

**Draft Budget 2016/17 and Financial Strategy to 2018/19**  
Report by Head of Finance

**Summary:** This report sets out information for the Financial Scrutiny and Audit Committee to consider the consolidated income and expenditure budget for 2016/17 and a three year Financial Strategy to 2018/19. The latter is based on the four-year settlement for National Park Grant, the adopted overall 4.5% increase in navigation charges for 2016/17 and an assumption of 2.5% per annum increase in the subsequent two years.

**Recommendations:**

- (i) Welcomes the favourable National Park Grant settlement and notes that the Chair of the Authority has written to the National Park Minister expressing thanks from Members and officers for his efforts and personal commitment to our work.
- (ii) Scrutinises both next year's draft budget and the draft Financial Strategy and considers whether any amendments are required prior to recommending their adoption at the March meeting of the Authority.
- (iii) Considers the Earmarked Reserves Strategy for the period 2016/17 to 2018/19, and recommends that the Authority approves the proposed contributions to and from Earmarked Reserves for the period 2016/17 to 2018/19.

**1 Introduction**

- 1.1 An outline of the draft budget for 2016/17 was presented to the Authority at its meeting of 20 November 2015 in order to inform the setting of navigation charges for 2016/17. Following the Authority's decision to apply an overall increase in tolls of 4.5%, in line with the recommendations of the Navigation Committee, and the recent Ministerial letter setting out the National Park Grant settlement for the next four years, this report now sets out an updated draft budget for 2016/17 alongside a draft Financial Strategy to 2018/19.
- 1.2 The views of the Navigation Committee were sought to inform preparation of this final draft budget at the Committee's meeting of 10 December 2015. This was in advance of certainty about the future levels of National Park Grant. The draft Financial Strategy at that point indicated that the National Park side of the budget would run at a deficit for the three financial years. In the light of this the Committee proposed that the Financial Scrutiny and Audit Committee should review the budget to identify future areas for possible savings.

- 1.3 As members will be aware notification has since been received regarding the National Park Grant allocation. For the first time the notification has provided a degree of certainty for the next four years and includes a small allowance for inflation at 1.72%. The cumulative effect of this increase means that rather than a deficit the draft Financial Strategy now shows a surplus on the National Park side by the end of 2018/19.
- 1.4 This represents a very significant change in fortunes and Ministers have indicated considerable support for the work of National Park Authorities (and the Broads Authority). The Chair of the Authority has written to Rory Stewart MP, the Minister with responsibility for National Parks, to thank him for his support and confidence in us.

## **2 Overview of 2015/16 Forecast Outturn**

- 2.1 Members will recall that the original budget provided for a surplus of £139,421, as approved by members on 23 January 2015. This original budget has subsequently been adjusted for the carry forwards and additional budget for Hickling giving a latest available budget (LAB) surplus of £64,084.
- 2.2 The current predictions for income in 2015/16 are for an overall decrease of £31,993. This incorporates a reduction in hire boat income of approximately £21,723, offset by a small increase for private craft and a decrease in interest income. As at 1 November 2015, boat figures show hire motor cruises reducing by 20 and private motor cruises 32 up on the 1 November 2014 figure.
- 2.3 Expenditure is broadly on target, with the exception of the Legal budget. There are a number of variances within budgets which mean that the overall forecast outturn position for 2015/16 anticipates a surplus in the consolidated budget of £17,083 (an adverse variance of £47,001 to the LAB). This would result in an overall consolidated reserve balance of approximately £1,251,000 at the end of the year, and £1,241,000 after year-end adjustments, which is in excess of the minimum recommended level for National Park. However this will mean that the Navigation reserve will fall below the recommended level of 10% to 8.9%. These balances provide the Authority with some level of protection against likely costs in subsequent years. Within the total consolidated balance, the forecast navigation balance after year-end adjustments is £268,000. The budget takes into account the forecast outturn position and makes proposals which will start to restore the balance of the navigation reserve to just below the recommended level in 2018/19.

## **3 2016/17 Budget Proposals**

- 3.1 The draft budget for the Authority is set out in Appendix 1, alongside the financial strategy to 2018/19 to provide context. The format of the budget is in line with the monitoring presented to Authority through the financial year and reflects the Authority's organisational structure. Volunteer costs have been

transferred from Operations to Planning and Resources from 2015/16 onwards, reflecting the revised structure.

3.2 In line with the previously reported financial strategy, the draft budget takes account of the following three key factors:

1. Resourcing the Asset Management Plan
2. Allocation of Practical Work
3. Reductions in Central Costs

3.3 Total core income for 2016/17 is budgeted to be £6,373,641, including £3,243,802 National Park Grant, £1,972,000 for private craft tolls and £1,079,000 for hire craft tolls. This income takes account of the latest available data for boat numbers, and the impact of the overall 4.5% increase in tolls approved by the Authority at its meeting of 20 November 2015 following the recommendations of the Navigation Committee. Net expenditure is budgeted at £6,376,488. After taking into account the transfer of £10,000 of interest to earmarked reserves, this will result in a consolidated budget deficit of £2,847 in 2016/17, with the result that reserves at the end of March 2017 are projected to be £1,227,829 (£948,510 National Park and £279,319 Navigation, which amounts to 29% and 9% of net expenditure for the year respectively). Table 1 sets out an overview of the proposed 2016/17 budget, which is provided in more detail in Appendix 1.

Table 1 – Draft 2016/17 Budget

	2016/17		
	National Park	Navigation	Consolidated
	£	£	£
National Park Grant	(3,243,802)	0	(3,243,802)
Navigation Tolls	0	(3,109,839)	(3,109,839)
Other income	(10,000)	(10,000)	(20,000)
<b>Total Income</b>	<b>(3,253,802)</b>	<b>(3,119,839)</b>	<b>(6,373,641)</b>
Operations	1,020,415	2,138,295	3,158,710
Planning and Resources	1,874,019	752,129	2,626,148
Chief Executive	296,175	158,455	454,630
Corporate Items	82,200	54,800	137,000
<b>Total Expenditure</b>	<b>3,272,809</b>	<b>3,103,679</b>	<b>6,376,488</b>
<b>Net (Surplus) / Deficit</b>	<b>19,008</b>	<b>(16,160)</b>	<b>2,847</b>
<b>Opening Reserves (Forecast)</b>	<b>(972,517)</b>	<b>(268,158)</b>	<b>(1,240,676)</b>
(Surplus) / Deficit	19,008	(16,160)	2,847
Interest transfer	5,000	5,000	10,000
<b>Closing Reserves (Forecast)</b>	<b>(948,510)</b>	<b>(279,319)</b>	<b>(1,227,829)</b>

## **4 Operations**

- 4.1 The Operations budget incorporates the second 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 2016/17. The Water Management budget which incorporates the Dredging and Lake Restoration activities have been increased for the additional works at Hickling as previously agreed. The Practical Maintenance budget which incorporates Mutford Lock, Electric Charging Pillars, Moorings maintenance and repair, Notice Boards, Other Navigation works and Site maintenance has seen a decrease. This reflects the removal of the provision for the Dickey Works plus the increased maintenance costs for Mutford Lock agreed in September. 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 no capacity to take on additional projects or ad-hoc work in 2016/17.

## **5 Planning and Resources**

- 5.1 There has been one change within the Planning and Resources area of the navigation budget when compared to 2015/16. This principally relates to the Volunteer costs now falling as part of Strategy and Projects. The 2016/17 budget also allows for £50,000 annually for two years supporting the development phase of the HLF Landscape Partnership project. Within the Communications budget the additional £5,000 agreed last year for the branding has been carried forward into 2016/17, this is subject to the decision on the judicial review this month. Similarly to Operations there is little capacity to take on additional 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 supported by the Navigation Committee and subsequently approved by the Authority in 2014. 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). 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 2016/17 are set out in Appendix 1. The overall split of proposed net expenditure in 2016/17 is 51% National Park and 49% navigation, which is very much consistent with the forecast split of income standing at 53% to 47% 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.

**Table 2 – Central and Shared Costs**

	2016/17			2017/18			2018/19		
	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	1,293	911	2,204	1,300	919	2,218	1,312	929	2,241
Pension contribution lump-sum	82	55	137	100	67	167	122	82	204
<b>Total</b>	<b>1,375</b>	<b>966</b>	<b>2,341</b>	<b>1,400</b>	<b>985</b>	<b>2,385</b>	<b>1,435</b>	<b>1,011</b>	<b>2,445</b>
Percentage split of central and shared costs	59%	41%	100%	59%	41%	100%	59%	41%	100%
Total core income	(3,254)	(3,120)	(6,374)	(3,315)	(3,182)	(6,496)	(3,376)	(3,245)	(6,621)
Central and shared costs as percentage of core income	42%	31%	37%	42%	31%	37%	42%	31%	37%

6.4 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 (which includes, education and tourism); collection of tolls; ICT; legal; head office, office expenses and pool vehicles; directorate management and administration costs; human resources and training; governance and members' 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 and remain at the same level as 2015/16.

## **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 an overall increase applied for 2016/17 with the reduction in the multiplier between Hire Craft and Private Craft from 2.62 to 2.55; (Note: there may be changes to future years as a result of the recommendations from the Tolls Working Group which will have to be taken into account).
- Based on information from the Broads Hire Boat Federation it has been assumed that hire boat numbers will continue to decrease at a rate of 20 per annum, and it is therefore thought prudent to budget for a reduction in annual Hire Boat income of £20,000 per annum (note from the Stakeholder survey, 6 of the 25 yards who responded indicated that their fleets will decline over the next five years);
- Continuation of the discretionary support provided to the hire boat industry in terms of the staged payments facility and early payment discount. This is where there is an annual hire tolls liability of £1,300 or more. For bills between £1,300 and £4,000 there is 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. This process continues to work extremely well and received a positive response from the industry. The cost of the discount provided, in terms of lost revenue, was £11,797.33;
- Salary increases have been allowed for in 2016/17 onwards based on the public sector indications of 1% over the next three years;
- Changes to National Insurance arrangements as a result of the cessation of the contracted out rate for the state second pension will go ahead from 2016/17 onwards;
- Pension lump sum deficit will continue to increase at 22% per annum, although the next triennial valuation will set the contribution for the next three years from 1 April 2017; and
- The forecast outturn position for 2015/16 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 2015/16 will be delivered in line with forecast outturn.	1% under / over-spend against National Park budget.	32,000
Navigation budget for 2015/16 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.	40,000
Boat numbers and distribution remain predicted; overall increase in navigation tolls income 4.5% 2016/17.	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 2016/17 – 2018/19 is set out in Appendix 2. The strategy details the actual balance of earmarked reserves at the end of December 2015, 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 2018/19.

8.2 Earmarked reserves stand at £1,363,592 (navigation £699,394) at the end of December 2015 and are forecast to reduce slightly (to £1,287,327) by the end of the financial year.

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 2016/17:

- Final payment of the 2<sup>nd</sup> launch fit out;
- Replacement of four vehicles;
- Repairs to Irstead Boat house;
- Dockyard old workshop refurbishment;
- Contribution to the Three Rivers Way cycle scheme partnership with Norfolk County Council;
- Document Management System;
- The Broads Plan and Local Plan final production costs; and
- Heritage Lottery Fund development phase grant expenditure.

8.4 Significant planned expenditure from earmarked reserves in 2017/18 and 2018/19 includes the Local Plan Inspection, replacement of five operational vehicles at an estimated total cost of £62,000, a new Wherry estimated total cost of £107,000 and the relocation of the Dockyard Wet Shed estimated to a total cost of £60,000.

8.5 Taking account of all these items, the forecast balance of earmarked reserves at the end of 2018/19 is £1,630,684 (navigation £890,980), although it should

be noted that expenditure plans for 2017/18 and beyond are likely to be further refined when the financial strategy for 2017/18 is developed later on this year.

- 8.6 Within the Authority's revenue budgets, provision has been made for the annualised cost of asset management, in line with the Authority's Asset Management Strategy. It should be recognised that this Strategy represents the whole life costs of maintaining the Authority's assets and as such the actual expenditure may vary from year to year depending on requirements. The total budget however represents the level of funding required over the life of the asset. As such, these sums need to be available in future years to meet the liabilities which will arise. 2016/17 sees the addition of £46,000 per annum to the reserve to cover the future costs of the Countryside asset costs.

## **9 Summary**

- 9.1 The draft budget presented here incorporates the 4.5% increase in navigation charges for 2016/17 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. 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. The National Park budget similarly provides for the continuation of priority works in 2016/17 and to support the delivery phase of the Heritage Lottery Fund Landscape Partnership project.
- 9.2 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 1% increase in salaries for the period April 2016 to March 2019, however there remains considerable uncertainty in respect of likely future year awards.
- 9.3 The navigation surplus of £16,160 in 2016/17 is essential to start 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 2017/18 and beyond will need to be revisited during next year's budget setting process to ensure they remain appropriate. This could be as a result of any variations from current assumptions or changes in outturn figures for 2015/16 and the recommendations from the Toll Review Working Group.
- 9.4 On the National Park side, the reserve remains above the minimum recommended levels despite running at a deficit for the next two financial years. The National Park Grant settlement for the next four years means that the Authority can confidently plan for this period.



Background Papers: Nil

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Broads Plan Objectives: None

Appendices: APPENDIX 1 – Draft Budget 2016/17 and Financial Strategy to 2018/19  
APPENDIX 2 – Earmarked Reserves to 2018/19





