

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. Income and expenditure remain broadly on target as at the end of January.

Recommendations:

Section 2

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

Section 3

- (ii) That the Annual Investment Strategy for 2015/16 be approved.

1 Introduction

- 1.1 This report covers two items, the Consolidated Income and Expenditure from 1 April 2014 – 31 January 2015 and the Annual Investment Strategy for 2015/16.

2 Consolidated Income and Expenditure from 1 April 2014 – 31 January 2015

Overview of Actual Income and Expenditure

Table 1 – Actual Consolidated I&E by Directorate to 31 January 2015

| | Profiled Latest Available Budget | Actual Income and Expenditure | Actual Variance |
|---|---|--------------------------------------|------------------------|
| Income | (6,215,072) | (6,218,984) | 3,912 |
| Operations | 2,435,800 | 2,535,365 | (99,564) |
| Planning and Resources | 2,466,087 | 2,218,510 | 247,578 |
| Chief Executive | 338,033 | 339,179 | (1,146) |
| Projects, Corporate Items and Contributions from Earmarked Reserves | 0 | (137,071) | 137,071 |
| Net (Surplus) / Deficit | (975,151) | (1,263,001) | 287,850 |

- 2.1 Table 1 shows that core income is slightly above the profiled budget as at the end of month ten. The variances within Private Tolls and Hire Tolls continue to offset one another. At the end of the financial year it is currently anticipated that the net position on Navigation Income will be broadly in line with the total budget. This position has been reflected in forecast outturn figures.
- 2.2 Net of contributions into reserves, £230,111 of expenditure within Directorate budgets has been funded from reserves at the end of January, including the Authority's new Fen Harvester, the second replacement wherry, the Planning Inspectorate Site Specific Policy inspection activity, works to Mutford Lock, the Document Management System, works at Potter Heigham Dingy Park and the SDF grant payments. Once this expenditure has been accounted for, the Operations revenue budget is now inline with the profiled budget. There still remains an overspend of approximately £38,000 in the Equipment, Vehicles and Vessels budget due mainly to timing differences in repairs and maintenance expenditure. The Ranger budget has also moved into an overspend of approximately £33,000 due to reorganisation costs. The Operation Premises budget is also overspent (£13,000) mostly due to the vacant property at Ludham. This is offset by underspends in the Construction and Maintenance Salary budget (£11,000), the Water Management budget (£27,000) and the Practical Maintenance budget (£47,000). These underspends relate to a staff vacancy and timing differences.
- 2.3 By contrast, an underspend against profile within Planning and Resources directorate budgets persists due to:
- Project expenditure behind profile, including within the main project budget and also Biodiversity Strategy. Some of these will relate to timing differences
 - The cancellation of the Whitlingham development project
 - Salary underspends in respect of vacancies earlier in the year (Waterways and Recreation Strategy)
 - An underspend within Finance budgets in respect of outstanding insurance and audit billing
 - Capacity issues within ICT which has delayed expenditure
 - Delays in legal billing
 - Underspends in office expenditure budgets in respect of posting and photocopying. The posting variance is expected to be largely removed by the end of the year
 - Significant success in securing additional income including planning fee income, strategy and projects grant and partnership income, and additional Visitor Centre / Yacht Station income
- 2.4 Some of these Planning and Resources variances will persist to the end of the year and have been reflected in forecast outturns as set out in Table 3. As a result of the above variances, the overall position as at 31 January 2015 is a favourable variance of £287,850 or 29.52% difference from the profiled Latest Available Budget (LAB), an increase when compared to the October position.

- 2.5 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

- 2.6 The Authority's income and expenditure is monitored against a latest available budget (LAB) in 2014/15. 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.
- 2.7 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.
- 2.8 Changes to the original consolidated budget for the year are set out in Table 2 below.

Table 2 – Adjustments to Consolidated LAB

| | Ref | £ |
|---|-----------------------------|----------------|
| Original budget 2014/15 – deficit | 21/03/14 Item 17 (BA) | 15,495 |
| Approved budget carry-forwards | 11/07/14 Item 14 (BA) | 94,237 |
| Additional budget approved in-year for Stakeholder surveys | 11/07/14 Item 13 (BA) | 37,355 |
| Additional budget approved in-year for National Park sponsorship work | 11/07/14 Item 18 (BA) | 10,000 |
| LAB at 31 January 2015 – deficit | | 157,087 |

- 2.9 Taking account of the budget adjustments, the LAB therefore provides for a consolidated deficit of £157,087 in 2014/15 as at 31 January 2015.

Overview of Forecast Outturn 2014/15

- 2.10 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 over the remainder of the financial year.
- 2.11 As at the end of January 2015, the forecast outturn indicates:

- Income is expected to be broadly in line with budget, with total forecast income of £6,230,354;
- Total expenditure is forecast to be £6,309,199; and
- The resulting deficit for the year is forecast to be £78,844

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

2.13 The forecast outturn expenditure takes account of adjustments to the LAB and reflects the changes shown in Table 3. The forecast outturn anticipates a lower deficit than the £157,087 allowed for in the LAB.

Table 3 – Adjustments to Forecast Outturn

| Item | £ |
|--|----------------|
| Latest Available Budget – deficit | 157,087 |
| Adjustments to forecast outturn reported 23/01/15 | (33,758) |
| Increase forecast Hire Craft Toll income | (356) |
| Decrease forecast Private Craft Toll income | 3,963 |
| Increase forecast expenditure to reflect additional Fen Management costs in relation to additional income (income increased in November) | 8,375 |
| Decrease forecast income to reflect actual Boat Safety income | 8,000 |
| Increase forecast expenditure for NPS asset management costs | 7,000 |
| Decrease forecast income to reflect vacant property at Ludham | 1,333 |
| Increase forecast income to reflect increased planning application income and enforcement action | (15,000) |
| Increase forecast expenditure to reflect actual planning consultancy costs | 9,200 |
| Decrease forecast expenditure to reflect actual Insurance costs | (15,000) |
| Increase forecast income to reflect actual legal income | (13,000) |
| Decrease forecast expenditure to reflect actual legal costs | (10,000) |
| Decrease forecast expenditure to reflect actual Yare House facility management costs | (10,000) |
| Decrease forecast expenditure to reflect new photocopying contract | (8,000) |
| Increase forecast income to reflect actual planning, management and admin income | (11,000) |
| Forecast outturn deficit as at 31 January 2015 | 78,844 |

2.14 The main reasons for the difference between the forecast outturn and the LAB are:

- The change in predictions for navigation income, which are based on the latest actual income figures. Toll income is now expected to be broadly in line with the budget for the year (with the Private toll and Hire toll variances offsetting one another);
- The cancellation of the Whitlingham development project; and
- Success in securing additional income.

Reserves

2.15 The Authority's earmarked reserves were rationalised in 2013/14 into a smaller number of reserves. Navigation reserve balances continue to be maintained separately from National Park reserves. The balance of earmarked reserves at the end of January 2015 is shown in Table 4 below.

Table 4 – Consolidated Earmarked Reserves

| | Balance at 1 April 2014 | In-year movements | Current reserve balance |
|------------------------------------|------------------------------------|------------------------------|------------------------------------|
| | £ | £ | £ |
| Property | (568,100) | (15,317) | (583,417) |
| Plant, Vessels and Equipment | (217,282) | (16,340) | (233,622) |
| Premises | (138,723) | (22,500) | (161,223) |
| Planning Delivery Grant | (454,172) | 96,070 | (358,102) |
| Sustainable Development Fund | (65,664) | 25,490 | (40,174) |
| Mobile Phone Upgrade | (7,567) | 3,332 | (4,235) |
| Upper Thurne Enhancement | (81,768) | 23,437 | (58,331) |
| Section 106 | (12,069) | (24,464) | (36,533) |
| PRISMA | (244,954) | 167,147 | (77,807) |
| Total | (1,790,299) | 236,855 | (1,553,444) |

2.16 £857,021 of the current reserve balance relates to navigation reserves.

2.17 The STEP reserve has been closed following the end of the project.

Summary

2.18 Taking account of the significant changes to the forecast outturn above the current forecast outturn position for the year suggests a deficit of £70,479 for the National Park side and a deficit of £8,366 for Navigation resulting in an overall deficit of £78,844 within the consolidated budget, which would indicate

a general fund reserve balance of approximately £734,000 and a navigation reserve balance of approximately £281,000 at the end of 2014/15. This will mean that the navigation reserve balance will fall below the recommended level of 10% of net expenditure during 2014/15 to 9.7%. The impact of both the national park and navigation reserve balances have been taken into account when approving the 2015/16 budget.

3 Annual Investment Strategy

Overview

- 3.1 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).
- 3.2 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.
- 3.3 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.
- 3.4 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

- 3.5 The Annual Investment and Capital Financing Strategy for 2015/16 is attached at Appendix 3, for Members' consideration.

Capital Financing

- 3.6 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

- 3.7 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: Emma Krelle

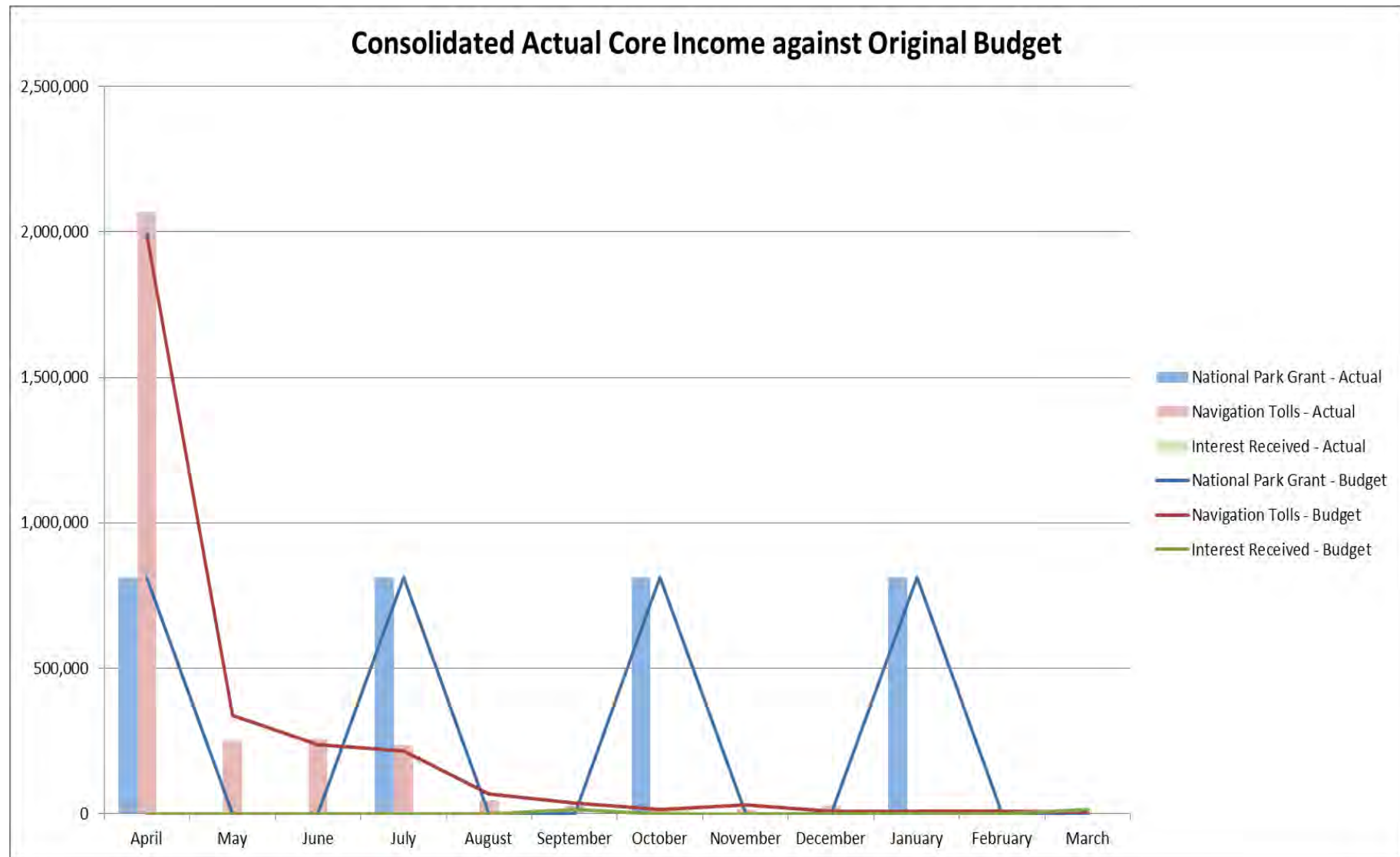
Date of Report: 6 March 2015

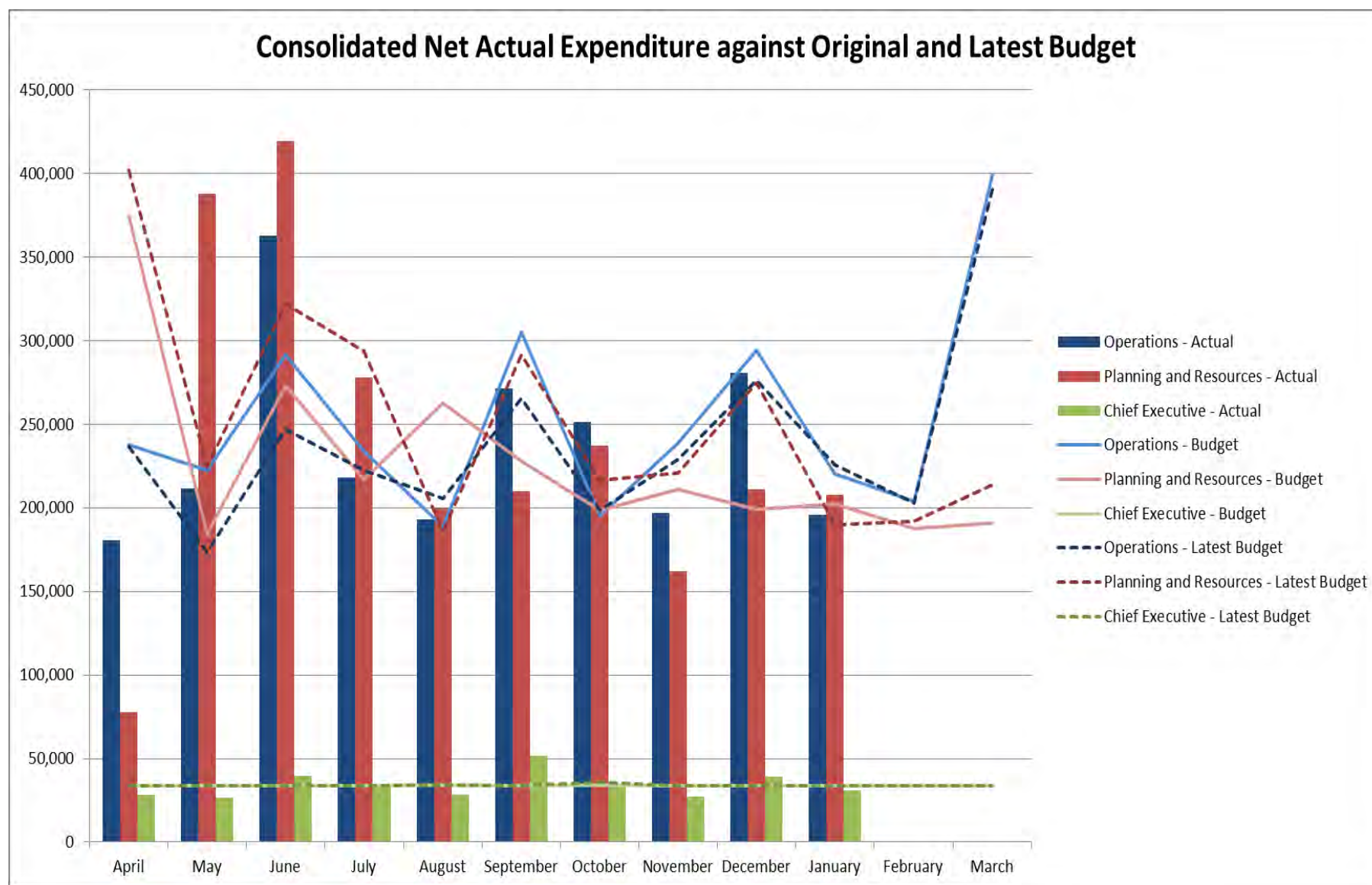
Broads Plan Objectives: None

Appendices: APPENDIX 1: Consolidated Actual Income and Expenditure
Charts to 31 January 2015

APPENDIX 2: Financial Monitor: Consolidated Income and
Expenditure 2014/15

APPENDIX 3: Annual Investment Strategy 2015/16





To 31 January 2015

Budget Holder

(All)

| Row Labels | Values | | | | |
|---------------------------------------|-----------------------------------|---|--|------------------------------------|--|
| | Original Budget (Consolidated) | Budget Adjustments (Consolidated) | Latest Available Budget (Consolidated) | Forecast Outturn (Consolidated) | Forecast Outturn Variance (Consolidated) |
| Income | (6,242,264) | | (6,242,264) | (6,230,354) | (11,910) |
| National Park Grant | (3,245,393) | | (3,245,393) | (3,245,393) | 0 |
| Income | (3,245,393) | | (3,245,393) | (3,245,393) | 0 |
| Hire Craft Tolls | (1,118,300) | | (1,118,300) | (1,073,105) | (45,195) |
| Income | (1,118,300) | | (1,118,300) | (1,073,105) | (45,195) |
| Private Craft Tolls | (1,792,100) | | (1,792,100) | (1,833,384) | 41,284 |
| Income | (1,792,100) | | (1,792,100) | (1,833,384) | 41,284 |
| Short Visit Tolls | (37,721) | | (37,721) | (37,721) | 0 |
| Income | (37,721) | | (37,721) | (37,721) | 0 |
| Other Toll Income | (18,750) | | (18,750) | (18,750) | 0 |
| Income | (18,750) | | (18,750) | (18,750) | 0 |
| Interest | (30,000) | | (30,000) | (22,000) | (8,000) |
| Income | (30,000) | | (30,000) | (22,000) | (8,000) |
| Operations | 3,030,715 | 30,113 | 3,060,828 | 3,117,126 | (56,298) |
| Construction and Maintenance Salaries | 1,074,770 | | 1,074,770 | 1,065,359 | 9,411 |
| Salaries | 1,074,770 | | 1,074,770 | 1,065,359 | 9,411 |
| Expenditure | | | 0 | | 0 |
| Equipment, Vehicles & Vessels | 405,000 | (17,450) | 387,550 | 387,550 | 0 |
| Income | | | 0 | | 0 |
| Expenditure | 405,000 | (17,450) | 387,550 | 387,550 | 0 |
| Water Management | 67,500 | 14,350 | 81,850 | 80,535 | 1,315 |
| Income | 0 | | 0 | (1,315) | 1,315 |
| Expenditure | 67,500 | 14,350 | 81,850 | 81,850 | 0 |
| Land Management | (41,000) | 14,850 | (26,150) | (28,275) | 2,125 |
| Income | (90,000) | | (90,000) | (100,500) | 10,500 |
| Expenditure | 49,000 | 14,850 | 63,850 | 72,225 | (8,375) |

| Row Labels | Original Budget (Consolidated) | Budget Adjustments (Consolidated) | Latest Available Budget (Consolidated) | Forecast Outturn (Consolidated) | Forecast Outturn Variance (Consolidated) |
|--|-----------------------------------|---|--|------------------------------------|--|
| Practical Maintenance | 339,035 | 7,170 | 346,205 | 346,527 | (322) |
| Income | (7,000) | | (7,000) | (8,700) | 1,700 |
| Expenditure | 346,035 | 7,170 | 353,205 | 355,227 | (2,022) |
| Ranger Services | 663,010 | | 663,010 | 696,340 | (33,330) |
| Income | (35,000) | | (35,000) | (35,000) | 0 |
| Salaries | 580,010 | | 580,010 | 613,340 | (33,330) |
| Expenditure | 118,000 | | 118,000 | 118,000 | 0 |
| Pension Payments | | | 0 | | 0 |
| Safety | 76,900 | | 76,900 | 84,542 | (7,642) |
| Income | (9,000) | | (9,000) | (1,000) | (8,000) |
| Salaries | 51,900 | | 51,900 | 51,542 | 358 |
| Expenditure | 34,000 | | 34,000 | 34,000 | 0 |
| Asset Management | 104,650 | | 104,650 | 123,912 | (19,262) |
| Income | (1,000) | | (1,000) | (1,000) | 0 |
| Salaries | 37,900 | | 37,900 | 37,662 | 238 |
| Expenditure | 67,750 | | 67,750 | 87,250 | (19,500) |
| Volunteers | 61,340 | | 61,340 | 61,373 | (33) |
| Income | (1,000) | | (1,000) | (1,000) | 0 |
| Salaries | 42,340 | | 42,340 | 42,373 | (33) |
| Expenditure | 20,000 | | 20,000 | 20,000 | 0 |
| Premises | 151,970 | 11,193 | 163,163 | 172,363 | (9,200) |
| Income | (11,200) | | (11,200) | (2,000) | (9,200) |
| Expenditure | 163,170 | 11,193 | 174,363 | 174,363 | 0 |
| Operations Management and Administration | 127,540 | | 127,540 | 126,900 | 640 |
| Income | | | 0 | | 0 |
| Salaries | 115,040 | | 115,040 | 114,400 | 640 |
| Expenditure | 12,500 | | 12,500 | 12,500 | 0 |
| Planning and Resources | 2,729,004 | 111,479 | 2,840,484 | 2,665,750 | 174,734 |
| Development Management | 224,910 | | 224,910 | 215,699 | 9,211 |
| Income | (60,000) | | (60,000) | (75,000) | 15,000 |
| Salaries | 259,910 | | 259,910 | 255,699 | 4,211 |

| Row Labels | Original Budget (Consolidated) | Budget Adjustments (Consolidated) | Latest Available Budget (Consolidated) | Forecast Outturn (Consolidated) | Forecast Outturn Variance (Consolidated) |
|-----------------------------------|-----------------------------------|---|--|------------------------------------|--|
| Expenditure | 25,000 | | 25,000 | 35,000 | (10,000) |
| Pension Payments | | | 0 | | 0 |
| Strategy and Projects Salaries | 231,575 | 8,546 | 240,121 | 209,837 | 30,284 |
| Income | (27,500) | | (27,500) | (39,000) | 11,500 |
| Salaries | 249,075 | 8,546 | 257,621 | 238,837 | 18,784 |
| Expenditure | 10,000 | | 10,000 | 10,000 | 0 |
| Biodiversity Strategy | 35,000 | 42,298 | 77,298 | 77,298 | 0 |
| Income | | | 0 | | 0 |
| Expenditure | 35,000 | 42,298 | 77,298 | 77,298 | 0 |
| Strategy and Projects | 84,900 | 2,020 | 86,920 | 86,453 | 467 |
| Income | | | 0 | | 0 |
| Salaries | 44,900 | | 44,900 | 44,433 | 467 |
| Expenditure | 40,000 | 2,020 | 42,020 | 42,020 | 0 |
| Waterways and Recreation Strategy | 84,920 | | 84,920 | 78,618 | 6,302 |
| Salaries | 69,920 | | 69,920 | 63,618 | 6,302 |
| Expenditure | 15,000 | | 15,000 | 15,000 | 0 |
| Project Funding | 101,780 | 46,615 | 148,395 | 148,023 | 372 |
| Income | (19,000) | | (19,000) | (19,000) | 0 |
| Salaries | 41,780 | | 41,780 | 41,408 | 372 |
| Expenditure | 79,000 | 46,615 | 125,615 | 125,615 | 0 |
| Pension Payments | | | 0 | | 0 |
| Partnerships / HLF | 50,000 | | 50,000 | 0 | 50,000 |
| Expenditure | 50,000 | | 50,000 | 0 | 50,000 |
| SDF | 12,000 | | 12,000 | 12,000 | 0 |
| Expenditure | 12,000 | | 12,000 | 12,000 | 0 |
| Finance and Insurance | 336,569 | 10,000 | 346,569 | 327,632 | 18,937 |
| Income | | | 0 | | 0 |
| Salaries | 133,970 | | 133,970 | 130,033 | 3,937 |
| Expenditure | 202,599 | 10,000 | 212,599 | 197,599 | 15,000 |
| Communications | 316,260 | | 316,260 | 318,598 | (2,338) |
| Income | | | 0 | | 0 |

| Row Labels | Original Budget (Consolidated) | Budget Adjustments (Consolidated) | Latest Available Budget (Consolidated) | Forecast Outturn (Consolidated) | Forecast Outturn Variance (Consolidated) |
|--|-----------------------------------|---|--|------------------------------------|--|
| Salaries | 241,260 | | 241,260 | 243,598 | (2,338) |
| Expenditure | 75,000 | | 75,000 | 75,000 | 0 |
| Visitor Centres and Yacht Stations | 235,660 | 2,000 | 237,660 | 222,236 | 15,424 |
| Income | (213,000) | | (213,000) | (213,000) | 0 |
| Salaries | 317,660 | | 317,660 | 302,236 | 15,424 |
| Expenditure | 131,000 | 2,000 | 133,000 | 133,000 | 0 |
| Collection of Tolls | 113,660 | | 113,660 | 113,192 | 468 |
| Salaries | 100,960 | | 100,960 | 100,492 | 468 |
| Expenditure | 12,700 | | 12,700 | 12,700 | 0 |
| ICT | 267,820 | | 267,820 | 272,142 | (4,322) |
| Income | | | 0 | | 0 |
| Salaries | 127,120 | | 127,120 | 131,442 | (4,322) |
| Expenditure | 140,700 | | 140,700 | 140,700 | 0 |
| Legal | 120,000 | | 120,000 | 97,000 | 23,000 |
| Income | 0 | | 0 | (13,000) | 13,000 |
| Expenditure | 120,000 | | 120,000 | 110,000 | 10,000 |
| Premises - Head Office | 240,000 | | 240,000 | 230,000 | 10,000 |
| Expenditure | 240,000 | | 240,000 | 230,000 | 10,000 |
| Planning and Resources Management and Administration | 273,950 | | 273,950 | 257,021 | 16,929 |
| Income | 0 | | 0 | (11,000) | 11,000 |
| Salaries | 146,750 | | 146,750 | 148,821 | (2,071) |
| Expenditure | 127,200 | | 127,200 | 119,200 | 8,000 |
| Chief Executive | 405,040 | | 405,040 | 433,210 | (28,170) |
| Human Resources | 133,140 | | 133,140 | 158,206 | (25,066) |
| Salaries | 73,140 | | 73,140 | 98,206 | (25,066) |
| Expenditure | 60,000 | | 60,000 | 60,000 | 0 |
| Governance | 170,410 | | 170,410 | 165,659 | 4,751 |
| Income | | | 0 | | 0 |
| Salaries | 109,210 | | 109,210 | 104,459 | 4,751 |
| Expenditure | 61,200 | | 61,200 | 61,200 | 0 |
| Chief Executive | 101,490 | | 101,490 | 102,233 | (743) |

| Row Labels | Original Budget (Consolidated) | Budget Adjustments (Consolidated) | Latest Available Budget (Consolidated) | Forecast Outturn (Consolidated) | Forecast Outturn Variance (Consolidated) |
|---------------------------------------|-----------------------------------|---|--|------------------------------------|--|
| Salaries | 101,490 | | 101,490 | 102,233 | (743) |
| Expenditure | | | 0 | | 0 |
| Legal | 0 | | 0 | 7,112 | (7,112) |
| Salaries | 0 | | 0 | 7,112 | (7,112) |
| Projects and Corporate Items | 93,000 | | 93,000 | 93,113 | (113) |
| PRISMA | 0 | | 0 | 113 | (113) |
| Income | | | 0 | | 0 |
| Salaries | 10,410 | | 10,410 | 10,523 | (113) |
| Expenditure | (10,410) | | (10,410) | (10,410) | 0 |
| STEP | | | 0 | | 0 |
| Expenditure | | | 0 | | 0 |
| Corporate Items | 93,000 | | 93,000 | 93,000 | 0 |
| Pension Payments | 93,000 | | 93,000 | 93,000 | 0 |
| Contributions from Earmarked Reserves | | | 0 | | 0 |
| Earmarked Reserves | | | 0 | | 0 |
| Expenditure | | | 0 | | 0 |
| Grand Total | 15,495 | 141,592 | 157,087 | 78,844 | 78,243 |

Broads Authority
Annual Investment and Capital Financing Strategy: 2015/16

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 2015/16 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 2015/16 will range between £2,000,000 and £4,000,000. 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 | 2015/16 | 2016/17 | 2017/18 |
|------------------------------------|----------------|----------------|----------------|
| Estimate of capital expenditure | £420,000 | £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.