

## **Navigation Budget 2015/16 and Financial Strategy to 2017/18**

Report by Head of Finance

**Summary:** This report seeks the views of the Committee on the navigation income and expenditure budget for 2015/16, which has been prepared as part of a consolidated budget for the Authority. The budget is based on an overall 1.7% increase in navigation charges as formally adopted by the Authority on 21 November 2014 following the recommendation of the Committee.

### **1 Introduction**

- 1.1 An outline of the draft navigation budget for 2015/16 was presented to the Committee at its meeting of 23 October 2014 in order to inform the setting of navigation charges for 2015/16. Following the Authority's subsequent decision on 21 November 2014 to apply a flat-rate increase in tolls of 1.7%, in line with the recommendations of this Committee, this report now sets out an updated draft budget for 2015/16 alongside the financial strategy to 2017/18.
- 1.2 The views of the Committee are sought to inform preparation of the final draft budget which is due to be considered by the Authority in January 2015.

### **2 Overview of 2014/15 Forecast Outturn**

- 2.1 Members will recall that consultation on a draft navigation budget for 2014/15, which provided for a surplus of £30,972, was undertaken with the Committee on 12 December 2013. Further work in late 2013/14 identified some additional efficiencies for navigation and a final original budget for 2014/15 providing for a navigation surplus of £39,555 was approved by the Authority on 21 March 2014 and reported to the Committee on 24 April 2014. This original budget has been adjusted as reported in the previous agenda item to provide for a latest available budget (LAB) surplus of £6,434.
- 2.2 The current predictions for navigation income in 2014/15 are for overall income to be broadly in line with the budget. This incorporates a reduction in hire boat income of approximately £45,000, offset by a similar above budget increase for private craft. As at 1 November 2014, boat figures show hire motor cruisers reducing by 25 and private motor cruisers 92 up on the 1 November 2013 figure.
- 2.3 Navigation expenditure is similarly broadly on target, however there a number of small adverse variances within expenditure which mean that the forecast outturn position for 2014/15 anticipates a small deficit within the navigation budget of £15,165. This would result in a navigation reserve balance of

approximately £274,000 at the end of the year, and £269,000 after year-end adjustments. This balance equates to 9.0% of net expenditure and is therefore slightly below the recommended level of 10%. The budget takes into account this forecast outturn position and makes proposals which will restore the balance of the navigation reserve in 2015/16.

### **3 2015/16 Budget Proposals**

- 3.1 The draft navigation budget is set out in Appendix 1, alongside indicative figures for national park budgets, and the financial strategy to 2017/18 to provide context. The format of the budget is in line with the monitoring presented to Committee through the financial year and reflects the Authority's organisational structure. Legal costs have been transferred from Planning and Resources to the Chief Executive section from 2015/16 onwards, reflecting the new structure and the appointment of an in-house Solicitor and Monitoring Officer.
- 3.2 In line with the previously reported financial strategy, the draft budget takes account of the following four key factors:
1. Ongoing and sustained pressure on National Park Grant
  2. Resourcing the Asset Management Plan
  3. Allocation of Practical Work
  4. Reductions in Central Costs
- 3.3 Total core navigation income for 2015/16 is budgeted to be £3,034,180, including £1,869,042 for private craft tolls and £1,090,525 for hire craft tolls. This income takes account of the latest available data for boat numbers, and the impact of the overall (flat rate) 1.7% increase in tolls approved by the Authority at its meeting 21 November 2014 following the recommendations of the Committee. Net navigation expenditure is budgeted at £2,976,877. After taking into account the transfer of £8,750 of interest to earmarked reserves, this will result in a budget surplus of £48,553 in 2015/16, with the result that reserves at the end of March 2016 are projected to be £317,659 (10.7% of net expenditure for the year).
- 3.4 Table 1 sets out an overview of the proposed 2015/16 budget, which is provided in more detail in Appendix 1.

Table 1 – Draft 2015/16 Budget

	2015/16		
	National Park	Navigation	Consolidated
	£	£	£
National Park Grant	(3,188,952)	0	(3,188,952)
Navigation Tolls	0	(2,997,930)	(2,997,930)
Other income	(17,500)	(36,250)	(53,750)
<b>Total Income</b>	<b>(3,206,452)</b>	<b>(3,034,180)</b>	<b>(6,240,632)</b>
Operations	1,013,093	2,065,159	3,078,251
Planning and Resources	1,752,003	713,917	2,465,920
Chief Executive	287,039	153,001	440,040
Corporate Items	67,200	44,800	112,000
<b>Total Expenditure</b>	<b>3,119,335</b>	<b>2,976,877</b>	<b>6,096,211</b>
<b>Net (Surplus) / Deficit</b>	<b>(87,117)</b>	<b>(57,303)</b>	<b>(144,421)</b>
<b>Opening Reserves (Forecast)</b>	<b>(678,577)</b>	<b>(269,106)</b>	<b>(947,683)</b>
(Surplus) / Deficit for the year	(87,117)	(57,303)	(144,421)
Interest transfer	8,750	8,750	17,500
<b>Closing Reserves (Forecast)</b>	<b>(756,944)</b>	<b>(317,659)</b>	<b>(1,074,604)</b>

#### 4 Operations

- 4.1 The Operations budget incorporates the first stage of changes to the apportionment of practical works (mainly affecting Construction and Maintenance salary budgets), which will enable additional navigation activity to be delivered in 2015/16. The Moorings budget within the Practical Maintenance budget line has been increased in line with the recommendations in the Mooring Strategy considered at the last Committee meeting. In other areas the budget represents the level of funding required to enable a continuation of the levels of service delivered in the current year.
- 4.2 It is however important to recognise that the Operations budget has extremely limited capacity to take on additional projects or ad-hoc work in 2015/16. The development of a long-term Hickling restoration project, which would have required a navigation charges increase of 2.9%, is not deliverable within existing resources. However, given the high priority attributed to this project by members, work is underway to continue to scope the requirements for a larger-scale project in future years, and particularly to identify potential dredging disposal sites. In the shorter term, work to develop smaller-scale dredging projects for delivery in early 2015/16 (or potentially at the end of the current year) is on-going, although there is limited capacity to complete this work in house and it may be that these would need to be let under contract if they are to be progressed promptly.

## **5 Planning and Resources and Chief Executive**

- 5.1 There have been a number of changes within both the Planning and Resources and Chief Executive areas of the navigation budget when compared to 2014/15. These principally relate to the changes made in response to the 2014/15 and 2015/16 National Park Grant settlement, which Members will be aware has led to restructuring in many of the Authority's support services including Legal, HR, Governance and Communications. Savings are therefore anticipated within all of these budgets. This represents a further significant paring back of the Authority's structure over that undertaken in 2011, and means that there is extremely limited capacity in these areas to take on projects or other ad-hoc work.

## **6 Central and Shared Costs and Cost Apportionment**

- 6.1 Apportionments between Navigation and National Park have been adjusted within the Operations directorate to reflect the proposed apportionment for practical works endorsed by the Committee and subsequently approved by the Broads Authority. In addition the apportionment of Legal budgets has been adjusted to reflect the latest actual split of activity (legal costs are always apportioned in line with actual use). Legal budgets are shown within the Chief Executive's department from 2015/16 to reflect the new structure for this area. All other apportionments are consistent with the principles agreed by the Resources Allocation Working Group.
- 6.2 Full details of apportionments by budget line for 2015/16 are set out in Appendix 1. The overall split of proposed net expenditure in 2015/16 is 51% national park and 49% navigation, which is entirely consistent with the forecast split of income standing at 51% to 49% for the same period.
- 6.3 Table 2 below provides further details of central and shared costs. These should not be seen as being synonymous with overheads, but have been identified in line with those areas specifically examined for apportionment by the Resource Allocation Working Group. As such they reflect costs across the Authority that are included within the budgets of both the Operations and Planning and Resources directorates, and from the Chief Executive's section.
- 6.4 These costs have been reduced from the levels reported in the 2014/15 budget, mainly as a result of the organisational restructure taking full effect from April 2015.

Table 2 – Central and Shared Costs

	2015/16			2016/17			2017/18		
	National Park	Navigation	Consolidated	National Park	Navigation	Consolidated	National Park	Navigation	Consolidated
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Share of central and shared costs	1,283	882	2,165	1,289	907	2,196	1,294	914	2,208
Pension contribution lump-sum	67	45	112	82	55	137	100	67	167
<b>Total</b>	<b>1,350</b>	<b>927</b>	<b>2,277</b>	<b>1,372</b>	<b>962</b>	<b>2,333</b>	<b>1,394</b>	<b>981</b>	<b>2,375</b>
Percentage split of central and shared costs	59%	41%	100%	59%	41%	100%	59%	41%	100%
Total core income	(3,206)	(3,034)	(6,241)	(3,209)	(3,088)	(6,297)	(3,209)	(3,139)	(6,348)
Central and shared costs as percentage of core income	42%	31%	36%	43%	31%	37%	43%	31%	37%

6.5 Central and shared costs have been defined in line with the work of the Resource Allocation Working Group to include: operational property; finance and insurance; communications; collection of tolls; ICT; legal; head office, office expenses and pool vehicles; directorate management and administration costs; human resources and training; governance and member's allowances; and the chief executive, all of which play a vital role in supporting the delivery of front line services. Central and shared costs also include the lump sum pension contribution which is made annually to reduce the Authority's share of the pension deficit as calculated by the pension fund actuary. As a percentage of income, central and shared costs are broadly static but have reduced slightly from the 32% reported in December 2013. This reflects both reduced costs in these areas but also reduced budgeted income for the same period.

## 7 Budget Assumptions

7.1 The following key assumptions have been applied in developing the draft budget:

- Navigation tolls will be collected in line with budget and a flat rate increase applied for 2015/16 on the existing 2014/15 structure;
- Boat numbers and dispositions will remain in line with those experienced in 2014/15;
- Last year following representations from the Broads Hire Boat Federation revised arrangements were put in place for hire boat companies, with a

total annual hire tolls liability of £1,300 or more, to make staged payments. For bills between £1,300 and £4,000 there was an option to pay in two instalments and for those above £4,000 four payments was provided as an option. To encourage payment in full on or before 1 April, which makes the administration much simpler, a 2% discount was provided. The process worked extremely well and received a positive response from the industry. The cost of the discount provided, in terms of lost revenue, was £11,070.97. The intention is to continue with the same arrangements for the coming year and this is factored into the calculations;

- National Park Grant will be received in line with allocations, with no further reduction applied after 2015/16, although it is recognised that there remains significant pressure on public finances and as such a reduction cannot be ruled out;
- Salary increases have been allowed for in 2015/16 based on the confirmed pay award of 2.2% for the period January 2015 to March 2016, with no backdating to April 2014. Salary increases for subsequent years have been allowed at 1% in 2016/17 and 1.5% in 2017/18;
- The efficiencies from the restructuring due to be completed in March 2015 will be realised in line with the currently projected levels of savings;
- Changes to National Insurance arrangements as a result of the cessation of the contracted out rate for the state second pension will go ahead. These are forecast to cost an additional £70,000 annually for the Authority as a whole from 2016/17 and these changes have been factored into the staffing costs included in the Financial Strategy. There has been no indication that the Government will seek to mitigate the impact of these changes for Local Authorities; and
- The forecast outturn position for 2014/15 will be delivered in line with budget holders' projections.

7.2 A detailed sensitivity analysis for some of these key assumptions is set out below.

**Table 3 – Budget Sensitivity Analysis**

<b>Assumption</b>	<b>Change in assumption</b>	<b>Approximate financial impact of change £ (+/-)</b>
National Park budget for 2014/15 will be delivered in line with forecast outturn.	1% under / over-spend against National Park budget.	34,000
Navigation budget for 2014/15 will be delivered in line with forecast outturn.	1% under / over-spend against Navigation budget.	30,000
Overall salary increase of 1% in 2016/17.	1% change in salary inflation.	39,500
Boat numbers and distribution remain stable; overall increase in navigation tolls income 1.7% 2015/16 and following two years.	1% change in navigation toll income.	30,000
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

## **8 Earmarked Reserves**

8.1 The Authority's earmarked reserves strategy for the period 2015/16 – 2017/18 is set out in Appendix 2. The strategy details the actual balance of earmarked reserves at the end of September 2014, planned contributions and expenditure until the end of the financial year, and also provides an analysis of movements in reserves split between national park and navigation in all years to 2017/18.

8.2 Navigation earmarked reserves stand at £738,057 at the end of September 2014 and are forecast to reduce slightly (to £703,162) by the end of the financial year. The year-end balance will be highly dependent on the timing of land purchases approved by the Authority, which are currently expected to be completed during 2014/15, and the timing of works to Turntide Jetty, currently budgeted across 2014/15 and 2015/16.

8.3 Appendix 2 reflects the contributions to reserves allowed for in the budget and financial strategy set out in Appendix 1. Planned expenditure from reserves is itemised within Appendix 2 and includes in 2015/16:

- the fit-out of a second ranger launch;
- the purchase of additional linkflotes; and
- the procurement of a third wherry, which is urgently required as two of the older wherries have had to be taken out of service and are beyond economical repair.

- 8.4 In addition to these identified areas of spend, there is potential for additional expenditure at Mutford Lock to be funded from reserves, relating to the repair of the Lock bearings. The extent and costs of this project are currently being determined and as such have not been included at this time. Depending on the scale of works required, which may require the dewatering of the Lock, these costs could be in the order of £200,000.
- 8.5 Significant planned expenditure from earmarked reserves in 2016/17 and 2017/18 includes the replacement of a number of operational vehicles at an estimated total cost of £75,000 (with £42,660 relating to navigation).
- 8.6 The strategy also anticipates the receipt of final PRISMA claim income during 2015/16 and the closure of this reserve in year, with the balance being released to the navigation Plant, Vessels and Equipment reserve, as previously approved by the Authority. Taking account of all these items, the forecast balance of navigation earmarked reserves at the end of 2017/18 is £959,617, although it should be noted that expenditure plans for 2016/17 and beyond are likely to be refined again when the financial strategy for 2016/17 is developed next year.

## **9 Summary**

- 9.1 As reported in October when the Committee considered the financial strategy, the Authority is in the position where it both hoped and planned to be, so that after the investment in the purchase and development of the Dockyard and the transfer of responsibility for Breydon Water, annual toll increases to maintain the status quo are broadly in line with inflation.
- 9.2 The draft budget presented here incorporates the 1.7% increase in navigation charges for 2015/16 and is designed to allow the Authority to continue to deliver priority navigation activities at the required level, whilst also making prudent provision for asset maintenance over the life of the strategy and beyond. The draft budget takes into account the Committee's comments on the financial strategy and therefore includes the costs of limited extended waste provision at the Authority's own sites as recommended at the last Committee meeting. Minor adjustments have also been made to reflect the latest staffing forecasts. As a result of all these factors there is no capacity within the budget for additional projects such as major dredging and restoration of Hickling Broad, the provision of new moorings, or the costs of a significant development of waste collection facilities.
- 9.3 It is important to recognise that the budget as a whole is highly sensitive to changes in salary inflation, as a result of the significant proportion of the budget that is made up of staff costs. The budget is based on a 2.2% increase in salaries for the period January 2015 to March 2016, which provides a good level of certainty for 2015/16, however there remains considerable uncertainty in respect of likely future year awards.
- 9.4 The surplus of £57,303 allowed for in the 2015/16 budget is essential to restore the balance of the navigation reserve and provide some flexibility to



respond to any higher than anticipated salary inflation in future years. It remains the case that the indicative tolls increases in 2016/17 and beyond will need to be revisited during next year's budget setting process to ensure they remain appropriate in the event of any variations from current assumptions or changes in outturn figures for 2014/15. The draft budget for 2015/16 represents a prudent plan to deploy the Authority's resources in an economical and effective manner, maximising the levels of front line service delivery in line with the priorities identified by this Committee.

Background Papers:	Nil
Author:	Titus Adam
Date of Report:	29 November 2014
Broads Plan Objectives:	None
Appendices:	APPENDIX 1 – Draft Budget 2015/16 and Financial Strategy to 2017/18 APPENDIX 2 – Earmarked Reserves to 2017/18





Year	Earmarked Reserves	Property Reserve - National Park	Property Reserve - Navigation	Property Reserve - TOTAL	Plant, Vessels and Equipment Reserve - National Park	Plant, Vessels and Equipment Reserve - Navigation	Plant, Vessels and Equipment Reserve - TOTAL	Premises Reserve - National Park	Premises Reserve - Navigation	Premises Reserve - TOTAL	Other Earmarked Reserves - National Park	Other Earmarked Reserves - Navigation	Other Earmarked Reserves - TOTAL	STEP	PRISMA	Total Earmarked Reserves - National Park	Total Earmarked Reserves - Navigation	GRAND TOTAL Earmarked Reserves	
2016/17	<u>Contributions to Reserves to 31/03/17</u>																		
	Vessels and Equipment (VES000451)	0	0	0	(27,600)	(64,400)	(92,000)	0	0	0	0	0	0	0	0	(27,600)	(64,400)	(92,000)	
	Vehicles (VEH000451)	0	0	0	(6,600)	(15,400)	(22,000)	0	0	0	0	0	0	0	0	(6,600)	(15,400)	(22,000)	
	Mutford Lock (MLK000451)	0	(25,000)	(25,000)	0	0	0	0	0	0	0	0	0	0	0	0	(25,000)	(25,000)	
	Mutford Lock Rent (MLK000451)	0	(2,000)	(2,000)	0	0	0	0	0	0	0	0	0	0	0	0	(2,000)	(2,000)	
	Launches (LAU000451)	0	0	0	0	(15,000)	(15,000)	0	0	0	0	0	0	0	0	0	(15,000)	(15,000)	
	Ranger Vehicles (RAN000451)	0	0	0	(5,200)	(7,800)	(13,000)	0	0	0	0	0	0	0	0	(5,200)	(7,800)	(13,000)	
	Dockyard Site (PRM009451)	0	0	0	0	0	0	(9,000)	(21,000)	(30,000)	0	0	0	0	0	(9,000)	(21,000)	(30,000)	
	Pool Vehicles (PCP000451)	0	0	0	(9,380)	(4,620)	(14,000)	0	0	0	0	0	0	0	0	(9,380)	(4,620)	(14,000)	
	<u>Contributions from Reserves to 31/03/17</u>																		
	Norfolk CC Archaeology SLA (CUL000450)	0	0	0	0	0	0	0	0	0	0	3,500	0	3,500	0	0	3,500	0	3,500
	Replace AP56 EJM - Pool Van (PCP000450)	0	0	0	8,040	3,960	12,000	0	0	0	0	0	0	0	0	8,040	3,960	12,000	
	Replace DU11 EFL - Rangers (RAN000450)	0	0	0	10,800	7,200	18,000	0	0	0	0	0	0	0	0	10,800	7,200	18,000	
	Replace CM&E AO06 XPF / DU61 NUX (VEH000450)	0	0	0	9,900	23,100	33,000	0	0	0	0	0	0	0	0	9,900	23,100	33,000	
	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
<b>Forecast Balance 01 April 2017</b>	<b>(41,081)</b>	<b>(383,086)</b>	<b>(424,167)</b>	<b>(23,060)</b>	<b>(311,218)</b>	<b>(334,277)</b>	<b>(110,229)</b>	<b>(118,494)</b>	<b>(228,723)</b>	<b>(394,802)</b>	<b>0</b>	<b>(394,802)</b>	<b>0</b>	<b>0</b>	<b>(569,172)</b>	<b>(812,797)</b>	<b>(1,381,970)</b>		
2017/18	<u>Contributions to Reserves to 31/03/18</u>																		
	Vessels and Equipment (VES000451)	0	0	0	(27,600)	(64,400)	(92,000)	0	0	0	0	0	0	0	0	(27,600)	(64,400)	(92,000)	
	Vehicles (VEH000451)	0	0	0	(6,600)	(15,400)	(22,000)	0	0	0	0	0	0	0	0	(6,600)	(15,400)	(22,000)	
	Mutford Lock (MLK000451)	0	(25,000)	(25,000)	0	0	0	0	0	0	0	0	0	0	0	0	(25,000)	(25,000)	
	Mutford Lock Rent (MLK000451)	0	(2,000)	(2,000)	0	0	0	0	0	0	0	0	0	0	0	0	(2,000)	(2,000)	
	Launches (LAU000451)	0	0	0	0	(15,000)	(15,000)	0	0	0	0	0	0	0	0	0	(15,000)	(15,000)	
	Ranger Vehicles (RAN000451)	0	0	0	(5,200)	(7,800)	(13,000)	0	0	0	0	0	0	0	0	(5,200)	(7,800)	(13,000)	
	Dockyard Site (PRM009451)	0	0	0	0	0	0	(9,000)	(21,000)	(30,000)	0	0	0	0	0	(9,000)	(21,000)	(30,000)	
	Pool Vehicles (PCP000451)	0	0	0	(9,380)	(4,620)	(14,000)	0	0	0	0	0	0	0	0	(9,380)	(4,620)	(14,000)	
	<u>Contributions from Reserves to 31/03/18</u>																		
	Local Plan Inspection	0	0	0	0	0	0	0	0	0	0	60,000	0	60,000	0	0	60,000	0	60,000
	Norfolk CC Archaeology SLA (CUL000450)	0	0	0	0	0	0	0	0	0	0	3,500	0	3,500	0	0	3,500	0	3,500
	Replace CM&E Van (VEH000450)	0	0	0	3,600	8,400	12,000	0	0	0	0	0	0	0	0	3,600	8,400	12,000	
		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Forecast Balance 01 April 2018</b>	<b>(41,081)</b>	<b>(410,086)</b>	<b>(451,167)</b>	<b>(68,240)</b>	<b>(410,038)</b>	<b>(478,277)</b>	<b>(119,229)</b>	<b>(139,494)</b>	<b>(258,723)</b>	<b>(331,302)</b>	<b>0</b>	<b>(331,302)</b>	<b>0</b>	<b>0</b>	<b>(559,852)</b>	<b>(959,617)</b>	<b>(1,519,470)</b>		