

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 2-6

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

Section 7

(ii) That the investment strategy be adopted.

1 Introduction

1.1 This report covers two items, the Consolidated Income and Expenditure from 1 April 2015 – 31 January 2016 and the Annual Investment Strategy for 2016/17.

2 Overview of Actual Income and Expenditure

Table 1 – Actual Consolidated I&E by Directorate to 31 January 2016

	Profiled Latest Available Budget	Actual Income and Expenditure	Actual Variance
Income	(6,218,654)	(6,182,041)	- 36,613
Operations	3,144,257	2,995,669	+ 148,588
Planning and Resources	2,231,784	1,982,036	+ 249,748
Chief Executive	366,867	380,835	- 13,969
Projects, Corporate Items and Contributions from Earmarked Reserves	(557,753)	(310,544)	- 247,209
Net (Surplus) / Deficit	(1,033,499)	(1,134,045)	+ 100,546

2.1 Core navigation income is behind of the profiled budget at the end of month ten. The overall position as at 31 January 2016 is a favourable variance of £100,546 or 9.73% difference from the profiled LAB. This is principally due to:

- An overall adverse variance of £31,645 within toll income:
 - Hire Craft Tolls £21,723 below the profiled budget.

- Private Craft Tolls £4,604 above the profiled budget.
- A favourable variance within Operations budgets relating to:
 - Land Management is above the profiled budget by £29,592 due to the change in payment schedule of the HLS income and expenditure timing differences.
 - Practical Maintenance is under the profiled budget by £82,880 due to timing differences.
 - Ranger Services is under profiled budget by £41,903 due to delayed letting of the new launch contract following changes in the procurement regulations. This is partially offset by the salary overspend relating to unbudgeted unsocial hour payments. The forecast outturn has been updated to reflect this.
 - Asset Management is under profiled budget by £17,104 due to a small number of variances within each budget.
 - Premises are under profiled budget by £23,356 due to an underspend within repairs and maintenance. The forecast outturn has been updated to reflect this.
- A favourable variance within Planning and Resources budgets relating to:
 - Development Management is under profiled budget by £81,574 due to additional income being received for Section 106 agreements and Generation Park works.
 - Strategy and Projects is under profiled budget by £29,768 due to additional income being received for the Catchment Partnership for the Slow the Flow project.
 - Project Funding is under profiled budget by £47,079 due a staff vacancy that has been covered by a contractor and timing differences on expenditure from the Project pot.
 - Finance and Insurance is under profiled budget by £12,300 due to delayed audit billing.
 - Communications is under profiled budget by £20,073 due to additional income being received and the delayed branding expenditure.
 - Visitor Centres and Yacht Stations is under profiled budget by £21,604 due to additional income being received and timing differences on expenditure.
 - Collection of Tolls is above profiled budget by £11,437 due to the need to purchase the Toll Plaques for the next 3 years. This will be corrected at the year-end as part of the stock take.
 - ICT is under profiled budget by £36,349 due to delays on the infrastructure and DMS projects. The DMS project will be carried forward to 2016/17.
- An adverse variance within Chief Executive budgets relating to:
 - Legal budget is above profiled budget by £15,668 due to additional legal costs.
- An adverse variance within Projects, Corporate Items and Contributions from Earmarked reserves. This relates entirely to expenditure from Earmarked reserves:
 - Planning Delivery Grant reserve is behind profile by £55,279 due to the delayed DMS expenditure and profiled differences on the Local and Broads Plan expenditure. The variance on these is due to

continue to the end of the year with the balance being transferred to 2016/17 contribution from reserves.

- Property reserve is behind profiled expenditure by £47,785 due to delayed expenditure on Mutford Lock repairs.
- Plant, Vessels and Equipment reserve is behind profiled expenditure due to delayed billing for the 3rd Wherry and the delayed letting of the launch tender. This variance has been further increased due to the Wherry contract coming in under the original budget. This has resulted in an overall variance of £80,291. The variance on these is due to continue to the end of the year with the balance being transferred to 2016/17 contribution from reserves.
- The Section 106 agreement reserve did not have a budget set as it is difficult to predict when these agreements will arise, this has resulted in a variance of £59,805.

2.2 The charts at Appendix 1 provide a visual overview of actual income and expenditure compared with both the original budget and the LAB.

3 Latest Available Budget

3.1 The Authority's income and expenditure is being monitored against the latest available budget (LAB) in 2015/16. 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.

Table 2 – Adjustments to Consolidated LAB

	Ref	£
Original budget 2015/16 – surplus	Item 12 23/01/15 (BA)	(139,421)
Approved budget carry-forwards	10/07/15 Item 11 (BA)	54,337
Additional Budget for Hickling	25/09/15 Item 8 & 13 (BA)	21,000
LAB at 31 January 2016 – surplus		(64,084)

3.2 Taking account of the budget adjustments, the LAB therefore provides for a consolidated surplus of £64,084 in 2015/16 as at 31 January 2016.

4 Overview of Forecast Outturn 2015/16

4.1 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. These forecast outturn figures should be seen as estimates and they will be refined and clarified through the financial year.

4.2 As at the end of January 2016, the forecast outturn indicates:

- The total forecast income is £6,208,639, or £31,993 behind the LAB.
- Total expenditure is forecast to be £6,139,496.
- The resulting surplus for the year is forecast to be £69,143.

4.3 The forecast outturn expenditure takes account of adjustments to the LAB and in addition reflects the changes shown in Table 3. The forecast surplus represents a favourable variance of £5,049 against the LAB.

Table 3 – Adjustments to Forecast Outturn

Item	£
Forecast outturn surplus per LAB	(64,084)
Adjustments to forecast outturn reported 22/01/16	48,001
Decrease in Equipment, Vehicle & Vessels expenditure due a decrease in vehicle leases	(10,000)
Increase in Land Management income from Forestry Commission grant and Natural England	(5,500)
Increase in Practical Maintenance income from sale of Electric cards	(1,000)
Decrease in Premises expenditure on Dockyard repairs and maintenance	(11,500)
Increase to Development Management income from planning applications and generation park	(14,500)
Increase to Development Management expenditure for generation park	6,000
Increase to Strategy & Projects income for external advice	(5,635)
Decrease to Project Funding due to staff vacancy being covered by a contractor	(16,966)
Decrease to Biodiversity Strategy income due to income not being received	10,000
Increase to Communications income from Outdoors Festival	(5,500)
Increase to Visitor Centre's and Yacht Station income from increased sales and mooring fees	(16,000)
Increase to Planning, Resources Management & Administration income for Whitlingham Charitable Trust recharge	(10,000)
Increase to net Legal expenditure for ongoing legal cases	27,541
Forecast outturn surplus as at 31 January 2016	(69,143)

4.4 The main reason for the difference between the forecast outturn and the LAB is due to the additional income secured and in year savings.

5 Reserves

Table 4 – Consolidated Earmarked Reserves

	Balance at 1 April 2015	In-year movements	Current reserve balance
	£	£	£
Property	(586,757)	198,235	(388,522)
Plant, Vessels and Equipment	(240,790)	108,859	(131,931)
Premises	(169,930)	(22,500)	(192,430)
Planning Delivery Grant	(353,676)	43,554	(310,122)
Mobile Phone Upgrade	(469)	469	-
Upper Thurne Enhancement	(53,285)	-	(53,285)
Section 106	(16,652)	(59,805)	(76,457)
PRISMA	(171,869)	6,671	(165,198)
Heritage Lottery Fund	-	(29,517)	(29,517)
Total	(1,593,427)	245,965	(1,347,462)

5.1 £685,898 of the current reserve balance relates to navigation reserves.

6 Summary

6.1 The current forecast outturn position for the year suggests a surplus of £51,520 for the national park side and a surplus of £17,622 on navigation resulting in an overall surplus of £69,143 within the consolidated budget, which would indicate a general fund reserve balance before year-end adjustments of approximately £1,005,000 and a navigation reserve balance of approximately £298,000 at the end of 2015/16. This will mean that after the year-end adjustments the navigation reserve will fall below the recommended level of 10% of net expenditure to approximately 9.8% during 2015/16. This estimate will depend on the actual amount of interest received.

7 Annual Investment Strategy

Overview

- 7.1. 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).
- 7.2. 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.

- 7.3. 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.
- 7.4. 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

- 7.5. The Annual Investment and Capital Financing Strategy for 2016/17 is attached at Appendix 3, for Members' consideration. It is proposed that the strategy will be reviewed in full during 2016/17 alongside the CIPFA guidance for smaller public service organisations before the publication of 2017/18 strategy.

Capital Financing

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

Financial Implications

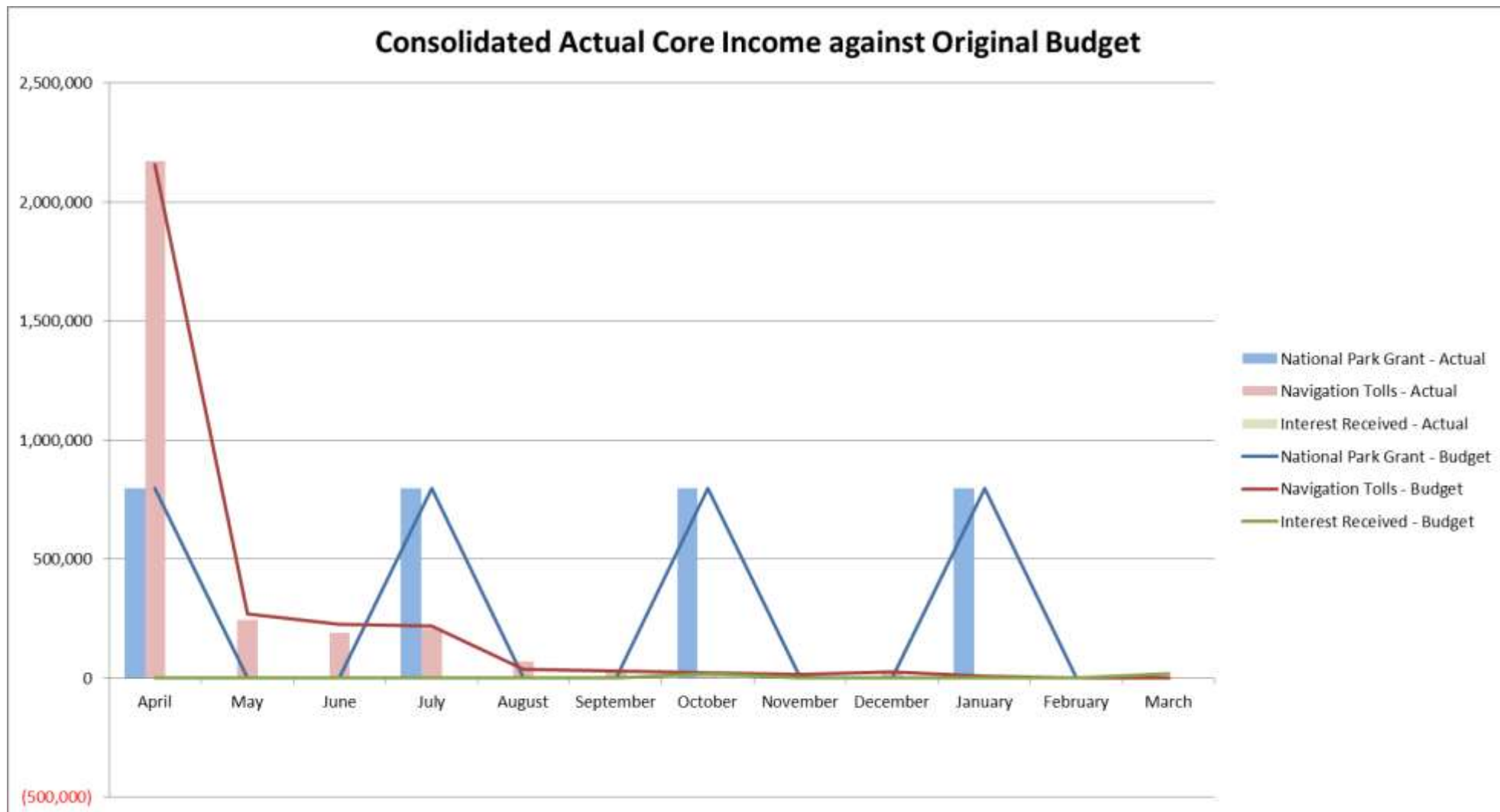
- 7.7. There are no additional financial implications for the Authority as a result of this report as the expenditure proposed, including the loan interest and capital repayments to the Public Works Loan Board, have been incorporated into approved budgets.

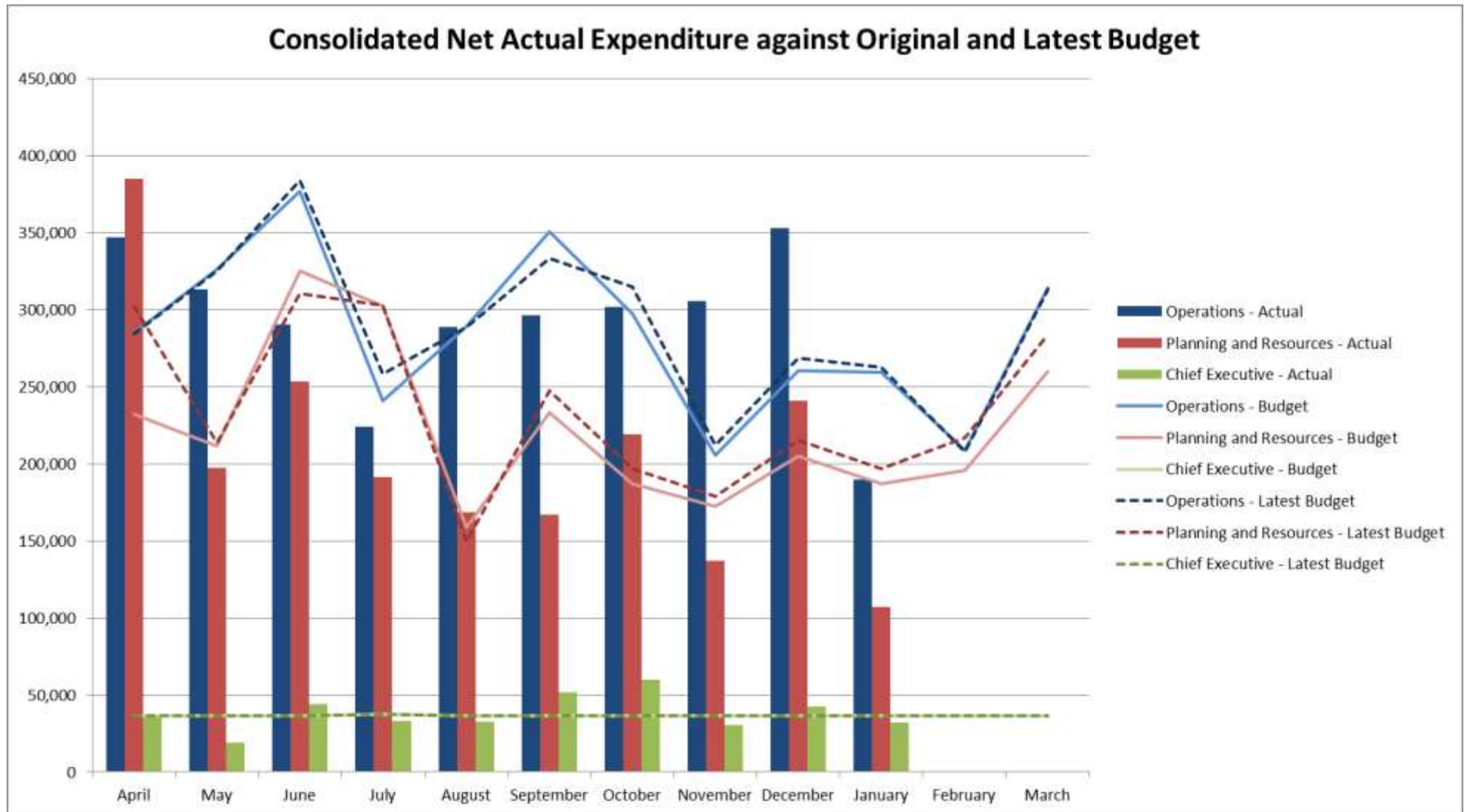
Background papers: None

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Date of report: 2 March 2016

Broads Plan Objectives: None

Appendices: APPENDIX 1 – Consolidated Actual Income and Expenditure Charts to 31 January 2016
APPENDIX 2 – Financial Monitor: Consolidated Income and Expenditure 2015/16
APPENDIX 3 – Annual Investment Strategy 2016/17





To 31 January 2016

Budget Holder (All)

Row Labels	Values				
	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Income	(6,240,632)		(6,240,632)	(6,208,639)	-31,993
National Park Grant	(3,188,952)		(3,188,952)	(3,188,952)	0
Income	(3,188,952)		(3,188,952)	(3,188,952)	0
Hire Craft Tolls	(1,090,525)		(1,090,525)	(1,068,689)	-21,836
Income	(1,090,525)		(1,090,525)	(1,068,689)	-21,836
Private Craft Tolls	(1,869,042)		(1,869,042)	(1,873,885)	4,843
Income	(1,869,042)		(1,869,042)	(1,873,885)	4,843
Short Visit Tolls	(38,363)		(38,363)	(38,363)	0
Income	(38,363)		(38,363)	(38,363)	0
Other Toll Income	(18,750)		(18,750)	(18,750)	0
Income	(18,750)		(18,750)	(18,750)	0
Interest	(35,000)		(35,000)	(20,000)	-15,000
Income	(35,000)		(35,000)	(20,000)	-15,000
Operations	3,538,581	146,470	3,685,051	3,568,964	116,087
Construction and Maintenance Salaries	1,088,740		1,088,740	1,097,740	-9,000
Salaries	1,088,740		1,088,740	1,097,740	-9,000
Expenditure			0		0
Equipment, Vehicles & Vessels	631,500	12,300	643,800	597,130	46,670
Income			0		0
Expenditure	631,500	12,300	643,800	597,130	46,670
Water Management	172,500	56,950	229,450	229,450	0
Income			0		0
Expenditure	172,500	56,950	229,450	229,450	0
Land Management	(36,000)		(36,000)	(45,100)	9,100
Income	(90,000)		(90,000)	(102,500)	12,500
Expenditure	54,000		54,000	57,400	-3,400

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Practical Maintenance	459,200	77,220	536,420	500,420	36,000
Income	(7,000)		(7,000)	(8,000)	1,000
Expenditure	466,200	77,220	543,420	508,420	35,000
Ranger Services	736,910		736,910	715,093	21,817
Income	(35,000)		(35,000)	(35,000)	0
Salaries	578,910		578,910	578,910	0
Expenditure	193,000		193,000	171,183	21,817
Pension Payments			0		0
Safety	111,918		111,918	111,918	0
Income	(9,000)		(9,000)	(9,000)	0
Salaries	57,918		57,918	57,918	0
Expenditure	63,000		63,000	63,000	0
Asset Management	108,780		108,780	108,780	0
Income	(1,000)		(1,000)	(1,000)	0
Salaries	39,030		39,030	39,030	0
Expenditure	70,750		70,750	70,750	0
Premises	137,503		137,503	126,003	11,500
Income	(10,667)		(10,667)	(10,667)	0
Expenditure	148,170		148,170	136,670	11,500
Operations Management and Administration	127,530		127,530	127,530	0
Income			0		0
Salaries	115,030		115,030	115,030	0
Expenditure	12,500		12,500	12,500	0
Planning and Resources	2,547,090	167,337	2,714,427	2,585,847	128,580
Development Management	241,882	20,000	261,882	233,120	28,762
Income	(60,000)		(60,000)	(87,262)	27,262
Salaries	276,882		276,882	267,382	9,500
Expenditure	25,000	20,000	45,000	53,000	-8,000
Pension Payments			0		0
Strategy and Projects Salaries	194,380	76,000	270,380	241,380	29,000
Income	(32,500)	18,000	(14,500)	(14,500)	0

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Salaries	204,880	0	204,880	204,880	0
Expenditure	22,000	58,000	80,000	51,000	29,000
Biodiversity Strategy	0	2,300	2,300	12,300	-10,000
Income	(10,000)		(10,000)	0	-10,000
Expenditure	10,000	2,300	12,300	12,300	0
Strategy and Projects	69,780	14,037	83,817	82,313	1,504
Income	0	(18,000)	(18,000)	(23,635)	5,635
Salaries	36,280	22,037	58,317	65,448	-7,131
Expenditure	33,500	10,000	43,500	40,500	3,000
Waterways and Recreation Strategy	77,820		77,820	82,953	-5,133
Salaries	68,320		68,320	68,320	0
Expenditure	9,500		9,500	14,633	-5,133
Project Funding	147,060		147,060	121,094	25,966
Income	(19,000)		(19,000)	(19,000)	0
Salaries	41,560		41,560	15,594	25,966
Expenditure	124,500		124,500	124,500	0
Pension Payments			0		0
Partnerships / HLF	50,000		50,000	50,000	0
Income			0		0
Salaries			0		0
Expenditure	50,000		50,000	50,000	0
Volunteers	64,670		64,670	64,670	0
Income	(1,000)		(1,000)	(1,000)	0
Salaries	43,670		43,670	43,670	0
Expenditure	22,000		22,000	22,000	0
Finance and Insurance	330,920		330,920	330,920	0
Income			0		0
Salaries	130,920		130,920	130,920	0
Expenditure	200,000		200,000	200,000	0
Communications	259,830	25,000	284,830	274,330	10,500
Income	0		0	(5,500)	5,500

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Salaries	187,830		187,830	187,830	0
Expenditure	72,000	25,000	97,000	92,000	5,000
Visitor Centres and Yacht Stations	240,520		240,520	224,520	16,000
Income	(218,000)		(218,000)	(234,000)	16,000
Salaries	326,520		326,520	326,520	0
Expenditure	132,000		132,000	132,000	0
Collection of Tolls	116,740		116,740	116,740	0
Salaries	104,040		104,040	104,040	0
Expenditure	12,700		12,700	12,700	0
ICT	289,380	30,000	319,380	297,399	21,981
Salaries	132,680		132,680	135,386	-2,706
Expenditure	156,700	30,000	186,700	162,013	24,687
Premises - Head Office	254,548		254,548	254,548	0
Expenditure	254,548		254,548	254,548	0
Planning and Resources Management and Administration	209,560		209,560	199,560	10,000
Income	0		0	(10,000)	10,000
Salaries	128,360		128,360	128,360	0
Expenditure	81,200		81,200	81,200	0
Chief Executive	440,040		440,040	460,940	-20,900
Human Resources	111,530		111,530	112,430	-900
Income			0		0
Salaries	52,030		52,030	52,930	-900
Expenditure	59,500		59,500	59,500	0
Legal	107,260		107,260	127,260	-20,000
Income			0		0
Salaries	47,260		47,260	47,260	0
Expenditure	60,000		60,000	80,000	-20,000
Governance	119,790		119,790	119,790	0
Salaries	65,590		65,590	65,590	0
Expenditure	54,200		54,200	54,200	0
Chief Executive	101,460		101,460	101,460	0

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Salaries	101,460		101,460	101,460	0
Expenditure			0		0
Projects and Corporate Items	112,000		112,000	112,000	0
PRISMA			0		0
Expenditure			0		0
Corporate Items	112,000		112,000	112,000	0
Pension Payments	112,000		112,000	112,000	0
Contributions from Earmarked Reserves	(536,500)	(238,470)	(774,970)	(615,796)	-159,174
Earmarked Reserves	(536,500)	(238,470)	(774,970)	(615,796)	-159,174
Expenditure	(536,500)	(238,470)	(774,970)	(615,796)	-159,174
Grand Total	(139,421)	75,337	(64,084)	(96,684)	32,600

Broads Authority
Annual Investment and Capital Financing Strategy: 2016/17

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 2016/17 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);
- Certificates of Deposits 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 47% in two pooled funds and 53% in Certificates of Deposits or UK banks. The short-term 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 2016/17 will range between £2,250,000 and £4,250,000. 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	2016/17	2017/18	2018/19
Estimate of capital expenditure	£150,000	£200,000	£200,000
Authorised limit for external debt	£500,000	£500,000	£500,000
Operational Boundary	£400,000	£400,000	£400,000

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.