements without the use of external service providers.
- TMP12 – Corporate Governance
  The provision for annual reports on treasury management to the Authority's members forms a key part of the corporate governance arrangements in authorities.

This Strategy will be in force for the financial year 2025-26

Appendix 1 - Summarised Revenue Budget 2024/25

	£000's
Baseline gross expenditure	7,495
Local Generated & Grant Income	-2,653
Gross Budget	4,842
NPG	3,250
Levy	1,083
(Deficit) for the year	**-509**
Transfer from general reserves	509
Net budget	**0**

Appendix 2 – Summary Budget 25-26 by service area

PCNPA 2025-2026 DRAFT BUDGET	Budgeted Expenditure £	Budgeted Income £	Budgeted Net cost £
Development management & planning	1,196,116	-352,866	843,249
Conservation	1,534,964	-1,521,876	13,088
Promoting understanding	2,664,601	-1,435,581	1,229,020
Recreation & park management	928,157	-1,126,237	-198,080
Conservation of the Historic & Cultural Env't	102,300	-36,253	66,047
Support services	1,972,768	-31,130	1,941,639
Democratic Rep & Management	716,950	-28,200	688,750
Rangers & Estates Management	1,576,759	-142,441	1,434,318
Core funding, interest & EMR	-702,152	-4,749,121	-5,451,273
	9,990,461	-9,423,705	566,757