

Financial Performance and Direction
Report by Head of Finance

Summary: This report provides a strategic overview of current key financial issues and items for decision.

Recommendations:

Section 2

(i) That the income and expenditure figures be noted.

Section 3

(ii) That the Authority adopts draft 2014/15 Budget, notes the reductions in National Park Grant, notes the additional proposed changes, and endorses the assumptions applied in the preparation of the Budget.

Section 4

(iii) That the Annual Investment Strategy for 2014/15 be approved.

1 Introduction

1.1 This report consolidates a number of items relating to the financial performance and direction of the Authority in order to provide members with a strategic overview of the key issues for consideration. This report covers the items set out in the table below:

Report Section	Item
2	Consolidated Income and Expenditure from 1 April 2013 – 31 January 2014
3	New National Park Grant Update and Budget for 2014/15
4	Annual Investment Strategy 2014/15

2 Consolidated Income and Expenditure from 1 April 2013 – 31 January 2014

Overview

2.1 This section provides the members with details of the consolidated actual income and expenditure for the ten month period to 31 January 2014, and provides a forecast of the projected expenditure at the end of the financial year (31 March 2014).

Introduction

- 2.2 This financial monitoring report summarises details of the forecast outturn for the year, which provides members with a picture of expected activity for the full financial year as well as supporting proactive budget management by budget holders. This report provides details of consolidated expenditure for the whole Authority (National Park and Navigation).
- 2.3 Paragraph 2.5 of this report and Appendix 1 provide details of actual income and expenditure to 31 January 2014.
- 2.4 Paragraph 2.16 and Appendix 2 provide details of the forecast 2013/14 outturn (the expected actual expenditure position at the end of the financial year), compared to the latest available budget (LAB). The LAB represents the original budget for the year agreed by the Authority in January 2013, adjusted for known and approved budget changes. Further details of the LAB are set out from paragraph 2.12 below.

Overview of Actual Income and Expenditure

- 2.5 Within this report, actual income and expenditure will be reported at summary / directorate level, providing members with an overview of the Authority's position as set out in Table 1 below.

Table 1 – Actual Consolidated I&E by Directorate to 31 January 2014

	Profiled Latest Available Budget	Actual Income and Expenditure	Actual Variance
Income	(6,470,970)	(6,437,219)	(33,751)
Operations	2,213,571	2,344,413	(130,841)
Planning and Resources	2,571,296	2,620,951	(49,654)
Chief Executive	331,383	350,731	(19,348)
Projects, Corporate Items and Contributions from Earmarked Reserves	27,033	(235,191)	262,224
Net (Surplus) / Deficit	(1,327,686)	(1,356,315)	28,630

- 2.6 Core income remains slightly below the profiled budget as at the end of month ten, due to Private and Hire Tolls being slightly behind the profile, and also due to a reduced forecast for investment interest income. A number of these variances will persist through to the end of the financial year and have been reflected in forecast outturn figures. The overall position as at 31 January 2014 is a favourable variance of £28,630 or 2.16% difference from the profiled LAB.

- 2.7 Members may wish to note that the variances within the individual directorate lines are in part offset by contributions from reserves (within the Projects, Corporate Items and Contributions from Earmarked Reserves line in Table 1).
- 2.8 The actual overspend against LAB within the Operations Directorate principally results from:
- costs of dredging at Heigham Sound for which no carry forward provision was made, which are offset by savings achieved on works on Breydon Water;
 - costs of £63,488 in 2013/14 relating to the construction of the Authority's new launch and the laying up of a second hull and superstructure (offset by the use of earmarked reserves) and a small overspend within the Rangers salary budget;
 - a £60,000 contribution to reserves from the moorings budget;
 - the purchase of replacement Operations vehicles earlier than profiled;
 - a small overspend within Construction and Maintenance salaries relating to a post not budgeted for at the start of the year; and
 - a small overspend within Safety budgets relating to standby costs (reflected in the revised forecast outturn).

2.9 The actual overspend within the Planning and Resources directorate arises from a number of smaller variances across different budget lines, but principally relates to:

- Sustainable Development Fund activity (offset by the use of earmarked reserves);
- Lower than budgeted development management income (income is demand-driven);
- Higher than budgeted specialist listed building and arboricultural advice demands within the Cultural Heritage budget;
- ICT costs relating to the development of the Authority's new website, offset by the use of reserves.
- Higher than budgeted insurance premium costs;
- Lower than budgeted Yacht Station and Visitor Centre income; and
- Additional costs relating to the 2012/13 NPAPA assessment.

These adverse variances are partly offset by:

- unbudgeted income for the Land and Water rental for office space at the Dockyard;
- additional income within Strategy and Projects budgets;
- underspend variances against profiled budgets within Project Funding, Communications and Premises budgets;

Additionally, it should be noted that a number of the variances relate to timing differences which will be resolved over the remainder of the year.

- 2.10 The adverse variance within the Chief Executive's directorate mainly relates to HR and training costs which were not included within the budget for the start of the year.
- 2.11 The charts at Appendix 1 provide a visual overview of actual income and expenditure compared with both the original budget and the LAB.

Latest Available Budget

- 2.12 The Authority's income and expenditure is being monitored against a latest available budget (LAB) in 2013/14. The LAB is based on the original budget for the year, with adjustments for known and approved budget changes such as carry-forwards and budget virements. Details of the movements from the original budget are set out in Appendix 2.
- 2.13 The use of the LAB format ensures that there is better visibility of budgets, providing members with clearer information about approved changes to the original budget and minimising the risk of distortions arising from approved in-year changes to the budget. The LAB facilitates scrutiny of budget management in that members are able to distinguish between planned budget changes and unplanned outturn variances.
- 2.14 There have been no changes to the consolidated LAB since the last report to the Authority as set out in Table 2 below.

Table 2 – Adjustments to Consolidated LAB

	Ref	£
Original consolidated budget 2013/14 (surplus)	Item 13 20/09/2013	(118,573)
Previously reported adjustments	Item 12 22/11/2013	192,325
LAB at 31 January 2014 (deficit)		73,752

- 2.15 Taking account of the budget adjustments, the LAB therefore provides for a consolidated deficit of £73,752 in 2013/14 as at 31 January 2014.

Overview of Forecast Outturn 2013/14

- 2.16 As in 2012/13, budget holders have been asked to comment on the expected expenditure at the end of the financial year in respect of all the budget lines for which they are responsible. It must be emphasised that these forecast outturn figures should be seen as best estimates of the position at the end of the financial year.
- 2.17 As at the end of January 2014, the forecast outturn indicates:
- Income is expected to be approximately £42,000 lower than originally budgeted with total forecast income of £6,457,107.
 - Total expenditure is forecast to be £6,486,523.

- The resulting deficit for the year is forecast to be £29,416.

2.18 Full details of the forecast outturn are set out in Appendix 2.

2.19 The forecast outturn expenditure takes account of adjustments to the LAB and in addition reflects the key changes from the previously reported forecast outturn as shown in Table 3. The forecast outturn deficit has decreased by £6,784 since the last report to the Authority, and continues to anticipate a lower deficit than the £73,752 allowed for in the LAB.

Table 3 – Adjustments to Forecast Outturn

Item	£
Forecast outturn deficit reported to Broads Authority 17 January 2014	36,200
Increase project income for NCC contribution to Hardley Weir received	(21,200)
Reduced expenditure for renegotiated phone contract costs	(7,000)
Increase income forecast for Education Conference recharge	(6,000)
Increase Communications income forecast for advertising income and recharged costs	(6,000)
Increase income forecast for water donations	(5,000)
Decrease expenditure forecast for FM management at Yare House	(3,684)
Increase forecast for tolls consumables purchases (toll plaques etc)	1,100
Increase expenditure for AINA fees (Waterways Strategy)	2,600
Increase expenditure for advertising costs and NPS charges for development management activity	9,500
Increase expenditure forecast for legal costs based on actual billing / activity	10,000
Increase forecast for additional insurance premium costs	18,900
Forecast outturn deficit as at 31 January 2014	29,416

2.20 The main reasons for the decrease in the forecast outturn deficit relate to:

- unbudgeted income for the Hardley Weir project from Norfolk County Council;
- additional legal costs; and
- additional insurance premium costs.

2.21 National Parks England (formerly the English National Parks Authorities Association) is undertaking work with Visit Britain on a joint tourism initiative as set out in the report on the Future Tourism Work Programme. All National Parks have agreed to contribute £7,000 to fund this activity. It is proposed that this expenditure be funded directly from Tourism budgets (100% National Park budget) in 2013/14. This may result in an overspend of the Tourism

budget in this year but this has not been reflected in the forecast outturn at this stage as the final details have not yet been confirmed.

- 2.22 Preparatory work for the 2013/14 audit has identified an adjustment to the accounts in respect of the treatment of the rent free period for Yare House. This relates to a requirement that the rent free benefit be recognised over the life of the lease contract, although no payments will have been made during 2013/14. This adjustment will have an impact of £160,000 (£114,000 National Park and £46,000 Navigation) on reserve balances carried forward in the Statement of Accounts at the end of the year, and the amount will then be released back to the general reserves over the fifteen years of the lease. The proposed accounting treatment for this adjustment has been discussed with the External Auditors.

Reserves

- 2.23 The Authority's earmarked reserves have been rationalised as at 1 April 2013 into a smaller number of reserves holding larger balances. Navigation reserve balances continue to be maintained separately from national park reserves. The balance of earmarked reserves at the end of January 2014 is shown in Table 4 below.

Table 4 – Consolidated Earmarked Reserves

	Balance at 1 April 2013	In-year movements	Current reserve balance
	£	£	£
Property	(502,174)	(61,500)	(563,674)
Plant, Vessels and Equipment	(288,696)	77,522	(211,174)
Premises	(108,556)	(21,560)	(130,116)
Planning Delivery Grant	(504,241)	34,723	(469,518)
Sustainable Development Fund	(64,644)	11,791	(52,853)
Mobile Phone Upgrade	(14,919)	745	(14,174)
Upper Thurne Enhancement	(81,116)	0	(81,116)
Section 106	(8,426)	(3,547)	(11,973)
STEP	(65,720)	94,268	28,548
PRISMA	(210,246)	86,032	(124,215)
Total	(1,848,739)	218,474	(1,630,265)

- 2.24 £799,811 of the current reserve balance relates to navigation reserves.

Summary

- 2.25 The current forecast outturn position for the year suggests a surplus of £76,536 for the national park side and a deficit of £105,952 on navigation resulting in an overall deficit of £25,416 within the consolidated budget, which would indicate a general fund reserve balance of approximately £681,000 and a navigation reserve balance of approximately £248,000 at the end of 2013/14 (before any Statement of Accounts adjustments for the rent free period at Yare House). Although this is slightly below the recommended level of 10% of net expenditure for the navigation reserve balance, when taken alongside the significant earmarked reserve balances it is considered to be adequate in the short to medium term. The impact of both the national park and navigation reserve balances are being taken into account when preparing the budget and medium term financial strategy.

3 New National Park Grant Update and Budget for 2014/15

Introduction

- 3.1 Following the Chancellor's Autumn Statement on 5 December, Defra has now given the National Park Authorities and other bodies funded by the Department, such as the Environment Agency and Natural England, their grant allocations for the next two years.
- 3.2 National Park Authorities were already expecting a cut in funding of 6.4% between 2013/14 and 2014/15 following the last Spending Review (SR10). An additional 2.2% reduction for 2014/15 and a further cut of 1.7% in 2015/16 have now been announced following the latest Spending Round (SR13) and the Chancellor's Autumn Statement. Therefore in effect this means a cut of 8.5% from 2013/14 to 2014/15. For the Broads Authority this is a reduction of £302,054 between this year and next – an increase of £74,702 over what had been indicated following the previous Spending Review – and a further reduction of £56,441 in 2015/16. The Authority will receive National Park Grant of £3,245,393 in 2014/5 and £3,188,952 in 2015/16.

Budget Overview

- 3.3 The Navigation Committee was consulted on a draft budget for 2014/15 at its meeting in December 2013 and it is not suggested that any significant changes are made to the navigation elements of the Authority's budget for next year.
- 3.4 Taking into account the recently announced grant settlement, the National Park deficit based on current budget figures would be approximately £230,000 in 2014/15. The Authority is well prepared to respond to this reduction having taken significant steps to adapt to a reducing level of National Park Grant in 2011. The new two Directorate arrangement is working well and it is considered that there will be no need for a further major restructure of the organisation. Suggestions have been sought from across the organisation to

identify how the Authority could raise income, make efficiencies and find further savings. The significant balance of the general National Park reserve means that the Authority also has some flexibility in the timing of its response to these grant reductions.

Key Proposals

- 3.5 The focus for the work of the Management Team when determining proposals has been on the central services – legal, human resources, governance and communications. This is specifically to protect and minimise reductions to the Authority’s front-line practical work, research and policy functions and the planning service. Following the Management Team’s reviews, it is not considered viable to substantially reduce the finance or ICT functions above the currently planned cessation of fixed term posts. The ICT function has and will continue to deliver efficiency savings (for example the on-line tolls system). Proposed changes in central services will be consulted on during 2014/15 and take effect from 2015/16.
- 3.6 In order to minimise the impact of the cuts on staff and the costs of redundancy to the Authority whenever a vacancy occurs the Management Team will continue to look closely at whether the role could be filled by other staff members who may be under risk of redundancy.
- 3.7 In the short term, two key proposals are being made for the 2014/15 budget which relate to the Authority’s Sustainable Development Fund (SDF) and project budgets.
- 3.8 It is proposed that the SDF now be ceased with reporting on projects already in receipt of Sustainable Development Grants completed in 2014/15 but no new grant funding being made. The reasons for this are set as follows:
- (a) **Go out on a high**
The Broads Authority’s SDF has been a tremendous success, keeping to the original guidelines set by former Minister, Alun Michael and using only 10% on administration. 254 projects have been funded to a total value £2,106,831 with total matched funding of £5,776,434. The Panel would prefer the Fund to go out on a high rather than a whimper.
 - (b) **Innovative projects drying up**
The Fund was designed to promote innovation and explore new ideas. In recent times the number of applications meeting this challenge has dwindled and there has been an increasing repetition of project proposals.
 - (c) **Replacement Fund**
The new Love the Broads Campaign administered by the Broads Trust has taken many of the principles for its grant giving from the SDF and to some extent is competing with it.
 - (d) **Reduced amount not viable**
The option of reducing the fund is not viable as the administration would

be high in relation to the fund and well above the 10% aimed for and achieved to date.

- 3.9 The SDF panel has been consulted on this proposal in January and supported the recommendation on the grounds set out above.
- 3.10 It is additionally proposed that the Authority's project budgets be reduced in 2014/15. The Authority has already merged much of its project funding into a single pot. A comprehensive process has been adopted to screen and prioritise projects across the organisation. In future the Authority will be working harder to bring in external funding and therefore the following changes are proposed: firstly that the central project pot be reduced by £50,000 in 2014/15 and secondly that biodiversity project budgets within Planning and Resources be reduced by £25,000, prior to a further amalgamation of project budgets in 2015/16.

Operations Directorate

- 3.11 Operational budgets have been fully reviewed and proposed expenditure reduced to the base levels required to maintain current services. This means that only previously agreed contributions to reserves and the contribution for replacement of essential vehicles and vessels are included.
- 3.12 Within the Construction and Maintenance area of the budget:
- the budget for landowner payments for the acquisition of dredging disposal sites has been transferred to vessels and equipment and practical maintenance budgets to reflect the change in policy following the absence of sites coming forward;
 - the Breydon Water budget has been removed although slight increases have been added in to navigation works (within the practical maintenance budget) to allow for necessary channel marker / gauge board replacement if required, and the proposed works to Turntide Jetty will need to be funded from the piling budget / asset reserve;
 - practical maintenance budgets have been increased to take account of the recommendations from the Asset Management Plan in respect of 24hr moorings. This allows for an enhancement to the annual maintenance programme for replacement and renewal of piling where the Broads Authority is responsible for the structure, of over 100m of moorings annually, and the further refurbishment at other sites.. It also includes a £15,000 provision for the previously approved demasting mooring at Acle in 2014/15. This means that the annual budget provision stands at approximately half the recommended amount for asset management;
 - site maintenance budgets have been increased by £6,000 from 2014/15 to provide for the maintenance and replacement of a reduced number of National Park countryside assets as set out in the Authority's Asset Management Plan; and
 - the electric charging point budget provides for annual maintenance and the capital programme for expansion of electric charging points.

- 3.13 In other operational areas of the budget the following has also been proposed:
- to reduce the running costs of Rangers and the launches budgets by reducing the annual launch refit work completed, retendering the contract and taking a proportion of the maintenance in house.
- 3.14 Other budget lines have also had smaller reductions to restrict expenditure as far as possible.
- 3.15 Operations expenditure has reduced when compared with 2013/14. The main reasons for this are the changes in respect of provision for the Breydon Water budget and also significantly the reduced level of capital expenditure in 2014/15 compared to the previous year (relating to the Dockyard development).

Planning and Resources Directorate

- 3.16 A number of adjustments have been made within Planning and Resources Directorate budgets (over and above the key proposals above), as set out below.
- provision of £10,000 in the Project Funding budget line as one-off expenditure in 2014/15 has been included within the Navigation budget towards the proposed boat owners' survey agreed by the Navigation Committee;
 - a budget of up to £50,000 has been allowed to support the development of the major project at Whitlingham Country Park in all three years of the Financial Strategy within the Project Funding budget line. This budget will be supported by funding from partners and will facilitate the delivery of the HLF bid;
 - the Broadland Catchment Officer post has been extended to the end of 2014/15 based on a contribution of £7,000 from Authority budgets and significant contributions secured from external partners;
 - forecast development management income has been reduced based on anticipated levels of demand;
 - the cultural heritage budget has been increased for the actual costs of specialist arboricultural and listed buildings advice which cannot be provided from internal resources;
 - the climate change project budget has been reduced by £10,000;
 - there is no provision for navigation funding of tourism activity, and this budget has been maintained at £20,000;
 - finance budgets have been reduced to reflect anticipated savings from the procurement of internal audit and payroll services;
 - telephone budgets have been reduced to reflect savings from renegotiated contracts; and
 - the budget for the seasonal tolls assistant post has been extended by one month to cover more of the peak seasonal period.

Chief Executive

- 3.17 Human Resources budgets have been reviewed and a small reduction of £5,000 is proposed in staff training budgets. It is anticipated that this saving can be delivered through the greater central coordination of training procurement activity.

Budget Setting Assumptions

- 3.18 A number of key assumptions have been applied in the development of this 2014/15 Budget. Changes to these assumptions have the potential to make a significant impact on the budget figures presented within this report. Details of key assumptions are outlined in this section for Members' information.

Cost Apportionment

- 3.19 The cost apportionment used in these Budget figures follows the work of the Resource Allocation Working Group, and the apportionment of shared costs and the principles upon which these are calculated as agreed by the Broads Authority in March 2011. For clarity, the apportionments applied to the 2014/15 Budget have been shown in Appendix 3.

Changes to the Budget Structure

- 3.20 The structure of the budget for 2014/15 has been slightly amended to show the budgets for Yare House, Office Expenses and Pool Vehicles grouped within the Planning and Resources Directorate and to transfer Operational Property (Dockyard, Ludham Fieldbase, Beccles and Horning) budgets to the Operations Directorate. This aligns the budgets more appropriately with the organisational structure and the relevant Budget Holders but has no impact on the respective national park / navigation apportionments applied. Current and prior year figures have been restated within Appendix 3 and the summary tables within this report to provide comparable information across all years of the Budget.

Key Assumptions

- 3.21 The following key assumptions have been applied within the 2014/15 Budget:
- the forecast outturn position for 2013/14 will be delivered in line with budget holder projections;
 - National Park Grant will be received in line with announced allocations;
 - navigation toll income will be received in line with budget projections, and taking account of the need to replace and maintain assets, with a 2.8% increase being applied in 2014/15;
 - an increase has been budgeted to make provision for an assumed 2% national pay award annually in 2014/15 (1% actual in 2013/14);
 - changes to pension legislation will see the introduction of pension automatic enrolment for the Authority in 2014/15. There are currently

approximately 30 members of both temporary and permanent staff who are not part of the pension scheme but who will be automatically enrolled from 1 April 2014. The Authority does not have information to indicate whether these employees will continue to opt out of the pension scheme, however the total cost to the Authority of all staff opting in would amount to approximately £59,000 in 2014/15 (£37,000 in regard to permanent staff only). There is currently no provision in the budget for these potential additional pension costs as there is considerable uncertainty about the actual level of uptake that may be experienced. These costs may also be partially offset in future years by the introduction of the revised Local Government Pension Scheme (LGPS) from April 2014, although the precise impact of this is also unquantifiable at this stage. The Budget therefore assumes there will be no additional up-take of membership in the pension scheme as a result of auto enrolment from April 2014, and no savings from the LGPS 2014 reforms;

- adjustments have been made to the property budgets (Dockyard and Yare House) based on rateable value adjustments notified in 2013/14;
- the 2014/15 budget does not include a full year of Yare House rent due to the remaining impact of the 18 month rent free period; and
- the Ludham Fieldbase will be let for a further six month period into 2014/15. No assumption has been made about the long-term rental of the site and accordingly no further income is assumed. Work to identify a long-term tenant is currently on-going.

The sensitivity of the Budget to some of these key assumptions is set out in the table below.

Table 5 – Budget Sensitivity Analysis

Assumption	Change in assumption	Approximate financial impact of change £ (+/-)
National Park budget for 2013/14 will be delivered in line with forecast outturn.	1% under / over-spend against National Park budget.	35,000
Navigation budget for 2013/14 will be delivered in line with forecast outturn.	1% under / over-spend against Navigation budget.	30,000
Overall salary increase of 2% per annum from 2014/15.	1% change in salary inflation.	39,500
Boat numbers and distribution remain stable; overall increase in navigation tolls income 2.8% 2014/15 and 3% per annum thereafter.	1% change in navigation toll income.	29,500
National Park Grant in line with notified allocations and no further reduction applied in 2016/17.	1% change in National Park Grant allocation.	32,000

No change in pension scheme membership due to auto enrolment from 2014/15.	50% of permanent staff currently opted out remain enrolled in LGPS.	18,500
--	---	--------

Draft Budget 2014/15

3.22 The table below sets out the summary Budget for 2014/15, incorporating the proposed changes set out within this report. The resulting budget provides for a small National Park deficit in 2014/15, and a surplus within the Navigation budget.

3.23 In 2014/15 the Navigation reserve is slightly (5.06%) below the recommended level, whilst the general National Park reserve is comfortably in excess of the minimum recommended levels.

Table 6 – Summary Budget Figures 2014/15

	National Park	Navigation	Total
National Park Grant	(3,245,393)	0	(3,245,393)
Navigation Tolls	0	(2,948,121)	(2,948,121)
Other income	(15,000)	(33,750)	(48,750)
Total Income	(3,260,393)	(2,981,871)	(6,242,264)
Operations	1,063,750	1,966,965	3,030,715
Planning and Resources	1,941,835	787,169	2,729,004
Chief Executive	254,058	150,982	405,040
Corporate Items	55,800	37,200	93,000
Total Expenditure	3,315,443	2,942,316	6,257,759
Net (Surplus) / Deficit	55,050	(39,555)	15,495
Opening Reserves (Forecast)	(681,049)	(247,284)	(928,333)
(Surplus) / Deficit for the year	55,050	(39,555)	15,495
Interest transfer	7,500	7,500	15,000
Closing Reserves (Forecast)	(618,499)	(279,339)	(897,838)

Reserves

3.24 The forecast balance of earmarked reserves at the end of March 2014 is shown in the table below.

Table 9 – Earmarked Reserves

	Balance at 1 April 2013	In-year movements (forecast)	Balance at 31 March 2014 (forecast)
	£	£	£
Property Reserve	(502,174)	8,000	(494,174)
Plant, Vessels and Equipment Reserve	(288,696)	104,130	(184,566)
Premises Reserve	(108,556)	(30,000)	(138,556)
Other Earmarked Reserves	(673,346)	119,419	(553,927)
Step	(65,720)	65,720	0
Prisma	(210,246)	(64,575)	(274,821)
Total Earmarked Reserves	(1,848,738)	202,694	(1,646,044)

- 3.25 Of these reserves, £861,174 relate to Navigation reserves. Appendix 4 to this report sets out details of the current predicted movements in the Authority's earmarked reserves over the period of the Financial Strategy.

Summary

- 3.26 The Budget proposed in this report incorporates steps for the Authority to start to make progress towards the recommended contributions to reserves to support the maintenance of its assets in future years as set out in the Asset Management Plan. The proposals set out a prudent strategy for managing the limited resources available to build on the work underway across the organisation and to continue to deliver the Authority's key priorities in 2014/15. The focus in developing this Budget has been to deliver the maximum possible efficiencies and savings from within central budgets in order to minimise the impact on front-line activity, and this has required some difficult decisions about important services. Although it has not been possible to entirely mitigate the impact on the front line, considerable savings have been proposed within support services, which will be the subject of consultation in 2014/15 and take effect from 2015/16, and these will be challenging to deliver. The proposals set out in this report result in a finely balanced budget with extremely limited scope for taking on additional project work or other opportunities which may arise during the year.
- 3.27 The Budget has been developed to bring the budget for navigation expenditure into balance in 2014/15 in the context of navigation reserves dropping below the minimum recommended level of 10% of net expenditure in 2013/14 rather than 2012/13 as originally anticipated, and would see navigation reserves restored to the minimum recommended level by 2015/16.
- 3.28 On the National Park side, the Budget sets out a sustainable baseline for the organisation, although the short-term funding for the Whitlingham Development project does result in a small deficit budget in 2014/15.

However, the general National Park Reserve remains comfortably in excess of the minimum recommended level of 10% plus £100,000.

4 Annual Investment Strategy

Overview

- 4.1 The Prudential Code for capital finance in local authorities introduced in 2004 and updated in 2011 requires local authorities, including the Broads Authority, to prepare an Annual Investment and Capital Financing (borrowing) Strategy. This strategy must be approved, before the start of each financial year, by the full Council (or at an equivalent level in authorities without a Council).
- 4.2 Due to the Authority's purchase of the dredging operation from May Gurney financed by a loan from the Public Works Loan Board, the Annual Investment and Capital Financing Strategy needs to take account of the prudential indicators which the Prudential Code requires are considered by an authority that undertakes to borrow.
- 4.3 The Prudential Code aims to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice. The Prudential Code also sets the objective of being consistent with (and supporting) local strategic planning and local asset management planning.
- 4.4 The Annual Investment and Capital Financing Strategy includes the key prudential indicators that are necessary for an authority that has borrowing. The prudential indicators are designed to support and record local decision making in a manner that is publicly accountable. At the beginning of each year estimates for the prudential indicators are set and agreed by Members. The actual indicators are then compared to the estimates once the annual accounts are produced in June each year.

Annual Investment and Capital Financing Strategy

- 4.5 The Annual Investment and Capital Financing Strategy for 2013/14 is attached at **Error! Reference source not found.**, for Members' consideration.

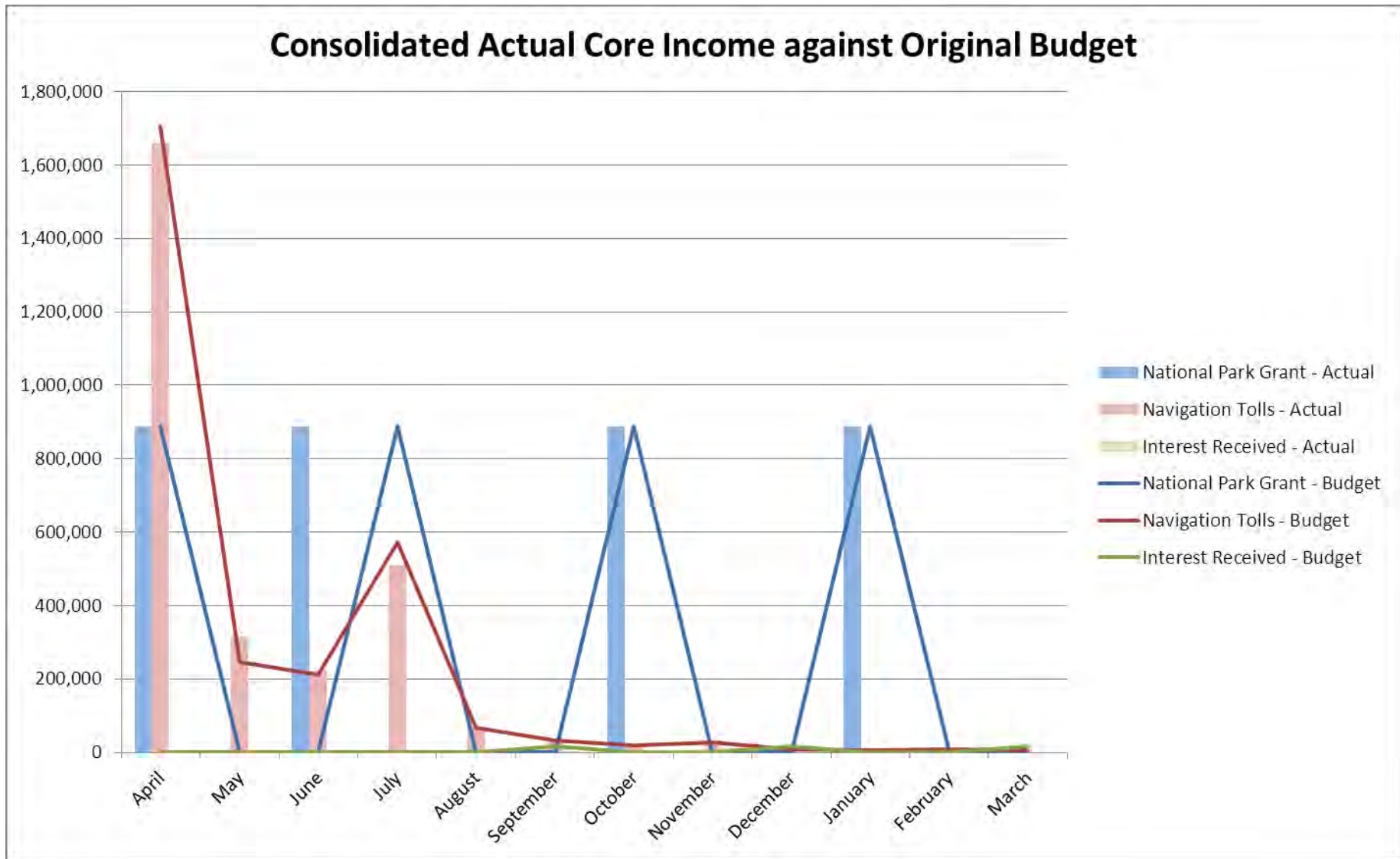
Capital Financing

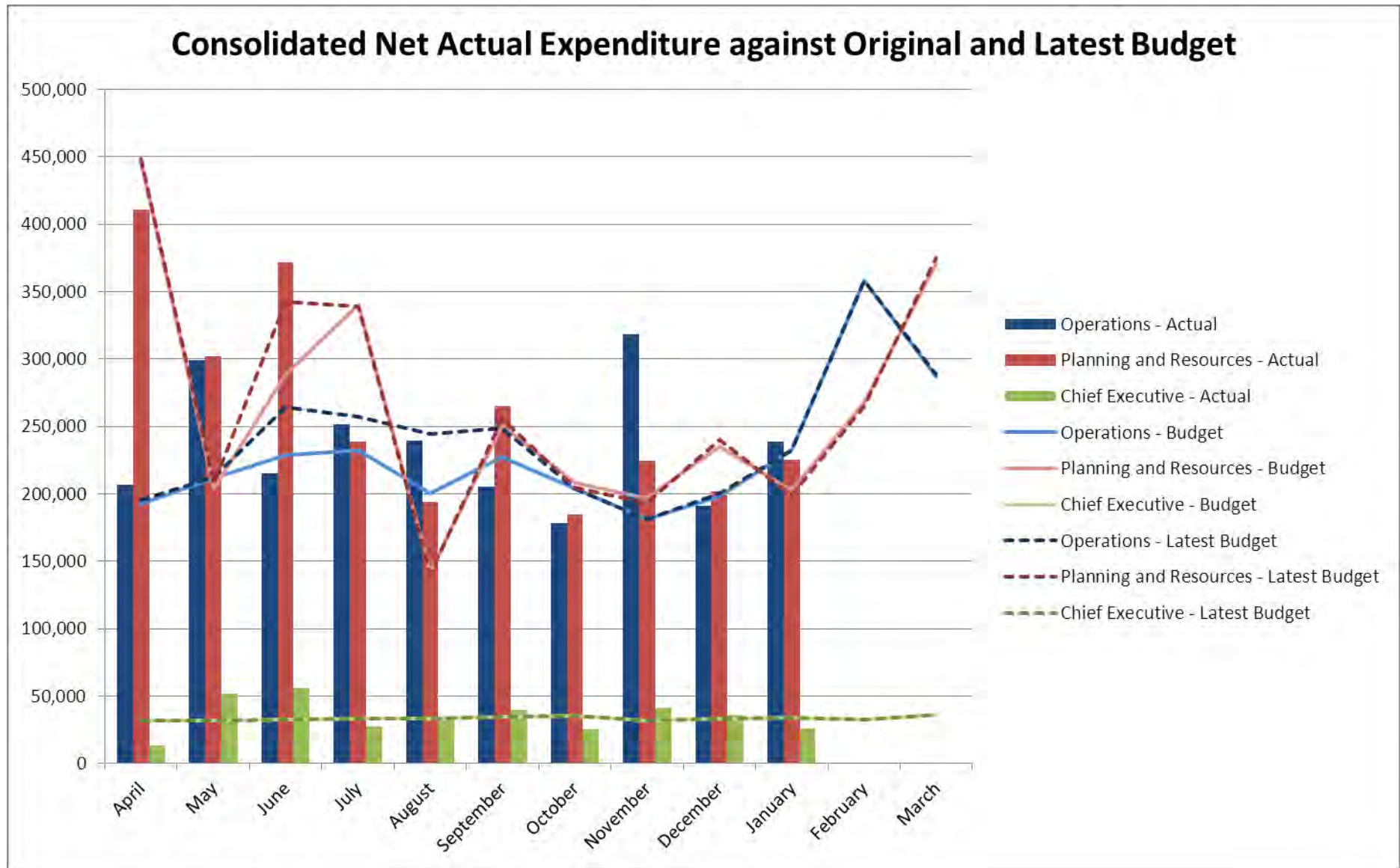
- 4.6 Capital borrowing powers are reviewed on an annual basis as part of the budgeting process. However in practice borrowing is limited to the acquisition of the dredging operation from May Gurney.

Financial Implications

4.7 There are no additional financial implications for the Authority as a result of this report as the expenditure proposed, including the loan interest and capital repayments to the Public Works Loan Board, have been incorporated into approved budgets.

Background Papers:	None
Authors:	Titus Adam / John Packman
Date of Report:	7 March 2014
Broads Plan Objectives:	None
Appendices:	APPENDIX 1: Consolidated Actual Income and Expenditure Charts to 31 January 2014 APPENDIX 2: Financial Monitor: Consolidated Income and Expenditure 2013/14 APPENDIX 3: Budget 2014/15 APPENDIX 4: Earmarked Reserves 2013/14 – 2014/15 APPENDIX 5: Annual Investment Strategy 2014/15





To 31 January 2014

Budget Holder (All)

Row Labels	Values				
	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Income	(6,498,931)		(6,498,931)	(6,457,107)	(41,824)
National Park Grant	(3,547,447)		(3,547,447)	(3,547,447)	0
Income	(3,547,447)		(3,547,447)	(3,547,447)	0
Hire Craft Tolls	(1,092,830)		(1,092,830)	(1,084,172)	(8,658)
Income	(1,092,830)		(1,092,830)	(1,084,172)	(8,658)
Private Craft Tolls	(1,758,210)		(1,758,210)	(1,745,043)	(13,167)
Income	(1,758,210)		(1,758,210)	(1,745,043)	(13,167)
Short Visit Tolls	(36,694)		(36,694)	(36,694)	0
Income	(36,694)		(36,694)	(36,694)	0
Other Toll Income	(18,750)		(18,750)	(18,750)	0
Income	(18,750)		(18,750)	(18,750)	0
Interest	(45,000)		(45,000)	(25,000)	(20,000)
Income	(45,000)		(45,000)	(25,000)	(20,000)
Operations	2,721,085	134,145	2,855,230	2,825,825	29,405
Construction and Maintenance Salaries	1,056,460		1,056,460	1,056,460	0
Salaries	1,056,460		1,056,460	1,056,460	0
Expenditure			0		0
Equipment, Vehicles & Vessels	333,000	150	333,150	329,150	4,000
Income	(1,000)		(1,000)	(5,000)	4,000
Expenditure	334,000	150	334,150	334,150	0
Water Management	96,000	3,527	99,527	119,122	(19,595)
Income	0		0	(19,000)	19,000
Expenditure	96,000	3,527	99,527	138,122	(38,595)
Land Management	(44,500)	7,468	(37,032)	(26,032)	(11,000)
Income	(135,000)		(135,000)	(131,000)	(4,000)
Expenditure	90,500	7,468	97,968	104,968	(7,000)
Practical Maintenance	287,200	123,000	410,200	350,200	60,000
Income	(2,000)		(2,000)	(20,000)	18,000
Expenditure	289,200	123,000	412,200	370,200	42,000
Ranger Services	618,620	35,000	653,620	641,620	12,000
Income	(61,500)		(61,500)	(61,500)	0

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Salaries	533,120	35,000	568,120	568,120	0
Expenditure	147,000		147,000	135,000	12,000
Pension Payments			0		0
Safety	99,440	(35,000)	64,440	76,440	(12,000)
Income	(5,000)		(5,000)	(5,000)	0
Salaries	70,440	(35,000)	35,440	50,440	(15,000)
Expenditure	34,000		34,000	31,000	3,000
Asset Management	90,940		90,940	96,940	(6,000)
Income	(9,000)		(9,000)	(6,000)	(3,000)
Salaries	32,440		32,440	36,440	(4,000)
Expenditure	67,500		67,500	66,500	1,000
Volunteers	53,440	8,000	61,440	59,440	2,000
Income	(1,000)		(1,000)	(1,000)	0
Salaries	32,440	8,000	40,440	40,440	0
Expenditure	22,000		22,000	20,000	2,000
Operations Management and Administration	130,485	(8,000)	122,485	122,485	0
Income			0		0
Salaries	118,085	(8,000)	110,085	110,085	0
Expenditure	12,400		12,400	12,400	0
Planning and Resources	3,153,616	58,180	3,211,796	3,144,200	67,596
Development Management	194,770		194,770	224,270	(29,500)
Income	(85,000)		(85,000)	(65,000)	(20,000)
Salaries	252,270		252,270	252,270	0
Expenditure	27,500		27,500	37,000	(9,500)
Pension Payments			0		0
Strategy and Projects Salaries	224,410	50,849	275,259	270,559	4,700
Income	(3,500)		(3,500)	(3,500)	0
Salaries	217,910	50,849	268,759	264,059	4,700
Expenditure	10,000		10,000	10,000	0
Biodiversity Strategy	60,000		60,000	27,100	32,900
Income	0		0	(32,900)	32,900
Expenditure	60,000		60,000	60,000	0
Strategy and Projects	75,540		75,540	107,540	(32,000)
Salaries	35,540		35,540	46,540	(11,000)
Expenditure	40,000		40,000	61,000	(21,000)

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Waterways and Recreation Strategy	95,300		95,300	97,900	(2,600)
Salaries	80,300		80,300	80,300	0
Expenditure	15,000		15,000	17,600	(2,600)
Project Funding	255,056	7,331	262,387	241,187	21,200
Income	(19,000)		(19,000)	(40,200)	21,200
Salaries	44,030		44,030	44,030	0
Expenditure	230,026	7,331	237,357	237,357	0
Pension Payments			0		0
SDF	150,000		150,000	150,000	0
Expenditure	150,000		150,000	150,000	0
Finance and Insurance	329,060		329,060	347,960	(18,900)
Income	0		0	(1,100)	1,100
Salaries	129,060		129,060	129,060	0
Expenditure	200,000		200,000	220,000	(20,000)
Communications	335,510		335,510	324,760	10,750
Income	0		0	(12,000)	12,000
Salaries	245,510		245,510	246,760	(1,250)
Expenditure	90,000		90,000	90,000	0
Visitor Centres and Yacht Stations	241,800		241,800	256,478	(14,678)
Income	(207,500)		(207,500)	(178,000)	(29,500)
Salaries	297,350		297,350	303,980	(6,630)
Expenditure	151,950		151,950	130,498	21,452
Collection of Tolls	108,500		108,500	109,600	(1,100)
Salaries	96,100		96,100	96,100	0
Expenditure	12,400		12,400	13,500	(1,100)
ICT	276,890		276,890	259,890	17,000
Salaries	156,290		156,290	146,290	10,000
Expenditure	120,600		120,600	113,600	7,000
Legal	102,500		102,500	112,500	(10,000)
Income			0		0
Expenditure	102,500		102,500	112,500	(10,000)
Premises	438,769	(4,000)	434,769	339,745	95,024
Income	(5,000)		(5,000)	(83,000)	78,000
Expenditure	443,769	(4,000)	439,769	422,745	17,024
Planning and Resources Management and Administration	265,510	4,000	269,510	274,710	(5,200)

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Income	0		0	(7,800)	7,800
Salaries	143,310		143,310	143,310	0
Expenditure	122,200	4,000	126,200	139,200	(13,000)
Chief Executive	400,217		400,217	411,057	(10,840)
Human Resources	128,560		128,560	139,400	(10,840)
Salaries	63,560		63,560	74,400	(10,840)
Expenditure	65,000		65,000	65,000	0
Governance	171,260		171,260	171,260	0
Income			0		0
Salaries	111,860		111,860	111,860	0
Expenditure	59,400		59,400	59,400	0
Chief Executive	100,397		100,397	100,397	0
Salaries	100,397		100,397	100,397	0
Expenditure			0		0
Projects and Corporate Items	105,440		105,440	105,440	0
PRISMA	32,440		32,440	32,440	0
Income			0		0
Salaries	32,440		32,440	32,440	0
Expenditure			0		0
STEP			0		0
Salaries			0		0
Expenditure			0		0
Corporate Items	73,000		73,000	73,000	0
Expenditure			0		0
Pension Payments	73,000		73,000	73,000	0
Contributions from Earmarked Reserves			0		0
Earmarked Reserves			0		0
Expenditure			0		0
Grand Total	(118,573)	192,325	73,752	29,416	44,336

	Property Reserve	Plant, Vessels and Equipment Reserve	Premises Reserve	Other Earmarked Reserves	STEP	PRISMA	Total Earmarked Reserves	National Park	Navigation
Balance 31/03/2013	(502,174)	(288,696)	(108,556)	(673,346)	(65,720)	(210,246)	(1,848,738)	(965,389)	(883,349)
<i>Transfers In</i>									
Contribution to reserve from VES000451	0	(14,000)	0	0	0	0	(14,000)	0	(14,000)
Contribution to reserve from PRM009451	0	0	(30,000)	0	0	0	(30,000)	(12,000)	(18,000)
Contribution to reserve from PCP000451	0	(6,000)	0	0	0	0	(6,000)	(4,020)	(1,980)
Contribution to reserve from MLK000451 (rental income)	(2,000)	0	0	0	0	0	(2,000)	0	(2,000)
Contribution to reserve from MMR000451	(60,000)	0	0	0	0	0	(60,000)	0	(60,000)
Contribution to reserve from SUS000451	0	0	0	(150,000)	0	0	(150,000)	(150,000)	0
STEP project income	0	0	0	0	(59,000)	0	(59,000)	(59,000)	0
PRISMA project income (estimated)	0	0	0	0	0	(207,110)	(207,110)	0	(207,110)
<i>Transfers Out</i>									
Sustainable Development Fund Expenditure	0	0	0	180,000	0	0	180,000	180,000	0
Closure of reserve (transfer to revenue budget)	0	4,030	0	14,919	0	0	18,949	18,949	0
Launch purchase (hull and fit-out works)	0	80,000	0	0	0	0	80,000	0	80,000
Purchase of second wherry	0	29,100	0	0	0	0	29,100	0	29,100
Subscription to Grantfinder Service	0	0	0	4,000	0	0	4,000	4,000	0
Examination in Public for Sites Specifics DPD	0	0	0	25,000	0	0	25,000	25,000	0
Whitlingham Park Developments	0	0	0	5,500	0	0	5,500	5,500	0
Development of BA website	0	0	0	20,000	0	0	20,000	20,000	0
Pool vehicle purchase (Dacia Duster)	0	11,000	0	0	0	0	11,000	7,370	3,630
Works to Mutford Lock hydraulics	70,000	0	0	0	0	0	70,000	0	70,000
Project Officer	0	0	0	20,000	0	0	20,000	20,000	0
STEP project expenditure / close	0	0	0	0	118,174	0	118,174	118,174	0
STEP project expenditure / close	0	0	0	0	6,546	0	6,546	6,546	0
Prisma project expenditure (estimated)	0	0	0	0	0	142,535	142,535	0	142,535
Balance 31/03/2014	(494,174)	(184,566)	(138,556)	(553,927)	0	(274,821)	(1,646,044)	(784,870)	(861,174)
<i>Transfers In</i>									
Contribution to reserve from VES000451	0	(92,000)	0	0	0	0	(92,000)	0	(92,000)
Contribution to reserve from VEH000451	0	(22,000)	0	0	0	0	(22,000)	(14,740)	(7,260)
Contribution to reserve from LAU000451	0	(15,000)	0	0	0	0	(15,000)	0	(15,000)
Contribution to reserve from LAU000451 (sale of x2 launches)	0	(40,000)	0	0	0	0	(40,000)	0	(40,000)
Contribution to reserve from RAN000451	0	(13,000)	0	0	0	0	(13,000)	(8,710)	(4,290)
Contribution to reserve from PRM009451	0	0	(30,000)	0	0	0	(30,000)	(12,000)	(18,000)
Contribution to reserve from MLK000451	(25,000)	0	0	0	0	0	(25,000)	0	(25,000)
Contribution to reserve from PCP000451	0	(14,000)	0	0	0	0	(14,000)	(9,380)	(4,620)
Contribution to reserve from MLK000451 (rental income)	(2,000)	0	0	0	0	0	(2,000)	0	(2,000)
Contribution to reserve from SUS000451	0	0	0	(12,000)	0	0	(12,000)	(12,000)	0
<i>Transfers Out</i>									
Sustainable Development Fund Expenditure	0	0	0	46,644	0	0	46,644	46,644	0
Fen harvester purchase (balance)	0	67,632	0	0	0	0	67,632	67,632	0
Dockyard Development Phase 2	0	0	45,000	0	0	0	45,000	18,000	27,000
Purchase of second wherry (balance)	0	90,900	0	0	0	0	90,900	0	90,900
Archaeology work	0	0	0	5,000	0	0	5,000	5,000	0
Document Management System	0	0	0	45,000	0	0	45,000	45,000	0
Development of BA website	0	0	0	20,000	0	0	20,000	20,000	0
Heritage Lottery Bid	0	0	0	40,000	0	0	40,000	40,000	0
Operations 4x4 replacement vehicle	0	20,000	0	0	0	0	20,000	13,400	6,600
Project Officer	0	0	0	40,000	0	0	40,000	40,000	0
PRISMA project expenditure / close (net)	0	0	0	0	0	274,821	274,821	0	274,821
Balance 31/03/2015	(521,174)	(202,034)	(123,556)	(369,283)	0	0	(1,216,047)	(546,024)	(670,023)

TARG
BA210314

Item 17 Page 24 of 27

Broads Authority
Annual Investment and Capital Financing Strategy: 2014/15

1. Investment Principles

1.1. All investments will be in sterling. The general policy objective for this Authority is the prudent investment of its treasury balances. The Authority's investment priorities are:

- (a) the security of capital; and
- (b) liquidity of its investments.

1.2. The Authority will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.

1.3. The Guidance maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful. This Authority will not engage in such activity.

2. Specified and Non-Specified Investments

2.1. Investment instruments identified for use in the 2014/15 financial year are all from the Specified Investment List, as set out below:

- term deposits with UK government or local authorities (section 23 of the Local Government Act 2003);
- term deposits with UK/European banks and building societies which have acceptable credit ratings (to be agreed with Sector – using approved market indexes);
- money market funds with acceptable credit ratings (as above); and
- Debt Management Agency deposit facility (government backed).

2.2. The use of other specified investments will not generally be considered further at this time, although the Authority may potentially wish to seek long term investment to buy into one year or longer term rates, subject to the availability of surplus cash.

NOTE: In practice the Authority places most of its surplus funds with Broadland District Council who include the sums within their overall cash portfolio, which is currently invested 46% in two pooled funds and 54% in money market funds or UK banks. The short-term money market returns which are received are then passed over to the Authority. This position reflects the lack of resources available to manage investments in-house, and the financial arrangements currently in place with Broadland District Council.

3. Hedging

3.1. If the Authority enters into any contractual arrangements above £100,000 which involve foreign currency, the advice of the Treasurer and Financial Adviser will be sought on the advisability of hedging the exchange risk before entering into the contract.

4. Liquidity

4.1. Based on its cash flow forecasts, the Authority anticipates that its fund balances in 2014/15 will range between £1,500,000 and £4,500,000. The exact sum will be highly dependent on the timing of spending to deliver major projects.

5. Capital Financing (Borrowing) Principles

5.1. The key indicators are in the table below, and a commentary follows:

Prudential indicator	2014/15	2015/16	2016/17
Estimate of capital expenditure	£370,000	£200,000	£200,000
Authorised limit for external debt	£500,000	£500,000	£500,000
Operational Boundary	£300,000	£300,000	£300,000

5.2. *Affordability*

The prudential code indicator for affordability asks the Authority to estimate the ratio of financing costs to net revenue stream. However as the only current borrowing was to finance the acquisition of the dredging operation from May Gurney, the financing costs have a zero effect on the bottom line of navigation income and expenditure as the dredging operation (financing costs and ongoing running cost including any additional capital expenditure) are less than or equal to the cost paid to contract out to May Gurney in the past. It is therefore felt that this indicator is not appropriate for use by the Authority in this instance.

5.3. *External Debt*

Prudential indicators in respect of external debt must be set and revised taking into account their affordability. It is through this means that the objective of ensuring that external debt is kept within sustainable, prudent limits is addressed year on year.

Therefore the Authority will at this time only borrow to finance the capital expenditure incurred on the acquisition of the dredging operation from May Gurney.

5.3.1. *Authorised limit*

The Authority will set for the forthcoming financial year and the following two financial years an authorised limit for its total external debt, separately identifying borrowing from other long term liabilities (excluding pension liability and government grants deferred). It should be noted that the Authority does not have any other long term liabilities at present or plans to have any in the future. This prudential indicator is referred to as the authorised limit and is shown in the table above.

5.3.2. *Operational Boundary*

The Authority will set for the forthcoming financial year and the following two financial years an operational boundary for its total external debt. This prudential indicator is referred to as the operational boundary and is shown in the table above. The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case, scenario.

5.4. *Capital expenditure*

The Authority will make reasonable estimates of the total of capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. This prudential indicator will be referred to as estimate of capital expenditure and is included in the table above.

5.5. *Treasury Management*

The Prudential Code requires authorities to set upper limits for its exposure to the effects of changes in interest rates. However, as explained above under paragraph 5.1, the current borrowing costs will not be an additional cost to the Authority. The Authority has borrowed at a fixed interest rate, thus reducing its exposure to changes in interest rates. This prudential indicator is therefore not considered necessary in this instance.

5.6. *Maturity structure of borrowing*

The Prudential Code requires authorities to set upper and lower limits with respect to the maturity structure of its borrowing. However as the Authority only has a single loan this indicator is not considered relevant.

6. End of Year Investment and Capital Financing Report

6.1. The Authority will provide a report on its investments and capital financing activity at the end of the financial year, as part of its final accounts reporting procedure.

7. Fidelity Guarantee Insurance

7.1. The Authority has in place adequate financial guarantee insurance arrangements with Zurich Municipal as part of its overall insurance management arrangements.